

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

This statement reflects the changes to the Collection Fund resulting from the Business Rates Retention Scheme introduced in 2013/14. Prior to 2013/14 proceeds from rates collected from business ratepayers were paid into a pool administered by the Government for re-distribution to local authorities' General Funds. Since 2013/14, the Council is entitled to retain a share of the proceeds from business rates with precepts being paid to central government and the Greater London Authority, details are provided in Note 2.

2013/14				2014/15		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
			<b>A) INCOME</b>			
0	99,225	99,225	Council Tax Receivable	0	101,000	101,000
83,938	0	83,938	Business Rates Receivable	84,448	0	84,448
2,600	0	2,600	Business Rates Supplements Receivable	2,551	0	2,551
<b>86,538</b>	<b>99,225</b>	<b>185,763</b>		<b>86,999</b>	<b>101,000</b>	<b>187,999</b>
			<b>B) EXPENDITURE</b>			
			Apportionment of Previous Year Surplus/(Deficit):			
0	0	0	Central Government	(620)	0	(620)
0	2,545	2,545	Billing Authority (LBM)	(372)	4,608	4,236
0	739	739	Greater London Authority	(248)	1,266	1,018
<b>0</b>	<b>3,284</b>	<b>3,284</b>		<b>(1,240)</b>	<b>5,874</b>	<b>4,634</b>
			<b>C) Precepts, Demands and Shares</b>			
40,787	0	40,787	Central Government (DCLG): NDR	42,131	0	42,131
24,472	74,119	98,591	Billing Authority (LBM): NDR & Council Tax	25,279	75,342	100,621
16,315	20,295	36,610	Greater London Authority: NDR & Council Tax	16,852	20,358	37,210
2,600	0	2,600	Greater London Authority: Business Rates Supplement	2,551	0	2,551
<b>84,174</b>	<b>94,414</b>	<b>178,588</b>		<b>86,813</b>	<b>95,700</b>	<b>182,513</b>
			<b>D) Charges to Collection Fund</b>			
(1,294)	2,223	929	Less: increase/(decrease) in bad debt provision	107	(896)	(789)
5,479	0	5,479	Less: increase/(decrease) in provision for appeals	5,141	0	5,141
281	0	281	Less: cost of collection	281	0	281
<b>4,466</b>	<b>2,223</b>	<b>6,689</b>		<b>5,529</b>	<b>(896)</b>	<b>4,633</b>
<b>(2,102)</b>	<b>(697)</b>	<b>(2,798)</b>	<b>Surplus/(Deficit) arising during the year (=A-(B+C+D))</b>	<b>(4,103)</b>	<b>322</b>	<b>(3,781)</b>
<b>0</b>	<b>6,365</b>	<b>6,365</b>	<b>Surplus/(Deficit) b/fwd 1st April</b>	<b>(2,102)</b>	<b>5,668</b>	<b>3,566</b>
<b>(2,102)</b>	<b>5,668</b>	<b>3,567</b>	<b>Surplus/(Deficit) c/fwd 31st March</b>	<b>(6,205)</b>	<b>5,990</b>	<b>(215)</b>

## 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 2014/15 before adjustments for localisation of Council Tax Support, technical reforms to Council Tax, and allowance for non-collection is 70,913 (78,271 for 2013/14). The derivation of this is shown in the table above.

Council Tax Band	Number of Dwellings on Valuation Officers List		Number of Dwellings after Discounts, Exceptions and CTS scheme		Ratio to Band D	Equivalent Number of Band D Properties	
	2013/14	2014/15	2013/14	2014/15		2013/14	2014/15
A adjust	2	0	0	0	5/9	0	0
A	1,017	1,003	508	514	6/9	338	343
B	8,111	8,125	4,787	4,895	7/9	3,724	3,808
C	21,727	21,987	15,518	15,954	8/9	13,794	14,181
D	27,412	27,484	21,994	22,135	9/9	21,994	22,135
E	12,903	12,933	11,287	11,264	11/9	13,795	13,768
F	5,112	5,153	4,632	4,671	13/9	6,690	6,747
G	3,924	3,936	3,626	3,663	15/9	6,043	6,105
H	1,591	1,620	1,513	1,551	18/9	3,027	3,102
<b>Total</b>						<b>69,405</b>	<b>70,188</b>
Defence properties						5	5
<b>Council Tax Base</b>						<b>69,410</b>	<b>70,193</b>

The average Council Tax charge for a Band D property (including the GLA) was £1,401.25 in 2014/15 compared to £1,405.55 in 2013/14. From this an income yield of £95.7m was expected (£94.4m in 2013/14). In 2014/15 the income generated was £101m (£99.225m in 2013/14) 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 and prior to 2013/14 also through council tax benefit transferred to the Collection Fund.

## 2. Non-Domestic Rates (NDR)

The Council is responsible for collecting rates due from the business ratepayers in its area. Her Majesty's Revenue and Customs (HMRC) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government. Under the Business Rates Retention Scheme introduced in 2013/14 as part of the Local Government Finance Act 2012, the Council now retains a 30% share of NDR Income. Precepts are also paid from NDR Income to the Greater London Authority (20%) and central government (50%) as shown in the Collection Fund statement.

	31 <sup>st</sup> March 2014	31 <sup>st</sup> March 2015
Non-domestic rateable value at year end	£204m	£201m
Number of Hereditaments	5,428	5,396
Uniform Business Rate (in the £)	47.1p	48.2p

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

	2013/14 £000	2014/15 £000
Gross Rates payable (including net amounts for previous years)	94,372	97,066
Mandatory and discretionary reliefs	(10,604)	(12,006)
Transitional Protection Payments	170	(612)
<b>Business Rates Receivable</b>	<b>83,938</b>	<b>84,448</b>
Provision for bad and doubtful debts	1,294	(107)
Provision for losses on appeals	(5,479)	(5,141)
Cost of collection	(281)	(281)
<b>Net Income</b>	<b>79,472</b>	<b>78,919</b>

Business Rate Supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities 'to impose a levy on non-domestic

ratepayers to raise money for expenditure on projects expected to promote economic development.'

