Cabinet

Date: 15 January 2018

Subject: Draft Business Plan 2018-22

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison – Deputy Leader and Cabinet Member for Finance

Urgent report:

Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2018/19 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2018-2022. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 28 February 2018 and set a Council Tax as appropriate for 2018/19.

Recommendations:

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1. That Cabinet notes the financial information arising from the Provisional Settlement 2018/19 and that the financial implications will be incorporated into the draft MTFS 2018-22 and draft capital programme 2018-22.
2. That Cabinet notes the latest update of the draft MTFS for 2018 – 22

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1. **PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

1.1 This report provides an update to Cabinet on the Business Planning process for 2018-22 and in particular on the current position relating to the revenue budget for 2018/19, and the draft MTFS 2018-22.

1.2 It also sets out the latest information and analysis of the Local Government Finance Settlement 2018/19 which was published on 19 December 2017 and summarises the implications for Merton's budget and MTFS.

2. DETAILS

2.1 **Introduction**

2.1.1 The report provides a general update on all the latest information relating to the Business Planning process for 2018-22, including the Provisional Local Government Settlement 2018/19.

2.1.2 A review of assumptions in the MTFS was undertaken and reported to Cabinet on 11 December 2017. On 27 December 2017 a savings proposals consultation pack of all details previously presented to Cabinet at its meetings was sent to all Members. This can be brought to all Scrutiny and Cabinet meetings from 11 January 2018 onwards and to Budget Council. This is the same procedure as last year which is more cost effective and more manageable for councillors since it will ensure that only one version of those documents is available so referring to page numbers at meetings will be easier. It will considerably reduce printing costs and reduce the amount of printing that needs to take place immediately prior to Budget Council.

The pack includes:

- Savings proposals
- Equality impact assessment for proposals where appropriate
- Service plans (these will also be printed in A3 to lay round at scrutiny meetings)
- Budget Summaries for each department

2.1.3 The total draft amendments to previously agreed savings, and new savings proposals by Cabinet previously and the remaining gap on the MTFS as reported to Cabinet on 11 December 2017 are summarised in the following table:-

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Amendment to Savings previously agreed	1,107	(651)	(74)	0
New Savings proposals	0	(2,094)	(1,532)	(115)
Net Savings	1,107	(2,745)	(1,606)	(115)
Cumulative Net Savings	1,107	(1,638)	(3,244)	(3,359)
Gap remaining (cumulative)	0	3,732	17,500	18,196

2.2 LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19

2.2.1 Details of the provisional Local Government Settlement were published on 19 December 2017.

2.2.2 This section sets out the main details set out in the provisional Settlement and assesses the implications for Merton's finances as set out in the Medium Term Financial Strategy (MTFS).

2.2.3 The provisional Settlement outlined provisional core funding allocations (Settlement Funding Assessment (SFA) for local authorities for the two year period 2018-19 to 2019-20.

2.2.4 The Settlement Funding Assessment is the total of Revenue Support Grant (RSG) and Baseline Funding (BF) from Business Rates.

	2016/17 Final	2017/18 Final	2018/19 Provisional	2019/20 Illustrative
Merton (£m)	55.5	48.5	44.7	40.4
Annual % Change	-	-12.6%	-7.8%	-9.6%
Cumulative % change	-	-12.6%	-19.5%	-27.2%
England (£m)	18,601.5	17,905.0	16,937.6	14,550.8
Annual % Change	-	-3.7%	-5.4%	-14.1%
Cumulative % change	-	-3.7%	-8.9%	-21.8%
London Boroughs (£m)	3,398.5	3,078.3	2,901.2	2,711.9
Annual % Change	-	-9.4%	-5.8%	-6.5 %
Cumulative % change	-	-9.4%	-14.6%	-20.2%

2.2.5 <u>Core Spending Power</u>

There have been a number of changes to Core Spending Power in this Settlement. Adult Social Care Support Grant has been removed for 2018-19 as it was a one-off grant in 2017-18. The Transition grant that was awarded for 2016/17 and 2017/18 has also been removed.

Core Spending Power includes two new funding elements in 2018-19 compared with 2017-18. These are compensation for under-indexing the business rates multiplier (i.e. the change from RPI to CPI indexation), and the separate returned funding for New Homes Bonus (previous Core Spending Power has only included the total NHB topsliced amounts).

Core Spending Power in 2018-19 is therefore made up of:

- Settlement Funding Assessment (although excluding changes relating to business rates pilots)
- Estimated Council Tax excluding Parish Precepts
- Additional revenue from referendum principle for social care
- Potential additional Council Tax revenue from referendum principle for all districts.
- Improved Better Care Fund
- New Homes Bonus;
- Rural Services Delivery Grant
- Compensation for under-indexing the business rates multiplier

At the England level across the four years there will be a cumulative increase in spending power of £1.9 billion (4% in cash terms) from £43.7 billion to £45.6 billion. The equivalent figures for London boroughs are an increase of £186 million 2.8% from £6.7 billion to £6.8 billion.

