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Merton Council

Standards and General Purposes Committee Agenda

Membership

Councillors:

To be appointed at the Council Annual Meeting (16 September 2020)

Substitute Members:

To be appointed at the Council Annual Meeting (16 September 2020)

Independent Persons:

Clive Douglas
Katy Willison

Date: Tuesday 22 September 2020

Time: 7.15 pm

Venue: This will be a virtual meeting and therefore will not take place in a physical location, in accordance with s78 of the Coronavirus Act 2020.

This is a public meeting and can be viewed by following this link https://www.youtube.com/user/MertonCouncil.

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Standards and General Purposes Committee Agenda

22 September 2020

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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. For further advice please speak with the Managing Director, South London Legal Partnership.

STANDARDS AND GENERAL PURPOSES COMMITTEE
23 JULY 2020

(7.15 pm - 9.44 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair), Councillor Adam Bush, Councillor Agatha Mary Akyigyina, Councillor Ben Butler, Councillor John Dehaney, Councillor Brenda Fraser, Councillor Dickie Wilkinson, Councillor David Williams, Councillor Hina Bokhari, Councillor Mary Curtin, Councillor Thomas Barlow and Councillor Pauline Cowper

ALSO PRESENT Suresh Patel – Ernst & Young
Katy Willison – Independent Person
Clive Douglas – Independent Person

Caroline Holland (Director of Corporate Services), Louise Round (Monitoring Officer/Managing Director SLLP), Roger Kershaw (Assistant Director Resources), John Bosley (Assistant Director Public Space, Contract and Commissioning), David Keppler (Head of Revenues and Benefits), Margaret Culleton (Head of Internal Audit), Barbara Batchelor (Head of Organisation Development and HR Strategy), Liz Hammond (Interim Head of HR), Stella Akintan (Scrutiny Officer) and Amy Dumitrescu (Democratic Services Officer)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

There were no apologies for absence.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

RESOLVED: That the minutes of the meeting held on 12 March 2020 were agreed as a correct record.

4 UPDATE TO THE EY 2019/20 AUDIT PLAN AS A RESULT OF COVID-19 (Agenda Item 4)

The External Auditor presented the report, providing an update on the impact on the current audit plans of the Covid19 pandemic. The External Auditor highlighted the key changes, noting that the deadline for the draft accounts had been postponed from the end of May 2020 to 31 August 2020, however both the accounts and pension fund accounts had been published in July and May 2020 respectively. The

deadline for publishing audited accounts had now been postponed until the end of November 2020.
The External Auditor advised the committee that it was likely that there would be an materiality uncertainty caveat included within the reports for property valuation due to the volatility of the current market.

In response to member questions, the External Auditor had highlighted the going concern arrangement as an area of focus. Audits would be completed remotely and the external auditor noted the co-operation from the Council's finance team.

The Committee noted their thanks to all staff for their hard work.

RESOLVED: That members noted the report.

5 INTERNAL AUDIT ANNUAL REPORT (Agenda Item 5)

The Head of Internal Audit presented the Annual Report, noting they had received 75% substantial assurance for the year. An update would be brought to a future committee on any outstanding actions. The report also included an update on the work of the Fraud Partnership.

In response to member questions, the Head of Internal Audit responded that the financial systems were audited over a rolling year due to resource capacity.

The Assistant Head of Resources advised the committee in response to questions on payment cards which had been an area of limited assurance that the previous system was being changed and an audit would be performed before the migration and then again after migration.

Referring to the limited assurance report on tree maintenance, the Assistant Director of Public Space, Contract and Commissioning advised the Committee that work was ongoing on a tree strategy.

The report was noted.

6 ANNUAL GOVERNANCE STATEMENT (Agenda Item 6)

The Head of Internal Audit presented the report, noting there had been a review of governance arrangements and the whistleblowing policy had been amended to remove the reference to the charity Protect who were no longer being used.

RESOLVED:
a) The Committee considered and commented on the draft Annual Governance Statement (AGS) for 2019-20
b) The Committee approved the draft Annual Governance Statement for 2019/20 prior to final sign off by the Leader of the Council and the Chief Executive.
c) The Committee agreed the proposed adjustment to the Whistleblowing policy

7 SOCIAL MEDIA GUIDANCE FOR COUNCILLORS (Agenda Item 7)

The Monitoring Officer presented the report which had been amended from the March 2020 committee version following consultation with all political groups. Councillors thanked officers for the opportunity to comment on the guidance.

RESOLVED:
The Committee approved the Social Media Guidance for Councillors and to recommend its adoption to full Council.

8 LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN REPORT - ENFORCEMENT AGENTS (Agenda Item 8)

The Head of Revenues and Benefits presented the report and appendices. It was noted that the report was accurate however there was one point which the Council disputed with the LGSCO in relation to charging multiple fees on cases. The improvement plan had been started in September 2019.

In response to questions from members, the Head of Revenues and Benefits advised that enforcement agents had received additional training as part of the improvement plan and copies of training certificates were held by the Council. The approach to body cameras had also been amended and would now been turned on at all times and the footage retained for a longer period of time. Random monitoring of every bailiff was also taking place.

Members noted that currently it was difficult to review the impact of the improvement plan where staff had been redeployed into other roles due to the pandemic. It was therefore suggested that an update report be brought back to the Committee in 6 months' time.

RESOLVED:
1. That the Standards & General Purposes Committee considered the contents of the report regarding the Local Government and Social Care Ombudsman (LGSCO) decision and report.
2. That Standards & General Purposes Committee advised that it requires an update report on the improvement action plan in 6 months time.

9 PROPOSED RESPONSE TO THE LOCAL GOVERNMENT ASSOCIATION'S CONSULTATION ON A NEW MODEL CODE OF CONDUCT FOR MEMBERS (Agenda Item 9)

The Monitoring Officer presented the report which provided a draft model code of conduct for Councillors from the LGA (Local Government Association) and a suggested Council response to the consultation on the code.

Members agreed they were content with the suggested responses and felt it would be appropriate to retain the current limit on the list of contacts for whom interests were required to be disclosed for example retaining the current requirement of spouses/partners only.

RESOLVED:
A. The Committee considered the attached proposed response to the Local Government Association's Consultation on a new Model Code of Conduct for Members
B. The Committee authorised the Monitoring Officer to submit the response at Appendix B, as amended to take into account the Committee's views.

10 REVISED RIPA POLICY AND UPDATE ON RIPA AUTHORISATIONS (Agenda Item 10)

The Monitoring Officer presented the report which followed an inspection in January 2020. The policy had been amended and quality assurance of any authorisations had been improved as a result.

RESOLVED:
A. That members noted the purposes for which investigations have been authorised under the Regulation of Investigatory Powers Act (RIPA) 2000.
B. That members noted the outcome of the inspection by the Investigatory Powers Commissioner's Office (IPCO).
C. That members agreed the revised RIPA policy.

11 PROPOSED REVIEW OF THE COUNCIL'S CONSTITUTION AND INTERIM AMENDMENTS TO THE APPOINTMENTS COMMITTEE TERMS OF REFERENCE AND THE EMPLOYEE PROCEDURE RULES (Agenda Item 11)

The Monitoring Officer presented the report which had previously been discussed at the March 2020 committee. A number of small drafting changes had been made. A group was to be setup to look at best practice and to assist with reviewing the constitution.
It was noted that the procedure rules could also be looked at to ensure they were up to date with current best practice.
Members agreed the recommendations on the basis that the member working group could be attended by any Councillor and to ensure there was political balance as well as ensuring that there was also a number of BAME councillors included within the working group.

RESOLVED:
A. That the Committee recommended that Council approves the amended Terms of Reference for the Appointments Committee and Officer Employment Procedure Rules, as set out in Appendices 1 and 2 respectively;
B. That Council be recommended to delegate authority to the Monitoring Officer to amend the Council's constitution to incorporate any direct or consequential changes resulting from the approval of recommendation A above; and
C. That the Committee agreed to commence a review of the Council's constitution and appoints a working group of members to carry out that review in conjunction with the Monitoring Officer.

12 COMPLAINTS AGAINST MEMBERS (Agenda Item 12)

The Monitoring Officer advised the Committee that since the last meeting there had been one complaint against a member regarding an incident on social media. The complainant had received an apology and the decision of the Monitoring Officer was that the complaint did not require any further action or investigation.

13 MEMBER TRAINING AND DEVELOPMENT (Agenda Item 13)

The Head of Organisation Development and HR Strategy presented the report providing the proposed training programme for current councillors to run until May 2022. The report also provided details of the engagement for new councillors in preparation for the May 2022 local elections. Members were advised that the training budget is held by HR for the whole Council and member training is developed in consultation with Democratic Services.

Members suggested a number of possible additional training subjects including effective business writing and wellbeing awareness.

RESOLVED:
A. That the Committee agreed that additional proposed training sessions and any remaining development activities identified as mandatory/priority for members are undertaken from August 2020 onwards
B. That Committee considered ways to encourage increased member take-up for development activities including whether a lead champion should be appointed to support an increase in members' attendance at training events.
C. That Committee approved in principle that sessions for prospective elected members are planned for November 2020.
D. That Committee approved the agenda for candidates who would wish to be elected members, and that final decision will be the responsibility of Louise Round/Barbara Batchelor
E. That Committee approved that names/nominations of peer support for the engagement sessions of newly elected members will be sought through Group Offices.
F. That Committee approved the Members Induction Training pathway.

14 WORK PROGRAMME (Agenda Item 14)

The Work Programme was noted.

15 EXCLUSION OF THE PRESS AND PUBLIC (Agenda Item 15)

RESOLVED: That the public were excluded from the meeting during consideration of item 16 on the grounds that it is exempt from disclosure for the reasons stated in the report.

16 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 16)

The Interim Head of HR presented the report advising that the team were regularly reviewing the use of temporary and contract staff and ways in which to reduce this.

Members reviewed and discussed the exempt appendix.

The Committee agreed that the report should continue to be brought to the Committee twice per year and requested that going forward information was also provided on the recruitment of BAME staff.

RESOLVED:
A. The Committee noted progress made to monitor and control the use of temporary workers and consultants
B. The Committee reviewed the frequency with which this Committee should receive this report

Committee: Standards and General Purposes
Date: 22 September 2020

Agenda item:

Wards: All

Subject: Audited Final Accounts 2019/20

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Roger Kershaw: Assistant Director 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 the 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 2020 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. A summary of the Statement of Accounts is attached as Appendix 1. The full draft accounts are attached as Appendix 2 to this report. 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 provisional revenue account, extracted from its Whole of Government Accounts (WGA) working papers which are being prepared for submission.

2 Details

2.1. The 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. The timetable for the 2019/20 Statement of Accounts is exceptional in allowing a longer period for the production and audit because oi the COVID-19 pandemic. The table below compares the 2019/20 timetable with the dates actually achieved and with the requirements of the 2018/19 timetable. The paragraphs below the table provide more specific details about the 2019/20 timetable.

Table 1 Audit of Accounts

	2018/19 Audit timetable	2019/20 Audit timetable	2019/20 Actual/Expected
Accounts ready for audit	31st May 2019	31st August 2020	6th July 2020
Publication of accounts	31st July 2019	30th November 2020	By 30th October

2.4. Accounts ready for audit: The Council's statement of accounts must have been ready for audit by no later than 31st August 2020. The Chief Financial Officer must have signed and dated the accounts and certified 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 this stage. This requirement has been met.

2.5. Publication of accounts The committee of members must approve the Statement of Accounts by the 30th November 2020. The accounts must be signed and dated by the chairman of that committee and then published on the Council's website. Subject to satisfactory completion of the audit by this date, this requirement will be met.

2.6. **<u>Audit Progress</u>**: Ernst & Young expect to complete the majority of 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. Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.

2.7.1 <u>Audit Results Reports</u>: Ernst & Young has issued its draft 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. The key matters being reported by EY are in respect of-

2.7.2 <u>Going Concern</u> The accounts include in Note 42, "Critical Judgements in Applying Accounting Policies", specific reference to the fact that the accounts have been prepared on a Going Concern basis. The underlying principle is that accounts have been prepared on the basis that the authority will continue in operational existence for the foreseeable future from the date the accounts were authorised for issue (3 July 2020). This reference was included as a response to the significant financial risks arising from Covid-19 which have affected this and other authorities.

2.7.3 <u>Covid-19 disclosures</u> – In addition, following audit requests and collaborative working between the finance team and EY, the Council's revised statement of accounts at Note 42 now includes a more enhanced disclosure of the impact of the Covid-19 pandemic on the Council's finances. EY will be including a paragraph in their audit report on the Council's accounts to emphasise this disclosure because they deem it important for a reader of the accounts.

2.7.4 <u>Property, plant and equipment valuations and the material uncertainty reported by the Council's valuer</u> – The Council's valuer has followed the guidance issued by the Royal Institute of Chartered Surveyors (RICS) and included reference to a material uncertainty of its valuations arising from the uncertainty caused by the Covid-19 pandemic. The Council's revised statement of accounts at Note 43, "Assumptions made about the future and other sources of estimation uncertainty", include reference to this uncertainty. EY will be including a paragraph in their audit report to emphasis this disclosure. because they deem it important for a reader of the accounts.

2.7.5 <u>Accounting for the Dedicated Schools Grant (DSG) deficit position</u> – EY identified this as a significant risk in their audit. The Council has followed the guidance issued by CIPFA in its year end bulletin which has taken into account changes made by the Department of Education to the relevant regulations to enable councils to carry negative DSG reserves.

2.8. <u>Audit Adjustments:</u> In carrying out their audit work, the external auditors, EY, identify amounts in the financial statements which they consider are misstated. A misstatement is a difference between the figure which EY consider should be disclosed and the figure actually disclosed. The misstatement identified are contained in the “Audit Differences” page, page 25, in the Audit Results Report and can be divided into those which have been adjusted and one which has not.

2.9. Audit differences – accounts adjusted: These are summarised below (and include roundings). Please note that the correction of these misstatements does NOT affect the level of Usable reserves and balances.

Table 2 Audit Adjustments

Item	LT Assets £000	Curr Assets £000	Curr Liabilities £000	LT Liabilities £000	Usable Res £000	Unusable Res £000
PPE	2,876 CR					2.876 CR
CTAX and NDR Debtors		858 CR	858 DR			
Sundry Debtors		481 CR	481 DR			
Total	2,876 CR	1,339 CR	1,339 DR	0	0	2,876 CR
Draft SoA	755,842 DR	153,441 DR	73,426 CR	440,493 CR	93,048 CR	302,316 CR
Expected Final SoA	758,718 DR	152,102 DR	72,087 CR	440,493 CR	93,048 CR	305,192 CR

2.10. Audit difference-accounts not unadjusted: There has been a difference of professional judgement in the valuation of industrial estates. EY’s valuation specialists valued industrial estates £6.3m higher than the authority’ valuers. This matter has been dealt with by adding a specific disclosure in Note 43 “Assumptions about the future and other sources of estimation uncertainty”.

2.11. 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.

2.12. 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.

2.13. **Financial Summary**: As reported in paragraph 2.10, when comparing with the draft accounts, the adjustments arising from the audit work to date have not changed Usable Reserves but have changed Unusable Reserves.

2.14. Reserves: Table 3 contains a breakdown of all reserves, divided into Usable Reserves and Unusable Reserves.

2.15. Usable Reserves: Revenue reserves and fund balances are £69.089m as at 31st March 2020 (£67.071m as at 31st March 2019). This represents an increase of £2.018m.

2.16. Unusable Reserves: These are now £305.192m as at 31st March 2020 (£184.473m as at 31st March 2019) an increase of £120.719m.

Table 3: Reserves

Reserves	**2019/20**	**2018/19**
	Expected Final Accounts still subject to audit £000	Audited Accounts £000
. Usable reserves		
General fund balance	13,778	13,778
Earmarked reserves (excluding schools)	59,606	48,106
Earmarked reserves- schools	(4,295)	5,187
Total Revenue reserves and balances	**69,089**	**67,071**
Unapplied capital receipts	2,059	9,228
Unapplied capital grants	21,900	17,006
Other usable reserves	**23,959**	**26,234**
Total usable reserves	**93,048**	**93,305**
2. Unusable reserves		
Collection fund	413	(476)
Other unusable reserves	304,779	184,949
Total unusable reserves	**305,192**	**184,473**
Total reserves	**398,240**	**277,777**

2.17. Outturn Table 4 shows the final outturn for the year. The departmental figures are those reported to the Cabinet. Net service expenditure showed a favourable variance of £1.716m There was also a favourable variance on corporate funding of £8.760m which was taken to earmarked revenue reserves. This was comprised of favourable variances on corporate grants and business rates of £3.971m and the receipt of a government grant of £4.789m to be used in 2020/21 towards COVID-19.

Table 4: 2019/20 Outturn and Budget Variances

Cabinet Outturn Report	2019/20	2019/20	2019/20
	Current Budget	Outturn	Variance
	£000	£000	£000
Department			
Corporate Services	10,874	10,147	(727)
Children, Schools & Families	60,579	60,377	(202)
Community & Housing	62,510	62,271	(239)
Environment & Regeneration	15,821	16,842	1,021
Net Service Expenditure	**149,784**	**149,637**	**(147)**
Corporate Provisions	2,244	675	(1,569)
Total General Fund	**152,028**	**150,312**	**(1,716)**
Net favourable outturn balance transferred to OCPB (Outstanding Council Programme Board Reserve)			**1,716**
Funding			
Grants	(8,169)	(9,476)	(1,307)
Business Rates	(44,026)	(46,690)	(2,664)
Council Tax and Collection Fund	(91,070)	(91,070)	0
Net COVID-19 Emergency Funding	0	(4,789)	(4,789)
Total Funding	**(143,265)**	**(152,025)**	**(8,760)**
Funding transferred to earmarked reserves			**8,760**

3 Alternative options

3.1. 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 6th July to 14th August 2020 and was advertised on the Council's website at www.merton.gov.uk/finance.

4.2. During the inspection period officers responded to two people who had made formal enquiries about the accounts. There were no requests to question the auditors about the accounts.

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. EY provide an assurance statement to the National Audit Office in respect of the WGA return as part of their audit work and they expect to provide this statement in November or December.

5.3. A provisional (pre audit) revenue account, extracted from the Council's unaudited WGA return (which is still being prepared) is attached as Appendix 5.

6 Audit of Council's subsidiary companies

6.1. The Council has two wholly-owned subsidiaries, CHAS2013 Ltd and Merantun. CHAS2013 Ltd will be audited by Ernst & Young from the week beginning 2nd September 2020. Merantun will be audited from the week beginning 19th October 2020. It is not expected that this work will have any material impact on the Council's accounts.

7 Finance, resource and property implications

7.1. The expected cost of the audit is £110,500 excluding the cost of non-audit services (the audit of the Housing Benefits grant claim and the Teachers Pensions return).

7.2. However, this figure does not include the proposed increase in the scale fee which has been submitted to Public Sector Audit Appointments (PSAA) for consideration. Nor does it include other additional items for which a final fee has still to be determined.

7.3. Further details are contained in page 36 of the ARR.

8 Legal and statutory implications

8.1. 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.

9 Human rights, equalities and community cohesion implications

9.1. None for the purposes of this report.

10 Crime and disorder implications

10.1. None for the purposes of this report.

11 Risk management and health and safety implications

11.1. None for the purposes of this report.

Appendices

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 2020
- Appendix 2: Statement of Accounts for the year ended 31st March 2020
- Appendix 3: Draft EY Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 4 Draft EY Audit Results Report and Letter of Representation- Pension Fund Accounts (*LoR to follow*)
- Appendix 5 Draft WGA Revenue Account 2019/20

Background Papers

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

- Statement of Accounts 2019/20
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- CIPFA- technical bulletins

Summary Statement of Accounts
31st March 2020

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 are available on the Council's website at:

https://www.merton.gov.uk/council-and-local-democracy/finance/statement-of-accounts

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 Scheme (Defined Benefit Pension Scheme) - Shows member contributions to the scheme and the benefits paid from it, together with details of investment activity during the year. It excludes Pension Fund liabilities.

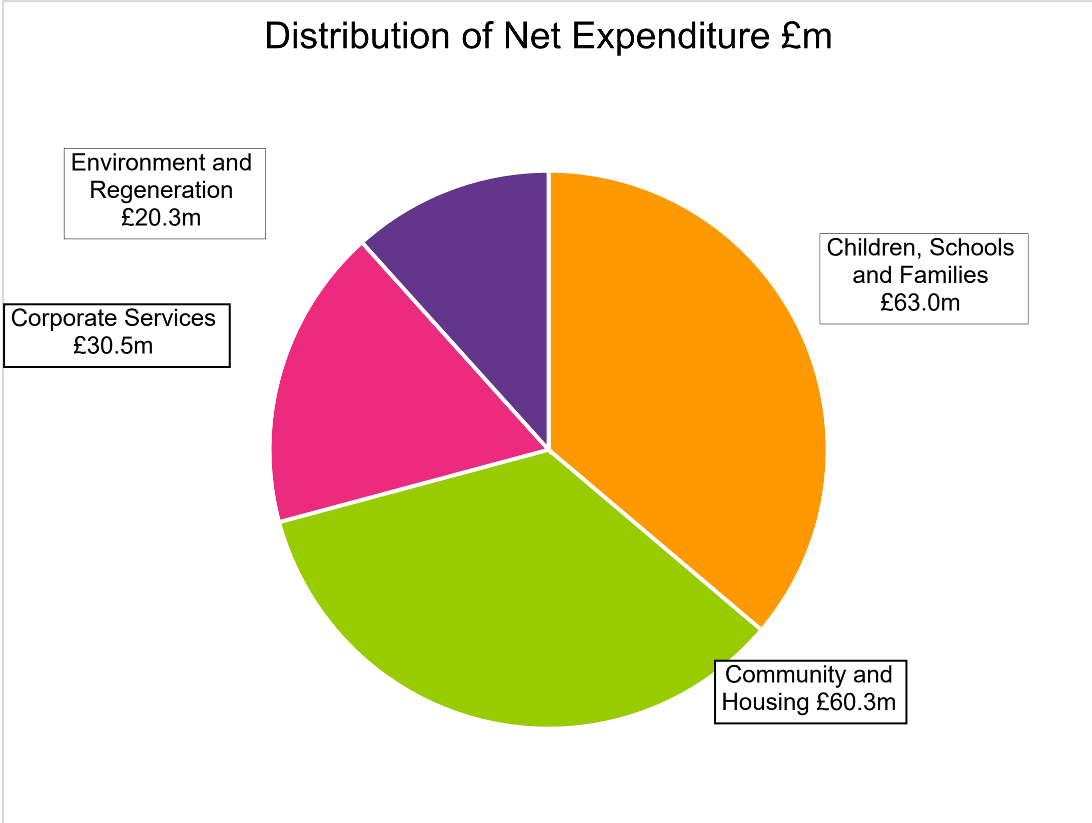
FINANCIAL HIGHLIGHTS 2019/20
- Total net assets increased by £120.4m, comprising a £120.7m increase in unusable reserves and a £0.3m decrease in usable reserves. The £120.7m increase in unusable reserves was due to a £57.3m increase in capital reserves and Collection Fund adjustments, and an increase in the pensions reserve of £63.4m.
- Borrowing remained unchanged at £113m at 31/03/20.
- The Council had a net underspend of £8.7m against its budget in 2019/20, which has been added to earmarked revenue reserves.

REVENUE SPENDING

Merton's net cost of services was £174.1m, attributable to services as shown below:

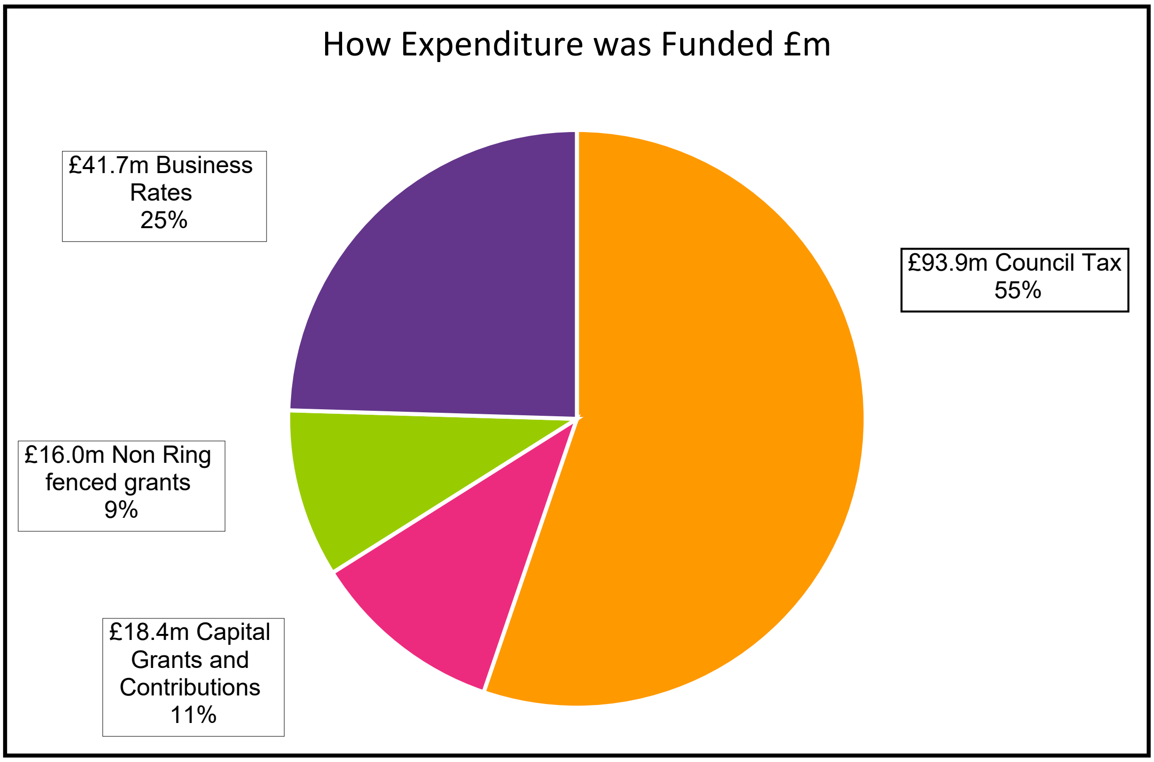
Service Areas	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Children, Schools and Families	241.0	-178.0	63.0
Community and Housing	85.6	-25.3	60.3
Corporate Services*	113.6	-83.1	30.5
Environment and Regeneration	62.1	-41.8	20.3
Public Health	10.5	-10.5	0.0
Net Cost of Services	**512.8**	**-338.7**	**174.1**

* Includes Housing Benefits



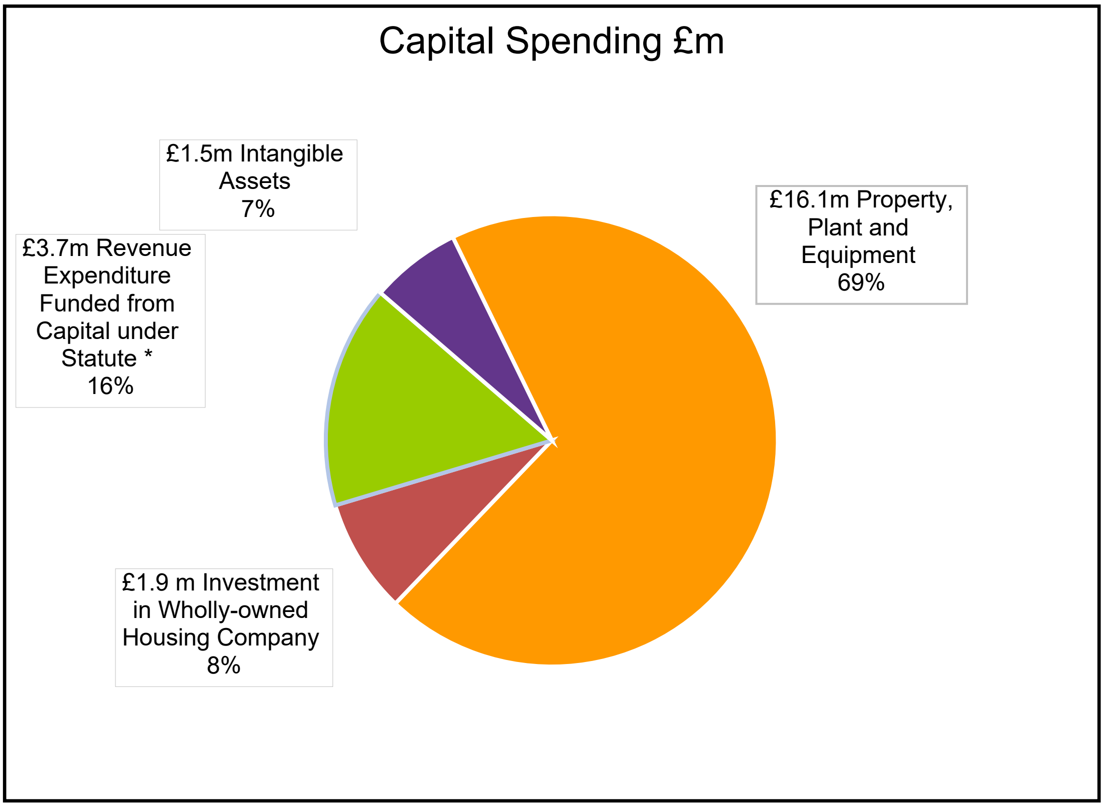
How was expenditure funded?

Other than income collected by departments from fees, charges and specific government grants, services are paid for from 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:



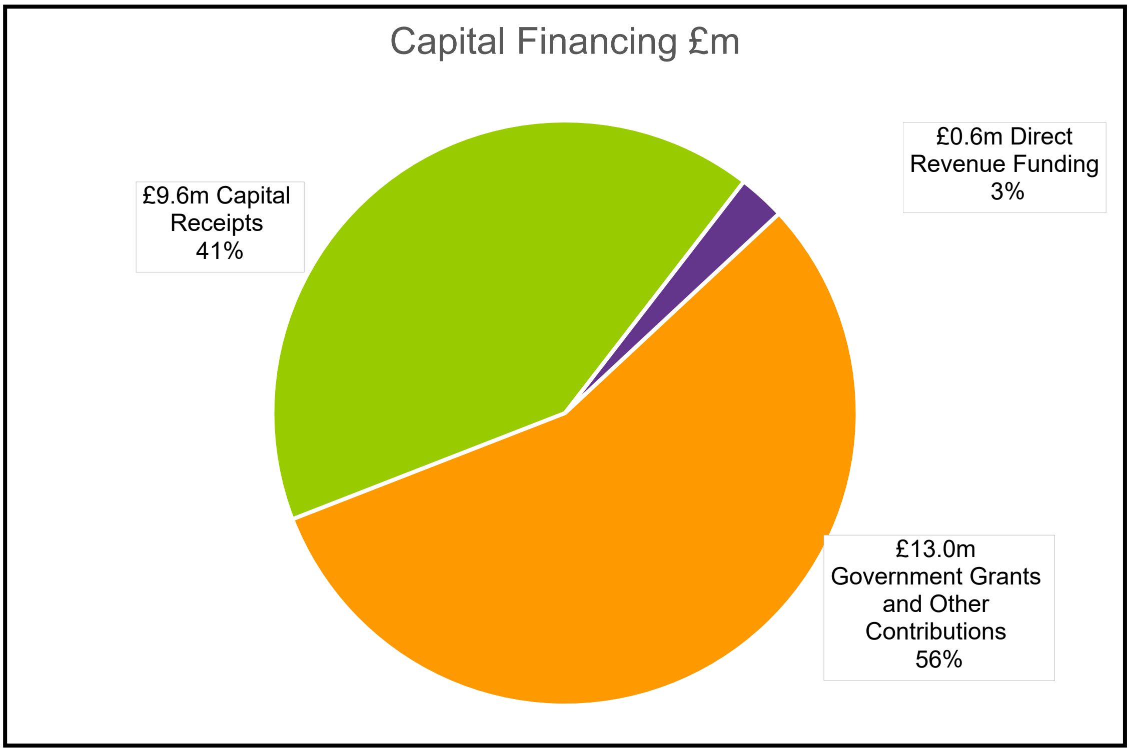
CAPITAL SPENDING

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 £23.2m in 2019/20 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 on 4 March 2020 plus slippage:

Department	Outturn 2019/20	Capital Budget (£000's)			
	£000s	2020/21	2021/22	2022/23	2023/24
Corporate Services	5,177	23,700	11,528	2,895	15,410
Community and Housing	879	1,709	1,680	1,429	425
Children, Schools and Families	8,584	4,489	6,630	1,900	1,900
Environment & Regeneration	8,521	14,654	12,832	8,343	7,029
Total	**23,161**	**44,551**	**32,671**	**14,567**	**24,764**

FINANCIAL HEALTH

The Balance Sheet gives a snapshot of the Council's financial position at the year-end (i.e. 31st March 2020). It shows what the Council owns (its assets) and what it owes (its liabilities) and the funds which support them.

As at 31 March 2020 the Authority completed another year without the need to make any new long term borrowing. Borrowing remained at £113.0m with £2m maturing in 2020/21.

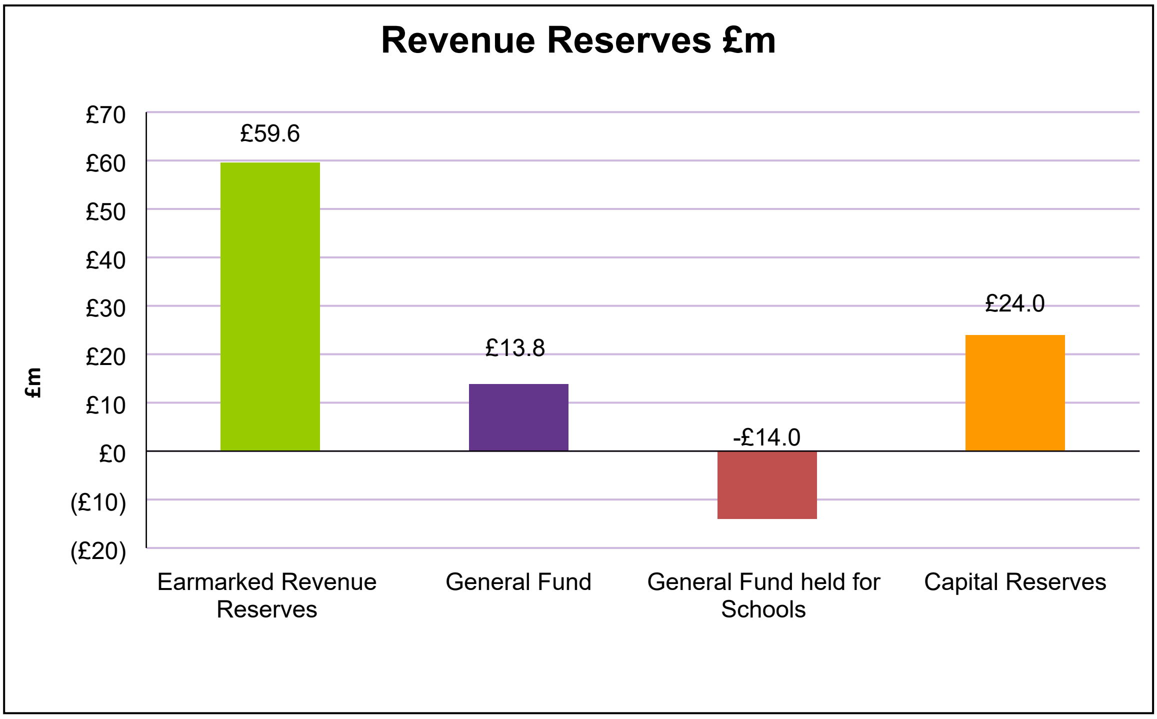
Summary Balance Sheet

Summary Balance Sheet	As at 31st March 2019 £m	As at 31st March 2020 £m
Fixed and Other Long Term Assets	713	758
Current Assets including investments, cash and debtors	141	152
Current Liabilities including creditors and short term borrowing	-68	-72
Total Assets Less Current Liabilities	**786**	**838**
Long term borrowings	-113	-111
Other liabilities and provisions	-52	-50
Pension Fund Liability	-343	-279
Total Long Term Liabilities	**-508**	**-440**
Total Net Assets	**278**	**398**
Represented by:		
Reserves and balances which can be spent	-93	-93
Reserves and balances which cannot be spent	-185	-305
Total Net Worth	**-278**	**-398**

RESERVES AND FUND BALANCES

In total, the Council now has usable reserves and fund balances amounting to £93m, being £24m capital receipts and grants, and £69m fund balances and revenue reserves which are broken down below.

