


merton

MERTON COUNCIL

# Statement of Accounts

For the year ending

# 31 March 2019

# Statement of Accounts

For the year ending 31st March 2019

## Index

# Narrative Statement

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

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

## Introduction

Welcome to the London Borough of Merton's 2018/19 Statement of Accounts, which reports the Authority's financial performance during the year and its financial position at $31^{st}$ March 2019. The format and content of the financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and the Service Reporting Code of Practice 2018/19.

## Organisational overview

Merton Council is going through a transformation phase with a number of change projects which will maximise the use of information technology and streamline processes and service provision. Providing value for money services to residents is at the heart of Merton's business and the priority is to continue to find innovative solutions to maximise future efficiency.

Continued discussions about reshaping the way local authorities are financed, and changes to business rates retention will have a significant impact on the services that the council provides. In addition to further anticipated reduction in Government funding the Council expects to see rising demand for services from an increasing demographic in adult social care and children's services in particular.

The financial reality facing local government dominates the choices the Council will make for the future of the borough. The strategic priorities and principles are:

- To continue to provide a certain level of essential services for residents. The priorities of 'must' services are:
  - Continue to provide everything that is statutory
  - Maintain services – within limits – to the vulnerable and elderly

- After meeting these obligations Merton will do all that it can to help residents who aspire. This means addressing the following as priorities:
  - Maintain clean streets and keep council tax low.
  - Keep Merton as a good place for young people to go to school and grow up.
  - Be the best it can for the local environment.

The top priority continues to be to provide safe services of the best possible quality within financial constraints, delivering services that customers want and need.

## Key Achievements in 2018/19

Despite the financial pressures the Council have in the last financial year opened:-

- a new leisure centre in Morden,
- a new day centre for adults with learning difficulties at Leyton Road and
- the Colliers Wood library.

The new waste contract with Veolia, shared with three other boroughs, has led to an increase in recycling rates as well as saving the Council money.

Collection of council tax improved again in 2018/19 and in year collection is at a record high for Merton.

Business rates collection remained static but collectable debt for business rates increased from the prior year. 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.

Universal Credit has now been rolled out fully across the borough for all new claims.

CHAS 2013 Limited, wholly owned subsidiary of LB Merton, provides supply chain risk management and compliance services. The company continues to grow with an increase in turnover and profit year on year. Building on its safety pre-qualification assessments, delivered to nationally recognised standards, the company increased the number of services offered to compete in the marketplace in the face of the increasing competition.

Merantun Developments Limited is a wholly owned housing subsidiary company of LB Merton, incorporated to deliver a mix of housing on small sites to contribute to Merton's housing targets and generate a revenue return to the Council's general fund. Four sites were identified for development and the company is making good progress on the design, site capacity, planning strategy and community engagement programme.

## Operational Model

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

The Council is organised into four directorates:

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

## Financial performance

## Revenue Summary

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

| | 2018/19 Current Budget £000 | 2018/19 Outturn £000 | 2018/19 Variance £000 |
|---|---|---|---|
| **Department** | | | |
| Corporate Services | 10,433 | 7,465 | (2,968) |
| Children, Schools & Families | 59,083 | 61,535 | 2,452 |
| Community & Housing | 63,019 | 62,914 | (105) |
| Environment & Regeneration | 18,111 | 16,737 | (1,374) |
| **Net Service Expenditure** | **150,646** | **148,651** | **(1,995)** |
| Corporate Provisions | (1,889) | (7,550) | (5,661) |
| **Total General Fund** | **148,757** | **141,101** | **(7,656)** |

| | | |
|---|---|---|
| **Net General Fund underspend** | | **(7,656)** |
| **Net underspend transferred to Earmarked Reserves** | | **7,656** |

| | | | |
|---|---|---|---|
| Grants | (9,855) | (9,855) | 0 |
| Business Rates | (51,463) | (55,315) | (3,852) |
| Council Tax and Collection Fund | (87,439) | (87,439) | 0 |
| **Funding** | **(148,757)** | **(152,609)** | **(3,852)** |
| **Funding transferred to Earmarked Reserves** | | | **3,852** |

Net service expenditure was underspent by £1.995m. There was an overspend on children's placements costs as the demand for these services remains high and these pressures are expected to continue. This was offset by underspends on Corporate Services and Environment and Regeneration. The Corporate Services underspend was mainly due to a reduction in the provision for housing benefits, additional income from the Department of Works and Pensions (DWP) and an overachievement of fee income from the bailiffs service.  Environment and Regeneration underspend was mainly due to higher penalty charge notice (PCN) income and a reduction in waste disposal costs.

Corporate provisions underspent by £5.7m which was primarily due to underspends on contingencies set aside for unforeseen service pressures and potential overspends, the provision for the pay award, excess inflation, and pension costs of early retirement and some additional credits arising from previous years.

There was an overall underspend of £7.656m against the budget which was transferred to various earmarked reserves.

## Reserves

During 2018/19 the Authority's overall usable reserves increased by £6.592m. This was composed of a £6.350m increase in revenue reserves and fund balances and a £0.242m increase in capital balances.

The increase in revenue reserves was composed of a net increase in schools' general fund balances of £0.276m and a net £5.074m increase in earmarked revenue reserves. The general fund balance increased by £1m to £13.778m. The earmarked revenue reserves include the underspend of £7.656m and the additional income from the Business Rates Retention London Pilot Pool.
The net increase in capital reserves was composed of a net reduction in usable capital receipts (£6.285m) and a net increase in usable capital grants of £6.527m.

| Usable Reserves | 2018/19 Opening Balance £000 | 2018/19 Movement £000 | 2018/19 Closing Balance £000 |
|---|---|---|---|
| General Fund Balances | 12,778 | 1,000 | 13,778 |
| General Fund Balances held by schools | 7,820 | 276 | 8,096 |
| Earmarked Revenue Reserves | 40,122 | 5,074 | 45,196 |
| **Sub Total-Fund Balances and Revenue Reserves** | **60,720** | **6,350** | **67,070** |
| Capital Receipts Reserve | 15,513 | (6,285) | 9,228 |
| Capital Grants Unapplied* | 10,479 | *6,527 | 17,006 |
| **Capital Reserves** | **25,992** | **242** | **26,234** |
| **Total Usable Reserves** | **86,712** | **6,592** | **93,304** |

* Movement in 2018/19 reflects 2019/20 grants recognised as income but not yet applied to finance capital projects.

## Risks

A key risk affecting the Council relates to its financial position. Local government continues to be affected by reductions in the level of funding it receives from central government. Strong financial management is vital to ensure that the Council is financially resilient and prepared to meet any future challenges.

Whilst the Council has managed to set a balanced budget for each year in accordance with statutory requirements, there continues to be a significant budget gap over the four year period of the Medium Term Financial Strategy. At the same time, delivery of the annual budget is also dependent upon the delivery of savings which have been identified and agreed by Council as part of the annual budget process.

## Economic Outlook

The uncertainty about future funding makes effective medium term financial planning extremely challenging.

Some government funding, often in response to particular issues identified over the short term does not enable the long term strategic planning which is essential to enable local authorities to function effectively. There is also currently a key dependence on funding sources such as the Better Care Fund but considerable uncertainty about their continuity and longevity.

Cost pressures as well as demand pressures are significant elements in local authority financial pressures.

Since 2010 local government finance issues have been dominated by cuts in government funding and pressure to keep council tax increases down with a recent change in emphasis to allow council tax increases to help alleviate service pressures, particularly in adult social care.

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

- The current economic position including future risks relating to Brexit
- Demand pressures on the budget
- Identifying and achieving cost and income improvements
- Risks to Government funding levels, particularly in light of the impending Spending Review 2019 and the Fair Funding Review currently both due to take effect in 2020/21
- Risks to other income streams including Business Rates Retention

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

<u>Brexit</u>

Since the UK voted to leave the European Union in 2016 it has become clear that Brexit will create both risks and opportunities for local government but the biggest issue at the current time is the uncertainty that it is creating and the resulting pressure on all aspects of government policy. This is having an impact on future funding certainty.

With this in mind, the council is putting processes in place and has a Brexit task group who meet regularly to identify the possible issues and strengthen its resilience and develop contingency plans in key areas such as workforce, regeneration, funding, legislation and community cohesion.

Spending Review 2019

A Spending Review is a Treasury-led process to allocate resources across all government departments, according to the Government's priorities. Historically, Spending Reviews have usually covered a period of at least three years which are preferential as they give departments' greater certainty over their future budgets, which can aid long term planning and make for better policymaking. However, given heightened uncertainty particularly concerning the potential economic impact of Brexit, the Government may decide to have a review that covers a shorter period, perhaps even a one-year review. This lack of clarity makes forward planning extremely difficult.

Fair Funding Review

Central government funding for local authorities is based on an assessment of its relative needs and resources. The overarching methodology that determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14.
The government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines for the start of the new 75 per cent business rates retention scheme, from April 2020.

Business Rates Baselines Reset 2020

The business rates retention system is due to be "re-set" for 2020-21. Notwithstanding the wider reforms to the local government finance and business rates retention systems, the Government currently envisage that the re-set will establish new baseline funding levels and business rates baselines for each local authority that is party to the rates retention system.

Business Rates Retention

In 2018/19, Merton, along with all other London boroughs participated in the 100% London Pilot Pool. This had some financial advantages to London. However, the Government has subsequently decided to reduce the level of local government Business Rates Retention to 75% and London is piloting this in 2019/20 ahead of the Government's plan to fully implement 75% Business Rates Retention for all local authorities in 2020/21. There are risks around estimating the level of Business Rates income that can support the Council's budget. These can emanate from the pressures on the high street from online retail and possibly the repercussions from Brexit, leading to an increase in empty properties, rates relief defaults appeals and late payments.

Business Rates and the High Street

In the Autumn Budget 2018, the government announced a business rates discount scheme for small-sized high street properties in England which have a rateable value below £51,000. This means that small businesses will receive a one-third discount on their rates bills from April 1 2019 for the next two years.
The Government is still under pressure to reform business rates to help high streets.

Use of Reserves
Reserves have been used to protect services and although unsustainable in the medium term, it has helped in the management of the significant underlying financial pressure and its ultimate impact on service users and residents. The Council maintains a minimum level of general fund reserves to protect against uncertainty and fluctuations in demand led budgets.

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

## Capital Summary

Capital investment amounted to £31.6m in 2018/19 (£32.7m in 2017/18), this sum comprises £31.4m capital expenditure and £0.2 million investment in a wholly owned housing company. The programme was financed through the application of capital grants/contributions (£15.1m), capital receipts (£16.4m) and revenue contributions (£0.1m). Capital receipts received in year totalled £10.1m (£4.5m in 2017/18), this included £5.9m from the Department of Education for the development of a new secondary school site.

Of the total £31.6m capital expenditure, £28.1 million was spent on the purchase/enhancement of property, plant and equipment, £0.8 million on the purchase/enhancement of intangible assets, £0.2 million investment in a wholly owned housing company and £2.5 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 March 2019, is shown in the following table, alongside 2018/19 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas.

| Department | Outturn 2018/19 £000s** | Capital Budget (£000's) | | | |
|---|---|---|---|---|---|
| | | 2019/20* | 2020/21 | 2021/22 | 2022/23 |
| Corporate Services | 4,918 | 28,857 | 4,270 | 3,870 | 14,167 |
| Community and Housing | 893 | 971 | 1,118 | 913 | 882 |
| Children, Schools & Families | 8,333 | 10,203 | 5,618 | 3,150 | 1,900 |
| Environment & Regeneration | 17,280 | 13,498 | 7,782 | 7,504 | 4,401 |
| **Total** | **31,424** | **53,529** | **18,788** | **15,437** | **21,350** |

* Excludes any proposed slippage from 2018-19 ** Excludes investment in the Housing Company

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

| Capital projects aimed at service expansion | Capital Budget (£000's) | | | |
|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| Secondary school expansions | 3,154 | 6,352 | 2,552 | 0 |
| Special Educational Needs school expansions | 4,852 | 3,178 | 1,250 | 0 |
| Replace Morden Leisure Centre and Lake De-silting | 1,517 | 0 | 0 | 0 |
| **Total** | **9,523** | **9,530** | **3,802** | **0** |

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

## Investments and Borrowing

The Authority's Treasury activities are managed in accordance with Councils' Treasury Management Strategy (approved by full Council in March 2019).
The Authority manages its cash in-house, placing investments for periods ranging from overnight to over 12 months depending on anticipated cash flow requirements.

As at 31 March 2019 the Authority held all its investments in short-term deposits totalling £60m (2017/18 £59m) and none in long term deposits (2017/18 £5m). In the year the Authority earned £1.123m of income from these deposits (2017/18- £0.78m). This represents a 44% increase from 2017/18 and £223k above the budgeted interest income (£900k) for the year.

As at 31st March 2019 Long-term borrowing remained at £113.0m and no short term borrowing. In the year the Authority paid £6.315m in interest (£6.420m in 2017/18) on these borrowings.

## Pensions

The Merton Pension Fund is a LGPS defined benefit pension scheme administered by London Borough of Merton. The scheme is managed in accordance with the Local Government Pension Scheme Regulations 2013. As at 31 March 2019 the Fund's net asset value was £721.3m and it had 13,668 members in total.

The Council is the largest employer of the Fund (95%) and, as at 31 March 2019, there were 12,473 Council employees in the Fund. At the 2016 Triennial valuation, the Fund was 94% funded with the assets of £525m against its liability of £558m. Currently the Fund is carrying out its 2019 Triennial valuation which is scheduled to be completed by 31 March 2020.

## Statement of Accounts

The Statement of Accounts is comprised of the following statements:

- **Core Financial Statements**

  - **The Comprehensive Income and Expenditure Statement (CIES)** – shows the accounting cost in the year of providing services for the functions for which the Authority is responsible and demonstrates how they have been financed.

  - **The Movement in Reserves Statement (MIRS)** – shows the movement in the year on the different reserves held by the Authority and is used to adjust the net surplus or deficit on the Comprehensive Income and Expenditure Statement (CIES) to the amount chargeable under statute to the Authority's general fund.

  - **The Balance Sheet** - summarises the Authority's financial position at year-end.

  - **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

- **Notes to the Core Financial Statements** - provides additional information which supports and explains the figures in the core financial statements. It also includes a technical annex which contains the accounting policies.

- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Authority in relation to non-domestic rates and council tax.

- **Pension Fund Accounts** - shows the contributions to and the benefits paid from the pension fund and identifies the investments which make up the assets of the fund.

- **Group Financial Statements** which combine the core financial statements of this authority with those of its subsidiaries, CHAS and Merantun Developments Limited, comprise the following -

  - **Group Comprehensive Income and Expenditure Statement**
  - **Group Movement in Reserves Statement (MIRS)**
  - **Group Balance Sheet**
  - **Group Cash Flow Statement**

- **Statements of Responsibilities for the Statement of Accounts** – set out the different responsibilities of the Authority and the Director of Corporate Services.

## 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.

| 2017/18 | | | | | 2018/19 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £000 | Gross Income £000 | Net £000 | | Note | Gross Expenditure £000 | Gross Income £000 | Net £000 |
| | | | **Continuing Operations** | | | | |
| 224,986 | (164,367) | 60,619 | Children, Schools and Families | 1 | 231,684 | (168,368) | 63,316 |
| 87,178 | (18,914) | 68,264 | Community and Housing | 1 | 82,659 | (23,237) | 59,422 |
| 114,394 | (102,129) | 12,265 | Corporate Services | 1 | 132,485 | (94,618) | 37,867 |
| 59,649 | (37,356) | 22,293 | Environment and Regeneration | 1 | 59,149 | (40,340) | 18,809 |
| 11,511 | (11,002) | 509 | Public Health | 1 | 10,143 | (10,118) | 25 |
| **497,718** | **(333,768)** | **163,950** | **Cost of services** | | **516,120** | **(336,681)** | **179,439** |
| | | (3,068) | Other operating income and expenditure | 3 | | | 15,904 |
| | | 17,009 | Financing and investment income and expenditure | 4 | | | 19,513 |
| | | (167,481) | Taxation and non-specific grant income | 5 | | | (164,486) |
| | | **10,410** | **Deficit on Provision of Services** | | | | **50,370** |
| | | (21,449) | (Surplus) on revaluation of non-current assets | 17 | | | (292) |
| | | 0 | Impairment losses on non-current assets | 17 | | | 0 |
| | | (41,898) | Re-measurement of the net defined benefit liability/ (asset) | 17, 32 | | | (42,891) |
| | | 0 | Surplus or Deficit on financial assets measured at fair value through other comprehensive income | | | | 0 |
| | | **(63,347)** | **Other Comprehensive Income and Expenditure** | | | | **(43,183)** |
| | | **(52,937)** | **Total Comprehensive Income and Expenditure** | | | | **7,187** |

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

| | Note | General Fund Balances | Capital Receipts Reserves | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2017** | | (62,129) | (22,986) | (7,251) | (92,366) | (139,661) | (232,027) |
| *Movement in reserves during 2017/18* | | | | | | | |
| Total Comprehensive Income and Expenditure | | 10,410 | | | 10,410 | (63,347) | (52,937) |
| Adjustments between accounting basis & funding basis under regulations | 18 | (9,001) | 7,473 | (3,228) | (4,756) | 4,756 | 0 |
| **(Increase)/Decrease in Year** | | 1,409 | 7,473 | (3,228) | 5,654 | (58,591) | (52,937) |
| **Balance at 31 March 2018 carried forward** | | **(60,720)** | **(15,513)** | **(10,479)** | **(86,712)** | **(198,252)** | **(284,964)** |

| | Note | General Fund Balances | Capital Receipts Reserves | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|
| | | £000 | £000 | Note | £000 | £000 | £000 |
| **Balance at 1 April 2018** | | (60,720) | (15,513) | (10,479) | (86,712) | (198,252) | (284,964) |
| Rounding amendment between Usable Reserves at 1 April | | (2) | 0 | 2 | 0 | 0 | 0 |
| *Movement in reserves during 2018/19* | | | | | | | |
| Total Comprehensive Income and Expenditure | | 50,370 | 0 | 0 | 50,370 | (43,183) | 7,187 |
| Adjustments between accounting basis & funding basis under regulations | 18 | (56,718) | 6,285 | (6,528) | (56,962) | 56,962 | 0 |
| **(Increase)/Decrease in Year** | | (6,348) | 6,285 | (6,528) | (6,592) | 13,779 | 7,187 |
| **Balance at 31 March 2019 carried forward** | | **(67,070)** | **(9,228)** | **(17,005)** | **(93,304)** | **(184,473)** | **(277,777)** |

## 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 Mar 2018<br>£000 | Balance Sheet | *Notes* | 31 Mar 2019<br>£000 |
|---|---|---|---|
| 724,092 | Property, Plant & Equipment | *19* | 701,323 |
| 802 | Heritage Assets | *21* | 802 |
| 4,500 | Long Term Investments | *9&10* | 0 |
| 0 | Investment in Subsidiaries | *34* | 161 |
| 4,301 | Intangible Assets | *20* | 4,012 |
| 7,590 | Long Term Debtors | *7* | 6,850 |
| **741,285** | **Long Term Assets** | | **713,148** |
| 55,193 | Short Term Investments | *9&10* | 60,239 |
| 1 | Inventories | *36* | 1 |
| 31,373 | Short Term Debtors | *7* | 37,250 |
| 1,183 | Assets Held for Sale | *22* | 700 |
| 30,434 | Cash and Cash Equivalents | *14* | 42,377 |
| **118,184** | **Current Assets** | | **140,567** |
| (1,487) | Short Term Borrowing | *9&10* | (1,495) |
| (62,964) | Short Term Creditors | *8* | (63,608) |
| (641) | Current Provisions | *11* | (2,868) |
| **(65,092)** | **Current Liabilities** | | **(67,971)** |
| (5,368) | Provisions | *11* | (9,828) |
| (113,010) | Long Term Borrowing | *9&10* | (113,010) |
| (29,778) | Other Long Term Liabilities (i) | *9* | (30,129) |
| (350,088) | Pension Liability | *32* | (342,678) |
| (11,169) | Capital Grants Receipts in Advance | *6* | (12,322) |
| **(509,413)** | **Long Term Liabilities** | | **(507,967)** |
| **284,964** | **Net Assets** | | **277,777** |
| (86,712) | Usable Reserves | *16* | (93,304) |
| (198,252) | Unusable Reserves | *17* | (184,473) |
| **(284,964)** | **Total Reserves** | | **(277,777)** |

*(i) Other Long Term Liabilities include PFI Liabilities (£29.385m), finance lease liabilities (£790) and other Liabilities relating to cash Received in Advance, totalling £54k.*

Signed

Caroline Holland
Director of Corporate Services
25th July 2019

## 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.

| 2017/18 £000 | Cash Flow Statement | Note | 2018/19 £000 |
|---|---|---|---|
| 10,410 | Net deficit on the provision of services | | 50,370 |
| (42,875) | Adjustments to net deficit on the provision of services for non-cash movements | 15a | (88,051) |
| 24,917 | Adjustments for items included in the net deficit on the provision of services that are investing and financing activities | 15b | 30,840 |
| (7,548) | Net Cash flows from Operating Activities | 15c | (6,841) |
| (6,056) | Investing Activities | 15d | (5,376) |
| 13,580 | Financing Activities | 15e | 274 |
| (24) | Net (increase) in cash and cash equivalents | | (11,943) |
| 30,410 | Cash and cash equivalents at the beginning of the reporting period | | 30,434 |
| **30,434** | **Cash and cash equivalents at the end of the reporting period** | **14** | **42,377** |

