

Summary Statement of Accounts 31st March 2015

INTRODUCTION

The purpose of this explanatory paper is to provide Council stakeholders with a guide to the full Statement of Accounts and to give clear answers to the following key questions:

- What did our services cost in the year?
- Where did the money come from?
- What are our assets and liabilities?

It is both a summary and an interpretation of the accounts, highlighting the key issues that have arisen during the financial year. The full set of accounts and this summary are also available on the Council's website at: www.merton.gov.uk/council/finance.

THE STATEMENT OF ACCOUNTS

The Statement of Accounts, which has been prepared in accordance with the Local Authority Code of Accounting Practice, is the source of information for this paper, which focuses on the following key areas:

Comprehensive Income and Expenditure Statement - Shows the net cost of Council services and the income received from fees and charges and specific grants from Central Government.

Balance Sheet - Shows the Council's assets and how they have been financed.

Pension Fund - Shows member contributions to the fund and the benefits paid from it, together with details of investment activity during the year. It excludes Pension Fund liabilities.

FINANCIAL HIGHLIGHTS 2014/15

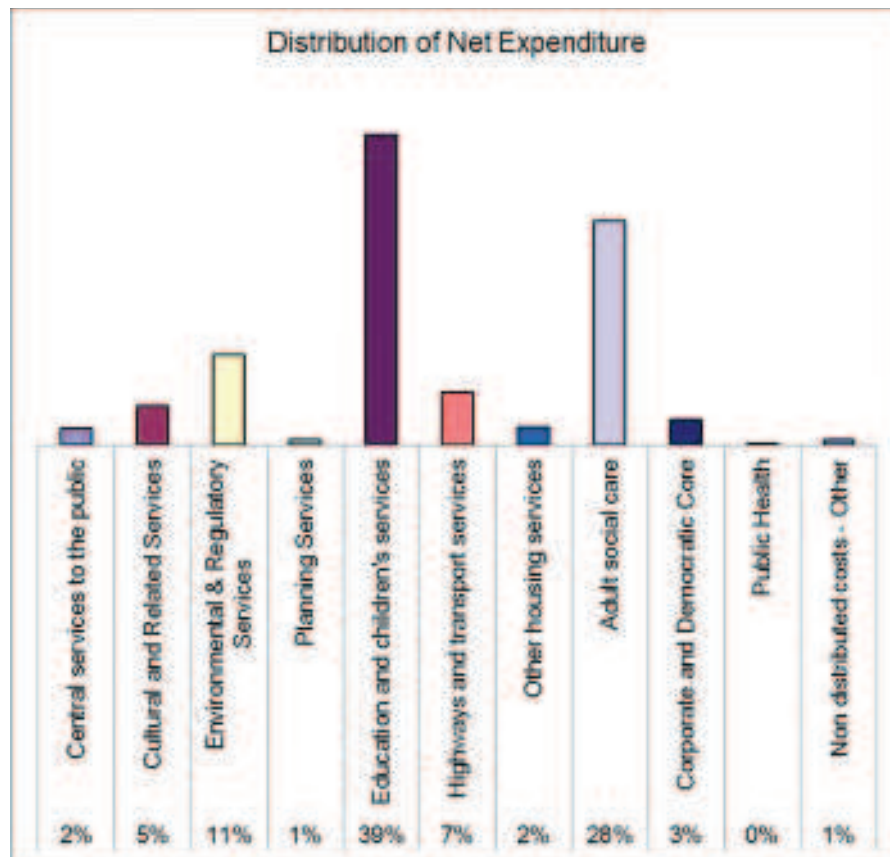
- The Council spent £37m on capital schemes, an increase of 16% from 2013/14.
- Total net assets decreased by £83m, with usable and unusable reserves decreasing by £10m and £73m respectively.
- Long Term borrowings remained at £117m.
- The Council had a net £3.7m over spend against its budget in 2014/15, which has been funded from the General Fund Balance.

