

Statement of Accounts

For the year ending 31st March 2017

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Narrative Statement

1. Introduction

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

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

2. Financial Performance

The Authority's financial performance is summarised by the table below, as reported to Cabinet in July 2017:

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

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

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

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

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

2.1 Fund Balances and Reserves

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

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

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

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

2.2 Capital Summary

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

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

Capital Investment Plans

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

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

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

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

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

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

2.3 Investments and Borrowing

The annual treasury management strategy, which was approved by Council in March 2017, is available on the Authority's website. In short, borrowing strategy is to utilise capital grants, capital receipts, earmarked reserves, as well as to internally finance the capital programme until the £10m liquid cash threshold is reached; at this point external borrowing would be undertaken except if interest rates fall to attractive levels. Regarding investment strategy, the Authority manages its cash in-house, placing investments for periods ranging from overnight to over 12 months depending on anticipated cash flow requirements.

At 31st March 2017 the Authority held short-term and long-term deposits totalling £66.0m and £5.0m respectively (£80.9m and £5.0m at 31/03/16). The Authority generated £0.83m of investment income from these deposits (£1.12m in 2015/16).

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

2.4 Pensions

The actuarial valuation of the pension fund, of which the Authority is the largest employer, is carried out every three years. It determines the impact on council tax of the cost of paying pensions.

The last applicable actuarial valuation for the whole fund was carried out as at 31st March 2016 with the assets of the fund found to represent 94% of accrued liabilities; this compares with 89% at the 2013 actuarial valuation. The focus of the triennial valuation is the long-term financial health of the pension fund and to set a contribution rate to maintain this. The Council has a 12 year plan to eliminate the deficit. The next applicable actuarial valuation will be as at 31st March 2019.

For accounting purposes, a valuation under IAS19 is carried out to produce an accounting surplus or deficit as at the balance sheet date. The methodology used is affected by current assumptions and short-term economic market conditions. The deficit attributable to the Authority on an IAS19 basis increased from £263m to £368m, an adverse movement of £105m. The Authority's actuary estimated that at 31st March 2017, future liabilities amount to £967m (£746m at 31st March 2016) with assets of £599m (£483m at 31st March 2016).

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

2.5 Economic Outlook

Local Government Finance Settlement

The Local Government Finance Settlement for 2017/18 contains indicative allocations from central government up to 2019/20. These allocations continue the downward trend in funding since 2010/11. Between 2016/17 and 2019/20, the Authority's settlement funding assessment is forecast to fall by 30.3% in real terms and core spending power by 5.4% over the same period.

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

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

- The current and medium term economic outlook
- Demand and other demographic pressures on the budget, particularly on vulnerable groups with demand-led budgets
- Identifying and achieving cost and income improvements in a challenging and uncertain economic environment
- Reforms to local government finance based around 100% business rates retention and the transfer of new responsibilities from central government
- Devolution
- Risks to future Government funding levels
- Ability to implement approved savings
- Risks to other income streams
- The unknown long-term impact on economic factors of central government's negotiations with the European Union on Brexit
- The new government

2.6 Accounting Developments

Accounts and Audit Regulations 2015

These regulations will require local authorities to publish, from 2017/18, draft and audited statement of accounts by 31st May and 31st July respectively. Under current regulations, local authorities are required to publish draft and audited accounts by 30th June and 30th September respectively.

Transport Infrastructure Asset

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

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

Comprehensive Income and Expenditure Statement (CIES)

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

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

3. Service Performance

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

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

3.1 Future Service Developments

Corporate Services

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

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

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

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

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

Collection of council tax and business rates improved again in 2016/17, with collection rates remaining at record levels. This is the result of the Council's ongoing dedication to pursuing collection from the minority of taxpayers and businesses that try to avoid paying. In these circumstances the approach is to make full use of legal powers to pursue these debts.

Children, Schools and Families Department

The Department remains committed to a journey of continuous improvement, by actively seeking new and innovative ways to meet national requirements. The

Department aims to deliver the very best services and to improve outcomes for all children and young people, in particular those who are most vulnerable and at risk.

There are a number of considerable challenges to service delivery over the next few years, in particular, a challenging inspection regime, the development of our 'practice model' and major changes in school funding.

Within Social Care, there are radical changes in the way Social Workers will be assessed, which must be implemented in line with their professional registration requirements. The Department also faces a move towards regional adoption and the embedding of the Children and Families Act.

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

The performance indicators shown are those that are given a high priority by our residents, for example Ofsted inspection outcomes for schools. Performance is generally being delivered in line with expectations. The Department is pleased that 91% of schools in the Borough received a good or outstanding rating from Ofsted, against a target of 91%.

Community and Housing Department

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

Adult Social Care

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

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

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

Library, Heritage and Adult Education Services

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

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

Housing Needs

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

Public Health

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

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

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

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

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

Environmental and Regeneration Department

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

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

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

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

The performance indicators above support the conclusion from review of all indicators that the principal services of the Department - those that are of most concern to residents - are largely being delivered in line with expectations and to appropriate standards. The cleanliness of the Borough, the effectiveness of the refuse collection service and the efficiency of the administrative role of the Authority are all high priorities.

4. Statement of Accounts

The Statement of Accounts is comprised of the following statements:

- **The Movement in Reserves Statement (MIRS)** – shows the movement in the year on the different reserves held by the Authority and is used to adjust the net surplus or deficit on the Comprehensive Income and Expenditure Statement (CIES) to the amount chargeable under statute to the Authority’s general fund.
- **The Comprehensive Income and Expenditure Statement (CIES)** – shows the accounting cost in the year of providing services for the functions for which the Authority is responsible and demonstrates how they have been financed.
- **The Balance Sheet** - summarises the Authority’s financial position at year-end.
- **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **The Expenditure and Funding Analysis** - demonstrates to council tax payers how the funding available to the authority (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.
- **Notes to the Core Financial Statements** - provides additional information which supports and explains the figures in the core financial statements.
- **Accounting Policies** - explains the basis for the recognition, measurement and disclosure of figures in the accounts.

- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Authority in relation to non-domestic rates and council tax.
- **Pension Fund Accounts** - shows the contributions to and the benefits paid from the pension fund and identifies the investments which make up the assets of the fund.
- **Statement of Responsibilities for the Statement of Accounts** – sets out the different responsibilities of the Authority and the Director of Corporate Services.

