



**FINAL for
SGPC
Statement
of Accounts**
For the year ending
31 March 2021

Statement of Accounts

For the year ending 31st March 2021

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Narrative Statement

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

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

Introduction

Welcome to the London Borough of Merton's 2020/21 Statement of Accounts, which reports the Authority's financial performance during the year and its financial position at 31st March 2021. 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 2020/21 and the Service Reporting Code of Practice 2020/21.

Organisational overview

Before the outbreak of the COVID-19 pandemic Merton Council already faced a significant financial challenge and was completing a number of transformation projects to maximise the use of information technology and streamline processes and service provision. Providing value for money services to residents was at the heart of Merton's business and the priority was to continue to find innovative solutions to maximise future efficiency.

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

- To continue to provide a realistic level of essential services for residents. The priorities of essential services are to:
 - 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.
 - Support local business and make Merton a better place to work and live.

Key Challenges

COVID-19

The COVID-19 pandemic continues to have a significant impact on the Council and its services. Although the above work will continue, the challenge is heightened due to the financial impact of COVID-19. The pandemic is impacting our residents, service users, public institutions, businesses, voluntary and community organisations. The Council has had to put considerable additional resources into services to support our residents, communities and local businesses.

It is important to highlight how the Council has responded to the challenge imposed by the pandemic in 2020/21. The Council's immediate response in March 2020 was to implement enhanced management arrangements with a structure based on Gold (strategic), Silver (tactical) and Bronze (operational) groups including key partners, to facilitate rapid responses to the evolving position, facilitate appropriate decision-making powers as allowed for in the Council's constitution and clear communication. This helped to address the different challenges posed by the pandemic by balancing our work force and the way we deliver services.

The impact of COVID-19 has had a widespread impact on the workforce of the Council and the way in which the Council delivers services. The Council has utilised technology to allow staff to work from home to minimise disruption to services. However, facilities such as libraries and leisure centres have had to close and, where appropriate, staff have been redeployed to services such as the community hubs, shielding and food distribution. We are particularly proud of the way our staff have adapted to the pandemic by working flexibly and assisting the Council in delivering critical services to those most in need.

During 2020/21 the Council was excellent in distributing the Covid relief grants to the businesses in the Borough. Merton was one of the Councils who assessed the applications and paid out the grant payments in a very short time. This helped businesses survive during the pandemic.

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

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

The Government published its roadmap in May 2021 for moving to the next stage in the COVID-19 response and phasing the lifting of lockdown and reopening of the economy.

A key part of the Council's recovery plan is the consideration of the future shape of the Council together with a clear financial plan covering both the revenue budget and capital programme. The plan will set out how the Council can respond to higher demand for

services together with budget reduction requirements for future years. The work is ongoing and will be the focus for 2021/22.

Dedicated Schools Grant (DSG) deficit

The Education service continues to be challenging due to the inadequate funding for Education Health Care Plans (EHCP's) to support high needs pupils. The accumulated deficit on the DSG reserve increased by £12.23m during 2020/21, from £12.75m to £24.98m.

Given the size of the deficit on the DSG, during 2020/21 the Council was required to submit a Recovery Plan to the Department of Education (DfE) to outline how the DSG would be brought back to balance over a period of five years. The plan requested by and submitted to the DfE does not project recovery of this deficit but results in a growing deficit. The DfE have subsequently referred to this as a Deficit Management Plan. The actions required to mitigate the growing deficit were agreed with the Schools Forum and a programme of works developed with changes to operational practice. This will be taken forward during 2021/22 in the context of the restrictions on schools resulting from the impact of COVID-19.

The increase in the schools' balances of £3.3m reflects the impact of COVID-19. However, given the ongoing pressures on the high needs block which continues beyond 2021/22, without additional Government funding, a deficit position on the DSG is likely to continue for a number of years.

Operational Model

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

The Council is organised into four directorates:

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

Financial performance

Revenue Summary

Outturn

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

| | 2020/21 Current Budget exc. Overheads £000 | 2020/21 Outturn (exc Oheads) £000 | 2020/21 Variance £000 | 2020/21 COVID £000 | 2020/21 Outturn net of COVID £000 | 2020/21 Variance exc. COVID £000 |
|--------------------------------|---|---|-----------------------------|--------------------------|---|--|
| Department | | | | | | |
| Corporate Services | 25,500 | 29,246 | 3,746 | 3,026 | 26,220 | 720 |
| Children, Schools & Families | 57,052 | 54,081 | (2,971) | 906 | 53,175 | (3,877) |
| Community & Housing | 58,020 | 55,739 | (2,281) | 457 | 55,282 | (2,738) |
| Environment & Regeneration | 9,995 | 20,684 | 10,689 | 12,167 | 8,517 | (1,478) |
| Net Service Expenditure | 150,566 | 159,749 | 9,183 | 16,556 | 143,193 | (7,373) |
| Corporate Provisions | 18,566 | 26,044 | 7,478 | 6,882 | 19,162 | 595 |
| Total General Fund | 169,133 | 185,794 | 16,661 | 23,438 | 162,356 | (6,778) |

| | | | | | | |
|---------------------------------|------------------|------------------|-----------------|-----------------|------------------|----------------|
| Grants (exc. S.31 and COVID-19) | (20,314) | (20,314) | 0 | 0 | (20,314) | 0 |
| Business Rates(inc.S.31) | (55,896) | (57,761) | (1,866) | 0 | (57,761) | (1,866) |
| Council Tax and Collection Fund | (97,713) | (97,709) | 4 | 0 | (97,709) | 4 |
| COVID-19 Grant Funding | 4,789 | (18,649) | (23,438) | (23,438) | 4,789 | 0 |
| Funding | (169,133) | (194,433) | (25,300) | (23,438) | (170,995) | (1,862) |

| | | | | | | |
|--|--|--|--|--|--|----------------|
| Net balance transferred to Earmarked Reserves | | | | | | (8,640) |
| <u>Reserves:</u> | | | | | | |
| GF balance to £14m | | | | | | 222 |
| Local Welfare Support Reserve | | | | | | 500 |
| Voluntary Sector Support/Merton Giving | | | | | | 500 |
| Revenue Reserve for Capital/Revenuisation | | | | | | 1,000 |
| Apprenticeship Reserve | | | | | | 1,000 |
| Your Merton Fund | | | | | | 1,000 |
| Climate Change Reserve | | | | | | 2,000 |
| Outstanding Council Programme Board | | | | | | 1,209 |
| Balancing the Budget reserve | | | | | | 1,209 |
| Net balance transferred to Earmarked Reserves | | | | | | 8,640 |

The net service expenditure has a favourable variance of £7.373m excluding the effect of COVID-19 but including COVID-19 this changes to an adverse variance of £9.183m. COVID-19 had a major impact on the Council's ability to deliver savings and generate income.

The Government have implemented a scheme to reimburse Councils for lost income from sales, fees and charges, but not commercial income, whereby the Council absorb the first 5% of losses and thereafter are compensated 75p for every £1 lost. The Council have received £8.97m under this scheme in 2020/21 which is reflected within the Covid-19 grant funding line within the above table.

A summary of the various Covid grants relating to 2020/21 is shown below. For accounting purposes some of these grants are treated as agency arrangements, whereby the Council is passporting grants received from government through to recipients. They are therefore not reflected in the gross income or expenditure in the statement of accounts and do not appear within the grant income note to the accounts (note 6). However, they are included in the summary below for completeness and transparency.

| COVID-19 Grants Summary | Grant received 2020/21 £000 | Spend 2020/21 £000 | Balance £000 | Comment |
|--|-----------------------------------|--------------------------|-----------------|--|
| Emergency Active Travel Fund | 10 | 10 | 0 | |
| Covid Winter Grant | 476 | 476 | 0 | |
| Businesses Discretionary Grant Fund Allocation | 1,324 | 1,324 | 0 | |
| SME,Retail,Hospitality & Leisure -Admin grant | 130 | 130 | 0 | |
| Local Restriction Support Grants new burdens admin grant | 59 | 59 | 0 | |
| Defra - Covid19 Emergency Food & Support | 176 | 176 | 0 | |
| Covid-19 Rough Sleepers | 11 | 11 | 0 | |
| Next Step Accommodation | 174 | 174 | 0 | |
| Fully Applied in-year | 2,360 | 2,360 | 0 | |
| Reopening High Streets Safely Fund | 0 | 33 | (33) | Claimed in arrears |
| Variant of Concern (VOC) SW19 Surge | 0 | 58 | (58) | Recvd in May 2021 |
| Operation Eagles Surge | 0 | 138 | (138) | Recvd April 2021 |
| LFT Testing | 0 | 599 | (599) | Recvd June 2021 |
| Cold Weather Rough Sleepers | 0 | 10 | (10) | Received May 2021 |
| Project Plus Fund | 0 | 20 | (20) | Received May 2021 |
| Debtors raised at year end | 0 | 857 | (857) | |
| Self-isolation payments funding (test and trace) | 498 | 253 | 246 | |
| Self-isolation payments funding (test and trace) - Admin Grant | 70 | 65 | 5 | |
| Local Restriction Support Grants | 30,550 | 11,456 | 19,094 | Amounts received to be paid out to businesses as grants in 2021/22 |
| Community Testing | 84 | 80 | 4 | |

| COVID-19 Grants Summary | Grant received 2020/21 £000 | Spend 2020/21 £000 | Balance £000 | Comment |
|--|--|-----------------------------------|-------------------------|--|
| Clinically Extremely Vulnerable (CEV) Support (Covid Support) | 238 | 50 | 187 | |
| Receipts in Advance | 31,440 | 11,904 | 19,536 | |
| Local Authority Compliance and Enforcement Grant | 93 | 79 | 14 | Requested carry forward to '21/22. |
| National Leisure Recovery fund | 381 | 2 | 379 | LBM agent, £379k to be given to GLL. |
| SME,Retail,Hospitality & Leisure - Bus.Support grant | 28,270 | 28,160 | 110 | Returned grants to be repaid to govt. |
| Workforce Capacity Social Care | 374 | 270 | 104 | Repayable |
| ASC - Rapid Testing Fund | 331 | 284 | 47 | Repayable |
| Infection Control Fund | 2,835 | 2,781 | 53 | Repayable |
| Creditors - amount to be returned | 32,284 | 31,576 | 708 | |
| Outbreak Control (Test & Trace) | 1,585 | 244 | 1,341 | LOMP funding |
| Outbreak Contains Management (COMF) | 4,367 | 728 | 3,638 | LOMP funding |
| Reserves = Balance on COVID - 19: Year End balances | 5,952 | 972 | 4,979 | |
| Non ring-fenced grants held corporately: | | | | |
| Sales, Fees and Charges compensation | 8,971 | 8,971 | 0 | Income losses in services |
| Local Authority Support Grant - Tranches 1-4 | 14,467* | 14,467 | 0 | * £4.789m received in 19/20 in reserve |
| Council Tax Hardship Fund | 1,484 | 1,484 | 0 | Cipfa bulletin 09 (para.16-20) |
| Non ring-fenced grants held corporately | 24,922 | 24,922 | 0 | |
| *Total COVID-19 Government Grant | 96,958 | 72,591 | 24,367 | |

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

Reserves

During 2020/21 there were some major issues that have had a significant impact on reserves. Usable reserves increased by £56.930m and this was mostly due to revenue reserves (£54.996m) with capital reserves increasing by £0.362m.

The increase in revenue reserves was largely due to treatment of the DSG deficit and also issues arising from COVID-19. The Council had a planned increase in 2020/21 of £16.009m in the Spending Review Reserve to provide cover for the rising DSG deficit . The cumulative DSG deficit of £24.98m as at 31/03/21 was removed from usable reserves and moved to an unusable reserve (DSG Adjustment Account) in line with accounting regulations for three years only. In relation to COVID-19, balances of unspent grant of £4.979m were put in an earmarked reserve for use in 2021/22, whilst balances of Section 31 for Business Rates and the Taxation Income Guarantee (TIG) Scheme arising from COVID-19 were transferred into an earmarked reserve for application against the substantial deficit on the Collection fund as required by accounting guidance.

| Narrative Statement | Balance at | Movement | Balance at |
|---------------------------------|-----------------|-----------------|------------------|
| Usable Reserves | 31st Mar | | 31st Mar |
| | 2020 | 2020-21 | 2021 |
| | £000 | £000 | £000 |
| General Fund: | | | |
| Balances held by schools | 4,295 | (16,023) | (11,728) |
| General Fund Balances | (13,778) | (222) | (14,000) |
| Earmarked reserves | (59,607) | (24,332) | (83,939) |
| Business Rates & TIG | 0 | (14,418) | (14,418) |
| Total General Fund | (69,090) | (54,995) | (124,085) |
| Capital: | | | |
| Capital Receipts Reserves (CRR) | (2,059) | 1,608 | (451) |
| Capital Grants Unapplied (CGU) | (21,900) | (3,543) | (25,443) |
| Total Capital | (23,959) | (1,935) | (25,894) |
| | | | |
| Total Usable Reserves | (93,049) | (56,930) | (149,979) |

| Analysis of main changes in Revenue Reserves | |
|---|---------------|
| <u>Schools</u> | £000 |
| School balances | 3,223 |
| DSG Deficit | 12,750 |
| <u>Earmarked Reserves</u> | |
| Spending Review Reserve (Cover for DSG deficit) | 16,009 |
| COVID-19 Year End balances | 4,979 |
| Business Rates & Taxation Income Guarantee scheme (TIG) | 14,414 |
| Net underspend transferred to earmarked reserves | 8,640 |
| Balancing the Budget Reserve | (3,278) |
| Other movement in revenue reserves | (1,741) |
| Net Movement in Revenue Reserves 2020/21 | 54,995 |

Financial resilience

The Council has built up General Fund reserves over a period of time to provide financial resilience against increased expenditure from demand led services and the impact of a recession. Over the past two years there have been two major issues that have had a significant potential impact on the Council's financial outlook; the scale of the financial implications of COVID-19; and the growing DSG deficit.

The Council's robust monitoring and financial planning has ensured that financial resilience has been maintained throughout this difficult period.

The Council will continue to update the Medium Term Financial Strategy (MTFS) during the business planning process for future years with an analysis of the impact of COVID-

19 during the year and as the Council and the Department for Education agree a strategy to address the DSG deficit going forward. The changing environment is likely to result in the Council reviewing the services it provides, its delivery models and outcomes that are the highest priority when addressing these budget issues.

Risks

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

1. COVID-19 - The economic impact of the Coronavirus Pandemic (COVID-19) is continuing to affect most of the world, but the vaccination program provides optimism that we are on the recovery path, although there is continuing uncertainty about the possibility of variants and therefore potential risk. The United Kingdom is performing well in the race to vaccinate its population but until the whole nation and then the world is vaccinated, there will be continuing risk and therefore recovery will be constrained.

COVID-19 has impacted on the Council services and the local economy from the first wave in March 2020, throughout 2020/21 and continues in 2021/2. The Council's services came under particular pressure due to the need to support businesses and residents, particularly vulnerable groups in need of social care and there has been a major reduction in the Council's income from sales, fees and charges which will not be replaced in the short term. The pandemic has also placed some of the Council's programmed savings at risk. The government has provided significant financial support for the detrimental impact of COVID-19 since it took hold but there has also been a cost to the Council which continues to divert resources from core council services.

2. DSG Deficit – the Council has previously identified the significant and growing deficit on DSG services and currently this is responsible for a deficit on the Unusable DSG reserve of £24.981m as at 31 March 2021. Prior to COVID-19 this was the Council's most significant financial risk and uncertainty on this issue continues to cause concern as it is forecast to continue to increase significantly over the next few years. It should be noted that Merton is one of many local authorities affected by this funding deficit albeit that some local authorities have agreed management plans with the Department of Education to address this issue and Merton is awaiting similar discussions with this government department to reach a satisfactory conclusion.
3. Social Care –the Council has provided for significant additional financial support to be allocated to social care in recent years. The impact of COVID-19 has shined a spotlight on social care and the government has been forced to acknowledge the growing impact that changing demographic circumstances are having on social care responsibilities and therefore costs in both the NHS and local government. Nevertheless, a high level of uncertainty remains about future funding, particularly in the light of COVID-19 and the Government has yet to produce the green paper for reform which was initially promised for 2017 and has now been delayed

multiple times. In the Queen's speech in May 2021 the government announced that "measures will be brought forward to support the health and wellbeing of the nation, including to tackle obesity and improve mental health. Proposals on social care reform will be brought forward."

4. Brexit – Whilst the financial year 2020/21 was expected to require some careful management of issues caused by Brexit and the UK leaving the EU, attention was largely diverted by the need to address COVID-19. However, the Council has set up a Brexit Task group and with some financial support from the government continues to provide advice and assistance to businesses and residents within the borough. Importantly, it is difficult to assess the impact of Brexit on financial issues such as interest rates, inflation, employment and the local economy.

It is possible that as a result of COVID-19, local government will continue to be affected over the medium to long term by reductions in the level of funding it receives from central government. Local government funding has in the past suffered from government austerity measures. There have been delays in the Fair Funding Review and the future of business rates as a key source of funding has been called into question as a result of the pandemic and pressures on businesses. Strong financial management is vital to ensure that the Council is financially resilient and prepared to meet any future challenges.

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

Economic Outlook

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

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

Since 2010 local government finance issues have been dominated by cuts in government funding and pressure to keep council tax increases down with a recent change in emphasis to allow council tax increases to help alleviate service pressures, particularly in adult social care. Indications, prior to COVID-19, were that the financial restrictions were beginning to relax but now the future financial uncertainty is more prevalent than ever before.

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 and future financial implications of COVID-19
- The significant and growing deficit in the DSG
- 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 delays to the Fair Funding Review
- Uncertainty over the future of Business Rates as a sustainable source of local government funding

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

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

COVID-19

The Council has played a major role in tackling the COVID-19 crisis and will continue to do so for the foreseeable future. This covers a wide range of different support, from vulnerable clients in social services to support for local business and council taxpayers. Whilst Government has currently provided significant financial support towards the extra costs incurred to date, the Council currently forecasts that this will be much less than needed to address the financial gap between spending, income loss and grant.

Spending Review 2021 and Local Government Finance Settlement 2022-23

It is key for effective medium term planning to have a clear idea of government funding over a period of at least three years so that the Council can forward plan in a strategic way. Last year only a one year indication was given due to Covid-19.

The impact of Brexit over the medium term

It is inevitable as ongoing negotiations are finalised and the resulting implications take effect that interest rates, inflation, the local economy will move with consequences for local authority finances

Fair Funding Review

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

Business Rates

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

the sustainability of business rates as a major source of local authority funding has been questioned and must be a source of major uncertainty.

Use of Reserves

Reserves have been used to protect services and although unsustainable in the medium term, it has helped in the management of the significant underlying financial pressure and its ultimate impact on service users and residents. The Council maintains a minimum level of general fund reserves to protect against uncertainty and fluctuations in demand led budgets. At the current time reserves have an increasingly important role in preserving the Council's financial resilience whilst under threat from the pressures of COVID-19 and uncertainty over future levels of government support given the need to return national finances to pre-pandemic levels.

Climate Change

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

Your Merton

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

The 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 £16.9m in 2020/21 (£23.2m in 2019/20). The programme was financed through the application of capital grants/contributions £10.9m (£13.0m in 2019/20), capital receipts £4.0m (£9.6m in 2019/20) and revenue contributions £1.5m (£0.6m in 2019/20). Capital receipts received in year totalled £2.4m (£2.4m in 2019/20).

Of the total £16.9m capital expenditure, £16.0 million (£19.5m in 2019/20) was spent on the purchase/enhancement of property and £0.9 million (£3.7m in 2019/20) was spent on revenue expenditure funded from capital under statute.

Capital Investment Plans

The Council's capital investment budget for the next four years (approved in March 2021) and before slippage after outturn, is shown in the following table, alongside 2020/21 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas

| Department | Outturn 2020/21 £000s | Capital Budget (£000's) | | | |
|------------------------------|-----------------------------|-------------------------|------------------|------------------|------------------|
| | | 2021/22 £000s | 2022/23 £000s | 2023/24 £000s | 2024/25 £000s |
| Corporate Services | 3,081 | 11,205 | 4,942 | 5,245 | 13,734 |
| Community and Housing | 764 | 1,132 | 2,450 | 752 | 280 |
| Children, Schools & Families | 2,312 | 9,050 | 1,900 | 1,900 | 1,900 |
| Environment & Regeneration | 10,774 | 19,408 | 8,427 | 7,516 | 5,324 |
| Total | 16,930 | 40,795 | 17,719 | 15,413 | 21,238 |

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) | | | |
|---|-------------------------|--------------|--------------|----------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| Supported Living | 75 | 1,483 | 145 | 0 |
| Special Educational Needs School Expansions | 4,113 | 0 | 0 | 0 |
| Morden Town Centre Regeneration | 2,190 | 1,608 | 2,152 | 0 |
| Total | 6,378 | 3,091 | 2,297 | 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 the Council's Treasury Management Strategy (approved by full Council in March 2021). The Authority manages its cash in-house, placing deposits for periods ranging from overnight to 12 months depending on anticipated cash flow requirements.

As at 31 March 2021 the Authority held all of its available cash in short-term deposits £55.1m (2019/20 - £80.4m) and Money Market Funds £60m (2019/20 - £0.5m) This is after taking into account the advice received from the Council's Treasury Management consultants and the Council's cash flow needs following the uncertainty posed by the Covid 19 Pandemic since March 2020.

In the year the Authority earned £840k of income from the deposits placed. (2019/20 - £1.37m). This represents a 38% drop from the 2019/20 interest income received. This is mainly due to two reasons;

- Two base rate cuts by the Bank of England in March 2020, base rate dropped to 0.10%

- The Authority's decision to hold most of its cash as liquid as possible and could not place them on deposit to earn interest.

The property investments delivered a satisfactory return even though the property sector was heavily impacted by Covid. The Authority still accrued £132k above the budgeted interest income in the year. As at 31 March 2021 the Authority completed another year without the need to make any new long term borrowing. Borrowing reduced to £111.0m with £2m matured in 2020/21. In the year the Authority paid £6.306m in interest (£6.316m in 2019/20) 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 2021 the Fund's net asset value was £900m and it had 14,395 members in total. Due to the impact of COVID-19 the fund saw a fall in the asset value as at 31 March 2020 but since then the investments started to return to normal and as at 31 March 2021 the asset values increased by £211m in the year.

The Council is the largest employer in the Merton Pension Fund (91%) and, as at 31 March 2021, there were 13,072 Council employees (Active) in the Fund. At the 2019 triennial valuation the Fund was 103% funded. As part of the annual fund level monitoring the actuary confirmed that the Fund is 104% as at 31 March 2021.

Financial Overview - Collection Fund

In order to provide some certainty for budgetary arrangements, the Council's share of council tax and non-domestic rates proceeds for any year is based on the amount that it is estimated will be collected before the start of that year. Where these estimates are different from the actual amounts collected, the Council makes good any deficit or benefits from any surplus in the following year.

In 20/21, these accounting arrangements had an exceptional outcome owing to the extraordinary circumstances relating to the pandemic. The General Fund Balance as at 31st March 2021 excludes losses that arose from:

shortfalls in collection resulting from the pandemic that were not predicted at the start of the year;

- rate reliefs that were introduced to support particular business sectors;
- cost of mandatory reliefs for businesses (£16.9m in 19/20) rose to £61.6m in 20/21 due to a more generous scheme being introduced.

These losses will be charged to the General Fund Balance in future financial years. However, the Government has paid grants in 2020/21 to compensate for these losses. The grant income remains in the General Fund Balance at 31st March 2021, such that the Balance overstates the resources to the Council to spend on service provision. This grant income of £14.418m is held as an earmarked reserve and will be required to offset the Collection Fund shortfall in 2021/22.

The financial downturn arising from the pandemic has also caused collection rates to be lower than those that were predicted at the start of the year. The Government has

agreed to provide a grant that will compensate for 75% of our 20/21 irrecoverable losses on council tax and business rates.

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.