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

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

	2013/14 £000	2014/15 £000
Gross Rates payable	2,849	2,813
Mandatory and discretionary reliefs	(249)	(262)
<b>Net contribution to GLA</b>	<b>2,600</b>	<b>2,551</b>

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

The movements in the provisions for impairments of bad debts and for losses on appeals were as below. Following the introduction of the Business Rates Retention Scheme in April 2013, the Council is liable for its proportionate share of successful appeals against NDR charges made in the period to 2014/15. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

	Balance at 1 <sup>st</sup> April 2014	Allowance for Impairment	Amounts charged against Allowance	Balance at 31 <sup>st</sup> March 2015
	£000	£000	£000	£000
Council Tax: Impairment of Bad Debts	6,800	(896)	(620)	5,284
Non-Domestic Rates: Impairment of Bad Debts	2,954	107	(788)	2,273
Non-Domestic Rates: Losses on Appeals	5,479	5,141	(1,520)	9,100
<b>TOTAL</b>	<b>15,233</b>	<b>4,352</b>	<b>(2,928)</b>	<b>16,657</b>

## 4. Collection Fund Surpluses and Deficits

### Council Tax

There is an accumulated surplus of £5.990m on the Collection Fund (£5.668m in 2013/14). This surplus is attributable to the London Borough of Merton and to the Greater London Authority (GLA) and is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

	2013/14	2014/15	Change in the Year
	£000	£000	£000
London Borough of Merton Council Tax surplus	4,446	4,716	270
Greater London Authority Council Tax surplus	1,222	1,274	52
<b>Total</b>	<b>5,668</b>	<b>5,990</b>	<b>322</b>

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 the Greater London Authority. This treatment is in accordance with the Code. A detailed analysis of the balances is given below.

	Greater London Authority	London Borough of Merton	Total
	£000	£000	£000
Accumulated surplus as at 1 <sup>st</sup> April 2014	(1,222)	(4,446)	(5,668)
Paid to GLA in 2014/15	1,266	0	1,266
Transfer to General Fund in 2014/15	0	4,608	4,608
Surplus/Deficit in 2014/15	(1,318)	(4,878)	(6,196)
<b>Total</b>	<b>(1,274)</b>	<b>(4,716)</b>	<b>(5,990)</b>

### NDR

There is a deficit of £6.205m on the Collection Fund (£2.102m in 2013/14). 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.

	2013/14	2014/15	Change in the Year
	£000	£000	£000
London Borough of Merton NDR (surplus)/deficit	631	1,862	1231
Greater London Authority NDR (surplus)/deficit	420	1,241	821
DCLG NDR (surplus)/deficit	1,051	3,102	2,051
<b>Total</b>	<b>2,102</b>	<b>6,205</b>	<b>4,103</b>

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. This treatment is in accordance with the Code. A detailed analysis of the balances is given below.

	Greater London Authority	DCLG	London Borough of Merton	Total
	£000	£000	£000	£000
Accumulated (surplus)/deficit as at 1 <sup>st</sup> April 2014	420	1,051	631	2,102
Payments to/(from) preceptors in 2014/15	(248)	(620)	0	(868)
Transfer to/(from) General Fund in 2014/15	0	0	(372)	(372)
(Surplus)/deficit in 2014/15	1,069	2,671	1,603	5,343
<b>Total</b>	<b>1,241</b>	<b>3,102</b>	<b>1,862</b>	<b>6,205</b>

## 5. Link to Core Statements

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

### CIES

The £80.221m Council Tax income and the £23.676m NDR income in the CIES show the Council'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 Council's share of the Collection Fund surplus or deficit generated from the previous year's income.

Income and Expenditure Council Tax	2013/14	2014/15
	£000	£000
Demand on the Fund	74,119	75,342
Transfer of Surplus	2,545	4,608
<b>Total included in CIES under Collection Fund Regulations</b>	<b>76,664</b>	<b>79,950</b>
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	(541)	271
<b>Council Taxation Fund Income</b>	<b>76,123</b>	<b>80,221</b>
Movement in Reserves Statement	2013/14	2014/15
	£000	£000
Reversal of adjustment of Collection Fund Surplus under 2011 Code	541	(271)
<b>Net charge to General Fund, which is based on statutory requirements</b>	<b>76,664</b>	<b>79,950</b>

Income and Expenditure: NDR	2013/14	2014/15
	£000	£000
Retained Business Rates: London Borough of Merton	24,472	25,279
Transfer of Surplus/(Deficit)	0	(327)
<b>Total included in CIES under Collection Fund Regulations</b>	<b>24,472</b>	<b>24,907</b>
Adjustment of Collection Fund Deficit under 2011 Code (Reversed in the Movement in Reserves Statement)	(631)	(1,231)
<b>NDR Fund Income</b>	<b>23,841</b>	<b>23,676</b>
Movement in Reserves Statement: NDR	2013/14	2014/15
	£000	£000
Reversal of adjustment of Collection Fund Deficit under 2011 Code	631	1,231
<b>Net charge to General Fund, which is based on statutory requirements</b>	<b>24,472</b>	<b>24,907</b>

## 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 DCLG). There will therefore be a debtor/creditor position at the end of year to be recognised between the Council



and each of its major preceptors since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Tax and NDR payers. The amounts paid to preceptors are based on estimates made prior to the financial year as required by statute.

In 2014/15, the net cash paid to major preceptors was less than their proportionate share of net cash collected from Council Tax and NDR debtors/creditors in the year. The Council has therefore recognised a credit adjustment for the amount underpaid to its major preceptors in the year.

The following table summarises the Council Tax and NDR cash balances for the Collection Fund and the 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 figure of proportionate share of the surplus/deficit and their proportionate share of arrears, provisions and receipts in advance.

Balance Sheet	Collection Fund 2014/15	Balance Sheet 2014/15
	£000	£000
<b>Council Tax</b>		
Arrears	8,951	7,067
Impairment Allowance for Doubtful Debts	(5,284)	(4,326)
Receipts in Advance	(5,479)	(4,172)
Collection Fund (Surplus) / Deficit	(4,716)	(4,716)
GLA	(1,274)	(1,655)
<b>Cash</b>	<b>(7,802)</b>	<b>(7,802)</b>
<b>Business Rates</b>		
Arrears	4,039	1,211
Impairment Allowance for Doubtful Debts	(2,273)	(682)
Impairment for Loss on Appeals	(9,100)	(2,730)
Receipts in Advance	(3,287)	(986)
Collection Fund (Surplus) / Deficit	1,862	1,862
GLA	1,241	(883)
DCLG	3,102	(2,208)
<b>Cash</b>	<b>(4,416)</b>	<b>(4,416)</b>