Core Financial Statements

1. Comprehensive Income and Expenditure Statement

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

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

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

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

2. Movement in Reserves Statement

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

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

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

3. Balance Sheet

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

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

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

Signed

Caroline Holland
 Director of Corporate Services
 7th September 2017

4. Cash Flow Statement

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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INCOME AND EXPENDITURE

1. Expenditure and Funding Analysis

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

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

Analysis of Differences between General Fund and CIES

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

1. Adjustments for capital purposes

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

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

2. Net change for the pensions adjustments

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

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

3. Other statutory adjustments

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

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

4. Presentational differences

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

2015/16 Comparative Figures

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

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

2. EXPENDITURE AND INCOME BY NATURE

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

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

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

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

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

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

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

3. OTHER OPERATING INCOME AND EXPENDITURE

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

4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

5. TAXATION AND NON-SPECIFIC GRANT INCOMES

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

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

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

6. GRANT INCOME

The London Borough of Merton credited the following grants, contributions, donations and taxation income to the Comprehensive Income and Expenditure Statement in 2016/17:

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

*Includes grant income credited to services to fund REFCUS.

The Authority has received a number of capital grants that have yet to be recognised as income as they have conditions attached to them, which if not met, will require the monies to be returned. The balances at the year end are shown in the following table

Long Term Liabilities - Capital Grants Receipts in Advance

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

DEBTORS, CREDITORS AND CASH FLOWS

7. DEBTORS

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

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

Financial Instruments in Debtors

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

8. CREDITORS

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

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

Financial Instruments in Creditors

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

9. FINANCIAL INSTRUMENTS

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

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

Categories of Financial Instruments

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

The Authority's policy is to undertake its treasury activities within the scope of the CIPFA Code of Practice for Treasury Management. The annual treasury strategy, which is approved by Council, is developed with recognition of treasury risks, and includes Prudential Indicator limits for the overall amount of borrowing. The term (maturity) and fixed/variable interest rate characteristics of borrowing and investment are also considered. The treasury strategy also sets out the Authority's criteria for the minimum creditworthiness required for investment counter parties.

Income, Expense, Gains and Losses

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

Investments

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

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

Fair Value of Assets and Liabilities

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

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

The fair value of the Authority's investments is greater than the book value because the Council's portfolio of assets includes a number of fixed rate investments where the interest rate receivable is higher than the rates available for similar investments in the market at the balance sheet date. This shows a notional future gain based on economic conditions at 31st March 2017 arising from counter-parties' commitment to pay interest to the Council above current market rates.

In line with FRS25, IFRS7 and IFRS13 on Financial Instruments, the Authority has calculated the fair value of its borrowing portfolio in the following table. The calculation of fair value involves estimating the premium payable on each loan if it were redeemed at year end, and adding this to the outstanding principal. All loans are at fixed rates and do not include derivatives, to which the Authority is directly exposed. The Authority is not able to package its debt as a marketable security and no adjustment is required to the book value of these loans on the balance sheet.

The methods and assumptions used in the valuation technique were:

- For Public Works Loan Board (PWLB) debt, fair values as at 31st March 2017 published by PWLB have been used.
- For other market debt, Net Present Value (NPV) methodology has been used, which provides an estimate of the value of future payments in today's terms. The discount rate used in the NPV calculation is usually equal to the current rate in relation to the same instrument from a comparable lender and would be the rate applicable in the market on the date of valuation, for an instrument with the same duration date to maturity.

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

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

Balance Sheet figures are based upon the maturity profile of borrowings. No early repayment or impairment is recognised. Instruments with maturity of less than 12 months or trade or other receivables, fair value is assessed as the carrying amount or the billed amount. The fair value of the Council's total liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss based on economic conditions at 31st March 2017 arising from a commitment to pay interest to lenders above current market rates. The fair value of PWLB loans of £70.3m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the Authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets.

10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Credit Risk

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

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the Authority's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2016/17 were as follows:

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

In addition to deposits in higher rated deposit-takers, the Authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities. At 31st March 2017 the disposition of investments was:

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

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

Current Deposits and Trade Debtors

No losses or impairments were incurred in 2016/17, nor are expected for the duration of current deposits. The Authority does not generally allow credit for customers. The Authority's maximum potential exposure to credit risk is with trade debtors, which are reviewed individually to assess risk of default and need for a provision. Factors taken into account in the assessment include the stability of the organisation, the size of the debt, the age of the debt and what, if any, security such as a charge on property has been provided. The past-due amount of trade debts can be analysed by age as follows:

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

Cash

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

Liquidity Risk

The Authority's ability to pay its financial commitments as and when due is supported by substantial resources. Also, it has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from money markets and the Public Works Loans Board.

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

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

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

The above represents the nominal exposure to debt maturities, but some Lenders Option (LOBO) debt allows the Lender to prompt a repayment by requesting an

interest rate change that is unacceptable to the Authority. The risk of this occurring is limited by the current rate of interest on such debt, which is higher than current and forecast market rates. The Authority is therefore not exposed to immediate refinancing risk. In addition, if redemption were required, the Authority has adequate resources to finance it, and its occurrence would currently offer the prospect of cost saving.

LOBO debt exposure with market rates of:	Prospectively repayable / requiring Re-finance £000	Proportion of total debt %
4.00 - 4.99%	5,000	3.9
5.00 - 5.99%	34,000	26.8
6.00 - 6.99%	15,500	12.2
7.00 - 7.99%	2,000	1.6
8.00 - 8.99%	6,500	5.1
Total	63,000	49.6

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

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

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

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

Interest Rate (or Market) Risk

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

- Borrowing at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement can rise or fall.

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

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

	2016/17 £000	0.50% £000	1.00% £000	Mitigation
Borrowings	126,976	635	1,270	In the short term, a 0.5% or 1.0% rise in market interest rate is unlikely to have any impact on the existing debt portfolio because of the LOBO rates in the portfolio. On the other hand, should a 0.5% or 1.0% change in market interest rate be translated directly into a corresponding increase in investment rates, the existing investment portfolio will be affected to the extent by which the Authority is locked into its investments until maturity. A premium would be payable to unwind the fixed deposits.
Investments	(70,900)	(355)	(709)	
Impact on CIES	N/A	280	561	

Borrowings

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

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

Prudential Indicator Limits

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

Investments

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

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

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

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

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

PFI Borrowing

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

Price Risk

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

Foreign Exchange Risk

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

Refinancing and Maturity Risk

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

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

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

Overall Procedures for Managing Risk

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

11. PROVISIONS

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

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

Outstanding Legal Cases

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

Injury and Damage Compensation Claims:

- **Insurance Fund**

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

Other Provisions:

- **Housing**

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

- **Single Status**

Single Status is a national agreement reached in 1997 aimed at modernising pay and rewards in Local Government. The agreement covers the introduction of a single job evaluation (JE) scheme for all Authority workers, a standardised working week and a pay and grading review which recognises equal pay for work of equal value. A further national implementation agreement was reached in 2004 under which local authorities would complete and implement local pay reviews. In 2016/17, the Authority utilised the provision in full, making payments totalling £0.052m. The remaining outstanding liability for single status allowances is not sufficiently material to require further provision.