Single Entity Core Financial Statements

1. Comprehensive Income and Expenditure Statement

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

| 2019/20 | | | Comprehensive Income and Expenditure Statement | Note | 2020/21 | | |
|---------------------------|----------------------|----------------|--|--------|---------------------------|----------------------|----------------|
| Gross Expenditure £000 | Gross Income £000 | Net £000 | | | Gross Expenditure £000 | Gross Income £000 | Net £000 |
| 241,005 | (178,019) | 62,986 | Continuing Operations | | | | |
| | | | Children, Schools and Families | 1 | 252,371 | (186,927) | 65,444 |
| 85,578 | (25,329) | 60,249 | Community and Housing | 1 | 85,575 | (30,201) | 55,374 |
| 113,624 | (83,117) | 30,507 | Corporate Services | 1 | 110,044 | (78,353) | 31,691 |
| 62,146 | (41,783) | 20,363 | Environment and Regeneration | 1 | 67,550 | (41,597) | 25,953 |
| 10,452 | (10,452) | 0 | Public Health | 1 | 12,154 | (17,627) | (5,473) |
| 512,805 | (338,700) | 174,105 | Cost of services | | 527,694 | (354,705) | 172,989 |
| | | (1,211) | Other operating income and expenditure | 3 | | | (1,040) |
| | | 14,972 | Financing and investment income and expenditure | 4 | | | 18,749 |
| | | (169,939) | Taxation and non-specific grant income | 5 | | | (185,515) |
| | | 17,927 | Deficit on Provision of Services | | | | 5,183 |
| | | (51,686) | (Surplus) on revaluation of non-current assets | 17 | | | (33,025) |
| | | 0 | Impairment losses on non-current assets | 17 | | | 0 |
| | | (82,198) | Re-measurement of the net defined benefit liability/ (asset) | 17, 32 | | | 44,687 |
| | | 0 | Surplus or Deficit on financial assets measured at fair value through other comprehensive income | | | | 0 |
| | | (133,884) | Other Comprehensive (Income) and Expenditure | | | | 11,662 |
| | | (115,957) | Total Comprehensive (Income) and Expenditure | | | | 16,845 |

2. Movement in Reserves Statement

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

| 2019/20 | | General Fund Balances | Capital Receipts Reserves | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|--|--|-----------------------|---------------------------|--------------------------|-----------------------|-------------------|--------------------------|
| Note | | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2019 | | (67,070) | (9,228) | (17,005) | (93,302) | (184,473) | (277,775) |
| <u>Movement in reserves during 2019/20</u> | | | | | | | |
| Total Comprehensive Income and Expenditure | | 17,927 | 0 | 0 | 17,927 | (133,884) | (115,957) |
| Adjustments between accounting basis & funding basis under regulations | | 18 (19,944) | 7,169 | (4,895) | (17,671) | 17,671 | 0 |
| (Increase)/Decrease in Year | | (2,017) | 7,169 | (4,895) | 256 | (116,213) | (115,957) |
| Balance at 31 March 2020 carried forward | | (69,087) | (2,059) | (21,900) | (93,046) | (300,686) | (393,732) |

| Movement in Reserves '2020/21 | | General Fund Balances | Capital Receipts Reserves | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|--|--|-----------------------|---------------------------|--------------------------|-----------------------|-------------------|--------------------------|
| Note | | £000 | £000 | Note | £000 | £000 | £000 |
| Balance at 1 April 2020 | | (69,087) | (2,059) | (21,900) | (93,046) | (300,686) | (393,732) |
| <u>Movement in reserves during 2020/21</u> | | | | | | | |
| Total Comprehensive Income and Expenditure | | 5,183 | 0 | 0 | 5,183 | 11,662 | 16,845 |
| Adjustments between accounting basis & funding basis under regulations | | 18 (60,177) | 1,608 | (3,543) | (62,112) | 62,112 | 0 |
| (Increase)/Decrease in Year (includes roundings) | | (54,998) | 1,608 | (3,543) | (56,933) | 73,772 | 16,845 |
| Balance at 31 March 2021 carried forward | | (124,085) | (451) | (25,443) | (149,979) | (226,914) | (376,893) |

3. Balance Sheet

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

| 31 Mar 2020 | Balance Sheet | | 31 Mar 2021 |
|------------------|------------------------------------|-------|------------------|
| £000 | | Notes | £000 |
| 744,352 | Property, Plant & Equipment | 19 | 770,610 |
| 802 | Heritage Assets | 21 | 802 |
| 0 | Long Term Investments | 9&10 | 0 |
| 2,061 | Investment in Subsidiaries | 34 | 0 |
| 4,296 | Intangible Assets | 20 | 4,234 |
| 7,206 | Long Term Debtors | 7 | 7,067 |
| 758,717 | Long Term Assets | | 782,713 |
| 80,403 | Short Term Investments | 9&10 | 55,117 |
| 1 | Inventories | 36 | 1 |
| 33,801 | Short Term Debtors | 7 | 70,626 |
| 4,940 | Assets Held for Sale | 22 | 0 |
| 32,957 | Cash and Cash Equivalents | 14 | 83,589 |
| 152,102 | Current Assets | | 209,333 |
| (3,030) | Short Term Borrowing | 9&10 | (3,025) |
| (66,401) | Short Term Creditors | 8 | (114,154) |
| (2,656) | Current Provisions | 11 | (1,180) |
| (72,087) | Current Liabilities | | (118,359) |
| (9,296) | Provisions | 11 | (8,778) |
| (111,010) | Long Term Borrowing | 9&10 | (109,010) |
| (28,410) | Other Long Term Liabilities | 9 | (27,134) |
| (283,767) | Pension Liability | 32 | (339,658) |
| (12,515) | Capital Grants Receipts in Advance | 6 | (12,214) |
| (444,998) | Long Term Liabilities | | (496,794) |
| 393,734 | Net Assets | | 376,893 |
| (93,048) | Usable Reserves | 16 | (149,979) |
| (300,686) | Unusable Reserves | 17 | (226,914) |
| (393,734) | Total Reserves | | (376,893) |

Signed

Caroline Holland
 Director of Corporate Services
 30 September 2021

4. Cash Flow Statement

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

| 2019/20 £000 | Cash Flow Statement | Note | 2020/21 £000 |
|-----------------|--|-----------|-----------------|
| 17,927 | Net deficit on the provision of services | | 5,183 |
| (47,598) | Adjustments to net deficit on the provision of services for non-cash movements | 15a | (81,286) |
| 20,805 | Adjustments for items included in the net deficit on the provision of services that are investing and financing activities | 15b | 16,186 |
| (8,866) | Net Cash flows from Operating Activities | 15c | (59,917) |
| 18,218 | Investing Activities | 15d | (23,962) |
| 68 | Financing Activities | 15e | 33,247 |
| 9,420 | Net (increase)/decrease in cash and cash equivalents | | (50,632) |
| 42,377 | Cash and cash equivalents at the beginning of the reporting period | | 32,957 |
| 32,957 | Cash and cash equivalents at the end of the reporting period | 14 | 83,589 |

Notes to the Core Financial Statements

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INCOME AND EXPENDITURE

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

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

| 2019/20 | | | Note1 | 2020/21 | | |
|---|--|-------------------------------------|---|---|--|-------------------------------------|
| Net Expenditure Chargeable to General Fund Balances £000 | Adjustments between the Funding and Accounting Basis £000 | Net Expenditure in the CIES £000 | DEPARTMENT | Net Expenditure Chargeable to General Fund Balances £000 | Adjustments between the Funding and Accounting Basis £000 | Net Expenditure in the CIES £000 |
| 60,377 | 2,609 | 62,986 | Children, Schools and Families | 59,844 | 5,600 | 65,444 |
| 62,271 | (2,022) | 60,249 | Community and Housing (including Public Health) | 60,786 | (10,885) | 49,901 |
| 10,147 | 20,360 | 30,507 | Corporate Services | 11,802 | 19,889 | 31,691 |
| 16,842 | 3,521 | 20,363 | Environment and Regeneration | 26,944 | (991) | 25,953 |
| 149,637 | 24,468 | 174,105 | Sub-total - Cost of Services | 159,376 | 13,613 | 172,989 |
| (151,655) | (4,523) | (156,178) | Other income and expenditure | (214,372) | 46,566 | (167,806) |
| (2,018) | 19,945 | 17,927 | Deficit/(Surplus) | (54,996) | 60,177 | 5,183 |
| (67,071) | | | Opening General Fund Balances | (69,089) | | |
| (2,018) | | | Less deficit/(surplus) in year | (54,996) | | |
| 0 | | | Rounding | 0 | | |
| (69,089) | | | Closing General Fund Balances | (124,085) | | |

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

Analysis of Differences between General Fund and CIES 2020/21

| Analysis of Differences between General Fund and CIES | Adjustments for capital purposes | Net change for pensions adjustments | Other statutory adjustments | Other differences | Total adjustments |
|---|----------------------------------|-------------------------------------|-----------------------------|-------------------|-------------------|
| 2020-21 | (1) | (2) | (3) | (4) | |
| Department | £000 | £000 | £000 | £000 | £000 |
| Children, Schools and Families | 10,969 | 7,019 | 778 | (13,166) | 5,600 |
| Community and Housing (including Public Health) | 889 | 2,948 | 24 | (14,746) | (10,885) |
| Corporate Services | 3,000 | (6,692) | 389 | 23,192 | 19,889 |
| Environment and Regeneration | 12,514 | 1,965 | 182 | (15,652) | (991) |
| Sub-total of adjustments within net cost of services | 27,372 | 5,240 | 1,373 | (20,372) | 13,613 |
| Other income and expenditure | (19,978) | 5,963 | 41,777 | 20,372 | 46,566 |
| Total adjustments | 7,394 | 11,203 | 43,150 | 0 | 60,179 |

Analysis of Differences between General Fund and CIES 2019/20

| Analysis of Differences between General Fund and CIES | Adjustments for capital purposes | Net change for pensions adjustments | Other statutory adjustments | Other differences | Total adjustments |
|---|----------------------------------|-------------------------------------|-----------------------------|-------------------|-------------------|
| 2019-20 | (1) | (2) | (3) | (4) | |
| Department | £000 | £000 | £000 | £000 | £000 |
| Children, Schools and Families | 9,943 | 7,095 | 75 | (14,504) | 2,609 |
| Community and Housing (including Public Health) | 801 | 2,979 | 99 | (5,901) | (2,022) |
| Corporate Services | 2,534 | 2,128 | 53 | 15,645 | 20,360 |
| Environment and Regeneration | 10,995 | 1,986 | (27) | (9,433) | 3,521 |
| Sub-total of adjustments within net cost of services | 24,273 | 14,188 | 200 | (14,193) | 24,468 |
| Other income and expenditure | (26,927) | 9,099 | (888) | 14,193 | (4,523) |
| Total adjustments | (2,654) | 23,287 | (688) | 0 | 19,945 |

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

Column 1: Adjustments for capital purposes

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

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

Column 2: Net change for the pensions adjustments

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

For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.

For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Column 3: Other statutory adjustments

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

The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

An adjustment for any unused employee holiday balances at year-end, which must be charged to the CIES, but is not chargeable to the General Fund (the charge is transferred to the Accumulated Absences Reserve).

Column 4: Presentational differences

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

NOTE 2: EXPENDITURE AND INCOME BY NATURE

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

| 2019/20 £000 | Note 2: Income and Expenditure by Nature | Note | 2020/21 £000 |
|------------------|---|------|------------------|
| | EXPENDITURE | | |
| 221,781 | Employee expenses* | | 229,258 |
| 267,697 | Other service expenses | | 272,061 |
| 23,964 | Depreciation, Impairment losses and revaluation increases within Cost of Services (i) | 18 | 27,061 |
| (637) | Support Services Recharges | | (687) |
| 512,805 | | | 527,693 |
| 6,316 | Interest Payments relating to Financial Instruments | 9 | 6,307 |
| 4,620 | Other Interest Payments inc PFI and Leases | 9 | 4,000 |
| 948 | Precepts & Levies | 3 | 962 |
| 8,018 | Interest on net defined benefit liability (asset) | 32 | 5,963 |
| 0 | Loss on disposal of fixed assets | 3 | 0 |
| 52 | Trading accounts deficit/(surplus) | 35 | (57) |
| 532,759 | Total Expenditure | | 544,868 |
| | INCOME | | |
| (83,796) | Fees, charges and other service income | - | (75,060) |
| (254,904) | Government grants | 6 | (279,645) |
| (338,700) | Subtotal | | (354,705) |
| (2,188) | Interest & investment income receivable | 4 | (1,676) |
| (2,159) | (Gain) on disposal of fixed assets | 3 | (2,002) |
| (1,846) | Other finance and investment (income)/expenditure | 4 | 4,213 |
| (169,939) | Taxation & non-specific grant income | 5 | (185,515) |
| (514,832) | Total Income | | (539,685) |
| 17,927 | Deficit on the Provision of Services | | 5,183 |

(i) In addition, depreciation of £0.309m was charged to Trading services.

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

NOTE 2: EXPENDITURE AND INCOME BY NATURE

| Note 2: Income and Expenditure by Nature | | |
|--|-----------------|-----------------|
| Employee Expenditure | 2019/20 £000 | 2020/21 £000 |
| VA Schools | 32,346 | 34,262 |
| Foundation Schools | 6,648 | 6,879 |
| Total | 38,994 | 41,141 |

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

| Note 2: Income and Expenditure by Nature | | | | | | |
|--|---|--|---|---------------------------------------|---|--|
| 2019/20 Segmental Analysis | | | Department | 2020/21 Segmental Analysis | | |
| Fees Charges and Other service income | Revenues from transactions with other operating segments of the authority | Depreciation amortisation and revaluations | | Fees Charges and Other service income | Revenues from transactions with other operating segments of the authority | Depreciation amortisation and revaluations |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| (7,419) | 5,140 | 5,147 | Children, Schools and Families | (3,904) | 5,754 | 10,238 |
| (17,160) | 4,398 | 701 | Community and Housing (including Public Health) | (14,172) | 5,038 | 832 |
| (17,644) | (14,692) | 2,767 | Corporate Services | (15,960) | (16,833) | 2,887 |
| (41,573) | 4,517 | 15,349 | Environment and Regeneration | (41,024) | 5,354 | 13,104 |
| (83,796) | (637) | 23,964 | Total | (75,060) | (687) | 27,061 |

NOTE 3: OTHER OPERATING INCOME AND EXPENDITURE

| 2019/20 £000 | NOTE 3: OTHER OPERATING INCOME AND EXPENDITURE | 2020/21 £000 |
|-----------------|--|-----------------|
| 948 | Precepts and Levies | 962 |
| (2,159) | (Gains)/losses on the disposal of non-current assets | (2,002) |
| (1,211) | Total | (1,040) |

NOTE 4: FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2019/20 £000 | NOTE 4: FINANCING AND INVESTMENT INCOME AND EXPENDITURE | Note | 2020/21 £000 |
|-----------------|--|------|-----------------|
| 10,936 | Interest payable and similar charges | 9 | 10,306 |
| 8,018 | Net interest on defined pension liability | 32 | 5,963 |
| (2,188) | Interest receivable and similar income (i) | 9 | (1,676) |
| 52 | Trading accounts not related to services | 35 | (57) |
| (1,846) | Other (income)/expenditure including income from subsidiary (ii) | | 1,941 |
| 0 | Merantun Impairment | | 2,272 |
| 14,972 | Total | | 18,749 |

Notes

(i) This figure includes receivable income from finance leases

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

NOTE 5: TAXATION AND NON-SPECIFIC GRANT INCOMES

| 2019/20 | NOTE 5: TAXATION AND NON-SPECIFIC GRANT INCOMES | Note | 2020/21 |
|------------------|---|------|------------------|
| £000 | | | £000 |
| (93,860) | Council tax income | 6 | (95,863) |
| (41,680) | Non domestic rates | 6 | (11,155) |
| (16,022) | Non-ringfenced government grants | 6 | (64,731) |
| (18,377) | Capital grants and contributions | 6 | (13,766) |
| (169,939) | Total | | (185,515) |

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 2020/21:

Grants Credited to Taxation and Non Specific Grant Income

| NOTE 6: Credited to Taxation and Non Specific Grant Income | 2019/20 £000 | 2020/21 £000 |
|---|-------------------------|-------------------------|
| Council Tax | (93,860) | (95,863) |
| Revenue Support Grant | 0 | (5,159) |
| Business Rates | (41,680) | (11,155) |
| NDR Pool Tariff / (Top-up) | 1,144 | (9,534) |
| NDR Payment into Pool | 1,352 | 0 |
| Net NDR Pool Benefit | (1,572) | (2,801) |
| Capital Grant Income | (18,377) | (13,766) |
| PFI Contribution | (4,797) | (4,797) |
| New Homes Bonus Grant | (2,108) | (1,438) |
| Section 31 Grant | (4,350) | (18,448) |
| Covid-19 Emergency Funding | (4,965) | (21,363) |
| Other grants under £1 million | (726) | (1,190) |
| Total | (169,939) | (185,515) |

Grants and Contributions Credited to Services

| NOTE 6: Grants and Contributions Credited to Services | 2019/20 £000 | 2020/21 £000 |
|--|------------------|------------------|
| Grants Credited to Services | | |
| Schools Delegated Budget | (147,990) | (155,428) |
| Housing Benefits Subsidy | (63,705) | (60,133) |
| Public Health Grant (inc Test and Trace) | (10,175) | (17,366) |
| Pupil Premium | (5,910) | (5,729) |
| Sixth Form Funding | (5,204) | (5,438) |
| Adult Social Care Grant | (6,140) | (8,920) |
| Teachers Pension | 0 | (4,432) |
| Universal Infant Free School Meals | (2,039) | (1,981) |
| Teachers pay maintenance | 0 | (1,579) |
| COVID 19 Catch up grants premium | 0 | (1,017) |
| Other Grants passed direct to Schools | 0 | (1,955) |
| Adult Education Main | (2,202) | (1,099) |
| Unaccompanied Asylum Seekers | (1,753) | (1,802) |
| COVID19 Infection Control | 0 | (2,781) |
| Total grants under £1million (iv) | (9,786) | (9,985) |
| Total Grants | (254,904) | (279,645) |
| Contributions over £1million and material items | | |
| Contributions from CCG | (2,902) | (3,651) |
| Local Taxation Services | (847) | (369) |
| Shared Legal Service | (3,639) | (3,605) |
| Recharge for out of borough SEN support | (1,325) | (1,574) |
| Other contributions | (13,577) | (13,320) |
| Total Contributions | (22,290) | (22,519) |
| TOTAL GRANTS AND CONTRIBUTIONS | (277,194) | (302,164) |

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

Long Term Liabilities - Capital Grants Receipts in Advance

| NOTE 6:: Long Term Liabilities Capital Grants Receipts in Advance | 2019/20 £000 | 2020/21 £000 |
|--|-----------------|-----------------|
| Government Grants and Other Contributions | (1,232) | (2,624) |
| Section 106 | (10,789) | (9,215) |
| Schools Capital Grants | (494) | (375) |
| Total | (12,515) | (12,214) |

DEBTORS, CREDITORS AND CASH FLOW

NOTE 7: DEBTORS

Debtors Long and Short term

| 31-Mar 2020 | | | Note 7: Debtors | 31-Mar 2021 | | |
|--------------------|--------------------|------------------|---------------------------------------|--------------------|--------------------|------------------|
| Gross Debt £000 | Impairment £000 | Net Debt £000 | | Gross Debt £000 | Impairment £000 | Net Debt £000 |
| | | | Long Term Debtors | | | |
| 635 | 0 | 635 | Other local authorities | 600 | 0 | 600 |
| 11,297 | (4,726) | 6,571 | Bodies external to general government | 10,858 | (4,391) | 6,467 |
| 11,932 | (4,726) | 7,206 | Total Long Term Debtors | 11,458 | (4,391) | 7,067 |
| | | | Short Term Debtors | | | |
| 3,773 | 0 | 3,773 | Central government bodies | 18,568 | 0 | 18,568 |
| 4,918 | 0 | 4,918 | NHS bodies | 7,206 | 0 | 7,206 |
| 4,344 | 0 | 4,344 | Other local authorities | 4,580 | 0 | 4,580 |
| 34,274 | (13,508) | 20,766 | Bodies external to general government | 57,291 | (17,019) | 40,272 |
| 47,309 | (13,508) | 33,801 | Total Short Term Debtors | 87,645 | (17,019) | 70,626 |
| 59,241 | (18,234) | 41,007 | Total Debtors | 99,103 | (21,410) | 77,693 |

Financial Instruments in Debtors

| 31-Mar 2020 | | | Note 7: Debtors | 31-Mar 2021 | | |
|--------------------|--------------------|------------------|---|--------------------|--------------------|------------------|
| Gross Debt £000 | Impairment £000 | Net Debt £000 | Financial Instruments in Debtors | Gross Debt £000 | Impairment £000 | Net Debt £000 |
| | | | Long Term Debtors | | | |
| 635 | 0 | 635 | Other local authorities | 600 | 0 | 600 |
| 6,175 | (306) | 5,869 | Bodies external to general government | 6,144 | (245) | 5,899 |
| 6,810 | (306) | 6,504 | Total Long Term Debtors | 6,744 | (245) | 6,499 |
| | | | Short Term Debtors | | | |
| 4,918 | 0 | 4,918 | NHS bodies | 7,206 | 0 | 7,206 |
| 3,268 | 0 | 3,268 | Other Local Authorities | 4,084 | 0 | 4,084 |
| 20,140 | (4,550) | 15,590 | Bodies external to general government | 28,221 | (5,230) | 22,991 |
| 28,326 | (4,550) | 23,776 | Total Short Term Debtors | 39,511 | (5,230) | 34,281 |
| 35,136 | (4,856) | 30,280 | Total Financial Instruments in Debtors | 46,255 | (5,475) | 40,780 |

NOTE 8: CREDITORS

Short Term Creditors

| 31/03/2020 £000 | NOTE 8: CREDITORS - Short Term | 31/03/2021 £000 |
|--------------------|---------------------------------------|--------------------|
| | Short Term Creditors | |
| (14,530) | Central government bodies | (57,879) |
| (6,629) | Other local authorities | (8,237) |
| (1,597) | NHS bodies | (1,759) |
| (338) | Public Corporations and Trusts | (103) |
| (43,307) | Bodies external to general government | (46,176) |
| (66,401) | Total Short Term Creditors | (114,154) |

Financial Instruments in Creditors

| 31/03/2020 £000 | NOTE 8: CREDITORS - Financial Instruments in Creditors | 31/03/2021 £000 |
|--------------------|--|--------------------|
| | Short Term Creditors | |
| (6,599) | Other local authorities | (8,208) |
| (1,597) | NHS bodies | (1,760) |
| (338) | Public Corporations and Trusts | (103) |
| (26,658) | Bodies external to general government | (37,492) |
| (35,192) | Total Financial Instruments in Short Term Creditors | (47,563) |

NOTE 9a FINANCIAL INSTRUMENTS

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

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

Categories of Financial Instruments

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

Financial Assets

| NOTE 9a Financial Assets 31 Mar 2021 | Non current | | Current | | TOTAL |
|---|-------------|--------------|---------------|---------------|----------------|
| | Investments | Debtors | Investments | Debtors | |
| | £000 | £000 | £000 | £000 | £000 |
| Fair Value through Profit and Loss | | 0 | 10,000 | 0 | 10,000 |
| Amortised Cost | | 6,744 | 45,117 | 39,511 | 91,372 |
| Total | 0 | 6,744 | 55,117 | 39,511 | 101,372 |

| Financial Assets 31 Mar 2020 | Non current | | Current | | TOTAL |
|------------------------------------|-------------|--------------|---------------|---------------|----------------|
| | Investments | Debtors | Investments | Debtors | |
| | £000 | £000 | £000 | £000 | £000 |
| Fair Value through Profit and Loss | 0 | 0 | 10,000 | 0 | 10,000 |
| Amortised Cost | 0 | 6,810 | 70,403 | 28,326 | 105,539 |
| Total | 0 | 6,810 | 80,403 | 28,326 | 115,539 |

The Council also held cash and cash equivalents of **£83.589m** at the Balance Sheet date (£32.957m 19/20) which are also carried at amortised cost.

