

# Statement of Accounts

For the year ending 31<sup>st</sup> March 2015

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# Explanatory Foreword

## 1. Introduction

This is the Council's Statement of Accounts for 2014/15. This statement summarises the financial performance of the Council during 2014/15 showing expenditure on all services during the year and the financial position as at 31<sup>st</sup> March 2015.

The explanatory foreword provides a guide to the most significant matters reported in the Council's 2014/15 Statement of Accounts. The Statement of Accounts is comprised of the following statements:

- **The Movement in Reserves Statement (MIRS)** – shows the movement in the year on the different reserves held by the Council and is used to adjust the net surplus or deficit on the Comprehensive Income and Expenditure Statement (CIES) to the amount chargeable under statute to the Council's General Fund.
- **The Comprehensive Income and Expenditure Statement (CIES)** – shows the accounting cost in the year of providing services for the functions for which the Council is responsible and demonstrates how they have been financed.
- **The Balance Sheet** - summarises the Council'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.
- **Accounting Policies** - explains the basis for the recognition, measurement and disclosure of figures in the accounts.
- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Council in relation to Non-Domestic Rates and Council Tax.
- **Pension Fund Accounts** - shows the contributions to and the benefits paid from the Pension Fund and identifies the investments which make up the assets of the fund.
- **Statement of Responsibilities for the Statement of Accounts** – sets out the different responsibilities of the Council and the Director of Corporate Services.

## 2. Financial Performance

The Council's financial performance in 2014/15 is summarised by the table below, as reported to Cabinet in June 2015:

Cabinet Outturn Report	2014/15	2014/15	2014/15
	Current Budget £000	Outturn £000	Variance £000
<b>Department</b>			
Corporate Services	29,400	29,128	(272)
Children, Schools & Families	44,755	47,203	2,448
Community & Housing	57,632	60,379	2,747
Public Health	255	255	0
Environment & Regeneration	20,526	21,825	1,299
Recharges	(599)	(373)	226
<b>Net Service Expenditure</b>	<b>151,969</b>	<b>158,417</b>	<b>6,448</b>
Corporate Provisions	17,037	14,824	(2,213)
Transfers to Earmarked Reserves	(6,461)	(6,860)	(399)
<b>Total General Fund</b>	<b>162,545</b>	<b>166,381</b>	<b>3,836</b>
Grants	(49,710)	(49,864)	(154)
Business Rates	(33,253)	(33,253)	0
Council Tax and Collection Fund	(79,578)	(79,578)	0
<b>Funding</b>	<b>(162,541)</b>	<b>(162,695)</b>	<b>(154)</b>
<b>Net</b>	<b>4</b>	<b>3,686</b>	<b>3,682</b>

Net service expenditure was overspent by £6.448m due to a number of variances, the three largest being £2.595m in Adult Social Care (Community & Housing department), £1.440m in the area of Waste (Environment and Regeneration department), and £1.867m within Social Care, Youth Inclusion and Commissioning (Children, Schools and Families department).

Corporate Provisions, including earmarked reserve transfers, were underspent by £2.612m and grant income exceeded the budgeted figure by £0.154m.

This reduced the overall net overspend to £3.682m, against a net budget of £0.004m.

The resulting £3.686m net expenditure has been met by an appropriation from the General Fund balance.

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

### 3. Fund Balances and Reserves

During 2014/15 the Council's Usable Reserves decreased by £10.500m.

This was composed of a £3.556m decrease in the Schools' General Fund balance, a £6.860m decrease in Earmarked Revenue Reserves offset by a £0.856m increase in the Dedicated Schools' Grant reserve, a £5.206m increase in the Capital Receipts Reserve and a £2.461m decrease in Capital Grants Unapplied. General Fund balances decreased by £3.686m.

Usable Reserves	2013/14	2014/15
	£000	£000
General Fund Balances	18,838	15,152
General Fund Balances held by schools	12,090	8,534
Earmarked Revenue Reserves	49,892	43,889
<b>Sub Total-Fund Balances and Revenue Reserves</b>	<b>80,820</b>	<b>67,575</b>
Capital Receipts Reserve	26,058	31,264
Capital Grants Unapplied	8,176	5,715
<b>Usable Reserves</b>	<b>115,054</b>	<b>104,554</b>

### 4. Capital Summary

Capital investment amounted to £36.6m in 2014/15 (£31.6m in 2013/14). The programme was financed through internal borrowing (£4.6m), capital grants (£29.7m) and revenue contributions (£2.3m). Capital receipts received in year totalled £5.3m.

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

### 5. Investments and Borrowing

At 31<sup>st</sup> March 2015 the Council held short term and long term deposits totalling £73.4m and £13.0m respectively (£75.2m and £5.0m at 31/03/14). The Council generated £0.84m of investment income from these deposits.

Long term borrowing at 31<sup>st</sup> March 2015 remained unchanged at £117.0m. Short term borrowing increased to £13.1m, from £1.2m at 31<sup>st</sup> March 2014. The Council paid £6.7m in interest on these borrowings during 2014/15.

## 6. Pensions

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

The last applicable actuarial valuation for the whole fund was carried out as at 31<sup>st</sup> March 2013 with the assets of the Fund found to represent 89% of the accrued liabilities for the Fund; this compares with 84% at the 2010 actuarial valuation. The focus of the triennial valuation is the long-term financial health of the Pension Fund and to set a contribution rate to maintain this.

For accounting purposes a valuation under IAS19 is carried out to produce an accounting figure of surplus or deficit as at the date of the Balance Sheet. The methodology used is affected by current assumptions and short-term economic market conditions. The deficit attributable to the Council on an IAS19 basis increased from £224m to £294m, an increase of £70m. The authority's actuary estimated that as at 31<sup>st</sup> March 2015, future liabilities amount to £775m (£654m as at 31<sup>st</sup> March 2013) with assets of £481m (£430m as at 31<sup>st</sup> March 2013).

In 2014/15 the Council made an additional one-off payment of £10.0m from the General Fund into the Pension Fund, in accordance with its long term plan to reduce the deficit between the Pension Fund's assets and liabilities. The payment was made in consultation with the Authority's actuary and has been factored in to the above valuation.

## 7. CHAS 2013 Ltd

CHAS 2013 Ltd is a wholly owned subsidiary of LBM. It is a service offering health and safety pre-qualification assessments to nationally recognised standards.

The Council has not published Group Accounts in 2014/15, on the grounds that they are not materially different to the Council's single entity statements, and therefore the CHAS 2013 Ltd reserve is not shown within the Council's Balance Sheet. Instead, the Council has published disclosure note 38 to present the key information regarding CHAS 2013 Ltd.

## 8. Future Developments

New Accounts and Audit Regulations 2015 have recently been published by the Government. The main change under the new regulations is the requirement for Local Authorities to publish, from 2017/18, draft and audited Statement of Accounts by 31<sup>st</sup> May and 31<sup>st</sup> July, respectively. Under current regulations, Local Authorities are required to publish draft and audited accounts by 30<sup>th</sup> June and 30<sup>th</sup> September, respectively.

Transport Infrastructure Assets – following guidance from Cipfa, the method for valuing Transport Infrastructure Assets, such as roads, footways and street lights, in Local Authority accounts will change from historical cost to depreciated replacement cost. This change will take effect from 2016/17. This new method is expected to

significantly increase the reported values of such assets and will therefore substantially impact on the Council's Balance Sheet. Merton has set up a cross departmental working party to implement this change.