- **NDR Appeals £2.100m**

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

- **Housing Benefit Grant Clawback**

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

12. CONTINGENT LIABILITIES

Employment Disputes

There are currently six employment disputes, where claims either have been or may be made against the Authority. The combined maximum, potential liability of the six disputes is estimated at £327k, however the Authority believes the true value of the claims to be significantly lower. Where appropriate, the Authority defends itself against claims and due to inherent uncertainties surrounding the outcome of disputes, the Council has not made provision for these in the accounts.

13. CONTINGENT ASSETS

Proceeds of Crime Act 2002 (POCA)

The Authority has a POCA Order following an LBM trading standards prosecution of a betting scam. A confiscation order of £6.1m was made in May 2014, to be paid by 14th November 2014, of which the Council would receive 37.5%, less the costs of the financial investigator. The sum was not paid in time and the defendants were consequently committed to serve seven and a half years imprisonment. However, the term of imprisonment does not extinguish the confiscation order and the £6.1million remains payable if the hidden assets can be traced.

14. CASH AND CASH EQUIVALENTS

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

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

15. CASH FLOWS

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

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

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

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

15c. Cash Flow Statement - Operating Activities

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

15d. Cash Flow Statement - Investing Activities

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

15e. Cash Flow Statement - Financing Activities

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

RESERVES

16. USABLE RESERVES

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

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

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

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

Capital Grants Unapplied - These are unapplied capital grants set aside for future capital expenditure. The balance includes Community Infrastructure Levy receipts totalling £6.75m.

Transfers to/from Earmarked Reserves

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

Purpose of Earmarked Reserves

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

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

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

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

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

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

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

Local Land Charges: The reserve will be used to fund any liability arising from potential legal challenges in relation to local land charges.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. UNUSABLE RESERVES

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

Revaluation Reserve

The Revaluation Reserve contains the gains made by the London Borough of Merton arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

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

Capital Adjustment Account

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

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

Pensions Reserve

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

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

Deferred Capital Receipts Reserve

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

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

Collection Fund Adjustment Account

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

2015/16 £000		2016/17 £000
(2,854)	Balance at 1st April	(1,703)
1,152	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	308
(1,703)	Balance at 31st March	(1,395)

Accumulated Absences Account

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

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

18. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2016/17

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

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	
Use of the Capital Receipts Reserve to finance new capital expenditure		12,993		(12,993)
Repayment of debt		(149)		149
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14)			14
Correction of balance relating to previous years	176			(176)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	(29,906)			29,906
Employer's pensions contributions and direct payments to pensioners payable in the year	17,790			(17,790)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(308)			308
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,098)			2,098
Total Adjustments	(5,948)	6,596	(3,098)	2,450

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of non current assets	(16,711)			16,711
Revaluation losses on Property Plant and Equipment	(2,106)			2,106
Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year	8,078			(8,078)
Amortisation of intangible assets	(584)			584
Revenue expenditure funded from capital under statute	(1,006)			1,006
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,600)			2,600
<u>Insertion of items not debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	9,276			(9,276)
Capital expenditure charged against the General Fund balance	1,036			(1,036)
Revaluation gains charged direct to Revaluation Reserve				
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	17,333		(2,705)	(14,628)
Application of grants to capital financing transferred to the Capital Adjustment Account			4,266	(4,266)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7,271	(7,271)		

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	
Use of the Capital Receipts Reserve to finance new capital expenditure		9,082		(9,082)
Repayment of debt		(130)		130
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(11)			11
Correction of balance relating to previous years	(217)			217
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	(31,310)			31,310
Employer's pensions contributions and direct payments to pensioners payable in the year	16,904			(16,904)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,151)			1,151
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	732			(732)
Total Adjustments	4,933	1,681	1,562	(8,176)

CAPITAL

19. PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

Depreciation

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

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

Amortisation

Intangible Assets are amortised over 5 years

Capital Commitments

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

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

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

Comparative Movements in 2015/16:

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2015	328,956	22,782	157,446	0	2,000	358	511,542	57,295
Correction of balance relating to previous years	48	(48)	0	0	0	0	0	0
Additions	15,668	1,364	9,023	668	0	1,114	27,837	81
Revaluation increase/(decreases) recognised in the Revaluation Reserve	11,080	0	0	0	0	0	11,080	0
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	6,639	0	0	(668)	0	0	5,972	0
Derecognition - Disposals	0	(3,475)	(10,892)	0	0	0	(14,367)	0
Derecognition - Other	(2,439)	(39)	0	0	0	0	(2,478)	0
Reclassified to surplus assets	(5,026)	0	0	0	5,026	0	0	0
At 31 March 2016	354,927	20,584	155,577	0	7,026	1,472	539,586	57,376
Accumulated Depreciation and Impairment								
At 1 April 2015	4,056	12,345	61,521	0	0	0	77,922	0
Depreciation Charge	7,357	3,309	6,045	0	0	0	16,711	1,218
Depreciation written out to the Revaluation Reserve	(1,936)	0	0	0	0	0	(1,936)	0
Derecognition - Disposals	0	(3,199)	(10,892)	0	0	0	(14,091)	0
Derecognition - Other	(142)	(11)	0	0	0	0	(154)	0
At 31 March 2016	9,334	12,444	56,673	0	0	0	78,452	1,218
Net Book Value								
At 31 March 2016	345,593	8,140	98,904	0	7,026	1,472	461,133	56,158
At 31 March 2015	324,900	10,436	95,925	0	2,000	358	433,619	57,295

20. INTANGIBLE ASSETS

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.54m charged to revenue in 2016/17 (£0.58m in 2015/16) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

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

21. HERITAGE ASSETS

The authority's collection of Heritage Assets consists of Regalia and Art. Much of the art is on display within the Civic Centre and Libraries. The Regalia is not generally accessible other than when in use and the higher value items are stored securely. All Heritage Assets are held on the Balance Sheet at insurance value, which is based on market values. Valuations were carried out in February 2017 by qualified external valuers, Denham's, a Sussex based firm of auctioneer's founded in 1884. There are four items within the Art collection and nine items within the Regalia with a valuation of £20,000 or above. The highest value item is the Chain of Office of the Mayor of the former Borough of Wimbledon, which has been valued at £104,000.

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

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

22. ASSETS HELD FOR SALE

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

Refer to note 33 – Events after Balance Sheet Date

23. IMPAIRMENT LOSSES

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

24. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the London Borough of Merton, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the London Borough of Merton that has yet to be financed. The CFR is analysed in the following table:

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

25. LEASES

Authority as Lessee

Finance Leases

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

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

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

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

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

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

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

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17, £0.264m contingent rents were payable by the Authority (£0.291m in 2015/16).

Operating Leases

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

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

Authority as Lessor

Finance leases

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

The gross investment is made up of the following:

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

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

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

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17, £0.738m contingent rents were receivable by the authority (£0.339m in 2015/16).