REVENUE SPENDING

Merton's net cost of services was £189.5m, attributable to services as shown below:

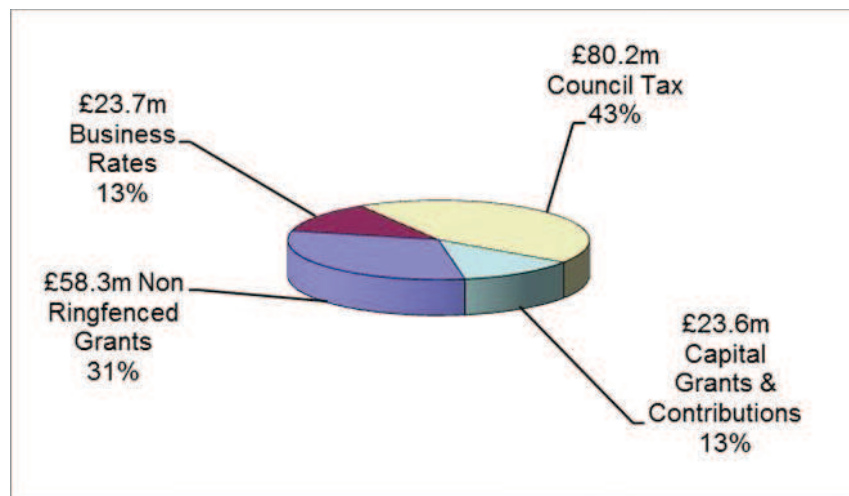
| Service Areas | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
|-------------------------------------|-------------------------|--------------------|-----------------------|
| Central services to the public | 7.4 | (3.4) | 4.1 |
| Cultural and Related Services | 11.8 | (2.4) | 9.4 |
| Environmental & Regulatory Services | 26.1 | (4.5) | 21.6 |
| Planning Services | 7.1 | (5.8) | 1.3 |
| Education and children's services | 238.6 | (163.9) | 74.7 |
| Highways and transport services | 27.4 | (14.9) | 12.5 |
| Other housing services | 109.9 | (105.6) | 4.3 |
| Adult social care | 72.7 | (18.8) | 53.9 |
| Corporate and Democratic Core | 5.8 | 0.1 | 5.9 |
| Public Health | 10.0 | (9.7) | 0.4 |
| Non distributed costs - Other | 12.2 | (10.8) | 1.3 |
| Net Cost of Services | 529.1 | (339.6) | 189.5 |

Note 1 - Includes Housing Benefits, Homelessness and Supporting People.



How was expenditure funded?

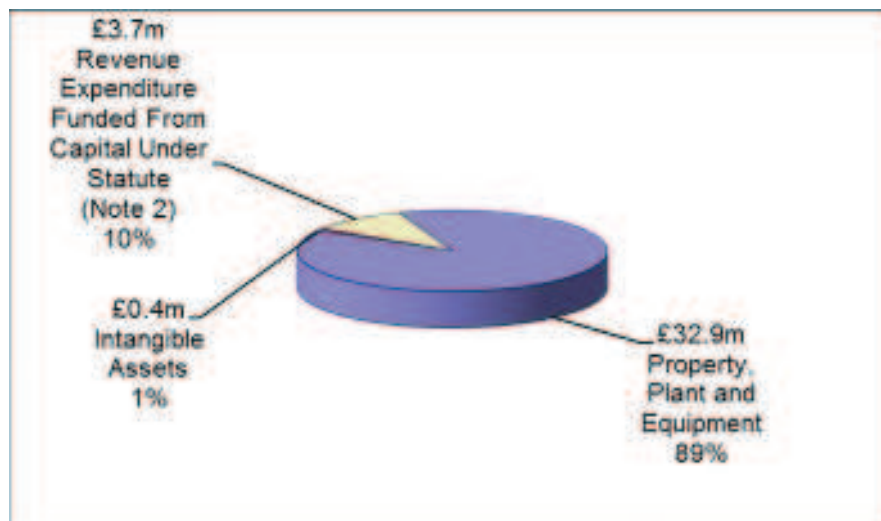
Other than income collected by departments from fees, charges and specific government grants, services are paid for from revenue support grant, which is money from Central Government, contributions from the business rates pool and Council Tax and special grants for specific purposes. The following chart shows the actual funding for 2014/15.