### Cash Flow Statement

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



## Pension Fund Accounts

Fund Account	Notes	2013/14 £000	2014/15 £000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	7	(20,863)	(34,340)
Transfers in from other pension funds	8	(765)	(983)
<b>Total Income</b>		<b>(21,628)</b>	<b>(35,323)</b>
Benefits	9	20,265	22,080
Payments to and on account of leavers	10	1,524	1,143
<b>Total Expenditure</b>		<b>21,789</b>	<b>23,223</b>
Net (additions)/withdrawals from dealing with members		<b>161</b>	<b>(12,100)</b>
<b>Management expenses (2013/14 restated)</b>	11/14	<b>1,499</b>	<b>856</b>
<b>Returns on Investments</b>			
Investment and other income	12	(9,512)	(10,954)
Taxes on Income	13	296	316
Gains and losses on disposal and change in the market value of investments: (2013/14 restated)	15.3	(8,475)	(48,464)
<b>Net Returns on Investments</b>		<b>(17,691)</b>	<b>(59,102)</b>
<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(16,031)</b>	<b>(70,346)</b>

**Note:** As at 31<sup>st</sup> March 2014, the net assets totalled £472.2m. During 2014/15, the fund's net assets increased by £70.4m to £542.6m at 31<sup>st</sup> March 2015.

### Net Assets Statement

2013/14 £000		Notes	2014/15 £000
469,578	Investment assets	15	528,108
2,535	Cash deposits	15	2,145
<b>472,113</b>			<b>530,253</b>
0	Cash Deposits (Internally managed funds)	15	13,000
(2,163)	Investment liabilities	15	(1,681)
3,170	Current assets	20	1,586
(877)	Current liabilities	21	(568)
<b>472,243</b>	<b>Net assets of the fund available to fund benefits at period end</b>		<b>542,590</b>

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

## Notes to the Pension Fund Accounts

### 1. Description of Fund

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

The Local Government Pension Scheme Regulations require the authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements.

#### (a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended), and;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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

#### (b) Membership

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

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

The following table summarises the membership numbers of the scheme.

2013/14 Restated		2014/15
	<b>Active Members</b>	
2,984	London Borough of Merton	3,390
174	Scheduled Bodies	215
107	Admitted Bodies	89
<b>3,265</b>		<b>3,694</b>
	<b>Pensioners</b>	
3,183	London Borough of Merton	3,264
139	Scheduled Bodies	148
86	Admitted Bodies	97
<b>3,408</b>		<b>3,509</b>
	<b>Deferred Pensioners</b>	
3,710	London Borough of Merton	3,943
193	Scheduled Bodies	226
108	Admitted Bodies	114
<b>4,011</b>		<b>4,283</b>

**Note:** The figure for Deferred Pension has been restated for 2013/14 to include 'Undecided' and 'Frozen' members, who do not contribute to the Fund.

### (c) Funding

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

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits. The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investments. 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 31<sup>st</sup> March 2015. The Employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred in 2013. Currently, employer contribution rates range from 12.0% to 24.2%. Employers pay a monetary contribution towards past service costs.

### (d) Benefits

The Defined Benefits Scheme provides payment of benefits in the form of retirement pensions, ill health provision and death grants where death occurs either in service or in retirement.

The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings rather than final salary. The detail of the changes to retirement pensions are shown in the following table:

Pre 1st April 2014	Post 1st April 2014
Each year worked is worth 1/60 x final pensionable salary. Pensionable pay excludes non-contractual overtime and non-pensionable additional hours.	Each year worked is worth 1/49 x Career Average Revalued Earnings (CARE). Pensionable pay includes non-contractual overtime and additional hours.

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 2014/15 financial year and its financial position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

## 3. Summary of Significant Accounting Policies

### Fund account – revenue recognition

#### 3.1 Contributions

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

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

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

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

### 3.2 Transfers

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

### 3.3 Investment income

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

The figure shown as investment income is made up of different types of income (dividend income for equity, rental income for property, interest income for the bond yields).

### 3.4 Interest income

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

### 3.5 Dividend income

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.

### Revenue account – expense items

#### 3.6 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.

#### 3.7 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 the Council being the Administering authority, VAT input tax is generally recoverable on all fund activities.

#### 3.8 Management Expenses

All management expenses are accounted for on an accruals basis.

### (a) Investment Management Expenses

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

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

### (b) Oversight and Governance costs

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

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

## 3.9 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 1<sup>st</sup> December 2013.

## Net Asset Statement

### 3.10 Investment Assets

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

- Quoted securities are valued at current market "bid" price.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- The two UBS Property Holdings are valued as follows: The UBS Triton Property Unit Trust (UBS Triton Trust) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, tax, income and cash balances. The UBS Life Triton Property Fund (UBS Life Triton) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, income and cash balances. UBS Life Triton Is valued at Bid Price.



- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.
- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class nor for speculative purposes. These are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices. The value of futures is determined using fair value for the asset and book cost for the liability.

### 3.11 Financial liabilities

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

### 3.12 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.

### 3.13 Foreign currency

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2015.

### 3.14 Cash

Cash comprises cash in hand and demand deposits.

### 3.15 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).

### 3.16 Provisions

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

### 3.17 Additional Voluntary Contributions

Merton Pension fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund now only uses one provider, the Prudential PLC. The Bank

of Ireland has ceased to exist as a provider and any outstanding accounts with them have been transferred to the Prudential PLC.

AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 22).

### 3.18 Going Concern

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

## 4. Critical Judgements in Applying Accounting Policies

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

### 4.1 Pension Fund Liability

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

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

The main item in the Fund's Net Asset Statement at 31 March 2015 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 £13.7m and a -0.1% reduction would increase the obligation by £14.0m. An adjustment to the mortality age rating assumption of -1 yr would increase the obligation by £27.6m.

## 6. Events After The Reporting Date

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

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

## 7. Contributions Receivable

2013/14 £000		2014/15 £000
16,069	<b>By Category</b> Employers	29,005
4,794	Members	5,335
<b>20,863</b>	<b>Total</b>	<b>34,340</b>

**Note:** Central and Cecil Housing Trust ceased to participate in the fund 31 March 2014. A full cessation payment of £1,593k is included in 2014/15 employer figures (Admitted Body).