Operating Leases

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

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

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

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

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

SCHOOLS

26. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2015. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2016/17 are as follows:

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

The £3.663m balance is held in the DSG earmarked revenue reserve (see Note 16).

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

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

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

27. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The Authority has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, NewSchools Ltd. Following a partial termination of the contract in 2006, two schools were transferred to academies. In 2013, a third school also became an academy, but remains within the PFI scheme. Under the PFI contract, which runs until 2030, NewSchools Ltd are contracted to provide soft services (such as caretaking and facilities maintenance) to the remaining three schools and one academy, in return for an annual payment. The contract does not allow for any of the four remaining schools to leave the arrangement before 2030. At the end of the arrangement, the Authority will retain ownership of the school land and buildings.

Value of Assets Held

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

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

Value of Liabilities

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

	Capital	Interest	Services	Total
	£000	£000	£000	£000
Mar 2018	1,481	3,441	4,087	9,008
Mar 2019 - 2023	8,519	17,389	23,806	49,714
Mar 2024 - 2028	14,830	16,752	22,905	54,487
Mar 2029 - 2030	7,102	9,467	11,837	28,406
Liability at 31st March 2017	31,932	47,049	62,635	141,617
Liability at 31st March 2016	33,277	50,053	69,805	153,135
Liability at 31st March 2015	34,734	54,860	75,339	164,932

Partial Termination

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

Three Schools and One Academy

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

MEMBERS, OFFICERS AND RELATED PARTIES

28. MEMBERS' ALLOWANCES

The cost of members' allowances to the Authority is shown in the table below. The allowances include employer's national insurance contributions totalling £28k (£28k in 2015/16).

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

29. OFFICERS' REMUNERATION

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

CIPFA guidance states that the disclosure should exclude staff where the authority is not the employer i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 58 voluntary aided and foundation school employees have been excluded from both 2016/17 and 2015/16 figures.

Remuneration Band £	2015/16 Teaching Staff	2015/16 Other Staff	2016/17 Teaching Staff	2016/17 Other Staff
50,000 – 54,999	65	53	76	50
55,000 – 59,999	44	26	36	21
60,000 – 64,999	13	19	22	16
65,000 – 69,999	13	9	8	18
70,000 – 74,999	9	15	11	16
75,000 – 79,999	5	4	8	3
80,000 – 84,999	3	1	5	2
85,000 – 89,999	2	4	1	4
90,000 – 94,999	2	5	4	3
95,000 – 99,999	0	1	0	2
100,000 – 104,999	1	0	0	0
105,000 – 109,999	1	0	0	1
110,000 – 114,999	1	0	0	1
115,000 – 119,999	0	2	1	1
120,000 – 124,999	0	1	1	0
125,000 – 129,999	0	0	0	0
130,000 – 134,999	1	0	0	0
135,000 – 139,999	0	3	0	3
140,000 – 144,999	0	0	0	0
145,000 – 149,999	0	0	0	0
150,000 – 154,999	0	0	0	0
155,000 – 159,999	0	0	0	0
160,000 – 164,999	0	0	0	0
165,000 – 169,999	0	0	0	0
170,000 – 174,999	0	0	0	0
175,000 – 179,999	0	0	0	0
180,000 – 184,999	0	0	0	0
185,000 – 189,999	0	1	0	1
Total	160	144	173	142

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the following table. In line with CIPFA guidance, three foundation school employees have been excluded from 2016/17 figures and six voluntary aided and foundation school employees has been excluded from 2015/16 figures.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £	2016/17 £
£								
0 - 20,000	65	58	30	19	95	77	806,887	423,316
20,001 - 40,000	12	6	8	4	20	10	556,312	295,896
40,001 - 100,000	3	1	2	3	5	4	285,523	193,314
TOTAL	80	65	40	26	120	91	1,648,722	912,526

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

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

The following table provides this detail for 2016/17 and also the 2015/16 comparative year data with supporting sub-notes.

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

Sub-notes 2016/17

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

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

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

2015/16

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

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

30. RELATED PARTIES

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

Central Government

The UK Government has significant influence over the operations of the Authority. It provides the statutory framework within which the Authority operates and the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax bills, housing benefits). Details of grants received from government departments are set out in Note 6.

Members

Members of the Authority have direct control over the financial and operating decisions of the Authority. The total of members' allowances paid in 2016/17 is shown in Note 28.

This disclosure note has been prepared using the Authority's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from members and senior officers. The Authority issued 60 standard letters to members; all 60 have responded.

During 2016/17, members of the Authority (or members of their immediate family or household) had links with the following organisations, which undertook related party transactions with LBM to the gross value of £6.29m (net £6.08m). The amounts disclosed below are those material to either party of the related party transaction (i.e. the Authority or the other entity).

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

Senior Officers

Senior officers of the Authority also have direct control over the financial and operating decisions of the Authority. Senior officers are required to make a specific

declaration in respect of related party transactions. The Authority issued 29 standard letters to current senior officers; there have been 29 responses.

Three senior officers are directors of CHAS 2013 Ltd (see note 34). Otherwise, senior officers within the Authority did not hold any positions in other organisations which would enable them to significantly influence the policies of the Authority and result in a related party transaction of a material nature.

Voluntary Organisations

The Authority made grants and payments totalling £0.107m to voluntary and other organisations whose senior management included members of the Authority (or members of their immediate family or household). These payments are summarised in the above disclosure on members' related party transactions. In all instances the grants were made with proper consideration of declarations of interest. The Authority's Register of Members' Interest is open to public inspection on the Authority's website.

Pension Fund

The Pension Fund is a separate entity from the authority with its own Statement of Accounts. In 2016/17 an administration fee of £0.368m was paid by the Fund to the Authority (£0.323m in 2015/16, see Pension Fund Accounts, Note 11).

Entities Controlled by the Authority

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

PENSION FUND

31. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. In 2016/17, the employer's contribution was 16.48% (15.49% average in 2015/16). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31st March 2017, the Authority's own contributions equate to approximately 0.1%.

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

The Authority also pays an employer's contribution of 14.3% (14.0% in 2015/16) to the NHS Pension Scheme, for staff who transferred to the Authority but remain in the NHS scheme. The NHS scheme was previously a defined benefit scheme, with staff benefits linked to their average earnings in the final ten years of employment. From 1st April 2015, it became a career average revalued earnings scheme.

