

Statement of Accounts

For the year ending 31st March 2016

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Narrative Statement

1. Introduction

Welcome to London Borough of Merton's 2015/16 Statement of Accounts, which reports the Authority's financial performance during the year, showing expenditure on all services and the financial position at 31st March 2016.

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

2. Financial Performance

The Authority's financial performance is summarised by the table below, as reported to Cabinet in June 2016:

Cabinet Outturn Report	2015/16	2015/16	2015/16
	Current Budget	Outturn	Variance
	£000	£000	£000
Department			
Corporate Services	30,210	29,837	(373)
Children, Schools & Families	50,089	50,082	(7)
Community & Housing	56,453	57,393	940
Public Health	296	289	(7)
Environment & Regeneration	18,423	22,055	3,632
Other	(646)	(374)	272
Net Service Expenditure	154,825	159,282	4,457
Corporate Provisions	4,581	(637)	(5,217)
Transfers from Earmarked Reserves	(4,710)	(2,289)	2,421
Total General Fund	154,696	156,355	1,659
Grants	(39,859)	(40,819)	(960)
Business Rates	(33,371)	(33,371)	0
Council Tax and Collection Fund	(81,471)	(81,471)	0
Funding	(154,701)	(155,661)	(960)
Net overspend	(5)	694	699

Net service expenditure was overspent by £4.457m due to a number of variances, the three largest overspends being £2.684m in Adult Social Care (Community and Housing department), £3.750m in Parking income (Environment and Regeneration department) and £0.617m within Social Care, Youth Inclusion and Commissioning (Children, Schools and Families department). These overspends were offset by a £2.594m net underspend across all other services.

Corporate provisions, including earmarked reserve transfers, underspent by £2.796m and grant income exceeded the budgeted figure by £0.960m.

This reduced the overall net overspend to £0.699m, against a net budget of £0.005m.

The resulting £0.694m net expenditure has been met by an appropriation from earmarked reserves, which is included in the Movement in Reserves statement.

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

2.1 Fund Balances and Reserves

During 2015/16 the Authority's overall usable reserves decreased by £3.474m.

This was composed of a £1.969m increase in the schools' general fund balance, a £2.983 decrease in earmarked revenue reserves offset by a £0.783m increase in the dedicated schools' grant reserve, a £1.682m decrease in the capital receipts reserve and a £1.562m decrease in capital grants unapplied. The general fund balance remained unchanged.

Usable Reserves	2014/15 Closing Balance	2015/16 Movement	2015/16 Closing Balance
	£000	£000	£000
General Fund Balance	15,151	0	15,151
General Fund Balances held by schools	8,535	1,969	10,504
Earmarked Revenue Reserves	43,889	(2,200)	41,690
Sub Total-Fund Balances and Revenue Reserves	67,575	(230)	67,345
Capital Receipts Reserve	31,264	(1,682)	29,582
Capital Grants Unapplied	5,715	(1,562)	4,153
Total Usable Reserves	104,554	(3,474)	101,080

2.2 Capital Summary

Capital investment amounted to £29.1m in 2015/16 (£36.6m in 2014/15). The programme was financed through the application of capital grants (£18.9m), capital receipts (£9.1m) and revenue contributions (£1.1m). Capital receipts received in year totalled £7.4m (£5.3m in 2014/15).

Of the total £29.1m capital expenditure, £27.8 million was spent on the purchase/enhancement of property, plant and equipment, £0.3 million on the purchase/enhancement of intangible assets and £1.0 million was revenue expenditure funded from capital under statute.

Capital Investment Plans

The Authority's capital investment budget for the next four years is shown in the following table, alongside 2015/16 outturn. Capital investment is required both to maintain existing levels of service and to expand service provision in some areas.

Department	Outturn 2015/16 £000s	Capital Budget (£000's)			
		2016/17*	2017/18	2018/19	2019/20
Corporate Services	2,466	2,345	5,196	2,977	2,795
Community and Housing	1,355	11,630	1055	629	280
Children, Schools and Families	14,348	14,139	19,829	12,990	4,955
Environment and Regeneration	10,910	17,834	12,664	15,474	4,277
Total	29,079	45,948	38,744	32,070	12,307

*Budget includes £6.7m slippage from 2015/16.

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

Capital projects aimed at service expansion	Capital Budget (£000's)			
	2016/17	2017/18	2018/19	2019/20
Primary school expansions	4,102	0	0	0
Secondary school expansions	7,945	14,230	8,690	4,200
Special Educational Needs school expansions	1,095	4,844	3,650	0
Replace Morden Leisure Centre and Lake De-silting	5,131	4,928	1,747	0
Total	18,273	24,002	14,087	4,200

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

2.3 Investments and Borrowing

The annual treasury management strategy, which was approved by Council in March 2016, is available on the Authority's website. In short, borrowing strategy is to internally finance the capital programme until the £10m liquid cash threshold is reached; at this point external borrowing would be undertaken except if interest rates fall to attractive levels. Regarding investment strategy, the Authority manages its cash in-house, placing investments for periods ranging from overnight to over 12 months depending on anticipated cash flow requirements.

At 31st March 2016 the Authority held short-term and long-term deposits totalling £80.9m and £5.0m respectively (£73.4m and £13.0m at 31/03/15). The Authority generated £1.12m of investment income from these deposits (£0.89m in 2014/15).

Long-term borrowing at 31st March 2016 remained unchanged at £117.0m. Short-term borrowing increased to £15.0m, from £13.1m at 31st March 2015. The Authority paid £6.7m in interest on these borrowings during 2015/16 (£6.7m in 2014/15).

2.4 Pensions

The actuarial valuation of the pension fund, of which the Authority is the largest employer, is carried out every three years. It determines the impact on council tax of the cost of paying pensions.

The last applicable actuarial valuation for the whole fund was carried out as at 31st March 2013 with the assets of the fund found to represent 89% of accrued liabilities; this compares with 84% at the 2010 actuarial valuation. The focus of the triennial valuation is the long-term financial health of the pension fund and to set a contribution rate to maintain this. The next applicable actuarial valuation will be as at 31st March 2016.

For accounting purposes, a valuation under IAS19 is carried out to produce an accounting surplus or deficit as at the balance sheet date. The methodology used is affected by current assumptions and short-term economic market conditions. The deficit attributable to the Authority on an IAS19 basis decreased from £294m to £263m, a reduction of £31m. The Authority's actuary estimated that at 31st March 2016, future liabilities amount to £746m (£775m at 31st March 2015) with assets of £483m (£481m at 31st March 2015).

The improvement in the net deficit is principally due to the £29m reduction in the estimated value of future liabilities (£775m to £746m). This movement is mainly a result of favourable changes to the financial assumptions used by the actuary – such as those for inflation and discount rates – which are set-out in disclosure note 32.

2.5 Economic Outlook

Local Government Finance Settlement

The Local Government Finance Settlement for 2016/17 contains indicative allocations from central government up to 2019/20. These allocations continue the downward trend in funding since 2010/11. Between 2015/16 and 2019/20, the Authority's settlement funding assessment is forecast to fall by 41.8% in real terms and core spending power by 8.8% over the same period.

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

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

- The current and medium term economic outlook
- Demand and other demographic pressures on the budget, particularly on vulnerable groups with demand-led budgets
- Identifying and achieving cost and income improvements in a challenging and uncertain economic environment
- Proposed changes to business rates and impact of future revaluation
- Devolution and the transfer of new responsibilities to local government
- Risks to future Government funding levels
- Ability to implement approved savings
- Risks to other income streams
- The unknown long-term impact of the EU referendum result on economic factors

2.6 Future Accounting Developments

Accounts and Audit Regulations 2015

These regulations will require local authorities to publish, from 2017/18, draft and audited statement of accounts by 31st May and 31st July respectively. Under current regulations, local authorities are required to publish draft and audited accounts by 30th June and 30th September respectively.

Transport Infrastructure Assets

Following guidance from Cipfa, the method for valuing transport infrastructure assets – such as roads, footways and street lights – in local authority accounts will change from historical cost to depreciated replacement cost. This change will take effect from 2016/17. This new method is expected to significantly increase the reported values of such assets and will therefore substantially impact on the Authority's balance sheet. Merton has set up a cross departmental working party to implement this change.

3. Service Performance

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

Department	Key Performance Indicator	2014/15			2015/16		
	Description	Result	Target	Target met?	Result	Target	Target met?
Corporate Services	% of council tax collected	97%	97%	Y	97%	97%	Y
	% of business rates collected	97%	97%	Y	98%	98%	Y
	The level of CO2 emissions from council buildings (tonnes) - Quarter 1 to Quarter 3	2,591	<3,075	Y	3,538	<2,925	N
Children, Schools and Families	5 GSCE A-C including English and Maths	64%	65%	N	60%	64%	N
	% outcome of schools Ofsted inspections good or outstanding	85%	85%	N	89%	86%	Y
	No. of special guardianship orders and adoptions finalised during the year	16	13	Y	13	13	Y
	% of looked after children in external agency foster care placements	42%	<36%	N	37%	<46%	Y
	No. of in-house foster carers recruited	10	20	N	13	20	N
Community and Housing	No. of people accessing a library at least once in the last 12 months	63,592	54,500	Y	65,269	55,000	Y
	No. of homelessness preventions	558	550	Y	561	550	Y
	The rate of delayed transfers of care from hospital (both Merton & NHS responsible)	3	<5	Y	9	<5	N
Environment and Regeneration	Major applications processed within 13 weeks	52%	62%	N	56%	55%	Y
	% of sites surveyed on local street inspections for litter that are below standard	8.2%	<8.5%	Y	7.9%	<8%	Y
	No. of refuse collections including recycling and kitchen waste missed per 100,000	55	<55	N	52	<55	Y

3.1 Future Service Developments

Corporate Services

The Department's target is to provide high quality services to residents and internal users of support services provided.

This will be achieved through a new website incorporating increased functionality for online transactions and the ability for customers to create an online 'account' that brings all of their electronic transactions into one place so they can be managed easily. Customer feedback and benchmarking services will ensure the most cost effective delivery vehicle available is used to offer excellent services within a reducing budget.

A key priority is to increase the range of services that can be resolved at the first point of contact through our dedicated contact centre.

The department will continue to develop, identify and understand trends in customer demand and expectation as well as the opportunities presented by new technology so as to anticipate and shape demand for our services.

The council tax and business rates in year collection rates improved again in 2015/16 supporting the performance indicators above. The service collected the most ever council tax in the past year and highest business rates collection for five years.

Despite these improvements, the service faces the ongoing challenge of collecting from some taxpayers and businesses that try to avoid paying. In these circumstances the approach is to make full use of legal powers to pursue these debts. There has been improved collection of debts where the Authority has instigated bailiff action or, as a last resort, bankruptcy proceedings against non payers.

Children, Schools and Families Department

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

There are a number of considerable challenges to service delivery over the next few years, in particular, a challenging inspection regime, major changes in school funding, and the Government's evolving strategy for more schools to become academies.

Within social care, radical changes must be implemented to the way social workers are assessed, in line with their registration requirements. The Department also faces a move towards regional adoption and the embedding of the Children and Families Act.

The Department also faces unprecedented challenges to our Early Years delivery at Children's Centres and is working closely with colleagues in the health sector to co-locate and therefore, provide a single point of access to our clients.

The performance indicators shown are those that are given a high priority by our residents, for example Ofsted inspection outcomes for schools. Performance is generally being delivered in line with, or above, expectations. It is noted that the proportion of students achieving at least five GCSEs graded A*-C including English and Mathematics decreased by four percentage points to 60%, against a target of 64%. Notwithstanding, LB Merton's performance at 60% remains well above the national average of 54% and the Department is committed to working back towards its target. The Department is pleased that 89% of schools in the Borough received a good or outstanding rating from Ofsted, against a target of 86%.

Community and Housing Department

The Community and Housing Department plans to investigate sharing with, or commissioning services from, other local authorities or providers. The Department will continue to exploit technology to work more flexibly and enable more self-service by customers.

In Adult Social Care, the move towards a more outcome-oriented approach will continue, which will mean improved outcomes for service-users.

The East Merton Model of Health and Wellbeing is being developed with the local community to radically transform health and social care services provision with the aim to reduce the persistent health inequalities between the west and east of the borough. The model includes the development of a community health and wellbeing campus on the Wilson Hospital site that draws in non-medical community assets to tackle some of the root causes of ill health and unhealthy behaviour.

The Department will maximise the use of volunteers across services where there is need and to increase resilience, including continuing to expand the volunteer base in libraries and developing volunteering provision within our provider services. Currently there is work under way with the voluntary sector and key partners to review and refresh the volunteering strategy for Merton.

The use of library space will also be maximised for other activities, for example as arts space where exhibitions and performances can be held.

The key issues and risks faced with these developments will be:

- finding suitable partners to share with, or commission services from;
- demographic pressures resulting in increased demand on all of our key service areas e.g. ageing population demands on adult social care services;
- external factors diverting staff from planned developments e.g. welfare reforms; and

- external price pressures from service providers e.g. providers of residential / domiciliary care.

The Department's key performance indicators show a range of performance, with areas of significant achievement and areas where performance needs to be improved.

For the rate of delayed transfers of care from hospital (both Merton & NHS responsible), performance is improving in 2016/17 and work on a strategic, operational and commissioning level continues so that the gains from integrated and collaborative working can ensure continual improvement towards achieving this target.

The Department is pleased that the number of visitors accessing the library service exceeded the target for the year. Web based resources continue to be developed to further improve the Authority's excellent library service.

The Department also achieved its target for the number of homelessness preventions. Wherever possible the Authority is committed to preventing homelessness; interventions can include negotiating with the landlord, resolving Housing Benefit issues, assistance with rent arrears or providing alternative accommodation to achieve this target.

Environmental and Regeneration Department

In the coming years, the Department will undergo considerable changes in how services are delivered. In particular, the move away from being a direct provider of services to one with a greater clienting role will continue, ensuring quality services are contracted effectively from third parties. The Department also aspires to increase the number of services that are shared with other local authorities. This ambition is well illustrated by the South London Waste Partnership, which involves four local authorities working together to deliver certain waste services.

From April 2017, other key front line services – including Waste Collection, Street Cleaning, Parks and Vehicle Maintenance – will be delivered by a commercial provider procured by the South London Waste Partnership. It is also planned that the Regulatory Services Partnership – successfully established with the London Borough of Richmond – will be expanded to include other partners and options for joint working in the Transport and Planning Services will be explored.

Another key departmental priority is the Place Shaping Agenda – working to positively affect physical and other attributes of the Borough, ensuring the successful management of public space. This will include the establishment of a Merton Development Company and other vehicles for supporting appropriate growth strategies.

The performance indicators above support the general conclusion from all indicators that the principal services of the department, those that are given a high priority by residents, are generally being delivered in line with expectations and to appropriate standards. The cleanliness of the borough, the effectiveness of the refuse collection

service and the efficiency of the administrative role of the Authority are all high priorities.

4. Statement of Accounts

The Statement of Accounts is comprised of the following statements:

- **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 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 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.
- **Accounting Policies** - explains the basis for the recognition, measurement and disclosure of figures in the accounts.
- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the 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.
- **Statement of Responsibilities for the Statement of Accounts** – sets out the different responsibilities of the Authority and the Director of Corporate Services.

Core Financial Statements

1. Movement in Reserves Statement

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

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 01 April 2014	(30,928)	(49,892)	(26,057)	(8,176)	(115,054)	(19,128)	(134,182)
<i><u>Movement in reserves during 2014/15</u></i>							
(Surplus) or deficit on the provision of services	23,524	0	0	0	23,524	0	23,524
Other Comprehensive (Income) and Expenditure	0	0	0	0	0	59,641	59,641
Total Comprehensive (Income) and Expenditure	23,524	0	0	0	23,524	59,641	83,165
Adjustments between accounting basis & funding basis under regulations (Note 18)	(10,278)	0	(5,206)	2,461	(13,023)	13,023	0
Net (Increase)/Decrease before Transfer to Earmarked	13,246	0	(5,206)	2,461	10,501	72,664	83,165
Transfers (to)/from Earmarked Reserves (Note 16)	(6,004)	6,004	0	0	0	0	0
(Increase)/Decrease in Year	7,242	6,004	(5,206)	2,461	10,501	72,664	83,165
Balance at 31 March 2015 carried forward	(23,686)	(43,890)	(31,263)	(5,715)	(104,554)	53,536	(51,018)

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 01 April 2015	(23,686)	(43,890)	(31,263)	(5,715)	(104,554)	53,536	(51,018)
<i>Movement in reserves during 2015/16</i>							
(Surplus) or deficit on the provision of services	(4,702)	0	0	0	(4,702)	0	(4,702)
Other Comprehensive (Income) and Expenditure	0	0	0	0	0	(58,088)	(58,088)
Total Comprehensive (Income) and Expenditure	(4,702)	0	0	0	(4,702)	(58,088)	(62,790)
Adjustments between accounting basis & funding basis under regulations (Note 18)	4,933	0	1,681	1,562	8,176	(8,176)	0
Net (Increase)/Decrease before Transfer to Earmarked	231	0	1,681	1,562	3,474	(66,264)	(62,790)
Transfers (to)/from Earmarked Reserves (Note 16)	(2,200)	2,200	0	0	0	0	0
(Increase)/Decrease in Year	(1,969)	2,200	1,681	1,562	3,474	(66,264)	(62,790)
Balance at 31 March 2016 carried forward	(25,655)	(41,690)	(29,582)	(4,154)	(101,080)	(12,728)	(113,808)

2. Comprehensive Income and Expenditure Statement

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

2014/15	2014/15	2014/15		2015/16	2015/16	2015/16
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
			Continuing Operations			
7,405	(3,353)	4,052	Central Services to the Public	7,079	(3,921)	3,158
11,788	(2,366)	9,422	Cultural and Related Services	11,079	(2,452)	8,626
26,144	(4,514)	21,630	Environmental & Regulatory Services	25,658	(4,453)	21,205
7,149	(5,836)	1,312	Planning Services	7,298	(5,994)	1,304
238,555	(160,659)	77,897	Education and Children's Services	206,782	(162,232)	44,550
27,417	(14,867)	12,550	Highways and Transport Services	27,960	(14,583)	13,377
109,937	(105,589)	4,348	Other Housing Services	99,254	(95,897)	3,358
72,709	(18,812)	53,896	Adult Social Care	66,932	(15,216)	51,716
5,940	(17)	5,923	Corporate and Democratic Core	4,936	(6)	4,930
12,151	(10,846)	1,305	Non Distributed Costs	13,350	(10,249)	3,101
10,016	(9,651)	365	Public Health	10,926	(10,458)	468
529,209	(336,510)	192,699	Cost of services	481,254	(325,462)	155,793
		(1,187)	Other operating income and expenditure (Note 3)			(3,745)
		21,060	Financing and investment income and expenditure (Note 4)			17,209
		(189,048)	Taxation and non-specific grant income (Note 5)			(173,958)
		23,524	(Surplus) or Deficit on Provision of Services			(4,702)
		(8,984)	(Surplus) or deficit on revaluation of Property, Plant and equipment (Note 17)			(13,016)
		68,625	Remeasurement of the net defined benefit liability/(asset) (Notes 17 & 32)			(45,072)
		59,641	Other Comprehensive Income and Expenditure			(58,088)
		83,165	Total Comprehensive Income and Expenditure			(62,790)

The Total Comprehensive Income is credited to the Authority's reserves, as detailed by the Movement in Reserves Statement. This reserves movement can also be seen in the Balance Sheet.