# NOTES TO THE CORE FINANCIAL STATEMENTS

# INCOME AND EXPENDITURE

## NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

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

| | 2017/18 | | | | 2018/19 | |
|---|---|---|---|---|---|---|
| **Net Expenditure Chargeable to General Fund Balances** | **Adjustments between the Funding and Accounting Basis** | **Net Expenditure in the CIES** | **DEPARTMENT** | **Net Expenditure Chargeable to General Fund Balances** | **Adjustments between the Funding and Accounting Basis** | **Net Expenditure in the CIES** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| 57,123 | 3,496 | 60,619 | Children, Schools and Families | 61,535 | 1,781 | 63,316 |
| 65,654 | 3,119 | 68,773 | Community and Housing (including Public Health) | 62,914 | (3,467) | 59,447 |
| 8,963 | 3,302 | 12,265 | Corporate Services | 7,465 | 30,402 | 37,867 |
| 16,810 | 5,483 | 22,293 | Environment and Regeneration | 16,737 | 2,072 | 18,809 |
| **148,550** | **15,400** | **163,950** | **Sub-total - Cost of Services** | **148,651** | **30,788** | **179,439** |
| (147,141) | (6,399) | (153,540) | Other income and expenditure | (154,999) | 25,930 | (129,069) |
| **1,409** | **9,001** | **10,410** | **Deficit** | **(6,348)** | **56,718** | **50,370** |
| (62,129) | | | Opening General Fund Balances | (60,722) | | |
| 1,409 | | | Less deficit /(surplus) in year | (6,348) | | |
| (2) | (i) | | | | | |
| (60,722) | | | Closing General Fund Balances | (67,070) | | |

## NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

(i) Rounding adjustment between Usable Reserves see Movement in Reserves Statement

**Analysis of Differences between General Fund and CIES 2018/19**

| Department | Adjustments for capital purposes | Net change for pensions adjustments | Other statutory adjustments | Other differences | Total adjustments |
|---|---|---|---|---|---|
| *Note* | *(1)* | *(2)* | *(3)* | *(4)* | |
| | £000 | £000 | £000 | £000 | £000 |
| Children, Schools and Families | 9,875 | 8,902 | (208) | (16,788) | 1,781 |
| Community and Housing (including Public Health) | 93 | 2,935 | 49 | (6,544) | (3,467) |
| Corporate Services | 2,634 | 11,734 | 6 | 16,028 | 30,402 |
| Environment and Regeneration | 12,632 | 2,935 | 66 | (13,561) | 2,072 |
| **Sub-total of adjustments within net cost of services** | **25,234** | **26,506** | **(87)** | **(20,865)** | **30,788** |
| Other income and expenditure | (5,558) | 8,975 | 1,648 | 20,865 | 25,930 |
| **Total adjustments** | **19,676** | **35,481** | **1,561** | **0** | **56,718** |

**Analysis of Differences between General Fund and CIES 2017/18**

| Department | Adjustments for capital purposes | Net change for pensions adjustments | Other statutory adjustments | Other differences | Total adjustments |
|---|---|---|---|---|---|
| *Note* | *(1)* | *(2)* | *(3)* | *(4)* | |
| | £000 | £000 | £000 | £000 | £000 |
| Children, Schools and Families | (1,568) | 9,535 | (315) | (4,156) | 3,496 |
| Community and Housing (including Public Health) | 407 | 2,798 | 23 | (109) | 3,119 |
| Corporate Services | 1,760 | (778) | 7 | 2,313 | 3,302 |
| Environment and Regeneration | 11,205 | 2,604 | 3 | (8,329) | 5,483 |
| **Sub-total of adjustments within net cost of services** | **11,804** | **14,158** | **(282)** | **(10,281)** | **15,400** |
| Other income and expenditure | **(26,622)** | **9,718** | **224** | **10,281** | **(6,399)** |
| **Total adjustments** | **(14,818)** | **23,877** | **(58)** | **0** | **9,001** |

## NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

**Column 1: Adjustments for capital purposes**
This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

· Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

· Financing and investment income and expenditure – the statutory Minimum Revenue Provision charge for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

· Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

**Column 2: Net change for the pensions adjustments**
This column adjusts for the difference between pension contributions paid in year and the cost of pensions as calculated on an IAS 19 basis:

· For services this represents the removal of the employer pension contributions made by the 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.

**Column 3: Other statutory adjustments**
This column adjusts for other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute, including:

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

**Column 4: Presentational differences**
This column adjusts for presentational differences, such as for leases and certain grants, between internal management reporting and reporting as per the Code of Practice.

## NOTE 2: EXPENDITURE AND INCOME BY NATURE

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

| 2017/18 £000 | | Note | 2018/19 £000 |
|---|---|---|---|
| | **EXPENDITURE** | | |
| 206,851 | Employee expenses* | | 211,991 |
| 274,986 | Other service expenses | | 277,848 |
| 15,791 | Depreciation, Impairment losses and revaluation increases within Cost of Services (i) | 18 | 27,091 |
| (379) | Support Services Recharges | | (810) |
| **497,249** | | | **516,120** |
| 6,592 | Interest Payments relating to Financial Instruments | 9 | 6,315 |
| 3,491 | Other Interest Payments inc PFI and Leases | | 8,482 |
| 933 | Precepts & Levies | 3 | 938 |
| 9,718 | Interest on net defined benefit liability (asset) | 32 | 8,975 |
| 0 | Loss on disposal of fixed assets | 3 | 14,966 |
| 178 | Trading accounts deficit/(surplus) | 35 | (98) |
| **518,161** | **Total Expenditure** | | **555,698** |
| | **INCOME** | | |
| (73,609) | Fees, charges and other service income | | (80,273) |
| (259,691) | Government grants | 6 | (256,408) |
| **(333,300)** | | | **(336,681)** |
| (1,630) | Interest & investment income receivable | 4 | (2,056) |
| (4,001) | (Gain) on disposal of fixed assets | 3 | 0 |
| (1,340) | Other finance and investment income | 4 | (2,105) |
| (167,481) | Taxation & non-specific grant income | 5 | (164,486) |
| **(507,752)** | **Total Income** | | **(505,328)** |
| **10,409** | **Deficit on the Provision of Services** | | **50,370** |

*(i) In addition, depreciation of £0.680m was charged to Trading services.*

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

## NOTE 2: EXPENDITURE AND INCOME BY NATURE

| Employee Expenditure | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| VA Schools | 31,852 | 30,575 |
| Foundation Schools | 5,953 | 6,063 |
| **Total** | **37,805** | **36,638** |

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

| 2017/18 Segmental Analysis | | | | 2018/19 Segmental Analysis | | |
|---|---|---|---|---|---|---|
| Fees Charges and Other service income £000 | Revenues from transactions with other operating segments of the authority £000 | Depreciation amortisation and revaluations £000 | Department | Fees Charges and Other service income £000 | Revenues from transactions with other operating segments of the authority £000 | Depreciation amortisation and revaluations £000 |
| (4,097) | 5,247 | 1,775 | Children, Schools and Families | (3,944) | 5,186 | 10,606 |
| (17,414) | 4,710 | 476 | Community and Housing (including Public Health) | (18,255) | 4,496 | 960 |
| (16,236) | (15,513) | 2,000 | Corporate Services | (18,781) | (15,237) | 2,718 |
| (35,862) | 5,177 | 11,540 | Environment and Regeneration | (39,292) | 4,745 | 12,807 |
| (73,609) | (379) | 15,791 | **Total** | (80,272) | (810) | 27,091 |

## NOTE 3: OTHER OPERATING INCOME AND EXPENDITURE

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 933 | Precepts and Levies | 938 |
| (4,001) | (Gains)/losses on the disposal of non-current assets | 14,966 |
| **(3,068)** | **Total** | **15,904** |

The loss on the disposal of current assets shown in the table includes £9m (representing 1.3% of total Property Plant and Equipment assets of £701m) relating to Aragon Primary School which transferred to Academy status in 2017/18. It was not considered necessary to make a Prior Period Adjustment for this because the asset continues in use as a school but now under Central Government control. The transfer had no impact on Usable Reserves.

## NOTE 4: FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2017/18 £000 | | Note | 2018/19 £000 |
|---|---|---|---|
| 10,083 | Interest payable and similar charges | 9 | 14,797 |
| 9,718 | Net interest on defined pension liability | 32 | 8,975 |
| (1,630) | Interest receivable and similar income (i) | 9 | (2,056) |
| 178 | Trading accounts not related to services | 35 | (98) |
| (1,340) | Other (income)/expenditure including income from subsidiaries (ii) | | (2,105) |
| **17,009** | **Total** | | **19,513** |

Notes

(i) This figure includes receivable income from finance leases

(ii) Includes dividend payment and Intellectual Property licence fee payment from subsidiary CHAS Limited.

## NOTE 5: TAXATION AND NON-SPECIFIC GRANT INCOMES

| 2017/18 £000 | | Note | 2018/19 £000 |
|---|---|---|---|
| (84,579) | Council tax income | 6 | (88,980) |
| (26,174) | Non domestic rates | 6 | (53,413) |
| (40,651) | Non-ringfenced government grants | 6 | (2,936) |
| (16,077) | Capital grants and contributions | 6 | (19,157) |
| **(167,481)** | **Total** | | **(164,486)** |

## NOTE 6: GRANT INCOME

The London Borough of Merton credited the following grants, contributions, donations and taxation income to the Comprehensive Income and Expenditure Statement in 2018/19:

| Credited to Taxation and Non Specific Grant Income | 2017/18<br>£000 | 2018/19<br>£000 |
|---|---|---|
| Council Tax | (84,579) | (88,980) |
| Revenue Support Grant (i) | (15,519) | 0 |
| Business Rates | (26,174) | (53,413) |
| Top-up Grant (ii) | (8,901) | 0 |
| NDR Pool Tariff (ii) | n/a | 9,567 |
| Net NDR Pool Benefit (iii) | n/a | (512) |
| Capital Grant Income | (16,077) | (19,157) |
| PFI Contribution | (4,797) | (4,797) |
| New Homes Bonus Grant | (4,148) | (2,371) |
| Section 31 Grant | (1,706) | (4,210) |
| Other grants under £1 million | (491) | (613) |
| | **(162,392)** | **(164,486)** |
| Education Service Grant | (1,592) | n/a |
| Adult Social Care Grant | (3,497) | n/a |
| **Total** | **(167,481)** | **(164,486)** |

| Grants and Contributions Credited to Services | £000 | £000 |
|---|---|---|
| ***Credited to Services*** | | |
| Schools Delegated Budget | (142,860) | (145,603) |
| Housing Benefits Subsidy | (82,137) | (73,995) |
| Public Health Grant | (10,727) | (9,876) |
| Benefits Administration | (909) | (811) |
| Pupil Premium | (5,921) | (5,921) |
| Sixth Form Funding | (5,530) | (5,502) |
| Education Service Grant (iv) | see above | 0 |
| Adult Social Care Grant | see above | (2,265) |
| Universal Infant Free School Meals | (2,306) | (2,310) |
| Adult Education Main | (1,111) | (745) |
| Unaccompanied Asylum Seekers (previously within grants under £1m) | (329) | (1,163) |
| **Total grants under £1million (v)** | (7,861) | (8,217) |
| **Total Grants** | **(259,691)** | **(256,408)** |
| **Contributions over £1million and material items** | | |
| Contributions from CCG | (2,552) | (3,346) |
| Local Taxation Services | (925) | (1,061) |
| Shared Legal Service | (3,390) | (3,717) |
| Recharge for out of borough SEN support | (469) | (485) |
| **Other contributions** | (8,007) | (11,044) |
| **Total Contributions** | **(15,343)** | **(19,653)** |
| ***TOTAL GRANTS AND CONTRIBUTIONS*** | **(275,034)** | **(276,061)** |

## NOTE 6: GRANT INCOME

***Notes***

*(i) L B Merton did not receive Revenue Support Grant in 2018/19 as it was part of the 100% London Pilot Pool.*

*(ii) In 2018/19 L B Merton entered into the 100% London Pilot Pool for Business Rates and Merton became a tariff authority.*

*(iii) NDR Pool*

| | |
|---|---|
| *Councils contribution to NDR Pool based upon difference between 100% and 67% Business Rates Retention schemes* | *2,444* |
| *Councils net pooling adjustment* | (2,956) |
| | (512) |

*(iv) refers to internal contribution towards support overheads and has been removed in 18/19 as a requirement of the Code of Practice*

*(v) 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 are in the following table:

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

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| Government Grants and Other Contributions | (357) | (828) |
| Section 106 | (10,380) | (10,401) |
| Schools Capital Grants | (432) | (1,093) |
| **Total** | **(11,169)** | **(12,322)** |

# DEBTORS, CREDITORS AND CASH FLOW

## NOTE 7: Debtors

| 31-Mar 2018 Gross Debt £000 | Impair-ment £000 | Net Debt £000 | | 31-Mar 2019 Gross Debt £000 | Impair-ment £000 | Net Debt £000 |
|---|---|---|---|---|---|---|
| | | | **Long Term Debtors** | | | |
| 705 | 0 | 705 | Other local authorities | 670 | 0 | 670 |
| 11,759 | (4,874) | 6,885 | Bodies external to general government | 10,386 | (4,206) | 6,180 |
| **12,464** | **(4,874)** | **7,590** | **Total Long Term Debtors** | **11,056** | **(4,206)** | **6,850** |
| | | | **Short Term Debtors** | | | |
| 4,902 | 0 | 4,902 | Central government bodies | 6,721 | 0 | 6,721 |
| 454 | 0 | 454 | NHS bodies | 2,164 | 0 | 2,164 |
| 1,700 | 0 | 1,700 | Other local authorities | 3,318 | 0 | 3,318 |
| 36,297 | (11,980) | 24,317 | Bodies external to general government | 37,498 | (12,451) | 25,047 |
| **43,353** | **(11,980)** | **31,373** | **Total Short Term Debtors** | **49,701** | **(12,451)** | **37,250** |
| **55,817** | **(16,854)** | **38,963** | **Total Debtors** | **60,757** | **(16,657)** | **44,100** |

### Financial Instruments in Debtors

| 31-Mar 2018 Gross Debt £000 | Impair-ment £000 | Net Debt £000 | | 31-Mar 2019 Gross Debt £000 | Impair-ment £000 | Net Debt £000 |
|---|---|---|---|---|---|---|
| | | | **Long Term Debtors** | | | |
| 705 | 0 | 705 | Other local authorities | 670 | 0 | 670 |
| 6,324 | (354) | 5,970 | Bodies external to general government | 5,557 | (257) | 5,300 |
| **7,029** | **(354)** | **6,675** | **Total Long Term Debtors** | **6,227** | **(257)** | **5,970** |
| | | | **Short Term Debtors** | | | |
| 454 | 0 | 454 | NHS bodies | 2,164 | 0 | 2,164 |
| 1,669 | | 1,669 | Other Local Authorities | 2,206 | 0 | 2,206 |
| 19,979 | (3,087) | 16,892 | Bodies external to general government | 20,223 | (3,184) | 17,039 |
| **22,102** | **(3,087)** | **19,015** | **Total Short Term Debtors** | **24,593** | **(3,184)** | **21,409** |
| **29,131** | **(3,441)** | **25,690** | **Total Financial Instruments in Debtors** | **30,820** | **(3,441)** | **27,379** |

## NOTE 8: CREDITORS

| 31/03/2018 £000 | | 31/03/2019 £000 |
|---|---|---|
| | **Short Term Creditors** | |
| (8,341) | Central government bodies | (9,805) |
| (10,080) | Other local authorities | (8,275) |
| (872) | NHS bodies | (1,479) |
| (98) | Public Corporations and Trusts | (101) |
| (43,573) | Bodies external to general government | (43,948) |
| **(62,964)** | **Total Short Term Creditors** | **(63,608)** |

### Financial Instruments in Creditors

| 31/03/2018 £000 | | 31/03/2019 £000 |
|---|---|---|
| | **Short Term Creditors** | |
| (9,962) | Other local authorities | (8,245) |
| (837) | NHS bodies | (1,479) |
| (98) | Public Corporations and Trusts | (101) |
| (27,206) | Bodies external to general government | (24,695) |
| **(38,103)** | **Total Financial Instruments in Short Term Creditors** | **(34,520)** |

## NOTE 9a: 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**
The following categories of financial instrument are carried in the Balance Sheet:

**Financial Assets**

| | Non current | | Current | | |
|---|---|---|---|---|---|
| | Investments | Debtors | Investments | Debtors | Total |
| | 31 Mar 2019 £000 | 31 Mar 2019 £000 | 31 Mar 2019 £000 | 31 Mar 2019 £000 | 31 Mar 2019 £000 |
| **Financial Assets** | | | | | |
| Fair Value through Profit and Loss | 0 | 0 | 10,000 | 0 | 10,000 |
| Amortised Cost | 0 | 6,227 | 50,239 | 24,593 | 81,059 |
| **Total** | **0** | **6,227** | **60,239** | **24,593** | **91,059** |

| | Non current | | Current | | |
|---|---|---|---|---|---|
| | Investments | Debtors | Investments | Debtors | Total |
| | 31 Mar 2018 £000 | 31 Mar 2018 £000 | 31 Mar 2018 £000 | 31 Mar 2018 £000 | 31 Mar 2018 £000 |
| **Financial Assets** | | | | | |
| Amortised Cost | 4,500 | 7,029 | 55,193 | 22,102 | 88,824 |
| **Total** | **4,500** | **7,029** | **55,193** | **22,102** | **88,824** |

## NOTE 9a: FINANCIAL INSTRUMENTS

**Financial Liabilities**

| | Non current | | Current | | | Total |
|---|---|---|---|---|---|---|
| | Borrowings 31 Mar 2019 £000 | PFI & Finance Leases 31 Mar 2019 £000 | Borrowings 31 Mar 2019 £000 | PFI and Finance Leases 31 Mar 2019 £000 | Creditors 31 Mar 2019 £000 | Total 31 Mar 2019 £000 |
| **Financial Liabilities** | | | | | | |
| Amortised Cost | 113,010 | 30,075 | 1,495 | 2,338 | 32,182 | 179,100 |
| **Total** | **113,010** | **30,075** | **1,495** | **2,338** | **32,182** | **179,100** |

| | Non current | | Current | | | Total |
|---|---|---|---|---|---|---|
| | Borrowings 31 Mar 2018 £000 | PFI & Finance Leases 31 Mar 2018 £000 | Borrowings 31 Mar 2018 £000 | PFI and Finance Leases 31 Mar 2018 £000 | Creditors 31 Mar 2018 £000 | 31 Mar 2018 £000 |
| **Financial Liabilities** | | | | | | |
| Amortised Cost | 113,010 | 29,851 | 1,487 | 1,455 | 36,648 | 182,451 |
| | | | | | | |
| **Total** | **113,010** | **29,851** | **1,487** | **1,455** | **36,648** | **182,451** |

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.

## NOTE 9a: FINANCIAL INSTRUMENTS

**Items of Income, Expense, Gains or Losses**

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

| 2017/18 | | | 2018/19 | |
|---|---|---|---|---|
| Surplus or Deficit on the Provision of Services | Other Comprehensive Income and Expenditure | | Surplus or Deficit on the Provision of Services | Other Comprehensive Income and Expenditure |
| | | **Interest Revenue** | | |
| (1,630) | 0 | Financial assets measured at amortised cost | (2,056) | 0 |
| 0 | 0 | Other Financial Assets measured at Fair Value though Other Comprehensive Income and Expenditure | 0 | 0 |
| **(1,630)** | **0** | **Total Interest Revenue** | **(2,056)** | **0** |
| 6,592 | 0 | Interest Expense - Borrowings | 6,315 | |
| 3,473 | 0 | Interest Expense - Finance Leases | 8,482 | |
| **10,065** | **0** | **Interest Expense** | **14,797** | **0** |
| 18 | 0 | Fee Expense | 0 | 0 |
| | | Financial Assets or financial liabilities that are not at fair value through profit or loss | | |
| **18** | **0** | **Total Fee Expense** | **0** | **0** |

## NOTE 9b: FINANCIAL INSTRUMENTS

### Investments

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

| Investment Profile | 31 Mar 2018 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Long term | 4,500 | 0 |
| Short term | 55,000 | 60,000 |
| Accrued Investment Income | 193 | 239 |
| **Total** | **59,693** | **60,239** |

| Investments - Movement in year | £000 |
|---|---|
| **Investments at 1 April 2018** | 59,693 |
| Change in investment managed internally | 500 |
| Change in accrued investment income | 46 |
| **Investment at 31 March 2019** | 60,239 |
| | |
| Long term investment (book value) | 0 |
| Short term investment (book value) | 60,000 |

| | Book Value | Fair Value | Unrealised Profits/ (Losses) |
|---|---|---|---|
| | £000 | £000 | £000 |
| Managed Internally | 60,000 | 60,000 | 0 |
| Managed Externally | | | 0 |
| **Total** | **60,000** | **60,000** | **0** |

### Fair Value of Assets and Liabilities

Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value has been assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2 in the IFRS fair value hierarchy). (Note 40 - Accounting Policy (xxv) refers).

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

## NOTE 9b: FINANCIAL INSTRUMENTS

The 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 2019 published by PWLB have been used.