However, as Core Spending Power includes a number of assumptions, this is unlikely to be an accurate reflection of the actual resources available to local authorities. In particular it assumes

– All authorities that are eligible raise the social care precept to its maximum in 2018-19 and 2019-20

– All authorities increase overall council tax by the maximum amount (2.99% in 2018-19 and 2019-20)

– Tax base increases at the same average rate for each authority as between 2013-14 and 2017-18

– New Homes Bonus allocations are based on the share of NHB to date

Detailed Breakdown of Core Spending Power – Merton

	Final	**Final**	**Provisional**	**Illustrative**	**Annual Change (17-18 to 18-19)**	**Cumulative Change (16-17 to 19-20)**
	2016-17	**2017-18**	**2018/19**	**2019/20**	**%**	**%**
Council Tax	78.9	82.6	89.2	93.8	8.1	18.8
Settlement Funding Assessment*	55.5	48.5	44.7	40.4	-8.0	-27.1
Compensation for under-indexing the business rates multiplier	0.5	0.4	0.7	1.1	75.0	120.0
Improved Better Care Fund	0	2.7	3.5	4.1	29.6	-
New Homes Bonus	4.7	4.1	2.4	2.3	-41.5	-51.1
Transition Grant	0.6	0.6	0	0	-100.0	-100.0
The 2017-18 Adult Social Care Support Grant	0	0.8	0	0	-100.0	0
Core Spending Power	**140.2**	**139.7**	**140.5**	**141.7**	**0.6**	**1.1**

* SFA figures do not reflect the London Business Rates Pilot Pool

2.2.6 Council Tax

In recognition of “higher than expected inflation and the pressures on services such as social care and policing”, the Government has decided to make changes to the council tax referendum principles. The main change is that the Government will increase the council tax referendum threshold in 2018-19 and 2019-20 from 2% to 3% for the portion of the authority’s council tax increase that has not been hypothecated for Adult Social Care.

The flexibility to raise the Social Care Precept (SCP) up to a maximum of 6% over the three years to 2019-20, announced in last year’s settlement, will continue as planned. Merton increased its Council Tax by 3% for the SCP in 2017/18 and the MTFS currently assumes that the remaining 3% will be used in 2018/19.

The financial projections in this report are based on the following levels of council tax increase:-

	2018/19 %	2019/20 %	2020/21 %	2021/22 %
Council Tax increase - General	0	2.99*	2	2
Council Tax increase - ASC	3	0	0	0
Total	3	2.99	2	2

* The Government’s assumption in the calculation of core spending power in the Provisional Local Government Finance Settlement is that local authorities increase their Band D council tax in line with the 3% referendum limit throughout the period to 2019-20.

2.2.7 Business Rates Retention

100% Pilots

The Government has confirmed that the five existing 2017-18 pilots will continue in 2018-19 and confirmed 11 new pilots for 2018-19, including the

London pilot pool. All pilots will trial the principles of 100% retention and will see RSG (and rural services grants in two tier areas) given up for higher retained business rates. The new pilot areas are: London; Berkshire; Derbyshire; Devon; Gloucestershire; Kent & Medway; Leeds; Lincolnshire; Solent; Suffolk; and Surrey. These will be confirmed in the final settlement.

London Boroughs should have received “Designation Order” letters from DCLG. The deadline for any authority wishing not to accept the designation is therefore 16 January 2018.

The settlement consultation also commits the Government to continue to pilot future reform of the system in 2019- 20, with further details to be provided in 2018. It therefore stopped short of confirming the extension of the newly announced pilots for 2019/20.

<u>Further retention</u>

The Provisional Settlement also included an announcement that the government intends to move to a system of 75% business rates retention across local government in 2020-21. This will coincide with the start of the new funding baselines that the Fair Funding Review will establish (a consultation on that was been also published on 19 December 2017). This will include rolling in RSG, Rural Services Grant, GLA Transport Grant and Public Health Grant into Business Rate Retention, but did not mention any transfer of any other new responsibilities/grants.

<u>Tariff and Top-up adjustments</u>

Updated top-ups and tariffs for 2017-18, 2018-19 and 2019-20 have also been published as part of the Provisional Settlement. As a result of the adjustments for the 2017 Revaluation, which altered tariffs and top ups for individual authorities, and levy rates for tariff authorities in 2017-18, there was a significant change to the business rates retention scheme. This aimed to ensure that, as far as possible, each local authority’s income was the same immediately before and after the revaluation on 1st April 2017. A provisional adjustment to 2017-18 top-ups and tariffs was made based on draft rating lists (published 28 September 2016) and 2015-16 NNDR3 data (uprated for inflation).

In the Provisional Settlement, the adjustment has been finalised based on the most recent ratings list (published 5 October 2017) and 2016-17 NNDR3 data. Where there is a discrepancy between the provisional and final 2017-18 adjustment, the difference has been reconciled through a one-off adjustment to 2018-19 top-ups and tariffs.

Merton has been a top-up authority since the start of the Business Rates Retention Scheme. This will change if the London Business Rates Pilot Pool is implemented.

As the pilot is only being assumed for 2018/19 these revert to top-up authorities in 2019/20.

Top-up/ Tariff Amounts under pilot/no pilot

	2017/18 No Pool	2018/19 without a Business Rates Pool	2018/19 with a Pilot Business Rates Pool	2019/20 No Pool
	£m	£m	£m	£m
Top-Up	9.083	9.375		9.373
Tariff			-9.752	

Under the pre-pool arrangements set out in the 2017/18 Final Settlement

Merton	2017/18	2018/19
	£m	£m
Business Rates Baseline	24.500	25.288
Top-Up	9.083	9.375
Baseline Funding	33.583	34.663

In terms of the 2018/19 Provisional Settlement

Merton	2018/19 Final Settlement 2017/18	2018/19 Provisional Settlement 2018/19
	£m	£m
Baseline Funding	34.663	34.591
Add:		
RSG	10.071	10.071
Baseline Funding	**44.734**	**44.662**

The slight downwards adjustment to baseline funding in 18/19 is because of the move from RPI to CPI inflation, which will be compensated for through a Section 31 grant.