3. Balance Sheet

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

31 March 2015			31 March 2016
£000		Notes	£000
433,619	Property, Plant & Equipment	19	461,133
669	Heritage Assets	21	669
13,000	Long Term Investments	9	5,000
1,639	Intangible Assets	20	1,291
8,234	Long Term Debtors	7 & 9	8,095
457,161	Long Term Assets		476,187
73,422	Short Term Investments	9	80,873
68	Inventories	36	46
25,756	Short Term Debtors	7	30,225
7,288	Assets Held for Sale	22	7,288
19,324	Cash and Cash Equivalents	14	23,311
125,858	Current Assets		141,744
(13,069)	Short Term Borrowing	9	(16,178)
(56,054)	Short Term Creditors	8	(59,345)
(2,754)	Current Provisions	11	(1,445)
(71,877)	Current Liabilities		(76,968)
(4,577)	Provisions	11	(6,516)
(116,976)	Long Term Borrowing	9	(116,976)
(34,099)	Other Long Term Liabilities	9	(32,346)
(293,820)	Pension Liability	32	(263,154)
(10,651)	Capital Grants Receipts in Advance	6	(8,162)
(460,123)	Long Term Liabilities		(427,155)
51,018	Net Assets		113,808
(104,554)	Usable Reserves	16	(101,080)
53,536	Unusable Reserves	17	(12,728)
(51,018)	Total Reserves		(113,808)

4. Cash Flow Statement

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

2014/15		2015/16
£000		£000
23,524	Net (surplus) or deficit on the provision of services	(4,702)
(44,802)	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 15a)	(30,553)
32,053	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 15b)	23,671
10,775	Net Cash flows from Operating Activities (note 15c)	(11,583)
3,639	Investing Activities (note 15d)	8,423
(11,023)	Financing Activities (note 15e)	(827)
3,390	Net (increase) or decrease in cash and cash equivalents	(3,987)
22,714	Cash and cash equivalents at the beginning of the reporting period	19,324
19,324	Cash and cash equivalents at the end of the reporting period (Note 14)	23,311

NOTES TO THE CORE FINANCIAL STATEMENTS

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INCOME AND EXPENDITURE

1. MATERIAL ITEMS OF INCOME AND EXPENSE

Other than that disclosed on the face of the Comprehensive Income and Expenditure statement, there were no material items of income and expense.

2. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

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

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

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

2015/16 Departmental Analysis	Corporate Services**	Children, Schools & Families	Community and Housing			Public Health	Environment & Regeneration	Total
			Adult Social Care	Libraries	Housing			
	£000	£000	£000	£000	£000	£000	£000	£000
INCOME								
Fees, charges and other service income	(12,844)	(5,767)	(13,503)	(925)	(485)	(388)	(27,751)	(61,663)
Government grants (Note 6)	(93,259)	(154,586)	(1,317)	(1,487)	(2,543)	(10,071)	(536)	(263,799)
Total Income	(106,103)	(160,354)	(14,820)	(2,412)	(3,028)	(10,458)	(28,287)	(325,462)
EXPENDITURE								
Employee expenses*	26,551	130,862	11,015	3,166	1,284	1,044	23,659	197,580
Other service expenses	108,746	71,054	58,955	1,245	3,237	9,704	21,382	274,324
Depreciation, Impairment losses and (revaluation increases) - Note 18	2,198	(2,028)	76	388	0	0	10,251	10,885
Support service recharges	(17,943)	5,179	4,351	1,076	265	178	5,358	(1,535)
Total Expenditure	119,553	205,067	74,397	5,875	4,786	10,926	60,650	481,254
Net Cost of Services (Statement of Accounts)	13,450	44,714	59,577	3,463	1,759	468	32,363	155,793
Items in Cost of Services not in Narrative Statement	(16,013)	(5,368)	5,680	1,332	394	179	10,308	(3,490)
Total Narrative Statement (Revenue Outturn Report)	29,463	50,082	53,897	2,131	1,365	289	22,055	159,282

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

Employee Expenditure	2014/15 £'000	2015/16 £'000
VA Schools	27,166	28,162
Foundation Schools	5,111	5,627
Total	32,277	33,789

**Corporate Services outturn includes net recharges, which are shown separately as 'other' in the Narrative Statement.

The table below reconciles the Departmental Analysis, the Narrative Statement and the Surplus or Deficit on the provision of services:

2015/16	Total Narrative Statement (Revenue Outturn Report)	Items in Departmental Analysis not in Narrative Statement	Total Cost of Services	Corporate Amounts	Total (Surplus)/ Deficit on the provision of services
	£000	£000	£000	£000	£000
INCOME					
Fees, charges and other service income	(86,266)	24,603	(61,663)	0	(61,663)
Interest & investment income (Note 9)	(22)	22	0	(1,850)	(1,850)
Taxation & non-specific grant income (Note 5)	0	0	0	(173,958)	(173,958)
Recharges	(33,902)	33,902	0	0	0
Government grants (Note 6)	(266,673)	2,874	(263,799)	0	(263,799)
Other	2,752	(2,752)	0	(800)	(800)
Total Income	(384,111)	58,649	(325,462)	(176,608)	(502,070)
EXPENDITURE					
Employee expenses	97,197	100,383	197,580	0	197,580
Other service expenses	393,048	(118,724)	274,324	0	274,324
Depreciation, Impairment losses and (revaluation increases) -Note 18	19,619	(8,734)	10,885	0	10,885
Support Service Recharges	33,528	(35,063)	(1,535)	0	(1,535)
Interest Payments (Note 9)	0	0	0	10,255	10,255
Precepts & Levies	0	0	0	926	926
Interest on net defined benefit liability (asset) (Note 32)	0	0	0	9,434	9,434
Gain or loss on disposal of fixed assets (Note 3)	0	0	0	(4,671)	(4,671)
Other finance and investment expenditure (Note 4)	0	0	0	170	170
Total Expenditure	543,392	(62,138)	481,254	16,114	497,368
Net Expenditure/(Income)	159,282	(3,488)	155,793	(160,494)	(4,702)

2014/15 Comparative Figures

2014/15 Departmental Analysis	Corporate Services	Children, Schools & Families	Community & Housing			Public Health	Environment & Regeneration	Total
			Adult Social Care	Libraries	Housing			
	£000	£000	£000	£000	£000	£000	£000	£000
INCOME								
Fees, charges and other service income	(18,023)	(8,550)	(17,948)	(1,065)	(324)	(415)	(27,295)	(73,621)
Government grants (Note 6)	(98,639)	(150,052)	(348)	(1,603)	(2,156)	(9,236)	(854)	(262,889)
Total Income	(116,663)	(158,602)	(18,297)	(2,669)	(2,480)	(9,651)	(28,149)	(336,510)
EXPENDITURE								
Employee expenses *	24,644	128,498*	13,943	3,178	1,446	858	23,370	195,937
Other service expenses	120,954	75,880	61,491	1,577	2,589	9,048	21,890	293,428
Depreciation & Impairment Losses (Note 18)	2,036	27,654	147	632	0	0	10,913	41,382
Support service recharges	(16,590)	4,785	3,958	1,023	282	110	4,893	(1,539)
Total Expenditure	131,044	236,817	79,538	6,411	4,317	10,016	61,066	529,209
Net Cost of Services (Statement of Accounts)	14,381	78,215	61,242	3,742	1,837	365	32,917	192,699
Items in Cost of Services not in Cabinet Outturn report	(14,374)	31,012	5,247	1,268	(73)	110	11,092	34,282
Total Revenue Outturn report	28,755	47,203	55,995	2,474	1,910	255	21,825	158,417

2014/15	Total Revenue Outturn	Items in Departmental Analysis not in Revenue Outturn	Total Cost of Services	Corporate Amounts	Total (Surplus)/ Deficit on the provision of services
	£000	£000	£000	£000	£000
<u>INCOME</u>					
Fees, charges and other service income	(90,598)	16,977	(73,621)	0	(73,621)
Interest & investment income (Note 9)	0	0	0	(1,552)	(1,552)
Taxation & non-specific grant income (Note 5)	0	0	0	(189,048)	(189,048)
Recharges	(32,852)	32,852	0	0	0
Government grants (Note 6)	(260,509)	(2,380)	(262,889)	0	(262,889)
Other (Note 4)	(3,064)	3,064	0	(1,206)	(1,206)
Total Income	(387,023)	50,513	(336,510)	(191,805)	(528,315)
<u>EXPENDITURE</u>					
Employee expenses	96,299	99,639	195,938	0	195,938
Other service expenses	398,885	(105,457)	293,428	0	293,428
Depreciation & Impairment Losses (note 18)	17,768	23,614	41,382	0	41,382
Support Service Recharges	32,488	(34,027)	(1,539)	0	(1,539)
Interest Payments (Note 9)	0	0	0	10,417	10,417
Precepts & Levies	0	0	0	931	931
Interest on net defined benefit liability/(asset) (Note 32)	0	0	0	9,477	9,477
Gain or loss on disposal of fixed assets (Note 3)	0	0	0	(2,138)	(2,138)
Gain or loss on disposal of academies (Note 4)	0	0	0	3,923	3,923
Other	0	0	0	19	19
Total Expenditure	545,440	(16,232)	529,208	22,630	551,838
Net Expenditure/(Income)	158,417	34,282	192,699	(169,176)	23,524

3. OTHER OPERATING EXPENDITURE

2014/15		2015/16
£000		£000
931	Precepts and Levies	926
(2,138)	(Gains)/ losses on the disposal of non-current assets	(4,671)
19	Payments to the Government Housing Capital Receipts Pool	0
(1,187)	Total	(3,745)

4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15		2015/16
£000		£000
10,417	Interest payable and similar charges (Note 9)	10,255
9,477	Net interest on defined pension liability (Note 32)	9,434
(1,552)	Interest receivable and similar income (Note 9)	(1,850)
(329)	Trading accounts not related to services (Note 35)	170
3,923	Loss on the disposal of academies	0
(877)	Other (income)/expenditure	(800)
21,060	Total	17,209

5. TAXATION AND NON-SPECIFIC GRANT INCOMES

2014/15		2015/16
£000		£000
(80,221)	Council tax income	(80,155)
(23,676)	Non domestic rates (see Note 6)	(25,695)
(61,565)	Non-ringfenced government grants (see Note 6)	(51,782)
(23,586)	Capital grants and contributions (see Note 6)	(16,327)
(189,048)	Total	(173,958)

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 2015/16:

	2014/15	2015/16
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Collection Fund	(80,221)	(80,155)
Revenue Support Grant	(39,738)	(30,425)
Business Rates	(23,676)	(25,695)
Top-up Grant	(7,694)	(7,841)
Capital Grant Income	(23,586)	(16,327)
PFI Contribution	(4,797)	(4,797)
New Homes Bonus Grant	(3,199)	(3,679)
Section 31 Grant	(1,278)	(1,051)
Council Tax Freeze Grant	(852)	(867)
Education Services Grant	(3,232)	(2,594)
Other grants under £1 million	(774)	(528)
Total	(189,048)	(173,958)
Credited to Services		
Grants over £1million		
Schools Delegated Budget	(131,414)	(138,183)
Housing Benefits Subsidy	(96,042)	(91,149)
Public Health Grant	(9,236)	(10,071)
Benefits Administration	(1,311)	(1,074)
Pupil Premium	(6,285)	(5,991)
Sixth Form Funding	(5,251)	(5,543)
Bed & Breakfast Accommodation	(1,680)	(2,211)
Universal Infant Free School Meals	(1,435)	(2,206)
Adult Education Main	(1,603)	(1,487)
	(254,259)	(257,915)
Total grants under £1million*	(8,630)	(5,884)
Total Grants	(262,889)	(263,799)
Contributions over £1million		
Contributions from CCG	(1,525)	(1,429)
Registered Nursing Care Contribution	(1,008)	(1,237)
Local Taxation Services	(1,126)	(1,001)
Shared Legal Service	(5,065)	(4,204)
Recharge for out of borough SEN support	(1,338)	(1,267)
Funding Transfer from NHS England to Social Care**	(3,428)	0
	(13,489)	(9,138)
Total contributions under £1million	(12,287)	(10,166)
Total Contributions	(25,776)	(19,304)
TOTAL GRANTS AND CONTRIBUTIONS	(288,665)	(283,104)

*Includes grant income credited to services to fund REFCUS.

**In 2015/16, this contribution has been replaced by the Better Care Fund pooled budget; see disclosure note 37 for further detail.

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

Long Term Liabilities - Capital Grants Receipts in Advance

	2014/15	2015/16
	£000	£000
1. Government Grants and other contributions		
Other Grants and Contributions	(2,751)	(616)
	(2,751)	(616)
2. Section 106	(7,044)	(6,943)
3. Schools Capital Grants	(855)	(604)
Total	(10,651)	(8,162)

DEBTORS, CREDITORS AND CASH FLOWS

7. DEBTORS

Gross Debt	Impairment	31 March 2015		Gross Debt	Impairment	31 March 2016
Re-stated	Re-stated	Net Debt				Net Debt
£000	£000	£000		£000	£000	£000
811	0	811	Long Term Debtors	776	0	776
10,638	(3,215)	7,423	Other Local Authorities	10,921	(3,602)	7,319
11,449	(3,215)	8,234	Bodies external to general government	11,697	(3,602)	8,095
			Total Long Term Debtors			
			Short Term Debtors			
7,869	0	7,869	Central government bodies	5,286	0	5,286
0	0	0	Other Local Authorities	81	0	81
29,459	(11,572)	17,887	Bodies external to general government	36,162	(11,304)	24,858
37,328	(11,572)	25,756	Total short term debtors	41,529	(11,304)	30,225
48,777	(14,787)	33,989	Total Debtors	53,226	(14,906)	38,320

Financial Instruments in Debtors

Gross Debt	Impairment	31 March 2015		Gross Debt	Impairment	31 March 2016
£000	£000	Net Debt		£000	£000	Net Debt
£000	£000	£000		£000	£000	£000
811	0	811	Long Term Debtors	776	0	776
7,488	(455)	7,033	Other Local Authorities	7,338	(463)	6,875
8,299	(455)	7,844	Bodies external to general government	8,114	(463)	7,651
			Total Long Term Debtors			
			Short Term Debtors			
19,048	(2,395)	16,653	Bodies external to general government	20,135	(2,372)	17,763
19,048	(2,395)	16,653	Total short term debtors	20,135	(2,372)	17,763
27,347	(2,850)	24,497	Total Financial Instruments in Debtors	28,249	(2,835)	25,414

8. CREDITORS

31 March 2015		31 March 2016
£000		£000
	Short Term Creditors	
(3,452)	Central government bodies	(3,352)
(1,454)	Other local authorities	(1,420)
(199)	NHS bodies	(217)
(50,949)	Bodies external to general government	(54,356)
(56,054)	Total Short Term Creditors	(59,345)

Financial Instruments in Creditors

31 March 2015		31 March 2016
£000		£000
	Short Term Creditors	
(686)	Other local authorities	(756)
(199)	NHS bodies	(217)
(41,088)	Bodies external to general government	(38,898)
(41,973)	Total Financial Instruments in Short Term Creditors	(39,871)

9. FINANCIAL INSTRUMENTS

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

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

Categories of Financial Instruments

	Long-term		Current	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	Re-stated		Re-stated	
	£000	£000	£000	£000
Investments				
Loans and receivables	13,000	5,000	73,422	80,873
Total investments	13,000	5,000	73,422	80,873
Debtors				
Loans and receivables	7,844	7,651	16,653	17,763
Total debtors	7,844	7,651	16,653	17,763
Borrowings				
Financial liabilities at amortised cost	116,976	116,976	13,069	16,178
Total borrowings	116,976	116,976	13,069	16,178
Other Liabilities				
PFI and Finance Lease Liabilities	34,099	32,226	1,597	1,638
Total other liabilities	34,099	32,226	1,597	1,638
Short Term Creditors				
Other Financial liabilities at amortised cost	N/A	N/A	40,376	38,233
Total creditors	N/A	N/A	40,376	38,233

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

Income, Expense, Gains and Losses

	2014/15 Re-stated			2015/16		
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Total
	£000	£000	£000	£000	£000	£000
Interest Expense - Borrowings	6,687	0	6,687	6,702	0	6,702
Interest Expense - Finance Leases	3,711	0	3,711	3,533	0	3,533
Fee Expenses	19	0	19	19	0	19
Total Expenses in Surplus or Deficit on the Provision of Services	10,417	0	10,417	10,255	0	10,255
Interest Income - Investments	0	(887)	(887)	0	(1,124)	(1,124)
Interest Income - Finance Leases	0	(664)	(664)	0	(726)	(726)
Total income in Surplus or Deficit on the Provision of Services	0	(1,551)	(1,551)	0	(1,850)	(1,850)
Net (gain)/loss for the year	10,417	(1,551)	8,866	10,255	(1,850)	8,405

Investments

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

Investment Profile		31 March 2015 £000	31 March 2016 £000
Long-term		13,000	5,000
Short-term		73,100	80,400
Accrued Investment Income		322	473
Total		86,422	85,873
Investments - Movement in year			£000
Investments at 1 April 2015			86,422
Change in investment managed internally			(700)
Change in accrued investment income			151
Investment at 31 March 2016			85,873
Long-term investment (book value)			5,000
Short-term investment (book value)			80,400
	Book Value £000	Fair Value £000	Unrealised Profits/(Losses) £000
Managed Internally	80,873	80,993	0
Managed Externally	5,000	5,036	36
Total	85,873	86,029	36

Fair Value of Assets and Liabilities

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

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

Internally managed investments	Book Value March 2015 £000	Fair Value 31 March 2015 £000	Book Value 31 March 2016 £000	Fair Value 31 March 2016 £000
Fixed Term Deposit	81,100	81,505	69,450	70,043
Money Market Funds	0	0	10,950	10,950
	81,100	81,505	80,400	80,993

The fair value of the Authority's investments is greater than the book value because the Council's portfolio of assets includes a number of fixed rate investments where the interest rate payable 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 31 March 2016 arising from counter-parties' commitment to pay interest to the Council above current market rates.