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

## NOTE 9b: FINANCIAL INSTRUMENTS

| Borrowing at source - Fair Value | 31 March 2018 | | 31 March 2019 | |
|---|---|---|---|---|
| | Fair Value £000 | Book Value £000 | Fair Value £000 | Book Value £000 |
| Public Works Loan Board | 68,400 | 52,010 | 68,933 | 52,010 |
| Market Loan | 102,239 | 61,000 | 103,453 | 61,000 |
| Temporary Loan | 0 | 0 | 0 | 0 |
| Stock Loan | 0 | 0 | 0 | 0 |
| **Total** | **170,639** | **113,010** | **172,386** | **113,010** |

| Borrowing - Maturity Profile | 31 March 2018 £000 | 31 March 2019 £000 |
|---|---|---|
| Less than 1 year | 0 | 0 |
| Between 1 and 2 years | 0 | 2,000 |
| Between 2 and 5 years | 4,310 | 16,010 |
| Between 5 and 10 years | 30,700 | 17,000 |
| More than 10 years | 78,000 | 78,000 |
| **Total Borrowings** | **113,010** | **113,010** |
| Accrued Interest (Short Term Borrowings) | 1,487 | 1,495 |
| | **114,497** | **114,505** |

The balance sheet figures are based upon the maturity profile of borrowings. No early repayment or impairment is recognised. For instruments with maturity of less than 12 months or trade or other receivables, their fair value is assessed as the carrying or billed amount. The fair value of the Council's total liabilities is greater than the carrying amount because the Council's loans portfolio includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. This comparison demonstrates a notional future loss as at 31st March 2019 as a consequence of a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £68.933m 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. The Authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets.

## NOTE 9b: FINANCIAL INSTRUMENTS

### Statutory Override on Pooled Investments

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

### Investments in Equity Instruments

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

### Fair Value of Financial Instruments

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

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

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

**Credit Risk**

Credit risk arises in the lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the 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 2018/19 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 |
| Long Term | A- | A3 | A-1 | Very low expectation of credit risk developing |
| Viability/Rating | bbb+ | c- | n/a | Adequate institution with limited weakness |
| Support | 1 | n/a | n/a | Expectation of central government support |
| Money Market Funds | 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 2019 the disposition of investments was:

| Category | £000 | % | Spread (number of counterparties) | Fitch Rating |
|---|---|---|---|---|
| UK Clearing Banks | 30,000 | 50.00% | 6 | F1, A, a-,1 |
| UK Building Society | 0 | 0.00% | 0 | F1, A, a-,1 |
| Local Authority | 20,000 | 33.33% | 4 | n/a |
| Pooled Property Fund | 10,000 | 16.67% | 1 | AAAmmf |
| Non UK Banks | 0 | 0.00% | 0 | AAA |
| **Total** | **60,000** | **100.00%** | **11** | |

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

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

Current Deposits and Trade Debtors

No losses or impairments were incurred in 2018/19, 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 2018 £000 | 31 March 2019 £000 |
|---|---|---|
| < 3 months | 6,547 | 11,153 |
| 3 to 12 months | 5,361 | 1,307 |
| > 1 year | 4,251 | 2,292 |
| **Total** | **16,159** | **14,752** |

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:

| | 31/03/2018 £000 | % | 31/03/2019 £000 | % |
|---|---|---|---|---|
| Under 12 months | 0 | 0.00% | 0 | 0.00% |
| 1yr to 2yrs | 0 | 0.00% | 2,000 | 1.77% |
| 2yrs to 5yrs | 4,310 | 3.80% | 16,010 | 14.17% |
| 5yrs to 10yrs | 30,700 | 27.20% | 17,000 | 15.04% |
| 10yrs and over | 78,000 | 69.00% | 78,000 | 69.02% |
| **Total** | **113,010** | **100.00%** | **113,010** | **100.00%** |

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

The above represents the nominal exposure to debt maturities, but some Lender's Options, Borrower's Options (LOBO) debt, allows the Lender to prompt a repayment by requesting an interest rate change that is unacceptable to the 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: | | Pro-spectively repayable / requiring Re-finance £000 | Proportion of total debt % |
|---|---|---|---|
| 4.00 - 4.99% | | 5,000 | 9.80% |
| 5.00 - 5.99% | | 24,000 | 47.06% |
| 6.00 - 6.99% | | 15,500 | 30.39% |
| 7.00 - 7.99% | | 2,000 | 3.92% |
| 8.00 - 8.99% | | 4,500 | 8.82% |
| **Total** | | **51,000** | **100.00%** |

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 2019 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 2019 | 5,000 | 8.33 |
| July to September 2019 | 25,000 | 41.67 |
| October to December 2019 | 5,000 | 8.33 |
| January 2020 to March 2020 | 15,000 | 25.00 |
| April 2020 to June 2020 | 0 | 0.00 |
| June 2020 to September 2020 | 0 | 0.00 |
| October 2020 and beyond | 10,000 | 16.67 |
| | **60,000** | **100.00** |

The Authority did not experience any liquidity problems in 2018/19 and does not anticipate any for 2019/20.

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

**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:

| | 2018/19 £000 | 0.5% £000 | 1.0% £000 |
|---|---|---|---|
| Borrowings | 113,010 | 565 | 1,130 |
| Investments | (60,000) | (300) | (595) |
| Impact on CIES | N/A | 265 | 535 |

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

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

Borrowings

The 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 2018 | | At 31st March 2019 | |
|---|---|---|---|---|
| | £000 | Interest Rate % | £000 | Interest Rate % |
| Under 12 months | 0 | 0.0 | 0 | 0.0 |
| 1 to 2 years | 0 | 0.0 | 2,000 | 7.0 |
| 2 to 5 years | 4,310 | 6.7 | 16,010 | 6.6 |
| 5 to 10 years | 30,700 | 6.2 | 17,000 | 6.0 |
| 10 to 15 years | 0 | 0.0 | 1,000 | 4.3 |
| 15 to 20 years | 12,500 | 5.2 | 11,500 | 5.4 |
| 20 to 25 years | 0 | 0.0 | 13,500 | 6.6 |
| 25 to 30 years | 13,500 | 6.6 | 0 | 0.0 |
| 30 to 35 years | 0 | 0.0 | 7,000 | 4.4 |
| 35 to 40 years | 32,000 | 4.6 | 25,000 | 4.6 |
| 40 to 45 years | 0 | 0.0 | 20,000 | 5.0 |
| 45 to 50 years | 20,000 | 5.0 | 0 | 0.0 |
| | **113,010** | **5.6** | **113,010** | **5.6** |

### Prudential Indicator Limits

| Maximum % exposure to | 2017/18 | 2018/19 | 2019/20 | 2020/2021 |
|---|---|---|---|---|
| | % | % | % | % |
| 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.

| | 2018/19 | 2019/20 | 2020/21 | 2021/2022 |
|---|---|---|---|---|
| | 5 | % | % | % |
| Maximum investment over 1 year as percentage of total investments | 50 | 50 | 50 | 50 |

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

At 31st March 2019, the investment portfolio's exposure to interest rates is set out in the following table.

| Deposit Maturity in: | At 31st March 2018 | | At 31st March 2019 | |
|---|---|---|---|---|
| | £000 | Interest Rate % | £000 | Interest Rate % |
| 0-3 months | 8,000 | 0.6 | 5,000 | 1.10 |
| 3-6 months | 18,000 | 0.6 | 25,000 | 1.04 |
| 6-9 months | 5,000 | 0.9 | 5,000 | 1.17 |
| 9-12 months | 14,000 | 0.8 | 15,000 | 1.19 |
| over 12 months | 14,500 | 2.4 | 10,000 | 4.12 |
| | **59,500** | **0.90** | **60,000** | **1.72** |

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.

## NOTE 11: PROVISIONS

| 2017/18 NDR Appeals £000 | Current Provisions | 2018/19 NDR Appeals £000 |
|---|---|---|
| (757) | **Balance at 1 April** | (641) |
| n/a | Pooling Re-Distribution | (726) |
| (138) | Additional provisions made during the year | (1,929) |
| 254 | Amounts used during the year | 428 |
| (641) | **Balance at 31 March** | **(2,868)** |

| Long Term Provisions | | | | | | |
|---|---|---|---|---|---|---|
| 2017/18 | | | | 2018/19 | | |
| Insurance Fund £000 | NDR Appeals £000 | Total £000 | | Insurance Fund £000 | NDR Appeals £000 | Total £000 |
| (4,175) | (1,343) | (5,518) | **Balance at 1 April** | **(4,228)** | **(1,140)** | **(5,368)** |
| 0 | 0 | 0 | NDR Pooling Re-distribution | 0 | (1,290) | (1,290) |
| (935) | (248) | (1,183) | Additional provisions made during the year | (956) | (3,429) | (4,385) |
| 882 | 451 | 1,333 | Amounts used during the year | 455 | 760 | 1,215 |
| (4,228) | (1,140) | (5,368) | **Balance at 31 March** | **(4,729)** | **(5,099)** | **(9,828)** |

**Insurance Fund:**

The Authority 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 suggested limits recommended by the Authority's actuaries and addresses any further risks.

**NDR Appeals:**

The Collection Fund contains a provision of £12.450m for the estimated cost of appeals against NDR (Business Rates) charges which may be settled in future years.

The Authority's share of this provision (64%) is £7.967m, £2.868m current and £5.099m non- current. During 2018/19, the Authority's share charged against this sum was £1.188m and its share of money set aside to cover future appeals was £5.358m.

The balance of the appeals provision (36%, £4.482m) is held within the Collection Fund as part of consolidated balances for the GLA and MHCLG.

## NOTE 12: CONTINGENT LIABILITIES

Employment Cases

There are four employment disputes with a maximum potential liability of £0.074m. These cases are subject to the outcome of litigation.

Social Care

There is a potential liability of £0.061m plus ongoing liability for weekly care costs of £600, relating to an Adult Social Care matter. The case is currently with the Secretary of State for determination.

Other

There is also one claim for loss of earnings and damage to property (£0.261m) following a flood at council premises.

Mitigation of Risk

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

Synthetic Sports Pitch - Agreement

In 2019, the Council entered into an agreement with The Wimbledon Club in regard to provision of a replacement synthetic pitch at Raynes Park High School.

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

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

## NOTE 13: CONTINGENT ASSETS

There are three employment matters that may give rise to total income of £22,000.

This amount is subject to the outcome of litigation.

## NOTE 14: CASH AND CASH EQUIVALENTS

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| (4,444) | Main bank account | (4,438) |
| 1,477 | Cash in transit (held by agents) | 437 |
| 17,382 | Cash advanced to schools | 18,360 |
| 16,000 | Short Term Deposits | 28,000 |
| 19 | Cash advanced to establishments (Cash imprests) | 18 |
| **30,434** | **Total Cash and Cash Equivalents** | **42,377** |

## NOTE 15: CASH FLOWS

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Non Cash Movements** | |
| (19,246) | Depreciation | (21,832) |
| 3,947 | Revaluation loss (net)/(Surplus) | (4,858) |
| (492) | Amortisation | (1,081) |
| (435) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (24,990) |
| (23,877) | Movement in Pension Liability | (35,481) |
| (1,023) | (Increase)/ Decrease in provision for the impairment of bad debts | 198 |
| 266 | (Increase)/Decrease in Provisions | (6,688) |
| **(40,860)** | | **(94,732)** |
| | **Accruals Adjustments** | |
| (34) | (Decrease) in Inventories | 0 |
| 1,427 | Increase in Debtors | 4,938 |
| 63 | Increase in Interest Debtors | 46 |
| (3,779) | (Increase) in Creditors | 1,689 |
| 308 | Increase/(Decrease) in Interest Creditors | 8 |
| **(2,015)** | | **6,681** |
| | | |
| **(42,875)** | **Total** | **(88,051)** |

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 5,247 | Proceeds from the sale of PP&E, investment property and intangible assets | 10,365 |
| 19,670 | Any other items for which the cash effects are investing or financing cash flows | 20,475 |
| **24,917** | **Total** | **30,840** |

## NOTE 15: CASH FLOWS

### 15c. Operating Activities

| 2017/18 £000 | OPERATING ACTIVITIES | 2018/19 £000 |
|---|---|---|
| (15,722) | Cost of Services less Receipts | (19,676) |
| (1,583) | Interest received from investments and finance leases | (1,954) |
| 6,284 | Interest paid on borrowings | 6,307 |
| 3,473 | Interest paid in respect of finance leases | 8,482 |
| **(7,548)** | **Net cash flows from operating activities** | **(6,841)** |

### 15d. Investing Activities

| 2017/18 £000 | INVESTING ACTIVITIES | 2018/19 £000 |
|---|---|---|
| 32,555 | Purchase of property, plant and equipment, investment, property and intangible assets | 25,956 |
| 323,200 | Purchase of short-term and long-term investments | 97,661 |
| (334,600) | Proceeds from short-term and long-term investments | (97,000) |
| (11,400) | Net | 661 |
| (5,247) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (10,365) |
| (21,964) | Other receipts from investing activities | (21,628) |
| **(6,056)** | **Net cash flows from investing activities** | **(5,376)** |

### 15e. Financing Activities

| 2017/18 £000 | FINANCING ACTIVITIES | 2018/19 £000 |
|---|---|---|
| 1,138 | Cash payments/ (receipts) for the reduction of finance leases | (1,200) |
| 13,351 | Repayment / (receipt) of short- and long-term borrowing | (17) |
| (909) | Other payments/(receipts) from financing activities | 1,491 |
| **13,580** | **Net cash flows from financing activities** | **274** |

# RESERVES

## NOTE 16: USABLE RESERVES

This note sets out the amounts set aside from the General Fund in Earmarked Reserves to provide financing for future expenditure plans, and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in 2019/20

| Usable Reserves | Balance 31st Mar 2017 £000 | Transfers out 2017/18 £000 | Transfers in 2017/18 £000 | Balance at 31st Mar 2018 £000 | Transfers out 2018/19 £000 | Transfers in 2018/19 £000 | Balance at 31st Mar 2019 £000 |
|---|---|---|---|---|---|---|---|
| **General Fund:** | | | | | | | |
| Balances held by schools | (8,246) | 426 | 0 | (7,820) | 351 | (627) | (8,096) |
| General Fund Balances | (12,778) | 0 | 0 | (12,778) | 0 | (1,000) | (13,778) |
| Earmarked reserves | (41,105) | 3,183 | (2,200) | (40,122) | 18,489 | (23,563) | (45,196) |
| **Total General Fund** | **(62,129)** | **3,609** | **(2,200)** | **(60,720)** | **18,840** | **(25,190)** | **(67,070)** |
| **Capital:** | | | | | | | |
| Capital Receipts Reserves (CRR) | (22,986) | 12,001 | (4,528) | (15,513) | 16,360 | (10,075) | (9,228) |
| Capital Grants Unapplied (CGU) | (7,251) | 185 | (3,413) | (10,479) | 7,018 | (13,545) | (17,006) |
| **Total Capital** | **(30,237)** | **12,186** | **(7,941)** | **(25,992)** | **23,378** | **(23,620)** | **(26,234)** |
| | | | | | | | |
| **Total Usable Reserves** | **(92,366)** | **15,795** | **(10,141)** | **(86,712)** | **42,218** | **(48,810)** | **(93,304)** |

**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 unapplied Community Infrastructure Levy receipts.

## Transfers to/from Earmarked Reserves

| Reserve | Balance at 31st Mar 2017 £000 | Net Transfer (to)/from Reserve £000 | Balance at 31st Mar 2018 £000 | Net Transfer (to)/from Reserve £000 | Balance at 31st Mar 2019 £000 |
|---|---|---|---|---|---|
| Outstanding Council Programme Board | (4,919) | 374 | (4,545) | 113 | (4,432) |
| For use in future years' budgets | (7,789) | (2,472) | (10,261) | 581 | (9,680) |
| Revenue Reserve for Capital/Revenuisation | (6,815) | 3,317 | (3,498) | (1,112) | (4,610) |
| Renewable energy reserve | (1,522) | 1 | (1,521) | 0 | (1,521) |
| Repairs and renewals fund | (1,147) | 57 | (1,090) | (1,000) | (2,090) |
| Pension fund additional contribution | (497) | 44 | (453) | 0 | (453) |
| Local land charges | (1,903) | (135) | (2,038) | (220) | (2,258) |
| Apprenticeships | (302) | 42 | (260) | (833) | (1,093) |
| Community care reserve | (1,386) | (1) | (1,387) | 0 | (1,387) |
| Local welfare support reserve | (443) | 67 | (376) | 0 | (376) |
| Economic development strategy | (101) | 99 | (2) | 2 | 0 |
| Corporate services reserves | (776) | (995) | (1,771) | (479) | (2,250) |
| Spending Review Reserve | 0 | 0 | 0 | (3,100) | (3,100) |
| Wimbledon tennis courts renewal | (127) | (23) | (150) | 0 | (150) |
| Governor support reserve | (42) | 14 | (28) | 0 | (28) |
| Redundancy costs reserve | (600) | 600 | 0 | 0 | 0 |
| BRS Reserve | (870) | 0 | (870) | 0 | (870) |
| New homes bonus scheme | (291) | 169 | (122) | 0 | (122) |
| Adult social care contributions | 0 | (2,160) | (2,160) | (2,033) | (4,193) |
| Culture & environment contributions | (14) | 0 | (14) | (389) | (403) |
| Culture & environment grants | (250) | (267) | (517) | 251 | (266) |
| Children & education grants | (306) | (119) | (425) | (49) | (474) |
| Housing GF grants | (106) | 0 | (106) | (598) | (704) |
| Public health grant reserve | (347) | 347 | 0 | 0 | 0 |
| Insurance reserves | (1,955) | 0 | (1,955) | 0 | (1,955) |
| DSG reserve | (3,664) | 2,736 | (928) | 3,837 | 2,909 |
| Refund of school PFI contributions | (100) | 100 | 0 | 0 | 0 |
| School standard Fund | (6) | (366) | (372) | 372 | 0 |
| Schools PFI fund | (4,827) | (421) | (5,248) | (382) | (5,630) |
| CFS Reserves | 0 | (25) | (25) | (35) | (60) |
| **Grand Total** | **(41,105)** | **983** | **(40,122)** | **(5,074)** | **(45,196)** |

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

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

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

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

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

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

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

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

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

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

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

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

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

BRS reserve: This holds the difference between sums received in respect of Business Rates Supplement and sums paid to the GLA pending confirmation as to whether there is a liability for this balance.

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

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

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

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

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

Housing GF grants: This reserve is used to manage the rent guarantor scheme. Grant is received to provide rent deposits for homeless people and LBM are required to refund a deposit at the end of the agreed lease period (in line with defined conditions). Also, government grants for housing, awarded late have been carried forward for use in 2019/20.

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, but has now gone into deficit.

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.

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

## NOTE 17: UNUSABLE RESERVES

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

| 31-Mar-18 £000 | | 31-Mar-19 £000 |
|---|---|---|
| (317,688) | Revaluation Reserve | (302,267) |
| (228,718) | Capital Adjustment Account | (224,524) |
| 350,088 | Pensions Reserve | 342,678 |
| (5,465) | Deferred Capital Receipts Reserve | (5,450) |
| (1,171) | Collection Fund Adjustment Account | 476 |
| 4,701 | Accumulated Absences Account | 4,614 |
| **(198,253)** | **Total Unusable Reserves** | **(184,473)** |

### Revaluation Reserve

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

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

| 31-Mar-18 £000 | | | 31-Mar-19 £000 |
|---|---|---|---|
| **(300,386)** | **Balance at 1st April** | | **(317,688)** |
| (48,821) | Upward revaluation of assets | (51,919) | |
| 27,372 | Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services | 51,628 | |
| (21,449) | **Sub Total:** Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of services | | (291) |
| 4,101 | Difference between fair value depreciation and historical cost depreciation | 5,741 | |
| 46 | Accumulated gains on assets sold or scrapped | 9,971 | |
| 4,147 | **Sub Total:** Amount written off to the Capital Adjustment Account | | 15,712 |
| | | | |
| **(317,688)** | **Balance at 31st March** | | **(302,267)** |

## NOTE 17: UNUSABLE RESERVES

**Capital Adjustment Account**

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

The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

| 31-Mar-18 | | | 31-Mar-19 | |
|---|---|---|---|---|
| £000 | £000 | | £000 | £000 |
| | **(205,491)** | **Balance at 1st April** | | **(228,718)** |
| | (4,147) | Amounts written out of the Revaluation Reserve | | (15,712) |
| | | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement** | | |
| 19,246 | | Charges for depreciation and impairment of non-current assets | 21,832 | |
| 3,250 | | Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance | 5,930 | |
| (7,197) | | Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year | (1,072) | |
| 492 | | Amortisation of intangible assets | 1,081 | |
| 3,620 | | Revenue expenditure funded from capital under statute | 2,496 | |
| 435 | | Amounts of non-current assets written off on derecognition or sale as part of gain/loss on disposal | 24,990 | |
| | 19,846 | Sub Total | | 55,256 |
| | **15,699** | **Net reversal of the cost of non-current assets consumed in the year** | | **39,544** |
| | | **Capital financing applied in the year:** | | |
| (12,001) | | Use of Capital Receipts Reserve to finance new capital | (16,360) | |
| (16,442) | | Application of grants and contributions to capital financing or the Capital Grants Unapplied Account | (15,125) | |
| (6,789) | | Statutory provision for the financing of capital investment charged against the General Fund (i) | (3,801) | |
| (3,786) | | Capital expenditure charged against the General Fund | (99) | |
| | **(39,018)** | Sub Total | | **(35,385)** |
| | 92 | Loan Repayments | | 35 |
| | **(228,718)** | **Balance at 31st March** | | **(224,524)** |

(i) This is composed of a charge for 2018/19 of £6.299m less an adjustment relating to earlier years of £2.498m. This adjustment relates to changes to the PFI accounting model. (See Note 27).