2013/14 £000		2014/15 £000
19,591	<b>By Authority</b> Administering	31,248
604	Scheduled	876
668	Admitted	2,216
<b>20,863</b>	<b>Total</b>	<b>34,340</b>

2013/14 £000		2014/15 £000
10,490	<b>By Type</b> Employers Normal	12,860
4,794	Employees Normal	5,335
4,800	Deficit Funding	15,097
779	Employers Additional	1,048
<b>20,863</b>	<b>Total</b>	<b>34,340</b>

## 8. Transfers In From Other Pension Funds

2013/14 £000		2014/15 £000
765	Individual Transfers	983
<b>765</b>	<b>Total</b>	<b>983</b>

## 9. Benefits Payable

2013/14 £000		2014/15 £000
	<b>By Category</b>	
17,582	Pensions	18,473
2,301	Commutations and lump sum retirement benefits	2,939
382	Lump sum death benefits	668
<b>20,265</b>	<b>Total</b>	<b>22,080</b>

2013/14 £000		2014/15 £000
	<b>By Authority</b>	
19,218	Administering	20,276
607	Scheduled	1,066
440	Admitted	738
<b>20,265</b>	<b>Total</b>	<b>22,080</b>

## 10. Payments to and on Account of Leavers

2013/14 £000		2014/15 £000
1,517	Individual Transfers	1,109
7	Refunds of Contribution	40
0	State Scheme Premiums	(6)
<b>1,524</b>	<b>Total</b>	<b>1,143</b>

## 11. Management Expenses

2013/14 £000 Restated		2014/15 £000
426	Administrative Costs	332
892	Investment management expenses	329
181	Oversight and governance costs	195
<b>1,499</b>	<b>Total</b>	<b>856</b>

**Note:** Investment management expenses includes £131k transaction costs (2013/14: £124k), and indirect costs incurred through the purchase and sales of investments. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15.3).

## 12. Investment Income

2013/14 £000		2014/15 £000
1,054	Fixed Interest Securities	2,697
7,438	Equity dividends	6,839
84	Pooled Investments	184
470	Pooled Property Investments	518
466	Other	716
<b>9,512</b>	<b>Total</b>	<b>10,954</b>

### 13. Taxes on Income

2013/14 £000		2014/15 £000
269	Non-Recoverable Tax	268
27	Withholding Tax	48
<b>296</b>	<b>Total</b>	<b>316</b>

### 14. Investment Expenses

2013/14 £000		2014/15 £000
887	Management Fees	300
5	Custody Fees	29
<b>892</b>	<b>Total</b>	<b>329</b>

**Notes:** (1) Management Fees include a rebate of £257k for a retrospective VAT claim for the years 2010 to 2012. (2) The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

### 15. Investment

#### 15.1 Asset management arrangements

The management of Pension Fund investments is delegated to external investment managers. 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 2015. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2013/14		Fund Manager	2014/15	
£000	%		£000	%
202,683	43	Aberdeen	231,570	44
261,859	56	UBS	290,829	55
5,408	1	RREEF/Blackrock	6,173	1
<b>469,950</b>	<b>100</b>	<b>Total</b>	<b>528,572</b>	<b>100</b>

**Note:** £13m internally managed funds is not included above.

#### 15.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2015 is over page below. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2014 £000		Market Value 31 March 2015 £000
	<b>Investment Assets</b>	
108,064	Fixed Interest Securities	127,116
189,623	Equities	200,755
155,516	Pooled Investments	181,736
13,197	Pooled Property Investments	15,391
2,159	Derivative Contracts - Futures	1,682
2,535	Cash Deposits	2,145
1,019	Investment income due	1,428
<b>472,113</b>	<b>Total Investment Assets</b>	<b>530,253</b>
	<b>Investment Liabilities</b>	
(2,163)	Derivative Contracts - Futures	(1,681)
<b>(2,163)</b>	<b>Total Investments liabilities</b>	<b>(1,681)</b>
<b>0</b>	<b>Cash Deposits (Internally Managed Funds)</b>	<b>13,000</b>
<b>469,950</b>	<b>Net Investment assets</b>	<b>541,572</b>

### 15.3 Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2014/2015. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

	Market Value 1 April 2014 £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 2015 £000
<b>Fixed Interest Securities</b>	<b>108,064</b>	5,068	(2,639)	16,623	<b>127,116</b>
<b>Equities</b>	<b>189,623</b>	30,550	(24,221)	4,803	<b>200,755</b>
<b>Pooled Investments</b>	<b>155,516</b>	54,498	(53,235)	24,957	<b>181,736</b>
<b>Pooled Property</b>	<b>13,197</b>	220	(12)	1,986	<b>15,391</b>
	<b>466,400</b>	<b>90,336</b>	<b>(80,107)</b>	<b>48,369</b>	<b>524,998</b>
<b>Derivatives (Futures)</b>					
Future contracts	2,159	9,468	(10,068)	123	1,682
Cash Liability	(2,163)	0	0	482	(1,681)
	<b>466,396</b>	<b>99,804</b>	<b>(90,175)</b>	<b>48,492</b>	<b>524,999</b>
<b>Other Investment Balances</b>					
Cash UK (Fund Managers)	2,535			(482)	2,145
Investment Income Due	1,019				1,428
Realised Loss on FX	0			(28)	0
	<b>3,554</b>				<b>3,573</b>
<b>Total Investments at Market Value</b>	<b>469,950</b>			<b>48,464</b>	<b>528,572</b>
<b>Cash Deposits</b>	<b>0</b>	<b>13,000</b>			<b>13,000</b>
<b>Net Investment Assets</b>	<b>469,950</b>				<b>541,572</b>

Note: (1) Transaction costs have been reported separately for the first time this year. See Note 14. (2) Cash deposits of £13m have been internally managed.

### Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2013/2014. Future contracts have been restated to account for Purchases and Sales within the Future contract rather than the cash liability.