Breakdown of Fund Balances and Revenue Reserves



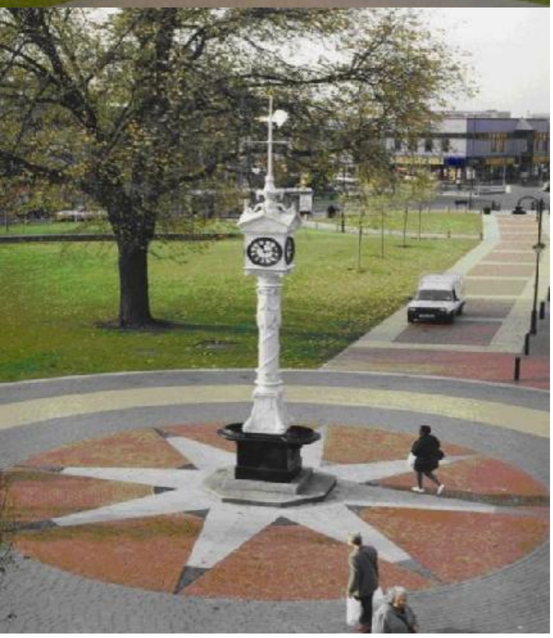
PENSION SCHEME

The pension scheme is financed by contributions from employees and the employer, together with income and proceeds from investments administered by the Council. The Council is required to report where the assets and liabilities stand on an IAS19 commitment basis. On this basis, the assets in the scheme fell by £27m during the year to £639m and the estimated pension liability reduced by £90m to £918m, leading to an £63m reduction in the pension deficit, which stands at a notional £279m. Although this is a significant notional liability, the basis on which the pension deficit is valued for funding purposes is determined by a separate triennial actuarial valuation. At the 2019 Triennial valuation there was a funding level of 103%.

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 2019/20 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 COUNCIL

Statement of Accounts

For the year ending

31 March 2020

Statement of Accounts

For the year ending 31st March 2020

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Narrative Statement

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

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

Introduction

Welcome to the London Borough of Merton's 2019/20 Statement of Accounts, which reports the Authority's financial performance during the year and its financial position at 31st March 2020. The format and content of the financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20.

Organisational overview

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

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

- To continue to provide a realistic level of essential services for residents. The priorities of essential services are to:

  - Continue to provide everything that is statutory
  - Maintain services – within limits – to the vulnerable and elderly

- After meeting these obligations Merton will do all that it can to help residents who aspire. This means addressing the following as priorities:

  - Maintain clean streets and keep Council Tax low.
  - Keep Merton as a good place for young people to go to school and grow up.
  - Be the best it can for the local environment.

Key Challenges

<u>COVID-19</u>

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

It is important to highlight how the Council has responded to the challenge of managing services during a pandemic. The Council's immediate response during March 2020 was to implement enhanced management arrangements with a structure based on Gold (strategic), Silver (tactical) and Bronze (operational) groups including key partners, to facilitate rapid responses to the evolving position, facilitate appropriate decision making powers as allowed for in the Council's constitution and clear communication.

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

The COVID-19 pandemic has not had a dramatic impact on the final outturn for 2019/20 as the pandemic only started to make a noticeable impact in the last few weeks of March. Given the timing of the national lockdown and the progression of the pandemic, it only had a limited direct impact on the financial position for 2019/20.

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

As part of Central Government's response to the COVID-19 pandemic, the Council received additional grants and payments in advance, over and above budgeted receipts, to aid with cashflow and to allow the Council to help the residents and businesses. Although some of these amounts were received right at the end of 2019/20, they primarily related to the 2020/21 financial year and, where appropriate, were transferred to an earmarked reserve.

The level of Government funding received so far falls significantly short in addressing the impact of increased costs of service provision and the impact of lost income from Council Tax and Business Rates, fees, charges and commercial investment. Further government support is uncertain at this stage.

The Government published its roadmap in May 2020 for moving to the next stage in the COVID-19 response and phasing the lifting of lockdown and reopening of the economy. The Council will aim to reopen services in line with the latest government guidance.

A key part of the Council's recovery plan is the consideration of the future shape of the Council together with a clear financial plan covering both the revenue budget and capital programme. The plan will set out how the Council can respond to the potentially significant deficit for 2020/21, higher demand for services together with budget reduction requirements for future years. The work is ongoing and will be the focus for 2020/21.

Dedicated Schools Grant (DSG) deficit

The Education service continues to be challenging due to the inadequate funding for Education Health Care Plans (EHCP's) to support high needs pupils. The accumulated deficit on the DSG reserve increased by £9.85m at the end of 2019/20, from £2.9m to £12.75m.

Given the size of the deficit on the DSG, during 2019/20 the Council was required to submit a Recovery Plan to the Department of Education (DfE) to outline how the DSG would be brought back to balance over a period of five years. The plan requested by and submitted to the DfE does not project recovery of this deficit but results in a growing deficit. The DfE have subsequently referred to this as a Deficit Management Plan. The actions required to mitigate the growing deficit were agreed with the Schools Forum and a programme of works developed with changes to operational practice. This will be taken forward during 2020/21 in the context of the restrictions on schools resulting from the impact of COVID-19.
The reduction in the schools' balances reflects the deficit on the DSG reserve where £12.75m has been borrowed against future years' allocations. However, given the ongoing pressures on the high needs block which continues beyond 2020/21, without additional Government funding, a deficit position on the DSG is likely to continue for a number of years.

Financial resilience
The Council has built up General Fund reserves over a period of time to provide financial resilience against increased expenditure from demand led services and the impact of a recession. However, there is a risk that the scale of the financial impact of COVID-19 together with the growing DSG deficit cannot be fully funded from the general fund reserves. In order to address this the Council may have to take further steps during the financial year to further reduce spending and potentially "unearmark" earmarked reserves to ensure a balanced position by the year end.

The Council will update the Medium Term Financial Strategy (MTFS) with an analysis of the impact of COVID-19 during the year. The changing environment is likely to result in the Council reviewing the services it provides, its delivery models and outcomes that are the highest priority when addressing these budget issues.

Operational Model

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

The Council is organised into four directorates:

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

Corporate Peer Challenge
The Council invited the Local Government Association (LGA) to Merton during 2019/20 as part of the sector led improvement. This focused on five core components comprising:

- Understanding of the local place and priority setting
- Leadership of place
- Financial planning and viability
- Organisational leadership and governance
- Capacity to deliver

The review findings were generally positive, recognising the many strengths of the Council, the response to the challenges being faced and the way that the Council was working to take forward the Borough. The Council welcomed the review and has embraced the recommendations made as a means to strengthen many of the activities already recommended by an internal review. An action plan has been prepared and progress is being monitored to ensure that the key recommendations are addressed, but is currently paused whilst responding to COVID-19.

Financial performance

Revenue Summary

Outturn

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

	2019/20 Current Budget £000	2019/20 Outturn £000	2019/20 Variance £000
Department			
Corporate Services	10,874	10,147	(727)
Children, Schools & Families	60,579	60,377	(202)
Community & Housing	62,510	62,271	(239)
Environment & Regeneration	15,821	16,842	1,021
Net Service Expenditure	**149,784**	**149,637**	**(147)**
Corporate Provisions	2,244	675	(1,569)
Total General Fund	**152,028**	**150,312**	**(1,716)**

Net favourable outturn balance transferred to OCPB* Reserve	**1,716**

*** Outstanding Council Programme Board Reserve**

Grants	(8,169)	(9,476)	(1,307)
Business Rates	(44,026)	(46,690)	(2,664)
Council Tax and Collection Fund	(91,070)	(91,070)	0
Net COVID-19 Emergency funding **	0	(4,789)	(4,789)
Funding	**(143,265)**	**(152,025)**	**(8,760)**
Funding transferred to Earmarked Reserves			**8,760**

**COVID funding received in 2019/20 for use in 2020/21

Net service expenditure was £147k favourable. There were favourable variances in all departments which offset the significant adverse variance in Environment & Regeneration (E&R). The main reason for the adverse variance in E&R was the delayed implementation of the new parking charges and the effect of COVID-19 on parking revenue across the board including Automatic Number Plate recognition (ANPR), Penalty Charge Notices (PCNs) as well as on and off-street charges income. Within Corporate provisions, the £1,569k favourable variance was primarily due to improved interest rates and additional amounts invested than assumed in the budget.

Reserves

During 2019/20 the Authority's overall usable reserves decreased by £0.257m. This comprised a £2.019m increase in revenue reserves and fund balances and a £2.275m decrease in capital balances.

The increase in revenue reserves comprises a net £11.5m increase in earmarked revenue reserves which is offset by the decrease in schools' balances which includes the DSG deficit of £12.75m. The general fund balance remained unchanged at £13.778m. The earmarked revenue reserves include the favourable variance on General Fund services of £1.716m, the new COVID-19 funding and the additional income from the Business Rates Retention London Pilot Pool.
The net decrease in capital reserves was composed of a net reduction in usable capital receipts (£7.169m) and a net increase in usable capital grants of £4.894m.

Usable Reserves	2019/20 Opening Balance £'000	2019/20 Movement £'000	2019/20 Closing Balance £'000
General Fund Balances	13,778	0	13,778
Schools (including DSG)	5,187	(9,482)	(4,295)
Earmarked Revenue Reserves	48,105	11,501	59,606
Sub Total-Fund Balances and Revenue Reserves	**67,070**	**2,019**	**69,089**
Capital Receipts Reserve B	9,228	(7,169)	2,059
Capital Grants Unapplied	17,006	4,894	21,900
Capital Reserves	**26,234**	(2,275)	**23,959**
Total Usable Reserves	**93,304**	(257)	**93,048**

B Movement in 2019/20 reflects 2020/21 grants recognised as income but not yet applied to finance capital projects.

Risks

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

1. COVID-19 - The economic impact of the Coronavirus Pandemic (COVID-19) is already affecting most of the world and will continue to do so for the foreseeable future. This will inevitably impact on the Council and the local economy. The Council's services will be under particular pressure due to the need to support businesses and residents, particularly vulnerable groups in need of social care

and there has been a major reduction in the Council's income which will be hard to replace in the short term. The pandemic has also placed some of the Council's programmed savings at risk. The detrimental impact of COVID-19 significantly exceeds the support that the Government has currently pledged to provide.

2. DSG Deficit – the Council has previously identified the significant and growing deficit on DSG services and currently this is responsible for a deficit on the DSG reserve of £12.750m as at 31 March 2020. Prior to COVID-19 this was the Council's most significant financial risk and uncertainty on this issue continues. It should be noted that Merton is one of many local authorities affected by this funding deficit.

3. Social Care –the Council has provided for significant additional financial support to be allocated to social care in recent years. Whilst the Government has begun to recognise the growing impact of changing demographic circumstances on social care responsibilities, a high level of uncertainty remains about future funding, particularly in the light of COVID-19 and the Government has yet to produce the green paper for reform which was initially promised for 2017 and has now been delayed multiple times.

4. Brexit – the outcome of the ongoing and future negotiations between the UK and EU will inevitably have implications for the Council but are impossible to measure at the current time given the concentration of effort on tackling the COVID-19 crisis. The possibility of a No-Deal Brexit remains.

It is possible that as a result of COVID-19, local government will continue to be affected by reductions in the level of funding it receives from central government. Strong financial management is vital to ensure that the Council is financially resilient and prepared to meet any future challenges.

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

Economic Outlook

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

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

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

It is one of the Council's stated priorities to keep council tax low. To achieve this, the Council must have regard to the major risks to its financial position and in particular:

- The current and future financial implications of COVID-19
- The significant and growing deficit in the DSG
- The current economic position including future risks relating to Brexit
- Demand pressures on the budget
- Identifying and achieving cost and income improvements
- Risks to Government funding levels, particularly in light of the impending Spending Review 2020 and delays to the Fair Funding Review and Business Rates Retention to 2021-22
- Risks to other income streams including Business Rates Retention

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

Understandably, in recent months the Government has concentrated effort and resources on tackling COVID-19. This has resulted in a delay in publishing some key announcements for local government.

COVID-19

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

Spending Review 2020

The 2020 Spending Review, originally scheduled to be completed by July 2020 has been delayed. It is likely that the 2020 Spending Review will now be moved to November 2020 to coincide with the autumn budget, meaning a delay of at least four months to the process. The Spending Review 2020 is expected to set out detailed financial budgets for each government department for a three year period (2021-22 to 2023-24) and four years for capital investment (to 2024-25)

Details from the Spending Review will form the basis of allocations to local authorities for 2021-22 and beyond as announced in the Local Government Finance Settlement 2021-22 which is also likely to be delayed. If the funding announcement is restricted to just one-year, as was the case for 2020-21, this will have a serious impact on the Council's ability to forward plan in a strategic way.

Brexit

The newly elected Government since January 2020 expected to concentrate its efforts in 2020 on negotiating the UK's exit from the European Union. This has become a secondary issue to tackling COVID-19 but will need to be resolved in the latter part of 2020. The council has a Brexit task group who meet regularly to identify the possible issues and strengthen its resilience and develop contingency plans in key areas such as workforce, regeneration, funding, legislation and community cohesion.

Fair Funding Review

Central government funding for local authorities is based on an assessment of its relative needs and resources. The overarching methodology that determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14. As advised last year, the government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines for the start of the new 75 per cent business rates retention scheme. This was delayed from 2019 to 2020 due to Brexit and has now been delayed until 2021 due to COVID-19.

Business Rates Baselines Reset 2020

The business rates retention system was due to be "re-set" for 2020-21 but this has now been deferred until 2021 due to COVID-19. Notwithstanding the wider reforms to the local government finance and business rates retention systems, the Government currently envisages that the re-set will establish new baseline funding levels and business rates baselines for each local authority that is party to the rates retention system.

Business Rates Retention

In 2018/19, Merton, along with all other London boroughs participated in the 100% London Pilot Pool. This had some financial advantages to London. However, the Government subsequently decided to reduce the level of local government Business Rates Retention to 75% and London piloted this in 2019/20 ahead of the Government's plan to fully implement 75% Business Rates Retention for all local authorities in 2020/21. However, the Government has now deferred the introduction of Business Rates Retention of 75% for England as a whole until 2021. In light of this, Councils in London agreed to continue to pool. There are risks around estimating the level of Business Rates income that can support the Council's budget. These will emanate from the impact of COVID-19 and the pressures on the high street from online retail and possibly the repercussions from Brexit, leading to an increase in empty properties, rates relief, defaults, appeals and late payments.

Use of Reserves

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

The Authority's full Business Plan including performance indicators is published at: https://www.merton.gov.uk/council-and-local-democracy/finance/budgets

Capital Summary

Capital investment amounted to £23.2m in 2019/20 (£31.6m in 2018/19), this sum comprises £21.3m capital expenditure and £1.9 million investment in a wholly owned housing company. The programme was financed through the application of capital grants/contributions (£13.0m), capital receipts (£9.6m) and revenue contributions (£0.6m). Capital receipts received in year totalled £2.4m (£10.1m in 2018/19, this included £5.9m from the Department of Education for the development of a new secondary school site).

Of the total £23.2m capital expenditure, £16.1 million was spent on the purchase/enhancement of property, plant and equipment, £1.5 million on the purchase/enhancement of intangible assets, £1.9 million investment in a wholly owned housing company and £3.7 million was revenue expenditure funded from capital under statute.

Capital Investment Plans

The Council's capital investment budget for the next four years (as at outturn 2019-20 reporting to Cabinet), is shown in the following table, alongside 2019/20 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas

Department	Outturn 2019/20 £000s	Capital Budget (£000's)			
		2020/21	2021/22	2022/23	2023/24
Corporate Services	5,177	23,700	11,528	2,895	15,410
Community and Housing	879	1,709	1,680	1,429	425
Children, Schools & Families	8,584	4,489	6,630	1,900	1,900
Environment & Regeneration	8.521	14,654	12,832	8,343	7,029
Total	**23,161**	**44,551**	**32,671**	**14,567**	**24,764**

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

Capital projects aimed at service expansion	Capital Budget (£000's)			
	2020/21	2021/22	2022/23	2023/24
Supported Living	488	633	462	145
Secondary Expansions	196	150	0	0
Special Educational Needs School Expansions	1,404	4,580	0	0
Total	**2,088**	**5,363**	**462**	**145**

Further information about capital investment plans can be found in the Authority's Business Plan, located at:
https://www.merton.gov.uk/council-and-local-democracy/finance/budgets

Investments and Borrowing

The Authority's Treasury activities are managed in accordance with the Council's Treasury Management Strategy (approved by full Council in March 2020).
The Authority manages its cash in-house, placing deposits for periods ranging from overnight to over 12 months depending on anticipated cash flow requirements.

As at 31 March 2020 the Authority held all its cash in short-term deposits and money market funds totalling £80.4m (2018/19 £60.2m). This is mainly based on the advice received from the Council's Treasury Management consultants and the Council's cash flow needs. In the year the Authority earned £1.37m of income from these deposits (2018/19 - £1.12m). This represents a 22% increase from the 2018/19 interest received. During the year the Authority benefited from the favourable rate on the Money market investments whilst maintaining liquidity. Also the fixed deposits and the property investments delivered a good return due to favourable market conditions and interest rates up until mid-March. The Authority accrued £704k above the budgeted interest income in the year.

As at 31 March 2020 the Authority completed another year without the need to make any new long term borrowing. Borrowing remained at £113.0m with £2m maturing in 2020/21. In the year the Authority paid £6.316m in interest (£6.315m in 2018/19) on these borrowings.

Pensions

The Merton Pension Fund is a LGPS defined benefit pension scheme administered by London Borough of Merton. The scheme is managed in accordance with the Local Government Pension Scheme Regulations 2013. As at 31 March 2020 the Fund's net asset value was £689.1m and it had 14,318 members in total. Due to the impact of COVID-19 the fund has seen a fall in asset values compared to March 2019 (approximately 4%) but since then has also seen the market rallying increasing the value of the Fund.

The Council is the largest employer in the Fund (92%) and, as at 31 March 2020, there were 12,636 Council employees in the Fund. In the year the Fund completed the 2019 Triennial valuation with a funding level of 103% with assets of £718m against liabilities of £698m.

Statement of Accounts

The Statement of Accounts is comprised of the following statements:

- **Core Financial Statements**

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

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

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

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

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

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

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

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

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

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

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Single Entity Core Financial Statements

1. Comprehensive Income and Expenditure Statement

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

2018/19					2019/20		
Gross Expenditure £000	Gross Income £000	Net £000		Note	Gross Expenditure £000	Gross Income £000	Net £000
			Continuing Operations				
231,684	(168,368)	63,316	Children, Schools and Families	1	241,005	(178,019)	62,986
82,659	(23,237)	59,422	Community and Housing	1	85,578	(25,329)	60,249
132,485	(94,618)	37,867	Corporate Services	1	113,624	(83,117)	30,507
59,149	(40,340)	18,809	Environment and Regeneration	1	62,146	(41,783)	20,363
10,143	(10,118)	25	Public Health	1	10,452	(10,452)	0
516,120	**(336,681)**	**179,439**	**Cost of services**		**512,805**	**(338,700)**	**174,105**
		15,904	Other operating income and expenditure	3			(1,211)
		19,513	Financing and investment income and expenditure	4			14,972
		(164,486)	Taxation and non-specific grant income	5			(169,939)
		50,370	**Deficit on Provision of Services**				**17,927**
		(292)	(Surplus) on revaluation of non-current assets	17			(51,686)
		0	Impairment losses on non-current assets	17			0
		(42,891)	Re-measurement of the net defined benefit liability/ (asset)	17, 32			(86,704)
		0	Surplus or Deficit on financial assets measured at fair value through other comprehensive income				0
		(43,183)	**Other Comprehensive Income and Expenditure**				**(138,390)**
		7,187	**Total Comprehensive Income and Expenditure**				**(120,463)**

2. Movement in Reserves Statement

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

2018/19	Note	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 2018		(60,720)	(15,513)	(10,479)	(86,712)	(198,252)	(284,964)
Rounding amendment between Usable Reserves at 1 April		(2)	0	2	0	0	0
Movement in reserves during 2018/19							
Total Comprehensive Income and Expenditure		50,370	0	0	50,370	(43,183)	7,187
Adjustments between accounting basis & funding basis under regulations	18	(56,718)	6,285	(6,528)	(56,962)	56,962	0
(Increase)/Decrease in Year		(6,348)	6,285	(6,528)	(6,592)	13,779	7,187
Balance at 31 March 2019 carried forward		**(67,070)**	**(9,228)**	**(17,005)**	**(93,304)**	**(184,473)**	**(277,777)**

2019/20	Note	General Fund Balances	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	Note	£000	£000	£000
Balance at 1 April 2019		(67,070)	(9,228)	(17,005)	(93,304)	(184,473)	(277,777)
Movement in reserves during 2019/20							
Total Comprehensive Income and Expenditure		**17,927**	**0**	**0**	**17,927**	**(138,390)**	**(120,463)**
Adjustments between accounting basis & funding basis under regulations	18	(19,945)	7,170	(4,895)	(17,670)	17,670	0
(Increase)/Decrease in Year		(2,019)	7,169	(4,895)	256	(120,719)	(120,463)
Balance at 31 March 2020 carried forward		**(69,089)**	**(2,059)**	**(21,900)**	**(93,048)**	**(305,192)**	**(398,240)**

3. Balance Sheet

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

31 Mar 2019 £000	Balance Sheet	Notes	31 Mar 2020 £000
701,323	Property, Plant & Equipment	19	744,353
802	Heritage Assets	21	802
0	Long Term Investments	9&10	0
161	Investment in Subsidiaries	34	2,061
4,012	Intangible Assets	20	4,296
6,850	Long Term Debtors	7	7,206
713,148	**Long Term Assets**		**758,718**
60,239	Short Term Investments	9&10	80,403
1	Inventories	36	1
37,250	Short Term Debtors	7	33,801
700	Assets Held for Sale	22	4,940
42,377	Cash and Cash Equivalents	14	32,957
140,567	**Current Assets**		**152,102**
(1,495)	Short Term Borrowing	9&10	(3,030)
(63,608)	Short Term Creditors	8	(66,401)
(2,868)	Current Provisions	11	(2,656)
(67,971)	**Current Liabilities**		**(72,087)**
(9,828)	Provisions	11	(9,296)
(113,010)	Long Term Borrowing	9&10	(111,010)
(30,129)	Other Long Term Liabilities (i)	9	(28,411)
(342,678)	Pension Liability	32	(279,261)
(12,322)	Capital Grants Receipts in Advance	6	(12,515)
(507,967)	**Long Term Liabilities**		**(440,493)**
277,777	**Net Assets**		**398,240**
(93,304)	Usable Reserves	16	(93,048)
(184,473)	Unusable Reserves	17	(305,192)
(277,777)	**Total Reserves**		**(398,240)**

(i) Other Long Term Liabilities include PFI Liabilities (£27.624m) and finance lease liabilities (£0.786m)

Signed

Caroline Holland
Director of Corporate Services
30 September 2020

4. Cash Flow Statement

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

2018/19 £000	Cash Flow Statement	Note	2019/20 £000
50,370	Net deficit on the provision of services		17,927
(88,051)	Adjustments to net deficit on the provision of services for non-cash movements	15a	(47,598)
30,840	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	15b	20,805
(6,841)	Net Cash flows from Operating Activities	15c	(8,866)
(5,376)	Investing Activities	15d	18,218
274	Financing Activities	15e	68
(11,943)	Net (increase)/decrease in cash and cash equivalents		9,420
30,434	Cash and cash equivalents at the beginning of the reporting period		42,377
42,377	**Cash and cash equivalents at the end of the reporting period**	**14**	**32,957**

Notes to the Core Financial Statements

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INCOME AND EXPENDITURE

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

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

2018/19				2019/20		
Net Expenditure Chargeable to General Fund Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the CIES £000	DEPARTMENT	Net Expenditure Chargeable to General Fund Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the CIES £000
61,535	1,781	63,316	Children, Schools and Families	60,377	2,609	62,986
62,914	(3,467)	59,447	Community and Housing (including Public Health)	62,271	(2,022)	60,249
7,465	30,402	37,867	Corporate Services	10,147	20,360	30,507
16,737	2,072	18,809	Environment and Regeneration	16,842	3,521	20,363
148,651	**30,788**	**179,439**	**Sub-total - Cost of Services**	**149,637**	**24,468**	**174,105**
(154,999)	25,930	(129,069)	Other income and expenditure	(151,655)	(4,523)	(156,178)
(6,348)	**56,718**	**50,370**	**Deficit/(Surplus)**	**(2,018)**	**19,945**	**17,927**
(60,722)			Opening General Fund Balances	(67,071)		
(6,348)			Less deficit /(surplus) in year	(2,018)		
(1)				0	(i)	
(67,071)			Closing General Fund Balances	(69,089)		

(i) Rounding adjustment between Usable Reserves (see Movement in Reserves Statement)

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

Analysis of Differences between General Fund and CIES 2019/20

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

Analysis of Differences between General Fund and CIES 2018/19

Department	Adjustments for capital purposes	Net change for pensions adjustments	Other statutory adjustments	Other differences	Total adjustments
Note	*(1)*	*(2)*	*(3)*	*(4)*	
	£000	£000	£000	£000	£000
Children, Schools and Families	9,875	8,902	(208)	(16,788)	1,781
Community and Housing (including Public Health)	93	2,935	49	(6,544)	(3,467)
Corporate Services	2,634	11,734	6	16,028	30,402
Environment and Regeneration	12,632	2,935	66	(13,561)	2,072
Sub-total of adjustments within net cost of services	**25,234**	**26,506**	**(87)**	**(20,865)**	**30,788**
Other income and expenditure	(5,558)	8,975	1,648	20,865	25,930
Total adjustments	**19,676**	**35,481**	**1,561**	**0**	**56,718**

NOTE 1: EXPENDITURE AND FUNDING ANALYSIS

Column 1: Adjustments for capital purposes
This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure – the statutory Minimum Revenue Provision charge for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

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

Column 2: Net change for the pensions adjustments
This column adjusts for the difference between pension contributions paid in year and the cost of pensions as calculated on an IAS 19 basis:

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

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

Column 3: Other statutory adjustments
This column adjusts for other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute, including:

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

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

Column 4: Presentational differences
This column adjusts for presentational differences, such as for leases and certain grants, between internal management reporting and reporting as per the Code of Practice.

NOTE 2: EXPENDITURE AND INCOME BY NATURE

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

2018/19 £000	Note 2: Income and Expenditure by Nature	Note	2019/20 £000
	EXPENDITURE		
211,991	Employee expenses*		221,781
277,848	Other service expenses		267,697
27,091	Depreciation, Impairment losses and revaluation increases within Cost of Services (i)	18	23,964
(810)	Support Services Recharges		(637)
516,120			**512,805**
6,315	Interest Payments relating to Financial Instruments	9	6,316
8,482	Other Interest Payments inc PFI and Leases	9	4,620
938	Precepts & Levies	3	948
8,975	Interest on net defined benefit liability (asset)	32	8,018
14,966	Loss on disposal of fixed assets	3	0
(98)	Trading accounts deficit/(surplus)	35	52
555,698	**Total Expenditure**		**532,759**
	INCOME		
(79,698)	Fees, charges and other service income		(83,796)
(256,983)	Government grants	6	(254,904)
(336,681)	Subtotal		**(338,700)**
(2,056)	Interest & investment income receivable	4	(2,188)
0	(Gain) on disposal of fixed assets	3	(2,159)
(2,105)	Other finance and investment income	4	(1,846)
(164,486)	Taxation & non-specific grant income	5	(169,939)
(505,328)	**Total Income**		**(514,832)**
50,370	**Deficit on the Provision of Services**		**17,927**

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

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

NOTE 2: EXPENDITURE AND INCOME BY NATURE

Note 2: Income and Expenditure by Nature		
Employee Expenditure	**2018/19 £000**	**2019/20 £000**
VA Schools	30,575	32,346
Foundation Schools	6,063	6,648
Total	**36,638**	**38,994**

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

Note 2: Income and Expenditure by Nature						
2018/19 Segmental Analysis				2019/20 Segmental Analysis		
Fees Charges and Other service income	Revenues from transactions with other operating segments of the authority	Depreciation amortisation and revaluations	Department	Fees Charges and Other service income	Revenues from transactions with other operating segments of the authority	Depreciation amortisation and revaluations
£000	£000	£000		£000	£000	£000
(3,370)	5,186	10,606	Children, Schools and Families	(7,419)	5,140	5,147
(18,255)	4,496	960	Community and Housing (including Public Health)	(17,160)	4,398	701
(18,781)	(15,237)	2,718	Corporate Services	(17,644)	(14,692)	2,767
(39,292)	4,745	12,807	Environment and Regeneration	(41,573)	4,517	15,349
(79,698)	(810)	27,091	**Total**	(83,796)	(637)	23,964

NOTE 3: OTHER OPERATING INCOME AND EXPENDITURE

2018/19 £000	NOTE 3: OTHER OPERATING INCOME AND EXPENDITURE	2019/20 £000
938	Precepts and Levies	948
14,966	(Gains)/losses on the disposal of non-current assets	(2,159)
15,904	**Total**	**(1,211)**

Note: The loss on the disposal of current assets shown in the table for 2018/19 included £9m (representing 1.3% of total Property Plant and Equipment assets of £701m) relating to Aragon Primary School which transferred to Academy status in 2017/18.

NOTE 4: FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2018/19 £000	NOTE 4: FINANCING AND INVESTMENT INCOME AND EXPENDITURE	Note	2019/20 £000
14,797	Interest payable and similar charges	9	10,936
8,975	Net interest on defined pension liability	32	8,018
(2,056)	Interest receivable and similar income (i)	9	(2,188)
(98)	Trading accounts not related to services	35	52
(2,105)	Other (income)/expenditure including income from subsidiaries (ii)		(1,846)
19,513	Total		**14,972**

Notes

(i) This figure includes receivable income from finance leases

(ii) Includes dividend payment and Intellectual Property licence fee payment from subsidiary CHAS 2013 Limited.