## NOTE 17: UNUSABLE RESERVES

**Pensions Reserve**

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

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the 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.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **368,109** | **Balance at 1st April** | **350,088** |
| (41,898) | Remeasurements of the net defined benefit liability/asset | (42,891) |
| 40,466 | 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 | 52,217 |
| (16,589) | Employer's pensions contributions and direct payments to pensioners payable in the year | (16,736) |
| 23,877 | *Sub Total included in CIES* | 35,481 |
| **350,088** | **Balance at 31st March** | **342,678** |

## NOTE 17: UNUSABLE RESERVES

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the 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.

| 2017/18<br>£000 | | 2018/19<br>£000 |
|---|---|---|
| **(5,481)** | **Balance at 1st April** | **(5,465)** |
| 16 | Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement | 15 |
| **(5,465)** | **Balance at 31st March** | **(5,450)** |

### 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.

| 2017/18<br>£000 | | 2018/19<br>£000 |
|---|---|---|
| **(1,395)** | **Balance at 1st April** | **(1,171)** |
| 224 | 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 | 1,647 |
| **(1,171)** | **Balance at 31st March** | **476** |

## NOTE 17: UNUSABLE RESERVES

### Accumulated Absences Account

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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **4,983** | **Balance at 1st April** | **4,701** |
| (4,983) | Settlement or cancellation of accrual made at the end of the preceding year | (4,701) |
| 4,701 | Amounts accrued at the end of the current year | 4,614 |
| (282) | 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 statutory requirements accordance with Statutory requirements | (87) |
| **4,701** | **Balance as at 31st March** | **4,614** |

## NOTE 18: ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

The following tables detail the adjustments that are made to the total comprehensive income and expenditure recognised by the 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.

| | 2017-18 | | | | 2018-19 | | | |
|---|---|---|---|---|---|---|---|---|
| | Usable Reserves | | | Note17 | Usable Reserves | | | Note17 |
| | General Fund Balance £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 | General Fund Balance £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | | | |
| Charges for depreciation and impairment of non-current assets | (19,246) | 0 | 0 | 19,246 | (21,832) | 0 | 0 | 21,832 |
| Revaluation losses on Property Plant and Equipment | (3,250) | 0 | 0 | 3,250 | (5,930) | 0 | 0 | 5,930 |
| 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 | 7,197 | 0 | 0 | (7,197) | 1,072 | 0 | 0 | (1,072) |
| Amortisation of intangible assets | (492) | 0 | 0 | 492 | (1,081) | 0 | 0 | 1,081 |
| Sub Total to agree to Note 2 | (15,791) | 0 | 0 | 15,791 | (27,771) | 0 | 0 | 27,771 |
| | | | | | | | | |
| Revenue expenditure funded from capital under statute | (3,620) | 0 | 0 | 3,620 | (2,496) | 0 | 0 | 2,496 |
| 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 | (435) | 0 | 0 | 435 | (24,990) | 0 | 0 | 24,990 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | | | |
| Statutory provision for the financing of capital investment | 6,789 | 0 | 0 | (6,789) | 3,802 | 0 | 0 | (3,802) |
| Capital expenditure charged against the General Fund balance | 3,786 | 0 | 0 | (3,786) | 99 | 0 | 0 | (99) |
| Revaluation gains charged direct to Revaluation Reserve | | | | 0 | | | | 0 |
| Totals | (9,271) | 0 | 0 | 9,271 | (51,356) | 0 | 0 | 51,356 |

| | 2017-18 | | | | 2018-19 | | | |
|---|---|---|---|---|---|---|---|---|
| | Usable Reserves | | | Note17 | Usable Reserves | | | Note17 |
| | General Fund Balance £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 | General Fund Balance £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 |
| **Adjustments primarily involving the Capital Grant Unapplied Account** | | | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement Application of grants to capital financing transferred to the Capital Adjustment Account | 19,670 | 0 | (3,228) | (16,442) | 21,655 | 0 | (17,603) | (4,051) |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 0 | 0 | 0 | 0 | 0 | 0 | 11,075 | (11,075) |
| Totals | 19,670 | 0 | (3,228) | (16,442) | 21,655 | 0 | (6,528) | (15,126) |
| **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 | 4,436 | (4,436) | 0 | 0 | 10,025 | (10,025) | 0 | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 12,001 | 0 | (12,001) | 0 | 16,360 | 0 | (16,360) |
| Use of Capital Receipts Reserve to finance debt premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | 0 | 0 | 0 | 0 | 0 | (15) | 0 | 15 |
| Repayment of debt | 0 | (92) | 0 | 92 | | (35) | | 35 |
| Totals | 4,436 | 7,473 | 0 | (11,909) | 10,025 | 6,285 | 0 | (16,310) |
| **Adjustments primarily involving the Deferred Capital Receipts Reserve:** | | | | | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (17) | 0 | 0 | 17 | 0 | 0 | 0 | 0 |
| Correction of balance relating to previous years | 0 | 0 | 0 | 0 | | 0 | 0 | 0 |
| | (17) | 0 | 0 | 17 | 0 | 0 | 0 | 0 |

| | 2017-18 | | | | 2018-19 | | | |
|---|---|---|---|---|---|---|---|---|
| | Usable Reserves | | | Note17 | Usable Reserves | | | Note17 |
| | General Fund Balance £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 | General Fund Balance £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 |
| **Adjustments involving the Pensions Reserve:** | | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32) | (40,466) | 0 | 0 | 40,466 | (52,217) | 0 | 0 | 52,217 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 16,589 | 0 | 0 | (16,589) | 16,736 | 0 | 0 | (16,736) |
| Subtotal | (23,877) | 0 | 0 | 23,877 | (35,481) | 0 | 0 | 35,481 |
| **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 | (224) | 0 | 0 | 224 | (1,648) | 0 | 0 | 1,648 |
| Sub Total | (224) | 0 | 0 | 224 | (1,648) | 0 | 0 | 1,648 |
| **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 | 282 | 0 | 0 | (282) | 87 | 0 | 0 | (87) |
| Subtotal | 282 | 0 | 0 | (282) | 87 | 0 | 0 | (87) |
| **Total Adjustments** | **(9,001)** | **7,473** | **(3,228)** | **(4,756)** | **(56,718)** | **6,285** | **(6,528)** | **56,962** |

## NOTE 19: PROPERTY, PLANT AND EQUIPMENT

**Depreciation**

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

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

**Amortisation**

Intangible Assets are amortised over 5 years

**Capital Commitments**

At 31st March 2019, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 and future years totalling an estimated £4.8m (£11.5m at 31/03/2018)

## NOTE 19: PROPERTY, PLANT AND EQUIPMENT

| | Other Land and Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Infra-structure Assets £000 | Community Assets £000 | Surplus Assets £000 | Assets under construction £000 | Total Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | |
| At 1 April 2018 | 584,348 | 14,255 | 167,503 | 0 | 22,859 | 7,969 | 796,934 |
| Additions | 8,483 | 8,943 | 4,586 | 497 | 0 | 5,626 | 28,135 |
| Revaluation increase/(decreases) recognised in the Revaluation Reserve | (2,499) | | | | 1,616 | | (883) |
| Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (7,004) | 0 | 0 | (497) | | | (7,501) |
| Derecognition – Disposals | (25,414) | | | | | | (25,414) |
| Derecognition – Other | 0 | (2,393) | (5,156) | | | | (7,549) |
| Assets reclassified (to)/from held for Sale | 483 | | | | | | 483 |
| Other – reclassifications | 13,139 | | | | | (13,139) | 0 |
| **At 31 March 2019** | 571,536 | 20,805 | 166,933 | 0 | 24,475 | 456 | 784,205 |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| At 1 April 2018 | 1,558 | 5,992 | 65,292 | 0 | 0 | 0 | 72,842 |
| Depreciation Charge | 12,843 | 2,289 | 6,700 | | | | 21,832 |
| Depreciation written out to the Revaluation Reserve | (1,174) | | | | | | (1,174) |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | (2,644) | | | | | | (2,644) |
| Impairment Losses /(reversals) recognised in the Revaluation Reserve | | | | | | | 0 |
| Impairment Losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services | | | | | | | 0 |
| Derecognition – Disposals | (532) | | | | | | (532) |
| Derecognition – Other | | (2,286) | (5,156) | | | | (7,442) |
| Other- reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **At 31 March 2019** | 10,051 | 5,995 | 66,836 | 0 | 0 | 0 | 82,882 |
| **Net Book Value** | | | | | | | |
| At 31 March 2019 | **561,485** | **14,810** | **100,097** | **0** | **24,475** | **456** | **701,323** |
| At 31 March 2018 | **582,790** | **8,263** | **102,211** | **0** | **22,859** | **7,969** | **724,092** |

## NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Comparative Movements in 2017/18

| | Other Land and Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Infra-structure Assets £000 | Community Assets £000 | Surplus Assets £000 | Assets under construction £000 | Total Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | |
| At 1 April 2017 | 569,717 | 15,410 | 164,286 | 0 | 7,026 | 3,536 | 759,975 |
| Additions | 10,734 | 2,690 | 7,327 | 513 | 0 | 7,153 | 28,417 |
| Revaluation increase/(decreases) recognised in the Revaluation Reserve | 9,583 | 0 | 0 | 0 | 300 | 0 | 9,883 |
| Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 4,482 | (24) | 0 | (513) | 0 | 0 | 3,945 |
| Derecognition – Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Derecognition – Other | (452) | (3,821) | (4,110) | 0 | 0 | 0 | (8,383) |
| Assets reclassified (to)/from held for Sale | 5,817 | 0 | 0 | 0 | 0 | 0 | 5,817 |
| Other – reclassifications | (15,533) | 0 | 0 | 0 | 15,533 | (2,720) | (2,720) |
| **At 31 March 2018** | 584,348 | 14,255 | 167,503 | 0 | 22,859 | 7,969 | 796,934 |
| | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| At 1 April 2017 | 2,977 | 7,236 | 62,897 | 0 | 0 | 0 | 73,110 |
| Depreciation Charge | 10,189 | 2,552 | 6,505 | 0 | 0 | 0 | 19,246 |
| Depreciation written out to the Revaluation Reserve | (3,413) | 0 | 0 | 0 | 0 | 0 | (3,413) |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | (8,152) | (1) | 0 | 0 | 0 | 0 | (8,153) |
| Impairment Losses /(reversals) recognised in the Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment Losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Derecognition – Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Derecognition – Other | (43) | (3,795) | (4,110) | 0 | 0 | 0 | (7,948) |
| Other- reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **At 31 March 2018** | 1,558 | 5,992 | 65,292 | 0 | 0 | 0 | 72,842 |
| **Net Book Value** | | | | | | | |
| At 31 March 2018 | **582,790** | **8,263** | **102,211** | **0** | **22,859** | **7,969** | **724,092** |
| | | | | | | | |
| At 31 March 2017 | **566,740** | **8,174** | **101,390** | **0** | **7,026** | **3,536** | **686,865** |

## NOTE 19: PROPERTY, PLANT AND EQUIPMENT

### Revaluations

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

In 2018/19,
i) land value of assets deemed to be depreciated replacement costs (DRC) and assets valued at fair value were valued by District Valuer Services (DVS), and
ii) building values of assets deemed DRC assets were undertaken by our Internal Valuers
iii) assets deemed to be existing use value (EUV) were carried out by Internal Valuers.

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

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

| Analysis of rolling revaluation programme | Other Land & Buildings £'000 | Vehicles Plant, Furniture & Equipment £'000 | Infra-structure assets £'000 | Surplus Assets £'000 | Assets Under Con-struction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|
| Valued at historical cost | - | 14,811 | 100,097 | - | 456 | 115,364 |
| Valued at current value in : | - | - | - | - | - | - |
| 2018/19 (incl. Schools) | 487,673 | - | - | 24,475 | - | 512,148 |
| 2017/18 | 34,994 | - | - | - | - | 34,994 |
| 2016/17 | 27,165 | - | - | - | - | 27,165 |
| 2015/16 | 11,652 | - | - | - | - | 11,652 |
| 2014/15 | - | - | - | - | - | - |
| **Value at 31 March 2019** | 561,484 | 14,811 | 100,097 | 24,475 | 456 | 701,323 |

## NOTE 20: INTANGIBLE ASSETS

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

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

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

| | 2017/18 Intangible Assets £000 | 2018/19 Intangible Assets £000 |
|---|---|---|
| Balance at start of year: | | |
| Gross carrying amounts | 2,431 | 5,049 |
| Accumulated amortisation | (1,052) | (748) |
| **Net carrying amount at start of year** | **1,379** | **4,301** |
| | | |
| Disposals: | | |
| Gross carrying amounts | (796) | (337) |
| Accumulated amortisation | 796 | 337 |
| | | |
| Additions: | | |
| Purchases | 694 | 792 |
| Reclassified from assets under construction | 2,720 | 0 |
| Amortisation for the period | (492) | (1,081) |
| | | |
| **Net carrying amount at end of year** | **4,301** | **4,012** |
| | | |
| Comprising: | | |
| Gross carrying amounts | 5,049 | 5,504 |
| Accumulated amortisation | (748) | (1,492) |
| | **4,301** | **4,012** |

## NOTE 21: HERITAGE ASSETS

The Authority's collection of Heritage Assets consists of Regalia and Art. Much of the art is on display within the Civic Centre and Libraries. The Regalia is not generally accessible other than when in use and the higher value items are stored securely. All Heritage Assets are held on the Balance Sheet at insurance value, which is based on market values. Valuations were carried out in 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 2018 | 191 | 611 | 802 |
| 31 March 2019 | **191** | **611** | **802** |

## NOTE 22: ASSETS HELD FOR SALE

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| **Balance outstanding at start of year** | **7,000** | **1,183** |
| Recognition | 0 | 0 |
| Assets reclassified (to)/from Other Land & Buildings | (5,817) | (483) |
| **Balance outstanding at end of year** | **1,183** | **700** |

In accordance with Accounting Policy xviii the Council measures its Assets Held for Sale at Fair Value using Level 2 observable inputs and highest and best use value from a market participants perspective.

## NOTE 23: IMPAIRMENT LOSSES

The Council carried out an impairment review of property, plant and equipment in 2018/19, the result of which is that there were no impairment losses in 2018/19. In 2017/18 there were no impairment losses.

## NOTE 24: CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

The CFR is analysed in the following table:

| | 2017/18<br>£000 | 2018/19<br>£000 |
|---|---|---|
| **Opening Capital Financing Requirement** | 190,000 | 183,712 |
| **Capital Investment** | | |
| Property, Plant and Equipment | 28,417 | 28,136 |
| Intangible Assets | 694 | 792 |
| Revenue Expenditure Funded from Capital Under Statute | 3,620 | 2,496 |
| **Other Investments** | | |
| Housing Company -Shares | 0 | 161 |
| **Sources of Finance** | | |
| Capital receipts | (12,001) | (16,360) |
| Government grants and other contributions | (16,443) | (15,125) |
| **Sums set aside from revenue:** | | |
| Direct revenue contributions | (3,786) | (99) |
| Minimum Revenue Provision | (6,789) | (3,801) |
| **Closing Capital Financing Requirement** | **183,712** | **179,912** |
| (Decrease)/Increase in underlying need to borrowing (unsupported by government financial assistance) | (6,788) | (3,800) |
| Assets acquired under finance leases | 500 | 0 |
| **(Decrease)/Increase in Capital Financing Requirement** | **(6,288)** | **(3,800)** |

## NOTE 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:

| 31/03/2018 £000 | | 31/03/2019 £000 |
|---|---|---|
| 5,492 | Other Land and Buildings | 7,264 |
| 12 | Vehicles, Plant, Furniture and Equipment | 0 |
| **5,504** | **Total** | **7,264** |

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:

| 31/03/2018 £000 | Finance lease liabilities (net present value minimum lease payments): | 31/03/2019 £000 |
|---|---|---|
| 36 | - current | 29 |
| 819 | - non current | 790 |
| 1,340 | Finance costs payable in future years | 1,275 |
| **2,195** | **Total minimum lease payments** | **2,094** |

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

| 31/03/2018 £000 | Minimum Lease Payments | 31/03/2019 £000 |
|---|---|---|
| 101 | Not later than one year | 94 |
| 378 | Later than one year and not later than five years | 284 |
| 1,716 | Later than five years | 1,716 |
| **2,195** | **Total** | **2,094** |
| **31/03/2018 £000** | **Finance Lease Payments** | **31/03/2019 £000** |
| 36 | Not later than one year | 29 |
| 48 | Later than one year and not later than five years | 20 |
| 770 | Later than five years | 770 |
| **854** | **Total** | **819** |

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

## NOTE 25: LEASES

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19, £0.202 m contingent rents were payable by the Authority (2017/18 £0.134m).

### 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:

| 31/03/2018 £000 | | 31/03/2019 £000 |
|---:|---|---:|
| 1,469 | Not later than one year | 1,437 |
| 5,876 | Later than one year and not later than five years | 5,700 |
| 4,494 | Later than five years | 3,263 |
| **11,839** | **Total** | **10,400** |

## NOTE 25: LEASES

### 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:

| 31/03/2018 £000 | | 31/03/2019 £000 |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 16 | - current | 17 |
| 5,453 | - non current | 5,437 |
| 19,404 | Unearned finance income | 19,079 |
| 2 | Unguaranteed residual value of property | 2 |
| **24,875** | **Gross investment in lease** | **24,535** |

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 2018 £000 | 31 March 2019 £000 | 31 March 2018 £000 | 31 March 2019 £000 |
| Not later than one year | 340 | 340 | 340 | 340 |
| Later than one year and not later than five years | 1,360 | 1,360 | 1,360 | 1,360 |
| Later than five years | 23,175 | 22,835 | 23,173 | 22,833 |
| **Total** | **24,875** | **24,535** | **24,873** | **24,533** |

The minimum lease payments receivable does not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19, £0.487m contingent rents were receivable by the Authority (£0.818m in 2017/18).

## NOTE 25: LEASES

**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:

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 4,757 | Not later than one year | 3,624 |
| 19,029 | Later than one year and not later than five years | 11,449 |
| 13,096 | Later than five years | 29,964 |
| **36,882** | | **45,037** |

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

# SCHOOLS

## NOTE 26: DEDICATED SCHOOLS GRANT

The Authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the 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 2018. 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 2018/19 are as follows:

| | Central Expenditure £'000 | Individual Schools Budget £'000 | Total Expenditure £'000 |
|---|---|---|---|
| Final DSG for 2018/19 before Academy recoupment | | | 167,709 |
| Academy figure recouped for 2018/19 | | | (22,106) |
| Total DSG figure after Academy recoupment for 2018/19 | | | 145,603 |
| Plus: Brought forward from 2017/18 | | | 928 |
| Less: Carry-forward to 2019/20 agreed in advance | | | (614) |
| Agreed initial budgeted distribution in 2018/19 | 21,410 | 124,507 | 145,917 |
| In year adjustments | | | |
| **Final budgeted distribution for 2018/19** | **21,410** | **124,507** | **145,917** |
| Less: Actual central expenditure | (26,092) | | (26,092) |
| Less: Actual ISB deployed to schools | | (123,348) | (123,348) |
| Plus: Local authority contribution for 2018/19 | | | |
| **Carry forward for 2018/19** | **(4,682)** | **1,159** | **(3,523)** |
| Carry-forward to 2019/20 agreed in advance | | | 614 |
| **Total carry forward 2019/20** | | | **(2,909)** |

The £2.909m deficit 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 | 2017/18 | | 2018/19 | |
|---|---|---|---|---|
| | Number of Schools | Net surplus/ (deficit) £'000 | Number of Schools | Net surplus/ (deficit) £'000 |
| Maintained Primary | 28 | 2,776 | 27 | 2,653 |
| Maintained Secondary | 2 | 1,586 | 2 | 1,498 |
| Voluntary Aided Primary | 11 | 1,202 | 11 | 1,204 |
| Voluntary Aided Secondary | 2 | 502 | 2 | 638 |
| Foundation | 1 | 325 | 1 | 446 |
| Special Schools | 4 | 1,429 | 4 | 1,657 |
| **Total** | **48** | **7,820** | **47** | **8,096** |

## NOTE 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, New Schools Ltd. Following a partial termination of the contract in 2006, two schools were transferred to academies. In 2013, a third school also became an academy, but remains within the PFI scheme. Under the PFI contract, which runs until 2030, New Schools Ltd are contracted to provide soft services (such as caretaking and facilities maintenance) to the remaining three schools and one academy, in return for an annual payment. The contract does not allow for any of the four remaining schools to leave the arrangement before 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. The change in value of land follows a recalculation of area of schools.

| | 31 March 2018<br>£000 | 31 March 2019<br>£000 |
|---|---|---|
| Gross Value | 132,014 | 97,333 |
| Accumulated Depreciation | 0 | 0 |
| **Net** | **132,014** | **97,333** |

### 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<br>£000 | Interest<br>£000 | Services<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| 31st March 2020 | 2,309 | 2,908 | 3,271 | 8,488 |
| Apr 2020 - Mar 2025 | 9,987 | 12,001 | 25,638 | 47,626 |
| Apr 2025 - Mar 2030 | 19,298 | 5,391 | 25,148 | 49,837 |
| **Liability at 31st March 2019** | **31,594** | **20,300** | **54,057** | **105,951** |
| | | | | |
| **Liability at 31st March 2018** | **32,949** | **23,327** | **58,549** | **114,825** |
| **Liability at 31st March 2017** | **34,335** | **26,476** | **62,635** | **123,446** |

## NOTE 27: PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

### Partial Termination

| | Capital £000 | Interest £000 | Services £000 | Total £000 |
|---|---|---|---|---|
| 31st March 2020 | 788 | 871 | | 1,659 |
| Apr 2020 - Mar 2025 | 4,873 | 3,423 | | 8,296 |
| Apr 2025 - Mar 2030 | 6,891 | 1,405 | | 8,296 |
| **Liability at 31st March 2019** | **12,552** | **5,699** | **0** | **18,251** |
| | | | | |
| **Liability at 31st March 2018** | **13,287** | **6,623** | **0** | **19,910** |
| **Liability at 31st March 2017** | **13,973** | **7,594** | **0** | **21,567** |

### Three Schools and One Academy

| | Capital (Restated) '£000 | Interest (Restated) '£000 | Services '£000 | Total £000 |
|---|---|---|---|---|
| 31st March 2020 | 1,521 | 2,037 | 3,271 | 6,829 |
| Apr 2020 - Mar 2025 | 5,114 | 8,578 | 25,638 | 39,330 |
| Apr 2025 – Mar 2030 | 12,407 | 3,986 | 25,148 | 41,541 |
| **Liability at 31st March 2019** | **19,042** | **14,601** | **54,057** | **87,700** |
| | | | | |
| **Liability at 31st March 2018** | **19,662** | **16,704** | **58,549** | **94,915** |
| **Liability at 31st March 2017** | **20,362** | **18,882** | **62,635** | **101,879** |

The accounting model for the main (Three Schools and one Academy) PFI has been changed at the request of the Authority's external auditors to reflect current accounting practice. The main effect of the change is to increase the amount of the loan outstanding compared to the previous model. As at 31st March 2018, the outstanding loan was amended to £19.662m, compared to £17.164m reported in the Private Finance Initiative disclosure in the 2017/18 Statement of Accounts, a difference of £2.498m.

