Merton Council

Standards and General Purposes Committee Agenda

Membership

Councillors:

Peter McCabe (Chair)
Adam Bush (Vice-Chair)
Agatha Mary Akyigyina OBE
Eloise Bailey
Thomas Barlow
Ben Butler
Pauline Cowper
John Dehaney
Brenda Fraser
Joan Henry
Dickie Wilkinson
David Williams

Substitute Members:
Paul Kohler
Marsie Skeete
Peter Southgate
Dave Ward
Omar Bush
Oonagh Moulton

Date: **Thursday 8 November 2018**

Time: **7.15 pm**

Venue: **Committee Rooms C, D & E - Merton Civic Centre, London Road, Morden SM4 5DX**

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact democratic.services@merton.gov.uk or telephone 0208 545 3357 .

All Press contacts: communications@merton.gov.uk, 020 8545 3181

Standards and General Purposes Committee Agenda

8 November 2018

Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that mater and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, .withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

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STANDARDS AND GENERAL PURPOSES COMMITTEE
6 SEPTEMBER 2018

(7.15 pm - 8.07 pm)

PRESENT: Councillors Councillor Peter McCabe (in the Chair), Councillor Agatha Mary Akyigyina, Councillor John Dehaney, Councillor Eloise Bailey, Councillor Ben Butler, Councillor Pauline Cowper, Councillor Brenda Fraser, Councillor Joan Henry and Councillor Nick McLean

ALSO PRESENT: Suresh Patel (Ersnt and Young)
Pam Donovan (Independent Person)

Caroline Holland (Director of Corporate Services), Paul Evans (Assistant Director of Corporate Governance), James McGinlay (Assistant Director for Sustainable Communities), Zoe Church (Head of Business Planning), Steve Bowsher (Chief Accountant) and Meijia Ling (Senior Accountant, General Fund)
Louise Fleming (Senior Democratic Services Officer)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies for absence were received from Councillors Adam Bush and Williams. Councillors Omar Bush and Moulton attended as substitutes.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest made.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

RESOLVED

That the minutes of the meeting held on 30 July 2018 be agreed as a correct record.

Matters arising:

In response to a Member question, the Monitoring Officer advised that the position of Independent Person would be re-advertised and options for where best to place the advert to attract the best response were currently being considered.

4 FINAL ACCOUNTS 2017/18 (Agenda Item 4)

The Director of Corporate Services introduced the report which provided an update to the Committee on the audit of the Statement of Accounts.

The External Auditor presented his report, advising the Committee that the additional property valuation work required was ongoing and due to complete in October.

Therefore the External Auditor was not in a position to sign off the Statement of Accounts. However, all other outstanding audit work had been completed, subject to some final processes, and the Value for Money work had demonstrated that the Council had all the proper arrangements in place. The fees incurred to date had been included in the report, however further fees would be incurred through the auditing of the additional valuation work required and those would be included in the report to the next meeting.

The Committee expressed its disappointment that, despite the undertaking given at the last meeting, the work had still not completed. It was felt that the staff resource issues over the summer period should have been anticipated and planned for accordingly. Clarification was sought on what had prompted the change in methodology used for the property valuations and whether there needed to be better communication between the External Auditors and the Council. The Committee was concerned that the Council was in the bottom 10% of the Country in respect of signing off its final accounts and lessons learnt from the process should be brought to the next meeting for the Committee's consideration.

The External Auditor advised the Committee that the auditing of the valuation of property, plant and equipment (PPE) had been a focus of the regulator of external audit, the Financial Reporting Council, for the last few years. As a result, external auditors had been providing more challenge to management on how they had determined the asset figures in the accounts. The External Auditor stated that a number of other local authorities had experienced issues with the valuation of PPE and this contributed to those authorities not having audited accounts by 31 July.

The Director of Corporate Services advised that the issues with the Council's valuation figures had been raised after the initial work had been completed, on schedule. There was not currently the specialist expertise within the Council to carry out the new detailed methodology and therefore the District Valuer was asked to assist the Council's officers. Although this would not impact on the Council's overall bottom line, it was acknowledged that it was not a good position to be in and therefore a lessons learnt paper would be reported to the next meeting for the Committee's consideration.

The Assistant Director of Sustainable Communities advised the Committee that the valuation team, which he had overall responsibility for, was regulated by the Royal Institute of Chartered Surveyors. A mistake had initially been identified in the original calculations, in part due to a methodology used referred to as Depreciated Replacement Costs. There had been a change in figures input in 2015/16 resulting from a change in build costs which had impacted on the Council's figures, resulting in an undervaluation as the methodology used had effectively discounted the build costs. Once the mistake had been identified, the auditors had requested clarification and further information, which had resulted in the valuation exercise being re-run and hence the delay in the timetable.

The Committee expressed concern over the cost for the additional work required by the External Auditors and the lack of clarity over what the final cost would be. In response, the External Auditor advised that the final cost would depend on the extent of the valuation work received from the Council. However, he assured the Committee that the audit work had been paused until the external valuation work had been completed and received by them, at which point the audit would resume.

RESOLVED

1. That the progress made on auditing the Statement of Accounts, including the Group Accounts and the Pension Fund Accounts subject to any further comments from the External Auditor be noted.
2. That EY's Audit Progress report which includes their Value For Money assessment (attached at appendix 1 to the Committee report) be noted.
3. That subject to confirmation of it being in accordance with the Committee's Terms of Reference and the Scheme of Delegation set out in the Constitution, authority be delegated to the Director of Corporate Services to agree the final accounts after consultation with the Chair and incorporating comments of the Committee, to avoid further delay.
4. Subject to the investigations as part of recommendation 3 above, that the Final Accounts be reported to the next meeting of the Committee for agreement, or an earlier one if required.

5 UPDATE ON RIPA AUTHORISATIONS (Agenda Item 5)

The Monitoring Officer presented report which provided an update on investigations authorised under the Regulation of Investigatory Powers Act since March 2018. It was noted that only one request for directed surveillance had been made and authorised by the Magistrates Court, which was in relation to fly tipping. This had resulted in one official warning being issued; seven fixed penalty notices of £400 being issued; seven cases pending legal action; and four cases pending further enforcement action. There would be an article in the next issue of My Merton publicising the work.

Members welcomed the information being publicised in My Merton, and felt that it should be publicised wider in an effort to deter people from fly tipping in the Borough. It was noted that there had been incidences of fly tipping which had been blamed on the traveller community, and it was stressed that there were examples of fly tipping from a wide range of people. Members were concerned over the levels of fly tipping and encouraged officers to use the technology available and increase levels of enforcement.

In response to a Member question, the Monitoring Officer advised that whilst surveillance was used, covert surveillance was not widely used by councils as it's use was contentious with many members, and there had been instances of abuses in other local authorities. The Committee had previously expressed concern over whether enough enforcement was used. Those comments had been fed back to officers in enforcement and the communications team, and those comments would be reiterated, stressing that more enforcement was proposed.

The Chair requested that the thanks of the Committee be passed to the staff involved in achieving the successful outcome.

RESOLVED

That the purposes for which investigations have been authorised under the Regulation of Investigatory Powers Act (RIPA) 2000 be noted; and that successful prosecutions in respect of fly tipping be widely publicised as a deterrent.

6 COMPLAINTS AGAINST MEMBERS (Agenda Item 6)

The Committee noted a verbal update from the Monitoring Officer, who advised that one complaint against a Member had been received and this was in the process of being acknowledged. The initial meetings with both the complainant and the Independent Member were being arranged. A further update would be brought to the next meeting.

7 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 7)

The Director of Corporate Services presented the report which provided an update on the Council's use of temporary and contract staff since the last meeting. It was noted that the number had reduced since the last meeting, and that progress would continue to be reported on a regular basis.

Members sought clarification on whether future reports could contain figures as a proportion of the total number of staff, as well as a breakdown by Department, to enable trends to be identified. In response, the Director advised that the information should be available to view on the Council's website as part of the papers for the Overview and Scrutiny Financial Monitoring Task Group, however if this did not provide the information requested, then consideration could be given to including in future reports to the Committee.

RESOLVED

That the progress made to monitor and control the use of temporary workers and consultants be noted; and officers be encouraged to continue to reduce the overall numbers.

8 WORK PROGRAMME (Agenda Item 8)

RESOLVED

That the work programme be agreed with the following additions to the November 2018 meeting:

- Final Accounts 2017/18, subject to further discussions in respect of delegated authority as agreed under item 4 above.

- Review of Final Accounts audit and Lessons Learnt report.

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Committee: Standards and General Purposes

Date: 8 November 2018

Agenda item:

Wards: All

Subject: Audited Final Accounts 2017/18

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Roger Kershaw: Interim AD of Resources 0208-545-3458

Key decision reference number: This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

Recommendations:

1. That Committee approve the audited Statement of Accounts, including the Group Accounts and the Pension Fund Accounts (Appendix 2), subject to any further comments from the External Auditor.
2. That Committee note any comments made by the Pensions Fund Advisory Panel regarding the Pension Fund Accounts.
3. To note EY's Audit Results Report (Appendix 4) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
4. To note EY's Audit Results Report (Appendix 3) for the Statement of Accounts under the ISA 260.
5. That the Chair signs the Statement of Responsibilities for the Statement of Accounts (Appendix 2).
6. That the Chair signs Letters of Representation (Appendices 3 and 4) for the Statement of Accounts and Pension Fund Accounts.

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1. Purpose of report and executive summary

1.1 This report presents the audited Statement of Accounts for the year ended 31st March 2018 for adoption by Standards and General Purposes Committee in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2015 and the ISA 260.

1.2 The draft accounts are attached as Appendix 2 to this report. A summary of the Statement of Accounts is attached as Appendix 1. Appendices 3 and 4 contain Ernst & Young's (EY's) Audit Results Reports on the main accounts and Pension Fund respectively, including two Letters of Representation, one for the main accounts and one for the Pension Fund. Appendix 5 contains the Council's revenue account, extracted from its Whole of Government Accounts (WGA) submission.

2. Details

2.1 **Accounting Code of Practice**: Section 21(2) of the Local Government Act 2003 requires local authorities in the United Kingdom to keep their accounts in accordance with “proper practices”. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom, prepared by the CIPFA/LASAAC Joint Committee. The Code specifies the principles and practices of accounting required to give a “true and fair“ view of the financial position and transactions of a local authority. In particular, it prescribes the accounting treatment and disclosures for all normal transactions of a local authority.

2.2 The Code involves adaptations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations as are necessary for local government.

2.3 **Accounts and Audit Regulations**: These specify the timetable for producing the Council’s accounts which is as follows:

a) That the Council's statement of accounts must be ready for audit by no later than 31st May 2018 and in particular that the responsible financial officer must sign and date the accounts and certify that it presents a true and fair view of the financial position of the body at the year end and of that body’s income and expenditure for that year. There is no requirement for approval by committee at that stage. This target was met.

b) That the committee of members must approve the Statement of Accounts by the 31st July 2018. The accounts must be signed and dated by the chairman of that committee and then published on the Council’s website. This target was not met.

2.4 The second target was not achieved primarily because of material errors identified in working papers in the Council’s valuation of its Property, Plant and Equipment. As a consequence of these errors, officers have carried out additional work to revise the valuations and this has necessitated additional work by the external auditors to verify those new valuations. In addition, as a result of the higher perceived risk of error within the Council’s accounts, our external auditors have carried out additional audit sampling work at a lower level of materiality than had been originally planned.

2.5 The missed deadline for signing off our accounts and our Value for Money Conclusion was reported to Public Sector Audit Appointments Ltd (PSAA), who report on the audit of local Government Bodies, by our Auditors and will feature in a soon to be released PSAA report.

2.6 **Audit of the Council's accounts**: Progress: Ernst & Young expect to complete all their work by the date of the committee. Until the audit work is fully complete, it is possible that amendments may arise. If they do, they will be reported to this committee. Subject to satisfactory completion of the remaining audit work, the results of the audit are that the accounts are unqualified, that is, the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

2.7 As a result of the additional audit work, EY have notified us that an additional cost of £81,000 to date on audit fees has been incurred by the Council. (Audit Results Report page 45, "Fee analysis").

2.8 Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.

2.9 Audit Results Reports: Ernst & Young has issued its Audit Results Reports (ARRs), under ISA 260. The auditors are required to comply with the Auditing Standards contained under ISA 260, which covers 'Communications of Audit Matters with those charged with governance'. The auditor is required to report relevant matters relating to the audit to those charged with governance. There is one ARR for the Statement of Accounts and a separate ARR for the Pension Fund accounts.

2.10 Audit Amendments: The audit work has led to the following three adjustments to the draft accounts. These are referred to on page 25 of the Audit Results Report, "Audit Differences"). The first two adjustments were reported to the July 2018 SGPC (Agenda Item 6).

2.11 Adjustment 1: Service expenditure and income in the Comprehensive Income and Expenditure account (CIES) was overstated by approximately £32.2m because inter departmental recharges and transfers had not been removed.

2.12 Adjustment 2: IAS 19 Retirement Benefits: The Pension Fund net liability has been reduced by £6.963m, from £357.051m to £350.088m as at 31st March 2018, with a corresponding increase in the Pensions Reserve of £6.963m. The adjustment was needed because officers understated the value of Pension Fund assets reported to the actuaries for purposes of preparing the IAS19 report, which forms the basis for Disclosure 32, Defined Benefit Schemes.

2.13 Adjustment 3: To correct the value of the Council's Property, Plant and Equipment. This correction requires changes to the value of Property, Plant and Equipment going back to financial year 2015/16. The cumulative effect of the change in property values in 2015/16 and 2016/17 is a net increase of £173. 746m on the figures reported in the audited accounts for 2016/17. This increase is matched by a corresponding increase in Unusable Reserves (the Revaluation Reserve and Capital Adjustment Account). Further details are contained in Disclosure 19, "Property, Plant and Equipment".

2.14 Letters of Representation: ISA 580, covering Management Representation, requires that the auditor be provided with written representation from management with appropriate responsibilities and knowledge of the financial statements. This applies to the main accounts and the Pension Fund Accounts.

2.15 ISA 260 requires that those charged with governance should sign agreement to the Letter of Representation. After the Committee has discussed and agreed the Letter of Representation, it has to be signed by the Chief Financial Officer. The Chair of the Committee is then required to sign agreement to the Letter of Representation. Copies of the letters to be signed for the main accounts and the Pension Fund accounts are included in Appendices 3 & 4.

2.16 Review of processes: Section 13.1 of the 2017/18 Annual Governance Statement Section, which is attached as Appendix 6, now provides for asset valuations to be treated as part of the 2018/19 Improvement Programme for "Significant governance issues". More generally, officers review all aspects of the closing of accounts' process every year and use this work to make improvements to those processes in the following year.

2.17 **Financial Summary**: The audit work to date has also not resulted in any changes to level of Usable Reserves but it has led to material changes to the level of Unusable Reserves.

2.18 Reserves: Table 1 contains a breakdown of all reserves, divided into Usable Reserves (comprising Revenue Reserves and Fund Balances, Unapplied Capital Receipts and Unapplied Capital Grants) and Unusable Reserves.

2.19 Usable Reserves: When the Collection Fund balance is included, Revenue Reserves and Fund balances stand at £61.892m as at 31st March 2018 (£63.524m as at 31st March 2017).

2.20 Unusable Reserves: Excluding the Collection Fund, these stand at £197.082m as at 31st March 2018. (As at 31st March 2017, before restatement, there was a negative reserve of £35.479m).

Table 1: Reserves

Reserves	2017/18 Audited Accounts £000	2017/18 Draft (pre audit) Accounts £000
1. Usable reserves		
General fund balance	12,778	12,778
General fund-schools	7,820	7,820
Earmarked reserves (excluding schools)	33,575	33,575
Earmarked reserves-schools	6,548	6,548
Revenue reserves and balances	**60,721**	**60,721**
Unapplied capital receipts	15,512	15,512
Unapplied capital grants	10,479	10,479
Other usable reserves	**25,991**	**25,991**
Total usable reserves	**86,712**	**86,712**
2. Unusable reserves		
Collection fund	1,171	1,171
Other unusable reserves	197,082	27,343
Total unusable reserves	**198,253**	**28,514**
Total reserves	**284,965**	**115,226**

2.21 Outturn Table 2 shows the final outturn for the year. The departmental figures are those reported to the Cabinet. The underspend of £0.266m is part of the £33.575m earmarked reserves in Table 1.

Table 2: 2017/18 Outturn and Budget Variances

Cabinet Outturn Report	2017/18 Current Budget £000	2017/18 Outturn £000	2017/18 Variance £000
Department			
Corporate Services	9,932	8,963	(969)
Children, Schools & Families	54,691	57,122	2,431
Community & Housing	64,480	65,654	1,174
Environment & Regeneration	18,271	16,810	(1,461)
Net Service Expenditure	**147,374**	**148,549**	**1,175**
Corporate Provisions	1,437	484	(953)
Total General Fund	**148,811**	**149,033**	**222**
Grants	(28,999)	(29,668)	(669)
Business Rates	(35,483)	(35,302)	181
Council Tax and Collection Fund	(84,329)	(84,329)	0
Funding	**(148,811)**	**(149,299)**	**(488)**
Net underspend (transferred to earmarked reserves)	**0**	**(266)**	**(266)**

3. **Alternative options**

None for the purposes of this report.

4. **Consultation undertaken or proposed**

4.1 Under the Accounts and Audit Regulations 2015, the Council is required to make available, for a 30 working day period, copies of the Statement of Accounts and related information for inspection by any interested person. During this period, interested persons also have the right to question the auditor, by prior appointment, about the accounts. The inspection period ran from 1st June to 12th July 2018 and was advertised on the Council's website at www.merton.gov.uk/finance.

4.2 There were no queries raised on the accounts during this time.

5. **Whole of Government Accounts (WGA)**

5.1 The Whole of Government Accounts (WGA) process consolidates the audited accounts of around 4,000 organisations across the public sector in order to produce a comprehensive picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS) and is independently audited.

5.2 As an organisation within the WGA boundary, the Council is required each year to complete a WGA return in order that HM Treasury can produce the consolidated WGA accounts.

5.3 As part of Ernst and Young's audit work on the Council's accounts, an assurance statement, in respect of the WGA return, is provided to the National Audit Office. EY expect to provide the assurance statement in October.

5.4 The Council's revenue account, extracted from the unaudited WGA return, is attached as Appendix 5.

6. **CHAS 2013 Ltd Audit**

6.1 The Council's wholly-owned subsidiary, CHAS2013 Ltd, will be audited by Ernst & Young, commencing September*.* The audit of CHAS2013 Ltd.'s accounts is not expected to have any material impact on the Council's accounts.

7. **Timetable**

7.1 The timetable for auditing the accounts has been extended to provide for additional audit work on the valuation of Property, Plant and Equipment and on additional sampling work.

8. **Finance, resource and property implications**

8.1 The cost of the additional fees, including for information provided to a member of the public, amounts to £81,000 to date.

9. Lessons learned

9.1 An extensive review will be undertaken of the closure process both internally and with the External Auditor, in line with previous years. However it is already clear that some of those lessons will include:

- An even greater focus on upstream work that can be undertaken prior to the commencement of the audit.
- Where practical, to build up greater resilience in both teams (LBM and EY) to enable a timely approach to and delivery of the audit plan. It was clear from both teams that the earlier deadline sorely tested ours and our Auditors resilience during the audit.
- Improved protocols and continuity plans for operating the EY portal which was the desired mechanism for exchanging data and communications before and during the audit. This proved to be problematic at key times during the audit.
- The recognition that both sides need to improve communications and importantly the logging of key decisions and discussions throughout the audit process.
- Improved closure task lists and robust signoff processes.
- Closer liaison and scrutiny of the valuation process by managers within Environment and Regeneration and Corporate Services.

10. Legal and statutory implications

10.1 These are contained within the report, Members are referred to the Council's Constitution, and in particular the Financial Regulations, which are set out in Part 4f.

11. Human rights, equalities and community cohesion implications

11.1 None for the purposes of this report.

12. Crime and disorder implications

12.1 None for the purposes of this report.

13. Risk management and health and safety implications

13.1 None for the purposes of this report.

14. Appendices

14.1 The following documents are to be published with this report and form part of the report

- Appendix 1: Summary Accounts for the year ended 31st March 2018
- Appendix 2: Statement of Accounts for the year ended 31st March 2018
- Appendix 3: Ernst & Young Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 4: Ernst & Young Audit Results Report and Letter of Representation - Pension Fund Accounts

- Appendix 5: Draft Whole of Government Accounts Revenue Account 2017/18
- Appendix 6: Annual Governance Statement

15. Background Papers

15.1 The papers used to compile this report are held within the Corporate Services Department. Specifically, they include:-

- Statement of Accounts 2017/18
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- CIPFA- technical bulletins

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Summary Statement of Accounts

31st March 2018

INTRODUCTION

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

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

It is both a summary and an interpretation of the accounts, highlighting the key issues that have arisen during the financial year. The full set of accounts and this summary are available on the Council's website at: https://www2.merton.gov.uk/council/finance.htm.

THE STATEMENT OF ACCOUNTS

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

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

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

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

FINANCIAL HIGHLIGHTS 2017/18

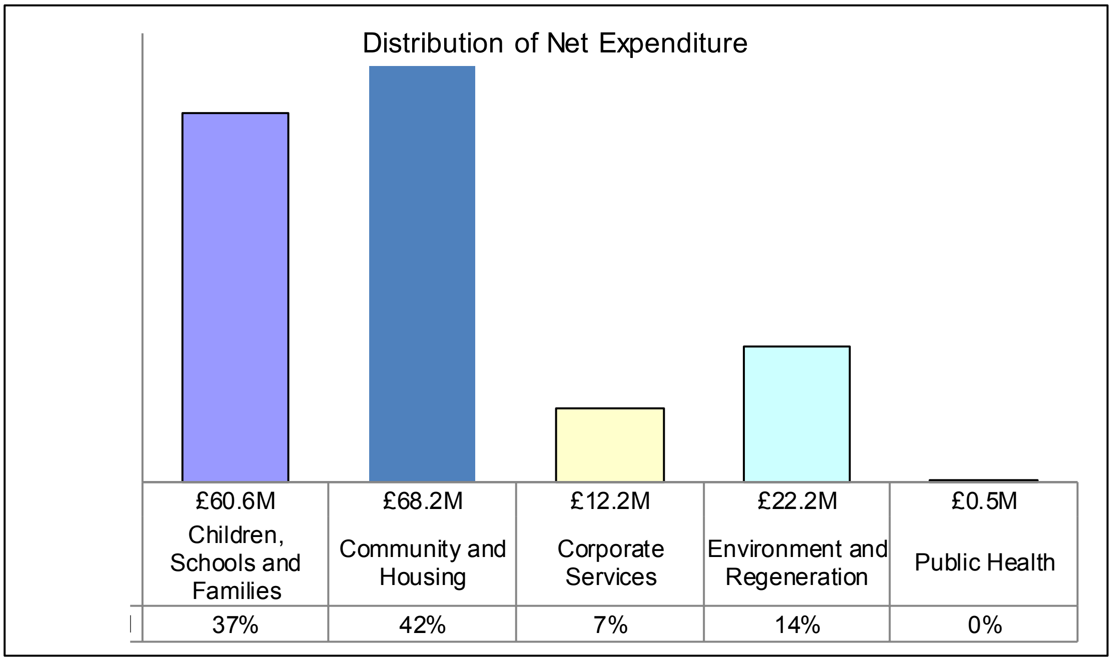
- The Council spent £33m (£31m in 2016/17) on capital schemes including expenditure on a lease valued at £0.5m on the new Colliers Wood library.
- Total net assets increased by £53m, comprising a £59m increase in unusable reserves and a £6m reduction in usable reserves. The £59m increase in unusable reserves was mainly due to a £35m increase in capital reserves and an £18m increase in the pensions reserve.
- Borrowing stayed the same at £113m from 31/03/17 to 31/03/18.
- The Council has a net underspend against £0.3m against its budget in 2017/18, which has been added to earmarked revenue reserves.

REVENUE SPENDING

Merton's net cost of services was £164.0m, attributable to services as shown below:

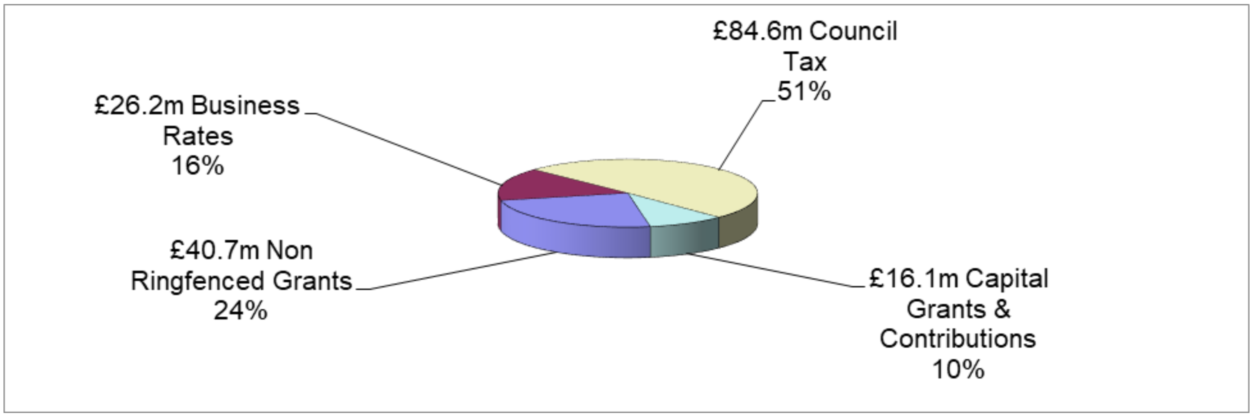
Service Areas	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Children, Schools and Families	225.0	(164.4)	60.6
Community and Housing	87.2	(18.9)	68.3
Corporate Services*	114.4	(102.1)	12.3
Environment and Regeneration	59.6	(37.4)	22.3
Public Health	11.5	(11.0)	0.5
Net Cost of Services	**497.7**	**(333.8)**	**164.0**

* Includes Housing Benefits



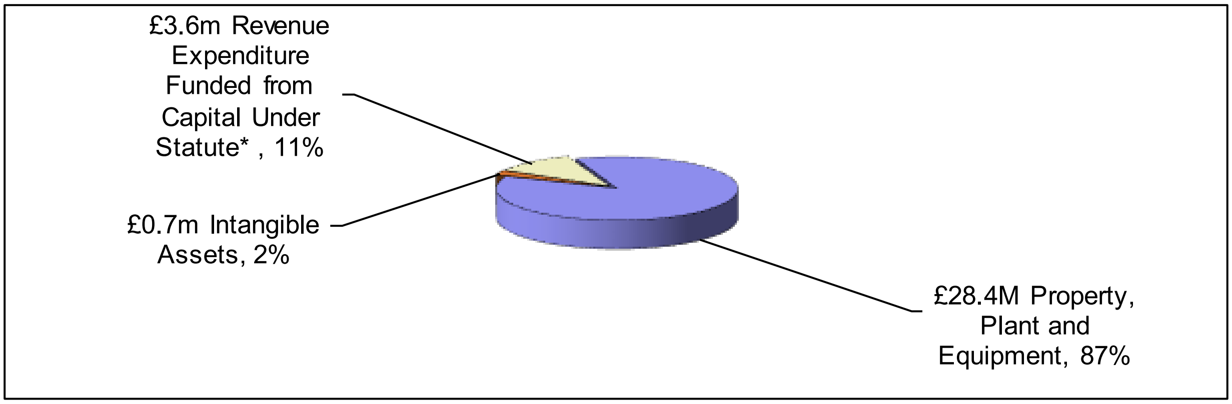
How was expenditure funded?

Other than income collected by departments from fees, charges and specific government grants, services are paid for from revenue support grant, which is money from central government, contributions from the business rates pool, council tax and special grants for specific purposes. The following chart shows the actual funding of the net cost of services from local taxation and non-specific grant income:



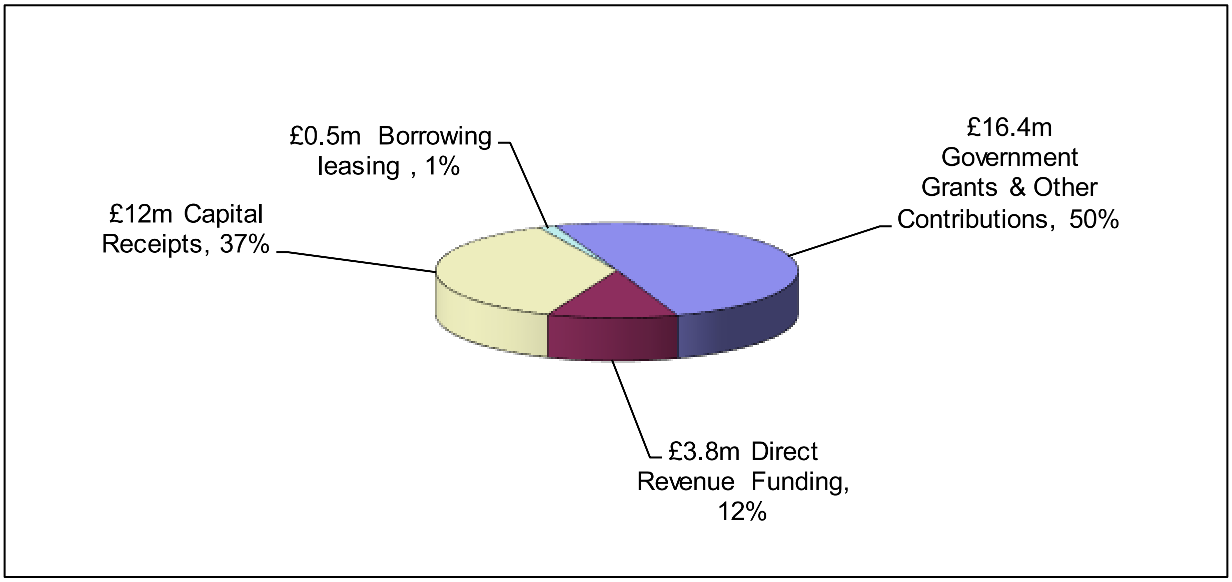
CAPITAL SPENDING

Capital expenditure relates to spending on fixed assets such as buildings and equipment where the benefits to the authority last for more than one year. The Council spent £32.7m in 2017/18 as shown below.



*This is revenue expenditure, which can be funded from capital resources under statutory requirements.

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



Capital expenditure and the budget for the next four years, is shown by department in the following table. The budget is based upon the budget approved in February 2018 plus slippage:

Department	Outturn 2017/18* £000s	Capital Budget			
		2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Children, Schools & Families	6,036	16,082	8,107	3,202	650
Community and Housing	1,111	937	480	630	280
Corporate Services	8,244	28,533	15,818	3,945	3,862
Environment & Regeneration	16,840	22,772	9,060	5,017	4,052
Total	**32,231**	**68,324**	**33,465**	**12,794**	**8,844**

- Excludes the value of a new lease for the Colliers Wood library valued at £0.5m.

FINANCIAL HEALTH

The Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31st March 2018). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

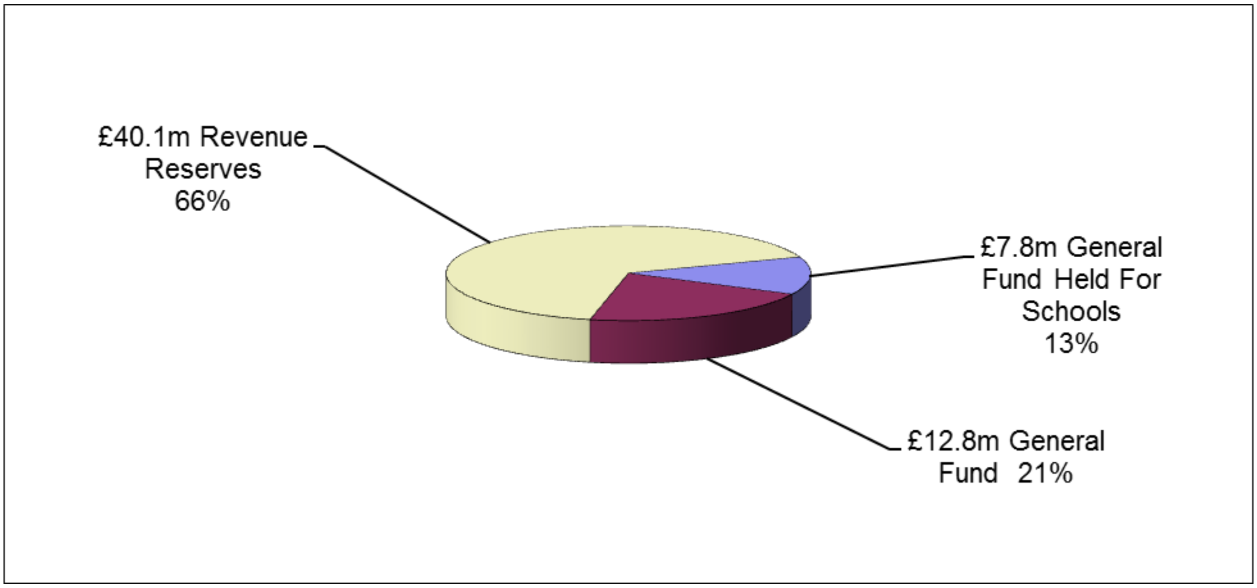
Summary Balance Sheet

Assets	As at 31st March 2017 (Restated) £m	As at 31st March 2018 £m
Fixed and Other Long Term Assets	703	741
Current Assets including investments, cash and debtors	134	118
Current Liabilities including creditors and short term borrowing	(78)	(65)
Total Assets Less Current Liabilities	**759**	**794**
Long term borrowings	(113)	(113)
Other liabilities and provisions	(45)	(46)
Pension Fund Liability	(368)	(350)
Total Long Term Liabilities	**(526)**	**(509)**
Total Net Assets	**232**	**285**
Represented by:		
Reserves and balances which can be spent	(92)	(87)
Reserves and balances which cannot be spent	(140)	(198)
Total Net Worth	**(232)**	**(285)**

RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £87m, £26m capital receipts and grants, and £61m fund balances and revenue reserves which are broken down below.

Breakdown of Fund Balances and Revenue Reserves



PENSION FUND

The Pension Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. The contributions are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The next such valuation will commence as at 31 March 2019 and will take effect from 1 April 2020. The Council is required to report where the assets and liabilities stand on an IAS19 commitment basis. On this basis, the assets in the scheme increased by £12m during the year to £611m and the estimated pension liability fell by £6m to £961m, leading to a £18m reduction in the pension deficit, which stands at a notional £351m. Although this is a significant notional liability, the basis on which the pension deficit is valued for funding purposes is determined by triennial actuarial valuations. Under the latest actuarial valuation (as at 31st March 2016), the Council has a deficit on the pension of £33m and there is a 12-year plan to eliminate it.

CABINET REPORTING

The revenue outturn in the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice, which is based on IFRS accounting. A reconciliation of the Cabinet reporting, which is used for management purposes, to the CIPFA Code of Practice reporting is provided within the 2017/18 Statement of Accounts as disclosure note 1.

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

merton MERTON COUNCIL

Statement of Accounts

For the year ending

31 March 2018

www.merton.gov.uk

Statement of Accounts

For the year ending 31st March 2018

Index

Narrative Statement

1. Introduction

Welcome to London Borough of Merton's 2017/18 Statement of Accounts, which reports the Authority's financial performance during the year, showing expenditure on all services and the financial position at 31st March 2018.

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

2. Financial performance

2.1 Revenue Summary

Outturn

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

	2017/18 Current Budget £000	2017/18 Outturn £000	2017/18 Variance £000
Department			
Corporate Services	9,932	8,963	(969)
Children, Schools & Families	54,691	57,122	2,431
Community & Housing	64,480	65,654	1,174
Environment & Regeneration	18,271	16,810	(1,461)
Net Service Expenditure	**147,374**	**148,549**	**1,175**
Corporate Provisions	1,437	484	(953)
Total General Fund	**148,811**	**149,033**	**222**
Grants	(28,999)	(29,668)	(669)
Business Rates	(35,483)	(35,302)	181
Council Tax and Collection Fund	(84,329)	(84,329)	0
Funding	**(148,811)**	**(149,299)**	**(488)**
Net (under)/overspend	**0**	**(266)**	**(266)**
Transfers to Earmarked Reserves	0	266	266

Net service expenditure was overspent by £1.2m. The two main areas of overspend are adults and children's social care placements. Although these budgets received growth in 2017/18 the demand for these services remains high and there are pressures in excess of the growth received.

These overspends were partly offset by an underspend in Corporate Services department and Environment and Regeneration mainly as a result of the implementation of the Automatic Number Plate Recognition (ANPR) system across the borough. The positive effects of this fully functional system e.g. improved traffic flow are expected to be realised during 2018/19.

Corporate provisions also underspent by just under £1m.

There was an overall underspend of £0.3m against the budget and this particular underspend was included in a transfer to the balancing the budget reserve of £2.5m.

However, there was a net reduction of £1.408m in overall revenue reserves and fund balances as at the 31st March 2018, as explained in the next section.

Reserves

During 2017/18 the Authority's overall usable reserves fell by £5.65m. This was composed of a £1.408m reduction in revenue reserves and fund balances and a £4.246m reduction in capital balances.

The reduction in revenue reserves was composed of a reduction in schools' general fund balances of £0.426m and a £0.982m reduction in earmarked revenue reserves. The general fund balance remained unchanged at £12.778m. The earmarked revenue reserves include the underspend of £0.266m
The reduction in capital reserves was composed of a reduction in usable capital receipts (£7.473m) and an increase in usable capital grants of £3.227m.

Usable Reserves	2017/18 Opening Balance £000	2017/18 Movement £000	2017/18 Closing Balance £000
General Fund Balances	12,778	0	12,778
General Fund Balances held by schools	8,246	(426)	7,820
Earmarked Revenue Reserves	41,105	(982)	40,123
Sub Total-Fund Balances and Revenue Reserves	**62,129**	**(1,408)**	**60,721**
Capital Receipts Reserve	22,986	(7,473)	15,513
Capital Grants Unapplied*	7,251	*3,227	10,478
Capital Reserves	**30,237**	**(4,246)**	**25,991**
Total Usable Reserves	**92,366**	**(5,654)**	**86,712**

*Movement in 2017/18 reflects 2018/19 grants received in advance.

2.2 Capital Summary

Capital investment amounted to £32.7m in 2017/18 (£30.6m in 2016/17), this sum comprises £32.2m capital expenditure and £0.5 million new finance lease. The programme was financed through the application of capital grants/contributions (£16.4m), capital receipts (£12.0m) and revenue contributions (£3.8m). Capital receipts received in year totalled £4.5m (£6.4m in 2015/16).

Of the total £32.2m capital expenditure, £25.2 million (£25.7 million with Colliers Wood Lease) was spent on the purchase/enhancement of property, plant and equipment, £3.4 million on the purchase/enhancement of intangible assets and £3.6 million was revenue expenditure funded from capital under statute.

<u>Capital Investment Plans</u>

The Authority's capital investment budget for the next four years, as at February 2018, is shown in the following table, alongside 2017/18 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas.

Department	Outturn 2017/18* £000s	Capital Budget (£000's)			
		2018/19**	2019/20	2020/21	2021/22
Corporate Services	8,244	28,533	15,818	3,945	3,862
Community and Housing	1,111	937	480	630	280
Children, Schools & Families	6,036	16,082	8,107	3,202	650
Environment & Regeneration	16,840	22,772	9,060	5,017	4,052
Total	**32,231**	**68,324**	**33,465**	**12,794**	**8,844**

* Excludes the value of a new lease for the Colliers Wood Library of £0.5 million
**The 2018/19 budget was approved in February 2018 and includes £7.0m net slippage from 2017/18

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

Capital projects aimed at service expansion	Capital Budget (£000's)			
	2018/19	2019/20	2020/21	2021/22
Secondary school expansions /New School	7,693	6,352	2,552	0
Special Educational Needs school expansions	7,480	1,000	0	0
Replace Morden Leisure Centre and Lake De-silting	6,389	1,492	0	0
Total	**21,562**	**8,844**	**2,552**	**0**

Further information about capital investment plans can be found in the Authority's Business Plan, located at http://www.merton.gov.uk/council/finance.htm.

2.3 Investments and Borrowing

The Council maintains and operates a Treasury management strategy comprising the principles and practices to which the Treasury Management activities will comply. The strategy is approved by full Council annually and is available on the Authority's website.

The Authority manages its cash in-house, placing investments for periods ranging from overnight to over 12 months depending on anticipated cash flow requirements. At 31st March 2018 the Authority held short-term and long-term deposits totalling £55m and £4.5m respectively (£66m and £5.0m at 31/03/17). The Authority generated £0.78m of investment income from these deposits in the year (£0.83m in 2016/17).

At 31st March 2018 the long-term borrowing was maintained at £113m (£113m on 31/03/17) and £6.6m (£6.8m in 2016/17) was paid as interest on these borrowings during the year.

In 2017/18 the Council repaid all its short term borrowing (it was £15.1m in March 2017) and no new loans were taken. We were able to achieve this by maintaining a robust cash flow model and forward planning.

2.4 Pensions

The Merton Pension Fund is a Local Government Pension Scheme Regulations 2013 (LGPS) defined benefit statutory scheme administered in accordance with the LGPS and currently provides benefits based on career average revalued earnings. The Fund is administrated by London Borough of Merton. As at 31 March 2018 the Fund's net asset value was £663m and it had 13,276 members in total.

The Council is the largest employer of the fund (92%) and as at 31 March 2018 there were 12,210 Council employees in the Fund. At the last Triennial valuation, the Fund was 94% funded with the assets of £526m against its liability of £558m. The next Triennial valuation will be as at 31st March 2019.

2.5 Economic Outlook

Local Government Finance Settlement

The Local Government Finance Settlement for 2018/19 contains indicative allocations from central government up to 2019/20. These allocations continue the downward trend in funding since 2010/11. Between 2016/17 and 2019/20, the Authority's settlement funding assessment is forecast to fall by 33.9% in real terms and core spending power by 5.7% over the same period.

As the Authority's funding from central government reduces, demographic changes and the impact of the economic climate are expected to further increase pressure on service budgets, particularly those for demand-led areas such as social care.

In order to continue delivering services effectively, the Authority continues to monitor these, and other major risks to its financial position, which are:

- The current and medium term economic outlook
- Demand and other demographic pressures on the budget, particularly on vulnerable groups with demand-led budgets
- Identifying and achieving cost and income improvements in a challenging and uncertain economic environment
- Reforms to local government finance based around 75% business rates retention and the transfer of new responsibilities from central government
- The outcome of the London Business Rates Pool Pilot in 2018/19 which Merton is participating in.
- Devolution
- Risks to future Government funding levels
- Ability to implement approved savings
- Risks to other income streams
- The unknown long-term impact on economic factors of central government's negotiations with the European Union on Brexit

The longer term position is also made more uncertain by potential changes in the way Government Funding is allocated. In the Local Government Finance Settlement 2018/19 the Government issued a technical consultation paper "Fair funding review: a review of relative needs and resources" with the objective to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best evidence available. The Government proposes to work towards an implementation date for the review of 2020/21 and the review will include: -

- setting new baseline funding allocations for local authorities,
- delivering an up-to-date assessment of the relative needs of local authorities to enable redistribution of business rates between local authorities
- examining the relative resources of local authorities including how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils,

The redistribution of resources arising from the review could therefore have significant, ongoing implications for the Council's Medium Term Financial Strategy from 2020/21 onwards and although the MTFS shows significant progress to date towards a balanced budget over the next two years there is a large budget gap from 2020/21 onwards still to be addressed, with increases in council tax already built in.

2.6 Accounting developments

From the 1st April 2018 (financial year 2018/19), two new accounting standards will be incorporated in the Code of Practice on Local Authority Accounting. These standards are IFRS 9 Financial Instruments and IFRS15 Revenue from contracts with customers.

IFRS 9 Financial Instruments has been devised to make accounting for financial instruments more transparent. It contains two main topics: classification and measurement of financial instruments and impairment of financial assets.

(a) Classification and measurement:

The default accounting treatment for investments is changed from one where gains and losses in value are not recognised as income or expenditure until an investment matures or is sold to one where income or expenditure is recognised as fair value gains and losses arise. This treatment is reflected in how investments are to be classified under IFRS 9, as set out in the following table.

New Classification	Business Model	Measurement in Balance Sheet	Impact on General Fund
Amortised Cost	The financial asset is held for the purpose of collecting contractual cash flows of principal and interest.	Principal plus accrued interest	None
Fair Value through Other Comprehensive Income (FVOCI)	The financial asset is held for the purpose of collecting contractual cash flows of principal and interest and selling financial assets	Fair Value	FVOCI- changes in fair value adjusted through the Unusable Reserves
Fair Value through Profit and Loss (FVPL)	All other combinations of business model and contractual cash flows.	Fair Value	Changes in fair value (up or down) will directly affect the General Fund unless regulations change

Currently, the Council's investments will all be classified as being Cash Deposits measured at amortized cost with the exception of its investment in the CCLA Local Authorities Property Fund. The CCLA investment of £4.5m will be classified as Fair Value through Profit and Loss and changes in its fair value will directly affect the General Fund unless regulations are amended.

There is a special accounting exemption for shares in group entities which will apply to the Council's shareholdings in its subsidiaries, CHAS and the Property Company. Shares in subsidiaries can be accounted for at cost in the authority-only Balance Sheet on the basis that additional information about the value of the shareholdings is provided by the consolidated financial statements.

(b) Impairment:

The IFRS 9 approach is that no investment or debtor balance is fully secure from credit risk- the risk that the counter party might not make a payment of principal or interest due to a lender. The model for calculating impairment loss allowances for financial assets (i.e. the provision for bad debts) is changed from one based upon losses which have been incurred to one based upon expected losses.

Investments in UK Government instruments and lending to other local authorities are exempted from the new rules and impairment loss allowances for Council Tax, NDR and Housing Benefits (which are statutory schemes and the debts are therefore not regarded as financial instruments) will continue to be calculated under current rules.

The authority has carried out a preliminary assessment of the implications of this standard on the Council's General Fund and these are not considered to be significant. The main expected sources of change in terms of their impact on the General Fund will be the following:

- **Investments**: Change in the value of the authority's investment in the CCLA Property Fund, although this is not expected to be significant.
- **Debtors**:
  The authority's trade debtors (£16.2m) are directly affected; however, the Council's calculation of the impairment allowance on its trade debtors should not change significantly because the current calculation already provides for expected impairment rather than simply looking at incurred losses.
  The authority will also need to consider impairment of its leasing debtors (£5.5m) although any impairment will be charged against the Deferred Capital Receipts Reserve, an Unusable reserve.
  The impairment of the authority's major statutory debtors - Council Tax, Business Rates and Housing Benefits - are not affected by IFRS 9.
  There are other debtors (£7.456m) where the effect on impairment should not be significant.

The table below summarises the potential impact of IFRS 9 on the impairments of the authority's gross debtors as at 31st March 2018. It can be seen that IFRS 9 will affect the impairment of around £29m (52%) of the £55.8m debt though this impact should not be significant and in the case of leases will be chargeable against an unusable capital reserve.

Classification of the authority's debt as at 31st March 2018

	Trade debtors £000	Lease debtors £000	IFRS 9 - Other £000	Statutory and other debtors which are not affected £000	Total £000
Long Term	829	5,450	705	5,480	12,464
Short Term	15,335	16	6,751	21,251	43,353
Total Gross Debt	**16,164**	**5,466**	**7,456**	**26,731**	**55,817**
Percentage of gross debt	**29%**	**10%**	**13%**	**48%**	**100%**

IFRS 15 Revenue from contracts with customers introduces a new model for recognition of contractual income. This model is based upon allocating the overall transaction price for goods and /or services to be provided against the satisfaction of the various performance obligations in the contract.

The new model has the potential to change the date at which revenue is recognised compared to current accounting requirements.

It is anticipated that most local authority contracts will fit comfortably into the new model without any impact on revenue recognition dates. The standard may, however, affect revenue recognition by CHAS, that is to say, the date at which revenue is recognised compared to current accounting requirements. This is because CHAS recognises revenue when payment is received althoug the services being paid for extend into the following year. This matter will need to be investigated further. The impact of these two new standards is also in the disclosure “Accounting standards issued not adopted”.

3. Service Performance

The Authority is comprised of four departments; Corporate Services, Children, Schools and Families, Community and Housing, and Environment and Regeneration. A selection of key performance indicators from each department is shown in the table below. The Authority’s full key performance indicator set can be found in the Business Plan, which is published at: http://www.merton.gov.uk/council/plansandpolicies.htm.

	Key Performance Indicator	2016/17			2017/18		
	Description	**Result**	**Target**	**Target met?**	**Result**	**Target**	**Target met?**
Corporate Services	% of council tax collected	97.64%	97.25%	Y	97.69%	97.25%	**Y**
	% of business rates collected	97.91%	97.50%	Y	98.79%	97.50%	**Y**
	The level of CO2 emissions from the council’s buildings (tonnes)	6,924	<8,045	Y	5,849	<7,740	**Y**
Children Schools and Families	% outcome of schools Ofsted inspections good or outstanding	91%	91%	Y	93%	91%	**Y**
	% Secondary school attendance	95.5%	95.1%	**Y**	96%	95.2%	**Y**
	No. of in-house foster carers recruited	15	15	Y	11	15	**N**
Community and Housing	No. of people accessing a library at least once in the last 12 months	70,268	56,000	Y	66,154	56,000	**Y**
	No. of homelessness preventions	458	450	Y	465	450	**Y**
	No. of DTOCs (Delayed Transfers Of Care) - Adult Social Care delays only	No comparative data as PI definition changed from April 2018			1,517	1,133	**N**

	Key Performance Indicator	2016/17			2017/18		
		Result	Target	Target Met?	Result	Target	Target met?
Environment and Regeneration	Major applications processed within 13 weeks	71%	55%	Y	73%	67%	Y
	% of sites surveyed on local street inspections for litter that are below standard	9.00%	<8%	N	12.60%	<8.5%	N
	No. of refuse collections including recycling and kitchen waste missed per 100,000	49.96	<50	Y	95.33	<75	N

3.1 Future Service Developments

Corporate Services

Corporate Services department aims to provide high quality services to both residents and internal users of professional services.

We have commenced transforming the way we engage with residents by investing in a new Council website. The new website will increasingly become the preferred means for residents, non-residents and businesses to contact the Council. Already customers can access a quicker and more accurate online service, submit service requests, payments, or comment online. We plan further expansion of the facility for online transactions and improvements that make it easier for residents and service users to track progress on their queries/requests.

Our aim is that all of our customers will have the option of accessing an online personal account, which will be similar to the accounts that many people have with online retailers. For each customer, the account will bring key services together in one place, such as council tax bills and progress on service requests or complaints, so they can be managed easily.

Another major departmental project is the implementation of a new Social Care Information System, which went live in May 2017. We will continue the programme of early life support to improve the way social care information is recorded and presented, allowing better coordination of casework activity across teams. The system will ensure that our social workers are well supported and equipped to respond to the needs of both adult and children social care customers.

Collection of council tax and business rates improved again in 2017/18, with collection rates remaining at record levels. This is the result of the Council's ongoing dedication to pursuing collection from the minority of taxpayers and businesses that try to avoid paying. In these circumstances the approach is to make full use of legal powers to pursue these debts.

Universal Credit continues to be rolled out across the borough for new claims. The Mitcham Job Centre went live in December 2017 and the remaining Job Centres that cover the borough should be live by October 2018.

CHAS 2013 Limited, wholly owned subsidiary of LB Merton, provides health and safety pre-qualification assessments to nationally recognised standards. The company continues to grow with an increase in turnover and profit year on year. The company has plans to increase the services offered to compete in the marketplace in the face of the increasing competition.

Children, Schools and Families Department

The Department remains committed to a journey of continuous improvement, by actively seeking new and innovative ways to meet national requirements. The Department aims to deliver the very best services and to improve outcomes for all children and young people, in particular those who are most vulnerable and at risk.

During 2017/18 the department had its OFSTED inspection and was rated good with a number of outstanding areas including leadership and management, Adoption and the Local Safeguarding Children's Board.

There are a number of considerable challenges to service delivery over the next few years, in particular, a challenging inspection regime including a revised framework for inspecting social care, a local area, Special Educational Needs and Disabilities (SEND) inspection across a range of partners and a youth justice inspection. We are also continuing to develop our 'practice model' and anticipate major changes in school funding.

Within Social Care, there are radical changes in the way Social Workers will be assessed, which must be implemented in line with their professional registration requirements. The Department also faces a move towards regional adoption and the next phase of embedding of the Children and Families Act, (SEND) reforms in the context of increasing numbers of children and young people with Education, Health and Care plans.

The performance indicators shown are those that are given a high priority by our residents, for example Ofsted inspection outcomes for schools. Performance is generally being delivered in line with expectations. The Department is pleased that 93% of schools in the Borough have received a good or outstanding rating from Ofsted, against a target of 91% and up from 91% last year.

Community and Housing Department

Community and Housing provide a range of services to the residents and families of, and visitors to, Merton. Our unifying mission is to improve the life chances of our customers, whether this is through learning and information, having a place to live, or for older / disabled people living as independent a life as possible. This will be achieved through the provision of our services below and with a focus on:

- Managing demand to match the resources available;
- Ensuring that we have the right providers working in the right way to meet the sustainability challenge;
- Ensuring that we have the internal capacity and capability to work effectively with external partners and ensure an appropriate supply of good quality services.
- Exploiting new technologies, both for the benefit of service users and to improve our own efficiency through a mobile professional workforce.

Adult Social Care

We aim to support people to remain independent, in their own home, in communities with their friends and family network around them, and out of hospital or residential care. We aim to maximise people's independence with the use of equipment, telecare, re-ablement, utilising the voluntary sector to limit isolation and loneliness, working with our partners in health, to ensure that people's needs are met keeping people healthy and out of hospital.