	Market Value 1 April 2013 £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 2014 £000
<b>Fixed Interest Securities</b>	<b>113,623</b>	<b>30,845</b>	<b>(30,121)</b>	<b>(6,283)</b>	<b>108,064</b>
<b>Equities (restated)</b>	<b>177,106</b>	<b>26,681</b>	<b>(20,584)</b>	<b>6,420</b>	<b>189,623</b>
<b>Pooled Investments</b>	<b>147,737</b>	<b>5,311</b>	<b>(4,815)</b>	<b>7,283</b>	<b>155,516</b>
<b>Pooled Property (restated)</b>	<b>11,681</b>	<b>545</b>	<b>0</b>	<b>971</b>	<b>13,197</b>
	<b>450,147</b>	<b>63,382</b>	<b>(55,520)</b>	<b>8,391</b>	<b>466,400</b>
<b>Derivatives (Futures)</b>					
Future contracts (restated)	1,461	9,547	(8,938)	89	2,159
Cash Liability (restated)	(1,479)	0	0	(684)	(2,163)
	<b>450,129</b>	<b>72,929</b>	<b>(64,458)</b>	<b>7,796</b>	<b>466,396</b>
<b>Other Investment Balances</b>					
Cash UK (Fund Managers)	2,226			679	2,535
Investment Income Due	974				1,019
	<b>3,200</b>				<b>3,554</b>
<b>Total Investments at Market Value</b>	<b>453,329</b>			<b>8,475</b>	<b>469,950</b>

Note: Transaction costs have been reported separately and subsequently 13/14 figures for equities and property purchases restated.



### 15.4 Detail analysis of investments (excluding derivative contracts)

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

Market Value 31 March 2014 £000		Market Value 31 March 2015 £000
	<b>Fixed Interest Securities</b>	
81,495	Public Sector : UK quoted	95,765
26,569	: Overseas quoted	31,351
<b>108,064</b>		<b>127,116</b>
	<b>Equities (Direct)</b>	
167,425	UK quoted	185,369
21,769	Other European quoted	15,386
139	American	0
290	Other Overseas	0
<b>189,623</b>		<b>200,755</b>
	<b>Pooled Investments</b>	
32,376	UK (Equities)	39,917
15,116	Other European (Equities)	28,203
36,011	American (Equities)	54,064
12,944	Japanese (Equities)	23,063
45,688	Other Overseas (Equities)	20,336
13,381	Developing Markets (Equities)	16,153
5,105	Property Managed Fund/Units quoted	6,131
8,092	Property Managed Fund/Units un-quoted	9,260
3,554	Other Investment Balances	3,573
<b>172,267</b>		<b>200,700</b>
0	Cash Deposits (Internally Managed Funds)	13,000
<b>469,954</b>	<b>Total</b>	<b>541,571</b>

### 15.5 Analysis of derivatives

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

The derivative instruments, which are used by the fund, are FTSE future contracts, which have been applied to the active and passive sub funds managed by UBS Asset Management. At 31 March 2015, the value of FTSE futures amounted to less than 0.5% (0.7% in 2013/14) of all equity investment in the fund.

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

Type	Expires	Economic exposure £000	Market value 31 March 2014 £000	Economic exposure £000	Market value 31 March 2015 £000
UK Equities	Three – Six months	2,163	2,159	1,681	1,682



31 March 2014				31 March 2015		
Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			<b>Financial Assets</b>			
108,064			Fixed Interest Securities	127,116		
189,623			Equities	200,755		
155,516			Pooled Investments	181,736		
13,197			Pooled Property Investments	15,391		
2,159			Derivative Contracts	1,682		
	2,535		Cash		2,086	
1,019			Other Investment Balances	1,428		
	3,170		Debtors		1,587	
<b>469,578</b>	<b>5,705</b>	<b>0</b>		<b>528,108</b>	<b>3,673</b>	<b>0</b>
			<b>Financial Liabilities</b>			
(2,163)			Derivative Contracts	(1,681)		
		(877)	Creditors			(568)
<b>(2,163)</b>	<b>0</b>	<b>(877)</b>		<b>(1,681)</b>	<b>0</b>	<b>(568)</b>
<b>467,415</b>	<b>5,705</b>	<b>(877)</b>		<b>526,427</b>	<b>3,673</b>	<b>(568)</b>

### 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 2014 £000		31 March 2015 £000
	<b>Financial Assets / Liabilities</b>	
8,385	Fair Value through profit and loss (2013/14: Restated)	48,341
90	Loans and Receivables	123
<b>8,475</b>	<b>Total</b>	<b>48,464</b>

### 16.3 Valuation of financial Instruments carried at fair value

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

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

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

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

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

31 March 2014			31 March 2015	
Quoted market price Level 1	Quoted market price Level 2		Quoted market price Level 1	Quoted market price Level 2
£000	£000		£000	£000
456,380	13,197	<b>Financial Assets</b>		
2,535		Fair Value through profit and loss	525,769	15,391
		Loans and Receivables	2,086	
(2,159)		<b>Financial Liabilities</b>		
		Fair Value through profit and loss	(1,682)	
<b>456,756</b>	<b>13,197</b>	<b>Total</b>	<b>526,173</b>	<b>15,391</b>

#### 16.4 Fair value of financial instruments and liabilities

The following table compares the carrying value to the fair value of financial assets and financial liabilities. The derivatives (both assets and liabilities) are recognised at market value.

31 March 2014			31 March 2015	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
		<b>Financial Assets</b>		
361,773	469,578	Fair Value through profit and loss	422,097	541,160
2,532	2,535	Loans and Receivables	2,048	2,086
		<b>Financial Liabilities</b>		
(2,163)	(2,159)	Fair Value through profit and loss	(1,681)	(1,682)
<b>362,142</b>	<b>469,954</b>	<b>Total</b>	<b>422,464</b>	<b>541,564</b>

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

### 17.1 Risk and risk management

The fund's main long-term risk is that the fund's assets will fall short of its liabilities of paying benefits to its members. Investment risk management aims to reduce the risk of the overall reduction of the fund while increasing returns. To achieve this, the fund is diversified through its asset allocation thereby reducing its price, currency and interest rate risks. Liquidity risk in the fund is managed by monitoring the cash flow forecast of the fund and ensuring that there is sufficient cash to pay its benefits payable obligations. The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund advisory committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. The Statement of Investment Principles and Risk Register are reviewed regularly to reflect changes in activity and in market conditions. The fund also ensures reputable investment managers are used through its rigorous fund manager's selection process. In addition the fund employs an independent advisor who provides advice on investment issues.

### 17.2 Market risk

The fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments. The Fund has one future valued at £1,681,750 as at 31 March 2015 (£2,159,355 as at 31 March 2014).

### 17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. The London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in Pounds Sterling. Riskier assets in the fund such as equities display greater potential price volatility than bonds. The fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the council to ensure they are within limits specified in the fund investment strategy.