The Council's Balance Sheet for 2017/18 has not been restated for these changes.
The Partial Termination model is unchanged.

# MEMBERS OFFICERS AND RELATED PARTIES

## NOTE 28: MEMBERS' ALLOWANCES

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

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| Allowances | 723 | 728 |
| **Total** | **723** | **728** |

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

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

## NOTE 29: OFFICERS' REMUNERATION

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

CIPFA guidance states that the disclosure should exclude staff where the authority is not the employer i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 65 voluntary aided and foundation school employees have been excluded from 2018/19 and 58 have been excluded from 2017/18 figures.

| Remuneration Band £ | 2017/18 Teaching Staff | 2017/18 Other Staff | 2018/19 Teaching Staff | 2018/19 Other Staff |
|---|---|---|---|---|
| 50,000 – 54,999 | 80 | 57 | 77 | 67 |
| 55,000 – 59,999 | 32 | 29 | 50 | 33 |
| 60,000 – 64,999 | 20 | 7 | 23 | 15 |
| 65,000 – 69,999 | 13 | 17 | 15 | 14 |
| 70,000 – 74,999 | 3 | 14 | 5 | 16 |
| 75,000 – 79,999 | 10 | 9 | 6 | 7 |
| 80,000 – 84,999 | 4 | 5 | 5 | 8 |
| 85,000 – 89,999 | 1 | 2 | 2 | 1 |
| 90,000 – 94,999 | 3 | 5 | 2 | 2 |
| 95,000 – 99,999 | 3 | 0 | 4 | 2 |
| 100,000 – 104,999 | 0 | 1 | 0 | 2 |
| 105,000 – 109,999 | 0 | 1 | 0 | 1 |
| 110,000 – 114,999 | 0 | 0 | 0 | 0 |
| 115,000 – 119,999 | 1 | 1 | 0 | 0 |
| 120,000 – 124,999 | 0 | 0 | 0 | 2 |
| 125,000 – 129,999 | 1 | 0 | 0 | 0 |
| 130,000 – 134,999 | 0 | 0 | 2 | 1 |
| 135,000 – 139,999 | 0 | 3 | 1 | 0 |
| 140,000 – 144,999 | 0 | 0 | 0 | 2 |
| 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 | 0 |
| 190,000 – 194,999 | 0 | 0 | 0 | 1 |
| **Total** | **171** | **152** | **192** | **174** |

## NOTE 29: OFFICERS' REMUNERATION

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.

| 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| 0 - 20,000 | 32 | 16 | 42 | 7 | 74 | 23 | 566,119 | 155,975 |
| 20,001 - 40,000 | 5 | 1 | 6 | 0 | 11 | 1 | 328,470 | 34,251 |
| 40,001 - 100,000 | 2 | 0 | 1 | 0 | 3 | 0 | 178,834 | 0 |
| **TOTAL** | **39** | **17** | **49** | **7** | **88** | **24** | **1,073,423** | **190,226** |

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

(i) Senior employees whose salary is £150,000 or more per year must be identified by name;

(ii) Senior employees who meet the regulation’s definition and whose salary is between £50,000 and £150,000 must be listed by job title. Current Directors have chosen to be named to aid transparency.

The following table provides this detail for 2018/19 and 2017/18 with supporting sub-notes.

| Post holder information | 2017/18 | | | | 2018/19 | | | |
|---|---|---|---|---|---|---|---|---|
| | Sub-Notes | Remuneration £000 | Employer’s Pension contrib. £000 | Total £000 | Sub-Notes | Re-muneration £000 | Employer’s Pension contrib. £000 | Total £000 |
| Chief Executive Ged Curran | 6 | 187,885 | 28,685 | **216,570** | 1 | 192,492 | 2,438 | **194,930** |
| Director of Corporate Services Caroline Holland | 7 | 137,713 | 20,932 | **158,645** | 2 | 140,468 | 21,326 | **161,794** |
| Director of Community and Housing Simon Williams (Left - 31/07/17) | 8 | 36,966 | 0 | **36,966** | 3 | 0 | 0 | **0** |
| Hannah Doody (Started - 10/7/17) | | 94,283 | 14,331 | **108,614** | | 134,783 | 20,425 | **155,208** |
| Director of Children, Schools and Families Yvette Stanley (Left - 31/03/18) | 9 | 138,358 | 20,932 | **159,290** | 4 | 0 | 0 | **0** |
| Rachael Wardell (Started - 14/05/18) | | 0 | 0 | | | 121,608 | 18,461 | **140,069** |
| Director of Environment & Regeneration Chris Lee | 10 | 137,713 | 20,932 | **158,645** | 5 | 140,468 | 21,326 | **161,794** |

## NOTE 29: OFFICERS' REMUNERATION

Sub-notes 2018/19

2018/19

1. Mr G. Curran, Chief Executive, remuneration for 2018/19 was a salary of £192,492
One separate payment of £7,543.38 was received for Acting Returning Officer duties at the Local election on 3 May 2018. A further £342.84 payment was received for Local Authority Gold Team duties.

2. Ms C. Holland, Director of Corporate Services, remuneration for 2018/19 was a salary of £140,468
One separate payment of £2,485.40 was received for Deputy Acting Returning Officer duties at the Local election on 3 May 2018.

3. Ms H. Doody, Director of Community and Housing, remuneration for 2018/19 was a salary of £134,783
One separate payment of £544.87 was received for Senior Count Supervisor duties at the Local election on 3 May 2018.

4. Ms R. Wardell, Director of Children, Schools and Families, started on 14 May 2018 on an annualised salary of £137,921
No additional payments were received.

5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2018/19 was a salary of £140,468
One separate payment of £985.01 was received for Polling Station Inspector and Senior Count Supervisor duties at the Local election on 3 May 2018. A further £342.84 payment was received for Local Authority Gold Team duties.

2017/18

6. Mr G. Curran, Chief Executive, remuneration for 2017/18 was a salary of £187,885

Two separate payments were received, totalling £7,139.43 for Acting Returning Officer duties at the General election on 8 June 2017, and Returning Officer duties at the St Helier by election on 20 July 2017.

7. Ms C. Holland, Director of Corporate Services, remuneration for 2017/18 was a salary of £137,713.
One payment of £2,436 was received for Deputy Acting Returning Officer duties at the General election on 8 June 2017.

8. Mr S. Williams, Director of Community and Housing, remuneration for 2017/18 was a salary of £36,966.
During 2017/18 the Director’s contracted hours were the equivalent of 0.8 FTE. No additional payments were received. He retired on 31 July 2017 and was replaced by Ms Hannah Doody on 10 July 2017 on an annualised salary of £129,901.

9. Ms Y. Stanley, Director of Children, Schools and Families, remuneration was a salary of £138,358.

## NOTE 29: OFFICERS' REMUNERATION

The figure includes untaken leave.

One payment of £804.95 was received for Returning Officer Assistant and Polling Station Inspector duties at the General election on 8 June 2017.

10. Mr C. Lee, Director of Environment and Regeneration, remuneration was a salary of £137,713.

One payment of £874.63 was received for Returning Officer Assistant and Polling Station Inspector duties at the General election on 8 June 2017.

# MEMBERS OFFICERS AND RELATED PARTIES
## NOTE 30 RELATED PARTIES

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

**Central Government**

The UK Government has significant influence over the operations of the 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 2018/19 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; 58 have responded.

During 2018/19, 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 £580K). The amounts disclosed below are those material to either party of the related party transaction (i.e. the Authority or the other entity).

| Organisation | 2018/19<br>£000 |
|---|---:|
| Merton & Morden Guild | 36 |
| Faith in Action | 10 |
| Wandle Valley Regional Park | 4 |
| North East Mitcham Community Association | 20 |
| South Wimbledon Community Association | 3 |
| Evolve Housing & Support | 457 |
| Friends In St Helier (F.I.S.H.) | 50 |
| **Total** | **580** |

**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 20 standard letters to current senior officers; there have been 20 responses.

## NOTE 30 RELATED PARTIES

Three senior officers are directors of CHAS 2013 Ltd and two senior officers are directors of Merantun Development 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 £580K 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 disclosure within this note 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 2018/19 an administration fee of £0.387m was paid by the Fund to the Authority (£0.460m in 2017/18, see Pension Fund Accounts, Note 11).

**Entities Controlled by the Authority**

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

# PENSION FUND

## NOTE 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 2018/19, the employer's contribution was 16.48% (16.48% average in 2017/18). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 10,000 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 2019, the Authority's own contributions equate to approximately 0.25%.

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 14.38% (14.30% in 2017/18) to the NHS Pension Scheme, for staff who transferred to the Authority but remain in the NHS scheme. The NHS scheme was previously a defined benefit scheme, with staff benefits linked to their average earnings in the final ten years of employment. From 1st April 2015, it became a career average revalued earnings scheme.

## NOTE 31: PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| Authority's contribution to DfE teacher's pension scheme | 8,633 | 8,652 |
| Authority's contribution to NHS pension scheme | 101 | 84 |

Assuming a 2% staff pay award in 2019/20, an estimate of the contributions to be paid in the next financial year would be:

| | 2019/20 £000 |
|---|---|
| Authority's contribution to DfE teacher's pension scheme | 8,825 |
| Authority's contribution to NHS pension scheme | 86 |

## NOTE 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 2018/19, which governs the preparation of financial statements for Local Government Pension Scheme funds.

- Discretionary post-retirement benefits to fund early retirement. This is an unfunded defined benefit arrangement. Liabilities are recognised when awards are made but there is no accompanying investment built- up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

**Transactions relating to Post-Employment Benefits**

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

The cumulative remeasurement of the net defined benefit liability/asset recognised in the Comprehensive Income and Expenditure Statement is a gain of £42.891m (£41.898m gain in 2017/18).

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

| Local Government Pensions Scheme | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| **Comprehensive Income and Expenditure Statement** | | |
| ***Cost of Services:*** | | |
| Service Cost | 30,321 | 42,888 |
| Administration | 427 | 354 |
| *Finance and Investment Income and Expenditure* | | |
| Net interest on defined liability | 9,718 | 8,975 |
| **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **40,466** | **52,217** |
| *Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement* | | |
| Remeasurements of the net defined benefit liability/asset | (41,898) | (42,891) |
| ***Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement*** | **(1,432)** | **9,326** |
| **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 | (40,466) | (52,217) |
| **Actual amount charged against the General Fund Balance for pensions in the year:** | | |
| Employers' contributions payable to scheme | 16,589 | 16,736 |

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

**Assets and Liabilities in relation to Post-Employment Benefits**
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

| Local Government Pension Scheme | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| **Opening Defined Benefit Obligation** | **966,736** | **960,997** |
| Current Service Cost | 30,499 | 30,862 |
| Interest Cost | 25,879 | 25,164 |
| Change in financial assumptions | (45,331) | 45,483 |
| Change in demographic assumptions | 0 | (57,823) |
| Liabilities extinguished on settlements | (1,620) | 18,257 |
| Estimated benefits paid net of transfers in | (19,088) | (24,986) |
| Past service costs including curtailments (i) | 682 | 6,743 |
| Contributions by Scheme participants | 4,912 | 5,210 |
| Unfunded pension payments | (1,672) | (1,663) |
| **Defined Benefit Obligation at end of period** | **960,997** | **1,008,244** |

(i) 18/19 includes an amount of £6.550m which is the estimate of the possible impact on total liabilities as at 31 March 2019 based on the *Potential impact of McCloud/Sargeant ruling on pensions accounts disclosures* paper prepared by the Government Actuary's Department.

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

| Local Government Pensions Scheme | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| **Opening fair value of Scheme assets** | **598,628** | **610,910** |
| Interest on assets | 16,161 | 16,189 |
| Return on assets less interest | (3,433) | 30,551 |
| Other actuarial gains/(losses) | 0 | 0 |
| Administration expenses | (427) | (354) |
| Contributions by employer including unfunded | 16,589 | 16,736 |
| Contributions by Scheme participants | 4,912 | 5,210 |
| Estimated benefits paid plus unfunded net of transfers in | (20,760) | (26,649) |
| Settlement prices | (760) | 12,974 |
| **Fair value of Scheme assets at end of period** | **610,910** | **665,567** |

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

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

| LBM asset share - bid value | 2017/18 | | 2018/19 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| Equities | 445,940 | 73 | 418,173 | 63 |
| Gilts | 140,946 | 23 | 84,101 | 12 |
| Property | 21,188 | 3 | 25,112 | 4 |
| Cash | 2,836 | 1 | 6,110 | 1 |
| Multi Asset Credit | 0 | | 67,929 | 10 |
| Diversified Growth | 0 | | 64,142 | 10 |
| **Total** | **610,910** | **100** | **665,567** | **100** |

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

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

### Scheme History

| | 2013/14<br>£000 | 2014/15<br>£000 | 2015/16<br>£000 | 2016/17<br>£000 | 2017/18<br>£000 | 2018/19<br>£000 |
|---|---|---|---|---|---|---|
| Present value of scheme Liabilities | | | | | | |
| The Local Government Pension Scheme (LGPS) | (630,064) | (748,920) | (722,265) | (937,022) | (932,840) | (981,934) |
| Unfunded Liabilities | (24,634) | (26,459) | (23,507) | (29,714) | (28,157) | (26,311) |
| Total Liabilities | (654,698) | (775,379) | (745,772) | (966,736) | 960,997 | (1,008,245) |
| Fair value of assets in the LGPS | 430,372 | 481,560 | 482,618 | 598,628 | 610,910 | 665,567 |
| Surplus / (Deficit) in the scheme | (224,326) | (293,819) | (263,154) | (368,108) | (350,087) | (342,678) |

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £343m 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.

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

### Basis for Estimating Assets and Liabilities

| | 2017/18 | 2018/19 |
|---|---|---|
| **Long Term expected rate of return on assets in the scheme:** | | |
| **Mortality Assumptions** | | |
| **Longevity at 65 for current pensioners retiring today at 65:** | | |
| Men | 24.5 | 23.4 |
| Women | 26.1 | 24.8 |
| **Longevity at 65 for future pensioners retiring in 20 years at 65:** | | |
| Men | 26.8 | 25.0 |
| Women | 28.4 | 26.6 |
| | % | % |
| **Rate of Inflation** | 2.55 | 2.40 |
| **Rate of increase in salaries** | 3.80 | 3.90 |
| **Rate of increase in pensions** | 2.30 | 2.40 |
| **Rate for discounting scheme liabilities** | 2.55 | 2.40 |
| **Take up option to convert annual pension into retirement lump sum** | 50 | 50 |

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.

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

| Sensitivity Analysis | £000 | £000 | £000 |
|---|---|---|---|
| **Adjustment to discount rate** | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 990,021 | 1,008,244 | 1,026,822 |
| Projected service cost | 31,368 | 31,399 | 31,713 |
| **Adjustment to long term salary increase** | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 1,009,819 | 1,008,244 | 1,006,680 |
| Projected service cost | 31,399 | 31,399 | 31,399 |
| **Adjustment to pension increases and deferred revaluation** | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 1,025,228 | 1,008,244 | 991,568 |
| Projected service cost | 32,161 | 31,399 | 30,655 |
| **Adjustment to mortality age rating assumption** | +1 Year | None | -1 Year |
| Present value of total obligation | 1,046,374 | 1,008,244 | 971,549 |
| Projected service cost | 32,400 | 31,399 | 30,429 |

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.

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

These figures are approximate, as they are pro-rated for the impact of the McCloud judgement on March 2019 figures produced by our actuaries and not based on a full recalculation of the sensitivity impacts on an IAS 19 basis.

**Estimation of Contributions to be paid in 2019/20**

The table below shows the estimated contributions to be paid to the plan during 2018/20, assuming a 2% staff pay award.

| | 2018/19 Actual £000 | 2019/20 Estimated £000 |
|---|---|---|
| Employers contributions - normal | 11,633 | 11,866 |
| Employers Additional Funding (Deficit Funding) | 3,469 | 3,552 |
| Employers Additional Funding (Pension Strain) | 138 | 141 |
| Employees contributions | 5,226 | 5,333 |
| **Total** | **20,466** | **20,891** |

**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.

## NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

## NOTE 33: EVENTS AFTER BALANCE SHEET DATE

Events after the Balance Sheet Date are those events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. There are potentially two types of events:

• If they provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is amended to reflect these events;

• If they are indicative of conditions that arose after the reporting period, the Statement of Accounts is not amended. If, however, an event would have a material effect, a disclosure is made in the notes to the accounts, outlining the event and its estimated financial effect.

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

<u>Adjusting Event</u>

There has been one adjusting event that provides additional information about conditions that existed at the end of the reporting period. There has been additional evidence regarding the McCloud case judgement, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Governments's appeal. The impact on the present value of the future retirement benefit obligation is included at Note 32.

## NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

**<u>Subsidiaries</u>**

**CHAS 2013 Ltd**

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

<u>Governance Arrangements</u>

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

<u>Trading Arrangements with London Borough of Merton</u>

In 2018/19, CHAS 2013 Ltd's total comprehensive income was £1.77m (£1.47m in 2017/18). Dividends received by LBM from CHAS 2013 Ltd are recognised within the Authority's comprehensive income and expenditure statement (CIES). In 2018/19, £0.87m dividend income was recognised (£0.7m in 2017/18).

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 2018/19, the licence fee was £0.5m (2017/18 £0.5m), which has been recognised within financing and investment income and expenditure in the CIES.

<u>Group Accounting</u>

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.

At the year end, the intercompany balance of £0.83m was due from LBM to CHAS 2013 Ltd (2017/18: £0.08m was owed by CHAS 2013 Ltd).

Company Accounts
Audited abbreviated accounts of CHAS 2013 Ltd (company number: 08466203) are filed with Companies House and available on request from:
London Borough of Merton
Civic Centre London Road Morden
SM4 5DX

LB Merton have prepared group accounts consolidating CHAS 2013 Ltd.

## NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

**Merantun Development Ltd**

Merantun Development Ltd will specialise in developing high quality housing and commercial property for market rent. LBM will be supplying working capital and development finance on commercial terms for the development and acquisition of sites, council and private. Loan finance will be used by the company to fund construction of sites where schemes have demonstrated being commercially viable.

Governance Arrangements

Merantun Development 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 senior officers within LBM. The company was incorporated on the 5th August 2017.

Trading Arrangements with London Borough of Merton

In 2018/19 the subsidiary has made a loss of £0.31m (£0.14m in 2017/18). At the year end, the intercompany balance due from Merantun Development Ltd to LBM was £0.17m (2017/18: £0.1m). No land transfers had been made.

Group Accounting

LBM's investment in Merantun Development Ltd is recognised and measured at cost in the Authority's balance sheet. At the year-end LBM investment in Merantun Development Ltd was £0.161m.
Merantun has been consolidated into the Group Financial Statements from 1 April 2018.

Accounts

Audited abbreviated accounts of Merantun Development Ltd (company number: 10907028) are filed with Companies House and available on request from:

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

LB Merton have prepared group accounts consolidating Merantun Development Ltd.

## NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

**Joint Venture**

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

Governance Arrangements
MSJCB is jointly controlled by the London Boroughs of Merton and Sutton. Any cash balance belonging to MSJCB is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect the sum owed to MSJCB. At 31/03/2019, including cash held and loans to MSJCB, there was a net creditor balance of £151k (net creditor balance of £40k at 31/03/2018).