We will work with our partners to integrate services where possible and limit duplication for the customer and service. We aim to complete our duties by putting the customer at the heart of the assessment and maximising and utilising their strengths to ensure that they are enabled to be as independent as possible with minimal, or no, support from the council.

Library, Heritage and Adult Learning Services

These services will retain good standards by providing cutting edge technology and being responsive to customer needs, including helping people to assess a range of services and support with online applications. Library space will be utilised to its maximum potential for other activities and to increase commercial income.

Adult learning is delivered through a commissioning model, contracting services to the best providers in the field and by developing sophisticated evidence based approaches to what we deliver. The service provides a wide range of courses to improve people's life chances and investment is particularly focussed in upskilling residents most in need whilst expanding provision for families and enhancing our range of maths, English and employability courses. The service is funded by an annual grant from the Education and Skills Funding Agency (ESFA).

Library usage takes in many different factors and is measured by where customers present a card either to borrow a book or access IT services either in a library or online. Usage continues to be high and is the highest per head of population for any London borough. Continued success is attributable to ongoing work particularly with children and young people.

Housing Needs
The service will continue to deliver homelessness prevention activities to delay/ prevent homelessness for our customers and will continue to work closely with landlords to increase housing supply for those customers in acute housing need, as part of the prevention agenda a rebranded housing related support offer will be developed so as to deliver tenancy sustainment and maximise our customers' independence.

The service will also be working with landlords and their managing agents on the introduction of the revised mandatory licensing scheme for Houses in Multiple Occupation.

The department also achieved its target for the number of homelessness preventions. In line with the new Homelessness Reduction Act, the council is committed to preventing homelessness; interventions can include negotiating with the landlord, resolving Housing Benefit issues, assistance with rent arrears or providing alternative accommodation to achieve this target.

Public Health
The service aims to 'make health everyone's business' and, by working with colleagues in the council, Clinical Commissioning Group and voluntary sector, continue to protect and improve physical and mental health outcomes for the whole population, pupils and employees in Merton throughout the life course, and reduce health inequalities.

The other department's performance indicators reflect the range of services provided and demonstrate our commitment to improving the services offered to our service users.
For the rate of delayed transfers of care from hospital (delayed bed days – Adult Social Care only), there have been some recent improvements in our working arrangements including more collaborative working with the NHS and operational improvements such as the majority of hospital discharges now going through the re-ablement service. This has resulted in a significant improvement in our performance, including Merton achieving the second best performance in London in January 2018

Environmental and Regeneration Department

The Department is embedding the transformation following the significant changes in the delivery of services required to meet the Authority's financial challenges whilst supporting its ambition to become London's Best Council.

Following the externalisation of core services including Waste Collection, Street Cleaning, Parks and Vehicle Maintenance, the department has moved from being a direct provider to acting in a clienting/ commissioning role. With the neighbouring boroughs in the South London Waste Partnership (SLWP), major long-term contracts have been signed with experienced providers. This shift to commissioning will continue, ensuring quality services are contracted effectively from third parties in many service areas.

The Department has also built on the services that are provided in conjunction with other local authorities. The well-established and successful Regulatory Services Partnership with the London Borough of Richmond has been expanded to include the London Borough of Wandsworth in the last year.

Another key departmental priority is the Place Shaping Agenda – working to deliver growth and regeneration across the Borough and improving the management of public space. Key progress here has been the establishment of Merantun Developments, a wholly owned Local Authority Housing Company which will develop sites for housing over the coming years. Three estate regeneration schemes delivering over 2,500 new homes have received planning consent and move closer to delivery, and plans for the renewal of Morden Town centre are advancing.

The performance indicators above support the conclusion from review of all indicators that the principal services of the Department - those that are of most concern to residents are improving and moving closer to the contract standards set and the expectations of residents. The cleanliness of the Borough, the effectiveness of the refuse collection service and the efficiency of the administrative role of the Authority are all high priorities.

4. Statement of Accounts

The Statement of Accounts is comprised of the following statements:

- **Core Financial Statements**

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

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

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

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

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

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

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

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

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

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

Core Financial Statements

1. Comprehensive Income and Expenditure Statement

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

2016/17 (Restated)				2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
			Continuing Operations			
222,317	(160,665)	61,652	Children, Schools and Families	224,986	(164,367)	60,619
87,757	(18,345)	69,412	Community and Housing	87,178	(18,914)	68,264
118,176	(105,962)	12,214	Corporate Services	114,394	(102,129)	12,265
62,931	(33,714)	29,217	Environment and Regeneration	59,649	(37,356)	22,293
11,120	(11,356)	(236)	Public Health	11,511	(11,002)	509
502,301	**(330,042)**	**172,259**	**Cost of services**	**497,718**	**(333,768)**	**163,950**
		(868)	Other operating income and expenditure (Note 3)			(3,068)
		19,159	Financing and investment income and expenditure (Note 4)			17,009
		(168,743)	Taxation and non-specific grant income (Note 5)			(167,481)
		21,807	**Deficit on Provision of Services**			**10,410**
		(14,782)	(Surplus) or deficit on revaluation of non-current assets (Note 17)			(21,449)
		1,793	Impairment losses on non-current assets (Note 17)			0
		92,839	Re-measurement of the net defined benefit liability/(asset) (Notes 17 & 32)			(41,898)
		79,850	**Other Comprehensive Income and Expenditure**			**(63,347)**
		101,657	**Total Comprehensive Income and Expenditure**			**(52,937)**

2. Movement in Reserves Statement

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

	General Fund Balances	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2016 (Restated)	(67,345)	(29,582)	(4,153)	(101,080)	(232,604)	(333,684)
Movement in reserves during 2016/17						
Total Comprehensive Income and Expenditure	21,807			21,807	79,850	101,657
Adjustments between accounting basis & funding basis under regulations (Note 18)	(16,591)	6,596	(3,098)	(13,093)	13,093	
(Increase)/Decrease in Year	5,216	6,596	(3,098)	8,714	92,943	101,657
Balance at 31 March 2017 carried forward	**(62,129)**	**(22,986)**	**(7,251)**	**(92,366)**	**(139,661)**	**(232,027)**

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

3. Balance Sheet

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

1st April 2016 (Restated) £000	31 March 2017 (Restated) £000		Notes	31 March 2018 £000
681,009	686,865	Property, Plant & Equipment	19	724,092
669	802	Heritage Assets	21	802
5,000	5,000	Long Term Investments	9 & 10	4,500
1,291	1,379	Intangible Assets	20	4,301
8,095	8,510	Long Term Debtors	7	7,590
696,064	**702,556**	**Long Term Assets**		**741,285**
80,873	66,030	Short Term Investments	9 & 10	55,193
46	35	Inventories	36	1
30,225	30,049	Short Term Debtors	7	31,373
7,288	7,000	Assets Held for Sale	22	1,183
23,311	30,410	Cash and Cash Equivalents	14	30,434
141,743	**133,524**	**Current Assets**		**118,184**
(16,178)	(15,145)	Short Term Borrowing	9 & 10	(1,487)
(59,345)	(61,701)	Short Term Creditors	8	(62,964)
(1,445)	(757)	Current Provisions	11	(641)
(76,968)	**(77,603)**	**Current Liabilities**		**(65,092)**
(6,516)	(5,518)	Provisions	11	(5,368)
(116,976)	(113,010)	Long Term Borrowing	9 & 10	(113,010)
(32,347)	(30,940)	Other Long Term Liabilities	9	(29,778)
(263,154)	(368,108)	Pension Liability	32	(350,088)
(8,162)	(8,874)	Capital Grants Receipts in Advance	6	(11,169)
(427,155)	**(526,450)**	**Long Term Liabilities**		**(509,413)**
333,684	**232,027**	**Net Assets**		**284,964**
(101,080)	(92,366)	Usable Reserves	16	(86,712)
(232,604)	(139,661)	Unusable Reserves	17	(198,252)
(333,684)	**(232,027)**	**Total Reserves**		**(284,964)**

Signed

Caroline Holland
Director of Corporate Services
31st July 2018

4. Cash Flow Statement

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

2016/17 (Restated) £000		2017/18 £000
21,807	Net (surplus) or deficit on the provision of services	10,410
(43,821)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 15a)	(42,875)
25,493	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 15b)	24,917
3,479	Net Cash flows from Operating Activities (note 15c)	(7,548)
(14,364)	Investing Activities (note 15d)	(6,056)
3,786	Financing Activities (note 15e)	13,580
(7,099)	Net (increase) or decrease in cash and cash equivalents	(24)
23,311	Cash and cash equivalents at the beginning of the reporting period	30,410
30,410	**Cash and cash equivalents at the end of the reporting period (Note 14)**	**30,434**

NOTES TO THE CORE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE

1. Expenditure and Funding Analysis

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

Expenditure and Funding Analysis 2017/18			
Department	**Net Expenditure Chargeable to General Fund Balances £000**	**Differences between General Fund and CIES £000**	**Net Expenditure in the CIES £000**
Children, Schools and Families	57,123	3,496	60,619
Community and Housing (including Public Health)	65,654	3,119	68,773
Corporate Services	8,963	3,302	12,265
Environment and Regeneration	16,810	5,483	22,293
Sub-total	**148,550**	**15,400**	**163,950**
Other income and expenditure	(147,141)	(6,399)	(153,540)
Deficit	**1,409**	**9,001**	**10,410**
Opening General Fund balances (Note 16)	(62,129)		
Closing General Fund balances (Note 16)	(60,720)		

Analysis of Differences between General Fund and CIES

Department	Accounting Basis and Funding Basis 2017/18				
	Adjustments for capital purposes (1)	Net change for pensions adjustments (2)	Other statutory adjustments (3)	Other presentational differences (4)	Total adjustments
	£000	£000	£000	£000	£000
Children, Schools and Families	(1,568)	9,535	(315)	(4,156)	3,496
Community and Housing (including Public Health)	407	2,798	23	(109)	3,119
Corporate Services	1,760	(778)	7	2,313	3,302
Environment and Regeneration	11,205	2,604	3	(8,329)	5,483
Sub-total of adjustments within net cost of services	**11,804**	**14,158**	**(282)**	**(10,281)**	**15,400**
Other income and expenditure	**(26,622)**	**9,718**	**224**	**10,281**	(6,399)
Total adjustments	**(14,818)**	**23,877**	**(58)**	**0**	**9,001**

1. Adjustments for capital purposes

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

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory Minimum Revenue Provision charge for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

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

2. Net change for the pensions adjustments

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

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.

3. Other statutory adjustments

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

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

4. Presentational differences

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

2016/17 Comparative Figures (Restated)

Expenditure and Funding Analysis 2016/17 (Restated)			
Department	Net Expenditure Chargeable to General Fund Balances £000	Differences between General Fund and CIES £000	Net Expenditure in the CIES £000
Children, Schools and Families	55,663	5,989	61,652
Community and Housing (including Public Health)	66,785	2,391	69,176
Corporate Services	9,011	3,203	12,214
Environment and Regeneration	22,698	6,519	29,217
Sub-total	**154,157**	**18,102**	**172,259**
Other income and expenditure	(148,941)	(1,511)	(150,452)
Deficit	**5,216**	**16,591**	**21,807**
Opening General Fund balances (Note 16)	(67,345)		
Closing General Fund balances (Note 16)	(62,129)		

2016/17 Comparative Figures (Restated)

Department	Adjustments for capital purposes (1) £000	Net change for pensions adjustments (2) £000	Other statutory adjustments (3) £000	Other presentational differences (4) £000	Total adjustments £000
	Accounting Basis and Funding Basis				
Children, Schools and Families	8,530	4,095	2,205	(8,841)	5,989
Community and Housing (including Public Health)	3,224	1,465	(39)	(2,259)	2,391
Corporate Services	4,874	(4,444)	(23)	2,796	3,203
Environment and Regeneration	13,171	1,856	(44)	(8,464)	6,519
Sub-total of adjustments within net cost of services	**29,799**	**2,972**	**2,099**	**(16,768)**	**18,102**
Other income and expenditure	(27,730)	9,144	308	16,768	(1,511)
Total adjustments	**2,069**	**12,116**	**2,406**	**0**	**16,591**

2. EXPENDITURE AND INCOME BY NATURE

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

	2016/17 Restated £000	2017/18 £000
EXPENDITURE		
Employee expenses*	206,742	206,851
Other service expenses	268,820	274,986
Depreciation, Impairment losses and revaluation increases – (Note 18)	27,124	15,791
Support Service Recharges	(385)	(379)
Interest Payments (Note 9)	10,137	10,083
Precepts & Levies (Note 3)	928	933
Interest on net defined benefit liability (asset) (Note 32)	9,144	9,718
Loss on disposal of academies (Note 4)	3,049	0
Trading accounts deficit (Note 35)	522	178
Total Expenditure	**526,081**	**518,161**
INCOME		
Fees, charges and other service income	(71,683)	(73,609)
Interest & investment income (Note 9)	(1,621)	(1,630)
Taxation & non-specific grant income (Note 5)	(168,743)	(167,481)
Government grants (Note 6)	(258,359)	(259,691)
Gain or loss on disposal of fixed assets (Note 3)	(1,796)	(4,001)
Other finance and investment income	(2,072)	(1,340)
Total Income	**(504,274)**	**(507,752)**
Deficit on the Provision of Services	**21,807**	**10,409**

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

Employee Expenditure	2016/17 £'000	2017/18 £'000
VA Schools	29,171	31,852
Foundation Schools	5,950	5,953
Total	**35,121**	**37,805**

A segmental analysis of certain types of income and expenditure is shown below:

2017/18 Segmental Analysis	Fees, charges and other service income	Revenues from transactions with other operating segments of the authority	Depreciation, amortisation and revaluations
	£000	£000	£000
Children, Schools and Families	(4,097)	5,247	1,775
Community and Housing	(17,414)	4,710	476
Corporate Services	(16,236)	(15,513)	2,000
Environment and Regeneration	(35,862)	5,177	11,540
Total	**(73,609)**	**(379)**	**15,791**

2016/17 Segmental Analysis	Fees, charges and other service income	Revenues from transactions with other operating segments of the authority	Depreciation, amortisation and revaluations (Restated)
	£000	£000	£000
Children, Schools and Families	(5,455)	4,846	7,642
Community and Housing (including Public Health)	(15,587)	5,100	1,520
Corporate Services	(17,325)	(16,669)	4,874
Environment and Regeneration	(33,316)	6,338	13,088
Total	**(71,683)**	**(385)**	**27,124**

3. OTHER OPERATING INCOME AND EXPENDITURE

2016/17 (Restated) £000		2017/18 £000
928	Precepts and Levies	933
(1,796)	(Gains)/ losses on the disposal of non-current assets	(4,001)
(868)	**Total**	**(3,068)**

4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2016/17 £000		2017/18 £000
10,137	Interest payable and similar charges (Note 9)	10,083
9,144	Net interest on defined pension liability (Note 32)	9,718
(1,621)	Interest receivable and similar income (Note 9)	(1,630)
522	Trading accounts not related to services (Note 35)	178
3,049	Loss on the disposal of academies	0
(2,072)	Other (income)/expenditure	(1,340)
19,159	**Total**	**17,009**

5. TAXATION AND NON-SPECIFIC GRANT INCOMES

2016/17 (Restated) £000		2017/18 £000
(82,394)	Council tax income (see Note 6)	(84,579)
(25,880)	Non domestic rates (see Note 6)	(26,174)
(44,255)	Non-ringfenced government grants (see Note 6)	(40,651)
(16,214)	Capital grants and contributions (see Note 6)	(16,077)
(168,743)	**Total**	**(167,481)**

6. GRANT INCOME

The London Borough of Merton credited the following grants, contributions, donations and taxation income to the Comprehensive Income and Expenditure Statement in 2017/18:

	2016/17 (Restated) £000	2017/18 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	(82,394)	(84,579)
Revenue Support Grant	(23,156)	(15,519)
Business Rates	(25,880)	(26,174)
Top-up Grant	(7,906)	(8,901)
Capital Grant Income	(16,214)	(16,077)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(4,734)	(4,148)
Section 31 Grant	(817)	(1,706)
Education Service Grant	(2,350)	(1,592)
Adult Social Care Grant	0	(3,497)
Other grants under £1 million	(495)	(491)
Total	**(168,743)**	**(167,481)**
Credited to Services		
Grants over £1million		
Schools Delegated Budget	(138,705)	(142,860)
Housing Benefits Subsidy	(87,302)	(82,137)
Public Health Grant	(10,998)	(10,727)
Benefits Administration	(985)	(909)
Pupil Premium	(5,875)	(5,921)
Sixth Form Funding	(5,436)	(5,530)
Universal Infant Free School Meals	(2,347)	(2,306)
Adult Education Main	(1,075)	(1,111)
Total grants under £1million*	(5,636)	(8,190)
Total Grants	**(258,359)**	**(259,691)**
Contributions over £1million		
Contributions from CCG	(1,165)	(2,552)
Registered Nursing Care Contribution	(59)	(47)
Local Taxation Services	(972)	(925)
Shared Legal Service	(7,059)	(3,390)
Recharge for out of borough SEN support	(1,001)	(469)
Total contributions under £1million	(8,725)	(7,960)
Total Contributions	**(18,981)**	**(15,343)**
TOTAL GRANTS AND CONTRIBUTIONS	**(277,340)**	**(275,033)**

*Includes grant income credited to services to fund REFCUS.

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

Long Term Liabilities - Capital Grants Receipts in Advance

	2016/17	2017/18
	£000	£000
1. Government Grants and Other Contributions	(353)	(357)
2. Section 106	(8,067)	(10,380)
3. Schools Capital Grants	(454)	(432)
Total	**(8,874)**	**(11,169)**

DEBTORS, CREDITORS AND CASH FLOWS

7. DEBTORS

Gross Debt £000	Impairment £000	31 March 2017 Net Debt £000		Gross Debt £000	Impairment £000	31 March 2018 Net Debt £000
			Long Term Debtors			
741	0	741	Other local authorities	705	0	705
14,153	(6,384)	7,769	Bodies external to general government	11,759	(4,874)	6,885
14,894	**(6,384)**	**8,510**	**Total Long Term Debtors**	**12,464**	**(4,874)**	**7,590**
			Short Term Debtors			
4,144	0	4,143	Central government bodies	4,902	0	4,902
1,707	0	1,707	NHS bodies	454	0	454
170	0	170	Public corporations and trusts	0	0	0
1,480	0	1,480	Other local authorities	1,700	0	1,700
31,995	(9,447)	22,548	Bodies external to general government	36,297	(11,980)	24,317
39,496	**(9,447)**	**30,049**	**Total Short Term Debtors**	**43,353**	**(11,980)**	**31,373**
54,390	**(15,831)**	**38,559**	**Total Debtors**	**55,817**	**(16,854)**	**38,963**

Financial Instruments in Debtors

Gross Debt (Restated) £000	Impairment (Restated) £000	31 March 2017 Net Debt (Restated(*) £000		Gross Debt £000	Impairment £000	31 March 2018 Net Debt £000
			Long Term Debtors			
741	0	741	Other local authorities	705	0	705
7,315	(522)	6,793	Bodies external to general government	6,324	(354)	5,970
8,056	**(522)**	**7,534**	**Total Long Term Debtors**	**7,029**	**(354)**	**6,675**
			Short Term Debtors			
1,707	0	1,707	NHS bodies	454	0	454
140	0	140	Public Corporations and Trusts	0	0	0
1,480	0	1,480	Other Local Authorities	1,669		1,669
18,159	(2,438)	15,721	Bodies external to general government	19,979	(3,087)	16,892
21,486	**(2,438)**	**19,048**	**Total Short Term Debtors**	**22,102**	**(3,087)**	**19,015**
29,542	**(2,960)**	**26,582**	**Total Financial Instruments in Debtors**	**29,131**	**(3,441)**	**25,690**

(*) The 1617 figures for gross debtors qualifying to be financial instruments have been revised downwards from £34.812m to £29.542m, a reduction of £5.270m. This reduction is mainly due to the removal of payments in advance (£5.42m) and statutory and other debtors (£0.140m CR)..The 1718 analysis is consistent with the 1617 revised figures.

8. CREDITORS

31 March 2017 £000		31 March 2018 £000
	Short Term Creditors	
(12,551)	Central government bodies	(8,341)
(3,955)	Other local authorities	(10,080)
(1,554)	NHS bodies	(872)
(223)	Public Corporations and Trusts	(98)
(43,418)	Bodies external to general government	(43,573)
(61,701)	**Total Short Term Creditors**	**(62,964)**

Financial Instruments in Creditors

31 March 2017 Restated (*) £000		31 March 2018 £000
	Short Term Creditors	
(0)	Central government bodies	(0)
(3,955)	Other local authorities	(9,962)
(1,554)	NHS bodies	(837)
(223)	Public Corporations and Trusts	(98)
(28,950)	Bodies external to general government	(27,206)
(34,682)	**Total Financial Instruments in Short Term Creditors**	**(38,103)**

(*) The 1617 figures have been reduced from £39.376m to £34.682m,a reduction of £4.694m, because they no longer include the year end liability to HMRC for tax and national insurance, which is a balance arising from statutory arrangements. The 1718 analysis is consistent with the 1617 analaysis.

9. FINANCIAL INSTRUMENTS

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

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

Categories of Financial Instruments

	Long-term (Restated)		Current (Restated)	
	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000
Investments				
Loans and receivables	5,000	4,500	66,030	55,193
Total investments	**5,000**	**4,500**	**66,030**	**55,193**
Debtors				
Loans and receivables	8,056	7,029	21,486	22,102
Total debtors	**8,056**	**7,029**	**21,486**	**22,102**
Borrowings				
Financial liabilities at amortised cost	113,010	113,010	15,145	1,487
Total borrowings	**113,010**	**113,010**	**15,145**	**1,487**
Other Liabilities				
PFI and Finance Lease Liabilities	30,841	29,851	1,560	1,455
Total other liabilities	**30,841**	**29,851**	**1,560**	**1,455**
Creditors				
Other Financial liabilities at amortised cost	0	0	33,122	36,648
Total creditors	**0**	**0**	**33,122**	**36,648**

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

Income, Expense, Gains and Losses

	2016/17			2017/18		
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Total £000
Interest Expense - Borrowings	6,805	0	6,805	6,592	0	6,592
Interest Expense - Finance Leases	3,302	0	3,302	3,473	0	3,473
Losses on Derecognition	0	0	0	0	0	0
Reductions in Fair Value	0	0	0	0	0	0
Impairment Losses	0	0	0	0	0	0
Fee Expenses	29	0	29	18	0	18
Total Expenses in Surplus or Deficit on the Provision of Services	**10,137**	**0**	**10,137**	**10,083**	**0**	**10,083**
Interest Income – Investments net of interest paid on fund balances	0	(828)	(828)	0	(762)	(762)
Interest Income - Finance Leases	0	(793)	(793)	0	(868)	(868)
Interest income accrued on impaired financial assets	0	0	0	0	0	0
Increase in fair values	0	0	0	0	0	0
Gains on derecognition	0	0	0	0	0	0
Fee Income	0	0	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	**0**	**(1,621)**	**(1,621)**	**0**	**(1,630)**	**(1,630)**
Gains on revaluation	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0	0
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**
Net gain/loss for the year	**10,137**	**(1,621)**	**8,516**	**10,083**	**(1,630)**	**8,453**

Investments

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

Investment Profile		31 March 2017 £000	31 March 2018 £000
Long term		5,000	4,500
Short term		65,900	55,000
Accrued Investment Income		130	193
Total		**71,030**	**59,693**
Investments - Movement in year			**£000**
Investments at 1 April 2017			**71,030**
Change in investment managed internally			(11,400)
Change in accrued investment income			63
Investment at 31 March 2018			**59,693**
Long term investment (book value)			4,500
Short term investment (book value)			55,000
	Book Value £000	**Fair Value £000**	**Unrealised Profits/(Losses) £000**
Managed Internally	59,500	59,500	0
Managed Externally			0
Total	**59,500**	**59,500**	**0**

Fair Value of Assets and Liabilities

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

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

The fair value of the Authority's investments is greater than the book value because the Council's portfolio of assets includes a number of fixed rate investments where the interest rate receivable is higher than the rates available for similar investments in the market at the balance sheet date. This shows a notional future gain based on economic conditions at 31st March 2018 arising from counter-parties' commitment to pay interest to the Council above current market rates.

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

The methods and assumptions used in the valuation technique were:

- For Public Works Loan Board (PWLB) debt, fair values as at 31st March 2018 published by PWLB have been used.
- For other market debt, Net Present Value (NPV) methodology has been used, which provides an estimate of the value of future payments in today's terms. The discount rate used in the NPV calculation is usually equal to the current rate in relation to the same instrument from a comparable lender and would be the rate applicable in the market on the date of valuation, for an instrument with the same duration date to maturity.

Borrowing at source - Fair Value	31 March 2017		31 March 2018	
	Fair Value £000	Book Value £000	Fair Value £000	Book Value £000
Public Works Loan Board	70,307	52,010	68,400	52,010
Market Loan	107,355	63,000	102,239	61,000
Temporary Loan	9,998	10,000	0	0
Stock Loan	2,077	1,966	0	0
Total	**189,737**	**126,976**	**170,639**	**113,010**

Borrowing - Maturity Profile	31 March 2017 £000	31 March 2018 £000
Less than 1 year	13,966	0
Between 1 and 2 years	0	0
Between 2 and 5 years	4,000	4,310
Between 5 and 10 years	26,510	30,700
More than 10 years	82,500	78,000
Total Borrowings	**126,976**	**113,010**
Accrued Interest	1,179	1,487
	128,155	**114,497**

The balance sheet figures are based upon the maturity profile of borrowings. No early repayment or impairment is recognised. For instruments with maturity of less than 12 months or trade or other receivables, their fair value is assessed as the carrying or billed amount. The fair value of the Council's total liabilities is greater than the carrying amount because the Council's loans portfolio includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. This comparison demonstrates a notional future loss as at 31st March 2018 as a consequence of a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £68.4m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. The Authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets.

10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Credit Risk

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

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the Authority's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2017/18 were as follows:

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

In addition to deposits in higher rated deposit-takers, the Authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities. At 31st March 2018 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Fitch Rating
UK Clearing Banks	32,000	53.8%	7	F1, A, a-,1
UK Building Society	13,000	21.8%	3	F1, A, a-,1
Local Authority	0	0.0%	1	n/a
Pooled Property Fund	10,000	16.8%	1	AAAmmf
Non UK Banks	4,500	7.6%	1	AAA
Total	**59,500**	**100.0%**	**13**	

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

Current Deposits and Trade Debtors
No losses or impairments were incurred in 2017/18, nor are expected for the duration of current deposits. The Authority does not generally allow credit for customers. The Authority's maximum potential exposure to credit risk is with trade debtors, which are reviewed individually to assess risk of default and need for a provision. Factors taken into account in the assessment include the stability of the organisation, the size of the debt, the age of the debt and what, if any, security such as a charge on property has been provided. The past-due amount of trade debts can be analysed by age as follows:

	31 March 2017	31 March 2018
	£000	£000
< 3 months	9,327	6,547
3 to 12 months	2,220	5,361
> 1 year	3,360	4,251
Total	**14,907**	**16,159**

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

Liquidity Risk

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

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

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

	31 March 2017		31 March 2018	
	£000	%	£000	%
Under 12 months	13,966	11.0%	0	0.0%
1yr to 2yrs	0	0.0%	0	0.0%
2yrs to 5yrs	4,000	3.1%	4,310	3.8%
5yrs to 10yrs	26,510	20.9%	30,700	27.2%
10yrs and over	82,500	65.0%	78,000	69.0%
Total	**126,976**	**100%**	**113,010**	**100%**

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

LOBO debt exposure with market rates of:	Prospectively repayable / requiring Re-finance £000	Proportion of total debt %
4.00 - 4.99%	5,000	4.4
5.00 - 5.99%	24,000	21.2
6.00 - 6.99%	15,500	13.7
7.00 - 7.99%	2,000	1.8
8.00 - 8.99%	4,500	4.0
Total	**51,000**	**45.1**

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

At 31st March 2018 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows:

Maturity Profile of Investments	£000	%
April to June 2018	8,000	13.4
July to September 2018	18,000	30.3
October to December 2018	5,000	8.4
January 2019 to March 2019	14,000	23.5
April 2019 to June 2019	0	0.0
June 2019 to September 2019	0	0.0
October 2019 and beyond	14,500	24.4
	59,500	**100.0**

The Authority did not experience any liquidity problems in 2017/18 and does not anticipate any for 2018/19.

Interest Rate (or Market) Risk

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

- Borrowing at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement can rise or fall.

- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise or fall accordingly.

- Borrowing at fixed rates – the fair value of the borrowing liability will fall if market rates rise and increase if rates fall.

- Investments at fixed rates – the fair value of the assets will fall if rates rise and increase if rates fall.

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

	2017/18 £000	0.50% £000	1.00% £000	Mitigation
Borrowings	113,010	565	1,130	In the short term, a 0.5% or 1.0% rise in market interest rate is unlikely to have any impact on the existing debt portfolio because of the LOBO rates in the portfolio. On the other hand, should a 0.5% or 1.0% change in market interest rate be translated directly into a corresponding increase in investment rates, the existing investment portfolio will be affected to the extent by which the Authority is locked into its investments until maturity. A premium would be payable to unwind the fixed deposits.
Investments	(59,500)	(298)	(595)	
Impact on CIES	N/A	267	535	

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

Maturity in	At 31st March 2017		At 31st March 2018	
	£000	Interest Rate %	£000	Interest Rate %
Under 12 months	13,966	3.1	0	0.0
1 to 2 years	0	0.0	0	0.0
2 to 5 years	4,000	6.8	4,310	6.7
5 to 10 years	26,510	5.9	30,700	6.2
10 to 15 years	4,500	8.4	0	0.0
15 to 20 years	12,500	5.2	12,500	5.2
20 to 25 years	0	0.0	0	0.0
25 to 30 years	13,500	6.6	13,500	6.6
30 to 35 years	0	0.0	0	0.0
35 to 40 years	32,000	4.6	32,000	4.6
40 to 45 years	0	0.0	0	0.0
45 to 50 years	20,000	5.0	20,000	5.0
	126,976	**5.3**	**113,010**	**5.58**

Prudential Indicator Limits

Maximum % exposure to	2017/18	2018/19	2019/20	2020/2021
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

Investments

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

	2017/18	2018/19	2019/20	2020/2021
Maximum investment over 1 year as percentage of total investments	50	50	50	50

At 31st March 2018, the investment portfolio's exposure to interest rates is set out in the following table.

Deposit Maturity in:	At 31st March 2017		At 31st March 2018	
	£000	Interest Rate %	£000	Interest Rate %
0-3 months	8,000	0.4	8,000	0.6
3-6 months	21,900	0.4	18,000	0.6
6-9 months	8,000	1.0	5,000	0.9
9-12 months	23,000	0.8	14,000	0.8
over 12 months	10,000	2.5	14,500	2.4
	70,900	**0.9**	**59,500**	**0.9**

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

PFI Borrowing

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

Price Risk

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

Foreign Exchange Risk

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

Refinancing and Maturity Risk

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

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

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

Overall Procedures for Managing Risk

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

11. PROVISIONS

Short term provisions	2017/18 NDR Appeals £000
Balance at 1 April 2017	(757)
Additional provisions made in 2017/18	(138)
Amounts used in 2017/18	254
Balance at 31 March 2018	**(641)**

Long Term Provisions	2017//18 Insurance Fund £000	NDR Appeals £000	Total £000
Balance at 1 April 2017	**(4,175)**	**(1,343)**	**(5,518)**
Additional provisions made in 2017/18	(935)	(248)	**(1,183)**
Amounts used in 2017/18	882	451	**1,333**
Balance at 31 March 2018	**(4,228)**	**(1,140)**	**(5,368)**

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

NDR Appeals: The Collection Fund contains a provision of £5.936m for the estimated cost of appeals against NDR (Business Rates) charges which may be settled in future years.

The authority's share of this provision (30%) is £1.780m, £0.64m current and £1.14m non- current. During 2017/18, the authority's share of sums charged against this sum was £0.706m and its share of sums set aside to cover future appeals was £0.386m.

The balance of the appeals provision (70%, £4.155m) is held within the Collection Fund as part of consolidated balances for the GLA and MHCLG.

12. CONTINGENT LIABILITIES

There are three employment disputes with a maximum potential liability of £0.089m. There is also one claim for loss of earnings and damage to property (£0.261m) following flood at Council premises.

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

13. CONTINGENT ASSETS

There are no new contingent assets identified in 2017/18

14. CASH AND CASH EQUIVALENTS

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

31 March 2017 £000		31 March 2018 £000
11,989	Main bank account	(4,444)
739	Cash in transit (held by agents)	1,477
17,663	Cash advanced to schools	17,382
0	Short Term Deposits	16,000
19	Cash advanced to establishments (Cash imprests)	19
30,410	**Total Cash and Cash Equivalents**	**30,434**

15. CASH FLOWS

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

2016/17 Restated £000	ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS	2017/18 £000
	Non Cash Movements	
(18,824)	Depreciation	(19,246)
(7,762)	Revaluation (gain) loss (net)	3,947
(538)	Amortisation	(492)
(7,501)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(435)
(12,116)	Movement in Pension Liability	(23,877)
(925)	(Increase) in provision for the impairment of bad debts	(1,023)
1,686	(Increase)/decrease in Provisions	266
(45,980)		**(40,860)**
	Accruals Adjustments	
(11)	Increase/(decrease) in Inventories	(34)
1,164	Increase/(decrease) in Debtors	1,427
(343)	Increase/(decrease) in Interest Debtors	63
1,351	(Increase)/decrease in Creditors	(3,779)
(2)	(Increase)/decrease in Interest Creditors	308
2,159		**(2,015)**
(43,821)	**Total**	**(42,875)**

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

2016/17 £000	ADJUSTMENTS FOR ITEMS INCLUDED IN THE SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES	2017/18 £000
6,634	Proceeds from the sale of PP&E, investment property and intangible assets	5,247
18,859	Any other items for which the cash effects are investing or financing cash flows	19,670
25,493	**Total**	**24,917**

15c. Cash Flow Statement - Operating Activities

2016/17 £000	CASH FLOW STATEMENT - OPERATING ACTIVITIES	2017/18 £000
(4,663)	Cost of services – Payments less Receipts	(15,722)
(1,964)	Interest received from investments and finance leases	(1,583)
6,803	Interest paid on borrowings	6,284
3,302	Interest paid in respect of finance leases	3,473
3,479	**Net cash flows from operating activities**	**(7,548)**

15d. Cash Flow Statement - Investing Activities

2016/17 £000	CASH FLOW STATEMENT - INVESTING ACTIVITIES	2017/18 £000
26,370	Purchase of property, plant and equipment, investment property and intangible assets	32,555
383,400	Purchase of short-term and long-term investments	323,200
(6,634)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,247)
(397,900)	Proceeds from short-term and long-term investments	(334,600)
(19,600)	Other receipts from investing activities	(21,964)
(14,364)	**Net cash flows from investing activities**	**(6,056)**

15e. Cash Flow Statement - Financing Activities

2016/17 £000	CASH FLOW STATEMENT - FINANCING ACTIVITIES	2017/18 £000
0	Cash receipts of short and long term borrowing	0
1,249	Cash payments for the reduction of finance leases	1,138
5,000	Repayment of short- and long-term borrowing	13,351
(2,463)	Other payments/(receipts) from financing activities	(909)
3,786	**Net cash flows from financing activities**	**13,580**

RESERVES

16. USABLE RESERVES

Usable Reserves	Balance at 31 March 2016 £000	Transfers out 2016/17 £000	Transfers in 2016/17 £000	Balance at 31 March 2017 £000	Transfers out 2017/18 £000	Transfers in 2017/18 £000	Balance at 31 March 2018 £000
General Fund:							
Balances held by schools	(10,504)	2,258	0	(8,246)	426	0	(7,820)
General Fund Balances	(15,151)	2,373	0	(12,778)	0	0	(12,778)
Earmarked reserves	(41,690)	5,762	(5,177)	(41,105)	3,183	(2,200)	(40,122)
Total General Fund	**(67,345)**	**10,393**	**(5,177)**	**(62,129)**	**3,609**	**(2,200)**	**(60,720)**
Capital:							
Capital Receipts Reserves	(29,582)	12,993	(6,397)	(22,986)	12,001	(4,528)	(15,513)
Capital Grants Unapplied	(4,153)	830	(3,928)	(7,251)	185	(3,413)	(10,479)
Total Capital	**(33,735)**	**13,823**	**(10,325)**	**(30,237)**	**12,186**	**(7,941)**	**(25,992)**
Total Usable Reserves	**(101,080)**	**24,216**	**(15,502)**	**(92,366)**	**15,795**	**(10,141)**	**(86,712)**

General Fund Balance - This fund includes any surplus after meeting net expenditure on Council services.

Earmarked Reserves - Earmarked reserves are amounts set aside from the General Fund to provide financing for future expenditure plans. Also included in this note are amounts held by schools under delegated schemes and amounts set aside to meet future insurance claims. (see Note 11 for detail)

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

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

Transfers to/from Earmarked Reserves

Reserve	Balance at 31st March 2016 £000	Net Transfer (to)/from Reserve £000	Balance at 31st March 2017 £000	Net Transfer (to)/from Reserve £000	Balance at 31st March 2018 £000
Outstanding Council Programme Board	(6,281)	1,362	(4,919)	374	(4,545)
For use in future years' budgets	(5,865)	(1,924)	(7,789)	(2,472)	(10,261)
Revenue Reserve for Capital/Revenuisation	(7,747)	932	(6,815)	3,317	(3,498)
Renewable energy reserve	(1,522)	0	(1,522)	1	(1,523)
Repairs and renewals fund	(1,224)	77	(1,147)	57	(1,090)
Pension fund additional contribution	(63)	(434)	(497)	44	(453)
Local land charges	(1,645)	(258)	(1,903)	(135)	(2,038)
Apprenticeships	(406)	104	(302)	42	(260)
Community care reserve	(1,386)	0	(1,386)	(1)	(1,385)
Local welfare support reserve	(533)	90	(443)	67	(376)
Economic development strategy	(619)	518	(101)	99	(2)
Corporate services reserves	(290)	(486)	(776)	(995)	(1,771)
Wimbledon tennis courts renewal	(102)	(25)	(127)	(23)	(150)
Governor support reserve	(18)	(24)	(42)	14	(28)
Redundancy costs reserve	0	(600)	(600)	600	0
BRS Reserve	0	(870)	(870)	0	(870)
New homes bonus scheme	(1,037)	746	(291)	169	(122)
Adult social care contributions	(350)	350	0	(2,160)	(2,160)
Culture & environment contributions	(134)	120	(14)	0	(14)
Culture & environment grants	(413)	163	(250)	(267)	(517)
Children & education grants	(371)	65	(306)	(119)	(425)
Supporting people balances	(65)	65	0	0	0
Housing planning development grants	(101)	101	0	0	0
Housing GF grants	(106)	0	(106)	0	(106)
Public health grant reserve	(22)	(325)	(347)	347	0
Insurance reserves	(1,955)	0	(1,955)	0	(1,955)
DSG reserve	(4,369)	705	(3,664)	2,736	(928)
Refund of school PFI contributions	(100)	0	(100)	100	0
School standard Fund	0	(6)	(6)	(366)	(372)
Schools PFI fund	(4,601)	(226)	(4,827)	(421)	(5,248)
CFS Reserves	(365)	365	0	(25)	(25)
Grand Total	**(41,690)**	**585**	**(41,105)**	**983**	**(40,122)**

Purpose of Earmarked Reserves

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

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

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

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

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

Transforming families reserve: The reserve is held to fund central government's troubled families' initiative.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Housing planning development grants; Funds are used to support housing planning developments.

Housing GF grants: Used to fund rent deposits for homeless people.

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

Insurance reserves: The Authority, in line with most other local authorities, self-insures for claims up to a certain value. The insurance reserve is held for this purpose.

DSG reserve: The reserve holds prior year underspends on the Dedicated Schools Grant. It is used to fund projects determined by the Schools Forum.

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

Refund of schools' PFI contributions: To fund the reimbursement of previous overpayments, made by three schools to the Authority, towards the Private Finance Initiative Scheme (see Note 27).

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

17. UNUSABLE RESERVES

31 March 2017 (Restated) £000		31 March 2018 £000
(300,386)	Revaluation Reserve	(317,688)
(205,491)	Capital Adjustment Account	(228,718)
368,109	Pensions Reserve	350,088
(5,481)	Deferred Capital Receipts Reserve	(5,465)
(1,395)	Collection Fund Adjustment Account	(1,171)
4,983	Accumulated Absences Account	4,701
(139,661)	**Total Unusable Reserves**	**(198,253)**

Revaluation Reserve

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

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

2016/17 (Restated) £000			2017/18 £000	
	(84,678)	**Balance at 1st April**		**(300,386)**
	(211,505)	Correction to opening balance		
	(296,183)	Revised Opening Balance at 1st April		
(18,148)		Upward revaluation of assets	(48,821)	
5,160		Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	27,372	
	(12,988)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(21,449)
5,655		Difference between fair value depreciation and historical cost depreciation	4,101	
3,130		Accumulated gains on assets sold or scrapped	46	
	8,785	Amount written off to the Capital Adjustment Account		4,147
	(300,386)	**Balance at 31st March**		**(317,688)**

Capital Adjustment Account

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

2016/17 (Restated) £000			2017/18 £000	
	(187,067)	**Balance at 1st April**		**(205,491)**
	(8,371)	Correction to opening balance		
	(195,437)	Revised Opening Balance at 1st April		
	(8,785)	Amounts written out of the Revaluation Reserve		(4,147)
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
18,824		Charges for depreciation and impairment of non-current assets	19,246	
10,146		Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance	3,250	
(2,384)		Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year	(7,197)	
538		Amortisation of intangible assets	492	
3,200		Revenue expenditure funded from capital under statute	3,620	
7,501		Amounts of non-current assets written off on derecognition or sale as part of gain/loss on disposal	435	
	37,825			19,846
	29,040	**Net reversal of the cost of non-current assets consumed in the year**		**15,699**
		Capital financing applied in the year:		
(12,993)		Use of Capital Receipts Reserve to finance new capital expenditure	(12,001)	
(15,791)		Application of grants and contributions to capital financing om the Capital Grants Unapplied Account	(16,443)	
(8,616)		Statutory provision for the financing of capital investment charged against the General Fund	(6,789)	
(1,842)		Capital expenditure charged against the General Fund	(3,786)	
	(39,242)			**(39,019)**
	149	Loan Repayments		92
	(205,491)	**Balance at 31st March**		**(228,718)**

Pensions Reserve

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

2016/17 £000		2017/18 £000
263,154	**Balance at 1st April**	**368,109**
92,839	Remeasurements of the net defined benefit liability/asset	(41,898)
29,906	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Provision of Services in the Comprehensive and Expenditure Statement	40,466
(17,790)	Employer's pensions contributions and direct payments to pensioners payable in the year	(16,589)
368,109	**Balance at 31st March**	**350,088**

Deferred Capital Receipts Reserve

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

2016/17 £000		2017/18 £000
(5,319)	**Balance at 1st April**	**(5,481)**
(176)	Correction of balance relating to previous years	0
14	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	16
(5,481)	**Balance at 31st March**	**(5,465)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2016/17 £000		2017/18 £000
(1,703)	**Balance at 1st April**	**(1,395)**
308	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory Requirements	224
(1,395)	**Balance at 31st March**	**(1,171)**

Accumulated Absences Account

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

2016/17 £000		2017/18 £000
2,884	**Balance at 1st April**	**4,983**
(2,884)	Settlement or cancellation of accrual made at the end of the preceding year	(4,983)
4,983	**Amount accrued at 31st March**	**4,701**
2,099	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(282)

18. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2017/18

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(19,246)			19,246
Revaluation losses on Property Plant and Equipment	(3,250)			3,250
Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year	7,197			(7,197)
Amortisation of intangible assets	(492)			492
Revenue expenditure funded from capital under statute	(3,620)			3,620
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(435)			435
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	6,789			(6,789)
Capital expenditure charged against the General Fund balance	3,786			(3,786)
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	19,670		(3,228)	(16,442)
Application of grants to capital financing transferred to the Capital Adjustment Account				
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,436	(4,436)		0

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Use of the Capital Receipts Reserve to finance new capital expenditure	0	12,001	0	(12,001)
Repayment of debt	0	(92)	0	92
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(17)	0	0	17
Correction of balance relating to previous years	0	0	0	0
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	(40,466)	0	0	40,466
Employer's pensions contributions and direct payments to pensioners payable in the year	16,589	0	0	(16,589)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(224)	0	0	224
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	282	0	0	(282)
Total Adjustments	**(9,001)**	**7,473**	**(3,228)**	**4,756**

2016/17 Comparative Figures (Restated)	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the				
Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(18,824)	0	0	18,824
Revaluation losses on Property Plant and Equipment	(10,146)	0	0	10,146
Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year	2,384	0	0	(2,384)
Amortisation of intangible assets	(538)	0	0	538
Revenue expenditure funded from capital under statute	(3,200)	0	0	3,200
Amounts of non-current assets written off on disposal or	(7,501)	0	0	7,501
sale as part of the gain/loss on disposal to the				
Comprehensive Income and Expenditure Statement				
Other				
Insertion of items not debited or credited to the				
Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	8,615	0	0	(8,615)
Capital expenditure charged against the General Fund balance	1,842	0	0	(1,842)
Revaluation gains charged direct to Revaluation Reserve				
Adjustments primarily involving the Capital Grant				
Unapplied Account:				
Capital grants and contributions unapplied credited to the	18,889	0	(3,928)	(14,961)
Comprehensive Income and Expenditure Statement				
Application of grants to capital financing transferred to the	0	0	830	(830)
Capital Adjustment Account				
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the	6,249	(6,249)	0	0
gain/loss on disposal to the Comprehensive Income and				
Expenditure Statement				

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Use of the Capital Receipts Reserve to finance new capital expenditure	0	12,993	0	(12,993)
Use of Capital Receipts Reserve to finance debt premium				
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				
Repayment of debt	0	(149)	0	149
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14)	0	0	14
Correction of balance relating to previous years	176	0	0	(176)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	(29,906)	0	0	29,906
Employer's pensions contributions and direct payments to pensioners payable in the year	17,790	0	0	(17,790)
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(308)	0	0	308
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,098)	0	0	2,098
Total Adjustments	**(16,590)**	**6,595**	**(3,098)**	**13,093**

CAPITAL

19. PROPERTY, PLANT AND EQUIPMENT

Prior Period Adjustment

Background: The Accounting Code requires that the authority must restate material prior period errors. (Code of Practice paragraph 3.3.2.18). The authority values specialised assets at Depreciated Replacement Cost (DRC) as an estimate of current value. These have a current value of £320m and form the majority of the authority's Property, Plant and Equipment (PPE) assets. During a review of audit working papers for 2017/18, these assets were found have been valued incorrectly. The authority has undertaken work to correct these valuations and this work has had a material effect on the authority's PPE valuation going back to financial year 2015/16.

Nature of the errors:

- The land values used particularly for DRC assets were industrial values as opposed to residential values. Due to the location of these land and buildings, residential land values should be used.
- The remaining useful life for valuation purposes was too long in some cases. It is now capped at remaining life of 40 years for older buildings (pre 1970) and total life of 60 years for newer buildings (post 1970).
- A discount factor was applied to the valuation when it was not required.

Accounting Requirements: The Accounting Code requires that when an authority corrects for a prior period error, it should present an additional balance sheet at the beginning of the preceding period where those adjustments have a material effect on the information in the third balance sheet. The authority has therefore prepared restated balance sheets as at 1st April 2016 and also as at 31st March 2017. The information for 2016/17 in the other core statements- the Comprehensive Income and Expenditure Account, the Movement in Reserves Statement and the Cash Flow Statement - has also been restated. The 2016/17 comparative information in relevant disclosure notes has also been changed.

Scale of adjustment: The corrections in the value of Property, Plant and Equipment have led to an increase in their value of £219.9m as at 31st March 2016 and £173.7m as at 31st March 2017 when compared to those previously reported in the audited accounts. These changes in the value of the Councils assets have been matched by a net increase in the authority's unusable reserves.

Details: The details of the changes in the previous years' accounts are set out in the following tables.

The first table, "Assets valued at DRC" shows the difference in each year between the unadjusted Net Book Value of DRC assets, the value following the revaluation exercise and their effect on Unusable Reserves. The second table, "Content of change" summarises the nature of the corrections. The overall change reflects timing differences wherein the upward revaluation is showing more in 2016/17 accounts and less in 2017/18 accounts. The third shows the impact of the changes on the Comprehensive Income and Expenditure Account.

Table 1 Assets valued at DRC -

	Net Book Value Original (£000)	Net Book Value restated (£000)	Change in net book value - cumulative (£000)
1st April 2016	252,025	471,901	219,876
31st March 2017	302,734	476,480	173,746

Charged to:

	Revaluation Reserve (£000)	Capital Adjustment Account (£000)	Change in book value in year (£000)
1st April 2016	211,505	8,371	219,876
31st March 2017	(40,024)	(6,106)	(46,130)

Table 2 Content of change

	1st April 2016 £000	31st March 2017 £000	Total £000
Revaluation	219,876	(43,590)	176,286
Depreciation	0	(1,653)	(1,653)
Derecognition	0	(887)	(887)
Total change in Property Plant and Equipment (PPE)	219,876	(46,130)	173,746

Table 3 **Restated Comprehensive Income and Expenditure Account**

	2016/17 Original (£000)	2016/17 Restated (£000)	Change Including rounding (£000)
Cost of Services	162,504	172,259	9,755
(Surplus) or deficit on provision of services	11,164	21,807	10,643
Other Comprehensive Income and Expenditure	44,363	79,851	35,488
Total Comprehensive Income and Expenditure	55,527	101,658	46,130

Depreciation

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

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

Amortisation

Intangible Assets are amortised over 5 years

Capital Commitments

At 31st March 2018, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 and future years totalling an estimated £11.5m (£11.3m at 31/03/2017).

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2017	569,717	15,410	164,286	0	7,026	3,536	759,975	132,721
Additions	10,734	2,690	7,327	513	0	7,153	28,417	765
Revaluation increase/(decreases) recognised in the Revaluation Reserve	9,583	0	0	0	300	0	9,883	(1,473)
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	4,482	(24)	0	(513)	0	0	3,945	0
Derecognition – Disposals	0	0	0	0	0	0	0	0
Derecognition – Other	(452)	(3,821)	(4,110)	0	0	0	(8,383)	0
Assets reclassified (to)/from held for Sale	5,817	0	0	0	0	0	5,817	0
Other – reclassifications	(15,533)	0	0	0	15,533	(2,720)	(2,720)	0
At 31 March 2018	584,348	14,255	167,503	0	22,859	7,969	796,934	132,013
Accumulated Depreciation and Impairment								
At 1 April 2017	2,977	7,236	62,897	0	0	0	73,110	0
Depreciation Charge	10,189	2,552	6,505	0	0	0	19,246	1,684
Depreciation written out to the Revaluation Reserve	(3,413)	0	0	0	0	0	(3,413)	0
Depreciation written out to the Surplus/Deficit on the Provision Services	(8,152)	(1)	0	0	0	0	(8,153)	(1,684)
Impairment Losses /(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – Disposals	0	0	0	0	0	0	0	0
Derecognition – Other	(43)	(3,795)	(4,110)	0	0	0	(7,948)	0
Other-reclassifications	0	0	0	0	0	0	0	0
At 31 March 2018	1,558	5,992	65,292	0	0	0	72,842	0
Net Book Value								
At 31 March 2018	**582,790**	**8,263**	**102,211**	**0**	**22,859**	**7,969**	**724,092**	**132,014**
At 31 March 2017	**566,740**	**8,174**	**101,390**	**0**	**7,026**	**3,536**	**686,865**	**132,721**

Comparative Movements in 2016/17 (Restated):

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2016	354,927	20,584	155,577	0	7,026	1,472	539,586	57,376
Correction of balance relating to previous years	214,597	(37)	0	0	0	0	214,560	73,430
Additions	12,416	2,694	8,709	916	0	2,064	26,799	75
Revaluation increase/(decreases) recognised in the Revaluation Reserve	2,465	0	0	0	0	0	2,465	1,917
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,411)	0	0	(916)	0	0	(8,327)	(77)
Derecognition – Disposals	(7,565)	(7,831)	0	0	0	0	(15,396)	0
Derecognition – Other	0	0	0	0	0	0	0	0
Assets reclassified (to)/from held for Sale	288	0	0	0	0	0	288	0
Completed assets under construction To Investment Properties	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
At 31 March 2017	569,717	15,410	164,286	0	7,026	3,536	759,975	132,721
Accumulated Depreciation and Impairment								
At 1 April 2016	9,334	12,444	56,673	0	0	0	78,451	1,218
Correction of balance relating to previous years	(5,289)	(37)	0	0	0	0	(5,326)	(1,218)
Depreciation Charge	10,021	2,580	6,223	0	0	0	18,824	354
Depreciation written out to the Revaluation Reserve	(10,741)	0	0	0	0	0	(10,741)	(354)
Impairment Losses/(reversals) Recognised in the Revaluation Reserve	(120)	0	0	0	0	0	(120)	0
Impairment Losses/(reversals) recognised in the Surplus /Deficit on the Provision of Services	(80)	0	0	0	0	0	(80)	0
Derecognition – Disposals	(147)	(7,751)	0	0	0	0	(7,898)	0
Derecognition – Other	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0
At 31 March 2017	2,978	7,236	62,896	0	0	0	73,110	0
Net Book Value								
At 31 March 2017	**566,739**	**8,174**	**101,390**	**0**	**7,026**	**3,536**	**686,865**	**132,721**

At 31 March 2016	345,593	8,140	98,904	0	7,026	1,472	461,133	56,158

20. INTANGIBLE ASSETS

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

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

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

	2016/17	2017/18
	Intangible Assets £000	Intangible Assets £000
Balance at start of year:		
Gross carrying amounts	2,973	2,431
Accumulated amortisation	(1,682)	(1,052)
Net carrying amount at start of year	**1,291**	**1,379**
Disposals:		
Gross carrying amounts	(1,168)	(796)
Accumulated amortisation	1,168	796
Additions:		
Purchases	626	694
Reclassified from assets under construction	0	2,720
Amortisation for the period	(538)	(492)
Net carrying amount at end of year	**1,379**	**4,301**
Comprising:		
Gross carrying amounts	2,431	5,049
Accumulated amortisation	(1,052)	(748)
	1,379	**4,301**

21. HERITAGE ASSETS

The authority's collection of Heritage Assets consists of Regalia and Art. Much of the art is on display within the Civic Centre and Libraries. The Regalia is not generally accessible other than when in use and the higher value items are stored securely. All Heritage Assets are held on the Balance Sheet at insurance value, which is based on market values. Valuations were carried out in February 2017 by qualified external valuers, Denham's, a Sussex based firm of auctioneer's founded in 1884. There are four items within the Art collection and nine items within the Regalia with a valuation of £20,000 or above. The highest value item is the Chain of Office of the Mayor of the former Borough of Wimbledon, which has been valued at £104,000.