In line with FRS25, IFRS7 and IFRS13 on Financial Instruments, the Authority has calculated the fair value of its borrowing portfolio in the following table. The calculation of fair value involves estimating the premium payable on each loan if it were redeemed at year end, and adding this to the outstanding principal. All loans are at fixed rates and do not include derivatives, to which the Authority is directly exposed. The Authority is not able to package its debt as a marketable security and no adjustment is required to the book value of these loans on the balance sheet.

The methods and assumptions used in the valuation technique were:

- For Public Works Loan Board (PWLB) debt, fair values as at 31st March 2016 published by PWLB have been used.
- For other market debt, Net Present Value (NPV) methodology has been used, which provides an estimate of the value of future payments in today's terms. The discount rate used in the NPV calculation is usually equal to the current rate in relation to the same instrument from a comparable lender and would be the rate applicable in the market on the date of valuation, for an instrument with the same duration date to maturity.

Borrowing at source - Fair Value	31 March 2015 Re-stated		31 March 2016	
	Fair Value £000	Book Value £000	Fair Value £000	Book Value £000
Public Works Loan Board (PWLB)	65,985	52,010	66,548	52,010
Market Loan	95,804	63,000	96,423	63,000
Temporary Loan	11,911	11,910	15,008	15,000
Stock Loan	2,463	1,966	2,271	1,966
Total	176,163	128,886	180,250	131,976

Borrowing - Maturity Profile	31 March 2015	31 March 2016
	£000	£000
Less than 1 year	11,910	15,000
Between 1 and 2 years	0	3,966
Between 2 and 5 years	3,966	0
Between 5 and 10 years	30,510	30,510
More than 10 years	82,500	82,500
Total over 1 year	116,976	116,976
Total Borrowings	128,886	131,976
Accrued Interest	1,159	1,178
	130,045	133,154

Balance Sheet figures are based upon the maturity profile of borrowings. No early repayment or impairment is recognised. Instruments with maturity of less than 12 months or trade or other receivables, fair value is assessed as the carrying amount or the billed amount. The fair value of the Council's total liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss based on economic conditions at 31 March 2016 arising from a commitment to pay interest to lenders above current market rates. The fair value of PWLB loans of £66.548m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the Authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets.

10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Credit Risk

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

Lending and Investments

In the case of lending/investing surplus funds, risk is minimised through the Authority's credit policy that seeks to ensure that invested funds (deposits) are at relatively low risk of deposit-taker default. The policy sets a minimum level of creditworthiness for deposits in individual financial institutions, assessed by reference to data from commercial credit rating agencies and credit default swap data. The minimum credit criteria for 2015/16 were as follows:

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

In addition to deposits in higher rated deposit-takers, the Authority may use an AAA rated Money Market Fund, (which spreads risk taking across deposit takers), and

may also place deposits in UK public sector institutions, such as local authorities. At 31st March 2016 the disposition of investments was:

Category	£000	%	Spread (number of counterparties)	Fitch Rating
UK Clearing Banks	38,650	45.3%	3	F1, A, a-,1
UK Building Society	17,200	20.1%	1	F1, A, a-,1
Local Authority	8,000	9.4%	2	n/a
Pooled Property Fund	5,000	5.9%	1	AAAmf
Pooled Investments - Money Market Funds*	10,950	12.7%	2	AAAmf
Non UK Banks	5,600	6.6%	1	AAA
Total	85,400	100.0%	10	

*The Money Market Funds are administered through two institutions, Deutsche Bank and Aberdeen. Funds are pooled with monies from other investors, and invested by a Fund Manager in a large spread of shareholdings and government bonds, to diversify risk.

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

Current Deposits and Trade Debtors

No losses or impairments were incurred in 2015/16, nor are expected for the duration of current deposits. The Authority does not generally allow credit for customers. The Authority's maximum potential exposure to credit risk is with trade debtors, which are reviewed individually to assess risk of default and need for a provision. Factors taken into account in the assessment include the stability of the organisation, the size of the debt, the age of the debt and what, if any, security such as a charge on property has been provided. The past-due amount of trade debts can be analysed by age as follows:

	31 March 2015	31 March 2016
	£000	£000
< 3 months	8,526	6,758
3 to 12 months	1,731	1,904
> 1 year	3,902	4,213
Total	14,159	12,875

Cash

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

Liquidity Risk

The Authority's ability to pay its financial commitments as and when due is supported by substantial resources. Also, it has a comprehensive cash flow management

system that seeks to ensure that cash is available as needed. It plans a balanced annual budget that provides sufficient revenue to cover annual expenditure, and has access to borrowings from money markets and the Public Works Loans Board.

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

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

	31 March 2015		31 March 2016	
	£000	%	£000	%
Under 12 months	11,910	9.2%	15,000	11.4%
1yr to 2yrs	0	0.0%	3,966	3.0%
2yrs to 5yrs	3,966	3.1%	0	0.0%
5yrs to 10yrs	30,510	23.7%	30,510	23.1%
10yrs and over	82,500	64.0%	82,500	62.5%
Total	128,886	100%	131,976	100%

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

LOBO debt exposure with market rates of:	Prospectively repayable / requiring Re-finance	Proportion of total debt
	£000	%
4.00 - 4.99%	5,000	3.8
5.00 - 5.99%	34,000	25.8
6.00 - 6.99%	15,500	11.7
7.00 - 7.99%	2,000	1.5
8.00 - 8.99%	6,500	4.9
Total	63,000	47.7

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

At 31st March 2016 the sources of potential borrowing appear unimpaired, and the maturity profile of investments, available to support liquidity going forward, is as follows:

	£000	%
April to June 2016	4,300	5.0
July to September 2016	31,950	37.4
October to December 2016	33,200	38.9
January 2017 to March 2017	10,950	12.8
April 2017 to June 2017	0	0.0
June 2017 to September 2017	0	0.0
October 2017 and beyond	5,000	5.9
	85,400	100.0

The Authority did not experience any liquidity problems in 2015/16 and does not anticipate any for 2016/17.

Interest Rate (or Market) Risk

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

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

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

	2015/16 £000	0.50% £000	1.00% £000	Mitigation
Borrowings	131,976	315	630	In the short term, a 0.5% or 1.0% rise in market interest rate is unlikely to have any impact on the existing debt portfolio because of the LOBO rates in the portfolio. On the other hand, should a 0.5% or 1.0% change in market interest rate be translated directly into a corresponding increase in investment rates, the existing investment portfolio will be affected to the extent by which the Authority is locked into its investments until maturity. A premium would be payable to unwind the fixed deposits.
Investments	(85,400)	(427)	(854)	
Impact on CIES	N/A	(112)	(224)	

Borrowings

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

Prudential Indicator Limits

Maximum % exposure to	2015/16	2016/17	2017/18	2018/19
Fixed rates	100	100	100	100
Variable rates	50	50	50	50

At 31st March 2016 exposure to variable rates on borrowings is exclusively through future maturities and the risk of LOBO options being exercised. The prospect of the latter is currently not considered significant. The market risk is, therefore, through the spread of debt maturities, and an estimate of a possible financial consequence is shown in the following table. The table shows the maturity analysis of financial liabilities, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy).

Maturity in	Actual at 31 March 2015 £000	Actual at 31 March 2016 £000	Approved Lower Limit %	Approved Higher Limit %
Under 12 months	11,910	15,000	0	60
1 to 2 years	0	3,966	0	60
2 to 5 years	3,966	0		
5 to 10 years	30,510	30,510	0	80
10 to 15 years	4,500	4,500	0	100
15 to 20 years	1,000	12,500	0	100
20 to 25 years	11,500	0		
25 to 30 years	13,500	13,500	0	100
30 to 35 years	0	0		
35 to 40 years	17,000	32,000	0	100
40 to 45 years	15,000	0		
45 to 50 years	20,000	20,000	0	100
	128,886	131,976		

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.

	2014/15	2015/16	2016/17	2017/18
Maximum investment over 1 year as percentage of total investments	50	50	50	50

At 31st March 2016, the investment portfolio's exposure to interest rate change is set out in the following table.

Deposit Maturity in:	Actual at 31	Actual at 31	Current
	March 2015	March 2016	average interest rate
	£000	£000	%
0-3 months	9,500	4,300	1.0
3-6 months	25,550	31,950	0.9
6-9 months	32,950	33,200	1.0
9-12 months	5,100	10,950	0.4
over 12 months	13,000	5,000	4.0
	86,100	85,400	0.9

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

PFI Borrowing

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

Price Risk

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

Foreign Exchange Risk

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

Refinancing and Maturity Risk

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

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

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

Overall Procedures for Managing Risk

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

11. PROVISIONS

	Injury and damage compensation claims £000	Other provisions £000	Total £000
Balance at 1 April 2015	(4,013)	(3,319)	(7,331)
Additional provisions made in 2015/16	(1,317)	(2,840)	(4,157)
Amounts used in 2015/16	1,011	2,517	3,527
Balance at 31 March 2016	(4,319)	(3,642)	(7,961)

Outstanding Legal Cases

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

Injury and Damage Compensation Claims:

- **Insurance Fund £4.319m**

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

Other Provisions:

- **Housing £0.234m**

As part of the stock transfer agreement made on 22 March 2010, the authority paid £1.85m to Merton Priory Homes in order for them to complete the 2009/10 capital programme. Due to health and safety and various design issues, the cost of the programme increased by £0.24m. The work has been completed and a provision of £0.343m was made for final settlement of this and other outstanding housing contracts. As at 31/03/2016, £0.234m remains in the provision for settlement of outstanding contracts, which is expected to be reached during 2016/17. No charge was made against the provision during 2015/16.

- **Single Status £0.052m**

Single Status is a national agreement reached in 1997 aimed at modernising pay and rewards in Local Government. The agreement covers the introduction of a single job evaluation (JE) scheme for all Authority workers, a standardised working week and a pay and grading review which recognises equal pay for work of equal value. A further national implementation agreement was reached in 2004 under which local authorities would complete and implement local pay reviews. In 2015/16, the Authority made payments totalling £0.246m against the provision. The remaining £0.053m provision is the estimated outstanding liability for single status allowances.

- **PFI Refund £0m**

In 2014/15, the Authority had made provision of £0.056m for the partial refund of past contributions made by an Academy school under the PFI scheme (see Note 29). The liability was settled for £0.056m during 2015/16.

- **NDR Appeals £2.382m**

The Authority has a provision of £2.382m (£0.185m current, £2.197m non-current) for its share of appeals against NDR (Business Rates) charges. During 2015/16, £2.215m was charged against the provision, and an additional £1.867m set-aside to cover future appeals. The total £2.382m provision reflects an estimate of the potential effects of appeals that may be settled in future years.

- **Housing Benefit Grant Clawback £0.974m**

Following the audit of past grant claims, the Authority expects to have to make a repayment to the government, in respect of an overclaimed sum. The estimated repayment is £0.974m.

Of the above provisions, those for housing benefit grant, single status, housing and part of the NDR appeals, totalling £1.445m, are classified as current provisions (£2.754m at 31/03/2015), expected to fall due within one year of the balance sheet date. The remainder of the provisions, totalling £6.516m (£4.577m at 31/03/2015) are long-term provisions, expected to fall due more than one year after the balance sheet date.

12. CONTINGENT LIABILITIES

Local Land Charges

A group of property search companies sought to claim refunds of fees paid to the Authority to access land charges data. The parties have reached agreement on the claims. The Authority has agreed to pay the property search companies' legal costs and is in discussions with the claimants about this. At present it is not possible to put a final value on the potential liability.

Employment Disputes

There are two significant employment disputes where compensation and/or costs may be involved.

In the first, LBM faces a claim for £122,285, although the Authority itself believes the true claim value to be in the region of £12,000.

The second claim is for constructive dismissal/discrimination, with a maximum estimated liability of £55,000. This claim is at an early stage.

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

Education

There is one ongoing Special Educational Needs tribunal case of note. A residential college placement is being sought which would cost the Authority £230,000 a year. The Authority is offering local provision at approximately £33,000 a year. Due to the inherent uncertainties surrounding the tribunal outcome, the Authority has not made a provision for these in the accounts.

CHAS 2013 Ltd

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

Proceedings have been issued against CHAS 2013 Ltd and the Authority for £720,000 arising out of a contractual matter. CHAS 2013 Ltd and the Authority have put in a counterclaim, which exceeds this sum, in respect of the third party's alleged unauthorised use of the CHAS registered trademark and name. Due to the uncertainties surrounding the outcome, neither claim is reflected in the accounts.

13. CONTINGENT ASSETS

Proceeds of Crime Act 2002 (POCA)

The Authority has a POCA Order following an LBM trading standards prosecution of a betting scam. A confiscation order of £6.1m was made in May 2014, to be paid by 14th November 2014, of which the Council would receive 37.5%, less the costs of the financial investigator. The sum was not paid in time and court proceedings to recover it are continuing, as are sales of assets.

Another POCA application following a housing benefit fraud investigation is proceeding through the courts. The criminal gain is approximately £46k, although this figure is disputed.

Connexions Consortium

In 2011, the Connexions Consortium (which included LB Merton) terminated a contract with CfBT in response to the withdrawal of government funding. At that point there was a dispute regarding whether redundant staff should have transferred back to the Royal Borough of Kingston-upon-Thames before being made redundant. The case was subsequently resolved by an industrial tribunal.

After meeting the costs associated with the tribunal cases, there remains a residual balance which will be held by RB Kingston until the threat of contractual litigation from CfBT no longer exists. The limitation period within which CfBT could commence an action of breach of contract expires on 12th July 2017. RB Kingston will continue to hold the balance until 13th July 2017, at which stage the funds will be distributed in accordance with the previously agreed formula for cost sharing. For LB Merton the total estimated refund will be £51,000.