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

Accounts

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

## NOTE 35: TRADING OPERATIONS

The 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** | | **2017/18 £000** | **2018/19 £000** |
|---|---|---|---|
| Printing and Graphic Design | Turnover | (319) | (78) |
| | Expenditure | 331 | 138 |
| | **Deficit** | **12** | **60** |
| Translation Services | Turnover | (527) | (276) |
| | Expenditure | 453 | 198 |
| | **(Surplus)** | **(74)** | **(78)** |
| Transport | Turnover | (4,170) | (196) |
| | Expenditure | 4,410 | 116 |
| | **Deficit** | **240** | **(80)** |
| **All trading operations** | | **2017/18 £000** | **2018/19 £000** |
| | Turnover | (5,016) | (550) |
| | Expenditure | 5,194 | 452 |
| **Total** | **Deficit / (Surplus)** | **178** | **(98)** |

## NOTE 36: INVENTORIES

The stock balance of £1k in 2018/19 represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

| | Consumable Stores | |
|---|---|---|
| | 2017/18 £000 | 2018/19 £000 |
| **Balance outstanding at the start of the year** | 35 | 1 |
| Purchases | 1,002 | 1,124 |
| Recognised as an expense in the year | (1,036) | (1,124) |
| **Balance outstanding at year-end** | **1** | **1** |

## NOTE 37: POOLED BUDGETS – Partnerships - Section 75

Community Equipment Services

During 2018/19 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 2017/18 £000 | Total 2018/19 £000 |
|---|---|---|
| **INCOME** | | |
| **PARTNERS' CONTRIBUTIONS** | | |
| **Brought forward** | **0** | **0** |
| LB Merton | 377 | 394 |
| Merton CCG | 283 | 316 |
| Additional From LB Merton (BCF Contribution) | 382 | 420 |
| **TOTAL CONTRIBUTIONS** | **1,042** | **1,130** |
| | | |
| **EXPENDITURE** | | |
| Community Equipment Services | 1,002 | 1,124 |
| Stock Adjustment | 34 | 0 |
| Management & Support Costs | 6 | 6 |
| **TOTAL EXPENDITURE** | **1,042** | **1,130** |
| **NET (UNDER) / OVERSPEND CARRIED FORWARD** | **0** | **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.

The CCG receives the full BCF allocation from NHS England, then transfers a proportion (£5,591,000 in 2018/19) 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 following table. 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.

## NOTE 37: POOLED BUDGETS – Partnerships - Section 75

| Better Care Fund Pooled Budget - Income and Expenditure | Total<br>2017/18<br>£000 | Total<br>2018/19<br>£000 |
|---|---|---|
| **INCOME** | | |
| Merton CCG contribution to pool | **(5,083)** | **(5,591)** |
| LBM contribution to pool | **0** | **0** |
| **Total contributions** | **(5,083)** | **(5,591)** |
| **Expenditure** | | |
| Integrated Locality Teams | 773 | 773 |
| Seven Day Working | 505 | 505 |
| Community Equipment and Adaptions | 382 | 420 |
| Protecting and Modernising Social Care | 3,222 | 3,692 |
| Investing in Integration Infrastructure | 144 | 144 |
| Developing Personal and Health Care Budgets | 57 | 57 |
| **Total revenue expenditure** | **5,083** | **5,591** |
| **Net** | **0** | **0** |

# OTHER DISCLOSURE NOTES

## NOTE 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:

| | 2017/18<br>£000 | 2018/19<br>£000 |
|---|---|---|
| Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year | 160 | 191 |
| Fees payable to the External Auditor for other services provided in year (Teachers Pensions and Housing Benefit audits) | 50 | 64 |
| **Total** | **210** | **255** |

## NOTE 39: On-Street Parking Account

The Council maintains a memorandum account in respect of on street parking to show how the income from it is spent. In 2018/19 the Council made a surplus of £9.895m (£9.655m in 2017/18), which was applied notionally as a contribution to concessionary fares, the costs of which are in the Community and Housing budget, and the day-to-day carriageway and footway maintenance. This contribution was more than the full cost of concessionary fares. Therefore the excess of £868k was applied notionally to fund carriageway and footway day to day maintenance, the cost of which was £1.1m in 2018/19.

| On-Street Parking Account | 2017/18 | | | | 2018/19 | | | |
|---|---|---|---|---|---|---|---|---|
| | Parking £000 | Bus Lanes £000 | Moving Traffic Violations £000 | Total £000 | Parking £000 | Bus Lanes £000 | Moving Traffic Violations £000 | Total £000 |
| **Income** | | | | | | | | |
| Penalty Charge Notices | (3,242) | (1,430) | (4,100) | **(8,772)** | (4,132) | (1,285) | (3,764) | **(9,181)** |
| Parking Permits | (2,870) | 0 | 0 | **(2,870)** | (3,408) | 0 | 0 | **(3,408)** |
| On-Street Parking Charges | (3,157) | 0 | 0 | **(3,157)** | (3,638) | 0 | 0 | **(3,638)** |
| Other Income | (367) | 0 | 0 | **(367)** | (0) | 0 | 0 | **(0)** |
| **Total Income** | **(9,636)** | **(1,430)** | **(4,100)** | **(15,166)** | **(11,177)** | **(1,285)** | **(3,764)** | **(16,226)** |
| **Expenditure** | | | | | | | | |
| On-Street Parking | 953 | 420 | 1,205 | **2,578** | 1,110 | 432 | 1,264 | **2,806** |
| Parking Management & Planning | 120 | 53 | 151 | **324** | 311 | 0 | 0 | **311** |
| Parking Enforcement | 964 | 425 | 1,220 | **2,609** | 1,272 | 495 | 1,448 | **3,215** |
| Contribution to Public Transport Including (Concessionary Fares) | 7,599 | 532 | 1,524 | **9,655** | 8,484 | 359 | 1,052 | **9,895** |
| **Total Expenditure** | **9,636** | **1,430** | **4,100** | **15,166** | **11,177** | **1,285** | **3,764** | **16,227** |
| **NET** | **0** | **0** | **0** | **0** | **(0)** | **0** | **0** | **0** |

| Memorandum Items | 2017/18 £000 | Surplus Applied £000 | 2018/19 £000 | Surplus Applied £000 |
|---|---|---|---|---|
| **Total Expenditure on:** | | | | |
| Concessionary fares | 9,035 | 9,035 | 9,027 | 9,027 |
| Carriageway & Footway Day-to-Day Maintenance | 845 | 620 | 1,114 | 868 |
| Carriageway & Footway Planned Maintenance | 1,671 | 0 | 3,381 | 0 |
| **Total** | **11,551** | **9,655** | **13,522** | **9,895** |

# TECHNICAL ANNEX - ACCOUNTING POLICIES

## NOTE 40: ACCOUNTING POLICIES

### i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year end of 31st March 2019. 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 2018/19, 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Notwithstanding the accrual principle, some items are recorded as received/paid on the basis that there is no material distortion of the 'true and fair view' concept. These items include:

a) Housing benefit payments and the related subsidy grant are recorded when the payment to housing benefit recipients 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 (including Money Market Funds invested for up to 3 months). They are repayable without penalty on notice of not more than 24 hours.

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

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

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

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

### v. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service
- 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

**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.

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

## NOTE 40: ACCOUNTING POLICIES

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

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

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

## NOTE 40: ACCOUNTING POLICIES

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 – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.
Liabilities are discounted to their value at current prices, using a discount rate that is in accordance with actuarial guidance.
The assets of the Pension Fund attributable to the Authority are measured at fair value:

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

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

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the 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), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the 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.

## NOTE 40: ACCOUNTING POLICIES

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

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

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

## NOTE 40: ACCOUNTING POLICIES

*Financial Assets Measured at Amortised Cost*
Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the interest presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

*Expected Credit Loss Model*
The authority recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

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

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

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

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

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

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

- Level 3 inputs – unobservable inputs for the asset.

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

### 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-ring-fenced 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

## NOTE 40: ACCOUNTING POLICIES

*Business Improvement Districts*
A Business Improvement District (BID) is a precisely defined area within the local authority's boundaries within which the businesses have voted to invest collectively in local improvements to enhance their trading environment. The Authority has 3 BIDS (Wimbledon, Willow Lane and South Wimbledon Business Area). The latter came into operation in from 1st July 2017.

*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.

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

### xiii. Interest in Subsidiaries and Other Entities

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. The authority has two subsidiaries (CHAS and Merantun) and one joint venture (Merton and Sutton Joint Cemetery Board - MSJCB). From 2017/18 onwards, the authority has published consolidated group accounts. Details of the subsidiaries 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.

## NOTE 40: ACCOUNTING POLICIES

**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 include: -

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

The authority has also outsourced the maintenance of its parks and open spaces to a company called Idverde (IDV) in February 2017. The contract includes LB Merton and LB Sutton, but the contract is held by LB Croydon. IDV invoice LB Croydon who then recharge Merton and Sutton for its share of costs.

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.

# TECHNICAL ANNEX - ACCOUNTING POLICIES

## NOTE 40: ACCOUNTING POLICIES

Mental Health Service: This is a delegated Section 75 budget hosted by the South West London and St George's Mental Health NHS Trust. This is an arrangement where placement and staff costs are shared across the LB Merton and the NHS in the provision of a Mental Health Service.

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

**xvi. Leases**

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

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

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

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

## NOTE 40: ACCOUNTING POLICIES

***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

- 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

## NOTE 40: ACCOUNTING POLICIES

***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.

# TECHNICAL ANNEX - ACCOUNTING POLICIES

## NOTE 40: ACCOUNTING POLICIES

**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

*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

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.

## NOTE 40: ACCOUNTING POLICIES

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 valuers who are members of the Royal Institution of Chartered Surveyors.

Revaluations are undertaken as at 31st March.

Assets regarded by the authority as operational were valued on the basis of Existing Use Value (EUV) or, where this could not be assessed because there was no market for the subject asset, by the Depreciated Replacement Cost method (DRC), subject to the prospect and viability of the occupation and use. Parks, allotments, cemetery land and crematorium land, which are non- operational are classified as Community Assets.

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

*Impairment*

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

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

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

## NOTE 40: ACCOUNTING POLICIES

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.

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

## NOTE 40: ACCOUNTING POLICIES

*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)

**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.

## NOTE 40: ACCOUNTING POLICIES

*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.

# TECHNICAL ANNEX - ACCOUNTING POLICIES

## NOTE 40: ACCOUNTING POLICIES

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

**xxv. Fair Value Measurement**
The authority measures some of its non-financial assets such as surplus assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

The Code of Practice on Local Authority Accounting in the United Kingdom requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard which has been issued but is yet to be adopted by the 2018/19 Code.

At the balance sheet date, the following standards had been issued but not yet adopted by the Code of Practice for local authority accounting:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

These changes are not expected to have a material impact on the Council's single entity statements or group statements.

## NOTE 42: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain polices set out in Note 40, 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:

Funding
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.

Legal Claims
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.

Group Boundaries
The Council carries out a complex range of activities, often in conjunction with external organisations. Where those organisations are in partnership with or under the ultimate control of the Council a judgement is made by management as to whether they are within the Council's group boundary. This judgement is made in line with the provisions set out in the Code and relevant accounting standards. Those entities which fall within the boundary and are considered to be material are included in the Council's group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. The assessment of materiality also considers qualitative factors such as whether the Council depends significantly on these entities for the continued provision of its statutory services or where there is concern about the level to which the Council is exposed to commercial risk.

## NOTE 42: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Business Rates Pool

The Council is part of a London-wide business rate pooling pilot which changes from a 100% pilot pool in 2018/19 to a 75% pilot pool in 2019/20. The governance arrangements set in place for the 2018/19 pool guarantee no detriment compared to what the Council's position would have been if it had not entered into such an arrangement over this period – MHCLG supports this. This guarantee does not continue into 2019/20. The potential share of the surplus from the pool pertaining to London Boroughs specifically excludes all financial impacts of events relating to years before 2018/19. The Council's accounts as at 31 March 2019 are unaffected by the changes in 2019/20 nor are they affected by other future decisions of local authorities.

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

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

The items in the London Borough of Merton's Balance Sheet at 31st March 2019 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

| Item: | Uncertainty: | Effect if actual result differs from assumptions: |
|---|---|---|
| **Property, Plant and Equipment (PPE)** | 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. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. PPE of £701.0m is included in the accounts. Therefore, a 1% movement in value would result in a change of £7.0m.<br>The depreciation charge for PPE in 2018/19 was £21.8m. A movement of 1% would result in a change in the depreciation charge of approximately £0.218m. |
| **Provisions** | The authority has made provisions of £4.729m for insurance claims. The fund is used to pay claims for which the authority is self-insured. The suggested level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority. | 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 £0.047m charge to the General Fund. |

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

| Item: | Uncertainty: | Effect if actual result differs from assumptions: |
|---|---|---|
| **Provision for NDR appeals** | The authority has made provision of £7.967m 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. | 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. |
| **Pension Liability** | Estimation of the net £342.7m 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.<br>Additionally, the actuary has included the impact of the McCloud case judgement on 27th June 2019. | The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 32 for further detail.<br><br>The impact of the McCloud case judgement is estimated to increase liabilities by £6.550m as at 31 March 2019. |

# 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.

# Collection Fund
# Income and Expenditure

| | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Business Rates £000 | Council Tax £000 | Total £000 | COLLECTION FUND Income and Expenditure | Business Rates £000 | Council Tax £000 | Total £000 |
| | | | **A) INCOME** | | | |
| 0 | 106,908 | 106,908 | Council Tax Receivable | 0 | 111,202 | 111,202 |
| 87,467 | 0 | 87,467 | Business Rates Receivable | 89,932 | 0 | 89,932 |
| 2,526 | 0 | 2,526 | Business Rates Supplements Receivable | 2,556 | 0 | 2,556 |
| **89,993** | **106,908** | **196,901** | | **92,488** | **111,202** | **203,690** |
| | | | **B) EXPENDITURE** | | | |
| | | | **Apportionment of Previous Year Surplus/(Deficit)** | | | |
| 634 | 0 | 634 | Central Government | (1,714) | 0 | (1,714) |
| 380 | 1,386 | 1,766 | Billing Authority (LBM) | (1,223) | 1,653 | 430 |
| 254 | 345 | 599 | Greater London Authority | (1,140) | 406 | (734) |
| **1,268** | **1,731** | **2,999** | | **(4,077)** | **2,059** | **(2,018)** |
| | | | **C) Precepts, Demands and Shares** | | | |
| 29,041 | 0 | 29,041 | Central Government (MHCLG): NDR | | | 0 |
| 26,401 | 82,563 | 108,964 | Billing Authority (LBM): NDR & Council Tax | 56,308 | 87,009 | 143,317 |
| 32,561 | 20,285 | 52,846 | Greater London Authority: NDR & Council Tax | 31,673 | 21,810 | 53,483 |
| 2,526 | 0 | 2,526 | Greater London Authority: NDR Supplement | 2,556 | 0 | 2,556 |
| **90,529** | **102,848** | **193,377** | | **90,537** | **108,819** | **199,356** |
| | | | **D) Charges to Collection Fund** | | | |
| 1,146 | 1,786 | 2,932 | Less: increase/(decrease) in bad debt provision | (228) | 202 | (26) |
| (1,064) | 0 | (1,064) | Less: increase/(decrease) in provision for appeals | 6,514 | 0 | 6,514 |
| 264 | 0 | 264 | Less: cost of collection | 265 | 0 | 265 |
| **346** | **1,786** | **2,132** | | **6,551** | **202** | **6,753** |
| | | | | | | |
| **(2,150)** | **543** | **(1,607)** | **Surplus/(Deficit) arising during the year (=A-(B+C+D))** | **(523)** | **122** | **(401)** |
| | | | | | | |
| **(898)** | **2,074** | **1,176** | **Surplus/(Deficit) b/fwd 1st April** | **(3,048)** | **2,617** | **(431)** |
| **(3,048)** | **2,617** | **(431)** | **Surplus/(Deficit) c/fwd 31st March** | **(3,571)** | **2,739** | **(832)** |

# Collection Fund

## 1. Council Tax

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

The Council tax base is the total number of properties in each of the eight valuation bands adjusted by a set proportion for each band to convert to the Band D equivalent for that band. The Band D charge is the required income from the Collection Fund divided by the Council Tax base. An individual amount due for each Band is calculated by multiplying the Band D charge by the proportion that is specified for each particular band. The Council Tax base in 2018/19, before allowance for non-collection, is £75,635 (£74,491 for 201718). 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 | |
|---|---|---|---|---|---|---|---|
| | 2017/18 | 2018/19 | 2017/18 | 2018/19 | | 2017/18 | 2018/19 |
| A adjust | 2 | 2 | 1 | 1 | 5/9 | 0 | 0 |
| A | 1,073 | 1,086 | 622 | 648 | 6/9 | 415 | 432 |
| B | 8,265 | 8,385 | 5,514 | 5,678 | 7/9 | 4,289 | 4,416 |
| C | 22,704 | 22,884 | 17,521 | 17,943 | 8/9 | 15,575 | 15,949 |
| D | 27,560 | 27,657 | 23,146 | 23,469 | 9/9 | 23,146 | 23,469 |
| E | 13,084 | 13,140 | 11,733 | 11,844 | 11/9 | 14,340 | 14,476 |
| F | 5,385 | 5,432 | 4,981 | 5,023 | 13/9 | 7,195 | 7,255 |
| G | 3,983 | 4,010 | 3,768 | 3,796 | 15/9 | 6,279 | 6,327 |
| H | 1,681 | 1,716 | 1,623 | 1,653 | 18/9 | 3,247 | 3,306 |
| **Total** | | | | | | **74,486** | **75,630** |
| Defence properties | | | | | | 5 | 5 |
| **Council Tax Base** | | | | | | **74,491** | **75,635** |

The average Council Tax charge for a Band D property (including the GLA) was £1,468.06 in 2018/19 compared to £1,419.73 in 2017/18. From this an income yield of £108.8m was expected (£102.8 in 2017/18). In 2018/19 the income generated was £111.2m (£106.9m in 2017/18) 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 2018-19 London Pilot Scheme, the Authority retains a 64% share of 2018/19 NDR Income with 36% being precepted to the Greater London Authority (GLA). Central government do not directly receive a share of 18/19 income, as they have in previous years, but the grant they make to Merton is reduced to offset this (See Note 6 - Grant Income).

| | 2017/18 | 2018/19 |
|---|---|---|
| Non-domestic rateable value at year end | £215m | £213m |
| Number of Hereditaments | 5,475 | 5,490 |
| Uniform Business Rate (in the £) | 47.9p | 49.3p |

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

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| Gross Rates payable (including net amounts for previous years) | 102,069 | 104,543 |
| Mandatory and discretionary reliefs | (13,232) | (13,719) |
| Transitional Protection Payments | (1,370) | (892) |
| **Business Rates Receivable** | **87,467** | **89,932** |
| Allowance for Provision for bad and doubtful debts | (1,146) | 228 |
| Change to Provision for losses on appeals | 1,064 | (6,514) |
| Cost of collection | (264) | (265) |
| **Net Income** | **87,121** | **83,381** |

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

## 2. Non-Domestic Rates (NDR)

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

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| Gross Rates payable | 2,772 | 2,811 |
| Mandatory and discretionary reliefs | (246) | (255) |
| **Net contribution to GLA** | **2,526** | **2,556** |

# Collection Fund

## 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. The Authority is liable for its proportionate share of successful appeals against NDR charges and alterations of rating lists. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

| | Balance at 1st April 2018 £000 | Allowance for Impairment £000 | Amounts charged against Allowance £000 | Balance at 31st March 2019 £000 |
|---|---|---|---|---|
| Council Tax: Impairment of Bad Debts | 7,448 | 202 | (493) | 7,157 |
| Non-Domestic Rates: Impairment of Bad Debts | 3,175 | (228) | (379) | 2,568 |
| Non-Domestic Rates: Losses on Appeals | 5,936 | 8,370 | (1,856) | 12,450 |
| **TOTAL** | 16,559 | 8,344 | (2,728) | 22,175 |

## 4. Surpluses and Deficits

### Council Tax

There is an accumulated surplus of £2.739m on the Collection Fund (£2.617m in 2017/18). 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.

| | 2017/18<br>£000 | 2018/19<br>£000 | Change in the Year<br>£000 |
|---|---|---|---|
| London Borough of Merton Council Tax surplus | (2,086) | (2,159) | (73) |
| Greater London Authority Council Tax surplus | (531) | (580) | (49) |
| **Total** | **(2,617)** | **(2,739)** | **(122)** |

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 that body.  A detailed analysis of the balances is given below.

| | Greater London Authority<br>£000 | London Borough Of Merton<br>£000 | Total<br>£000 |
|---|---|---|---|
| Accumulated surplus as at 1st April 2017 | **(531)** | **(2,086)** | **(2,617)** |
| Paid to GLA in 2017/18 | 406 | 0 | **406** |
| Transfer to/(from) General Fund in 2017/18 | 0 | 1,653 | **1,653** |
| Surplus/Deficit in 2017/18 | (455) | (1,726) | **(2,181)** |
| **Total** | **(580)** | **(2,159)** | **(2,739)** |

## 4. Surpluses and Deficits

### NDR

There is a deficit of £3.571m on the Collection Fund (£3.048m in 2017/18). 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.

| | 2017/18 £000 | 2018/19 £000 | Change in the Year £000 |
|---|---|---|---|
| London Borough of Merton NDR deficit | 914 | 2,635 | 1,721 |
| Greater London Authority NDR deficit | 759 | 1,275 | 516 |
| MHCLG NDR deficit (surplus) | 1,375 | (339) | (1,714) |
| **Total** | **3,048** | **3,571** | **523** |

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. A detailed analysis of the balances is given below.

| | Greater London Authority £000 | MHCLG £000 | London Borough of Merton £000 | Total £000 |
|---|---|---|---|---|
| Accumulated deficit (as 2017-18 Accounts) | 1,140 | 994 | 914 | 3,048 |
| Compensating Adjustment | (381) | 381 | 0 | 0 |
| Revised accumulated deficit as at 1st April 2018 | **759** | **1,375** | **914** | **3,048** |
| Paid to/(from) preceptors in 2018/19 | (1,140) | (1,714) | 0 | (2,854) |
| Transfer to/(from) General Fund in 2018/19 | 0 | 0 | (1,223) | (1,223) |
| Deficit in 2018/19 | 1,656 | 0 | 2,944 | 4,600 |
| **Total** | **1,275** | **(339)** | **2,635** | **3,571** |

## 5. Collection Fund Link to Core Statements

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

**CIES**
The £88,736m Council Tax income and the £53,364m 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 is shown in the following table.