The following table shows the carrying value of Heritage Assets held by the authority at the Balance Sheet date:

	Art Collection £000	Regalia & Ceremonial £000	Total Assets £000
Cost or Valuation			
1 April 2017	191	611	802
Additions	0	0	0
Disposals	0	0	0
Revaluations	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Service	0	0	0
Depreciation	0	0	0
31 March 2018	**191**	**611**	**802**

22. ASSETS HELD FOR SALE

	Current	
	2016/17 £000	2017/18 £000
Balance outstanding at start of year	**7,288**	**7,000**
Recognition	0	0
Assets reclassified (to)/from Other Land & Buildings	(288)	(5,817)
Balance outstanding at year end	**7,000**	**1,183**

23. IMPAIRMENT LOSSES

The Council carried out an impairment review in 2017/18, the result of which is that there were no impairment losses in 2017/18.
In 2016/17 there were impairment losses of £1.8m.

24. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2016/17 £000	2017/18 £000
Opening Capital Financing Requirement	198,616	190,000
Capital Investment		
Property, Plant and Equipment	26,800	28,417
Intangible Assets	626	694
Revenue Expenditure Funded from Capital Under Statute	3,200	3,620
Sources of Finance		
Capital receipts	(12,993)	(12,001)
Government grants and other contributions	(15,791)	(16,443)
Sums set aside from revenue:		
Direct revenue contributions	(1,842)	(3,786)
MRP	(8,616)	(6,789)
Closing Capital Financing Requirement	**190,000**	**183,712**
Decrease in underlying need to borrowing (unsupported by government financial assistance)	(8,616)	(6,788)
Assets acquired under finance leases	0	500
(Decrease) in Capital Financing Requirement	**(8,616)**	**(6,288)**

25. LEASES

Authority as Lessee

Finance Leases

In the past the Authority has acquired a variety of assets, including operational buildings and IT equipment, under finance leases. The last such lease for IT equipment has now ended and current policy is not to enter into any more. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2017 £000		31 March 2018 £000
2,871	Other Land and Buildings	5,492
162	Vehicles, Plant, Furniture and Equipment	12
3,033	**Total**	**5,504**

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

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

31 March 2017 £000		31 March 2018 £000
	Finance lease liabilities (net present value minimum lease payments):	
79	- current	36
390	- non current	819
1	Finance costs payable in future years	1,340
470	**Total minimum lease payments**	**2,195**

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000
Not later than one year	79	101	79	36
Later than one year and not later than five years	123	378	123	48
Later than five years	268	1,716	267	770
Total	**470**	**2,195**	**469**	**854**

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18, £0.134m contingent rents were payable by the Authority (2016/17 £0.264m).

Operating Leases

The authority has acquired Land, Buildings and Vehicles by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2017 £000		31 March 2018 £000
1,465	Not later than one year	1,469
5,670	Later than one year and not later than five years	5,876
6,023	Later than five years	4,494
13,158	**Total**	**11,839**

Authority as Lessor

Finance leases

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

The gross investment is made up of the following:

31 March 2017 £000		31 March 2018 £000
	Finance lease debtor (net present value of minimum lease payments):	
15	- current	16
5,469	- non current	5,453
19,729	Unearned finance income	19,404
2	Unguaranteed residual value of property	2
25,215	**Gross investment in lease**	**24,875**

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

	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000
Not later than one year	340	340	340	340
Later than one year and not later than five years	1,360	1,360	1,360	1,360
Later than five years	23,515	23,175	23,512	23,173
Total	**25,215**	**24,875**	**25,212**	**24,873**

The minimum lease payments receivable does not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18, £0.818m contingent rents were receivable by the authority (£0.738m in 2016/17).

Operating Leases

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

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

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

31 March 2017 £000		31 March 2018 £000
2,957	Not later than one year	4,757
9,858	Later than one year and not later than five years	19,029
26,951	Later than five years	13,096
39,765		**36,882**

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

SCHOOLS

26. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2015. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2017/18 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total Expenditure £'000
Final DSG for 2017/18 before Academy recoupment			162,535
Academy figure recouped for 2017/18			(19,675)
Total DSG figure after Academy recoupment for 2017/18			142,860
Plus: Brought forward from 2016/17			3,663
Less: Carry-forward to 2018/19 agreed in advance			(2,824)
Agreed initial budgeted distribution in 2017/18	21,187	122,512	143,699
In year adjustments			
Final budgeted distribution for 2017/18	**21,187**	**122,512**	**143,699**
Less: Actual central expenditure	(22,886)		(22,886)
Less: Actual ISB deployed to schools		(122,709)	(122,709)
Plus: Local authority contribution for 2017/18			0
Carry forward for 2017/18	**(1,699)**	**(197)**	**(1,896)**
Carry-forward to 2018/19 agreed in advance			2,824
Total carry forward 2018/19			**928**

The £0.928m balance is held in the DSG earmarked revenue reserve (see Note 16).

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

School Category		2016/17		2017/18	
		Number of Schools	Net surplus/ (deficit) £'000	Number of Schools	Net surplus/ (deficit) £'000
Maintained	Primary	29	3,463	28	2,776
	Secondary	2	1,676	2	1,586
Voluntary Aided	Primary	11	999	11	1,202
	Secondary	2	563	2	502
Foundation		1	316	1	325
Special Schools		4	1,229	4	1,429
Total		**49**	**8,246**	**48**	**7,820**

27. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

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

Value of Assets Held

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

	31 March 2017 Restated £000	31 March 2018 £000
Gross Value	132,721	132,013
Accumulated Depreciation	0	0
Net	**132,721**	**132,013**

Value of Liabilities

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

	Capital £000	Interest £000	Services £000	Total £000
Mar 2019	1,419	3,390	4,491	9,300
Apr 2019 - Mar 2024	8,700	16,763	25,371	50,834
Apr 2024 - Mar 2029	17,294	19,558	21,247	58,099
Apr 2029 - Mar 2030	3,038	3,900	7,440	14,378
Liability at 31st March 2018	**30,451**	**43,611**	**58,549**	**132,611**
Liability at 31st March 2017	**31,932**	**47,049**	**62,635**	**141,616**
Liability at 31st March 2016	**33,277**	**50,053**	**69,805**	**153,135**

Partial Termination

	Capital £000	Interest £000	Services £000	Total £000
Mar 2019 Apr 2019 - Mar 2024 Apr 2024 - Mar 2029 Apr 2029 - Mar 2030	735 4,547 6,430 1,575	924 3,749 1,866 84	0 0 0 0	1,659 8,296 8,296 1,659
Liability at 31st March 2018	**13,287**	**6,623**	**0**	**19,910**
Liability at 31st March 2017	**13,973**	**7,594**	**0**	**21,567**
Liability at 31st March 2016	**14,613**	**8,613**	**0**	**23,226**

Three Schools and One Academy

	Capital £000	Interest incl. Contingent Rent £000	Services £000	Total £000
March 2019 Apr 2019 - Mar 2014 Apr 2024 – Mar 2029 Apr 2029 – Mar 2030	684 4,153 10,864 1,463	2,466 13,014 17,692 3,816	4,491 25,371 21,247 7,440	7,641 42,538 49,803 12,719
Liability at 31st March 2018	**17,164**	**36,988**	**58,549**	**112,701**
Liability at 31st March 2017	**17,959**	**39,455**	**62,635**	**120,049**
Liability at 31st March 2016	**18,664**	**41,440**	**69,805**	**129,909**

MEMBERS, OFFICERS AND RELATED PARTIES

28. MEMBERS' ALLOWANCES

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

	2016/17 £000	2017/18 £000
Allowances	721	723
Total	**721**	**723**

29. OFFICERS' REMUNERATION

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

CIPFA guidance states that the disclosure should exclude staff where the authority is not the employer i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 58 voluntary aided and foundation school employees have been excluded from both 2017/18 and 2016/17 figures.

Remuneration Band £	2016/17 Teaching Staff	2016/17 Other Staff	2017/18 Teaching Staff	2017/18 Other Staff
50,000 – 54,999	76	50	80	57
55,000 – 59,999	36	21	32	29
60,000 – 64,999	22	16	20	7
65,000 – 69,999	8	18	13	17
70,000 – 74,999	11	16	3	14
75,000 – 79,999	8	3	10	9
80,000 – 84,999	5	2	4	5
85,000 – 89,999	1	4	1	2
90,000 – 94,999	4	3	3	5
95,000 – 99,999	0	2	3	0
100,000 – 104,999	0	0	0	1
105,000 – 109,999	0	1	0	1
110,000 – 114,999	0	1	0	0
115,000 – 119,999	1	1	1	1
120,000 – 124,999	1	0	0	0
125,000 – 129,999	0	0	1	0
130,000 – 134,999	0	0	0	0
135,000 – 139,999	0	3	0	3
140,000 – 144,999	0	0	0	0
145,000 – 149,999	0	0	0	0
150,000 – 154,999	0	0	0	0
155,000 – 159,999	0	0	0	0
160,000 – 164,999	0	0	0	0
165,000 – 169,999	0	0	0	0
170,000 – 174,999	0	0	0	0
175,000 – 179,999	0	0	0	0
180,000 – 184,999	0	0	0	0
185,000 – 189,999	0	1	0	1
Total	**173**	**142**	**171**	**152**

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the following table.

Exit package cost band (including special payments) £	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £	2017/18 £
0 - 20,000	58	32	19	42	77	74	423,316	566,119
20,001 - 40,000	6	5	4	6	10	11	295,896	328,470
40,001 - 100,000	1	2	3	1	4	3	193,314	178,834
TOTAL	**65**	**39**	**26**	**49**	**91**	**88**	**912,526**	**1,073,423**

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

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

The following table provides this detail for 2017/18 and 2016/17 with supporting sub-notes.

2016/17				Post holder information	2017/18			
Sub-Notes	Remuneration £	Employer's Pension contributions £	Total £		Sub-Notes	Remuneration £	Employer's Pension contributions £	Total £
6	186,682	25,972	**212,654**	Chief Executive Ged Curran	1	187,885	28,685	**216,570**
7	136,351	18,953	**155,304**	Director of Corporate Services Caroline Holland	2	137,713	20,932	**158,645**
8	109,522	0	**109,522**	Director of Community and Housing Simon Williams (Left - 31/07/17)	3	36,966	0	**36,966**
				Hannah Doody (Started - 10/7/17)		94,283	14,331	**108,614**
9	136,155	18,926	**155,081**	Director of Children, Schools and Families Yvette Stanley (Left - 31/03/18)	4	138,358	20,932	**159,290**
10	136,155	18,926	**155,081**	Director of Environment & Regeneration Chris Lee	5	137,713	20,932	**158,645**

Sub-notes 2017/18

2017/18

1. Mr G. Curran, Chief Executive, remuneration for 2017/18
   Two separate payments were received, totalling £7,139.43 for Acting Returning Officer duties at the General election on 8 June 2017, and Returning Officer duties at the St Helier by election on 20 July 2017.

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

3. Mr S. Williams, Director of Community and Housing, remuneration for 2017/18
   During 2017/18 the Director's contracted hours were the equivalent of 0.8 FTE. No payments received. He retired on 31st July 2017 and has been replaced by Ms Hannah Doody on 10th July 17 on an annualised salary of £129,901.

4. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2017/18. The figure includes untaken leave.
   One payment of £804.95 was received for Returning Officer Assistant and Polling Station Inspector duties at the General election on 8 June 2017.

5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2017/18.
   One payment of £874.63 was received for Returning Officer Assistant and Polling Station Inspector duties at the General election on 8 June 2017.

2016/17

6. Mr G. Curran, Chief Executive, remuneration was a salary of £186,682. Four additional separate payments were received, totalling £11,893, for Borough Returning Officer duties at the GLA election on 5th May 2016, Returning Officer duties at Figges Marsh and St Helier by elections on 5th May and 19th May 2016 respectively, and Counting Officer duties at the EU Referendum on 23rd June 2016. A further £800 payment was also received for Local Authority
   Gold Team duties.

7. Ms C. Holland, Director of Corporate Services, remuneration was a salary of £136,351. Two separate payments were received, totalling £4,004, for Deputy Borough Returning Officer duties at the GLA election on 5th May 2016, and Deputy Counting Officer duties at the EU Referendum on 23rd June 2016. A further £800 payment was also received for Local Authority Gold Team duties.

8. Mr S. Williams, Director of Community and Housing, remuneration was a salary of £109,522. During 2016/17 the Director's contracted hours were the equivalent of 0.8 FTE. Two additional separate payments were received, totalling £568, for Borough Returning Officer Assistant and Polling Station Inspector duties at the GLA election on 5th May 2016.

9. Ms Y. Stanley, Director of Children, Schools and Families, remuneration was a salary of £136,155. Two separate payments, totalling £568, were received

for Borough Returning Officer Assistant and Polling Station Inspector duties at the GLA election on 5th May 2016.

10. Mr C. Lee, Director of Environment and Regeneration, remuneration was a salary of £136,155. Four separate payments, totalling £870, were received for Borough Returning Officer Assistant and Polling Station Inspector duties at the GLA election on 5th May 2016, and for Counting Officer Assistant and Polling Station Inspector at the EU Referendum on 23rd June 2016.

30. RELATED PARTIES

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

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

Members
Members of the Authority have direct control over the financial and operating decisions of the Authority. The total of members' allowances paid in 2017/18 is shown in Note 28.

This disclosure note has been prepared using the Authority's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from members and senior officers. The Authority issued 61 standard letters to members; 56 have responded.

During 2017/18, members of the Authority (or members of their immediate family or household) had links with the following organisations, which undertook related party transactions with LBM to the gross value of £0.48m). The amounts disclosed below are those material to either party of the related party transaction (i.e. the Authority or the other entity).

Organisation	2017/18 £000
South Wimbledon Community Association Charity	9
Merton and Morden Guild	32
Friends in St Helier	30
Faith in Action	10
North East Mitcham Community Association	38
Wandle Valley Regional Park Trust	10
Actions for Children Services Ltd	351
Total	**480**

Senior Officers
Senior officers of the Authority also have direct control over the financial and operating decisions of the Authority. Senior officers are required to make a specific

declaration in respect of related party transactions. The Authority issued 28 standard letters to current senior officers; there have been 27 responses.

Three senior officers are directors of CHAS 2013 Ltd and two senior officers are directors of Merantun Development Ltd (See Note 34). Otherwise, senior officers within the Authority did not hold any positions in other organisations which would enable them to significantly influence the policies of the Authority and result in a related party transaction of a material nature.

Voluntary Organisations

The Authority made grants and payments totalling £0.48m to voluntary and other organisations whose senior management included members of the Authority (or members of their immediate family or household). These payments are summarised in the above disclosure on members' related party transactions. In all instances the grants were made with proper consideration of declarations of interest. The Authority's Register of Members' Interest is open to public inspection on the Authority's website.

Pension Fund

The Pension Fund is a separate entity from the authority with its own Statement of Accounts. In 2017/18 an administration fee of £0.460m was paid by the Fund to the Authority (£0.368m in 2016/17, see Pension Fund Accounts, Note 11).

Entities Controlled by the Authority

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

PENSION FUND

31. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. In 2017/18, the employer's contribution was 16.48% (16.48% average in 2016/17). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31st March 2018, the Authority's own contributions equate to approximately 0.1%.

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

The Authority also pays an employer's contribution of 14.30% (14.38% in 2016/17) to the NHS Pension Scheme, for staff who transferred to the Authority but remain in the NHS scheme. The NHS scheme was previously a defined benefit scheme, with staff benefits linked to their average earnings in the final ten years of employment. From 1st April 2015, it became a career average revalued earnings scheme.

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

	2016/17 £000	2017/18 £000
Authority's contribution to DfE teacher's pension scheme	8,612	8,633
Authority's contribution to NHS pension scheme	116	101

Assuming a 2.7% staff pay award in 2018/19, an estimate of the contributions to be paid in the next financial year would be:

DfE Teacher's Pension Scheme: £8.93m
NHS Pension Scheme: £0.12m

32. DEFINED BENEFIT PENSION SCHEMES

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

The Authority participates in two post-employment schemes:

- The Local Government Pension Scheme is administered locally by the London Borough of Merton, in accordance with the Local Government Pension Scheme Regulatory Framework 2015/16. This is a defined benefit scheme, whereby both the Authority and employees make contributions into a fund. The contributions are calculated with the aim of balancing pension liabilities and investment assets. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings, rather than final salary. The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2017/18, which governs the preparation of financial statements for Local Government Pension Scheme funds.
- Discretionary post-retirement benefits to fund early retirement. This is an unfunded defined benefit arrangement. Liabilities are recognised when awards are made but there is no accompanying investment built-up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

Transactions relating to Post-Employment Benefits

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

The cumulative remeasurement of the net defined benefit liability/asset recognised in the Comprehensive Income and Expenditure Statement is a gain of £41.898m (£92.839m loss in 2016/17).

	Local Government Pension Scheme	
	2016/17	2017/18
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service Cost	20,269	30,321
Administration	493	427
Finance and Investment Income and Expenditure		
Net interest on defined liability	9,144	9,718
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**29,906**	**40,466**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Remeasurements of the net defined benefit liability/asset	92,839	(41,898)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**122,745**	**(1,432)**
Movement in Reserves Statement:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(29,906)	(40,466)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	17,790	16,589

Assets and Liabilities in relation to Post-Employment Benefits

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

	Local Government Pension Scheme	
	2016/17 £000	2017/18 £000
Opening Defined Benefit Obligation	**745,771**	**966,736**
Current Service Cost	20,713	30,499
Interest Cost	26,479	25,879
Change in financial assumptions	189,704	(45,331)
Change in demographic assumptions	13,256	0
Experience loss/(gain) on defined benefit obligation	(9,271)	0
Liabilities extinguished on settlements	(3,008)	(1,620)
Estimated benefits paid net of transfers in	(21,162)	(19,088)
Past service costs including curtailments	675	682
Contributions by Scheme participants	5,290	4,912
Unfunded pension payments	(1,711)	(1,672)
Defined Benefit Obligation at end of period	**966,736**	**960,997**

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

	Local Government Pension Scheme	
	2016/17 £000	2017/18 £000
Opening fair value of Scheme assets	**482,618**	**598,628**
Interest on assets	17,335	16,161
Return on assets less interest	88,891	(3,433)
Other actuarial gains/(losses)	11,959	0
Actuarial gains (losses)	0	0
Administration expenses	(493)	(427)
Contributions by employer including unfunded	17,790	16,589
Contributions by Scheme participants	5,290	4,912
Estimated benefits paid plus unfunded net of transfers in	(22,873)	(20,760)
Settlement prices received/(paid)	(1,889)	(760)
Fair value of Scheme assets at end of period	**598,628**	**610,910**

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

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

	2016/17		2017/18	
LBM asset share - bid value	**£000**	**%**	**£000**	**%**
Equities	429,655	72	445,940	73
Gilts	144,647	24	140,946	23
Property	20,303	3	21,188	3
Cash	4,023	1	2,836	1
Total	**598,628**	**100**	**610,910**	**100**

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

Scheme History

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Present value of scheme liabilities The Local Government Pension Scheme (LGPS)	(589,722)	(630,064)	(748,920)	(722,264)	(937,022)	(932,840)
Unfunded Liabilities	(23,119)	(24,634)	(26,459)	(23,507)	(29,714)	(28,157)
Fair value of assets in the LGPS	417,967	430,372	481,560	482,618	598,628	610,910
Surplus / (Deficit) in the scheme	(194,874)	(224,326)	(293,819)	(263,153)	(368,108)	(350,087)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £350m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The Authority, through the advice of the actuary, provides additional employers contributions to the fund in support of the recovery of past service deficiencies over a twelve-year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

	2016/17	2017/18
Long Term expected rate of return on assets in the scheme:		
Mortality Assumptions		
Longevity at 65 for current pensioners retiring today at 65:		
Men	24.4	24.5
Women	26	26.1
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	26.6	26.8
Women	28.3	28.4
	%	%
Rate of Inflation	2.7	2.55
Rate of increase in salaries	4.2	3.8
Rate of increase in pensions	2.7	2.3
Rate for discounting scheme liabilities	2.7	2.55
Take up option to convert annual pension into retirement lump sum	50.0	50.0

The current estimate of the duration of the Authority's liabilities is 19 years.
The following assumptions have also been made:

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

Sensitivity Analysis

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

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	943,652	960,997	978,678
Projected service cost	27,748	28,420	29,109
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	962,374	960,997	959,628
Projected service cost	28,420	28,420	28,420
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	977,327	960,997	944,963
Projected service cost	29,110	28,420	27,746
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	997,612	960,997	925,769
Projected service cost	29,326	28,420	27,542

The sensitivity analysis shows the impact of adjusting individual assumptions. The analysis does not show the impact of adjusting combinations of assumptions, as this cannot easily be measured.

Estimation of Contributions to be paid in 2018/19

The table below shows the estimated contributions to be paid to the plan during 2018/19, assuming a 1% staff pay award.

	2017/18 Actual £000	2018/19 Estimated £000
Employers contributions -normal	12,783	13,128
Employers Additional Funding (Deficit Funding)	3,430	3,523
Employers Additional Funding (Pension Strain)	813	835
Employees contributions	5,719	5,873
Total	**22,745**	**23,359**

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

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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

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

OTHER DISCLOSURE NOTES

33. EVENTS AFTER BALANCE SHEET DATE

Stanford School is seeking to become an Academy.

34. INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiaries

CHAS 2013 Ltd

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

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

LBM's investment in CHAS 2013 Ltd is recognised and measured at cost in the Authority's balance sheet. LBM is exposed to variable returns from CHAS 2013 Ltd. In 2017/18, CHAS 2013 Ltd's total comprehensive income was £1.47m (£0.9m in 2016/17). Dividends received by LBM from CHAS 2013 Ltd are recognised within the Authority's comprehensive income and expenditure statement (CIES). In 2017/18, £0.7m dividend income was recognised (£0.4m in 2016/17).

Separate from any dividends, CHAS 2013 Ltd also makes an annual licence fee payment to LBM, for use of intellectual property owned by the Authority. In 2017/18, the licence fee was £0.5m (2016/17 £0.8m), which has been recognised within financing and investment income and expenditure in the CIES.

CHAS 2013 Ltd now has its own banking facility in place where in 2016/17, LBM provided a banking facility to CHAS 2013 Ltd. The remaining cash balance generated by CHAS 2013 Ltd that was held by LBM in the banking facility owed to CHAS 2013 Ltd at 31/03/2018 was £0.25m (£1.05m at 31/03/2017), with an intercompany balance of £0.08m.

Audited abbreviated accounts of CHAS 2013 Ltd are filed with Companies House and available on request from:

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

LB Merton have prepared group accounts consolidating CHAS 2013 Ltd.

Merantun Development Ltd

Merantun Development Ltd is a wholly owned subsidiary of LB Merton, based in the Authority's offices at the Civic Centre in Morden. Its board of directors is chaired by senior officers within LBM. The company was incorporated on the 5th August 2017.

Merantun Development Ltd will specialise in developing high quality housing and commercial property for market rent. LBM will be supplying working capital and development finance on commercial terms for the development and acquisition of sites, council and private. Loan finance will be used by the company to fund construction of sites where schemes have demonstrated being commercially viable. At the year-end no land transfers or funding had been made.

On the grounds of materiality Merantun has not been consolidated in the LB Merton's group accounts

Joint Venture

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

MSJCB is jointly controlled by the London Boroughs of Merton and Sutton. Any cash balance belonging to MSJCB is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect the sum owed to MSJCB. At 31/03/2018, including cash held and loans to MSJCB, there was a net creditor balance of £40k (net debtor balance of £118k at 31/03/2017).

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

Audited accounts of MSJCB are available on request from:

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

35. TRADING OPERATIONS

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

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

Included within Financing and Investment Income and Expenditure		2016/17 £000	2017/18 £000
Printing and Graphic Design	Turnover	(310)	(319)
	Expenditure	510	331
	Deficit	**200**	**12**
Translation Services	Turnover	(438)	(527)
	Expenditure	359	453
	(Surplus)	**(79)**	**(74)**
Transport	Turnover	(10,303)	(4,170)
	Expenditure	10,704	4,410
	Deficit	**401**	**240**
All trading operations		**2016/17 £000**	**2017/18 £000**
	Turnover	(11,051)	(5,016)
	Expenditure	11,573	5,194
Total	**Deficit**	**522**	**178**

36. INVENTORIES

The stock balance of £0.001m in 2017/18 represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

	Consumable Stores	
	2016/17 £000	2017/18 £000
Balance outstanding at the start of the year	**46**	**35**
Purchases	746	1,002
Recognised as an expense in the year	(757)	(1,036)
Balance outstanding at year-end	**35**	**1**

37. POOLED BUDGETS – Partnerships - Section 75

Community Equipment Services

During 2017/18 the Authority has continued to host a Partnership Agreement with the Merton Clinical Commissioning Group, under Section 75 of the National Health Service Act 2006, to provide integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services.

POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON MEMORANDUM ACCOUNT	Total 2016/17 £000	Total 2017/18 £000
INCOME		
PARTNERS' CONTRIBUTIONS		
Brought forward	**217**	**0**
LB Merton	339	377
Merton CCG	7	283
Additional From LB Merton (BCF Contribution)	200	382
TOTAL CONTRIBUTIONS	**763**	**1,042**
EXPENDITURE		
Community Equipment Services	746	1,002
Stock Adjustment	11	34
Management & Support Costs	6	6
TOTAL EXPENDITURE	**763**	**1,042**
NET (UNDER) / OVERSPEND CARRIED FORWARD	**0**	**0**

Better Care Fund

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

The CCG receives the full BCF allocation from NHS England, then transfers a proportion (£5,083,000 in 2017/18) into a pooled fund, hosted by the Authority, to be spent on services. The Authority makes a £1 contribution to the pool. The gross income and expenditure of the partnership is shown in the table below. As per accounting standards, the Authority records only its £1 share of the pooled funds as expenditure in its Comprehensive Income and Expenditure Statement (CIES). The CCG's contribution, therefore, is not recognised in the Authority's CIES.

Better Care Fund Pooled Budget - Income and Expenditure	Total 2016/17 £000	Total 2017/18 £000
Merton CCG contribution to pool	**(5,508)**	**(5,083)**
LBM contribution to pool	**0**	**0**
Total contributions	**(5,508)**	**(5, 083)**
Expenditure		
Integrated Locality Teams	650	773
Seven Day Working	500	505
Community Equipment and Adaptions	200	382
Protecting and Modernising Social Care	3,577	3,222
Investing in Integration Infrastructure	181	144
Developing Personal and Health Care Budgets	400	57
Total revenue expenditure	**5,508**	**5, 083**
Net	**0**	**0**

38. EXTERNAL AUDIT COSTS

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

	2016/17 £000	2017/18 £000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year.	174	160
Fees payable to the External Auditor for other services provided in year . The 1718 figure includes fees relating to the audit of the Housing Benefit grant claim . In 1617 these fees are shown in the audit services line.	9	50
Total	**183**	**210**

*The 1617 figures include grants certification work whereas this is shown in 'other services' in 1718

39. On-Street Parking Account

The Council maintains a memorandum account in respect of on street parking and how the income from it is spent. In 2017/18 the Council made a surplus of £9.655 m (£7.55m in 2016/17). This surplus was applied notionally as a contribution towards concessionary fares, the cost of which is in the Community and Housing budget. As this surplus exceeded the cost of concessionary fares (£9.03m in 2017/18), the balance (£0.62m) was applied to the cost of day to day maintenance (£0.85m). In 2016/17, the on street parking surplus was less than the cost of the concessionary fares.

2016/17				On-Street Parking Account	2017/18			
On Street Parking £000	Bus Lanes £000	Moving Traffic Violations £000	Total £000		On Street Parking £000	Bus Lanes £000	Moving Traffic Violations £000	Total £000
				Income				
(2,977)	(1,177)	(3,070)	**(7,224)**	Penalty Charge Notices	(3,242)	(1,430)	(4,100)	**(8,772)**
(1,239)	0	0	**(1,239)**	Residents' Parking Permits	(1,677)	0	0	**(1,677)**
(870)	0	0	**(870)**	Residents' Visitors' Parking Permits	(923)	0	0	**(923)**
(223)	0	0	**(223)**	Business Parking Permits	(233)	0	0	**(233)**
(39)	0	0	**(39)**	Teachers Parking Permits	(37)	0	0	**(37)**
(2,622)	0	0	**(2,622)**	On-Street Parking Charges	(3,157)	0	0	**(3,157)**
(416)	0	0	**(416)**	Other Income	(367)	0	0	**(367)**
(8,386)	**(1,177)**	**(3,070)**	**(12,633)**	**Total Income**	**(9,636)**	**(1,430)**	**(4,100)**	**(15,166)**
				Expenditure				
906	358	934	**2,198**	On-Street Parking	953	420	1,205	**2,578**
0	0	0	**0**	Off-Street Parking Spaces	0	0	0	**0**
97	38	100	**235**	Parking Management & Planning	120	53	151	**324**
1,091	431	1,124	**2,646**	Parking Enforcement	964	425	1,220	**2,609**
6,294	349	911	**7,554**	Contribution to Public Transport Including (Concessionary Fares)	7,599	532	1,524	**9,655**
8,388	**1,176**	**3,069**	**12,633**	**Total Expenditure**	**9,636**	**1,430**	**4,100**	**15,166**

2016/17 £000	Memorandum Items	2017/18 £000	Surplus Applied £000
	Total Expenditure on:		
9,319	Concessionary fares	9,035	9,035
1,142	Carriageway & Footway Day-to-Day Maintenance	845	620
10,461	**Total**	**9,880**	**9,655**

TECHNICAL ANNEX – ACCOUNTING POLICIES

40. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year end of 31st March 2018. The Authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2015, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

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

a) Housing benefit payments and the related subsidy grant arerecorded when the payment to housing benefit recipients falls due.

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

iii. Cash and Cash Equivalents

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

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

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

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

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

v. Charges to Revenue for Non-Current Assets

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

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

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

Account in the Movement in Reserves Statement for the difference between the two. There was a change to the MRP policy for 2017/18.

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

vi. Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.
The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual and sick leave and non-monetary benefits in lieu of salary (e.g. childcare vouchers), where material for current employees. They are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlement (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

Termination Benefits

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

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

Post-employment Benefits
Employees of the Authority are members of the following separate pension schemes:

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

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

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

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

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

  – quoted securities: current bid price
  – unquoted securities: professional estimate
  – unitised securities: current bid price

– property: market value

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

Service cost comprising:

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

Remeasurements comprising:

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

Contributions paid to the Pension Fund:

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

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

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

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

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

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

ix. Financial Instruments
Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and

Expenditure Account is the amount payable for the year according to the loan agreement.

Financial Assets
Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where premiums and discounts are charged to the Comprehensive Income and Expenditure Account, the Authority charges the whole amount incurred in the year.

In respect of soft loans, where the interest foregone is material, the Authority will recognise it in the CIES.

x. Government Grants and Contributions

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

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

Amounts recognised as due to the authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the revenue grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Sums advanced as revenue grants and contributions for which conditions have not been satisfied and are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are not satisfied but are expected to be met, these are classified as Receipts in Advance. When conditions are satisfied, the revenue grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

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

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

xi. Heritage Assets
Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the authority in pursuit of its overall objectives in relation to the maintenance of heritage. The majority of the authority’s heritage assets are held in the Civic Centre, with a number of paintings of

minor value held in the authority's libraries around the borough. Heritage assets are measured at valuation in accordance with FRS30 but where it is not possible to obtain a valuation at a cost which is commensurate with the benefit to the users of the financial statements, heritage assets are measured at historical cost (less any depreciation, amortisation and impairment). Depreciation or amortisation is not required on assets with indefinite lives.

xii. Intangible Assets

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

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

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

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

xiii. Interest in Subsidiaries and Other Entities

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. In 2017/18, the authority has two subsidiaries (CHAS and Merantun) and one joint venture (MSJCB). From 2017/18 onwards, the authority will publish consolidated group accounts. Details of the subsidiaries and joint venture are disclosed in Note 34.

xiv. Inventories and Long Term Contracts

The inventory balance is the Authority and the Merton Clinical Commissioning Group's shared value of the aids and adaptations stock owned by the Pooled Account. The stock is maintained in partnership with Croydon Integrated Procurement Hub (IPH). Inventories are measured at the lower of cost and current replacement cost.

xv. Jointly Controlled Operations

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

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

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

Shared Internal Audit Service: LB Richmond hosts the service, which provides the internal audit function for LB Merton, RB Kingston, LB Wandsworth and LB Sutton. Each authority makes a financial contribution to LB Richmond. A shared service board with senior representatives from each authority oversees the delivery of the service and arrangements between the boroughs.

South London Legal Partnership: this is a cost-sharing arrangement with the LB Richmond, LB Sutton, RB Kingston and LB Wandsworth. Merton administers the service and recharges the other authorities with their share of the cost.

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

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

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

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

xvi. Leases

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

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

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

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

The Authority as Lessee

Finance Leases

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

in the periods in which they are incurred.
Lease payments are apportioned between:

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

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

The authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction between the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

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

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

Lease rentals receivable are apportioned between:

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

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

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

xvii. Overhead and Support Services

The costs of overheads and support services hosted within Corporate Services are re-charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.
The Corporate Services segment does not report such overhead recharges as income, but as a reduction of gross expenditure.

xviii. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

De Minimis

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- infrastructure and assets under construction – depreciated historical cost
- surplus assets – the current value measurement base is fair value, estimated using Level 1 observable inputs and highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

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

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

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

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

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

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

Revaluations
The revaluations of the authority's properties, which have been performed during the financial year, were carried out by an internal valuer who is a member of the Royal Institution of Chartered Surveyors.

Revaluations are undertaken as at 31st March.

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

Parks, allotments, cemetery land and crematorium land, which are non-operational are classified as Community Assets. Community Assets are carried at fair value.

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

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

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

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

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

Depreciation is calculated on the following bases:
- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of asset in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

xix. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. General

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

2. Insurance Fund

The Insurance Fund provides an integral part of our risk management policy to meet claims excluding catastrophic losses, which are insured by an external provider. The level of the fund is based upon a statistical assessment of claims information. The authority makes provision for its legal obligations for claims as at the 31st March each year. Where there is a possibility of further claims for which at this stage the authority is not legally obligated, on grounds of prudence the authority sets aside further sums in a separate Insurance Reserve. The expected timing of a future transfer of economic benefit depends upon the settlement of claims and no assumption has been made in respect of these.

Contingent Liabilities

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

Contingent Assets

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

xxi. Reserves

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

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

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

xxii. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

xxiii. VAT

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

xxiv. Local Authority Schools in England and Wales

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

41. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

IFRS9 Financial Instruments

The purpose of IFRS9 is to provide a single approach to the classification and measurement of financial instruments. In particular, it is designed to provide for greater transparency in respect of gains and losses arising on financial assets and greater prudence in respect of impairment in the value of fixed assets.

Under IFRS 9, the authority is required to carry out the following-

- A review of the classification of all financial assets
- A recalculation of the allowance for impairment of financial assets

This disclosure sets out a preliminary assessment of the impact of IFRS 9 which is not expected to be material.

1. Classification of all financial assets

(a) Investment Portfolio

The purpose of IFRS9 is to change the default accounting treatment for investments from one where gains and losses in value are not recognised as income or expenditure until an investment matures or is disposed of to one where income or expenditure is recognised as fair values gains and losses arise (Fair Value Through Profit and Loss, or FVtPL). There are three classes of financial asset under IFRS as set out below in Table 1

Table 1: Classification of financial assets under IFRS 9

New Classification	Business Model underlying classification	Balance Sheet	Impact on General Fund
Amortised Cost	The financial asset is held for the purpose of collecting contractual cash flows of principal and interest.	Principal plus accrued interest	None
Fair Value through Other Comprehensive Income (FVOCI)	The financial asset is held for the purpose of collecting contractual cash flows of principal and interest and selling financial assets	Fair Value	FVOCI- changes in fair value adjusted through the Unusable Reserves
Fair Value through Profit and Loss (FVPL)	All other combinations of business model and contractual cash flows.	Fair Value	Changes in fair value (up or down) will directly affect the General Fund unless regulations change

The authority has reviewed its investment portfolio and considers that the following reclassification may apply (Table 2). Except in the possible case of CCLA, these changes should not affect the General Fund. In the case of CCLA, if there are changes in the fair value of the CCLA Local Authority Property Loan, these will directly affect the Council's General Fund unless regulations are amended. The effect in 2017/18 is a reduction in fair value of £4,221.

Table 2: Classification of investments under IFRS 9

2017/18 Accounts Classification	Current value £000	Current Accounting classification	Proposed IFRS9 2018/19 Classification
Deposits in banks and building societies	45,000	Investment - Amortised Cost	Investment -Amortised Cost
Deposits in non UK banks	4,500	Investment - Amortised Cost	Investment - Amortised Cost
CCLA Local Authority Property Fund	10,000	Investment - Amortised Cost	Investment - Fair Value through profit and Loss unless regulations are amended
	59,500		

(b) Investment in wholly-owned subsidiaries-CHAS and Merantun

There is a special accounting exemption for shares in group entities, but this is only available if group accounts are prepared. Shareholdings in subsidiaries can be accounted for at cost in the authority-only Balance Sheet, on the basis that additional information about the value of the shareholdings is provided by the consolidated financial statements.

2. Allowance for impairment of financial assets

Impairment losses relates to credit risk-the possibility that a counterparty might not make a payment of principal and/or interest due to a lender under a contract. The Accounting Code excludes Government investments and loans to other authorities.

IFRS 9 provides for a change in the basis upon which impairment of financial assets is calculated from one based upon incurred losses to one based upon expected losses.

- Incurred Losses: an impairment loss is provided for in relation to a financial asset if, and only if there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset e.g. significant financial difficulty of a debtor or a breach of contact including default on interest or principal.

- Expected Losses (IFRS 9) an impairment loss is provided for the present value of the difference between the cash flows that the authority is expected to receive and the cash that it expects actually to receive, taking account the risks that default may occur over the remaining term.

The expected effect of these impairment provisions of IFRS 9 are summarised below:

Investments: The effect on Bank, Money Market deposits and the CCLA Property Fund investment is expected to be insignificant.

Trade debtors: The authority already uses forecast of impairment in its calculation of the impairment provision and for this reason the impact of IFRS 9 is not expected to be material.

Council Tax, NDR and Housing Benefit Debtors: These are not affected by IFRS 9 because non-contractual balances are outside the scope of changes.

Lease debtors: will need to be impaired but the impact of impairment would be charged against deferred capital receipts.

IFRS 15 Revenue from contracts with customers introduces a new model for recognition of contractual income which has the potential to change the date at which revenue is recognised compared to current accounting requirements. This standard is not expected to affect most local authority contracts though it is relevant to CHAS.

IAS 12 Income Taxes requires an entity to recognise a deferred tax liability or asset for all temporary differences, with some exceptions. Although Merton has tax paying subsidiaries (CHAS & Mertantun), this standard is only relevant to authorities with significant unrealised losses on investments which affect deferred tax calculation. Therefore, it is not expected that this standard will affect the London Borough of Merton accounts.

42. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain polices set out in Note 40, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- It is expected that future levels of funding will be reduced however this is not expected to influence the authority's ability as a going concern.
- Group Accounts - CHAS 2013 Ltd., MSJCB and Merantun excepted, the authority's relationships with other bodies do not fall within the scope of group accounts. In 2017/18, the Authority will publish group accounts which consolidates CHAS, as the other two entities are not material to the accounts.
- The potential outcomes from legal claims are not expected to be material to the Authority's accounts.
- Accounting for Schools – in line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the borough are considered to be entities controlled by the Authority. Rather than produce group accounts, the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Authority’s single entity accounts.
- Accounting for Schools – Balance Sheet recognition of schools.
  The Authority recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Authority recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Authority, school or Governing Body then it is not included on the Authority’s Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Authority, school or school Governing Body.

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

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

The items in the London Borough of Merton's Balance Sheet at 31st March 2018 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

Item:
Property, Plant and Equipment (PPE)

Uncertainty:
Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate and funding position may have an impact on the levels of spending on repairs and maintenance, thus impacting on the useful lives assigned to assets.

Effect if actual result differs from assumptions:
If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. PPE of £593m is included in the accounts. Therefore, a 1% movement in value would result in a change of £5.9m. The depreciation charge for PPE in 2017/18 was £20.2m. A movement of 1% would result in a change in the depreciation charge of approximately £0.20m.

Item:
Provisions

Uncertainty:
The authority has made provisions of £4.2m for insurance claims. The fund is used to pay claims for which the authority is self-insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.

Effect if actual result differs from assumptions:
If the actuals differ from the assumptions, then it is possible that the Insurance Fund would be insufficient to cover the liabilities of the authority and further demands would be made on the General Fund. If future claims exceeded the insurance fund provision by 1%, this would result in an additional £0.04m charge to the General Fund.

Item:
Provision for NDR appeals

Uncertainty:
The authority has made provision of £1.78m for its share of appeals against business rates charges. The amount represents an estimate of the potential effects of appeals and proposals that may be settled in future years. It is based upon the most recent outstanding Rating List proposals provided by the Valuation Office Agency. The potential effect of the proposals is an estimate based on changes in comparable properties, market trends and other valuation issues including the potential for certain proposals to be withdrawn.

Effect if actual result differs from assumptions:
If the actuals differ from the assumptions this will impact on the NDR surplus/deficit of the Collection Fund for following years, as the cash collected from NDR payers will be different to that anticipated in calculated estimates of NDR collection which are used to determine the Authority's retained income. Similarly, there is a potential impact on possible future safety net and levy payments introduced in the business rate retention scheme, these are calculated by comparing actual amounts collected to the Authority's NDR funding baseline.

Item:
Pension Liability

Uncertainty:
Estimation of the net £350m pension liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.

Effect if actual result differs from assumptions:
The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 32 for further detail.

Collection Fund

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

Note 5 to this statement contain this information and thus provides the link between the Collection Fund accounts and the core statements. The Collection Fund accounts for income from Council Tax and Non-Domestic Rates on behalf of the Authority, the Greater London Authority and central government. The costs of administering collection are accounted for in the General Fund.

2016/17				2017/18		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
			A) INCOME			
0	102,714	102,714	Council Tax Receivable	0	106,908	106,908
88,341	0	88,341	Business Rates Receivable	87,467	0	87,467
2,466	0	2,466	Business Rates Supplements Receivable	2,526	0	2,526
90,807	**102,714**	**193,521**		**89,993**	**106,908**	**196,901**
			B) EXPENDITURE			
			Apportionment of Previous Year Surplus/(Deficit)			
(2,868)	0	(2,868)	Central Government	634	0	634
(1,721)	3,200	1,479	Billing Authority (LBM)	380	1,386	1,766
(1,147)	853	(294)	Greater London Authority	254	345	599
(5,736)	**4,053**	**(1,683)**		**1,268**	**1,731**	**2,999**
			C) **Precepts, Demands and Shares**			
43,873	0	43,873	Central Government (MHCLG): NDR	29,041	0	29,041
26,324	78,920	105,244	Billing Authority (LBM): NDR & Council Tax	26,401	82,563	108,964
17,549	19,686	37,235	Greater London Authority: NDR & Council Tax	32,561	20,285	52,846
2,466	0	2,466	Greater London Authority: Business Rates Supplement	2,526	0	2,526
90,212	**98,607**	**188,818**		**90,529**	**102,848**	**193,377**
			D) **Charges to Collection Fund**			
673	1,790	2,463	Less: increase/(decrease) in bad debt provision	1,146	1,786	2,932
1,936	0	1,936	Less: increase/(decrease) in provision for appeals*	(1,064)	0	(1,064)
273	0	273	Less: cost of collection	264	0	264
2,882	**1,790**	**4,672**		**346**	**1,786**	**2,132**
3,449	**(1,736)**	**1,713**	**Surplus/(Deficit) arising during the year (=A-(B+C+D))**	**(2,150)**	**543**	**(1,607)**
(4,347)	**3,810**	**(538)**	**Surplus/(Deficit) b/fwd 1st April**	**(898)**	**2,074**	**1,176**
(898)	**2,074**	**1,176**	**Surplus/(Deficit) c/fwd 31st March**	**(3,048)**	**2,617**	**(431)**

*The 2016/17 change in Appeals Provision was shown on a gross basis. For 2017-18 the figure, in line with the CIPFA recommended model now being used by LBM, is shown net of charge to the provision.

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 2017/18 before allowance for non-collection is 74,491 (73,343 for 2016/17). The derivation of this is shown in the table below.

Council Tax Band	Number of Dwellings on Valuation Officers List		Number of Dwellings after Discounts and Exemptions		Ratio to Band D	Equivalent Number of Band D Properties	
	2016/17	2017/18	2016/17	2017/18		2016/17	2017/18
A adjust	2	2	1	1	5/9	0	0
A	1,033	1,073	577	622	6/9	385	415
B	8,142	8,265	5,355	5,514	7/9	4,165	4,289
C	22,386	22,704	17,039	17,521	8/9	15,146	15,575
D	27,528	27,560	22,896	23,146	9/9	22,896	23,146
E	13,051	13,084	11,624	11,733	11/9	14,207	14,340
F	5,300	5,385	4,895	4,981	13/9	7,070	7,195
G	3,967	3,983	3,743	3,768	15/9	6,238	6,279
H	1,669	1,681	1,615	1,623	18/9	3,231	3,247
Total						**73,338**	**74,486**
Defence properties						5	5
Council Tax Base						**73,343**	**74,491**

The average Council Tax charge for a Band D property (including the GLA) was £1,419.73 in 2017/18 compared to £1,382.45 in 2016/17. From this an income yield of £102.8m was expected (£98.6m in 2016/17). In 2017/18 the income generated was £106.9m (£102.7m in 2016/17) and includes changes to liabilities, exemptions, discounts and the council tax support scheme incurred in the current year but which relate to previous years. This income is received from council taxpayers.

2. Non-Domestic Rates (NDR)

The Authority is responsible for collecting rates due from the business ratepayers in its area. The Valuation Office Agency (VOA) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government. Under the Business Rates Retention Scheme, the Authority now retains a 30% share of NDR Income. Precepts are also paid from NDR Income to the Greater London Authority (37%) and central government (33%) as shown in the Collection Fund statement.

	31st March 2017	31st March 2018
Non-domestic rateable value at year end	£201m	£215m
Number of Hereditaments	5,378	5,475
Uniform Business Rate (in the £)	49.7p	47.9p

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

	2016/17 £000	2017/18 £000
Gross Rates payable (including net amounts for previous years)	99,237	102,069
Mandatory and discretionary reliefs	(10,150)	(13,232)
Transitional Protection Payments	(746)	(1,370)
Business Rates Receivable	**88,341**	**87,467**
Allowance for Provision for bad and doubtful debts	(673)	(1,146)
Change to Provision for losses on appeals	(1,936)	1,064
Cost of collection	(273)	(264)
Net Income	**85,459**	**87,121**

Business Rate Supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities ‘to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development.’

LBM have a duty under the BRS Act to collect and enforce the Crossrail BRS on behalf of the GLA. All properties with a rateable value greater than £70,000 pay an additional 2p in the pound.

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

	2016/17 £000	2017/18 £000
Gross Rates payable	2,680	2,772
Mandatory and discretionary reliefs	(214)	(246)
Net contribution to GLA	**2,466**	**2,526**

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 Authority is liable for its proportionate share of successful appeals against NDR charges made in the period to 2016/17. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

	Balance at 1st April 2017	Allowance for Impairment	Amounts charged against Allowance	Balance at 31st March 2018
	£000	£000	£000	£000
Council Tax: Impairment of Bad Debts	6,479	1,786	(817)	7,448
Non-Domestic Rates: Impairment of Bad Debts	2,409	1,146	(380)	3,175
Non-Domestic Rates: Losses on Appeals	7,000	1,289	(2,353)	5,936
TOTAL	**15,888**	**4,221**	**(3,550)**	**16,559**

4. Collection Fund Surpluses and Deficits

Council Tax

There is an accumulated surplus of £2.617m on the Collection Fund (£2.074m in 2016/17). 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.

	2016/17 £000	2017/18 £000	Change in the Year £000
London Borough of Merton Council Tax surplus	(1,663)	(2,086)	(423)
Greater London Authority Council Tax surplus	(411)	(531)	(120)
Total	**(2,074)**	**(2,617)**	**(543)**

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

	Greater London Authority £000	London Borough of Merton £000	Total £000
Accumulated surplus as at 1st April 2017	**(411)**	**(1,663)**	**(2,074)**
Paid to GLA in 2017/18	346	0	346
Transfer to/(from) General Fund in 2017/18	0	1,386	1,386
Surplus/Deficit in 2017/18	(466)	(1,809)	(2,275)
Total	**(531)**	**(2,086)**	**(2,617)**

NDR

There is a deficit of £3.048m on the Collection Fund (£0.898m in 2016/17). 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.

	2016/17	2017/18	Change in the Year
	£000	£000	£000
London Borough of Merton NDR deficit	269	914	645
Greater London Authority NDR deficit	180	1,128	948
MHCLG NDR deficit	449	1,006	557
Total	**898**	**3,048**	**2,150**

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

	Greater London Authority	MHCLG	London Borough of Merton	Total
	£000	£000	£000	£000
Accumulated deficit as at 1st April 2017	180	449	269	898
Paid to/(from) preceptors in 2017/18	634	254	0	888
Transfer to/(from) General Fund in 2017/18	0	0	380	380
Deficit in 2017/18	326	291	265	882
Total	**1,140**	**994**	**914**	**3,048**

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 £84.371m Council Tax income and the £26.136m NDR income are the Authority's share of Council Tax and NDR income received in the year according to normal accounting rules. The Council Tax and NDR income which ultimately is credited to the General Fund includes the Authority's share of the Collection Fund surplus or deficit generated from the previous year's income. This is shown in the following table.

A further £209,318 council tax income and £36,743 NDR income have also been recognised in the CIES in 2017/18. These are receipts which had been over-paid by taxpayers prior to 2011/12 and are now beyond the statutory period during which they could legally be reclaimed.

Income and Expenditure Council Tax	2016/17 £000	2017/18 £000
Demand on the Fund	78,920	82,563
Transfer of Surplus	3,200	1,386
Total included in I&E under Collection Fund Regulations	**82,120**	**83,949**
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	(1,342)	422
Council Taxation Fund Income	**80,778**	**84,371**
Movement in Reserves Statement	**2016/17 £000**	**2017/18 £000**
Reversal of adjustment of Collection Fund Surplus under 2011 Code	1,342	(422)
Net charge to General Fund, which is based on statutory requirements	**82,120**	**83,949**

Income and Expenditure Business Rates	2016/17 £000	2017/18 £000
Demand on the Fund	26,324	26,401
Transfer of Deficit	(1,721)	380
Total included in I&E under Collection Fund Regulations	**24,603**	**26,781**
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	1,034	(645)
Business Rates Fund Income	**25,637**	**26,136**
Movement in Reserves Statement	**2016/17 £000**	**2017/18 £000**
Reversal of adjustment of Collection Fund Surplus under 2011 Code	(1,034)	645
Net charge to General Fund, which is based on statutory requirements	**24,603**	**26,781**

Balance Sheet

The cash collected by the Authority for Council Tax and NDR belongs proportionately to the Authority and its major preceptors (the GLA and the MHCLG). There will therefore be a debtor/creditor position at the end of year to be recognised between the Authority 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 2017/18, 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 Authority has therefore net creditor balances 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 Authority's Balance Sheet. In the Collection Fund column, the balance relating to each preceptor is their proportionate share of the surplus/deficit. In the Balance Sheet column, the balance relating to each preceptor is a consolidated sum comprising their proportionate share of the surplus/deficit and their proportionate share of arrears, provisions and receipts in advance.