Issues relating to the Pool that affect Merton
The figures included in the Provisional Settlement do not provide an accurate or meaningful representation of the resources that pilot authorities can expect from Business Rates in 2018/19.
The level of resources from Business Rates that authorities include in their Budgets is based on the latest estimates as shown in the NNDR1 return. These are due for return to the DCLG by the end of January 2018 but pilot authorities will need to provide this to the lead authority by early January in order to be able to organise effectively.

In the Provisional Settlement Merton's Business Rates Baseline of £54.414m (Baseline £44.662m + Tariff £9.752) is equivalent to 64%. Grossed up to 100% suggests Merton's Business Rate yield in 2018/19 will be £85.022m

Based on last year's NNDR1 return, Merton's business rates yield for was £88.002m. The software to produce this year's NNDR1 has not yet been released and is not expected to be available until mid-January 2018.

(£88.002m - £85.022) x 64% = £1.907m which suggests Merton's business rates resources in 2018/19 could be improved upon, subject to appeals and review of bad debt provisions. Latest estimates by London Councils suggest this will be of the order of £2.4m but this is subject to all London boroughs agreeing to sign up to the pool, which has not been confirmed yet and also previous forecasts of the level of business rates in each borough being robust once NNDR1 figures are available.

One of the key pooling principles is that the first call on any additional resources generated by the pool would be to ensure that each borough and the GLA receives at least the same amount as it would without entering the pool.

Given the uncertainty that remains about the introduction of the pilot pool and the delay in receiving the software to enable NNDR projections for 2018/19 to be produced for the NNDR 1 return (deadline 31 January 2018), the forecast figures for NNDR included in the MTFS remain as reported to Cabinet in December 2017 and will be updated in the report to Cabinet in February 2018.

2.2.8 Special and specific grants

The distribution of a number of grants was published alongside the Provisional Settlement. Within core spending power these include:-

- New Homes Bonus
- Improved Better Care Fund
- Rural Services Delivery Grant (not applicable to London)
- Compensation for under-indexing the business rates multiplier

Outside of the Provisional Settlement, allocations of a number of other grants have also been published including:-

- Lead Local Flood Authorities funding
- Flexible Homelessness Support Grant
- Homelessness Reduction Act new burdens funding

The Government has not yet published the Public Health Grant allocations for 2018-19. The Secretary of State announced £19 million of funding for unaccompanied Asylum Seeking Children, however allocations have not yet been published by DCLG.

The provisional schools funding settlement for 2018/19 has been published by the Department for Education.

New Homes Bonus

In December 2016, following consultation, the Government announced reforms to the Bonus. The Government has decided not to make any additional change to the baseline, below which the Bonus will not be paid, and it will remain at 0.4% for the 2018-19 allocations. It has retained the option of making adjustments to the baseline in future years. In September, the Government consulted on withholding part of the Bonus from authorities not planning effectively for new homes, but has decided not to implement any further reforms to the Bonus for 2018-19.

Provisional NHB allocations for 2018-19 have been published. London's share of the national total has stayed broadly the same at 21%, receiving £200 million of the £946 million national total. Overall NHB funding has fallen by £280.7 million (22.9%) as a result of the reforms announced last year. London boroughs' allocations have fallen by £60.3 million (23.1%). Funding for New Homes Bonus will be made up from £900 million provided from Revenue Support Grant, and an expected £46 million from departmental budgets.

In the Final Settlement last year, the DCLG provided the following details with respect to New Homes Bonus allocations:-

	2015-16 £m	2016-17 £ m	2017-18 £ m	2018-19 £ m	2019-20 £ m
New Homes Bonus	3.8	4.7	4.1	3.1	3.0

Comparing Merton's illustrative allocations in last year's Settlement with the latest ones in this year's Provisional Settlement shows a significant reduction:-

	2018-19 £ m	2019-20 £ m
New Homes Bonus – 2017/18 Settlement	-3.110	-2.984
New Homes Bonus – 2018/19 Settlement	-2.371	-2.301
Change (£m)	0.739	0.683
Change (%)	-24%	-23%

The reasons for this reduction are:-

- The number of affordable homes reduced from 124 in 2016 to 9 in 2017
- The number of empty properties brought back into use was +8 in 2016 and -93 in 2017.
- From 2018/19 the NHB moves to a four year funding basis from a five years basis.

Improved Better Care Fund

There is no change to the illustrative figures set following the March Budget announcement of further funding for iBCF. In 2018-19, the Government is providing £1.5 billion, rising to £1.8 billion in 2019-20 across England. London boroughs will receive £244 million in 2018-19 and £299 million in 2019-20. As confirmed in the allocation methodology last year, the allocation methodology takes into account the ability to raise Social Care Precept and therefore benefits those councils with lower capacity to raise council tax.