NOTE 5: TAXATION AND NON-SPECIFIC GRANT INCOMES

2018/19 £000	NOTE 5: TAXATION AND NON-SPECIFIC GRANT INCOMES	Note	2019/20 £000
(88,980)	Council tax income	6	(93,860)
(53,413)	Non domestic rates	6	(41,680)
(2,936)	Non-ringfenced government grants	6	(16,022)
(19,157)	Capital grants and contributions	6	(18,377)
(164,486)	**Total**		**(169,939)**

NOTE 6: GRANT INCOME

The London Borough of Merton credited the following grants, contributions, donations and taxation income to the Comprehensive Income and Expenditure Statement in 2019/20:

Grants Credited to Taxation and Non Specific Grant Income

NOTE 6: Credited to Taxation and Non Specific Grant Income	2018/19 £000	2019/20 £000
Council Tax	(88,980)	(93,860)
Revenue Support Grant (i)	0	0
Business Rates	(53,413)	(41,680)
NDR Pool Tariff (ii)	9,567	1,144
NDR Payment into Pool (iii)	0	1,352
Net NDR Pool Benefit (iii)	(512)	(1,572)
Capital Grant Income (iv)	(19,157)	(18,377)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(2,371)	(2,108)
Section 31 Grant	(4,210)	(4,350)
Covid-19 Emergency Funding	0	(4,965)
Other grants under £1 million	(613)	(726)
Total	**(164,486)**	**(169,939)**

Grants and Contributions Credited to Services

NOTE6: Grants and Contributions Credited to Services	£000	£000
Credited to Services		
Schools Delegated Budget	(145,603)	(147,990)
Housing Benefits Subsidy	(73,995)	(63,705)
Public Health Grant	(10,451)	(10,175)
Benefits Administration	(811)	(764)
Pupil Premium	(5,921)	(5,910)
Sixth Form Funding	(5,502)	(5,204)
Adult Social Care Grant	(2,265)	(6,140)
Universal Infant Free School Meals	(2,310)	(2,039)
Adult Education Main	(745)	(2,202)
Unaccompanied Asylum Seekers	(1,163)	(1,753)
Total grants under £1million (iv)	(8,217)	(9,022)
Total Grants	**(256,983)**	**(254,904)**
Contributions over £1million and material items		
Contributions from CCG	(3,346)	(2,902)
Local Taxation Services	(1,061)	(847)
Shared Legal Service	(3,717)	(3,639)
Recharge for out of borough SEN support	(485)	(1,325)
Other contributions	(10,469)	(13,577)
Total Contributions	**(19,078)**	**(22,290)**
TOTAL GRANTS AND CONTRIBUTIONS	**(276,061)**	**(277,194)**

NOTE 6: GRANT INCOME

Notes

Business Rates

In 2019/20 the Government decided not to proceed with most 100% business rates retention pilots. As a result, London boroughs agreed to a pilot pool on the basis of 75% retention.

i) This meant that Merton did not receive Revenue Support Grant in return for 75% business rates retention.

ii) Merton paid a tariff of £1.144m

iii) Based on Merton's estimate of Business Rates income as part of its NNDR1 Return, Merton made a contribution of £1.352m into the London Pilot Pool during 2019/20 and received income of £1.572m from the pool based on estimated benefits from the pool using NNDR1 returns from all London boroughs

Capital Grants

iv) Includes grant income credited to services to fund REFCUS

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

Long Term Liabilities - Capital Grants Receipts in Advance

NOTE6: Long Term Liabilities - Capital Grants Receipts in Advance	2018/19 £000	2019/20 £000
Government Grants and Other Contributions	(828)	(1,232)
Section 106	(10,401)	(10,789)
Schools Capital Grants	(1,093)	(494)
Total	**(12,322)**	**(12,515)**

DEBTORS, CREDITORS AND CASH FLOW

NOTE 7: DEBTORS

Debtors Long and Short term

31-Mar 2019			Note 7: Debtors	31-Mar 2020		
Gross Debt £000	Impair-ment £000	Net Debt £000		Gross Debt £000	Impair-ment £000	Net Debt £000
			Long Term Debtors			
670	0	670	Other local authorities	635	0	635
10,386	(4,206)	6,180	Bodies external to general government	11,297	(4,726)	6,571
11,056	**(4,206)**	**6,850**	**Total Long Term Debtors**	**11,932**	**(4,726)**	**7,206**
			Short Term Debtors			
6,721	0	6,721	Central government bodies	3,773	0	3,773
2,164	0	2,164	NHS bodies	4,918	0	4,918
3,318	0	3,318	Other local authorities	4,344	0	4,344
37,498	(12,451)	25,047	Bodies external to general government	34,274	(13,508)	20,766
49,701	**(12,451)**	**37,250**	**Total Short Term Debtors**	**47,309**	**(13,508)**	**33,801**
60,757	**(16,657)**	**44,100**	**Total Debtors**	**59,241**	**(18,234)**	**41,007**

Financial Instruments in Debtors

31-Mar 2019			Note 7: Debtors	31-Mar 2020		
Gross Debt £000	Impair-ment £000	Net Debt £000		Gross Debt £000	Impair-ment £000	Net Debt £000
			Long Term Debtors			
670	0	670	Other local authorities	635	0	635
5,557	(257)	5,300	Bodies external to general government	6,175	(306)	5,869
6,227	**(257)**	**5,970**	**Total Long Term Debtors**	**6,810**	**(306)**	**6,504**
			Short Term Debtors			
2,164	0	2,164	NHS bodies	4,918	0	4,918
2,206	0	2,206	Other Local Authorities	3,268	0	3,268
20,223	(3,184)	17,039	Bodies external to general government	20,140	(4,550)	15,590
24,593	**(3,184)**	**21,409**	**Total Short Term Debtors**	**28,326**	**(4,550)**	**23,776**
30,820	**(3,441)**	**27,379**	**Total Financial Instruments in Debtors**	**35,136**	**(4,856)**	**30,280**

NOTE 8: CREDITORS

Short Term Creditors

31/03/2019 £000	NOTE 8: CREDITORS - Short Term	31/03/2020 £000
	Short Term Creditors	
(9,805)	Central government bodies	(14,530)
(8,275)	Other local authorities	(6,629)
(1,479)	NHS bodies	(1,597)
(101)	Public Corporations and Trusts	(338)
(43,948)	Bodies external to general government	(43,307)
(63,608)	**Total Short Term Creditors**	**(66,401)**

Financial Instruments in Creditors

31/03/2018 £000	NOTE 8: CREDITORS - Financial Instruments in Creditors	31/03/2019 £000
	Short Term Creditors	
(8,245)	Other local authorities	(6,599)
(1,479)	NHS bodies	(1,597)
(101)	Public Corporations and Trusts	(338)
(24,695)	Bodies external to general government	(26,658)
(34,520)	**Total Financial Instruments in Short Term Creditors**	**(35,192)**

NOTE 9a FINANCIAL INSTRUMENTS

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

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

Categories of Financial Instruments

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

Financial Assets

NOTE 9a Financial Assets	Non current		Current		TOTAL
31 Mar 2020	Investments	Debtors	Investments	Debtors	
	£000	£000	£000	£000	£000
Fair Value through Profit and Loss	0	0	10,000	0	10,000
Amortised Cost	0	6,810	70,403	28,326	105,539
Total	**0**	**6,810**	**80,403**	**28,326**	**115,539**

Financial Assets	Non current		Current		TOTAL
31 Mar 2019	Investments	Debtors	Investments	Debtors	
	£000	£000	£000	£000	£000
Fair Value through Profit and Loss	0	0	10,000	0	10,000
Amortised Cost	0	6,227	50,239	24,593	81,059
Total	**0**	**6,227**	**60,239**	**24,593**	**91,059**

The Council also held cash and cash equivalents of **£32.957m** at the Balance Sheet date which are also carried at amortised cost.

NOTE 9a FINANCIAL INSTRUMENTS

Financial Liabilities

NOTE 9a Financial Liabilities 31 Mar 2020	Non current Borrowings £000	Non current PFI & Finance Leases £000	Current Borrowings £000	Current PFI and Finance Leases £000	Current Creditors £000	TOTAL £000
Amortised Cost	111,010	28,411	3,030 (a)	1,665	33,527	177,643
Total	**111,010**	**28,411**	**3,030**	**1,665**	**33,527**	**177,643**

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

Financial Liabilities 31 Mar 2019	Non current Borrowings £000	Non current PFI & Finance Leases £000	Current Borrowings £000	Current PFI and Finance Leases £000	Current Creditors £000	Total £000
Amortised Cost	113,010	30,075	1,495	2,338	32,182	179,100
Total	**113,010**	**30,075**	**1,495**	**2,338**	**32,182**	**179,100**

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

NOTE 9a: FINANCIAL INSTRUMENTS

Items of Income, Expense, Gains or Losses

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

2018/19		NOTE 9a: Items of Income, Expense, Gains or Losses	2019/20	
Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000		Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
		Interest Revenue		
(2,056)	0	Financial assets measured at amortised cost	(2,188)	0
0	0	Other Financial Assets measured at Fair Value though Other Comprehensive Income and Expenditure	0	0
(2,056)	**0**	**Total Interest Revenue**	**(2,188)**	**0**
6,315	0	Interest Expense - Borrowings	6,316	0
8,482	0	Interest Expense - Finance Leases	4,620	0
14,797	**0**	**Interest Expense**	**10,936**	**0**
0	0	Fee Expense Financial Assets or financial liabilities that are not at fair value through profit or loss	0	0
0	**0**	**Total Fee Expense**	**0**	**0**

NOTE 9a: FINANCIAL INSTRUMENTS

Investments

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

NOTE 9b: Investment Profile		31 Mar 2019 £000	31 Mar 2020 £000
Long term		0	0
Short term		60,000	80,000
Accrued Investment Income		239	403
Total		**60,239**	**80,403**

NOTE 9b: Investments - Movement in year			£000
Investments at 1 April 2019			60,239
Change in investment managed internally			20,000
Change in accrued investment income			164
Investment at 31 March 2020			80,403
Long term investment (book value)			0
Short term investment (book value)			80,403

NOTE 9b:		Book Value	Fair Value	Unrealised Profits/ (Losses)
		£000	£000	£000
Managed Internally		80,000	80,000	0
Managed Externally				0
Total		**80,000**	**80,000**	**0**

Fair Value of Assets and Liabilities

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

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

NOTE 9b FINANCIAL INSTRUMENTS

The fair value of the Council'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 2020 arising from counter-parties commitment to pay interest to the Council above current market rates.

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

The methods and assumptions used in the valuation technique were:

For Public Works Loan Board (PWLB) debt, fair values as at 31st March 2020 published by PWLB have been used.

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

NOTE 9b FINANCIAL INSTRUMENTS

NOTE 9b: Borrowing at source - Fair Value	31 March 2019		31 March 2020	
	Fair Value £000	Book Value £000	Fair Value £000	Book Value £000
Public Works Loan Board	68,933	52,010	65,435	52,010
Market Loan	103,453	61,000	97,161	59,000
Temporary Loan	0	0	2,102	2,000
Total	**172,386**	**113,010**	**164,698**	**113,010**

NOTE 9b: Borrowing - Maturity Profile	31 March 2019 £000	31 March 2020 £000
Less than 1 year	0	2,000
Between 1 and 2 years	2,000	2,000
Between 2 and 5 years	16,010	26,510
Between 5 and 10 years	17,000	4,500
More than 10 years	78,000	78,000
Total Borrowings	**113,010**	**113,010**
Accrued Interest (Short Term Borrowings)	1,495	1,030
	114,505	**114,040**

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 2020 as a consequence of a commitment to pay interest to lenders above current market rates.

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

NOTE 9b FINANCIAL INSTRUMENTS

Statutory Override on Pooled Investments

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

Investments in Equity Instruments

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

Fair Value of Financial Instruments

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

Following COVID-19, we were advised of the following by CCLA:

"Due to the pervasive effects of Covid-19 (coronavirus) we saw change in the investment environment and infrequency (fewer) of transactions. This means that it was not possible to ensure the CCLA investment valuations truly reflect the prevailing conditions. As this will result in a material risk of disadvantage to either party, CCLA (same as other property managers) suspended transactions (25th March 2020) until the required level of certainty is re-established.

Already pricing stability has returned to the key sectors such as industrials sector, supermarkets and some other specialist areas. However for balanced and diversified funds such as the Local Authority Property Fund, the lifting of the dealing suspension is probably still a few months away.

The Fund continues to pay its quarterly income payment (75%) and expected to be back to normal by Q4 2020".

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

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

Credit Risk

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

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the Council's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2019/20 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 Council may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and may also place deposits in UK public sector institutions, such as local authorities.
At 31st March 2020 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Fitch Rating
UK Clearing Banks	35,000	43.75%	7	F1, A, a-,1
UK Building Society	0	0.00%	0	F1, A, a-,1
Local Authority	35,000	43.75%	7	n/a
Pooled Property Fund	10,000	12.50%	1	AAAmmf
Non UK Banks	0	0.00%	0	AAA
Total	**80,000**	**100.00%**	**15**	

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

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

Current Deposits and Trade Debtors

No losses or impairments were incurred in 2019/20, nor are expected for the duration of current deposits. The Council does not generally allow credit for customers. The Council's maximum potential exposure to credit risk is with trade debtors, which are reviewed individually to assess risk of default and need for a provision. Factors taken into account in the assessment include the stability of the organisation, the size of the debt, the age of the debt and what, if any, security such as a charge on property has been provided. The past-due amount of trade debts can be analysed by age as follows:

	31 March 2019 £000	31 March 2020 £000
< 3 months	11,153	7,945
3 to 12 months	1,307	2,799
> 1 year	2,292	5,107
Total	**14,752**	**15,851**

Cash

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

Liquidity Risk

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

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

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

	31/03/2019 £000	%	31/03/2020 £000	%
Under 12 months	0	0.00%	2,000	1.77%
1yr to 2yrs	2,000	1.77%	2,000	1.77%
2yrs to 5yrs	16,010	14.20%	26,510	23.46%
5yrs to 10yrs	17,000	15.03%	4,500	3.98%
10yrs and over	78,000	69.00%	78,000	69.02%
Total	**113,010**	**100.00%**	**113,010**	**100.00%**

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

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

LOBO debt exposure with market rates of:		Pro-spectively repayable / requiring Re-finance £000	Proportion of total debt %
4.00 - 4.99%		5,000	9.80%
5.00 - 5.99%		24,000	47.06%
6.00 - 6.99%		15,500	30.39%
7.00 - 7.99%		2,000	3.92%
8.00 - 8.99%		4,500	8.82%
Total		**51,000**	**100.00%**

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

At 31st March 2020 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 2020	5,000	6.25
July to September 2020	35,000	43.75
October to December 2020	20,000	25.00
January 2021 to March 2021	10,000	12.50
April 2021 to June 2021	0	0.00
June 2021 to September 2021	0	0.00
October 2021 and beyond	10,000	12.50
	80,000	**100.00**

The Council did not experience any liquidity problems in 2019/20 and does not currently anticipate any for 2020/21.

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

Interest Rate (or Market) Risk

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

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

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

	2019/20 £000	0.5% £000	1.0% £000
Borrowings	113,010	565	1,130
Investments	(80,000)	(400)	(800)
Impact on CIES	N/A	165	330

Mitigation

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

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

Borrowings

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

Maturity in	At 31st March 2019		At 31st March 2020	
	£000	Interest Rate %	£000	Interest Rate %
Under 12 months	0	0.0	2,000	7.0
1 to 2 years	2,000	7.0	2,000	6.5
2 to 5 years	16,010	6.6	26,510	5.9
5 to 10 years	17,000	6.0	4,500	8.3
10 to 15 years	1,000	4.3	1,000	4.3
15 to 20 years	11,500	5.4	11,500	5.4
20 to 25 years	13,500	6.6	13,500	6.6
25 to 30 years	0	0.0	0	0.0
30 to 35 years	7,000	4.4	17,000	5.2
35 to 40 years	25,000	4.6	15,000	4.0
40 to 45 years	20,000	5.0	20,000	5.0
45 to 50 years	0	0.0	0	0.0
	113,010	**5.6**	**113,010**	**5.6**

Prudential Indicator Limits

Maximum % exposure to	2018/19	2019/20	2020/2021	2021/2022
	%	%	%	%
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

Investments

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

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

	2018/19	2019/20	2020/2021	2021/2022
	%	%	%	%
Maximum investment over 1 year as percentage of total investments	50	50	50	50

At 31st March 2020, the investment portfolio's exposure to interest rates is set out in the following table.

Deposit Maturity in:	At 31st March 2019		At 31st March 2020	
	£000	Interest Rate %	£000	Interest Rate %
0-3 months	5,000	1.1	5,000	1.3
3-6 months	25,000	1.0	35,000	0.9
6-9 months	5,000	1.2	20,000	1.0
9-12 months	15,000	1.2	10,000	1.0
over 12 months	10,000	4.1	10,000	4.1
	60,000	**1.72**	**80,000**	**1.66**

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

PFI Borrowing

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

Price Risk

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

Foreign Exchange Risk

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

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

Refinancing and Maturity Risk

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

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

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

Overall Procedures for Managing Risk

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

NOTE 11: PROVISIONS

NOTE 11: Current Provisions		
2018/19 £000	NDR Appeals	2019/20 £000
(641)	**Balance at 1 April**	(2,868)
(726)	Pooling Re-Distribution from MHCLG	717
(1,929)	Additional provisions made during the year	(780)
428	Amounts used during the year	275
(2,868)	**Balance at 31 March**	**(2,656)**

NOTE 11: Long Term Provisions						
2018/19				2019/20		
Insurance Fund £000	NDR Appeals £000	Total £000		Insurance Fund £000	NDR Appeals £000	Total £000
(4,228)	**(1,140)**	**(5,368)**	**Balance at 1 April**	**(4,729)**	**(5,099)**	**(9,828)**
0	(1,290)	(1,290)	NDR Pooling Re-distribution from MHCLG	0	1,275	1,275
(956)	(3,429)	(4,385)	Additional provisions made during the year	(683)	(1,386)	(2,069)
455	760	1,215	Amounts used during the year	836	490	1,326
(4,729)	(5,099)	(9,828)	**Balance at 31 March**	**(4,576)**	**(4,720)**	**(9,296)**

Insurance Fund:

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

NDR Appeals:

The Collection Fund contains a provision of £15.367m for the estimated cost of appeals against NDR (Business Rates) charges which may be settled in future years.

The Council's share of this provision (48%) is £7.376m, £2.656m current and £4.720m non- current. During 2019/20, the Council's share charged against this sum was £0.765m and its share of money set aside to cover future appeals was £2.166m.
The balance of the appeals provision (52%, £7.991m) is held within the Collection Fund as part of consolidated balances for the GLA and MHCLG

.

NOTE 12: CONTINGENT LIABILITIES

Employment Cases
There are five employment disputes with a maximum potential liability of £0.132m. These cases are subject to the outcome of litigation.

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

Synthetic Sports Pitch - Agreement
In 2019, the Council entered into an agreement with The Wimbledon Club in regard to provision of a replacement synthetic pitch at Raynes Park High School.

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

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

NOTE 13: CONTINGENT ASSETS

Employment Matters

There are three employment matters that may give rise to income of £22,000. The amount is subject to the outcome of litigation.

Bishopsford Bridge

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

NOTE 14: CASH AND CASH EQUIVALENTS

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

2018/19 £000	NOTE 14: CASH AND CASH EQUIVALENTS	2019/20 £000
(4,438)	Main bank account	13,505
437	Cash in transit (held by agents)	583
18,360	Cash advanced to schools	18,352
28,000	Short Term Deposits	500
18	Cash advanced to establishments (Cash imprests)	17
42,377	**Total Cash and Cash Equivalents**	**32,957**

NOTE 15: CASH FLOWS

15a Adjustments to Net Surplus or Deficit on the Provision of Services for

Non-Cash Movements

2018/19 £000	NOTE 15a: CASH FLOWS	2019/20 £000
	Non Cash Movements	
(21,832)	Depreciation	(22,494)
(4,858)	Revaluation	(607)
(1,081)	Amortisation	(1,172)
(24,990)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(216)
(35,481)	Movement in Pension Liability	(23,287)
198	(Increase)/Reduction in provision for the impairment of bad debts	(1,578)
(6,688)	(Increase)/Reduction in Provisions	745
0	Acquisition of Donated Asset	2,814
(94,732)		**(45,795)**
	Accruals Adjustments	
0	Increase/(Reduction) in Inventories	0
4,938	Increase/(Reduction) in Debtors	(966)
46	Increase/(Reduction) in Interest Debtors	164
1,689	(Increase)/Reduction in Creditors	(1,466)
8	(Increase)/Reduction in Interest Creditors	465
6,681		**(1,803)**
(88,051)	**Total**	**(47,598)**

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

2018/19 £000	NOTE 15 b: CASH FLOWS	2019/20 £000
10,365	Proceeds from the sale of PP&E, investment property and intangible assets	2,428
20,475	Any other items for which the cash effects are investing or financing cash flows	18,377
30,840	**Total**	**20,805**

NOTE 15: CASH FLOWS

15c. Operating Activities

2018/19 £000	NOTE 15c : CASH FLOWS OPERATING ACTIVITIES	2019/20 £000
(19,676)	Cost of Services less Receipts	(18,244)
(1,954)	Interest received from investments and finance leases	(2,023)
6,307	Interest paid on borrowings	6,781
8,482	Interest paid in respect of finance leases	4,620
(6,841)	**Net cash flows from operating activities**	**(8,866)**

15d. Investing Activities

2018/19 £000	NOTE 15d: CASH FLOWS INVESTING ACTIVITIES	2019/20 £000
25,956	Purchase of property, plant and equipment, investment, property and intangible assets	17,868
97,661	Purchase of short-term and long-term investments	95,000
0	Purchase of short-term and long-term investments: investment in Subsidiary	1,900
(97,000)	Proceeds from short-term and long-term investments	(75,000)
661	Net	21,900
(10,365)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,978)
(21,628)	Other receipts from investing activities	(18,572)
(5,376)	**Net cash flows from investing activities**	**18,218**

15e. Financing Activities

2018/19 £000	NOTE 15e: CASH FLOWSFINANCING ACTIVITIES	2019/20 £000
(1,200)	Cash payments/ (receipts) for the reduction of finance leases	2,338
(17)	Repayment / (receipt) of short- and long-term borrowing	0
1,491	Other payments/(receipts) from financing activities	(2,270)
274	**Net cash flows from financing activities**	**68**

RESERVES

NOTE 16: USABLE RESERVES

This note sets out the amounts set aside from the General Fund in Earmarked Reserves to provide financing for future expenditure plans, and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in 2019/20.

Usable Reserves	Balance at 31st Mar 2018 £000	Transfers out 2018/19 £000	Transfers in 2018/19 £000	Balance at 31st Mar 2019 £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31st Mar 2020 £000
General Fund:							
Balances held by schools	(8,748)	151	3,410	(5,187)	2	9,480	4,295
General Fund Balances	(12,778)	0	(1,000)	(13,778)	0	0	(13,778)
Earmarked reserves	(39,196)	18,489	(27,399)	(48,106)	17,240	(28,740)	(59,606)
Total General Fund	**(60,722)**	**18,640**	**(24,989)**	**(67,071)**	**17,242**	**(19,260)**	**(69,089)**
Capital:							
Capital Receipts Reserves (CRR)	(15,513)	16,360	(10,075)	(9,228)	9,597	(2,428)	(2,059)
Capital Grants Unapplied (CGU)	(10,479)	7,018	(13,545)	(17,006)	4,474	(9,368)	(21,900)
Total Capital	**(25,992)**	**23,378**	**(23,620)**	**(26,234)**	**14,071**	**(11,796)**	**(23,959)**
Total Usable Reserves	**(86,714)**	**42,018**	**(48,609)**	**(93,304)**	**31,314**	**(31,057)**	**(93,048)**

Balances held by Schools

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

Usable Reserves	Balance at 31st Mar 2018 £000	Transfers out 2018/19 £000	Transfers in 2018/19 £000	Balance at 31st Mar 2019 £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31st Mar 2020 £000
Earmarked Schools balances	(8,145)	151	0	(7,994)	0	(361)	(8,355)
Schools Fund	325	0	(427)	(102)	2	0	(100)
DSG Reserve	(928)	0	3,837	2,909	0	9,841	12,750
Total balances held by Schools	(8,748)	151	3,410	(5,187)	2	9,480	4,295

DSG (Dedicated Schools Grant) Reserve

The reduction in the schools' balances reflects the deficit on the DSG reserve where £12.75m has been borrowed against future years' allocations. Arrangements affecting the DSG were explained in the Narrative statement. Note 26 gives calculations for the total movement on this Reserve.

General Fund Balance

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

NOTE 16: USABLE RESERVES

Earmarked Reserves

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

NOTE 16: USABLE RESERVES

Transfers to/from Earmarked Reserves

Earmarked Reserve	Balance at 31st Mar 2018 £000	Net Transfer (to)/from Reserve £000	Balance at 31st Mar 2019 £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31st Mar 2020 £000
Outstanding Council Programme Board	(4,545)	113	(4,432)	1,784	(2,523)	(5,171)
For use in future years' budgets	(11,131)	580	(10,551)	3,979	(4,630)	(11,202)
Revenue Reserve for Capital/Revenuisation	(3,498)	(1,112)	(4,610)	223	(26)	(4,413)
Renewable energy reserve	(1,523)	0	(1,523)	0	(298)	(1,821)
Repairs and renewals fund	(1,090)	(1,000)	(2,090)	0	0	(2,090)
Pension fund additional contribution	(453)	0	(453)	0	0	(453)
Local land charges	(2,038)	(220)	(2,258)	0	(127)	(2,385)
Apprenticeships	(260)	(833)	(1,093)	118	0	(975)
Community care reserve	(1,386)	0	(1,386)	1,783	(1,293)	(896)
Local welfare support reserve	(377)	0	(377)	62	0	(315)
Economic development strategy	(2)	2	0	0	0	0
Corporate services reserves	(1,771)	(478)	(2,249)	451	(204)	(2,002)
Spending Review Reserve	0	(3,100)	(3,100)	32	(4,667)	(7,735)
COVID-19 Emergency Funding	0	0	0	0	(6,173)	(6,173)
Wimbledon tennis courts renewal	(150)	0	(150)	0	0	(150)
Governor support reserve	(28)	0	(28)	0	0	(28)
New homes bonus scheme	(122)	0	(122)	0	0	(122)
Adult social care grants	(2,161)	(2,033)	(4,194)	3,519	(3,387)	(4,062)
Culture & environment contributions	(13)	(389)	(402)	312	(110)	(200)
Culture & environment grants	(517)	251	(266)	91	(419)	(594)
Children & education grants	(426)	(49)	(475)	374	(83)	(184)
Housing GF grants	(106)	(598)	(704)	4,477	(4,638)	(865)
Insurance reserves	(1,955)	0	(1,955)	0	0	(1,955)
School standard Fund	(372)	372	0	0	0	0
Schools PFI fund	(5,247)	(382)	(5,629)	0	(162)	(5,791)
CSF Reserves	(25)	(35)	(60)	35	0	(25)
Grand Total	**(39,196)**	**(8,910)**	**(48,106)**	**17,240**	**(28,740)**	**(59,606)**

NOTE 16: USABLE RESERVES

Purpose of Earmarked Reserves

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

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

Revenue reserve for capital/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 Council's strategy to reduce its environmental impact.

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

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

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

Apprenticeships: The reserve is used to fund the Council'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.

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

Spending Review Reserve: This reserve is to provide for funding risk arising from measures that may be implemented as part of the Government's forthcoming Spending Review

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

NOTE 16: USABLE RESERVES

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.

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.

COVID-19 Emergency Funding Reserve: This reserve has been created primarily from the balance of government grant received in 2019/20 towards the costs of tackling the coronavirus pandemic. A small amount was utilised in 2019/20 with the majority transferred to this reserve to fund the significant expenditure to come.

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 General Fund grants: This reserve is used to manage the rent guarantor scheme. Grant is received to provide rent deposits for homeless people and LBM are required to refund a deposit at the end of the agreed lease period (in line with defined conditions). Also, government grants for housing, awarded late have been carried forward for use in 2020/21.

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

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

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

NOTE 17: UNUSABLE RESERVES

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice.

31-Mar-19 £000	NOTE 17: UNUSABLE RESERVES SUMMARY	31-Mar-20 £000
(302,267)	Revaluation Reserve (RR)	(348,077)
(224,524)	Capital Adjustment Account (CAA)	(235,372)
342,678	Pensions Reserve(PR)	279,261
(5,450)	Deferred Capital Receipts Reserve(DCRR)	(5,406)
476	Collection Fund Adjustment Account (CFAA)	(413)
4,614	Accumulated Absences Account (AAA)	4,816
(184,473)	**Total Unusable Reserves**	**(305,191)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the London Borough of Merton arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:
- revalued downwards or impaired and the gains are lost;
- used to provide services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

31-Mar-19 £000	NOTE 17: REVALUATION RESERVE		31-Mar-20 £000
(317,688)	**Balance at 1st April**		**(302,267)**
(51,919)	Upward revaluation of assets	(67,283)	
51,628	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	15,597	
(291)	**Sub Total:** Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of services		(51,686)
5,741	Difference between fair value depreciation and historical cost depreciation	5,876	
9,971	Accumulated gains on assets sold or scrapped	0	
15,712	**Sub Total:** Amount written off to the Capital Adjustment Account		5,876
(302,267)	**Balance at 31st March**		**(348,077)**

NOTE 17: UNUSABLE RESERVES

Capital Adjustment Account

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

31-Mar-19		NOTE 17: Capital Adjustment Account	31-Mar-20	
£000	£000		£000	£000
	(228,718)	**Balance at 1st April**		**(224,524)**
	(15,712)	Amounts written out of the Revaluation Reserve		(5,876)
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
21,832		Charges for depreciation and impairment of non-current assets	22,494	
5,930		Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance	6,929	
(1,072)		Reversal of impairment charges to the CIES of non-current assets in prior years where the non-current assets have had an upward revaluation in year	(6,322)	
1,081		Amortisation of intangible assets	1,172	
2,496		Revenue expenditure funded from capital under statute	3,716	
24,990		Amounts of non-current assets written off on derecognition or sale as part of gain/loss on disposal	216	
	55,257	Sub Total		28,205
	39,544	**Net reversal of the cost of non-current assets consumed in the year**		**22,329**
		Capital financing applied in the year:		
(16,360)		Use of Capital Receipts Reserve to finance new capital expenditure	(9,597)	
(15,125)		Application of grants and contributions to capital financing or the Capital Grants Unapplied Account	(12,940)	
0		Donations received	(2,814)	
(3,801)		Statutory provision for the financing of capital investment charged against the General Fund (i)	(7,237)	
(99)		Capital expenditure charged against the General Fund	(624)	
	(35,385)	Sub Total		**(33,212)**
	35	Loan Repayments		35
	(224,524)	**Balance at 31st March**		**(235,372)**

NOTE 17: UNUSABLE RESERVES

Pensions Reserve

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

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

2018/19 £000	NOTE 17: Pensions Reserve	2019/20 £000
350,088	**Balance at 1st April**	**342,678**
(42,891)	Remeasurements of the net defined benefit liability/asset	(86,704)
52,217	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	41,122
(16,736)	Employer's pensions contributions and direct payments to pensioners payable in the year	(17,835)
35,481	Sub Total included in CIES	23,287
342,678	**Balance at 31st March**	**279,261**

NOTE 17: UNUSABLE RESERVES

Deferred Capital Receipts Reserve

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

2018/19 £000	NOTE 17: Deferred Capital Receipts Reserve	2019/20 £000
(5,465)	**Balance at 1st April**	**(5,450)**
-	Transfer of deferred sale proceeds credited as part of the (gain) / loss on disposal to the Comprehensive Income and Expenditure Statement	28
15	Transfer to the Capital Receipts Reserve upon receipt of Cash	16
(5,450)	**Balance at 31st March**	**(5,406)**

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.

2018/19 £000	NOTE 17: Collection Fund Adjustment Account	2019/20 £000
(1,171)	**Balance at 1st April**	**476**
1,647	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rate income calculated for the year in accordance with statutory requirements	(889)
476	**Balance at 31st March**	**(413)**

Note: Includes £50k costs

NOTE 17: UNUSABLE RESERVES

Accumulated Absences Account

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

2018/19 £000	NOTE 17: Accumulated Absences Account	2019/20 £000
4,701	**Balance at 1st April**	**4,614**
(4,701)	Settlement or cancellation of accrual made at the end of the preceding year	(4,614)
4,614	Amounts accrued at the end of the current year	4,815
(87)	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 statutory requirements accordance with Statutory requirements	200
4,614	**Balance as at 31st March**	**4,815**

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

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

NOTE 18 Adjustments between Accounting and Funding Basis	2018-19				2019-20			
	Usable Reserves			Note17	Usable Reserves			Note17
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	(21,832)	0	0	21,832	(22,494)	0	0	22,494
Revaluation losses on Property Plant and Equipment	(5,930)	0	0	5,930	(6,929)	0	0	6,929
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	1,072	0	0	(1,072)	6,322	0	0	(6,322)
Amortisation of intangible assets	(1,081)	0	0	1,081	(1,172)	0	0	1,172
Sub Total to agree to Note 2	(27,771)	0	0	27,771	(24,273)	0	0	24,273
Revenue expenditure funded from capital under statute	(2,496)	0	0	2,496	(3,716)	0	0	3,716
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	(24,990)	0	0	24,990	(216)	0	0	216
Subtotal of Items reversed from the CIES Involving the CAA	(55,257)	0	0	55,257	(28,205)	0	0	28,205
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	3,801	0	0	(3,801)	7,237	0	0	(7,237)
Capital expenditure charged against the General Fund balance	99	0	0	(99)	624	0	0	(624)
Revaluation gains charged direct to Revaluation Reserve	0	0	0	0	0	0	0	0
Subtotal of Items not in the CIES inserted into the CAA	3,900	0	0	(3,900)	7,861	0	0	(7,861)
Totals	(51,357)	0	0	51,357	(20,344)	0	0	20,344

NOTE 18 Adjustments between Accounting and Funding Basis	2018-19				2019-20			
	Usable Reserves			Note17	Usable Reserves			Note17
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Grant Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement Application of grants to capital financing transferred to the Capital Adjustment Account	21,655	0	(17,603)	(4,052)	20,649	0	(8,935)	(11,714)
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	11,075	(11,075)	0	0	4,040	(4,040)
Totals	21,655	0	(6,528)	(15,127)	20,649	0	(4,895)	(15,754)
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	10,025	(10,025)	0	0	2,376	(2,376)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	16,360	0	(16,360)	0	9,597	0	(9,597)
Use of Capital Receipts Reserve to finance debt premium	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	0	0	0	0	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	(15)	0	15	0	(16)	0	16
Repayment of debt	0	(35)	0	35		(35)	0	35
Totals	10,025	6,285	0	(16,310)	2,376	7,170	0	(9,546)
Adjustments primarily involving the Deferred Capital Receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0	(27)	0	0	27
Sub Total	0	0	0	0	(27)	0	0	27

NOTE 18 Adjustments between Accounting and Funding Basis	2018-19				2019-20			
	Usable Reserves			Note17	Usable Reserves			Note17
	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000	General Fund Balance £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	(52,217)	0	0	52,217	(41,122)	0	0	41,122
Employer's pensions contributions and direct payments to pensioners payable in the year	16,736	0	0	(16,736)	17,835	0	0	(17,835)
Subtotal	(35,481)	0	0	35,481	(23,287)	0	0	23,287
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	(1,648)	0	0	1,648	888	0	0	(888)
Sub Total	(1,648)	0	0	1,648	888	0	0	(888)
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	87	0	0	(87)	(200)	0	0	200
Subtotal	87	0	0	(87)	(200)	0	0	200
Total Adjustments	(56,719)	6,285	(6,528)	56,962	(19,945)	7,170	(4,895)	17,670

CAPITAL

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

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

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

Amortisation
Intangible Assets are amortised over 5 years

Capital Commitments

NOTE 19: Capital Commitments at Year End	2018/19	2019/20
	£000	£000
The Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in the current year and future years totalling an estimated	4,800	4,022

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

NOTE 19: PROPERTY, PLANT AND EQUIPMENT 2019/20	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
At 1 April 2019	571,536	20,805	166,933	0	24,475	456	784,205
Additions	7,382	2,066	6,273	357	0	10	16,088
Donations	0	2,813	0	0	0	0	2,813
Revaluation increase/(decreases) recognised in the Revaluation Reserve	49,368	0	0	0	385	24	49,777
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(5,175)	0	0	0	0	0	(5,175)
Derecognition – Disposals	0	(20)	0	0	0	0	(20)
Derecognition – Other	0	(1,098)	(2,147)	0	0	0	(3,245)
Assets reclassified (to)/from held for Sale	(340)	0	0	0	(3,900)	0	(4,240)
Other – reclassifications	(3,820)	0	0	0	4,310	(490)	0
At 31 March 2020	618,951	24,566	171,059	357	25,270	0	840,203
Accumulated Depreciation and Impairment							
At 1 April 2019	10,051	5,995	66,836	0	0	0	82,882
Depreciation Charge	13,236	2,581	6,677	0	0	0	22,494
Depreciation written out to the Revaluation Reserve	(1,909)	0	0	0	0	0	(1,909)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(4,568)	0	0	0	0	0	(4,568)
Impairment Losses /(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition – Disposals	0	(19)	0	0	0	0	(19)
Derecognition – Other	0	(1,098)	(1,931)	0	0	0	(3,029)
Other- reclassifications	0	0	0	0	0	0	0
At 31 March 2020	16,810	7,459	71,582	0	0	0	95,851
Net Book Value							
At 31 March 2020	**602,141**	**17,107**	**99,477**	**357**	**25,270**	**0**	**744,352**
At 31 March 2019	**561,485**	**14,810**	**100,097**	**0**	**24,475**	**456**	**701,323**

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

NOTE 19: PROPERTY, PLANT AND EQUIPMENT 2018/19	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
At 1 April 2018	584,348	14,255	167,503	0	22,859	7,969	796,934
Additions	8,483	8,943	4,586	497	0	5,626	28,135
Revaluation increase/(decreases) recognised in the Revaluation Reserve	(2,499)	0	0	0	1,616	0	(883)
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,004)	0	0	(497)	0	0	(7,501)
Derecognition – Disposals	(25,414)	0	0	0	0	0	(25,414)
Derecognition – Other	0	(2,393)	(5,156)	0	0	0	(7,549)
Assets reclassified (to)/from held for Sale	483	0	0	0	0	0	483
Other – reclassifications	13,139	0	0	0	0	(13,139)	0
At 31 March 2019	571,536	20,805	166,933	0	24,475	456	784,205
Accumulated Depreciation and Impairment							
At 1 April 2018	1,558	5,992	65,292	0	0	0	72,842
Depreciation Charge	12,843	2,289	6,700	0	0	0	21,832
Depreciation written out to the Revaluation Reserve	(1,174)	0	0	0	0	0	(1,174)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(2,644)	0	0	0	0	0	(2,644)
Impairment Losses /(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition – Disposals	(532)	0	0	0	0	0	(532)
Derecognition – Other		(2,286)	(5,156)	0	0	0	(7,442)
Other- reclassifications	0	0	0	0	0	0	0
At 31 March 2019	10,051	5,995	66,836	0	0	0	82,882
Net Book Value							
At 31 March 2019	**561,485**	**14,810**	**100,097**	**0**	**24,475**	**456**	**701,323**
At 31 March 2018	**582,790**	**8,263**	**102,212**	**0**	**22,859**	**7,969**	**724,092**

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

Revaluations

The Council carries out a rolling programme that ensures that all relevant Property, Plant and Equipment to be measured at fair value is revalued at least every five years. Valuations are as at 31st March in the year of valuation. In 2019/20,

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

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

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

NOTE19: Analysis of rolling revaluation programme	Other Land & Buildings	Vehicles Plant, Furniture & Equipment	Infra-structure assets	Community assets	Surplus assets	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000
Valued at historical cost		17,109	99,477	357	-	116,943
Valued at current value in :						-
2019/20 (incl. Schools)	547,819	-	-	-	25,270	573,089
2018/19	32,629	-	-	-	-	32,629
2017/18	14,056	-	-	-	-	14,056
2016/17	7,635	-	-	-	-	7,635
	-	-	-	-	-	-
Value at 31 March 2020	**602,139**	**17,109**	**99,477**	**357**	**25,270**	**744,352**

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.
Market activity is being impacted in many sectors. As at the valuation date it is considered that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that Merton faces an unprecedented set of circumstances on which

to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation than would normally be the case.