Balance Sheet	Collection Fund 2017/18	Balance Sheet 2017/18
	£000	£000
Council Tax		
Arrears	7,941	6,399
Impairment Allowance for Doubtful Debts	(7,449)	(5,956)
Receipts in Advance	(4,883)	(3,904)
Collection Fund (Surplus) / Deficit	(2,085)	(2,085)
GLA	(531)	(1,461)
Cash	**(7,007)**	**(7,007)**
Business Rates		
Transitional Protection	294	294
Arrears	325	271
Impairment Allowance for Doubtful Debts	(3,176)	(953)
Impairment for Loss on Appeals	(5,935)	(1,780)
Receipts in Advance	(2,992)	(898)
Collection Fund (Surplus) / Deficit	914	914
GLA	1,128	(3,322)
MHCLG	1,006	(2,962)
Cash	**(8,436)**	**(8,436)**

Group Financial Statements

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

1. Group Comprehensive Income and Expenditure Statement

2016/17 (Restated)				2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
			Continuing Operations			
222,317	(160,665)	61,652	Children, Schools and Families	224,986	(164,367)	60,619
87,757	(18,345)	69,412	Community and Housing	92,257	(23,993)	68,264
118,176	(105,962)	12,214	Corporate Services	114,393	(99,425)	14,969
62,931	(33,714)	29,217	Environment and Regeneration	59,649	(37,356)	22,293
11,120	(11,356)	(236)	Public Health	11,511	(11,002)	508
502,301	**(330,042)**	**172,259**	**Cost of services**	**497,718**	**(331,064)**	**166,653**
		(1,736)	Other operating income and expenditure			(6,744)
		19,152	Financing and investment income and expenditure			17,006
		(168,743)	Taxation and non-specific grant income			(167,481)
		20,932	**Group Deficit on Provision of Services**			**9,434**
		226	Tax on Profit			**342**
		21,158	**Group Deficit on Provision of Services**			**9,776**
		(14,781)	(Surplus) or deficit on revaluation of non-current assets			(21,449)
		1,793	Impairment losses on non-current assets			0
		92,970	Remeasurement of the net defined benefit liability/(asset)			(41,994)
		79,982	**Other Comprehensive Income and Expenditure**			**(63,443)**
		101,140	**Total Comprehensive Income and Expenditure**			**(53,667)**

2. Group Movement in Reserves Statement

	General Fund Balances £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of Reserves of Subsidiaries £000	Total Group Reserves £000
Balance at 1 April 2016 (for Group) Prior Period Adjustment	(67,345)	(29,582)	(4,153)	(101,080)	(12,728)	(113,808)	(1,711)	(115,519)
Prior Period Adjustment					(219,876)	(219,876)		(219,876)
Revised Balance Adjustments	(67,345)	(29,582)	(4,154)	(101,080)	(232,604)	(333,684)	(1,711)	(335,396)
Movement in reserves during 2016/17 (Restated)								
Total Comprehensive Income and Expenditure	21,807	0	0	21,807	79,850	101,657	(917)	100,740
Adjustments between accounting basis & funding basis under regulations (Note 18)	(16,591)	6,596	(3,098)	(13,093)	13,093	0		0
Adjustments between Group Accounts and the Authority's accounts							400	400
(Increase)/Decrease in Year	5,216	6,596	(3,098)	8,714	92,943	101,657	(517)	101,140
Balance at 31 March 2017 carried forward (Restated)	**(62,129)**	**(22,986)**	**(7,251)**	**(92,366)**	**(139,661)**	**(232,027)**	**(2,229)**	**(234,256)**

	General Fund Balances £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of Reserves of Subsidiaries £000	Total Group Reserves £000
Balance at 1 April 2017 (for Group)	(62,129)	(22,986)	(7,251)	(92,366)	(139,661)	(232,027)	(2,229)	(234,256)
Movement in reserves during 2017/18								
Total Comprehensive Income and Expenditure	10,410			10,410	(63,347)	(52,937)	(1,471)	(54,409)
Adjustments between accounting basis & funding basis under regulations (Note 18)	(9,001)	7,473	(3,228)	(4,756)	4,756			
Adjustments between Group Accounts and the Authority's accounts							742	742
(Increase)/Decrease in Year	1,409	7,473	(3,228)	5,654	(58,591)	(52,937)	(729)	(53,667)
Balance at 31 March 2018 carried forward	**(60,720)**	**(15,513)**	**(10,479)**	**(86,712)**	**(198,252)**	**(284,964)**	**(2,957)**	**(287,923)**

3. Group Balance Sheet

01 April 2016 (Restated) £000	31 March 2017 (Restated) £000		31 March 2018 £000
681,009	686,865	Property, Plant & Equipment	724,093
669	802	Heritage Assets	802
5,000	5,000	Long Term Investments	4,500
1,291	2,092	Intangible Assets	5,191
44	79	Deferred Tax Asset	160
8,095	8,510	Long Term Debtors	7,590
696,108	**703,348**	**Long Term Assets**	**742,336**
80,872	66,030	Short Term Investments	55,193
46	35	Inventories	1
30,565	31,194	Short Term Debtors	31,814
7,288	7,000	Assets Held for Sale	1,183
0	0	Current Tax Asset	0
23,311	32,534	Cash and Cash Equivalents	34,521
142,083	**136,793**	**Current Assets**	**122,712**
(16,178)	(15,145)	Short Term Borrowing	(1,487)
(57,796)	(62,874)	Short Term Creditors	(64,343)
0	(263)	Current Tax Liability	(422)
(1,666)	(757)	Current Provisions	(641)
(75,640)	**(79,039)**	**Current Liabilities**	**(66,894)**
(6,516)	(5,518)	Provisions	(5,368)
(116,976)	(113,010)	Long Term Borrowing	(113,010)
(32,346)	(30,939)	Other Long Term Liabilities	(29,778)
0	0	Deferred Tax Liability	0
(263,154)	(368,505)	Pension Liability	(350,907)
(8,162)	(8,874)	Capital Grants Receipts in Advance	(11,169)
(427,154)	**(526,846)**	**Long Term Liabilities**	**(510,232)**
355,396	**234,256**	**Net Assets**	**287,923**
(102,792)	(94,990)	Usable Reserves	(90,489)
(232,604)	(139,266)	Unusable Reserves	(197,434)
(335,396)	**(234,256)**	**Total Reserves**	**(287,923)**

4. Group Cash Flow Statement

2016/17 £000		2017/18 £000
21,158	Net (surplus) or deficit on the provision of services	9,776
(45,296)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(44,465)
25,806	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24,897
1,668	Net Cash flows from Operating Activities	(9,792)
(15,077)	Investing Activities	(5,796)
4,186	Financing Activities	13,599
(9,223)	Net increase in cash and cash equivalents	(1,988)
23,311	Cash and cash equivalents at the beginning of the reporting period	32,534
32,534	**Cash and cash equivalents at the end of the reporting period**	**34,521**

Notes to the Accounts

Disclosure notes have not been replicated in the Group Accounts because it is deemed that there is no material change between the Authority's single entity notes and the Group Accounts. The single entity accounting policies are also the accounting policies of the Group.

Pension Fund Accounts

2016/17 £000	Fund Account	Notes	2017/18 £000
	Dealings with members, employers and others directly involved in the scheme		
(23,175)	Contributions	7	(22,745)
(2,748)	Transfers in	8	(6,748)
(25,923)	**Total Income**		**(29,493)**
23,400	Benefits	9	24,695
1,503	Payments to and on account of leavers	10	2,746
24,903	**Total Expenditure**		**27,441**
(1,020)	**Net (additions)/withdrawals from dealings with members**		**(2,052)**
1,854	Management expenses	11	1,869
834	**Net (additions)/withdrawals including fund management expenses**		**(183)**
	Returns on investments		
(11,575)	Investment income	12	(12,605)
249	Taxes on income	13	148
(109,202)	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	4
(120,528)	**Net returns on investments**		**(12,453)**
(119,694)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(12,636)**
(530,822)	**Opening net assets of the scheme**		**(650,516)**
(650,516)	**Closing net assets of the scheme**		**(663,152)**

Net Assets Statement

2016/17 £000		Notes	2017/18 £000
651,090	Investment assets	14	661,536
(2,330)	Investment liabilities	14	(1,348)
648,760	**Total Investments**		**660,188**
2,720	Current assets	20	4,581
(964)	Current liabilities	21	(1,617)
650,516	**Net assets of the Fund available to Fund benefits at period end**		**663,152**

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

Notes to the Pension Fund Accounts
1. Description of Fund

The London Borough of Merton Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton ("the Authority"). The Authority is the reporting entity for this Pension Fund.

The LGPS Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Authority for these arrangements.

(a) General

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

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

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

The Public Service Pensions Act 2013 requires each Fund within the Local Government Pension Scheme, to establish and run a Local Pension Board. Merton's Local Pension Board is responsible for assisting the Council as administering authority to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator.

The Board meets quarterly and has no decision-making powers on policy matters but may make recommendations to PFAP. The Board has four members comprising two employer and two scheme member representatives.

(b) Membership

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

Admitted Bodies	Scheduled Bodies
• Greenwich Leisure • Merton Priory Homes • CATCH 22	• Wimbledon and Putney Commons Conservators • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • St Mark's Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme) • Beecholme Academy • Aragon Academy

The following table summarises the membership numbers of the scheme.

2016/17		2017/18
	Active Members	
3,705	London borough of Merton	3,565
240	Scheduled bodies	305
74	Admitted bodies	63
4,019		**3,933**
	Pensioners	
3,455	London borough of Merton	3,571
113	Scheduled bodies	163
157	Admitted bodies	115
3,725		**3,849**
	Deferred Pensioners	
4,821	London borough of Merton	5,074
306	Scheduled bodies	302
112	Admitted bodies	118
5,239		**5,494**

(c) Funding

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

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2018. The employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred at 31 March 2016. Currently, employer contribution rates range from 12.0% to 26.4%. Employers pay a monetary contribution towards past service costs.

(d) Benefits

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

	Service pre 1 April 2008	Service Post 1 April 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 xfinal pensionable salary.
Lump Sum	Automatic lump sum of 3x pension. In addition, part of the annual pension can be exchanged for a one off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its financial position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2017/18', 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).

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

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

3.2 Transfers

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

3.3 Investment income

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

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

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

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.

Revenue account – expense items

3.5 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.

3.6 Taxation

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

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

3.7 Management Expenses

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

(a) Investment Management Expenses

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

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

(b) Oversight and Governance Costs

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

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

3.8 Administrative Expenses

All administrative expenses are accounted for on an accruals basis. Pension administration has been carried out by the London Borough of Wandsworth on a shared service basis since 1st December 2013.

Net Asset Statement

3.9 Investment Assets
The Pensions Statement of Recommended Practice (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.

3.10 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.

3.11 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.

3.12 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 2018.

3.13 Cash
Cash comprises cash in hand and includes amounts held by the Fund's external managers.

3.14 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).

3.15 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.

3.16 Additional Voluntary Contributions
Merton Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund only uses one provider, the Prudential PLC. AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government

Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed in note 22.

3.17 Going Concern

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

3.18 Contingent Assets and Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.
A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

3.19 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).

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

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

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

The main item in the Fund's Net Asset Statement at 31 March 2018 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 £17.3m and a -0.1% reduction would increase the obligation by £17.7m. An adjustment to the mortality age rating assumption of -1 year would decrease the obligation by £35.2m.

6. Events After The Reporting Date

There have been no events after the reporting date that would have a material impact on these financial statements.

7. Contributions Receivable

2016/17 £000	By Category	2017/18 £000
17,413	Employers	17,026
5,762	Members	5,719
23,175	**Total**	**22,745**

2016/17 £000	By Authority	2017/18 £000
21,486	Administering	20,900
1,145	Scheduled	1,372
544	Admitted	473
23,175	**Total**	**22,745**

2016/17 £000	By Type	2017/18 £000
11,901	Employers normal	12,783
5,762	Employees normal	5,719
4,548	Deficit funding	3,430
964	Employers additional	813
23,175	**Total**	**22,745**

8. Transfers In From Other Pension Funds

2016/17 £000		2017/18 £000
2,748	Individual Transfers	3,760
0	Group Transfer	2,988
2,748	**Total**	**6,748**

9. Benefits Payable

2016/17 £000	By Category	2017/18 £000
19,746	Pensions	20,516
3,387	Commutations and lump sum retirement benefits	3,558
267	Lump sum death benefits	621
23,400	**Total**	**24,695**

2016/17 £000	By Authority	2017/18 £000
21,597	Administering	22,915
978	Scheduled	861
825	Admitted	919
23,400	**Total**	**24,695**

10. Payments to and on Account of Leavers

2016/17 £000		2017/18 £000
1,430	Individual transfers	2,425
0	Group transfers	250
88	Refunds of contribution	68
(15)	State scheme premiums	3
1,503	**Total**	**2,746**

11. Management Expenses

2016/17 £000		2017/18 £000
368	Administrative costs	460
1,295	Investment management expenses	1,108
191	Oversight and governance costs	301
1,854	**Total**	**1,869**

11a. Investment Management Expenses

2016/17 £000		2017/18 £000
1,043	Management fees	788
9	Performance related fees	10
17	Custody fees	10
226	Transaction costs	300
1,295	**Total**	**1,108**

12. Investment Income

2016/17 £000		2017/18 £000
2,359	Income from bonds	2,232
7,566	Income from equities	8,860
79	Pooled investments – unit trusts and other managed funds	166
832	Pooled property investments	826
739	Other	521
11,575	**Total**	**12,605**

13. Taxes on Income

2016/17 £000		2017/18 £000
200	Non-recoverable tax	115
49	Withholding tax	33
249	**Total**	**148**

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2018. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2016/17			2017/18	
£000	%	Fund Manager	£000	%
274,663	42	Aberdeen	277,265	42
366,997	57	UBS	375,198	57
6,950	1	Blackrock	7,575	1
648,610	**100**	**Total**	**660,038**	**100**

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2018 is shown in the following table. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2017 £000		Market Value 31 March 2018 £000
	Investment Assets	
153,178	Bonds	152,315
236,697	Equities	244,427
232,468	Pooled investments	236,156
21,321	Pooled property investments	22,896
2,328	Derivative contracts - Futures	1,329
3,638	Cash held with fund managers	2,829
1,310	Investment income due	1,434
650,940	**Total Investment Assets**	**661,386**
	Investment Liabilities	
(2,330)	Derivative contracts - Futures	**(1,348)**
150	**LCIV Subscription**	**150**
648,760	**Net investment assets**	**660,188**

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2017/2018. 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 2017 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2018 £000
Bonds	**153,178**	4,870	(2,974)	(2,759)	**152,315**
Equities	**236,697**	64,820	(50,592)	(6,498)	**244,427**
Pooled Investments	**232,468**	14,510	(18,655)	7,833	**236,156**
Pooled Property	**21,321**	444	(262)	1,393	**22,896**
	643,664	**84,644**	(72,483)	**(31)**	**655,794**
Derivatives (Futures)	**2,328**	8,170	(9,193)	24	**1,329**
Future Asset	**(2,330)**				**(1,348)**
Future Liability	**643,662**	**92,814**	**(81,676)**	**(7)**	**655,775**
Other Investment Balances					
Cash with Fund Managers	**3,638**				**2,829**
Investment Income Due	**1,310**				**1,434**
Realised Loss on FX				3	
External Investments at Market Value	**648,610**				**660,038**
LCIV Subscription	**150**				**150**
Investment Assets	**648,760**			**(4)**	**660,188**

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2016/2017.

	Market Value 1 April 2016 £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 2017 £000
Bonds	**130,929**	5,881	(4,026)	20,394	**153,178**
Equities	**194,037**	46,780	(39,711)	35,591	**236,697**
Pooled Investments	**179,624**	24,016	(24,079)	52,907	**232,468**
Pooled Property	**21,183**	203	0	(65)	**21,321**
	525,773	**76,880**	**(67,816)**	**108,827**	**643,664**
Derivatives (Futures)					
Future Asset	1,528	10,251	(9,837)	386	2,328
Future Liability	(1,527)				(2,330)
	525,774	**87,131**	**(77,653)**	**109,213**	**643,662**
Other Investment Balances					
Cash with Fund Managers	**2,005**				**3,638**
Investment Income Due	**1,261**				**1,310**
Realised Loss on FX				(11)	
External Investments at Market Value	**529,040**			**109,202**	**648,610**
LCIV Subscription	**150**				**150**
Investment Assets	**529,190**			**109,202**	**648,760**

14.4 Detail Analysis of Investments

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

Market Value 31 March 2017 £000		Market Value 31 March 2018 £000
	Bonds	
115,432	Public Sector : UK quoted	114,952
37,746	: Overseas quoted	37,363
153,178		**152,315**
	Equities (Direct)	
219,251	UK quoted	226,155
17,446	Other European quoted	18,272
236,697		**244,427**
	Pooled Investments	
55,303	UK (Equities)	54,917
35,301	Other European (Equities)	35,927
66,106	American (Equities)	69,087
27,652	Japanese (Equities)	27,858
25,917	Other Overseas (Equities)	26,083
22,189	Developing Markets (Equities)	22,283
6,935	Property Managed Fund/Units quoted	7,561
14,386	Property Managed Fund/Units unquoted	15,336
1,310	Other Investment Balances	1,434
3,638	Cash with Fund Managers	2,829
2,328	Derivatives (Futures)	1,329
261,065		**264,644**
	Investment Liabilities	
(2,330)	Derivatives (Futures)	**(1,348)**
150	**LCIV Subscription**	**150**
648,760	**Total**	**660,188**

14.5 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. These instruments are essentially used by the Fund Managers for efficient portfolio management.
At 31 March 2018, the value of FTSE futures amounted to less than 0.5% of all equity investment in the Fund (0.5% in 2016/17).

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

Type	Expires	Economic exposure £000	Market value 31 March 2017 £000	Economic exposure £000	Market value 31 March 2018 £000
UK Equities	Three – Six months	2,330	2,328	1,348	1,329

14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2018.

14.7 Investments exceeding 5% of net assets

The table below shows investments exceeding 5% of total net assets, (all these investments are pooled).

% Market Value 2016/17	Security	% Market Value 2017/18
11.90	Aberdeen Global II Index Linked	11.65
9.34	UBS Life North America Equity Tracker	9.38
7.23	UBS Life UK Equity Tracker	7.35
5.84	Aberdeen Global II Global Aggregate	5.69
5.34	UBS Life Europe Ex UK Equity Tracker	5.34

The largest single direct holding is HSBC at 1.74% (1.62% in 2016/17).

The following investments represent more than 5% of their asset class.

% Market Value 2016/17		Security	% Market Value 2017/18	
£000	% of asset class		£000	% of asset class
		Bonds		
37,746	24.64	Aberdeen Global II Global Aggregate	37,363	24.53
76,902	50.20	Aberdeen Fund Mana Sterling	76,545	50.25
26,224	17.12	Aberdeen Sterling Long Dated Gov Bond	26,368	17.31
12,306	8.03	Aberdeen Sterling Long Dated Corp Bond	12,039	7.90
		Pooled Investments		
60,310	25.94	UBS Life North America Equity Tracker	61,632	26.10
46,694	20.09	UBS Life UK Equity Tracker	48,308	20.46
34,522	14.85	UBS Life Europe Ex UK Equity Tracker	35,082	14.86
17,692	7.61	UBS Life Pacific/Ex Japan Eqty Tracker	17,765	7.52
17,165	7.38	UBS Life Japan Equity Tracker	17,973	7.61
13,805	5.94	Aberdeen Global Emerging Markets	12,438	5.27
		Pooled Property Investments		
14,145	66.35	UBS Triton Property Unit Trust	15,336	66.98
6,935	32.53	Blackrock UK Property	7,561	33.02
2,328	100	**Derivative Contracts - Futures**	1,329	100

15. Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Current market "bid" price	Not required	Not required
Quoted bonds	Level 1	Current market "bid" price	Not required	Not required
Derivatives	Level 1	Valued from prices set by independent participants in the market	Not required	Not required
Property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

15a Fair Value Hierarchy

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

Level 1 – 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 interest 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 2017			31 March 2018	
Quoted market price Level 1 £000	Quoted market price Level 2 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000
625,981	21,321	Financial assets at fair value through profit and loss	635,661	22,896
3,788		Loans and Receivables	2,979	
		Financial Liabilities		
(2,330)		Fair Value through profit and loss	(1,348)	
627,439	**21,321**	**Total**	**637,292**	**22,896**

16. Financial Instruments

16.1 Classification of financial instruments

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

31 March 2017				31 March 2018		
Designated at fair value through profit and loss £000	Loans and receivables Restated £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
			Financial Assets			
153,178			Bonds	152,315		
236,697			Equities	244,427		
232,468			Pooled Investments	236,156		
21,321			Pooled Property Investments	22,896		
2,328			Derivative Contracts	1,329		
	3,638		Cash With Fund Managers		2,829	
	150		LCIV Subscription		150	
1,310			Other Investment Balances	1,434		
	2,641		Debtors		4,339	
647,302	**6,429**	**0**		**658,557**	**7,318**	**0**
			Financial Liabilities			
(2,330)			Derivative Contracts	(1,348)		
		(708)	Creditors			(1,344)
(2,330)	**0**	**(708)**		**(1,348)**	**0**	**(1,344)**
644,972	**6,429**	**(708)**		**657,209**	**7,318**	**(1,344)**

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 2017 £000		31 March 2018 £000
	Financial Assets / Liabilities	
109,173	Fair Value through profit and loss	(16)
29	Loans and Receivables	12
109,202	**Total**	**(4)**

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

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

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

17.2 Market risk

The Fund is exposed to market risk from its investment activities 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 £1,328,765 (£2,328,160 as at 31 March 2017)

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in 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 Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,829	0.7	2,849	2,809
Investment portfolio assets				
UK Equities	281,073	9.4	307,494	254,652
Overseas Equities	199,510	9.4	218,264	180,756
Bonds and Index Linked	152,315	10.3	168,003	136,626
Property	22,896	3.5	23,698	22,095
Income Due	1,434	0.00	1,434	1,434
Fixed Deposits (LCIV Subscription)	150	0.00	150	150
Total Assets	**660,207**		**721,892**	**598,522**

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

Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	3,638	0.01	3,638	3,638
Investment portfolio assets				
UK Equities	274,554	8.05	296,656	252,452
Overseas Equities	194,611	10.29	214,636	174,586
Bonds and Index Linked	153,178	11.03	170,074	136,282
Property	21,321	2.40	21,833	20,809
Income Due	1,310	0.00	1,310	1,310
Fixed Deposits (LCIV Subscription)	150	0.00	150	150
Total Assets	**648,762**		**708,297**	**589,227**

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 2018 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

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

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

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

Asset Type	Potential market movements (+/-) %
Equities	9.4
Bonds and Index Linked	10.3
Cash	0.7
Property	3.5

17.5 Interest rate risk

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

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

17.6 Currency risk

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

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

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

The table below shows the currency exposure by asset type as at 31 March 2017.

Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	194,611	8.46	211,075	178,147
Overseas Bonds	37,746	8.46	40,939	34,553
Total Overseas Assets	**232,357**		**252,014**	**212,700**

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2018. 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 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	1,287	9.00%	1,403	1,171
EURO	13,977	9.00%	15,235	12,719
Swedish Krona	1,618	9.70%	1,775	1,461
Swiss Franc	4,805	10.30%	5,300	4,310
US Dollar	37,508	9.70%	41,146	33,869
Total	**59,195**		**64,859**	**53,530**

Currency	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	1,007	9.15	1,099	915
EURO	8,463	9.13	9,236	7,690
Norwegian Krone	351	10.96	389	313
Swedish Krona	2,289	9.07	2,497	2,081
Swiss Franc	5,364	12.46	6,032	4,696
US Dollar	37,785	9.13	41,235	34,335
Total	**55,259**		**60,488**	**50,030**

17.7 Credit risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2018. The investment manager reports on the credit quality of the portfolio on a quarterly basis.
The table below shows the credit quality for the Aberdeen Bond portfolio.

Value at 31 March 2017 £000		Value at 31 March 2018 £000
3,829	AAA	7,768
117,793	AA	111,342
14,399	A	14,470
14,399	BBB	15,536
1,379	BB or below	1,219
1,379	Cash	1,980
29	Settled Cash	38
153,207		**152,353**
150	LCIV Subscription	150
153,357	**Total**	**152,503**

17.8 Liquidity risk

The Authority 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

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

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

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

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

As at the 2016 actuarial valuation, the Fund was assessed as 94% funded. This corresponded to a deficit of £32.7m. at that time.

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

	2010 Valuation	2013 Valuation	2016 Valuation
Funding Level %	84.0	89.0	94.0
Funding (Deficit) £m	**(67.2)**	**(53.2)**	**(32.7)**

The assessed value of assets held by the Fund at 31 March 2016 was £525.5m (2013 valuation: £451.0m), whilst the liabilities accrued in respect of pensionable service were £558.2m (2013 valuation: £504.2m).

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

Financial Assumptions

Financial Assumption		31 March 2016	31 March 2013
Discount rate Pay increase	 Long Term Short Term	5.5% 3.9% Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020	5.9% 4.5% CPI for period 31 March 2013 to 31 March 2015
Consumer price inflation (CPI)		2.4%	2.7%
Pension increases		2.4% Funds will pay limited increases for members that have reached Statutory Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase.	2.7%
Pension increases on GMP		For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	No allowances for limit in increase for any members

Demographic Assumptions

The main assumptions are detailed below:

Demographic Assumptions	31 March 2016	31 March 2013
Allowance for improvement in life expectancy	2015 Continous Mortality Investigation (CMI) Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
Allowance for 50:50 membership	Based on members' current section	10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes. In order to meet this requirement, the Fund’s actuary has carried out an additional assessment of the Fund as at 31 March 2018, using a valuation methodology that is consistent with IAS19.

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

Financial Assumptions	Assumptions as at 31/03/18 %
Inflation/Pension Increase Rate	2.30
Salary Rate Increase	3.80
Discount Rate	2.55

The value of the Fund’s promised retirement benefits as at 31 March 2018 was:

31/03/17 £m		31/03/18 £m
1,002.2	Present value of promised retirement benefits	1002.5

20. Current Assets

31/03/17 £000	Current Assets	31/03/18 £000
79	Contributions Due	242
189	Sundry Debtors	641
2,452	Cash in Hand	3,698
2,720	**Total**	**4,581**

Analysis of Debtors

31/03/17 £000	Current Debtors	31/03/18 £000
38	Administering Body	168
41	Admitted and Scheduled Bodies	74
189	Sundry Debtors	641
268	**Total**	**883**

21. Current Liabilities

31/03/17 £000	Creditors	31/03/18 £000
(628)	Fund Managers Fees	(755)
(80)	Sundry	(589)
(256)	Payroll	(273)
(964)	**Total**	**(1,617)**

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and

Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the Pension Fund accounts but are paid over by the Authority's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.
The amount of additional voluntary contributions paid by members during 2017/18 to AVC schemes outside the Authority's responsibility was £0.442m (£0.172m at 31 March 2017). The external providers have reported that at 31 March 2018 the total value of accumulated AVCs is £2.36m (£2.05m at 31 March 2017).

23. Related Parties

Merton Council
Merton Pension Fund is administered by Merton Council consequently there is a strong relationship between the Council and the Pension Fund. During the reporting period, the Council incurred costs of £0.41m (2016/17 £0.36m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of scheme members and contributed £15.7m to the Fund in 2017/18 (2016/17: £16.2m).

There were no significant year end asset or liability balances that needed to be disclosed in respect of related party transactions.

Governance
C Holland, (Director of Corporate Services) is an active member of the Pension Fund. There are no members of the Pension Fund Advisory Panel (PFAP) in receipt of pension benefits.

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

	31/03/17 £000	31/03/18 £000
Short-term benefits	88,570	103,114
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total remuneration	**88,570**	**103,114**

24. Contingent Asset/Liabilities
As at 31 March 2018 there were no contingent assets or liabilities to disclose.

Statements of Responsibilities

The Authority's Responsibilities

The Authority is required:

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

1.1. The Director of Corporate Services' Responsibilities

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

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

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

The Director of Corporate Services has also:

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

1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2018.

Signed

C Holland

Director of Corporate Services

31st May 2018

Independent Auditor's Report

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.

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 Authority 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 Authority'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 Authority's General Fund.

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

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

CONTINGENT ASSETS AND LIABILITIES

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

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

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 Authority, which is due immediately or in the short term. Accordingly, it does not include money on taxation to the Authority. Creditors are an example of the concept of accruals.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of the liabilities earned by employees in the current period in a defined benefit scheme.

CURTAILMENT COSTS

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

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

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

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
Department for the Environment, Food and Rural Affairs.

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

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

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

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

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

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

FINANCE LEASE

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

FINANCIAL YEAR

The financial year runs from the 1st April to the following 31st March.

FINANCIAL INSTRUMENT

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

FIXED ASSETS

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

FTSE 100

This is the index of the top 100 UK listed companies by market capitalisation.

GENERAL FUND

The main fund of the Authority, from which all expenditure is met and all income is paid, with the exception of those items, which by statute have to be taken to some other account.

GOVERNMENT GRANTS

Financial assistance by government and other bodies, in the form of cash transfers to an authority in return for compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE

The total expenditure of a fund or account.

GROUP ACCOUNTS

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

HERITAGE ASSETS

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

IFRS

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

IMPAIRMENT

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

INCOME AND EXPENDITURE ACCOUNT

Accounts which show all money receivable or payable by the Authority in the accounting period to which they relate. Accounts that record receipts and payments are converted to income and expenditure by the inclusion of debtors and creditors.

INFRASTRUCTURE ASSETS

Fixed assets that have no realistic expectation of being sold but are retained to deliver core services e.g. roads, drainage etc. and in respect of which expenditure cannot be recovered through disposal.

INTANGIBLE ASSETS

Intangible assets are defined in IAS38 as 'identifiable non-monetary assets without physical substance'.

INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND)

The investments of the pensions fund will be accounted for in the statements of that fund. However, authorities (other than district councils in Northern Ireland) are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

INVESTMENTS (NON-PENSION FUND)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

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

JOINTLY CONTROLLED ENTITY

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

LEASING

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

LEVY

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

LIABILITIES

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

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 Authority as part of the Council Tax on behalf of another statutory body.

PRIVATE FINANCE INITIATIVE (PFI)
PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

PRIOR PERIOD ADJUSTMENTS
Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

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

RESERVES
These are amounts set aside for specific purposes. The Authority has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

RESIDUAL VALUE
This is the estimate, based on current prices, of the increase in market value of the buildings transferred to 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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CORPORATE SERVICES DEPARTMENT
Caroline Holland - Director

London Borough of Merton
Merton Civic Centre
London Road
Morden, Surrey SM4 5DX
DX 41650 Morden
***Direct Line:* 0208 545 3531**
Email:
steve.bowsher@merton.gov.uk
Date: 8th November 2018

Suresh Patel
Associate Partner
Ernst & Young LLP
1 More London Riverside
London
SE1 2AF

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of the London Borough of Merton ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of London Borough of Merton as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. FINANCIAL STATEMENTS AND FINANCIAL RECORDS

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and the Council that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected the differences relating to the New Schools PFI scheme identified by and brought to the attention from the auditor because your findings were not made available to us until late in the audit process, and therefore we have not had any opportunity to corroborate these findings and consider any adjustments necessary to the financial statements. We have agreed to review your findings and make any necessary corrections to the accounting records in the 2018/19 financial year. We have not corrected the historic creditor balance in the Balance Sheet as at 31st March 2018 as our work to confirm that this balance overstates our creditors was completed late in the audit process and has not been fully discussed with our external auditors. We have agreed to correct for any overstatement in the 2018/19 financial year.

B. NON-COMPLIANCE WITH LAW AND REGULATIONS, INCLUDING FRAUD

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

    - involving financial statements;

    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;

    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or

- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. INFORMATION PROVIDED AND COMPLETENESS OF INFORMATION AND TRANSACTIONS

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   - Additional information that you have requested from us for the purpose of the audit; and

   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.

3. We have made available to you all minutes of the meetings of the Council held through the year to the most recent meeting of the Standards and General Purposes Committee on 8 November 2018.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 12 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than those described in Note 33 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

Comparative information – corresponding financial information

1. As part of your audit significant errors were detected in the carrying value of land and buildings property, plant and equipment assets valued at depreciated replacement cost. The errors in our valuation approach led to misstatements which were present prior to the start of the comparative year. Restatement and disclosure of corrected opening balances at the start of the comparative year has also been required.

2. The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this these restatements has also been included in the current year's consolidated and council financial statements.

Estimates

Valuation of Property, Plant and Equipment

Valuation of Pension Fund assets and liabilities

Accounting entries relating to Private Finance Initiative schemes

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Caroline Holland

Director of Corporate Services

____

Cllr Peter McCabe

Chair of the Standards and General Purposes Committee

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London Borough of Merton

Audit results report

Year ended 31 March 2018

30 October 2018

Building a better working world

30 October 2018

Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Standards and General Purposes Committee. This report summarises our audit conclusion in relation to the audit of Merton Council's statement of accounts for 2017/18 further to the progress reports we have issued to you on 25 July and 28 August 2018.

We have substantially completed our audit of the Council's accounts for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the statement of accounts in the form at Section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

As explained in our progress report of 25 July it was not possible to conclude our work and issue our report by the statutory deadline of 31 July 2018. We include details in this report of the significant issues we identified during the audit and summarise some significant changes to the Council's accounts, particular in relation to property, plant and equipment (PPE). None of the PPE issues impact on the Council's level of general fund balances. We have made 3 recommendations for the Council to improve its arrangements for determining the valuation of its PPE and for preparing its accounts and have obtained management response. We also include in Section 9, the proposed additional fees associated with the additional work we have been required to undertake to complete the audit. This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Standards and General Purposes Committee meeting on 8 November 2018.

Yours faithfully

Associate Partner,

For and on behalf of Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment (updated February 2017)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Standards and General Purposes Committee of the London Borough of Merton in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of the London Borough of Merton those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee, and management of the London Borough of Merton for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our Audit Plan presented to the 15 March Standards and General Purposes Committee (the Committee) meeting, we provided you with an overview of our audit scope and approach for the audit of the Council's statement of accounts. We then communicated a number of changes in the scope of our audit in our Year-End Progress Report presented to the 30 July 2018 meeting. For completion we repeat the original scope and the changes we made:

- We revisited the significant risk we reported in respect of management override of controls. We determined that our specific response does not need to address as an element of the significant risk the following areas as we do not consider they present a risk of material fraud:
    - Changes made to accounting policies.
    - The completeness and valuation of provisions
    - Inappropriate capitalisation of expenditure.

  We still undertook procedures on these aspects of the Council's accounts but not as part of responding to the significant risk relating to management override of controls. This reduces our work in these areas by a small amount and negates the need for specific reporting on completion. Our response to the significant risk of management overriding controls still included testing the appropriateness of journal entries, reviewing accounting estimates and evaluating the business rationale for significant unusual transactions. We also undertook work on the Council's approach to calculating its minimum revenue provision which we considered relevant to the risk of management override of controls and have therefore undertook appropriate procedures to respond to the risk of fraud. We consider this further in Section 2 of this report.

  Given the scale of errors detected relating to the valuation of property, plant and equipment (PPE), which are set out in more detail in Sections 2 and 4 of this report, we revised our audit approach to consider the valuation of PPE, and land and buildings specifically, to be a significant risk. We also involved our own expert, EY Real Estate (EYRE), in light of our initial findings to ensure we gained sufficient and appropriate audit assurance.

- In our Audit Plan we identified the earlier accounts deadline and preparation of group accounts in 2017/18 as an inherent risk impacting on the audit of the financial statements. Although these issues clearly created business and delivery risks for the Council we have revised our approach to be clear that they do not generate risks at the financial statements level.

- We communicated that our audit procedures would be performed using a materiality of £10.6m. We updated this assessment using the draft financial statements and we also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on net cost of services we have updated our overall materiality assessment to £11.2m for the single entity financial statements and £11.4m for the group. In the Audit Plan we also informed you that we had set performance materiality at 75% of overall materiality on the basis that at that stage we did not expect to identify material misstatements in the accounts. We set our performance materiality at an appropriately low level to reduce the probability that the aggregate of any uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. In light of the errors identified across a number of aspects of the accounts, but particularly in relation to the valuation of PPE, we revisited the determination of performance materiality and reduced it to 50% of overall materiality. This reduced performance materiality from the initial £8.4m to £5.6m for the single entity financial statements and from £8.5m to £5.7m for the group. As a consequence we needed to revisit the initial testing performed at the execution phase of the audit, increase sample sizes where required and undertake audit procedures on balances previously below the initial performance materiality.

Executive Summary

Scope update (contd)

- Our Audit Plan included as a significant risk the risk of fraud in recognising revenue relating to CHAS Ltd. Although 2017/18 outturn CHAS revenue is above our performance materiality level for the group and we believe there is a risk of fraud in revenue recognition relating to CHAS revenue, we consider it highly unlikely that any misstatement could exceed performance materiality, so that risk is not material to the group audit. Outturn CHAS revenue is also below our overall materiality level for the group audit of £11.4 m. We therefore concluded there is no significant risk of material misstatement. Although it will remain subject to some testing this reduced the level of testing required of CHAS revenue.
- We had also determined that CHAS Ltd was a significant component in the group financial statements due to its risks and financial size. We would like to clarify that CHAS Ltd is a significant component to the 2017/18 financial statements based on risk only. We determined our approach should be to apply a specific scope to our work on CHAS Ltd based on the nature of the transactions between the Council and the company.

We include in Appendix A a summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit.

Status of the audit

We have substantially completed our audit of Merton Council's statement of accounts for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Plan and updated further during the course of the audit. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's statement of accounts in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Receipt of one outstanding bank confirmation for a school balance
- Final agreement of all amendments made to the revised financial statements
- Final agreement of group consolidation
- Final completion of internal file review and any work to address points raised
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Full completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

Our audit of the Council's accounts had resulted in management making significant adjustments to the accounts:

- Significant changes have been made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work. At the end of 2017/18 the total net book value of PPE increased by approximately £163 million from £561 million to £724 million as a result of the adjustments made.
- Service level income and expenditure in Comprehensive Income and Expenditure Statement (CIES) was grossed up by approximately £31.5 million for inter-departmental recharges. Service level income and expenditure in the Group CIES was grossed up by a further £10 million. These errors were highlighted by management early in the audit process but should have been detected as part of closedown.
- IAS 19 entries in the financial statements were originally based on an inaccurate IAS 19 report resulting in overstatement of the Council's pension liability and understatements of the pensions reserve by approximately £6.7 million. This error was again identified by management but should have been fully corrected prior to the draft financial statements being produced.

The Council has made all the above significant adjustments in the revised accounts. We include specific details in Section 4 Audit Differences. There were also a relatively large number of lower value and disclosure adjustments made as a result of our work which have also been corrected in the revised accounts.

We identified two unadjusted audit differences in the draft statement of accounts which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Standards and General Purposes Committee and included in the Letter of Representation. The value of the unadjusted audit differences is £3.7 million. We agree with management's assessment that the impact is not material.

Areas of audit focus

Our Audit Plan and Scope Update section of this report identified key areas of focus for our audit of Council's statement of accounts. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Standards and General Purposes Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through undertaking the audit we have not identified a significant deficiency in the design or operation of an internal control that might result in a material misstatement in your statement of accounts and which is unknown to you. However, we have identified, and report further in Sections 2 & 7, deficiencies in the arrangements the Council has in place to ensure the valuation of its PPE is reflected materially correctly in its accounts.
As part of our work we have, however, identified some weaknesses in the Council's control environment whish we wish to draw to your attention. These are set out in more detail in Section 7 together with management comments on our observations.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified one significant risk around the challenging financial outlook the Council continues to face and the impact of this on its arrangements to deploy resources in a sustainable manner. Our detailed work and conclusions in relation to this are set out in Section 5.

We also received correspondence from a member of the public asking us to investigate the Council in relation to its actions to secure a site for a new secondary school. We considered the correspondence against our responsibilities as external auditor and determined that there were matters raised that were relevant to our value for money conclusion. We undertook additional work to gain assurance in relation to those matters and concluded that the approach taken by the Council was not unreasonable.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. An amendment was made to the Statement as a result of our work to include issues relating to the valuation of PPE detected as a result of our work and the Council's plan to address them. We have no other matters to report as a result of this work.

As at 30 October 2018 delivery of the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission remains ongoing. Some amendments will be made to the consolidation template produced by the Council as a result of our work.

We have also concluded there is scope to improve the Council's arrangements to closedown its financial ledger, produce materially correct draft financial statements and support those financial statements with adequate working papers and included an associated recommendation as part of this report.

Independence

Please refer to Section 10 for our update on Independence where we conclude that there are no matters to report.

Executive Summary

Recommendations and management responses

We have made three recommendations to management relating to the findings to the audit of the accounts. Management have provided a response to each.

Recommendation 1

Consider the adequacy of the arrangements put in place to derive materially accurate fair values for PPE in advance of the closedown process for the 2018/19 statement of accounts.

Recommendation 2

Improve the process of supervision and review over the calculations, assumptions and judgements underpinning the valuation of PPE.

Management response to recommendations 1 & 2

We will be conducting an extensive post closure review, in line with previous years, once the Accounts are signed off. This will major on a route and branch review of our valuation processes and will introduce a greater degree of supervision together with sample testing to ensure accurate reporting is this important area. We will also consider the need to bring in some external validation of the process, particularly for the 2018/19 accounts..

Recommendation 3

Improve arrangements to closedown the financial ledger, produce materially correct draft financial statements and support those financial statements with adequate working papers.

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Management response to recommendation 3

The Council will undertake an extensive review of the closure process both internally and with EY, in line with previous years. This will include a commitment to:

- An even greater focus on upstream work that can be undertaken prior to the commencement of the audit.
- Where practical, to build up greater resilience in our closure team.
- Improving protocols and continuity plans for operating the EY portal which proved to be problematic at key times during the audit.
- The recognition that both sides need to improve communications and importantly the logging of key decisions and discussions throughout the audit process.
- Improving closure task lists and robust signoff processes.
- Closer liaison and scrutiny of the valuation process by managers within Environment and Regeneration and Corporate Services.

02 Areas of Audit Focus

Significant risk – Misstatements due to fraud or error

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Significant Risk

Minimum Revenue Provision (MRP)

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to make a prudent annual provision for the repayment of borrowing. This is known as the Minimum Revenue Provision (MRP).

MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. From 2017/18 the Council has decided to make changes to its future approach to calculating MRP.

Given the real impact of the charge on the reported financial position and performance of the Council we consider this change in approach to be relevant to the risk of management override.

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What did we do?

In response to the identified risk we:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

Minimum Revenue Provision (MRP)

We commissioned an EY expert to review the changes made by the Council in this area. Our approach focused on:

- Considering the prudence of the revised policy and approach.
- Assessing the accuracy of the calculation of the revised charge.
- Ensuring transparent disclosures are included in the financial statements to explain the change in policy.

We utilised our data analytics capabilities to assist with our work, including carrying out journal entry testing.

Significant risk – Misstatements due to fraud or error

Our conclusions

We have not identified any evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Minimum Revenue Provision (MRP)

Based on our consideration of the work undertaken by the EY Expert and the audit team's procedures on MRP we are satisfied that:

- The revised MRP charged for the current and previous years has been calculated correctly, is in accordance with extant regulations and is consistent with the planned approach reported to members and approved by the Council. The approach taken is not unusual, and a number of other councils have sought to alleviate short to medium financial pressures by re-profiling MRP.

- The paper describing the approach that was presented to members was clear, particularly in noting that the approach is a deferral of revenue costs rather than recurrent saving and that the overall charge over the revised 50 year repayment period will be greater.

- A prudent approach has been taken by the Council. Under the Council's previous policy, although allowable under the regulations, the amount outstanding would never have been fully paid down whereas under the new policy full repayment will occur over a 50 year period. The new policy relates to pre-2008 and subsequent supported borrowing only, and there has been no backdating of the policy.

The Council's MRP charge is based, in part, on its Capital Financing Requirement (CFR). When our work on this area was undertaken by our specialist at the interim stage of the audit we recommended to the Council that it should undertake a three-way reconciliation between its CFR calculated by reference to its balance sheet, to the CFR note in its Statement of Accounts and then to the items on which MRP is calculated. The work of our specialist to undertake this reconciliation at the interim stage of the audit identified a small difference that was not material to our responsibilities. The reconciliation was re-performed at year end. The difference between MRP calculated by reference to its balance sheet and MRP based on the items on which MRP is calculated is trivial. We are also satisfied that MRP reported in the financial statements and actually charged during the year is based on the higher amount.

Significant risk – Valuation of Land and Buildings

What is the risk?

Valuation of Land and Buildings

The fair value of land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We originally considered the risk of materially inaccurate valuation of Council land and buildings to be an area of audit focus rather than significant risk in our Audit Plan. Given the scale of errors detected by our initial testing relating to the valuation of land and buildings we revised our audit approach and concluded that the valuation of land and buildings was a significant risk. In particular given the different methods applied, assumptions used and judgements made by the Council when determining the value of assets at depreciated replacement cost (DRC) and existing use value (EUV). We have been required to design special audit procedures to obtain sufficient assurance that the accounting disclosures are materially correct.

Significant Risk

What did we do and what did we find?

Our approach to the audit of the property, plant and equipment (PPE) balance appearing in the Council's 2017/18 financial statements included detailed testing of a sample of specialised land and building assets carried at depreciated replacement cost (DRC), the bulk of which are local authority controlled schools. Our approach was to agree key data used in the valuation to supporting evidence, including publically available market data and other third-party information sources, and challenge key assumptions made by the Council's valuer in determining the carrying value of assets at the balance sheet date. The composition by net book value (£) of the Council's total PPE balance disclosed in its draft financial statements split by valuation basis as is set out below:

		Net book value **31/03/2018** **£**
EUV	Existing Use Value	98,519,720.46
DRC	Depreciated replacement cost	321,965,740.38
	Others	147,118,271.92
		567,603,732.76

Our work to test land and buildings assets valued identified a number of errors and other inaccuracies in the valuation process which are summarised in the table over-page.

Significant risk – Valuation of Land and Buildings

What did we do and what did we find? (Contd)

Issue	Finding and resulting actions by Management
Building Cost Information Service (BCIS) rebuild cost per square metre.	BCIS cost had been incorrectly indexed backwards when this was not required to derive the value of specialised assets (e.g. schools) at the balance sheet date. There were further arithmetic errors in the calculation of indexation. Values have been updated using a current index and we have audited both the revised approach and resulting restatement. Correction of the error has resulted in the carrying value of assets at the balance sheet date increasing by approximately £31.5 million.
Asset lives and calculation of depreciation factor.	The asset life to date used in the calculation of the depreciation factor applied to the valuations had been incorrectly determined resulting in an error in the calculation. There was also inconsistency in the assumptions made on the assumed total and residual useful life of buildings. The valuer and management re-considered their approach in light of our challenge. Errors in life to date were corrected and target and residual life assumptions were amended to ensure they were both reasonable and consistently applied. The changes to the Council's approach resulted in the carrying value of assets at the balance sheet date reducing by approximately £30 million.
Valuation of built on land	There was no consistency on the assumed valuation rates per acre for built on land. The source data was not fully specified in all cases. The Council had applied a value which has been derived from property valuation consultants who were commissioned to provide market values in 2006. The values were subsequently indexed up each year to the balance sheet date. The indexed land values at the balance sheet date were close to current industrial land values for South West London based on available market data. Based on current guidance on the valuation of schools, we challenged on the basis that a residential value would be more appropriate and noted that the indexed valuation was significantly below current residential values for South West London based on available market data. We also identified arithmetic errors in the indexation calculation. The valuer and management accepted that current residential values should be used. The Council commissioned the District Valuer as a management expert to provide current residential values for six geographic sub-divisions of the Borough at the balance sheet date for each of the last three accounting periods. Application of these land values increased the carrying value of affected assets at the balance sheet date by approximately £161 million.

The above adjustments impact the balance sheet valuation of land and buildings with the opposite entry being largely the revaluation reserve (part of unusable reserves).

Significant risk – Valuation of Land and Buildings

What did we do and what did we find? (Contd)

As part of our work we engaged our own experts, EY Real Estates (EYRE), in the assessment and challenge of key judgements made by the Council's valuer in determining DRC valuations – for example the reasonableness of the valuation basis (industrial vs residential) for built on land for schools, and the reasonableness of target and residual lives used in the calculation of DRC.

Given the significant and pervasive errors detected in DRC valuations we also commissioned EYRE to consider the approach taken by the Council to the valuation of non-specialised PPE carried at existing use value (EUV). This work was undertaken through a detailed review of the valuation of a sample of assets carried at EUV and resulted in a detailed report being produced by EYRE for the audit team. We directed EYRE to concentrate on assets carried at EUV given there is also a high degree of subjectivity and judgement that needs to be applied by the valuer under this approach, particularly around assumptions made on yield rates used to capitalise income used to inform the valuation. This is different to the remaining PPE where assets are not valued at either DRC or EUV and are either short-life or otherwise valued at depreciated historic cost or nominal value, with far less subjectivity and judgement applied in the valuation approach.

The results of the EYRE work highlighted some values that were considered to be outside of a reasonable range, although the magnitude of error was far smaller than for assets carried at DRC. We include the table below to show the assets which were outside of the range, our challenge to management and the outcome. The Council has made further amendments to the financial statements in light of the findings and further work has been undertaken by the audit team to gain assurance that the potential wider impact of the findings was not material.

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Asset tested	Management valuation £	EY range £	EY challenge	Outcome
A	1,498k	1,670 – 2,040k	The valuation disregards the hire income for the first 9 months of the cash flow	Agreed - Management have revised the valuation to £1,894k
B	1,547k	2,480 -3,500k	Management have an unsupported assumption related to the net Income used for 2017-18 and could use more recent information on car parking income	Agreed - Management have revised the valuation to £2,807k
C	8,500k	6,000 – 7,330k	Should the void period be greater than management's 12 months?	No change - We accept management's assertion that they have yet to try and let the property so the void period is sufficient.
D	71k	115-165k	Assumptions on ground rent are too low having regard to the current market.	No change - We accept management's assertion that the ground rent charge is prescribed by the lease.
E	224k	330-580k		

Significant risk – Valuation of Land and Buildings

Conclusions and way forward

In determining the adjustments required to the financial statements as a result of the identified errors we asked the Council to consider the requirements of IAS 8 and the CIPFA Code of Practice on Local Authority Accounting (the Code) as to whether prior period adjustments were required to be made in respect of the error identified. The adjustments required are caused by errors in the valuation approach which have resulted in material errors in the carrying value of PPE and other associated entries in the financial statements and therefore meet the criteria for prior year adjustments set out in IAS 8 which is adopted by the Code. The errors in the Council's valuation approach leading to the misstatements existed prior to the start of the comparative year disclosed in the accounts. The Council has determined, and we agree, that it needs to restate and disclose corrected opening balances at the start of the comparative year i.e. prepare a 'third balance sheet' showing the restated financial position of the Council as at 1/4/2016.

The required re-statement is more pervasive in its impact than being limited only to PPE balances and disclosures in the balance sheet, with the following disclosures being effected and requiring restatement:

- The carrying value of property plant and equipment in the Balance Sheet and associated disclosure note.
- Current year and prior year depreciation charges to the Comprehensive Income and Expenditure Account (CIES) and accumulated depreciation in the Balance Sheet and associated disclosure notes.
- Impairment charges and the reversal of prior year impairments in the CIES.
- The calculation and disclosure of profit and loss on disposal in the CIES.
- The reversal of depreciation and impairment from the CIES and associated entries in the Expenditure and Funding Analysis and Adjustments between Accounting Basis and Funding Basis disclosure notes.
- The balance on the Revaluation Reserve and Capital Adjustment Accounts in Balance Sheet unusable reserves and associated disclosure notes.

The full details of the adjustments made are set out in the prior period adjustments disclosure at Note 19 of the Council's revised financial statements.

We have also considered the underlying cause of the deficiencies in the valuation approach we identified which we consider to be a significant deficiency in internal control at the Council. In our view based on the findings of our work and engagement of our own expert, there were deficiencies in the arrangements adopted by the Council to derive and disclose a fair value for its assets. These deficiencies not only relate to the valuation process itself but also to the adequacy and effectiveness of supervision and review of the valuation calculations, assumptions and judgements. We note that the Council has now recognized weaknesses in the valuation process as a significant governance issue in it's 2017/18 Annual Governance Statement and as a result management have stated that they will undertake an internal review to ensure that future valuation work is both accurate and timely.

Recommendation 1 - Consider the adequacy of the arrangements put in place to derive materially accurate fair values for PPE in advance of the closedown process for the 2018/19 statement of accounts.

Recommendation 2 - Improve the process of supervision and review over the calculations, assumptions and judgements underpinning the valuation of PPE.

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
Pension Asset/Liability Valuation The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The pension fund deficit is a material estimated balance and disclosed on the balance sheet. At 31 March 2017, our assessment at the planning stage of the audit, this totalled £368 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	The procedures we undertook were to: • Liaise with the auditors of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council; • Assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.	There was an error in pensions asset data provided by Merton Pension Fund (the Fund) to the actuary that was used to produce the IAS 19 report. This was detected by the Fund in May and communicated to the Council. To correct the error details of outturn pensions assets data were provided by the Fund to the actuary and a revised IAS 19 report produced in May prior to the draft financial statements being submitted for audit. However IAS 19 entries in the draft financial statements were made based on the original erroneous IAS 19 report. This was detected as a result of the audit and adjustments made so that IAS 19 entries in the revised financial statements are now based on the corrected IAS 19 report. We did not identify any other material issues with regard to the valuation of pension assets and liabilities

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
PFI accounting The Council has a material PFI arrangement. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2016/17 and concluded that the accounting disclosures were materially correct. We did also identify and report to management some non-material issues.	In response to the risk we: • Reviewed assurances brought forward from the prior year regarding the appropriateness of the PFI financial model; • Reviewed the PFI financial model for any significant changes, and if identified consider engaging relevant experts to review the model to ensure they are still working as expected; • Ensured the PFI accounting models have been updated for any service or other agreed variations and confirm consistency of current year model with prior year brought forward assurances; and • Agreed outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure, and review the completeness and accuracy of disclosures.	Our work in this area is complete, and there are no issues arising from work done in the year that we wish to bring to your attention. We did, however, re-engage our internal expert to consider whether any remaining adjustments were required to the PFI model based on our prior year findings. Our expert's approach is to populate a 'parallel' accounting model developed by EY with the same contractual and other information used by the Council's accounting model. The outputs of the EY and Council models are compared to determine whether outputs from the Council model used to populate the financial statements accord with our expectation. We undertook this approach to ascertain whether residual differences between the output of the Council's model and the findings of our 2016/17 review could become cumulatively material over time. Based on the work of our expert we are content that the total difference between the Council's model and our parallel model does not exceed £3.2 million over the life of the project agreement. These differences arise because the Council accounting model treats an annual reduction made in respect of a previous partial termination of the agreement as a real terms (uninflated) value, whereas it is constant in cash terms. This means that the amount it allocates to the minimum lease rental is less than in the parallel model, in turn reducing the implicit lease interest rate. This results in an earlier amortisation of the lease liability in the Council's model compared to our parallel model. The actual difference at the end of 2017/18 was to understate the PFI liability by £3.1 million and understate net cumulative service costs by £3.1 million. The adjustment needed to increase net service costs would be offset by a reduction in cumulative MRP and would therefore have no overall impact on the reported financial position or performance of the Council. Neither the difference at the end of the year or the full difference are material based on our 2017/18 materiality. We are, however, required to report the difference as an unadjusted misstatement, and have included this in Section 4 of this report. The findings to identify these residual adjustments were only made available late in the audit process. It has therefore not been practicable for the Council to make the necessary adjustments to the accounting models and related disclosures in the financial statements prior to conclusion of the 2017/18 audit. The Council has agreed to make the required adjustments to the accounting models in 2018/19.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE LONDON BROOUGH OF MERTON

Opinion

We have audited the financial statements of The London Borough of Merton for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement and the related notes 1 to 43,
- Collection Fund and the related notes 1 to 5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Merton and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and the Comptroller and Auditor General’s (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Service’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts For the year end 2017/18, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, the London Borough of Merton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Audit Report

Our opinion on the financial statements

Responsibility of the Director of Corporate Services

As explained more fully in the Statement of Responsibilities set out on page 163 the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the London Borough of Merton had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the [name of body] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the [name of body] had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit Report

Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of the London Borough of Merton in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of the London Borough of Merton, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London of Borough of Merton and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of differences

We highlight misstatements greater than £5.6 million which have been corrected by management that were identified during the course of our audit.