Improved Better Care Fund	**2017-18 £m**	**2018-19 £m**	**2019-20 £m**
Merton	2.746	3.523	4.114

Compensation for under-indexing the business rates multiplier

At Autumn Budget 2017, the government announced plans to bring forward a move from RPI to CPI indexation of the business rates multiplier. This change will now take effect from 2018/19 instead of 2020/21. The Provisional Settlement confirmed the level of section 31 grant paid to local authorities in compensation for lost income. £250.0 million of funding will be made available in 2018/19, of which £44.3 million will be paid to London boroughs, rising to £375.5 million in 2019/20 (£66.5 million in London).

This new compensation grant has been included within Core Spending Power. Similarly, ongoing grants to compensate for the 2% multiplier caps in 2014/15 and 2015/16 have also been included within core spending power this year.

Merton’s allocation for this is:-

Compensation for under-indexing the business rates multiplier	**2017-18 £m**	**2018-19 £m**	**2019-20 £m**
Merton	0.432	0.721	1.082

Lead Local Flood Authority Grant

The Government has also published Lead Local Flood Authority Grant allocations for 2018-19 (for the grant that sits outside the funding within SFA). London Boroughs will receive £0.8 million (from the national total of £4.1 million), rising to £0.87 million (out of £4.3 million) by 2019-20

Merton’s allocation for this is:-

Lead Local Flood Authority Grant	2017-18 £m	2018-19 £m	2019-20 £m
Merton	0.172	0.175	0.179

Flexible Homelessness Support Grant
The Government has also published Flexible Homelessness Support Grant allocations for 2018- 19. London boroughs will receive £115.8 million in 2018-19 – this is 61% of the national total of £191.3 million.

Merton's allocation for this is:-

Flexible Homelessness Support Grant	2017-18 £m	2018-19 £m
Merton	0.406	0.481

Homelessness Reduction Act new burdens funding
Homelessness Reduction Act new burdens funding was published in October 2017. London boroughs will receive £30.2m(41%) of the England total of £72.7m over the three years to 2019-20.

Homelessness Reduction Act new burdens funding	2017-18 £m	2018-19 £m	2019-20 £m
Merton	0.157	0.144	0.136

Consultation Response
The government is consulting on the provisional settlement figures with a deadline of 16 January 2018.

2.2.9 **School Funding Announcement 2018/19**

The School Revenue Funding Settlement: 2018 to 2019 was published on 19 December 2017. The announcement covered the Dedicated Schools Grant (DSG), the Education Services Grant (ESG) protections for academies, and the pupil premium. This is supported by the additional £1.3 billion for schools and high needs over the next two years that the Secretary of State for Education announced in July.

As previously announced, the distribution of the DSG to local authorities will be set out in four blocks for each authority: a schools block, a high needs block, an early years block, and the new central school services block.

On 14 September 2017, the Secretary of State for Education announced a new national funding formula for schools and high needs from April 2018. This follows the introduction of a national funding formula for early years in April 2017.

The schools block has been allocated between local authorities on the basis of the primary and secondary units of funding published in September 2017.

The main allocations for Merton announced on 19 December 2017 are:-

Dedicated schools grant: 2018-19 allocations local authority summary	2018-19 DSG allocations, prior to recoupment and deductions for direct funding of high needs places by ESFA				
	2018-19 schools block (£million)	2018-19 central school services block allocation (£million)	2018-19 provisional high needs block allocation (£million)	2018-19 early years block (£million)	2018-19 total DSG allocation (£million)
Merton	**119.013**	**1.021**	**32.509**	**17.088**	**169.630**

Dedicated schools grant: 2018-19 allocations local authority summary	2018-19 DSG allocations, after deductions for direct funding of high needs places by ESFA				
	2018-19 schools block (£million)	2018-19 central school services block allocation (£million)	2018-19 high needs block allocation (£million)	2018-19 early years block (£million)	2018-19 total DSG allocation (£million)
Merton	**119.013**	**1.021**	**31.951**	**17.088**	**169.072**

There will be a more detailed update on Schools funding in the February Cabinet report when further details are known.

3. Public Health Grant 2018/19

3.1 The Government has announced firm allocations of the local government public health grant for 2018/19 and indicative allocations for 2019/20. The 2018/19 grant will be paid in quarterly instalments in April, July, October and January.

3.2 The public health grant is ring-fenced for use on public health functions exclusively for all ages.

3.3 Merton’s allocations compared to 2017/18 are set out in the following table:-

	2017/18 £000	2018/19 £000	2019/20 £000
Merton – Public Health Grant	10,727	10,451	10,175

4. Council Tax Increases and Adult Social Care Precept

4.1 The Provisional Local Government Finance Settlement 2018/19 contains the following principles which will determine whether local authorities have to have a referendum in order to increase their council tax precepts by more than the Government guidelines set:-

For authorities such as Merton, in 2018-19, the relevant basic amount of council tax of an authority is excessive if the authority’s relevant basic amount of council tax for 2018-19 is 6% (comprising 3% for expenditure on adult social care and 3% for other expenditure), or more than 6%, greater than its relevant basic amount of council tax for 2017-18.

5. GLA PRECEPT

5.1 On 21 December 2017, the Mayor of London published his draft revenue budget and capital spending plan for 2018-19 for consultation. This includes his draft budget proposals for the GLA (Mayor and Assembly), the Mayor's Office for Policing and Crime (MOPAC), the London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL), the London Legacy Development Corporation (LLDC) and the new Old Oak and Park Royal Development Corporation (OPDC).