# Core Financial Statements

## 1. Movement in Reserves Statement

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

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 01 April 2013</b>	(30,512)	(48,300)	(22,752)	(4,393)	(105,957)	(47,856)	(153,813)
<b><i>Movement in reserves during 2013/14</i></b>							
(Surplus) or deficit on the provision of services	15,092	0	0	0	15,092	0	15,092
Other Comprehensive Income and Expenditure	0	0	0	0	0	4,540	4,540
<b>Total Comprehensive Income and Expenditure</b>	15,092	0	0	0	15,092	4,540	19,632
Adjustments between accounting basis & funding basis under regulations (Note 18)	(17,100)	0	(3,305)	(3,783)	(24,188)	24,188	0
<b>Net Increase/Decrease before Transfer to Earmarked</b>	(2,008)	0	(3,305)	(3,783)	(9,096)	28,728	19,632
Transfers to/from Earmarked Reserves (Note 16)	1,592	(1,592)	0	0	0	0	0
<b>Increase/Decrease in Year</b>	(415)	(1,592)	(3,305)	(3,783)	(9,096)	28,728	19,632
<b>Balance at 31 March 2014 carried forward</b>	(30,928)	(49,892)	(26,057)	(8,176)	(115,053)	(19,128)	(134,182)

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 01 April 2014</b>	<b>(30,928)</b>	<b>(49,892)</b>	<b>(26,057)</b>	<b>(8,176)</b>	<b>(115,054)</b>	<b>(19,128)</b>	<b>(134,182)</b>
<b><i>Movement in reserves during 2014/15</i></b>							
(Surplus) or deficit on the provision of services	23,524	0	0	0	23,524	0	23,524
Other Comprehensive Income and Expenditure	0	0	0	0	0	59,641	59,641
<b>Total Comprehensive Income and Expenditure</b>	<b>23,524</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23,524</b>	<b>59,641</b>	<b>83,165</b>
Adjustments between accounting basis & funding basis under regulations (Note 18)	(10,278)	0	(5,206)	2,461	(13,023)	13,023	0
<b>Net (Increase)/Decrease before Transfer to Earmarked</b>	<b>13,246</b>	<b>0</b>	<b>(5,206)</b>	<b>2,461</b>	<b>10,501</b>	<b>72,664</b>	<b>83,165</b>
Transfers to/from Earmarked Reserves (Note 16)	(6,004)	6,004	0	0	0	0	0
<b>(Increase)/Decrease in Year</b>	<b>7,242</b>	<b>6,004</b>	<b>(5,206)</b>	<b>2,461</b>	<b>10,501</b>	<b>72,664</b>	<b>83,165</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>(23,686)</b>	<b>(43,889)</b>	<b>(31,263)</b>	<b>(5,715)</b>	<b>(104,553)</b>	<b>53,536</b>	<b>(51,018)</b>



## 2. Comprehensive Income and Expenditure Statement

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

2013/14 Gross Expenditure £000	2013/14 Gross Income £000	2013/14 Net Expenditure Re-stated £000		2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000
			<b>Continuing Operations</b>			
6,843	(3,619)	3,225	Central services to the public	7,405	(3,353)	4,052
11,318	(1,901)	9,417	Cultural and Related Services	11,788	(2,366)	9,422
26,332	(4,066)	22,266	Environmental & Regulatory Services	26,144	(4,514)	21,630
7,349	(5,740)	1,609	Planning Services	7,149	(5,836)	1,312
219,571	(152,125)	67,446	Education and children's services	238,555	(163,891)	74,665
26,634	(14,611)	12,024	Highways and transport services	27,417	(14,867)	12,550
98,722	(94,731)	3,991	Other housing services	109,937	(105,589)	4,348
70,112	(16,915)	53,196	Adult social care	72,709	(18,812)	53,896
5,451	(86)	5,365	Corporate and Democratic Core	5,808	115	5,923
7,890	(6,545)	1,345	Non distributed costs - Other	12,151	(10,846)	1,305
8,190	(9,851)	(1,661)	Public Health	10,016	(9,651)	365
<b>488,413</b>	<b>(310,189)</b>	<b>178,223</b>	<b>Cost of services</b>	<b>529,078</b>	<b>(339,611)</b>	<b>189,467</b>
		(2,716)	Other operating income and expenditure re-stated (Note 3)			(1,187)
		23,205	Financing and investment income and expenditure re-stated (Note 4)			21,060
		(183,620)	Taxation and non-specific grant income (Note 5)			(185,816)
		<b>15,092</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>23,524</b>
		(15,622)	(Surplus) or deficit on revaluation of Property, Plant and equipment (Note 17)			(8,984)
		20,162	Remeasurements of the net defined benefit liability/(asset) (Notes 17 & 35)			68,625
		<b>4,540</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>59,641</b>
		<b>19,632</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>83,165</b>

### 3. Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

31 March 2014			31 March 2015
£000		Notes	£000
447,000	Property, Plant & Equipment	19	433,619
669	Heritage Assets	22	669
0	Investment Property	20	0
5,000	Long Term Investments	9	13,000
1,896	Intangible Assets	21	1,639
231	Assets Held for Sale	23	0
7,763	Long Term Debtors	7 & 9	8,234
<b>462,558</b>	<b>Long Term Assets</b>		<b>457,161</b>
75,202	Short Term Investments	9	73,422
211	Inventories	40	68
28,303	Short Term Debtors	7	25,756
0	Assets Held for Sale	23	7,288
22,714	Cash and Cash Equivalents	14	19,324
<b>126,431</b>	<b>Current Assets</b>		<b>125,858</b>
(1,170)	Short Term Borrowing	9	(13,069)
(61,457)	Short Term Creditors	8	(56,054)
(861)	Current Provisions	11	(354)
<b>(63,488)</b>	<b>Current Liabilities</b>		<b>(69,477)</b>
(5,941)	Provisions	11	(6,977)
(116,976)	Long Term Borrowing	9	(116,976)
(35,201)	Other Long Term Liabilities	9	(34,099)
(224,327)	Pension Liability	35	(293,820)
(8,873)	Capital Grants Receipts in Advance	6	(10,651)
<b>(391,319)</b>	<b>Long Term Liabilities</b>		<b>(462,523)</b>
<b>134,182</b>	<b>Net Assets</b>		<b>51,018</b>
(115,054)	Usable Reserves	16	(104,554)
(19,128)	Unusable Reserves	17	53,536
<b>(134,182)</b>	<b>Total Reserves</b>		<b>(51,018)</b>

#### 4. Cash Flow Statement

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

2013/14		2014/15
£000		£000
15,092	Net (surplus) or deficit on the provision of services	23,524
(62,708)	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 15)	(43,856)
19,612	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 15)	32,053
(28,004)	Net Cash flows from Operating Activities (note 15)	11,721
22,632	Investing Activities (note 15)	3,639
6,740	Financing Activities (note 15)	(11,969)
1,368	Net Increase or decrease in cash and cash equivalents	3,390
(24,082)	Cash and cash equivalents at the beginning of the reporting period	(22,714)
(22,714)	<b>Cash and cash equivalents at the end of the reporting period (Note 14)</b>	<b>(19,324)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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# INCOME AND EXPENDITURE

## 1. MATERIAL ITEMS OF INCOME AND EXPENSE

In 2014/15 the Council made an additional one-off payment of £10.0m from the General Fund into the Pension Fund, in accordance with its long term plan to reduce the deficit between the Pension Fund's assets and liabilities. The payment was made in consultation with the Authority's actuary and has been factored in to the 2014/15 valuation of the fund.

The payment is recognised in the Movement in Reserves Statement as part of 'Adjustments between accounting basis & funding basis under regulations (Note 18)'.

## 2. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

In the Comprehensive Income & Expenditure Statement (CIES), income and expenditure is presented by service as specified by CIPFA's Service Expenditure Reporting Code of Practice. In addition, the CIES includes the income and expenditure of the authority's maintained schools as if it were the expenditure of the Authority.

The Authority's Executive primarily takes decisions about resource allocation on the basis of budget reports, which are analysed across service departments. These budget reports are summarised by the revenue outturn report, which appears in the Explanatory Foreword.