NOTE 9a FINANCIAL INSTRUMENTS

Financial Liabilities

| NOTE 9a Financial Liabilities 31 Mar 2021 | Non current | | Current | | | TOTAL |
|--|--------------------|------------------------------|--------------------|--------------------------------|-------------------|----------------|
| | Borrowings £000 | PFI & Finance Leases £000 | Borrowings £000 | PFI and Finance Leases £000 | Creditors £000 | £000 |
| Amortised Cost | 109,010 | 27,134 | 3,025 | 1,673 | 45,890 | 186,732 |
| Total | 109,010 | 27,134 | 3,025 | 1,673 | 45,890 | 186,732 |

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

| Financial Liabilities 31 Mar 2020 | Non current | | Current | | | Total |
|--------------------------------------|--------------------|------------------------------|--------------------|--------------------------------|-------------------|----------------|
| | Borrowings £000 | PFI & Finance Leases £000 | Borrowings £000 | PFI and Finance Leases £000 | Creditors £000 | £000 |
| Amortised Cost | 111,010 | 28,411 | 3,030 | 1,665 | 33,527 | 177,643 |
| Total | 111,010 | 28,411 | 3,030 | 1,665 | 33,527 | 177,643 |

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

NOTE 9a: FINANCIAL INSTRUMENTS

Items of Income, Expense, Gains or Losses

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

| 2019/20 | | NOTE 9a: Items of Income, Expense, Gains or Losses | 2020/21 | |
|---|--|--|---|--|
| 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 |
| £000 | £000 | | £000 | £000 |
| | | Interest Revenue | | |
| (2,188) | 0 | Financial assets measured at amortised cost | (1,676) | 0 |
| 0 | 0 | Other Financial Assets measured at Fair Value through Other Comprehensive Income and Expenditure | 0 | 0 |
| (2,188) | 0 | Total Interest Revenue | (1,676) | 0 |
| | | | | |
| 6,316 | 0 | Interest Expense - Borrowings | 6,307 | 0 |
| 4,620 | 0 | Interest Expense - Finance Leases | 4,000 | 0 |
| 10,936 | 0 | Interest Expense | 10,307 | 0 |
| | | | | |
| 0 | 0 | Fee Expense | 0 | 0 |
| | | Financial Assets or financial liabilities that are not at fair value through profit or loss | | |
| 0 | 0 | Total Fee Expense | 0 | 0 |

NOTE 9b: FINANCIAL INSTRUMENTS

Investments

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

| NOTE 9b: Investment Profile | 31 Mar 2020 £000 | 31 Mar 2021 £000 |
|-----------------------------|---------------------|---------------------|
| Long term | 0 | 0 |
| Short term | 80,000 | 55,000 |
| Accrued Investment Income | 403 | 117 |
| Total | 80,403 | 55,117 |

| NOTE 9b: Investments - Movement in year | £000 |
|---|----------|
| Investments at 1 April 2020 | 80,403 |
| Change in investment managed internally | (25,000) |
| Change in accrued investment income | (286) |
| Investment at 31 March 2021 | 55,117 |
| Long term investment (book value) | 0 |
| Short term investment (book value) | 55,117 |

| NOTE 9b: | Book Value | Fair Value | Unrealised Profits/ (Losses) |
|--------------------|---------------|---------------|------------------------------|
| | £000 | £000 | £000 |
| Managed Internally | 55,000 | 55,000 | 0 |
| Managed Externally | | | 0 |
| Total | 55,000 | 55,000 | 0 |

Fair Value of Assets and Liabilities

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

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

NOTE 9b FINANCIAL INSTRUMENTS

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

The methods and assumptions used in the valuation technique were:

For Public Works Loan Board (PWLB) debt, fair values as at 31st March 2021 published by PWLB have been used.

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

NOTE 9b FINANCIAL INSTRUMENTS

| NOTE 9b: Borrowing at source - Fair Value | 31 March 2020 | | 31 March 2021 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Fair Value £000 | Book Value £000 | Fair Value £000 | Book Value £000 |
| Public Works Loan Board | 65,435 | 52,010 | 67,757 | 52,010 |
| Market Loan | 97,161 | 59,000 | 99,830 | 57,000 |
| Temporary Loan | 2,102 | 2,000 | 2,061 | 2,000 |
| Total | 164,698 | 113,010 | 169,648 | 111,010 |

| NOTE 9b: Borrowing - Maturity Profile | 31 March 2020 £000 | 31 March 2021 £000 |
|--|--------------------------|--------------------------|
| Less than 1 year | 2,000 | 2,000 |
| Between 1 and 2 years | 2,000 | 310 |
| Between 2 and 5 years | 26,510 | 26,200 |
| Between 5 and 10 years | 4,500 | 4,500 |
| More than 10 years | 78,000 | 78,000 |
| Total Borrowings | 113,010 | 111,010 |
| Accrued Interest (Short Term Borrowings) | 1,030 | 1,025 |
| | 114,040 | 112,035 |

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 2021 as a consequence of a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £67.757m (19/20 £65.435m) measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. The Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets.

NOTE 9b FINANCIAL INSTRUMENTS

Statutory Override on Pooled Investments

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

Investments in Equity Instruments

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

Fair Value of Financial Instruments

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

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

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

Credit Risk

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

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the Council's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2020/21 were as follows:

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

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

At 31st March 2021 the disposition of investments was:

| Category | £000 | % | Spread (number of counterparties) | Fitch Rating |
|----------------------|---------------|----------------|-----------------------------------|--------------|
| UK Clearing Banks | 45,000 | 83.33% | 5 | F1, A, a-,1 |
| UK Building Society | 0 | 0.00% | 0 | F1, A, a-,1 |
| Local Authority | 0 | 0.00% | 0 | n/a |
| Pooled Property Fund | 10,000 | 16.67% | 1 | AAAmmf |
| Non UK Banks | 0 | 0.00% | 0 | AAA |
| Total | 55,000 | 100.00% | 6 | |

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

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

Current Deposits and Trade Debtors

No losses or impairments were incurred in 2020/21, nor are expected for the duration of current deposits. The Council does not generally allow credit for customers. The Council's maximum potential exposure to credit risk is with trade debtors, which are reviewed individually to assess risk of default and need for a provision. Factors taken into account in the assessment include the stability of the organisation, the size of the debt, the age of the debt and what, if any, security such as a charge on property has been provided. The past-due amount of trade debts can be analysed by age as follows:

| Trade Debtors | 31 March | 31 March |
|----------------|---------------|---------------|
| | 2020 | 2021 |
| | £000 | £000 |
| < 3 months | 7,945 | 7,164 |
| 3 to 12 months | 2,799 | 3,065 |
| > 1 year | 5,107 | 6,020 |
| Total | 15,851 | 16,249 |

Cash

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

Liquidity Risk

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

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

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

| | 31/03/2020 | | 31/03/2021 | |
|-----------------|----------------|----------------|----------------|----------------|
| | £000 | % | £000 | % |
| Under 12 months | 2,000 | 1.77% | 2,000 | 1.80% |
| 1yr to 2yrs | 2,000 | 1.77% | 310 | 0.28% |
| 2yrs to 5yrs | 26,510 | 23.46% | 26,200 | 23.60% |
| 5yrs to 10yrs | 4,500 | 3.98% | 4,500 | 4.05% |
| 10yrs and over | 78,000 | 69.02% | 78,000 | 70.27% |
| Total | 113,010 | 100.00% | 111,010 | 100.00% |

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

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

| LOBO debt exposure with market rates of: | | Pro- spective repayable / requiring Re-finance £000 | Proportion of total debt % |
|--|--|--|----------------------------------|
| 4.00 - 4.99% | | 5,000 | 11.11% |
| 5.00 - 5.99% | | 20,000 | 44.44% |
| 6.00 - 6.99% | | 15,500 | 34.44% |
| 7.00 - 7.99% | | 0 | 0.00% |
| 8.00 - 8.99% | | 4,500 | 10.00% |
| Total | | 45,000 | 100.00% |

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

At 31st March 2021 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 2021 | 0 | 0.00 |
| July to September 2021 | 35,000 | 63.64 |
| October to December 2021 | 0 | 0.00 |
| January 2022 to March 2022 | 10,000 | 18.18 |
| April 2022 to June 2022 | 0 | 0.00 |
| July 2022 to September 2022 | 0 | 0.00 |
| October 2022 and beyond | 10,000 | 18.18 |
| | 55,000 | 100.00 |

The Council did not experience any liquidity problems in 2020/21 and does not currently anticipate any for 2021/22.

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

Interest Rate (or Market) Risk

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

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

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

| | 2020/21 £000 | 0.5% £000 | 1.0% £000 |
|----------------|-----------------|--------------|--------------|
| Borrowings | 111,010 | 555 | 1,110 |
| Investments | (55,000) | (275) | (550) |
| Impact on CIES | N/A | 280 | 560 |

Mitigation

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

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

Borrowings

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

| Maturity in | At 31st March 2020 | | At 31st March 2021 | |
|-----------------|--------------------|-----------------|--------------------|-----------------|
| | £000 | Interest Rate % | £000 | Interest Rate % |
| Under 12 months | 2,000 | 7.0 | 2,000 | 6.50 |
| 1 to 2 years | 2,000 | 6.5 | 310 | 6.63 |
| 2 to 5 years | 26,510 | 5.9 | 26,200 | 6.56 |
| 5 to 10 years | 4,500 | 8.3 | 4,500 | 8.37 |
| 10 to 15 years | 1,000 | 4.3 | 12,500 | 5.20 |
| 15 to 20 years | 11,500 | 5.4 | 0 | 0.00 |
| 20 to 25 years | 13,500 | 6.6 | 13,500 | 6.64 |
| 25 to 30 years | 0 | 0.0 | 0 | 0.00 |
| 30 to 35 years | 17,000 | 5.2 | 32,000 | 4.57 |
| 35 to 40 years | 15,000 | 4.0 | 0 | 0.00 |
| 40 to 45 years | 20,000 | 5.0 | 20,000 | 5.00 |
| 45 to 50 years | 0 | 0.0 | | 0.00 |
| | 113,010 | 5.6 | 111,010 | 4.12 |

Prudential Indicator Limits

| Maximum % exposure to | 2019/20 | 2020/21 | 2021/2022 | 2022/2023 |
|-----------------------|---------|---------|-----------|-----------|
| | % | % | % | % |
| Fixed rates | 100 | 100 | 100 | 100 |
| Variable rates | 50 | 50 | 50 | 50 |

Investments

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

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

| | 2019/20 | 2020/21 | 2021/2022 | 2022/2023 |
|---|---------|---------|-----------|-----------|
| | % | % | % | % |
| Maximum investment over 1 year as percentage of total investments | 50 | 50 | 50 | 50 |

At 31st March 2021, the investment portfolio's exposure to interest rates is set out in the following table.

| Deposit Maturity in: | At 31st March 2020 | | At 31st March 2021 | |
|----------------------|--------------------|-----------------|--------------------|-----------------|
| | £000 | Interest Rate % | £000 | Interest Rate % |
| 0-3 months | 5,000 | 1.3 | 0 | 0.0 |
| 3-6 months | 35,000 | 0.9 | 35,000 | 0.2 |
| 6-9 months | 20,000 | 1.0 | 10,000 | 0.1 |
| 9-12 months | 10,000 | 1.0 | 0 | 0.0 |
| over 12 months | 10,000 | 4.1 | 10,000 | 4.3 |
| | 80,000 | 1.66 | 55,000 | 0.92 |

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

PFI Borrowing

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

Price Risk

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

Foreign Exchange Risk

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

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

Refinancing and Maturity Risk

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

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

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

Overall Procedures for Managing Risk

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

NOTE 11: PROVISIONS

| NOTE 11: Current Provisions | |
|--|----------------|
| NDR Appeals | £000 |
| Balance at 1 April 2020 | (2,656) |
| Change in provision made during the year | 1,401 |
| Amounts used during the year | 75 |
| Balance at 31 March 2021 | (1,180) |

| NOTE 11: Long Term Provisions | | | | |
|--|------------------------|---------------------|--------------|----------------|
| | Insurance Fund £000 | NDR Appeals £000 | PFI £000 | Total £000 |
| Balance at 1 April 2020 | (4,576) | (4,720) | 0 | (9,296) |
| Additional provisions made during the year | (626) | 757 | (325) | (194) |
| Amounts used during the year | 474 | 238 | 0 | 712 |
| Balance at 31 March 2021 | (4,728) | (3,725) | (325) | (8,778) |

Insurance Fund:

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

NDR Appeals:

The Collection Fund contains a provision of £16.350m for the estimated cost of appeals against NDR (Business Rates) charges which may be settled in future years.

The Council's share of this provision (30%) is £4.905m, £1.180m current and £3.725m non-current. During 2020/21, the Council's share charged against this sum was £0.313m and its share of money set aside to cover future appeals reduced by £2.158m.

The balance of the appeals provision (70%, £11.445m) is held within the Collection Fund as part of consolidated balances for the GLA and MHCLG

PFI

Negotiations are taking place with the PFI Provider and it is prudent to provide for potential repayment of sums withheld relating to service provision.

NOTE 12: CONTINGENT LIABILITIES

Employment Cases

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

Audit Fees EY

EY have claimed additional scale fees of £0.269m covering 2019/20 and 2020/21, plus additional fees of £0.014 relating to valuation work. Payment of these amounts is subject to a decision by Public Sector Audit Appointments

Environment and Regeneration

There are two matters currently subject to negotiation with a total potential liability of £0.074m.

Business Rates Appeal

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

Mitigation of Risk

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

Synthetic Sports Pitch - Agreement

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

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

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

NOTE 13: CONTINGENT ASSETS

Bishopsford Bridge

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

Business Rates Appeal

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

NOTE 14: CASH AND CASH EQUIVALENTS

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

| 2019/20 £000 | NOTE 14: CASH AND CASH EQUIVALENTS | 2020/21 £000 |
|-----------------|---|-----------------|
| 13,505 | Main bank account | 339 |
| 583 | Cash in transit (held by agents) | 680 |
| 18,352 | Cash advanced to schools | 22,556 |
| 500 | Short Term Deposits | 60,000 |
| 17 | Cash advanced to establishments (Cash imprests) | 14 |
| 32,957 | Total Cash and Cash Equivalents | 83,589 |

NOTE 15: CASH FLOWS

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

| 2019/20 £000 | NOTE 15a: CASH FLOWS | 2020/21 £000 |
|-----------------|--|-----------------|
| | Non Cash Movements | |
| (22,494) | Depreciation | (24,211) |
| (607) | Revaluation | (1,779) |
| (1,172) | Amortisation | (1,382) |
| (216) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (2,528) |
| (23,287) | Movement in Pension Liability | (11,204) |
| (1,578) | (Increase)/Reduction in provision for the impairment of bad debts | (3,176) |
| 745 | (Increase)/Reduction in Provisions | 1,994 |
| 2,814 | Acquisition of Donated Asset | 0 |
| (45,795) | | (42,286) |
| | Accruals Adjustments | |
| 0 | Increase/(Reduction) in Inventories | 0 |
| (966) | Increase/(Reduction) in Debtors | 39,736 |
| 164 | Increase/(Reduction) in Interest Debtors | (286) |
| (1,466) | (Increase)/Reduction in Creditors | (78,455) |
| 465 | (Increase)/Reduction in Interest Creditors | 5 |
| (1,803) | | (39,000) |
| | | |
| (47,598) | Total | (81,286) |

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

| 2019/20 £000 | NOTE 15 b: CASH FLOWS | 2020/21 £000 |
|-----------------|--|-----------------|
| 2,428 | Proceeds from the sale of PP&E, investment property and intangible assets | 2,420 |
| 18,377 | Any other items for which the cash effects are investing or financing cash flows | 13,766 |
| 20,805 | Total | 16,186 |

NOTE 15: CASH FLOWS

15c. Operating Activities

| 2019/20 £000 | NOTE 15c : CASH FLOWS OPERATING ACTIVITIES | 2020/21 £000 |
|-----------------|---|-----------------|
| (18,244) | Cost of Services less Receipts | (68,548) |
| (2,023) | Interest received from investments and finance leases | (1,676) |
| 6,781 | Interest paid on borrowings | 6,307 |
| 4,620 | Interest paid in respect of finance leases | 4,000 |
| (8,866) | Net cash flows from operating activities | (59,917) |

15d. Investing Activities

| 2019/20 £000 | NOTE 15d: CASH FLOWS INVESTING ACTIVITIES | 2020/21 £000 |
|-----------------|--|-----------------|
| 17,868 | Purchase of property, plant and equipment, investment, property and intangible assets | 16,701 |
| 95,000 | Purchase of short-term and long-term investments | 45,000 |
| 1,900 | Purchase of short-term and long-term investments: investment in Subsidiary | 100 |
| (75,000) | Proceeds from short-term and long-term investments | (70,000) |
| 21,900 | Net | (24,900) |
| (2,978) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (2,297) |
| (18,572) | Other receipts from investing activities | (13,466) |
| 18,218 | Net cash flows from investing activities | (23,962) |

15e. Financing Activities

| 2019/20 £000 | NOTE 15e: CASH FLOWS FINANCING ACTIVITIES | 2020/21 £000 |
|-----------------|---|-----------------|
| 29 | Cash payments/ (receipts) for the reduction of finance leases | (393) |
| 2,309 | Cash payments/ (receipts) for the reduction of PFI | 1,661 |
| 0 | Repayment / (receipt) of short- and long-term borrowing | 2,000 |
| (2,270) | Other payments/(receipts) from financing activities | 29,979 |
| 68 | Net cash flows from financing activities | 33,247 |

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 2020/21.

| Usable Reserves | Balance at 31st Mar 2019 £000 | Transfers out 2019/20 £000 | Transfers in 2019/20 £000 | Balance at 31st Mar 2020 £000 | Transfers out 2020/21 £000 | Transfers in 2020/21 £000 | Balance at 31st Mar 2021 £000 |
|---------------------------------|----------------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|------------------------------|----------------------------------|
| General Fund: | | | | | | | |
| Balances held by schools | (5,187) | 2 | 9,480 | 4,295 | (24,981) | 8,958 | (11,728) |
| General Fund Balances | (13,778) | 0 | 0 | (13,778) | 0 | (222) | (14,000) |
| Earmarked reserves | (48,106) | 17,240 | (28,740) | (59,607) | 32,350 | (71,099) | (98,357) |
| Total General Fund | (67,071) | 17,242 | (19,260) | (69,090) | 7,369 | (62,363) | (124,085) |
| Capital: | | | | | | | |
| Capital Receipts Reserves (CRR) | (9,228) | 9,597 | (2,428) | (2,059) | 4,028 | (2,420) | (451) |
| Capital Grants Unapplied (CGU) | (17,006) | 4,474 | (9,368) | (21,900) | 3,760 | (7,303) | (25,443) |
| Total Capital | (26,234) | 14,071 | (11,796) | (23,959) | 7,788 | (9,723) | (25,894) |
| | | | | | | | |
| Total Usable Reserves | (93,305) | 31,313 | (31,056) | (93,049) | 15,158 | (72,086) | (149,979) |

Balances held by Schools

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

| Balances held by schools Breakdown | Balance at 31st Mar 2019 £000 | Transfers out 2019/20 £000 | Transfers in 2019/20 £000 | Balance at 31st Mar 2020 £000 | Transfers out 2020/21 £000 | Transfers in 2020/21 £000 | Balance at 31st Mar 2021 £000 |
|---------------------------------------|----------------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|------------------------------|----------------------------------|
| Earmarked Schools balances | (7,994) | 0 | (361) | (8,355) | 0 | (3,223) | (11,578) |
| Schools Fund | (102) | 2 | 0 | (100) | 0 | (50) | (150) |
| DSG Reserve | 2,909 | 0 | 9,841 | 12,750 | (24,981) | 12,231 | 0 |
| Total balances held by Schools | (5,187) | 2 | 9,480 | 4,295 | (24,981) | 8,958 | (11,728) |

DSG (Dedicated Schools Grant) Reserve

The reduction in the schools' balances reflects the deficit on the DSG reserve where £24.98m has been borrowed against future years' allocations. Arrangements affecting the DSG were explained in the Narrative statement. Note 26 gives calculations for the total movement on this Reserve.

General Fund Balance

This fund includes any surplus after meeting net expenditure on Council services.

NOTE 16: USABLE RESERVES

Earmarked Reserves

Earmarked Reserves are amounts set aside from the General Fund to provide financing for future expenditure plans. Also included in this note are amounts set aside to meet future insurance claims. (see Note 11 for detail).

Capital Receipts Reserve

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

Capital Grants Unapplied

These are unapplied capital grants set aside for future capital expenditure. The balance includes unapplied Community Infrastructure Levy receipts.

NOTE 16: USABLE RESERVES

| Reserve | Balance at 31st Mar 2019 £000 | Net Transfer (to)/from Reserve £000 | Balance at 31st Mar 2020 £000 | Transfers out 2020/21 £000 | Transfers in 2020/21 £000 | Balance at 31st Mar 2021 £000 |
|--|--|---|--|-------------------------------------|------------------------------------|--|
| Outstanding Council Programme Board | (4,432) | (739) | (5,171) | 998 | (1,331) | (5,504) |
| For use in future years' budgets | (10,551) | (651) | (11,202) | 10,197 | (6,919) | (7,924) |
| Revenue Reserve for Capital/Revenuisation | (4,610) | 197 | (4,413) | 1,586 | (1,040) | (3,867) |
| Renewable energy reserve | (1,523) | (298) | (1,821) | 29 | 0 | (1,792) |
| Repairs and renewals fund | (2,090) | 0 | (2,090) | 0 | 0 | (2,090) |
| Pension fund additional contribution | (453) | 0 | (453) | 0 | 0 | (453) |
| Local land charges | (2,258) | (127) | (2,385) | 0 | (193) | (2,578) |
| Apprenticeships | (1,093) | 118 | (975) | 52 | (1,000) | (1,923) |
| Community care reserve | (1,386) | 490 | (896) | 0 | 0 | (895) |
| Local welfare support reserve | (377) | 62 | (315) | 51 | (500) | (764) |
| Corporate services reserves | (2,249) | 247 | (2,002) | 13 | (1,218) | (3,207) |
| Spending Review Reserve | (3,100) | (4,635) | (7,735) | 0 | (16,009) | (23,744) |
| COVID-19 Emergency Funding: Merton Council funding | 0 | (6,173) | (6,173) | 4,789 | (4,586) | (5,970) |
| Wimbledon tennis courts renewal | (150) | 0 | (150) | 0 | 0 | (150) |
| Governor support reserve | (28) | 0 | (28) | 0 | 0 | (28) |
| New homes bonus scheme | (122) | 0 | (122) | 0 | 0 | (122) |
| Adult social care grants | (4,194) | 132 | (4,062) | 974 | (737) | (3,825) |
| Culture & environment contributions | (402) | 202 | (200) | 22 | (16) | (194) |
| Culture & environment grants | (266) | (328) | (594) | 169 | (3) | (428) |
| Children & education grants | (475) | 291 | (184) | 1,225 | (1,384) | (343) |
| Housing GF grants | (704) | (161) | (865) | 0 | 0 | (865) |
| Public health grant reserve | 0 | 0 | 0 | 5,563 | (6,057) | (494) |
| Insurance reserves | (1,955) | 0 | (1,955) | 0 | 0 | (1,955) |
| Schools PFI fund | (5,629) | (162) | (5,791) | 6,292 | (6,793) | (6,292) |
| CSF Reserves | (60) | 35 | (25) | 390 | (416) | (52) |
| Business Rates – Covid-19 Adjustments Reserve | 0 | 0 | 0 | 0 | (14,418) | (14,418) |
| COVID-19: Year end balances See schedule | 0 | 0 | 0 | 0 | (4,979) | (4,979) |
| Your Merton Fund | 0 | 0 | 0 | 0 | (1,000) | (1,000) |
| Voluntary Sector Support/Merton Giving | 0 | 0 | 0 | 0 | (500) | (500) |
| Climate Change Reserve | 0 | 0 | 0 | 0 | (2,000) | (2,000) |
| Grand Total | (48,107) | (11,500) | (59,607) | 32,350 | (71,099) | (98,356) |

NOTE 16: USABLE RESERVES

Purpose of Earmarked Reserves

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

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

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

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

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

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

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

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

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

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

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

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

Corporate services reserves: This reserve funds corporate projects, 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.

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

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

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

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

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

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

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

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.