5.2 The Mayor has confirmed that he is proposing to increase the GLA’s council tax precept in the 32 boroughs by £14.20 (5.1%) from £280.02 to £294.22 in 2018-19. This comprises a £12 increase in the policing element and £2.20 (2.99%) increase in the non-police element. The proposed precept in the City of London (which has its own police force) is £76.09.

5.3 Members of the public will have until 12 January 2018 to comment on the draft Budget. The Budget is due to be considered by the London Assembly on 25 January 2018 and 22 February 2018. The Budget will be agreed on February 22 2018.

6. DRAFT CAPITAL PROGRAMME

6.1 There will be an update to the Capital Programme 2018-22 along with the Treasury Management Strategy in February 2018. A draft Treasury Management Strategy is attached as Appendix 2, along with a draft Capital Strategy at Appendix 3. The impact of the £11.6m slippage on the capital programme outlined in the Financial Monitoring report, elsewhere on this agenda, has been built into the strategies and the MTFS, which has had the effect of reducing the revenue implications of capital in the short to medium term.

7. GENERAL FUND BALANCES AND RESERVES

7.1 The General Fund balance can be seen as an authority’s working balance. In considering the budget plans for the medium term, it is also necessary to give some attention to the level of this working balance. In coming to this decision a number of issues should be considered.

These include:

(a) the retention of working balances to cushion cash flow variations and to avoid increased borrowing costs;

(b) the retention of sums to provide against inflation and pay awards being in excess of the assumptions made within the budget;

(c) the retention of sums to provide for contingent liabilities; or

(d) to meet unforeseen events

7.2 In taking a decision on the level of balances, it is important to take into consideration current and future budget pressures and recognise that in order to set a balanced budget over the next four years there is a need for significant net reductions in the budget which inevitably will mean that there is very little room for manoeuvre in determining the level of balances.

7.3 The movement and planned use of reserves, both revenue and capital, over the MTFS period is currently being reviewed and there will be a full update to Cabinet in February.

8. SUMMARY

8.1 Following the changes discussed in this report, mainly the negative changes arising from the Provisional Local Government Finance Settlement offset by the capital financing adjustments, the gap in the MTFS (Appendix 1) has changed to the following:-

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Gap remaining (cumulative)	0	2,547	16,026	18,101

9. CONSULTATION UNDERTAKEN OR PROPOSED

9.1 There has been, and will continue to be, extensive consultation as the business plan process develops. This will include the Overview and Scrutiny panels and Commission, the Financial Monitoring Task Group, business ratepayers and all other relevant parties. The consultation meeting with Business Ratepayers is arranged for 14 February 2018.

9.2 Feedback on scrutiny of the Business Plan proposals will be provided by the Overview and Scrutiny Commission on 25 January 2018.

10. TIMETABLE

10.1 The business planning timetable for 2018/19 has been reported to and agreed by Cabinet previously.

11. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

11.1 All relevant implications have been addressed in the report.

12. LEGAL AND STATUTORY IMPLICATIONS

12.1 All relevant implications have been addressed in the report.

13. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

13.1 Not applicable

14. CRIME AND DISORDER IMPLICATIONS

14.1 Not applicable

15. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

15.1 Not applicable

APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

Appendix 1	**Medium Term Financial Strategy - Update**
Appendix 2	**Draft Treasury Management Strategy**
Appendix 3	**Capital Strategy**
Appendix 4	**Workforce Strategy**
Appendix 5	**Procurement Strategy**

BACKGROUND PAPERS

Budget files held in the Corporate Services department.

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DRAFT MTFS 2018-22:				
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Departmental Base Budget 2017/18	**151,131**	**151,131**	**151,131**	**151,131**
Inflation (Pay, Prices)	4,387	8,849	11,907	14,965
Autoenrolment/Nat. ins changes	315	315	315	315
FYE – Previous Years Savings	(7,018)	(8,737)	(8,737)	(8,737)
FYE – Previous Years Growth	974	(1,532)	(1,032)	(1,032)
Amendments to previously agreed savings/growth	1,107	456	382	382
Change in Net Appropriations to/(from) Reserves	(1,257)	(993)	(851)	(984)
Taxi card/Concessionary Fares	450	900	1,350	1,800
Change in depreciation/Impairment (Contra Other Corporate items)	0	0	0	0
Growth	0	0	0	0
Other	1,360	1,436	3,323	3,604
Re-Priced Departmental Budget	**151,449**	**151,825**	**157,788**	**161,443**
Treasury/Capital financing	7,644	10,388	12,237	12,944
Pensions	3,469	3,552	3,635	3,718
Other Corporate items	(18,528)	(18,866)	(18,652)	(18,661)
Levies	614	614	614	614
Sub-total: Corporate provisions	**(6,801)**	**(4,312)**	**(2,166)**	**(1,385)**
Sub-total: Repriced Departmental Budget + Corporate Provisions	**144,648**	**147,513**	**155,622**	**160,059**
Savings/Income Proposals 2018/19	0	(2,094)	(3,626)	(3,741)
Sub-total	**144,648**	**145,419**	**151,996**	**156,318**
Appropriation to/from departmental reserves	173	(92)	(234)	(100)
Appropriation to/from Balancing the Budget Reserve	(2,611)	(2,839)	0	0
BUDGET REQUIREMENT	**142,209**	**142,489**	**151,762**	**156,217**
Funded by:				
Revenue Support Grant	(10,071)	(5,076)	0	0
Business Rates (inc. Section 31 grant)	(36,304)	(37,176)	(37,725)	(38,285)
Adult Social Care Improved BCF - Budget 2017	(2,115)	(1,054)	0	0
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(2,371)	(2,028)	(1,304)	(1,008)
Council Tax inc. WPCC	(86,923)	(89,812)	(91,909)	(94,026)
Collection Fund – (Surplus)/Deficit	372	0	0	0
TOTAL FUNDING	**(142,209)**	**(139,942)**	**(135,735)**	**(138,116)**
GAP including Use of Reserves (Cumulative)	**0**	**2,547**	**16,026**	**18,101**