- Significant changes have been made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work:
    - At the end of 2017/18 the total net book value of PPE increased by approximately £163 million from £561 million to £724 million
    - At the end of 2016/17 the total net book value of PPE increased by approximately £174 million from £513 million to £687 million
    - At the start of 2015/16 the total net book value of PPE increased by approximately £220 million from £461 million to £681 million

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- Service level income and expenditure in Comprehensive Income and Expenditure Statement (CIES) was grossed up by approximately £31.5 million for inter-departmental recharges. Service level income and expenditure in the Group CIES was grossed up by a further £10 million. This was as a result of the incorrect posting of a journal to eliminate inter-departmental recharges being incorrectly posted as part of closedown. This was detected and corrected in the single entity accounts, but not the group financial statements.

- IAS 19 entries in the financial statements were originally based on an inaccurate IAS 19 report resulting in overstatement of the Council’s pension liability and understatements of the pensions reserve by approximately £6.7 million. This also impacted on IAS 19 entries taken to the CIES and disclosure of adjustments between accounting basis and funding basis.

There are two unadjusted differences arising from our audit which we wish to draw to your attention:

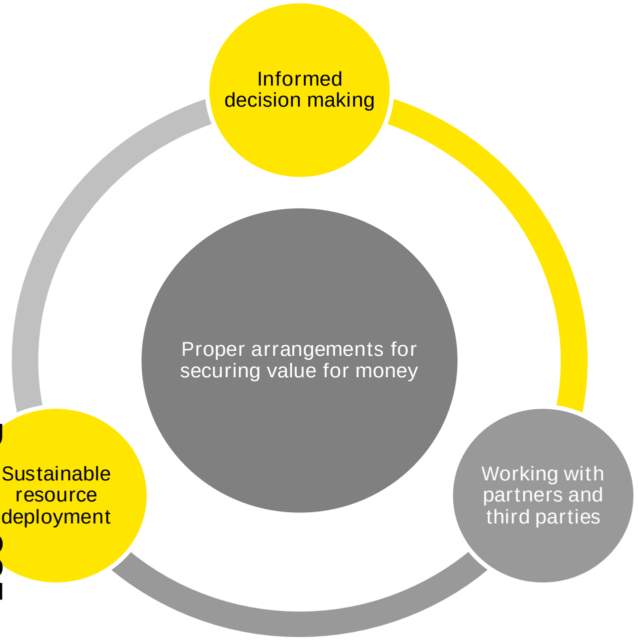
- The closing liability for PFI carried on the Council’s balance sheet is understated by £3.1 million with corresponding adjustments required to cumulative service income expenditure, MRP and the capital adjustment account in unusable reserves of approximately the same amount.

- As part of our work to test creditors in the financial statements we identified a balance of approximately £624,000 relating to balances brought forward from the exercise to migrate to the e5 general ledger that occurred in February 2017. The Council has not yet been able to fully determine what the balance relates to but believe a proportion of the creditors will not need to be repaid but that it is prudent to continue to account for these balances as liabilities while they are investigated. Given the Council’s assertion that a proportion of the creditors will not need to be repaid we are not able to conclude the balance is correctly classified as a creditor and have treated it as an unadjusted misstatement.

There were also a relatively large number of lower value and disclosure adjustments made as a result of our work.

05 Value for Money Risks

Value for Money



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Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money (VFM) conclusion. For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risk around these arrangements. We also responded to information provided by a member of the public during the course of the audit that we deemed relevant to our VFM conclusion responsibilities. The tables below present our findings in response to the risks in our Audit Plan and the information received during the course of the audit.

On the basis of the work we performed we consider the Council has in place proper arrangements to secure economy, efficiency and effectiveness in it's use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public".

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the risk areas in our Audit Planning.

What was the significant value for money risk?	What arrangements did the risk affect?	What was our planned response?
The Authority continues to have a challenging financial outlook. To balance the budget over the medium term it will need to deliver significant savings to not be dependent on its reserves. As at January 2018, the current draft of the Authority's Business Plan for 2018 to 2022 shows a cumulative budget gap including the use of reserves of £37.7 million. As at the end of November 2017, there was a forecast shortfall of £2.6 million or 31% in delivery of the Authority's current year savings target.	• Taking informed decisions • Deploying resources in a sustainable manner	Our approach will focus on reviewing the robustness of the Authority's plans and arrangements to address budget pressures in Community and Housing, which includes adult social care, and Children, Schools and Families, and to achieve its savings targets and address budget gaps to deliver sustainable financial balance over the medium term. This will include follow-up of the issues we highlighted as part of our 2016/17 programme of VFM work. We will also consider the causes of the shortfall against current savings programme targets and any related impact on the Authority's future financial plans.

In our planning work we also considered the weaknesses identified by the Authority in contract standing orders and related processes, notably in respect of the maintenance of a comprehensive contract register, and compliance with its own contract procedure rules. Although we did not consider the risk to be significant we have considered how the Authority has developed its arrangements during the year to address the weaknesses identified. We have also followed up the recommendations we made in the previous year's VFM reporting.

We report our findings on our VFM conclusion work over the remainder of this section of the report.

Value for Money

What are our findings?

2017/18 financial position and performance

At the end of the financial year the overall underspend was £266,000 compared to a £5.4 million overspend or 1 per cent of the gross budget in 2016/17, and a 2017/18 forecast overspend of approximately £600,000 as at month 9. Despite the small surplus delivered services have continued to overspend, with total service overspending in the year of £1.15 million. Service overspending has again primarily been incurred in the more volatile demand led areas of Children, Families and Schools and Community and Housing, although the main area of overspending has shifted from adult social care to children's and in particular social care and youth inclusion budgets. The level of service level of overspending has reduced significantly from 2016/17 (£10.1 million) and is at its lowest level for four years, but the overall underspend was only achieved through service expenditure growth built into to the 2017/18 budget and continued underspending on corporate services budgets and corporate provisions.

The level of usable reserves has decreased in the period. Although the overall General Fund balance has remained unchanged at approximately £12.8 million, usable earmarked revenue reserves (excluding balances held by schools) have decreased by approximately £1 million or 2.4% of total usable earmarked reserves of £41m. There has also been a decrease of £4.2 million in usable reserves available to support capital spending as planned.

Total Capital Expenditure for 2017/18 was £32.2 million compared to an original capital programme budget of £39.5 million. Significant changes were made to the capital programme and budget across the year and, in common with previous years, the forecast of capital outturn made at the end of month 9 (£39.4 million) was significantly over-stated. The relatively high level of slippage in delivery of the programme is also consistent with prior years.

Prior year overspending in Community and Housing related to adult social care, and primarily the access and enablement budget. This has been largely addressed in 2017/18 although there remains some residual overspending at a level of 1 per cent of the budget in this area. The Authority reports that there has been a noticeable reduction in committed expenditure on placements in the latter part of the financial year which is due to the introduction of an outcomes forum, weekly monitoring of variations and increased scrutiny of care packages. It should be noted, however, that Adult Social Care received £9.3 million budget growth in 2017/18 to support identifiable pressures in the placements budget. The changes in arrangements and work practices made in the period have therefore stabilised spending in 2017/18 at broadly 2016/17 levels rather than generating savings. It is essential that this level of control against the budget is maintained as continued budget growth at this level cannot be maintained and is not planned for in the medium term financial strategy (MTFS).

The main driver of overall service level overspending in 2017/18 was overspending in Children Schools and Families. The main area of overspending within the service is social care and youth inclusion costs, although there was also significant overspending against the Special Education Needs (SEN) transport cost budget. The Authority also notes that the service identified underspends to offset cost pressures that are not sustainable on an on-going basis or one-off windfalls which are not guaranteed to reoccur in future years. This means that the demographic and new burdens cost pressures will continue into the new financial year with budgetary pressures being primarily driven by the complexity rather than the volume of cases. Both placement and SEN transport budgets are considered by the Authority to be particularly volatile areas and due to the increasing volume of children's social care activity and Education Health and Care Plan (EHCP) requests the service is concentrating on demand management balancing its education and social care statutory duties with careful and considered oversight of spend.

Value for Money

What are our findings?

Future Financial Planning and the MTFS

The current iteration of the MTFS was presented to Authority in February 2018 as part of the 2018/22 Business Plan. The MTFS forecasts a cumulative budget gap of £17.4 million by 2021/22 after considering the impact of 2018/19 savings and income proposals and transfers from departmental and the Balancing the Budget reserves.

We have considered the reasonableness of pay and price increases built into the MTFS projections. Uplifts for pay inflation are based on the two-year pay increase offered to all council employees from 1 April 2018. The majority of employees will receive an uplift of 2 per cent on 1 April 2018 and a further 2 per cent on 1 April 2019, with those on lower salaries receiving higher increases. The offer also includes the introduction of a new national pay spine on 1 April 2019. In determining uplifts for price inflation the Authority has considered Consumer Price Index (CPI), Retail Price Index (RPI) and bank base rate forecasts over its MTFS planning horizon. Although lower than both CPI and RPI the Authority's estimate of price inflation is higher than the forecast base rate changes. The price inflation assumptions incorporated into the MTFS are cash limited but at a corporate level an 'excess inflation provision' is incorporated into the MTFS. This is intended to assist services that experience price increases greatly in excess of the provision built into the budget. Based on our review we are satisfied that price and pay inflation assumptions built into the MTFS are reasonable. The MTFS also considers:

- Income – there is no assumption around inflation of income from fees and charges built into the MTFS. This is considered to be a prudent approach noting that service departments can treat forecast increases income as part of savings schemes.
- Forecast Collection Fund surplus / deficits and the impact of a move to a London Pilot business rate pool from 2018/19.
- A general contingency for unforeseen cost and demand pressures (£1.5 million).
- Bad debt provision, with no allowance for any increase being made over the period covered by the MTFS.
- Revenuisation – this is the cost of expenditure originally included in the capital programme that could not be justified as capital expenditure.
- Employer pension contributions.
- The cost of local elections.
- Other corporate and technical adjustments.

We have considered savings proposals over and above those already delivered in prior years and incorporated into the MTFS forecast. The scale of the challenge the Authority faces to identify and deliver the savings necessary to balance the budget continues to grow. For the three years 2019/20 to 2021/22 a cumulative total of approximately £3.7 million of savings have been proposed by directorates. To balance the budget without calling on reserves to a greater extent than planned directorates still need to identify and deliver a further £18.4 million of savings by 2021/22. To gain assurance on the robustness of projected savings proposals already built into the 2018/19 budget we selected one agreed proposal from each of the Children, Schools and Families and Community and Housing directorates, and asked to see support for the estimated saving built into the budget and details on progress made on delivery of the saving to date in 2018/19. The savings proposal for Children's, Families and Schools is reported as being fully delivered in the current year giving reasonable assurance the saving proposal was valid and supportable. The Community and Housing saving proposal, which related to Adult Social Care, was not considered to be achievable as a result of changes in circumstances outside of the Authority's control. As a result it was withdrawn and replaced by an alternative savings proposal of similar value which is currently being reported as partially delivered in the current year. This provides some assurance that planned savings are actively reviewed and replacement schemes identified where original schemes are no longer considered viable.

Value for Money

What are our findings?

Future Financial Planning and the MTFS (continued)

We note that significant growth was built into the adult social care budget for 2017/18 in response to demand pressures and overspending in the prior period noted as part of our work on the 2016/17 VFM conclusion. Given the level of assumed growth is reduced significantly across all services from 2018/19 it is essential that planned recurrent savings are realised for the Authority to be financially sustainable.

Overall we have concluded that the MTFS is comprehensive and the reporting of it, and detailed assumptions underpinning it, are clear. The assumptions built into the MTFS are reasonable based on external evidence, comprehensive and not unrealistically optimistic, and there is some support available for savings plans and associated actions. The Authority remains financially resilient over the medium term but financial challenges are continuing to grow. Although reduced in 2017/18 the current level of service overspending is not sustainable. Reserves still offer the Authority some flexibility but it is increasingly important that service level savings are identified and delivered as planned.

Weaknesses in contract standing orders and related processes

As part of our planning assessment we consider Internal Audit work undertaken in the period. At the planning stage we reported that Internal Audit had identified some instances of non-compliance with procurement rules and contract standing orders together with some instances of non-compliance with contract register processes based on its work undertaken at that point in time. Although we did not consider these to be significant risks we identified them as relevant to our value for money conclusion responsibilities and undertook to follow-up progress at the execution phase of the audit drawing on planned 2017/18 Internal Audit reviews of corporate procurement and contract monitoring of commissioned services which had not been delivered at the planning stage.

We have liaised with the Head of Internal Audit who has confirmed that both the corporate procurement and contract monitoring of commissioned services reviews were deferred to 2018/19, with the corporate procurement review currently being undertaken as at July 2018. Based on a discussion with Internal Audit progress made during the year and subsequent to year-end in addressing the previously identified weaknesses in arrangements has been mixed. Some improvements have been identified in the current audit review of procurement in relation to contract standing order updates, the issue of guidance for staff on the intranet, overall strategy and the development and function of Operational Procurement Groups. We are pleased to note these issues have been addressed and are included in the revised Contract Standing Orders issued November 2017. We have concluded that the residual weaknesses are not indicative of an absence of adequate arrangements, but that this is an area where continued focus is needed to improve arrangements.

Value for Money

Follow up of prior year VFM recommendation

As part of our 2016/17 VFM conclusion work at the Authority we raised the following recommendations for improvement in our Audit Results Report. We recommended that the Authority should:

- Consider areas of adult social are related activity where it could further benefit from working in collaboration with its main CCG and other parties to the Sustainability and Transformation Plan, for example, joint procurement or commissioning.
- Ensure that teams are sufficiently supported and encouraged to make effective use of the new IT systems (Mosiac and the E5 general ledger) for producing timely and accurate financial and operational information.

Good progress has been made against the first recommendation. The significant prior year overspend on the access and assessment budget has been largely addressed although there remains some residual overspending. This offers some assurance that work started in 2016/17 and considered as part of our 2016/17 value for money conclusion work has had a positive impact on controlling the sharp increase in demand and unit cost experienced in 2016/17. Some of the arrangements we considered in 2016/17, such as holding weekly budget management meetings and the implementation of a management action plan, have operated throughout 2017/18 and appear to have had a positive impact. Throughout 2017/18 the Authority also reported on the Better Care Fund agreement with Merton CCG and its potential liability of a £474,000 risk share contribution, in addition to a £275,000 pressure from the previous year. At the end of the year there has been a reduction in the expected risk share allocation to £150,000, which the Authority attributes to continued effective working relationships between the Community and Housing management team and the CCG. It should be noted, however, Adult Social Care received £9.3 million growth in 2017/18 to support identifiable pressures in the placements budget. The changes in arrangements and work practices made in the period have therefore stabilised spending in 2017/18 at broadly 2016/17 levels rather than generating savings.

Progress made against the second prior year recommendation has been less strong. An Internal Audit review undertaken in the year of the Authority's CM2000 system received limited assurance. CM2000 is the Authority's electronic care monitoring system, which enables the logging and analysing of home care visits by care providers contracted to use the system. The CM2000 system interfaces with Mosaic, the Authority's main social care system, which in turn interfaces with the E5 general ledger. This process should enable payments to be made to providers automatically and subsequent billing of client invoices to be correct. However, due to problems with system implementation this was not always possible. Although several staff currently have access to CM2000, user-friendly monitoring reports are not readily available and there is a heavy reliance on the CM2000 Contract Monitoring officer to supply information required from the system. It was also not possible for the Authority to undertaken a complete reconciliation of Mosaic to the E5 general ledger throughout the 2017/18 year with a final reconciliation not being completed until April. The Authority's own 2017/18 Annual Governance Statement continues to disclose a governance issue around the need to fully review controls in light of the new E5 financial management system, with the ability to reconcile Mosaic income and expenditure to E5 is a key part of this.

Value for Money

Information provided by a member of the public during the course of the audit

In April this year we received correspondence from a member of the public asking us to investigate the Authority in relation to its actions to secure a site for a new secondary school. We considered the correspondence against our responsibilities as external auditor and determined that there were matters raised that were relevant to our responsibility to form a conclusion on the Authority's arrangements for ensuring the effective, economic and efficient use of its resources. Specifically we agreed to consider whether the Authority complied with its duty to obtain best consideration reasonably obtainable in determining the value of:

- Elim Church
- Domex warehouse.
- Merton Hall
- The specified works to convert Merton Hall.

In carrying out our procedures during May and June in response to the matters raised we sought and obtained a significant amount of relevant and appropriate information from the Authority, as well as verbal responses from officers to a series of follow up enquiries.

In late June we responded to the member of the public with details of our findings and conclusions which in summary stated that based on the procedures we performed, in our view the approach taken by the Authority in determining valuations (which included obtaining external valuations) for the four items specified above was not unreasonable. As a result, we will have no matters to include in the auditor's report in relation to VFM.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and the amendment officers have made to the Statement as a result of our work to include issues relating to the valuation of PPE detected as a result of our work and the Council's plan to address them. We have no other matters to report as a result of this work.

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Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As at 30 October 2018 delivery of the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission remains ongoing. Some amendments will be made to the consolidation template produced by the Council as a result of our work. We will report progress and any matters arising to the 8 November meeting of the Standards and General Purposes Committee.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We were not able to issue our auditor's report by the 31 July deadline. This was due to a combination of material and complex accounting issues in particular in relation to the valuation of the Authority's property, plant and equipment and changes in materiality necessitating additional audit procedures. We also experienced some unexpected audit staff sickness which impacted on delivery.
There were also some errors and issues in the draft financial statements that should have been corrected through better closedown arrangements and quality review of the draft financial statements. These included:

- The grossing up of service level income and expenditure in the draft financial statements by approximately £31.5 million for inter-departmental recharges in the single entity financial statements and a further £10 million in the group financial statements. Although this was flagged by management relatively early in the audit this should have been detected and corrected as part of financial closedown.
- Processing of IAS 19 entries in the financial statements based on an inaccurate IAS 19 report resulting in overstatement of the Council's pension liability by approximately £6.7 million.
- Prior period adjustments being made in the draft financial statements which did not meet the criteria for prior year adjustments set out in IAS 8 and adopted by the Code.

Other reporting issues

Other matters (contd)
We have therefore concluded that there is scope to improve the Council's arrangements to closedown its financial ledger, produce materially correct draft financial statements and support those financial statements with adequate working papers. See recommendation 3. Recommendation 3 Improve arrangements to closedown the financial ledger, produce materially correct draft financial statements and support those financial statements with adequate working papers.

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07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We considered the deficiencies in the valuation approach for land and buildings carried at depreciated replacement cost, which we consider in more detail in Section 3 of this report, to be a significant deficiency in internal control at the Council. We have reported that the Council needs to consider the adequacy of its current arrangements for deriving materially accurate valuations of its PPE and improve the supervision and review of the valuation work. We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. However, there are four further points we wish to bring to your attention over the remainder of this section.

Assessment of Control Environment

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Observation

As part of our work to test creditors in the financial statements we identified a balance of approximately £624,000 relating to balances brought forward from the exercise to migrate to the e5 general ledger that occurred in February 2017. The Council has not yet been able to fully determine what the balance relates to but believe a proportion of the creditors will not need to be repaid but that it is prudent to continue to account for these balances as liabilities while they are investigated.

The amount involved is not material to our responsibilities. Given the Council's assertion that a proportion of the creditors will not need to be repaid we are not able to conclude the balance is correctly classified as a creditor and have treated it as an unadjusted misstatement. It is important that the balance is fully investigated and cleared as quickly as possible in 2018/19.

Management comment

The figure represents historic creditor balances that were transferred into the new e5 system at go live from legacy systems. The Council has undertaken extensive work during 2017/18 and during closing, to fully reconcile the ledger and this work highlighted a number of creditors that will not need to be paid and can therefore be written back to the ledger during 2018/19.
The work undertaken to check the historic creditor balance does indicate that creditors are overstated in the Balance Sheet as at 31st March 2018 but as this work was completed late in the closing process, we have not yet fully discussed our findings with you. Therefore, we consider that we have acted prudently by retaining the £624k creditor in the 1718 accounts. In addition, throughout this process we considered that the sum involved was not material to the accounts and that any adjustment to the balance could be left until 2018/19.

Observation

As part of our work to test creditors appearing in the financial statements we reviewed transactions on the housing benefit control account to which all entitlement and payment transactions relating to Housing Benefit are posted. This consists of entitlements, cash payments and overpayments.
As at the end of the year, the Council review the control account to identify which year balances relate to, whether they relate to under or overpayments of benefit and therefore how they should be accounted for and disclosed in the financial statements at the end of the year. At the end of the year a manual adjustment should have been be made to the code to ensure related creditors were disclosed in the financial statements. However, this year-end journal was not made.

Although the impact of this was ultimately trivial to our responsibilities it is important that all year end closedown actions are properly undertaken.

Management comment

A closedown journal was missed off the work plan resulting in this small inaccuracy. Once it was discovered it was decided not to adjust the accounts given its non-material impact. However, we will tighten up our procedures and ensure a comprehensive checklist is further developed with effective signoff procedures.

Assessment of Control Environment

Observation

As part of our 2016/17 work and Audit Results Report we noted some delays in the performance of key control reconciliations following migration to the e5 general ledger. As part of this we considered whether key control reconciliations were undertaken on a timely basis during the current year and level of any remaining differences in year-end reconciliations. We have concluded that accounts receivable, accounts payable and social services income and expenditure (recorded on the Mosaic system) were not undertaken on a timely basis during the year. Although not material to our responsibilities there were a number of reconciling items between the Mosaic system and general ledger at year-end with a total net difference of £4.9 million.

It is important that all key control reconciliations are undertaken on a timely basis during the year. Although monthly reconciliations between the general ledger and Mosaic systems have been produced in 2018/19, and the value of the difference between the Mosaic system and general ledger had reduced to approximately £1.3 million by July 2018, this difference needs to continue to be investigated and cleared.

Management comment

A full reconciliation was undertaken of the Mosaic system during 2017/18 and the differences identified. This reconciliation continues to be undertaken on a monthly basis so that all differences are identified and actioned where appropriate. It is important to acknowledge that our E5 system remains the primary source of the Council's transactions and the regular reconciliations we undertake provide a high level of confidence of that.

Observation

As part of our work to consider the Council's bad debt provision we noted that as a result of issues arising from the transfer to the Council's new e5 general ledger system the Council did not bring recoverability proceedings for any outstanding raised debt between Feb 2017 and August 2017. As the Council have 60 day payment terms for debtors, this meant that any debtors raised since December 2016 had not been chased until August 2017. The Council consider it unlikely that they will recover most of these debtors due to the significant drop in communication with debtors and the lack of recovery action due to a lack of available evidence to progress.

We are satisfied that an appropriate adjustment has been to the Council's bad debt provision to account for the potential loss of income but note that it is important that recovery actions for all debt outstanding should be commenced promptly.

Management comment

This was a by-product of the implementation of our new e5 system resulting in a lack of evidence to support these debts in order to be able to take the appropriate action to collect them. We are pleased to report this has now been resolved and prompt action is being taken on all outstanding debts.

08 Data Analytics

Data analytics – testing of General Ledger Journals, and Employee Costs

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes securely. These processes are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

09 Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in [our audit planning board report dated 2 March 2018.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and the Standards and General Purposes Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Standards and General Purposes Committee on 8 November 2018.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the Teachers' Pensions limited assurance reviews. We have adopted the necessary safeguards in our completion of this work.

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Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed in the below table has been provided on a contingent fee basis.

Fee analysis

We have reported to the Committee in July and September the impact of the issues included in this report on the audit fee. As part of our reporting on our independence, we set out below a summary of the fees paid/agreed for the year ended 31 March 2018.

	Proposed final fee 2017/18	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
		£	£	£
Total Fee – Code work	143,498	143,498	143,498	143,498
Additional code work:			-	12,000
- MRP revision	4,500	4,500	-	-
- Responding to a member of the public	9,000	-	-	-
- Engagement of EY Real Estates	20,000	-	-	-
- Additional work arising from change in materiality and clearance of audit queries	52,000	-	-	-
Total audit	228,998	147,598	143,498	155,498
Non-audit services - Housing Benefits claim certification	Tbc	41,242	41,242	30,555
Non-audit services – Teachers' Pensions limited assurance	Tbc	8,500	N/A	8,500
Total other non-audit services	Tbc	49,742	41,242	39,055
Total fees	Tbc	197,240	184,740	194,553

* We have agreed additional fees with the Director of Corporate Services. They are subject to approval by PSAA.

10 Appendices

Appendix A

Audit approach update

There were no changes in our approach to the audit of the balance sheet compared to the prior year audit. In 2017/18 we have taken a wholly substantive approach to gaining audit assurance and have not sought to test controls. In the prior year we placed partial reliance on controls to gain assurance in respect of payroll expenditure. This does not have a direct impact on the Council's balance sheet.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and e-mails	The Associate Partner and Senior Manager have been in regular contact with the Chief Executive, Director of Corporate Services, Assistant Director of Resources and corporate finance team regularly throughout the year and up to the date of this report to discuss audit and Council matters, business and financial risks, accounts closedown and the audit approach.
• 9/5/2017 • 29/6/2017 • 7/9/2017 • 9/11/2017 • 31/1/2018 • 15/3/2018 • 30/7/2018 • 6/9/2018	Meetings and reports	The Associate Partner and/or Senior Manager have attended all meetings of the Standards & General Purposes Committee held during the year and through to the date of issue of this report, with reports on audit progress and other items presented to each meeting of the Committee. Specific reports issued and communications with the Standards and General Purposes Committee are detailed in Appendix C. Audit progress reports have been presented to each meeting apart from the 26 March meeting of the Committee when the Audit Plan was presented.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report, 15 March 2018 S&GPC
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report, 15 March 2018 S&GPC Audit progress reports, 30 July and 6 September S&GPCs
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit results report, 8 November S&GPC. Audit progress reports, 30 July and 6 September S&GPCs

Appendix C

Required communications	What is reported?	Our Reporting to you — When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the London Borough of Merton's ability to continue for the 12 months from the date of our report.
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report, 8 November S&GPC.
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	We have enquired of management and those charged with governance. We have no matters to report.
Fraud	• Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Standards and General Purposes Committee responsibility.	We have enquired of management and those charged with governance. We have no matters to report. Audit results report, 8 November S&GPC.

Appendix C

Required communications	What is reported?	Our Reporting to you — When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report, 8 November S&GPC. We have no matters to report.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report, 15 March 2018 S&GPC and Audit results report, 8 November S&GPC.

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Appendix C

Required communications	What is reported?	Our Reporting to you — When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report, 8 November S&GPC. We have obtained all requested confirmations.
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report, 8 November S&GPC. We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report, 8 November S&GPC. We identified one significant deficiency in internal control relating to the approach to valuation of assets carried at DRC and have raised a number of other control observations as part of this report.
Certification work	• Summary of certification work	The audit of the Council's Housing Benefit claim and limited assurance review of its Teachers' Pensions return remain ongoing at October 2018. Findings of the Housing Benefit claim certification audit will be reported in our 2017/18 annual certification report. The results of our limited assurance review of the Teachers' Pensions return will be reported in a separate findings report.

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report, 15 March 2018 S&GPC and Audit results report, 8 November S&GPC.
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report, 8 November S&GPC.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	None identified.
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report, 8 November S&GPC
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report, 15 March 2018 S&GPC and Audit results report, 8 November S&GPC.

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Management representation letter

Management Representation Letter

8 November 2018

Ernst & Young LLP
1 More London Riverside
London
SE1 2AF

Dear Sirs

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of the London Borough of Merton ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of London Borough of Merton as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

Management representation letter

Management Representation Letter

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and the Council that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected the differences relating to the New Schools PFI scheme identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.

Management representation letter

Management Representation Letter

3. We have made available to you all minutes of the meetings of the Council held through the year to the most recent meeting of the Standards and General Purposes Committee on 8 November 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 12 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than those described in Note 33 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Management representation letter

Management Representation Letter

Comparative information – corresponding financial information

1. As part of your audit significant errors were detected in the carrying value of land and buildings property, plant and equipment assets valued at depreciated replacement cost. The errors in our valuation approach led to misstatements which were present prior to the start of the comparative year. Restatement and disclosure of corrected opening balances at the start of the comparative year has also been required.
2. The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this these restatements has also been included in the current year's consolidated and council financial statements.

Estimates

Valuation of Property, Plant and Equipment
Valuation of Pension Fund assets and liabilities
Accounting entries relating to Private Finance Initiative schemes

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Management representation letter

Management Representation Letter

Yours faithfully,

____

Caroline Holland
Director of Corporate Services

____

Cllr Peter McCabe
Chair of the Standards and General Purposes Committee

EY | Assurance | Tax | Transactions | Advisory

London Borough of Merton
Merton Civic Centre
Morden,
Surrey .
SM4 5DX

30 July 2018

Suresh Patel
Associate Partner
Ernst and Young
1 More London Riverside
London
SE1 2AF.

This letter of representations is provided in connection with your audit of the financial statements of Merton Pension Fund ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

   - Involving financial improprieties
   - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
   - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
   - Involving management, or employees who have significant roles in internal control, or others
   - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
   - Additional information that you have requested from us for the purpose of the audit.
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

4. We have made available to you all minutes of the meetings of the Fund and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through 2017/18 to the most recent meeting of the Pensions Fund Advisory Committee on 18 July 2018, and Standards and General Purposes Committee on 30 July 2018.

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2018. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 24 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Merton Pension Fund Annual Report 2017/18.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation

1. The latest report of the actuary, Alison Hamilton from Barnett Waddingham as at 31 March 2016, has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Yours faithfully,

____

Caroline Holland

Director of Corporate Services

____

Councilor Peter McCabe

Chair, Standards and General Purposes Committee

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Merton Pension Fund
Audit results report

Year ended 31 March 2018

12 July 2017

12 July 2018

Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Standards and General Purposes Committee.

We have substantially completed our audit of Merton Pension Fund for the year ended 31 March 2018. Subject to receiving the final documents listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report, or any other issues arising from our work with you, at the Standards and General Purposes Committee meeting on 30 July 2018.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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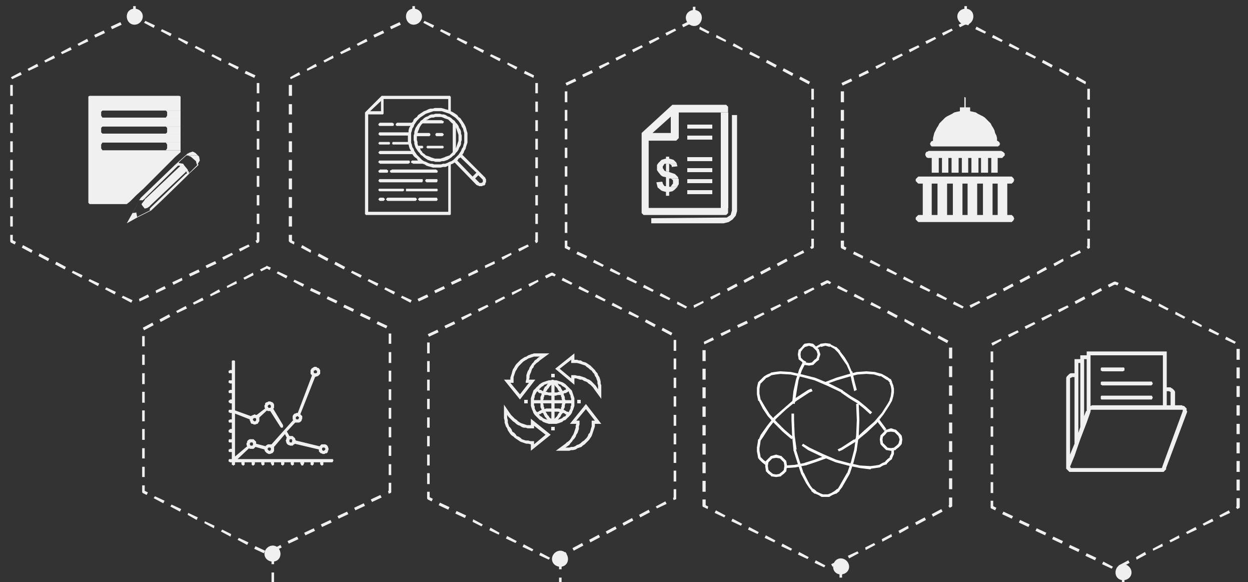

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Standards and General Purposes Committee and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee and management of Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 15th March 2018 Standards and General Purposes Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% net assets, we have updated our overall materiality assessment to £13.3 million (Audit Planning Report – £13.0 million). This results in updated performance materiality, at 75% of overall materiality, of £9.9 million, and an updated threshold for reporting misstatements of £0.7 million.

Status of the audit

We have substantially completed our audit of the Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following items we expect to issue an unqualified opinion on the Merton Pension Fund's financial statements in the form which appears at Section 3.

- Completion of subsequent events review
- Receipt of the signed management representation letter
- Receipt of the final version of the financial statements and annual report

Audit differences

There are no unadjusted or adjusted audit differences arising from our audit that we wish to bring to your attention.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Pension Fund's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Standards and General Purposes Committee.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which are unknown to you.

Other reporting issues

As part of our work we noted that the Pension Board did not meet at all in the year of account and through 2018/19 up to the date of audit. The role of the Board is important and should assist with scrutiny and compliance, The need for the administering authority for the Fund, Merton Council, to have a Board is also a requirement of the Public Service Pensions Act 2013. It is important that this is addressed. Officers are aware of this and plan to re-instigate meetings of the Board in 2018/19.

Independence

Please refer to Section 7 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud and error - Management Override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every engagement.

Significant Risk

What did we do?

- ► Tested journals at year-end to ensure there are no unexpected or unusual postings;
- ► Tested the existence and valuation of investments provided in fund manager reports and independent bid prices; and
- ► Tested the occurrence and measurement of investment income notified in fund manager reports to confirmations from custodians.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias. Our journals testing also specifically considered the risk of inappropriate or incomplete journaling of investment income and changes in market value of investments at year-end. We also consider whether there are any significant or unusual transactions outside of the Pension Fund’s usual course of business.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund’s normal course of business.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERTON PENSION FUND

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Service's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Draft audit report

Our opinion on the financial statements

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Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Draft audit report

Our opinion on the financial statements

Responsibility of the Director of Corporate Services

As explained more fully in the Statements of Responsibilities set out on page 165, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Merton Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight any misstatements greater than £9.9 million which have been corrected by management during the course of our audit. There are no corrected misstatements to bring to your attention.

We report to you any uncorrected misstatements greater than our nominal value of £0.7 million. There are no uncorrected misstatements to bring to your attention.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements.

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Merton Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit; Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested; Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process; Related parties;
- External confirmations; Going concern; and Consideration of laws and regulations.

As part of our work we noted that the Pension Board did not meet at all in the year of account and through 2018/19 up to the date of audit. It is important that this is addressed. The role of the Board is important and should assist with scrutiny and compliance, The need for the administering authority for the Fund, Merton Council, to have a Board is also a requirement of the Public Service Pensions Act 2013.

Officers are aware of this and plan to re-instigate meetings of the Board in 2018/19.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

07 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2018. We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this. We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

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The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Pension Fund, and its directors and senior management and its affiliates, including all services provided by us and our network to your Pension Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Fees

As part of our reporting on our independence, we confirm that our fees of £21,000 for the year ended 31 March 2018 are in line with the scale fee set by PSAA and have remained consistent to the prior year.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements

07 Appendices

Audit approach update

We are required to communicate whether there have been any changes to the audit of the net assets statement from the prior year audit. In 2017/18 we have again taken a fully substantive approach to the audit and there have been no significant changes to our approach.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and e-mails	The Senior Manager has been in regular contact with the Pension Manager, Assistant Director of Resources and finance team in respect of the Fund's risks, accounts closedown and the audit approach.
8/3/2018	Meeting	The Associate Partner presented the Audit Plan to the Pensions Advisory Panel.
Standards and General Purposes Committee dates: 9/5/2017 29/6/2017 7/9/2017 9/11/2017 31/1/2018 15/3/2018	Meetings and reports	The current Associate Partner and/or Senior Manager have attended all meetings of the Standards and General Purposes Committee held during the year and through to the date of issue of this report. Specific reports issued and communications with the Standards and General Purposes Committee are detailed in Appendix C.
Throughout the year	Meetings	The Senior Manager and/or Associate Partner have met regularly with the Director of Corporate Services and/or the Chief Executive on a regular throughout the year to discuss audit and Fund matters up to the date of issue of this report.

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Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Regulation, Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	15 March 2018 Standard and General Purposes Committee – Audit Plan
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	15 March 2018 Regulation, Audit and Accounts Committee – Audit Plan
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	30 July 2018 Standards and General Purposes Committee – Audit Results Report

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	30 July 2018 Regulation, Standards and General Purposes Committee – Audit Results Report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	30 July 2018 Standards and General Purposes Committee – Audit Results Report

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Pension Fund	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	15 March 2018 Standards and General Purposes Committee – Audit Plan and 30 July 2018 Standards and General Purposes Committee – Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations

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Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	30 July 2018 Standards and General Purposes Committee – Audit Results Report
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	15 March 2018 Standards and General Purposes Committee – Audit Plan and 30 July 2018 Standards and General Purposes Committee – Audit Results Report

Appendix D

Management representation letter

Merton Pension Fund

Management Rep Letter

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30 July 2018

Suresh Patel
Associate Partner
1 More London Riverside
London
SE1 2AF

This letter of representations is provided in connection with your audit of the financial statements of Merton Pension Fund ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.
Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

Management representation letter

Merton Pension Fund

Management Rep Letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

Management representation letter

Merton Pension Fund

Management Rep Letter

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4. We have made available to you all minutes of the meetings of the Fund and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through 2017/18 to the most recent meeting of the Pensions Fund Advisory Committee on 18 July 2018, and Standards and General Purposes Committee on 30 July 2018.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2018. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.
7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 24 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events
1. Other than described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information
1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Merton Pension Fund Annual Report 2017/18.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Management representation letter

Merton Pension Fund

Management Rep Letter

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation

1. The latest report of the actuary, Alison Hamilton from Barnett Waddingham as at 31 March 2016, has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Yours faithfully,

____

Caroline Holland
Director of Corporate Services

____

Councilor Peter McCabe
Chair, Standards and General Purposes Committee

EY | Assurance | Tax | Transactions | Advisory

Comprehensive Income and Expenditure Accounts: Net Cost of Services

ER's NIC %	10

			£'000	£'000
Employees				
Direct employee expenses:				
	Salaries & wages		138,848	
	Employers NICs		13,373	
	IAS19 Defined Benefit Pension Costs			
	Employers pension current service costs		30,499	
	Employers pension past service costs		682	
	Recognition of gain/loss on settlement of pension liability		-433	
	Pension contributions defined contribution plans and other external schemes (includes Teachers Pension Scheme)		8,734	
	Agency staff		11,722	
	Employee expenses		0	
	Apprenticeship Levy (should be approx 0.5% of staff costs)		579	
Indirect employee expenses:	Other employee expenses		2,847	
	Employee-related provisions expense		0	
	Debits resulting from soft loans to staff		0	
	Total Employee Costs			**206,851**
Premises				
	Business Rates	[no CPID]	1,428	
	Premises related provisions expense		0	
	Other premises related expenditure		8,666	
	Total Premises Costs			**10,094**
Transport				
	Transport related provisions expense		0	
	Other transport related expenditure		4,064	
	Total Transport			**4,064**
Supplies & Services				
	Audit costs		210	
	PFI service charge		2,653	
	Provisions expense		916	
	Other purchases of supplies & services		77,178	
	Total Supplies & Services			**80,957**
Third-Party Payments				
	Independent units within the council		0	
	Joint authorities		535	
	Other local authorities		3,706	
	Health Authorities (incl. NHS Trusts, Primary Care Trusts etc)		0	
	Government departments		0	
	Levies (included within service lines)		0	
	All other bodies		90,166	
	Total Third-Party Payments			**94,407**
Transfer Payments				
	[ELG, WLG, SLG ONLY] Housing benefit (payments to taxpayers)	[no CPID]	81,829	
	Other transfer payments		9,049	
	[WLG ONLY] Repayment of Grants to WAG	WAG	0	
	Payment to Welsh Government to buy out HRA subsidy (Settlement payment)	WCF	0	
	Total Transfer Payments			**90,878**
Support Services	Total recharged cost from support functions		29,561	**29,561**
Depreciation & Impairment Losses				
	Depreciation		19,246	
	Amortisation of intangible assets		492	
	Revaluations		-3,947	
	Impairment		0	
	Movement in fair value of investment property		0	
	Total Depreciation and Impairment Losses			**15,791**
Other Expenditure				
	Miscellaneous expenditure - please analyse in table below		0	
	Total other expenditure			**0**
Income				
	[ELG, WLG, SLG ONLY] Dwelling rents (gross) within the Housing Revenue Account (HRA)		0	
	[ELG, WLG ONLY] Cost of NNDR Collection Allowance (treated as income)	[no CPID]	-264	
	Miscellaneous income		0	
	Government Grants and Contributions (received from bodies within WGA boundary)			
	[ELG, WLG ONLY] New Homes Bonus / **[WLG]** Income from other local authorities	CLG	-4,148	
	[WLG ONLY] Welsh Government Revenue Grant	WAG	0	
	[ELG, WLG ONLY] PFI Special Grant (component recognised in NCS)		0	
	[ELG, WLG ONLY] Public Health Grant	PHE	-10,727	
	[ELG, WLG, SLG ONLY] Rent Allowance: subsidy	DWP	-82,137	
	[ELG, WLG, SLG ONLY] HRA Rent Rebates: subsidy	DWP	0	
	[ELG, WLG, SLG ONLY] Non-HRA Rent Rebates: subsidy	DWP	0	
	[ELG, WLG, SLG ONLY] Housing Benefit Subsidy Admin Grant	DWP	-909	
	[ELG ONLY] Pupil Premium	DfE	-5,921	
	[ELG ONLY] Dedicated Schools Grant	DfE	-142,860	
	[ELG ONLY] Education Services Grant	DfE	-1,592	
	[ELG ONLY] GLA Transport Grant	DfT	0	
	EU current grants		0	
	Other revenue grants & contributions (from Government and other WGA bodies)		-30,791	
	Other **Non-Govt** revenue grants & contributions		-4,797	
	Capital Grants and Contributions			
	Capital grant income (from Govt bodies)		-3,593	
	Capital grant income (EU grants)		0	
	Capital grants & contribution income (from non-Govt)		0	
	Amounts released from receipts in advance (deferred income)	[no CPID]	-367	
	Customer & client receipts			
	recharge receipts		-29,945	
	external receipts (fees & charges for services)		-50,602	
	Other Operating Income - please analyse in table below		0	
	Apprenticeship Levy - Notional Income		-5	
	Apprenticeship Levy - Notional Expense		5	
	Total Income			**-368,653**
Other items (Group Accounts Only)				
Associates and joint ventures				
	[SCOTLAND ONLY] Police, Fire, SESTRAN & Strathclyde Partnership for Transport		0	
	Share of Surplus/Deficit of Assocs & JVs (Recognised within NCS, net of tax)		0	
	Total Other items (Group Accounts Only)			**0**
NET COST OF SERVICES				**163,950**

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CI&E Account: Net Operating Expenditure and Surplus/Deficit for the year

			£'000
NET COST OF SERVICES			**163,950**
Corporate Income and Expenditure:			
Provisions expense (any amount not in NCS)		0	
Trading operation results - Income		-5,016	
Trading operation results - Expense		5,194	
Other corporate income		0	
Other corporate expense		0	
(Following Group Accounts Only)			
[SLG ONLY] Police, Fire, SESTRAN & Strathclyde P'ship for Transport		0	
Share of Surplus/Deficit of assoc & JVs (not recognised within NCS, net of tax):		0	
Taxation payable of subsidiaries		0	
Minority interest share of profits or losses of subsidiaries		0	
Corporate Income and Expenditure:			**178**
Other Operating Expenditure			
Levies (not included in service lines)		933	
Net gains/losses on disposal of PPE		-4,001	
Net gains/losses on disposal of intangibles		0	
Net gains/losses on disposal of assets held for sale		0	
[ELG, WLG ONLY] Local (Parish Council) Precepts		0	
[ELG, WLG ONLY] Amounts payable to Housing Capital Receipts Pool	COM085	0	
Other Operating Expenditure			**-3,068**
Financing and Investment Income and Expenditure			
Interest Payable and similar charges			
Interest element of on-balance sheet PFI contract		3,441	
Finance charges for finance leases (non-PFI)		32	
Impairment losses - debtors		0	
Impairment losses on other financial instrumts in the loan & receivables (less debtor impmt shown separately above) & available-for-sale assets categories		0	
Losses arising on the derecognition of financial instruments		0	
Interest paid - within govt		2,791	
Interest paid - bank loans & overdrafts (Non-Govt)		0	
Interest paid - other borrowings (Non-Govt)		3,800	
Net interest on the net defined benefit liability (asset)		9,718	
Premeasurements of the net defined benefit liability (asset) recognised in the pensions reserve		0	
Interest and investment income		-1,630	
Income & exp in relation to investment properties and changes in their fair value			
Rental Income from investment properties		0	
Direct operating expenses arising from investment properties		0	
Net Gains/Losses on disposal of investment properties		0	
Movement in fair value of investment property		0	
Dividends receivable - associates, joint ventures & subsidiaries		-1,340	
Dividends receivable - other (within Government)		0	
Dividends receivable - other (non-Government)		0	
Net gains/losses on financial instruments carried at fair value through profit or loss		0	
Financial instruments fee income/expense (from sheet Fin Inst (15))		18	
Financing and Investment Income and Expenditure			**16,830**
Taxation and Non Specific Grant Incomes			
[ELG, WLG, SLG ONLY] Income from Council Tax		-84,579	
[ELG, WLG, SLG ONLY] Revenue Support Grant	CLG / WAG / SG	-15,519	
[WLG ONLY] Income from police precepts (recognised in PCC accounts as income from council tax)		0	
[ELG, WLG ONLY] Non domestic rates retained income (Local Share)	[no CPID]	-26,174	
[ELG, SLG, NILG ONLY] NDR Top up payments from central government / **[SLG]** NDR (Distributed NDR Pool) / **[NILG]** District Rate	CLG / SG / NCF	-8,901	
[ELG ONLY] NDR Tariff payments to central government	CLG	0	
[ELG ONLY] NDR Safety net payments from central government	CLG	0	
[ELG ONLY] NDR Levy payments to central government	CLG	0	
[ELG, WLG, SLG ONLY] Police Grant	HO / SG	0	
[ELG ONLY] Greater London Authority General Grant	CLG	0	
[ELG, WLG ONLY] PFI Special Grant (not in NCS)		-4,797	
Other government grants (non-capital)		-11,433	
Other Grant Income & contributions (from non-Govt bodies)		0	
[ELG, WLG, SLG ONLY] LA levy income		0	
[ELG, WLG, SLG ONLY] Business Rates Supplement Income		0	
Amounts released from receipts in advance (deferred income)	[no CPID]	-4,892	
[WLG ONLY] EU Grants		0	
Capital Grants and Contributions			
Capital grant income (from Govt or other WGA bodies)		-8,230	
Capital grant & contribution income (from non-Govt bodies)		-2,955	
Taxation and Non Specific Grant Incomes			**-167,480**
SURPLUS(-)/DEFICIT ON THE PROVISION OF SERVICES			**10,410**
Other comprehensive income and expenditure (as per row 16 to 23 of LP-Reserves worksheet)			**-63,347**
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**-52,937**

ANNUAL GOVERNANCE STATEMENT 2017/18

This statement from the Leader and the Chief Executive provides assurance to all stakeholders that within Merton Council processes and systems have been established, which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to all citizens of the borough.

1. Scope of responsibility

1.1. Merton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Merton Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2. In discharging this overall responsibility, Merton Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

1.3. Merton Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* (2016)

1.4. This statement explains how Merton Council has complied with the code and also meets the requirements of regulation 6(1b) of the Accounts and Audit Regulations 2015 which requires all relevant bodies to prepare an annual governance statement.

2. The purpose of the governance framework

2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and the activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of London Borough of Merton policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at the London Borough of Merton for the year ended 31 March 2018 and up to the date of approval of the annual report and statement of accounts.

3 The governance framework

3.1 The London Borough of Merton has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, standards and general purposes committee, the Head of Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates and others as appropriate.

3.2 The council's code of governance has been reviewed to reflect Cipfa Delivering Good Governance guidelines 2016.

3.3 As part of this review a Corporate Governance steering group has been established and terms of reference agreed. Monthly meetings have been held and an evidence pack compiled to consider a combination of economy, efficiency and effectiveness factors. The results of this review are detailed in the seven principles below and areas of improvement in section 13.

Principle 1 Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Codes of Conduct

4.1 The Council has an Employee Code of Conduct that applies to all council employees without exception, as well as to non-employees who are engaged (e.g. agency workers) or contracted by the council. The summary code of conduct is available on the intranet, is given to all new members of staff and discussed as part of the induction process. This code includes a requirement for staff to declare any conflicts of interest.

4.2 The Members' Code of Conduct is included in the council's Constitution and includes the principles of public life and information on declaring and registering interests. Each year (after Annual Council) Members are asked to declare their interests and mechanisms are in place to update these regularly when there are changes.

4.3 The Standards and General Purposes Committee receives annual reports on gifts and hospitality declared by staff and Members.

4.4 The whistleblowing policy was last reviewed in 2016 and is available on the intranet and internet. Leaflets are distributed within the civic centre and to schools and other organisations.

Standards and General Purposes Committee

4.5 The Standards and General Purposes Committee has overall responsibility for corporate governance. The Committee is also concerned with the promotion and maintenance of high standards of conduct within the council; the enforcement of the Member Code of Conduct; and advising the council on ethical governance matters. The Committee monitors the registers maintained in relation to gifts and hospitality received by councillors and offered to and accepted by staff. The Committee comprises twelve members, and the Council's two Independent Persons regularly attend as observers.

4.6 This committee also fulfils the role of an Audit Committee in accordance with CIPFA recommended best practice, and this committee has overall responsibility for ensuring controls are adequate and working effectively

4.7 This Committee is responsible for a range of non-executive functions, including electoral matters and personnel issues. It also has responsibility for considering and making recommendations to Full Council on any changes to the council's Constitution. Its functions include ensuring compliance with relevant laws and regulations, internal policies and procedures, and overseeing council accounts and audit activity.

4.8 Meetings are held in public. Agendas and minutes are published on the Council's website in line with statutory requirements.

4.9 A review was carried out on the effectiveness of the Standards and General Purposes Committee against Cipfa's guidance, Audit Committees: Practical Guidance for Local Authorities. This found that the Committee was meeting regularly and covered the range of governance issues, except risk management. Risk is however reported to Cabinet and Overview and Scrutiny on a regular basis as well as to Council on an annual basis as part of the business plan, therefore reliance could be placed on this.

Principle 2: Ensuring openness and comprehensive stakeholder engagement

Transparency agenda

5.1 The council publishes the information specified by the government's Open Data requirements on the council's Open Data webpage. The current data published on the council's website includes:

- Spending over £500
- Senior employees' salaries
- Job descriptions of staff earning over £50k
- Pay multiple
- Pay policy statement
- Payments to councillors – allowances and expenses
- Councillors attendance at meetings
- Democratic data including the Constitution, minutes, decisions and
- Election results
- The Business Plan, policies, performance, audit and inspections
- Finance data and counter fraud statistics
- Merton's contract register

- Funding to the voluntary and community sector
- Structure charts
- Parking income and expenditure
- Details of on-street and off-street parking spaces
- List of property assets
- Trade union activity

5.2 The Protection of Freedoms Act 2012 requires the council to publish certain datasets that are requested.

5.3 Merton Council publishes an information requests disclosure log which gives brief details of the requests received each week under the Freedom of Information Act 2000 and the Environmental Information Regulations 2004.

5.4 Under the Freedom of Information (FOI) Act, a public authority must respond to FOI requests within 20 working days. The council is measured against a corporate target of 85% of FOI requests dealt with in time and performance for 2017/18 was 76%. Plans are in place to improve performance. Performance is reported to the Corporate Management team monthly and is also published on the council's website via the performance monitoring dashboard.