Budget reports are prepared on a different basis from the accounting policies used in the CIES. In particular:

- Budget reports include some charges in relation to capital expenditure e.g. budgeted depreciation, but not the adjustment to depreciation following revaluation, or some impairment losses, which are all charged to services in the CIES.
- Dedicated Schools Grant is recorded as supplies and services expenditure in the budget reports, but as employee expenditure in the CIES. This distinction occurs because the budget reports to the Authority's Executive show expenditure from the Council-only perspective. The CIES, however, must consolidate schools' expenditure into the Council's single entity accounts, as stipulated by CIPFA's Code of Practice (see schools policy XXV on page 106). For the same reason, any DSG-funded income received by the Council from schools is included in budget reports, but removed on consolidation from the CIES.
- The cost of retirement benefits in budget reports is based on cash flows (employer's pension contributions), rather than the current service cost of benefits accrued in the year as in the CIES
- The adjusting accrual for absences is also excluded from budget reports

The income and expenditure of the Authority's service departments recorded in the CIES for the year is as follows:

2014/15 Departmental Analysis	Corporate Services	Children, Schools & Families	Community & Housing			Public Health	Environment & Regeneration	Total
			Adult Social Care	Libraries	Housing			
	£000	£000	£000	£000	£000	£000	£000	£000
<b>INCOME</b>								
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)
<b>Total Income</b>	<b>(116,531)</b>	<b>(161,834)</b>	<b>(18,297)</b>	<b>(2,669)</b>	<b>(2,480)</b>	<b>(9,651)</b>	<b>(28,149)</b>	<b>(339,611)</b>
<b>EXPENDITURE</b>								
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)
<b>Total Expenditure</b>	<b>130,912</b>	<b>236,817</b>	<b>79,538</b>	<b>6,411</b>	<b>4,317</b>	<b>10,016</b>	<b>61,066</b>	<b>529,078</b>
<b>Net Cost of Services (Statement of Accounts)</b>	<b>14,381</b>	<b>74,983</b>	<b>61,242</b>	<b>3,742</b>	<b>1,837</b>	<b>365</b>	<b>32,917</b>	<b>189,467</b>
Items in Cost of Services not in Explanatory Foreword	(14,374)	27,780	5,247	1,268	(73)	110	11,092	31,050
<b>Total Explanatory Foreword (Cabinet Outturn)**</b>	<b>28,755**</b>	<b>47,203</b>	<b>55,995</b>	<b>2,474</b>	<b>1,910</b>	<b>255</b>	<b>21,825</b>	<b>158,417</b>

\*Includes expenditure on staff employed at voluntary-aided and foundation schools as follows:

Employee Expenditure	2013/14 £'000	2014/15 £'000
Voluntary-Aided Schools	25,901	27,166
Foundation Schools	4,940	5,111

\*\* Corporate Services outturn includes net recharges, which are shown separately in Explanatory Foreword.

The table below shows a reconciliation between the Departmental Analysis, the Explanatory Foreword and the Surplus or Deficit on the provision of services:

2014/15	Total Explanatory Foreword	Items in Departmental Analysis not in Explanatory Foreword	Total Cost of Services	Corporate Amounts	Total (Surplus)/ Deficit on the provision of services
	£000	£000	£000	£000	£000
<b>INCOME</b>					
Fees, charges and other service income	(90,598)	17,109	(73,489)	0	(73,489)
Interest & investment income	0	0	0	(1,552)	(1,552)
Taxation & non-specific grant income (Note 5)	0	0	0	(185,816)	(185,816)
Recharges	(32,852)	32,852	0	0	0
Government grants	(260,509)	(5,612)	(266,121)	0	(266,121)
Other	(3,064)	3,064	0	(1,206)	(1,206)
<b>Total Income</b>	<b>(387,023)</b>	<b>47,413</b>	<b>(339,610)</b>	<b>(188,496)</b>	<b>(528,183)</b>
<b>EXPENDITURE</b>					
Employee expenses	96,299	99,639	195,938	0	195,938
Other service expenses	398,885	(105,588)	293,297	0	293,297
Depreciation & Impairment Losses	17,768	23,614	41,382	0	41,382
Support Service Recharges	32,488	(34,027)	(1,539)	0	(1,539)
Interest Payments	0	0	0	10,417	10,417
Precepts & Levies	0	0	0	931	931
Interest on net defined benefit liability (asset)	0	0	0	9,477	9,477
Gain or loss on disposal of fixed assets	0	0	0	(2,138)	(2,138)
Gain or loss on disposal of academies	0	0	0	3,923	3,923
Other	0	0	0	19	19
<b>Total Expenditure</b>	<b>545,440</b>	<b>(16,363)</b>	<b>529,077</b>	<b>22,630</b>	<b>551,707</b>
<b>Net Expenditure/(Income)</b>	<b>158,417</b>	<b>31,050</b>	<b>189,467</b>	<b>(165,866)</b>	<b>23,524</b>

## 2013/14 Comparative Figures

2013/14 Departmental Analysis Restated	Corporate Services	Children, Schools & Families	Community & Housing			Public Health	Environment & Regeneration	Total
			Adult Social Care	Libraries	Housing			
	£000	£000	£000	£000	£000	£000	£000	£000
<b>INCOME</b>								
Fees, charges and other service income	(9,587)	(6,770)	(16,370)	(873)	(175)	(866)	(25,754)	(60,396)
Government grants	(93,648)	(143,326)	(132)	(1,907)	(1,179)	(8,985)	(616)	(249,793)
<b>Total Income</b>	<b>(103,235)</b>	<b>(150,096)</b>	<b>(16,502)</b>	<b>(2,780)</b>	<b>(1,354)</b>	<b>(9,851)</b>	<b>(26,370)</b>	<b>(310,189)</b>
<b>EXPENDITURE</b>								
Employee expenses *	23,606	119,104*	12,800	3,268	1,105	660	22,655	183,199
Other service expenses	108,287	71,632	60,427	1,527	2,059	7,431	21,972	273,336
Depreciation & Impairment Losses	2,074	21,698	132	732	0	0	10,098	34,734
Support service recharges	(18,451)	5,109	4,137	1,178	245	98	4,829	(2,856)
<b>Total Expenditure</b>	<b>115,516</b>	<b>217,543</b>	<b>77,496</b>	<b>6,705</b>	<b>3,409</b>	<b>8,190</b>	<b>59,554</b>	<b>488,413</b>
<b>Net Cost of Services (Statement of Accounts)</b>	<b>12,281</b>	<b>67,447</b>	<b>60,993</b>	<b>3,925</b>	<b>2,055</b>	<b>(1,661)</b>	<b>33,184</b>	<b>178,223</b>
Items in Cost of Services not in Explanatory Foreword	(14,261)	19,774	7,950	1,470	349	(1,661)	11,021	24,641
<b>Total Explanatory Foreword (Cabinet Outturn)</b>	<b>26,542</b>	<b>47,673</b>	<b>53,043</b>	<b>2,455</b>	<b>1,706</b>	<b>0</b>	<b>22,163</b>	<b>153,582</b>



2013/14 Restated	Total Explanatory Foreword	Items in Departmental Analysis not in Explanatory Foreword	Total Cost of Services	Corporate Amounts	Total (Surplus)/ Deficit on the provision of services
	£000	£000	£000	£000	£000
<b>INCOME</b>					
Fees, charges and other service income	(76,906)	16,510	(60,396)	0	(60,396)
Interest & investment income	0	0	0	(1,468)	(1,468)
Taxation & non-specific grant income (Note 5)	0	0	0	(183,620)	(183,620)
Recharges	(35,741)	35,741	0	0	0
Government grants	(250,061)	268	(249,793)	0	(249,793)
Other	(2,073)	2,073	0	0	0
<b>Total Income</b>	<b>(364,781)</b>	<b>54,592</b>	<b>(310,189)</b>	<b>(185,088)</b>	<b>(495,277)</b>
<b>EXPENDITURE</b>					
Employee expenses	92,668	90,531	183,199	0	183,199
Other service expenses	375,512	(102,176)	273,336	0	273,336
Depreciation & Impairment Losses	16,264	18,470	34,734	0	34,734
Support Service Recharges	33,919	(36,774)	(2,856)	0	(2,856)
Interest Payments	0	0	0	10,244	10,244
Precepts & Levies	0	0	0	914	914
Interest on net defined benefit liability (asset)	0	0	0	8,027	8,027
Gain or loss on disposal of fixed assets	0	0	0	(3,630)	(3,630)
Gain or loss on disposal of academies	0	0	0	6,102	6,102
Other finance and investment expenditure	0	0	0	300	300
Other	0	0	0	0	0
<b>Total Expenditure</b>	<b>518,363</b>	<b>(29,950)</b>	<b>488,413</b>	<b>21,957</b>	<b>510,370</b>
<b>Net Expenditure/(Income)</b>	<b>153,582</b>	<b>24,642</b>	<b>178,223</b>	<b>(163,131)</b>	<b>15,092</b>