LONDON BOROUGH OF MERTON
TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION

1.1 Background

London Borough of Merton have adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) definition of Treasury Management, which is:

> *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The Council is required to update and approve its policy framework and strategy for treasury management, annually, to reflect the changing market environment, regulation, and the Council's financial position. The key issues and decisions are:

a) To set the Council's Prudential Indicators for 2018/19 to 2021/22
b) Approve the Minimum Revenue Provision (MRP) policy for 2018/19; and
c) To agree the Treasury Management Strategy for 2018/19. This will include the annual investment strategy, containing the parameters of how the investments are to be managed.

1.2 Statutory Requirement

The Local Government Act 2003 (the Act) as amended and supporting regulations, require the Council to 'have regard to'
(a) such guidance as the Secretary of State may issue; and
(b) such other guidance as the Secretary of State may by regulations specify for the purposes of this provision
http://www.legislation.gov.uk/ukpga/2003/26/section/15

The Guidance requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. The Council has adopted CIPFA's revised Code of Practice on Treasury Management.

1.3 Balanced Budget Requirement

Section 33 of the Local Government Finance Act 1992 requires the Council to set a balanced budget. This means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Cash yet to be used are invested in low risk and good credit quality counterparties or instruments with the consideration first for security, liquidity and yield.

The other main function of treasury management is the funding of the Council's capital plans. These capital plans provide a guide to the long or short-term borrowing need of the Council, essentially the longer term cashflow planning, to ensure that the Council can meet its capital spending obligations. The management of longer term cash may involve arranging long or short dated loans, or using longer term cashflow surpluses. Subject to S151 Officer's approval, any debt previously drawn may be restructured or repaid to meet the Council's risk or cost objectives.

1.4 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital Issues

- To determine the Council's capital plans and prudential indicators for 2018/19 to 2021/22;
- To approve the Minimum Revenue Provision (MRP) policy for 2018/19.

The LG Act 2003 require local authorities to set an affordable borrowing limit (http://www.legislation.gov.uk/ukpga/2003/26/section/3).

Treasury Management Issues

- To agree the Council's treasury management strategy for 2018/19
    - current treasury position as at December 2017;
    - treasury indicators which limit the treasury risk and activities of the Council;
    - prospects for interest rates;
    - borrowing strategy;
    - policy on borrowing in advance of need;
    - debt rescheduling and early repayment of debt review;
    - Annual Investment Strategy and alternative investment instruments (Policy on new lending and borrowing instruments);
    - creditworthiness policy;
    - Treasury Management Practices (**Appendix 5**);and
    - cash flow policy

These elements cover the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

2. CURRENT TREASURY POSITION

2.1 Use of the Council's Resources and the Investment Position

The application of resources (capital receipts and reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources, for example, asset sales.

The table below shows the position as at December 2017.

Year End Resources	2016/17 Actual £'000	30 November 2017 Actual £'000	31 March 2017/18 Estimate £'000	31 March 2018/19 Estimate £'000
Investments	70,900	98,200	75,432	65,452
Interest on investments	843	265	800	766
Borrowing Long-term Borrowing Short-term Borrowing	116,976	113,010	*113,010	113,010
Total External Debt	**116,976**	**113,010**	**113,010**	**113,010**
Interest on External Debt Long-term Short-term	6,686 1	6,702 1	6,315	6,315
Total Interest on External Debt	**6,687**	**6,703**	**6,315**	**6,315**

Interest on investments figures above do not include interest from policy investments.

* Figures exclude £3.966m of long term debt due for repayment within the financial year which was reclassified at year end

3. CAPITAL PRUDENTIAL INDICATORS 2018/19 - 2021/22

The Council is required to calculate various indicators for the next 3 years. The aim of prudential indicators is to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The prudential indicators set out in **Appendix 6** are calculated for the Medium Term Financial Strategy (MTFS) period. The indicators relate to capital expenditure, external debt and treasury management.

The Council will monitor performance against the indicators and prepare indicators based on the Statement of Accounts (SoA) at year end.

3.1 Capital Expenditure

The Council's capital expenditure plans are fundamental to its treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to provide Council members an overview and confirm the impact of capital expenditure plans.

This indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle as reported in the MTFS. Environment and Regeneration figures include projects relating to Public Health programs however these are fully funded and do not have any MRP implications.

Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Corporate Services	3,889	13,468	23,482	15,818	3,945	3,862
Community & Housing	1,663	1,802	773	480	630	280
Children Schools & Families	12,506	7,062	15,158	8,107	3,202	650
Environment & Regeneration	12,568	17,707	21,853	9,060	5,017	4,052
Total Non-HRA	**30,626**	**40,039**	**61,266**	**33,466**	**12,794**	**8,844**

The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below shows how the capital expenditure plans are being financed by revenue or capital resources. A shortfall of resources means a borrowing need. The capital programme expenditure figures used in calculating the financing costs have been adjusted for slippage in the programme as at December 2017.

Capital Expenditure	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital Expenditure	30,626	**40,039**	**61,266**	**33,466**	**12,794**	**8,844**
Slippage*		(8,448)	(13,035)	5,255	4,525	3,382
Leasing Budgets in Programme after Slippage		(76)	(34)	(600)	0	0
Total Capital Expenditure	30,626	31,515	48,197	38,121	17,319	12,226
Financed by:						
Capital Receipts	12,993	12,280	11,284	*1,342	1,396	4,557
Capital Grants & Contributions	16,333	13,970	21,008	3,826	2,421	681
Capital Reserves	0	0	0	0	0	0
Revenue Provisions	1,300	*5,028	*1,918	*0	7	2
Other Financing Sources	0	0	0	0	0	0
Net financing need for the year (a)	**0**	**237**	**13,987**	**32,953**	**13,495**	**6,986**

* In the above table slippage includes slippage in from the previous year and out to the following year.

** Funding amended for the leasing adjustment

3.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator, Capital Financing Requirement (CFR), is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. In other words, a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR includes any other long-term liabilities like PFI schemes and finance leases which have been brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, it should be noted that these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council has no Housing Revenue Account (HRA) and no new PFI scheme in 2018/19 is expected. The 2017/18 forecast movement in CFR shows a decrease of £6,517k because the expenditure to be funded from borrowing in 2017/18 is less than the amount of MRP charged in the year.
The current cashflow projection as at December 2017 for 2017/18 year end is an estimated cash balance of £100m (including all short term deposits). The current forecast has been based on assumptions in the MTFS and capital programme spend forecast after slippage. The 2017/18 forecast £31.5m, 2018/19 £48.2m, and 2019/20 £38.1m are based on best estimates which may slip due to unforeseen circumstances and the nature of large projects and the level of grant income. Also, fees and charges for the Council may change. Based on current forecasts the earliest the Council may borrow is in 2018/19 in anticipation for 2019/20. However, the Council can borrow in advance of need if rates are likely to rise and borrowing becomes a lot more advantageous than it would be.

The Council is asked to approve the CFR projections in the following table:

	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital Financing Requirement						
CFR (non-housing)	190,890	184,663	193,291	219,160	224,476	222,557
Total CFR	**190,890**	**184,663**	**193,291**	**219,160**	**224,476**	**222,557**
Movement in CFR	**(8,792)**	**(6,227)**	**8,628**	**25,869**	**5,316**	**(1,919)**
Movement in CFR represented by						
Net financing need for the year (above)	0	237	13,987	32,953	13,495	6,986
Less Capital MRP/VRP	7,154	4,902	3,896	4,706	6,431	7,216
Less Other MRP/VRP (leasing, PFI)	998	876	728	1,590	904	784
Less Other MRP/VRP – PFI – Partial termination	640	686	735	788	844	905
Less Other financing movements • Adjustment of PFI Liability • Adjustment of MRP						
Movement in CFR	**(8,792)**	**(6,227)**	**8,628**	**25,869**	**5,316**	**(1,919)**

Actual and estimates of the ratio of financing costs to net revenue stream
This indicator identifies the trend in the cost of capital (borrowing and other

long-term obligation costs net of investment income) against the net revenue stream. The indicator shows the proportion of the income received from Council tax, Revenue Support Grant (RSG) and National Non-Domestic Rate (NNDR) and some specific grants that are spent on paying the borrowing associated with delivery of capital investment (i.e. principal and interest charges of long-term borrowing).

The table below shows the monetary values for the above ratio

	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Net Revenue Financing Costs	18,892	15,099	13,621	16,163	16,751	17,267
Net Revenue Stream	148,133	146,066	142,209	139,942	135,735	138,116
Ratio of Financing Costs to Net Revenue Stream (Non HRA)	12.75%	10.34%	9.58%	11.55%	12.34%	12.50%

Estimates of the incremental impact of capital investment decisions on council tax.

The table below shows the incremental impact of changes in the capital programme (incorporating the effects of changes in treasury forecasts and investment decisions) on the band D Council tax. Merton did not increase Council Tax from 2011/12 until 2017/18 when a 3% increase was applied for Adult Social care purposes therefore there has been little or no incremental impact on Council tax band D properties.

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Incremental Change in Capital Financing Costs (£000)	(683)	(3,792)	(1,478)	2,542	587	516
Council Tax Base	71,327	72,442	74,124	74,495	74,867	75,241
Incremental Impact on Council Tax - Band D* (£)**	(9.58)	(52.35)	(19.94)	34.12	7.84	6.86
Council Tax - Band D (£)	1,106.45	1,139.71	1,173.90	1,209.00	1,233.18	1,257.84

***2016/17 and 2017/18 use actual council tax amounts. Future years use assumptions in the MTFS. for planning purposes.

4. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). The Council has not made any provision for VRP in its capital expenditure.