14. CASH AND CASH EQUIVALENTS

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

31 March 2015 £000		31 March 2016 £000
(252)	Main bank account	2,049
1,439	Cash in transit (held by agents)	1,322
18,101	Cash advanced to schools	19,921
36	Cash advanced to establishments (Cash imprests)	20
19,324	Total Cash and Cash Equivalents	23,311

15. CASH FLOWS

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

2014/15 £000		2015/16 £000
	Non Cash Movements	
(17,075)	Depreciation	(16,711)
(24,147)	(Impairment)/Revaluation increases	5,972
(693)	Amortisation	(584)
(6,930)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(2,600)
(868)	Movement in Pension Liability	(14,406)
1,080	(Increase)/decrease in provision for the impairment of bad debts	(120)
(529)	(Increase)/decrease in Provisions	(629)
(49,163)		(29,078)
	Accruals Adjustments	
(143)	Increase/(decrease) in Inventories	(22)
(3,156)	Increase/(decrease) in Debtors	4,451
120	Increase/(decrease) in Interest Debtors	151
7,529	(Increase)/decrease in Creditors	(6,036)
11	(Increase)/decrease in Interest Creditors	(18)
4,361		(1,474)
(44,802)	Total	(30,553)

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

2014/15		2015/16
£000		£000
4,870	Proceeds from the sale of PP&E, investment property and intangible assets	6,357
27,183	Any other items for which the cash effects are investing or financing cash flows	17,314
32,053	Total	23,671

15c. Cash Flow Statement - Operating Activities

2014/15		2015/16
£000		£000
1,797	Employee and running costs less income	(20,102)
(1,432)	Interest received	(1,699)
6,699	Interest paid	6,685
3,711	Interest element of finance lease	3,533
10,774	Net cash flows from operating activities	(11,583)

15d. Cash Flow Statement - Investing Activities

2014/15		2015/16
£000		£000
31,389	Purchase of property, plant and equipment, investment property and intangible assets	30,325
442,320	Purchase of short-term and long-term investments	403,555
(4,870)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6,357)
(436,220)	Proceeds from short-term and long-term investments	(404,255)
(28,980)	Other receipts from investing activities	(14,845)
3,639	Net cash flows from investing activities	8,423

15e. Cash Flow Statement - Financing Activities

2014/15 Re-stated £000		2015/16 £000
(22,910)	Cash receipts of short-term borrowing	(20,000)
(401)	Other receipts from financing activities	0
1,270	Cash payments for the reduction of finance leases	1,842
11,000	Repayment of short-term borrowing	16,910
19	Other payments	421
(11,023)	Net cash flows from financing activities	(827)

RESERVES

16. USABLE RESERVES

Usable Reserves	Balance at 31 March 2014 £000	Transfers out 2014/15 £000	Transfers in 2014/15 £000	Balance at 31 March 2015 £000	Transfers out 2015/16 £000	Transfers in 2015/16 £000	Balance at 31 March 2016 £000
General Fund:							
Balances held by schools under a scheme of delegation	(12,090)	3,593	(37)	(8,535)	0	(1,969)	(10,504)
General Fund Balances	(18,838)	3,687	0	(15,151)	0	0	(15,151)
Earmarked reserves	(49,892)	11,836	(5,833)	(43,890)	9,450	(7,250)	(41,690)
Total General Fund	(80,820)	19,116	(5,870)	(67,575)	9,450	(9,219)	(67,344)
Capital:							
Capital Receipts Reserves	(26,057)	138	(5,344)	(31,263)	9,082	(7,401)	(29,582)
Capital Grants Unapplied	(8,176)	3,329	(868)	(5,715)	4,266	(2,705)	(4,153)
Total Capital	(34,233)	3,467	(6,212)	(36,978)	13,349	(10,106)	(33,736)
Total Usable Reserves	(115,053)	22,583	(12,083)	(104,554)	22,798	(19,324)	(101,080)

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

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

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

Capital Grants Unapplied - These are unapplied capital grants set aside for future capital expenditure. The balance includes Community Infrastructure Levy receipts totalling £2.83m.

Transfers to/from Earmarked Reserves

Reserve	Balance at 31st March 2014	Net Transfer (to)/from Reserve	Balance at 31st March 2015	Net Transfer (to)/from Reserve	Balance at 31st March 2016
	£000	£000	£000	£000	£000
Outstanding Council Programme Board	(11,105)	1,590	(9,515)	3,233	(6,282)
For use in future years' budgets	(8,252)	2,500	(5,752)	(113)	(5,865)
Revenue reserve for capital/revenueisation	(5,360)	(702)	(6,062)	(1,685)	(7,747)
Renewable energy reserve	(1,441)	0	(1,441)	(82)	(1,523)
Repairs and renewals fund	(1,424)	0	(1,424)	200	(1,224)
Transforming families reserve	(784)	370	(414)	414	0
Pension fund additional contribution	(1,078)	1,015	(63)	0	(63)
Local land charges	(1,260)	(159)	(1,419)	(226)	(1,645)
Apprenticeships	(949)	301	(648)	242	(406)
Community care reserve	(1,733)	347	(1,386)	0	(1,386)
Local welfare support reserve	(315)	(299)	(614)	81	(533)
Performance reward grant	(265)	265	(0)	0	(0)
Economic development strategy	(1,322)	173	(1,148)	529	(620)
Governor support reserve	0	(52)	(52)	33	(19)
Wimbledon tennis courts renewal	(52)	(25)	(77)	(25)	(101)
Merton action single homelessness	(50)	50	0	0	0
Corporate services reserves	(182)	0	(182)	(108)	(290)
New homes bonus scheme	0	0	0	(1,037)	(1,037)
Sub total earmarked reserves	(35,573)	5,376	(30,197)	1,457	(28,740)
Adult social care contributions	(670)	245	(425)	75	(350)
Culture & environment contributions	(1,204)	757	(447)	313	(134)
Culture & environment grants	(747)	384	(363)	(50)	(413)
Children & education grants	(708)	58	(650)	279	(371)
Supporting people balances	0	0	0	(65)	(65)
Housing planning development grants	(299)	110	(190)	89	(101)
Housing GF grants	(106)	0	(106)	0	(106)
Public health grant reserve	(1,664)	510	(1,154)	1,132	(22)
Children, schools & families reserve	0	0	0	(365)	(365)
Sub total IFRS earmarked reserves	(5,398)	2,063	(3,335)	1,409	(1,927)
Insurance reserves	(1,954)	0	(1,954)	0	(1,954)
Sub total fixed to contract reserve	(1,954)	0	(1,954)	0	(1,954)
DSG reserve	(2,728)	(857)	(3,585)	(783)	(4,368)
Refund of school PFI contributions	0	(400)	(400)	300	(100)
Schools reserve	(168)	116	(52)	52	(0)
Schools PFI fund	(4,071)	(295)	(4,366)	(235)	(4,600)
Sub total schools reserves	(6,967)	(1,436)	(8,403)	(666)	(9,069)
Grand Total	(49,894)	6,004	(43,890)	2,200	(41,690)

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

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

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

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

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

Local Land Charges: The reserve will be used to fund any liability arising from a legal challenge in relation to local land charges (for details, refer to contingent liabilities disclosure)

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

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

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

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

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

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

Corporate services reserves: Funds corporate projects.

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 Masterplanning; and Morden Retail Gateway.

Adult social care contributions: To be spent on vital social care services that also benefit the NHS.

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

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

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

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

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

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

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

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

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

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

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

17. UNUSABLE RESERVES

31 March 2015		31 March 2016
£000		£000
(73,934)	Revaluation Reserve	(84,678)
(161,565)	Capital Adjustment Account	(187,067)
293,820	Pensions Reserve	263,154
(5,547)	Deferred Capital Receipts Reserve	(5,319)
(2,854)	Collection Fund Adjustment Account	(1,703)
3,616	Accumulated Absences Account	2,884
53,536	Total Unusable Reserves	(12,728)

Revaluation Reserve

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

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

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

2014/15 £000		2015/16 £000
(71,054)	Balance at 1st April	(73,934)
(12,486)	Upward revaluation of assets	(13,016)
3,503	Downward revaluation of assets and impairment losses not charged to the Surplus/ Deficit on the Provision of Services	0
(8,984)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(13,016)
4,225	Difference between fair value depreciation and historical cost depreciation	2,271
1,879	Accumulated gains on assets sold or scrapped	1
6,104	Amount written off to the Capital Adjustment Account	2,272
(73,934)	Balance at 31st March	(84,678)

Capital Adjustment Account

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

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

2014/15		2015/16
£000		£000
(167,021)	Balance at 1st April	(161,565)
(6,104)	Amounts written out of the Revaluation Reserve	(2,272)
	Reversal of items relating to capital expenditure debited or credited to the CIES	
17,075	Charges for depreciation and impairment of non-current assets	16,711
24,147	Revaluation losses charged to CIES for Property, Plant and Equipment where there is no prior Revaluation Reserve balance	2,106
0	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	(8,078)
693	Amortisation of intangible assets	584
3,768	Revenue expenditure funded from capital under statute	1,006
6,930	Amounts of non-current assets written off on derecognition or sale as part of the gain/ loss on disposal to the CIES	2,600
5	Other adjustments	0
52,619		14,929
46,515	Net reversal of the cost of non-current assets consumed in the year	12,657
	Capital financing applied in the year:	
(119)	Use of Capital Receipts Reserve to finance new capital expenditure	(9,082)
(29,676)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(18,895)
(9,137)	Statutory provision for the financing of capital investment charged against the General Fund	(9,276)
(2,327)	Capital expenditure charged against the General Fund	(1,036)
(41,258)		(38,289)
200	Loan Repayments	130
(161,565)	Balance at 31st March	(187,067)

Pensions Reserve

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

2014/15		2015/16
£000		£000
224,327	Balance at 1st April	293,820
68,625	Remeasurements of the net defined benefit liability/asset	(45,072)
29,093	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	31,310
(28,225)	Employer's pensions contributions and direct payments to pensioners payable in the year	(16,904)
293,820	Balance at 31st March	263,154

Deferred Capital Receipts Reserve

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

2014/15		2015/16
£000		£000
(5,555)	Balance at 1st April	(5,547)
0	Correction of balance relating to previous years	217
9	Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	11
	Transfer to the Capital Receipts Reserve upon receipt of cash	0
(5,547)	Balance at 31st March	(5,319)

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.

2014/15		2015/16
£000		£000
(3,814)	Balance at 1st April	(2,854)
960	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	1,151
(2,854)	Balance at 31st March	(1,703)

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.

2014/15 £000		2015/16 £000
3,989	Balance at 1st April	3,616
(3,989)	Settlement or cancellation of accrual made at the end of the preceding year	(3,616)
3,616	Amount accrued at 31st March	2,884
(373)	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	(732)

18. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2015/16

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of non current assets	(16,711)			16,711
Revaluation losses on Property Plant and Equipment	(2,106)			2,106
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	8,078			(8,078)
Amortisation of intangible assets	(584)			584
Revenue expenditure funded from capital under statute	(1,006)			1,006
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	(2,600)			2,600
<u>Insertion of items not debited or credited to the</u>				
<u>Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	9,276			(9,276)
Capital expenditure charged against the General Fund balance	1,036			(1,036)
Revaluation gains charged direct to Revaluation Reserve				
Adjustments primarily involving the Capital Grant Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	17,333		(2,705)	(14,628)
Application of grants to capital financing transferred to the Capital Adjustment Account			4,266	(4,266)
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	7,271	(7,271)		

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	
Use of the Capital Receipts Reserve to finance new capital expenditure		9,082		(9,082)
Repayment of debt		(130)		130
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(11)			11
Correction of balance relating to previous years	(217)			217
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)	(31,310)			31,310
Employer's pensions contributions and direct payments to pensioners payable in the year	16,904			(16,904)
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	(1,151)			1,151
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	732			(732)
Total Adjustments	4,933	1,681	1,562	(8,176)

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

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	
	£000	£000	£000	
Use of the Capital Receipts Reserve to finance new capital expenditure		119		(119)
Use of Capital Receipts Reserve to finance debt premium				
Contribution to Housing Pool	(19)	19		
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals				
receipt of cash				
Repayment of debt		(200)		200
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(9)			9
Correction of balance relating to previous years				
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	(29,093)			29,093
Employer's pensions contributions and direct payments to pensioners payable in the year	28,225			(28,225)
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	(960)			960
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	373			(373)
Total Adjustments	(10,278)	(5,206)	2,461	13,023

CAPITAL

19. PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

Depreciation

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

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

Amortisation

Intangible Assets are amortised over 5 years

Capital Commitments

At 31st March 2016, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years totalling an estimated £7.5m. This is considerably lower than the commitments at 31/03/2015 (which were £34m), because the primary school expansion programme is coming to an end and contractual commitments for the secondary school expansion programme are yet to be made. Furthermore, the E&R Highways term contractor's contract ends in September 2016 and subsequent contractual commitments have yet to be made.

Effects of Changes in Estimates

There are no material changes to the basis of estimation.

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2015	328,956	22,782	157,446	0	2,000	358	511,542	57,295
Correction of balance relating to previous years	48	(48)	0	0	0	0	0	0
Additions	15,668	1,364	9,023	668	0	1,114	27,837	81
Revaluation increase/(decreases) recognised in the Revaluation Reserve	11,080	0	0	0	0	0	11,080	0
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	6,639	0	0	(668)	0	0	5,972	0
Derecognition - Disposals	0	(3,475)	(10,892)	0	0	0	(14,367)	0
Derecognition - Other	(2,439)	(39)	0	0	0	0	(2,478)	0
Reclassified to surplus assets	(5,026)	0	0	0	5,026	0	0	0
At 31 March 2016	354,927	20,584	155,577	0	7,026	1,472	539,586	57,376
Accumulated Depreciation and Impairment								
At 1 April 2015	4,056	12,345	61,521	0	0	0	77,922	0
Depreciation Charge	7,357	3,309	6,045	0	0	0	16,711	1,218
Depreciation written out to the Revaluation Reserve	(1,936)	0	0	0	0	0	(1,936)	0
Derecognition - Disposals	0	(3,199)	(10,892)	0	0	0	(14,091)	0
Derecognition - Other	(142)	(11)	0	0	0	0	(154)	0
At 31 March 2016	9,334	12,444	56,673	0	0	0	78,452	1,218
Net Book Value								
At 31 March 2016	345,593	8,140	98,904	0	7,026	1,472	461,133	56,158
At 31 March 2015	324,900	10,436	95,925	0	2,000	358	433,619	57,295

Comparative Movements in 2014/15:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment	
	£000	£000	£000	£000	£000	£000	£000	£000	
Cost or Valuation									
At 1 April 2014	332,461	23,078	150,417	0	2,000	7,884	515,840	54,002	
Additions	22,382	1,886	7,029	1,199	0	358	32,854	223	
Revaluation increase/(decreases) recognised in the Revaluation Reserve	1,647	0	0	0	0	0	1,647	1,572	
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(22,811)	0	0	(1,336)	0	0	(24,147)	(872)	
Derecognition - Disposals	0	(401)	0	0	0	0	(401)	0	
Derecognition - Other	(5,690)	0	0	0	0	0	(5,690)	0	
Recognition	983	0	0	0	0	0	983	0	
Assets reclassified (to)/from held for Sale	(7,899)	0	0	0	0	0	(7,899)	0	
Completed assets under construction	7,884	0	0	0	0	(7,884)	()	0	
Other	0	(1,782)	0	137	0	0	(1,644)	2,370	
At 31 March 2015	328,956	22,782	157,446	0	2,000	358	511,542	57,295	
Accumulated Depreciation and Impairment									
At 1 April 2014	2,436	10,796	55,607	0	0	0	68,839	2,446	
Depreciation Charge	7,702	3,460	5,914	0	0	0	17,075	1,185	
Depreciation written out to the Revaluation Reserve	(5,787)	0	0	0	0	0	(5,787)	(3,631)	
Derecognition - Disposals	(163)	(129)	0	0	0	0	(293)	0	
Derecognition - Other	(131)	0	0	0	0	0	(131)	0	
Other changes		(1,782)	0	0	0	0	(1,782)	0	
At 31 March 2015	4,056	12,345	61,521	0	0	0	77,922	0	
Net Book Value									
At 31 March 2015	324,900	10,436	95,925	0	2,000	358	433,619	57,295	
At 31 March 2014	330,025	12,282	94,809	0	2,000	7,884	447,000	51,557	

20. INTANGIBLE ASSETS

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the London Borough of Merton. The useful life assigned to the major software suites used by the London Borough of Merton is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.58m charged to revenue in 2015/16 (£0.69m in 2014/15) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

	2014/15 Restated	2015/16
	Intangible Assets £000	Intangible Assets £000
Balance at start of year:		
Gross carrying amounts	4,027	3,701
Accumulated amortisation	(2,131)	(2,062)
Net carrying amount at start of year	1,896	1,639
Disposals:		
Gross carrying amounts	(762)	(963)
Accumulated amortisation	762	963
Additions:		
Purchases	436	235
Amortisation for the period	(693)	(584)
Net carrying amount at end of year	1,639	1,291
Comprising:		
Gross carrying amounts	3,701	2,973
Accumulated amortisation	(2,062)	(1,682)
	1,639	1,291

21. HERITAGE ASSETS

The authority's collection of Heritage Assets consists of Regalia and Art. Much of the art is on display within the Civic Centre and Libraries. The Regalia is not generally accessible other than when in use and the higher value items are stored securely. All Heritage Assets are held on the Balance Sheet at insurance value, which is based on market values. The valuations were carried out during 2011/12 by qualified external valuers, Webb Valuations Fine Art Ltd, who specialise in Fine Art and Jewellery. There are four items within the Art collection and six 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 £84,000.

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

	Art Collection	Regalia & Ceremonial	Total Assets
	£000	£000	£000
Cost or Valuation			
31 March 2015	197	472	669
31 March 2016	197	472	669

22. ASSETS HELD FOR SALE

	Current	
	2014/15	2015/16
	£000	£000
Balance outstanding at start of year	0	7,288
Recognition	425	0
Assets reclassified (to)/from Other Land & Buildings	7,899	0
Assets reclassified (to)/from Non Current Asset Held for Sale	231	0
Derecognition - Disposals	(1,267)	0
The balance relates to property, plant and equipment- Car Parks at Wimbledon and Sibthorpe Road to be sold to developer.		
Balance outstanding at year end	7,288	7,288

23. IMPAIRMENT LOSSES

The Authority carried out an impairment review in 2015/16, the result of which was that there were no impairment losses recognised in the year.

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:

	2014/15	2015/16
	£000	£000
Opening Capital Financing Requirement	214,060	207,826
Capital Investment		
Property, Plant and Equipment	32,854	27,837
Intangible Assets	437	235
Revenue Expenditure Funded from Capital Under Statute	3,768	1,006
Other Investments		
Loans to public sector organisations	59	0
Sources of Finance		
Capital receipts	(119)	(9,082)
Government grants and other contributions	(29,676)	(18,895)
Sums set aside from revenue:		
Direct revenue contributions	(2,327)	(1,036)
MRP	(9,137)	(9,276)
CFR Adjustment	(2,094)	0
Closing Capital Financing Requirement	207,826	198,616
Increase in underlying need to borrowing (unsupported by government financial assistance)	(6,234)	(9,210)
CFR Adjustment	2,094	0
Increase/(Decrease) in Capital Financing Requirement	(4,141)	(9,210)

25. LEASES

Authority as Lessee

Finance Leases

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

31 March 2015 £000		31 March 2016 £000
2,613	Other Land and Buildings	2,544
463	Vehicles, Plant, Furniture and Equipment	261
3,076	Total	2,805

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

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

31 March 2015 £000		31 March 2016 £000
	Finance lease liabilities (net present value minimum lease payments):	
140	- current	293
679	- non current	553
175	Finance costs payable in future years	62
994	Total minimum lease payments	908

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
Not later than one year	228	293	140	293
Later than one year and not later than five years	497	352	411	290
Later than five years	269	263	268	263
Total	994	908	819	846

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16, £0.291m contingent rents were payable by the Authority (2014/15 £0.064m).