NOTE 20: INTANGIBLE ASSETS

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

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

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

NOTE 20: INTANGIBLE ASSETS	2018/19	2019/20
	£000	£000
Balance at start of year:		
Gross carrying amounts	5,049	5,504
Accumulated amortisation	(748)	(1,492)
Net carrying amount at start of year	**4,301**	**4,012**
Disposals:		
Gross carrying amounts	(337)	(412)
Accumulated amortisation	337	412
Additions:		
Purchases	792	1,456
Reclassified from assets under construction	0	0
Amortisation for the period	(1,081)	(1,172)
Net carrying amount at end of year	**4,012**	**4,296**
Comprising:		
Gross carrying amounts	5,504	6,548
Accumulated amortisation	(1,492)	(2,252)
	4,012	**4,296**

NOTE 21: HERITAGE ASSETS

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

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

NOTE 21: HERITAGE ASSETS	Art Collection £000	Regalia & Ceremonial £000	Total Assets £000
Cost or Valuation			
1 April 2019	191	611	802
31 March 2020	**191**	**611**	**802**

NOTE 22: ASSETS HELD FOR SALE

NOTE 22: ASSETS HELD FOR SALE	2018/19 £000	2019/20 £000
Balance outstanding at start of year	**1,183**	**700**
Recognition	0	0
Assets reclassified (to)/from Other Land & Buildings/Surplus Assets	(483)	4,240
Balance outstanding at end of year	**700**	**4,940**

In accordance with Accounting Policy xviii the Council measures its Assets Held for Sale at Fair Value using Level 2 observable inputs and highest and best use value from a market participants perspective.

NOTE 23: IMPAIRMENT LOSSES

The Council carried out an impairment review of property, plant and equipment in 2019/20. The market review by the valuer concluded there were no impairment losses in 2019/20. In 2018/19 there were no impairment losses.

NOTE 24: CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

The CFR is analysed in the following table:

NOTE 24: CAPITAL EXPENDITURE AND CAPITAL FINANCING	2018/19 £000	2019/20 £000
Opening Capital Financing Requirement	183,712	179,912
Adjustment to match CFR schedule	0	909
Revised Capital Financing Requirement	**183,712**	**180,821**
Capital Investment		
Property, Plant and Equipment	28,136	16,088
Intangible Assets	792	1,456
Revenue Expenditure Funded from Capital Under Statute	2,496	3,716
Other Investments		
Housing Company -Shares	161	1,900
Sources of Finance		
Capital receipts	(16,360)	(9,597)
Government grants and other contributions	(15,125)	(12,940)
Sums set aside from revenue:		
Direct revenue contributions	(99)	(624)
Minimum Revenue Provision	(3,801)	(7,237)
Closing Capital Financing Requirement	**179,912**	**173,583**
(Decrease)/Increase in underlying need to borrowing (unsupported by government financial assistance)	(3,800)	(7,238)
(Decrease)/Increase in Capital Financing Requirement	**(3,800)**	**(7,238)**

NOTE 25: LEASES

Council as Lessee

Finance Leases
In the past the Council has acquired a variety of assets, including operational buildings and IT equipment, under finance leases. The 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 2019 £000	NOTE 25: LEASES -Finance Leases	31 March 2020 £000
7,264	Other Land and Buildings	7,332
0	Vehicles, Plant, Furniture and Equipment	0
7,264	**Total**	**7,332**

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

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

31 March 2019 £000	Finance lease liabilities (net present value minimum lease payments):	31 March 2020 £000
29	- current	4
790	- non current	786
1,275	Finance costs payable in future years	1,209
2,094	**Total minimum lease payments**	**1,999**

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

31 March 2019 £000	Minimum Lease Payments	31 March 2020 £000
94	Not later than one year	70
284	Later than one year and not later than five years	285
1,716	Later than five years	1,644
2,094	**Total**	**1,999**
31 March 2019 £000	**Finance Lease Payments**	**31 March 2020 £000**
29	Not later than one year	4
20	Later than one year and not later than five years	20
770	Later than five years	766
819	**Total**	**790**

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

NOTE 25: LEASES

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 £0.081m contingent rents were payable by the Authority (2018/19 £0.202m).

Operating Leases

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

31 March 2019 £000	NOTE 25: LEASES - Operating Leases	31 March 2020 £000
1,437	Not later than one year	1,469
5,700	Later than one year and not later than five years	5,867
3,263	Later than five years	2,267
10,400	**Total**	**9,603**

NOTE 25: LEASES

Council as Lessor

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

The gross investment is made up of the following:

31 March 2019 £000	NOTE 25: LEASES -Authority as Lessor - Finance Leases Finance lease debtor (net present value of minimum lease payments):	31 March 2020 £000
17	- current	16
5,437	- non current	5,391
19,079	Unearned finance income	18,737
2	Unguaranteed residual value of property	0.00
24,535	**Gross investment in lease**	**24,143**

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

NOTE 25: LEASES -Authority as Lessor -Finance Leases	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Not later than one year	340	336	340	336
Later than one year and not later than five years	1,360	1,345	1,360	1,345
Later than five years	22,835	22,462	22,833	22,462
Total	**24,535**	**24,143**	**24,533**	**24,143**

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 2019/20, £0.465m contingent rents were receivable by the Council (£0.487m in 2018/19).

NOTE 25: LEASES

31 March 2019 £000	NOTE 25: LEASES - contingent rents were receivable by the Authority	31 March 2020 £000
487		465
487	**Total**	**465**

Operating Leases

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

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

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

2018/19 £000	NOTE 25: LEASES - Operating Leases	2019/20 £000
3,624	Not later than one year	4,327
11,449	Later than one year and not later than five years	14,420
29,964	Later than five years	28,979
45,037		**47,726**

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

SCHOOLS

NOTE 26: DEDICATED SCHOOLS GRANT

The Council'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 2018. The Schools Budget includes elements for a range of educational services provided on a council-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 2019/20 are as follows:

NOTE 26: DEDICATED SCHOOLS GRANT	Central Expenditure £'000	Individual Schools Budget £'000	2019/20 Total £'000	2018/19 Total £'000
Final DSG for 2019/20 before Academy recoupment			173,252	167,709
Academy figure recouped for 2019/20			(25,262)	(22,106)
Total DSG figure after Academy recoupment for 2019/20			147,990	145,603
Plus: Brought forward from 2018/19			(2,909)	928
Less: Carry-forward to 2020/21 agreed in advance			0	(614)
Agreed initial budgeted distribution in 2019/20	21,155	123,926	145,081	145,917
In year adjustments	0	0	0	0
Final budgeted distribution for 2019/20	**21,155**	**123,926**	**145,081**	**145,917**
Less: Actual central expenditure	(30,961)		(30,961)	(26,092)
Less: Actual ISB deployed to schools		(126,870)	(126,870)	(123,348)
Plus: Local authority contribution for 2019/20	0	0	0	0
Carry forward for 2019/20	**(9,806)**	**(2,944)**	**(12,750)**	**(3,523)**

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

The £12.750m deficit balance is held in the balances held by schools (see Earmarked Reserves Note 16). This amount has been borrowed against future years' allocations. Further information about the DSG deficit is provided in the narrative statement.

NOTE 26: DEDICATED SCHOOLS GRANT

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

NOTE 26: DEDICATED SCHOOLS GRANT	2019/20		2018/19	
	Number of Schools	Net surplus/ (deficit) £'000	Number of Schools	Net surplus/ (deficit) £'000
Maintained Primary	27	3,329	27	2,653
Maintained Secondary	2	2,038	2	1,498
Voluntary Aided Primary	11	888	11	1,204
Voluntary Aided Secondary	2	761	2	638
Foundation	1	435	1	446
Special Schools	4	1,004	4	1,657
Total	**47**	**8,455**	**47**	**8,096**

NOTE 27: PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The Council has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, New Schools 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 Council will retain ownership of the school land and buildings.

Value of Assets Held

The Council's accounts include school buildings constructed under the PFI scheme. The change in value of land follows a recalculation of area of schools.

NOTE 27: PFI & Similar Value of Assets Held	31 March 2019 £000	31 March 2020 £000
Gross Value	97,333	96,796
Accumulated Depreciation	0	0
Net	**97,333**	**96,796**

Value of Liabilities

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

NOTE 27: PFI & Similar Value of Liabilities	Capital £000	Interest £000	Services £000	Total £000
31st March 2021	1,661	2,689	4,882	9,232
Apr 2021 - Mar 2026	12,007	11,103	24,417	47,527
Apr 2026 – Mar 2030	15,617	3,598	21,528	40,743
Liability at 31st March 2020	**29,285**	**17,390**	**50,827**	**97,502**
Liability at 31st March 2019	**31,594**	**20,300**	**54,057**	**105,951**
Liability at 31st March 2018	**32,949**	**23,327**	**58,549**	**114,825**

NOTE 27: PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Partial Termination

NOTE 27: PFI & Similar Partial Termination	Capital £000	Interest £000	Services £000	Total £000
31st March 2021	844	815	0	1,659
Apr 2021 - Mar 2026	5,223	3,072	0	8,295
Apr 2026 – Mar 2030	5,697	939	0	6,636
Liability at 31st March 2020	**11,764**	**4,826**	**0**	**16,590**
Liability at 31st March 2019	**12,552**	**5,699**	**0**	**18,251**
Liability at 31st March 2018	**13,287**	**6,623**	**0**	**19,910**

Three Schools and One Academy

NOTE 27: PFI & Similar Three Schools and One Academy	Capital £000	Interest £000	Services £000	Total £000
31st March 2021	817	1,874	4,882	7,573
Apr 2021 - Mar 2026	6,784	8,031	24,417	39,232
Apr 2026 – Mar 2030	9,920	2,659	21,528	34,107
Liability at 31st March 2020	**17,521**	**12,564**	**50,827**	**80,912**
Liability at 31st March 2019	**19,042**	**14,601**	**54,057**	**87,700**
Liability at 31st March 2018	**19,662**	**16,704**	**58,549**	**94,915**

MEMBERS OFFICERS AND RELATED PARTIES

NOTE 28: MEMBERS' ALLOWANCES

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

NOTE 28: MEMBERS' ALLOWANCES	2018/19 £000	2019/20 £000
Allowances	728	722
Total	**728**	**722**

Further details of Members allowances and expenses are available on our website at:

https://www.merton.gov.uk/council-and-local-democracy/councillors/allowances-and-expenses

NOTE 29: OFFICERS' REMUNERATION

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

CIPFA guidance states that the disclosure should exclude staff where the authority is not the employer i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 76 voluntary aided and foundation school employees have been excluded from 2019/20 and 65 have been excluded from 2018/19 figures.

NOTE 29: OFFICERS' REMUNERATION Remuneration Band £	2018/19 Teaching Staff	2018/19 Other Staff	2019/20 Teaching Staff	2019/20 Other Staff
50,000 – 54,999	77	67	79	91
55,000 – 59,999	50	33	54	42
60,000 – 64,999	23	15	32	23
65,000 – 69,999	15	14	14	17
70,000 – 74,999	5	16	7	6
75,000 – 79,999	6	7	7	15
80,000 – 84,999	5	8	5	5
85,000 – 89,999	2	1	2	2
90,000 – 94,999	2	2	2	1
95,000 – 99,999	4	2	1	4
100,000 – 104,999	0	2	3	3
105,000 – 109,999	0	1	0	0
110,000 – 114,999	0	0	0	0
115,000 – 119,999	0	0	0	1
120,000 – 124,999	0	2	0	0
125,000 – 129,999	0	0	0	0
130,000 – 134,999	2	1	0	0
135,000 – 139,999	1	0	1	0
140,000 – 144,999	0	2	1	3
145,000 – 149,999	0	0	0	1
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	0	0	0
190,000 – 194,999	0	1	0	0
195,000 – 199,999	0	0	0	1
Total	**192**	**174**	**208**	**215**

NOTE 29: OFFICERS' REMUNERATION

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

NOTE 29: OFFICERS' REMUNERATION - Exit Packages								
Exit package cost band (including special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band**	
£	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19 £**	**2019/20 £**
0 - 20,000	16	40	7	6	23	46	155,975	261,204
20,001 - 40,000	1	4	0	7	1	11	34,251	287,540
40,001 - 100,000	0	0	0	0	0	0	0	0
TOTAL	**17**	**44**	**7**	**13**	**24**	**57**	**190,226**	**548,744**

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

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

NOTE 29: OFFICERS' REMUNERATION

The following table provides this detail for 2019/20 and 2018/19 with supporting sub-notes.

NOTE 29: OFFICERS' REMUNERATION - remuneration of certain senior employees:								
Post holder information	2018/19				2019/20			
	Sub-Notes	Remuneration	Employer's Pension contributions	Total	Sub-Notes	Remuneration	Employer's Pension contributions	Total
		£	£	£		£	£	£
Chief Executive Ged Curran	6	192,492	2,438	**194,930**	1	196,341	0	**196,341**
Director of Corporate Services Caroline Holland	7	140,468	21,326	**161,794**	2	143,280	21,779	**165,059**
Director of Community and Housing Hannah Doody	8	134,783	20,425	**155,208**	3	146,181	22,220	**168,401**
Director of Children, Schools and Families Rachael Wardell (Started - 14/05/18)	9	121,608	18,461	**140,069**	4	142,973	21,732	**164,705**
Director of Environment & Regeneration Chris Lee	10	140,468	21,326	**161,794**	5	143,280	21,779	**165,059**

NOTE 29: OFFICERS' REMUNERATION

Sub-notes 2019/20

NOTE 29: OFFICERS' REMUNERATION - remuneration of certain senior employees- Sub Notes
2019/20
1. Mr G. Curran, Chief Executive, remuneration for 2019/20 was a salary of £196,341 A separate payment of £6,515 was received for Acting Returning Officer duties at the General Election on 12 December 2019. Another separate payment of £6,722 was received for Local Returning Officer duties at the EU Parliament Election on 23 May 2019. Another separate payment of £608.96 was received for Returning Officer duties at the Cannon Hill by election on 20 June 2019. A further £800 payment was received for Local Authority Gold Team duties.
2. Ms C. Holland, Director of Corporate Services, remuneration for 2019/20 was a salary of £143,280 A separate payment of £2,535.20 was received for Deputy Acting Returning Officer duties at the General Election on 12 December 2019. Another separate payment of £2,535.20 was received for Deputy Local Returning Officer duties at the EU Parliament Election on 23 May 2019.
3. Ms H. Doody, Director of Community and Housing, remuneration for 2019/20 was a salary of £146,181 As at the end of March 2019/20 annualised salary was £150,000. A separate payment of £777.54 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the General Election on 12 December 2019. Another separate payment of £994.72 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the EU Parliament Election on 23 May 2019.
4. Ms R. Wardell, Director of Children, Schools and Families, remuneration for 2019/20 was a salary of £142,973 As at the end of March 2019/20 annualised salary was £143,280. A separate payment of £415.06 was received for Polling Station Inspector duties and travel at the General Election on 12 December 2019.
5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2019/20 was a salary of £143,280 A separate payment of £777.54 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the General Election on 12 December 2019. Another separate payment of £994.72 was received for Polling Station Inspector and Senior Count Supervisor duties as well as travel at the EU Parliament Election on 23 May 2019. A further £800 payment was received for Local Authority Gold Team duties.

2018/19
6. Mr G. Curran, Chief Executive, remuneration for 2018/19 was a salary of £192,492 One separate payment of £7,543.38 was received for Acting Returning Officer duties at the Local election on 3 May 2018. A further £342.84 payment was received for Local Authority Gold Team duties.
7. Ms C. Holland, Director of Corporate Services, remuneration for 2018/19 was a salary of £140,468 One separate payment of £2,485.40 was received for Deputy Acting Returning Officer duties at the Local election on 3 May 2018.
8. Ms H. Doody, Director of Community and Housing, remuneration for 2018/19 was a salary of £134,783 One separate payment of £544.87 was received for Senior Count Supervisor duties at the Local election on 3 May 2018.
9. Ms R. Wardell, Director of Children, Schools and Families, started on 14 May 2018 on an annualised salary of £137,921 No additional payments were received.
10. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2018/19 was a salary of £140,468 One separate payment of £985.01 was received for Polling Station Inspector and Senior Count Supervisor duties at the Local election on 3 May 2018. A further £342.84 payment was received for Local Authority Gold Team duties.

NOTE 30 RELATED PARTIES

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

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

Members
Members of the Council have direct control over the financial and operating decisions of the Council. The total of members' allowances paid in 2019/20 is shown in Note 28.

This disclosure note has been prepared using the Council's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from members and senior officers. The Council issued 60 standard letters to members; 45 have responded.

During 2019/20, members of the Council (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 £644k. The amounts disclosed below are those material to either party of the related party transaction (i.e. the Council or the other entity).

Organisation	2019/20 £000
Merton and Morden Guild	56
Faith in Action	10
Springfield Advice and Law Centre	59
Merton Community Transport	36
North East Mitcham Community Association	61
Evolve Housing and Support	422
Total	**644**

Senior Officers
Senior officers of the Council also have direct control over the financial and operating decisions of the Council. Senior officers are required to make a specific declaration in respect of related party transactions. The Council issued 22 standard letters to current senior officers; there have been 22 responses.

NOTE 30 RELATED PARTIES

Two 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 Council did not hold any positions in other organisations which would enable them to significantly influence the policies of the Council and result in a related party transaction of a material nature.

Voluntary Organisations

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

Pension Fund

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.37m (2018/19: £0.39m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

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

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

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

Entities Controlled by the Council

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

NOTE 31: PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. In 2019/20, the employer's contribution was 16.48% April 19 to August 19 then 23.68% September 19 to March 2020 (16.48% average in 2018/19). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 10,000 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31st March 2020, the Council's own contributions equate to approximately 0.25%.

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

The Council also pays an employer's contribution of 14.38% (14.38% in 2018/19) to the NHS Pension Scheme, for staff who transferred to the Council but remain in the NHS scheme. The NHS scheme was previously a defined benefit scheme, with staff benefits linked to their average earnings in the final ten years of employment. From 1st April 2015, it became a career average revalued earnings scheme.

NOTE 31: PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

NOTE 31: Authority's Contribution	2018/19 £000	2019/20 £000
Authority's contribution to DfE teacher's pension scheme	8,652	11,296
Authority's contribution to NHS pension scheme	84	82

Assuming a 2% staff pay award in 2020/21, an estimate of the contributions to be paid in the next financial year would be:

NOTE 31: Estimate of the contributions to be paid in the next financial year	2020/21 £000
Authority's contribution to DfE teacher's pension scheme	11,522
Authority's contribution to NHS pension scheme	84

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

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

The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2019/20, 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 £86.703m (£42.891m gain in 2018/19).

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

NOTE 32: Local Government Pensions Scheme	2018/19	2019/20
Transactions	**£000**	**£000**
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service Cost	42,888	32,452
Administration	354	652
Finance and Investment Income and Expenditure		
Net interest on defined liability	8,975	8,018
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**52,217**	**41,122**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Remeasurements of the net defined benefit liability/asset	(42,891)	(86,704)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**9,326**	**(45,582)**
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	(52,217)	(41,122)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	16,736	17,835

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Assets and Liabilities in relation to Post-Employment Benefits
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

NOTE 32: Local Government Pensions Scheme Assets and Liabilities	2018/19 £000	2019/20 £000
Opening Defined Benefit Obligation	**960,997**	**1,008,244**
Current Service Cost	30,862	32,023
Interest Cost	25,164	23,920
Change in financial assumptions	45,483	(89,601)
Change in demographic assumptions	(57,823)	(42,177)
Experience loss/(gain) on defined benefit obligation	0	9,328
Liabilities extinguished on settlements	18,257	(81)
Estimated benefits paid net of transfers in	(24,986)	(27,675)
Past service costs including curtailments (i)	6,743	461
Contributions by Scheme participants	5,210	5,554
Unfunded pension payments	(1,663)	(1,631)
Defined Benefit Obligation at end of period	**1,008,244**	**918,365**

(i) 18/19 included an amount of £6.550m which is the estimate of the possible impact on total liabilities as at 31 March 2019 based on the Potential impact of McCloud/Sargeant ruling on pensions accounts disclosures paper prepared by the Government Actuary's Department.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

NOTE 32: Local Government Pensions Scheme Reconciliation of fair value of the scheme (plan) assets:	2018/19 £000	2019/20 £000
Opening fair value of Scheme assets	**610,910**	**665,567**
Interest on assets	16,189	15,902
Return on assets less interest	30,551	(44,489)
Other actuarial gains/(losses)	0	8,742
Administration expenses	(354)	(652)
Contributions by employer including unfunded	16,736	17,835
Contributions by Scheme participants	5,210	5,554
Estimated benefits paid plus unfunded net of transfers in	(26,649)	(29,306)
Settlement prices received/(paid)	12,974	(49)
Fair value of Scheme assets at end of period	**665,567**	**639,104**

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

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

NOTE 32: Local Government Pensions Scheme	2018/19		2019/20	
LBM asset share - bid value	**£000**	**%**	**£000**	**%**
Equities	418,173	62%	379,124	59%
Gilts	84,101	13%	82,000	13%
Property	25,112	4%	22,318	3%
Cash	6,110	1%	3,324	1%
Multi Asset Credit	67,929	10%	55,081	9%
Diversified Growth	64,142	10%	58,005	9%
Infrastructure	0	0%	39,252	6%
Total	**665,567**	100%	**639,104**	100%

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

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Scheme History

NOTE 32: Scheme History	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Present value of scheme Liabilities						
The Local Government Pension Scheme (LGPS)	(748,920)	(722,265)	(937,022)	(932,840)	(981,934)	(900,477)
Unfunded Liabilities	(26,459)	(23,507)	(29,714)	(28,157)	(26,311)	(17,888)
Total Liabilities	(775,379)	(745,772)	(966,736)	(960,997)	(1,008,245)	(918,365)
Fair value of assets in the LGPS	481,560	482,618	598,628	610,910	665,567	639,104
Surplus / (Deficit) in the scheme	(293,819)	(263,154)	(368,108)	(350,087)	(342,678)	(279,261)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £279m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The Council, 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.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Basis for Estimating Assets and Liabilities

NOTE 32: Local Government Pensions Scheme		
Basis for Estimating Assets and Liabilities	**2018/19**	**2019/20**
Long Term expected rate of return on assets in the scheme:		
Mortality Assumptions		
Longevity at 65 for current pensioners retiring today at 65:		
Men	23.4	21.4
Women	24.8	24.0
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	25.0	22.8
Women	26.6	25.5
	%	%
Rate of Inflation	2.40	2.35
Rate of increase in salaries	3.90	2.90
Rate of increase in pensions	2.40	1.90
Rate for discounting scheme liabilities	2.40	2.35
Take up option to convert annual pension into retirement lump sum	50	50

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

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

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Sensitivity Analysis

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

NOTE 32: Local Government Pensions Scheme			
Sensitivity Analysis	**£000**	**£000**	**£000**
Adjustment to discount rate	0.1%	0.0%	-0.1%
Present value of total obligation	900,927	918,365	936,158
Projected service cost	27,932	28,619	29,324
Adjustment to long term salary increase	0.1%	0.0%	-0.1%
Present value of total obligation	919,652	918,365	917,087
Projected service cost	28,633	28,619	28,605
Adjustment to pension increases and deferred revaluation	0.1%	0.0%	-0.1%
Present value of total obligation	934,933	918,365	902,111
Projected service cost	29,312	28,619	27,942
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	956,992	918,365	881,418
Projected service cost	29,517	28,619	27,748

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

Estimation of Contributions to be paid in 2020/21
The table below shows the estimated contributions to be paid to the plan during 2020/21, assuming a 2% staff pay award.

NOTE 32: DEFINED BENEFIT PENSION SCHEMES Estimation of Contributions to be paid next year	2018/19 Actual £000	2019/20 Actual £000	2020/21 Estimated £000
Employers contributions - normal	11,633	12,341	14,128
Employers Additional Funding (Deficit Funding)	3,469	3,552	0
Employers Additional Funding (Pension Strain)	138	212	216
Employees contributions	5,226	5,479	6,272
Total	**20,466**	**21,584**	**20,616**

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

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

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

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

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

NOTE 32: DEFINED BENEFIT PENSION SCHEMES

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

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

OTHER DISCLOSURE NOTES

NOTE 33: EVENTS AFTER BALANCE SHEET DATE

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

- If they provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is amended to reflect these events;

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

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

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

A global Covid-19 pandemic was announced by the Government on 23rd March 2020. The effects of the pandemic have not had a significant impact on the Council's financial outturn for 2019/20, though a substantial effect is expected to materialise during 2020/21 and regular updates are provided to MHCLG. At the current time, it is not possible to accurately predict the longevity and severity of Covid-19 and its impact on the economy and the Council. Due to the high level of uncertainty around the impact of COVID-19, the Council is treating it as a non-adjusting event.

NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiaries

CHAS 2013 Ltd

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

Governance Arrangements

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

Trading Arrangements with London Borough of Merton

In 2019/20, CHAS 2013 Ltd's total comprehensive income was £3.45m (£1.77m in 2018/19). Dividends received by LBM from CHAS 2013 Ltd are recognised within the Council's comprehensive income and expenditure statement (CIES). In 2019/20, £1.16m dividend income was recognised (£0.87m in 2018/19).

Separate from any dividends, CHAS 2013 Ltd also makes an annual licence fee payment to LBM, for use of intellectual property owned by the Council. In 2019/20, the licence fee was £0.5m (2018/19 £0.5m), which has been recognised within financing and investment income and expenditure in the CIES.

Group Accounting

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

At the year end, the intercompany balance of £2.93m was due from LBM to CHAS 2013 Ltd (2018/19: £0.83m was due from LBM to CHAS 2013 Ltd).

Company Accounts
Audited abbreviated accounts of CHAS 2013 Ltd (company number: 08466203) are filed with Companies House and available on request from:
London Borough of Merton
Civic Centre
London Road
Morden
SM4 5DX

LB Merton have prepared group accounts consolidating CHAS 2013 Ltd.

NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

Merantun Development Ltd

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.

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

Trading Arrangements with London Borough of Merton
In 2019/20 the subsidiary has made a loss of £1.53m (£0.31m in 2018/19). At the year end, the intercompany balance due from Merantun Development Ltd to LBM was £nil (2018/19: £0.17m). No land transfers had been made.

Group Accounting
LBM's investment in Merantun Development Ltd is recognised and measured at cost in the Council's balance sheet. At the year-end LBM investment in Merantun Development Ltd was £2.06m.

Merantun Development Ltd has been consolidated into the Group Financial Statements from 1 April 2018.

Accounts

Audited abbreviated accounts of Merantun Development Ltd (company number: 10907028) are filed with Companies House and available on request from:
London Borough of Merton
Civic Centre
London Road
Morden
SM4 5DX

LB Merton have prepared group accounts consolidating Merantun Development Ltd.

NOTE 34: INTEREST IN SUBSIDIARIES & JOINT VENTURES

Joint Venture

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

Governance Arrangements
MSJCB is jointly controlled by the London Boroughs of Merton and Sutton. Any cash balance belonging to MSJCB is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect the sum owed to MSJCB. At 31/03/2020, including cash held and loans to MSJCB, there was a net creditor balance of £282k (net creditor balance of £151k at 31/03/2019).

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

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

NOTE 35: TRADING OPERATIONS

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

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

NOTE 35: TRADING OPERATIONS Included within Financing and Investment Income and Expenditure		2018/19 £000	2019/20 £000
Printing and Graphic Design	Turnover	(78.0)	(88.0)
	Expenditure	138.0	67.0
	Deficit/(surplus)	**60.0**	**(21.0)**
Translation Services	Turnover	(276.0)	(162.0)
	Expenditure	198.0	119.0
	Deficit/(surplus)	**(78.0)**	**(43.0)**
Transport	Turnover	(196.0)	(162.0)
	Expenditure	116.0	278.0
	Deficit/(surplus)	**(80.0)**	**116.0**
All trading operations		**2018/19**	**2019/20**
		£000	**£000**
	Turnover	(550.0)	(412.0)
	Expenditure	452.0	464.0
Total	**Deficit/(surplus)**	**(98.0)**	**52.0**

Note:
The 18/19 figures for Transport exclude Corporate internal overheads whereas the 1920 figures include them. If the 1819 figures had included them, the Transport account would have reported a deficit of £0.680m.

NOTE 36: INVENTORIES

The stock balance of £1k in 2019/20 represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

NOTE 36: INVENTORIES	Consumable Stores	
	2018/19 £000	2019/20 £000
Balance outstanding at the start of the year	1	1
Purchases	1,124	1,249
Recognised as an expense in the year	(1,124)	(1,249)
Balance outstanding at year-end	**1**	**1**

NOTE 37: POOLED BUDGETS – Partnership – Section 75

Community Equipment Services

During 2019/20 the Council has continued to host a Partnership Agreement with the Merton Clinical Commissioning Group, under Section 75 of the National Health Service Act 2006, to provide integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services.

NOTE 37: POOLED BUDGETS POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON MEMORANDUM ACCOUNT	Total 2018/19 £000	Total 2019/20 £000
INCOME		
PARTNERS' CONTRIBUTIONS		
Brought forward	**0**	**0**
LB Merton	394	385
Merton CCG	316	364
Additional From LB Merton (BCF Contribution)	420	530
TOTAL CONTRIBUTIONS	**1,130**	**1,279**
EXPENDITURE		
Community Equipment Services	1,124	1,273
Stock Adjustment	0	0
Management & Support Costs	6	6
TOTAL EXPENDITURE	**1,130**	**1,279**
NET (UNDER) / OVERSPEND CARRIED FORWARD	**0**	**0**

NOTE 37: POOLED BUDGETS – Partnership – Section 75

Better Care Fund

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

The CCG receives the full BCF allocation from NHS England, then transfers a proportion (£5.759m in 2019/20) into a pooled fund, hosted by the Council, to be spent on services. The Council makes a £1 contribution to the pool. The gross income and expenditure of the partnership is shown in the following table. As per accounting standards, the Council records only its £1 share of the pooled funds as expenditure in its Comprehensive Income and Expenditure Statement (CIES). The CCG's contribution, therefore, is not recognised in the Council's CIES.

Better Care Fund Pooled Budget - Income and Expenditure	2018/19 £000	2019/20 £000
INCOME		
Merton CCG contribution to pool	**(5,591)**	**(5,759)**
LBM contribution to pool	**0**	**0**
Total contributions	**(5,591)**	**(5,759)**
Expenditure		
Integrated Locality Teams	773	831
Seven Day Working	505	505
Community Equipment and Adaptions	420	530
Protecting and Modernising Social Care	3,692	3,692
Investing in Integration Infrastructure	144	149
Developing Personal and Health Care Budgets	57	52
Total revenue expenditure	**5,591**	**5,759**
Net	**0**	**0**

OTHER DISCLOSURE NOTES

NOTE 38: EXTERNAL AUDIT COSTS

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

NOTE 38: EXTERNAL AUDIT COSTS	2018/19 £000	2019/20 £000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year	191	149
Fees payable to the External Auditor for other services provided in year (Teachers Pensions and Housing Benefit audits)	64	62
Total	**255**	**211**
The 2019/20 figures include expenditure for audit services and non-audit services relating to previous years. The audits of these financial years were still open during this financial year.		

NOTE 39: ON-STREET PARKING ACCOUNT

The Council maintains a memorandum account in respect of on street parking to show how the income from it is spent. In 2019/20 the Council made a surplus of £10.157m (£9.895m in 2018/19), which was applied notionally as a contribution to concessionary fares in the Community and Housing budget, the cost of which was £8.922m in 2019/20. The contribution was more than the full cost of concessionary fares. Therefore, the excess of £1.235m was applied notionally to fund carriageway and footway day to day maintenance.

NOTE 39: On-Street Parking Account	2018/19				2019/20			
	Parking £000	Bus Lanes £000	Moving Traffic Violations £000	Total £000	Parking £000	Bus Lanes £000	Moving Traffic Violations £000	Total £000
Income								
Penalty Charge Notices	(4,132)	(1,285)	(3,764)	**(9,181)**	(3,720)	(1,157)	(3,389)	**(8,266)**
Parking Permits	(3,408)	0	0	**(3,408)**	(3,566)	0	0	**(3,566)**
On-Street Parking Charges	(3,637)	0	0	**(3,637)**	(3,959)	0	0	**(3,959)**
Other Income	0	0	0	**0**				**0**
Total Income	**(11,177)**	**(1,285)**	**(3,764)**	**(16,226)**	**(11,245)**	**(1,157)**	**(3,389)**	**(15,791)**
Expenditure								
On-Street Parking	1,110	432	1,264	**2,806**	1,096	341	999	**2,436**
Parking Management & Planning	311	0	0	**311**	241	0	0	**241**
Parking Enforcement	1,272	494	1,448	**3,214**	1,331	414	1,212	**2,957**
Contribution to Public Transport Including (Concessionary Fares)	8,484	359	1,052	**9,895**	8,577	402	1,178	**10,157**
Total Expenditure	**11,177**	**1,285**	**3,764**	**16,226**	**11,245**	**1,157**	**3,389**	**15,791**
NET	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

NOTE 39: On-Street Parking Account Memorandum Items	2018/19 £000	Surplus Applied £000	2019/20 £000	Surplus Applied £000
Total Expenditure on:				
Concessionary fares	9,027	9,027	8,922	8,922
Carriageway & Footway Day-to-Day Maintenance	1,114	868	2,017	1,235
Carriageway & Footway Planned Maintenance	3,381	0	3,450	0
Total	**13,522**	**9,895**	**14,390**	**10,157**

TECHNICAL ANNEX - ACCOUNTING POLICIES

NOTE 40: ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year end of 31st March 2020. 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 2019/20, supported by International Financial Reporting Standards (IFRS).