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

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

Assuming a 1% staff pay award in 2017/18, an estimate of the contributions to be paid in the next financial year would be:

DfE Teacher's Pension Scheme: £8.70m
NHS Pension Scheme: £0.12m

32. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Authority participates in two post employment schemes:

- The Local Government Pension Scheme is administered locally by the London Borough of Merton, in accordance with the Local Government Pension Scheme Regulatory Framework 2015/16. This is a defined benefit scheme, whereby both the Authority and employees make contributions into a fund. The contributions are calculated with the aim of balancing pension liabilities and investment assets. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings, rather than final salary. The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2016/17, which governs the preparation of financial statements for Local Government Pension Scheme funds.
- Discretionary post retirement benefits to fund early retirement. This is an unfunded defined benefit arrangement. Liabilities are recognised when awards are made but there is no accompanying investment built-up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

Transactions relating to Post-employment Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

The cumulative remeasurement of the net defined benefit liability/asset recognised in the Comprehensive Income and Expenditure Statement is a loss of £92.839m (£45.072m gain in 2015/16).

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

Assets and Liabilities in relation to Post-Employment Benefits

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

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

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

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

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

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

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

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

Scheme History

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

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £368.1m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The Authority, through the advice of the actuary, provides additional employers contributions to the fund in support of the recovery of past service deficiencies over a twelve year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

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

The current estimate of the duration of the Authority's liabilities is 19 years.

The following assumptions have also been made:

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

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

Sensitivity Analysis

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

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	949,313	966,736	984,496
Projected service cost	31,527	32,289	33,070
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	968,761	966,736	964,727
Projected service cost	32,289	32,289	32,289
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	982,455	966,736	951,305
Projected service cost	33,070	32,289	31,526
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	1,003,603	966,736	931,266
Projected service cost	33,319	32,289	31,291

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

Estimation of Contributions to be paid in 2017/18

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

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

Associated Risks

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

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

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

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

OTHER DISCLOSURE NOTES

33. EVENTS AFTER BALANCE SHEET DATE

Asset Held for Sale – Wimbledon Car Park

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

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

Academy

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

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

34. INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiary

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

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

LBM's investment in CHAS 2013 Ltd is recognised and measured at cost in the Authority's balance sheet. LBM is exposed to variable returns from CHAS 2013 Ltd. In 2016/17, CHAS 2013 Ltd's total comprehensive income was £0.9m (£0.5m in 2015/16). Dividends received by LBM from CHAS 2013 Ltd are recognised within the Authority's comprehensive income and expenditure statement (CIES). In 2016/17, £0.4m dividend income was recognised (nil in 2015/16).

Separate from any dividends, CHAS 2013 Ltd also makes an annual licence fee payment to LBM, for use of intellectual property owned by the Authority. In 2016/17, the licence fee was £0.8m (2015/16 £0.8m), which has been recognised within financing and investment income and expenditure in the CIES. CHAS 2013 Ltd also makes a payment to LBM in return for the provision of support services, such as finance and HR. Support service and other recharges in 2016/17 totalled £1.29m.

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

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

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

On the grounds of materiality, it is considered unnecessary to produce Group Accounts which consolidate CHAS 2013 Ltd with the single entity accounts of the Authority. This is because they would not have a material effect on the overall financial statements and therefore their inclusion would not provide any further benefit to the users of the Statement of Accounts.

Joint Venture

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

MSJCB is jointly controlled by the London Boroughs of Merton and Sutton. Any cash balance belonging to MSJCB is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect the sum owed to MSJCB. At 31/03/2017, including cash held and loans to MSJCB, there was a net debtor balance of £108k (net creditor balance of £24k at 31/03/2016).

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

Audited accounts of MSJCB are available on request from:

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

35. TRADING OPERATIONS

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

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

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

36. INVENTORIES

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

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

37. POOLED BUDGETS – Partnerships - Section 75

Community Equipment Services

During 2016/17 the Authority has continued to host a Partnership Agreement with the Merton Clinical Commissioning Group, under Section 75 of the National Health Service Act 2006, to provide integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services.

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

Better Care Fund

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

In 2016/17, the Authority commenced a partnership agreement, under Section 75 of the National Health Service Act 2006, with Merton Clinical Commissioning Group (CCG) in respect of the Better Care Fund. The CCG receives the full BCF allocation from NHS England, then transfers a proportion (£5,508,000 in 2016/17) into a pooled fund, hosted by the Authority, to be spent on services. The Authority makes a £1 contribution to the pool. The gross income and expenditure of the partnership is shown in the table below. As per accounting standards, the Authority records only its £1 share of the pooled funds as expenditure in its Comprehensive Income and Expenditure Statement (CIES). The CCG's contribution, therefore, is not recognised in the Authority's CIES.

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

Mental Health Service

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

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

38. EXTERNAL AUDIT COSTS

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

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

39. On-Street Parking Account

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

2015/16				On-Street Parking Account	2016/17			
On Street Parking	Bus Lanes	Moving Traffic Violations	Total		On Street Parking	Bus Lanes	Moving Traffic Violations	Total
£000	£000	£000	£000		£000	£000	£000	£000
Income								
(2,605)	(452)	(1,226)	(4,282)	Penalty Charge Notices	(2,977)	(1,177)	(3,070)	(7,223)
(1,167)	0	0	(1,167)	Residents' Parking Permits	(1,239)	0	0	(1,239)
(835)	0	0	(835)	Residents' Visitors' Parking Permits	(870)	0	0	(870)
(233)	0	0	(233)	Business Parking Permits	(223)	0	0	(223)
(34)	0	0	(34)	Teachers Parking Permits	(39)	0	0	(39)
(2,596)	0	0	(2,596)	On-Street Parking Charges	(2,622)	0	0	(2,622)
(325)	0	0	(325)	Other Income	(416)	0	0	(416)
(7,794)	(452)	(1,226)	(9,471)	Total Income	(8,387)	(1,177)	(3,070)	(12,633)
Expenditure								
1,019	177	480	1,676	On-Street Parking	906	358	934	2,198
19	3	9	31	Off-Street Parking Spaces	0	0	0	0
144	25	68	236	Parking Management & Planning	97	38	100	236
1,649	286	776	2,711	Parking Enforcement	1,090	431	1,124	2,645
4,963	(39)	(106)	4,817	Contribution to Public Transport (Concessionary Fares)	6,293	349	911	7,554
7,794	452	1,226	9,471	Total Expenditure	8,387	1,177	3,070	12,633

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

TECHNICAL ANNEX – ACCOUNTING POLICIES

40. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year end of 31st March 2017. The Authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2015, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Notwithstanding the accrual principle, some items are recorded as received/paid on the basis that there is no material distortion of the 'true and fair view' concept. These items include:
 - a) Housing benefit payments and the related subsidy grant are recorded when the payment to housing benefit recipients falls due.
 - b) Income received from Penalty Charge Notices (PCNs) does not equate to the full recorded value of PCNs issued. This is due to prompt payment discounts, disputed notices and other mitigating circumstances. Consequently, income from PCNs is recognised on a

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

iii. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

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

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

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

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

v. Charges to Revenue for Non-Current Assets

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

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

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision (MRP) in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment

Account in the Movement in Reserves Statement for the difference between the two.