Operating Leases

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

31 March 2015 £000		31 March 2016 £000
205	Not later than one year	214
736	Later than one year and not later than five years	665
1,265	Later than five years	1,066
2,206	Total	1,945

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2014/15 £000		2015/16 £000
172	Minimum lease payments	205
172	Total	205

Authority as Lessor

Finance leases

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

The gross investment is made up of the following:

31 March 2015		31 March 2016
£000		£000
	Finance lease debtor (net present value of minimum lease payments):	
10	- current	12
5,330	- non current	5,484
21,015	Unearned finance income	20,054
2	Unguaranteed residual value of property	2
26,357	Gross investment in lease	25,552

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

	Gross Investment in Lease		Minimum Lease Payments	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£000	£000	£000	£000
Not later than one year	338	337	338	337
Later than one year and not later than five years	1,360	1,360	1,360	1,360
Later than five years	24,659	23,855	24,657	23,852
Total	26,357	25,552	26,355	25,549

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16, £0.339m contingent rents were receivable by the authority (£0.346m in 2014/15).

Operating Leases

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

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

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

31 March 2015		31 March 2016
£000		£000
3,225	Not later than one year	3,055
9,830	Later than one year and not later than five years	9,496
28,874	Later than five years	29,949
41,929	Total	42,500

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

SCHOOLS

26. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2015/16 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total Expenditure £'000
Final DSG for 2015/16 before Academy recoupment			154,684
Academy figure recouped for 2015/16			(16,501)
Total DSG figure after Academy recoupment for 2015/16			138,183
Plus: Brought forward from 2014/15			3,585
Less: Carry-forward to 2016/17 agreed in advance			(3,269)
Agreed initial budgeted distribution in 2015/16	18,693	119,806	138,499
Final budgeted distribution for 2015/16	18,693	119,806	138,499
Less: Actual central expenditure	(17,979)		(17,979)
Less: Actual ISB deployed to schools		(119,421)	(119,421)
Carry forward for 2015/16	714	385	1,099
Carry-forward to 2016/17 agreed in advance			3,269
Total carry forward 2016/17			4,368

The £4.368m balance is held in the DSG earmarked revenue reserve (see Note 16).

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

School Category		2014/15		2015/16	
		Number of Schools	Net surplus/ (deficit) £'000	Number of Schools	Net surplus/ (deficit) £'000
Maintained Schools	Primary	30	5,078	30	5,093
	Secondary	2	1,439	2	1,905
Voluntary Aided Schools	Primary	11	1,265	11	1,366
	Secondary	2	183	2	551
Foundation		1	133	1	600
Special Schools		4	438	4	988
Total		50	8,535	50	10,504

27. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The Authority has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, NewSchools 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, NewSchools Ltd are contracted to provide soft services (such as caretaking and facilities maintenance) to the remaining three schools and one academy, in return for an annual payment. The contract does not allow for any of the four remaining schools to leave the arrangement before 2030. At the end of the arrangement, the Authority will retain ownership of the school land and buildings.

Value of Assets Held

The Authority's accounts include school buildings constructed under the PFI scheme. In 2014/15, the school buildings were revalued upwards to £57.3m.

	31 March 2015	31 March 2016
	£000	£000
Gross Value	57,295	57,376
Accumulated Depreciation	0	(1,218)
Net	57,295	56,158

Value of Liabilities

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

	Capital	Interest	Services	Total
	£000	£000	£000	£000
Mar 2017	1,345	3,243	4,213	8,800
Mar 2018 - 2022	8,440	17,674	23,169	49,283
Mar 2023 - 2027	12,927	16,027	24,927	53,881
Mar 2028 - 2030	10,566	13,110	17,495	41,171
Liability at 31st March 2016	33,277	50,053	69,805	153,135
Liability at 31st March 2015	34,734	54,860	75,339	164,932
Liability at 31st March 2014	36,216	58,326	78,649	173,190

Partial Termination

	Capital	Interest	Services	Total
	£000	£000	£000	£000
Mar 2017	640	1,019	0	1,659
Mar 2018 - 2022	3,958	4,337	0	8,295
Mar 2023 - 2027	5,598	2,697	0	8,295
Mar 2028 - 2030	4,417	560	0	4,977
Liability at 31st March 2016	14,613	8,613	0	23,226
Liability at 31st March 2015	15,210	9,675	0	24,885
Liability at 31st March 2014	15,767	10,777	0	26,544

Three Schools and One Academy

	Capital	Interest incl. Contingent Rent	Services	Total
	£000	£000	£000	£000
Mar 2017	705	2,224	4,213	7,141
Mar 2018 - 2022	4,482	13,337	23,169	40,988
Mar 2023 - 2027	7,329	13,330	24,927	45,586
Mar 2028 - 2030	6,149	12,550	17,495	36,194
Liability at 31st March 2016	18,664	41,440	69,805	129,909
Liability at 31st March 2015	19,524	45,185	75,339	140,047
Liability at 31st March 2014	20,449	47,549	78,649	146,646

MEMBERS, OFFICERS AND RELATED PARTIES

28. MEMBERS' ALLOWANCES

The cost of members' allowances to the Authority is shown in the table below. The allowances include employer's national insurance contributions totalling £28k (£35k in 2014/15).

	2014/15	2015/16
	£000	£000
Salaries	0	0
Allowances	730	723
Expenses	0	0
Total	730	723

29. OFFICERS' REMUNERATION

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

CIPFA guidance states that the disclosure should exclude staff where the authority is not the employer i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 58 voluntary aided and foundation school employees have been excluded from 2015/16 figures and 52 voluntary aided and foundation school employees have been excluded from 2014/15 figures.

Remuneration Band £	2014/15	2014/15	2015/16	2015/16
	Teaching Staff	Other Staff	Teaching Staff	Other Staff
50,000 – 54,999	70	46	65	53
55,000 – 59,999	34	27	44	26
60,000 – 64,999	11	10	13	19
65,000 – 69,999	13	7	13	9
70,000 – 74,999	6	17	9	15
75,000 – 79,999	7	2	5	4
80,000 – 84,999	6	4	3	1
85,000 – 89,999	3	2	2	4
90,000 – 94,999	1	0	2	5
95,000 – 99,999	0	3	0	1
100,000 – 104,999	2	0	1	0
105,000 – 109,999	0	0	1	0
110,000 – 114,999	1	0	1	0
115,000 – 119,999	0	0	0	2
120,000 – 124,999	1	1	0	1
125,000 – 129,999	0	0	0	0
130,000 – 134,999	0	0	1	0
135,000 – 139,999	0	5	0	3
140,000 – 144,999	0	0	0	0
145,000 – 149,999	0	0	0	0
150,000 – 154,999	0	0	0	0
155,000 – 159,999	0	0	0	0
160,000 – 164,999	0	0	0	0
165,000 – 169,999	0	0	0	0
170,000 – 174,999	0	0	0	0
175,000 – 179,999	0	0	0	0
180,000 – 184,999	0	0	0	0
185,000 – 189,999	0	1	0	1
Total	155	125	160	144

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below. In line with CIPFA guidance, five voluntary aided and one foundation school employees has been excluded from 2015/16 figures and five foundation school employees have been excluded from 2014/15 figures.

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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£							£	£
0 - 20,000	48	65	15	30	63	95	400,409	806,887
20,001 - 40,000	11	12	7	8	18	20	494,960	556,312
40,001 - 100,000	2	3	2	2	4	5	257,939	285,523
TOTAL	61	80	24	40	85	120	1,153,308	1,648,721

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

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

The following table provides this detail for 2015/16 and also the 2014/15 comparative year data with supporting sub-notes.

2014/15				Post holder information	2015/16			
Sub-Notes	Remuneration (Including fees & Allowances) £	Employer's Pension contributions £	Total £		Sub-Notes	Remuneration (Including fees & Allowances) £	Employer's Pension contributions £	Total £
6	185,000	25,715	210,715	Chief Executive Ged Curran	1	185,000	25,715	210,715
7	135,000	18,765	153,765	Director of Corporate Services Caroline Holland	2	135,000	18,765	153,765
8	136,096	18,917	155,013	Director of Community and Housing Simon Williams	3	119,660	7,882	127,542
9	135,000	18,765	153,765	Director of Children, Schools and Families Yvette Stanley	4	135,000	18,765	153,765
10	135,000	18,765	153,765	Director of Environment & Regeneration Chris Lee	5	135,000	18,765	153,765

Sub-notes 2015/16

1. Mr G. Curran, Chief Executive, remuneration for 2015/16 was a salary of £185,000. Two additional separate payments were received, totalling £7,335.68, for Local Authority Gold Team duties and for Acting Returning Officer duties at the General election on 7th May 2015 respectively.
2. Ms C. Holland, Director of Corporate Services, remuneration for 2015/16 was a salary of £135,000. Two additional separate payments of £3,121.68 were received for Local Authority Gold Team duties and Deputy Local Returning Officer duties at the General election on 7th May 2015 respectively.
3. Mr S. Williams, Director of Community and Housing, remuneration for 2015/16 was a salary of £119,659.82. Two additional separate payments were received, totalling £688.00, for Acting Returning Officer Assistant and Polling Station Inspector duties at the General elections on 7th May 2015. During 2015/16, the Director's contracted hours reduced from 1.0 full time equivalent to 0.8.
4. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2015/16 was a salary of £135,000. Two separate payments, totalling £870.20, were received for Acting Returning Officer Assistant and Polling Station Inspector duties at the General elections on 7th May 2015.
5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2015/16 comprised of salary of £135,000. Two separate payments, totalling £870.20, were received Acting Returning Officer Assistant and Polling Station Inspector duties at the General election on 7th May 2015.

2014/15

6. Mr G. Curran, Chief Executive, remuneration for 2014/15 was a salary of £185,000. Two additional separate payments were received, totalling £6,110.79, for Local Authority Gold Team duties and for Local Returning Officer duties at the Merton Borough Council and European Parliamentary election on 22nd May 2014 respectively.
7. Ms C. Holland, Director of Corporate Services, remuneration for 2014/15 was a salary of £135,000. A separate payment of £2,500 was received for Deputy Local Returning Officer duties at the Merton Borough Council and European Parliamentary election on 22nd May 2014.
8. Mr S. Williams, Director of Community and Housing, remuneration for 2014/15 was a salary of £136,096. Two additional separate payments were received, totalling £900.85, for Local Returning Officer Assistant and Polling Station Inspector duties at the Merton Borough Council and European Parliamentary election on 22nd May 2014.
9. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2014/15 was a salary of £135,000. Two separate payments, totalling £900.85, were received for Local Returning Officer Assistant and Polling Station Inspector duties at the Merton Borough Council and European Parliamentary election on 22nd May 2014.
10. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2014/15 comprised of salary of £135,000. Three separate payments, totalling £1,415.11, were received for Local Authority Gold Team duties and Local Returning Officer Assistant and Polling Station Inspector duties at the Merton Borough Council and European Parliamentary election on 22nd May 2014.

30. RELATED PARTIES

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

Central Government

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

Members

Members of the Authority have direct control over the financial and operating decisions of the Authority. The total of members' allowances paid in 2015/16 is shown in Note 28.

This disclosure note has been prepared using the Authority's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from members and senior officers. The Authority issued 59 standard letters to current members and 1 letter to a former member who held office in 2015/16; 58 current and 1 former members have responded respectively.

During 2015/16, members of the Authority (or members of their immediate family or household) had links with the following organisations, which undertook related party transactions with LBM to the gross value of £8.228m (net £4.812m). The amounts disclosed below are those material to either party of the related party transaction (i.e. the Authority or the other entity).

Organisation	Nature of transaction	2015/16 £000
Endeavour Youth Club	Grant Received from LBM	31
Friends in St Helier	Grant Received from LBM	36
Merton and Morden Guild	Grant Received from LBM	47
Merton Priory Homes (MPH)	Capital receipts paid to LBM as part of VAT sharing and sale proceeds from Right to Buy agreements with MPH	(6,520)
North East Mitcham Community Association	Funding received from LBM	44
London Councils	Contributions from LBM	1,486
Merton Community Transport	Grant Received from LBM	64
Total		(4,812)

Senior Officers

Senior officers of the Authority also have direct control over the financial and operating decisions of the Authority. Senior officers are required to make a specific declaration in respect of related party transactions. The Authority issued 32 standard letters to current senior officers; there have been 32 responses. The Authority also contacted one former senior officer, but has not received a response.

Three senior officers are directors of CHAS 2013 Ltd (see note 34). One senior officer holds the positions of Governor at South Thames College, Director of London Grid for Learning, and Trustee at Action for Children. During 2015/16 the Authority made payments and grants to these organisations of £129,517, £452,488 and £683,281 respectively. In all instances the grants were made with proper consideration of declarations of interest. Otherwise, senior officers within the Authority did not hold any positions in other organisations which would enable them to significantly influence the policies of the Authority and result in a related party transaction of a material nature.

Voluntary Organisations

The Authority made grants and payments totalling £0.222m to voluntary and other organisations whose senior management included members of the Authority (or members of their immediate family or household). These payments are summarised in the above disclosure on members' related party transactions. In all instances the grants were made with proper consideration of declarations of interest. The Authority's Register of Members' Interest is open to public inspection on the Authority's website.

Pension Fund

The Pension Fund is a separate entity from the authority with its own Statement of Accounts. In 2015/16 an administration fee of £0.323m was paid by the Fund to the Authority (£0.332m in 2014/15, see Pension Fund Accounts, Note 11).

PENSION FUND

31. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. In 2015/16, the employer's contribution was 14.1% from April to August, then 16.48% from September to March 2016 (14.1% in 2014/15). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31st March 2016, the Authority's own contributions equate to approximately 0.1%.

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

The Authority also pays an employer's contribution of 14.0% (unchanged from 2014/15) to the NHS Pension Scheme, for staff who have transferred to the Authority but remain in the NHS scheme. The NHS scheme was previously a defined benefit scheme, with staff benefits linked to their average earnings in the final ten years of employment. From 1st April 2015, it became a career average revalued earnings scheme.

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

	2014/15	2015/16
	£000	£000
Authority's contribution to DfE teacher's pension scheme	7,303	8,092
Authority's contribution to NHS pension scheme	130	120

Assuming a 1% staff pay award in 2016/17, an estimate of the contributions to be paid in the next financial year would be:

DfE Teacher's Pension Scheme: £8.70m

NHS Pension Scheme: £0.12m

32. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Authority participates in two post employment schemes:

- The Local Government Pension Scheme is administered locally by the London Borough of Merton, in accordance with the Local Government Pension Scheme Regulatory Framework 2015/16. This is a defined benefit scheme, whereby both the Authority and employees make contributions into a fund. The contributions are calculated with the aim of balancing pension liabilities and investment assets. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings, rather than final salary. The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16, 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 profit of £45.072m (a loss of £68.625m in 2014/15).

	Local Government Pension Scheme	
	2014/15	2015/16
	£000	£000
Comprehensive Income and Expenditure Statement		
<i>Cost of Services</i>		
Service Cost	19,223	21,421
Administration	393	455
<i>Finance and Investment Income and Expenditure</i>		
Net interest on defined liability	9,477	9,434
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	29,093	31,310
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
Remeasurement of the net defined benefit liability/asset	68,625	(45,072)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	97,718	(13,762)
Movement in Reserves Statement:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(29,093)	(31,310)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	28,225	16,904

Assets and Liabilities in relation to Post-Employment Benefits

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

	Local Government Pension Scheme	
	2014/15	2015/16
	£000	£000
Opening defined benefit obligation	654,698	775,379
Current service cost	18,866	20,728
Interest cost	28,412	25,282
Change in financial assumptions	90,061	(55,638)
Change in demographic assumptions	0	0
Experience loss/(gain) on defined benefit obligation	1,048	(1,128)
Liabilities extinguished on settlements	(1,210)	(7)
Estimated benefits paid net of transfers in	(20,444)	(22,855)
Past service costs including curtailments	925	696
Contributions by scheme participants	4,942	5,095
Unfunded pension payments	(1,919)	(1,781)
Defined benefit obligation at end of period	775,379	745,771

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

	Local Government Pension Scheme	
	2014/15	2015/16
	£000	£000
Opening fair value of Scheme assets	430,372	481,560
Interest on assets	18,935	15,848
Return on assets less interest	22,484	(11,694)
Other actuarial gains/(losses)	0	0
Actuarial gains (losses)	-	0
Administration expenses	(393)	(455)
Contributions by employer including unfunded	28,225	16,904
Contributions by Scheme participants	4,942	5,095
Estimated benefits paid plus unfunded net of transfers in	(22,363)	(24,636)
Settlement prices received/(paid)	(642)	(4)
Fair value of Scheme assets at end of period	481,560	482,618

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:

LBM asset share - bid value	2014/15		2015/16	
	£000	%	£000	%
Equities	348,588	72	338,868	70
Gilts	115,796	24	113,595	24
Property	13,577	3	15,315	3
Cash	3,599	1	14,840	3
Total	481,560	100	482,618	100

Scheme History

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Present value of scheme liabilities					
The Local Government Pension Scheme (LGPS)	(529,492)	(589,722)	(630,064)	(748,920)	(722,264)
Unfunded Liabilities	(23,447)	(23,119)	(24,634)	(26,459)	(23,507)
Fair value of assets in the LGPS	363,253	417,967	430,372	481,560	482,618
Surplus / (Deficit) in the scheme	(189,686)	(194,874)	(224,326)	(293,819)	(263,154)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £263.2m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The Authority, through the advice of the actuary, provides additional employers contributions to the fund in support of the recovery of past service deficiencies over a twelve year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

	2014/15	2015/16
Long Term expected rate of return on assets in the scheme:	%	%
Mortality Assumptions	Years +	Years +
Longevity at 65 for current pensioners retiring today at 65:		
Men	22.4	22.5
Women	25.7	25.8
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	24.6	24.8
Women	28.0	28.1
	%	%
Rate of Inflation	2.4	2.3
Rate of increase in salaries	4.2	4.1
Rate of increase in pensions	2.4	2.3
Rate for discounting scheme liabilities	3.3	3.6
Take up option to convert annual pension into retirement lump sum	50.0	50.0

The current estimate of the duration of the Authority's liabilities is 18 years.