Partnerships

5.5 The Merton Partnership – the local strategic partnership – is the overarching strategic partnership and is responsible for the delivery of the Merton Community Plan (the Sustainable Community Strategy). The Merton Partnership Governance Handbook and the Performance Management Framework set out the respective governance and performance management arrangements for the Merton Partnership, including the thematic partnerships sitting under the Partnership and Executive Board (namely the Health and Wellbeing Board, the Children's Trust, the Sustainable Communities and Transport Board, and the Safer and Stronger Strategy Group [which also serves as the Crime & Disorder Reduction Partnership]).

5.6 The Merton Partnership also has an annual conference that brings together all members of the partnership including thematic boards, the Executive Board and voluntary and community sector representatives. The Merton Partnership website is www.mertonpartnership.org.uk

5.7 The principles guiding the relationship and conduct between the council and voluntary, community and faith sector is set out in the Merton Compact (last refreshed in 2011). The Merton Compact is monitored by the Compact Board, comprising representatives from Merton Council (political and officer), representatives from the voluntary, community and faith sector, and representatives from other public sector bodies, as well as the local Chamber of Commerce.

5.8 The Merton Community Plan was refreshed in 2013.This involved consulting over 1,000 residents, partner organisations and a wide range of representatives from the voluntary, community and faith sector. The Merton Community Plan sets out the achievements of the Partnership over recent years and priorities for the next five years.

5.9 The council maintains a Partnerships Register which captures details of partnership bodies the council is involved in that are outside the standing bodies of the council, but which inform policy development or implementation. The Partnerships Register is reviewed annually to ensure it is up to date, and is published on the council's intranet and website. An internal Audit review of the governance arrangements for partnership received a satisfactory assurance. Recommendations made are in progress for implementation

- 5.10 The Merton Partnership developed a new Voluntary Sector and Volunteering Strategy in 2017 to inform and guide our collective approach to sustaining a thriving voluntary sector. This new Strategy will guide the requirements for the Council's Strategic Partner programme that commissions advice and information services, as well as support for the voluntary sector as a whole.

Complaints

5.11 The Complaints policy is reviewed periodically to ensure it remains relevant and supports improvement in the way the council deals with complaints. New staff are introduced to effective complaints handling through their departmental inductions and all new managers receive through their specific managers induction. Training and advice is provided on request to teams and targeted training is provided for teams which regularly deal with complaints.

5.12 Work is on-going with service departments to identify policy complaints so departments can deal with them appropriately. Departments receive feedback to help them identify areas for improvement and departmental actions are monitored to assess whether changes that are made make a difference. The number of complaints received by the council has increased in the past year with 39% more complaints received between 2016/17 and 2017/18. Performance over the same period shows 6% of complaints were escalated to Stage 2, compared with 7% in 2016/17.

5.13 The council's performance in responding to complaints is reported to the Corporate Management team on a monthly basis and is published on the council's website via the performance monitoring dashboard. For 2017/18 performance for Stage 1 complaints was 68% on time against the target of 85%. Plans are in place to improve performance. An annual report on complaints is presented to the Standards and General Purposes Committee and is published on the council's website.

Principle 3: Defining outcomes in terms of sustainable economic, social, and environmental benefits

6.1 The Merton Community Plan has been developed by the Merton Partnership and sets the overall direction and vision for the borough until 2019. This is supported by the Council's Business Plan and Departmental Service Plans. These are reviewed and updated annually. The council has an ambition to be

‘London’s Best Council’ by 2020.

6.2 The Council’s Business Plan 2017-21 sets out the following vision:

> By 2020 Merton Council will be transformed by the fruition of a number of change projects which will maximise the use of information technology and streamline processes and service provision. Providing value for money services to our residents is at the heart of our business and we must be able to demonstrate that all of our services represent best value for money. We will do this by continuing to finding innovative solutions to maximise future efficiency.

6.3 The financial reality facing local government dominates the choices the council will make for the future of the borough. The development of the Business Plan 2018/22 is therefore based on the set of guiding strategic priorities and principles, as adopted by the council on 13 July 2011:

Merton should continue to provide a certain level of essential services for residents. The order of priority of services should be:

i) Continue to provide everything that is statutory.
ii) Maintain services – within limits – to the vulnerable and elderly.

After meeting these obligations Merton should do all that it can to help residents. This means we should address the following as priorities in this order:

i) Maintain clean streets and keep council tax low.
ii) Keep Merton as a good place for young people to go to school and grow up.
ii) Be the best it can for the local environment.
iii) All the rest should be open for discussion.

The financial pressures facing Merton mean we should no longer aim to be a ‘place-maker’ but be a ‘place-shaper’. The council should be an enabler, working with partners to provide services.

Our top priority will continue to be to provide safe services of the best possible quality within financial constraints and the July 2011 principles. We will deliver services that customers want and need and, where possible, involve our customers in service specification and design.

The Authority is utilising best practice in project management/ transformation to assess the future direction of services and the required staff, process and IT development to deliver this change. Internal decision making structures have been established to maximise Authority wide assessment and development.

Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes
Delegations

7.1 The council’s constitution sets out the roles and responsibilities of the executive, non-executive, scrutiny and officer functions.

7.2 The functions of Council are set out in Article 4 of the constitution. These include responsibility for adopting and changing the constitution, policy framework and budget

7.3 Cabinet (Article 7) has responsibility for carrying out all of the Council's functions which are not the responsibility of any other part of the local authority.

7.4 Part 3B of the constitution sets out responsibility for non-executive council functions, including those carried out by Standards and General Purposes Committee, Appointments Committee, Planning Applications Committee, Licensing Committee, Appeals Committee and the Borough Plan Advisory Committee.

7.5 Overview and Scrutiny (Article 6 and Part 3B) discharges the functions conferred by the Local Government Act 2000, Local Government Act 2003, Health and Social Care Act 2001, Police and Justice Act 2006 and the Local Government and Public Involvement in Health Act 2007. Its operation is set out in more detail in section 8 of the report.

7.6 Except for matters reserved to members or other decision makers, all other matters relating to the Council's executive and non-executive functions are delegated to the Chief Executive.

7.7 The constitution includes a scheme of delegation that sets out the powers delegated to officers, and provides for Financial Regulations, Contract Standing Orders and a range of operational and departmental procedures which govern the council's discharge of its functions. These have all been reviewed and updated during 2016/17.

7.8 Statutory officers are documented within the constitution. The Chief Executive (Head of Paid Service) works with members and Directors to deliver the council's themes.

7.9 The Monitoring Officer is responsible for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with.

Financial strategy and financial management

7.10 The council has approved a four-year Medium Term Financial Strategy (MTFS) for years 2017/18 to 2020/21 which is aligned and integrated with its business plan priorities, and incorporates the revenue and capital expenditure implications of budget proposals. The MTFS is reviewed, and rolled forward annually in order to ensure that the council's scarce resources are focused on achieving the council's vision, strategic objectives, and statutory functions as set out in the Business Plan.

7.11 Merton's financial performance is reported on a monthly basis to the Corporate Management Team, and action plans are prepared if any likely major variations are identified. Regular reports are made to the overview and scrutiny commission and panels, and to the council's cabinet. These are used to inform the MTFS process. Quarterly reports are submitted to the Financial Task Group a sub-group of the Overview and Scrutiny Committee to review the Authority's financial position. Ongoing implications of current year spending pressures are incorporated into the MTFS and future years' budgets as appropriate

Policy and decision making

7.12 Policy and decision making is conducted within a leader and cabinet structure. The cabinet leads on the preparation of the council's policies and budget, and makes recommendations to the full council on the major policy plans and the budget and council tax. Where there is a relevant policy, the cabinet takes decisions within the adopted framework of plans and the procedural rules to implement them.

7.13 The constitution provides that the responsibility for the adoption and alteration of policy documents within the council's strategy framework lies with the full council. New policies and proposed changes are considered in the first instance by the Standards and General Purposes Committee, and are also subject to scrutiny.

7.14 A forward plan of proposed key decisions is published and updated each time a new key decision is added to the list. This sets out details and the proposed timing of key decisions (as defined by law and Article 13 of the constitution) to be made by the council. It includes processes in relation to reports containing exempt information in order to comply with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 which came into force on 10 September 2012

7.15 Council, on 19 November 2014, considered and agreed procedures for recording and publishing non-key delegated executive decisions to comply with the statutory requirement under the Openness of Local Government Bodies Regulations 2014. Council agreed a definition for these decisions and also agreed that, as well as being published, all such decisions made should be subject to call-in to allow greater openness and transparency. Council officers are regularly briefed on decision making requirements and have access to guidance notes and forms that have been published on the intranet. The decisions themselves are published on the website.

Performance management

7.16 The council has robust performance management arrangements in place and as part of the service planning process, performance indicators are challenged by the Business Planning team, Departmental Management Teams (DMT), Corporate Management Team, reviewed by members and Overview and Scrutiny.

7.17 Performance data on the service plan indicators are published on both the intranet and internet on a monthly basis. Progress on performance is regularly reviewed by DMTs and members

7.18 Review and challenge of PIs are established as part of service planning e.g. if PI this year is different from last years. Review and challenge with monthly, quarterly and annual returns e.g. monitor if changes markedly from prior measure. London Authority Performance Solutions provides current comparison data across London for approximately 30 Indicators – compare and challenge if our data changes markedly and report to Corporate Management Team - this is not published as agreed by constituent authorities

7.19 Performance reports on partnership working are produced for the Merton Partnership Executive Board.

Principle 5: Developing the entity's capacity, including the capability of its leadership and the individuals within it

8.1 Elected Members are responsible for the governance of the council. The council's governance arrangements are enshrined in the constitution. Within this framework, the council is able to provide clear leadership to the community; take decisions efficiently and effectively; improve service delivery; and hold decision makers to account.

8.2 The constitution is updated regularly. Amendments are recommended to Council by the Standards and General Purposes Committee, following reference by the Chief Executive as the statutory Head of Paid Service and the Assistant Director of Corporate Governance as the Monitoring Officer.

8.3 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015).

Development needs members/officers

8.4 Members –A members' development plan is in place and this is adapted to meet arising needs. Induction training is provided for all new members. The programme in place for new members post May 2018 are:

- Workshop 1: welcome reception: meet with the Corporate Management Team, standards and ethics.
- Workshop 2: The role of the councillor (part 1) covering different aspects of the councillor's role, an outline of support available, information security and managing casework and introduction to personal development plans.
- Workshop 3: Introduction to overview and scrutiny.
- Workshop 4: Introduction to finance and business planning
- Workshop 5: Keeping our people safe
- Workshop 6: Community Leadership.

8.5 In November 2017 Committee agreed that the following modules would be mandatory for all members to participate during the four year term: safeguarding (adults and children), equalities and information security. Prior to sitting on a Planning or Licensing Committee members must be trained.

8.6 In addition to topics covered above; in house sessions were arranged to explain specific items i.e. Housing Benefits, Public Health. Generic training will be provided to include public speaking, understanding equalities, using social media, IT skills, speed reading, chairing meetings, influencing skills, personal organisation, personal safety – this is not an exhaustive list. Personal Development Plans are in place for members and these will be reviewed on an annual basis to ensure learning needs are meet and other areas for development identified.

8.7 Officers – All council employees (except those on probation) will have an annual appraisal. Training needs are identified through staff appraisals and training can now be booked on the council's iTrent System.

8.8 The Council has Induction workshops throughout the year for new starters and for employees who change their roles. There is a managers' induction session for managers new to the Council or new to role. Training is available to all staff to ensure they have the skills and knowledge to undertake their roles.

8.9 The leadership and core behaviours have been included in the appraisals of all staff. As part of the Council's ambition to be London's Best Council in 2020 a development programme was launched for the Collective DMTs and the Leadership Team the sessions delivered so far have included Coaching, Resilience and Emotional Intelligence. A workforce strategy (2018 – 2021) has been developed and has an action plan to ensure the priorities outlined are achieved. The priorities are:

- Workforce planning
- Recruitment and Retention
- Organisation and Workforce Development
- Morale, Health and wellbeing
- Leadership
- Apprenticeships

Principle 6: Managing risks and performance through robust internal control and strong public financial management.

Overview and Scrutiny Commission and Panels

9.1 The Overview and Scrutiny Commission and Panels are responsible for holding the executive to account, influencing the decision making process, and shaping the development of new policy. Scrutiny oversees the development of the council's business plan and budget and takes an active role on financial and performance monitoring of council services. Three scrutiny panels cover all portfolios, and all areas of council activity. The Commission comprises fourteen members, four of whom are statutory co-opted members. The chair of the Commission is the leader of the Merton Park Ward Independent Resident Group.

9.2 The External Scrutiny Protocol sets out scrutiny powers, duties and responsibilities of the council and its partners. The protocol seeks to ensure all partners, statutory and non-statutory, adhere to the same principles for effective scrutiny, provide information, consider recommendations and respond to the relevant overview and scrutiny panel within an agreed time frame. The protocol forms part of the council's constitution.

9.3 The key principles of scrutiny in Merton, set out in the scrutiny handbook, are that it should be member-led, consensual, evidence-based and relatively informal. The handbook also contains advice for councillors and officers on their respective roles, guidance and practical steps on how to achieve successful scrutiny. It is based on experience of scrutiny in Merton, best practice research and examples from other local authorities.

9.4 Under the Council's constitution an annual report is presented to Council, outlining the work of the overview and scrutiny function over the course of the municipal year. This is used as an opportunity not only to showcase the work carried out but also to demonstrate some of the outcomes achieved and the ways in which local residents have been involved in scrutiny.

9.5 Each year a survey of all members is undertaken to seek their views on the effectiveness of the scrutiny function and suggestions for improvement. The results are reported to the Overview and Scrutiny Commission together with an action plan containing measures for innovation and improvements over the coming year.

Risk management

9.6 Risk management is a central part of the organisation's system of internal control. The focus of the risk management strategy is to ensure the identification and treatment of risk as part of everyday management.

9.7 The Corporate Risk Management Group (CRMG) meets quarterly to review and challenge the risk registers and share best practice. Key Strategic Risks are reported quarterly as part of the financial monitoring report to cabinet and overview and scrutiny and annually included as part of the business plan to Council

9.8 The corporate risk strategy was reviewed as part of the annual refresh of the Business Plan 2017-21, which is submitted to Council in March. . The strategy makes reference to the authority's risk tolerance levels, to recognise that some risks can be tolerated and others must be mitigated against. Work has been undertaken with a "Risk Management" specialist through our insurance arrangement to review departmental and corporate risk registers, separating "risks" and "issues" and standardising classification. An internal Audit review carried out in November 2014, provided a satisfactory assurance.

9.9 Risk analysis is also included in the service review process, where managers are required to risk rate their proposed budget savings and service level projects for the coming years.

9.10 The council has an anti-fraud and corruption strategy. Integral to these arrangements is the Whistleblowing Policy which is communicated to staff via the intranet, leaflets and posters to outbuildings. All Whistleblowing cases and action are reported annually to the General Purposes committee.

9.11 The council also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Cabinet Office to detect fraud perpetrated on public bodies.

9.12 A wide range of communications channels are used by the council to target different audiences. The Council magazine, My Merton, is delivered to every household in the borough four times a year. The Council also uses online and social media channels to target different audiences. Some services have developed bespoke communication channels to reach particular target audiences.

9.13 A wide range of engagement forums are used, some led by the council, others by the community, to communicate the council's vision and to consult local people, for example the Faith and Belief Forum, LGBT Forum, BAME Forum, Involve, Community Forums, Youth Parliament, and Young Advisors

9.14 The council follows the principles for engagement agreed by the Merton Partnership in 2010 and refreshed in 2014 as part of the Get Involved - Community Engagement Strategy. These principles let residents know what they can expect from council consultations and they are invited to report on occasions when consultations fall short of these expectations.

9.15 All our consultations and many of our partner’s consultations are listed in our online database. Residents and stakeholders can sign up for alert emails to be updated when new consultations are in place on the system so they can find out how to get involved.

Principle 7 Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Internal Audit

10.1 Internal Audit is an assurance function that provides an independent and objective opinion on the control environment. It operates to defined standards as set out in the Public Sector Internal Audit Standards. An annual internal review has been completed and concluded that the service is compliant. An external assessment was carried out in March 2014, which concluded that Merton’s Internal Audit function complied with the standard, another external assessment has been completed in May 2018, the results of which have not been received.

10.2 An annual report is produced by the Head of Audit which provides an opinion on the adequacy and effectiveness of the internal control environment.

10.3 A review has been undertaken on the 5 elements of the CIPFA statement on the role of the Head of Audit in public sector organisations. These elements are all met.

Data Security

10.4 The council holds a significant amount of personal data across its many business areas and has put in place actions to manage the risk of possible loss of this data. These include annual mandatory training for all council and partner staff with access to council systems, publication of guidance and an Information Security policy.

10.5 Staff are required to report any security incident promptly to the Information Governance team so an investigation and appropriate remedial or mitigating action can be taken. Each reported incident is followed up by the Information Governance team to identify lessons to be learned and to implement changes to reduce the risk of further similar incidents in the future. Security breaches are reported to the Information Governance Board quarterly. The Head of Information Governance assesses each security breach, in line with the Information Commissioners guidance, to identify whether an incident should be reported to the Information Commissioner's Office. During 2017/18 no enforcement action or monetary penalties were issued against the council, reflecting the effectiveness of the policies and procedures in place.

10.6 To support the council's introduction of greater flexible and mobile working, updated procedures have been put in place to ensure the secure handling of personal data. Staff using mobile technology must have passed their online security training and are issued guidance on good practice in handling personal information on a mobile device. The Information Governance team send out a weekly data security tip of the week in the staff bulletin, to ensure staff are regularly reminded of good information handling.

11. Other areas of corporate governance and assurances

11.1 A review of the effectiveness of the governance arrangements for the council have been carried out also using the following areas:

- Performance management
- Internal Audit
- External Audit
- Risk management
- Other Inspection Reports

Sources of assurance

Internal Audit reviews	External reviews	Scrutiny reviews	other
Internal audit review - Organised fraud	Ofsted Single Inspection and LSCB review	South West London Joint Health Overview and scrutiny committee	Members development training -ethics, commissioning, procurement and contract, and mentoring.
Internal Audit review- cyber security	External Audit Reports, incl. Grant Claims and Statement of Accounts	Overview and Scrutiny commission- response top recommendations Shared and Outsourced Services in Merton Task Group	Corporate and departmental risk registers
Internal Audit review of grants to the voluntary sector f/u	Peer review – Adult services (Feb 2018)	Overview and scrutiny commission – financial monitoring task group meeting 3 times a year.	Reports to the Information and Security Governance Board GDPR working group Mandatory Information security training for staff
Annual Internal Audit Report and Fraud Referral Reports		Children and Young People Overview and Scrutiny Panel meetings	Residents survey – 92% satisfaction

11.2 This evidence has been considered by the Steering Group as the review of effectiveness of the Corporate Governance Framework and Internal Control.

11.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance working group to the Standards and General Purposes committee that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

12. Follow up of 2017/18 Improvement Plan

12.1 The working group reviewed progress on the actions from the AGS review of 2016/17, which resulted in an improvement plan for 2017/18. There were nine recommended improvement actions, of which 4 have been completed, 5 actions to carry forward to the 2018/19 improvement plan. These are detailed below:-

Action	Action taken
To review and update **financial procedures**	The financial Procedures have been updated and will dovetail into the new financial system. The new financial procedures will be presented at the next Standard and GP committee and then onto Council.
Potentially Violent persons Policy to be agreed at DMT and CMT and process to be put in place with new core systems	The policy has been updated in line with Data Protection Act and ICO guidance. Process needs to be put in place but dependent on rollout of new core systems.
New financial system – to review internal controls in light of new financial system.	This work is in progress. Further work to be done.
Disclosure & Barring Service (DBS) To carry out a full review of all staff to be DBS checked to ensure they are done and to implement audit recommendations	The DBS team are working with the HR managers to contact their managers within their respective areas to provide the information necessary. Also working with LB Kingston, who will complete this by July 2018.
GDPR	**On-going** The council is working towards on-going compliance of the new requirements of the GDPR and Data Protection Act 2018.
New Candidate Development programme	**Complete** To be in place to inform potential candidates and support newly elected member May 2018. (local elections)
IR35	**Complete** Review of compliance to IR35 rules, to ensure that all processes are in place. This has been completed. An internal audit review has provided assurance that sufficient processes are in place
Sickness	**Complete** A review of the new sickness policy impact on sickness levels has been undertaken. Sickness has fallen in the organisation but not to the corporate target of 7.5 days. Further work identified.
Volunteer strategy	**Complete** New Voluntary Sector and Volunteering Strategy approved by Cabinet January 2017. This will inform recommissioning of Strategic Partners 2019 onward and will again include support to strengthen governance.

12.2 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Standards and General Purposes committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

13. Significant governance issues (Improvement Programme 2018/19)

13.1 The improvement actions below have been identified as a result of the review carried out. Progress will be followed up during 2018/19 and reported to Standards and General Purposes committee.

Action	Action to be taken
To review and update **financial procedures**	The financial Procedures have been updated and will dovetail into the new financial system. The new financial procedures will be presented at the next Standard and General Purposes committee and then onto Council
Potentially Violent persons Policy to be agreed at DMT and CMT and process to be put in place with new core systems	The policy has been updated in line with Data Protection Act and ICO guidance. Process needs to be put in place but dependent on rollout of new core systems.
New financial system – to review internal controls in light of new financial system.	This work is in progress. Further work to be done.
Disclosure & Barring Service (DBS) To carry out a full review of all staff to be DBS checked to ensure they are done and to implement audit recommendations	DBS checks is part a rolling programme and managers have been contacted to establish who needs to have a DBS. This exercise will be complete – i.e. processing those identified as part of the process advised by LB Kingston July 2018.
Asset Valuations The valuation process used by Merton's in house professionally qualified valuers has been reviewed in detail as part of the 2017/18 Account Closure and material misstatements have had to be corrected. It has therefore had a material impact on the financial accounts of the Authority and the completion of the statements by the required deadline.	Independent land valuations have been commissioned and DRC property valuations are being re-calculated. The recasting of the three financial years of accounts will be undertaken and reviewed internally and external audit will review revised property valuations. An internal review will be undertaken to ensure that future valuation work is both accurate and timely.

GDPR	The council is working towards on-going compliance of the new requirements of the GDPR and Data Protection Act 2018

13.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: ____ **Leading Member**

Signed: ____ **Chief Executive**

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Committee: Standards and General Purposes

Date: 8 November 2018

Subject: Internal Audit Progress Report

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe Chair of the standards/GP Committee

Contact officer: Margaret Culleton Head of Internal Audit

Tel. 020 8545 3149 margaret.culleton@merton.gov.uk

Recommendation:

That Members note the report and comment upon matters arising from the Internal Audit Progress Report

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report summarises the work carried out by Internal Audit up to September 2018 and the key areas of activity planned for the remainder of the year.

1.2 Internal Audit seeks to ensure that Merton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.

1.3 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the Standards and General Purposes Committee and the Director of Corporate Services (also known as the Section 151 Officer); it also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

2 DETAILS

2.1 Since April 2018 we have finalised 20 audit reviews and have 7 reports at draft stage.

2.2 In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:

a) Full Assurance
b) Substantial Assurance
c) Limited Assurance
d) No assurance

2.3 In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

3 Progress against the Plan

3.1 Progress against the 2018/19 plan as at 18 October is as follows

	Audits	Days
Number of audits in the plan	39	
Audit Days delivered*		338
Number of audits finalised	20	
Number of audits at draft report stage	7	
Number of audits in progress	7	
Number of audits booked to start	5	

* audit plan days is 765

3.2 At the time of this report, approximately 50% of the plan has been completed on the basis of number of days delivered. The plan days are expected to be delivered by year end.

Planned Audit Reviews

3.3 Since the April 2018, there have been 15 reports issued with a substantial assurance and 2 reports issued with a limited assurance. (There have also been 1 advisory report and 2 grant claim).

3.4 A summary of the findings and agreed actions are detailed further in Appendix B for all those receiving a limited assurance report. It should be noted that the Internal Audit Annual Report for the year ending 31st March 2018 included reference to the CM2000 audit review, referred to in Table 1. This audit was undertaken as part of the 2017/2018 internal audit plan and the final report issued in June 2018.

Table 1 – Audit Reviews with a limited assurance

Audit Title	Department	Actions implemented
CM2000	CH	No
Service Tenancies F/U	ER	No

3.5 The actions recommended are all either implemented or in progress to be implemented. Follow-up of audit actions are always undertaken to seek assurance that the weaknesses in controls have been strengthened.

Procurement/contract

3.6 There are six procurement audits on the plan for this year, to date three have been finalised two with a substantial assurance (Taxi card contract, SEN

Commissioning) one limited (CM2000), one at draft (school meals) and two in progress, Corporate Procurement and Contract Monitoring of Commissioned Services.

IT systems

3.7 There have been two IT audits on the plan this year, IT asset Management and Software licence audit, both of these have a substantial assurance.

Financial systems

3.8 There are eight audits on the plan for the main financial systems, four have been finalised with a substantial assurance (Payroll, General Ledger, creditors, fixed assets), one in progress, treasury management and three due to start shortly (council tax, cash & bank & capital programme)

Schools

3.9 We aim to audit six schools each year. The schools selected for audit will be a mixture of those not audited for several years and those with potential budgetary or other concerns.

3.10 To date we have finalised four school audit reports and one draft with substantial assurance

3.11 Where schools have received a limited assurance report, a copy is sent to the Chair of Governors and to the finance team supporting schools so that they can offer additional support. Internal Audit carry out a follow up audit six months later to review the effect of the changes.

Service Specific

3.12 Other audits undertaken have been grouped into 'service specific' type audits. Five reviews have been finalised, four with a substantial assurance and one with a limited assurance (Service Tenancies follow up).

Additional audit reviews

3.13 Internal audit attends Department Management Teams a number of times throughout the year to discuss progress against the plan and to review the audits which are still to be undertaken to ensure they are still relevant and timely. Additional requests for work are also received from managers and reviews are undertaken in areas where fraud has occurred to ensure that controls are sufficient.

3.14 Internal Audit has undertaken seven additional reviews this year; which means that some planned audits for 2018/19 will move to 2019/20. The additional work this year covers the following areas:-

- Review of controls in place for cash, card and laptops.

- Planning decision (final)
- Mobile phone contracts- schools (draft)
- Insurance arrangements – Schools (draft)
- Financial audit – care home fees (draft)
- Commissioning review (in progress)
- Planning process (in progress)

4. Following up on the Implementation of Agreed Actions and responses to Draft Reports

4.1. The agreed actions for audits completed in 2017/18 and 2018/19 have been followed up. At the time of this report 90% of audit actions had been implemented at the due date, 10% were due to be implemented.

4.2 Follow up reminders are sent out monthly to officers responsible for implementing the agreed actions when the due date is reached, to ascertain whether the actions have been implemented.

4.3 If the actions have not been implemented by the following month reminders are escalated to Heads of Service/ Assistant Director Level. Once they reach 3 months overdue a report is then sent to Directors for those actions.

4.4 As at the 17th October there were 6 audit actions overdue by more than 3 months. Responses to these actions are actively being sought.

4.5 Where there are overdue actions Internal Audit contacts the manager to seek explanations for the delays in implementing these recommendations. If an action remains outstanding, these audit areas are considered for a follow up audit review.

5. ALTERNATIVE OPTIONS

5.1 None for the purposes of this report.

6 CONSULTATION UNDERTAKEN OR PROPOSED

6.1 The Internal Audit Plan has been agreed with Chief Officers who have consulted with their Management Teams. Service Level Agreements are in place. The Head of Internal Audit has periodic meetings with the Directors to report upon progress against the Plan.

6.2 All audit reports are discussed with the relevant manager prior to issuing as a draft, further meetings are held if required and comments from the Manager and Head of Service/Assistant Directors are included in the final report.

7 TIMETABLE

7.1. None for the purposes of this report.

8 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

8.1 The planned work and unplanned work is undertaken within the budget allocated.

9 LEGAL AND STATUTORY IMPLICATIONS

9.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2018/19. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other councils to make arrangements for the proper administration of their financial affairs. The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of these statutory duties.

10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

10.1 Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers, members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

11 CRIME AND DISORDER IMPLICATIONS

11.1 There are no specific crime and disorder implications arising from this report.

11.2 The report does however include brief details of potential fraud investigations in progress.

11 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1. The Audit Plan has a risk assessment formula built into the process. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.

11.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.

11.3. The audit brief at the beginning of the audit, and the internal audit reports at the end of the audit also identify risks. Audit Recommendations are categorised high, medium or low priority in relation to the level of risk involved.

APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix A – Audit reports issued since April 2018
- Appendix B - Audit Report summary (limited assurance)

BACKGROUND PAPERS

i. Documents held in Internal Audit Files

Audits since April 2018

Appendix A

Audit Title	type of audit	Dept	Final Report Date	Assurance
West Wimbledon Primary School	school	CSF	18/04/18	substantial
Taxi card contract -SEN	contract	CSF	08/05/18	substantial
Cricket Green School f/u	school	CSF	14/06/18	substantial
Commissioning of SEN placement	contract	CSF	05/06/18	substantial
CM2000	contract	CSF	08/06/18	limited
Procurement Cards	financial	CS	08/06/18	substantial
MSJCB	grants	CS	15/07/18	n/a
Creditors	financial	CSF	30/06/18	substantial
Strategic Asset Management	service specific	ER	04/07/18	substantial
Service tenancies f/u	service specific	ER	25/07/18	limited
Fixed assets	financial	CS	18/07/18	substantial
Adult Social Care Debt	service specific	CH	25/07/18	substantial
Review of controls in place for cards,cash and laptops	service specific	CSF	27/05/18	n/a
Dundonald primary school	school	CSF	16/07/18	substantial
Software licences audit	IT	CS	12/09/18	substantial
IT assets audit	IT	CS	12/09/18	substantial
itrent	Financial	CS	14/09/18	substantial
Transforming families	grants	CSF		n/a
Section 106/cil	service specific	ER	02/10/18	substantial
St John Fisher primary school	school	CSF	02/10/18	substantial

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Internal Audit Report Summary- Limited Assurances

Service	**Service Tenancies follow up**		
Date of Final Audit Report	26/7/18		
Audit actions	17	Completed Audit Actions	9
Audit Objectives	To follow up on previous limited assurance audit – covering policy, agreements, rent reviews, record keeping and reconciliations.		
Summary of Audit Findings	The opinion refers in particular to the following outstanding matters: • Ensuring that proposed policy changes are authorised • Formally signing off the contractual status of each property • Ensuring the Board is updated timely with regard to contract negotiations • Evidencing compliance with Contract Standing Orders • Ensuring completeness of record keeping • Evidencing key reconciliations • Ensuring rent due is recorded and annual review of rents and discounts or formal exemption from doing so • Ensuring effective and complete management of the risk of granting service tenancies unintentionally		

Internal Audit Report Summary- Limited Assurances

Service	**Service Tenancies follow up**
Summary Response from Managers	PMRS data base and master schedule will be updated as contracts are completed. The Council will undertake a rent review of each tenancy annually where the tenancy documentation allows; and where the tenancy requires rent reviews to be less frequent than annually, then rent reviews will be done as frequently as possible. Corporate payroll to be notified when rent changes. There will be a formal annual reconciliation between records and payroll, pension and corporate debtor systems The rent due is on the schedule and this is updated as details of the tenancies including rent change. Where a new service tenancy is granted, then the officer(s) who authorise the service tenancy will be advised of the estimated annual income foregone by the decision not to enter into a residential or commercial tenancy on a commercial basis. This financial information will be presented as one factor within the context of the service benefits to be obtained from the award of a service tenancy The current policy will be re-issued. Any revised policy agreed by Cabinet will be issued when confirmed by corporate procedures. Head of Regeneration to agree protocol by email with Head of Organisational Development and HR Strategy with regard to the circumstances under which HR is to advice the Property Asset & Review Manager of changes to a tenant's employment status

Internal Audit Report Summary- Limited Assurances

<table>
<tr><td>Service</td><td colspan="3">CM2000 (electronic care monitoring system)</td></tr>
<tr><td>Date of Final Audit Report</td><td colspan="3">11 June 2018</td></tr>
<tr><td>Audit Actions</td><td>14</td><td>Outstanding actions</td><td>7</td></tr>
<tr><td>Main issues</td><td colspan="3">CM2000 is the London Borough of Merton’s electronic care monitoring system, which enables the logging and analysing of home care visits by care providers contracted to use the system.

The CM2000 contract dates back to 2007 and has not been re-tendered for 11 years despite the fact that it expired in 2012. A contract exemption covering the period 1st December 2015 to 30th November 2017 was agreed in November 2015. A further contract exemption, commencing in February 2018, was agreed in January 2018, this exemption was for a maximum period of 24 months to 31st January 2020. The maximum value of these two exemptions was recorded as £232,623. An exemption covering the period 1st December 2017 to 31st January 2018 was not available. It was noted that the terms of the original contract dated 2007 are still in use for the current exemption.

The CM2000 system interfaces with Mosaic, which in turn interfaces with E5. This process should enable payments to be made to providers automatically and subsequent billing of client invoices to be correct. However, due to problems with system implementation this has not always been possible. It should be noted that Mosaic went live on 16th May 2017

Although several staff currently have access to CM2000, user-friendly monitoring reports are not readily available and there is a heavy reliance on the CM2000 Contract Monitoring officer to supply information required from the system. Internal Audit have been informed that reports are not provided to management.

A large number of small care providers do not have access to CM2000 meaning that monitoring of commissioned visits is both time consuming and difficult to undertake. Invoices received from providers cannot be confirmed as correct in the same way as visits logged on CM2000.

During the audit, it became clear that there is confusion on behalf of the supplier regarding reporting lines and responsibility for decision making within the authority. Furthermore, evidence was obtained that an increase in provider fees was actioned without a formal process being followed or appropriate approval being documented</td></tr>
</table>

Internal Audit Report Summary- Limited Assurances

Service	**CM2000 (**electronic care monitoring system)
Summary Response from Managers	The exemption to January 2020 was sought to align with the project plan for the new Home Care contracts. The system used has implications for providers, who have to interface it with their rostering systems. ASC will test the market in 2019 once the new Home Care contract has settled in. This will need to be down with our three prime Home Care providers. No challenge has been received in relation to the contract extension, so we see no value in re-visiting. Contract records currently are held manually, with the risks inherent in that. We have been awaiting the document management system to move to digital archiving. An interim solution is now being explored ASC has a duty to ensure care needs are met, and sometimes this means making spot placements outside of the contracted arrangements. In these cases a purchase order is raised. With the new contracts in place, we will be transferring business from the five off contract providers over the coming year. Manually checking delivery of care hours is beyond the capacity of the department, which is why the new contract requires all providers to use CM2000. It will take time to migrate all care to the new arrangements. A reconciliation between Mosaic and e5 has been completed, which has shown that whilst there were issues the differences were in reasonable bounds for two new systems. The next step is to clear down within Mosaic outstanding commitments that were paid outside of the interface, These were identified by the reconciliation. We are aiming to upgrade CM2000 to reduce system interface errors. A proposal is due to be submitted to Corporate Services and C&H DMTs to upgrade the system to address its current weaknesses including reporting.

Committee: Standards and General Purposes
Date: 8 November 2018

Subject: Fraud Update

Lead officer: Caroline Holland – Director of Corporate Services
Lead member: Peter McCabe Chair of the standards/GP Committee

Contact officer: Kevin Holland – Head of Shared Fraud Partnership
Tel.-020 8871 6451
kevin.holland@richmondandwandsworth.gov.uk

Recommendation:

A. That members note the Fraud Progress report and comment on the matters arising from it.

1. Introduction

1.1 One of the responsibilities of the Committee is to monitor the Council's arrangements to protect the Council from fraud and corruption, including the Anti-Fraud & Anti-Corruption Policy and the Whistle Blowing Policy.

1.2 This report is provided to the Committee to provide assurance over the arrangements for protecting the Council against fraud and corruption. Merton Council entered into a shared fraud investigation service, known as the South West London Fraud Partnership (SWLFP), with Kingston, Richmond, Sutton & Wandsworth Councils from 1 April 2015 to ensure that an effective fraud investigation and prevention service would be maintained following the transfer of benefit fraud investigation to the Department for Work and Pensions (DWP).

1.3 The bringing together of retained knowledge and expertise under a single team strengthens resilience for individual authorities, enabling a collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises. Individual partner authorities retain responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct and for preventing and detecting fraud and corruption.

1.4 For 2018/19 the SWLFP investigation team comprises 14.5 posts, with a mixture of expertise from both within and outside local government. 12 officers hold relevant Accredited Counter Fraud Specialist qualifications. The SWLFP has the ability to deploy flexible resources with knowledge and experience to provide coverage across a range of counter-fraud activities.

1.5 Priority areas of coverage for individual partner Councils are agreed through consultation with the Shared Services Board and the Heads of Audit. The SWLFP continues to work closely with the Social Housing Providers in relation to concerns over tenancy fraud and abuse and facilitate the Social Housing Investigation Partnership (SHIP), a forum that is accessible to social housing providers who have property within at least one of the fraud partnership authorities. Partnership working provides a sound framework to help identify and respond to tenancy fraud and abuse resulting in the recovery of misused tenancies which can be assigned to those in genuine eligible need thus reducing the call upon temporary housing provided by local authorities.

2. Summary of Fraud Investigations and Performance Results

2.1 The Tables below summarise the fraud work undertaken for Merton Council, with Table1 summarising progress, to the end of September 2018, against the key fraud performance targets. In total, 112 fraud cases have been worked on (42 new cases, with 70 cases c/f from 2017/18) as a result of either referrals received or concerns highlighted through pro-active fraud drives since April 2018.

Table 1: Performance against key objectives and targets 2018/19

Activity	Performance Indicator	Target	Actual
Work with Housing Associations and Housing teams to establish and deliver a programme of proactive fraud checks including illegal subletting	Properties brought back into Housing Associations/ Council control following identification of fraud	10 properties	4 (a further 5 cases are with legal for recovery action)
Develop joint working with Housing teams to proactively identify housing fraud	Housing applications withdrawn as a result of fraud work	20 applications withdrawn	5 (A pro-active exercise to review a sample of applications received will be undertaken in early 2019)
Delivery of the Fraud Plan	100% of the Fraud Plan	100% of the Fraud Plan	45.74 to end Sept

2.2 Tables 2 provides an indicative allocation of how the funding resource will and has been used in terms of investigator days. Where the volume of fraud referrals is increased resources may have to be diverted from pro-active fraud drives to enable accepted fraud referral cases to be investigated.

Table 2: Fraud Resourcing Plan (includes actuals for 2018/19)

	Estimated Days	%	Actual (to 30/9/18)	%
Referral Review	34	8.5	17.5	9.6
Pro Active Fraud Drives	55	13.7	10.8	5.9
Fraud Investigation	273	68.3	148.6	81.2
Fraud Awareness/prevention	18	4.5	6.0	3.3
Contingency	20	5.0	0.0	0.0
Total	**400**	**100.0**	**182.9**	**100.0**

2.3 Tables 3 and 4 provide a breakdown of the fraud/abuse referrals that have been investigated and a summary of the value of fraud/overpayments and notional savings identified as a result of the fraud work undertaken, with comparisons to previous years.

Table 3: Summary of fraud referrals

	2018/19 to Sept '18	2017/18	2016/17
Referral accepted in period for investigation by type:			
- Tenancy fraud/abuse	55	79	187
- Housing Applications	9	20	Incl in above
- Right to Buy	17	72	30
- Permit Fraud	5	18	7
- Corporate (Internal)	6	16	14
- Corporate (External) i.e. CTR & SPD	20	25	19
Total referrals in period	112	230	257
Closed in period			
- Closed no fraud	15	106	147
- Closed with sanction	22	54	38
Referrals still under investigation	75	70	73

2.4 The number of referrals received are a reflection of the effectiveness of the implementation of the Council's Anti-Fraud and Anti-Corruption Strategy. This indicates a reasonable level of general fraud awareness by officers across all the Council's departments.

2.5 A summary of closed investigations into fraud and financial irregularity in 2018/19 up to 30th September is attached at Appendix A.

Table 4: Summary of Overpayments and Notional savings

(* notional savings figures as per Audit Commission estimates)	**2018/19 (to Sept '18) £**	**2017/18 £**	**2016/17 £**
Social Housing (18k per property recovered* as directly reduces call upon temporary accommodation costs)	72,000 (4 prop)	144,000 (8 prop)	216,000 (12 prop)
Housing Applications Rejected (notional £6k per application cancelled)	30,000 (5 apps)	108,000 (18 apps)	96,000 (16 apps)
Right to buy (notional @ £100k discount)	700,000 (7 apps)	1,400,000 (14 apps #)	100,000 (1 app)
Blue Badges & Parking Permit (notional @ £500 per case*)	500	2,500	0
Council Tax (identified overpayments and administrative penalties)	4,782	151	132,782
Other	36,000	12,133	800
Total savings - Cashable	**112,782**	**156,284**	**349,582**
- Notional	**730,218**	**1,510,500**	**196,000**

\# Increased sanctions achieved in 2017/18 as a result of a targeted pro-active fraud drive.

3. Developments in Fraud Detection and Prevention

3.1 **Data Analytics London Counter Fraud Hub (LCFH):** Whilst London Councils have a good record in investigating fraud and in collaboration to counter and prevent fraud there is always the need to respond to technological developments as innovation is as important in fighting fraud as any area of council activity to keep ahead of fraudsters and prevent resources being taken away from delivering services to those who need them.

3.2 The principles for maximising collaborative and smarter working through data sharing are behind the development of the London Counter Fraud Hub (LCFH). This hub is intended to provide a powerful fraud detection solution, combining advanced data matching with intelligent analytics and local government counter fraud expertise. As is common with most new initiatives there are some initial costs and resource implications to ensure that the Council can benefit from participation within the LCFH.

3.3 The hub's development has passed an initial proof of concept stage, with further functionality testing being undertaken by four pilot authorities, and once completed it will be offered for roll out to all London Councils. Unlike the NFI it does not have a statutory basis that requires all authorities to provide their data so will require a decision from each Council. This will be an invest to save scheme, with Councils' able to offset the initial additional resource input against future cashable savings.

3.4 **National Fraud Initiative (NFI) 2018**: The NFI, which started in 1996, continues to prove an effective tool for detecting and preventing fraud and error across the UK. Analysis of the financial outcomes from the most recent NFI 2016/17 data matching exercise shows that the NFI exceeded its highest level of fraud, error and overpayments achieved in any two-year reporting period since it began in 1996. Cumulatively the NFI has now enabled participants to prevent and detect fraud and overpayments totalling £1.69 billion.

3.5 Participation is mandatory with all local authorities providing datasets for the NFI, Part 6 of the Local Audit and Accountability Act (LAAA) 2014. The SWLFP coordinate the submission of the required datasets, during October and November, and distributing matches to front line service teams. Where fraud is suspected cases are referred back to the SWLFP for investigation.

3.6 **On-line Fraud Awareness Training:** An on-line fraud awareness training package, aligned to Merton's policies and procedures, has been made available for all officers to increase awareness and understanding of how and to who suspicions of fraud or irregularity should be reported. With continual changes in staffing and staff roles regular reminders on fraud awareness helps support and robustly maintain the Council's Anti-Fraud and Anti-Corruption Strategy and Culture.

4. Local Government Transparency Code.

4.1 Under the code the Council is required to publish the following data regarding its Fraud Investigation activity. Listed below are 2018/19 figures to 30 September (with 2017/18 comparative figures shown within brackets)

- Accredited number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

	18/19 [to 30/09/18]	(17/18)
Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014	6	9
The Council Tax Reduction Schemes		

(Detection of Fraud and Enforcement) (England) Regulations 2013	0	0

- Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

	Absolute	FTE
Fraud Investigation - SWLFP #	15 (15)	14.5 (14.5)

- Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

PINS trained Fraud Specialist	7 (6)	7.0 (6.0)
CIPFA Certificate in Investigative Practices	1 (2)	1.0 (2.0)
CIPFA Accredited Counter Fraud Specialist	4 (4)	4.0 (4.0)

- Total amount spent by the authority on the investigation and prosecution of fraud

	18/19	(17/18)
Other Fraud Investigation	£121.1k	£118.7k

- Total number of fraud cases investigated.

	[to 30/09/18]	
Housing/Tenancy related Investigations	64	99
Right to Buy	17	72
Permit Fraud Investigation	5	18
Other Investigations	26	41
TOTAL	112	230

4.2 To ensure that sufficient knowledge and capability for fraud investigation Merton Council entered into a partnership with four neighbouring boroughs, the SWLFP. The Council has access to the pool of trained fraud investigation officers' dependent upon the demands of any individual fraud referral. # Merton's funding contribution for 2018/19 equates to 2.0 FTE Investigators.

5. Conclusion

5.1 The use of technology and ongoing improvements to accessing key systems, intelligence sources and records for fraud detection and prevention means that the fraud response capability has been able to manage and address the number of fraud referrals and promote fraud awareness.

5.2 Members should be assured that the systems are in place for the identification and investigation of allegations of fraud. The majority of referrals are received from in-house teams which is a good indication that a reasonable level of fraud awareness exists across all Council staff supported by the Council's Anti-Fraud and Anti-Corruption Strategy and culture.

5.3 The Council has made suitable provision for the investigation and prevention of fraud and corruption.

GLOSSARY

CIPFA	Chartered Institute of Public Finance and Accountancy
CTR	Council Tax Reduction
DWP	Department for Work and Pensions
FTE	Full Time Equivalent
LAAA	Local Audit and Accountability Act
LCFH	London Counter Fraud Hub
NFI	National Fraud Initiative
PINS	Professionalism IN Security
SHIP	Social Housing Investigation Partnership
SPD	Single Person Discount
SWLFP	South West London Fraud Partnership

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Appendix A

FRAUD, CORRUPTION AND FINANCIAL IRREGULARITIES – RESULTS OF CASES CLOSED 01/04/18 to 30/09/18

Offence/irregularity, sanctions and redress	Key outstanding actions
<u>**Housing Tenancy**</u>	
1. **(2996) Abandonment:** Referral from MPCH of abandonment. Initial investigations suggested that someone may be living at the property. Unannounced visits made which confirmed that the tenant is not resident but family members who had not been included within the details of known occupants were staying at the property. Rent arrears were accruing and evidence of unauthorised occupation provided an available for legal recovery action. Notices were issued and following Court action vacant possession was obtained and property released for others in need of social housing.	None
2. **(3760) Subletting -** Referral from TVHA. Initial investigation checks yielded evidence that tenant had another social housing tenancy in Malvern and that it was likely that he was allowing a relative to use his TVHA tenancy. Tenant requested to attend a formal interview. During interview, the tenant admitted to allowing her sister to reside at the TVHA property but claimed that they had not gained financially. Having been confronted with the evidence the tenant and chose to complete a Tenant's NTQ and surrendered vacant possession. Property released for others in need of social housing.	None
3. **(3948) False succession claim:** Referral from Clarion. Tenant's son claimed that the tenant had died abroad in Kenya but due to the location where they died it would not be possible to obtain a death certificate. He wished to succeed the tenancy. Enquiries made with the UKBA identified that the tenant had returned to the UK within a month of her alleged death. Other systems checks completed but with no trace of her current whereabouts. The tenants son refused to The succession has been denied and as a result of subsequent court proceedings, possession was awarded and the property recovered on 11/09/2018	None
4. **(4607) Subletting –** Pro-active data match project highlighted subletting concern. Investigation, including UK Border Agency checks revealed that the tenant had left the UK with further social media checks placing the tenant in Malta. Credit check linked the tenant to a property in Nottinghamshire although not shown to be the resident there. Visits made to property where sub tenant found in situ. Witness statement obtained with details of deposit and rental payments made to the tenant. Notice served by and following Court action outright possession awarded, and property released for others in need of social housing.	None

Offence/irregularity, sanctions and redress	Key outstanding actions
Right to Buy: 5. 17 RTB applications are being reviewed with priority given to applications where the tenants are receiving Housing Benefit. Applicants details are cross-checked with other Council systems and credit records to ensure that the eligibility criteria are met, visits are undertaken where needed. Following intervention, including visits, 7 applications **(2589, 2606, 2640, 2829, 2839, 3039, 3295)** have been cancelled, 3 referral closed with no concerns with 7 referrals still under review.	Continue to review referrals, cross-checking applicants' details with other Council systems and accessible credit data, visiting applicants where necessary.
Corporate Internal 6. **(2349) Failure to declare Company Directorship.** Management referral that an employee had failed to declare their links with a Company who operates within the borough. Investigation confirmed that the officer was a Director of the company and had been involved in processing applications from that company. When approach by his Manager and HR the officer resigned. Officer requested to attend for formal interview. At the interview they admitted their involvement with the company, assisting in processing applications from the company and obtaining a financial benefit. Case considered for prosecution for an abuse of position but unable to progress due to insufficient evidence including a key witness had left the country prior to providing a witness statement.	None
7. **(3869) Employee Theft:** Management referral raising concerns over increase volume and value of petty cash transactions. Investigation confirmed that the responsibility for daily cash handling and banking resided with the school's Finance Assistant. An examination of accounting records highlighted a pattern of inflated petty cash claims that were all processed by the Finance Assistant. The examination of records also highlighted shortfalls in income banked. Officer requested to attend for formal interview but failed to respond. Officer they submitted their resignation. Details of employee theft passed to Police who are investigating. The School's cash handling procedures were reviewed, usage reduced, and controls strengthened with increased supervisory oversight to prevent any similar occurrence.	None
Corporate External 8. **(2000) HB/CTR failure to declare changer in earnings:** Referral from Revenues Team claiming that a school-based employee was claiming HB and CTR that they were not entitled to. Details passed over to the DWP for investigation into potential HB fraud and joint investigation was initiated. Employee attend for formal interview during which they admitted their failure to report a change in their employment status. DWP acknowledged officer's cooperation and admission and issued an Administrative Penalty with the employee to repay overpaid benefits on just over £2k.	None

Appendix A

Offence/irregularity, sanctions and redress	Key outstanding actions
9. **(4137) SPD/HB/CTR failure to declare non-dependant:** Pro-active data matching exercise highlighted concerns over the accuracy of applicant's SPD claim. Investigation confirmed that a second adult was in residence and that as an undeclared non-dependant this also impacted their claim for HB/CTR. Applicant requested to attend for formal interview but failed to attend. SPD cancelled and HB/CTR overpayment raised.	None
10. **(4209) Blue Badge Misuse:** Referral from a member of the public claiming that someone was continuing to use their late father's blue badge to park a vehicle in the disabled bay, in their road. Checks undertaken on the badge confirmed that the holder had died three months prior to the referral. A visit was made to the property and the badge recovered. A recommendation was also made to revoke this specific disabled bay in the street.	None
11. **(3794) School Admissions:** Referral from School Admissions Team who suspected that a family had given a false address on an application for a place at a particular school. Investigation confirmed that the family had purchased a second property and they had made a parental statement to say that they were living there. However, internal checks showed that they were still liable for Council Tax on the first property. The records also showed they had given the address of their first property as the contact address to Council Tax Team for the second property. An unannounced visit was made to the second property address. When officers arrived at the address, they found that firemen were attempting to enter the address as a fire alarm had gone off. They were informed that the property appeared to be being refurbished, did not appear to be lived in. Report and evidence obtained passed to the School Admissions Team who turned down the application.	None

Glossary

CTR	Council Tax Reduction	DWP	Department for Works and Pensions
HB	Housing Benefit	HR	Human Resources
MPCH	Merton Priory Circle Homes (now Clarion)	NTQ	Notice To Quit
RTB	Right to Buy	SPD	Single Person Discount
TVHA	Thames Valley Housing Association	UKBA	United Kingdom Boarder Agency

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Committee: Standards and General Purpose

Date: 8th November 2018

Wards: All

Subject: **Gifts and Hospitality – Members**

Lead officer: Paul Evans, AD and Monitoring Officer

Contact officer: Paul Evans, 0208 545 3338, paul.evans@merton.gov.uk

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Recommendations:

A. That the Committee notes the report.

B. That members are reminded of their responsibility to complete declarations of gifts and hospitality including reasons for acceptance.

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. The Council's Code of Conduct for Councillors incorporates the "Protocol on the offer, acceptance and declaration of the receipt of gifts and hospitality by elected and co-opted members"**.** Members are required to ensure that gifts and hospitality that may be offered are recorded in a register that the Council publishes on line.

1.2. This report provides information on gifts and hospitality recorded in the hospitality registers for the review in the year since the last consideration of the register on 9 November 2017

2 DETAILS

2.1. **What are the rules?**

2.2. The Council's requirements are set out in the "Protocol on the offer, acceptance and declaration of the receipt of gifts and hospitality by elected and co-opted members" which is attached at appendix 1 for ease of reference.

2.3. The protocol provides that members must:-

a) "You must register *every* individual gift or item of hospitality received that is over £25 in value.

b) Your registration must be made *within 28 days of the date you received it*, by completing and sending the attached form to the Council's Monitoring Officer (Paul Evans, Assistant Director of Corporate Governance and Joint Head of Legal Services).

c) You must declare the *value* and details of the gift or hospitality received on the form, as well as whether the donor of the gift has or has had in the past or likely to have in the future, dealings with the Council and also if the gift or hospitality has been accepted the reason for that acceptance. You must sign the form *personally*; they should not be signed by support staff for you. Forms will be checked and returned if not completed properly.

d) Even if all members, or a large number of them, received the same gift or are invited to the same event, they must each make *individual* notifications.

e) Failure to comply with these rules is a breach of the Members' Code of Conduct.

f) Breaches of the Code render members liable to a complaint being reported to the Monitoring Officer, who can decide whether there should be an investigation into the allegation."

g) The Protocol gives the following guidance

"**SHOULD I ACCEPT GIFTS AND HOSPITALITY?**

2.4 Registering gifts or hospitality received under the Code does not automatically mean it is appropriate or sensible to accept them in the first place.

a) Particular care should be taken in relation to gifts and hospitality offered by current or potential contractors for the Council. In certain cases the acceptance of a gift or hospitality from these sources could constitute a criminal offence, even if declared. If there is any suspicion that any offer is intended as an inducement then the matter should be reported in accordance with established procedures.

b) The Bribery Act 2010, which came into force on 1 July 2011, creates offences of "bribing another person" (active bribery) and of "being bribed" (passive bribery). The offences consist of "promising, offering or giving" or "requesting, agreeing to receive or accepting an advantage (financial or otherwise)" in circumstances involving the improper performance of a relevant function or activity. In the context of the council the relevant function or activity means a public activity which a reasonable person would expect to be performed in good faith, impartially or in a particular way by a person performing it in a position of trust. There is a maximum penalty of 10 years imprisonment or an unlimited fine for these offences.

c) In considering whether to accept gifts or hospitality Members should have regard to the following general principles:

d) Never accept a gift or hospitality as an inducement or reward for anything which you do as a Member;

e) Only accept a gift if there is a commensurate benefit to the Council;

f) Never accept a gift or hospitality which might be open to misinterpretation;

g) Never accept a gift or hospitality which puts you under an improper obligation; and

h) Never solicit a gift or hospitality.