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

vi. Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

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

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual and sick leave and non-monetary benefits in lieu of salary (e.g. childcare vouchers), where material for current employees. They are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlement (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

Termination Benefits

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

the Authority is demonstrably committed to the termination of the employment or has made an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

- The liabilities of the Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.7%.
- The assets of the Pension Fund attributable to the Authority are measured at fair value:
 - quoted securities: current bid price
 - unquoted securities: professional estimate
 - unlisted securities: current bid price

– property: market value

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

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Services segment.
- net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

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

Contributions paid to the Pension Fund:

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

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

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

Discretionary Benefits

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

viii. Events After Balance Sheet Date

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

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

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

ix. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

x. Government Grants and Contributions

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

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

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

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

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

Business Improvement Districts

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

Community Infrastructure Levy

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

xi. Heritage Assets

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

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

xii. Intangible Assets

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

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

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

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

xiii. Interest in Subsidiaries and Other Entities

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. In 2016/17, the authority has one subsidiary and one joint venture. The authority has not published Consolidated Group Accounts on the grounds of materiality. Details of the subsidiary and joint venture are disclosed in Note 34.

xiv. Inventories and Long Term Contracts

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

xv. Jointly Controlled Operations

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

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

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

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

South London Legal Partnership: this is a cost-sharing arrangement with the LB Richmond, LB Sutton, RB Kingston and LB Wandsworth. Merton administers the service and recharges the other authorities with their share of the cost.

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

Better Care Fund: the Authority hosts a pooled budget, under Section 75 of the National Health Service Act 2006, with Merton Clinical Commissioning

Group (CCG) in respect of the Better Care Fund. The CCG receives the allocation from the Department of Health. The CCG then appropriates a proportion to the pooled budget to spend on services. Income and expenditure relating to the Authority's contribution to the pooled budget is reported within the Community & Housing line in the Comprehensive Income and Expenditure Account.

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

xvi. Leases

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

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between :

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

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

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

xvii. Overhead and Support Services

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

xviii. Property, Plant and Equipment

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

Recognition

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

De Minimis

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

- infrastructure and assets under construction – depreciated historical cost
- surplus assets – the current value measurement base is fair value, estimated using Level 1 observable inputs and highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

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

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

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

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

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

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

Revaluations

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

Revaluations are undertaken as at 31st March.

Assets regarded by the authority as operational were valued on the basis of Existing Use Value (EUV) or, where this could not be assessed because there

was no market for the subject asset, by the Depreciated Replacement Cost method (DRC), subject to the prospect and viability of the occupation and use.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost

being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

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

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

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

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

xix. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. General

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

2. Insurance Fund

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

Contingent Liabilities

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

Contingent Assets

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

xxi. Reserves

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

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

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

xxii. Revenue Expenditure Funded from Capital Under Statute

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

xxiii. VAT

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

xxiv. Local Authority Schools in England and Wales

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

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

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

42. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain policies set out in Note 41, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- It is expected that future levels of funding will be reduced however this is not expected to influence the authority's ability as a going concern.
- CHAS 2013 Ltd and MSJCB excepted, the authority's relationships with other bodies do not fall within the scope of group accounts. The authority has not published consolidated group accounts on the grounds of materiality.
- The potential outcomes from legal claims are not expected to be material to the Authority's accounts.
- Accounting for Schools – in line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the borough are considered to be entities controlled by the Authority. Rather than produce group accounts, the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Authority's single entity accounts.
- Accounting for Schools – Balance Sheet recognition of schools. The Authority recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Authority recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Authority, school or Governing Body then it is not included on the Authority's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Authority, school or school Governing Body.

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

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

The items in the London Borough of Merton's Balance Sheet at 31st March 2017 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

Item:

Property, Plant and Equipment (PPE)

Uncertainty:

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

Effect if actual result differs from assumptions:

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

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

Item:

Provisions

Uncertainty:

The authority has made provisions of £4.2m for insurance claims. The fund is used to pay claims for which the authority is self insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.

Effect if actual result differs from assumptions:

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

Item:

Provision for NDR appeals

Uncertainty:

The authority has made provision of £2.1m for its share of appeals against business rates charges. The amount represents an estimate of the potential effects of appeals and proposals that may be settled in future years. It is based upon the most recent outstanding Rating List proposals provided by the Valuation Office Agency. The potential effect of the proposals is an estimate based on changes in comparable properties, market trends and other valuation issues including the potential for certain proposals to be withdrawn.

Effect if actual result differs from assumptions:

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

Item:

Pension Liability

Uncertainty:

Estimation of the net £368m pension liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.

Effect if actual result differs from assumptions:

The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 32 for further detail.

Collection Fund

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

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

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

1. Council Tax

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

The Council tax base is the total number of properties in each of the eight valuation bands adjusted by a set proportion for each band to convert to the Band D equivalent for that band. The Band D charge is the required income from the Collection Fund divided by the Council Tax base. An individual amount due for each Band is calculated by multiplying the Band D charge by the proportion that is specified for each particular band. The Council Tax base in 2016/17 before adjustments for localisation of Council Tax Support, technical reforms to Council Tax, and allowance for non-collection is 73,343 (71,606 for 2015/16). The derivation of this is shown in the table below.

Council Tax Band	Number of Dwellings on Valuation Officers List		Number of Dwellings after Discounts and Exemptions		Ratio to Band D	Equivalent Number of Band D Properties	
	2015/16	2016/17	2015/16	2016/17		2015/16	2016/17
A adjust	2	2	1	1	5/9	0	0
A	1,023	1,033	534	577	6/9	356	385
B	8,139	8,142	5,125	5,355	7/9	3,986	4,165
C	22,099	22,386	16,397	17,039	8/9	14,575	15,146
D	27,497	27,528	22,500	22,896	9/9	22,500	22,896
E	13,027	13,051	11,498	11,624	11/9	14,053	14,207
F	5,224	5,300	4,777	4,895	13/9	6,900	7,070
G	3,947	3,967	3,689	3,743	15/9	6,148	6,238
H	1,631	1,669	1,542	1,615	18/9	3,085	3,231
Total						71,601	73,338
Defence properties						5	5
Council Tax Base						71,606	73,343

The average Council Tax charge for a Band D property (including the GLA) was £1,382.45 in 2016/17 compared to £1,401.45 in 2015/16. From this an income yield of £98.6m was expected (£97.6m in 2015/16). In 2016/17 the income generated was £102m (£102m in 2015/16) and includes changes to liabilities, exemptions, discounts and the council tax support scheme incurred in the current year but which relate to previous years. This income is received from council taxpayers.

2. Non-Domestic Rates (NDR)

The Authority is responsible for collecting rates due from the business ratepayers in its area. The Valuation Office Agency (VOA) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government. Under the Business Rates Retention Scheme, the Authority now retains a 30% share of NDR Income. Precepts are also paid from NDR Income to the Greater London Authority (20%) and central government (50%) as shown in the Collection Fund statement.