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

The accounts are prepared on a going concern basis.

ii. Accruals of Income and Expenditure

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

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

Notwithstanding the accrual principle, some items are recorded as received/paid on the basis that there is no material distortion of the 'true and fair view' concept. These items include:
a) Housing benefit payments and the related subsidy grant are recorded when the payment to housing benefit recipients 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.

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 (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR
The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement 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.

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

vii. Employee Benefits

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

The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus of Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

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

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

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

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

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

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

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

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

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

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-ring-fenced 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.

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

xiii. Interest in Subsidiaries and Other Entities

The Authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. The Authority has two subsidiaries (CHAS and Merantun) and one joint venture (Merton and Sutton Joint Cemetery Board - MSJCB). From2017/18 onwards, the Authority has published consolidated group accounts. Details of the subsidiaries and joint ventures 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, LB Sutton and RB Kingston for the collection of and disposal of waste. LB Croydon and RB Kingston recharge the Authority for its share of the cost and this is accounted for as part of the Environment and Regeneration Department in the Comprehensive Income and Expenditure Account. The SLWP is managed by a joint committee of officers which cannot contract on its own behalf but must do so through one of the participating boroughs.

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

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

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

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.

xvi(a) The Authority as Lessee

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

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

xvi(b) The Authority as Lessor

Finance Leases
Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the 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 valuers who are members of the Royal Institution of Chartered Surveyors.

Revaluations are undertaken as at 31st March.

Assets regarded by the Authority as operational were valued on the basis of Existing Use Value (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.

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

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

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

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

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

<u>Disposals and Non-Current Assets Held for Sale</u>

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:

1. Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
2. 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.
3. Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
4. Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)

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.

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.

xxv. Fair Value Measurement

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

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

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

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

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

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

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

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – unobservable inputs for the asset or liability.

NOTE 41: ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard which has been issued but is yet to be adopted by the 2019/20 Code.

At the balance sheet date, the following standards had been issued but not yet adopted by the Code of Practice for local authority accounting:

1. Amendments to IAS 28 Investments in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures;

2. Annual Improvements to IFRS Standards 2015 - 2017 Cycle;

3. Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement;

4. The CIPFA/LASAAC Local Authority Accounting Board has agreed to defer the implementation of IFRS 16 Leases for one year. This will mean the effective date for implementation is now 1 April 2021.

   IFRS16 will require all leases, with very few exceptions, to be included in the balance sheet. This is likely to result in many vehicle and property leases currently classified as operating leases to be brought onto the balance sheet.

These changes are not expected to have a material impact on the Authority's single entity statements or group statements.

NOTE 42: CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

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

The Statement of Accounts has been prepared on a going concern basis reflecting the economic and statutory environment in which local authorities operate. This assumption implicitly underpins local authority accounts which are drawn up in accordance with the Code of Practice on Local Authority Accounting, published by CIPFA. These provisions confirm that as authorities cannot be created or dissolved without statutory prescription it is only appropriate for their financial statements to be prepared on a going concern basis.

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

Going concern – Basis for preparation

<u>Section 1 – underlying principle</u>

These accounts have been prepared on a going concern basis (Accounting policy (i) refers) that the authority will continue in operational existence for the foreseeable future from the date the accounts were authorised for issue (3 July 2020). This statement has been prepared with known information up to 31 July 2020.

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

The Council has carried out a detailed assessment of the likely impact of COVID-19 on its financial position and performance during 2019/20, 2020/21 and beyond. This has included modelling scenarios that consider the impact on the following:

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

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

Section 2 – current & historical financial position

The Council recognises that the financial positon has deteriorated in the early months of 2020/21, having reported a £1.49m favourable variance for the financial period ending 31st March 2020 before additional funding and grants. The deterioration is only due to the impact of Covid-19.

Section 3 & 4 – impact of Covid

The Medium Term Financial strategy was set in February 2020 and set a balanced budget for 2020/21 with residual gaps to be closed of £3.3m and £6.9m for 2021/22 and 2022/23 respectively.
However, since the budget was set, the emergence of Covid-19 has fundamentally changed the financial regime for a period of at least 4 months until the end of July 2020.
The Council is currently forecasting an overspend in 2020/21 of £23m which is predominantly Covid related, without Covid, a £3.9m favourable variance would be reported. We currently estimate that the overall cost of Covid for the Council will be in the region of £39m in 2020/21. To date, we have received £12m in emergency funding from Government together with a range of specific grants to support key areas of the Resident and Business community. A recent announcement of further grant support together with compensation for lost income has been made and we await the detail of the basis and amount.
The council is also reporting a DSG deficit. Based on current regulations and guidance this is not chargeable to the General Fund. However, we have made some provision while we await final clarification on funding from Government.

Work is ongoing in all service areas to review revenue and capital budgets during 2020 to identify options for delivering efficiency savings and / or generating income, with the aim of setting a balanced budget in 2021/22 and reducing the overspend in 2020/21.

Section 5 – reserves and balances position

As at 31 March 2020 the Council has the following reserves to call on in delivering its services. In the event of a serious financial situation it will be prepared to 'un-earmark' certain reserves to meet its commitments.

General Fund	£13.8m

Schools Ring-fenced	-£4.3m
Earmarked	£59.6m
Capital Grants	£21.9m
Capital Receipts	£2.1m

There is also the potential to call on balances from the Sutton & Merton Crematorium Board and CHAS 2013 Ltd. There are no going concern issues with CHAS 2013 Ltd due to Covid. It has found its business largely unaffected by the pandemic in 2020/21.

Section 6 – cash position

The Council had a cash balance of £13.4m at the end of June 2020 compared to the 31 March 2020 year-end figure of £18.4m. The Council also has £35m in money market funds which are instantly callable. It also has £65m in short term deposits maturing between one month and eight months. Further, £10m is held in longer term property related investments, also available within a few days. In light of the Covid outbreak the Council has decided to place any returning fixed term deposits in callable accounts to ensure maximum access to cash deposits should this be required. The Council has prepared a cash flow forecast out to November 2021 which demonstrates a positive cash balance each month supported by the Council's intention to convert returning fixed term deposits into instantly callable cash. Whilst there is some uncertainty on future income, the Council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. The Council is of course also able to borrow short term for cash management if ever needed.
In a 'stressed' case scenario whereby income is constrained further in the event of a second wave, and income recovering only very slowly, the Council has sufficient levels of reserves and investments that it would not run out of cash.
Furthermore, the Council has revisited the 2020/21 capital programme and is postponing or reducing non-essential capital projects that will further protect the levels of cash and useable reserves. The revised programme has reduced by £2.1m to £38.7m, focusing on projects that produce a positive financial revenue return as well as those where there are health and safety requirements or were already in progress and could not be postponed without incurring significant costs.

Section 7 – conclusion

These accounts have been prepared on a going concern basis, following the projection of an overspend in 2020/21 that is well within the level of general useable reserves, when the shortfall on Council Tax and Business Rates is deducted as these will be a call on the Collection Fund in 2021/22 and a plan to produce a balanced budget in 2021/22.

Covid-19

The COVID-19 pandemic has had a significant impact on the Council and, although our work on financial challenges and transformational projects will continue, the challenge is heightened due to the significant financial impact of COVID-19. The pandemic is hitting our residents, public institutions, businesses, voluntary and community organisations. The Council has had to put considerable additional resources into services to support our residents, communities and local businesses.

It is important to highlight how the Council has responded to the challenge of managing services during a pandemic. The Councils immediate response during March 2020 was to implement enhanced management arrangements with a structure based on Gold (strategic), Silver (tactical) and Bronze (operational) groups including key partners, to facilitate rapid responses to the evolving position, facilitate appropriate decision making powers as allowed for in the Councils constitution and clear communication.

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

The COVID-19 pandemic has not had a dramatic impact on the final outturn for 2019/20 as the pandemic only started to make a noticeable impact in the last few weeks of March. Given the timing of the national lockdown and the progression of the pandemic, it only had a limited direct impact on the financial position for 2019/20. The true scale of the financial impact will be substantial and felt in 2020/21, placing additional strain on services and on the budget. The pandemic will have a significant impact on the Council's resources, in terms of increased expenditure, significant reductions in income and the potential non delivery of a range of savings committed in the Medium Term Financial Strategy (MTFS).

As part of Central Government's response to the COVID-19 pandemic, the Council received additional grants and payments in advance, over and above budgeted receipts, to aid with cashflow and to allow the Council to help the residents and businesses. Although some of these amounts were received right at the end of 2019/20, they primarily related to the 2020/21 financial year and, where appropriate, were transferred to an earmarked reserve.

The level of Government funding received so far falls significantly short in addressing the impact of increased costs of service provision and the impact of lost income from Council Tax and Business Rates, fees, charges and commercial investment. Further government support is uncertain at this stage.

The Government published its roadmap in May 2020 for moving to the next stage in the COVID-19 response and phasing the lifting of lockdown and reopening of the economy. The Council will aim to reopen services in line with the latest government guidance.

A key part of the Council's recovery plan is the consideration of the future shape of the Council together with a clear financial plan covering both the revenue budget and capital programme. The plan will set out how the Council can respond to the potentially significant deficit for 2020/21, higher demand for services together with budget reduction requirements for future years. The work is ongoing and will be the focus for 2020/21.

It should be noted that:

• The Council’s approach to financial management has meant that the General Fund Balance increased in 2018/19 to £13.778m and Earmarked Reserves of £60m (excluding amounts specifically restricted to schools) are held to meet known or predicted liabilities.

• The Council’s balance sheet as at 31st March 2020 shows a net worth of £395m and this is significantly reduced by the inclusion of a pension liability of £279[1]m. There are statutory arrangements for funding the pension deficit through increasing contributions over the remaining working life of the employees, as assessed by an independent actuary; but, based on the most recent triennial valuation the fund was in surplus by £20[2]m (103% funded).

• The Council’s MTFS will be revisited in light of the COVID-19 pandemic. An update on the Council’s finances, along with an analysis of the financial impact on the Council of COVID-19 will be provided to Members during the year. A new MTFS will then be submitted to the Executive for approval in January 2021, alongside the budget for 2021/22.

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

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

Although it is not possible to accurately predict the financial impact, an initial estimate of the total net cost including income losses is expected to significantly exceed the current level of Government funding provided of £10.6m (as at May 2020). The main element of financial loss relates to income reductions ranging from car parking to collection of council tax and business rates. Without any further funding there would be significant costs that would need to be met by the Council and alternative funding would need to be identified.

Funding

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

Legal Claims

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

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[1] Balance sheet

[2] Narrative Statement: Assets £718m less liabs £698m

Accounting for Schools

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

Accounting for schools-Balance Sheet recognition of schools.

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

Group Boundaries

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

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

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

Material Valuation Uncertainty

The UK commercial property market is facing unprecedented circumstances as a result of the COVID-19 outbreak and so valuation firms can no longer make reliable judgements on value. This is known as “material value uncertainty”. Valuers are still able to produce valuations and make professional judgements but with less certainty than under normal market conditions. The following statement from the Association of Real Estate Funds is repeated here:

“The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation is therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review”.

Brexit

There is still uncertainty about the implications of Britain’s departure from the European Union. At the current time it is not possible to predict the agreement that will be reached at the end of the transition period. The assumption has been made that this will not significantly impair the value of the council’s assets or change the discount rate. However, this assumption will be revisited and reviewed regularly.
The items in the London Borough of Merton’s Balance Sheet at 31st March 2020 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

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

Property, Plant and Equipment (PPE)

Property, Plant and Equipment (PPE)	
Uncertainty:	**Effect if actual result differs from assumptions:**
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. The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. PPE of **£744.4m** (£701.0m in 2018/19) is included in the accounts. Therefore, a 1% movement in value would result in a change of **£7.4m** (£7.0m. in 2018/19). The depreciation charge for PPE in 2019/20 was **£22.5m** (£21.8m in 2018/19). A movement of 1% would result in a change in the depreciation charge of approximately **£0.225m** (£0.218min 2018/19).

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

PPE – Especially Industrial sites

PPE – Especially Industrial sites	
Uncertainty:	**Effect if actual result differs from assumptions:**
There is a source of estimation uncertainty arising from a difference of professional opinion between valuers on the impact of Crossrail2. Some properties in the Weir Road area are impacted by the latest published planned route for Crossrail2. LBM valuers have addressed this impact and believe that it has a negative effect on the factors used to value these properties when calculated by the Existing Use Value (EUV) method. (Disclosure Note 19 refers) The professional judgement of the in-house valuers has been supported by the District Valuer Service. Industrial site properties in that area, that were valued as at March 2020 as part of the rolling programme of valuations, are therefore included in the Balance sheet with a reduced valuation due to Crossrail2 impact. The precise route, land acquisition requirements and future time-scales for Crossrail2 are uncertain and the economic impact of COVID-19 has probably increased this uncertainty. EYRE (EY Real Estates) have reviewed the factors used for the valuations, and their professional judgement in the matter is that there should be no reduction in value of the land as a consequence of Crossrail2 LBM valuers have increased the yield by 1.0% (i.e. reduced valuation) because their assumption is that investors will be put off buying properties that may be reclaimed due to the Crossrail2 project. EYRE disagree, as any reclaimed property will have to be purchased at Market Value under the Compulsory Purchase Order (CPO) and therefore should not affect the valuation of the property. We consider the difference to not be material, given there is a range of reasonable outcomes.	The difference in assumptions for the properties valued in March 2020, is that the use of EYRE suggested values (i.e. no impact arising from Crossrail2), would increase the property values in the Balance Sheet by £5.304m. (0.82% on PPE that is subject to valuation of £624.5m). If that assumption was extrapolated across the affected properties in the same area that were not valued in the rolling cycle at March 2020, the impact would be a further £0.763m (0.12% on PPE that is subject to valuation of £624.5m).

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

Provisions

Provisions	
Uncertainty:	**Effect if actual result differs from assumptions:**
The authority has made provisions of **£4.575m** (£4.729m in 2018/19) for insurance claims. The fund is used to pay claims for which the authority is self-insured. The suggested level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority. The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.	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 **£0.046m** (£0.047m in 2018/19) charge to the General Fund.

Provision for NDR appeals

Provision for NDR appeals	
Uncertainty:	**Effect if actual result differs from assumptions:**
The authority has made provision of **£7.376m** 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.	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.

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

Pension Liability

Pension Liability	
Estimation of the net **£279.2m** (£342.7m in 2018/19) 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. Additionally, the actuary has included the impact of the McCloud case judgement on 27th June 2019.	The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 32 for further detail. The impact of the McCloud case judgement is estimated to increase liabilities by £6.550m as at 31 March 2019.

Impairment of Bad and Doubtful debts

Impairment of Bad and Doubtful debts	
As at 31 March 2020, the Council had an outstanding balance of short-term debtors totalling **£47.3m** Against this debtors' balance, there is an impairment allowance of **£13.5m**. It is not certain that this impairment allowance would be sufficient as the Council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.	If collection rates were to deteriorate by 10% then the Council would have to re-assess its impairment allowance.

Pensions Schemes - Employers Contributions

Pensions Schemes - Employers Contributions	
Actuaries have prepared estimates of the amount of employer contributions that will need to be paid into pensions schemes during 2020/21. For these estimates they used an expected pay award of 2%. The estimates for the Defined Contributions schemes were **£11.522m** for the Teachers Pensions scheme and **£0.084** for the NHS scheme. The estimate for the Defined Benefit scheme was **£14.128m.**	If actual pay awards exceed the actuaries assumption by 0.75% then additional employers contributions of **£0.189m** would be required

Collection Fund

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

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

COLLECTION FUND

INCOME AND EXPENDITURE

2018/19				2019/20		
Business Rates £000	Council Tax £000	Total £000	COLLECTION FUND Income and Expenditure	Business Rates £000	Council Tax £000	Total £000
			A) INCOME			
0	111,202	111,202	Council Tax Receivable	0	118,820	118,820
89,932	0	89,932	Business Rates Receivable	88,028	0	88,028
2,556	0	2,556	Business Rates Supplements Receivable	2,488	0	2,488
92,488	**111,202**	**203,690**		**90,516**	**118,820**	**209,336**
			B) EXPENDITURE			
			Apportionment of Previous Year Surplus/(Deficit)			
(1,714)	0	(1,714)	Central Government	339	0	339
(1,223)	1,653	430	Billing Authority (LBM)	(3,250)	1,949	(1,301)
(1,140)	406	(734)	Greater London Authority	(1,621)	489	(1,132)
(4,077)	**2,059**	**(2,018)**		**(4,532)**	**2,438**	**(2,094)**
			C) Precepts, Demands and Shares			
0	0	0	Central Government (MHCLG): NDR	22,015	0	22,015
56,308	87,009	143,317	Billing Authority (LBM): NDR & Council Tax	42,269	92,370	134,639
31,673	21,810	53,483	Greater London Authority: NDR & Council Tax	23,777	24,023	47,800
2,556	0	2,556	Greater London Authority: NDR Supplement	2,488	0	2,488
90,537	**108,819**	**199,356**		**90,549**	**116,393**	**206,942**
			D) Charges to Collection Fund			
(228)	202	(26)	Less: increase/(decrease) in bad debt provision	238	899	1,137
6,514	0	6,514	Less: increase/(decrease) in provision for appeals	2,917	0	2,917
265	0	265	Less: cost of collection	361	0	361
6,551	**202**	**6,753**		**3,516**	**899**	**4,415**
(523)	**122**	**(401)**	**Surplus/(Deficit) arising during the year (=A-(B+C+D))**	**983**	**(910)**	**73**
(3,048)	**2,617**	**(431)**	**Surplus/(Deficit) b/fwd 1st April**	**(3,571)**	**2,739**	**(832)**
(3,571)	**2,739**	**(832)**	**Surplus/(Deficit) c/fwd 31st March**	**(2,588)**	**1,829**	**(759)**

COLLECTION FUND

1. COUNCIL TAX

Council Tax income is derived from charges on the value of residential properties. There are eight separate valuation bands. These bands are based on valuations taken in April 1991 for this specific purpose.

The Council tax base is the total number of properties in each of the eight valuation bands adjusted by a set proportion for each band to convert to the Band D equivalent for that band. The Band D charge is the required income from the Collection Fund divided by the Council Tax base. An individual amount due for each Band is calculated by multiplying the Band D charge by the proportion that is specified for each particular band. The Council Tax base in 2019/20 before allowance for non-collection is £76,093 (£75,635 for 2018/19). 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	
	2018/19	2019/20	2018/19	2019/20		2018/19	2019/20
A adjust	2	2	1	1	5/9	0	0
A	1,086	1,098	648	660	6/9	432	440
B	8,385	8,410	5,678	5,683	7/9	4,416	4,420
C	22,884	23,081	17,943	18,075	8/9	15,949	16,067
D	27,657	27,749	23,469	23,555	9/9	23,469	23,555
E	13,140	13,185	11,844	11,884	11/9	14,476	14,525
F	5,432	5,515	5,023	5,102	13/9	7,255	7,369
G	4,010	4,033	3,796	3,815	15/9	6,327	6,358
H	1,716	1,732	1,653	1,677	18/9	3,306	3,354
Total						**75,630**	**76,088**
Defence properties						5	5
Council Tax Base						**75,635**	**76,093**

The average Council Tax charge for a Band D property (including the GLA) was £1,552.90 in 2019/20 compared to £1,468.06 in 2018/19. From this an income yield of £116.4m was expected (£108.8m in 2018/19). In 2019/20 the income generated was £118.8m (£111.2m in 2018/19) 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 Council is responsible for collecting rates due from the business ratepayers in its area. The Valuation Office Agency (VOA) sets the rateable value. These values are then multiplied by a Uniform Business Rate, which is set by Central Government.

Under the 2019-20 London Pilot Scheme, the Authority retains a 48% share of 2019/20 NDR Income with 27% being precepted to the Greater London Authority (GLA). Central government receives the remaining 25%.

	2018/19	2019/20
Non-domestic rateable value at year end	£213m	£212m
Number of Hereditaments	5,490	5,442
Uniform Business Rate (in the £)	49.3p	50.4p

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

	2018/19 £000	2019/20 £000
Gross Rates payable (including net amounts for previous years)	104,543	105,530
Mandatory and discretionary reliefs	(13,719)	(16,939)
Transitional Protection Payments	(892)	(563)
Business Rates Receivable	**89,932**	**88,028**
Allowance for Provision for bad and doubtful debts	228	(238)
Change to Provision for losses on appeals	(6,514)	(2,917)
Cost of collection	(265)	(361)
Net Income	**83,381**	**84,512**

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.

Collection Fund

2. Non-Domestic Rates (NDR)

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

	2018/19 £000	2019/20 £000
Gross Rates payable	2,811	2,782
Mandatory and discretionary reliefs	(255)	(294)
Net contribution to GLA	**2,556**	**2,488**

3. PROVISIONS FOR IMPAIRMENT OF BAD DEBTS AND LOSSES ON APPEALS

The movements in the provisions for impairments of bad debts and for losses on appeals were as below. The Council is liable for its proportionate share of successful appeals against NDR charges and alterations of rating lists. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

	Balance at 1st April 2019 £000	Allowance for Impairment £000	Amounts charged against Allowance £000	Balance at 31st March 2020 £000
Council Tax: Impairment of Bad Debts	7,157	899	(410)	7,646
Non-Domestic Rates: Impairment of Bad Debts	2,568	238	(508)	2,298
Non-Domestic Rates: Losses on Appeals	12,450	4,511	(1,594)	15,367
TOTAL	22,175	5,648	(2,512)	25,311

4. Surpluses and Deficits

Council Tax

There is an accumulated surplus of £1.829m on the Collection Fund (£2.739m in 2018/19). 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.

Council Tax Balance, apportionment	2018/19 £000	2019/20 £000	Change in the Year £000
London Borough of Merton Council Tax surplus	(2,159)	(1,451)	708
Greater London Authority Council Tax surplus	(580)	(378)	202
Total	**(2,739)**	**(1,829)**	**910**

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

Council Tax Surplus Movement	Greater London Authority	London Borough Of Merton	Total
	£000	£000	£000
Accumulated surplus as at 1st April 2019	**(580)**	**(2,159)**	**(2,739)**
Paid to GLA in 2019/20	489	0	**489**
Transfer to/(from) General Fund in 2019/20	0	1,949	**1,949**
Surplus in 2019/20	(287)	(1,241)	**(1,528)**
Total - Accumulated surplus as at 31st March 2020	**(378)**	**(1,451)**	**(1,829)**

Collection Fund

4. Surpluses and Deficits

NDR

There is a deficit of £2.588m on the Collection Fund (£3.571m in 2018/19). This deficit is attributable to the London Borough of Merton, the Greater London Authority and central government; it is based on their respective demands upon the Collection Fund. The estimated shares of the fund are shown in the following table.

NDR Balance, apportionment	2018/19 £000	2019/20 £000	Change in the Year £000
London Borough of Merton NDR deficit	2,635	1,089	(1,546)
Greater London Authority NDR deficit	1,275	612	(663)
MHCLG NDR deficit	(339)	887	1,226
Total	**3,571**	**2,588**	**(983)**

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

NDR Deficit Movement	Greater London Authority £000	MHCLG £000	London Borough of Merton £000	Total £000
Accumulated deficit as at 1st April 2019	**1,275**	**(339)**	**2,635**	**3,571**
Paid to/(from) preceptors in 2019/20	(1,621)	339	0	(1,282)
Transfer to/(from) General Fund in 2019/20	0	0	(3,250)	(3,250)
Deficit in 2019/20	958	887	1,704	3,549
Total - Accumulated deficit as at 31st March 2020	**612**	**887**	**1,089**	**2,588**

5. Collection Fund Link to Core Statements

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

CIES

The £93.611m (£88,735m in 2018/19) Council Tax income and the £40.565m (£53,364m in 2018/19) 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 £0.248m (£0.244m in 2018/19) council tax income and £0.070m (£0.049m in 2018/19) NDR income have also been recognised in the CIES in 2019/20. These are receipts which had been over-paid by taxpayers prior to 2013/14 and are now beyond the statutory period during which they could legally be reclaimed.

Income and Expenditure Council Tax	2018/19 £000	2019/20 £000
Demand on the Fund	87,009	92,370
Transfer of Surplus	1,653	1,949
Total included in I&E under Collection Fund Regulations	**88,662**	**94,319**
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	73	(708)
Council Taxation Fund Income	**88,735**	**93,611**
Movement in Reserves Statement	**2018/19 £000**	**2019/20 £000**
Reversal of adjustment of Collection Fund Surplus under 2011 Code	(73)	708
Net charge to General Fund, which is based on statutory requirements	**88,662**	**94,319**

Income and Expenditure Business Rates	2018/19	2019/20
	£000	£000
Demand on the Fund	56,308	42,269
Transfer of Deficit	(1,223)	(3,250)
Total included in I&E under Collection Fund Regulations	**55,085**	**39,019**
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	(1,721)	1,546
Business Rates Fund Income	**53,364**	**40,565**
Movement in Reserves Statement	**2018/19**	**2019/20**
	£000	**£000**
Reversal of adjustment of Collection Fund Surplus under 2011 Code	1,721	(1,546)
Net charge to General Fund, which is based on statutory requirements	**55,085**	**39,019**

Collection Fund

Balance Sheet

The cash collected by the Council for Council Tax and NDR belongs proportionately to the Council and its major preceptors (the GLA and the MHCLG). There will be a debtor/creditor position at the end of year since the net cash paid to each preceptor in the year will not exactly match its share of cash collected from Council Tax and NDR payers. The amounts actually paid to preceptors are based on estimates made prior to the financial year as required by statute.

The following table summarises the Council Tax and NDR cash balances for the Collection Fund and the Council's Balance Sheet. In the Collection Fund column, the balance relating to each preceptor is their proportionate share of the surplus/deficit. In the Balance Sheet column, the balance relating to each preceptor is a consolidated sum comprising their proportionate share of the surplus/deficit and their proportionate share of arrears, provisions and receipts in advance.

Collection Fund Balance Sheet	Collection Fund 2019/20 £000	Balance Sheet 2019/20 £000
Council Tax		
Arrears	8,045	6,435
Impairment Allowance for Doubtful Debts	(7,646)	(6,072)
Receipts in Advance	(4,634)	(3,536)
Collection Fund (Surplus) / Deficit	(1,451)	(1,451)
GLA	(378)	(1,440)
Cash	**(6,064)**	**(6,064)**
Business Rates		
Transitional Protection & Costs Adjustment	(99)	(99)
Arrears	3,534	1,703
Impairment Allowance for Doubtful Debts	(2,298)	(1,104)
Impairment for Loss on Appeals	(15,367)	(7,376)
Receipts in Advance	(2,201)	(975)
Collection Fund (Surplus) / Deficit	1,089	1,089
GLA	612	(3,843)
MHCLG	887	(3,238)
Cash	**(13,843)**	**(13,843)**

Group Financial Statements

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

1. Group Comprehensive Income and Expenditure Statement

2018/19				2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
			Continuing Operations			
231,684	(168,368)	63,316	Children, Schools and Families	241,005	(178,019)	62,986
82,659	(23,237)	59,422	Community and Housing	85,578	(25,329)	60,249
132,485	(92,963)	39,522	Corporate Services	113,624	(81,094)	32,530
59,149	(40,340)	18,809	Environment and Regeneration	62,146	(41,783)	20,363
10,143	(10,118)	25	Public Health	10,452	(10,452)	0
516,120	(335,026)	181,094	Cost of services	512,805	(336,677)	176,128
21,164	(7,535)	13,629	Other operating income and expenditure	5,638	(11,613)	(5,975)
		19,513	Financing and investment income and expenditure			16,632
		(164,486)	Taxation and non-specific grant income			(169,939)
		49,750	Group Deficit on Provision of Services			16,846
		464	Tax on Profit			759
		50,214	Group Deficit on Provision of Services			17,605
		(292)	(Surplus) or deficit on revaluation of non-current assets			(51,686)
		0	Impairment losses on non-current assets			0
		(42,927)	Remeasurement of the net defined benefit liability/(asset)			(86,704)
		(43,219)	Other Comprehensive Income and Expenditure			(138,390)
		6,995	Total Comprehensive Income and Expenditure			(120,785)

2. Group Movement in Reserves Statement

Group MIRS	LBM General Fund Balances £000	LBM Capital Receipts Reserves £000	LBM Capital Grants Unapplied £000	LBM Total Usable Reserves £000	LBM Unusable Reserves £000	Authority share of Subsidiary Reserves £000	Total Group Reserves £000
Balance at 1 April 2018	(60,720)	(15,513)	(10,479)	(86,712)	(198,252)	(2,958)	(287,922)
Rounding Adjustments Btwn reserves	(2)		2	0			0
Movement in reserves during 2017/18							
Total Comprehensive Income and Expenditure	50,370	0	0	50,370	(43,183)	(193)	6,995
Adjustments between accounting basis & funding basis under regulations	(56,718)	6,285	(6,528)	(56,962)	56,962		0
Adjustments between Group Accounts and the Authority's accounts							0
(Increase)/Decrease in Year	(6,348)	6,285	(6,528)	(6,592)	13,779	(193)	6,995
Balance at 31 March 2019 carried forward	(67,070)	(9,228)	(17,005)	(93,304)	(184,473)	(3,151)	(280,928)

Group MIRS	LBM General Fund Balances £000	LBM Capital Receipts Reserves £000	LBM Capital Grants Unapplied £000	LBM Total Usable Reserves £000	LBM Unusable Reserves £000	Authority share of Subsidiary Reserves £000	Total Group Reserves £000
Balance at 1 April 2019	(67,070)	(9,228)	(17,005)	(93,304)	(184,473)	(3,151)	(280,928)
Rounding Adjustments Btwn reserves							
Movement in reserves during 2019/20							
Total Comprehensive Income and Expenditure	17,927	0	0	17,927	(138,390)	(322)	(120,785)
Adjustments between accounting basis & funding basis under regulations	(19,945)	7,170	(4,895)	(17,670)	17,670		0
rounding adjustments							
Adjustments between Group Accounts and the Authority's accounts							0
(Increase)/Decrease in Year	(2,018)	7,170	(4,895)	257	(120,720)	(322)	(120,785)
Balance at 31 March 2020 carried forward	(69,088)	(2,058)	(21,900)	(93,047)	(305,193)	(3,473)	(401,713)

3. Group Balance Sheet

31 Mar 2019 £000	Group Balance Sheet	31 Mar 2020 £000
701,323	Property, Plant & Equipment	744,368
802	Heritage Assets	802
0	Long Term Investments	0
4,727	Intangible Assets	5,130
239	Deferred Assets	187
6,850	Long Term Debtors	7,206
713,941	Long Term Assets	757,693
60,239	Short Term Investments	80,403
1	Inventories	1
36,212	Short Term Debtors	33,233
700	Assets Held for Sale	4,940
50,206	Cash and Cash Equivalents	39,163
147,358	Current Assets	157,740
(1,495)	Short Term Borrowing	(3,030)
(66,238)	Short Term Creditors	(66,406)
(558)	Current Tax Liability	(173)
(2,868)	Current Provisions	(2,656)
(71,159)	Current Liabilities	(72,265)
(9,828)	Provisions	(9,296)
(113,010)	Long Term Borrowing	(111,010)
(30,129)	Other Long Term Liabilities	(28,411)
(343,923)	Pension Liability	(280,223)
(12,322)	Capital Grants Receipts in Advance	(12,515)
(509,212)	Long Term Liabilities	(441,455)
280,928	Net Assets	401,713
(96,455)	Usable Reserves	(96,521)
(184,473)	Unusable Reserves	(305,192)
(280,928)	Total Reserves	(401,713)

4. Group Cash Flow Statement

2018/19 £000	Group Cash Flow Statement	2019/20 £000
50,214	Net deficit on the provision of services	17,605
(90,764)	Adjustments to net deficit on the provision of services for non-cash movements	(45,653)
30,840	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	20,805
(9,710)	Net Cash flows from Operating Activities	(7,243)
(6,249)	Investing Activities	18,218
274	Financing Activities	68
(15,685)	Net (increase) in cash and cash equivalents	11,043
34,521	Cash and cash equivalents at the beginning of the reporting period	50,206
50,206	Cash and cash equivalents at the end of the reporting period	39,163

Pension Fund Accounts

Fund Account

2018/19 £000	Fund Account	Notes	2019/20 £000
	Dealings with members, employers and others directly involved in the scheme		
(23,453)	Contributions	7	(24,910)
(18,933)	Transfers in	8	(12,828)
(42,386)	**Total Income**		**(37,738)**
25,816	Benefits	9	26,575
5,242	Payments to and on account of leavers	10	5,594
31,058	**Total Expenditure**		**32,169**
(11,328)	**Net (additions)/withdrawals from dealings with members**		**(5,569)**
1,133	Management expenses	11	1,701
(10,195)	**Net (additions)/withdrawals including Fund management expenses**		**(3,868)**
	Returns on investments		
(8,021)	Investment income	12	(13,011)
7	Taxes on income	13	0
(39,893)	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	48,680
(47,907)	**Net returns on investments**		**35,669**
(58,102)	**Net (increase)/decrease in the net assets available for benefits during the year**		**31,801**
(663,152)	**Opening net assets of the scheme**		**(721,254)**
(721,254)	**Closing net assets of the scheme**		**(689,453)**

Net Assets Statement

2018/19 £000		Notes	2019/20 £000
707,872	Investment assets	14	685,130
707,872	**Total Investments**		**685,130**
14,679	Current assets	20	5,662
(1,297)	Current liabilities	21	(1,339)
721,254	**Net assets of the Fund available to Fund benefits at period end**		**689,453**

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.

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 employers and two scheme member representatives.

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 • Harris Wimbledon • St Mark's Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme) • Beecholme Academy • Aragon Academy • Stanford Primary Academy • Chapel Street

The following table summarises the membership numbers of the scheme.

2018/19		2019/20
	Active Members	
3,717	London Borough of Merton	3,880
381	Scheduled bodies	415
52	Admitted bodies	46
4,150		**4,341**
	Pensioners	
3,643	London Borough of Merton	3,715
164	Scheduled bodies	171
119	Admitted bodies	131
3,926		**4,017**
	Deferred Pensioners	
5,113	London Borough of Merton	5,451
354	Scheduled bodies	390
125	Admitted bodies	119
5,592		**5,960**

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

Benefits

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

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its financial position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20', 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 accounts have been prepared on a going concern basis The Merton Pension Fund is an open scheme with strong a covenant from the participating employers and therefore able to take a long term outlook when considering the general funding implications of external events.