The following assumptions have also been made:

Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age.

10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Sensitivity Analysis

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

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	732,622	745,771	759,169
Projected service cost	18,086	18,510	18,945
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	747,356	745,771	744,195
Projected service cost	18,519	18,510	18,501
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	757,741	745,771	734,018
Projected service cost	18,941	18,510	18,089
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	768,569	745,771	723,670
Projected service cost	18,982	18,510	18,049

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

Estimation of Contributions to be paid in 2016/17

The table below shows the estimated contributions to be paid to the plan during 2016/17, assuming a 1% staff pay award for 2016/17.

	2015/16	2016/17
	Actual	Estimated
	£000	£000
Employers contributions -normal	11,601	11,717
Employers Additional Funding (Deficit Funding)	4,205	4,247
Employers Additional Funding (Pension Strain)	683	690
Employees contributions	5,497	5,552
Total	21,986	22,206

Associated Risks

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

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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

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

OTHER DISCLOSURE NOTES

33. EVENTS AFTER BALANCE SHEET DATE

To date, there have been no post balance sheet events.

34. INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiary

CHAS 2013 Ltd was established as a private company in June 2013. It provides businesses with health and safety pre-qualification assessments to nationally recognised standards.

CHAS 2013 Ltd is a wholly owned subsidiary of LB Merton, based in the Authority's offices at the Civic Centre in Morden. Its board of directors is chaired by LBM's Director of Corporate Services.

LBM's investment in CHAS 2013 Ltd is recognised and measured at cost in the Authority's balance sheet. LBM is exposed to variable returns from CHAS 2013 Ltd. In 2015/16, CHAS 2013 Ltd's profit after tax was £0.4m (£0.5m profit in 2014/15). Dividends received by LBM from CHAS 2013 Ltd will be recognised within the Authority's comprehensive income and expenditure statement (CIES). No dividend was declared in either 2014/15 or 2015/16.

Separate from any dividends, CHAS 2013 Ltd also makes an annual licence fee payment to LBM, for use of intellectual property owned by the Authority. In 2015/16, the licence fee was £0.8m (2014/15 £0.8m), which has been recognised within financing and investment income and expenditure in the CIES.

LB Merton provides a banking facility to CHAS2013 Ltd. The cash balance generated by CHAS2013 Ltd is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect that this sum is owed to CHAS2013 Ltd. At 31/03/2016, the sum owed to CHAS2013 Ltd was £2.461m (£1.377m at 31/03/2015).

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

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

On the grounds of materiality, it is considered unnecessary to produce Group Accounts which consolidate CHAS 2013 Ltd with the single entity accounts of the Authority. This is because they would not have a material effect on the overall financial statements and therefore their inclusion would not provide any further benefit to the users of the Statement of Accounts.

Joint Venture

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

MSJCB is jointly controlled by the London Boroughs of Merton and Sutton. Any cash balance belonging to MSJCB is held by LB Merton in its single entity Balance Sheet, with a corresponding creditor to reflect the sum owed to MSJCB. At 31/03/2016, including cash held and loans to MSJCB, there was a net credit balance of £0.024m (net debit balance of £0.062m at 31/03/2015).

On the grounds of materiality, consolidated Group Accounts for MSJCB and LB Merton have not been produced.

Audited accounts of MSJCB are available on request from:

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

35. TRADING OPERATIONS

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

- Printing and Graphic Design: design and printing of official documents.
- Translation Services: provides translation and interpreting services.
- Transport: recharged income and expenditure for service department vehicles
- Contractors Health and Safety Assessment Scheme (CHAS) provided health and safety assessments for other local authorities and businesses. In 2013, CHAS commenced trading as a private limited company (see Note 34). The 2014/15 figures are an adjustment to the prior year.

Included within Financing and Investment Income and Expenditure		2014/15	2015/16
		£000	£000
Printing and Graphic Design	Turnover	(421)	(498)
	Expenditure	313	402
	(Surplus)/Deficit	(108)	(96)
Translation Services	Turnover	(465)	(520)
	Expenditure	417	383
	(Surplus)/Deficit	(48)	(137)
Transport	Turnover	(10,109)	(9,740)
	Expenditure	9,948	10,143
	(Surplus)/Deficit	(162)	403
CHAS prior year adjustment (see Note 34)	Turnover	9	0
	Expenditure	(20)	0
	(Surplus)/Deficit	(11)	0
Total	Turnover	(10,987)	(10,758)
	Expenditure	10,658	10,928
	(Surplus)/Deficit	(329)	170

36. INVENTORIES

The stock balance of £0.046m in 2015/16 (£0.068m in 2014/15) represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

	Consumable Stores	
	2014/15 £000	2015/16 £000
Balance outstanding at the start of the year	211	68
Purchases	738	730
Recognised as an expense in the year	(882)	(752)
Balance outstanding at year-end	68	46

37. POOLED BUDGETS – Partnerships - Section 75

Community Equipment Services

During 2015/16 the Authority has continued to host a Partnership Agreement with the Merton Clinical Commissioning Group, under Section 75 of the National Health Service Act 2006, to provide integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services.

POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON MEMORANDUM ACCOUNT	Total	Total
	2014/15 £000	2015/16 £000
INCOME		
PARTNERS' CONTRIBUTIONS		
Brought forward	310	199
LB Merton	330	330
Merton CCG	247	247
Additional From LB Merton	200	200
TOTAL CONTRIBUTIONS	1,086	976
EXPENDITURE		
Community Equipment Services	738	730
Stock Adjustment	143	22
Management & Support Costs	6	6
TOTAL EXPENDITURE	887	758
NET (UNDER) / OVERSPEND CARRIED FORWARD	(199)	(217)

The pooled budget net underspend is included within Creditors.

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.

In 2015/16, the Authority commenced a partnership agreement, 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 full BCF allocation from NHS England, then transfers a proportion (£5,508,500 in 2015/16) into a pooled fund, hosted by the Authority, to be spent on services. The Authority makes a £1 contribution to the pool. The gross income and expenditure of the partnership is shown in the table below. As per accounting standards, the Authority records only its £1 share of the pooled funds as expenditure in its Comprehensive Income and Expenditure Statement (CIES). The CCG's contribution, therefore, is not recognised in the Authority's CIES.

Better Care Fund Pooled Budget – Gross Income and Expenditure	Total 2015/16 £000
Merton CCG contribution to pool	(5,509)
LBM contribution to pool	0
Total contributions	(5,509)
Expenditure	
Integrated Locality Teams	650
Seven Day Working	500
Community Equipment and Adaptions	200
Protecting and Modernising Social Care	3,577
Investing in Integration Infrastructure	182
Developing Personal and Health Care Budgets	400
Total revenue expenditure	5,509
Net	0

38. EXTERNAL AUDIT COSTS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the authority's external auditors:

	2014/15	2015/16
	£000	£000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year	229	185
Fees payable to the External Auditor for other services provided in year	10	9
Total	239	193

39. TRUST FUNDS

Funds for which the authority acts as custodian trustee are displayed below.

2015/16	Income £000	Expenditure £000	Assets £000
Tamworth Recreation External Investments The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is the investment's market value.	0	0	157
Tamworth Recreation Ground & Allotment This Trust Fund was set up to fund works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth. Established by the authority pre 1990s	0	0	15
Maintenance of Graves This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts. Established pre 1990s from residence estates naming LBM as a beneficiary	0	0	23
Allotments for Working Men Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.	0	0	1
Rock Terrace Trust Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"	0	0	60
Total	0	0	256

The £256,000 total comprises £157,000 held in an external investment fund, which is shown at market value, and £99,000 cash held in the Authority's bank account. The £99,000 is shown within Short Term Creditors on the Balance Sheet.

2014/15	Income £000	Expenditure £000	Assets £000
Tamworth Recreation External Investments The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is the investment's market value.	0	0	157
Tamworth Recreation Ground & Allotment This Trust Fund was set up to fund works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth. Established by the authority pre 1990s	0	0	15
Maintenance of Graves This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts. Established pre 1990s from residence estates naming LBM as a beneficiary	0	0	23
Allotments for Working Men Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.	0	0	1
Rock Terrace Trust Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"	1	0	60
Total	1	0	256

40. On-Street Parking Account

On Street Parking: The Council maintains a memorandum account in respect of on street parking to show how the income is spent. In 2015/16 the Council made a surplus of £4.82m (£5.85m in 2014/15), which was applied notionally as a contribution to concessionary fares. This contribution was less than the full cost of concessionary fares which were £9.01m in 2015/16 (£8.97m in 2014/15). In the event that the surplus exceeded the cost of concessionary fares, the excess would be applied to fund day-to-day carriageway and footway maintenance, the cost of which was £1.02m in 2015/16 (£1.00m in 2014/15). Were any surplus to exceed both the cost of concessionary fares and day-to-day maintenance, any remaining excess would be applied to fund carriageway and footway planned maintenance.

2014/15				On-Street Parking Account	2015/16			
On Street Parking	Bus Lanes	Moving Traffic Violations	Total		On Street Parking	Bus Lanes	Moving Traffic Violations	Total
£000	£000	£000	£000		£000	£000	£000	£000
Income								
(2,863)	(626)	(1,011)	(4,499)	Penalty Charge Notices	(2,605)	(452)	(1,226)	(4,282)
(1,140)	0	0	(1,140)	Residents' Parking Permits	(1,167)	0	0	(1,167)
(810)	0	0	(810)	Residents' Visitors' Parking Permits	(835)	0	0	(835)
(234)	0	0	(234)	Business Parking Permits	(233)	0	0	(233)
(37)	0	0	(37)	Teachers Parking Permits	(34)	0	0	(34)
(2,496)	0	0	(2,496)	On-Street Parking Charges	(2,596)	0	0	(2,596)
(264)	0	0	(264)	Other Income	(325)	0	0	(325)
(7,843)	(626)	(1,011)	(9,480)	Total Income	(7,794)	(452)	(1,226)	(9,471)
Expenditure								
796	174	281	1,251	On-Street Parking	1,019	177	480	1,676
20	4	7	32	Off-Street Parking Spaces	19	3	9	31
134	29	47	211	Parking Management & Planning	144	25	68	236
1,361	297	481	2,139	Parking Enforcement	1,649	286	776	2,711
5,531	120	194	5,846	Contribution to Public Transport (Concessionary Fares)	4,963	(39)	(106)	4,817
7,843	626	1,011	9,480	Total Expenditure	7,794	452	1,226	9,471

2014/15	Memorandum Items	2015/16
£000		£000
	Total Expenditure on:	
8,966	Concessionary fares	9,011
1,001	Carriageway & Footway Day-to-Day Maintenance	1,016
9,966	Total	10,026

TECHNICAL ANNEX – ACCOUNTING POLICIES

41. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year end of 31st March 2016. 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 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Notwithstanding the accrual principle, some items are recorded as received/paid on the basis that there is no material distortion of the 'true and fair view' concept. These items include:
 - a) Housing benefit payments and the related subsidy grant 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 is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

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. Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

Post-employment Benefits

Employees of the Authority are members of the following separate pension schemes:

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

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

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

The Local Government Pension Scheme

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

- The liabilities of the Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – ie 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 projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.6%.
- 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 Non Distributed Costs
- net interest on the net defined benefit liability (asset), ie 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.

vii. 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.

viii. Financial Instruments

Financial Liabilities

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

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

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

ix. Government Grants and Contributions

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

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

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

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

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

Business Improvement Districts

A Business Improvement District (BID) is a precisely defined area within the local authority's boundaries within which the businesses have voted to invest collectively in local improvements to enhance their trading environment. The authority has two active BIDs and accounts for income received and

expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

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.

x. 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.

xi. 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.

xii. Interest in Subsidiaries and Other Entities

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. In 2015/16, the authority has one subsidiary and one joint venture. The authority has not published Consolidated Group Accounts on the grounds of materiality. Details of the subsidiary and joint venture are disclosed in Note 34.

xiii. 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.

xiv. 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 are set out below:-

Shared Human Resources Service: this is a cost-sharing arrangement with the London Borough of Sutton which administers the service and recharges this authority. This recharged cost is accounted for as a rechargeable overhead in the Comprehensive Income and Expenditure Account.

South London Waste Partnership (SLWP): the SLWP is a joint operation with the Royal Borough of Kingston for the collection and disposal of waste. RB

Kingston recharges the authority for its share of the cost and this is accounted for as part of the Cultural, Environmental and Planning Service in the Comprehensive Income and Expenditure Account. The SLWP is managed by a joint committee of officers which cannot contract on its own behalf but must do so through one of the participating boroughs.

South London Legal Partnership: this is a cost-sharing arrangement with the London Borough of Richmond, London Borough of Sutton, and the Royal Borough of Kingston-Upon-Thames. The London Borough of 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 Adult Social Care 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 Adult Social Care line in the Comprehensive Income and Expenditure Account.

xv. Leases

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

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

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in

return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between :

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss

on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

xvi. Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Code of Practice 2015/16 (SerCOP). The total absorption costing principle is used – the net cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority's status as a multifunctional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xvii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes

and that are expected to be used during more than one financial year, are classified as Property, Plant and Equipment (PPE).

Recognition

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

De Minimis

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the

Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

Revaluations

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

Revaluations are undertaken as at 1st April. A review is then conducted at year-end to ensure the revaluations remain materially correct at 31st March. Where a material movement has occurred in-year, a further revaluation of affected properties is undertaken at 31st March.

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

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

Impairment

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

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

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

relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Componentisation

Componentisation is a method used for accounting and financial reporting purposes, to ensure assets are accurately included on the Balance Sheet and that the consumption of economic benefit of these assets is accurately reflected over their individual useful lives through depreciation charges.

The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 requires the separate recognition of two or more significant components of an asset for depreciation purposes – i.e. as if each component was a separate asset in its own right.

The authority will follow these requirements where significant components of material items of assets have been identified.

A component is defined as such part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item, where the value of the component is 5% or more of the total gross carry value of the asset.

Even if the cost of a component is significant in relation to the total cost of an item of PPE, from an accounting perspective it is not necessary to identify the value of that component if its useful life and required method of depreciation is in line with the overall asset.

Where there are a number of parts of the same asset which have the same useful life and depreciation method, such parts will be grouped in determining the depreciation charge.

Componentisation has not been applied retrospectively. It will be considered only for new revaluations carried out after 1st April 2010, when enhancement and/or acquisition expenditure is incurred after that date.

Component accounting will only be considered and applied in cases where the omission to recognise and depreciate a separate component may result in material differences in the statement of accounts.

Componentisation will not be applied to items of PPE where the depreciation of the item as a single asset is unlikely to result in a material misstatement of either the depreciation charges or the carrying amount of the PPE.

The authority recognises two primary components of a property asset which will be accounted for separately namely:

- Land
- Buildings

Componentisation is not applicable to land as land is non-depreciable and has an infinite life.

The authority also recognises three secondary components of the buildings primary component; namely:

- Structure (including the building sub-elements of substructure, superstructure, finishes, sanitary-wares, disposal installation, but excluding fittings and furnishings)
- Services (including sub-elements of mechanical and electrical services installation such as plant and lifts)
- External Work (including sub-elements of hard landscaping, but excluding playground equipment and soft landscaping)

In addition, there may be cases where the Valuer feels a particular asset contains unusual components that are deemed material. In these instances specific components would be created specifically for that asset.

On the grounds of materiality, the authority has determined that any building with a gross carry amount of less than £1,000,000 will not be recognised as having secondary components of the building.

At revaluation the basis for componentisation is fair value (EUV) for the relevant asset class.

Where a component is replaced or restored (i.e. enhancement) the carrying amount of the old component shall be derecognised before reflecting the enhancement (applicable from 1st April 2010). In respect of property, on grounds of materiality and practicality, this is applied where the new part of the component is greater than £100,000 or, in the case of lesser amounts, where the existing component is specifically identifiable. In respect of all infrastructure expenditure, the equivalent depreciated carrying amount is derecognised.

Disposals and Non-Current Assets Held for Sale

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount. The carrying amount used is that before the assets 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. The recoverable amount of the asset is at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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.

xviii. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

xix. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. General

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

2. Insurance Fund

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

Contingent Liabilities

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

Contingent Assets

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

xx. 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 in the Movement in Reserves Statement. 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 in the Movement in Reserves Statement 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, financial instruments, retirement and employee benefits and do not represent usable resources for the authority.

xxi. 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.

xxii. VAT

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

xxiii. 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 (ie 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.

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

The 2016/17 Code of Practice will include updates to reflect changes to the following accounting standards:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 Joint Arrangements
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible
- Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

The Code requires implementation from 1 April 2016 and therefore there is no impact on the 2015/16 Statement of Accounts.

43. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain policies set out in Note 41, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

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

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

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

The items in the London Borough of Merton's Balance Sheet at 31st March 2016 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

Item:

Property, Plant and Equipment (PPE)

Uncertainty:

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

Effect if actual result differs from assumptions:

PPE of £461.13m is included in the accounts. Therefore a 1% movement in value would result in a change of £4.61m. The average PPE depreciation period is 24 years. A difference of one year would result in a change in the depreciation charge of approximately £0.7m.