A further £0.244m council tax income and £0.049m NDR income have also been recognised in the CIES in 2018/19. These are receipts which had been over-paid by taxpayers prior to 2012/13 and are now beyond the statutory period during which they could legally be reclaimed.

| Income and Expenditure     Council Tax | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| Demand on the Fund | 82,563 | 87,009 |
| Transfer of Surplus | 1,386 | 1,653 |
| Total included in I&E under Collection Fund Regulations | **83,949** | **88,662** |
| Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement) | 422 | 73 |
| **Council Taxation Fund Income** | **84,371** | **88,735** |
| **Movement in Reserves Statement** | **2017/18 £000** | **2018/19 £000** |
| Reversal of adjustment of Collection Fund Surplus under 2011 Code | (422) | (73) |
| **Net charge to General Fund, which is based on statutory requirements** | **83,949** | **88,662** |

| Income and Expenditure     Business Rates | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| Demand on the Fund | 26,401 | 56,308 |
| Transfer of Deficit | 380 | (1,223) |
| Total included in I&E under Collection Fund Regulations | **26,781** | **55,085** |
| Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement) | (645) | (1,721) |
| **Business Rates Fund Income** | **26,136** | **53,364** |
| **Movement in Reserves Statement** | **2017/18 £000** | **2018/19 £000** |
| Reversal of adjustment of Collection Fund Surplus under 2011 Code | 645 | 1,721 |
| | | |
| **Net charge to General Fund, which is based on statutory requirements** | **26,781** | **55,085** |

# Collection Fund

## 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 MHCLG). There will be a debtor/creditor position at the end of year since the net cash paid to each preceptor in the year will not exactly match its share of cash collected from Council Tax and NDR payers. The amounts actually paid to preceptors are based on estimates made prior to the financial year as required by statute.

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 2018/19 £000 | Balance Sheet 2018/19 £000 |
|---|---|---|
| **Council Tax** | | |
| Arrears | 7,630 | 6,110 |
| Impairment Allowance for Doubtful Debts | (7,157) | (5,680) |
| Receipts in Advance | (5,309) | (4,213) |
| Collection Fund (Surplus) / Deficit | (2,159) | (2,159) |
| GLA | (580) | (1,633) |
| **Cash** | **(7,575)** | **(7,575)** |
| **Business Rates** | | |
| Transitional Protection | (98) | (98) |
| Arrears | 2,992 | 1,924 |
| Impairment Allowance for Doubtful Debts | (2,568) | (1,644) |
| Impairment for Loss on Appeals | (12,450) | (7,968) |
| Receipts in Advance | (3,382) | (2,164) |
| Collection Fund (Surplus) / Deficit | 2,635 | 2,635 |
| GLA | 1,275 | (4,281) |
| MHCLG | (339) | (339) |
| **Cash** | **(11,935)** | **(11,935)** |

## Group Financial Statements

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

### 1. Group Comprehensive Income and Expenditure Statement

| 2017/18 | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 224,986 | (164,367) | 60,619 | Children, Schools and Families | 231,684 | (168,368) | 63,316 |
| 87,178 | (18,914) | 68,264 | Community and Housing | 82,659 | (23,237) | 59,422 |
| 114,394 | (99,425) | 14,969 | Corporate Services | 132,485 | (92,963) | 39,522 |
| 59,649 | (37,356) | 22,293 | Environment and Regeneration | 59,149 | (40,340) | 18,809 |
| 11,511 | (11,002) | 508 | Public Health | 10,143 | (10,118) | 25 |
| **497,718** | **(331,064)** | **166,653** | **Cost of services** | **516,120** | **(335,026)** | **181,094** |
| | | (6,744) | Other operating income and expenditure | 21,164 | (7,535) | 13,629 |
| | | 17,006 | Financing and investment income and expenditure | | | 19,513 |
| | | (167,481) | Taxation and non-specific grant income | | | (164,486) |
| | | **9,434** | **Deficit on Provision of Services** | | | **49,750** |
| | | **342** | **Tax on Subsidiary Profit** | | | **464** |
| | | **9,776** | | **0** | **0** | **50,214** |
| | | (21,449) | (Surplus) on revaluation of non-current assets | | | (292) |
| | | (41,994) | Re-measurement of the net defined benefit (asset) | | | (42,927) |
| | | **(63,443)** | **Other Comprehensive Income and Expenditure** | | | **(43,219)** |
| | | **(53,667)** | **Total Comprehensive Income and Expenditure** | | | **6,995** |

## 2. Group Movement in Reserves Statement

| | Note | General Fund Balances £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Authority share of Subsidiary Reserves £000 | Total Group Reserves £000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2017** | | (62,129) | (22,986) | (7,251) | (92,366) | (139,661) | (2,229) | (234,256) |
| *Movement in reserves during 2017/18* | | | | | | | | |
| Total Comprehensive Income and Expenditure | | 10,410 | | | 10,410 | (63,347) | (1,471) | (54,409) |
| Adjustments between accounting basis & funding basis under regulations | 18 | (9,001) | 7,473 | (3,228) | (4,756) | 4,756 | | |
| Adjustments between Group Accounts and the Authority's accounts | | | | | | | 742 | 742 |
| **(Increase)/Decrease in Year** | | 1,409 | 7,473 | (3,228) | 5,654 | (58,591) | (729) | (53,667) |
| **Balance at 31 March 2018 carried forward** | | **(60,720)** | **(15,513)** | **(10,479)** | **(86,712)** | **(198,252)** | **(2,958)** | **(287,923)** |

| | Note | General Fund Balances £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Authority share of Subsidiary Reserves £000 | Total Group Reserves £000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2018** | | (60,720) | (15,513) | (10,479) | (86,712) | (198,252) | (2,958) | (287,923) |
| Rounding Adjustments Btwn reserves | | (2) | | 2 | | | | |
| *Movement in reserves during 2018/19* | | | | | | | | |
| Total Comprehensive Income and Expenditure | | 50,370 | 0 | 0 | 50,370 | (43,183) | (193) | 6,995 |
| Adjustments between accounting basis & funding basis under regulations | 18 | (56,718) | 6,285 | (6,528) | (56,962) | 56,962 | | |
| **(Increase)/Decrease in Year** | | (6,348) | 6,285 | (6,528) | (6,592) | 13,779 | (193) | 6,995 |
| **Balance at 31 March 2019 carried forward** | | **(67,070)** | **(9,228)** | **(17,005)** | **(93,304)** | **(184,473)** | **(3,151)** | **(280,928)** |

## 3. Group Balance Sheet

| 31 Mar 2018 £000 | Balance Sheet | 31 Mar 2019 £000 |
|---|---|---|
| 724,093 | Property, Plant & Equipment | 701,323 |
| 802 | Heritage Assets | 802 |
| 4,500 | Long Term Investments | 0 |
| 5,191 | Intangible Assets | 4,727 |
| 160 | Deferred Tax Asset | 239 |
| 7,590 | Long Term Debtors | 6,850 |
| **742,336** | **Long Term Assets** | **713,941** |
| 55,193 | Short Term Investments | 60,239 |
| 1 | Inventories | 1 |
| 31,814 | Short Term Debtors | 36,212 |
| 1,183 | Assets Held for Sale | 700 |
| 34,521 | Cash and Cash Equivalents | 50,206 |
| **122,712** | **Current Assets** | **147,358** |
| (1,487) | Short Term Borrowing | (1,495) |
| (64,343) | Short Term Creditors | (66,238) |
| (422) | Current Tax Liability | (558) |
| (641) | Current Provisions | (2,868) |
| **(66,893)** | **Current Liabilities** | **(71,159)** |
| (5,368) | Provisions | (9,828) |
| (113,010) | Long Term Borrowing | (113,010) |
| (29,778) | Other Long Term Liabilities | (30,129) |
| (350,907) | Pension Liability | (343,923) |
| (11,169) | Capital Grants Receipts in Advance | (12,322) |
| **(510,232)** | **Long Term Liabilities** | **(509,212)** |
| **287,923** | **Net Assets** | **280,928** |
| (90,489) | Usable Reserves | (96,455) |
| (197,434) | Unusable Reserves | (184,473) |
| **(287,923)** | **Total Reserves** | **(280,928)** |

## 4. Group Cash Flow Statement

| 2017/18<br>£000 | Cash Flow Statement | 2018/19<br>£000 |
|---|---|---|
| 9,776 | Net deficit on the provision of services | 50,214 |
| (44,465) | Adjustments to net deficit on the provision of services for non-cash movements | (90,764) |
| 24,897 | Adjustments for items included in the net deficit on the provision of services that are investing and financing activities | 30,840 |
| (9,792) | Net Cash flows from Operating Activities | (9,710) |
| (5,796) | Investing Activities | (6,249) |
| 13,599 | Financing Activities | 274 |
| (1,988) | Net (increase) in cash and cash equivalents | (15,685) |
| 32,534 | Cash and cash equivalents at the beginning of the reporting period | 34,521 |
| **34,521** | **Cash and cash equivalents at the end of the reporting period** | **50,206** |

# Pension Fund Accounts

| 2017/18 £000 | Fund Account | Notes | 2018/19 £000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the scheme** | | |
| (22,745) | Contributions | 7 | (23,453) |
| (6,748) | Transfers in | 8 | (18,933) |
| **(29,493)** | **Total Income** | | **(42,386)** |
| 24,695 | Benefits | 9 | 25,816 |
| 2,746 | Payments to and on account of leavers | 10 | 5,242 |
| **27,441** | **Total Expenditure** | | **31,058** |
| **(2,052)** | **Net (additions)/withdrawals from dealings with members** | | **(11,328)** |
| 1,869 | Management expenses | 11 | 1,133 |
| **(183)** | **Net (additions)/withdrawals including Fund management expenses** | | **(10,195)** |
| | **Returns on investments** | | |
| (12,605) | Investment income | 12 | (8,021) |
| 148 | Taxes on income | 13 | 7 |
| 4 | (Profit) and losses on disposal of investments and changes in the market value of investments | 14.3 | (39,893) |
| **(12,453)** | **Net returns on investments** | | **(47,907)** |
| **(12,636)** | **Net (increase)/decrease in the net assets available for benefits during the year** | | **(58,102)** |
| **(650,516)** | **Opening net assets of the scheme** | | **(663,152)** |
| **(663,152)** | **Closing net assets of the scheme** | | **(721,254)** |

## Net Assets Statement

| 2017/18 £000 | | Notes | 2018/19 £000 |
|---|---|---|---|
| 661,536 | Investment assets | 14 | 707,872 |
| (1,348) | Investment liabilities | 14 | 0 |
| **660,188** | **Total Investments** | | **707,872** |
| 4,581 | Current assets | 20 | 14,679 |
| (1,617) | Current liabilities | 21 | (1,297) |
| **663,152** | **Net assets of the Fund available to Fund benefits at period end** | | **721,254** |

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 Panel (PFAP) oversees and advises on investment of the Fund. This Panel comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The Authority takes independent professional advice on investment policy and strategy.

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 PFAP. The Board has four members comprising two employers 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 |
|---|---|
| • Greenwich Leisure<br>• Merton Priory Homes<br>• CATCH 22 | • Wimbledon and Putney Commons Conservators<br>• Harris Academy Merton<br>• Harris Academy Morden<br>• Harris Academy Primary<br>• Harris Wimbledon<br>• St Mark's Academy<br>• Benedict Academy<br>• Park Community School<br>• CHAS (Contractors Health and Safety Assessment Scheme)<br>• Beecholme Academy<br>• Aragon Academy<br>• Stanford Primary Academy |

The following table summarises the membership numbers of the scheme.

| 2017/18 | | 2018/19 |
|---|---|---|
| | **Active Members** | |
| 3,565 | London borough of Merton | 3,717 |
| 305 | Scheduled bodies | 381 |
| 63 | Admitted bodies | 52 |
| **3,933** | | **4,150** |
| | **Pensioners** | |
| 3,571 | London borough of Merton | 3,643 |
| 163 | Scheduled bodies | 164 |
| 115 | Admitted bodies | 119 |
| **3,849** | | **3,926** |
| | **Deferred Pensioners** | |
| 5,074 | London borough of Merton | 5,113 |
| 302 | Scheduled bodies | 354 |
| 118 | Admitted bodies | 125 |
| **5,494** | | **5,592** |

### (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 2019. 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 3x pension. In addition, part of the annual pension can be exchanged for a one off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

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

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

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

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its financial position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19', 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.

The accounts have been prepared on a going concern basis.

## 3. Summary of Significant Accounting Policies

### Fund account – revenue recognition

### 3.1 Contribution Income

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

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

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

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

### 3.2 Transfers to and from other schemes

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an 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, interest income for bond and distributions for pooled investments).

### Revenue account – expense items

### 3.4 Benefits Payable

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

### 3.5 Taxation

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

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

### 3.6 Management Expenses

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

#### (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.

### 3.7 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

### 3.8 Investment Assets

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

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

### 3.9 Movement in the net market value of investment

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

### 3.10 Foreign currency

All foreign currency investment transactions are converted into sterling at spot rate. The year end balances are converted using the 31st March rate to show the fair value of the investment.

### 3.11 Cash and cash equivalents

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

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

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

### 3.12 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).

### 3.13 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.

### 3.14 Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

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

## 4. Critical Judgements in Applying Accounting Policies

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

### 4.1 Pension Fund Liability

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

## 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 2019 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.<br><br>Additionally, the actuary has included the impact of the McCloud case judgement 27th June 2019. | The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £18.1m and a -0.1% reduction would increase the obligation by £18.5m. An adjustment to the mortality age rating assumption of -1 yr. would decrease the obligation by £36.5m.<br><br>The impact of the McCloud case judgement is estimated to increase liabilities by 0.7% which amounts to £7.1m as at 31st March 2019. |

In the IAS26 report previously issued for the Fund as at 31 March 2019 no allowance was made for the recent McCloud judgement, which relates to age discrimination within the New Judicial Pension Scheme. This was due to the uncertainty of how this judgement may affect LGPS members' past or future service benefits.
However before the government lost its appeal at the supreme court the Scheme Advisory Board, with consent of the MHCLG, commissioned GAD to report on the possible impact of the McCloud judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts under IAS26 as at 31 March 2019.

The actuary used analysis provided by GAD along with the results of IAS26 disclosure prepared for the Fund at 31 March 2019. The membership data, valuation method, and financial and demographic assumptions adopted for the calculations are set out in the IAS26 disclosure. The key assumption is the assumed rate of future salary increases.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the actuary also allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

## 6. Events After The Reporting Date

There has been one adjusting event that provides additional information about conditions that existed at the end of the reporting period. There has been additional evidence regarding the McCloud case judgement, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal. The impact on the present value of the future retirement benefit is included within Note 19.

## 7. Contributions Receivable

| 2017/18 £000 | By Category | 2018/19 £000 |
|---|---|---|
| 17,026 | Employers | 17,348 |
| 5,719 | Members | 6,105 |
| **22,745** | **Total** | **23,453** |

| 2017/18 £000 | By Authority | 2018/19 £000 |
|---|---|---|
| 20,900 | Administering | 21,371 |
| 1,372 | Scheduled | 1,609 |
| 473 | Admitted | 473 |
| **22,745** | **Total** | **23,453** |

| 2017/18 £000 | By Type | 2018/19 £000 |
|---|---|---|
| 12,783 | Employers normal | 13,570 |
| 5,719 | Employees normal | 6,044 |
| 3,430 | Deficit Funding | 3,620 |
| 813 | Employers additional | 219 |
| **22,745** | **Total** | **23,453** |

## 8. Transfers In From Other Pension Funds

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 3,760 | Individual Transfers | 4,523 |
| 2,988 | Group Transfer | 14,410 |
| **6,748** | **Total** | **18,933** |

**Note:** There were two group transfers in 2018/19. HR Staff from LB Sutton to LB Merton (£5.4m) and SSA Environmental staff to Merton Regularity Services Partnership (£9m).

## 9. Benefits Payable

| 2017/18 £000 | By Category | 2018/19 £000 |
|---|---|---|
| 20,516 | Pensions | 21,548 |
| 3,558 | Commutations and lump sum retirement benefits | 3,755 |
| 621 | Lump sum death benefits | 513 |
| **24,695** | **Total** | **25,816** |

| 2017/18 £000 | By Authority | 2018/19 £000 |
|---|---|---|
| 22,915 | Administering | 23,855 |
| 861 | Scheduled | 847 |
| 919 | Admitted | 1,114 |
| **24,695** | **Total** | **25,816** |

## 10. Payments to and on Account of Leavers

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 2,425 | Individual transfers | 4,239 |
| 250 | Group transfers | 843 |
| 68 | Refunds of contribution | 112 |
| 3 | State scheme premiums | 48 |
| **2,746** | **Total** | **5,242** |

## 11. Management Expenses

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 460 | Administrative costs | 387 |
| 1,108 | Investment management expenses | 434 |
| 301 | Oversight and governance costs | 312 |
| **1,869** | **Total** | **1,133** |

## 11a. Investment Management Expenses

| 2017/18 £000 | | 2018/19 Fees invoiced £000 | 2018/19 Fees deducted at source £000 |
|---|---|---|---|
| 788 | Management fees | 424 | 961 |
| 10 | Performance related fees | 0 | 10 |
| 10 | Custody fees | 10 | 0 |
| 300 | Transaction costs | 0 | 75 |
| **1,108** | **Total** | **434** | **1,046** |

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

## 12. Investment Income

| 2017/18 £000 | | 2018/19 £000 |
|---:|---|---:|
| 2,232 | Income from bonds | 1,054 |
| 8,860 | Income from equities | 3,361 |
| 166 | Pooled investments – unit trusts and other managed Funds | 2,941 |
| 826 | Pooled property investments | 803 |
| 521 | Other | (138) |
| **12,605** | **Total** | **8,021** |

## 13. Taxes on Income

| 2017/18 £000 | | 2018/19 £000 |
|---:|---|---:|
| 115 | Non-recoverable tax | 3 |
| 33 | Withholding tax | 4 |
| **148** | **Total** | **7** |

## 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 2019.

| 2017/18 | | | 2018/19 | |
|---:|---:|---|---:|---:|
| £000 | % | Fund Manager | £000 | % |
| 277,265 | 42 | Aberdeen Asset Management | 116,617 | 16 |
| 375,198 | 57 | UBS Asset Management | 222,988 | 31 |
| 7,575 | 1 | Blackrock | 78,321 | 11 |
| 0 | 0 | Baillie Gifford (LCIV) | 103,991 | 15 |
| 0 | 0 | Pyrford (LCIV) | 33,671 | 5 |
| 0 | 0 | RBC (LCIV) | 74,694 | 11 |
| 0 | 0 | CQS (LCIV) | 69,360 | 10 |
| 0 | 0 | Quinbrook | 4,389 | 1 |
| 0 | 0 | Macquarie | 1,157 | 0.2 |
| 0 | 0 | Churchill | 2,534 | 0.4 |
| **660,038** | **100** | **Total** | **707,722** | **100** |

### 14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2019 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 2018 £000 | | Market Value 31 March 2019 £000 |
|---:|---|---:|
| | **Investment Assets** | |
| 152,315 | Bonds | 87,451 |
| 244,427 | Equities | 0 |
| 236,156 | Pooled investments | 587,321 |
| 22,896 | Pooled property investments | 23,749 |
| 1,329 | Derivative contracts - Futures | 0 |
| 0 | Private Debt and Infrastructure | 8,080 |
| 2,829 | Cash held with Fund managers | 991 |
| 1,434 | Investment income due | 129 |
| **661,386** | **Total Investment Assets** | **707,721** |
| | **Investment Liabilities** | |
| **(1,348)** | Derivative contracts – Futures | **0** |
| **150** | **LCIV Subscription** | **150** |
| **660,188** | **Net investment assets** | **707,871** |

## 4.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2018/2019. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown.