### 3. OTHER OPERATING EXPENDITURE

2013/14 Restated £000		2014/15 £000
914	Precepts and Levies	931
(3,630)	(Gains)/ losses on the disposal of non-current assets	(2,138)
0	Payments to the Government Housing Capital Receipts Pool	19
<b>(2,716)</b>	<b>Total</b>	<b>(1,187)</b>

2013/14 CIES figures have been restated following the issuance of LAAP Bulletin 103 by CIPFA. The Bulletin clarifies that when a school transfers from Local Authority control to academy status, any gain or loss arising from the derecognition of the school assets from the Council's accounts should be recognised within the Financing and Investment Income and Expenditure line of the CIES. This loss on disposal, totalling £6.1m in 2013/14, had previously been recognised within Other Operating Expenditure. Disclosure notes 3 and 4 have also been restated to reflect this change.

### 4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2013/14 Restated £000		2014/15 £000
10,244	Interest payable and similar charges (Note 9)	10,417
8,027	Net interest on defined pension liability (Note 35)	9,477
(1,468)	Interest receivable and similar income (Note 9)	(1,552)
300	Trading accounts not related to services (Note 39)	(329)
6,102	Loss on the disposal of academies	3,923
0	CHAS 2013 Ltd & other (income)/expenditure	(877)
<b>23,205</b>	<b>Total</b>	<b>21,060</b>

## 5. TAXATION AND NON-SPECIFIC GRANT INCOMES

2013/14 £000		2014/15 £000
(76,123)	Council tax income	(80,221)
(23,841)	Non domestic rates (see Note 6)	(23,676)
(67,622)	Non-ringfenced government grants (see Note 6)	(58,333)
(16,034)	Capital grants and contributions (see Note 6)	(23,586)
<b>(183,620)</b>	<b>Total</b>	<b>(185,816)</b>

## 6. GRANT INCOME

The London Borough of Merton credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2013/14	2014/15
	£000	£000
<b><i>Credited to Taxation and Non Specific Grant Income</i></b>		
Collection Fund	(76,123)	(80,221)
Revenue Support Grant	(47,470)	(39,738)
Business Rates	(23,841)	(23,676)
Top-up Grant	(7,547)	(7,694)
Capital Grant Income	(16,034)	(23,586)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(2,724)	(3,199)
Section 31 Grant	(347)	(1,278)
Council Tax Freeze Grant	(848)	(852)
Education Services Grant	(3,246)	0
Total grants under £1 million	(643)	(774)
<b>Total</b>	<b>(183,620)</b>	<b>(185,816)</b>
<b><i>Credited to Services</i></b>		
<b>Grants over £1million</b>		
Schools Delegated Budget	(135,940)	(144,350)
Housing Benefits Subsidy	(90,864)	(96,042)
Public Health Grant	(8,985)	(9,236)
Benefits Administration	(1,396)	(1,311)
Pupil Premium	(4,959)	(6,078)
Bed & Breakfast Accommodation	(1,179)	(1,680)
Adult Education Main	(1,907)	(1,603)
	(245,231)	(260,301)
<b>Total grants under £1million</b>	<b>(4,563)</b>	<b>(5,820)</b>
<b>Total Grants</b>	<b>(249,794)</b>	<b>(266,121)</b>
<b>Contributions over £1million</b>		
Contributions from CCG	(1,542)	(1,525)
Registered Nursing Care Contribution	(1,386)	(1,008)
Local Taxation Services	(1,285)	(1,126)
Shared Legal Service	(2,851)	(5,065)
Non Delegated Statements	(1,051)	(1,338)
Funding Transfer from NHS England to Social Care	(2,677)	(3,428)
	(10,792)	(13,489)
<b>Total contributions under £1million</b>	<b>(8,605)</b>	<b>(12,287)</b>
<b>Total Contributions</b>	<b>(19,397)</b>	<b>(25,776)</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>(269,191)</b>	<b>(291,897)</b>

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

**Current Liabilities**

	2013/14	2014/15
	£000	£000
<b>Capital Grants Receipts in Advance</b>		
Total of grants under £1million	(82)	0
<b>Total</b>	<b>(82)</b>	<b>0</b>
<b>Revenue Grants Receipts in Advance</b>		
Grants over £1million:	(7,551)	0
Total grants under £1million	(1,827)	(1,664)
<b>Total</b>	<b>(9,379)</b>	<b>(1,664)</b>

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

	2013/14	2014/15
	£000	£000
<b>1. Government Grants and other contributions</b>		
Standards Fund	(902)	0
Other Grants and Contributions	(654)	(2,751)
	(1,556)	(2,751)
<b>2. Section 106</b>	(6,642)	(7,044)
<b>3. Schools Capital Grants</b>	(675)	(855)
<b>Total</b>	<b>(8,873)</b>	<b>(10,651)</b>

## DEBTORS, CREDITORS AND CASH FLOWS

### 7. DEBTORS

31 March 2014 £000		31 March 2015 £000
	<b>Long Term Debtors</b>	
847	Other Local Authorities	811
6,916	Bodies external to general government	7,423
<b>7,763</b>	<b>Total Long Term Debtors</b>	<b>8,234</b>
	<b>Short Term Debtors</b>	
5,842	Central government bodies	8,956
22,461	Bodies external to general government	16,800
<b>28,303</b>	<b>Total short term debtors</b>	<b>25,756</b>
<b>36,066</b>	<b>Total Debtors</b>	<b>33,989</b>

#### Financial Instruments in Debtors

31 March 2014 Re-stated £000		31 March 2015 £000
	<b>Long Term Debtors</b>	
846	Other Local Authorities	811
6,729	Bodies external to general government	7,033
<b>7,575</b>	<b>Total Long Term Debtors</b>	<b>7,844</b>
	<b>Short Term Debtors</b>	
15,193	Bodies external to general government	16,653
<b>15,193</b>	<b>Total short term debtors</b>	<b>16,653</b>
<b>22,768</b>	<b>Total Debtors</b>	<b>24,497</b>

2013/14 figures for financial instruments had included prepayments totalling £4.523m, within 'Bodies external to general government'. Prepayments should not be classified as financial instruments, however, and 13/14 figures have been restated accordingly.