NOTE 16: USABLE RESERVES

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

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

COVID -19 Emergency Funding Reserve: Merton Council funding

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

COVID - 19: Business Rates Adjustment Reserve

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

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

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

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

Voluntary Sector Support/Merton Giving:

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

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

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-20 £000 | NOTE 17: UNUSABLE RESERVES SUMMARY | Note | 31-Mar-21 £000 |
|-------------------|--|------|-------------------|
| (348,077) | Revaluation Reserve (RR) | | (373,615) |
| (235,372) | Capital Adjustment Account (CAA) includes rounding | | (235,117) |
| (5,406) | Deferred Capital Receipts Reserve(DCRR) | | (5,390) |
| 283,767 | Pensions Reserve(PR) | 32 | 339,658 |
| (413) | Collection Fund Adjustment Account (CFAA) | | 16,383 |
| 4,815 | Accumulated Absences Account (AAA) | | 6,186 |
| 0 | DSG Adjustment Account | | 24,981 |
| (300,686) | Total Unusable Reserves | | (226,914) |

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-20 £000 | NOTE 17: REVALUATION RESERVE | | 31-Mar-21 £000 |
|-------------------|---|----------|-------------------|
| (302,267) | Balance at 1st April | | (348,077) |
| (67,283) | Upward revaluation of assets | (46,804) | |
| 15,597 | Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services | 13,779 | |
| (51,686) | Sub Total: Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of services within the CIES | | (33,025) |
| 5,876 | Difference between fair value depreciation and historical cost depreciation | 7,147 | |
| 0 | Accumulated gains on assets sold or scrapped | 340 | |
| 5,876 | Sub Total: Amount written off to the Capital Adjustment Account | | 7,487 |
| (348,077) | Balance at 31st March | | (373,615) |

NOTE 17: UNUSABLE RESERVES

Capital Adjustment Account

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

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

NOTE 17: UNUSABLE RESERVES

| 31-Mar-20 | | NOTE 17: Capital Adjustment Account | 31-Mar-21 | |
|-----------|---------------|--|-----------|---------------|
| £000 | £000 | | £000 | £000 |
| | (224,524) | Balance at 1st April | | (235,372) |
| | (5,876) | Amounts written out of the Revaluation Reserve | | (7,487) |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement | | |
| 22,494 | | Charges for depreciation and impairment of non-current assets | 24,211 | |
| 6,929 | | Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance | 2,796 | |
| (6,322) | | Reversal of revaluation losses charged to CIES of non-current asset in prior years where the non-current assets have had an upward revaluation in year | (1,017) | |
| 1,172 | | Amortisation of intangible assets | 1,382 | |
| 3,716 | | Revenue expenditure funded from capital under statute | 862 | |
| 216 | | Amounts of non-current assets written off on derecognition or sale as part of gain/loss on disposal | 2,528 | |
| | 28,205 | Sub Total | | 30,762 |
| | 22,329 | Net reversal of the cost of non-current assets consumed in the year | | 23,275 |
| | | Capital financing applied in the year: | | |
| (9,597) | | Use of Capital Receipts Reserve to finance new capital expenditure | (4,028) | |
| (12,940) | | Application of grants and contributions to capital financing or the Capital Grants Unapplied Account | (10,912) | |
| (2,814) | | Donations received | 0 | |
| (7,237) | | Statutory provision for the financing of capital investment charged against the General Fund (i) | (6,574) | |
| (624) | | Capital expenditure charged against the General Fund | (1,539) | |
| | (33,212) | Sub Total | | (23,053) |
| | 35 | Loan Repayments | | 35 |
| | (235,372) | Balance at 31st March | | (235,115) |

NOTE 17: UNUSABLE RESERVES

Pensions Reserve

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

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

| 2019/20 £000 | NOTE 17: Pensions Reserve | Note | 2020/21 £000 |
|-----------------|---|-----------|-----------------|
| 342,678 | Balance at 1st April | | 283,767 |
| (82,198) | Remeasurements of the net defined benefit liability/asset | 32 | 44,687 |
| 41,122 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Provision of Services in the Comprehensive and Expenditure Statement | 17/32 | 27,732 |
| (17,835) | Employer's pensions contributions and direct payments to pensioners payable in the year | 17/32 | (16,528) |
| 23,287 | Sub Total included in CIES | | 11,204 |
| 283,767 | Balance at 31st March | 32 | 339,658 |

NOTE 17: UNUSABLE RESERVES

Deferred Capital Receipts Reserve

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

| 2019/20 £000 | NOTE 17: Deferred Capital Receipts Reserve | 2020/21 £000 |
|-----------------|--|-----------------|
| (5,450) | Balance at 1st April | (5,406) |
| 28 | Transfer of deferred sale proceeds credited as part of the (gain) / loss on disposal to the Comprehensive Income and Expenditure Statement | 0 |
| 16 | Transfer to the Capital Receipts Reserve upon receipt of Cash | 16 |
| (5,406) | Balance at 31st March | (5,390) |

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

| 2019/20 £000 | NOTE 17: Collection Fund Adjustment Account | 2020/21 £000 |
|-----------------|--|-----------------|
| 476 | Balance at 1st April | (413) |
| (889) | Amount by which council tax income and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rate income calculated for the year in accordance with statutory requirements | 16,796 |
| (413) | Balance at 31st March | 16,383 |

Note: £413k in 19/20 Included £50k General Fund costs' allowance.

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.

| 2019/20 £000 | NOTE 17: Accumulated Absences Account | 2020/21 £000 |
|-----------------|---|-----------------|
| 4,614 | Balance at 1st April | 4,815 |
| (4,614) | Settlement or cancellation of accrual made at the end of the preceding year | (4,815) |
| 4,815 | Amounts accrued at the end of the current year | 6,186 |
| 201 | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with Statutory requirements | 1,371 |
| 4,815 | Balance as at 31st March | 6,186 |

Dedicated Schools Grant Adjustment Account

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

| 2019/20 £000 | NOTE 17: DSG Adjustment Account | 2020/21 £000 |
|-----------------|---|-----------------|
| 0 | Balance at 1st April | 0 |
| 0 | Deficit accumulated at March 2020 and transferred from Usable Reserves | 12,750 |
| 0 | Amount by which schools budget expenditure exceeded that of the available funding provided through the DSG. | 12,231 |
| 0 | Balance at 31st March | 24,981 |

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

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

| NOTE 18 Adjustments between Accounting and Funding Basis | 2019-20 | | | | 2020-21 | | | |
|--|----------------------|---------------------------|--------------------------|-------------------------------|----------------------|---------------------------|--------------------------|-------------------------------|
| | Usable Reserves | | | Note17 | Usable Reserves | | | Note17 |
| | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied | Movement in Unusable Reserves | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied | Movement in Unusable Reserves |
| £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | |
| Adjustments primarily involving the Capital Adjustment Account | | | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | | | |
| - | | | | | | | | |
| Charges for depreciation and impairment of non-current assets | (22,494) | 0 | 0 | 22,494 | (24,211) | | | 24,211 |
| Revaluation losses on Property Plant and Equipment | (6,929) | 0 | 0 | 6,929 | (2,796) | | | 2,796 |
| 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 | 6,322 | 0 | 0 | (6,322) | 1,017 | | | (1,017) |
| Amortisation of intangible assets | (1,172) | 0 | 0 | 1,172 | (1,382) | | | 1,382 |
| SubTotal to agree to Note 2 | (24,273) | 0 | 0 | 24,273 | (27,372) | 0 | 0 | 27,372 |
| Revenue expenditure funded from capital under statute | (3,716) | 0 | 0 | 3,716 | (862) | | | 862 |
| 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 | (216) | 0 | 0 | 216 | (2,528) | | | 2,528 |
| Subtotal of items reversed from the CIES involving the CAA | (28,205) | 0 | 0 | 28,205 | (30,762) | 0 | 0 | 30,762 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | | | |
| Statutory provision for the financing of capital investment (MRP) | 7,237 | 0 | 0 | (7,237) | 6,574 | | | (6,574) |
| Capital expenditure charged against the General Fund balance | 624 | 0 | 0 | (624) | 1,539 | | | (1,539) |
| Revaluation gains charged direct to Revaluation Reserve | 0 | 0 | 0 | 0 | | | | 0 |
| Subtotal of items not in the CIES inserted into the CAA | 7,861 | 0 | 0 | (7,861) | 8,113 | 0 | 0 | (8,113) |
| Totals | (20,344) | 0 | 0 | 20,344 | (22,649) | 0 | 0 | 22,649 |

| NOTE 18 Adjustments between Accounting and Funding Basis | 2019-20 | | | | 2020-21 | | | |
|--|------------------------------|-----------------------------------|----------------------------------|---------------------------------------|------------------------------|-----------------------------------|----------------------------------|---------------------------------------|
| | 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 CIES | 20,649 | 0 | (8,935) | (11,714) | 15,167 | 0 | (7,303) | (7,864) |
| Application of grants to capital financing transferred to the CAA | 0 | 0 | 4,040 | (4,040) | (712) | 0 | 3,760 | (3,048) |
| Totals | 20,649 | 0 | (4,895) | (15,754) | 14,455 | 0 | (3,543) | (10,912) |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 2,376 | (2,376) | 0 | 0 | 2,369 | (2,369) | 0 | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 9,597 | 0 | (9,597) | 0 | 4,028 | 0 | (4,028) |
| Use of Capital Receipts Reserve to finance debt premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | 0 | (16) | 0 | 16 | 0 | (16) | 0 | 16 |
| Repayment of debt | 0 | (35) | 0 | 35 | 0 | (35) | 0 | 35 |
| Totals | 2,376 | 7,170 | 0 | (9,546) | 2,369 | 1,608 | 0 | (3,977) |
| 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 | (27) | 0 | 0 | 27 | 0 | 0 | 0 | 0 |
| Sub Total | (27) | 0 | 0 | 27 | 0 | 0 | 0 | 0 |
| Total Adjustments | 22,998 | 7,170 | (4,895) | (25,273) | 16,824 | 1,608 | (3,543) | (14,889) |

| NOTE 18c Adjustments between Accounting and Funding Basis | 2019-20 | | | | 2020-21 | | | |
|---|----------------------------|---------------------------------|--------------------------------|-------------------------------------|----------------------------|---------------------------------|--------------------------------|--|
| | Usable Reserves | | | Note17 | Usable Reserves | | | Note17 |
| | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied | Movement in Unusable Reserves | General Fund Balance | Capital Receipts Reserves | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Adjustments involving the Pensions Reserve: | | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32) | (41,122) | 0 | 0 | 41,122 | (27,732) | 0 | 0 | 27,732 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 17,835 | 0 | 0 | (17,835) | 16,528 | 0 | 0 | (16,528) |
| Subtotal | (23,287) | 0 | 0 | 23,287 | (11,204) | 0 | 0 | 11,204 |
| 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 | 888 | 0 | 0 | (888) | (16,796.0) | 0.0 | 0.0 | 16,796 |
| Subtotal | 888 | 0 | 0 | (888) | (16,796) | 0 | 0 | 16,796 |
| 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 | (201) | 0 | 0 | 201 | (1,371) | 0 | 0 | 1,371 |
| Subtotal | (201) | 0 | 0 | 201 | (1,371) | 0 | 0 | 1,371 |
| Adjustment involving the DSG Adjustment Account: | | | | | | | | |
| Amount by which schools budget expenditure exceeded that of the available funding provided through the DSG. | | | | 0 | (24,981) | 0 | 0 | 24,981 |
| Subtotal | 0 | 0 | 0 | 0 | (24,981) | 0 | 0 | 24,981 |
| Total Adjustments | (22,600) | 0 | 0 | 22,600 | (54,352) | 0 | 0 | 54,352 |
| Total all Adjustments | (19,946) | 7,170 | (4,895) | 17,671 | (60,177) | 1,608 | (3,543) | 62,112 |

CAPITAL

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Depreciation

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

- Other Land and Buildings 20 - 50 years
- Vehicles, Plant, Furniture & Equipment 5 - 19 years
- Infrastructure 25 years

Amortisation

Intangible Assets are amortised over 5 years

Capital Commitments

| NOTE 19: Capital Commitments at Year End | 2019/20 £000 | 2020/21 £000 |
|---|-----------------|-----------------|
| The Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in the current year and future years totalling an estimated | 4,022 | 4,737 |

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

| NOTE 19: PROPERTY, PLANT AND EQUIPMENT | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infra-structure Assets | Community Assets | Surplus Assets | Assets under construction | Total Property, Plant and Equipment |
|---|--------------------------|--|------------------------|------------------|----------------|---------------------------|-------------------------------------|
| 2020/21 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | | | |
| At 1 April 2020 | 618,951 | 24,566 | 171,059 | 357 | 25,270 | 0 | 840,203 |
| Additions | 3,342 | 1,124 | 5,282 | 3,297 | 0 | 1,604 | 14,649 |
| Donations | | | | | | | 0 |
| Revaluation increase/(decreases) recognised in the Revaluation Reserve | 27,093 | 0 | 0 | 0 | 2,569 | 0 | 29,662 |
| Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (5,548) | 0 | 0 | 0 | (259) | 0 | (5,807) |
| Derecognition – Disposals | 0 | (604) | | | | 0 | (604) |
| Derecognition – Other | 0 | (1,442) | (3,221) | | | | (4,663) |
| Assets reclassified (to)/from held for Sale | 260 | | | | 4,340 | | 4,600 |
| Other – reclassifications | 0 | 0 | (204) | 0 | 0 | 204 | 0 |
| At 31 March 2021 | 644,098 | 23,644 | 172,916 | 3,654 | 31,920 | 1,808 | 878,040 |

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

| Net Book Value | | | | | | | |
|-------------------------|----------------|---------------|---------------|--------------|---------------|--------------|----------------|
| At 31 March 2021 | 620,065 | 15,442 | 97,721 | 3,654 | 31,920 | 1,808 | 770,610 |
| At 31 March 2020 | 602,141 | 17,107 | 99,477 | 357 | 25,270 | 0 | 744,352 |

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Comparative Movements in 2019/20

| NOTE 19: PROPERTY, PLANT AND EQUIPMENT | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infra-structure Assets | Community Assets | Surplus Assets | Assets under construction | Total Property, Plant and Equipment |
|---|--------------------------|--|------------------------|------------------|----------------|---------------------------|-------------------------------------|
| 2019/20 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | | | |
| At 1 April 2019 | 571,536 | 20,805 | 166,933 | 0 | 24,475 | 456 | 784,205 |
| Additions | 7,382 | 2,066 | 6,273 | 357 | 0 | 10 | 16,088 |
| Donations | 0 | 2,813 | 0 | 0 | 0 | 0 | 2,813 |
| Revaluation increase/(decreases) recognised in the Revaluation Reserve | 49,368 | 0 | 0 | 0 | 385 | 24 | 49,777 |
| Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (5,175) | 0 | 0 | 0 | 0 | 0 | (5,175) |
| Derecognition – Disposals | 0 | (20) | 0 | 0 | 0 | 0 | (20) |
| Derecognition – Other | 0 | (1,098) | (2,147) | 0 | 0 | 0 | (3,245) |
| Assets reclassified (to)/from held for Sale | (340) | 0 | 0 | 0 | (3,900) | 0 | (4,240) |
| Other – reclassifications | (3,820) | 0 | 0 | 0 | 4,310 | (490) | 0 |
| At 31 March 2020 | 618,951 | 24,566 | 171,059 | 357 | 25,270 | 0 | 840,203 |
| Accumulated Depreciation and Impairment | | | | | | | |
| At 1 April 2019 | 10,051 | 5,995 | 66,836 | 0 | 0 | 0 | 82,882 |
| Depreciation Charge | 13,236 | 2,581 | 6,677 | 0 | 0 | 0 | 22,494 |
| Depreciation written out to the Revaluation Reserve | (1,909) | 0 | 0 | 0 | 0 | 0 | (1,909) |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | (4,568) | 0 | 0 | 0 | 0 | 0 | (4,568) |
| 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 | (19) | 0 | 0 | 0 | 0 | (19) |
| Derecognition – Other | 0 | (1,098) | (1,931) | 0 | 0 | 0 | (3,029) |
| Other- reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2020 | 16,810 | 7,459 | 71,582 | 0 | 0 | 0 | 95,851 |

Net Book Value

| | | | | | | | |
|-------------------------|----------------|---------------|---------------|------------|---------------|----------|----------------|
| At 31 March 2020 | 602,141 | 17,107 | 99,477 | 357 | 25,270 | 0 | 744,352 |
|-------------------------|----------------|---------------|---------------|------------|---------------|----------|----------------|

| | | | | | | | |
|------------------|---------|--------|---------|---|--------|-----|---------|
| At 31 March 2019 | 561,485 | 14,810 | 100,098 | 0 | 24,475 | 456 | 701,323 |
|------------------|---------|--------|---------|---|--------|-----|---------|

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 2020/21,

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

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

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

| NOTE19: Analysis of rolling revaluation programme | Other Land & Buildings | Vehicles Plant, Furniture & Equipment | Infra-structure assets | Community assets | Surplus assets | Assets Under Construction | Total Property, Plant and Equipment |
|---|------------------------|---------------------------------------|------------------------|------------------|----------------|---------------------------|-------------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Valued at historical cost | - | 15,446 | 97,719 | 3,654 | - | 1,808 | 118,627 |
| Valued at current value in : | | | | | | | - |
| 2020/21 (incl. Schools) | 596,419 | - | - | - | 31,920 | - | 628,339 |
| 2019/20 | 15,889 | - | - | - | - | - | 15,889 |
| 2018/19 | 4,539 | - | - | - | - | - | 4,539 |
| 2017/18 | 3,218 | - | - | - | - | - | 3,218 |
| | - | - | - | - | - | - | - |
| Value at 31 March 2021 | 620,065 | 15,446 | 97,719 | 3,654 | 31,920 | 1,808 | 770,612 |

NOTE 20: INTANGIBLE ASSETS

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

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

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

| NOTE 20: INTANGIBLE ASSETS | 2019/20 | 2020/21 |
|---|--------------|--------------|
| | £000 | £000 |
| Balance at start of year: | | |
| Gross carrying amounts | 5,504 | 6,548 |
| Accumulated amortisation | (1,492) | (2,252) |
| Net carrying amount at start of year | 4,012 | 4,296 |
| Disposals: | | |
| Gross carrying amounts | (412) | (260) |
| Accumulated amortisation | 412 | 260 |
| Additions: | | |
| Purchases | 1,456 | 1,320 |
| Reclassified from assets under construction | 0 | 0 |
| Amortisation for the period | (1,172) | (1,382) |
| Net carrying amount at end of year | 4,296 | 4,234 |
| Comprising: | | |
| Gross carrying amounts | 6,548 | 7,608 |
| Accumulated amortisation | (2,252) | (3,374) |
| | 4,296 | 4,234 |

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 Council at the Balance Sheet date:

| NOTE 21: HERITAGE ASSETS | Art Collection | Regalia & Ceremonial | Total Assets |
|-------------------------------------|-----------------------|-------------------------------------|---------------------|
| | £000 | £000 | £000 |
| Cost or Valuation | | | |
| 1 April 2020 | 191 | 611 | 802 |
| 31 March 2021 | 191 | 611 | 802 |

NOTE 22: ASSETS HELD FOR SALE

| NOTE 22: ASSETS HELD FOR SALE | 2019/20 £000 | 2020/21 £000 |
|---|-----------------|-----------------|
| Balance outstanding at start of year | 700 | 4,940 |
| Recognition | 0 | 0 |
| Assets reclassified (to)/from Other Land & Buildings/Surplus Assets | 4,240 | (4,600) |
| Derecognition - Disposals | 0 | (340) |
| Balance outstanding at end of year | 4,940 | 0 |

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 2020/21. The market review by the valuer concluded there were no impairment losses in 2020/21. In 2019/20 there were no impairment losses.

NOTE 24: CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

The CFR is analysed in the following table:

| NOTE 24: CAPITAL EXPENDITURE AND CAPITAL FINANCING | 2019/20 £000 | 2020/21 £000 |
|---|-----------------|-----------------|
| Opening Capital Financing Requirement | 179,912 | 173,583 |
| <i>Adjustment to match CFR schedule</i> | 909 | 0 |
| Revised Capital Financing Requirement | 180,821 | 173,583 |
| Capital Investment | | |
| Property, Plant and Equipment | 16,088 | 14,650 |
| Intangible Assets | 1,456 | 1,320 |
| Revenue Expenditure Funded from Capital Under Statute | 3,716 | 861 |
| Other Investments | | |
| Housing Company - Shares | 1,900 | 100 |
| Sources of Finance | | |
| Capital receipts | (9,597) | (4,028) |
| Government grants and other contributions | (12,940) | (10,912) |
| Sums set aside from revenue: | | |
| Direct revenue contributions | (624) | (1,539) |
| Minimum Revenue Provision | (7,237) | (6,574) |
| Closing Capital Financing Requirement | 173,583 | 167,461 |
| (Decrease)/Increase in underlying need to borrowing (unsupported by government financial assistance) | (7,238) | (5,671) |
| Assets acquired under finance leases | 0 | (451) |
| (Decrease)/Increase in Capital Financing Requirement | (7,238) | (6,122) |

NOTE 25: LEASES

Council as Lessee

Finance Leases

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

| 31 March 2020 £000 | NOTE 25: LEASES -Finance Leases | 31 March 2021 £000 |
|-----------------------|--|-----------------------|
| 7,332 | Other Land and Buildings | 6,965 |
| 0 | Vehicles, Plant, Furniture and Equipment | 451 |
| 7,332 | Total | 7,416 |

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

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

| 31 March 2020 £000 | Finance lease liabilities (net present value minimum lease payments): | 31 March 2021 £000 |
|-----------------------|--|-----------------------|
| 4 | Current | 73 |
| 786 | Non current | 1,110 |
| 1,209 | Finance costs payable in future years | 1,214 |
| 1,999 | Total minimum lease payments | 2,397 |

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

| 31 March 2020 £000 | Minimum Lease Payments | 31 March 2021 £000 |
|-----------------------|---|-----------------------|
| 70 | Not later than one year | 161 |
| 285 | Later than one year and not later than five years | 647 |
| 1,644 | Later than five years | 1,589 |
| 1,999 | Total | 2,397 |
| 31 March 2020 £000 | Finance Lease Payments | 31 March 2021 £000 |
| 4 | Not later than one year | 73 |
| 20 | Later than one year and not later than five years | 334 |
| 766 | Later than five years | 775 |
| 790 | Total | 1,182 |

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 2020/21, £13k contingent rents were payable by the Authority (2019/20 £81k)

Operating Leases

The Council has acquired land, buildings and vehicles by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

| 31 March 2020 £000 | NOTE 25: LEASES - Operating Leases | 31 March 2021 £000 |
|-----------------------|---|-----------------------|
| 1,469 | Not later than one year | 1,470 |
| 5,867 | Later than one year and not later than five years | 5,855 |
| 2,267 | Later than five years | 816 |
| 9,603 | Total | 8,141 |

NOTE 25: LEASES

Council as Lessor

Finance Leases

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

The gross investment is made up of the following:

| 31 March 2020 £000 | NOTE 25: LEASES -Authority as Lessor -Finance Leases Finance lease debtor (net present value of minimum lease payments): | 31 March 2021 £000 |
|-----------------------|---|-----------------------|
| 16 | - current | 17 |
| 5,391 | - non current | 5,374 |
| 18,737 | Unearned finance income | 18,417 |
| 0 | Unguaranteed residual value of property | 0 |
| 24,143 | Gross investment in lease | 23,808 |

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

| NOTE 25: LEASES -Authority as Lessor -Finance Leases | Gross investment in the Lease | | Minimum Lease Payments | |
|---|-------------------------------|-----------------------|------------------------|-----------------------|
| | 31 March 2020 £000 | 31 March 2021 £000 | 31 March 2020 £000 | 31 March 2021 £000 |
| Not later than one year | 336 | 336 | 336 | 336 |
| Later than one year and not later than five years | 1,345 | 1,345 | 1,345 | 1,345 |
| Later than five years | 22,462 | 22,126 | 22,462 | 22,126 |
| Total | 24,143 | 23,808 | 24,143 | 23,808 |

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

| 31 March 2020 £000 | NOTE 25: LEASES - contingent rents were receivable by the Authority | 31 March 2021 £000 |
|-----------------------|---|-----------------------|
| 465 | Contingent rents | 494 |
| 465 | Total | 494 |

NOTE 25: LEASES

Operating Leases

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

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

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

| 2019/20 £000 | NOTE 25: LEASES - Operating Leases | 2020/21 £000 |
|-----------------|---|-----------------|
| 4,327 | Not later than one year | 4,408 |
| 14,420 | Later than one year and not later than five years | 13,885 |
| 28,979 | Later than five years | 27,720 |
| 47,726 | | 46,012 |

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 Education Skills and Funding Agency. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) (No 2) Regulations 2020. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2020/21 are as follows:

| | Central Expenditure £'000 | Individual Schools Budget £'000 | 2020/21 Total £'000 | 2019/20 Total £'000 | 2018/19 Total £'000 |
|---|------------------------------|------------------------------------|------------------------|------------------------|------------------------|
| Final DSG before Academy recoupment | | | 183,496 | 173,252 | 167,709 |
| Academy figure recouped | | | (28,046) | (25,262) | (22,106) |
| Total DSG figure after Academy recoupment | | | 155,450 | 147,990 | 145,603 |
| Plus: Brought forward from prior year | | | (12,750) | (2,909) | 928 |
| Less: Carry-forward to following year agreed in advance | | | 12,750 | | (614) |
| Agreed initial budgeted distribution in year | 34,367 | 121,083 | 155,450 | 145,081 | 145,917 |
| In year adjustments | | (22) | (22) | | |
| Final budgeted distribution | 34,367 | 121,061 | 155,428 | 145,081 | 145,917 |
| Less: Actual central expenditure | (34,367) | | (34,367) | (30,961) | (26,092) |
| Less: Actual ISB deployed to schools | | (133,292) | (133,292) | (126,870) | (123,348) |
| Plus: Local authority contribution | | | 0 | 0 | 0 |
| Carry forward | 0 | (12,231) | (12,231) | (12,750) | (3,523) |
| Carry-forward to following year agreed in advance | | | (12,750) | | 614 |
| Cumulative carry forward to following year | | | (24,981) | (12,750) | |

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

The £24.981 deficit balance is held in the Dedicated Schools Grant Adjustment Account within Unusable Reserves (see Note 17). This amount has been borrowed against future years' allocations. Further information about the DSG deficit is provided in the narrative statement.