	31 st March 2016	31 st March 2017
Non-domestic rateable value at year end	£201m	£201m
Number of Hereditaments	5,373	5,378
Uniform Business Rate (in the £)	49.3p	49.7p

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

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

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

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

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

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

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

The movements in the provisions for impairments of bad debts and for losses on appeals were as below. Following the introduction of the Business Rates Retention Scheme in April 2013, the Authority is liable for its proportionate share of successful appeals against NDR charges made in the period to 2015/16. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

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

4. Collection Fund Surpluses and Deficits

Council Tax

There is an accumulated surplus of £2.074m on the Collection Fund (£3.810m in 2015/16/17). This surplus is attributable to the London Borough of Merton and to the Greater London Authority (GLA) and is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

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

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

	Greater London Authority	London Borough of Merton	Total
	£000	£000	£000
Accumulated surplus as at 1 st April 2016	(803)	(3,007)	(3,810)
Paid to GLA in 2016/17	853	0	853
Transfer to/(from) General Fund in 2016/17	0	3,200	3,200
Surplus/Deficit in 2016/17	(461)	(1,856)	(2,317)
Total	(411)	(1,663)	(2,074)

NDR

There is a deficit of £0.898m on the Collection Fund (£4.347m in 2015/16). This deficit is attributable to the London Borough of Merton, the Greater London Authority and central government; it is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

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

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

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

5. Link to Core Statements

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

CIES

The £80.778m Council Tax income and the £25.637m NDR income are the Authority's share of Council Tax and NDR income received in the year according to normal accounting rules. The Council Tax and NDR income which ultimately is credited to the General Fund includes the Authority's share of the Collection Fund surplus or deficit generated from the previous year's income. This shown in the following table.

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

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

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

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

Balance Sheet

The cash collected by the Authority for Council Tax and NDR belongs proportionately to the Authority and its major preceptors (the GLA and the DCLG). There will therefore be a debtor/creditor position at the end of year to be recognised between the Authority and each of its major preceptors since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Tax and NDR payers. The amounts paid to preceptors are based on estimates made prior to the financial year as required by statute.

In 2016/17, the net cash paid to major preceptors was less than their proportionate share of net cash collected from Council Tax and NDR debtors/creditors in the year. The Authority has therefore recognised a credit adjustment for the amount underpaid to its major preceptors in the year.

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

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

Cash Flow Statement

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

Pension Fund Accounts

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

Net Assets Statement

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

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

Notes to the Pension Fund Accounts

1. Description of Fund

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

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

(a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and amendments) Regulations 2014 (as amended), and;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

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

(b) Membership

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

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

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

The following table summarises the membership numbers of the scheme.

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

(c) Funding

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

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2017. The employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred at 31 March 2016. Currently, employer contribution rates range from 12.0% to 26.4%. Employers pay a monetary contribution towards past service costs.

(d) Benefits

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

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

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its financial position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17', which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contributions

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

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

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

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

3.2 Transfers

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

3.3 Investment income

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

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

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

3.4 Interest income

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

Revenue account – expense items

3.5 Benefits Payable

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

3.6 Taxation

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

By virtue of LB Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

3.7 Management Expenses

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

(a) Investment Management Expenses

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

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

(b) Oversight and Governance Costs

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

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

3.8 Administrative Expenses

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

Net Asset Statement

3.9 Investment Assets

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

3.10 Financial liabilities

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

3.11 Movement in the net market value of investment

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

3.12 Foreign currency

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2017.

3.13 Cash

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

3.14 Actuarial present value of promised retirement benefits

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

3.15 Provisions

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

3.16 Additional Voluntary Contributions

Merton Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund only uses one provider, the Prudential PLC. AVC's are not

included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed in note 22.

3.17 Going Concern

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

3.18 Contingent Assets and Contingent Liabilities

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

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

3.19 Events After The Reporting Date

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

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

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

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

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

The main item in the Fund's Net Asset Statement at 31 March 2017 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £17.4m and a -0.1% reduction would increase the obligation by £17.8m. An adjustment to the mortality age rating assumption of -1 year would decrease the obligation by £35.5m.

6. Events After The Reporting Date

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

7. Contributions Receivable

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

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

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

8. Transfers In From Other Pension Funds

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

9. Benefits Payable

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

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

10. Payments to and on Account of Leavers

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

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

11. Management Expenses

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

11a. Investment Management Expenses

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

12. Investment Income

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

13. Taxes on Income

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

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2017. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

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

£0.15m internally managed funds have not been included in the above analysis.

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2017 is shown in the following table. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

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

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2016/2017. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

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

Reconciliation of movements in investments and derivatives

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

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

14.4 Detail Analysis of Investments

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

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

14.5 Analysis of derivatives

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

The derivative instruments, which are used by the Fund, are FTSE future contracts, which have been applied to the active and passive sub-funds managed by UBS Asset Management. These instruments are essentially used by the Fund Managers for efficient portfolio management.

At 31 March 2017, the value of FTSE futures amounted to less than 0.5% of all equity investment in the Fund (0.5% in 2015/16).

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

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

14.6 Stock lending

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

14.7 Investments exceeding 5% of net assets

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

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

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

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

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

15. Fair Value – Basis of Valuation

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

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

15a Fair Value Hierarchy

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

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

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

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

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

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

16. Financial Instruments

16.1 Classification of financial instruments

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

31 March 2016				31 March 2017		
Designated at fair value through profit and loss £000	Loans and receivables Restated £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
130,929 194,037						
179,624						
21,183 1,528						
	2,008					
	150					
1,261						
	1,256					
528,562	3,414	0		647,302	6,429	
			Financial Assets			
			Bonds	153,178		
			Equities	236,697		
			Pooled Investments	232,468		
			Pooled Property Investments	21,321		
			Derivative Contracts	2,328		
			Cash With Fund Managers		3,638	
			Internally Managed Funds		150	
			Other Investment Balances	1,310		
			Debtors		2,641	
			Financial Liabilities			
(1,527)			Derivative Contracts	(2,330)		
		(726)	Creditors		(708)	
(1,527)	0	(726)		(2,330)	(708)	
527,035	3,414	(726)		644,972	(708)	

16.2 Net gains and losses on financial instruments

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

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

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows. The Fund manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Advisory Committee. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Statement of Investment Principles (SIP), superseded by Investment Strategy Statement from 1 April 2017 and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous fund manager selection process. In addition the Fund employs an adviser, JLT, who provides advice on investment issues.