## 8. CREDITORS

31 March 2014		31 March 2015
£000		£000
	<b>Short Term Creditors</b>	
(10,184)	Central government bodies	(3,452)
(1,779)	Other local authorities	(1,454)
(310)	NHS bodies	(199)
(49,184)	Bodies external to general government	(50,949)
<b>(61,457)</b>	<b>Total Short Term Creditors</b>	<b>(56,054)</b>

### Financial Instruments in Creditors

31 March 2014		31 March 2015
£000		£000
	<b>Short Term Creditors</b>	
(310)	NHS bodies	(199)
(41,027)	Bodies external to general government	(41,088)
(579)	Other local authorities	(686)
<b>(41,916)</b>	<b>Total Financial Instruments in Short Term Creditors</b>	<b>(41,973)</b>

## 9. FINANCIAL INSTRUMENTS

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

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

## Categories of Financial Instruments

	Long-term		Current	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000	£000	£000	£000
<b>Investments</b>				
Loans and receivables	5,000	13,000	75,202	73,422
<b>Total investments</b>	<b>5,000</b>	<b>13,000</b>	<b>75,202</b>	<b>73,422</b>
<b>Debtors</b>				
Loans and receivables	6,634	N/A	19,865	N/A
<b>Total debtors</b>	<b>6,634</b>	<b>N/A</b>	<b>19,865</b>	<b>N/A</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	116,976	116,976	1,170	13,069
<b>Total borrowings</b>	<b>116,976</b>	<b>116,976</b>	<b>1,170</b>	<b>13,069</b>
<b>Other Long Term Liabilities</b>				
PFI and Finance Lease LT Liabilities	35,201	34,099	N/A	N/A
<b>Total other long term liabilities</b>	<b>35,201</b>	<b>34,099</b>	<b>0</b>	<b>0</b>
<b>Short Term Creditors</b>				
PFI and Finance Lease ST Liabilities	N/A	N/A	1,553	1,597
Other Financial liabilities at amortised cost	N/A	N/A	40,363	40,376
<b>Total creditors</b>	<b>N/A</b>	<b>N/A</b>	<b>41,916</b>	<b>41,973</b>

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



## Income, Expense, Gains and Losses

	2013/14 Re-stated					2014/15				
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for sale	Assets and Liabilities at fair value through profit and loss	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for sale	Assets and Liabilities at fair value through profit and loss	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense - Borrowings	6,707	0	0	0	6,707	6,687	0	0	0	6,687
Interest Expense - Finance Leases	3,527	0	0	0	3,527	3,711	0	0	0	3,711
Fee Expenses	10	0	0	0	10	19	0	0	0	19
<b>Total Expenses in Surplus or Deficit on the Provision of Services</b>	<b>10,244</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,244</b>	<b>10,417</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,417</b>
Interest Income - Investments	0	(790)	0	0	(790)	0	(842)			(842)
Interest Income - Finance Leases		(677)	0	0	(677)	0	(710)			(710)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(1,468)</b>	<b>0</b>	<b>0</b>	<b>(1,468)</b>	<b>0</b>	<b>(1,552)</b>	<b>0</b>	<b>0</b>	<b>(1,552)</b>
<b>Net gain/loss for the year</b>	<b>10,244</b>	<b>(1,468)</b>	<b>0</b>	<b>0</b>	<b>8,777</b>	<b>10,417</b>	<b>(1,552)</b>	<b>0</b>	<b>0</b>	<b>8,865</b>

## Investments

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

Investment Profile	31 March 2014 £000	31 March 2015 £000	
Long term	5,000	13,000	
Short term	75,000	73,100	
Accrued Investment Income	202	322	
<b>Total</b>	<b>80,202</b>	<b>86,422</b>	
Investments - Movement in year		£000	
<b>Investments at 1 April 2014</b>		<b>80,202</b>	
Change in investment managed internally		6,100	
Change in accrued investment income		120	
<b>Investment at 31 March 2015</b>		<b>86,422</b>	
Long term investment (book value)		13,019	
Short term investment (book value)		73,403	
	Book Value £000	Market Value £000	Unrealised Profits/(Losses) £000
Managed Internally	81,403	81,403	0
Managed Externally	5,019	4,751	(268)
<b>Total</b>	<b>86,422</b>	<b>86,154</b>	<b>(268)</b>

## Fair Value of Assets and Liabilities

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

The fair value of the authority's investment portfolio is not materially different to the book value, which is disclosed in the above table.

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

The methods and assumptions used in the valuation technique were:

- For other market debt, Net Present Value (NPV) methodology has been used, which provides an estimate of the value of future payments in today's terms. The discount rate used in the NPV calculation is

usually equal to the current rate in relation to the same instrument from a comparable lender and would be the rate applicable in the market on the date of valuation, for an instrument with the same duration date to maturity.

- For PWLB (Public Works Loan Body) debt, fair values as at 31<sup>st</sup> March 2015 published by PWLB have been used.

Borrowing at source - Fair Value	31 March 2014 £000	31 March 2015 £000
Public Works Loan Board	64,224	75,209
Market Loan	78,940	95,804
Temporary Loan	0	11,911
Stock Loan	2,605	2,463
<b>Total</b>	<b>145,769</b>	<b>185,387</b>

Borrowing - Maturity Profile	31 March 2014 £000	31 March 2015 £000
Less than 1 year	0	11,910
Between 1 and 2 years	0	0
Between 2 and 5 years	3,966	3,966
Between 5 and 10 years	4,310	30,510
More than 10 years	108,700	82,500
Total over 1 year	<b>116,976</b>	<b>116,976</b>
<b>Total Borrowings</b>	<b>116,976</b>	<b>128,886</b>
Accrued Interest	1,170	1,159
	<b>118,146</b>	<b>130,045</b>

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

## 10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Credit Risk

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

### Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the authority's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by

reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2014/15 were as follows:

Category	Fitch	Moody's	Standard & Poor's	Definition
<b>Banks and Building Societies</b>				
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	AAAmf	Aaa-mf	AAAm	

In addition to deposits in higher rated deposit-takers, the authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities. At 31<sup>st</sup> March 2015 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Fitch Rating
UK Clearing Banks	39,300	45.64%	2	A, F1, a-,1
UK Building Society	18,800	21.84%	1	A, F1, a,1
Local Authority Pooled Property Fund	23,000	26.71%	7	n/a
	5,000	5.81%	1	n/a
<b>Total</b>	<b>86,100</b>	<b>100.00%</b>	<b>11</b>	

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

#### Current Deposits and Trade Debtors

No losses or impairments were incurred in 2014/15, nor are expected for the duration of current deposits. The authority does not generally allow credit for customers. The authority's maximum potential exposure to credit risk is with trade debtors, which are reviewed individually to assess risk of default and need for a provision. Factors taken into account in the assessment include the stability of the organisation, the size of the debt, the age of the debt and what, if any, security such as a charge on property has been provided. The past-due amount of trade debts can be analysed by age as follows:

	31 March 2014	31 March 2015
	£000	£000
< 3 months	5,067	8,526
3 to 12 months	2,417	1,731
> 1 year	3,554	3,902
<b>Total</b>	<b>11,038</b>	<b>14,159</b>

### Cash

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

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

### **Liquidity Risk**

The authority's ability to pay its financial commitments as and when due is supported by substantial resources. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from the Money Markets and the Public Works Loans Board.

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

	31 March 2014		31 March 2015	
	£000	%	£000	%
Under 12 months	0	0.0%	11,910	9.2%
1yr to 2yrs	0	0.0%	0	0.0%
2yrs to 5yrs	3,966	3.4%	3,966	3.1%
5yrs to 10yrs	4,310	3.7%	30,510	23.7%
10yrs and over	108,700	92.9%	82,500	64.0%
<b>Total</b>	<b>116,976</b>	<b>100%</b>	<b>128,886</b>	<b>100%</b>

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

LOBO debt Option exposure when market rates in range of:	Prospectively repayable / requiring Re-finance £000	Proportion of total debt %
4.00 - 4.99%	5,000	3.9
5.00 - 5.99%	34,000	26.4
6.00 - 6.99%	15,500	12.0
7.00 - 7.99%	2,000	1.6
8.00 - 8.99%	6,500	5.0

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

At 31<sup>st</sup> March 2015 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows:

	£000	%
April to June 2015	9,500	11.0
July to September 2015	25,550	29.7
October to December 2015	32,950	38.3
January 2016 to March 2016	5,100	5.9
April 2016 to June 2016	0	0.0
June 2016 to September 2016	8,000	9.3
October 2016 and over	5,000	5.8
	<b>86,100</b>	<b>100.0</b>

Given the resources available, the authority did not experience any significant liquidity problems in 2014/15 and does not anticipate any for 2015/16.