NOTE 26: DEDICATED SCHOOLS GRANT

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

| NOTE 26: DEDICATED SCHOOLS GRANT | 2020/21 | | 2019/20 | |
|----------------------------------|-------------------|------------------------------|-------------------|------------------------------|
| | Number of Schools | Net surplus/ (deficit) £'000 | Number of Schools | Net surplus/ (deficit) £'000 |
| Maintained Primary | 27 | 3,947 | 27 | 3,329 |
| Maintained Secondary | 2 | 2,916 | 2 | 2,038 |
| Voluntary Aided Primary | 11 | 1,014 | 11 | 888 |
| Voluntary Aided Secondary | 2 | 830 | 2 | 761 |
| Foundation | 1 | 905 | 1 | 435 |
| Special Schools | 4 | 1,735 | 4 | 1,004 |
| Total | 47 | 11,347 | 47 | 8,455 |

NOTE 27: PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The Council has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, New Schools (Merton) Ltd. Following a partial termination of the contract in 2006, two schools were transferred to academies. In 2013, a third school also became an academy, but remains within the PFI scheme. Under the PFI contract, which runs until 2030, New Schools Ltd are contracted to provide soft services (such as caretaking and facilities maintenance) to the remaining three schools and one academy, in return for an annual payment. The contract does not allow for any of the four remaining schools to leave the arrangement before December 2029. At the end of the arrangement, the Council will retain ownership of the school land and buildings.

Value of Assets Held

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

| NOTE 27: PFI & Similar Value of Assets Held | 31 March 2020 £000 | 31 March 2021 £000 |
|--|-----------------------|-----------------------|
| Gross Value | 96,796 | 96,537 |
| Accumulated Depreciation | 0 | 0 |
| Net | 96,796 | 96,537 |

Value of Liabilities

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

The fair value of the liability has been estimated within a range between £41.389m and £43.274m.

| NOTE 27: PFI & Similar Value of Liabilities | Capital £000 | Interest £000 | Services £000 | Total £000 |
|--|-----------------|------------------|------------------|----------------|
| 31st March 2022 | 1,600 | 2,541 | 5,421 | 9,562 |
| Apr 2022 - Mar 2028 | 13,926 | 10,002 | 23,783 | 47,711 |
| Apr 2028 – Mar 2030 | 12,099 | 2,158 | 16,741 | 30,998 |
| Liability at 31st March 2021 | 27,625 | 14,701 | 45,945 | 88,271 |
| Liability at 31st March 2020 | 29,285 | 17,390 | 50,827 | 97,502 |
| Liability at 31st March 2019 | 31,594 | 20,300 | 54,057 | 105,951 |

NOTE 27: PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Partial Termination

| NOTE 27: PFI & Similar Partial Termination | Capital £000 | Interest £000 | Services £000 | Total £000 |
|---|-----------------|------------------|------------------|---------------|
| 31st March 2022 | 905 | 754 | | 1,659 |
| Apr 2022 - Mar 2028 | 5,598 | 2,697 | | 8,295 |
| Apr 2028 – Mar 2030 | 4,417 | 560 | | 4,977 |
| Liability at 31st March 2021 | 10,920 | 4,011 | 0 | 14,931 |
| | | | | |
| Liability at 31st March 2020 | 11,764 | 4,826 | 0 | 16,590 |
| Liability at 31st March 2019 | 12,552 | 5,699 | 0 | 18,251 |

Three Schools and One Academy

| NOTE 27: PFI & Similar Three Schools and One Academy | Capital £000 | Interest £000 | Services £000 | Total £000 |
|---|-----------------|------------------|------------------|---------------|
| 31st March 2022 | 695 | 1,787 | 5,421 | 7,903 |
| Apr 2022 - Mar 2028 | 8,328 | 7,305 | 23,783 | 39,416 |
| Apr 2028 – Mar 2030 | 7,682 | 1,598 | 16,741 | 26,021 |
| Liability at 31st March 2021 | 16,705 | 10,690 | 45,945 | 73,340 |
| | | | | |
| Liability at 31st March 2020 | 17,521 | 12,564 | 50,827 | 80,912 |
| Liability at 31st March 2019 | 19,042 | 14,601 | 54,057 | 87,700 |

MEMBERS, OFFICERS AND RELATED PARTIES

NOTE 28: MEMBERS' ALLOWANCES

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

| NOTE 28: MEMBERS' ALLOWANCES | 2019/20 | 2020/21 |
|-------------------------------------|----------------|----------------|
| | £000 | £000 |
| Allowances | 722 | 728 |
| Total | 722 | 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, 96 voluntary aided and foundation school employees have been excluded from 2020/21 and 76 have been excluded from 2019/20 figures.

| NOTE 29: OFFICERS' REMUNERATION | 2019/20 | 2019/20 | 2020/21 | 2020/21 |
|--|-----------------------|--------------------|-----------------------|--------------------|
| Remuneration Band £ | Teaching Staff | Other Staff | Teaching Staff | Other Staff |
| 50,000 – 54,999 | 79 | 91 | 93 | 83 |
| 55,000 – 59,999 | 54 | 42 | 48 | 60 |
| 60,000 – 64,999 | 32 | 23 | 37 | 23 |
| 65,000 – 69,999 | 14 | 17 | 19 | 13 |
| 70,000 – 74,999 | 7 | 6 | 15 | 12 |
| 75,000 – 79,999 | 7 | 15 | 8 | 15 |
| 80,000 – 84,999 | 5 | 5 | 6 | 10 |
| 85,000 – 89,999 | 2 | 2 | 4 | 3 |
| 90,000 – 94,999 | 2 | 1 | 3 | 0 |
| 95,000 – 99,999 | 1 | 4 | 0 | 3 |
| 100,000 – 104,999 | 3 | 3 | 2 | 6 |
| 105,000 – 109,999 | 0 | 0 | 1 | 0 |
| 110,000 – 114,999 | 0 | 0 | 1 | 0 |
| 115,000 – 119,999 | 0 | 1 | 0 | 0 |
| 120,000 – 124,999 | 0 | 0 | 0 | 1 |
| 125,000 – 129,999 | 0 | 0 | 0 | 0 |
| 130,000 – 134,999 | 0 | 0 | 0 | 1 |
| 135,000 – 139,999 | 1 | 0 | 0 | 0 |
| 140,000 – 144,999 | 1 | 3 | 1 | 0 |
| 145,000 – 149,999 | 0 | 1 | 1 | 2 |
| 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 | 1 |
| 170,000 – 174,999 | 0 | 0 | 0 | 0 |
| 175,000 – 179,999 | 0 | 0 | 0 | 0 |
| 180,000 – 184,999 | 0 | 0 | 0 | 0 |
| 185,000 – 189,999 | 0 | 0 | 0 | 0 |
| 190,000 – 194,999 | 0 | 0 | 0 | 0 |
| 195,000 – 199,999 | 0 | 1 | 0 | 0 |
| 200,000 – 204,999 | 0 | 0 | 0 | 1 |
| Total | 208 | 215 | 239 | 234 |

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.

| NOTE 29: OFFICERS' REMUNERATION - Exit Packages | | | | | | | | |
|--|-----------------------------------|-----------|-----------------------------------|-----------|--|-----------|--|----------------|
| Exit package cost band (including special payments) £ | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
| | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 £ | 2020/21 £ |
| 0 - 20,000 | 40 | 12 | 6 | 10 | 46 | 22 | 261,204 | 143,191 |
| 20,001 - 40,000 | 4 | 3 | 7 | 0 | 11 | 3 | 287,540 | 73,849 |
| 40,001 - 100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 44 | 15 | 13 | 10 | 57 | 25 | 548,744 | 217,040 |

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

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

NOTE 29: OFFICERS' REMUNERATION

The following table provides this detail for 2020/21 and 2019/20 with supporting sub-notes.

| NOTE 29: OFFICERS' REMUNERATION - remuneration of certain senior employees: | | | | | | | | |
|--|-----------|--------------|----------------------------------|----------------|-----------|--------------|----------------------------------|----------------|
| Post holder information | 2019/20 | | | | 2020/21 | | | |
| | Sub-Notes | Remuneration | Employer's Pension contributions | Total | Sub-Notes | Remuneration | Employer's Pension contributions | Total |
| | | £ | £ | £ | | £ | £ | £ |
| Chief Executive Ged Curran | 6 | 196,341 | 0 | 196,341 | 1 | 201,741 | 0 | 201,741 |
| Director of Corporate Services Caroline Holland | 7 | 143,280 | 21,779 | 165,059 | 2 | 147,222 | 25,116 | 172,338 |
| Director of Community and Housing throughout 19/20 and 20/21 & Interim Director of Children, Schools and Families from 3/12/20 Hannah Doody | 8 | 146,181 | 22,220 | 168,401 | 3 | 169,218 | 28,868 | 198,086 |
| Director of Children, Schools and Families Rachael Wardell (Left - 08/12/20) | 9 | 142,973 | 21,732 | 164,705 | 4 | 101,314 | 17,284 | 118,598 |
| Director of Environment & Regeneration Chris Lee | 10 | 143,280 | 21,779 | 165,059 | 5 | 147,222 | 25,116 | 172,338 |

NOTE 29: OFFICERS' REMUNERATION

Sub-notes 2020/21

| NOTE 29: OFFICERS' REMUNERATION - remuneration of certain senior employees- Sub Notes |
|---|
| 2020/21 |
| <p>1. Mr G. Curran, Chief Executive, remuneration for 2020/21 was a salary of £201,741 A separate payment of £66.90 was received for attendance at GLA election e-count training, prior to the postponement of the election. A further £800 payment was received for Local Authority Gold Team duties.</p> |
| <p>2. Ms C. Holland, Director of Corporate Services, remuneration for 2020/21 was a salary of £147,222 A separate payment of £66.90 was received for attendance at GLA election e-count training, prior to the postponement of the election. A further £800 payment was received for Local Authority Gold Team duties.</p> |
| <p>3. Ms H. Doody, Director of Community and Housing and Interim Director of Children, Schools and Families, remuneration for 2020/21 was a salary of £169,218 As at the end of March 2020/21 annualised salary was £154,125 for the substantive post of Director of Community and Housing. Annualised honorarium for covering the Director of Children, Schools and Families on an interim basis was £46,020. The post of Director of Community and Housing was held throughout the entirety of 2020/21. The post of Interim Director of Children, Schools and Families was held from 3 December 2020. No additional payments were received.</p> |
| <p>4. Ms R. Wardell, Director of Children, Schools and Families, remuneration for 2020/21 was a salary of £101,314 As at the leaving date of 8 December 2020 annualised salary was £147,222 No additional payments were received.</p> |
| <p>5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2020/21 was a salary of £147,222 No additional payments were received.</p> |

NOTE 29: OFFICERS' REMUNERATION

| 2019/20 |
|--|
| <p>6. Mr G. Curran, Chief Executive, remuneration for 2019/20 was a salary of £196,341 A separate payment of £6,515 was received for Acting Returning Officer duties at the General Election on 12 December 2019. Another separate payment of £6,722 was received for Local Returning Officer duties at the EU Parliament Election on 23 May 2019. Another separate payment of £608.96 was received for Returning Officer duties at the Cannon Hill by election on 20 June 2019. A further £800 payment was received for Local Authority Gold Team duties.</p> |
| <p>7. Ms C. Holland, Director of Corporate Services, remuneration for 2019/20 was a salary of £143,280 A separate payment of £2,535.20 was received for Deputy Acting Returning Officer duties at the General Election on 12 December 2019. Another separate payment of £2,535.20 was received for Deputy Local Returning Officer duties at the EU Parliament Election on 23 May 2019.</p> |
| <p>8. Ms H. Doody, Director of Community and Housing, remuneration for 2019/20 was a salary of £146,181 As at the end of March 2019/20 annualised salary was £150,000. A separate payment of £777.54 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the General Election on 12 December 2019. Another separate payment of £994.72 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the EU Parliament Election on 23 May 2019.</p> |
| <p>9. Ms R. Wardell, Director of Children, Schools and Families, remuneration for 2019/20 was a salary of £142,973 As at the end of March 2019/20 annualised salary was £143,280. A separate payment of £415.06 was received for Polling Station Inspector duties and travel at the General Election on 12 December 2019.</p> |
| <p>10. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2019/20 was a salary of £143,280 A separate payment of £777.54 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the General Election on 12 December 2019. Another separate payment of £994.72 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the EU Parliament Election on 23 May 2019. A further £800 payment was received for Local Authority Gold Team duties.</p> |

MEMBERS OFFICERS AND RELATED PARTIES

NOTE 30 RELATED PARTIES

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

Central Government

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

Members

Members of the Authority have direct control over the financial and operating decisions of the Authority. The total of members' allowances paid in 2020/21 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; 49/60 councillors returned (including 1 former councillor). During 2020/21, 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 £950k. The amounts disclosed below are those material to either party of the related party transaction (i.e. the Authority or the other entity).

| Organisation | 2020/21 £000 |
|--|-----------------|
| Merton & Morden Guild | 52 |
| Merton Community Transport | 39 |
| Springfield Advice and Law Centre | 59 |
| North East Mitcham Community Association | 40 |
| South Winbledon Community Association | 6 |
| Evolve Housing & Support | 404 |
| Age UK Merton | 350 |
| Total | 950 |

Senior Officers

Senior officers of the Council also have direct control over the financial and operating decisions of the Council. Senior officers are required to make a specific declaration in respect of related party transactions. The Council issued 23 standard letters to current senior officers; there have been 21 responses.

Two senior officers are directors of CHAS 2013 Ltd and two senior officers are directors of Merantun Development Ltd (See Note 34). One senior officer is a trustee for the London Grid For Learning which has transactions with the Council amounting to £650k in 2020/21. 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.

NOTE 30 RELATED PARTIES

Voluntary Organisations

The Authority made grants and payments totalling £950k (£644k in 2019/20) to voluntary and other organisations whose senior management included Members of the Authority (or members of their immediate family or household). These payments are summarised in the above disclosure on members' related party transactions. In all instances the grants were made with proper consideration of declarations of interest. The Authority's Register of Members' Interest is open to public inspection on the Authority's website.

Pension Fund

The Pension Fund is a separate entity from the authority with its own Statement of Accounts. In 2020/21 an administration fee of £0.550m was paid by the Fund to the Authority (£0.632m in 2019/20, see Pension Fund Accounts, Note 11).

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

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

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

Entities Controlled by the Council

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. In 2020/21, the employer's contribution was 23.68% (19/20 was 16.48% April 19 to August 19 then 23.68% September 19 to March 2020). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 10,000 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31st March 2021, the Council's own contributions equate to approximately 0.25%.

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

The Council also pays an employer's contribution of 14.38% (14.38% in 2019/20) to the NHS Pension Scheme, for staff who transferred to the Authority but remain in the NHS scheme. The NHS scheme was previously a defined benefit scheme, with staff benefits linked to their average earnings in the final ten years of employment. From 1st April 2015, it became a career average revalued earnings scheme.

NOTE 31: PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

| NOTE 31: Authoritys Contribution | 2019/20 £000 | 2020/21 £000 |
|--|-----------------|-----------------|
| Authority's contribution to DfE teacher's pension scheme | 11,296 | 13,467 |
| Authority's contribution to NHS pension scheme | 82 | 70 |

Assuming a 1.5% staff pay award in 2021/22, an estimate of the contributions to be paid in the next financial year would be:

| NOTE 31: Estimate of the contributions to be paid in the next financial year | 2021/22 £000 |
|--|-----------------|
| Authority's contribution to DfE teacher's pension scheme | 13,669 |
| Authority's contribution to NHS pension scheme | 71 |

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme is administered locally by the London Borough of Merton, in accordance with the Local Government Pension Scheme Regulatory Framework 2015/16. This is a defined benefit scheme, whereby both the Council and employees make contributions into a fund. The contributions are calculated with the aim of balancing pension liabilities and investment assets. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings, rather than final salary.

The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2020/21, which governs the preparation of financial statements for Local Government Pension Scheme funds.

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

Transactions relating to Post-Employment Benefits

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

The cumulative remeasurement of the net defined benefit liability/asset recognised in the Comprehensive Income and Expenditure Statement is a loss of £44.687m (£82.198m gain in 2019/20).

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

| NOTE 32: Local Government Pensions Scheme | 2019/20 | 2020/21 |
|---|-----------------|---------------|
| Transactions | £000 | £000 |
| Comprehensive Income and Expenditure Statement | | |
| Cost of Services: | | |
| Service Cost | 32,452 | 20,988 |
| Administration | 652 | 781 |
| Finance and Investment Income and Expenditure | | |
| Net interest on defined liability | 8,018 | 5,963 |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 41,122 | 27,732 |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | | |
| Remeasurements of the net defined benefit liability/asset | (82,198) | 44,687 |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | (41,076) | 72,419 |
| 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 | (41,122) | (27,732) |
| Actual amount charged against the General Fund Balance for pensions in the year: | | |
| Employers' contributions payable to scheme | 17,835 | 16,528 |

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Assets and Liabilities in relation to Post-Employment Benefits

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

| NOTE 32: Local Government Pensions Scheme Assets and Liabilities | 2019/20 £000 | 2020/21 £000 |
|---|------------------|------------------|
| Opening Defined Benefit Obligation | 1,008,244 | 918,365 |
| Current Service Cost | 32,023 | 30,567 |
| Interest Cost | 23,920 | 21,280 |
| Change in financial assumptions | (89,601) | 241,200 |
| Change in demographic assumptions | (42,177) | 0 |
| Experience loss/(gain) on defined benefit obligation | 9,328 | (12,343) |
| Liabilities extinguished on settlements | (81) | 0 |
| Estimated benefits paid net of transfers in | (27,675) | (30,588) |
| Past service costs including curtailments | 461 | 84 |
| Contributions by Scheme participants | 5,554 | 6,302 |
| Unfunded pension payments | (1,631) | (1,592) |
| Defined Benefit Obligation at end of period | 918,365 | 1,173,275 |

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

| NOTE 32: Local Government Pensions Scheme Reconciliation of fair value of the scheme (plan) assets: | 2019/20 £000 | 2020/21 £000 |
|---|-----------------|-----------------|
| Opening fair value of Scheme assets | 665,567 | 634,598 |
| Interest on assets | 15,902 | 15,317 |
| Return on assets less interest | (44,489) | 179,644 |
| Other actuarial gains/(losses) | 4,236 | 4,526 |
| Administration expenses | (652) | (781) |
| Contributions by employer including unfunded | 17,835 | 16,528 |
| Contributions by Scheme participants | 5,554 | 6,302 |
| Estimated benefits paid plus unfunded net of transfers in | (29,306) | (32,180) |
| Settlement prices received/(paid) | (49) | 9,663 |
| Fair value of Scheme assets at end of period | 634,598 | 833,617 |

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

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

| NOTE 32: Local Government Pensions Scheme LBM asset share - bid value | 2019/20 | | 2020/21 | |
|--|----------------|------|----------------|------|
| | £000 | % | £000 | % |
| Equities | 374,618 | 59% | 540,131 | 65% |
| Gilts | 82,000 | 13% | 68,202 | 8% |
| Property | 22,318 | 3% | 22,368 | 3% |
| Cash | 3,324 | 1% | 31,910 | 4% |
| Multi Asset Credit | 55,081 | 9% | 69,256 | 8% |
| Diversified Growth | 58,005 | 9% | 67,624 | 8% |
| Infrastructure | 39,252 | 6% | 33,856 | 4% |
| Total | 634,598 | 100% | 833,347 | 100% |

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

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Scheme History

| NOTE 32: Scheme History | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Present value of scheme Liabilities | | | | | | |
| The Local Government Pension Scheme (LGPS) | (722,265) | (937,022) | (932,840) | (981,934) | (900,477) | (1,155,307) |
| Unfunded Liabilities | (23,507) | (29,714) | (28,157) | (26,311) | (17,888) | (17,968) |
| Total Liabilities | (745,772) | (966,736) | (960,997) | (1,008,245) | (918,365) | (1,173,275) |
| Fair value of assets in the LGPS | 482,618 | 598,628 | 610,910 | 665,567 | 634,598 | 833,617 |
| Surplus / (Deficit) in the scheme | (263,154) | (368,108) | (350,087) | (342,678) | (283,767) | (339,658) |

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £340m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, the fund was 103% funded and has no deficit as per the 2019 actuarial valuation. Subsequently the Council no longer pays additional employer's contribution to the Fund.

The funding level of the Merton LGPS fund and the Council is annually monitored and is formally calculated every three years by our Actuary. Any future deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Basis for Estimating Assets and Liabilities

| NOTE 32: Local Government Pensions Scheme | | |
|--|---------|---------|
| Basis for Estimating Assets and Liabilities | 2019/20 | 2020/21 |
| Long Term expected rate of return on assets in the scheme: | | |
| Mortality Assumptions | | |
| Longevity at 65 for current pensioners retiring today at 65: | | |
| Men | 21.4 | 21.5 |
| Women | 24.0 | 24.1 |
| Longevity at 65 for future pensioners retiring in 20 years at 65: | | |
| Men | 22.8 | 22.9 |
| Women | 25.5 | 25.6 |
| | % | % |
| Rate of Inflation | 2.35 | 2.00 |
| Rate of increase in salaries | 2.90 | 3.80 |
| Rate of increase in pensions | 1.90 | 2.80 |
| Rate for discounting scheme liabilities | 2.35 | 2.00 |
| Take up option to convert annual pension into retirement lump sum | 50 | 50 |

The current estimate of the duration of the Council's liabilities is 20 years. The following assumptions have also been made:

- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age.
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Sensitivity Analysis

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

| NOTE 32: Local Government Pensions Scheme | | | |
|---|-----------|-----------|-----------|
| Sensitivity Analysis | £000 | £000 | £000 |
| Adjustment to discount rate | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 1,150,921 | 1,173,275 | 1,196,086 |
| Projected service cost | 44,159 | 45,640 | 47,165 |
| Adjustment to long term salary increase | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 1,175,009 | 1,173,275 | 1,171,553 |
| Projected service cost | 45,664 | 45,640 | 45,615 |
| Adjustment to pension increases and deferred revaluation | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 1,194,150 | 1,173,275 | 1,152,794 |
| Projected service cost | 47,150 | 45,640 | 44,173 |
| Adjustment to mortality age rating assumption | +1 Year | None | -1 Year |
| Present value of total obligation | 1,227,666 | 1,173,275 | 1,121,439 |
| Projected service cost | 47,556 | 45,640 | 43,792 |

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Estimation of Contributions to be paid in 2021/22

The table below shows the estimated contributions to be paid to the plan during 2021/22, assuming a 2% staff pay award.

| NOTE 32: DEFINED BENEFIT PENSION SCHEMES Estimation of Contributions to be paid next year | 2019/20 Actual £000 | 2020/21 Actual £000 | 2021/22 Estimated £000 |
|--|---------------------------|---------------------------|------------------------------|
| Employers contributions - normal | 12,341 | 14,130 | 14,796 |
| Employers Additional Funding (Deficit Funding) | 3,552 | 0 | 0 |
| Employers Additional Funding (Pension Strain) | 212 | 112 | 116 |
| Employees contributions | 5,479 | 6,046 | 6,576 |
| Total | 21,584 | 20,288 | 21,488 |

Associated Risks

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

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

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

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

OTHER DISCLOSURE NOTES

NOTE 33: EVENTS AFTER BALANCE SHEET DATE

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

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

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

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

NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiaries

CHAS 2013 Ltd

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

Governance Arrangements

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

Trading Arrangements with London Borough of Merton

In 2020/21, CHAS 2013 Ltd's total comprehensive income was £0.837m (£3.45m in 2019/20). Dividends received by LBM from CHAS 2013 Ltd are recognised within the Authority's comprehensive income and expenditure statement (CIES). In 2020/21, £1.722 dividend income was recognised (£1.16m in 2019/20).

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 2020/21, the licence fee was £0.240m (2019/20 £0.5m), which has been recognised within financing and investment income and expenditure in the CIES.

Group Accounting

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

At the year end, the intercompany balance of £0.396m was owed by CHAS to LBM (2019/20 £2.93m was due from LBM to 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 (MDL)

Governance Arrangements

Merantun Development Ltd is a wholly owned subsidiary of LB Merton, based in the Council'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 with the aim of developing housing and commercial property for market rent. LBM supplied working capital for the development

Decision to Cease Trading and Wind-up company

At their meeting in December 2020 the MDL Board reviewed their Business Plan and determined that, in the light of increasing costs and a reduction in anticipated return, the project was no longer financially viable. The Board resolved to cease trading and wind up the company. Land that had gained planning permission, remained in the ownership of the Council and was not transferred to Merantun.