Item:

Provisions

Uncertainty:

The authority has made provisions of £4.32m for insurance claims. The fund is used to pay claims for which the authority is self insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.

Effect if actual result differs from assumptions:

If the actuals differ from the assumptions then it is possible that the Insurance Fund would be insufficient to cover the liabilities of the authority and further demands would be made on the General Fund. If future claims exceeded the

insurance fund provision by 1%, this would result in an additional £0.04m charge to the General Fund.

Item:

Provision for NDR appeals

Uncertainty:

The authority has made provision of £2.38m for its share of appeals against business rates charges. The amount represents an estimate of the potential effects of appeals and proposals that may be settled in future years. It is based upon the most recent outstanding Rating List proposals provided by the Valuation Office Agency. The potential effect of the proposals is an estimate based on changes in comparable properties, market trends and other valuation issues including the potential for certain proposals to be withdrawn.

Effect if actual result differs from assumptions:

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

Item:

Pension Liability

Uncertainty:

Estimation of the net £263.154m pension liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.

Effect if actual result differs from assumptions:

The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 32 for further detail.

Collection Fund

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

Note 5 to this statement 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 Authority, the Greater London Authority and central government. The costs of administering collection are accounted for in the General Fund.

2014/15				2015/16		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
			A) INCOME			
-	101,000	101,000	Council Tax Receivable	-	102,566	102,566
84,448	-	84,448	Business Rates Receivable	87,913	-	87,913
2,551	-	2,551	Business Rates Supplements Receivable	2,638	-	2,638
86,999	101,000	187,999		90,551	102,566	193,117
			B) EXPENDITURE			
			Apportionment of Previous Year Surplus			
(620)	-	(620)	Central Government	(655)	-	(655)
(372)	4,608	4,236	Billing Authority (LBM)	(393)	4,813	4,420
(248)	1,266	1,018	Greater London Authority	(262)	1,300	1,039
(1,240)	5,874	4,634		(1,310)	6,113	4,804
			C) Precepts, Demands and Shares			
42,131	-	42,131	Central Government (DCLG): NDR	42,550	-	42,550
25,279	75,342	100,621	Billing Authority (LBM): NDR & Council Tax	25,530	77,051	102,581
16,852	20,358	37,210	Greater London Authority: NDR & Council Tax	17,020	20,543	37,563
2,551	-	2,551	Greater London Authority: Business Rates Supplement	2,638	-	2,638
86,813	95,700	182,513		87,738	97,594	185,332
			D) Charges to Collection Fund			
107	(896)	(789)	Less: increase/(decrease) in bad debt provision	683	1,038	1,721
5,141	-	5,141	Less: increase/(decrease) in provision for appeals	1,305	-	1,305
281	-	281	Less: cost of collection	277	-	277
5,529	(896)	4,633		2,265	1,038	3,303
(4,103)	322	(3,781)	Surplus/(Deficit) arising during the year (=A-(B+C+D))	1,858	(2,179)	(323)
(2,102)	5,668	3,566	Surplus/(Deficit) b/fwd 1st April	(6,205)	5,990	(215)
(6,205)	5,990	(215)	Surplus/(Deficit) c/fwd 31st March	(4,347)	3,811	(538)

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 2015/16 before adjustments for localisation of Council Tax Support, technical reforms to Council Tax, and allowance for non-collection is 71,606 (70,193 for 2014/15). 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	
	2014/15	2015/16	2014/15	2015/16		2014/15	2015/16
A adjust	0	2	0	1	5/9	0	0
A	1,003	1,023	514	534	6/9	343	356
B	8,125	8,139	4,895	5125	7/9	3808	3986
C	21,987	22,099	15,954	16397	8/9	14181	14575
D	27,484	27,497	22,135	22500	9/9	22135	22500
E	12,933	13,027	11,264	11498	11/9	13768	14053
F	5,153	5,224	4,671	4777	13/9	6747	6900
G	3,936	3,947	3,663	3689	15/9	6105	6148
H	1,620	1,631	1,551	1542	18/9	3102	3085
Total						70,188	71,601
Defence properties						5	5
Council Tax Base						70,193	71,606

The average Council Tax charge for a Band D property (including the GLA) was £1397.25 in 2015/16 compared to £1,401.25 in 2014/15. From this an income yield of £97.595m was expected (£95.7m in 2014/15). In 2015/16 the income generated was £102.566m (£101m in 2014/15) and includes changes to liabilities, exemptions, discounts and the council tax support scheme incurred in the current year but which relate to previous years. This income is received from council taxpayers.

2. Non-Domestic Rates (NDR)

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

	31 st March 2015	31 st March 2016
Non-domestic rateable value at year end	£201m	£201m
Number of Hereditaments	5,396	5,373
Uniform Business Rate (in the £)	48.2p	49.3p

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

	2014/15 £000	2015/16 £000
Gross Rates payable (including net amounts for previous years)	97,066	99,843
Mandatory and discretionary reliefs	(12,006)	(12,105)
Transitional Protection Payments	(612)	175
Business Rates Receivable	84,448	87,913
Provision for bad and doubtful debts	(107)	(683)
Provision for losses on appeals	(5,141)	(1,305)
Cost of collection	(281)	(277)
Net Income	78,919	85,648

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

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

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

	2014/15 £000	2015/16 £000
Gross Rates payable	2,813	2,891
Mandatory and discretionary reliefs	(262)	(253)
Net contribution to GLA	2,551	2,638

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

The movements in the provisions for impairments of bad debts and for losses on appeals were as below. Following the introduction of the Business Rates Retention Scheme in April 2013, the Authority is liable for its proportionate share of successful appeals against NDR charges made in the period to 2015/16. A provision based on best information available has been made for appeals that are outstanding with the Valuation Office Agency (VOA).

	Balance at 1 st April 2015	Allowance for Impairment	Amounts charged against Allowance	Balance at 31 st March 2016
	£000	£000	£000	£000
Council Tax: Impairment of Bad Debts	5,284	1,038	(929)	5,393
Non-Domestic Rates: Impairment of Bad Debts	2,273	683	(664)	2,292
Non-Domestic Rates: Losses on Appeals	9,100	1,305	(2,466)	7,939
TOTAL	16,657	3,026	(4,059)	15,624

4. Collection Fund Surpluses and Deficits

Council Tax

There is an accumulated surplus of £3.811m on the Collection Fund (£5.990m in 2014/15). 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.

	2014/15	2015/16	Change in the Year
	£000	£000	£000
London Borough of Merton Council Tax surplus	(4,716)	(3,007)	1,711
Greater London Authority Council Tax surplus	(1,274)	(803)	469
Total	(5,990)	(3,810)	2,180

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

	Greater London Authority	London Borough of Merton	Total
	£000	£000	£000
Accumulated surplus as at 1 st April 2015	(1,274)	(4,716)	(5,990)
Paid to GLA in 2015/16	1300	-	1,300
Transfer to General Fund in 2015/16	-	4,813	4,813
Surplus/Deficit in 2015/16	(829)	(3,104)	(3,933)
Total	(803)	(3,007)	(3,810)

NDR

There is a deficit of £4.347m on the Collection Fund (£6.205m in 2015/16). 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.

	2014/15	2015/16	Change in the Year
	£000	£000	£000
London Borough of Merton NDR (surplus)/deficit	1,862	1,304	(558)
Greater London Authority NDR (surplus)/deficit	1,241	869	(372)
DCLG NDR (surplus)/deficit	3,102	2,174	(928)
Total	6,205	4,347	(1,858)

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

	Greater London Authority	DCLG	London Borough of Merton	Total
	£000	£000	£000	£000
Accumulated (surplus)/deficit as at 1 st April 2015	1,241	3,102	1,862	6,205
Payments to/(from) preceptors in 2015/16	(262)	(654)	0	(916)
Transfer to/(from) General Fund in 2015/16	-	-	(393)	(393)
(Surplus)/deficit in 2015/16	(110)	(274)	(165)	(549)
Total	869	2,174	1,304	4,347

5. Link to Core Statements

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

CIES

The £80.155m Council Tax income and the £25.695m NDR income in the CIES show 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.

Income and Expenditure Council Tax	2014/15	2015/16
	£000	£000
Demand on the Fund	75,342	77,051
Transfer of Surplus	4,608	4,813
Total included in CIES under Collection Fund Regulations	79,950	81,864
Adjustment of Collection Fund Surplus under 2011 Code (Reversed in the Movement in Reserves Statement)	271	(1,709)
Council Taxation Fund Income	80,221	80,155
Movement in Reserves Statement	2014/15	2015/16
	£000	£000
Reversal of adjustment of Collection Fund Surplus under 2011 Code	(271)	1,709
Net charge to General Fund, which is based on statutory requirements	79,950	81,864

Income and Expenditure: NDR	2014/15	2015/16
	£000	£000
Retained Business Rates: London Borough of Merton	25,279	25,530
Transfer of Surplus/(Deficit)	(372)	(393)
Total included in CIES under Collection Fund Regulations	24,907	25,137
Adjustment of Collection Fund Deficit under 2011 Code (Reversed in the Movement in Reserves Statement)	(1,231)	558
NDR Fund Income	23,676	25,695
Movement in Reserves Statement: NDR	2014/15	2015/16
	£000	£000
Reversal of adjustment of Collection Fund Deficit under 2011 Code	1,231	(558)
Net charge to General Fund, which is based on statutory requirements	24,907	25,137

Balance Sheet

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

In 2015/16, the net cash paid to major preceptors was less than their proportionate share of net cash collected from Council Tax and NDR debtors/creditors in the year. The Authority has therefore recognised a credit adjustment for the amount underpaid to its major preceptors in the year.

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

Balance Sheet	Collection Fund 2015/16	Balance Sheet 2015/16
	£000	£000
Council Tax		
Arrears	8,384	6,710
Impairment Allowance for Doubtful Debts	(5,393)	(4,316)
Receipts in Advance	(5,271)	(4,218)
Collection Fund (Surplus) / Deficit	(3,007)	(3,007)
GLA	(803)	(1,258)
Cash	(6,089)	(6,089)
Business Rates		
Arrears	3,590	1,077
Impairment Allowance for Doubtful Debts	(2,293)	(688)
Impairment for Loss on Appeals	(7,939)	(2,382)
Receipts in Advance	(2,113)	(634)
Collection Fund (Surplus) / Deficit	1,304	1,304
GLA	869	(881)
DCLG	2,174	(2,204)
Cash	(4,408)	(4,407)

Cash Flow Statement

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

Pension Fund Accounts

Fund Account	Notes	2014/15 £000	2015/16 £000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	(34,340)	(21,986)
Transfers in from other Pension Funds	8	(983)	(2,153)
Total Income		(35,323)	(24,139)
Benefits	9	22,080	23,734
Payments to and on account of leavers	10	1,143	2,796
Total Expenditure		23,223	26,530
Net (additions)/withdrawals from dealing with members		(12,100)	2,391
Management Expenses	11/14	856	1,230
Returns on Investments			
Investment and other income	12	(10,954)	(11,423)
Taxes on Income	13	316	359
Gains and losses on disposal and change in the market value of investments	14.3	(48,464)	19,211
Net Returns on Investments		(59,102)	8,147
Net (increase)/decrease in the net assets available for benefits during the year		(70,346)	11,768

As at 31st March 2015, the net assets totalled £542.6m. During 2015/16, the Fund's net assets decreased by £11.8m to £530.8m at 31st March 2016.

Net Assets Statement

2014/15 £000		Notes	2015/16 £000
541,572	Investment assets	14	529,190
1,586	Current assets	19	2,619
(568)	Current liabilities	20	(987)
542,590	Net assets of the Fund available to Fund benefits at period end		530,822

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 18.

Notes to the Pension Fund Accounts

1. Description of Fund

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

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

(a) General

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

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

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

(b) Membership

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering 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
<ul style="list-style-type: none">• Greenwich Leisure• Merton Priory Homes• CATCH 22	<ul style="list-style-type: none">• Wimbledon and Putney Commons Conservators• Harris Academy Merton• Harris Academy Morden• Harris Academy Primary• St Mark’s Academy• Benedict Academy• Park Community School• CHAS (Contractors Health and Safety Assessment Scheme)

The following table summarises the membership numbers of the scheme.

2014/15		2015/16
	Active Members	
3,390	London Borough of Merton	3,432
215	Scheduled Bodies	205
89	Admitted Bodies	85
3,694		3,722
	Pensioners	
3,264	London Borough of Merton	3,361
148	Scheduled Bodies	151
97	Admitted Bodies	103
3,509		3,615
	Deferred Pensioners	
3,943	London Borough of Merton	4,326
226	Scheduled Bodies	254
114	Admitted Bodies	115
4,283		4,695

(c) Funding

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

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2016. 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 2013. Currently, employer contribution rates range from 12.0% to 24.2%. Employers pay a monetary contribution towards past service costs.

(d) Benefits

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

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its financial position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/16', 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 18.

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

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contributions

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

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

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

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

3.2 Transfers

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

3.3 Investment income

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

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

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

3.4 Interest income

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

Revenue account – expense items

3.5 Benefits Payable

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

3.6 Taxation

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

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

3.7 Management Expenses

All management expenses are accounted for on an accruals basis.

(a) Investment Management Expenses

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

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

(b) Oversight and Governance Costs

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

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

3.8 Administrative Expenses

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

Net Asset Statement

3.9 Investment Assets

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

- Quoted securities are valued at current market “bid” price.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- The two UBS Property Holdings are valued as follows: The UBS Triton Property Unit Trust (UBS Triton Trust) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, tax, income and cash balances. The UBS Life Triton Property Fund (UBS Life Triton) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, income and cash balances. UBS Life Triton Is valued at bid price.
- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the Fund Manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.
- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class or for speculative purposes. These

are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices. The value of futures is determined using fair value for the asset and book cost for the liability.

3.10 Financial liabilities

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

3.11 Movement in the net market value of investment

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

3.12 Foreign currency

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2016.

3.13 Cash

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

3.14 Actuarial present value of promised retirement benefits

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 18).

3.15 Provisions

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

3.16 Additional Voluntary Contributions

Merton Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund only uses one provider, the Prudential PLC. AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 21).

3.17 Going Concern

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

4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 3 above, the 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 2016 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £13.2m and a -0.1% reduction would increase the obligation by £13.4m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £22.1m.

6. Events After The Reporting Date

To date, there have been no material events after the reporting date.

7. Contributions Receivable

2014/15		2015/16
£000		£000
	By Category	
29,005	Employers	16,489
5,335	Members	5,497
34,340	Total	21,986

2014/15 £000		2015/16 £000
31,248	By Authority Administering	20,386
876	Scheduled	1,004
2,216	Admitted	596
34,340	Total	21,986

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

2014/15 £000		2015/16 £000
12,860	By Type Employers Normal	11,601
5,335	Employees Normal	5,497
15,097	Deficit Funding	4,205
1,048	Employers Additional	683
34,340	Total	21,986

8. Transfers In From Other Pension Funds

2014/15 £000		2015/16 £000
983	Individual Transfers	2,153
983	Total	2,153

9. Benefits Payable

2014/15 £000		2015/16 £000
18,473	By Category Pensions	19,239
2,939	Commutations and lump sum retirement benefits	3,625
668	Lump sum death benefits	870
22,080	Total	23,734
2014/15 £000		2015/16 £000
20,276	By Authority Administering	21,908
1,066	Scheduled	997
738	Admitted	829
22,080	Total	23,734

10. Payments to and on Account of Leavers

2014/15 £000		2015/16 £000
1,109	Individual Transfers	2,732
40	Refunds of Contribution	29
(6)	State Scheme Premiums	35
1,143	Total	2,796

A payment of £1.98m was made in 2015/16 following the bulk transfer and cessation valuation for South Thames College (previously Merton College).

11. Management Expenses

2014/15 £000 Restated		2015/16 £000
332	Administrative Costs	323
198	Investment management expenses	574
131	Transaction Costs	181
195	Oversight and governance costs	152
856	Total	1,230

Investment management expenses have increased due to the inclusion of pooled Fund expenses.

12. Investment Income

2014/15 £000		2015/16 £000
2,697	Fixed Interest Securities	2,604
6,839	Equity Dividends	7,347
184	Pooled Investments	332
518	Pooled Property Investments	616
716	Other	524
10,954	Total	11,423

13. Taxes on Income

2014/15 £000		2015/16 £000
268	Non-Recoverable Tax	308
48	Withholding Tax	51
316	Total	359

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 2016. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2014/15		Fund Manager	2015/16	
£000	%		£000	%
231,570	44	Aberdeen	228,098	43
290,830	55	UBS	294,206	56
6,172	1	RREEF/Blackrock	6,737	1
528,572	100	Total	529,041	100

£13m (2014/15) and £0.15m (2015/16) internally managed funds have not been included in the above analysis.

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2016 is shown in the following table. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2015 £000		Market Value 31 March 2016 £000
	Investment Assets	
127,116	Fixed Interest Securities	130,929
200,755	Equities	194,037
181,736	Pooled Investments	179,624
15,391	Pooled Property Investments	21,183
1,682	Derivative Contracts - Futures	1,528
2,145	Cash Held With Fund Managers	2,005
1,428	Investment Income Due	1,261
530,253	Total Investment Assets	530,567
	Investment Liabilities	
(1,681)	Derivative Contracts - Futures	(1,527)
(1,681)	Total Investments liabilities	(1,527)
13,000	Internally Managed Funds	150
541,572	Net Investment assets	529,190

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 2015/2016. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

	Market Value 1 April 2015 £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 2016 £000
Fixed Interest Securities	127,116	12,152	(10,356)	2,017	130,929
Equities	200,755	39,676	(29,574)	(16,820)	194,037
Pooled Investments	181,736	17,372	(14,118)	(5,366)	179,624
Pooled Property	15,391	4,808	0	984	21,183
	524,998	74,008	(54,048)	(19,185)	525,773
Derivatives (Futures)					
Future Asset	1,682	7,020	(7,139)	(35)	1,528
Future Liability	(1,681)				(1,527)
	524,999	81,028	(61,187)	(19,220)	525,774
Other Investment Balances					
Cash with Fund Managers	2,145				2,005
Investment Income Due	1,428				1,261
Realised Loss on FX				9	
External Investments at Market Value	528,572			(19,211)	529,040
Internally Managed Funds	13,000				150
Investment Assets	541,572			(19,211)	529,190

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2014/2015.