Asset Type	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>				
Cash	2,086	0.01	2,086	2,085
<b>Investment portfolio assets</b>				
UK Equities	225,363	10.19	248,327	202,398
Overseas Equities	157,206	9.03	171,401	143,010
Bonds and Index Linked	127,117	8.14	137,464	116,769
Property	15,391	5.02	16,163	14,618
Income Due	1,402	0.00	1,402	1,402
Fixed Deposits (Internally managed)	13,000	0.00	13,000	13,000
<b>Total Assets</b>	<b>541,565</b>		<b>589,843</b>	<b>493,282</b>

Note: The % change for Total Assets includes the impact of correlation across asset classes

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>				
Cash	2,440	0.02	2,440	2,440
<b>Investment portfolio assets</b>				
UK Equities	200,763	12.08	225,015	176,511
Overseas Equities	144,477	11.56	161,179	127,775
Bonds and Index Linked	108,064	6.45	115,034	101,094
Property	13,197	4.45	13,784	12,610
Income Due	1,011	0.00	1,011	1,011
<b>Total Assets</b>	<b>469,952</b>		<b>518,463</b>	<b>421,441</b>

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 2015 asset mix as shown in the following table (Note 17.4):

#### 17.4 Other price risk

Potential price changes are based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund asset allocations. The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-)
UK Equities	10.19%
Overseas Equities	9.03%
Bonds and Index Linked	8.14%
Cash	0.01%
Property	5.02%

### 17.5 Interest rate risk

Generally fixed interest rate investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. As at 31 March 2015, the fund's fixed rate investments were in pooled investments. These internally managed investments are of very short duration.

### 17.6 Currency risk

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

The table below shows the currency exposure by asset type as at 31 March 2015.

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	157,206	5.69	166,147	148,264
Overseas Bonds	31,351	5.69	33,135	29,568
<b>Total Overseas Assets</b>	<b>188,557</b>	<b>5.69</b>	<b>199,282</b>	<b>177,832</b>

The table below shows the currency exposure by asset type as at 31 March 2014.

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	144,477	5.16	151,930	137,025
Overseas Bonds	26,569	5.16	27,939	25,199
<b>Total Overseas Assets</b>	<b>171,046</b>		<b>179,869</b>	<b>162,224</b>

The following table calculates the aggregate currency exposure within the fund as at 31 March 2015. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Currency	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	771	6.19	819	723
EURO	9,675	6.15	10,270	9,080
Norwegian Krone	582	8.64	632	531
Swedish Krona	2,561	7.30	2,748	2,374
Swiss Franc	4,448	9.34	4,864	4,033
US Dollar	31,358	7.78	33,798	28,918
<b>Total</b>	<b>49,395</b>		<b>53,131</b>	<b>45,659</b>

Currency	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	518	6.26	550	485
EURO	9,271	6.31	9,857	8,686
Norwegian Krone	506	8.79	550	462
Swedish Krona	2,203	7.03	2,358	2,049
Swiss Franc	3,124	7.42	3,356	2,892
US Dollar	131	8.07	141	120
<b>Total</b>	<b>15,753</b>		<b>16,812</b>	<b>14,694</b>

### 17.7 Credit risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2015. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality.

Credit Quality	Value at 31 March 2014	Value at 31 March 2015
AAA	2,270	3,432
AA	80,838	93,049
A	11,240	11,949
BBB	11,456	16,017
BB or below	648	1,271
Cash	0	1,398
Settled Cash	0	36
	<b>106,452</b>	<b>127,152</b>
A	0	3,000
N/A	0	10,000
	<b>0</b>	<b>13,000</b>
<b>Total</b>	<b>106,452</b>	<b>140,152</b>

The fund's cash balance under its treasury management arrangements as at 31 March 2015 was held with Lloyds bank with a credit rating of A.

### 17.8 Liquidity risk

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



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

### 17.9 Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 18. Funding Arrangements

### 18.1 Actuarial position

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The main purpose of the actuarial valuation is:

- (i) to determine the accrued position of the fund (for which the valuation of assets is based on the 'assessed value approach') and;
- (ii) to establish appropriate contribution arrangements required to support accruing benefits (for which the 'projected unit' actuarial method is adopted).

### 18.2 Actuarial assumption

Barnett Waddingham LLP carried out the last actuarial valuation in 2013. This gave an assessment of the value of the fund as at 31 March 2013. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31<sup>st</sup> March 2013 was £451.0m, whilst the liabilities accrued in respect of pensionable service were £504.2m. The assessed actuarial value of £451.0m was different to the market value of the assets at 31 March 2013 (shown in Note 18.4) because the actuarial value is based on the average asset value over 6 months straddling the valuation date.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to the rate of price inflation, general pay escalation and the rate of dividend growth. The 'statistical' assumptions cover matters such as future rates of withdrawal and retirement from service, rates of mortality, the proportion of members married and the progression of pensionable pay from age to age, attributable to increasing responsibility and promotion.

The following tables show financial assumptions used in the actuarial valuation. Following a change in valuation results presentation since the last valuation only nominal returns are now reported.

Future Assumed Returns at 2013 % p.a.		Risk Adjusted Discount Rate Weighting %
Equities	6.9	71
Gilts	3.3	25
Cash	3.1	1
Property	6.0	3
Expense allowances	0.1	-
<b>Financial Assumptions</b>	<b>2013</b>	<b>2010</b>
Discount Rate	5.9	6.7
Retail Price Index (RPI)	3.5	3.5
Consumer Price Inflation (CPI)	2.7	3.0
Pension & Deferred Pension Increases	2.7	3.0
Short Term Pay Increase	In line with the CPI assumption for the 2 yrs to 31 March 2015	Pay freeze for those earning over £21k for the 2 years to 31 March 2012
Long Term Pay Increase	4.5	5.0

### 18.3 Funding policy

In line with the Local Government Pension Scheme Regulations 2013, the funds actuary undertakes a funding valuation every three years. The next valuation is in 2016. The Regulations require the Actuary to set the employer's contribution rate for the authority and Scheduled and Admitted Bodies, so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases. The funding objective is to ensure that the Scheme's assets and income are adequate to finance scheme members' benefits when they fall due.

The actuary has recommended contribution rates that recover past service deficit in the Fund over the next twelve years from 1<sup>st</sup> April, this is consistent with the funding strategy.

### 18.4 Funding position

The overall funding level increased from 84% in 2010 to 89% in 2013.

Investment returns were higher than assumed and pay increases lower than assumed.