Gifts which are more likely to be considered acceptable by the Standards Committee

2.5 Decisions on declarations must be made by individual members. The Standards Committee has however agreed that in appropriate circumstances members may choose to accept gifts and hospitality in the following circumstances:

a. Civic hospitality provided by another authority;

b. modest refreshments received in the ordinary course of duties as a member e.g. at formal meetings or when in contact with constituents;

c. Tickets for sporting, cultural events which are sponsored or supported by the Council;

d. Small gifts of low intrinsic value i.e. below £25 which are branded with the name of the company or organisation making the gift (e.g. diaries, calendars etc);

e. Modest souvenir gifts with a value below £25 from another public body given on the occasion of a visit by or to that body;

f. Hospitality received in the course of an external visit or meeting which has been authorised by the Council. In such cases the arrangements should be made by officers rather than the members who will be benefiting and hospitality should be commensurate with the nature of the visit; and

g. Other unsolicited gifts where it is impracticable to return them or where refusal would in the circumstances cause offence. In such cases, you may wish to pass the gift to the Mayor's charitable fund.

2.6 Receipt of gifts and hospitality of this type is still subject to the requirements of the protocol regarding the notification to the Monitoring Officer of gifts and hospitality of greater than £25 in value. The appropriateness of acceptance should always be considered beforehand. It should also be noted that the mere fact that a gift or hospitality does not have to be notified under the protocol does not necessarily mean that it is appropriate to accept it.

3 REVIEW OF THE REGISTERS

3.1. Entries made in the register since the last review are attached at appendix 2.

3.1. The registers show that declarations were made on 42 occasions by 25 Councillors

3.2. The declarations can be summarised in the following categories:

- Events such as dinners to meet organisations and network – 6
- Wimbledon tennis tickets by invitation or ballot – 14
- Christmas gifts – 1
- Sporting events – 3
- Mayors charity events – 9
- Borough events – 9

3.3. The review of the registers indicates that members are aware of their responsibilities. The declarations were received from across the Council's member groups. In the previous years review, declarations were received from 22 members on 38 occasions. There is a consistent level of declaration across a variety of councillors and indicates that group offices and councillors understand their obligations.

3.4. The nature of the gifts and hospitality referred to is consistent with what may be expected for a Council and there do not appear to be any entries which are outside of what could be considered in the normal course of Council business and the various roles councillors have.

3.5. It is proposed that following this review a reminder of the obligations is cascaded to members and group officers to ensure the system continues to operate in a satisfactory way

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. None

5 TIMETABLE

5.1. The review of gifts and hospitality takes place on an annual basis.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. None

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. Members are required by the Code of Conduct to report offers of gifts, and hospitality. Failure to report may be a breach of the Code of Conduct.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. There are no specific human rights or equalities issues arising from this report. The requirement to ensure that the Council is conducting its activities has proper regard to issues relating to human rights and equalities and fair treatment of all people is a significant component of ethical governance.

9 CRIME AND DISORDER IMPLICATIONS

9.1. None

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. None

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1- Protocol on the declaration of gifts and hospitality
- Appendix 2 – extract from the register of declarations of gifts and hospitality.

12 BACKGROUND PAPERS

12.1. None

Appendix 1

Protocol on the offer, acceptance and declaration of the receipt of gifts and hospitality by elected and co-opted members

Introduction

This protocol has been approved by the Standards Committee of the London Borough of Merton and sets out members' obligations to declare gifts and hospitality received in their capacity as members of the Council and to provide guidance on those obligations.

A breach of this protocol amounts to a breach of the Council's Code of Conduct and a complaint can be reported to the Monitoring Officer and dealt with in accordance with the Members' Complaints Procedure.

What are the rules?

- You must register *every* individual gift or item of hospitality received that is over £25 in value.

- Your registration must be made *within 28 days of the date you received it*, by completing and sending the attached form to the Council's Monitoring Officer (Paul Evans, Assistant Director of Corporate Governance and Joint Head of Legal Services).

- You must declare the *value* and details of the gift or hospitality received on the form, as well as whether the donor of the gift has or has had in the past or likely to have in the future, dealings with the Council and also if the gift or hospitality has been accepted the reason for that acceptance. The form must be signed by you *personally*; they should not be signed by support staff for you. Forms will be checked and returned if not completed properly.

- Even if all members, or a large number of them, received the same gift or were invited to the same event, they must each make *individual* notifications.

- Failure to comply with these rules is a breach of the Members' Code of Conduct.

- Breaches of the Code render members liable to a complaint being reported to the Monitoring Officer, who can decide whether there should be an investigation into the allegation.

- The press and public have the right to inspect your gift and hospitality declaration forms. The Register is also public via the Council's web site at www.merton.gov.uk. (follow link to 'Councillors' page). Councillors and officers may also gain access through the council's intranet. (You should have this in mind when completing declaration forms, as we cannot edit your comments.)

Should I accept gifts and hospitality?

Registering gifts or hospitality received under the Code does not automatically mean it is appropriate or sensible to accept them in the first place.

Particular care should be taken in relation to gifts and hospitality offered by current or potential contractors for the Council. In certain cases the acceptance of a gift or hospitality from these sources could constitute a criminal offence, even if declared. If there is any suspicion that any offer is intended as an inducement then the matter should be reported in accordance with established procedures.

The Bribery Act 2010, which came into force on 1 July 2011, creates offences of “bribing another person” (active bribery) and of “being bribed” (passive bribery). The offences consist of “promising, offering or giving” or “requesting, agreeing to receive or accepting an advantage (financial or otherwise)” in circumstances involving the improper performance of a relevant function or activity. In the context of the council the relevant function or activity means a public activity which a reasonable person would expect to be performed in good faith, impartially or in a particular way by a person performing it in a position of trust. There is a maximum penalty of 10 years imprisonment or an unlimited fine for these offences.

In considering whether to accept gifts or hospitality Members should have regard to the following general principles:

- Never accept a gift or hospitality as an inducement or reward for anything which you do as a Member;
- Only accept a gift if there is a commensurate benefit to the Council;
- Never accept a gift or hospitality which might be open to misinterpretation;
- Never accept a gift or hospitality which puts you under an improper obligation; and
- Never solicit a gift or hospitality.

Must I register all gifts and hospitality which I receive or am offered?

- You <u>must</u> register any gifts or hospitality worth over £25 that you receive in connection with your official duties as a Member.
- Where the value of any gift or hospitality is under £25 you <u>may</u> wish to declare receiving it.
- You should register any offer of gift and/or hospitality over £25 which you have declined, since this protects both your position and that of the Council.

Only gifts and hospitality offered to you in your official capacity must be registered. Gifts and hospitality offered to you in your private capacity, of whatever value, should not be registered at all. You do not need to register gifts and hospitality which are not related to your role as a Member.

However, you should always consider whether any gifts or hospitality could be seen as being connected with your public role as a Member.

What is the value of the gift/ hospitality?

You may have to estimate how much a gift or some hospitality is worth. The form requires you to give an estimate of the value. It is suggested that you take a common sense approach, and consider how much you reasonably think it would cost a member of the public to buy the gift, or provide the hospitality in question. If as a result you estimate that the value is greater than £25, then you should declare receipt.

Where hospitality is concerned, you can disregard catering on-costs and other overheads, e.g. staff and room hire. If the sandwiches or your meal, including drinks and alcohol, would cost £25 in a comparable establishment providing food of comparable quality, register it.

If you are not certain whether the value is under £25, the safest course is to register it and give an approximate value.

What about gifts of low value?

There is no requirement to declare gifts of a value of less than £25. However , in order to be transparent, if you receive a series of related gifts in connection with your role as a Member which are all under £25, but together total above £25, then you should register them if they are from the same person. If the small gifts received from different persons are connected in some way, it is *good practice* to register them.

How do I register gifts and hospitality I receive?

You must give the Group Office Managers (working on behalf of the Monitoring Officer) written details about the gifts and hospitality you are offered. The Standards Committee endorses the use of a standard form for this purpose, which is available on the Council's website.

The best advice is to get into the habit of registering things as soon as possible, and if in doubt, register receipt. The appropriate form is available on the Council's website..

Which organisation do I make declarations to?

As mentioned, anything received in your private capacity is not declarable. However, what is your *"official capacity"*? So far as the Council is concerned it is when you do any of the following -

- You conduct the Council's business; or
- You conduct the business of the office of Councillor; or
- You act as a formal representative of the Council on another body.

To deal with the issue of when things are received in different capacities or where there are overlapping roles:

- Only use the Council's gifts and hospitality registration declaration form for things received in your capacity as a Merton councillor, and send it to the Council's Monitoring Officer.
- If you receive things in another capacity, i.e. arising from holding another public office, register in accordance with whatever code is in place for that other body. If a particular body does not actually require you to register anything (e.g. a community association), then you do not need to do anything in respect of the receipt of a gift or hospitality directly attributed to your role within that organisation.
- If you cannot decide what capacity you received something in, e.g. you were invited as both a Councillor and a health trust member, provided you declare the gift/ hospitality *at least once* with the body that appears to be the most appropriate, you will have fulfilled your duties. The overriding purpose is public transparency.

What happens if I do not register a gift or hospitality?

Failure to notify the Monitoring Officer of the receipt of a gift or hospitality is a breach of this protocol and consequently also a breach of the Code of Conduct. An alleged breach of the Code can be the subject of a complaint to the Monitoring Officer which could result in the matter becoming the subject of the investigation.

Gifts which are more likely to be considered acceptable by the Standards Committee

Decisions on declarations must be made by individual members. The Standards Committee has however agreed that in appropriate circumstances members may choose to accept gifts and hospitality in the following circumstances:

- Civic hospitality provided by another authority;
- modest refreshments received in the ordinary course of duties as a member e.g. at formal meetings or when in contact with constituents;
- Tickets for sporting, cultural events which are sponsored or supported by the Council;
- Small gifts of low intrinsic value i.e. below £25 which are branded with the name of the company or organisation making the gift (e.g. diaries, calendars etc);
- Modest souvenir gifts with a value below £25 from another public body given on the occasion of a visit by or to that body;
- Hospitality received in the course of an external visit or meeting which has been authorised by the Council. In such cases the arrangements should be made by officers rather than the members who will be benefiting and hospitality should be commensurate with the nature of the visit; and
- Other unsolicited gifts where it is impracticable to return them or where refusal would in the circumstances cause offence. In such cases you may wish to pass the gift to the Mayor's charitable fund.

Receipt of gifts and hospitality of this type is still subject to the requirements of the protocol regarding the notification to the Monitoring Officer of gifts and hospitality of greater than £25 in value. The appropriateness of acceptance should always be considered beforehand. It should also be noted that the mere fact that a gift or hospitality does not have to be notified under the protocol does not necessarily mean that it is appropriate to accept it.

Guidance on particular gifts and hospitality

Tickets to events

The evidence of the Register indicates that the most common benefits accepted by Merton Councillors from time to time, are tickets to functions, notably theatrical performances in the Borough. If a Member considers it appropriate to accept such tickets, then the value must be assessed and if greater than £25 they should be declared as gifts.

All England Lawn Tennis Championships

Where, as in the case of the All England Lawn Tennis Championships, tickets are allocated by lottery and then purchased, the mere fact of payment should not necessarily mean that a notification should not be made under the Code. If participation in a lottery enables a member as a result of his or her office, the opportunity to purchase tickets which would not be available to the public at large then a benefit has been enjoyed by the member. The Standards Committee considers that even though the value of this benefit is difficult to quantify the interests of probity and transparency require the notification of such tickets whether purchased or not. A specific form with standardised wording is available on the Council's website for these circumstances.

Civic Ceremonial

The Standards Committee does not consider that the attendance of the Mayor, the Deputy Mayor or any other Councillor as an accredited representative of the Council needs to be notified to the Monitoring Officer under the Protocol. However should any personal gift be offered in such circumstances the approach to be adopted in relation to acceptance must be considered in accordance with this protocol and this guidance.

Ceremonial Gifts

Ceremonial gifts greater than £25 in value offered by visiting delegations from British or overseas public authorities may be accepted on the basis that the gift is made to the Council rather than the individual Councillor. Arrangements should be made for any such gifts which are received to be displayed or kept corporately.

Will the register be open to the public?

Yes, the register is available to the public in the same way as the register of disclosable pecuniary interests. It is open for inspection and also available on the internet and the Council's intranet.

The Monitoring Officer produces regular updates of declarations, which are reported to the Standards Committee once a year, and available for public inspection.

Further assistance

It is each Member's own individual responsibility to observe this protocol, but the Monitoring Officer and his staff will help where possible. If you have any questions at all please contact the Group Officer Managers, the Monitoring Officer or Deputy Monitoring Officer for advice and assistance.

Paul Evans
Monitoring Officer
London Borough of Merton

26 February 2013

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
Agatha Mary Akyigyina OBE	None		
Stephen Alambritis	Merton Business Awards Dinner at The All England Club - offered by Future Merton as Merton Council is a co-sponsor of the event. Value £80	20.09.18	£80.00
	Dinner organised by Terrapin Communications promoting Future Merton to investors. Value £40	13.09.18	£40.00
	Guest of AELTCC at Wimbledon Tennis Championships in Royal Box 2 x tickets. Value unknown, in excess of £25.	05.07.18	£25.00+
	New Year gift of bottle of Champagne, offered by Criterion Capital Ltd	22.01.18	£25.00 +
	Ticket for Chairman's Box, Fulham v Barnsley at Fulham	23.12.17	£25.00 +
	Two tickets to Mayor Gala Night Pantomime at Wimbledon Theatre offered by New Wimbledon Theatre	19.12.17	£25.00 +
	One ticket to AFC Wimbledon v Wigan Athletic offered by AFC Wimbledon	16.12.17	£25.00 +
	One ticket to Wimbledon Music Festival event at Sacred Heart Church Wimbledon, offered by Wimbledon Music Festival	11.11.17	£25.00 +
Mark Allison	None		
Stan Anderson	None		

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
Laxmi Attawar	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 9 July 2018 for which I paid £240.00	25.06.18	£240.00
	Two tickets to Mayor Gala Night Pantomime offered by New Wimbledon Theatre	19.12.17	£25.00 +
Eloise Bailey	None		
Thomas Barlow	None		
Nigel Benbow	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 11 July 2018 for which I paid £290.00	22.06.18	£290.00
Hina Bokhari	None		
Kelly Braud	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 12 July 2018 for which I paid £290.00	22.06.18	£290.00

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
Mike Brunt	None		
Adam Bush	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 10 July 2018 for which I paid £240.00	13.06.18	£240.00
Omar Bush	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 2 July 2018 for which I paid £120.00	13.06.18	£120.00
Ben Butler	None		
Tobin Byers	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 15 July 2018 for which I paid £420.00	21.06.18	£420.00
	3 tickets for Mayor's charity pantomime performance – Value unknown but in excess of £25.00	19.12.17	£25.00+

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
Billy Christie	None		
David Chung	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 7 July 2018 for which I paid £102.00	25.06.18	£102.00
Caroline Cooper- Marbiah	Pair of tickets for Mayor's charity pantomime	19.12.17	£25.00 +
Pauline Cowper	None		
Stephen Crowe	None		
Mary Curtin	None		
David Dean	Entry for 3 people (including myself) to the Bonfire and Fireworks Display held in Morden Park accepted in capacity as a local councillor and offered by the London Borough of Merton	05.11.17	£30.00 (£10 per ticket)
John Dehaney	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 6 July 2018 for which I paid £204.00	18.06.18	£204.00

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
	Mayor Gala Night Pantomime Wimbledon Theatre offered by Wimbledon Theatre	14.12.17	£25.00 +
Nick Draper	5 tickets for Mayor's Charity Pantomime Performance offered by New Wimbledon Theatre	19.12.17	£25.00 +
Anthony Fairclough	None		
Edward Foley	None		
Brenda Fraser	None		
Edward Gretton	Attendance at dinner hosted by the Capability Brown Society to promote restoration of Wimbledon Park offered by Capability Brown Society – Value under £30.00	15.08.18	£30.00
Joan Henry	None		
Daniel Holden	Entry for 3 people (including myself) to the Bonfire and Fireworks Display held in Wimbledon Park accepted in capacity as a Merton councillor and offered by the London Borough of Merton	04.11.17	£30.00 (£10 per ticket)
James Holmes	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets	04.07.18	£156.00

Name	Details	Date	Value
	offered by the All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 4 July 2018 for which I paid £156.00		
Andrew Howard	Attendance at dinner hosted by the Capability Brown Society, invited in capacity of Village ward councilor to discuss upcoming Capability Brown festival with other councilors and resident associations offered by Friends of Wimbledon Park, Wimbledon Club, Capability Brown Society, Wimbledon Park Golf Club; value unknown but over £25	15.08.18	£25.00+
Janice Howard	Attendance at dinner hosted by the Capability Brown Society, invited in capacity of Wimbledon Park ward councilor to discuss upcoming Capability Brown festival with other councilors and resident associations offered by Friends of Wimbledon Park, The Wimbledon Club, Capability Brown Society, Wimbledon Park Golf Club; value unknown but over £25	15.08.18	£25.00+
	Entry for 3 people (including myself) to the Bonfire and Fireworks Display held in Wimbledon Park accepted as local ward councillor and offered by the London Borough of Merton	04.11.17	£30.00 (£10 per ticket)
Natasha Irons	None		
Mark Kenny	None		

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
Sally Kenny	None		
Linda Kirby	None		
Paul Kohler	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets. Through the ballot I received 2 tickets for 14 July 2018 for which I paid £280. offered by The All England Lawn Tennis and Croquet Club, Church Road, Wimbledon	22.06.18	£280.00
Rebecca Lanning	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets. Through the ballot I received 2 tickets for 27 June 2018 for which I paid £120.00 offered by The All England Lawn Tennis and Croquet Club, Church Road, Wimbledon	13.08.18	£120.00
Najeeb Latif	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by The All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 13 July 2018 for which I paid £340.	13.07.18	£340.00
Edith Macaulay MBE	Pair tickets for Mayor’s charity pantomime performance	19.12.17	£25.00 +
Russell Makin	None		

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
Peter McCabe	None		
Simon McGrath	The opportunity to participate in a ballot, which is not open to the general public, for Wimbledon tennis championship tickets offered by The All England Lawn Tennis and Croquet Club. Through the ballot I received 2 tickets for 5 July 2018 for which I paid £156	27.06.18	£156.00
Nick McLean	None		
Oonagh Moulton	Attendance at dinner hosted by the Capability Brown Society, invited in capacity of Wimbledon Park ward councilor to discuss upcoming Capability Brown festival with other councilor's and resident associations offered by Friends of Wimbledon Park, Capability Brown Society, held at the Wimbledon Club; value unknown but over £25	15.08.18	£25.00+
	Entry for 3 people (including myself) to the Bonfire and Fireworks Display held in Wimbledon Park accepted as local ward councillor and offered by the London Borough of Merton	04.11.17	£30.00 (£10 per ticket)
Aiden Mundy	None		
Hayley Ormrod	None		

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Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
Dennis Pearce	None		
Owen Pritchard	None		
Carl Quilliam	None		
David Simpson CBE	None		
Marsie Skeete	None		
Peter Southgate	2 tickets for the Mayor of Merton's Gala Night Performance of 'Jack and the Beanstalk' at the New Wimbledon Theatre offered by Ambassadors Theatre Group	19.12.17	£79.70
Geraldine Stanford	None		
Eleanor Stringer	None		
Dave Ward	None		
Martin Whelton	Merton Business Awards Dinner at The All England Club - offered by Future Merton as Merton Council is a co-sponsor of the event. Value £80	20.09.18	£80.00
	Dinner organised by Terrapin Communications promoting Future Merton to investors. Value £40	13.09.18	£40.00

Appendix 2 to Gifts and Hospitality Register – Members

01.10.17- 30.09.18

Name	Details	Date	Value
	Dinner with fellow Labour housing lead members offered by Hosted by HTA Design at their offices in London ; Value £15	08.08.18	£15.00
	Place at the Local Government Awards as Merton were finalist in the Environmental Services category – offered by CHAS – the Contractors Health and Safety Assessment Scheme; as lead Member, I was invited to attend Awards Ceremony – offered by CHAS	21.03.18	£360.00
	Pair tickets for Mayor's charity pantomime performance	19.12.17	£25.00 +
	Ticket to see AFC Wimbledon v Wigan Athletic. Guest of club	16.12.17	£25.00 +
Dickie Wilkinson	None		
David Williams	None		

Committee: Standards and General Purpose

Date: 08.11.18

Wards: All

Subject: **Gifts and Hospitality – Officers**

Lead officer: Paul Evans, Assistant Director Corporate Governance and Monitoring Officer

Lead member: Councillor Peter McCabe, Chair, Standards and General Purposes Committee

Contact officer: Paul Evans, 0208 545 3338, paul.evans@merton.gov.uk

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Recommendations:

A. That the Committee considers the extract from the register

B. That managers remind staff about their responsibilities under the Employee's Code of Conduct to complete declarations, including reasons for acceptance

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. To report entries made to the Register of Gifts and Hospitality for officers since the last consideration of the register on 9 November 2017

2 DETAILS

2.1 The Code of Conduct for Employees requires that:

All offers of gifts must be reported to managers;

Significant gifts (over £25) must be registered on the departmental register.

Acceptance of gifts should only occur in very limited circumstances and approved in advance by the manager;

All offers of hospitality must be reported to managers;

The hospitality (no minimum value) must be registered on the departmental register;

There are limited circumstances where acceptance of hospitality may be acceptable

Hospitality received in the course of business meetings and at free training does not need to be registered, but managerial approval is required.

2.2 The inspection by the Monitoring Officer of the register shows that:

- The departmental registers continue to be maintained electronically in the adopted corporate manner in all departments.

- Notifications and registrations have taken place in the departments as follows:
  Registrations

Chief Executive's	1
Children Schools and Families	3
Community and Housing	2
Corporate Services	3
Environment & Regeneration	4

- The register for the period 1 November 2017 to the 30th September 2018 contained 13 entries.

- The entries no longer include tennis tickets from the AELTC managed under the staff ballot.

- The declarations are in accordance with requirements made up of entries where the gifts and hospitality accepted were for officers networking or representing the Council or, where low value gifts were received, from the public.

- It was noted at the last annual review that the report for 1st August 2016 to 1st August 2017 contained a relatively low number of entries and that the register may not have captured all the gifts and hospitality that may have been accepted or declined.

- The entries for 1 November 2017 and 30 September 2018 is marginally higher. These low figures may be a result of a genuine decline in gifts and hospitality being offered or it may be due to officers failing to enter these onto the register. In order to ensure that it is not the latter, managers should ensure that officers are aware of their responsibilities under the Code of Conduct for Employees to complete declarations and to give reasons if gifts and hospitality are being recorded as having been accepted. It is noted that in this year's entries there are 3 declarations (one in CSF, one in C&H and one in E&R) where no reason has been given for accepting a gift and this highlights the need to ensure all officers are aware it is not sufficient to declare having accepted the gift but provide reasons for doing so.

- CSF, CS and E & R are this year's highest recipients.

- One of the E & R entries relates to CHAS, which is a council owned trading company, which operates in a commercial market. The hospitality was appropriately accepted on the approval of the Chair of the Board of the Company. This confirms that staff working in Council owned trading companies do consider whether to accept the receipt of such gifts and hospitality further to the Council's systems to give the appropriate assurances.

- As stated in previous reports, notwithstanding that the nature of the work carried out by CSF, is likely to attract the giving of gifts, it may be prudent to suggest to managers that staff are informed that accepting gifts where the identity of the donor is known should only be on the basis that offence is not caused. This reason for accepting gifts appears in the entries. However, it may also be prudent that officers should consider whether it would be appropriate to donate gifts (whether anonymous or not) to the Mayor's Charity. It was noted that unlike previous years, there was very little donated to the charity. The one item which was donated was a woollen scarf donated by an officer in E&R. This is in contrast to C&H, where a Christmas hamper was donated anonymously and the gift was accepted and no reason given why.

- The entries for CS were in relation to functions and meals where attendance would be of a benefit to the Council.

- It should also be noted that in the last review C & H had zero entries and in this review they have 2. Historically C&H have consistently had a very low number of entries on the register and the comments above about managers reminding their staff of their obligations may be especially pertinent to ensure that all officers in that department satisfy these obligations.

3 ALTERNATIVE OPTIONS

3.1. None – it is for the Standards and General Purposes Committee to decide not to have this information reported to it, though this would not be compatible with its role as the proactive promoter and monitor of ethical standards.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. None

5 TIMETABLE

5.1. The register is updated whenever a declaration is made

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. None

7 LEGAL AND STATUTORY IMPLICATIONS

7.1 The receipt or gift of any reward or advantage for an act or omission that suggests favour to any person in their official capacity may constitute a criminal offence under the Bribery Act 2010.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. There are no specific human rights or equalities issues arising from this report. The requirement to ensure that the Council is conducting its activities has proper regard to issues relating to human rights and equalities and fair treatment of all people is a significant component of ethical governance.

9 CRIME AND DISORDER IMPLICATIONS

9.1. None

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 Failure by officers to address their responsibilities under the Code of Conduct could result in disciplinary action by the Council. Failure of the Council to monitor and promote the observance of the Code could result in an unnoticed lack of compliance by managers which might result in complaints, damage to the reputation of the Council, possible adverse impacts upon the quality of the Council's decision making processes and legal challenges to Council actions.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1

12 BACKGROUND PAPERS

12.1. None

Appendix one to
Gifts and Hospitality report to CMT report 09.10.18

London Borough of Merton Gifts and Hospitality Register (Staff) 01.11.17- 30.09.18 13 Entries Wimbledon ticket entries = 99

Chief Executives Department = 1

Date	Name and Post	Donor & Details	Accept	if Yes reason
11.09.17	Senior Officer	Polka Theatre - Performance of child of the divide celebration event	No	

Children Schools and Families = 3

Date	Name and Post	Donor & Details	Accept	if Yes reason
25.07.17	Officer	Bottle of M&S Prosecco	Yes	The recipient would not take no for an answer
23.11.17	Officer	Bottle of Prosecco and box of chocolates	Yes	Not recorded
10.09.18	Officer	Box of chocolates	Yes	Did not want to offend parent

Appendix one to
Gifts and Hospitality report to CMT report 09.10.18

Community and Housing = 2

Date	Name and Post	Donor & Details	Accept	if Yes reason
06.12.17	Officer	From unknown Donor – Christmas Hamper	Yes	
27.04.18	Officer	Toiletries	Yes	Did not want to offend

Corporate Services = 3

Date	Name and Post	Donor & Details	Accept	if Yes reason
13.02.18	Senior Officer	Private firm - Drinks and investment discussion on private equity opportunities	Yes	Changed our pension investment strategy to allow for private equity - new area for Merton to explore
22.08.18	Senior Officer	Private Firm – Meal	Yes	Relationship management training event
22.08.18	Officer	Private Firm - Dinner after the investment strategy implementation meeting	Yes	Made easy to continue with the investment discussion after the meeting time

Environment and Regeneration = 4

Date	Name and Post	Donor & Details	Accept	if Yes reason
18.12.17	Woolen scarf	Woolen scarf	Yes	It was posted to the officer - given to mayor's charity
05.02.18	Officer	Hospitality in sponsors box at Watford FC for Watford v Chelsea	Yes	Networking in industry - met compliance experts (the market CHAS is in) and strategy director of major competitor - Achilles - providing opportunity to find out their strategy. I advised Chris Lee I was attending in advance
16.02.18	Officer	Lunch - approx. value £20	Yes	Not provided
15.03.18	Senior Officer	Spring party invitation	No	

Committee: Standards and General Purposes Committee

Date: 8th November 2018

Wards:

Subject: Progress Report on Risk Management

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Mark Allison, Deputy Leader of the Council and Cabinet Member for Finance

Contact officer: Zoe Church, Head of Business Planning, 020 8545 3451

Recommendations:

A. That the Standards and General Purposes Committee reviews the adequacy of the risk management framework and the associated control environment

B. To consider the Key Strategic Risks and Issues faced by the council, and determine whether these are being actively managed

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide a progress report on risk management within Merton, including details of the Key Strategic Risks (KSRs) faced by the council.

1.2 The risk management strategy was revised by the Business Planning Team in early January 2018 taking account of recommendations made by the Corporate Risk Management Group on 10 January 2018, notably revision of the protocol for removal of risks from our risk registers. The strategy was then approved by Cabinet on 19 February 2018 and approved by Council on 28 February 2018 as part of the 2018/22 Business Plan. The current Risk Management Strategy is at Appendix I.

1.3 The procedure for identifying and monitoring risks is that each department manages their risks through their risk registers, and these are reviewed quarterly by DMTs. Any significant risks which may have a strategic impact are escalated by the Corporate Risk Management Group (CRMG) to CMT for inclusion on the Key Strategic Risk Register (KSRR) to ensure that risks which affect the council are being monitored and managed effectively.

1.4 Strategic oversight is provided by Cabinet, and the Standards and General Purposes Committee.

2 DETAILS

2.1. The risk management strategy emphasises the benefits of effective risk management, particularly in the context of budget savings. The strategy includes clear guidance for defining the likelihood and impact of risks, and the appropriate matrices for assessing these. This results in consistency across the council when it comes to scoring and monitoring risk. Where risks which might affect the Council as a whole are concerned, the strategy clearly sets out the process for escalating these risks onto the KSRR.

2.2. The procedure for managing risk is also laid out clearly in the strategy. Departmental risks are reviewed quarterly by the relevant risk champions and DMTs, to ensure that they have been assessed accurately and in a manner consistent with risk assessment across the organisation.

2.3. Risks scored at 16 or over (red risks) must be supported by an action plan to mitigate against the risk. Where possible, the risks are linked to an existing action plan such as a service or project plan, and up-to-date management commentary is supplied to demonstrate how the Control Actions are being progressed.

2.4. CRMG meets quarterly within two weeks of the DMT risk review meetings, and subjects the departmental risk registers and the KSRR to thorough scrutiny and challenge. Proposed amendments to KSRs, including the addition or deletion of risks, are escalated to CMT via a quarterly risk report. Any urgent decisions regarding KSRs can be escalated to CMT via the monthly finance and performance report.

2.5. In accordance with the risk reporting cycle, the most recent quarterly review of departmental risks was undertaken by DMTs during September 2018. These reviews were scrutinised at CRMG on 8 October 2018, and a report on the final Quarter Two status of the KSRR was subsequently presented to CMT on 23 October 2018.

2.6. There are currently 18 Key Strategic Risks and Issues on the KSRR.

- A Risk is defined as an event which might occur in the future
- An Issue is something which is happening right now.

We have 13 Key Strategic Risks, of which three are scored as red risks:

- KSR21/IT24: Public Contract Regulations/Contract Standing Orders
- KSR49/RE02: Corporate Business Plan and balanced budget
- KSR61/RE16: Annual Savings Programme

We have five Key Strategic Issues, of which one is scored as a red risk:

- KSR62/CSF09: Intervention/prevention commissioning

2.7. The latest KSRR, containing full details of all strategic risks and issues together with their associated Control Actions and management commentary, can be found at Appendix II.

2.8. Corporate Risk Management Group also reviews the level of insurance claims against the council on a quarterly basis. At its meeting on 8 October 2018, CRMG noted continuing cross-departmental efforts to reduce the level of claims for damage caused by trees.

2.9. During the course of the past year, a number of other risk-related activities have been undertaken including a full review of our Financial Impact definitions which were approved by CMT in April 2018 (these can be viewed at Appendix III).

2.10. Officers also visited Croydon to meet with their Risk Officer and compare risk management procedures. This proved to be a productive and helpful visit, and provided reassurance that our procedures are comparably effective.

2.11. Officers have also benefitted from training delivered by the Institute of Risk Management, and following this a number of improvements have been made to the way our risks are articulated.

2.12. The next quarterly review of the departmental risk registers will be undertaken throughout December 2018, and the results will be scrutinised by CRMG in early January 2018 and included in the 2019/23 Business Plan.

2.13. Cabinet receives reports on the risk management strategy in order to determine whether corporate risks are being actively managed. Cabinet is also responsible for agreeing the risk management strategy on an annual basis. The Standards and General Purposes Committee provides an independent oversight of the adequacy of the risk management framework and the associated control environment; and must be satisfied that the council's strategic risks are being actively managed.

2.14. The risk management strategy is included within the dedicated risk management pages on the Intranet, and informs and underpins all risk management processes. The risk management pages on the intranet have been reviewed and all information is up to date. All departmental risk registers and the KSRR are published on the Merton Hub intranet, along with guidance and information to assist officers who are responsible for managing and monitoring risks.

2.15. All internal audit report recommendations are reviewed by the departmental risk champions to ensure all relevant risk issues are addressed, supporting the internal control process.

3 ALTERNATIVE OPTIONS

3.1. Not applicable.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. The Corporate Risk Management Group contributed to consultations for the revision of the Risk Management Strategy which is attached at Appendix I. CRMG and CMT will also be consulted on the annual revision of the Risk Management Strategy to be undertaken in January 2019. This will incorporate the revised Financial Impact definitions which were approved by CRMG and CMT in April 2018

5 TIMETABLE

5.1. Not applicable.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. Over the past 7 financial years, Merton along with all other local authorities have faced continued financial pressure from reductions in central government funding and increased demand from vulnerable people and children. The harsh reality of this situation is that more and more local authorities are now showing signs of financial stress such as overspending on services coupled with depleting reserves.

6.2. The Chartered Institute for Public Finance and Accountancy are:

a) developing measures to indicate the financial resilience of local authorities to provide early warnings of financial difficulty, and

b) reviewing the contents of capital and treasury management strategies to ensure investment activity is underpinned by sound business cases.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. Risk management is a requirement of regulation 4(a) (iii) of the Accounts and Audit Regulations 2015.

7.2. Responses to FOI and other statutory enquiries relating to the Council's risks are based upon the published Key Strategic Risk Register within the Council's annual Business Plan. Should departmental risk registers form the subject of FOIs, these are redacted as and when appropriate.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

There is one specific Key Strategic Issue around equalities currently rated as amber:

- KSR 53: Equalities Duties

9 CRIME AND DISORDER IMPLICATIONS

9.1. There are no Key Strategic Risks which focus on specific crime and disorder implications.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. Risk management issues are detailed in this report. There is currently one Key Strategic Risk relating to the health and safety of staff and customers currently rated as amber:

- KSR35/CSF01: Safeguarding children

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix I – Risk Management Strategy (January 2018)
- Appendix II - Key Strategic Risk Register (Status as at Q2, 2018/19)
- Appendix III – Revised Financial Impact definitions (agreed April 2018)

12 BACKGROUND PAPERS

12.1. Relevant papers held within the Resources Division

London Borough of Merton

Risk Management Strategy

Revised January 2018

Policy Statement

Merton's policy is to manage our risks by identifying, assessing and controlling them, with the aim of eliminating or reducing them to acceptable levels whilst being mindful that some risks will always exist and will never be eliminated.

The council recognises its responsibility to risk management by supporting a structured, systematic and focussed approach to risk management through the approval of our risk management strategy.

The effective management of risk is at the core of our approach to delivering cost effective and efficient services as well as sound corporate governance and is a continuous and evolving process, running through our strategies and service delivery arrangements. As risk is very much concerned with our objectives, the management of it will be closely linked to the creation of our strategic, service, project and partnership objectives and plans.

Our risk management process will be continuous and will support internal and external change. The risk management process will be fully integrated with the normal business management processes across the authority.

Merton's aims and objectives in relation to risk management are to:

- Establish and maintain a robust framework and procedures for the identification, analysis, assessment and management of risk, including reporting and recording.
- Minimise the council's exposure to unacceptable levels of risk, minimise injury, damage, loss and inconvenience to staff, residents and service users.
- Integrate risk management into the day to day activities of staff and the culture of the organisation, raising awareness of the importance and need for risk management.
- Assign clear roles and responsibilities for councillors and officers responsible for risk management
- Ensure consistent application of our methodology across all of our activities, including partnerships and projects.
- Effectively manage the total cost of risk.

We will achieve this by:

- Having a clear and concise risk management strategy which underpins our approach and responsibilities to risk
- Incorporating risk management into business planning, project management and service delivery
- Monitoring risk on a regular basis through the Corporate Risk Management Group (CRMG)
- Reporting on risk on a regular basis to the Corporate Management Team (CMT), Cabinet and General Purposes Committee

Risk Management Strategy
The process of identifying and evaluating risks is known as risk assessment. By understanding the risks we face, we are better able to actively recognise where uncertainty surrounding events or outcomes exists, and identify measures which can be taken to protect the council, its staff, residents, customers and assets from these risks.

This strategy provides a structured approach to identifying emerging risks as well as assessing and managing current risks. It also incorporates a process for regularly reviewing and updating identified risks.

This strategy will be reviewed on an annual basis, and updated where required.

What is risk?
Risk is the threat that an event or action may adversely affect an organisation's ability to achieve its objectives and successfully execute its strategies. A risk can be a threat, obstacle, barrier, concern, problem or event that may prevent us fulfilling our objectives.

Our risk management processes also include the assessment of Issues. Issues are current problems, questions, outstanding items, tasks or a request that exists in the immediate present. There is a strong element of fact surrounding it. An issue becomes a risk when the issue cannot be addressed and could continue or get worse.

Definition of Risk Management
Organisations exist to achieve their ambitions, aims and objectives. Risk Management is the process by which organisations methodically address and identify the risks that may prevent them from achieving these ambitions, aims and objectives. The intention is to achieve sustained benefit within each of their activities, and across the portfolio of all their activities.

Ultimately, risk management is about creating a better understanding of the most important problems facing organisations.

Risk is also implicit in the decisions all organisations take; how those decisions are taken will affect how successful they are in achieving their objectives. Decision making is, in turn, an integral part of the day to day existence and is particularly significant in times of change. Risk management therefore is a key component in the management of change and helps to support effective decision making.

We endeavour to identify all risks facing the council and to monitor, manage and mitigate (where possible) all those risks which are deemed to be high (scored Amber or Red). Risks are monitored via Departmental Risk Registers, and key crosscutting risks to the council are also placed on the Key Strategic Risk Register (KSRR).

The benefits of risk management
In addition to the business and service benefits of our approach, we are required to undertake risk management because it forms part of the Annual Governance Statement. We must, therefore, demonstrate that we have a systematic strategy, framework and process for managing risk.

However, the council recognises that the benefits of risk management far outweigh the requirement to undertake the activity and such benefits include:

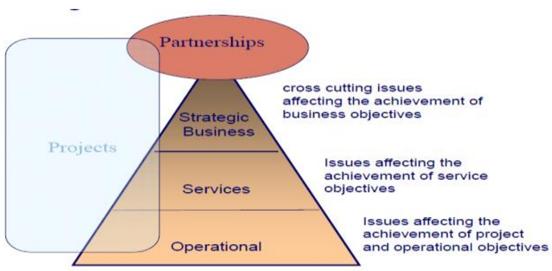
- Stronger ability to achieve our ambitions, aims and objectives as key risks are managed.
- Better decision making as we are more aware of risk.
- Ability to take advantage of opportunities because we understand the risks attached to them.
- Better governance and the ability to demonstrate it to our stakeholders.
- Reduction in failure, loss, damage and injury caused by risk
- Improvement in our ability to adapt to change
- Improvement in our corporate governance
- Compliance with statutory and regulatory requirements

Organisational awareness of risk and risk management
Ensuring that there is a strong organisational awareness of risk management will be achieved through training sessions, reviews, departmental meetings, briefings and staff bulletins which will take place on a regular basis. Each department has an assigned Risk Champion who will offer guidance to staff where required. The risk management intranet page will be regularly reviewed and staff will be signposted to the information they need to pro-actively identify and manage risk ie the Risk Management Toolkit and other guidance.

Risk Appetite
The council recognises that its risk appetite to achieve the corporate priorities identified within its business plan could be described in general as an "informed and cautious" approach. Where significant risk arises, we will take effective control action to reduce these risks to an acceptable level.

It is also recognised that a higher level of risk may need to be accepted, for example to support innovation in service delivery. To offset this there are areas where the council will maintain a very cautious approach for example in matters of compliance with the law, and public confidence in the council, supporting the overall "informed and cautious" position on risk.

How does risk management integrate with other policies?
Risk management links closely with Health and Safety, Business Continuity, Emergency Planning and Insurance; by ensuring close links we can enhance our resilience. Generally, a single issue or risk will fall into only one of these categories; however some may fall into two or more. As Business Continuity is a way of mitigating risk, its link with risk management is key to ensuring the continuous delivery of services which are important to the community.



Risk management in projects
Risk management is a key part of the ongoing management of projects and partnerships and is clearly defined in Merton's Approach to Projects (MAP).

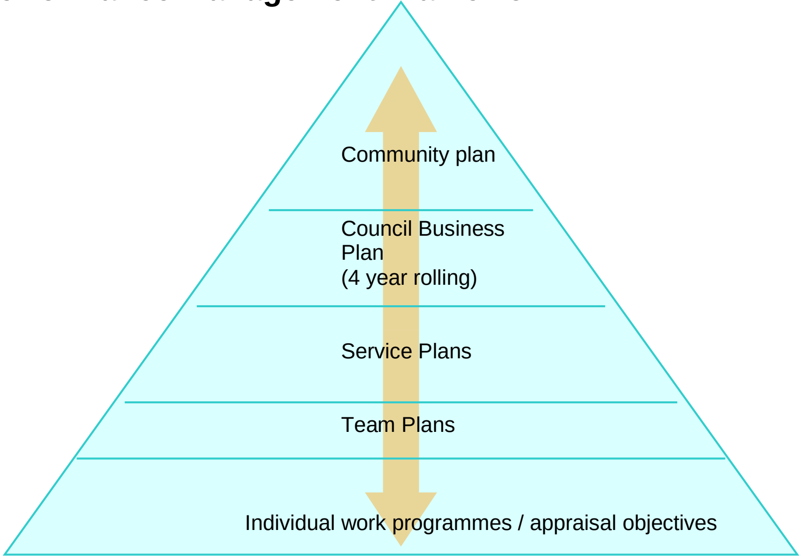
Risk management in partnerships
The council is involved in a wide range of partnerships to achieve our ambitions, aims and objectives. It is vital we assess the risks to achievement within our key partnerships, and ensure that they are monitored regularly.

Our methodology for assessing and monitoring risks has been adopted by our key partnerships in order to ensure consistent scoring, and effective integration into our risk management system.

Risk management and financial planning
Risk management is an important part of financial planning. As part of the budget setting process a robust risk assessment is completed, and then reviewed on a regular basis.

Corporate approach to risk management
In order to formalise and structure risk management, it is recognised there is an obvious and clear link with the business planning process and therefore risk management sits within the Business Planning team. The overall council Business Plan, incorporating the individual service plans, sets out what a team, division, department, or the council as a whole, want to achieve within a specific time frame, as shown below.

Merton Performance Management Framework



- CMT is ultimately accountable for delivering the council's Business Plan therefore they are responsible for monitoring and reviewing the KSRR.
- DMTs are responsible for their own services' risk registers.
- Divisions or teams are responsible for their own risk registers, if applicable.

It is important that risks identified and assessed at an operational level can be escalated to a departmental or corporate level. However, because a risk may have a great impact on a team it does not necessarily follow that it may have the same impact on the department, or the organisation as a whole.

Ultimately, it is the respective management team which decides if a risk is an appropriate inclusion on its risk register.

Scoring Risk
In conjunction with this strategy, more detailed guidance will be issued to assist officers in identifying risks and issues, and the scoring, managing and reporting of those risks identified.

When determining a score for service level risks, definitions of likelihood and impact of risk (Service Level) should be used in conjunction with the matrix below. Therefore, if the likelihood of a risk is 4, significant, (occurs or likely to occur more than 25%, and up to 50% of the time) and the impact is 3, critical, (service provision - service suspended short term) – then the risk rating will be 12 (4x3) which is amber.

Defining the Likelihood of Risk

Classification	Definition
6 - Very High	Occurs or likely to occur more than 90% of the time
5 - High	Occurs or likely to occur more than 50%, and up to 90% of the time
4 - Significant	Occurs or likely to occur more than 25%, and up to 50% of the time
3 - Possible	Occurs or likely to occur more than 5% and up to 25% of the time
2 - Low	Occurs or likely to occur more than 1% and up to 5% of the time
1 - Almost Impossible	Occurs or likely to occur up to 1% of the time

Defining the Impact of Risk (Service Level)

Categories	1 Marginal	2 Significant	3 Critical	4 Catastrophic
Financial Impact - FI	Up to 15% gross budget or turnover	Over 15% and up to 50% of gross budget or turnover	Over 50% and up to 75% of gross budget or turnover	Over 75% of gross budget or turnover
Service Provision - SP	Reduced service	Significant reduction	Service suspended short term	Service suspended long term / statutory duties not delivered
Health and Safety - HS	Broken bones / illness	Major illness / threat not life threatening	Loss of life / major illness	Major loss of life / large scale illness (pandemic)
Objectives - O	Objectives of one service area not met	Departmental objectives not met	Corporate objectives not met	Statutory objectives not met
Reputation - R	Adverse local media lead story short term	Adverse local media story long term. Adverse national publicity short term.	Adverse national publicity longer term	Remembered for years

Risk Matrix

Likelihood

6 = Very High
5 = High
4 = Significant
3 = Possible
2 = Low
1 = Almost Impossible

Likelihood				
6	6	12	18	24
5	5	10	15	20
4	4	8	12	16
3	3	6	9	12
2	2	4	6	8
1	1	2	3	4
	1	**2**	**3**	**4**

Impact

Impact

4 = Catastrophic
3 = Critical
2 = Significant
1 = Marginal

Reporting and escalating risks
All risks on individual service risk registers are reviewed at Departmental Managers Team (DMT) meetings with particular attention given to red or increasing amber risks.

Risks are also checked for any cross cutting implications. If the risk is high scoring and/or could have an impact across the organisation, then it must be rescored using the Defining the Impact of Risk (corporate level) criteria below, prior to inclusion on the Key Strategic Risk Register.

Defining the Impact of Risk (Corporate Level)

Categories	1 Marginal	2 Significant	3 Critical	4 Catastrophic
Financial Impact - FI	Up to £2.5m per annum or up to £10m one off	£2.5m up to £5m per annum or up to £20m one off	£5m up to £7.5m per annum or up to £30m one off	£7.5m up to £10m per annum or above £40m one off
Service Provision - SP	Reduced service	Significant reduction	Service suspended short term	Service suspended long term / statutory duties not delivered
Health and Safety - HS	Broken bones / illness	Major illness / threat not life threatening	Loss of life / major illness	Major loss of life / large scale illness (pandemic)
Objectives - O	Objectives of one service area not met	Departmental objectives not met	Corporate objectives not met	Statutory objectives not met
Reputation - R	Adverse local media lead story short term	Adverse local media story long term. Adverse national publicity short term.	Adverse national publicity longer term	Remembered for years

Monitoring and Managing
During the year, new risks will arise that have not previously been considered and there may be changes to existing risks. Therefore the risk registers need to be regularly managed, with risk owners re-assessing their risks, re-scoring them if appropriate, and providing sufficient narrative in respect of the Control Measures they have in place (ie the actions which they are taking to mitigate against the risk). The reviews of risk registers should be managed by exception. The reporting cycle as detailed below, takes place during April, July, October and January.

1st week	2nd week	4th week
DMT – review operational service risks and propose KSRs as per the definitions of likelihood and impact for crosscutting risks	Corporate Risk Management Group (CRMG) – review service risks and proposed KSRs	CMT – identify and review KSRs

All risks are reviewed according to the quarterly cycle shown above, with a particular focus upon red risks, and also upon amber risks which have increased their risk score since the previous quarterly review.

Removal of any risks from the registers must be approved by DMTs and CRMG prior to being presented to CMT. CRMG will only approve removal of a risk if it is scored green for a minimum of two consecutive reporting cycles (ie two quarters). There are otherwise no rigid guidelines for dropping risks from the registers because clear parameters are not always possible. A decision is sometimes taken to keep a low-scoring risk in view on the basis that its status might change over a short period, or so those with an assurance role can be confident mitigation against a risk can be sustained.

A flowchart showing how service, departmental, corporate and partnership risks are escalated and reported is shown on the final page of this Strategy.

Roles, Responsibilities and Governance

Councillors
Elected councillors are responsible for governing the delivery of services to the local community. Councillors have a responsibility to understand the key risks the council faces and will be made aware of how these risks are being managed through the annual business planning process. All Councillors will have a responsibility to consider the risks associated with the decisions they undertake and will be informed of these risks in the plans and reports submitted to them.

Chief Executive and CMT
The Chief Executive and CMT are ultimately accountable in ensuring that risk management is fully embedded in the council's business planning and monitoring processes as well as having overall accountability and responsibility for leading the delivery of the council's Risk Management Strategy and Framework. CMT will take a leading role in the risk management process, ensuring that risk management is communicated,

understood and implemented by Councillors, managers and staff. CMT will also play an important role in establishing a supportive culture.
CMT will submit an annual report on risk to the Standards and General Purposes Committee and Cabinet.

Directors
Each Director is accountable for proper monitoring of their departmental risk register, action plans and the embedding of risk management into the business planning process of their directorate. They will need to be actively involved in the risk management process within their department and CMT, including nominating an appropriate Risk Champion for their department. Directors are also accountable and responsible for leading the delivery of the council's Risk Management Framework in their respective Directorate.

Section 151 Officer / Internal Audit
The Section 151 officer and Internal Audit will be responsible for carrying out independent reviews of the risk management strategy and processes. They will provide assurance and give an independent and objective opinion to the council on the adequacy of its risk management strategy, control procedures and governance.

An annual Audit Plan, based on a reasonable evaluation of risk, will be carried out and an annual assurance statement will be provided to the council based upon work undertaken in the previous year. The section 151 officer will chair the CRMG group.

Risk Champions
Risk champions will work with their Director, Heads of Service, Managers and Team Leaders to ensure the RM Strategy and Framework is embedded in the Directorate and departmental planning, performance, project and partnership management, offering support and challenge. They will also represent their directorate at CRMG meetings.

Risk Champions will ensure that risks are identified, assessed and scored correctly by the Risk Owners, offering advice and guidance where appropriate. They will also challenge risk scores where they do not appear to be reasonable, or where they contradict the Control Measures narrative or the corporate Risk Scoring Guidance.

All Risk Champions will receive appropriate training to ensure that they can perform their role effectively. Training needs will be regularly evaluated.

Service Managers
Managers have a responsibility not only for the risks for which they are the risk owner, but are also accountable for those risks, within their service, which are owned / managed by others.

They are required to maintain an awareness of risk and ensure that any risks they identify are captured by the risk management process, understanding and responding to the key risks which could significantly impact on the achievement of their service and/or team objectives. Managers should encourage staff to be open about risk so that appropriate mitigation actions and control measures can be agreed.

Risk Owners
Risk owners are responsible for identifying and implementing appropriate actions which will mitigate against risks they own and reduce these risks to an level acceptable to the organisation. They are required to regularly review the effectiveness of their control measures and provide a formal update to DMTs and CRMG on a quarterly basis as part of the risk review cycle.

Individual Employees
Individual employees need to have an understanding of risks and consider risk management as part of their everyday activities, identifying risks deriving from their everyday work, processes and environment. Risks which could impact on service delivery, the achievement of objectives, or their own or others' wellbeing must be identified and actively managed, with mitigating actions in place where appropriate.

Business Planning team
The business planning team is responsible for ensuring that risk management is embedded throughout the council, as well facilitating and supporting the risk management process and supporting risk owners.

The team will ensure risk management documentation and intranet pages remain up to date and relevant, as well as updating the KSRR with emerging risks, new risks and updating existing risks.

In addition the Business Planning team will ensure risk is part of the annual service planning process, facilitate the CRMG meetings, and submit strategic updates and reports on risk management to CMT, Cabinet, Audit and Assurance Committee etc. as required.

Corporate Risk Management Group
The Corporate Risk Management Group will provide strategic direction and leadership to ensure our risk strategy is maintained and updated and that risks are appropriately identified and managed within the organisation. It will provide a forum for the detailed discussion and monitoring of organisational risks for the benefit of the council, its staff and the wider community.

CRMG will strive to ensure that the risk management framework is embedded within the council's overall strategic and operational policies, practices and processes in a consistent and standardised manner.

In addition it will provide assurance that all risk systems and processes are operating effectively to minimise the Council's overall exposure to risk. The headline departmental risks and planned mitigation activity reported by each department will be discussed by CRMG on a quarterly basis. CRMG will then report its conclusions and recommendations for discussion at CMT.

Cabinet
Cabinet will receive reports on the risk management strategy to determine whether corporate risks are being actively managed. They are responsible for agreeing the strategy on an annual basis, or when significant changes are made, and to report to full Council on the adequacy of the risk management framework.