In 2014/15, Merton's Council Tax was the 10th lowest Council Tax (Band D) of the twenty outer London boroughs.

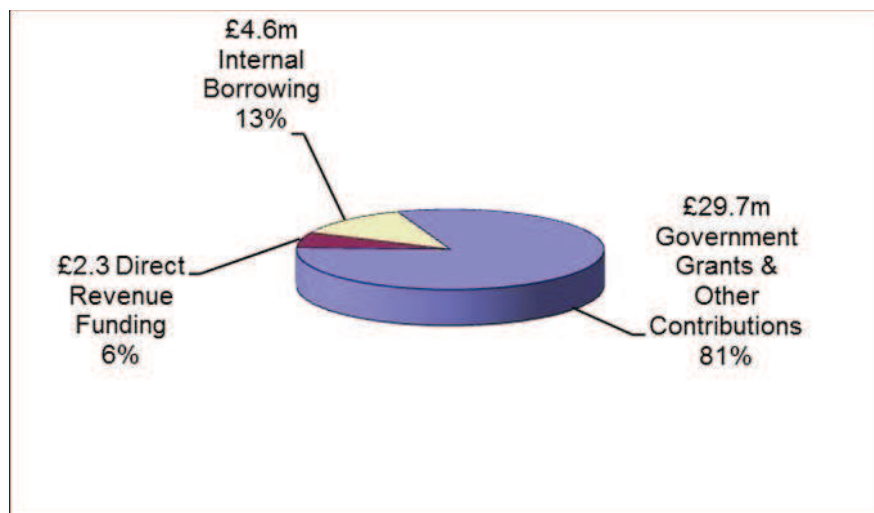
CAPITAL SPENDING

Capital expenditure relates to spending on fixed assets such as buildings and equipment where the benefits to the authority last for more than one year. The Council spent £37m in 2014/15 as shown below.



Note 2 - This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements.

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



FINANCIAL HEALTH

The Council's Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31st March 2015). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