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

	2007 Valuation	2010 Valuation	2013 Valuation
Funding Level %	90.5	84.0	89.0
Funding (Deficit) £m	(33.5)	(67.2)	(53.2)

The funding deficiency of £53.2 million at the time of the 2013 valuation was equivalent to 11% of accrued liabilities, compared to 16% as at the time of the 2010 valuation.

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 21.4% of pensionable payroll. From 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2017 the Common Rate of Contribution will be 21% of pensionable pay.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 and 2013 actuarial valuation reports.

The table below shows the reconciliation of past service position from 2010 and 2013 valuations.

		Funding Position £m	
<b>Deficit at 2010 Valuation</b>		<b>(67)</b>	
Deficit Funded (Use of Surplus)			18
Financial Loss		(14)	
Experience			11
Change in Assumptions		(1)	
<b>Deficit at 2013 Valuation</b>		<b>(53)</b>	

The following tables show the past service funding position for the 2010 and 2013 valuations.

		31 March 2013 £000	
<b>Asset Value</b>			<b>450,974</b>
<b>Past Service Liabilities</b>			
Active Members		165,417	
Deferred Pensioners		87,644	
Pensioner Members		251,112	
<b>Total</b>			<b>504,173</b>
<b>Surplus (Deficit)</b>			<b>(53,199)</b>
<b>Funding Level</b>			<b>89%</b>
<b>Employer Contribution Rates</b>			
			<b>% of Payroll</b>
Future Service Cost			14.0
Deficit Recovery (12 years)			7.0
<b>Total Contribution Rate</b>			<b>21.0</b>

The funding position is a statement that encapsulates the liability to finance pension payments over many years, and does not imply that there is any difficulty in financing them in the short term. Investments in support of the Local Government Pension Scheme are long-term investments, and there is an expectation that over the long

term the value of the fund will ride-out the cyclical movements of the investment markets, and support an adequate funding level.

## 19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS 26 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 2015, using a valuation methodology that is consistent with IAS19.

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

	Assumptions as at 31/03/15 %
<b>Inflation/Pension increase rate</b>	2.4
<b>Salary rate increase</b>	4.2
<b>Discount Rate</b>	3.3

The value of the Fund's promised retirement benefits as at 31 March 2015 was

Year Ended	31/03/14 £m	31/03/15 £m
<b>Present value of promised retirement benefits</b>	685.2	816.1

## 20. Current Assets

	31/03/14 £000	31/03/15 £000
<b>Debtors</b>		
Contributions due	1,245	1,358
Sundry Debtors	821	41
Cash in Hand	1,104	187
<b>Current Assets</b>	<b>3,170</b>	<b>1,586</b>

## Analysis of Debtors

	31/03/14 £000	31/03/15 £000
Administering Body	1,140	1,242
Admitted and Scheduled Bodies	105	116
Sundry Debtors	821	41
<b>Current Debtors</b>	<b>2,066</b>	<b>1,399</b>

## 21. Current Liabilities

Creditors	31/03/14 £000	31/03/15 £000
Cash overdrawn	(217)	(1)
Fund Managers Fees	(160)	(267)
Sundry	(500)	(48)
Payroll	0	(252)
<b>Current Liabilities</b>	<b>(877)</b>	<b>(568)</b>

## 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 Council's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2014/15 to AVC schemes outside the authority's responsibility was £0.144m (£0.187m at 31 March 2014). The external providers have reported that at 31 March 2015 the total value of accumulated AVCs is £1.663m (£1.450m at 31 March 2014).

## 23. Related Parties

Related parties to the pension fund include: -

- i) **The London Borough of Merton**, a separate pension fund bank account is in full operation which holds pension fund cash balances. The Council recharges the Fund for incurred overheads while the pension fund recharges the council for any employers recharge to pensioners pay.
- ii) **The Admitted and Scheduled bodies** who make employer contributions to the fund.
- iii) **Local authority elected members and senior management officers** who sit on the Pension Fund Advisory Panel.

There is one Pensioner representative on the Panel who is in receipt of pension benefits. The senior officer in the financial management of Merton Pension Fund is the Director of Corporate Services who is remunerated by Merton Council as the administering authority. They are not paid directly by the Merton Pension Fund. However the pension fund is recharged by the Administering Authority for officers time spent in the management of the pension fund. Further information on remuneration is available within the financial statements of Merton Council.

There have been no related-party disclosures, or material declarable transactions with the Pension Fund during the financial year other than administrative services

and the use of the council's financial systems which may result in occasional cross transactions. The former were undertaken by the Council on behalf of the Pension Fund, at a cost, of £0.332m, (£0.426m in 2013/14).

## 24. Contingent and Contractual Liabilities

Following a bulk transfer and cessation valuation for South Thames College (previously Merton College) by the Fund Actuary for the fund and the LPFA, a net payment of £1.9m will be made in April 2045. The cessation valuation also reflects the current status of the employer.



# Statements of Responsibilities

## The Authority's Responsibilities

The Authority is required:

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

### 1.1. The Director of Corporate Services' Responsibilities

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

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

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

The Director of Corporate Services has also:

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

## 1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2015.

Signed

*C Holland*

*Director of Corporate Services*

## 1.3 Approval of Accounts by General Purposes Committee

I hereby certify that the Statement of Accounts has been approved by resolution of the General Purposes Committee of the London Borough of Merton in accordance with the Accounts and Audit (England) Regulations 2011.

Signed

*Peter McCabe*

*Chairman General Purposes Committee*

Further information about the accounts is available from:

*Director of Corporate Services  
8<sup>th</sup> Floor*

**Merton Civic Centre**

**London Road  
MORDEN  
Surrey  
SM4 5DX**

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



## Glossary

### ACCOUNTING POLICIES

Rules and practices followed in drawing up the accounts.

### ACCOUNTING CODES OF PRACTICE

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

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

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

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

### ACCRUALS

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

### ACTUARIAL GAINS AND LOSSES

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

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

### APPROPRIATIONS

The assignment of revenue balances for specified purposes.

### ASSET HELD FOR SALE

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

### ASSETS

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

**BALANCES**

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

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

**BUDGET**

Statement of the spending plans for the year.