| | Market Value 1 April 2018 £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 2019 £000 |
|---|---:|---:|---:|---:|---:|
| **Bonds** | **152,315** | 1,658 | (68,960) | 2,438 | **87,451** |
| **Equities** | **244,427** | 0 | (244,427) | 0 | **0** |
| **Pooled Investments** | **236,156** | 552,275 | (238,696) | 37,587 | **587,322** |
| **Private Debt** | **0** | 8,847 | 0 | (767) | **8,080** |
| **Pooled Property** | **22,896** | 218 | 0 | 635 | **23,749** |
| | **655,794** | **562,997** | (552,083) | **39,893** | **706,602** |
| **Derivatives (Futures)** | | | | | |
| Future Asset | **1,329** | 0 | (1,329) | 0 | **0** |
| **Future Liability** | **(1,348)** | 0 | 1,348 | 0 | **0** |
| | **655,775** | **562,997** | **(552,064)** | **39,893** | **706,602** |
| **Other Investment Balances** | | | | | |
| Cash with Fund Managers | **2,829** | 0 | 0 | 0 | **991** |
| Investment Income Due | **1,434** | 0 | 0 | 0 | **129** |
| **External Investments at Market Value** | **660,038** | | | | **707,722** |
| **LCIV Subscription** | **150** | | | | **150** |
| **Investment Assets** | **660,188** | | | **39,893** | **707,872** |

## Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2017/2018.

| | Market Value 1 April 2017 £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 2018 £000 |
|---|---|---|---|---|---|
| **Bonds** | **153,178** | 4,870 | (2,974) | (2,759) | **152,315** |
| **Equities** | **236,697** | 64,820 | (50,592) | (6,498) | **244,427** |
| **Pooled Investments** | **232,468** | 14,510 | (18,655) | 7,833 | **236,156** |
| **Pooled Property** | **21,321** | 444 | (262) | 1,393 | **22,896** |
| | **643,664** | **84,644** | (72,483) | **(31)** | **655,794** |
| **Derivatives (Futures)** | | | | | |
| Future Asset | **2,328** | 8,170 | (9,193) | 24 | **1,329** |
| Future Liability | **(2,330)** | **0** | **0** | **0** | **(1,348)** |
| | **643,662** | **92,814** | **(81,676)** | **(7)** | **655,775** |
| **Other Investment Balances** | | | | | |
| Cash with Fund Managers | **3,638** | 0 | 0 | 0 | **2,829** |
| Investment Income Due | **1,310** | 0 | 0 | 0 | **1,434** |
| Realised Loss on FX | **0** | 0 | 0 | 3 | **0** |
| **External Investments at Market Value** | **648,610** | | | | **660,038** |
| **LCIV Subscription** | **150** | | | | **150** |
| **Investment Assets** | **648,760** | | | **(4)** | **660,188** |

## 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 2018 £000 | | Market Value 31 March 2019 £000 |
|---|---|---|
| | **Bonds** | |
| 114,952 | Public Sector : UK quoted | 65,843 |
| 37,363 | : Overseas quoted | 21,608 |
| **152,315** | | **87,451** |
| | **Equities (Direct)** | |
| 226,155 | UK quoted | 0 |
| 18,272 | Other European quoted | 0 |
| 0 | Global Equities quoted | 0 |
| **244,427** | | **0** |
| | **Pooled Investments** | |
| 54,917 | UK (Equities) | 0 |
| 35,927 | Other European (Equities) | 0 |
| 69,087 | American (Equities) | 0 |
| 27,858 | Japanese (Equities) | 0 |
| 26,083 | Other Overseas (Equities) | 0 |
| 22,283 | Developing Markets (Equities) | 0 |
| | Global Equities quoted | 451,367 |
| 0 | Diversified Growth | 66,595 |
| 0 | Multi Asset Credit | 69,360 |
| **236,155** | | **587,322** |
| | **Pooled Property Investments** | |
| 7,561 | Property Managed Fund/Units quoted | 7,918 |
| 15,336 | Property Managed Fund/Units unquoted | 15,831 |
| **22,896** | | **23,749** |
| | **Private Debt and Infrastructure** | |
| 0 | Macquarie | 1,157 |
| 0 | Churchill | 2,534 |
| 0 | Quinbrook | 4,389 |
| 0 | | **8,080** |
| 1,434 | Other Investment Balances | 129 |
| 2,829 | Cash with Fund Managers | 991 |
| 1,329 | Derivatives (Futures) | 0 |
| **661,386** | **Total Investment Assets** | **707,722** |
| **(1,348)** | Derivatives (Futures) | **0** |
| **150** | **LCIV Subscription** | **150** |
| **660,187** | **Total** | **707,872** |

### 14.5 Analysis of derivatives

As at 31 March 2019, the Fund had no exposure to future contracts. The below table shows last year's position for information only.

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

| Type | Expires | Economic exposure £000 | Market value 31 March 2018 £000 | Economic exposure £000 | Market value 31 March 2019 £000 |
|---|---|---|---|---|---|
| UK Equities | Three – Six months | 1,348 | 1,329 | 0 | 0 |

### 14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2019.

### 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 2017/18 | Security | % Market Value 2018/19 |
|---|---|---|
| 11.65 | Aberdeen Global II Index Linked | 7.2 |
| 9.38 | UBS Life North America Equity Tracker | 0 |
| 7.35 | UBS Life UK Equity Tracker | 12.7 |
| 5.69 | Aberdeen Global II Global Aggregate | 0 |
| 5.34 | UBS Life Europe Ex UK Equity Tracker | 0 |

## 15. Fair Value – Basis of Valuation

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

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Market value based on current yields | Not required | Not required |
| Pooled investments - Property Funds | Level 2 | Closing bid price where bid and offer prices are published Closing single price where single price published | NAV-based pricing set on a forward pricing basis | Not required |
| Unquoted equities | Level 3 | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012 | Not required | Not required |

## 15a Fair Value Hierarchy

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

Level 1 – Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trust.

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

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

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

| 31 March 2018 | | | | 31 March 2019 | | |
|---|---|---|---|---|---|---|
| Quoted market price Level 1 £000 | Quoted market price Level 2 £000 | Quoted market price Level 3 £000 | | Quoted market price Level 1 £000 | Quoted market price Level 2 £000 | Quoted market price Level 3 £000 |
| 635,660 | 22,896 | 0 | Financial assets at fair value through profit and loss | 674,922 | 23,749 | 8,080 |
| 2,979 | 0 | 0 | Loans and Receivables | 1,120 | 0 | 0 |
| (1,348) | 0 | 0 | Financial liabilities at fair value through profit and loss | 0 | 0 | 0 |
| **637,291** | **22,896** | **0** | **Total** | **676,042** | **23,749** | **8,080** |

## 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 2018 | | | | 31 March 2019 | | |
|---|---|---|---|---|---|---|
| Designated at fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised costs | | Designated at fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised costs |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | **Financial Assets** | | | |
| 152,315 | 0 | 0 | Bonds | 87,451 | 0 | 0 |
| 244,427 | 0 | 0 | Equities | 0 | 0 | 0 |
| 236,156 | 0 | 0 | Pooled Investments | 587,321 | 0 | 0 |
| 22,896 | 0 | 0 | Pooled Property Investments | 23,749 | 0 | 0 |
| 0 | 0 | 0 | Private Debt & Infrastructure | 8,080 | 0 | 0 |
| 0 | 150 | 0 | LCIV Subscription | 0 | 150 | 0 |
| 1,329 | 0 | 0 | Derivative Contracts | 0 | 0 | 0 |
| 0 | 2,829 | 0 | Cash With Fund Managers | 0 | 991 | 0 |
| 1,434 | 0 | 0 | Other Investment Balances | 129 | 0 | 0 |
| 0 | 641 | 0 | Debtors | 0 | 467 | 0 |
| 0 | 3,698 | 0 | Cash | 0 | 12,607 | 0 |
| **658,557** | **7,318** | **0** | | **706,730** | **14,215** | **0** |
| | | | **Financial Liabilities** | | | |
| (1,348) | 0 | 0 | Derivative Contracts | 0 | 0 | 0 |
| 0 | 0 | (1,344) | Creditors | 0 | 0 | (1,297) |
| **(1,348)** | **0** | **(1,344)** | | **0** | **0** | **(1,297)** |
| | | | | | | |
| **657,209** | **7,318** | **(1,344)** | | **706,730** | **14,215** | **(1,297)** |

### 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 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| | **Financial Assets** | |
| (4) | Fair Value through profit and loss | 39,893 |
| **(4)** | **Total** | **39,893** |

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

### 17.1 Risk and risk management

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

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

### 17.2 Market risk

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

### 17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. Riskier assets in the Fund such as equities display greater potential price volatility than bonds and other asset classes. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

| Asset Type | Value at 31 March 2019 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Bonds | 87,451 | 9.6 | 95,862 | 79,040 |
| Equities | 451,367 | 8.7 | 490,463 | 412,271 |
| Diversified Growth | 66,595 | 3.5 | 68,902 | 64,288 |
| Multi Asset Credit | 69,360 | 9.6 | 76,019 | 62,701 |
| Pooled Property | 23,749 | 3.4 | 24,556 | 22,942 |
| Private Debt and Infrastructure | 8,080 | 5.5 | 8,522 | 7,638 |
| Cash | 991 | 0.6 | 997 | 985 |
| Income Due | 129 | 0.0 | 129 | 129 |
| LCIV Subscription | 150 | 0.0 | 150 | 150 |
| **Total Assets** | **707,872** | | **765,599** | **650,144** |

| Asset Type | Value at 31 March 2018 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| UK Equities | 281,073 | 9.4 | 307,494 | 254,652 |
| Overseas Equities | 199,510 | 9.4 | 218,264 | 180,756 |
| Bonds and Index Linked | 152,315 | 10.3 | 168,003 | 136,626 |
| Property | 22,896 | 3.5 | 23,698 | 22,095 |
| Cash | 2,829 | 0.7 | 2,849 | 2,809 |
| Income Due | 1,434 | 0.0 | 1,434 | 1,434 |
| LCIV Subscription | 150 | 0.0 | 150 | 150 |
| **Total Assets** | **660,207** | | **721,892** | **598,522** |

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

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2019 asset mix as shown in the following table (Note 17.4):

### 17.4 Other price risk

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

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

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

| Asset Type | Potential market movements (+/-) % |
|---|---|
| Bonds and Index Linked | 9.6 |
| Equities | 8.7 |
| Diversified Growth | 3.5 |
| Multi Asset Credit | 9.6 |
| Property | 3.4 |
| Private Debt and Infrastructure | 5.5 |
| Cash | 0.6 |

### 17.5 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The Fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

### 17.6 Currency risk

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

The table below shows the currency exposure by asset type as at 31 March 2019.

| Asset Type | Value at 31 March 2019 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Bonds | 21,608 | 9.3 | 23,626 | 19,590 |
| Private Debt & Infrastructure | 8,080 | 9.3 | 8,835 | 7,325 |
| **Total Overseas Assets** | **29,688** | | **32,461** | **26,915** |

The table below shows the currency exposure by asset type as at 31 March 2018.

| Asset Type | Value at 31 March 2018 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Equities | 199,510 | 8.8 | 217,067 | 181,953 |
| Overseas Bonds | 37,363 | 8.8 | 40,651 | 34,075 |
| **Total Overseas Assets** | **236,873** | | **257,718** | **216,028** |

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2019. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

| Assets exposed to currency risk | Value at 31 March 2019 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Bonds (US Dollar) | 21,608 | 9.30 | 23,626 | 19,590 |
| Private Debt & Infrastructure (US Dollar) | 8,080 | 9.30 | 8,835 | 7,325 |
| **Total** | **29,688** | | **32,461** | **26,915** |

| Assets exposed to currency risk | Value at 31 March 2018 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Equities (Danish Krone) | 1,287 | 9.00 | 1,403 | 1,171 |
| Overseas Equities (EURO) | 13,977 | 9.00 | 15,235 | 12,719 |
| Overseas Equities (Swedish Krona) | 1,618 | 9.70 | 1,775 | 1,461 |
| Overseas Equities (Swiss Franc) | 4,805 | 10.30 | 5,300 | 4,310 |
| Overseas Bonds (US Dollar) | 37,508 | 9.70 | 41,146 | 33,869 |
| **Total** | **59,195** | | **64,859** | **53,530** |

## 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 2019. 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.

| Value at 31 March 2018 £000 | | Value at 31 March 2019 £000 |
|---|---|---|
| 7,768 | AAA | 4,466 |
| 111,342 | AA | 64,005 |
| 14,470 | A | 8,318 |
| 15,536 | BBB | 8,931 |
| 1,219 | BB or below | 700 |
| 1,980 | Cash | 1,138 |
| 38 | Settled Cash | 8 |
| **152,353** | **Total** | **87,566** |

## 17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash holding as at 31 March 2019 was £12.6m (31 March 2018: £3.7m).

### 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 taxpayer from an employer defaulting on its pension obligations.

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

As at the 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<br>Pay increase | <br>Long Term<br>Short Term | 5.5%<br>3.9%<br>Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020 | 5.9%<br>4.5%<br>CPI for period 31 March 2013 to 31 March 2015 |
| Consumer price inflation (CPI) | | 2.4% | 2.7% |
| Pension increases | | 2.4%<br>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. | 2.7% |
| 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 2019, 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 31/03/19<br>% |
|---|---|
| Inflation/Pension Increase Rate | 2.40 |
| Salary Rate Increase | 3.90 |
| Discount Rate | 2.40 |

The value of the Fund's promised retirement benefits as at 31 March 2019 was:

| 31/03/18 £m | | 31/03/19 £m |
|---|---|---|
| 1,002.5 | Present value of promised retirement benefits | 1,052.8 |

Based on the calculation carried out by the Fund actuary the estimated increase in promised retirement benefits because of the McCloud case judgment is £7.1m (0.98% of the Net asset value) as at 31 March 2019. This makes the total present value of total promised retirement benefit £1,059.9m.

## 20. Current Assets

| 31/03/18 £000 | Current Assets | 31/03/19 £000 |
|---|---|---|
| 242 | Contributions Due | 1,605 |
| 641 | Sundry Debtors | 467 |
| 3,698 | Cash | 12,607 |
| **4,581** | **Total** | **14,679** |

## Analysis of Debtors

| 31/03/18 £000 | Current Debtors | 31/03/19 £000 |
|---|---|---|
| 168 | Administering Body | 1,442 |
| 74 | Admitted and Scheduled Bodies | 163 |
| 641 | Sundry Debtors | 467 |
| **883** | **Total** | **2,072** |

## 21. Current Liabilities

| 31/03/18 £000 | Creditors | 31/03/19 £000 |
|---|---|---|
| (755) | Fund Managers Fees | (184) |
| (589) | Sundry | (793) |
| (273) | Payroll | (320) |
| **(1,617)** | **Total** | **(1,297)** |

## 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 2018/19 to AVC schemes outside the Authority's responsibility was £0.415m (£0.442m at 31 March

2018). The external providers have reported that at 31 March 2019 the total value of accumulated AVCs is £2.47m (£2.36m at 31 March 2018).

## 23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.39m (2017/18: £0.41m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

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

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

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

**Key Management Personnel**

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

| | 31/03/18 £ | 31/03/19 £ |
|---|---|---|
| Short-term benefits | 103,114 | 84,068 |
| **Total remuneration** | **103,114** | **84,068** |

## 24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2019 were £41.2m (31 March 2018 £0m).

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

# 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 2019.

Signed

*C Holland*
*Director of Corporate Services*
*25th July 2019*

## 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*
*25th July 2019*

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 Auditors report will be received from Ernst and Young shortly after the Standards and General Purposes Committee on 25th July 2019.

# Glossary

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

### ACCOUNTING CODE OF PRACTICE
The Code of Practice on Local Authority Accounting supports consistent financial reporting at the level of the formal statements of accounts.

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

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

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.

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

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

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

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

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

### APPROPRIATIONS
The assignment of revenue balances for specified purposes.

### ASSET HELD FOR SALE
An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The asset

must be available for immediate sale in its present condition and its sale must be highly probable.

## ASSETS

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

## BALANCES

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

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

## BUDGET

Statement of the spending plans for the year.

## BUSINESS MODEL

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

## CAPITAL ADJUSTMENT ACCOUNT (CAA)

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

## CAPITAL CHARGES

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

## CAPITAL EXPENDITURE

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

## CAPITAL RECEIPTS DEFERRED

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

## CAPITAL RECEIPTS

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

## CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

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

## COLLECTION FUND

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

## CONTRACT ASSET

An asset arising from a contract for the purchase of goods and/or services from the Council, where the Council has met some of its performance obligations but is not yet entitled unconditionally to receive payment

## CONTRACT LIABILITY

A liability arising from a contract for the purchase of goods and/or services from the Council, where the Council has received payment but has yet to meet the performance obligations relating to that payment.

## CORPORATE GOVERNANCE

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

## COUNCIL TAX

This is the main source of local taxation to local authorities. It is levied on households within the 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-ADJUSTED EFFECTIVE INTEREST RATE
The effective interest rate calculated for purchased or originated credit-impaired financial assets that takes into account expected credit losses.

### CREDIT-IMPAIRED FINANCIAL ASSET
A financial asset for which events have occurred that have a detrimental impact on the estimated future cash flows due to the Council (e.g, financial difficulties of the borrower, a breach of contract).

### CREDIT LOSSES
A measure of how much the Council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are due contractually to the Council under a financial asset and those that it actually expects to receive (discounted using the investment's effective interest rate).

### CREDITORS
Money owed by the 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.

### DEFICIT FUNDING (Employers Additional Funding)
An agreed additional payment made annually by the employer to the Pension Fund to cover a past service deficiency over a fixed recovery period.

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

**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.

**EFFECTIVE INTEREST METHOD**
The method that uses effective interest rates to calculate the amortised cost of a financial instrument and allocates interest revenue or expense to the particular financial years over which the instrument is held.

**EFFECTIVE INTEREST RATE**
The interest rate that exactly discounts future cash payments and receipts over the life of a financial instrument to the carrying amount (gross of any loss allowance) (asset) or to the amortised cost (liability). This might be different from the actual interest rate where (e.g.) transaction costs have been accrued or because of interest at less than market rates being spread over the term of the instrument.

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

**EXCEPTIONAL ITEMS**
Material items, which derive from events or transactions that fall within the ordinary activities of the 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.

**EXPECTED CREDIT LOSSES (ECLs)**
The credit losses that the Council estimates will arise from the amounts that it is currently owed. ECLs are calculated by measuring the losses that would arise from different default scenarios and calculates a weighted average loss based on the probability of each scenario taking place.

**12 MONTH EXPECTED CREDIT LOSSES**
The expected credit losses for a financial asset that are projected for the possible default events that might happen only in the next financial year.

## FAIR VALUE

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

Level One – fair value has been obtained using quoted prices in active markets for identical items.
Level Two - fair value has been obtained using other inputs observable for the item.
Level Three – unobservable inputs have been used to reach fair value.

## FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS

Investments for which gains and losses in fair value are recognised on the Balance Sheet but do not impact on the Council's income as they arise but only when the investment matures or is sold. Defined as financial assets:

- held within a business model whose objective is achieved by both collecting contractual cash flows and selling investments; and
- which have the form of a basic lending arrangement (i.e., contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

## FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS

Defined as financial assets that do not qualify for measurement at amortised cost or fair value through other comprehensive income.

## 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.

## LCIV (LONDON COLLECTIVE INVESTMENT VEHICLE)
LCIV is a Collective Investment Vehicle for London Local Authorities (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk adjusted performance.

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

## LEVY
An amount levied by a local 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.

## LIFETIME EXPECTED CREDIT LOSSES
The expected credit losses that are projected to arise from all possible default events that might happen in the lifetime of a financial asset.

## LOSS ALLOWANCE
An allowance made by setting funds aside to cover the expected credit losses calculated for a financial asset.

## MATERIALITY
Materiality sets the threshold for determining whether an item is relevant. This is defined as: 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.

## MHCLG
This is the Government department for Housing, Communities and Local Government.

## NAV (NET ASSET VALUE)
Net Asset Value is the value of an entity's assets minus the value of its liabilities.

## NET ASSETS
The Net Assets of the 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-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 DUE (FINANCIAL ASSETS)

A financial asset for which a payment that was due contractually to the Council has not yet been paid.

## PAST SERVICE COST

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

## PAYMENTS OF PRINCIPAL AND INTEREST

The amounts that would be paid under a basic lending arrangement. For accounting purposes, they comprise:

- the repayment of the fair value of a financial asset when it was brought onto the Council's Balance Sheet (principal); and
- consideration for the time value of money, compensation for credit risk, recovery of basic lending costs and a profit margin (interest).

## PENSION STRAIN (Employers Additional Funding)

Payments made to the Pension Fund to cover additional costs to the Pension Fund where a member draws their pension benefits a lot earlier than expected.

## PERFORMANCE OBLIGATION

A promise in a contract with a service recipient for the Council to deliver goods and/or services.

## POOLED VEHICLES

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

## POST BALANCE SHEET 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.

### PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSET
A financial asset that was credit-impaired when it was first brought onto a Council's Balance Sheet.

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

### 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 New Schools under the PFI contract.

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

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

## REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE

This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements. This expenditure was called deferred charges under the 2007 SORP.

## SCHEME LIABILITIES

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

## SERVICE RECIPIENT

A person or an organisation that has contracted with the Council (as part of the Council's normal business) to obtain goods and/or services in return for payment (or in exchange of goods/services to the Council).

## SETTLEMENT COSTS

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

- 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.

## STOCKS

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

## SUBSIDIARY

An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

## SUPPORT SERVICES

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

## TRANSACTION PRICE

The amount the Council expects to be entitled to under contract in exchange for transferring promised goods and/or services to a service recipient.\

## USEFUL LIFE

This is the period over which the local 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.