### Interest Rate Risk

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

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

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

	2014/15 £000	0.5% £000	1.0% £000	Mitigation
Borrowings	128,886	285	570	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 will be payable to unwind the fixed deposits.
Investment Deposits	(86,100)	(129)	(258)	
Impact on CIES	N/A	156	312	

### Borrowings

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

### **Prudential Indicator Limits**

Maximum % exposure to:	2014/15	2015/16	2016/17	2017/18
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

At 31<sup>st</sup> March 2015 exposure to variable rates on borrowings is exclusively through future maturities and the risk of LOBO options being exercised. The prospect of the latter is currently not considered significant. The market risk is, therefore, through the spread of debt maturities, and an estimate of a possible financial consequence is shown in the following table. The prospective refinance rate is a normal level of Public Works Loans Board interest rate for long-term finance. This is considered an appropriate and cautious rate to use at present although this may change over time.

Maturity in	Actual at 31 March 2015 £000	Current average interest rate %	Prospective re-finance rate %	Margin %	Effect (Saving) £000 pa
Under 12 months	11,910	0.4	0.4	0.0	0
1 to 2 years	0	0.0	0.0	0.0	0
2 to 5 years	3,966	9.6	0.6	-9.0	(134)
5 to 10 years	30,510	6.1	2.2	-3.9	(1,202)
10 to 15 years	4,500	8.4	2.4	-6.0	(268)
15 to 20 years	1,000	4.3	2.7	-1.6	(16)
20 to 25 years	11,500	4.6	2.8	-1.8	(303)
25 to 30 years	13,500	6.6	2.9	-3.7	(501)
30 to 35 years	0	0.0	0.0	0.0	0
35 to 40 years	17,000	5.3	2.9	-2.4	(413)
40 to 45 years	15,000	4.0	2.9	-1.1	(159)
45 to 50 years	20,000	5.0	2.9	-2.2	(431)
	<b>128,886</b>	<b>5.2</b>	<b>2.4</b>	<b>-2.8</b>	<b>(3,427)</b>

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

### Investments

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

	2013/14	2014/15	2015/16	2016/17
Maximum investment over 1 year as percentage of total investments	50%	50%	50%	50%

At 31<sup>st</sup> March 2015, the investment portfolio's exposure to interest rate change is set out in the following table. The effective reduction of income relative to the interest rates being earned on the portfolio at 31<sup>st</sup> March 2015 is calculated in proportion to the period in 2014/15 over which it would apply, (i.e. investments maturing in the 0-3 month period would be re-invested at lower rates for 3 months).



Deposit Maturity in:	Actual at 31 March 2015 £000	Current average interest rate %	Prospective re-finance rate at 31 March 2015 %	Margin %	Reduction of income relative to 31 March 2015 £000 pa
0-3 months	9,500	0.7	0.4	0.3	0
3-6 months	25,550	0.9	0.5	0.4	34
6-9 months	32,950	0.9	0.7	0.2	41
9-12 months	5,100	0.9	0.8	0.1	3
over 12 months	13,000	1.1	0.9	0.1	19
	<b>86,100</b>	<b>0.9</b>	<b>0.7</b>	<b>0.2</b>	<b>97</b>

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 NewSchools and do not change.

### **Price Risk**

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

### **Foreign Exchange Risk**

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

## **11. PROVISIONS**

	Injury and damage compensation claims £000	Other provisions £000	Total £000
<b>Balance at 1 April 2014</b>	(4,063)	(2,739)	(6,802)
Additional provisions made in 2014/15	(1,393)	(1,598)	(2,992)
Amounts used in 2014/15	1,444	1,019	2,462
<b>Balance at 31 March 2015</b>	<b>(4,013)</b>	<b>(3,319)</b>	<b>(7,331)</b>

### Outstanding Legal Cases

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

### Injury and Damage Compensation Claims:

- **Insurance Fund £4.013m**

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

### Other Provisions:

- **Housing £0.234m**

As part of the stock transfer agreement made on 22 March 2010, the authority paid £1.85m to Merton Priory Homes in order for them to complete the 2009/10 capital programme. Due to health and safety and various design issues, the cost of the programme increased by £0.24m. The work has been completed and a provision of £0.343m was made for final settlement of this and other outstanding housing contracts. As at 31/03/2015, £0.234m remains in the provision for settlement of outstanding contracts.

- **Single Status £0.298m**

Single Status is a national agreement reached in 1997 aimed at modernising pay and rewards in Local Government. The agreement covers the introduction of a single job evaluation (JE) scheme for all Council workers, a standardised working week and a pay and grading review which recognises equal pay for work of equal value. A further national implementation agreement was reached in 2004 under which local authorities would complete and implement local pay reviews. In 2014/15, the authority made payments totalling £0.292m against the provision. The remaining £0.298m provision is the estimated outstanding liability for single status allowances.

- **PFI contribution refund £0.056m**

The Council has received a claim from an Academy school, totalling £0.056m, for the partial refund of past contributions made under the Council's PFI scheme (see Note 29). The authority considers it probable that settlement will be reached and has made a provision of £0.056m.

The Council has received similar claims from three other maintained schools, totalling £0.4m, where settlement is considered probable. However, as the three maintained schools are within the Council's single entity reporting boundary, no provision has been made. Instead, the Council has set aside funds for these three claims in an earmarked reserve (see Note 16).

- **NDR Appeals £2.730m**

The authority has a provision of £2.730m for its share of appeals against NDR (Business Rates) charges. At 31<sup>st</sup> March 2014, the provision had totalled £1.644m. During 2014/15, additional provision of £1.542m was made and

£0.456m charged against the provision. The increased provision at 31<sup>st</sup> March 2015 reflects an updated estimate of the potential effects of appeals and proposals that may be settled in future years.

Of the above provisions, those for single status and the PFI contribution refund commitment scheme are classified as current provisions, expected to fall due within one year of the balance sheet date. The remainder of the provisions, totalling £6.977m are long-term provisions, expected to fall due more than one year after the balance sheet date.

## 12. CONTINGENT LIABILITIES

### Local Land Charges

LB Merton, along with many local authorities in the country, is a defendant in proceedings brought by a group of Property Search Companies for the refund of fees paid to councils for access to land charges data. The Council faces approximate claims of £200,000 plus interest and costs. The Local Government Association is co-ordinating the claims and the proceedings have been adjourned to see if settlement can be reached. Central Government may be willing to assist with reimbursement through a New Burdens payment.

### Employment Disputes

There are five current employment disputes where compensation and/or costs are involved. One of the cases could result in a payment of up to £120,000. The maximum liability in respect of the other four is estimated to be £50,000. However, due to the inherent uncertainties surrounding their outcome, the Council has not made a provision for these in the accounts.

### Education

There are two Special Educational Needs Tribunal cases of note. In both cases, the parents seeking a private special school place, the combined cost of which is approximately £65,000 a year. The hearings have not yet taken place. Costs are not generally awarded in Tribunal cases.

Due to the inherent uncertainties surrounding their outcome, the Council has not made a provision for these in the accounts.

### Social Services

There is a pending judicial review costs appeals application in the High Court where the applicants are appealing a no costs order.

### Civil Litigation

A High Court appeal has been received regarding a tree preservation order. There is a two day hearing in July, with counsel instructed. If the Council loses and has to pay the other side's costs, this could total £20,000.

There is a two day magistrates court hearing scheduled for July, regarding charitable relief for business rates. Both parties have exchanged evidence and at present there is no likelihood of settlement. Whichever side loses may wish to take the matter to the High Court for an authoritative determination on a point of law. The Council

estimates that its maximum liability would be approximately £320,000, although some of the costs may be reclaimable from central government.

There is a potential judicial review regarding cuts to the adult social care budget, although this is at the Letter Before Claim stage and proceedings have not yet been issued. A member of the public is seeking to quash a Council decision regarding proposed cuts to the adult social care budget for 2015/16 to 2018/19. There is no prospect of settlement.

### **CHAS**

CHAS 2013 Ltd is a wholly owned subsidiary of the London Borough of Merton. It formerly operated as part of the Council as a trading account. It is the established market leader for health and safety pre-qualification in the UK.

A dispute has arisen, pre-dating the formation of CHAS 2013 Ltd, which may result in a damages claim and potential injunction against a third party, in respect of the use of the Council's registered trademark and name "CHAS Contractors Health & Safety Assessment Scheme".