The Fund was 103% funded at the 31 March 2019 valuation and remained the same as at 31 March 2020. The Fund is cash flow neutral with the majority of the investment income being reinvested into the respective investment for added growth. The Fund is in a position to draw on its investments in the most appropriate order, should short term liquidity be required.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contribution Income

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

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

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

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

3.2 Transfers to and from other schemes

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

3.3 Investment income

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

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

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

Revenue account – expense items

3.4 Benefits Payable

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

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

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

3.6 Management Expenses

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

Investment Management Expenses

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

Oversight and Governance Costs

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

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

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

Net Asset Statement

3.8 Investment Assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

3.9 Movement in the net market value of investment

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

3.10 Foreign currency

All foreign currency investment transactions are converted into sterling at spot rate. The year end balances are converted using the 31st March rate to show the fair value of the investment.

3.11 Derivatives

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

3.12 Cash and cash equivalents

Dividends, interest, purchases, and sales of investments are accounted for at the spot market rates at the date of transaction. End of year spot rate is used to calculate the closing cash balances held in foreign currency, overseas investments and purchases and sales outstanding at the end of the reporting period.

Cash equivalents are short term, highly liquid investments that are readily convertible to cash and subject to minimum risk of changes in value.

The cash balance includes cash held by the Fund managers and within the Funds' bank account.

3.13 Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

3.14 Additional Voluntary Contributions

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

3.15 Contingent Assets and Contingent Liabilities

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

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

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

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

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

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

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 2020 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 £17.4m and a -0.1% reduction would increase the obligation by £17.8m. An adjustment to the mortality age rating assumption of -1 yr. would decrease the obligation by £36.9m. McCloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation.

6. Events After The Reporting Date

In March 2020 due to COVID19 pandemic the investments value dropped significantly but started to rise in April 2020. As at June 2020 the investments stands at £784.8m, showing an increase of 13.9% since March.
The Fund is an open fund and long term investment focused. The Fund will continue work on this basis and avoid crystallising any losses due to short term events.

7. Contributions Receivable

2018/19 £000	By Category	2019/20 £000
17,348	Employers	18,364
6,105	Members	6,546
23,453	**Total**	**24,910**

2018/19 £000	By Authority	2019/20 £000
21,371	Administering	22,680
1,609	Scheduled	1,829
473	Admitted	401
23,453	**Total**	**24,910**

2018/19 £000	By Type	2019/20 £000
13,570	Employers normal	14,415
6,044	Employees normal	6,546
3,620	Deficit Funding	3,709
219	Employers additional	240
23,453	**Total**	**24,910**

8. Transfers In From Other Pension Funds

2018/19 £000		2019/20 £000
4,523	Individual Transfers	3,165
14,410	Group Transfer	9,663
18,933	**Total**	**12,828**

Note: There were two group transfers in 2019/20 from Wandsworth. Legal Services transfer £3.4m. Regulatory Services transfer £6.3m.

9. Benefits Payable

2018/19 £000	By Category	2019/20 £000
21,548	Pensions	22,534
3,755	Commutations and lump sum retirement benefits	3,640
513	Lump sum death benefits	401
25,816	**Total**	**26,575**

2018/19 £000	By Authority	2019/20 £000
23,855	Administering	24,182
847	Scheduled	836
1,114	Admitted	1,557
25,816	**Total**	**26,575**

10. Payments to and on Account of Leavers

2018/19 £000		2019/20 £000
4,239	Individual transfers	5,461
843	Group transfers	0
112	Refunds of contribution	134
48	State scheme premiums	(1)
5,242	**Total**	**5,594**

11. Management Expenses

2018/19 £000		2019/20 £000
387	Administrative costs	632
434	Investment management expenses	654
312	Oversight and governance costs	415
1,133	**Total**	**1,701**

11a. Investment Management Expenses

2018/19 Fees Through E5 £000	2018/19 Fees deducted at source £000		2019/20 Fees Through E5 £000	2019/20 Fees deducted at source £000
424	961	Management fees	662	1,652
0	10	Performance related fees	0	11
10	0	Custody fees	(8)	0
0	75	Transaction costs	0	0
434	**1,046**	**Total**	**654**	**1,663**

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

12. Investment Income

2018/19 £000		2019/20 £000
1,054	Fixed income (Bonds)	629
3,361	Pooled equity investments	3,536
2,941	Pooled investments (Other)	1,691
803	Pooled property investments	890
0	Infrastructure	4,246
0	Private Debt	1,936
(138)	Other	83
8,021	**Total**	**13,011**

13. Taxes on Income

2018/19 £000		2019/20 £000
3	Non-recoverable tax	0
4	Withholding tax	0
7	**Total**	**0**

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 2020

2018/19			2019/20	
£000	%	Fund Manager	£000	%
116,617	16	Aberdeen Asset Management	7	0
222,988	31	UBS Asset Management	176,181	25.7
78,321	11	Blackrock	76,107	11.1
103,991	15	Baillie Gifford (LCIV)	100,180	14.6
33,671	5	Pyrford (LCIV)	32,909	4.8
74,694	11	RBC (LCIV)	71,358	10.4
69,360	10	CQS (LCIV)	59,756	8.7
4,389	1	Quinbrook	7,339	1.1
1,157	0.2	Macquarie	11,277	1.7
2,534	0.4	Churchill	11,233	1.6
0	0	JPM Infrastructure	19,445	2.8
0	0	JPM Emerging Markets (LCIV)	25,753	3.8
0	0	Permira	4,474	0.7
0	0	Wells Fargo	88,961	13.0
150	0	LCIV Subscription	150	0
707,872	**100**	**Total**	**685,130**	**100**

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2020 is shown in the following table.

Market Value 31 March 2019 £000		Market Value 31 March 2020 £000
	Investment Assets	
87,451	Fixed Income (bonds)	69,819
451,366	Pooled equity investments	395,323
135,955	Pooled investments (other)	122,684
23,749	Pooled property investments	24,212
2,534	Private Debt	15,707
5,546	Infrastructure	37,687
0	Derivatives	(6,702)
991	Cash held with fund managers	25,851
129	Investment income due	399
707,722	**Total Investment Assets**	**684,980**
0	**Investment Liabilities**	**0**
150	**LCIV Subscription**	**150**
707,872	**Net investment assets**	**685,130**

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 2019/2020. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown.

	Market Value 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2020 £000
Bonds	**87,451**	95,192	(87,451)	(25,373)	**69,819**
Pooled Equity Investments	**0**	33,225	0	362,098	**395,323**
Pooled Investments Other	**587,322**	1,691	(67,050)	(399,279)	**122,684**
Private Debt	**8,080**	13,388	0	(5,761)	**15,707**
Infrastructure	**0**	36,669	0	1,018	**37,687**
Pooled Property	**23,749**	1,000	0	(537)	**24,212**
	706,602	**181,165**	(154,501)	**(67,834)**	**665,432**
Derivative Contracts					
Forward Currency Contracts	**0**	**0**	**0**	**(6,702)**	**(6,702)**
	706,602	**181,165**	**(154,501)**	**(74,536)**	**658,730**
Other Investment Balances					
Cash with Fund Managers	**991**			25,857	**25,851**
Investment Income Due	**129**				**399**
External Investments at Market Value	**707,722**				**684,980**
LCIV Subscription	**150**				**150**
Investment Assets	**707,872**			**(48,679)**	**685,130**

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2018/2019.

	Market Value 1 April 2018 £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 2019 £000
Bonds	**152,315**	1,658	(68,960)	2,438	**87,451**
Equities	**244,427**	0	(244,427)	0	**0**
Pooled Investments	**236,156**	552,275	(238,696)	37,587	**587,322**
Private Debt	**0**	8,847	0	(767)	**8,080**
Pooled Property	**22,896**	218	0	635	**23,749**
	655,794	**562,997**	(552,083)	**39,893**	**706,602**
Derivatives (Futures)					
Future Asset	**1,329**	0	(1,329)	0	**0**
Future Liability	**(1,348)**	0	1,348	0	**0**
	655,775	**562,997**	**(552,064)**	**39,893**	**706,602**
Other Investment Balances					
Cash with Fund Managers	**2,829**	0	0	0	**991**
Investment Income Due	**1,434**	0	0	0	**129**
External Investments at Market Value	**660,038**				**707,722**
LCIV Subscription	**150**				**150**
Investment Assets	**660,188**			**39,893**	**707,872**

14.4 Detail Analysis of Investments

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

Market Value 31 March 2019 £000		Market Value 31 March 2020 £000
	Bonds	
65,843	UK quoted	65,787
21,608	Overseas quoted	4,032
87,451		**69,819**
	Pooled Investments	
0	Emerging Markets (Equities)	67,058
451,367	Global Equities quoted	328,265
66,595	Diversified Growth	62,928
69,360	Multi Asset Credit	59,756
587,322		**518,007**
	Pooled Property Investments	
7,918	Property Managed Fund/Units quoted	7,553
15,831	Property Managed Fund/Units unquoted	16,659
23,749		**24,212**
	Private Debt and Infrastructure	
1,157	Macquarie	11,277
2,534	Churchill	11,233
4,389	Quinbrook	7,339
0	JPM	19,071
0	Permira	4,474
8,080		**53,394**
	Derivatives	
0	Forward Currency Contracts	(6,702)
129	Other Investment Balances	399
991	Cash with Fund Managers	25,851
707,722	**Total Investment Assets**	**684,980**
150	**LCIV Subscription**	**150**
707,872	**Total**	**685,130**

14.5 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2020.

14.6 Investments exceeding 5% of net assets

The table below shows investments exceeding 5% of total net assets, (all these investments are pooled).

% Market Value 2018/19	Security	% Market Value 2019/20
7.2	Aberdeen Global II Index Linked	-
12.7	UBS Life World Equity Tracker	7.6

15. Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Pooled investments - Property Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012	Not required	Not required

15a Fair Value Hierarchy

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

Level 1 – Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trust.
Level 2 – Where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 – Where at least one input that could have a significant effect on the Instrument's valuation is not based on observable market data.
The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

31 March 2019				31 March 2020		
Quoted market price Level 1	Quoted market price Level 2	Quoted market price Level 3		Quoted market price Level 1	Quoted market price Level 2	Quoted market price Level 3
£000	£000	£000		£000	£000	£000
674,922	23,749	8,080	Financial assets at fair value through profit and loss	588,827	16,659	53,394
1,120	0	0	Loans and Receivables	26,250	0	0
0	0	0	Financial liabilities at fair value through profit and loss	0	0	0
676,042	**23,749**	**8,080**	**Total**	**615,077**	**16,659**	**53,394**

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 2019				31 March 2020		
Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs		Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial Assets			
87,451	0	0	Bonds	69,819	0	0
587,321	0	0	Pooled Investments	518,007	0	0
23,749	0	0	Pooled Property Investments	24,212	0	0
8,080	0	0	Private Debt & Infrastructure	53,394	0	0
0	150	0	LCIV Subscription	0	150	0
0	0	0	Derivatives	(6,702)	0	0
0	991	0	Cash With Fund Managers	0	25,851	0
129	0	0	Other Investment Balances	399	0	0
0	467	0	Debtors	0	865	0
0	12,607	0	Cash	0	3,106	0
706,730	**14,215**	**0**		**659,129**	**29,972**	**0**
			Financial Liabilities			
0	0	(1,297)	Creditors			(1,339)
0	**0**	**(1,297)**				**(1,339)**
706,730	**14,215**	**(1,297)**		**659,129**	**29,972**	**(1,339)**

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 2019 £000		31 March 2020 £000
	Financial Assets	
39,893	Fair Value through profit and loss	(48,680)
39,893	**Total**	**(48,680)**

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

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

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

17.2 Market risk

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

17.3 Price risk

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

Asset Type	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	69,819	7.6	75,125	64,513
Equities & Emerging Markets	395,323	11.8	441,971	348,675
Diversified Growth	62,928	5.9	66,641	59,215
Multi Asset Credit	59,756	7.6	64,297	55,215
Pooled Property	24,212	3.6	25,084	23,340
Private Debt & Infrastructure	53,394	4.2	55,637	51,151
Cash	25,851	0.9	26,084	25,618
Derivatives	(6,702)	0.0	(6,702)	(6,702)
Income Due	399	0.0	399	399
LCIV Subscription	150	0.0	150	150
Total Assets	**685,130**	**8.3**	**748,685**	**621,575**

Asset Type	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	87,451	9.6	95,862	79,040
Equities	451,367	8.7	490,463	412,271
Diversified Growth	66,595	3.5	68,902	64,288
Multi Asset Credit	69,360	9.6	76,019	62,701
Pooled Property	23,749	3.4	24,556	22,942
Private Debt and Infrastructure	8,080	5.5	8,522	7,638
Cash	991	0.6	997	985
Income Due	129	0.0	129	129
LCIV Subscription	150	0.0	150	150
Total Assets	**707,872**		**765,599**	**650,144**

Note: The % change for total assets includes the impact of correlation across asset classes

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2020 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

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

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

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

Asset Type	Potential market movements (+/-) %
Bonds and Index Linked	7.6
Equities	11.8
Diversified Growth	5.9
Multi Asset Credit	7.6
Property	3.6
Private Debt and Infrastructure	4.2
Cash	0.9

17.5 Interest rate risk

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

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

17.6 Currency risk

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

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

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

The table below shows the currency exposure by asset type as at 31 March 2019.

Asset Type	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	21,608	9.3	23,626	19,590
Private Debt & Infrastructure	8,080	9.3	8,835	7,325
Total Overseas Assets	**29,688**		**32,461**	**26,915**

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2020. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

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

Assets exposed to currency risk	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	21,608	9.30	23,626	19,590
Private Debt & Infrastructure (US Dollar)	8,080	9.30	8,835	7,325
Total	**29,688**		**32,461**	**26,915**

17.7 Credit risk

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

The average long-term credit rating in the bond portfolio is AA as at 31 March 2020. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

Value at 31 March 2019 £000		Value at 31 March 2020 £000
4,466	AAA	25,851
64,005	AA	0
0	AA-	69,819
8,318	A	0
8,931	BBB	0
700	BB or below	0
1,138	Cash	0
8	Settled Cash	0
87,566	**Total**	**95,670**

17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash holding as at 31 March 2020 was £3.1m (31 March 2019: £12.6m).

17.9 Refinancing risk

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

18. Funding Arrangements

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

The key elements of the Funding policy are:

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

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

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

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

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

The assessed value of assets held by the Fund at 31 March 2019 was £718.m (2016 valuation: £525.5m), whilst the liabilities accrued in respect of pensionable service were £698m (2016 valuation: £558.2m).
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-Mar-19	31-Mar-16
Discount rate		4.80%	5.50%
Pay increase	Long Term	3.60%	3.90%
	Short Term	N/A	Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020
Consumer price inflation (CPI)		2.60%	2.40%
Pension increases		2.60%	2.40%
Pension increases on GMP		Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date , we have assumed that Funds are required to pay the entire inflationary increases	For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.

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 2020, using a valuation methodology that is consistent with IAS19.

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

Financial Assumptions	Assumptions as at 31 March 2020 %
Inflation/Pension Increase Rate	1.9
Salary Rate Increase	2.9
Discount Rate	2.35

The value of the Fund's promised retirement benefits as at 31 March 2020 was:

31 March 2019 £m		31 March 2020 £m
1,059.9	Present value of promised retirement benefits	975.4m

20. Current Assets

31 March 2019 £000	Current Assets	31 March 2020 £000
1,605	Contributions Due	1,691
467	Sundry Debtors	865
12,607	Cash	3,106
14,679	**Total**	**5,662**

Analysis of Debtors

31 March 2019 £000	Current Debtors	31 March 2020 £000
1,442	Administering Body	1,530
163	Admitted and Scheduled Bodies	161
467	Sundry Debtors	865
2,072	**Total**	**2,556**

21. Current Liabilities

31 March 2019 £000	Creditors	31 March 2020 £000
(184)	Fund Managers Fees	(83)
(793)	Sundry	(928)
(320)	Payroll	(328)
(1,297)	**Total**	**(1,339)**

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 2019/20 to AVC schemes outside the Authority's responsibility was £0.438.5m (£0.415m at 31 March 2019). The external providers have reported that at 31 March 2020 the total value of accumulated AVCs is £2.72m (£2.47m at 31 March 2019).

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.39m (2018/19: £0.41m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

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

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

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

Key Management Personnel
The key management personnel of the Fund are the Director of Corporate Services, the Assistant Director of Resources and the Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31 March 2019 £	31 March 2020 £
Short-term benefits	84,068	80,412
Total remuneration	**84,068**	**80,412**

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2020 were £46.7m (31 March 2019 £41.2m).

These commitments relate to outstanding call payments due on private debt and infrastructure investments. The amounts ‘called’ by these investments are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

Statements of Responsibilities

The Council's Responsibilities

The Council is required:

1. To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Corporate Services.

2. To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

3. To approve the Statement of Accounts.

1.1 The Director of Corporate Services' Responsibilities

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

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

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

The Director of Corporate Services has also:

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

1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2020.

Signed

C Holland
Director of Corporate Services
30 September 2020

1.3 Approval of Accounts by Standards and General Purposes Committee

I hereby certify that the Statement of Accounts has been approved by resolution of the Standards and General Purposes Committee of the London Borough of Merton in accordance with the Accounts and Audit (England) Regulations 2015 and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

Signed

Peter McCabe
Chairman Standards and General Purposes Committee
30 September 2020

Further information about the accounts is available from:

Director of Corporate Services
8th Floor
Merton Civic Centre
London Road
MORDEN
Surrey
SM4 5DX

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

Independent Auditor's Report

The final Auditors report will be received from EY at the end of October.

Glossary

ACCOUNTING POLICIES
Rules and practices followed in drawing up the accounts.

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

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

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

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

AMORTISED COST
A way of measuring financial instruments that ignores changes in fair value. Defined as the amount at which a financial instrument is measured when it is first brought onto the Balance Sheet, adjusted for:

1. Repayments of principal (minus), and
2. Cumulative amortisation of any difference between the initial amount and the maturity amount (using the effective interest method) (plus or minus).

These differences might arise (e.g.) from transaction costs being set off against the principal amount of a loan, or interest being payable at less than market rates.

AMORTISED COSTS FINANCIAL ASSETS
Investments for which any gains and losses in fair value are not accounted for until the investment matures or is sold. Defined as financial assets:

1. Held within a business model whose objective is to hold investments in order to collect their contractual cash flows, and
2. Which have the form of a basic lending arrangement (i.e. contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

APPROPRIATIONS
The assignment of revenue balances for specified purposes.

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

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

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

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

BUDGET
Statement of the spending plans for the year.

BUSINESS MODEL
Arrangements for holding financial assets, whose objectives can involve making a return by either collecting the cash flows payable under the contracts for each investment (e.g. interest) or hoping to sell investments to gain from increases in their value.

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

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

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

CAPITAL RECEIPTS DEFERRED
Capital receipts on the disposal of non-current assets where cash settlement is deferred.

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

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)
The Institute produces standards and codes of practice that must be followed in preparing the Council's financial statements.

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

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

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

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

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

CONTRACT ASSET
An asset arising from a contract for the purchase of goods and/or services from the Council, where the Council has met some of its performance obligations but is not yet entitled unconditionally to receive payment

CONTRACT LIABILITY
A liability arising from a contract for the purchase of goods and/or services from the Council, where the Council has received payment but has yet to meet the performance obligations relating to that payment.

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

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

CREDIT-ADJUSTED EFFECTIVE INTEREST RATE
The effective interest rate calculated for purchased or originated credit-impaired financial assets that takes into account expected credit losses.

CREDIT-IMPAIRED FINANCIAL ASSET
A financial asset for which events have occurred that have a detrimental impact on the estimated future cash flows due to the Council (e.g. financial difficulties of the borrower, a breach of contract).

CREDIT LOSSES
A measure of how much the Council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are due contractually to the Council under a financial asset and those that it actually expects to receive (discounted using the investment's effective interest rate).

CREDITORS
Money owed by the Council, which is due immediately or in the short term. Accordingly, it does not include money on taxation to the Council. Creditors are an example of the concept of accruals.

CURRENT SERVICE COST (PENSIONS)
The increase in the present value of the liabilities earned by employees in the current period in a defined benefit scheme.

CURTAILMENT COSTS
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

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

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

DEFICIT FUNDING (Employers Additional Funding)
An agreed additional payment made annually by the employer to the Pension Fund to cover a past service deficiency over a fixed recovery period.

DEFINED BENEFIT SCHEME

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

DEPRECIATION

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

DISCRETIONARY BENEFITS

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

EFFECTIVE INTEREST METHOD

The method that uses effective interest rates to calculate the amortised cost of a financial instrument and allocates interest revenue or expense to the particular financial years over which the instrument is held.

EFFECTIVE INTEREST RATE

The interest rate that exactly discounts future cash payments and receipts over the life of a financial instrument to the carrying amount (gross of any loss allowance) (asset) or to the amortised cost (liability). This might be different from the actual interest rate where (e.g.) transaction costs have been accrued or because of interest at less than market rates being spread over the term of the instrument.

EMOLUMENTS

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

EXCEPTIONAL ITEMS

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

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

EXPECTED CREDIT LOSSES (ECLs)

The credit losses that the Council estimates will arise from the amounts that it is currently owed. ECLs are calculated by measuring the losses that would arise from different default scenarios and calculates a weighted average loss based on the probability of each scenario taking place.

12 MONTH EXPECTED CREDIT LOSSES
The expected credit losses for a financial asset that are projected for the possible default events that might happen only in the next financial year.

FAIR VALUE
Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. The IFRS 13 fair value hierarchy has three levels of valuation:

Level One – fair value has been obtained using quoted prices in active markets for identical items.
Level Two - fair value has been obtained using other inputs observable for the item.
Level Three – unobservable inputs have been used to reach fair value.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FINANCIAL ASSETS
Investments for which gains and losses in fair value are recognised on the Balance Sheet but do not impact on the Council's income as they arise but only when the investment matures or is sold. Defined as financial assets:

1. Held within a business model whose objective is achieved by both collecting contractual cash flows and selling investments; and
2. Which have the form of a basic lending arrangement (i.e., contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding).

FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS
Defined as financial assets that do not qualify for measurement at amortised cost or fair value through other comprehensive income.

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

FINANCIAL INSTRUMENT
A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

FINANCIAL YEAR
The financial year runs from the 1st April to the following 31st March.

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

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

FTSE 100
This is the index of the top 100 UK listed companies by market capitalisation.

GENERAL FUND
The main fund of the Council, from which all expenditure is met and all income is paid, with the exception of those items, which by statute have to be taken to some other account.

GOVERNMENT GRANTS
Financial assistance by government and other bodies, in the form of cash transfers to a Council in return for compliance with certain conditions relating to the activities of the Council.

GROSS EXPENDITURE
The total expenditure of a fund or account.

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

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

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

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

INCOME AND EXPENDITURE ACCOUNT
Accounts which show all money receivable or payable by the Council in the accounting period to which they relate. Accounts that record receipts and payments are converted to income and expenditure by the inclusion of debtors and creditors.

INFRASTRUCTURE ASSETS
Fixed assets that have no realistic expectation of being sold but are retained to deliver core services e.g. roads, drainage etc. and in respect of which expenditure cannot be recovered through disposal.

INTANGIBLE ASSETS
Intangible assets are defined in IAS38 as 'identifiable non-monetary assets without physical substance'.

INTEREST COST (PENSIONS)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND)
The investments of the pensions fund will be accounted for in the statements of that fund. However, authorities (other than district councils in Northern Ireland) are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

INVESTMENTS (NON-PENSION FUND)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

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

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

LCIV (LONDON COLLECTIVE INVESTMENT VEHICLE)
LCIV is a Collective Investment Vehicle for London Local Authorities (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost

efficiencies than LLAs can achieve individually and overall better risk adjusted performance.

LEASING

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

LEVY

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

LIABILITIES

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

LIFETIME EXPECTED CREDIT LOSSES

The expected credit losses that are projected to arise from all possible default events that might happen in the lifetime of a financial asset.

LOSS ALLOWANCE

An allowance made by setting funds aside to cover the expected credit losses calculated for a financial asset.

MATERIALITY

Materiality sets the threshold for determining whether an item is relevant. This is defined as: 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.

MHCLG

This is the Government department for Housing, Communities and Local Government.

NAV (NET ASSET VALUE)

Net Asset Value is the value of an entity's assets minus the value of its liabilities.

NET ASSETS

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

NET BOOK ASSETS

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NET WORTH

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

NON-DOMESTIC RATE (NDR)

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

NON-OPERATIONAL ASSETS

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

OPERATIONAL ASSETS

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

PAST DUE (FINANCIAL ASSETS)

A financial asset for which a payment that was due contractually to the Council has not yet been paid.

PAST SERVICE COST

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

PAYMENTS OF PRINCIPAL AND INTEREST

The amounts that would be paid under a basic lending arrangement. For accounting purposes, they comprise:

1. The repayment of the fair value of a financial asset when it was brought onto the Council's Balance Sheet (principal); and
2. Consideration for the time value of money, compensation for credit risk, recovery of basic lending costs and a profit margin (interest).

PENSION STRAIN (Employers Additional Funding)
Payments made to the Pension Fund to cover additional costs to the Pension Fund where a member draws their pension benefits a lot earlier than expected.

PERFORMANCE OBLIGATION
A promise in a contract with a service recipient for the Council to deliver goods and/or services.

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

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

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

PRECEPTS
An amount collected by the Council as part of the Council Tax on behalf of another statutory body.

PRIVATE FINANCE INITIATIVE (PFI)
PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

PRIOR PERIOD ADJUSTMENTS
Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSET
A financial asset that was credit-impaired when it was first brought onto a Council's Balance Sheet.

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

RESERVES
These are amounts set aside for specific purposes. The Council has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

RESIDUAL VALUE
This is the estimate, based on current prices, of the increase in market value of the buildings transferred to New Schools under the PFI contract.

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

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

REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE
This is expenditure which is classified as revenue expenditure but which can be funded from capital resources under statutory requirements. This expenditure was called deferred charges under the 2007 SORP.

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

SERVICE RECIPIENT
A person or an organisation that has contracted with the Council (as part of the Council's normal business) to obtain goods and/or services in return for payment (or in exchange of goods/services to the Council).

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

1. A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;

2. The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
3. The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

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

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

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

TRANSACTION PRICE
The amount the Council expects to be entitled to under contract in exchange for transferring promised goods and/or services to a service recipient.\

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

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

1. for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
2. for deferred pensioners, their preserved benefits;
3. for pensioners, pensions to which they are entitled.

London Borough of Merton
Audit results report

Year ended 31 March 2020

10 September 2020

London Borough of Merton

10 September 2020

Standards and General Purposes Committee

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 preliminary audit conclusion in relation to the audit of the London Borough of Merton (the Authority) for 2019/20. We will issue our final report on completion of the audit after the Committee meeting on 22 September 2020.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 remains in progress. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 5 to 8, as per our update to the Committee in July 2020, the Covid-19 pandemic has impacted the statements and our audit opinion. Our work on your arrangements to secure economy, efficiency and effectiveness in your use of resources is currently in progress.

This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Authority, 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 given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Standards and General Purposes Committee meeting on 22 September 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 12 March 2020 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 exceptions which we reported to the Committee in July 2020.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report~~s~~ produced by the Authority's external valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. We had already identified valuation of the Authority's fixed assets as a significant risk.
- **Disclosures on Going Concern** – The pandemic has had a significant impact on the Authority's finances and as a result there was a need for the Authority to revisit and update financial plans for 2020/21 and the medium term financial plan. We determined that the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
- **Events after the balance sheet date** – We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Authority.
- **Impairment of receivables** – We identified impairment of receivables as a new area of focus. The Authority hold material third party receivable balances as at 31 March 2020. There is a risk of increasing amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations. We have reviewed significant judgements made by management.
- **New accounting standard on leases (IFRS16)** – The planned implementation of IFRS16 for the 2019/20 accounts has been deferred to 2021/22. As a result, we removed this areas of audit focus from the audit.

Executive Summary

Scope update

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our planning materiality measure of 2% of gross expenditure on provision of services and performance materiality at 75% of planning materiality:

Materiality	Group (£m)		Authority (£m)	
	Audit Plan	Final	Audit Plan	Final
Planning	9.9	9.8	9.7	9.6
Performance	7.4	7.3	7.3	7.2
Reporting	0.494	0.488	0.487	0.480

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 36.

Executive Summary

Status of the audit

We have substantially completed our audit of the London Borough of Merton's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

Final review of the going concern assessment and disclosure	Testing of CHAS revenue	Lease agreements
Receipt of IAS19 assurance from PF auditor	Review of MRP	Payroll expenditure testing
Review of operating lease schedule	Testing of on-street parking income	Review of trading operations note
Final review of audit work	Completing post balance sheet events review	Testing for unrecorded liabilities
Review of management representations	Consultation on the audit report	Review of final version of statements

We do not expect to issue the audit certificate at the same time as the audit opinion because of changes in the Whole of Government Accounts timetable.

Our audit opinion will include two emphasise of matter paragraphs. These are not modifications or qualifications to the audit report. They relate to:

- Property, plant and equipment valuation – We will draw users attention to the valuation uncertainty disclosure in Note 19 of the accounts.
- Going concern and the impact of the Covid-19 pandemic – We will draw users attention to the Authority's going concern disclosure.

Both the above items are likely to be included in the majority of upper tier authority EY audit reports for 2019/20.

Audit differences

At the date of this report there are two adjusted audit differences which we wish to bring to your attention and are included in Section 04. Neither impact the general fund balance.

There is one unadjusted difference relating to industrial sites accounted for as Property, Plant and Equipment in the financial statements where we have disagreed with the approach taken by the Authority's valuer. Based on the work of our valuation specialist we have concluded that the value of industrial sites is understated by approximately £6.3m in the financial statements. We consider this to be a judgemental difference involving estimation which relate to facts or circumstances that are uncertain or open to interpretation. Management considers this to be a difference in professional opinion between two sets of valuers and therefore that no adjustment should be made. Further narrative disclosure has been added to Note 43, Assumptions Made About the Future and Other Sources of Estimation Uncertainty, to explain Management's view.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Management Override: Misstatements due to fraud or error	We have completed our testing and found no indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our testing, subject to review, and have nothing to report
Valuation of land and buildings	We have completed our work and have reported an unadjusted audit difference on page 7 and one adjustment in Section 04. We will be including an emphasis of matter paragraph in our audit report about the material uncertainty reported by the Authority's valuer. This is not a modification to the audit report but highlighting to the reader an important disclosure.
Data migration of property, plant and equipment for the new fixed asset register	We have completed our review of the reconciliations carried out by the Authority and have not identified any issues to report.
Incorrect classification of the Dedicated Schools Grant (DSG)	We have reviewed the Authority's accounting treatment of the DSG deficit and can confirm that it meets the requirements of the Code.

Other area of audit focus	Findings & conclusions
Pension liability	We have agreed the Authority's pension liability disclosures to the actuarial report. However, we are awaiting the IAS19 assurance letter from the auditor of the Merton Pension Fund to enable us to conclude against this area of audit focus.
Private finance initiative	We have completed our review and have nothing to report.
Going concern	The draft accounts did not include a detailed disclosure on going concern. Officers have used the assessment of the impact of Covid-19 on the Authority's finances, as reported to Cabinet, to draft a new going concern disclosure note. We have scrutinised the financial assessment, cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We have also reviewed the revised going concern disclosure and subject to the EY consultation process, we are likely to include an emphasis of matter paragraph in our audit report about the impact of Covid-19. This is not a modification to the audit report but highlighting to the reader an important disclosure.

Executive Summary

Areas of audit focus

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" 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; and
- You agree with the resolution of the issues; and 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 your attention.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.
We have not identified any key control deficiencies as part of the audit process. Please refer to Section 7 for details.

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Value for money

We identified one significant risk relating to sustainable resource deployment and in particular the Authority's arrangements to manage the financial challenges outlined in the Medium Term Financial Strategy. Our work is currently in progress. We will provide a verbal update on our findings and conclusions at the 22 September Committee meeting and include details in the final version of this report.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. However Treasury has extended the reporting timetable for WGA so we may not certify completion of the audit at the same time as issuing the audit opinion.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 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

Management Override: Misstatements due to fraud or error

(Fraud risk)

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 audit engagement.

For the Authority, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Authority.
- Management bias in key accounting estimates and judgements.

What judgements are we focused on?

We have considered the risk of management override in respect of the Authority's judgements over capitalisation of revenue expenditure (see over).

What did we do?

- Identified fraud risks during the planning stages.
- Asked management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures in relation to journal entries and other adjustments
- Assessed the nature of significantly unusual transactions
- Considered if management bias was present in key accounting estimates and judgments in the financial statements

What are our conclusions?

Our testing is complete. We did not identify any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Authority's normal course of business.

Significant risk

Incorrect capitalisation of revenue expenditure

(Fraud risk)

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) 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.

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts. We have focused on the Authority's judgement that an item is capital expenditure in nature. If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment additions and/or Revenue Expenditure Financed as Capital Under Statute (REFCUS) in the financial statements.

What did we do?

Our approach focused on:

- Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

What are our conclusions?

Our sample testing of additions to property, plant and equipment:

- Found they had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Significant risk

Valuation of other land & buildings

Significant Risk

What is the risk?

as an area of audit focus. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of COVID-19 on markets might cause a valuer to conclude that there is a material uncertainty, which the valuer would then disclose in their report. RICS has explained this is not a 'disclaimer' in the valuation: valuers are continuing to apply their professional judgement, this is disclosing the additional uncertainty attached to current valuations. This is particularly relevant for Fair Value / Market Value based assets because of the paucity of market information available at 31 March upon which to give those valuations. The Authority's valuation report includes this reference. our work.

What judgements are we focused on?

The reasonableness of the methodologies adopted by the valuer in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. In particular assets with reference to fair value/ market value. Additionally, we considered assets not revalued in the current year for the potential of material misstatement in valuation as of 31 March 2020.

What did we do?

- Considered the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Disaggregated the Authority's other land and buildings and adopted different testing strategies for specialised assets the Authority values using depreciated replacement cost (DRC) and non-specialist assets valued using existing use value (EUV):
    - For DRC we checked that the Authority had used the methodology it revised in the prior year following our audit which included the work of our expert. We also tested a sample of valuations, challenging the Authority on key assumptions and base data such as agreeing floor areas back to original documentation.
    - For EUV, due to the extent of subjectivity and professional judgement that management's expert applies and the impact of Covid-19 on aspects of these valuations we engaged our own expert (EY Real Estates) to enable us to audit a sample of valuations, challenging management on key assumptions and judgements.
- Reviewed assets not subject to valuation in 2019/20 to confirm that the valuation remaining asset base was not materially misstated.
- Checked that the material uncertainly reported by the Authority's valuer was appropriately disclosed in the financial statements.

Significant risk

Valuation of other land & buildings

What are our conclusions?