17.2 Market risk

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

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in Sterling. Riskier assets in the Fund such as equities display greater potential price volatility than bonds. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other

financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	3,638	0.01	3,638	3,638
Investment portfolio assets				
UK Equities	274,554	8.05	296,656	252,452
Overseas Equities	194,611	10.29	214,636	174,586
Bonds and Index Linked	153,178	11.03	170,074	136,282
Property	21,321	2.40	21,833	20,809
Income Due	1,310	0.00	1,310	1,310
Fixed Deposits (Internally managed)	150	0.00	150	150
Total Assets	648,762		708,297	589,227

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

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

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2017 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

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

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

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

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

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

17.5 Interest rate risk

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

17.6 Currency risk

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

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

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

The table below shows the currency exposure by asset type as at 31 March 2016.

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

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2017. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the

weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

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

Currency	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	694	6.83	741	647
EURO	8,653	6.77	9,239	8,067
Norwegian Krone	394	9.40	431	357
Swedish Krona	2,164	7.65	2,330	1,998
Swiss Franc	4,318	9.95	4,748	3,888
US Dollar	33,185	7.78	35,767	30,603
Total	49,408		53,256	45,560

17.7 Credit risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2017. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

Credit Quality	Value at 31 March 2016 £000	Value at 31 March 2017 £000
AAA	3,535	3,829
AA	95,840	117,793
A	12,308	14,399
BBB	16,497	14,399
BB or below	1,309	1,379
Cash	1,440	1,379
Settled Cash	16	29
	130,945	153,207
N/A	150	150
Total	131,095	153,357

17.8 Liquidity risk

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

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

17.9 Refinancing risk

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

18. Funding Arrangements

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

The key elements of the funding policy are:

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

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

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

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

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

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

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

Financial Assumptions

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

Demographic Assumptions

The main assumptions are detailed below:

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

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2017, using a valuation methodology that is consistent with IAS19.

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

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

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

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

20. Current Assets

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

Analysis of Debtors

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

21. Current Liabilities

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

22. Additional Voluntary Contributions

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

The amount of additional voluntary contributions paid by members during 2016/17 to AVC schemes outside the Authority's responsibility was £0.172m (£0.127m at 31 March 2016). The external providers have reported that at 31 March 2017 the total value of accumulated AVCs is £2.048m (£1.710m at 31 March 2016).

23. Related Parties

Merton Council

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

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

Governance

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

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

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

Key Management Personnel

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

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

24. Contingent Asset

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

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

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

Statements of Responsibilities

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services.
- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- To approve the Statement of Accounts.

1.1. The Director of Corporate Services' Responsibilities

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

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

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

The Director of Corporate Services has also:

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

1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2017.

Signed

C Holland
Director of Corporate Services
7th September 2017

1.3 Approval of Accounts by Standards and General Purposes Committee

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

Signed

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

Further information about the accounts is available from:

Director of Corporate Services
8th Floor

Merton Civic Centre
London Road
MORDEN
Surrey
SM4 5DX

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

Independent Auditor's Report

The final Auditor's report will be received from Ernst and Young shortly after the Standards and General Purposes Committee on 7th September 2017.

Glossary

ACCOUNTING POLICIES

Rules and practices followed in drawing up the accounts.

ACCOUNTING CODES OF PRACTICE

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

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

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

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

ACCRUALS

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

ACTUARIAL GAINS AND LOSSES

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

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

APPROPRIATIONS

The assignment of revenue balances for specified purposes.

ASSET HELD FOR SALE

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

ASSETS

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

BALANCES

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

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

BUDGET

Statement of the spending plans for the year.

CAPITAL ADJUSTMENT ACCOUNT (CAA)

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

CAPITAL CHARGES

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS DEFERRED

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

CAPITAL RECEIPTS

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

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

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

CLG

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

COLLECTION FUND

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

COMMUNITY ASSETS

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

COMPREHENSIVE SPENDING REVIEW (CSR)

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

CONTINGENT ASSETS AND LIABILITIES

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

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

CORPORATE AND DEMOCRATIC CORE

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

CORPORATE GOVERNANCE

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

COUNCIL TAX

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

CREDIT APPROVAL

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

CREDITORS

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

CURRENT SERVICE COST (PENSIONS)

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

CURTAILMENT COSTS

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

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

DEBTORS

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

DEFERRED CONSIDERATION

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

DEFINED BENEFIT SCHEME

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

DEFRA

Department for the Environment, Food and Rural Affairs.

DEPRECIATION

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

DISCRETIONARY BENEFITS

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

EMOLUMENTS

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

EXCEPTIONAL ITEMS

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

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

FAIR VALUE

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

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

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

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

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

FINANCE LEASE

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

FINANCIAL YEAR

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

FINANCIAL INSTRUMENT

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

FIXED ASSETS

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

FTSE 100

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

GENERAL FUND

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

GOVERNMENT GRANTS

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

GROSS EXPENDITURE

The total expenditure of a fund or account.

GROUP ACCOUNTS

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

HERITAGE ASSETS

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

IFRS

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

IMPAIRMENT

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

INCOME AND EXPENDITURE ACCOUNT

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

INFRASTRUCTURE ASSETS

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

INTANGIBLE ASSETS

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

INTEREST COST (PENSIONS)

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

INVESTMENTS (PENSION FUND)

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

INVESTMENTS (NON-PENSION FUND)

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

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

JOINTLY CONTROLLED ENTITY

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

LEASING

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

LEVY

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

LIABILITIES

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

MATERIALITY

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

NET ASSETS

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

NET BOOK ASSETS

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NET WORTH

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

NON-DISTRIBUTED COSTS

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

NON-DOMESTIC RATE (NDR)

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

NON-OPERATIONAL ASSETS

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

OPERATIONAL ASSETS

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

PAST SERVICE COST

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

POOLED VEHICLES

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

POST BALANCE SHEET EVENT

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

- Adjusting events, which provide further evidence of conditions that existed at the end of the accounting period and that may require changes to the accounts.
- Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

PRECEPTS

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

PRIVATE FINANCE INITIATIVE (PFI)

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

PRIOR PERIOD ADJUSTMENTS

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

PROVISIONS

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

RESERVES

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

RESIDUAL VALUE

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

REVALUATION RESERVE

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE

This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements. This expenditure was called deferred charges under the 2007 SORP.

SCHEME LIABILITIES

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

SETTLEMENT COSTS

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

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

STATEMENT OF RECOMMENDED PRACTICE (SORP)

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

STOCKS

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

SUBSIDIARY

An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

SUPPORT SERVICES

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

UK GAAP

UK Generally Accepted Accounting Principles cover accounting practices that are regarded as permissible by the accounting profession. These practices may be laid down in accounting standards and/or legislation (such as Local Government Finance Legislation) but it also includes accounting practices that are outside the scope of

accounting standards but are generally accepted by practitioners as legitimate. Local Authority accounts are now required to be IFRS compliant.

USEFUL LIFE

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

VESTED RIGHTS

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

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

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