**CAPITAL ADJUSTMENT ACCOUNT (CAA)**

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

**CAPITAL CHARGES**

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

**CAPITAL EXPENDITURE**

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

**CAPITAL RECEIPTS DEFERRED**

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

**CAPITAL RECEIPTS**

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

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

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

**CLG**

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

**COLLECTION FUND**

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

### **COMMUNITY ASSETS**

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

### **COMPREHENSIVE SPENDING REVIEW (CSR)**

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

### **CONTINGENT ASSETS AND LIABILITIES**

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

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

### **CORPORATE AND DEMOCRATIC CORE**

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

### **CORPORATE GOVERNANCE**

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

### **COUNCIL TAX**

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

### **CREDIT APPROVAL**

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

### **CREDITORS**

Money owed by the 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:

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

### **DEBTORS**

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

### **DEFERRED CONSIDERATION**

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

### **DEFINED BENEFIT SCHEME**

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

### **DEFRA**

DEFRA (The Department for the Environment, Fisheries and Rural Affairs)

### **DEPRECIATION**

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

### **DISCRETIONARY BENEFITS**

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

### **EMOLUMENTS**

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

### **EXCEPTIONAL ITEMS**

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

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

### **FAIR VALUE**

The fair value is the value of an asset or liability in an arms length transaction between unrelated, willing and knowledgeable parties. In practice this is often taken as market value but there are acceptable approximations, which can be used when there is no market for the asset or liability. In relation to assets the recorded value would be less, where applicable, any grants receivable towards the purchase or use.

### **FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT**

This account provides a balancing mechanism between the different rates at which gains and losses are recognized under the SORP and are required by statute to be met from the General Fund. The account is designed to hold the difference between the book value and fair value. It is not used at present because the sums involved are not significant.

### **FINANCE LEASE**

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more), of the fair value of the leased asset.

### **FINANCIAL YEAR**

The financial year runs from the 1<sup>st</sup> April to the following 31<sup>st</sup> March.

### **FINANCIAL INSTRUMENT**

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another. In practice, this covers both assets and liabilities and includes bank deposits, investments, debtors, loans and advances, debt premiums, creditors and borrowings.

### **FIXED ASSETS**

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year. These can be tangible or intangible.

### **FRED**

Financial Reporting Exposure Drafts. These are proposed accounting standards issued by the ASB for comments. The final accounting standard is released once the comments have been incorporated or addressed.

### **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 an authority in return for compliance with certain conditions relating to the activities of the authority.

### **GROSS EXPENDITURE**

The total expenditure of a fund or account.

### **GROUP ACCOUNTS**

Accounts that show the total financial results for a group of entities for a particular period, rather than the separate results of each entity.

### **HERITAGE ASSETS**

These are a class of assets which were formerly categorized as Community Assets. These assets are deemed to contribute to a nation's society, knowledge and/or culture.

### **IFRS**

International Financial Reporting Standards: these are the standards that have superseded national accounting standards. The Code of Practice which has replaced the SORP is fully IFRS based.

### **IMPAIRMENT**

The loss of value in a fixed asset arising from physical damage, deterioration in the quality of service provided by the asset or from a general fall in prices.

### **INCOME AND EXPENDITURE ACCOUNT**

Accounts which show all money receivable or payable by the 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 Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pensions fund that do not meet the above criteria should be classified as current assets.

**JOINTLY CONTROLLED ENTITY**

A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

**LEASING**

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

**LEVY**

An amount levied by a local authority or other statutory body which is paid by the Council.

**LIABILITIES**

An entity's obligations to transfer economic benefits as a result of past transactions or events.

**LOCAL AREA AGREEMENT (LAA)**

A local area agreement is a set of priorities for a local area agreed between central government and a local area, which usually comprises of a local authority, the local strategic partnership (LSP) and other key partners. The priorities have objectives and targets, and funding to achieve these comes from central government.

**MATERIALITY**

Materiality sets the threshold for determining whether an item is relevant. This is defined as: an item of information is material to the financial information if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of management's stewardship. Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case.

**NET ASSETS**

The Net Assets of the authority is the amount that the authority owns (its assets) less the amount that it owes (its liabilities).

**NET BOOK ASSETS**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**NET CURRENT REPLACEMENT COST**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**NET REALISABLE VALUE**

The open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

**NET WORTH**

The Net Worth of the authority shows how the net assets of the authority are allocated between usable resources, resources that have been set aside to finance capital expenditure, unrealised gains from increases in asset values and the reserves which are needed to manage the complexities of local authority accounting.

**NON-DISTRIBUTED COSTS**

These are overheads from which no user now benefits and these costs should not be apportioned to services.

**NON-DOMESTIC RATE (NDR)**

The rates paid by businesses. The amount paid is based on the rateable value set by the Valuation Office multiplied by a rate in the £ set by the government, which is consistent throughout the country.

**NON-OPERATIONAL ASSETS**

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of these assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**OPERATIONAL ASSETS**

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**PAST SERVICE COST**

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

**POOLED VEHICLES**

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



**POST BALANCE SHEET EVENT**

These are events which arise after the end of the accounting period. They can be divided into

- Adjusting events, which provide further evidence of conditions that existed at the end of the accounting period and that may require changes to the accounts.
- Non Adjusting Events, which are indicative of conditions that arose subsequent to period end, that are reported by way of a note to the accounts.

**PRECEPTS**

An amount collected by the 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.

**PROVISIONS**

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

**RESERVES**

These are amounts set aside for specific purposes. The 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 NewSchools under the PFI contract.

**REVALUATION RESERVE**

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

**REVENUE EXPENDITURE**

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

### REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE

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

### SCHEME LIABILITIES

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

### SETTLEMENT COSTS

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

- A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### STATEMENT OF RECOMMENDED PRACTICE (SORP)

This is the authoritative guidance on the application of accounting standards and incorporates UK GAAP. (See Accounting Codes of Practice). The SORP has now been superseded by the IFRS based Code of Practice.

### STOCKS

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

### SUBSIDIARY

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

### SUPPORT SERVICES

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

### UK GAAP

UK Generally Accepted Accounting Principles cover accounting practices that are regarded as permissible by the accounting profession. These practices may be laid down in accounting standards and/or legislation (such as Local Government Finance

Legislation) but it also includes accounting practices that are outside the scope of accounting standards but are generally accepted by practitioners as legitimate. Local Authority accounts are now required to be IFRS compliant.

### USEFUL LIFE

This is the period over which the local authority derives benefit from the use of a fixed asset.

### VESTED RIGHTS

In relation to a defined benefit scheme, these are: -

- a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- b) for deferred pensioners, their preserved benefits;
- c) for pensioners, pensions to which they are entitled.

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