- We have substantially completed our work in response to this risk, including the work carried out by our EY Real Estates.
- We have reviewed the disclosure in the financial statements relating to the material valuation uncertainty paragraph included by the valuer in their valuation report, and consider the disclosure appropriate.
- We have concluded that the assessment of fair values performed by the valuer and the directors are within an acceptable range and the carrying values of assets are fairly stated at 31 March 2020 within material parameters. There is, however, one area relating to the valuation of industrial sites accounted for as Property, Plant and Equipment in the financial statements where we disagreed with the approach taken by the Council's valuer. Based on the work of our valuation specialist we have concluded that the value of industrial sites is understated by approximately £6.3m in the financial statements. We consider this to be a judgemental difference involving estimation which relate to facts or circumstances that are uncertain or open to interpretation. Management considers this to be a difference in professional opinion between two sets of valuers and therefore that no adjustment should be made. Further narrative disclosure has been added to Note 43, Assumptions Made About the Future and Other Sources of Estimation Uncertainty, to explain Management's view.
- The Authority undertook a desktop review to estimate the change in value for land and buildings not actually subject to revaluation by a valuer in 2019/20. However, this estimate was not reflected in the draft accounts. We reviewed the exercise and concluded that the estimate made was reasonable, being based on the results of the actual revaluation exercise undertaken in the year. We recommended that the Authority adjust the carrying value of land and buildings assets in the financial statements to account for the estimate. This had the impact of reducing the carrying value of property, plant and equipment assets by approximately £2.9m.

Significant risk

Data Migration of the property, plant and equipment Fixed Asset Register (FAR)

▲ Significant Risk

What is the risk?

During 2019/20, the Authority has changed its fixed asset register (FAR) from the current system to the CIPFA accounting module. Given output from the system is material and there have been significant issues relating to property valuations in prior years we have concluded this should be treated as a significant risk in our 2019-20 audit.

our work.

What judgements are we focused on?

The adequacy of the reconciliations undertaken by the Authority and accuracy of data held on the new FAR.

Page 241

What did we do?

- Reviewed the Authority's reconciliation of the prior year 2018-19 closing balance to the 2019-20 opening balance in the old FAR on Excel.
- Reviewed the Authority's reconciliation between the old FAR on Excel to the new CIPFA accounting system to confirm that data transfer is complete and accurate.
- Considered the Authority's investigation into any variances between the two systems.
- Assessed the accuracy of data held on the new FAR through substantive testing of a sample of PPE.

What are our conclusions?

We found that:

- The prior year 2018-19 closing balance fully reconciled to the new year 2019-20 opening balance in the old FAR.
- Property, plant and equipment data had been completely and accurately transferred between the old FAR and new CIPFA accounting system in 2019/20.
- All variances between the two systems were adequately explained.
- Some immaterial adjustments were made to improve the accuracy of data on the new CIPFA accounting system.

Significant risk

Incorrect classification of Dedicated Schools Grant (DSG) deficit

▲ Significant Risk

What is the risk?

At the end of 2018/19 the Council had incurred a cumulative deficit of £2.9 million against DSG funded activities, This was accounted for as a negative, or debit balance, earmarked reserve. We concluded it was not permissible under extant accounting rules to have a negative earmarked reserve, and therefore considered this to be an uncorrected misstatement in the 2018/19 audit. The Authority was forecasting a cumulative DSG overspend in 2019/20 of £13 million.

In January 2020 the Department for Education (DfE) released some further guidance on the accounting treatment of the DSG deficit.

our work.

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What judgements are we focused on?

The decision made by the Authority on how it would account for its DSG deficit.

What did we do?

- DSG income: we reconciled DSG income reported to the DSG funding schedule for the Authority on the DfE website.
- DSG expenditure: we performed a year on year analytical review and substantive testing of relevant expenditure.
- We considered the accounting decisions taken by the Authority to determine the acceptability of the accounting approach taken and any impact on the financial statements.

What are our conclusions?

Our procedures on DSG income and expenditure identified no significant issues.

The Authority has followed the guidance issued by CIPFA following clarification of the DfE guidance which allows the Authority to disclose a negative DSG deficit without this being charged to the General Fund.

Areas of Audit Focus

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £279 million (£343 million at 31 March 2019).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

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.

Our approach has focused on:

- Liaising with the auditors of the Merton Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Authority;
- Assessing 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 the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

Findings and conclusions

We have agreed the Authority's pension liability disclosures to the IAS19 report provided by the actuary. However, at the date of this report, we are awaiting the IAS19 assurance letter from the auditor of the Pension Fund to enable us to complete our procedures.

Private Finance Initiative (PFI) accounting

The Authority has a material PFI arrangement in relation to schools. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016-17 and followed-up in 2017-18 and 2018-19.

Our approach has focused on:

- Reviewing the accounting entries and disclosures in relation to PFI in detail in 2019-20, with a focus on any significant changes since the expert's follow-up review in the previous year.
- Testing of in-year inputs to the accounting models and agreeing relevant entries in the financial statements to year-end output from the accounting model.

Findings and conclusions

Officers have affirmed that there have been no significant changes in the way the Authority accounts for PFI. We have completed our review and found that the accounting entries and disclosures are in line with the prior year arrangements and satisfactorily reported in the 2019/20 statements.

Areas of Audit Focus

Going concern disclosure

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we will need to see evidence of the going concern assessment up to and including around September / October 2021.

Findings and conclusions

The draft accounts did not include a going concern disclosure but officers had carried out assessment of the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves to inform reporting to Cabinet. Officers have used these assessments, and working in collaboration with the audit team, drafted a new going concern disclosure note for inclusion in the final version of the statements.

We have reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We have also considered the adequacy of management's new disclosure note and its agreement with the financial assessment.

The Authority is forecasting that as at July 2020 it will incur an overspend in 2020/21 of £23m which is predominantly Covid-19 related. Whilst the Authority continues to review all service areas revenue and capital budgets to identify options for delivering efficiency savings and / or generating income with the aim of setting a balanced budget in 2021/22 and reducing the overspend in 2020/21, The Authority has the following reserves to call on in delivering its services:

General Fund	£13.8m	Earmarked	£59.6m
Capital grants	£21.9m	Capital receipts	£2.1m

If required the Authority is prepared to 'un-earmark' certain reserves to meet its Covid-19 related commitments.

We therefore note that the Authority has headroom within the General Fund to absorb the estimated financial impact of the Covid-19 pandemic in the short to medium-term.

In terms of cash, at the end of June the Authority had a cash balance of £13.4m, with a further £35m in money market funds which are instantly callable, £65m in short term deposits maturing between one month and eight months and £10m in longer term property related investments, also available within a few days.

We have now reviewed the new going concern disclosure which officers plan to include at Note 42 of the statements, and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the pandemic on the Authority's finances. We are completing our final review procedures and subject to EY internal consultation process we will be including an emphasis of matter paragraph in the audit report.

03 Audit Report

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Opinion

We have audited the financial statements of the London Borough of Merton for the year ended 31 March 2020 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 [x].
- Collection Fund and the related notes 1 to [x]

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Merton as at 31 March 2020 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 2019/20.

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 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.

Emphasis of matter – Disclosure in relation to the effects of the Covid-19 pandemic

We draw attention to note 42 of the statement of accounts which describes the forecast financial impact of the Covid-19 pandemic on the Authority. Our opinion is not modified in respect of this matter.

Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 19 of the statement of accounts, which describes the valuation uncertainty the Authority is facing as a result of the Covid-19 pandemic in relation to specific property valuations. Our opinion is not modified in respect of this matter.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

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 Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Resources 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.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Director of Corporate Resources 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.

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 April 2020, 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 2020.

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.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Responsibility of the Director of Corporate Resources

As explained more fully in the Statement of the Responsibilities, the Director of Corporate Resources 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Resources 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 April 2020, 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 London Borough of Merton put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 London Borough of Merton had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

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.

Delay in the certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the NAO.

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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London Date

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

Judgemental misstatement

The Authority undertook a desktop to estimate the change in value for land and buildings not actually subject to revaluation by a qualified valuer in 2019/20. We reviewed the exercise and concluded that the estimate made was reasonable as it was based on the results of the actual revaluation exercise undertaken in the year. We therefore recommended that the Authority adjust the carrying value of land and buildings assets in the financial statements to account for the estimate. This had the impact of reducing the carrying value of property, plant and equipment assets by approximately £2.9m.

Known misstatements

Debtors on the main Authority balance sheet have been reduced by a total of approximately £1.34m, with a corresponding adjustment made to receipts in advance. The adjustment is as a result of two issues:

- The write back of historic council tax and NNDR receipts in advance to the general fund totalling approximately £860k had been incorrectly debited to debtors rather than to receipts in advance.
- Approximately £480k of income relating to 2020/21 had been reversed from the year account by adjustment of receipts in advance rather than debtors. This has the impact of grossing up debtors and receipts in advance.

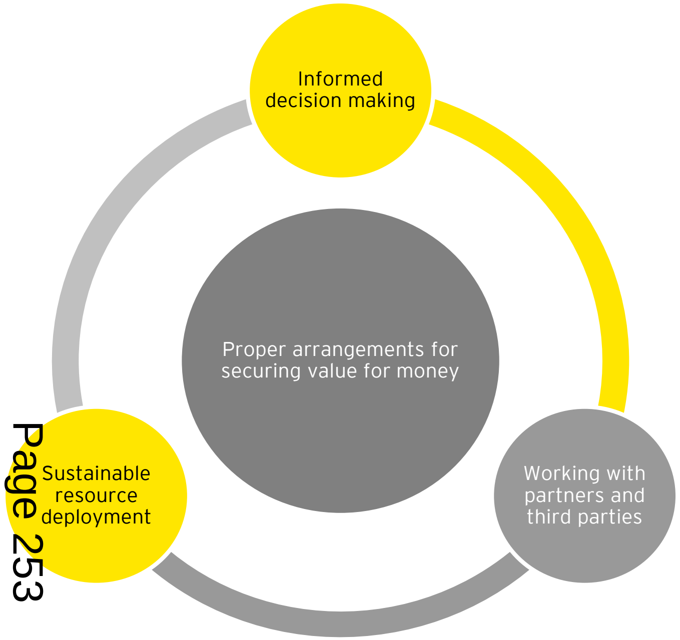
Both of these adjustments had no impact on the general fund balance.

Unadjusted difference

There is one unadjusted misstatement we wish to bring to your attention. Based on the work of our valuation professionals we have concluded that the value of industrial sites accounted for as Property, Plant and Equipment in the financial statements is understated by approximately £6.3m. We consider this to be a judgemental difference. Management considers this to be a difference in professional opinion between two sets of valuers and therefore that no adjustment should be made. Further narrative disclosure has been added to Note 43, Assumptions Made About the Future and Other Sources of Estimation Uncertainty, to explain Management's view.

05 Value for Money

Value for Money



Background

We are required to consider whether the Authority 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 conclusion.

For 2019/20 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.
We have not identified any new significant risks around these arrangements.
We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your 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.

We present below the findings of our work in response to the risk area in our audit plan.

What is the significant value for money risk?

Sustainable resource deployment

In the March 2020 Audit Plan we reported that like other local government bodies, the Authority continued to have a challenging financial outlook. To balance the budget over the next four years it was planning to deliver cumulative agreed savings of approximately £7.0 million with further savings of approximately £3.3 million needing to be found to fully balance the budget and avoid further dependence on its reserves.

As at January 2020, the draft business plan 2020-24 showed a cumulative budget gap, including the use of reserves, and assuming no Adult Social Care grant but that Council Tax hypothecation can be used, as follows over the next four years:

No budget gap in 2020-21.

£4,239,000 in 2021-22.

£8,052,000 in 2022-23.

£10,541,000 in 2023-24.

These financial pressures were compounded by other activities. Firstly the Ofsted inspection of the Authority's services for special educational needs and/or disabilities (SEND) in September 2019, which identified some significant weaknesses, particularly in leadership and partnership working with CCGs, and opportunities for improvement. Secondly the Authority's overspending against its Dedicated Schools Grant (DSG) budget.

We consider all of the above to be relevant to the sustainable resource deployment VFM criterion and as a result it constituted a significant risk.

Since the March 2020 Audit Plan, we have clarified with the NAO that the overspend relating to the DSG budget should not be a consideration for our VFM conclusion work around sustainable resource deployment because the revised DfE regulations make it clear that local authorities are not required to fund the DSG deficit with general fund monies. However, there remains an expectation that authorities will put in place arrangements to manage DSG related spending.

Value for Money Risks (continued)

What did we do?

Our approach focused on reviewing the robustness of the Authority's plans and arrangements to:

- Address budget pressures in Children, Schools and Families, and
- Achieve its savings targets and address budget gaps to deliver sustainable financial balance over the medium term.

We also followed up the issues we highlighted as part of our prior year 2018-19 programme of value for money work.

In doing this we explicitly considered the:

- Financial pressures created by the need to address the findings of the SEND inspection and whether these have been adequately considered in the Council's medium-term financial plans.
- The Authority's deficit recovery plan in respect of the cumulative DSG deficit.

What did find?

Our work is in progress.

We will provide a verbal update of our findings and conclusions to the 22 September Committee meeting and provide written details in the final version of this report on conclusion of the audit.

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 2019/20 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 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the latest version of the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

The Treasury has extended the timetable for the Authority to make its WGA submission and for the auditor's assurance statement. As a result, we have yet to receive the submission.

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 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 have had no reason to exercise these duties.

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 Authority'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.

We have nothing to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority 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.

08 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020.
We complied with the APB Ethical Standards. 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 and your Audit 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 22 September 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

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 Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.
As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Appendix A

Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020. We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Audit Plan and subsequent reporting to the Standards and General Purposes Committee, we have communicated our proposal to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals and includes items where we need to determine the final fee to present to the Director of Corporate Services.

	Final fee 2019/20 (£)	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee – Code work	110,493	110,493	110,493
Additional work:			
• PPE including RICS related material uncertainty	TBC	5,000-15,000	14,560
• Change in materiality and clearance of audit queries	-	-	23,500
• McCloud query	-	-	850
• VFMC significant risk	TBC	2,000-7,000	-
• Data migration for the new FAR	TBC	1,500-7,500	-
• Going concern assessment and disclosure	TBC	-	-
• EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate.	TBC	-	-
Total audit	TBC	118,993-139,993	149,403
Non-audit services:			
Housing Benefits 1819	TBC	TBC	TBC
Housing Benefits 1718 Module X (further work on the 1718 claim)	-	n/a	39,600
Teachers' Pensions	TBC	TBC	9,000
Total other non-audit services	TBC	TBC	TBC
Total fees	TBC	TBC	TBC

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Standards and General Purposes Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Standards and General Purposes committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

09 Appendices

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 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 Plan - March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - March 2020
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	Audit Results Report – September 2020

Appendix A

		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	No conditions or events were identified, either individually or together to raise any doubt about Merton Council'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 – September 2020
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – September 2020
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.	Audit Results Report – September 2020

Appendix A

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 – September 2020
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. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Plan – March 2020 and Audit Results Report – September 2020

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Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
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
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	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 – September 2020

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Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 – September 2020
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	Audit Results Report – September 2020
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – September 2020
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 Plan – March 2020 and Audit Results Report – September 2020

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
Date
Suresh Patel
Associate Partner
Ernst & Young LLP

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Merton ("the Group and Council") for the year ended 31 March 2020. We recognize 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 position of the London Borough of Merton as of 31 March 2020 and of its income and expenditure and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Group and Council, 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, 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 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. 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 Group and Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or 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 no knowledge of any identified or suspected non-compliance with laws or regulations including fraud that may have affected the Group and Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

Management Rep Letter

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council's financial statements
- Related to laws or 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 and Council's business, its ability to continue in business, 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 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 financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of Group and Council and the Standards and General Purposes Committee held through the 1 April 2019 to the most recent meeting on the following date: 22 September 2020.

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 period ended, as well as related balances due to or from such parties at the 31 March 2020 end. These transactions have been appropriately accounted for and disclosed in the 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 financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

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 to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Management Rep Letter

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note [X] to the financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Estimates

When we have identified following estimates as significant or higher risk:

i. Pension Liability
ii. Property, Plant & Equipment / Investment Properties – Valuation and Impairment
iii. Provision for impairment of receivables
iv. NDR Appeals Provision

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 2019/20.
2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the operations on behalf of the Group and Council.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on 31 March 2020 and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

I. 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.

J. 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.

Yours faithfully,

____

Director of Corporate Services (Chief Financial Officer)

____

Chair of the Standards and General Purposes Committee

EY | Assurance | Tax | Transactions | Consultancy

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

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ey.com

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[To be prepared on the entity's letterhead]

Date

Suresh Patel
Associate Partner
Ernst & Young LLP

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Merton ("the Group and Council") for the year ended 31 March 2020. We recognize 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 position of the London Borough of Merton as of 31 March 2020 and of its income and expenditure and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Group and Council, 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, 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 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have

disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. 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 Group and Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or 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 no knowledge of any identified or suspected non-compliance with laws or regulations including fraud that may have affected the Group and Council (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 Group and Council's financial statements

    - Related to laws or 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 and Council's business, its ability to continue in business, 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 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 financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of Group and Council and the Standards and General Purposes Committee held through the 1 April 2019 to the most recent meeting on the following date: 22 September 2020.

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 period ended, as well as related balances due to or from such parties at the 31 March 2020 end. These transactions have been appropriately accounted for and disclosed in the 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 financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

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 to litigation and claims, both actual and contingent, and have disclosed in Note *[X]* to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, 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 Narrative Report and Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note *[X]* to the financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Estimates

When we have identified following estimates as significant or higher risk:

i. Pension Liability
ii. Property, Plant & Equipment / Investment Properties – Valuation and Impairment
iii. Provision for impairment of receivables
iv. NDR Appeals Provision

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 2019/20.

2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out *the operations* on behalf of the Group and Council.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on 31 March 2020 and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

I. 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.

J. 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.

Yours faithfully,

____

Director of Corporate Services (Chief Financial Officer)

____

Chair of the Standards and General Purposes Committee

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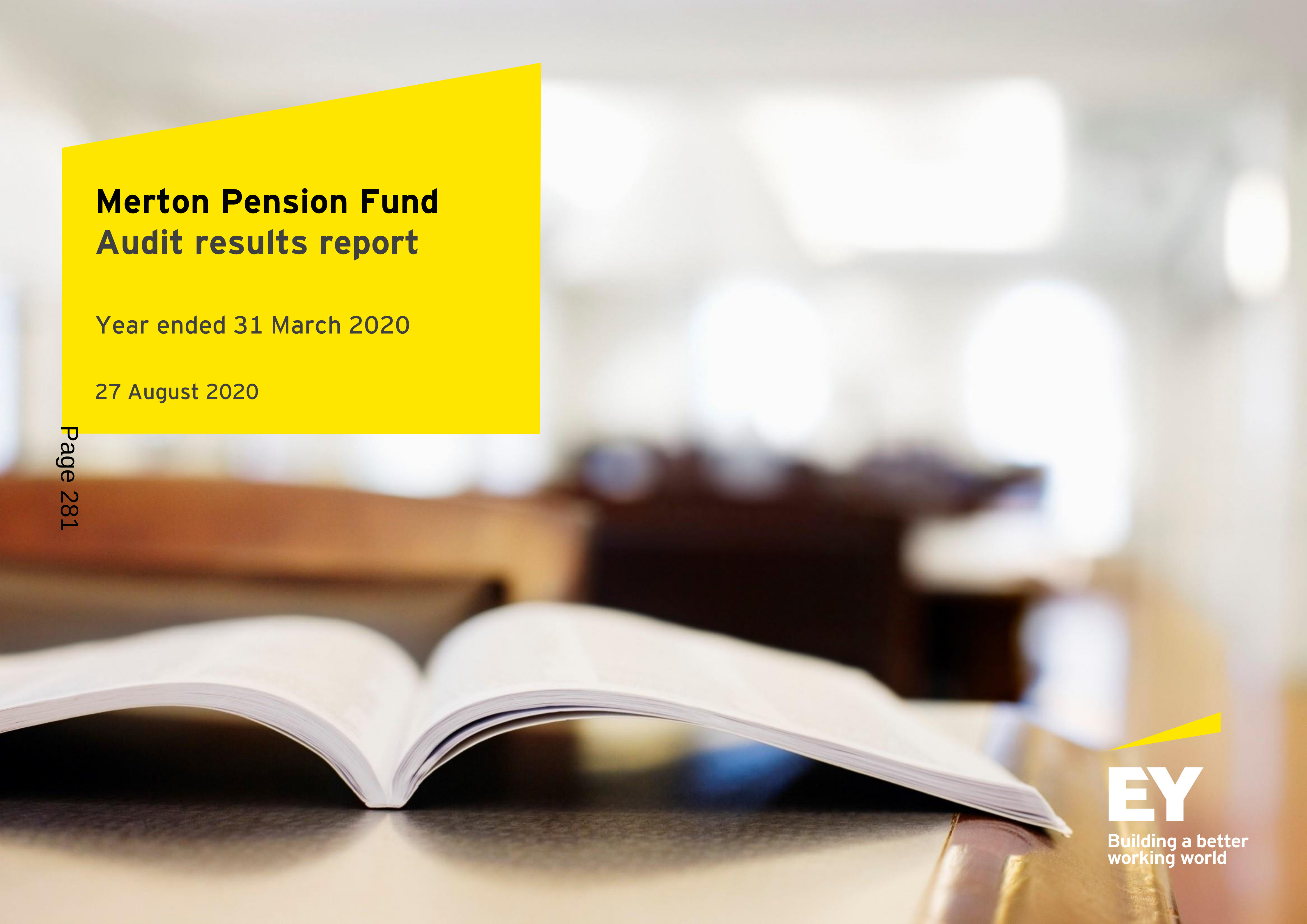

Merton Pension Fund
Audit results report

Year ended 31 March 2020

27 August 2020

London Borough of Merton

Pension Fund Advisory Panel

27 August 2020

Dear Panel members

We are pleased to attach our audit results report for the forthcoming meeting of the Pension Fund Advisory Panel. This report summarises our preliminary audit conclusion in relation to the audit of the Merton Pension Fund (the Fund) for 2019/20. We will issue an updated report for the Standards and General Purposes Committee meeting on 22 September 2020.

At the date of this report our audit of the Fund's accounts for the year ended 31 March 2020 remains in progress. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 5 to 7, as per our update to the Standards and General Purposes Committee in July 2020, the Covid-19 pandemic has impacted the statements and our audit opinion.

This report is intended solely for the use of the Pension Fund Advisory Panel and Standards and General Purposes Committee, other members of the Authority, 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 given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Panel meeting on 10 September 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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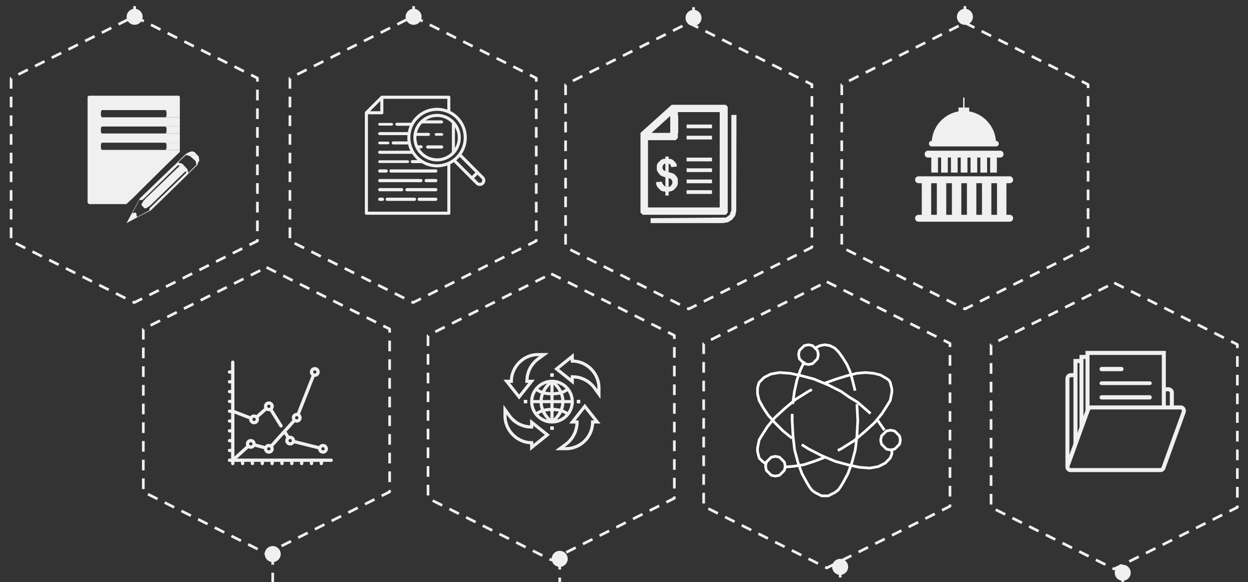
01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Other reporting issues

06 Assessment of Control Environment

07 Independence

08 Appendices

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 12 March 2020 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 exceptions which we reported to the Committee in July 2020:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- **Disclosures on Going Concern** – The pandemic has had a significant impact on the value of investments and as a result there was a need for the Fund to consider its financial plans for 2020/21 and the medium term. We determined that the unpredictability of the current environment gave rise to a risk that the Fund would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Fund's actual year end financial position and performance.
- **Events after the balance sheet date** – We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed, specifically for the Fund, changes to the value of investments after the initial lockdown announcement. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Fund.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of the prior year's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£7.2m	£5.4m	£0.360m
Final	£6.9m	£5.2m	£0.345m

Executive Summary

Scope update (continued)

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Fund and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 25.

Status of the audit

We have substantially completed our audit of Merton Pension Fund's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Testing data relating to a sample of 75 fund members to inform our work on the triennial valuation.
- Reviewing the final version of the statements, which the Fund is updating for the most recent audited accounts for one investment.
- Consideration of post balance sheet events.
- Receipt and review of the management representation letter.

Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, largely relating to the classification of investment assets. We include further details in Section 4.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatement due to Fraud or Error - Posting of investment journals	We have completed our testing and found no indications of management override of controls.
Risk of incorrect valuation and related accounting treatment in relation to the Fund's new currency hedge instrument	We have completed our testing, subject to review, and have nothing to report

Other area of audit focus	Findings & conclusions
Going concern	Note 2 of the draft accounts stated that they are prepared on a going concern basis but include no further disclosures. Following audit queries, the Fund prepared a going concern assessment and drafted an associated disclosure. We scrutinised the assessment, focusing on cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and the Section 151 officer's response to our queries, we are satisfied that the Fund's disclosure adequately reflects the impact of the Covid-19 pandemic on its future finances. The Fund is currently 103% funded and has neutral cash flow with the majority of the investment income being reinvested into the respective investment for more growth.
Post balance sheet events	Note 6 of the draft accounts stated that there were no events after the balance sheet date. Following audit queries, the Fund has considered the impact of the Covid-19 pandemic on the valuation of its investment assets after the 31 March 2020. The Fund has now updated Note 6 to reflect the movements in asset values and reference to its focus on long term investments. We are satisfied with the revised Note 6.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" 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; and

You agree with the resolution of the issues; and 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 your attention.

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 is unknown to you.

Other reporting issues

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 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

Risk of manipulation of Investment income and valuation

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.

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.

Significant Risk

What did we do and what judgements did we focus on?

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;
- Sought to obtain further independent support for the valuation of pooled year-end investments where this can be obtained;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias,

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

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.

Significant risk

Risk of incorrect valuation and related accounting treatment in relation to the Fund's new currency hedge instrument

What is the risk?

In December 2019 the Fund signed an agreement to enter into a US & Euro currency hedge. Based on our discussions with officers at the time we identified uncertainty over the valuation and accounting treatment of this new, unusual (relative to the fund's previous investment portfolios) and high value financial instrument which required the involvement of a third party to support management's valuation assertion and its accounting treatment in the 19/20 pension fund accounts.

Significant Risk

What did we do and what judgements did we focus on?

Management needed to make judgements over the valuation of the instrument and its associated year end accounting treatment.

We spent time in discussion with officers before the preparation of the accounts to understand the basis of the hedging instrument. However, at that stage officers were unclear of the full basis of valuation and accounting treatment.

The draft accounts disclosed the instrument as 'overseas bonds'. However, on receipt of the year end valuation report for the £102m instrument we identified that it actually comprised of £25.8m cash (held by the fund manager), £69.8m fixed income equities (split £65.8m UK quoted and £4m overseas quoted) and £6.7m forward currency contract. Essentially, only the £6.7m classified as an level 3 investment.

We used our derivative specialists to confirm the valuation of the £6.7m. The remaining investments of cash and quoted investments should be classified as level 1 investments and we were able to agree the valuation to quoted prices and confirmation with the fund manager of the cash held.

What are our conclusions?

The draft accounts incorrectly disclosed the classification of the investment. Officers have revised the accounts to reflect the appropriate accounting disclosure for the investment which comprises largely of quoted investments, cash held by the fund manager and a relatively smaller element which classifies as a forward currency contract.

Areas of Audit Focus

Going concern disclosure

There is presumption that the Fund will continue as a going concern. However, the current and future uncertainty presented by the Covid-19 pandemic increases the need for the Fund to undertake a going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we have requested evidence of the going concern assessment up to and including around September / October 2021.

The draft accounts included a statement that the accounts had been prepared on a going concern basis. However, following audit enquiry the Fund carried out an assessment of the impact of the Covid-19 pandemic on its income, expenditure, investment assets, cashflow as well as considering the recent triennial valuation. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We also discussed with management the need to make specific disclosures in the 2019/20 statements.

The Fund's assessment focuses on the fact that the recent triennial valuation reported that it was 103% funded. The Fund's assessment also considered future cashflows and the potential impact of Covid-19. The Fund has asserted that it has neutral cash flow with the majority of the investment income being reinvested into the respective investment for more growth. The Fund has used its assessment to derive an additional disclosure around going concern at Note 2 of the accounts.

We have now reviewed the new going concern disclosure and are satisfied that it adequately reflects the Fund's assessment and informs the reader of the impact of the pandemic on the Fund.

Post balance sheet events consideration and disclosure

The Covid-19 pandemic has had an ongoing impact on stock markets around the world. As a result, there is a need for the Fund to consider the current impact on investment asset values. The draft accounts at Note 6 stated that there were no post balance sheet events. Following audit enquiry, the Fund has now considered the ongoing impact of the pandemic on its asset values. The Fund has now included a revised Note 6 which we agree adequately reflects the non-adjusting movement in asset values since the 31 March 2020.

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 2020 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 2019/20.

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 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 Services' 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

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 Statement of the Responsibilities, 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 2019/20, 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.

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

There were no uncorrected misstatements.
As outlined earlier in the report, the Fund has included additional disclosure in respect of going concern at Note 2 and events after the reporting date at Note 6. In addition, the Fund has agreed to make the following changes arising from the audit.

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Item	Change
Note 14 - Investments	Change in total for Investments. Previously £690,156m should now be £684,822m due to latest information from Private Market investments (private debt and infrastructure investments).
Note 14.1 – Asset management arrangements	£150k relating to LCIV subscription should be included.
Note 14.2 – Analysis of investment assets and income	Reclassification of the currency hedge into its appropriate bond, derivative and cash classifications.
Note 14.3 – Reconciliation of movement in investments and derivatives	Change in market value: - Infrastructure from £2.367m to £0.787m. - Pooled property from £0.787m to -£0.537m.
Note 15 – Fair value – Basis of valuation	Splitting pooled properties between level 1 (£7.553m) and level 2 (£16.659m) .

05 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 2019/20 with the audited financial statements. We have yet to complete our audit of the LB Merton Statement of Accounts

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 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 have had no reason to exercise these duties.

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 Fund's financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the 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 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

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated February 2020.
We complied with the APB Ethical Standards. 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 and your 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 Committee on 22 September 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

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 Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.
As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our Audit Plan and subsequent reporting to the Standards and General Purposes Committee, we have communicated our proposal to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	16,170	**16,170**	16,170
Additional work and associated fees:			
New LCIV arrangements	-	-	2,000
New significant risk relating to US currency hedge **(1)**	2,250	1,000-5,000	-
Going concern and PBSE assessments and disclosures including EY consultations **(2)**	2,500-6,000	-	-
Work on the 2019 triennial valuation of the Fund **(3)**	5,000-9,000	TBC	-
Total indicative Pension Fund fee	**TBC**	**TBC**	**18,170**

Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Director of Corporate Services and then PSAA.