The Council itself has been served a Letter Before Action claiming an unsubstantiated sum exceeding £720,000 plus legal costs, arising from a contract to provide CHAS client details to a third party, for it to sell insurance products to those CHAS customers. In response, the Council had served a formal response alleging cross contractual claims for unpaid commission and potential fraud against the third party. It is unclear whether the Council's claim will outweigh the third party's claim.

CHAS have instructed solicitors and proceedings have been deferred by the parties to see if this matter can be resolved out of court. A pre action protocol is being agreed. Neither claim is reflected in the accounts.

## **13. CONTINGENT ASSETS**

### **Proceeds of Crime Act 2002 (POCA)**

The Council has a POCA Order following an LBM trading standards prosecution of a betting scam. A confiscation order of £6.1m was made in May 2014, to be paid by 14<sup>th</sup> November 2014, of which the Council would receive 37.5%, less the costs of the financial investigator. Payment has not been forthcoming and the court is now considering applications for more time to pay.

The assets are "hidden" and consequently not identifiable.

## 14. CASH AND CASH EQUIVALENTS

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

31 March 2014 £000		31 March 2015 £000
(182)	Main bank account	(252)
976	Cash in transit (held by agents)	1,439
21,869	Cash advanced to schools	18,101
51	Cash advanced to establishments (Cash imprests)	36
<b>22,714</b>	<b>Total Cash and Cash Equivalents</b>	<b>19,324</b>

## 15. CASH FLOWS

### Cash Flow Statement - Operating Activities

2013/14 £000		2014/15 £000
(37,319)	Employee and running costs less income	2,743
(1,402)	Interest received	(1,432)
7,190	Interest paid	6,699
3,527	Interest element of finance lease	3,711
<b>(28,004)</b>		<b>11,721</b>

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

2013/14		2014/15
£000		£000
	<b>Non Cash Movements</b>	
(15,761)	Depreciation	(17,075)
(18,408)	Impairment & downward valuations	(24,147)
(606)	Amortisation	(693)
(6,652)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(6,930)
(9,290)	Movement in Pension Liability	(868)
(5,331)	(Increase)/decrease in provision for the impairment of bad debts	1,080
(670)	(Increase)/decrease in Provisions	(529)
<b>(56,718)</b>		<b>(49,163)</b>
	<b>Accruals Adjustments</b>	
(31)	Increase/(decrease) in Inventories	(143)
2,145	Increase/(decrease) in Debtors	(3,156)
65	Increase/(decrease) in Interest Debtors	120
(8,653)	(Increase)/decrease in Creditors	8,475
484	(Increase)/decrease in Interest Creditors	11
<b>(5,990)</b>		<b>5,307</b>
<b>(62,708)</b>	<b>Total</b>	<b>(43,856)</b>

## Cash Flow Statement - Investing Activities

2013/14		2014/15
Re-stated		£000
£000		£000
26,434	Purchase of property, plant and equipment, investment property and intangible assets	31,389
455,875	Purchase of short-term and long-term investments	442,320
(3,320)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,870)
(440,775)	Proceeds from short-term and long-term investments	(436,220)
(15,582)	Other receipts from investing activities	(28,980)
<b>22,632</b>	<b>Net cash flows from investing activities</b>	<b>3,639</b>

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

2013/14		2014/15
£000		£000
3,320	Proceeds from the sale of PP&E, investment property and intangible assets	4,870
16,292	Any other items for which the cash effects are investing or financing cash flows	27,183
<b>19,612</b>	<b>Total</b>	<b>32,053</b>

### Cash Flow Statement - Financing Activities

2013/14		2014/15
£000		£000
(2,373)	Other receipts from financing activities	(11,910)
1,103	Cash payments for the reduction of finance leases (PFI)	(1,347)
8,000	Repayment of short- and long-term borrowing	0
10	Cash payments for the reduction of finance leases (Other)	1,270
0	Other payments	19
<b>6,740</b>	<b>Net cash flows from investing activities</b>	<b>(11,969)</b>

## RESERVES

## 16. USABLE RESERVES

Usable Reserves	Balance at 31 March 2013 £000	Transfers out 2013/14 £000	Transfers in 2013/14 £000	Balance at 31 March 2014 £000	Transfers out 2014/15 £000	Transfers in 2014/15 £000	Balance at 31 March 2015 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	(11,674)	598	(1,014)	(12,090)	3,593	(37)	(8,534)
General Fund Balances	(18,838)	0	0	(18,838)	3,686	0	(15,152)
Earmarked reserves	(48,300)	4,605	(6,197)	(49,892)	11,836	(5,833)	(43,889)
<b>Total General Fund</b>	<b>(78,812)</b>	<b>5,203</b>	<b>(7,211)</b>	<b>(80,820)</b>	<b>19,116</b>	<b>(5,870)</b>	<b>(67,575)</b>
<b>Capital:</b>							
Capital Receipts Reserves	(22,752)	600	(3,905)	(26,058)	138	(5,344)	(31,264)
Capital Grants Unapplied	(4,393)	2,162	(5,945)	(8,176)	3,329	(868)	(5,715)
<b>Total Capital</b>	<b>(27,145)</b>	<b>2,762</b>	<b>(9,850)</b>	<b>(34,234)</b>	<b>3,467</b>	<b>(6,212)</b>	<b>(36,979)</b>
<b>Total Usable Reserves</b>	<b>(105,957)</b>	<b>7,965</b>	<b>(17,061)</b>	<b>(115,054)</b>	<b>22,583</b>	<b>(12,083)</b>	<b>(104,554)</b>



## Transfers to/from Earmarked Reserves

Reserve	Balance at 31st March 2013	Net Transfer to/from Reserve	Balance at 31st March 2014	Net Transfer to/from Reserve	Balance at 31st March 2015
	£000	£000	£000	£000	£000
Outstanding Council Programme Board	(9,789)	(1,317)	(11,105)	1,590	(9,515)
For use in future years' budgets	(9,752)	1,500	(8,252)	2,500	(5,752)
Revenue Reserve for Capital/Revenuesation	(4,269)	(1,091)	(5,360)	(702)	(6,062)
Energy renewable reserve	(1,441)	0	(1,441)	0	(1,441)
Repairs and Renewals Fund	(1,424)	0	(1,424)	0	(1,424)
Transforming families reserve	(1,318)	534	(784)	370	(414)
Pension Fund additional contribution	(1,078)	0	(1,078)	1,015	(63)
Local Land Charges	(1,075)	(185)	(1,260)	(159)	(1,419)
Apprenticeships	(1,000)	51	(949)	301	(648)
Community Care Reserve	(1,791)	58	(1,733)	347	(1,386)
Local Welfare Support Reserve	0	(315)	(315)	(299)	(614)
Performance Reward Grant	(651)	386	(265)	265	(0)
Economic Development Strategy	(623)	(698)	(1,322)	173	(1,148)
Governor Support Reserve	0	0	0	(52)	(52)
Wimbledon Tennis Courts Renewal	(27)	(25)	(52)	(25)	(77)
Merton Action Single Homelessness	(50)	0	(50)	50	0
Corporate Services Reserves	(249)	67	(182)	0	(182)
Used or eliminated reserves	(7)	7	0	0	0
<b>Sub total earmarked reserves</b>	<b>(34,544)</b>	<b>(1,029)</b>	<b>(35,573)</b>	<b>5,376</b>	<b>(30,197)</b>
Adult social care contributions	(1,482)	812	(670)	245	(425)
Culture & Environment contributions	(931)	(273)	(1,204)	757	(447)
Culture & Environment Grants	(852)	105	(747)	384	(363)
Childrens & Education Grants	(780)	72	(708)	58	(650)
Adult social care Grants	(101)	101	0	0	0
Housing planning development Grants	(345)	46	(299)	110	(190)
Housing GF Grants	(106)	0	(106)	0	(106)
Public Health Grant Reserve	0	(1,664)	(1,664)	510	(1,154)
<b>Sub total IFRS earmarked reserves</b>	<b>(4,597)</b>	<b>(801)</b>	<b>(5,398)</b>	<b>2,063</b>	<b>(3,335)</b>
Insurance reserves	(1,954)	0	(1,954)	0	(1,954)
<b>Sub total fixed to contract reserve</b>	<b>(1,954)</b>	<b>0</b>	<b>(1,954)</b>	<b>0</b>	<b>(1,954)</b>
DSG Reserve	(2,378)	(350)	(2,728)	(857)	(3,585)
Probable refund of school PFI contributions (see Note 11)	0	0	0	(400)	(400)
Schools Reserve	(1,060)	892	(168)	116	(52)
Schools PFI Fund	(3,767)	(304)	(4,071)	(295)	(4,366)
<b>Sub total Schools reserves</b>	<b>(7,205)</b>	<b>238</b>	<b>(6,967)</b>	<b>(1,436)</b>	<b>(8,403)</b>
<b>Grand Total</b>	<b>(48,300)</b>	<b>(1,592)</b>	<b>(49,893)</b>	<b>6,004</b>	<b>(43,889)</b>