Full details of the review are available at

<https://democracy.merton.gov.uk/documents/g3932/Printed%20minutes%20Monday%2021-Dec-2020%2019.15%20Merantun%20Development%20Limited%20Sub-Committee.pdf?T=1>

The company has now ceased to trade and will be wound up at Companies House in 2021/22.

Trading Arrangements with London Borough of Merton

During 2020/21 the subsidiary made a loss of £0.185m (£1.525m loss in 2019/2020). A payment of £111k was made to Merantun Ltd during 2020/21. At the year end, the intercompany balance due from Merantun Development Ltd to LBM was £nil (2019/20: £nil). No land transfers had been made.

Group Accounting

LBM's investment in Merantun Development Ltd is recognised and measured at cost in the Council's balance sheet. The equity investment in Merantun (£2.161m) was written down to nil at 31 March 2021.

Merantun Development Ltd 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

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 31/03/2021, including cash held and loans to MSJCB, there was a net creditor balance of £359k (net creditor balance of £282k at 31/03/2020).

Group Accounting

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

Accounts

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

NOTE 35: TRADING OPERATIONS

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

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

| NOTE 35: TRADING OPERATIONS | | 2019/20 | 2020/21 |
|--|--------------------------|----------------|----------------|
| Included within Financing and Investment Income and Expenditure | | £000 | £000 |
| Printing and Graphic Design | Turnover | (88) | (13) |
| | Expenditure | 67 | 14 |
| Deficit/(surplus) | | (21) | 1 |
| Translation Services | Turnover | (162) | (23) |
| | Expenditure | 119 | 25 |
| Deficit/(surplus) | | (43) | 2 |
| Transport | Turnover | (162) | (85) |
| | Expenditure | 278 | 25 |
| Deficit/(surplus) | | 116 | (60) |
| All trading operations | | 2019/20 | 2020/21 |
| | | £000 | £000 |
| Turnover | | (412) | (121) |
| Expenditure | | 464 | 64 |
| Total | Deficit/(surplus) | 52 | (57) |

NOTE 36: INVENTORIES

The stock balance of £1k in 2020/21 represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

| NOTE 36: INVENTORIES | Consumable Stores | |
|---|-------------------|-----------------|
| | 2019/20 £000 | 2020/21 £000 |
| Balance outstanding at the start of the year | 1 | 1 |
| Purchases | 1,249 | 1,559 |
| Recognised as an expense in the year | (1,249) | (1,559) |
| Balance outstanding at year-end | 1 | 1 |

NOTE 37: POOLED BUDGETS – Partnership – Section 75

Community Equipment Services

During 2020/21 the Council has continued to host a Partnership Agreement with the Merton Clinical Commissioning Group, under Section 75 of the National Health Service Act 2006, to provide integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services.

| NOTE 37: POOLED BUDGETS | Total | Total |
|--|--------------|--------------|
| POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON | 2019/20 | 2020/21 |
| MEMORANDUM ACCOUNT | £000 | £000 |
| INCOME | | |
| PARTNERS' CONTRIBUTIONS | | |
| Brought forward | 0 | 0 |
| LB Merton | 385 | 353 |
| Merton CCG | 364 | 565 |
| Additional From LB Merton (BCF Contribution) | 530 | 647 |
| TOTAL CONTRIBUTIONS | 1,279 | 1,565 |
| EXPENDITURE | | |
| Community Equipment Services | 1,273 | 1,559 |
| Stock Adjustment | 0 | 0 |
| Management & Support Costs | 6 | 6 |
| TOTAL EXPENDITURE | 1,279 | 1,565 |
| NET (UNDER) / OVERSPEND CARRIED FORWARD | 0 | 0 |

NOTE 37: POOLED BUDGETS – Partnership – Section 75

Better Care Fund

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

The CCG receives the full BCF allocation from NHS England, then transfers a proportion into a pooled fund, hosted by the Council, to be spent on services. The Council makes a £1 contribution to the pool. The gross income and expenditure of the partnership is shown in the following table. As per accounting standards, the Council records only its £1 share of the pooled funds as expenditure in its Comprehensive Income and Expenditure Statement (CIES). The CCG's contribution, therefore, is not recognised in the Council's CIES.

| Better Care Fund Pooled Budget - Income and Expenditure | 2019/20 | 2020/21 |
|---|----------------|----------------|
| | £000 | £000 |
| INCOME | | |
| Merton CCG contribution to pool | (5,759) | (6,326) |
| LBM contribution to pool | 0 | 0 |
| Total contributions | (5,759) | (6,326) |
| Expenditure | | |
| Integrated Locality Teams | 831 | 831 |
| Seven Day Working | 505 | 528 |
| Community Equipment and Adaptions | 530 | 647 |
| Protecting and Modernising Social Care | 3,692 | 3,692 |
| Investing in Integration Infrastructure | 149 | 149 |
| Developing Personal and Health Care Budgets | 52 | 52 |
| New Initiative | 0 | 427 |
| Total revenue expenditure | 5,759 | 6,326 |

OTHER DISCLOSURE NOTES

NOTE 38: EXTERNAL AUDIT COSTS

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

| NOTE 38: EXTERNAL AUDIT COSTS | 2019/20 £000 | 2020/21 £000 |
|---|-------------------------|-------------------------|
| Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year | 149 | 110 |
| Fees payable to the External Auditor for other services provided in year (Teachers Pensions and Housing Benefit audits) | 62 | 119 |
| Total | 211 | 229 |
| The 2020/21 figures include expenditure for audit services and non-audit services relating to previous years. The audits of these financial years were still open during this financial year. | | |

NOTE 39: ON-STREET PARKING ACCOUNT

On Street Parking: The Council maintains a memorandum account in respect of on street parking to show how the income from it is spent. In 2020/21 the Council made a surplus of £6.492m (£10.157m in 2019/20), which was applied notionally as a contribution to concessionary fares in the Community and Housing budget, the cost of which was £8.982m in 2020/21. The contribution was less than the full cost of concessionary fares.

| NOTE 39: On-Street Parking Account | 2019/20 | | | | 2020/21 | | | |
|--|-----------------|----------------|---------------------------|-----------------|----------------|--------------|---------------------------|-----------------|
| | Parking | Bus Lanes | Moving Traffic Violations | Total | Parking | Bus Lanes | Moving Traffic Violations | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Income | | | | | | | | |
| Penalty Charge Notices | (3,720) | (1,157) | (3,389) | (8,266) | (2,395) | (563) | (1,889) | (4,847) |
| Parking Permits | (3,566) | 0 | 0 | (3,566) | (4,144) | 0 | 0 | (4,144) |
| On-Street Parking Charges | (3,959) | 0 | 0 | (3,959) | (3,066) | 0 | 0 | (3,066) |
| Other Income | | | | 0 | | | | 0 |
| Total Income | (11,245) | (1,157) | (3,389) | (15,791) | (9,605) | (563) | (1,889) | (12,057) |
| Expenditure | | | | | | | | |
| On-Street Parking | 1,096 | 341 | 999 | 2,436 | 1,284 | 302 | 1,013 | 2,598 |
| Parking Management & Planning | 241 | 0 | 0 | 241 | 128 | 0 | 0 | 128 |
| Parking Enforcement | 1,331 | 414 | 1,212 | 2,957 | 1,402 | 329 | 1,106 | 2,838 |
| Contribution to Public Transport Including (Concessionary Fares) | 8,577 | 402 | 1,178 | 10,157 | 6,790 | (68) | (230) | 6,492 |
| Total Expenditure | 11,245 | 1,157 | 3,389 | 15,791 | 9,605 | 563 | 1,889 | 12,057 |
| NET | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| NOTE 39: On-Street Parking Account Memorandum Items | 2019/20 £000 | Surplus Applied £000 | 2020/21 £000 | Surplus Applied £000 |
|---|-----------------|-------------------------|-----------------|-------------------------|
| Total Expenditure on: | | | | |
| Concessionary fares | 8,922 | 8,922 | 8,982 | 6,492 |
| Carriageway & Footway Day-to-Day Maintenance | 2,017 | 1,235 | 2,035 | 0 |
| Carriageway & Footway Planned Maintenance | 3,450 | 0 | 2,863 | 0 |
| Total | 14,389 | 10,157 | 13,880 | 6,492 |

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

TECHNICAL ANNEX - ACCOUNTING POLICIES

NOTE 40: ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2020/21 financial year and its position at the year end of 31st March 2021. 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 2020/21, supported by International Financial Reporting Standards (IFRS).

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

The accounts are prepared on a going concern basis.

ii. Accruals of Income and Expenditure

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

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

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

- a) Housing benefit payments and the related subsidy grant are recorded when the payment to housing benefit recipients are received.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

b) Income received from Penalty Charge Notices (PCNs) does not equate to the full recorded value of PCNs issued. This is due to prompt payment discounts, disputed notices and other mitigating circumstances. Consequently, income from PCNs is recognised on a cash basis. This accounting treatment is consistent year-on-year, therefore the revenue impact of not accruing PCN income in the CIES is not material.

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

iii. Cash and Cash Equivalents

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

v. Charges to Revenue for Non-Current Assets

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

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

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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

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

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

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

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

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

vii. Employee Benefits

Benefits Payable During Employment

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual and sick leave and non-monetary benefits in lieu of salary (e.g. childcare vouchers), 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 to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-employment Benefits

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

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

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

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

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

The liabilities of the Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate that is in accordance with actuarial guidance.

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

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

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

Service cost comprising:

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

Remeasurements comprising:

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

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Pension Fund:

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

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

viii. Events After Balance Sheet Date

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

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

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

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

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

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

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

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

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

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

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

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

x. Government Grants and Contributions

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

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

Amounts recognised as due to the Authority are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the revenue grant or contribution are required

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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 CIES.

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

Business Improvement Districts

A Business Improvement District (BID) is a precisely defined area within the local Authority's boundaries within which the businesses have voted to invest collectively in local improvements to enhance their trading environment. The Authority has 3 BIDS (Wimbledon, Willow Lane and South Wimbledon Business Area).

Community Infrastructure Levy

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

xi. Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the Authority in pursuit of its overall objectives in relation to the maintenance of heritage. The majority of the Authority's heritage assets are held in the Civic Centre, with a number of paintings of minor value held in the Authority's libraries around the borough. Heritage assets are measured at valuation in accordance with FRS30 but where it is not possible to obtain a valuation at a cost which is commensurate with the benefit to the users of the financial statements, heritage assets are measured at historical cost (less any depreciation, amortisation

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and impairment). Depreciation or amortisation is not required on assets with indefinite lives.

xii. Intangible Assets

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

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

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

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

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

xiii. Interest in Subsidiaries and Other Entities

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

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

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

xiv. Inventories and Long Term Contracts

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

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year. The inventory balance is the Authority and the Merton Clinical Commissioning Group's shared value of the aids and adaptations stock owned by the Pooled Account. The stock is maintained in partnership with Croydon Integrated Procurement Hub (IPH). Inventories are measured at the lower of cost and current replacement cost.

xv. Jointly Controlled Operations

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

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

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

Shared Internal Audit Service: LB Richmond hosts the service, which provides the internal audit function for LB Merton, RB Kingston, LB Wandsworth and LB Sutton. Each Authority makes a financial contribution to LB Richmond. This contribution is accounted for as part of the Corporate Services Department in the CIES; there are no balance sheet implications. A shared service board with senior representatives

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from each council oversees the delivery of the service and arrangements between the boroughs.

South London Legal Partnership: this is a cost-sharing arrangement with the LB Richmond, LB Sutton, RB Kingston and LB Wandsworth. Merton administers the service and recharges the other authorities with their share of the cost. The charges to Merton are accounted for in the relevant service lines of the CIES. The balance sheet reflects the amount of any debtor or creditor balances between the partners.

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

Better Care Fund: The Authority hosts a pooled budget, under Section 75 of the National Health Service Act 2006, with Merton Clinical Commissioning Group (CCG) in respect of the Better Care Fund. The CCG receives the allocation from the Department of Health. The CCG then appropriates a proportion to the pooled budget to spend on services. Income and expenditure relating to the Authority's contribution to the pooled budget is reported within the Community & Housing line in the CIES.

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

Regulatory Services Partnership (RSP): The RSP administers key public protection services including Environmental Health, Trading Standards, and Licensing. The partnership is based on a cost-sharing arrangement with LB Richmond and LB Wandsworth. Merton administers the service and recharges LB Richmond and LB Wandsworth with their share of costs. The charges for Merton are accounted for in the relevant service lines of the CIES. The balance sheet reflects the amount of any debtor or creditor balances between the partners. The service is governed via Management Board and Joint Regulatory Committee.

xvi. Leases

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

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

- Whether the Present Value of the Minimum Lease Payments amounts to substantially all the fair value of the leased asset.
- The duration of the lease agreement in relation to the anticipated economic useful life of the asset.

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- 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.

xvi(a) The Authority as Lessee

Finance Leases

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

- a charge for the acquisition of the interest in the PPE – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

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

Operating Leases

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

xvi(b) The Authority as Lessor

Finance Leases

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

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Lease rentals receivable are apportioned between:

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

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

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

Operating Leases.

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the other operating expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii. Overhead and Support Services

The costs of hosted overheads and support services are re-charged to service segments in accordance with the Authority's arrangements for accountability and financial performance. These are not treated as income, but as a reduction of gross expenditure.

xviii. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that

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maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

TECHNICAL ANNEX – NOTE 40 – ACCOUNTING POLICIES

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- vehicles, plant, furniture and equipment - straight-line of the value of each class of asset in the Balance Sheet, as advised by a suitably qualified officer;
- infrastructure – straight-line allocation over 25 years.

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

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

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

Non-Current Assets Held for Sale

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

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

Disposals

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

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital

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financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xix Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. General

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

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

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

2. Insurance Fund

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

xxi. Reserves

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

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

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

xxii. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in

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the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

xxiii. VAT

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

xxiv. Local Authority Schools in England and Wales

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

xxv. Fair Value Measurement

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

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

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

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

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

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

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

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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 2020/21 Code.

There are no changes in accounting requirements for 2021/22 that are anticipated to have a material impact on the Council's financial performance or financial position.

NOTE 42: CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

In applying certain policies set out in Note 40, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are given below. The Statement of Accounts has been prepared on a going concern basis reflecting the economic and statutory environment in which local authorities operate. This assumption implicitly underpins local authority accounts which are drawn up in accordance with the Code of Practice on Local Authority Accounting, published by CIPFA. These provisions confirm that as authorities cannot be created or dissolved without statutory prescription it is only appropriate for their financial statements to be prepared on a going concern basis.

The going concern assumption under the Code is therefore drawn up to assume that a local authority's services will continue to operate for the foreseeable future. This is despite the impact of the COVID-19 on local authority financial sustainability, because the going concern basis of reporting in the Code and the rationale behind it remains unchanged. The accounting concepts are supported by the fundamental qualitative characteristics of relevance, faithful representation and materiality and four enhancing qualitative characteristics of comparability, verifiability, timeliness and understand ability. Where a particular accounting treatment is prescribed by legislation, then the treatment prevails even if it conflicts with one or other of the above accounting concepts. In the unlikely event of this arising, a note to that effect will be included in the accounts. This Code only requires local authority financial statements to disclose information which is material.

Going concern – Basis for preparation

These accounts have been prepared on a going concern basis assuming that that the Authority will continue in operational existence until March 2023.

The provisions in the CIPFA/LASAAC Code of Practice of Local Authority Accounting 2020/21 and the Financial Reporting Council's Practice Note 10 in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year and indeed, correspondence from MHCLG during Covid-19 and continue to be supportive of this approach. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future. The Council has carried out a detailed assessment of the likely impact of Covid-19 on its financial position and performance during 2019/20, 2020/21 and beyond. This has included modelling scenarios that consider the impact on the following:

- Reductions in income
- Increased expenditure
- Cashflow and liquidity
- General fund balances and reserves

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

Based on the first quarter of 2021/22, although the Council is forecasting an unfavourable variance of £2.462m for the year, this is due to a net cost of COVID-19 of £5.638m, with non-COVID service costs expecting to produce a favourable variance of £3.176m.

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

The Medium Term Financial strategy was set in February 2021 and set a balanced budget for 2021/22 with a residual gap to be closed of £3.892m for 2022/23 increasing to £17.664m by 2025/26. Some budgets were included in the MTFS to address potential ongoing impacts of COVID but it is impossible to do this with certainty given the difficulty of accurately predicting how long the pandemic will last and the time it will take to return to pre-pandemic levels. The major issue of concern in the Council's budget, aside from COVID-19 is to address the DSG deficit. In addition, the Council's budget includes c. £7m of savings in 2021/22 and it is important that these are achieved or replacements found in order not to put pressure on the Council's overall finances.

Work is ongoing in all service areas to review revenue and capital budgets during 2021 to identify options for delivering efficiency savings and / or generating income, with the aim of setting a balanced budget in 2022/23 and addressing the forecast net overspend in 2021/22.

The Council had a cash balance of £33.9m at the end of August 2021 compared to the 31 March 2021 year-end figure of £7.6m. The Council also has £60m in money market funds which are instantly callable. It also has £55m in short term deposits maturing between one month and eight months. Further, £10m is held in longer term property related investments, also available within a few weeks. In light of the Covid outbreak in early 2020 the Council decided to place any returning fixed term deposits in callable accounts to ensure maximum access to cash deposits should this be required.

From April 2021 the Council has started to place excess funds in fixed deposit to generate interest income after leaving sufficient funds in the callable / Money market funds for immediate access. The Council has prepared a cash flow forecast out to

March 2023 which demonstrates a positive cash balance each month supported by having a healthy balance in the money market funds at all time (£60m) Whilst still there is some uncertainty on future income, the Council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. The Council is of course also able to borrow short term for cash management if ever needed.

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

Covid-19 The COVID-19 pandemic has had a significant impact on the Council and, although our work on financial challenges and transformational projects will continue, the challenge is heightened due to the significant financial impact of COVID-19. The pandemic is hitting our residents, public institutions, businesses, voluntary and community organisations. The Council has had to put considerable additional resources into services to support our residents, communities and local businesses. It is important to highlight how the Council has responded to the challenge of managing services during a pandemic. The Councils immediate response during March 2020 was to implement enhanced management arrangements with a structure based on Gold (strategic), Silver (tactical) and Bronze (operational) groups including key partners, to facilitate rapid responses to the evolving position, facilitate appropriate decision making powers as allowed for in the Councils constitution and clear communication. The council is still continuing with the above arrangements in 2021.

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

The Government published its roadmap to come out of the second wave in May 2021 for moving to the next stage in the COVID-19 response and phasing the lifting of lockdown in stages and reopening of the economy. The Council has reopened all services in line with the latest government guidance however still continue to maintain the social distancing and working from home arrangements. If any staff can't work from home can return to office any time.

It should be noted that:

- The Council's approach to financial management has meant that the General Fund Balance increased in 2020/21 to £14.0m and Earmarked Reserves of £98.4m (excluding amounts specifically restricted to schools) are held to meet known or predicted liabilities.
- The Council's balance sheet as at 31st March 2021 shows a net worth of £375.2m and this is significantly reduced by the inclusion of a pension liability of £340m. There are statutory arrangements for funding the pension through contributions over the

remaining working life of the employees, as assessed by an Pension Fund actuary; but, based on the most recent triennial valuation (2019) the Fund was in surplus by £20m (103% funded).

The Council's MTFs will be revised as part of the business planning process. This will include updates on the Council's finances with an analysis of the financial impact of the Spending Review 2021 which is expected to include indications of how the Government is going to allocate resources to address the costs of COVID-19 and the levelling up agenda.

- The Council is subject to a statutory framework governing its service provision, its duties & responsibilities, and its financial framework. This includes the statutory posts of the Head of Paid Service (Chief Executive), Section 151 Officer (Director of Corporate Services) and Monitoring Officer ((Managing Director of the South London Legal Partnership). Despite the Council's funding gap and structural budget deficit, it has continued to meet the legal requirement of setting a balanced budget combined with the additional requirement of having regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves.

The Council has a well-established and robust corporate governance framework to ensure compliance with laws and regulations. This, coupled with political stability, has provided a strong control environment at the operational and strategic level in the Council, enabling sound and balanced decision-making, recognising the importance of financial prudence and sustainability.

Funding

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

Legal Claims

The potential outcomes from legal claims are not expected to be material to the Council's accounts.

Accounting for Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the borough are considered to be entities controlled by the Council. Rather than produce group accounts, the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

Accounting for schools-Balance Sheet recognition of schools.

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

Group Boundaries

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

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

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

Property, Plant and Equipment (PPE)

| Property, Plant and Equipment (PPE) | |
|--|--|
| Uncertainty: | Effect if actual result differs from assumptions: |
| <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate and funding position may have an impact on the levels of spending on repairs and maintenance, thus impacting on the useful lives assigned to assets.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> | <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. PPE of £770.6m (£744.4m in 2019/20) is included in the accounts. Therefore, a 1% movement in value would result in a change of £7.7m (£7.4m. in 2019/20). The depreciation charge for PPE in 2020/21 was £24.2m (£22.5m in 2019/20). A movement of 1% would result in a change in the depreciation charge of approximately £0.242m (£0.225m in 2019/20).</p> |

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

| Provisions | |
|--|---|
| Uncertainty: | Effect if actual result differs from assumptions: |
| <p>The authority has made provisions of £4.728m (£4.575m in 2019/20) for insurance claims. The fund is used to pay claims for which the authority is self-insured. The suggested level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p> | <p>If the actuals differ from the assumptions, then it is possible that the Insurance Fund would be insufficient to cover the liabilities of the authority and further demands would be made on the General Fund. If future claims exceeded the insurance fund provision by 1%, this would result in an additional £0.047m (£0.046m in 2019/20) charge to the General Fund.</p> |

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

Provision for NDR appeals

| Provision for NDR appeals | |
|---|---|
| Uncertainty: | Effect if actual result differs from assumptions: |
| <p>The authority has made provision of £4.904m for its share of appeals against business rates charges. The amount represents an estimate of the potential effects of appeals and proposals that may be settled in future years. It is based upon the most recent outstanding Rating List proposals provided by the Valuation Office Agency. The potential effect of the proposals is an estimate based on changes in comparable properties, market trends and other valuation issues including the potential for certain proposals to be withdrawn.</p> | <p>If the actuals differ from the assumptions this will impact on the NDR surplus/deficit of the Collection Fund for following years, as the cash collected from NDR payers will be different to that anticipated in calculated estimates of NDR collection which are used to determine the Authority's retained income. Similarly, there is a potential impact on possible future safety net and levy payments introduced in the business rate retention scheme, these are calculated by comparing actual amounts collected to the Authority's NDR funding baseline.</p> |

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

Pension Liability

| Pension Liability | |
|--|--|
| <p>Estimation of the net £339.7 (£283.8m in 2019/20) pension liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.</p> | <p>The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 32 for further detail.</p> |

Impairment of Bad and Doubtful debts

| Impairment of Bad and Doubtful debts | |
|---|--|
| <p>As at 31 March 2021, the Council had an outstanding balance of short-term debtors totalling £87.645m. Against this debtors' balance, there is an impairment allowance of £17.0m, prepared on an expected credit loss basis. It is not certain that this impairment allowance will be sufficient as the Council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p> | <p>If collection rates were to deteriorate by 10% then the Council would have to re-assess its impairment allowance.</p> |

Pensions Schemes - Employers Contributions

| Pensions Schemes - Employers Contributions | |
|---|--|
| <p>Actuaries have prepared estimates of the amount of employer contributions that will need to be paid into pensions schemes during 2021/22. The estimate for the Defined Benefit scheme, based on a salary increase of 3.8% was £14.796m. The estimates for the Defined Contributions schemes were £13.669m for the Teachers Pensions scheme and £0.071m for the NHS scheme.</p> | <p>If actual pay awards exceed the actuaries assumption by 0.50% then additional employers contributions of £0.139m would be required</p> |

Collection Fund

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

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

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

COLLECTION FUND

INCOME AND EXPENDITURE

| 2019/20 | | | | 2020/21 | | |
|------------------------|---------------------|----------------|---|------------------------|---------------------|-----------------|
| Business Rates £000 | Council Tax £000 | Total £000 | COLLECTION FUND Income and Expenditure | Business Rates £000 | Council Tax £000 | Total £000 |
| | | | A) INCOME | | | |
| 0 | 118,820 | 118,820 | Council Tax Receivable | 0 | 122,875 | 122,875 |
| 88,028 | 0 | 88,028 | Business Rates Receivable | 44,423 | 0 | 44,423 |
| 2,488 | 0 | 2,488 | Business Rates Supplements Receivable | 1,177 | 0 | 1,177 |
| 90,516 | 118,820 | 209,336 | | 45,600 | 122,875 | 168,475 |
| | | | B) EXPENDITURE | | | |
| | | | Apportionment of Previous Year Surplus/(Deficit) | | | |
| 339 | 0 | 339 | Central Government | (947) | 0 | (947) |
| (3,250) | 1,949 | (1,301) | Billing Authority (LBM) | (1,197) | 1,523 | 326 |
| (1,621) | 489 | (1,132) | Greater London Authority | (674) | 396 | (278) |
| (4,532) | 2,438 | (2,094) | | (2,818) | 1,919 | (899) |
| | | | C) Precepts, Demands and Shares | | | |
| 22,015 | 0 | 22,015 | Central Government (MHCLG): NDR | 28,657 | 0 | 28,657 |
| 42,269 | 92,370 | 134,639 | Billing Authority (LBM): NDR & Council Tax | 26,052 | 97,386 | 123,438 |
| 23,777 | 24,023 | 47,800 | Greater London Authority: NDR & Council Tax | 32,130 | 25,234 | 57,364 |
| 2,488 | 0 | 2,488 | Greater London Authority: NDR Supplement | 1,177 | 0 | 1,177 |
| 90,549 | 116,393 | 206,942 | | 88,016 | 122,620 | 210,636 |
| | | | D) Charges to Collection Fund | | | |
| 238 | 899 | 1,137 | Less: increase/(decrease) in bad debt provision | 6,124 | 2,140 | 8,264 |
| 2,917 | 0 | 2,917 | Less: increase/(decrease) in provision for appeals | 983 | 0 | 983 |
| 361 | 0 | 361 | Less: cost of collection | 310 | 0 | 310 |
| 3,516 | 899 | 4,415 | | 7,417 | 2,140 | 9,557 |
| | | | | | | |
| 983 | (910) | 73 | Surplus/(Deficit) arising during the year (=A-(B+C+D)) | (47,015) | (3,804) | (50,819) |
| | | | | | | |
| (3,571) | 2,739 | (832) | Surplus/(Deficit) b/fwd 1st April | (2,588) | 1,829 | (759) |
| (2,588) | 1,829 | (759) | Surplus/(Deficit) c/fwd 31st March | (49,603) | (1,975) | (51,578) |

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 2020/21 before allowance for non-collection is 76,952 (76,093 for 2019/20). 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 | |
|-------------------------|--|---------|--|---------|-----------------|--|---------------|
| | 2019/20 | 2020/21 | 2019/20 | 2020/21 | | 2019/20 | 2020/21 |
| A adjust | 2 | 1 | 1 | 0 | 5/9 | 0 | 0 |
| A | 1,098 | 1,118 | 660 | 690 | 6/9 | 440 | 460 |
| B | 8,410 | 8,471 | 5,683 | 5,834 | 7/9 | 4,420 | 4,538 |
| C | 23,081 | 23,292 | 18,075 | 18,467 | 8/9 | 16,067 | 16,415 |
| D | 27,749 | 27,844 | 23,555 | 23,766 | 9/9 | 23,555 | 23,766 |
| E | 13,185 | 13,207 | 11,884 | 11,929 | 11/9 | 14,525 | 14,580 |
| F | 5,515 | 5,571 | 5,102 | 5,161 | 13/9 | 7,369 | 7,455 |
| G | 4,033 | 4,044 | 3,815 | 3,811 | 15/9 | 6,358 | 6,351 |
| H | 1,732 | 1,747 | 1,677 | 1,691 | 18/9 | 3,354 | 3,382 |
| Total | | | | | | 76,088 | 76,947 |
| Defence properties | | | | | | 5 | 5 |
| Council Tax Base | | | | | | 76,093 | 76,952 |

The average Council Tax charge for a Band D property (including the GLA) was £1,613.63 in 2020/21 compared to £1,552.90 in 2019/20. From this an income yield of £122.6m was expected (£116.4m in 2019/20). In 2020/21 the income generated was £122.9m (£118.8m in 2019/20) 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.