	Market Value 1 April 2014 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2015 £000
Fixed Interest Securities	108,064	5,068	(2,639)	16,623	127,116
Equities	189,623	30,550	(24,221)	4,803	200,755
Pooled Investments	155,516	54,498	(53,235)	24,957	181,736
Pooled Property	13,197	220	(12)	1,986	15,391
	466,400	90,336	(80,107)	48,369	524,998
Derivatives (Futures)					
Future Asset	2,159	9,468	(10,068)	123	1,682
Future Liability	(2,163)				(1,681)
	466,396	99,804	(90,175)	48,492	524,999
Other Investment Balances					
Cash with Fund Managers	2,535				2,145
Investment Income Due	1,019				1,428
Realised Loss on FX				(28)	
External Investments at Market Value	469,950			48,464	528,572
Internally Managed Funds	0	13,000			13,000
Investment Assets	469,950			48,464	541,572

14.4 Detail Analysis of Investments

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

Market Value 31 March 2015 £000		Market Value 31 March 2016 £000
	Fixed Interest Securities	
95,765	Public Sector : UK quoted	97,855
31,351	: Overseas quoted	33,074
127,116		130,929
	Equities (Direct)	
185,369	UK quoted	180,088
15,386	Other European quoted	13,949
0	American	0
0	Other Overseas	0
200,755		194,037
	Pooled Investments	
39,917	UK (Equities)	39,997
28,203	Other European (Equities)	27,585
54,064	American (Equities)	53,701
23,063	Japanese (Equities)	21,563
20,336	Other Overseas (Equities)	20,716
16,153	Developing Markets (Equities)	16,062
6,131	Property Managed Fund/Units quoted	6,721
9,260	Property Managed Fund/Units un-quoted	14,462
1,428	Other Investment Balances	1,261
2,145	Cash with Fund Managers	2,005
1,682	Derivatives (Futures)	1,528
202,382		205,601
	Investment Liabilities	
(1,681)	Derivatives (Futures)	(1,527)
13,000	Internally Managed Funds	150
541,572	Total	529,190

14.5 Analysis of derivatives

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

The derivative instruments, which are used by the Fund, are FTSE future contracts, which have been applied to the active and passive sub-funds managed by UBS Asset Management. These instruments are essentially used by the Fund Managers for efficient portfolio management.

At 31 March 2016, the value of FTSE futures amounted to less than 0.5% of all equity investment in the Fund (0.5% in 2014/15).

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

Type	Expires	Economic exposure £000	Market value 31 March 2015 £000	Economic exposure £000	Market value 31 March 2016 £000
UK Equities	Three – Six months	1,681	1,682	1,527	1,528

14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2016.

14.7 Investments exceeding 5% of net assets

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

% Market Value 2014/15	Security	% Market Value 2015/16
12.13	Aberdeen Global II Index Linked	12.37
9.08	UBS Life North America Equity Tracker	9.09
5.76	Aberden Global II Global Aggregate	6.28
6.18	UBS Life UK Equity Tracker	6.25
5.23	UBS Life Europe Ex UK Equity Tracker	5.11

The largest single direct holding is HSBC at 1.47% (2.09% in 2014/15).

15. Financial Instruments

15.1 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 2015				31 March 2016		
Designated at fair value through profit and loss £000	Loans and receivables Restated £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial Assets			
127,116			Fixed Interest Securities	130,929		
200,755			Equities	194,037		
181,736			Pooled Investments	179,624		
15,391			Pooled Property Investments	21,183		
1,682	2,086		Derivative Contracts	1,528		
	13,000		Cash With Fund Managers		2,008	
			Internally Managed Funds		150	
1,428			Other Investment Balances	1,261		
	228		Debtors		1,256	
528,108	15,314	0		528,562	3,414	0
			Financial Liabilities			
(1,681)			Derivative Contracts	(1,527)		
		(316)	Creditors			(726)
(1,681)	0	(316)		(1,527)		(726)
526,427	15,314	(316)		527,035	3,414	(726)

15.2 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 2015 £000		31 March 2016 £000
	Financial Assets / Liabilities	
48,341	Fair Value through profit and loss	(19,176)
123	Loans and Receivables	(35)
48,464	Total	(19,211)

15.3 Valuation of financial Instruments carried at fair value

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

Level 1 – Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed investments

are shown at bid prices. The bid value of investment is based on the bid market quotation of the relevant stock exchange.

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

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

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

31 March 2015			31 March 2016	
Quoted market price Level 1	Quoted market price Level 2		Quoted market price Level 1	Quoted market price Level 2
£000	£000		£000	£000
512,769	15,391	Financial Assets	507,379	21,183
15,086		Fair Value through profit and loss	2,158	
		Loans and Receivables		
(1,682)		Financial Liabilities	(1,527)	
		Fair Value through profit and loss		
526,173	15,391	Total	508,010	21,183

16. Nature and Extent of Risks Arising From Financial Instruments

16.1 Risk and risk management

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

Responsibility for the Fund’s risk management strategy rests with the Pension Fund Advisory Committee. Risk management policies are established to identify and analyse the risks faced by the Authority’s pensions operations. The Statement of Investment Principles (SIP) 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's selection process. In addition the Fund employs an advisor who provides advice on investment issues.

16.2 Market risk

The Fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments. The Fund has one future valued at £1,528,250 (£1,681,750 as at 31 March 2015)

16.3 Price risk

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

Asset Type	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,008	0.01	2,008	2,008
Investment portfolio assets				
UK Equities	220,085	10.33	242,820	197,350
Overseas Equities	153,576	9.16	167,644	139,508
Bonds and Index Linked	130,929	8.26	141,744	120,114
Property	21,183	5.09	22,261	20,105
Income Due	1,261	0.00	1,261	1,261
Fixed Deposits (Internally managed)	150	0.00	150	150
Total Assets	529,192		577,888	480,496

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

Asset Type	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,086	0.01	2,086	2,086
Investment portfolio assets				
UK Equities	225,363	10.19	248,327	202,398
Overseas Equities	157,206	9.03	171,402	143,010
Bonds and Index Linked	127,117	8.14	137,464	116,770
Property	15,391	5.02	16,164	14,618
Income Due	1,402	0.00	1,402	1,402
Fixed Deposits (Internally managed)	13,000	0.00	13,000	13,000
Total Assets	541,565		589,845	493,284

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 2016 asset mix as shown in the following table (Note 16.4):

16.4 Other price risk

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

Asset Type	Potential market movements (+/-)
UK Equities	10.33%
Overseas Equities	9.16%
Bonds and Index Linked	8.26%
Cash	0.01%
Property	5.09%

16.5 Interest rate risk

Generally fixed interest rate investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. As at 31 March 2016, the Fund's fixed rate investments were in pooled investments. These internally managed investments are of very short duration.

16.6 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 2016.

Asset Type	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	153,576	6.47	163,512	143,640
Overseas Bonds	33,074	6.47	35,214	30,934
Total Overseas Assets	186,650		198,726	174,574

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

Asset Type	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	157,206	5.69	166,151	148,261
Overseas Bonds	31,351	5.69	33,135	29,567
Total Overseas Assets	188,557	5.69	199,286	177,828

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2016. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Currency	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	694	6.83	741	647
EURO	8,653	6.77	9,239	8,067
Norwegian Krone	394	9.40	431	357
Swedish Krona	2,164	7.65	2,330	1,998
Swiss Franc	4,318	9.95	4,748	3,888
US Dollar	33,185	7.78	35,767	30,603
Total	49,408		53,256	45,560

Currency	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	771	6.19	819	723
EURO	9,675	6.15	10,270	9,080
Norwegian Krone	582	8.64	632	532
Swedish Krona	2,561	7.30	2,748	2,374
Swiss Franc	4,448	9.34	4,863	4,033
US Dollar	31,358	7.78	33,798	28,918
Total	49,395		53,130	45,660

16.7 Credit risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2016. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

Credit Quality	Value at 31 March 2015 £000	Value at 31 March 2016 £000
AAA	3,432	3,535
AA	93,049	95,840
A	11,949	12,308
BBB	16,017	16,497
BB or below	1,271	1,309
Cash	1,398	1,440
Settled Cash	36	16
	127,152	130,945
A	3,000	0
N/A	10,000	150
	13,000	150
Total	140,152	131,095

16.8 Liquidity risk

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

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

16.9 Refinancing risk

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.

17. Funding Arrangements

17.1 Actuarial position

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

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

17.2 Actuarial assumption

Barnett Waddingham LLP carried out the last actuarial valuation in 2013. This gave an assessment of the value of the Fund as at 31 March 2013. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31

March 2013 was £451.0m, whilst the liabilities accrued in respect of pensionable service were £504.2m. The assessed actuarial value of £451.0m was different to the market value of the assets at 31 March 2013 because the actuarial value is based on the average asset value over 6 months straddling the valuation date.

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

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

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

17.3 Funding policy

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

The Funds deficit recovery period is 12 years.

17.4 Funding position

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

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

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

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

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

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

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

The following table show the past service funding position for the 2013 valuation.

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

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

Scheme are long-term investments, and there is an expectation that over the long term the value of the Fund will ride-out the cyclical movements of the investment markets, and support an adequate funding level.

18. 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 2016, using a valuation methodology that is consistent with IAS19.

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

	Assumptions as at 31/03/16 %
Inflation/Pension Increase Rate	2.3
Salary Rate Increase	4.1
Discount Rate	3.6

The value of the Fund's promised retirement benefits as at 31 March 2016 was

Year Ended	31/03/15 £m	31/03/16 £m
Present value of promised retirement benefits	816.1	790.3

19. Current Assets

	31/03/15 £000	31/03/16 £000
Debtors		
Contributions Due	1,358	1,363
Sundry Debtors	41	28
Cash in Hand	187	1,228
Current Assets	1,586	2,619

Sundry debtors now includes Fund Manager cash which has been reclassified from cash deposits.

Analysis of Debtors

	31/03/15 £000	31/03/16 £000
Administering Body	1,242	1,274
Admitted and Scheduled Bodies	116	89
Sundry Debtors	41	28
Current Debtors	1,399	1,391

20. Current Liabilities

Creditors	31/03/15 £000	31/03/16 £000
Cash overdrawn	(1)	0
Fund Managers Fees	(267)	(214)
Sundry	(48)	(512)
Payroll	(252)	(261)
Current Liabilities	(568)	(987)

21. 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 2015/16 to AVC schemes outside the Authority's responsibility was £0.127m (£0.144m at 31 March 2015). The external providers have reported that at 31 March 2016 the total value of accumulated AVCs is £1.710m (£1.663m at 31 March 2015).

22. Related Parties

Related parties to the Pension Fund include: -

- i) Merton Pension Fund is administered by the **Merton Council** and **Wandsworth Council** under a shared service arrangement. Consequently there is a strong relationship between the two Councils and the Pension Fund. The amount recharged by the council to the Pension Fund under this arrangement was £0.36m in 2015/16 (2014/15 £0.37m).
- ii) **The Admitted and Scheduled bodies** who make employer contributions to the Fund.
- iii) **Local Authority elected members and senior management officers** who sit on the Pension Fund Advisory Panel.
- iv) The panel included one **Pensioner representative** in receipt of pension benefits, who resigned during the year.

Statements of Responsibilities

The Authority's Responsibilities

The Authority is required:

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

1.1. The Director of Corporate Services' Responsibilities

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

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

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

The Director of Corporate Services has also:

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

1.2 Certification of Responsible Finance Officer

I hereby certify that the Statement of Accounts give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2016.

Signed

C Holland
Director of Corporate Services
June 2016

1.3 Approval of Accounts by General Purposes Committee

I hereby certify that the Statement of Accounts has been approved by resolution of the General Purposes Committee of the London Borough of Merton in accordance with the Accounts and Audit (England) Regulations 2015.

Signed

Peter McCabe
Chairman General Purposes Committee

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

These are the unaudited Statement of Accounts 2015/16. The Auditor's report will be available once the audit has concluded in September 2016.

Glossary

ACCOUNTING POLICIES

Rules and practices followed in drawing up the accounts.

ACCOUNTING CODES OF PRACTICE

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

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

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

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

ACCRUALS

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

ACTUARIAL GAINS AND LOSSES

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

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

APPROPRIATIONS

The assignment of revenue balances for specified purposes.

ASSET HELD FOR SALE

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

ASSETS

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

BALANCES

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

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

BUDGET

Statement of the spending plans for the year.

CAPITAL ADJUSTMENT ACCOUNT (CAA)

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

CAPITAL CHARGES

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS DEFERRED

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

CAPITAL RECEIPTS

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

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

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

CLG

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

COLLECTION FUND

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

COMMUNITY ASSETS

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

COMPREHENSIVE SPENDING REVIEW (CSR)

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

CONTINGENT ASSETS AND LIABILITIES

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

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

CORPORATE AND DEMOCRATIC CORE

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

CORPORATE GOVERNANCE

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

COUNCIL TAX

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

CREDIT APPROVAL

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

CREDITORS

Money owed by the Authority, which is due immediately or in the short term. Accordingly, it does not include money on taxation to the Authority. Creditors are an example of the concept of accruals.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of the liabilities earned by employees in the current period in a defined benefit scheme.

CURTAILMENT COSTS

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

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

DEBTORS

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

DEFERRED CONSIDERATION

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

DEFINED BENEFIT SCHEME

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

DEFRA

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

DEPRECIATION

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

DISCRETIONARY BENEFITS

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

EMOLUMENTS

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

EXCEPTIONAL ITEMS

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

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

FAIR VALUE

Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. The IFRS 13 fair value hierarchy has three levels of valuation:

Level One – fair value has been obtained using quoted prices in active markets for identical items.

Level Two - fair value has been obtained using other inputs observable for the item.

Level Three – unobservable inputs have been used to reach fair value.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

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

FINANCE LEASE

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

FINANCIAL YEAR

The financial year runs from the 1st April to the following 31st March.

FINANCIAL INSTRUMENT

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

FIXED ASSETS

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

FTSE 100

This is the index of the top 100 UK listed companies by market capitalisation.

GENERAL FUND

The main fund of the Authority, from which all expenditure is met and all income is paid, with the exception of those items, which by statute have to be taken to some other account.

GOVERNMENT GRANTS

Financial assistance by government and other bodies, in the form of cash transfers to an authority in return for compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE

The total expenditure of a fund or account.

GROUP ACCOUNTS

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

HERITAGE ASSETS

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

IFRS

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

IMPAIRMENT

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

INCOME AND EXPENDITURE ACCOUNT

Accounts which show all money receivable or payable by the Authority in the accounting period to which they relate. Accounts that record receipts and payments are converted to income and expenditure by the inclusion of debtors and creditors.

INFRASTRUCTURE ASSETS

Fixed assets that have no realistic expectation of being sold but are retained to deliver core services e.g. roads, drainage etc. and in respect of which expenditure cannot be recovered through disposal.

INTANGIBLE ASSETS

Intangible assets are defined in IAS38 as 'identifiable non-monetary assets without physical substance'.

INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND)

The investments of the pensions fund will be accounted for in the statements of that fund. However, authorities (other than district councils in Northern Ireland) are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

INVESTMENTS (NON-PENSION FUND)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

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

JOINTLY CONTROLLED ENTITY

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

LEASING

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

LEVY

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

LIABILITIES

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

MATERIALITY

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

NET ASSETS

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

NET BOOK ASSETS

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NET WORTH

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

NON-DISTRIBUTED COSTS

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

NON-DOMESTIC RATE (NDR)

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

NON-OPERATIONAL ASSETS

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

OPERATIONAL ASSETS

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

PAST SERVICE COST

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

POOLED VEHICLES

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

POST BALANCE SHEET EVENT

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

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

PRECEPTS

An amount collected by the Authority as part of the Council Tax on behalf of another statutory body.

PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements with private sector organisations to refurbish, maintain and operate fixed assets on behalf of public sector organisations such as local authorities.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are material adjustments relating to the accounts of previous years and which arise from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. Prior period adjustments do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISIONS

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

RESERVES

These are amounts set aside for specific purposes. The Authority has discretion in whether it wishes to set aside these amounts as distinct from sums set aside in provisions.

RESIDUAL VALUE

This is the estimate, based on current prices, of the increase in market value of the buildings transferred to NewSchools under the PFI contract.

REVALUATION RESERVE

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED BY CAPITAL RESOURCES UNDER STATUTE

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

SCHEME LIABILITIES

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

SETTLEMENT COSTS

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

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

STATEMENT OF RECOMMENDED PRACTICE (SORP)

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

STOCKS

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

SUBSIDIARY

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

SUPPORT SERVICES

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

UK GAAP

UK Generally Accepted Accounting Principles cover accounting practices that are regarded as permissible by the accounting profession. These practices may be laid down in accounting standards and/or legislation (such as Local Government Finance Legislation) but it also includes accounting practices that are outside the scope of accounting standards but are generally accepted by practitioners as legitimate. Local Authority accounts are now required to be IFRS compliant.

USEFUL LIFE

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

VESTED RIGHTS

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

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

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