## 17. UNUSABLE RESERVES

31 March 2014		31 March 2015
£000		£000
(71,054)	Revaluation Reserve	(73,934)
(167,021)	Capital Adjustment Account	(161,566)
224,327	Pensions Reserve	293,820
(5,555)	Deferred Capital Receipts Reserve	(5,547)
(3,814)	Collection Fund Adjustment Account	(2,854)
3,989	Accumulated Absences Account	3,616
<b>(19,129)</b>	<b>Total Unusable Reserves</b>	<b>53,536</b>

## Revaluation Reserve

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

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

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

	2013/14 £000		2014/15 £000
(57,840)	<b>Balance at 1 April</b>		<b>(71,054)</b>
(26,670)	Upward revaluation of assets		(12,486)
11,048	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services		3,503
(15,622)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(8,984)
807	Difference between fair value depreciation and historical cost depreciation		4,225
1,601	Accumulated gains on assets sold or scrapped		1,879
2,408	Amount written off to the Capital Adjustment Account		6,104
<b>(71,054)</b>	<b>Balance at 31 March</b>		<b>(73,934)</b>

## Capital Adjustment Account

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

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the authority. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

2013/14			2014/15	
£000			£000	
(178,620)		<b>Balance at 1 April</b>		(167,021)
(2,408)		Amounts written out of the Revaluation Reserve		(6,104)
		<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>		
15,761		Charges for depreciation and impairment of non-current assets	17,075	
18,407		Revaluation losses on Property, Plant and Equipment	24,147	
606		Amortisation of intangible assets	693	
3,334		Revenue expenditure funded from capital under statute	3,768	
6,652		Amounts of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	6,930	
0		Other	5	
	44,760			52,619
	<b>42,352</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>46,514</b>
		<b>Capital financing applied in the year:</b>		
(600)		Use of Capital Receipts Reserve to finance new capital expenditure	(119)	
(14,976)		Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(29,676)	
(8,815)		Statutory provision for the financing of capital investment charged against the General Fund	(9,137)	
(6,421)		Capital expenditure charged against the General Fund	(2,327)	
	(30,812)			(41,258)
	59	Loan Repayments		200
	(167,021)	<b>Balance at 31 March</b>		<b>(161,565)</b>

## Pensions Reserve

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

2013/14		2014/15
£000		£000
<b>194,875</b>	<b>Balance at 1 April</b>	<b>224,327</b>
20,162	Remeasurements of the net defined benefit liability/asset	68,625
26,245	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Provision of Services in the Comprehensive and Expenditure Statement	29,093
(16,955)	Employer's pensions contributions and direct payments to pensioners payable in the year	(28,225)
<b>224,327</b>	<b>Balance at 31 March</b>	<b>293,820</b>

## Deferred Capital Receipts Reserve

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

2013/14 Restated £000		2014/15 £000
<b>(5,338)</b>	<b>Balance at 1 April</b>	<b>(5,555)</b>
(236)	Correction of balance relating to previous years	0
8	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	9
11	Transfer to the Capital Receipts Reserve upon receipt of cash	0
<b>(5,555)</b>	<b>Balance at 31 March</b>	<b>(5,547)</b>

## 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.

2013/14 £000		2014/15 £000
<b>(4,986)</b>	<b>Balance at 1 April</b>	<b>(3,814)</b>
1,172	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	960
<b>(3,814)</b>	<b>Balance at 31 March</b>	<b>(2,854)</b>

### 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 31<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2013/14 £000		2014/15 £000
<b>4,052</b>	<b>Balance at 1 April</b>	<b>3,989</b>
(4,052)	Settlement or cancellation of accrual made at the end of the preceding year	(3,989)
<b>3,989</b>	<b>Amount accrued at 31 March</b>	<b>3,616</b>
(63)	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	(373)
<b>3,989</b>	<b>Balance at 31 March</b>	<b>3,616</b>

## 18. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2014/15

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of non current assets	(17,075)			17,075
Revaluation losses on Property Plant and Equipment	(24,147)			24,147
Amortisation of intangible assets	(693)			693
Revenue expenditure funded from capital under statute	(3,768)			3,768
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,930)			6,930
Other	(5)			5
<u>Insertion of items not debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	9,137			(9,137)
Capital expenditure charged against the General Fund balance	2,327			(2,327)
Revaluation gains charged direct to Revaluation Reserve				
<b>Adjustments primarily involving the Capital Grant Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	27,215		(1,725)	(25,490)
Application of grants to capital financing transferred to the Capital Adjustment Account			4,186	(4,186)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,144	(5,144)		

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000
Use of the Capital Receipts Reserve to finance new capital expenditure		119		(119)
Use of Capital Receipts Reserve to finance debt premium				
Contribution to Housing Pool	(19)	19		
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals				
receipt of cash				
Repayment of debt		(200)		200
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(9)			9
Correction of balance relating to previous years				
<b>Adjustments involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	(29,093)			29,093
Employer's pensions contributions and direct payments to pensioners payable in the year	28,225			(28,225)
<b>Adjustments involving the Collection Fund Adjustments Account:</b>				
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	(960)			960
<b>Adjustment involving the Accumulated Absences Account</b>				
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	373			(373)
<b>Total Adjustments</b>	<b>(10,278)</b>	<b>(5,206)</b>	<b>2,461</b>	<b>13,023</b>



## 2013/14 Comparative figures

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of non current assets	(15,761)			15,761
Revaluation losses on Property Plant and Equipment	(18,407)			18,407
Amortisation of intangible assets	(606)			606
Revenue expenditure funded from capital under statute	(3,334)			3,334
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,651)			6,651
Other	0			0
<u>Insertion of items not debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	8,815			(8,815)
Capital expenditure charged against the General Fund balance	6,421			(6,421)
<b>Adjustments primarily involving the Capital Grant Unapplied Account:</b>				
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	18,759		(5,945)	(12,814)
Application of grants to capital financing transferred from the Capital Grants Unapplied reserve to the Capital Adjustment Account			2,162	(2,162)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,835	(3,835)		

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	£000
Use of the Capital Receipts Reserve to finance new capital expenditure		600		(600)
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(11)		11
Repayment of debt		(59)		59
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(8)			8
Correction of balance relating to previous years	236			(236)
<b>Adjustments involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	(26,245)			26,245
Employer's pensions contributions and direct payments to pensioners payable in the year	16,955			(16,955)
<b>Adjustments involving the Collection Fund Adjustments Account:</b>				
Amount by which council tax and NDR income credited to the Comprehensive Income and Expenditure Statement is different from council tax and NDR income calculated for the year in accordance with statutory requirements	(1,172)			1,172
<b>Adjustment involving the Accumulated Absences Account</b>				
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	63			(63)
<b>Total Adjustments</b>	<b>(17,100)</b>	<b>(3,305)</b>	<b>(3,783)</b>	<b>24,188</b>