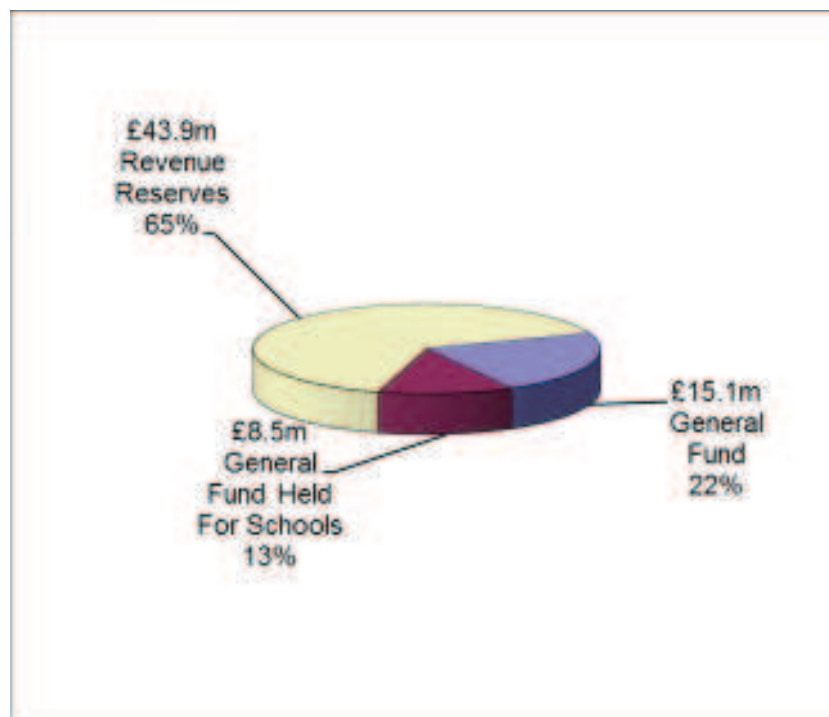
Summary Balance Sheet

| Assets | As at 31 st March 2014 £m | As at 31 st March 2015 £m |
|--|--|--|
| Fixed and Other Long Term Assets | 463 | 457 |
| Current Assets including investments, cash and debtors | 126 | 126 |
| Current Liabilities including creditors and short term borrowing | (64) | (69) |
| Total Assets Less Current Liabilities | 525 | 514 |
| | | |
| Long term borrowings | (117) | (117) |
| Other liabilities and provisions | (50) | (52) |
| Pension Fund Liability | (224) | (294) |
| Total Long Term Liabilities | (391) | (463) |
| | | |
| Total Net Assets | 134 | 51 |
| Represented by: | | |
| Reserves and balances which can be spent | (115) | (105) |
| Reserves and balances which cannot be spent | (19) | 54 |
| Total Net Worth | (134) | (51) |

RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £105m, £37m capital receipts and grants, and £68m fund balances and revenue reserves which are broken down below.

Breakdown of Fund Balances and Revenue Reserves



PENSION FUND

The pension scheme is financed by contributions from employees and the employer, together with income and proceeds from investments administered by the Council. The Council is required to report the assets and liabilities on a commitment basis (IAS19). On this basis the assets in the scheme increased by £51m during the year to £481m and the estimated pension liability increased by £121m to £775m, leading to a £70m increase in the pension deficit, which stands at a nominal £294m. Although this is a significant notional liability, it is not the basis on which the real deficit of the fund is valued and against which a deficit recovery plan has to be prepared. The fund was revalued on the real basis at the end of March 2013 and had a deficit of £53m. The

Council has a 12 year plan to eliminate the deficit, which included an additional £10m one-off payment made in 2014/15 and reported as part of the budget process.

CABINET REPORTING

The revenue outturn in the statement of accounts has been prepared in accordance with the CIPFA Service Reporting Code of Practice which sets out a standard form for the reporting of services to enable this authority to compare the gross and net cost of its services with all other local authorities. A reconciliation of the Cabinet reporting, which is used for management purposes, to the CIPFA Service Reporting Code of Practice is provided below.

| 2014/15 Departmental Analysis | Corporate Services | Children, Schools & Families | Adult Social Care | Libraries | Housing | Public Health | Environment & Regeneration | Total |
|---|-----------------------|---------------------------------------|-------------------------|----------------|----------------|------------------|----------------------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| INCOME | | | | | | | | |
| Fees, charges and other service income | (17,892) | (8,550) | (17,948) | (1,065) | (324) | (415) | (27,295) | (73,490) |
| Government grants | (98,639) | (153,284) | (348) | (1,603) | (2,156) | (9,236) | (854) | (266,121) |
| Total Income | (116,531) | (161,834) | (18,297) | (2,669) | (2,480) | (9,651) | (28,149) | (339,611) |
| EXPENDITURE | | | | | | | | |
| Employee expenses | 24,644 | 128,498 | 13,943 | 3,178 | 1,446 | 858 | 23,370 | 195,937 |
| Other service expenses | 120,822 | 75,880 | 61,491 | 1,577 | 2,589 | 9,048 | 21,890 | 293,298 |
| Depreciation & Impairment Losses | 2,036 | 27,654 | 147 | 632 | 0 | 0 | 10,913 | 41,382 |
| Support service recharges | (16,590) | 4,785 | 3,958 | 1,023 | 282 | 110 | 4,893 | (1,539) |
| Total Expenditure | 130,912 | 236,817 | 79,538 | 6,411 | 4,317 | 10,016 | 61,066 | 529,078 |
| Net Cost of Services (Statement of Accounts) | 14,381 | 74,983 | 61,242 | 3,742 | 1,837 | 365 | 32,917 | 189,467 |
| Items in Cost of Services not in Cabinet Outturn | (14,374) | 27,780 | 5,247 | 1,268 | (73) | 110 | 11,092 | 31,050 |
| Total Cabinet Outturn | 28,755 | 47,203 | 55,995 | 2,474 | 1,910 | 255 | 21,825 | 158,417 |

Disclaimer: - All of the figures in this summary have been compiled having due regard to proper accounting practice. In order to provide simplified and meaningful summary information, some figures have been combined.