1. *We reported in the Audit Plan that the new significant risk would necessitate an additional fee. In light of the actual valuation, our additional input was less than anticipated but has led to changes to the disclosure of the new investment.*
2. *We reported in the update to the Audit Plan that we would need to carry out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure. We also highlighted that to ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate. We will confirm the final fees associated with this additional work on completion of the audit.*
3. *We reported in the Audit Plan that as a result of the triennial valuation of the Fund we would be required to undertake additional testing of membership date. This work is in progress and we will quantify the final fee on completion.*

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Standards and General Purposes Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Standards and General Purposes committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

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Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

08 Appendices

Appendix A

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 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 Plan - dated February 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - dated February 2020
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	Audit Results Report - September 2020

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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 Merton Pension Fund'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 – September 2020
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	
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.	Audit Results Report – September 2020

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		Our Reporting to you
Required communications	**What is reported?**	**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 – September 2020
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. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Plan – dated February 2020 and Audit Results Report – September 2020

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
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
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	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 – September 2020

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 – September 2020
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	Audit Results Report – September 2020
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – September 2020
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 Plan – dated February 2020 and Audit Results Report – September 2020

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

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Comprehensive Income and Expenditure Accounts: Net Cost of Services

ER's NIC %	10

			£'000	£'000
Employees				
Direct employee expenses:				
	Salaries & wages		147,266	
	Employers NICs		14,825	
	IAS19 Defined Benefit Pension Costs			
	Employers pension current service costs		32,023	
	Employers pension past service costs		461	
	Recognition of gain/loss on settlement of pension liability		620	
	Pension contributions defined contribution plans and other external schemes (includes Teachers Pension Scheme)		11,378	
	Agency staff		12,341	
	Employee expenses		0	
	Apprenticeship Levy (should be approx 0.5% of staff costs)		618	
Indirect employee expenses:	Other employee expenses		2,249	
	Employee-related provisions expense		0	
	Debits resulting from soft loans to staff		0	
	Total Employee Costs			**221,781**
Premises				
	Business Rates		1,581	
	Premises related provisions expense		0	
	Other premises related expenditure		6,626	
	Total Premises Costs			**8,207**
Transport				
	Transport related provisions expense		0	
	Other transport related expenditure		5,653	
	Total Transport			**5,653**
Supplies & Services				
	Audit costs		211	
	PFI service charge		1,304	
	Provisions expense		713	
	Other purchases of supplies & services		82,096	
	Total Supplies & Services			**84,324**
Third-Party Payments				
	Independent units within the council		0	
	Joint authorities		196	
	Other local authorities		5,298	
	Health Authorities (incl. NHS Trusts, Primary Care Trusts etc)		196	
	Government departments		0	
	Levies (included within service lines)		0	
	All other bodies		84,590	
	Total Third-Party Payments			**90,280**
Transfer Payments				
	[ELG, WLG, SLG ONLY] Housing benefit (payments to taxpayers)		65,384	
	Other transfer payments		11,895	
	[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			**77,279**
Support Services	Total recharged cost from support functions		30,537	**30,537**
Depreciation & Impairment Losses				
	Depreciation		22,494	
	Amortisation of intangible assets		1,172	
	Revaluations		607	
	Impairment			
	Movement in fair value of investment property			
	Total Depreciation and Impairment Losses			**24,273**
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)		-361	
	Miscellaneous income		0	
	<u>**Government Grants and Contributions (received from bodies within WGA boundary)**</u>			
	[ELG, WLG ONLY] New Homes Bonus / **[WLG]** Income from other local authorit	CLG	-2,108	
	[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	-10,175	
	[ELG, WLG, SLG ONLY] Rent Allowance: subsidy	DWP	-63,705	
	[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	-764	
	[ELG ONLY] Pupil Premium	DfE	-5,910	
	[ELG ONLY] Dedicated Schools Grant	DfE	-147,990	
	[ELG ONLY] Education Services Grant	DfE		
	[ELG ONLY] GLA Transport Grant	DfT		
	EU current grants			
	Other revenue grants & contributions (from Government and other WGA bodies)		-44,270	
	Other **<u>Non-Govt</u>** revenue grants & contributions			
	<u>Capital Grants and Contributions</u>			
	Capital grant income (from Govt bodies)		-2,272	
	Capital grant income (EU grants)			
	Capital grants & contribution income (from non-Govt)			
	Amounts released from receipts in advance (deferred income)		-2,271	
	<u>Customer & client receipts</u>			
	recharge receipts		-30,912	
	external receipts (fees & charges for services)		-57,491	
	Other Operating Income - please analyse in table below			
	Apprenticeship Levy - Notional Income		-391	
	Apprenticeship Levy - Notional Expense		391	
	Total Income			**-368,229**
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				**174,105**

CI&E Account: Net Operating Expenditure and Surplus/Deficit for the year

		£'000
NET COST OF SERVICES		174,105
Corporate Income and Expenditure:		
Provisions expense (any amount not in NCS)	0	
Trading operation results - Income	-412	
Trading operation results - Expense	464	
Other corporate income	-186	
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:		-134
Other Operating Expenditure		
Levies (not included in service lines)	948	
Net gains/losses on disposal of PPE	-2,159	
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	0	
Other Operating Expenditure		-1,211
Financing and Investment Income and Expenditure		
Interest Payable and similar charges		
Interest element of on-balance sheet PFI contract	2,908	
Finance charges for finance leases (non-PFI)	1,712	
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	2,643	
Interest paid - bank loans & overdrafts (Non-Govt)	0	
Interest paid - other borrowings (Non-Govt)	3,673	
Net interest on the net defined benefit liability (asset)	8,018	
Premeasurements of the net defined benefit liability (asset) recognised in the pensions reserve	0	
Interest and investment income	-2,188	
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	-1,660	
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))	0	
Financing and Investment Income and Expenditure		15,106
Taxation and Non Specific Grant Incomes		
[ELG, WLG, SLG ONLY] Income from Council Tax	-93,860	
[ELG, WLG, SLG ONLY] Revenue Support Grant	0	
[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)	-41,680	
[ELG, SLG, NILG ONLY] NDR Top up payments from central government / **[SLG]** NDR (Distributed NDR Pool) / **[NILG]** District Rate	0	
[ELG ONLY] NDR Tariff payments to central government	924	
[ELG ONLY] NDR Safety net payments from central government	0	
[ELG ONLY] NDR Levy payments to central government	0	
[ELG, WLG, SLG ONLY] Police Grant	0	
[ELG ONLY] Greater London Authority General Grant	0	
[ELG, WLG ONLY] PFI Special Grant (not in NCS)	-4,797	
Other government grants (non-capital)	-12,149	
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)	-10,238	
[WLG ONLY] EU Grants	0	
Capital Grants and Contributions		
Capital grant income (from Govt or other WGA bodies)	-1,515	
Capital grant & contribution income (from non-Govt bodies)	-6,624	
Taxation and Non Specific Grant Incomes		-169,939
SURPLUS(-)/DEFICIT ON THE PROVISION OF SERVICES		17,927
Other comprehensive income and expenditure		-138,390
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE		-120,463

Committee: Standards and General Purposes Committee

Date: 22 September 2020

Wards: All Wards

Subject: Internal Audit Progress report 2020/21

Lead officer: Caroline Holland- Director of Corporate Services

Lead member: Chair of Standards and General Purposes Committee

Contact officer: Margaret Culleton Head of Internal Audit

Recommendation:

To consider and comment on the attached progress report

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 In March 2020, the Standards and General Purposes Committee agreed to an Annual Audit Plan comprising a total of 765 chargeable days. This report summarises Internal Audit's progress in delivering the Annual Audit Plan up to September 2020.

2 Details

3.1 The Accounts and Audit Regulations 2015 require an adequate and effective internal audit of accounting records and the system of internal control in accordance with proper practices. This task has been delegated to the responsible finance officer under Section 151 of the Local Government Act 1972. At Merton, the role of the responsible finance officer is fulfilled by the Director of Corporate Services and the internal audit requirement is met through the South West London Audit Partnership (SWLAP), which Merton joined in October 2015.

3.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS). These standards comprise the public sector interpretation of existing standards set by the Chartered Institute of Internal Auditors. As supplementary guidance, specific to the local government sector, an application note has been issued by CIPFA/IIA; this guidance establishes the requirement for interim reporting [of Internal Audit activity] during the year and the report is designed to meet that requirement.

4 Issues

Internal Audit Progress

4.1 The table shown below summarises the planned and actual audit activity during the period in question.

2020/21 Audit Plan	Audits	Days
Number of audits on the plan	43	
Audit Days Delivered *		245
Number of audits at final stage	8	
Number of audits at draft stage	6	
Number of audits in progress	11	

* Audit days on plan 765

4.2 At the time of writing this report, 32% of the plan had been completed at the end of August on the basis of days delivered.

4.3 10 audit assurance opinions were issued since April 2020, categorised as following:

- 1 (10%) **Full Assurance** audit opinion
- 4 (40%) **Substantial Assurance** audit opinions
- 5 (50 %) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

61 audit recommendations were issued to management, of which:

- 21 (35%) were Priority 1
- 38 (62%) were Priority 2
- 2 (3%) were Priority 3

4.4 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to September 2020, including the draft audits and recommendations, which may be subject to change.

4.5 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit. The auditor will agree with management a number of recommendations which, when implemented, will result in a reduction of the exposure to risk. Each recommendation is given a priority ranking and an implementation date and these are monitored on a regular basis by the Internal Audit team. Priority 1 recommendations are defined as being those where major issues have been identified for the attention of senior management.

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

PRIORITY OF RECOMMENDATIONS	
1	Major issues that we consider need to be brought to the attention of senior management.
2	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to significant risk.
3	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

4.6 In addition, each recommendation emanating from the audit review is given a priority rating of 1, 2 or 3 for implementation, with priority 1 being a high risk requiring immediate attention. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

4.7 At this stage a conclusion about the overall Council assurance cannot be reached until further work is completed. The year-end position on all work undertaken during 2020/21, including any third party assurances, will be evaluated and reported in June 2021 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

<u>Limited and No Assurance Opinions</u>

4.8 Since April 2020, there has been 1 limited assurance final report on Building Control. A summary of the main issues are detailed below.

- The Building Control regulations require that the figures for expenditure and income relating to chargeable building regulation services are published each year within six months of the end of the financial year. There appears to be a breach of the regulations as this report is not being published by the Environment and Regeneration Finance Team

- Separation of duty requirements are inadequate, as the same building control surveyor is involved in all stages of the process, from the start to end of the application. A quality checking process/ peer review should be considered to provide assurance that the right process has been followed and the correct decision has been made within each case recorded in M3.

- The current process in place for the issuing of inspection invoices using the BC52 forms, highlighted poor controls as no reconciliation or checks are currently undertaken between the M3 system, the invoices raised, or income received.

- Reconciliations between the M3 system and E5, to ensure that full income has been received and recorded appropriately are not being undertaken.

Additional Audit reviews

4.9 Internal audit has undertaken and completed no additional reviews this year. This is in addition to the ad hoc advice provided to services.

Follow - up on Priority 1 actions

4.10 At the time of this report, there were 8 P1's due to be implemented. See Appendix B for details. The table below shows the audits where actions are outstanding or have not yet due to be implemented. These actions are in the process of being followed up.

Audit	**P1's outstanding/still due**
Declaration of interests	1
Deprivation of liberty safeguards assessments	1
BACS/CHAPS	1
Tree Maintenance	2
Building Control	3
Total	**8**

Counter-Fraud and Investigations

4.11 The responsibility for managing the risk of fraud and its prevention and detection lies with management. However, Internal Audit's planned work includes evaluating controls for their effectiveness in mitigating the risk of fraud.

4.12 Counter-fraud work has been undertaken by the South West London Fraud Partnership (SWLFP) since April 2015. This falls across three categories, namely:

- Reactive investigations arising from external intelligence, management referrals or whistleblowing disclosures
- Co-ordination and investigation work in line with the requirements of the National Fraud Initiative data matching exercise
- Proactive counter-fraud work which includes data matching and online fraud awareness training.

4.13 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations.

4.14 Any allegations of corporate fraud or corruption are brought to the attention of the Head of Internal Audit in the first instance. Whistleblowing concerns are also recorded by Internal Audit and the outcome reported annually to the committee.

4.15 Any area of potential internal control weaknesses identified during fraud investigations are considered for inclusion on the internal audit plan.

5 Alternative options

5.1 None for the purposes of this report.

6 Consultation undertaken or proposed

6.1 n/a

7 Timetable

7.1. None for the purposes of this report.

8 Financial, resource and property implications

8.1 The Council's budget includes provision for the audit plan.

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 2020/2021. 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. This report also complies with the requirement of the following:

- Local Government Act 1972
- Accounts and Audit Regulations 2015
- CIPFA/IIA: Public Sector Internal Audit Standards (PSIAS)
- CIPFA/IIA: Local Government Application Note for the UK PSIAS

The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of the Council's duties.

10. Human rights, equalities and community cohesion implications

10.1 n/a

11 CRIME AND DISORDER IMPLICATIONS

11.1 N/A

12 Risk management and health and safety implications

12.1 n/a

APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

Appendix A – Audit Assurances since April 2020

Appendix B- Summary of Priority One Recommendations

Appendix A

Audit Assurance Opinions: 2020/21

	AUDIT TITLE	Department	FINAL DATE	ASSURANCE LEVEL				RECOMMENDATIONS		
				FULL	SUBSTANTIAL	LIMITED	NO	Priority 1	Priority 2	Priority 3
1	MSJCB	CS	5/6/20	Accounts						
2	Building Control	E&R	4/8/20	-	-	Y		3	14	-
3	Troubled families grant-quarter 1	CSF	10/5/20	-	Y	-	-	-		-
4	Building Control accounting concern	CS	15/5/20	Advisory						
5	Penalty Charge Notices	E&R	20/8/20	-	Y	-	-	-	2	-
6	Blue Badge grant return	E&R	24/8/20	Grant check and sign off						
7	Duplicate payment checks	CS	20/5/20	Advisory						
8	Pensions Shared Service	CS	8/9/20	Y	-	-	-	-	-	-
9	Prepaid cards	CH/CSF	Draft	-	-	Y	-	5	6	-
10	Planning applications	ER	Draft		Y			-		-
11	Direct Payments	CH	Draft	-	-	Y	-	4	6	-
12	No Recourse to Public funds	CH/CSF	Draft	-	Y	-	-	2	3	2

13	Contract compliance	CS	Draft	-	-	Y	-	--		-
14	Covid 19 Procurement	All	Draft	-	-	Y	-	7	7	-
15	Recruitment	CS	In progress							
16	Mosiac	CH/CSF	In progress							
17	CM2000 Home care monitoring	CH	In progress							
18	Mayors accounts	CS	In progress							
19	Covid 19 response	All	In progress							
20	Declaration of Interests-Officer	All	In progress							
21	Special Guardianship payments	CSF	In progress							
22	Accounts Payable	CS	In progress							
23	Cash and Bank	CS	In progress							
24	Procurement Cards	CS	In progress							
25	Payroll	CS	In progress							

	TOTALS			**1 (10%)**	**4 (40%)**	**5 (50%)**	**0 (0%)**	**21 (35%)**	**38 (62%)**	**2 (3%)**

Appendix 2 – Summary of Priority One Recommendations

Audit Title	Assurance Level & Number of Issues	Summary of key issues raised. Progress on actions

2018/19 (outstanding)

Declaration of interests	Limited 3 P1's	1 P1 outstanding - (date move from March 2019 to October 2020. Guidance and form updated- approved by CMT 8/9/20 - due to be used from October

2019/20

Deprivation of liberty safeguards assessments	Substantial (2 P1 and 11 P2's)	1 P1 contract to be retendered, outstanding due April 2020- moved to October 2020 as delayed due to Covid
BACS/CHAPS	Limited - 4 P1's	1 P1 outstanding. BACS transmission form to be updated - date moved from Dec 2019 to Jan 2021

Tree Maintenance	Limited - 2 P1's	2- outstanding P1's. Strategy to be drafted and approved -action in progress- due Oct 2020

2020/21

Building Control	Limited - 3 P1's	3 actions outstanding - due April 2021

COMMITTEE: STANDARDS & GENERAL PURPOSES

Date: 22 September 2020

Wards: All

Subject: Local Government and Social Ombudsman Report – Homelessness and temporary accommodation

Lead officer: Hannah Doody, Director of Community & Housing

Lead member: Councillor Martin Whelton, Cabinet Member for Regeneration, Housing and Transport

Contact officer: Steve Langley of Head of Housing

Recommendations:

1. Standards & General Purposes Committee to consider the contents of this report regarding the Local Government and Social Care Ombudsman (LGSCO) decision and report.
2. Standards & General Purposes Committee to note the actions already taken to remedy this matter, namely the written apology to Mr X, the award of compensation, amendments to the Homeless Placement Policy and the refresh of the Housing Options Toolkit.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report evaluates and sets out before the Standards & General Purposes Committee the position following the publication of the report on the 07th August 2020 by the Local Government and Social Care ombudsman (LGSCO). The report was issued after an investigation of the historic homelessness case which began in October 2017.

1.2. In carrying out its homelessness duties towards the applicant (Mr X), The Housing Service adopted a course of action and took a view on his case at the time which subsequently meant he was rehoused in the West Midlands. The LGSCO has reviewed those actions and concluded that maladministration occurred which led to an injustice against Mr X. In his report the LGSCO made a series of recommendations for the Council to consider.

1.3. The report clarifies the reasons behind the actions and historic decisions that officers took. It should be noted that the ultimate final legal determinant of the correctness of that decision could only have been made way of statutory review in accordance with s202 Housing Act 1996 and the County Court appeal process, which did not happen at the time.

1.4. In accepting the finding of maladministration and consequential injustice, actions must be considered to put matters right. The LGSCO has made a series of recommendations in this respect and accordingly the report confirms that:

- An apology has been made to Mr X
- A payment of £1,768 compensation has been made to Mr X
- Changes are being made to the Council's housing placement policy
- The LGSCO also recommended that the Council should remind staff of the need to consider Council policies when placing a homeless household. Staff should be reminded of the need to make clear notes setting out reasons for their decisions.

2 THE CASE

2.1. The legal provisions governing how the Council must deal with homelessness and temporary accommodation are complex, governed and regulated by substantial statute and case law, and in this particular case the case of *Nzolameso v Westminster City Council.* During the 4 year timescale of this case there has been significant changes to welfare reform and housing and homelessness legislation.

2.2. The key factual circumstances of this case in summary are: Mr X approached the Council as homeless in October 2017. Mr X was placed in interim accommodation in Birmingham.

2.3. On the 28th April 2018 the Council accepted a full housing duty. The Council offered Mr X permanent housing in the private rent sector in the West Midlands. This was exclusive use of a 2-bed house. Mr X accepted the offer and the Council ended its housing duty to him in August 2018.

2.4. Mr X asked the Council for a review of its decision to end its duty towards him on the basis of the suitability of the accommodation in the West Midlands. At that time Mr X was represented by Shelter. Mr X said he would be isolated and unable to attend his university course or easily obtain a job.

2.5. On the 4th September 2018 the Council wrote to Mr X to say it had not upheld his review. The Council confirmed in writing that Mr X could appeal to the County Court if he was unhappy with the Council's decision.

2.6. Mr X appealed to the County Court and the Court ordered that the Council's decision of the 4th September should be withdrawn on a technical matter. The Council then carried out a further of its decision to end its duty to Mr X

2.7. The Council wrote again to Mr X on the 22nd February 2019 with a second review decision. The Council upheld its decision to end its duty to Mr X and said the offer of private rented accommodation was suitable. The Council said it would be willing to pay Mr X one month's rent and a deposit to assist him to find accommodation in the area of his choice.

2.8. The Council confirmed in writing Mr X could appeal to the Council Court if he was unhappy with the decision. No appeal was subsequently lodged. Mr X subsequently found accommodation in London and the Council paid the rent in advance and deposit.

2.9. After Mr X moved to London he complained about the handling of his homeless application, particularly that the Council had failed to consider his employment status and unreasonably rehoused him to the West Midlands causing him to lose his job. The LGSCO decided to investigate the complaint.

3 THE COUNCIL'S RESPONSE TO THE COMPLAINT

3.1. The Council's response throughout the investigation is set out in summary below.

3.2. The Council said it did consider Mr X's employment history and had taken the view that he was unemployed, and had made a claim for universal credit.

3.3 The Council has a homeless placement policy that sets out the circumstances that will be taken into account when placing homeless households. This sets out which households have priority for a local vacancy, which have priority for a vacancy within 90 minutes and which can be placed anywhere in the country. Where a person is in settled employment, then depending on the location of that employment, they will have priority for location either within the borough of within 90 minutes of it. This policy was developed in response to the case law in *Nzolameso v Westminster City Council.* The Council decision that Mr X was to be placed in the West Midlands was based on sound legal principles, established case law and mirrors the practices of many other London Housing Authorities.

3.4 The Council's assessment of Mr X's employment status was that he was not working and was not on benefits at that time but had applied for universal credit. In those circumstances, the Council's policy allowed temporary accommodation to be offered anywhere in the country, hence the interim placement of Mr. X in Birmingham.

3.5 Shelter did not raise any issues in its suitability review regarding Mr X's employment status during its Housing Act review.

3.6 Mr X had left the West Midlands at the time of the LGSCO complaint to live in the London area.

4 THE OMBUDSMAN'S CONCLUSIONS

4.1. As a result of his investigation the LGSCO has taken a different view to the Council and concluded that the injustice has been caused. The LGSCO found that after Mr. X had been placed in interim accommodation in Birmingham, he informed the Council that he was employed locally and also self-employed. The Council did not investigate that assertion and it was that failure to investigate which led the LGSCO to make a finding of fault. He did not further investigate the complaint about the Council's two decisions to end its duty towards Mr. X as the first was the subject of an appeal to the County Court and Mr. X could similarly have appealed the second but did not do so.

4.2 Irrespective of the fact that the Council held a different view of the handling of Mr X's case to that of the LGSCO throughout the investigation, the matter has been concluded and finding of maladministration drawn.

4.3 Officers recognise and respect the prerogative of the LGSCO to undertake an investigation and reach his own conclusions on a particular matter.

5 THE COUNCIL'S RESPONSE

5.1. Officer have comprehensively considered each of the LGSCO's recommendations in a balanced way. All four of the LGSCO's recommendations have been considered reasonable to accept.

5.2 Given that there was no express provision with the Council's Placement Policy for consideration of self-employment status, this now been amended as a result of the LGSCO recommendations. This should have the effect that the potential to cause injustice has been mitigated.

5.3 The Council has also reviewed its written guidance to officers and has updated this to reflect the importance of robust and reasoned decision making and note keeping.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. The cost of £1,768 will be met from existing budgets. The cost of £1,768 will be met from existing budgets. The amendments to the Homeless Placement Policy including the Housing Options Tool Kit will have no financial consequences

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. In relation to this compliant the LGSCO found that there had been maladministration on the part of the Council and this has caused injustice to Mr X. The only way to challenge such findings is by way of judicial review. In the circumstances, despite the fact that officers do not fully agree with the outcome of the investigation, it is reasonable to accept the findings and to comply with his recommendations.

7.2 Under section 30 of the Local Government Act 1974, the Council is obliged to publicise the report in a local newspaper and any other media it considers appropriate and also to make copies of the report available for inspection at the Civic Centre. Section 31 requires the report to be considered by a committee with delegated authority to consider these matters. This Committee has that authority under Part 3B of the Constitution.

7.3 The homeless statutory scheme is government is governed by the code of guidance and associated case law.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. The Council has paid due regard to its duties under the Equality Act 2010 by taking into account Mr X's individual circumstances and offering accommodation to meet his and his family's needs.

9 CRIME AND DISORDER IMPLICATIONS

9.1. None for the purpose of this report

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. Non for the purposes of this report

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

Appendix 1 – LGSCO Report Recommendations and Findings

Local Government &
Social Care
OMBUDSMAN

Report by the Local Government and Social Care Ombudsman

Investigation into a complaint against London Borough of Merton (reference number: 18 019 031)

7 August 2020

The Ombudsman's role

For more than 40 years the Ombudsman has independently and impartially investigated complaints. We effectively resolve disputes about councils and other bodies in our jurisdiction by recommending redress which is proportionate, appropriate and reasonable based on all the facts of the complaint. Our service is free of charge.

Each case which comes to the Ombudsman is different and we take the individual needs and circumstances of the person complaining to us into account when we make recommendations to remedy injustice caused by fault.

We have no legal power to force councils to follow our recommendations, but they almost always do. Some of the things we might ask a council to do are:

- apologise
- pay a financial remedy
- improve its procedures so similar problems don't happen again.

Section 30 of the 1974 Local Government Act says that a report should not normally name or identify any person. The people involved in this complaint are referred to by a letter or job role.

Key to names used

Mr X The complainant

Report summary

Housing – Homelessness
Mr X complains the Council placed him in temporary accommodation outside its area when he became homeless. Mr X says this meant he had to give up one of his jobs as he was unable to travel back to the area for work.

Finding
Fault found causing injustice and recommendations made.

Recommendations
The Council must consider the report and confirm within three months the action it has taken or proposes to take. The Council should consider the report at its full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this. ***(Local Government Act 1974, section 31(2), as amended)***

In addition to the requirements set out above the Council has agreed to take the following action to remedy the injustice caused to Mr X.

- Write to Mr X to apologise for failing to consider his employment status when it placed him in accommodation in Birmingham.
- Pay Mr X £1,768 to recognise the distress caused as a result of being placed in unsuitable accommodation for six months (£1,200) and additional costs incurred in getting to his place of employment (£418). This also includes £150 to recognise the unnecessary time and trouble Mr X was put to pursuing his complaint.

The Council should also take the following action to improve its services to homeless applicants as a result of the fault we have identified.

- Remind relevant staff of the need to consider the Council's policies when placing a homeless person or family in accommodation. Staff should be reminded of the need to make clear notes setting out reasons for their decisions.
- Review its placement policy to set out what factors the Council will consider when placing a self-employed person in interim or temporary accommodation.

The Council has accepted our findings and recommendations.

The complaint

1. Mr X complains the Council placed him in temporary accommodation outside its area when he became homeless. Mr X says this meant he had to give up one of his jobs as he was unable to travel back to the area for work.

2. Mr X also complains the Council allocated him private rented accommodation outside its area to discharge its housing duty towards him. Mr X says the Council failed to take account of his personal circumstances when it reached its decision to discharge its duty.

3. Mr X says this has caused him distress and time and trouble pursuing his complaints and appeals.

The law relevant to this complaint

The law and the Ombudsman

4. We investigate complaints about 'maladministration' and 'service failure'. In this report, we have used the word 'fault' to refer to these. We must also consider whether any fault has had an adverse impact on the person making the complaint. We refer to this as 'injustice'. If there has been fault which has caused an injustice, we may suggest a remedy. ***(Local Government Act 1974, sections 26(1) and 26A(1), as amended)***

5. The law says we cannot normally investigate a complaint when someone could take the matter to court. However, we may decide to investigate if we consider it would be unreasonable to expect the person to go to court. ***(Local Government Act 1974, section 26(6)(c), as amended)***

6. We cannot investigate a complaint if someone has started court action about the matter. ***(Local Government Act 1974, section 26(6)(c), as amended)***

Homelessness law

7. The Housing Act 1996 was amended by the Homelessness Reduction Act 2017. This came into force on 3 April 2018. The events of this complaint took place before the Homelessness Reduction Act 2017 came into force.

8. A council must secure interim accommodation for applicants and their household if it has reason to believe they may be homeless, eligible for assistance and have a priority need. ***(Housing Act 1996, section 188)***

9. Examples of applicants in priority need are:

- people with dependent children;
- pregnant women;
- people who are vulnerable due to serious health problems, disability or old age.

10. If a council accepts a person is homeless, eligible, in priority need and unintentionally homeless it will owe them the "full housing duty". This requires councils to ensure that accommodation remains available. In most cases councils will provide or continue to provide temporary accommodation.

11. To end the duty councils will usually make an offer of suitable permanent accommodation. This can be private rented accommodation.

Right to request a review

12. The 1996 Housing Act gives homeless applicants rights to request a review of various decisions made by councils on their case. This includes the suitability of accommodation offered to discharge the full housing duty. If a person is unhappy with the outcome of the review decision, they may appeal to County Court on a point of law.

13. Homeless applicants have the right to request a review of suitability of temporary accommodation but do not have a right to request a review of interim accommodation. This is accommodation provided whilst a council considers what duty it owes.

The Council's policy on placing homeless applicants out of area

14. The Council has a policy which sets out how it decides which homeless households to place within its area and which to place outside its area. This is because the Council cannot secure enough interim and temporary accommodation in its own area.

15. The policy prioritises certain households for accommodation in the Council's area. This includes *"applicants, where one or (more) is in permanent settled employment (for at least six months prior to the date of their homeless application) to reach their normal workplace from the accommodation… secured"*.

16. The policy also prioritises other households for accommodation within 90 minutes travel of the Council's area. This includes applicants who *"have been continuously employed within 90 minutes travelling distance of* [the Council's area] *for 16 hours or more per week in a role which cannot be transferred to another area. Applicants must have employed* [sic] *for at least six months prior to the date of homelessness application"*.

17. If a household does not fit the criteria to be placed in the Council's area or within 90 minutes of the Council's area the Council will place them wherever accommodation can be secured.

How we considered this complaint

18. We produced this report after examining relevant documents and interviewing the complainant.

19. We gave the complainant and the Council a confidential draft of this report and invited their comments. The comments received were taken into account before the report was finalised.

What we found

20. Mr X approached the Council as homeless in October 2017. The Council placed Mr X and his family in temporary accommodation in Birmingham. This was approximately three hours travelling distance from the Council's area.

21. When Mr X approached the Council in October 2017 he had two jobs. Both were permanent contracts. Mr X was unable to transfer either job to another area. Mr X says he had to give up one position due to the distance he had to travel but he was able to keep the other position on in the hope he would be able to return to live in the London area. The Council says it was not aware that Mr X was employed.

22. The Council's records of its interview with Mr X in October 2017 state that he was *"not working"* was *"not on benefits"* and had made a claim for Universal Credit. Mr X says he told the Council he was employed but was not working at that time. Mr X says he made a claim for Universal Credit to supplement his income. Mr X says he told two senior Council officers he was employed when it offered him accommodation in Birmingham. The Council says is has no records of these discussions with Mr X.

23. Mr X wrote to the Council on 22 November 2017. He explained he had two jobs and was also self-employed. Mr X said he was losing his employment as a result of being placed in Birmingham.

24. The Council did not respond directly to Mr X. The Council was also in correspondence with Mr X's MP at this time. In its response to our enquiries the Council said it responded to Mr X's concerns in an e-mail to his MP on 1 December 2017. This was in response to the MP's e-mail of 17 November 2017. In this e-mail the Council said it was *"sorry to hear of* [Mr X's] *difficulties and I do understand that he is finding it difficult in Birmingham"*.

25. The Council accepted it owed Mr X a full duty on 28 April 2018.

26. The Council offered Mr X permanent housing in a private rented property in Wolverhampton. Mr X accepted the offer and the Council ended its duty to him in August 2018.

27. Mr X asked the Council for a review of its decision to end its duty towards him. Mr X said the offer of accommodation was not suitable as it was outside London. Mr X said he would be isolated and unable to attend his university course or easily obtain a job.

28. On 4 September 2018 the Council wrote to Mr X to say it had not upheld his review. The Council said Mr X could appeal to County Court if he was unhappy with the Council's decision.

29. Mr X appealed to the County Court and the Court ordered that the Council's decision of 4 September 2018 should be withdrawn. The Council then carried out a further review of its decision to end its duty to Mr X.

30. The Council wrote to Mr X on 22 February 2019 with a second review decision. The Council upheld its decision to end its duty to Mr X and said the offer of private rented accommodation was suitable. The Council said it would be willing to pay Mr X one month's rent *"up to the local housing allowance"* as a deposit and *"the same again in rent in advance"* to assist him finding his own accommodation in his area of choice.

31. The Council said Mr X could appeal to County Court if he was unhappy with its decision.

32. Mr X has now found private rented accommodation in London. The Council assisted him with a deposit.

Conclusions

Provision of temporary accommodation outside the Council's area

33. The Council failed to take account of Mr X's employment when he advised it that he had two jobs in November 2017. Although there is no evidence Mr X had informed the Council of this previously, it should have contacted him to ask for further details. Had it done so the Council would have realised his employment in

both jobs predated his approach to the Council as homeless. The Council's failure to investigate Mr X's employment status is fault.

34. Mr X has provided us with evidence he was employed in the form of payslips and P60s from the time. Mr X has also provided us with evidence to show he was unable to transfer one job to another area with the same employer.

35. If the Council had properly considered Mr X's circumstances it seems likely it would have, at the very least, moved Mr X to interim accommodation within 90 minutes of its area. Instead Mr X was placed in accommodation which was three hours from his place of employment. This is double the travel time Mr X should have experienced under the Council's policy.

36. The Council says it would not normally have accepted the evidence Mr X provided to us as proof of income. However, it has conceded that it failed to ask for evidence of his employment at the time and has accepted our findings.

37. As a result of the Council's failure to properly consider Mr X's employment in line with its policies, Mr X was not able to continue in one role as he could not transfer his employment to the Birmingham area. Mr X maintained his other role due to the nature of employment and hours involved. However, he faced increased costs in having to travel to his place of work.

38. Although Mr X was unable to transfer one of his roles to the Birmingham area there was nothing to prevent him from gaining employment more locally in a similar role. We have taken this into account when considering the extent of the injustice Mr X was caused as a result of fault by the Council.

39. Mr X also says he was unable to maintain his own business during this period. There is nothing within the Council's accommodation placement policy which addresses self-employment. We have no doubt Mr X would have been inconvenienced in having to establish business contacts in Birmingham and moving away from his established contacts. However, there was nothing to prevent Mr X from running his business in another area and trying to make new contacts. The Council says it was not aware Mr X was self-employed but accepts its policy on out of area placements does not cover this and has agreed to review it in line with our recommendations.

40. We have considered the injustice to Mr X between 22 November 2017 (the date Mr X told the Council he was employed) to 3 June 2018 when Mr X moved to alternative accommodation. From this point Mr X had a right to request a review of the suitability of the accommodation the Council offered and a subsequent right of appeal to court.

41. In reaching a decision on an appropriate remedy we have considered the additional costs Mr X incurred in getting to and from his place of work as well as a monthly amount for being placed in unsuitable accommodation for seven months. This takes account of the inconvenience Mr X would have been caused in securing employment in the Birmingham area. We have also considered the time and trouble Mr X has been put to pursuing his complaint.

Council's decisions on Mr X's homelessness

42. We are not able to continue investigating the Council's decision to end its duty to Mr X with an offer of permanent private rented accommodation. This is because Mr X had a right to review the Council's decision to end its duty to him. Mr X exercised his right to review the Council's decision and then appealed to Court.

As Mr X has taken the Council to court we cannot continue to investigate this part of his complaint.

43. We cannot continue to investigate Mr X's complaint about the Council's decisions on his homelessness. This is because Mr X asked the Council for a review of the decision and it accepted a full duty towards him in April 2018. Mr X has been able to secure a solicitor to represent him, so we consider it was reasonable for him to have gone to Court if he wished to do so.

44. The Council subsequently withdrew its decision to end its duty to Mr X as a result of a court order. However, it later issued a new decision saying it upheld its decision to end its duty towards him and his family. The Council advised Mr X he could appeal its decision in County Court. Mr X has been able to take the Council to court in the past so we consider it reasonable for him to do so again if he disagrees with the Council's decision.

Recommended action

45. The Council must consider the report and confirm within three months the action it has taken or proposes to take. The Council should consider the report at its full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this. ***(Local Government Act 1974, section 31(2), as amended)***

46. In addition to the requirements set out above the Council has agreed to take the following action to remedy the injustice caused to Mr X.

- Write to Mr X to apologise for failing to consider his employment status when it placed him in accommodation in Birmingham.
- Pay Mr X £1768 to recognise the distress caused as a result of being placed in unsuitable accommodation for six months (£1,200) and additional costs incurred in getting to his place of employment (£418). This also includes £150 to recognise the unnecessary time and trouble Mr X was put to pursuing his complaint.

47. The Council should also take the following action to improve its services to homeless applicants as a result of the fault we have identified.

- Remind relevant staff of the need to consider the Council's policies when placing a homeless person or family in accommodation. Staff should be reminded of the need to make clear notes setting out reasons for their decisions.
- Review its placement policy to set out what factors the Council will consider when placing a self-employed person in interim or temporary accommodation.

48. We welcome the Council's decision to accept our findings and recommendations.

Decision

49. We have completed our investigation into the suitability of the interim and temporary accommodation provided to Mr X. There was fault causing injustice and the action we have recommended is a suitable way to remedy this.

50. We are not able to continue to investigate Mr X's other complaints as he has a statutory right of appeal to court if he is unhappy with the Council's decision. Mr X has exercised that right in the past and we consider it reasonable to expect him to do so again.

Standards and General Purposes Committee
Forward work plan 2020-21

November

- External Audit Annual Letter
- Internal Audit progress report on annual audit plan
- Health and Wellbeing Board Terms of Reference
- Annual Gifts and Hospitality report (members)
- Annual Gifts and Hospitality report (officers)
- Annual Complaints report
- Update on RIPA authorisations (November and July)
- Revisions to Contract Standing Orders
- Report on dispensations issued by Monitoring Officer
- Risk management
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

March

- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Enforcement Agents Follow up Report (following LGSCO report in July 2020)
- Update on RIPA authorisations (March and September)
- Complaints against Members
- 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.