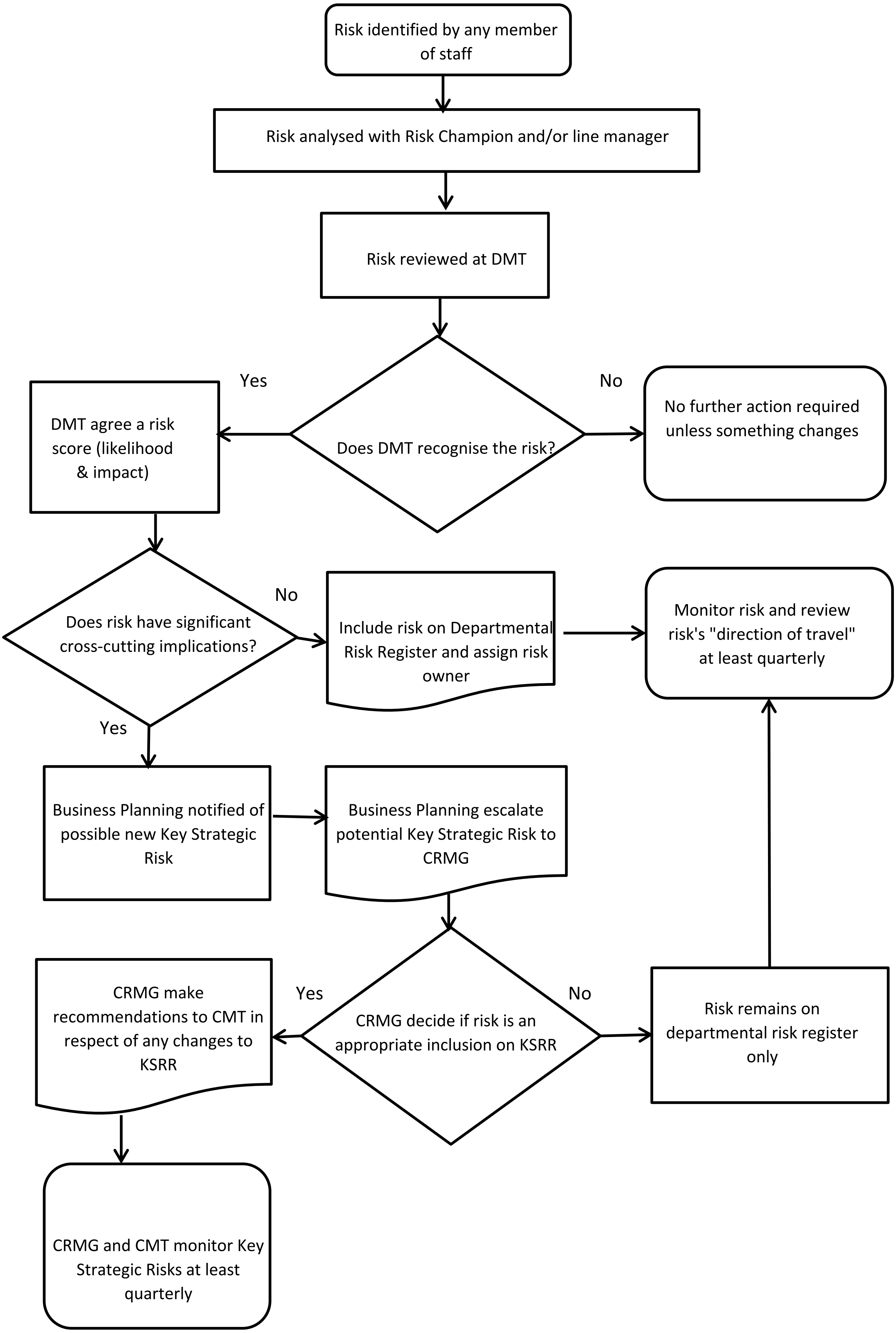
Standards and General Purposes Committee
To provide an independent oversight of the adequacy of the risk management framework and the associated control environment. The committee will receive an annual review of internal controls and be satisfied it properly reflects the risk environment and any actions required to improve it. Reports will also be provided regarding the KSRR in order that the committee can determine whether strategic risks are being actively managed.

On an annual basis, the committee will review and recommend the adoption of the risk management strategy to cabinet, or if significant changes are identified, to request a revision.

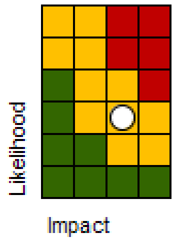
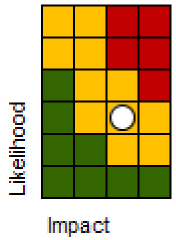
Risk management in committee reports
When a report is submitted to a committee the author is required to complete a section on Risk Management and Health and Safety Implications. The committee should be informed of any significant risks involved in taking a recommended course of action, or if it decides not to follow the recommended course of action. The risk assessment should follow the corporate risk management procedures and be scored using the risk matrix. The report should also give details of any control measures (either proposed or existing) to manage any significant risks identified. Where appropriate, reference should be made to any existing risk(s).

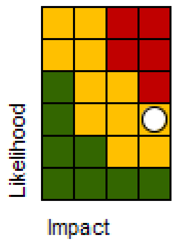
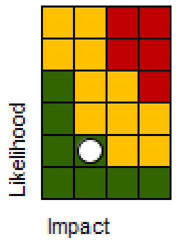
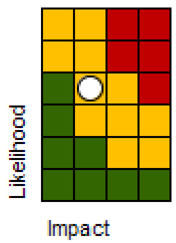
Report authors are advised to consult with the Business Planning team or their departmental Risk Champion, for further advice and to propose any risks to be considered for inclusion in the departmental or KSRR.

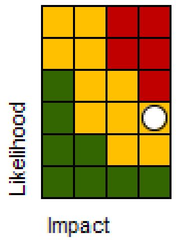
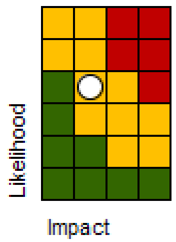
London Borough of Merton Risk Management Process

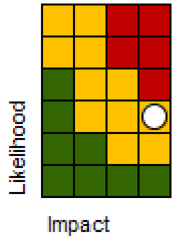
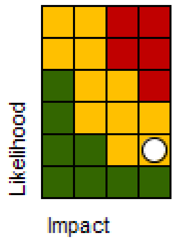


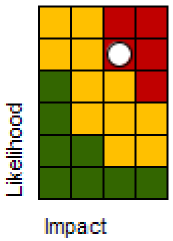
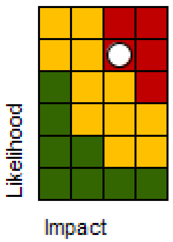
Key Strategic Risks ~ Quarter Two, 2018-19

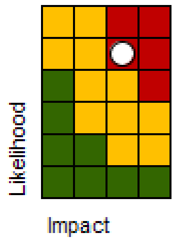
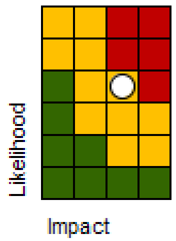
Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
John Morgan	ASC06 / KSR78 Legal challenge ASC Placements	Key Strategic Risk	Some of our Adult Social Care placements might result in legal challenges	- shortage of suitable placements in Merton - budgetary constraints - people placed further from their support networks.	- increased costs of placements - prevention of other developments - increased staff time - additional legal costs - damage to reputation	R		9 26-Sep-2018 9 27-Jun-2018 9 29-Mar-2018 12 22-Jan-2018	We are targeting the market to fill the gap in complex placements- we try to utilise homes within the borough but at times due to availability we need to look further afield. All decisions regarding appropriateness and sufficiency of support are taken through the ASC outcomes forum.	01 Oct 2018
Lorraine Henry	ASC21 / KSR77 Increase in number of DoLS and Community DoL	Key Strategic Risk	We may not be able to manage the rise in Deprivation of Liberty Safeguards (DOLS) and Community DOL effectively	- A recent court ruling known as 'Cheshire West' widens the criteria for people that can be subject to a DoLS or Community DoLS (CDoLS) - The Government has not made any additional resources available	- Existing backlog of assessments awaiting completion - Cost pressure in relation to DoLS assessments which need to be undertaken - Potential of legal challenge if DoLS authorisation requests are not completed	FI		9 26-Sep-2018 9 15-Jun-2018 12 03-Apr-2018 12 02-Jan-2018	- Following a paper to DMT a robust system is now in place to manage current Dols and historic cases. This is being monitored at DMT level. - The backlog has reduced from 500 in Sept 17 to 380 in January 18 to 210 in September 18. - Community DoL- A system is in place to screen and prioritise Community DoL and this will also be reported to DMT. -Training is being organised, and a RAG system is being developed to identify clients that pose the most risk to the Local Authority - External training has been commissioned for the Best Interest Assessors (BIAs)	15 Oct 2018

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Paul Evans	CG25 / KSR79 GDPR	Key Strategic Risk	LB Merton may not be compliant with the General Data Protection Regulation (GDPR) or Data Protection Act 2018 that came into effect on 25th May 2018	- insufficient time or resources to fully comply - Weaknesses in some existing and legacy IT systems - technical barriers to compliance - reliance on external suppliers	- LB Merton is fined by the Information Commissioner's Office - reputational damage - key stakeholders lose confidence & may not share information / work with the Council.	FI		12 17-Sep-2018 12 11-Jun-2018 15 23-Mar-2018 15 31-Jan-2018	GDPR / DPA 2018 action plan in place and progress reported at CSDMT Information Board weekly.	17 Sep 2018
Sophie Ellis	CPI18 / KSR68 TOMs delivery	Key Strategic Risk	We may not be able to deliver our TOMs across the organisation in the way we have planned	- Inadequate delivery planning for TOM's across the organisation - Unanticipated changes in delivery context - additional financial reductions.	- Ambition set out in TOM is not achieved - Our objectives are not met	O		4 17-Sep-2018 4 14-Jun-2018 4 20-Mar-2018 4 12-Dec-2017	Impact and likelihood remain low as the TOM refresh progresses with a focus on planning for the subsequent 5 year period and delivery of previous TOMs draws to a close. MIB and CMT oversight mitigates this risk.	17 Sep 2018
Sophie Ellis; Kris Witherington	CPI39 / KSR74 Inadequate consultation	Key Strategic Risk	We may fail to adequately consult over changes to Council services and policies, and/or the design and implementation of projects (formerly CS17/KSR74)	- inadequate consultation - not meeting expected standards - insufficient training	- increasingly robust scrutiny and challenge - possibility of Judicial Reviews	R, FI		8 19-Sep-2018 8 13-Jul-2018 6 14-Jun-2018 6 20-Mar-2018	The standards expected for consultation are described in the Community Engagement Strategy ("Get Involved") which was agreed by the Merton Partnership in 2010 and refreshed in 2014. All Council consultations should be listed on the Council's online consultation database, having been approved by the Consultation and Community Engagement Team. Support for services is available including training around the need for consultation, design, and legal obligations. The Community Engagement Strategy will be reviewed by March	17 Oct 2018

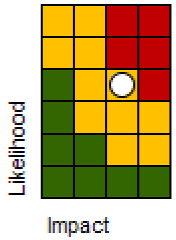
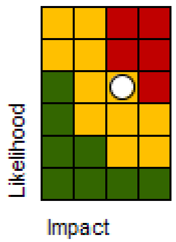
Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
									2019 to ensure it complies with current best practice. In the meantime work is underway with key stakeholders to determine whether any lessons are to be learned from a recent challenge and on the basis of this the risk score and control measures will be reviewed.	
Rachael Wardell	CSF01 / KSR35 Safeguarding children	Key Strategic Risk	We may fail to adequately safeguard children	Because of: - Less effective inter-agency working - Changing expectations & updated regulatory framework - Ongoing budget pressures across all agencies	Resulting in: - Child protection & safeguarding consequences including possible child death or serious harm. - increasing costs of "high cost" interventions - undermining of the Merton Model	R		12 30-Sep-2018 12 23-Aug-2018 12 21-Jun-2018 12 29-Mar-2018	Strengthened MSCB governance and development of new partnership arrangements. Refreshed the Merton CYP and Family Wellbeing Model. Ongoing rigour in conversations with partner agencies and third sector to improve understanding and responsibility of safeguarding. Launched consultation on CSC Practice Model. Signs of Safety and Think Family approaches being rolled-out. Post-Ofsted action plan fully implemented. Refresh of CYPP for 2019-22 underway ensuring effective partner buy-in and engagement.	01 Oct 2018
Charles Baker; Anita Cacchioli	ER112 / KSR73 Waste disposal budget (Viridor)	Key Strategic Risk	We may be unable to meet financial budget for waste disposal	- Waste may not be adequately disposed of - Delays in moving over to ERF - Increase in waste forecasted - Reduction in recycling - Insufficient budget to cover disposal costs	- increased costs for waste disposal - operational difficulties - performance may be affected (more landfill, less recycling and more missed bins) - political and reputational impact	FI/R/O		8 25-Sep-2018 8 13-Sep-2018 8 26-Jun-2018 8 21-Mar-2018	The commissioning phase of the new ERF facility has started. We are monitoring the level of general waste used as part of the commissioning phase which we anticipate will generate a significant reduction in our landfill disposal cost (c£450k)	25 Sep 2018

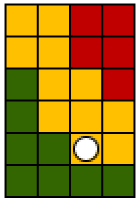
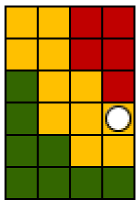
Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
									The new waste collection service is due to be rolled out in Oct 2018 which is designed to increase the take up of the food waste collection and increase recycling. This will have a positive impact on our disposal cost. Full year effect will be delivered in 2019 / 2020. Risk to be reviewed once the impact of the service change can be measured.	
Paul McGarry; James McGinlay	ER118 / KSR75 Crossrail 2	Key Strategic Risk	We may fail to minimise the negative impact of Crossrail2 on the Council's income and/or commercial activity in Wimbledon Town Centre and Weir Road	- inadequate preparation and planning on our part	- financial impact on council and services - economic impact on Wimbledon Town Centre and the borough (potential loss of businesses and jobs) - Council reputation	FI		12 13-Sep-2018 12 04-Jul-2018 12 21-Mar-2018 12 19-Dec-2017	Consultation has been delayed because the Treasury is reviewing the Crossrail 2 business case before this project can proceed any further. No further progress at Quarter Two (20th September 2018)	20 Sep 2018
Mark Humphries	IT03 /KSR48 IT Systems	Key Strategic Risk	The 6th floor data centre may be rendered unusable	- major disruption in the civic centre	- IT failure - unavailability of IT services - negative impact on organisational service delivery.	SP		8 12-Sep-2018 8 13-Jun-2018 8 05-Mar-2018 8 04-Dec-2017	- Upgrading works completed and operationally tested to confirm that the infrastructure now provides the required functionality. - A further review of the Council's DR and BC arrangements is being undertaken to ensure that agreed list of business critical systems reflects recent changes (i.e.) hosting of some of the previous on premise business systems. - Interim report being presented to CMT in second week of October 2018	01 Oct 2018

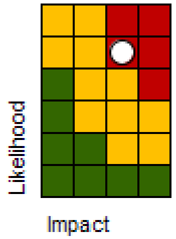
Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Caroline Holland; Mark Humphries	IT24 / KSR21 Public Contract Regulations/Contract Standing Orders	Key Strategic Risk	We might breach Public Contract Regulations 2015 and Contract Standing Orders (previously risk RE03)	- incorrect procurement (despite this being a tightly regulated area of council activity) - Lack of staff awareness - insufficient training and guidance	- procurement exercises impacting on strategy and time - adverse budget and service implications if not carried out correctly - legal challenges - slower identification, capture and delivery of savings - reputational risk.	R		15 12-Sep-2018 15 13-Jun-2018 15 05-Mar-2018 15 07-Dec-2017	An online procurement 'toolkit' was formally launched in September 2018. This will be supported by staff training sessions in order to promote use of the Councils procurement portal and the suite of new documents and templates. This will promote and embed good practice across the organisation and significantly reduce the risk of a legal challenge due to a failure to meet the requirements of the Public Contract Regulation or Contract Standing Orders.	24 Sep 2018
Zoe Church; Caroline Holland	RE02 / KSR49 Corporate Business Plan & balanced budget	Key Strategic Risk	We may fail to develop a corporate Business Plan & set a balanced budget for 19/23 & beyond	- Reduction in Government Grant - challenges of making accurate projections of Business Rate Retention due to lack of clarity over future of London Pilot Pool	- negative impact on service provision - damage to council reputation - negative impact on staff morale - dissatisfaction of internal & external customers	FI		15 08-Oct-2018 12 21-Sep-2018 12 13-Jun-2018 12 06-Mar-2018	Officers have completed the Business Planning Process for 2018-22 and preparing to commence the process for 2019-23. An initial report to Cabinet on 17/9 rolled forward the MTFS to 19-23 and updated the forecast with latest information and net savings targets for service departments to achieve a balanced budget over the MTFS 19-23. Currently there is a gap of £0.8 million in 2019-20 rising to £18.7m in 2022-23 (the cumulative difference over the 4 year planning period) – work will continue in line with the approved Business Plan Timetable to achieve a balanced budget for 19/20. The likelihood has been increased in light of the significant shortfall in future years.	08 Oct 2018

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Caroline Holland	RE16 / KSR61 Annual Savings Programme	Key Strategic Risk	We might fail to deliver the savings of £30m which have been agreed for the period 2016/17 to 2019/20 (the period of budget decisions required by this council)	- we are unable to achieve planned and/or anticipated savings - projected outturns do not match actuality	- adverse impact on the authorities ability to balance its budget in the medium to long term - gap is larger than the contingency - we are required to reinstate reserves	FI		15 20-Sep-2018 15 28-Jun-2018 15 19-Mar-2018 15 14-Dec-2017	The monthly monitoring report is forecasting a shortfall in savings in 18/19 of £1.5m (22% of savings target). In 17/18 savings of £2.6m were unachieved and £01.3m are an ongoing pressure and not expected to be achieved in 18/19. The projected outturn positon for 18/19 is £2.7m overspend. Delivery of savings will continue to be monitored and reported in 18/19 as they are critical to balance the budget.	20 Sep 2018
Corporate Management Team	RE24 / KSR80 Impact of Brexit	Key Strategic Risk	We might be unable to respond effectively to the changes brought about by Brexit	- A challenging withdrawal process - Changes to procurement frameworks - Other regulatory/statutory changes - Loss of regional aid funding - Changing eligibility of EU nationals to live &/or work in UK - potential impact on staff recruitment and retention - security of supplier network - short to medium term impact on LBM's pension investments - community cohesion	- Financial uncertainty - Impact on local economy, investment & growth - Employment & skills gaps - Strain on resources - Impact on services esp. social care - Difficulty complying with statutory requirements - inability to capitalise on post-Brexit opportunities The risk profile assumes a Brexit deal. If no deal, the risk profile will significantly increase as a consequence of the uncertainty created			12 18-Oct-2018 9 30-Aug-2018 9 13-Jul-2018	Officers are closely monitoring developments on the Brexit negotiations and the potential impact for the council, citizens and businesses. This includes reviewing the Technical Notices, guidance from the LGA and other sector related assessments of possible implications. A session has been held with Collective DMT to identify risks. This has been reviewed by CMT and a task group of officers from across the council has been established to monitor developments and how the Council responds. Cabinet will be considering the implications of Brexit in November and the Overview and Scrutiny Commission are reviewing the implications for citizens.	18 Oct 2018

Key Strategic Issues ~ Quarter Two, 2018-19

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Sophie Ellis; Rachael Wardell	CPI41 / KSR53 Equalities duties	Key Strategic Issue	We may be in breach of Equalities legislation regarding new policy development, designing services and decision making (formerly RE11)	- insufficient evidence to demonstrate how equalities implications have been considered	- reputational impact for council - risk of judicial review & litigation - negative impact on service users - loss of savings.	R		12 31-Aug-2018 12 13-Jun-2018 9 13-Mar-2018 9 13-Dec-2017	Implementation of the new Equality Strategy is going well. DMTs, CMT and OSC have all noted the good progress made on the revised outcomes. Given the financial pressures on the Council and the implementation of funding reductions there continues to be in our view an increased risk of scrutiny and challenge to these decisions (reflected in last quarter's increase in risk score) – as is evidenced by the recent JR. This was discussed at Collective DMT and follow up work is planned with DMTs and through the MTFS process to further mitigate this risk.	17 Oct 2018
Rachael Wardell	CSF04 / KSR55 Demographic changes	Key Strategic Issue	We may fail to respond adequately to changing children's social care demands	Due to changing borough demographics including: - an increase in the total population in the borough - a particular increase in families with young children - a change in the mix of the population with respect to ethnicity, disability & deprivation - an increase in children with special educational needs and disabilities	This will lead to: - Additional demand for services for children with special educational needs & disabilities - pressure for growth in children's social care & child protection interventions - increasing level of support for families with no recourse to public funds.	SP		12 01-Oct-2018 12 21-Jun-2018 12 29-Mar-2018 12 30-Dec-2017	Right size budgets in areas with demand pressure that cannot be met. CSF Service Plans identify current control measures, including: reviewing and strengthening the eligibility criteria; step up step down process; and consistently managing demand. A project is in train to try to improve prediction of future demand.	01 Oct 2018

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Jane McSherry	CSF05 / KSR34 Insufficient school places	Key Strategic Issue	We may fail to meet the demand for school places	This is because: - we are expecting 200-250 additional admissions applications for pupils to start secondary school in September 2018 - we have only 150 spare places in our current year 7, at schools to the far west and east of the borough where there is less demand	Insufficient school places provided by Sept 2018 will result in: - failure to meet statutory duty - increased scrutiny - reputational damage	R		6 01-Oct-2018 6 05-Jul-2018 3 21-Jun-2018 12 29-Mar-2018	Harris Wimbledon (Free School) opened in September 2018. Work in hand to deliver new school site for 2020. Increased classes allow surplus in secondary places. Primary role currently falling so able to cope with increased demand. Planning permission for new school to be applied for.	01 Oct 2018
Children, Schools & Families	CSF06 / KSR56 CSF funding & statutory services	Key Strategic Issue	CSF funding changes, budget savings & resource management may impact on our ability to provide statutory services.	Causes include: - Move to national funding formula for DSG expected from 2017/18 onwards and implications for overspends - continued uncertainty regarding changes to funding regimes & external grants - concurrent additional statutory duties - demographic pressures - the impact of maintained schools becoming academies through to 2022 - Insufficient funding for new burdens: C&F Act; NRTPF; Leaving Care. - Requirement to make significant savings over the next 3-4 years - Need to balance competing & increasing demands at a time of contracting resources & extensive change.	Leading to: - DSG overspend would impact on council general fund budget - Negative impact on our ability to provide statutory services - undermining of the Merton Model, causing additional spend pressures in targeted services. - Low staff morale - Difficulties in managing the impact of the Workforce Management Strategy - Time & effort required to manage change & meet expectations of members & central government may lead to failures in the management of ongoing operational work.	FI		12 01-Oct-2018 12 21-Jun-2018 9 29-Mar-2018 9 30-Dec-2017	Assessment of likely impact of changes through Government funding proposals. Additional burdens reported on monthly and demographic pressures identified. Feeds into the MTFS, TOM, Service Planning work and relevant strategies to deliver the required savings without adversely impacting on performance. Early help and prevention a key theme of our TOM coupled with our continued focus on our statutory services. Right sizing of budgets to enable unfunded service demands to be met. Changes to rules on DSG overspend increase potential impact.	01 Oct 2018

Risk Owner	Code & Name	Risk or Issue	Risk Description	Cause(s)	Consequence(s)	Impact code	Matrix	Current Score & Review History	Control Actions	Date provided
Rachael Wardell	CSF09 / KSR62 Intervention/ prevention commissioning	Key Strategic Issue	We may fail to recommission appropriate intervention and prevention services	Due to: - reduction in contracting with local third sector - change in delivery reports of CSF	Resulting in: - Destabilisation of the Local Strategic Partnership & Children's Trust Board partnership arrangements - reduced service delivery - an increase in reactive, rather than pro-active, services - adverse reputational impact - political impact	R		15 30-Sep-2018 15 21-Jun-2018 10 29-Mar-2018 10 30-Dec-2017	Better understanding of totality of commissioned / short breaks services. Regular review of commissioned services. Opportunities identified to commission differently focusing on early help, prevention and reducing the escalation of cases. SIB and FDAC implemented with high take up, further enhancing our preventative work. Understand impact on / implications for preventative services.	01 Oct 2018

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Definition of the Likelihood of Risk

Classification	Definition
6 - Very High	Occurs or likely to occur more than 90% of the time
5 - High	Occurs or likely to occur over 50% of the time
4 - Significant	Occurs or likely to occur over a 25% of the time
3 - Possible	Occurs or likely to occur less than a 25% of the time
2 - Low	Occurs or likely to occur less than 5% of the time
1 - Almost Impossible	Occurs or likely to occur less than 1% of the time

Definition of the Impact of Risk

Categories	1 - Marginal	2 – Moderate	3 - Serious	4 - Very serious
Financial Impact – FI	£100k - £500k per annum	£500k - £1m per annum	£1m - £5m per annum	Over £5m per annum
Service Provision - SP	Reduced service	Significant reduction	Service suspended short term	Service suspended long term / statutory duties not delivered
Health and Safety - HS	Broken bones / illness	Major illness / threat not life threatening	Loss of life / major illness	Major loss of life / large scale illness (pandemic)
Objectives - O	Objectives of one service area not met	Departmental objectives not met	Corporate objectives not met	Statutory objectives not met
Reputation - R	Adverse local media lead story short term	Adverse local media story long term. Adverse national publicity short term.	Adverse national publicity longer term	Remembered for years

These revised Impact Category descriptions and Financial Impact definitions were approved by CMT on 24 April 2018.

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Committee: Standards and General Purposes Committee

Date: 8 November 2018

Wards: All

Subject: Appointment of Independent Person

Lead officer: Paul Evans, Assistant Director Corporate Governance

Lead member: Councillor Peter McCabe, Chair, Standards and General Purposes Committee

Contact officer: Julia Regan, Head of Democracy Services, 0208 545 3864

Recommendations:

1. That the Standards and General Purposes Committee notes the progress of the process to appoint an independent person and agrees that an interview panel comprising one councillor from each political group should be appointed to interview and to recommend to Council the appointment of one Independent Person to serve for a period of three years.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. The Localism Act requires the Council to appoint at least one Independent Person. The now defunct Standards Committee previously put arrangements in place for the recruitment of two Independent Persons.

1.2. The term of office of one of the Independent Persons, Derek Prior, ended on 12 July 2018.

1.3. At the meeting of Standards and General Purposes Committee on 15 March 2018, the Committee agreed to appoint an interview panel and to recommend to Council the appointment of one Independent Person to serve for a period of three years.

1.4. Following the advertisement of the post, no applications were received and therefore this report provides an update on a revised approach to advertising the position. The report seeks the Committee’s agreement to appoint an interview panel, comprising one Councillor from each political group to interview all candidates and recommend to Council the appointment of the successful candidate.

2 DETAILS

2.1. The Localism Act 2011 requires the Council to appoint at least one Independent Person. The functions of the Independent Person, set out in the Council’s constitution, are:

- The Independent Person must be consulted and views taken into account before the authority takes a decision on any allegation is has decided to investigate
- The Independent Person may be consulted by the authority in circumstances where the authority is not taking a decision whether to investigate the allegation

- The Independent Person may be consulted by a member of the authority against whom an allegation has been made

2.2 The Council currently has one Independent Person. Pam Donovan was appointed in November 2016. Derek Prior was previously appointed to the role in July 2015 and his second term of office expired on 12 July 2018, thus creating a vacancy.

2.3 The post was advertised on the Council website and in the Local Guardian newspaper, however no applications were received. It is therefore proposed that the role will now be advertised in My Merton which has a wider distribution. Information about the role and a link to the application pack will also be sent to groups of people who may be interested in the role, including local voluntary and community organisations (via MVSC), school governors, local trade unions, magistrates and the Council's pensions service (for retired staff).

2.4 The distribution of the next edition of My Merton is from 14-20 November 2018 and it is proposed that the closing date for applications would be early/mid December 2018.

3 ALTERNATIVE OPTIONS

3.1. The Council must appoint at least one Independent Person.

3.2. The composition of the interview panel is discretionary.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. The proposals in this report have been discussed with the Chair of the Committee.

5 TIMETABLE

5.1. It is anticipated that an advert will be placed on the Council's website and distributed through My Merton and other organisations during November with a closing date of early-mid December and interviews towards the end of January 2019. The outcome will be reported to Council at its meeting on 6 February 2019.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. Independent Persons are invited to attend meetings of Standards and General Purposes Committee and are paid £100 per meeting. They are also paid £100 per each consultation meeting with the Council's Monitoring Officer.

6.2. The recommendations in this report will not lead to any increase in the overall budget for allowances.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. See body of report

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. None specific to this report.

9 CRIME AND DISORDER IMPLICATIONS

9.1. None specific to this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. None specific to this report.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- None

12 BACKGROUND PAPERS

12.1. None

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Standards and General Purposes Committee
Forward work plan 2018/19

14 March 2019

- External Audit Certification of Claims report
- External Audit progress report
- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Update on RIPA authorisations (March and September)
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

Add as required:

- Polling Places
- Constitutional amendments
- Review of members' interests
- Independent / co-opted members
- Reports on dispensations issued by Monitoring Officer
- Report on payment exceeding £1000 as a result of maladministration as directed by the LGO.

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Committee: Standards and General Purposes Committee

Date: 8 November 2018

Subject: Report on the use of temporary workers and consultants

Lead officer: Kim Brown, HR Lead

Lead member: Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance

Contact officer: Kim Brown, HR Lead, 0208 545 3152

Recommendations:

A. To note progress made to monitor and control the use of temporary workers and consultants

1. Purpose of report and executive summary

1.1. The Committee has received regular progress reports in relation to the number of interim appointments in the council and the mechanisms in place to monitor the use of such workers.

2. Details

2.1 The central monitoring database consists of all types of interim/temporary placement (over £30 pounds per hour).

2.2 The database is updated on a monthly basis and double-checked with departmental management teams (DMTs) for accuracy, with quarterly reports as at the end of June, September, December and March being reported to this committee.

2.3 As at the end of September 2018, the Council employed 132 interim/temporary workers at £30 per hour (or more) compared to 153 in September 17 which is a decrease of 21 workers . Appendix 1 refers to the detail and composition of the interim workforce. Where possible, corporate contracts are used as they provide better value for the Council.

2.4 The committee on 30th July 2018 requested additional information for interims/temporary worker placements (as defined in para 2.1):

- the costs and numbers over a three year period

- the number of temporary workers who have converted to permanent roles with the Council also know as ‘temp to perm’.

2.5 The engaging of most interim workers is via Comensura or the LGRP, which is a London wide contract for interim appointments. There have been instances due to market supply issues, although very few, when the Council has not used either of these contracts and has had to go ‘off contract’. There are robust processes in place to manage this process, which requires a business case and financial checks to ensure there is a budget to pay for the assignment, as well as sign off by the Director of Corporate Services.

2.6 The previously reported situation continues with by far the largest group of temporary workers being “on contract” agency and temporary staff appointed through the Council’s corporate contract with Comensura for the supply of agency staff. Whist there is an increase in the costs of interims via Comensura this represents a reduction in appointments, which are off contract or through LGRP. Interims are engaged with the involvement and oversight of the HR function by way of a database that supplies monthly spend and usage reports to Council managers, DMTs and the Corporate Management Team.

2.7 The Council has different delivery models to ensure services are able to realise efficiencies, become more resilient and effective by sharing services with other London Boroughs. In October 2016, the Legal shared services expanded to include Wandsworth and a year later Regulatory Services followed. As a result of the expansions a number of interims with pay rates over £30 per an hour transferred to Merton – the costs of these appointments are shared across the service and rechargeable to partner boroughs.

2.8 The Council introduced a temp to perm procedure to reduce the reliance on agency workers and allowed conversions from agency to permanent staff when certain conditions were met. Forty -nine (49) agency workers have transferred to permanent employment from September 2017 to 30th September of this number, eight (8) alone in the quarter from July to September. Temp to perm conversion rates will continued to be reported to this Committee on a quarterly basis.

2.9 Within the services career pathways are being developed through the creation of apprenticeships schemes (where standards are available) and ensuring that that the apprenticeship levy is used to meet the development element.

2.10 The total spend for interim and temporary workers from 2015 to date are listed below: interims via Comensura Graph 1 and Table 1, LGRP and off contract Graph 2 and Table 2

Graph 1 – List totals for 15/16, 16/17, 17/18 and year to date for interim and temporary workers – Comensura

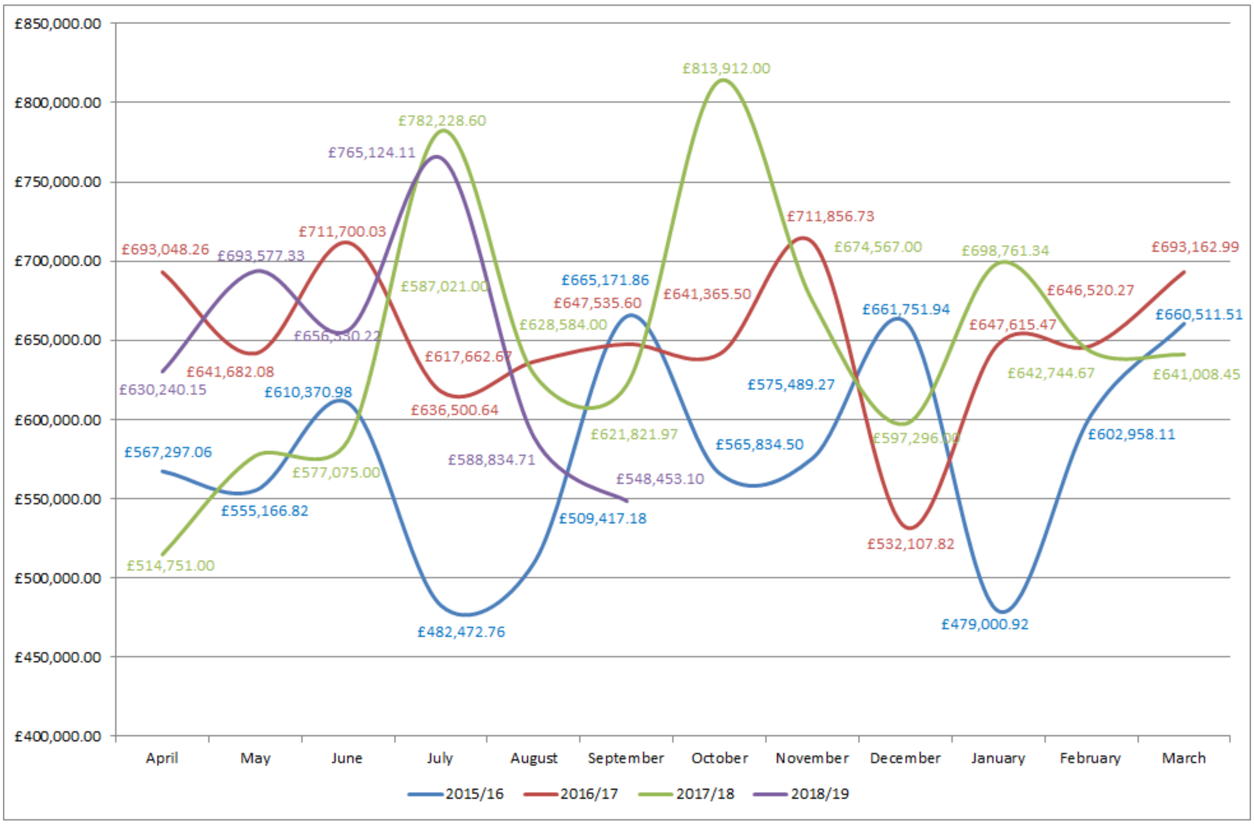

Table 1 - List totals for 15/16, 16/17, 17/18 and year to date for Interim and temporary workers – Comensura

	2015/16	2016/17	2017/18	2018/19
April	£567,297.06	£693,048.26	£514,751.00	£630,240.15
May	£555,166.82	£641,682.08	£577,075.00	£693,577.33
June	£610,370.98	£711,700.03	£587,021.00	£656,330.22
July	£482,472.76	£617,662.67	£782,228.60	£765,124.11
August	£509,417.18	£636,500.64	£628,584.00	£588,834.71
September	£665,171.86	£647,535.60	£621,821.97	£548,453.10
October	£565,834.50	£641,365.50	£813,912.00	
November	£575,489.27	£711,856.73	£674,567.00	
December	£661,751.94	£532,107.82	£597,296.00	
January	£479,000.92	£647,615.47	£698,761.34	
February	£602,958.11	£646,520.27	£642,744.67	
March	£660,511.51	£693,162.99	£641,008.45	

Graph 2 - Total of LGRP and Off Contract assignments over £30 for each financial year

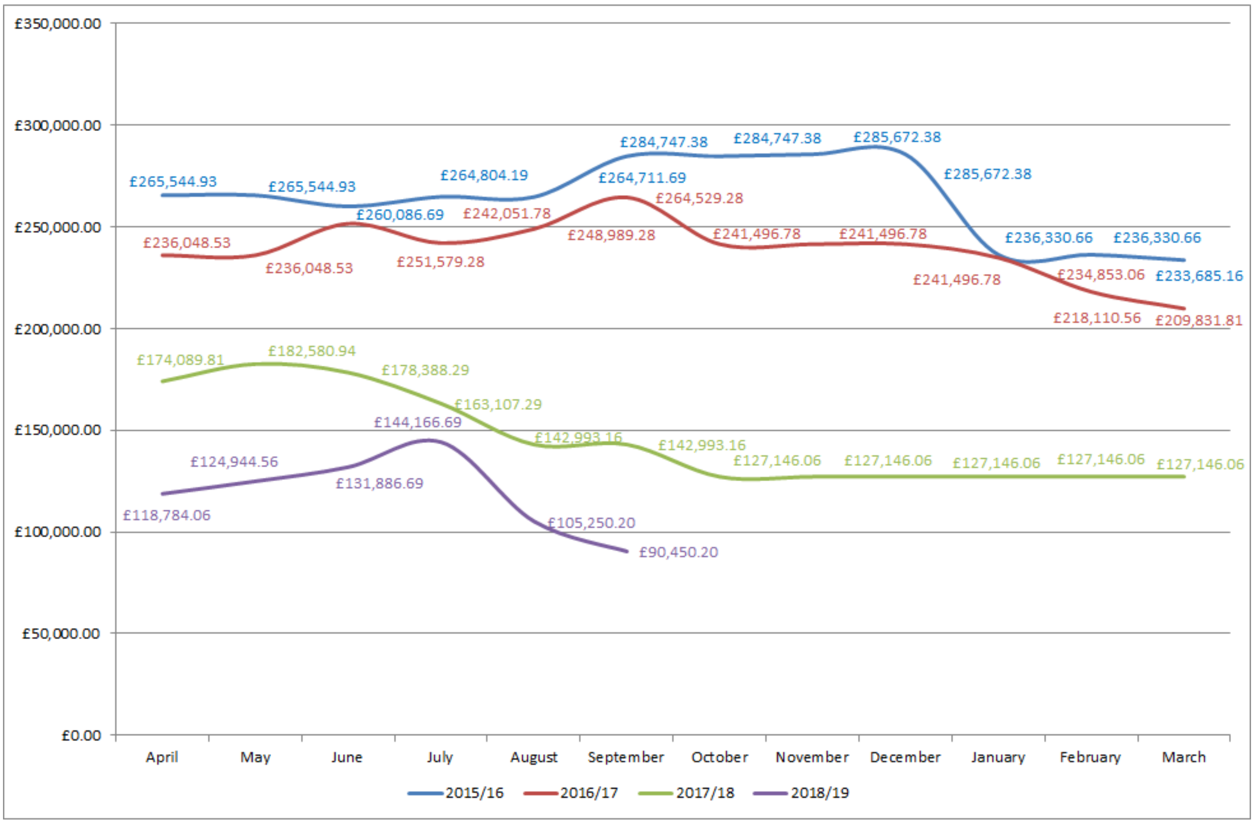

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Table 2 - Total of LGRP and Off Contract assignments over £30 for each financial year

2015/16	LGRP	Off Contract	Total
Apr-15	£100,325.50	£165,219.43	**£265,544.93**
May-15	£100,325.50	£165,219.43	**£265,544.93**
Jun-15	£100,325.50	£159,761.19	**£260,086.69**
Jul-15	£107,633.00	£157,171.19	**£264,804.19**
Aug-15	£107,540.50	£157,171.19	**£264,711.69**
Sep-15	£115,902.50	£168,844.88	**£284,747.38**
Oct-15	£115,902.50	£168,844.88	**£284,747.38**
Nov-15	£115,902.50	£169,769.88	**£285,672.38**
Dec-15	£115,902.50	£169,769.88	**£285,672.38**
Jan-16	£92,259.50	£144,071.16	**£236,330.66**
Feb-16	£92,259.50	£144,071.16	**£236,330.66**
Mar-16	£75,369.00	£158,316.16	**£233,685.16**

2016/17	LGRP	Off Contract	Total
Apr-16	£60,027.88	£176,020.66	**£236,048.53**
May-16	£60,027.88	£176,020.66	**£236,048.53**
Jun-16	£82,551.63	£169,027.66	**£251,579.28**
Jul-16	£82,551.63	£159,500.16	**£242,051.78**
Aug-16	£93,559.13	£155,430.16	**£248,989.28**
Sep-16	£81,349.13	£183,180.16	**£264,529.28**
Oct-16	£70,526.63	£170,970.16	**£241,496.78**
Nov-16	£70,526.63	£170,970.16	**£241,496.78**
Dec-16	£70,526.63	£170,970.16	**£241,496.78**
Jan-17	£70,526.63	£164,326.44	**£234,853.06**
Feb-17	£70,526.63	£147,583.94	**£218,110.56**
Mar-17	£70,526.63	£139,305.19	**£209,831.81**

2017/18	LGRP	Off Contract	Total
Apr-17	£60,869.63	£113,220.19	**£174,089.81**
May-17	£80,368.26	£102,212.69	**£182,580.94**
Jun-17	£83,205.60	£95,182.69	**£178,388.29**
Jul-17	£67,924.60	£95,182.69	**£163,107.29**
Aug-17	£58,170.48	£84,822.69	**£142,993.16**
Sep-17	£58,170.48	£84,822.69	**£142,993.16**
Oct-17	£42,323.38	£84,822.69	**£127,146.06**
Nov-17	£42,323.38	£84,822.69	**£127,146.06**
Dec-17	£42,323.38	£84,822.69	**£127,146.06**
Jan-18	£42,323.38	£84,822.69	**£127,146.06**
Feb-18	£42,323.38	£84,822.69	**£127,146.06**
Mar-18	£42,323.38	£84,822.69	**£127,146.06**

2018/19	LGRP	Off Contract	Total
Apr-18	£33,961.38	£84,822.69	**£118,784.06**
May-18	£49,371.88	£75,572.69	**£124,944.56**
Jun-18	£56,314.00	£75,572.69	**£131,886.69**
Jul-18	£72,594.00	£75,572.69	**£144,166.69**
Aug-18	£71,950.20	£33,300.00	**£105,250.20**
Sep-18	£71,950.20	£18,500.00	**£90,450.20**
Oct-18			
Nov-18			
Dec-18			
Jan-19			
Feb-19			
Mar-19			

2.11 Year on year since 2015/16 there has been a reduction in the number of staff paid £30 per hour and above (Graph 3/Table 3). There are a number of factors such as the scrutiny of interim appointments by senior officers and elected members (DMTs, CMT and this committee); associated checks/authorisation levels in the recruitment process as well as the reasons already detailed in paras 2.4, 2.5 and 2.7.

Graph 3 - Total no. of interim workers over £30 in each financial year

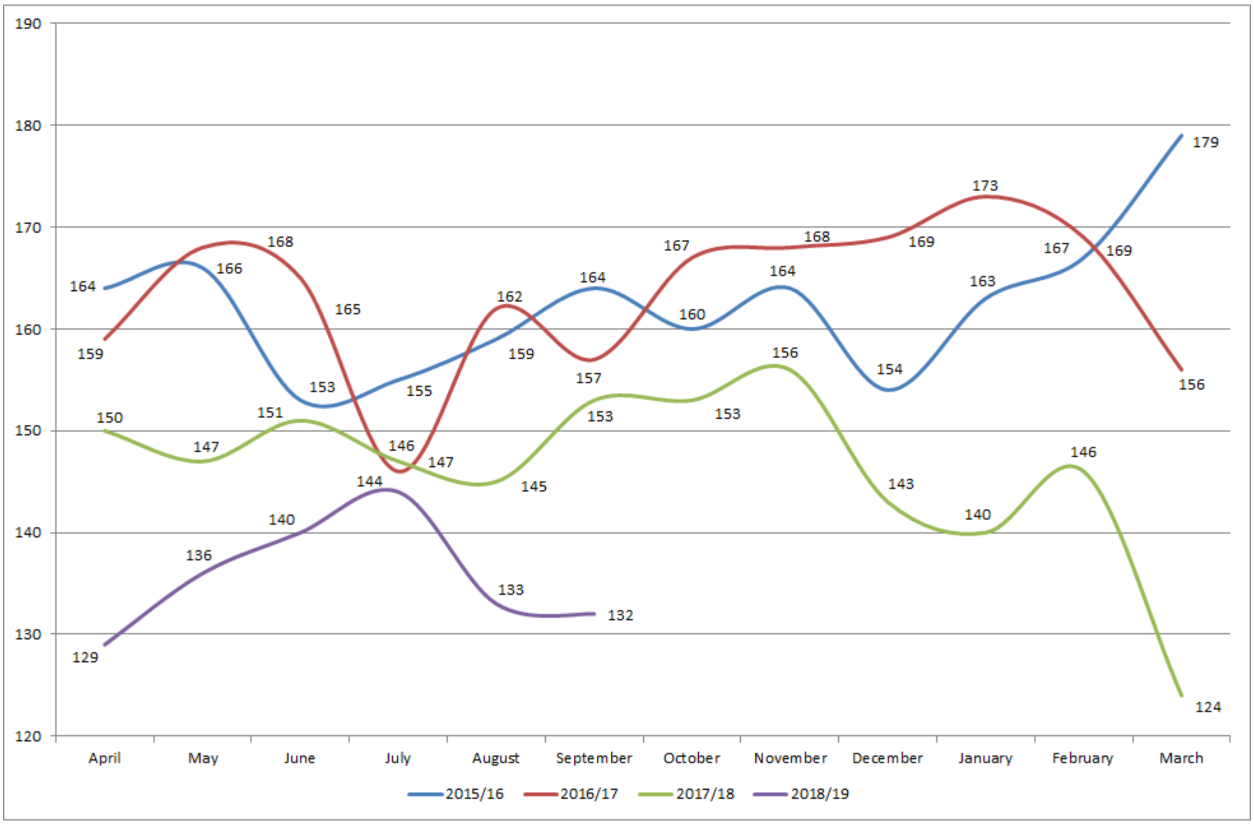

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Table 3 - Total no. of interim workers over £30 in each financial year

Month	No. of workers over £30/hr Comensura	LGRP	Off Contract	Total
Apr-15	122	10	32	164
May-15	123	10	33	166
Jun-15	110	10	33	153
Jul-15	111	10	34	155
Aug-15	115	12	32	159
Sep-15	118	12	34	164
Oct-15	114	12	34	160
Nov-15	117	12	35	164
Dec-15	107	12	35	154
Jan-16	123	10	30	163
Feb-16	128	9	30	167
Mar-16	141	7	31	179

Month	No. of workers over £30/hr Comensura	LGRP	Off Contract	Total
Apr-16	125	8	26	159
May-16	134	8	26	168
Jun-16	129	8	28	165
Jul-16	108	8	30	146
Aug-16	124	9	29	162
Sep-16	119	9	29	157
Oct-16	131	7	29	167
Nov-16	132	7	29	168
Dec-16	133	7	29	169
Jan-17	138	7	28	173
Feb-17	135	7	27	169
Mar-17	128	7	21	156

Month	No. of workers over £30/hr Comensura	LGRP	Off Contract	Total
Apr-17	124	8	18	150
May-17	123	8	16	147
Jun-17	128	7	16	151
Jul-17	126	5	16	147
Aug-17	124	5	16	145
Sep-17	131	6	16	153
Oct-17	132	5	16	153
Nov-17	135	5	16	156
Dec-17	122	5	16	143
Jan-18	120	4	16	140
Feb-18	127	4	15	146
Mar-18	105	4	15	124

Month	No. of workers over £30/hr Comensura	LGRP	Off Contract	Total
Apr-18	112	2	15	129
May-18	119	3	14	136
Jun-18	122	4	14	140
Jul-18	129	5	10	144
Aug-18	117	7	9	133
Sep-18	120	7	5	132

2.12 Directors have been invited to provide short overall summary comments on agency/consultant usage and action being taken in their area and these are:

Children, Schools and Families

CSF currently have 3 agency workers via Comensura which have been here over 24 months and 3 off-contract workers which have been here over 24 months.

Positive action has been taken to reduce the CSF reliance on agency workers. The spend in CSF has decreased this year, because 17 agency workers have been converted onto permanent Contracts. This reflects the “good” Ofsted judgement acting as an attraction for social workers and other staff.

Agency costs since April 2018 have been consistently lower than at any time in the previous two years.

CSF continues to actively recruit to permanent roles, with over 30 roles currently being recruited to.

In all but a few exceptions, the CSF agency workers and consultants are covering social work posts including frontline social workers and other social workers have to have professionally manageable caseloads, currently of c15 children per social worker, is in line with the London average. The others are for specialist posts such as speech and language therapy which are also statutorily required as part of children's Education, Health and Care Plans.

Information is provided monthly to DMT on the usage, costs, hourly rates and length of engagement of agency workers so that management action can be taken in any case where the use of an agency worker can no longer be justified.

HR has worked closely with the social care management team to review and update the retention packages to ensure that we are able to recruit the right talent but also being able to retain them to provide continuity of service to some of our most vulnerable clients. Our retention measures have been submitted for benchmarking against other London boroughs..

We expect the reduction in the use of interim and temporary workers to continue

<u>Community and Housing</u>

C&H currently have 5 agency workers via Comensura which have been here over 24 months, 1 of which has been here over 5 years and 1 off-contract worker which has been here over 24 months

Within Community and Housing, use of agency staff is predominantly within adult social care and in specialist, hard to recruit to posts. Targeted recruitment is in progress and this is outlined in detail in the appendix. Work has been undertaken with London Councils and ADASS to implement a Memorandum of Understanding for Adult Social Care Workers so that Councils do not compete with each other and in doing so stabilise the market. We have recruited to a principal social worker post who is due to start in January. Her role will focus on recruiting new staff, retention and developing new opportunities for career development

<u>Corporate Services</u>

CS currently have 10 agency workers via Comensura which have been here over 24 months, 2 of which have been here over 5 years.

Of the 10 agency workers, 6 are lawyers in the Shared Legal Service paid for by the five participatory boroughs; mainly in the property and procurement team where we compete with the private sector. One of the lawyers works for Children's services where there has been an increase in workload due to Ofsted outcomes. There are a number of posts that are in the process of being recruited to in the Legal Shared Service; we await to see if we are successful in attracting permanent staff. Two agency workers are linked to a project and therefore no permanent roles exist. One agency worker has gone “temp to perm” at the end of October. For the final agency worker, there will be a make or buy review to determine the future provision of the service and therefore resources required

Environment and Regeneration

E&R currently have 19 agency workers via Comensura which have been here over 24 months, 4 of which have been here over 5 years and also 1 off contract worker who has been here above 24 months

Usage is relatively low in E&R and reducing. A number of workers are covering positions, which are subject to a service review in particular the Regulatory Service Partnership where a new management structure comes into effect from 1st November. This has temporarily increased the number of agency staff whilst the consultation and reorganisation was concluded. Further work will be undertaken to review the non-management staff over the coming months and this again may temporarily increase agency staff use

Others are providing specialist skills or are covering [often short term] externally funded roles. There are a number of professional areas where there is an extremely competitive market in which all London boroughs are struggling to recruit and retain permanent staff. This includes Traffic engineers, Planning officers and Building control surveyors where the emergence of a strong interim market as well as private sector competition [in building control particularly] has changed employment patterns and our ability to recruit and retain staff.

E&R DMT reviews this matter on a regular basis in order to manage risk including the financial impact.

2.13 There has been a reduction in the use of off contract appointments due to monitoring and the introduction of IR 35 tax legislation in April 2017. IR35 is tax legislation designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used.

2.14 The purpose of IR35 is to prevent contractors, consultants and freelancers from trading via their own limited company in order to pay less tax and national insurance contributions (NIC) than if they were employed directly by their end client or agency. This has only been rolled out to the Public sector; the rollout to the Private sector has been delayed.

2.15 HR monitors suppliers and contractors to ensure they are IR35 compliant.

3 Timetable

3.1 Regular monthly reports of all interim/temporary placements are sent to departments and suitable “challenge” meetings are held with DMTs on a monthly basis. Agency spend and number of agency staff forming part of the workforce are reported to CMT on a monthly basis as part of the HR Metrics.

3.2 Quarterly updates will be provided to this committee. September information (Quarter 2) will be reported to 8th November meeting.

4 Financial, resource and property implications

4.1 The aim is to challenge hiring managers’ interim/temporary placements and reduce overall costs associated with interim workers where possible, noting that in many cases the Council has to cover statutory functions.

5 Legal and statutory implications

5.1 There are no specific legal implications arising from the report

6 Human rights, equalities and community cohesion implications

6.1 The amendments that have been made to the Council’s HR policies and processes will improve confidence in the Council’s HR recruitment procedure and the maintenance of the interim position database to provide the means to ensure compliance with Members’ requirements.

7 Crime and Disorder implications

7.1 None

8 Risk management and health and safety implications

8.1 These are detailed in the Ernst and Young report of 12 March 2014 and subsequent reports.

9 Appendices – the following documents are to be published with this report and form part of the report

9.1 None

10 Background papers

10.1 None

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of the Local Government Act 1972.

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