COLLECTION FUND

2. NON-DOMESTIC RATES (NDR)

The Council is responsible for collecting rates due from the business ratepayers in its area. The Valuation Office Agency (VOA) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government.

The Authority retains a 30% share of 2020/21 NDR Income with 37% being precepted to the Greater London Authority (GLA). Central government receive the remaining 33%.

| | 2019/20 | 2020/21 |
|---|---------|---------|
| Non-domestic rateable value at year end | £212m | £213m |
| Number of Hereditaments | 5,442 | 5,454 |
| Uniform Business Rate (in the £) | 50.4p | 51.2p |

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

| | 2019/20 £000 | 2020/21 £000 |
|--|-----------------|-----------------|
| Gross Rates payable (including net amounts for previous years) | 105,530 | 106,781 |
| Mandatory and discretionary reliefs | (16,939) | (61,526) |
| Transitional Protection Payments | (563) | (829) |
| Business Rates Receivable | 88,028 | 44,426 |
| Allowance for Provision for bad and doubtful debts | (238) | (6,124) |
| Change to Provision for losses on appeals | (2,917) | (983) |
| Cost of collection | (361) | (310) |
| Net Income | 84,512 | 37,009 |

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.

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

| | 2019/20 £000 | 2020/21 £000 |
|-------------------------------------|-----------------|-----------------|
| Gross Rates payable | 2,782 | 2,788 |
| Mandatory and discretionary reliefs | (294) | (1,611) |
| Net contribution to GLA | 2,488 | 1,177 |

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

| | Balance at 1 st April 2020 | Allowance for Impairment | Amounts charged against Allowance | Balance at 31 st March 2021 |
|---|---------------------------------------|--------------------------|-----------------------------------|--|
| | £000 | £000 | £000 | £000 |
| Council Tax: Impairment of Bad Debts | 7,646 | 2,140 | (617) | 9,169 |
| Non-Domestic Rates: Impairment of Bad Debts | 2,298 | 6,124 | (9) | 8,413 |
| Non-Domestic Rates: Losses on Appeals | 15,367 | 2,026 | (1,043) | 16,350 |
| TOTAL | 25,311 | 10,290 | (1,669) | 33,932 |

COLLECTION FUND

4. Surpluses and Deficits

Council Tax

There is an accumulated deficit of £1.975m on the Collection Fund (surplus of £1.829m in 2019/20). This 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.

| Council Tax Balance, apportionment | 2019/20 | 2020/21 | Change in the Year |
|--|----------------|--------------|--------------------|
| | £000 | £000 | £000 |
| London Borough of Merton Council Tax (surplus)/deficit | (1,451) | 1,595 | 3,046 |
| Greater London Authority Council Tax (surplus)/deficit | (378) | 381 | 759 |
| Total | (1,829) | 1,976 | 3,805 |

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

| Council Tax (Surplus)/Deficit Movement | Greater London Authority | London Borough Of Merton | Total |
|--|--------------------------|--------------------------|--------------|
| | £000 | £000 | £000 |
| Accumulated surplus as at 1 st April 2020 | (378) | (1,451) | (1,829) |
| Paid to GLA in 2020/21 | 396 | 0 | 396 |
| Transfer to/(from) General Fund in 2020/21 | 0 | 1,523 | 1,523 |
| Deficit in 2020/21 | 362 | 1,523 | 1,885 |
| Total - Accumulated deficit as at 31st March 2021 | 380 | 1,595 | 1,975 |

COLLECTION FUND

4. Surpluses and Deficits

NDR

There is a deficit of £49.603m on the Collection Fund (£2.588m in 2019/20). 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.

| NDR Balance, apportionment | 2019/20 | 2020/21 | Change in the Year |
|--------------------------------------|--------------|---------------|--------------------|
| | £000 | £000 | £000 |
| London Borough of Merton NDR deficit | 1,089 | 14,841 | 13,752 |
| Greater London Authority NDR deficit | 612 | 18,377 | 17,765 |
| MHCLG NDR deficit | 887 | 16,385 | 15,498 |
| Total | 2,588 | 49,603 | 47,015 |

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

| NDR Deficit Movement | Greater London Authority | MHCLG | London Borough of Merton | Total |
|--|--------------------------|---------------|--------------------------|---------------|
| | £000 | £000 | £000 | £000 |
| Accumulated deficit as at 1st April 2020 | 612 | 887 | 1,089 | 2,588 |
| Paid to/(from) preceptors in 2020/21 | (674) | (947) | 0 | (1,621) |
| Transfer to/(from) General Fund in 2020/21 | 0 | 0 | (1,197) | (1,197) |
| Deficit in 2020/21 | 18,438 | 16,445 | 14,950 | 49,833 |
| Total - Accumulated deficit as at 31st March 2021 | 18,376 | 16,385 | 14,842 | 49,603 |

COLLECTION FUND

5. Collection Fund Link to Core Statements

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

CIES

The £95.862m (£93.611m in 2019/20) Council Tax income and the £11.103m (£40,565m in 2019/20) 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.

| Income and Expenditure | Council Tax | 2019/20 | 2020/21 |
|---|--------------------|----------------|----------------|
| | | £000 | £000 |
| Demand on the Fund | | 92,370 | 97,386 |
| Transfer of Surplus | | 1,949 | 1,523 |
| Total included in I&E under Collection Fund Regulations | | 94,319 | 98,909 |
| Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement) | | (708) | (3,047) |
| Council Taxation Fund Income | | 93,611 | 95,862 |
| Movement in Reserves Statement | | 2019/20 | 2020/21 |
| | | £000 | £000 |
| Reversal of adjustment of Collection Fund Surplus under 2011 Code | | 708 | 3,047 |
| Net charge to General Fund, which is based on statutory requirements | | 94,319 | 98,909 |

COLLECTION FUND

5. Collection Fund Link to Core Statements

| Income and Expenditure Business Rates | 2019/20 £000 | 2020/21 £000 |
|---|-------------------------|-------------------------|
| Demand on the Fund | 42,269 | 26,052 |
| Transfer of Deficit | (3,250) | (1,197) |
| Total included in I&E under Collection Fund Regulations | 39,019 | 24,855 |
| Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement) | 1,546 | (13,752) |
| Business Rates Fund Income | 40,565 | 11,103 |
| Movement in Reserves Statement | 2019/20 £000 | 2020/21 £000 |
| Reversal of adjustment of Collection Fund Surplus under 2011 Code | (1,546) | 13,752 |
| Net charge to General Fund, which is based on statutory requirements | 39,019 | 24,855 |

COLLECTION FUND

6. Balance Sheet

The cash collected by the Council for Council Tax and NDR belongs proportionately to the Council 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 and comparatives 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 Council'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.

| Collection Fund Balance Sheet | Collection Fund 31 Mar 2021 £000 | Merton Share 31 Mar 2021 £000 |
|--|---|-------------------------------------|
| Council Tax | | |
| Arrears | 10,386 | 8,176 |
| Impairment Allowance for Doubtful Debts | (9,169) | (7,218) |
| Receipts in Advance | (6,181) | (4,866) |
| Collection Fund (Surplus) / Deficit | 1,595 | 1,595 |
| GLA | 381 | (676) |
| Cash | (2,988) | (2,988) |
| Business Rates | | |
| Transitional Protection & Costs Adjustment | (446) | (446) |
| Arrears | 10,045 | 3,030 |
| Impairment Allowance for Doubtful Debts | (8,414) | (2,524) |
| Impairment for Loss on Appeals | (16,350) | (4,905) |
| Receipts in Advance | (3,298) | (989) |
| Collection Fund (Surplus) / Deficit | 14,841 | 14,841 |
| GLA | 18,377 | 11,702 |
| MHCLG | 16,385 | 10,431 |
| Cash | 31,140 | 31,140 |

Group Financial Statements

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

1. Group Comprehensive Income and Expenditure Statement

| 2019/20 | | | GROUP CIES | 2020/21 | | |
|-------------------|------------------|------------------|--|-------------------|------------------|-----------------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | Continuing Operations | | | |
| 241,005 | (178,019) | 62,986 | Children, Schools and Families | 252,371 | (186,927) | 65,444 |
| 85,578 | (25,329) | 60,249 | Community and Housing | 85,575 | (30,201) | 55,374 |
| 113,624 | (81,094) | 32,530 | Corporate Services | 110,044 | (76,547) | 33,497 |
| 62,146 | (41,783) | 20,363 | Environment and Regeneration | 67,550 | (41,597) | 25,953 |
| 10,452 | (10,452) | 0 | Public Health | 12,154 | (17,627) | (5,473) |
| 512,805 | (336,677) | 176,128 | Cost of services | 527,694 | (352,899) | 174,795 |
| 5,638 | (11,613) | (5,975) | Other operating income and expenditure | 6,742 | (11,638) | (4,896) |
| | | 16,632 | Financing and investment income and expenditure | | | 18,456 |
| | | (169,939) | Taxation and non-specific grant income | | | (181,233) |
| | | 16,846 | Group Deficit on Provision of Services | | | 7,122 |
| | | 759 | Tax on Profit | | | 512 |
| | | 17,605 | Group Deficit on Provision of Services | | | 7,634 |
| | | (51,686) | (Surplus) or deficit on revaluation of non-current assets | | | (33,025) |
| | | 0 | Impairment losses on non-current assets | | | |
| | | (82,198) | Remeasurement of the net defined benefit liability/(asset) | | | 44,687 |
| | | (133,884) | Other Comprehensive (Income) and Expenditure | | | 11,662 |
| | | (116,279) | Total Comprehensive (Income) and Expenditure | | | 19,296 |

2. Group Movement in Reserves Statement

| | LBM | LBM | LBM | LBM | LBM | | |
|--|-------------------------------|-----------------------------------|----------------------------------|-------------------------------|---------------------------|--|------------------------------|
| Group MIRS | General Fund Balances £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Authority share of Subsidiary Reserves £000 | Total Group Reserves £000 |
| Balance at 1 April 2019 | (67,070) | (9,228) | (17,005) | (93,304) | (184,473) | (3,151) | (280,928) |
| Rounding Adjustments Btwn reserves | | | | 0 | | | 0 |
| <i>Movement in reserves during 2017/18</i> | | | | | | | |
| Total Comprehensive Income and Expenditure | 17,927 | 0 | 0 | 17,927 | (133,884) | (322) | (116,279) |
| Adjustments between accounting basis & funding basis under regulations | (19,944) | 7,169 | (4,895) | (17,670) | 17,671 | | 1 |
| Adjustments between Group Accounts and the Authority's accounts | | | | | | | 0 |
| (Increase)/Decrease in Year | (2,017) | 7,169 | (4,895) | 257 | (116,213) | (322) | (116,278) |
| Balance at 31 March 2020 carried forward | (69,087) | (2,059) | (21,900) | (93,047) | (300,686) | (3,473) | (397,206) |

| | LBM | LBM | LBM | LBM | LBM | | |
|--|-------------------------------|-----------------------------------|----------------------------------|-------------------------------|---------------------------|--|------------------------------|
| Group MIRS | General Fund Balances £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Authority share of Subsidiary Reserves £000 | Total Group Reserves £000 |
| Balance at 1 April 2020 | (69,087) | (2,059) | (21,900) | (93,047) | (300,686) | (3,473) | (397,206) |
| Rounding Adjustments Btwn reserves | | | | | | | |
| <i>Movement in reserves during 2020/21</i> | | | | | | | |
| Total Comprehensive Income and Expenditure | 6,751 | 0 | 0 | 6,751 | 11,662 | 883 | 19,296 |
| Adjustments between accounting basis & funding basis under regulations | (61,751) | 1,608 | (1,974) | (62,117) | 62,112 | | (5) |
| rounding adjustments | | | | | | | |
| Adjustments between Group Accounts and the Authority's accounts | | | | | | | 0 |
| (Increase)/Decrease in Year | (55,000) | 1,608 | (1,974) | (55,366) | 73,774 | 883 | 19,291 |
| Balance at 31 March 2021 carried forward | (124,087) | (451) | (23,874) | (148,413) | (226,912) | (2,590) | (377,915) |

3. Group Balance Sheet

| 31 Mar 2020 £000 | Group Balance Sheet | 31 Mar 2021 £000 |
|---------------------|------------------------------------|---------------------|
| 744,367 | Property, Plant & Equipment | 770,722 |
| 802 | Heritage Assets | 803 |
| 0 | Long Term Investments | 0 |
| 0 | Investment in Subsidiaries | 0 |
| 5,130 | Intangible Assets | 4,678 |
| 187 | Deferred Assets | 348 |
| 7,206 | Long Term Debtors | 7,064 |
| 757,692 | Long Term Assets | 783,615 |
| 80,403 | Short Term Investments | 55,117 |
| 1 | Inventories | 1 |
| 33,232 | Short Term Debtors | 68,478 |
| 4,940 | Assets Held for Sale | 0 |
| 39,163 | Cash and Cash Equivalents | 96,314 |
| 157,739 | Current Assets | 219,910 |
| (3,030) | Short Term Borrowing | (3,025) |
| (66,406) | Short Term Creditors | (119,805) |
| (173) | Current Tax Liability | (212) |
| (2,656) | Current Provisions | (1,180) |
| (72,265) | Current Liabilities | (124,222) |
| (9,296) | Provisions | (8,778) |
| (111,010) | Long Term Borrowing | (109,010) |
| (28,410) | Other Long Term Liabilities | (27,135) |
| (284,729) | Pension Liability | (342,687) |
| (12,515) | Capital Grants Receipts in Advance | (13,783) |
| (445,960) | Long Term Liabilities | (501,393) |
| 397,206 | Net Assets | 377,910 |
| (96,520) | Usable Reserves | (150,996) |
| (300,686) | Unusable Reserves | (226,914) |
| (397,206) | Total Reserves | (377,910) |

4. Group Cash Flow Statement

| 2019/20 £000 | Group Cash Flow Statement | 2020/21 £000 |
|-----------------|--|-----------------|
| 17,605 | Net deficit on the provision of services | 7,635 |
| (43,891) | Adjustments to net deficit on the provision of services for non-cash movements | (88,294) |
| 20,805 | Adjustments for items included in the net deficit on the provision of services that are investing and financing activities | 14,618 |
| (5,481) | Net Cash flows from Operating Activities | (66,041) |
| 16,454 | Investing Activities | (24,257) |
| 70 | Financing Activities | 33,147 |
| 11,043 | Net (increase) in cash and cash equivalents | (57,151) |
| 50,206 | Cash and cash equivalents at the beginning of the reporting period | 39,163 |
| 39,163 | Cash and cash equivalents at the end of the reporting period | 96,314 |

Pension Fund Accounts Fund Account

| 2019/20 £000 | Fund Account | Notes | 2020/21 £000 |
|------------------|---|-------|------------------|
| | Dealings with members, employers and others directly involved in the scheme | | |
| (24,910) | Contributions | 7 | (24,227) |
| (12,828) | Transfers in | 8 | (2,318) |
| (37,738) | Total Income | | (26,545) |
| 26,575 | Benefits | 9 | 26,933 |
| 5,594 | Payments to and on account of leavers | 10 | 4,777 |
| 32,169 | Total Expenditure | | 31,710 |
| (5,569) | Net (additions)/withdrawals from dealings with members | | 5,165 |
| 1,701 | Management expenses | 11 | 2,141 |
| (3,868) | Net (additions)/withdrawals including Fund management expenses | | 7,306 |
| | Returns on investments | | |
| (13,011) | Investment income | 12 | (9,361) |
| 48,680 | (Profit) and losses on disposal of investments and changes in the market value of investments | 14.3 | (208,776) |
| 35,669 | Net returns on investments | | (218,137) |
| 31,801 | Net (increase)/decrease in the net assets available for benefits during the year | | (210,831) |
| (721,254) | Opening net assets of the scheme | | (689,453) |
| (689,453) | Closing net assets of the scheme | | (900,284) |

Net Assets Statement

| 2019/20 £000 | | Notes | 2020/21 £000 |
|-----------------|--|-------|-----------------|
| 685,130 | Investment assets | 14 | 896,818 |
| 685,130 | Total Investments | | 896,818 |
| 5,662 | Current assets | 20 | 4,373 |
| (1,339) | Current liabilities | 21 | (907) |
| 689,453 | Net assets of the Fund available to Fund benefits at period end | | 900,284 |

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

Notes to the Pension Fund Accounts

1. Description of Fund

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

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is AdministeredQ in accordance with the following secondary legislation:

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

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

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

b) Membership

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

Organisations participating in the Merton Pension Fund include the following:

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

Membership details are set out below:

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

The following table summarises the membership numbers of the scheme.

| 2019/20 | | 2020/21 |
|--------------|----------------------------|--------------|
| | Active Members | |
| 3,880 | London Borough of Merton | 3,871 |
| 415 | Scheduled bodies | 443 |
| 46 | Admitted bodies | 45 |
| 4,341 | | 4,359 |
| | Pensioners | |
| 3,715 | London Borough of Merton | 3,780 |
| 171 | Scheduled bodies | 174 |
| 131 | Admitted bodies | 133 |
| 4,017 | | 4,087 |
| | Deferred Pensioners | |
| 5,451 | London Borough of Merton | 5,421 |
| 390 | Scheduled bodies | 410 |
| 119 | Admitted bodies | 118 |
| 5,960 | | 5,949 |

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 2021. The

employee contributions are matched by the employer contributions which are set based on triennial actuarial Funding valuations. The latest valuation occurred at 31 March 2019 (came into effect in 2020/21). Currently, employer contribution rates range from 12.0% to 26.4%. Some employers pay a monetary contribution towards past service costs.

d) Benefits

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is 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 2020/21 financial year and its financial position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2020/21', which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Fund was 103% funded at the 31 March 2019 valuation and remained essentially the same (104%) as at 31 March 2021. The Fund cash flow is marginally negative since the new contribution rate came into place from April 2020.

However, the majority of the investment income is being reinvested into the respective investment for added growth.

The Fund is in a position to draw on its investments in the most appropriate order, should short term liquidity be required.

2.1 Going Concern

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

The impact of the Coronavirus pandemic on investment markets did adversely affect the performance of investments up to 31 March 2020, however from April 2020 investment performance has improved significantly and is performing better than the target level of return throughout 2020/21. This has resulted in an increase in the net asset of £210m from March 2020 to March 2021.

The latest actuarial funding update shows the Fund remains 104% funded at 31 March 2021. The vast majority of employers in the Fund are scheduled bodies and have secure public sector funding and as a result are more able to continue to make their pension contributions. To date the Fund has received no requests from scheduled and admitted bodies to defer pension contributions as a result of the pandemic.

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

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

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

Considering all of the above the Fund considers it appropriate to prepare the financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contribution Income

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

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

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

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

3.2 Transfers to and from other schemes

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an 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 if applies.

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

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

Revenue account – expense items

3.4 Benefits Payable

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

3.5 Taxation

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

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

3.6 Management Expenses

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

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from Fund assets managed by the Fund Managers. Custodian fees are paid via the custodian cash account.

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

Oversight and Governance Costs

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

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

3.7 Administrative Expenses

All administrative expenses are accounted for on an 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 Derivatives

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

3.12 Cash and cash equivalents

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 , custodian and within the Funds' bank account.

3.13 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).

3.14 Additional Voluntary Contributions

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

3.15 Contingent Assets and Contingent Liabilities

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

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

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

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

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

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

*Please see Notes 18 and 19 for more detail.

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

The main item in the Fund's Net Asset Statement at 31 March 2021 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|--|---|--|
| Actuarial present value of promised retirement benefits. | Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age. | The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £22.4m and a -0.1% reduction would increase the obligation by £22.8m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £51.8m. McCloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation. |
| Unquoted Investments | The Pension Fund contains investments in unitised pooled property and private debt funds that are classified within the financial statements as level 3 investments (as detailed in note 14). These funds are valued according to non-exchange based market valuations. | As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts. |

6. Events After The Reporting Date

A number of current legal issues affecting pension entitlements, such as the McCloud and Goodwin test cases and guaranteed minimum pensions remedies, are unlikely to have been fully resolved by the year-end. Where relevant the fund will make additional disclosure under this note.

7. Contributions Receivable

| 2019/20 £000 | By Category | 2020/21 £000 |
|-----------------|--------------|-----------------|
| 18,364 | Employers | 17,127 |
| 6,546 | Members | 7,100 |
| 24,910 | Total | 24,227 |

| 2019/20 £000 | By Type | 2020/21 £000 |
|-----------------|---------------|-----------------|
| 22,680 | Administering | 21,238 |
| 1,829 | Scheduled | 2,558 |
| 401 | Admitted | 431 |
| 24,910 | Total | 24,227 |

| 2019/20 £000 | By Type | 2020/21 £000 |
|-----------------|----------------------|-----------------|
| 14,415 | Employers normal | 16,922 |
| 6,546 | Employees normal | 7,100 |
| 3,709 | Deficit Funding | 16 |
| 240 | Employers additional | 189 |
| 24,910 | Total | 24,227 |

8. Transfers In From Other Pension Funds

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|----------------------|-----------------|
| 3,165 | Individual Transfers | 2,318 |
| 9,663 | Group Transfer | 0 |
| 12,828 | Total | 2,318 |

9. Benefits Payable

| 2019/20 £000 | By Category | 2020/21 £000 |
|-----------------|---|-----------------|
| 22,534 | Pensions | 23,286 |
| 3,640 | Commutations and lump sum retirement benefits | 3,582 |
| 401 | Lump sum death benefits | 65 |
| 26,575 | Total | 26,933 |

| 2019/20 £000 | By Authority | 2020/21 £000 |
|-----------------|---------------|-----------------|
| 24,182 | Administering | 24,929 |
| 836 | Scheduled | 1,216 |
| 1,557 | Admitted | 788 |
| 26,575 | Total | 26,933 |

10. Payments to and on Account of Leavers

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|-------------------------|-----------------|
| 5,461 | Individual transfers | 4,679 |
| 134 | Refunds of contribution | 100 |
| (1) | State scheme premiums | (2) |
| 5,594 | Total | 4,777 |

11. Management Expenses

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|--------------------------------|-----------------|
| 632 | Administrative costs | 550 |
| 654 | Investment management expenses | 1,294 |
| 415 | Oversight and governance costs | 297 |
| 1,701 | Total | 2,141 |

11a. Investment Management Expenses

| 2020/21 | Total £000 | Management Fees £000 | Performance Costs £000 | Transaction Fees £000 |
|--------------------------------|---------------|-------------------------|---------------------------|--------------------------|
| Bonds | (4) | (4) | 0 | 0.30 |
| Pooled Investments | 115 | 115 | 0 | 0 |
| Pooled Property Investments | 524 | 524 | 0 | 0 |
| Private Debt | 224 | 224 | 0 | 0 |
| Infrastructure | 448 | 448 | 0 | 0 |
| Custody Fees | (13) | - | - | - |
| | 1,294 | 1,307 | 0 | 0.30 |
| Pooled Fees deducted at source | 1,883 | 1,873 | 10 | 0 |
| Total | 3,177 | - | - | - |

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

| 2019/20 | Total £000 | Management Fees £000 | Performance Costs £000 | Transaction Fees £000 |
|--------------------------------|---------------|-------------------------|---------------------------|--------------------------|
| Bonds | 174 | 174 | 0 | 0 |
| Pooled Investments | (465) | (465) | 0 | 0 |
| Pooled Property Investments | 295 | 295 | 0 | 0 |
| Private Debt | 379 | 379 | 0 | 0 |
| Infrastructure | 279 | 279 | 0 | 0 |
| Custody Fees | (8) | - | - | - |
| | 654 | 662 | 0 | 0 |
| Pooled Fees deducted at source | 1,663 | 1,652 | 11 | 0 |
| Total | 2,317 | - | - | - |

12. Investment Income

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|-----------------------------|-----------------|
| 629 | Bonds | 174 |
| 3,536 | Pooled equity investments | 2,951 |
| 1,691 | Pooled investments (Other) | 3,993 |
| 890 | Pooled property investments | 851 |
| 4,246 | Infrastructure | (872) |
| 1,936 | Private Debt | 1,544 |
| 83 | Other | 720 |
| 13,011 | Total | 9,361 |

Note: Infrastructure credit due to Macquarie rebalance amounts in 19/20 being wrongly accounted for as dividend income.

13. External Audit Cost

| | 2019/20 £000 | 2020/21 £000 |
|--------------------------------------|-----------------|-----------------|
| Payable in respect of external audit | 16 | 16 |
| Payable in respect of other services | 17 | 11 |
| Total | 33 | 27 |

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2021.

| 2019/20 | | Fund Manager | 2020/21 | |
|----------------|--------------|---|----------------|--------------|
| £000 | % | | £000 | % |
| | | Investments managed by LCIV regional asset pool | | |
| 68,529 | 10 | Blackrock | 94,195 | 10.5 |
| 25,753 | 3.8 | JPM Emerging Markets | 39,506 | 4.4 |
| 100,180 | 14.6 | Baillie Gifford | 145,056 | 16.2 |
| 32,909 | 4.8 | Pyrford | 0 | 0.0 |
| 0 | 0 | Ruffer | 37,389 | 4.2 |
| 71,358 | 10.4 | RBC | 104,412 | 11.6 |
| 59,756 | 8.7 | CQS | 74,847 | 8.3 |
| | | Investments managed outside the LCIV regional asset pool | | |
| 176,181 | 25.7 | UBS Asset Management | 219,363 | 24.5 |
| 11,277 | 1.7 | Macquarie | 8,353 | 0.9 |
| 7,339 | 1.1 | Quinbrook | 11,834 | 1.3 |
| 19,445 | 2.8 | JPM Infrastructure | 17,799 | 2.0 |
| 11,233 | 1.6 | Churchill | 16,353 | 1.8 |
| 4,474 | 0.7 | Permira | 15,043 | 1.7 |
| 88,961 | 13 | Wells Fargo | 104,906 | 11.7 |
| 7,578 | 1.1 | Blackrock property | 7,612 | 0.9 |
| 7 | 0 | Aberdeen Asset Management | 0 | 0.0 |
| 150 | 0 | LCIV Subscription | 150 | 0.0 |
| 685,130 | 100.0 | Total | 896,818 | 100.0 |

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2021 is shown in the following table.

| Market Value 31 March 2020 £000 | | Market Value 31 March 2021 £000 |
|---------------------------------------|--------------------------------|---------------------------------------|
| | Investment Assets | |
| 69,819 | Bonds | 71,973 |
| 395,323 | Pooled equity investments | 550,305 |
| 122,684 | Pooled investments (other) | 147,647 |
| | | |
| | | |
| 24,212 | Pooled property investments | 24,080 |
| | | |
| 15,707 | Private Debt | 31,396 |
| 37,687 | Infrastructure | 37,506 |
| (6,702) | Derivatives | 246 |
| 25,851 | Cash held with fund managers | 33,035 |
| 399 | Investment income due | 480 |
| 684,980 | Total Investment Assets | 896,668 |
| 0 | Investment Liabilities | 0 |
| 150 | LCIV Subscription | 150 |
| 685,130 | Net investment assets | 896,818 |

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2020/2021. 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 2020 | Purchases during the year and derivative payments | Sales during the year and derivative receipts £000 | Change in Market Value during the Year £000 | Market Value 31 March 2021 |
|---|---------------------------------|---|---|--|-------------------------------------|
| | £000 | £000 | | | £000 |
| Bonds | 69,819 | 103,118 | (98,101) | (2,863) | 71,973 |
| Pooled Equity Investments | 395,323 | 2,951 | (16,500) | 168,531 | 550,305 |
| Pooled Investments Other | 122,684 | 38,891 | (34,898) | 20,970 | 147,647 |
| Private Debt | 15,707 | 16,178 | (4,263) | 3,774 | 31,396 |
| Infrastructure | 37,687 | 3,249 | 0 | (3,430) | 37,506 |
| Pooled Property | 24,212 | 0 | 0 | (132) | 24,080 |
| | 665,432 | 164,387 | (153,762) | 186,850 | 862,907 |
| Derivative Contracts | | | | | |
| Forward Currency Contracts | (6,702) | 0 | 6,948 | 0 | 246 |
| Bonds | 0 | 0 | 0 | 11,767 | 0 |
| | 658,730 | 0 | 0 | 198,617 | 863,153 |
| Other Investment Balances | | | | | |
| Cash with Fund Managers | 25,851 | | | 7,191 | 33,035 |
| Infrastructure Adjustment * | 0 | | | 2,677 | 0 |
| Gain on Currency | 0 | | | 292 | 0 |
| Investment Income Due | 399 | | | 0 | 480 |
| | 26,250 | | | 10,159 | 33,515 |
| External investments at Market Value | 684,980 | | | | 896,668 |
| LCIV Subscription | 150 | | | | 150 |
| Investment Assets | 685,130 | | | 208,776 | 896,818 |

*Note: The Infrastructure adjustment relates to Macquarie 19/20 call rebalance amounts that were incorrectly accounted for as contributions and dividend income. Being an unrealised loss in 19/20.

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2019/2020.

| | Market Value 1 April 2019 £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 2020 £000 |
|---|---|---|---|--|---|
| Bonds | 87,451 | 95,192 | (87,451) | (25,373) | 69,819 |
| Pooled Equity Investments | 0 | 33,225 | 0 | 362,098 | 395,323 |
| Pooled Investments Other | 587,322 | 1,691 | (67,050) | (399,279) | 122,684 |
| Private Debt | 8,080 | 13,388 | 0 | (5,761) | 15,707 |
| Infrastructure | 0 | 36,669 | 0 | 1,018 | 37,687 |
| Pooled Property | 23,749 | 1,000 | 0 | (537) | 24,212 |
| | 706,602 | 181,165 | (154,501) | (67,834) | 665,432 |
| Derivative Contracts | | | | | |
| Forward Currency Contracts | 0 | 0 | 0 | (6,702) | (6,702) |
| | 706,602 | 181,165 | (154,501) | (74,536) | 658,730 |
| Other Investment Balances | | | | | |
| Cash with Fund Managers | 991 | | | 25,857 | 25,851 |
| Investment Income Due | 129 | | | 0 | 399 |
| | | | | | |
| External Investments at Market Value | 707,722 | | | | 684,980 |
| LCIV Subscription | 150 | | | | 150 |
| Investment Assets | 707,872 | | | (48,679) | 685,130 |

14.4 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2021.

15. Fair Value – Basis of Valuation

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

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|-------------------------------------|---------------------|---|--|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Market value based on current yields | Not required | Not required |
| Pooled investments - Property Funds | Level 2 | Closing bid price where bid and offer prices are published Closing single price where single price published | NAV-based pricing set on a forward pricing basis | Not required |
| Unquoted equities | Level 3 | The development, pre-construction and construction-stage assets are held at cost | Not required | Not required |
| | | | | |

15a Fair Value Hierarchy

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

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

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

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

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

| 31 March 2020 | | | | 31 March 2021 | | |
|----------------------------------|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|----------------------------------|
| 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 |
| 588,827 | 16,659 | 53,394 | Financial assets at fair value through profit and loss | 777,933 | 16,468 | 68,902 |
| 26,250 | 0 | 0 | Loans and Receivables | 33,515 | | |
| 0 | 0 | 0 | Financial liabilities at fair value through profit and loss | | | |
| 615,077 | 16,659 | 53,394 | Total | 811,448 | 16,468 | 68,902 |

16. Financial Instruments

16.1 Classification of financial instruments

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

| 31 March 2020 | | | | 31 March 2021 | | |
|--|--------------------------|--|-------------------------------|--|--------------------------|--|
| 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 | | | |
| 69,819 | 0 | 0 | Bonds | 71,973 | 0 | 0 |
| 518,007 | 0 | 0 | Pooled Investments | 697,952 | 0 | 0 |
| 24,212 | 0 | 0 | Pooled Property Investments | 24,080 | 0 | 0 |
| 53,394 | 0 | 0 | Private Debt & Infrastructure | 68,902 | 0 | 0 |
| 0 | 150 | 0 | LCIV Subscription | 0 | 150 | 0 |
| (6,702) | 0 | 0 | Derivatives | 246 | 0 | 0 |
| 0 | 25,851 | 0 | Cash With Fund Managers | 0 | 33,035 | 0 |
| 399 | 0 | 0 | Other Investment Balances | 480 | 0 | 0 |
| 0 | 865 | 0 | Sundry Debtors | 0 | 1,172 | 0 |
| 0 | 3,106 | 0 | Cash | 0 | 1,248 | 0 |
| 659,129 | 29,972 | 0 | | 863,633 | 35,605 | 0 |
| | | | Financial Liabilities | | | |
| 0 | 0 | (1,339) | Sundry Creditors | 0 | 0 | (907) |
| 659,129 | 29,972 | (1,339) | | 863,633 | 35,605 | (907) |

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 2020 £000 | Financial Assets | 31 March 2021 £000 |
|-----------------------|------------------------------------|-----------------------|
| (48,680) | Fair Value through profit and loss | 208,776 |
| (48,680) | Total | 208,776 |

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

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

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

17.2 Market risk

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

17.3 Price risk

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

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

| Asset Type | Value at 31 March 2020 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|-------------------------------|--------------------------------|------------|---------------------------|---------------------------|
| Bonds | 69,819 | 7.6 | 75,125 | 64,513 |
| Equities & Emerging Markets | 395,323 | 11.8 | 441,971 | 348,675 |
| Diversified Growth | 62,928 | 5.9 | 66,641 | 59,215 |
| Multi Asset Credit | 59,756 | 7.6 | 64,297 | 55,215 |
| Pooled Property | 24,212 | 3.6 | 25,084 | 23,340 |
| Private Debt & Infrastructure | 53,394 | 4.2 | 55,637 | 51,151 |
| Cash | 25,851 | 0.9 | 26,084 | 25,618 |
| Derivatives | (6,702) | 0.0 | (6,702) | (6,702) |
| Income Due | 399 | 0.0 | 399 | 399 |
| LCIV Subscription | 150 | 0.0 | 150 | 150 |
| Total Assets | 685,130 | 8.3 | 748,686 | 621,574 |

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 2021 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

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

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

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

| Asset Type | Potential market movements (+/-) % |
|---------------------------------|---------------------------------------|
| Bonds and Index Linked | 7.5 |
| Equities | 14.3 |
| Diversified Growth | 6.4 |
| Multi Asset Credit | 7.5 |
| Property | 2.2 |
| Private Debt and Infrastructure | 4.8 |
| Cash | 0.9 |

17.5 Interest rate risk

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

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

17.6 Currency risk

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

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

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

The table below shows the currency exposure by asset type as at 31 March 2020.

| Asset Type | Value at 31 March 2020 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|-------------------------------|--------------------------------|----------|---------------------------|---------------------------|
| Overseas Bonds | 4,032 | 7.4 | 4,330 | 3,734 |
| Private Debt & Infrastructure | 48,920 | 7.4 | 52,540 | 45,300 |
| Total Overseas Assets | 52,952 | | 56,870 | 49,034 |

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2021. 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 2021 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|--------------------------------|----------|---------------------------|---------------------------|
| Overseas Bonds (US Dollar) | 21,363 | 8.5 | 23,179 | 19,547 |
| Private Debt & Infrastructure (US Dollar) | 53,447 | 8.5 | 57,990 | 48,904 |
| Total | 74,810 | | 81,169 | 68,451 |

| Assets exposed to currency risk | Value at 31 March 2020 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|--------------------------------|----------|---------------------------|---------------------------|
| Overseas Bonds (US Dollar) | 4,032 | 8.5 | 4,375 | 3,689 |
| Private Debt & Infrastructure (US Dollar) | 48,920 | 8.5 | 53,078 | 44,762 |
| Total | 52,952 | | 57,453 | 48,451 |

17.7 Credit risk

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

The average long-term credit rating in the bond portfolio is AA as at 31 March 2021. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

| Value at 31 March 2020 £000 | | Value at 31 March 2021 £000 |
|--------------------------------|--------------|--------------------------------|
| 25,851 | AAA | 32,687 |
| 0 | AA | 71,973 |
| 69,819 | AA- | 0 |
| 95,670 | Total | 104,660 |

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 2021 was £1.2m (31 March 2020: £3.1m).

17.9 Refinancing risk

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

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a Funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 (effective from April 2020) and the next valuation will take place as at 31 March 2022.

The key elements of the Funding policy are:

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

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

As at the 2019 actuarial valuation, the Fund was assessed as 103% Funded. This corresponded to a surplus of £20m at that time of the valuation.

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

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

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

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

Financial Assumptions

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

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose, the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for Funding purposes. In order to meet

this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2021, using a valuation methodology that is consistent with IAS19.

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

| Financial Assumptions | Assumptions as at 31 March 2020 % |
|---------------------------------|-----------------------------------|
| Inflation/Pension Increase Rate | 2.8 |
| Salary Rate Increase | 3.8 |
| Discount Rate | 2.0 |

The value of the Fund's promised retirement benefits as at 31 March 2021 was:

| 31 March 2020 £m | | 31 March 2021 £m |
|---------------------|---|---------------------|
| 975 | Present value of promised retirement benefits | 1,266 |

20. Current Assets

| 31 March 2020 £000 | Current Assets | 31 March 2021 £000 |
|-----------------------|-------------------|-----------------------|
| 1,691 | Contributions Due | 1,953 |
| 865 | Sundry Debtors | 1,172 |
| 3,106 | Cash | 1,248 |
| 5,662 | Total | 4,373 |

Analysis of Debtors

| 31 March 2020 £000 | Current Debtors | 31 March 2021 £000 |
|-----------------------|-------------------------------|-----------------------|
| 1,530 | Administering Body | 1,676 |
| 161 | Admitted and Scheduled Bodies | 277 |
| 865 | Sundry Debtors | 1,172 |
| 2,556 | Total | 3,125 |

21. Current Liabilities

| 31 March 2020 £000 | Creditors | 31 March 2021 £000 |
|-----------------------|--------------------|-----------------------|
| (83) | Fund Managers Fees | (4) |
| (928) | Sundry | (524) |
| (328) | Payroll | (379) |
| (1,339) | Total | (907) |

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.

Due to technical issues at the Prudential, the amount of additional voluntary contributions paid by members during 2020/21 and the total value of accumulated AVC's as at 31 March 2021 is yet to be disclosed.

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.36m (2019/20 £0.37m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

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

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

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

Key Management Personnel

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

| | 31 March 2020 £ | 31 March 2021 £ |
|---------------------------|--------------------|--------------------|
| Short-term benefits | 80,412 | 87,186 |
| Total remuneration | 80,412 | 87,186 |

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2021 were £29.06m (31 March 2020 £46.7m).

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

The external auditor remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In the auditors' view, the scale fee for the Merton PF audit should be increased by £28,290.

Statements of Responsibilities

The Council's Responsibilities

The Council is required:

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

1.1 The Director of Corporate Services' Responsibilities

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

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

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

The Director of Corporate Services has also:

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

1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2021.

Signed

C Holland

Director of Corporate Services
30th September 2021

1.3 Approval of Accounts by Standards and General Purposes Committee

I hereby certify that the Statement of Accounts has been approved by resolution of the Standards and General Purposes Committee of the London Borough of Merton in accordance with the Accounts and Audit (England) Regulations 2015 and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

Signed

Peter McCabe
Chairman Standards and General Purposes Committee
30 September 2021

Further information about the accounts is available from:

Director of Corporate Services
8th Floor
Merton Civic Centre
London Road
MORDEN
Surrey
SM4 5DX

Or, alternatively, please ask for Nemashe Sivayogan 020 8545 3461

Independent Auditor's Report

The final Auditors report will be received from EY following the S&GP Committee in September 2021

Glossary

ACCOUNTING POLICIES

Rules and practices followed in drawing up the accounts.

ACCOUNTING CODE OF PRACTICE

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

ACCRUALS

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

ACTUARIAL GAINS AND LOSSES

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

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

AMORTISED COST

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

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

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

AMORTISED COSTS FINANCIAL ASSETS

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

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

APPROPRIATIONS

The assignment of revenue balances for specified purposes.

ASSET HELD FOR SALE

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

ASSETS

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

BALANCES

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

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

BUDGET

Statement of the spending plans for the year.

BUSINESS MODEL

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

CAPITAL ADJUSTMENT ACCOUNT (CAA)

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

CAPITAL CHARGES

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS DEFERRED

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

CAPITAL RECEIPTS

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

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

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

COLLECTION FUND

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

COMMUNITY ASSETS

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

COMPREHENSIVE SPENDING REVIEW (CSR)

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

CONTINGENT ASSETS AND LIABILITIES

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

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

CONTRACT ASSET

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

CONTRACT LIABILITY

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

CORPORATE GOVERNANCE

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

COUNCIL TAX

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

CREDIT-ADJUSTED EFFECTIVE INTEREST RATE

The effective interest rate calculated for purchased or originated credit-impaired financial assets that takes into account expected credit losses.

CREDIT-IMPAIRED FINANCIAL ASSET

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

CREDIT LOSSES

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

CREDITORS

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

CURRENT SERVICE COST (PENSIONS)

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

CURTAILMENT COSTS

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

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

DEBTORS

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

DEFICIT FUNDING (Employers Additional Funding)

An agreed additional payment made annually by the employer to the Pension Fund to cover a past service deficiency over a fixed recovery period.

DEFINED BENEFIT SCHEME

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

DEPRECIATION

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

DISCRETIONARY BENEFITS

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

EFFECTIVE INTEREST METHOD

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

EFFECTIVE INTEREST RATE

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

EMOLUMENTS

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

EXCEPTIONAL ITEMS

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

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

EXPECTED CREDIT LOSSES (ECLs)

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

12 MONTH EXPECTED CREDIT LOSSES

The expected credit losses for a financial asset that are projected for the possible default events that might happen only in the next financial year.

FAIR VALUE

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

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

Level Two - fair value has been obtained using other inputs observable for the item.

Level Three – unobservable inputs have been used to reach fair value.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS

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

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

FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS

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

FINANCE LEASE

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

FINANCIAL INSTRUMENT

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This account provides a balancing mechanism between the different rates at which gains and losses are recognized under the SORP and are required by statute to be

met from the General Fund. The account is designed to hold the difference between the book value and fair value. It is not used at present because the sums involved are not significant.

FINANCIAL YEAR

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

FINANCIAL INSTRUMENT

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

FIXED ASSETS

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

FTSE 100

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

GENERAL FUND

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

GOVERNMENT GRANTS

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

GROSS EXPENDITURE

The total expenditure of a fund or account.

GROUP ACCOUNTS

Accounts that show the total financial results for a group of entities for a particular period, rather than the separate results of each entity.

HERITAGE ASSETS

These are a class of assets which were formerly categorized as Community Assets. These assets are deemed to contribute to a nation's society, knowledge and/or culture.

IFRS

International Financial Reporting Standards: these are the standards that have superseded national accounting standards. The Code of Practice which has replaced the SORP is fully IFRS based.

IMPAIRMENT

The loss of value in a fixed asset arising from physical damage, deterioration in the quality of service provided by the asset or from a general fall in prices.

INCOME AND EXPENDITURE ACCOUNT

Accounts which show all money receivable or payable by the Council in the accounting period to which they relate. Accounts that record receipts and payments are converted to income and expenditure by the inclusion of debtors and creditors.

INFRASTRUCTURE ASSETS

Fixed assets that have no realistic expectation of being sold but are retained to deliver core services e.g. roads, drainage etc. and in respect of which expenditure cannot be recovered through disposal.

INTANGIBLE ASSETS

Intangible assets are defined in IAS38 as 'identifiable non-monetary assets without physical substance'.

INTEREST COST (PENSIONS)

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

INVESTMENTS (PENSION FUND)

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

INVESTMENTS (NON-PENSION FUND)

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

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

JOINTLY CONTROLLED ENTITY

A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

LCIV (LONDON COLLECTIVE INVESTMENT VEHICLE)

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

LEASING

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

LEVY

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

LIABILITIES

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

LIFETIME EXPECTED CREDIT LOSSES

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

LOSS ALLOWANCE

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

MATERIALITY

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

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case.

MHCLG

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

NAV (NET ASSET VALUE)

Net Asset Value is the value of an entity's assets minus the value of its liabilities.

NET ASSETS

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

NET BOOK ASSETS

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NET WORTH

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

NON-DOMESTIC RATE (NDR)

The rates paid by businesses. The amount paid is based on the rateable value set by the Valuation Office multiplied by a rate in the £ set by the government, which is consistent throughout the country.

NON-OPERATIONAL ASSETS

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

OPERATIONAL ASSETS

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

PAST DUE (FINANCIAL ASSETS)

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

PAST SERVICE COST

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

PAYMENTS OF PRINCIPAL AND INTEREST

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

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

PENSION STRAIN (Employers Additional Funding)

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

PERFORMANCE OBLIGATION

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

POOLED VEHICLES

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

POST BALANCE SHEET EVENTS

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

1. Adjusting events, which provide further evidence of conditions that existed at the end of the accounting period and that may require changes to the accounts.
2. Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

PRECEPTS

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

PRIVATE FINANCE INITIATIVE (PFI)

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

PRIOR PERIOD ADJUSTMENTS

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

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSET

A financial asset that was credit-impaired when it was first brought onto a Council's Balance Sheet.

PROVISIONS

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

REFCUS

Revenue expenditure allowed to be funded by capital under statute.

RESERVES

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

RESIDUAL VALUE

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

REVALUATION RESERVE

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE

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

SCHEME LIABILITIES

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

SERVICE RECIPIENT

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

SETTLEMENT COSTS

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

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

STOCKS

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

SUBSIDIARY

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

SUPPORT SERVICES

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

TRANSACTION PRICE

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

USEFUL LIFE

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

VESTED RIGHTS

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

1. for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
2. for deferred pensioners, their preserved benefits;
3. for pensioners, pensions to which they are entitled.

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