For capital expenditure incurred before 1 April 2008 or by Supported Capital Expenditure, the MRP policy will be the equal annual reduction of 2% of the outstanding debt at 1 April 2017 for the subsequent 50 years. Prior to this date capital expenditure incurred before 1 April 2008 or by Supported Capital Expenditure, the MRP policy followed CLG regulations (option 1). This provided for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be based on the Asset Life Method – CLG regulations (option 3).

This option will be applied for any expenditure capitalised under a capitalisation direction. It should be noted that this option provides for a reduction in the borrowing need over the approximate life of the asset.

The Council is required to have regard for the Local Government Involvement in Health Act 2007. This amended the Local Government Act 2003 enabling the Secretary of State to issue guidance on accounting practices and thus on MRP. Also, the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) specifies that "A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent". Any MRP implications on how the Council will pay for unfinanced capital assets through revenue will be included in the MRP policy.

Category	**Depreciation (Years)**
Assets valued over £1m	
Buildings	50
Mechanical & Electrical	20
External	20
Assets valued under £1m	
Buildings	40
Infrastructure (roads etc)	25
15 Year Asset	15
10 Year Asset	10
Computer software	5
Computer hardware	5
Large vehicles – e.g. buses, RCVs	7
Small vehicles – e.g. cars, vans	5
Other equipment e.g. CCTV	5

MRP years where there is no depreciation equivalent	
Land	50
Revenue Expenditure Funded by capital Under Statute e.g. Redundancy costs	20

5. TREASURY MANAGEMENT STRATEGY

5.1 The Prospects for Interest Rates and Economic Forecasts

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Annual Average %	Bank Rate (%)	PWLB Borrowing Rates (%)			
		5 year	10 year	25 year	50 year
Dec 2017	0.50	1.50	2.10	2.80	2.50
March 2018	0.50	1.60	2.20	2.90	2.60
June 2018	0.50	1.60	2.30	3.00	2.70
Sept 2018	0.50	1.70	2.40	3.00	2.80
Dec 2018	0.75	1.80	2.40	3.10	2.90
March 2019	0.75	1.80	2.50	3.10	2.90
June 2019	0.75	1.90	2.60	3.20	3.00
Sept 2019	0.75	1.90	2.60	3.20	3.00
Dec 2019	1.00	2.00	2.70	3.30	3.10
March 2020	1.00	2.10	2.70	3.40	3.20
June 2020	1.00	2.10	2.80	3.50	3.30
Sept 2020	1.25	2.20	2.90	3.50	3.30
Dec 2020	1.25	2.30	2.90	3.60	3.40
Mar 2021	1.25	2.30	3.00	3.60	3.40

Source: Link Asset Services

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. This is dependent on current economic assumptions but could change. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is

strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.

- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

5.2 Borrowing Strategy

Current Borrowing Portfolio Position

The table below shows the CFR as at December 2017 against the gross debt position of the Council. The gross debt includes other long-term liabilities like PFI and finance lease obligations. Gross debt should not exceed CFR in the medium to long-term.

Estimated debt may change as the capital programme spends and financing changes. The lease balances do not include adjustments for new implications in 2017/18.

Narrative	2016/17 Actual £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
External Debt at 1 April	116,976	116,976	113,010	113,010	113,010	111,010
Expected change in Debt (repayment and new debt)****	0	(3,966)	0	0	(2,000)	(2,000)
Closing External Debt	**116,976**	**113,010**	**113,010**	**113,010**	**111,010**	**109,010**
PFI Balance b/f	19,524	18,664	17,959	17,164	16,480	14,926
In year movement	(860)	(705)	(795)	(684)	(1,554)	(805)
Closing Balance PFI	**18,664**	**17,959**	**17,164**	**16,480**	**14,926**	**14,121**
PFI Partial Termination Balance b/f	15,210	14,613	13,973	13,287	12,552	11,764
In year movement	(597)	(640)	(686)	(735)	(788)	(844)
Closing Partial termination Balance PFI	**14,613**	**13,973**	**13,287**	**12,552**	**11,764**	**10,920**
Total PFI	**33,277**	**31,932**	**30,451**	**29,032**	**26,690**	**25,041**
Finance Leases at 1 April	211	81	44	36	99	140
Expected Change in Finance Leases	(130)	(37)	(8)	63	41	38
Closing Balance Finance Leases	**81**	**44**	**36**	**99**	**140**	**178**
Salix Loan	26	19	12	6	2	0
Salix in year movement	(7)	(7)	(6)	(4)	(2)	0
Closing Balance Salix	**19**	**12**	**6**	**2**	**0**	**0**
Actual Gross Debt at 31 March	**150,353**	**144,998**	**143,503**	**142,143**	**137,840**	**134,229**
Capital Financing Requirement	**190,890**	**184,663**	**193,291**	**219,160**	**224,476**	**222,557**
(Under)/over Borrowing	**(40,537)**	**(39,665)**	**(49,788)**	**(77,017)**	**(86,636)**	**(88,328)**

****£3.966m of long-term debt matures in 2017/18

The table over the page shows the CFR forecast for 2017/18 to 2021/22. Also, there is no maturing debt until 2020/21 hence little borrowing pressure. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Director of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

PFI and finance lease portion of the CFR will not be funded by additional loan. Capital forecasts relating to 2019/20, 2020/21 and 2021/22 are very much subject to change at this stage.

The Council's decision to use internal borrowing is prudent as it eliminates the revenue cost of carry as investment returns remain low, there is sometimes slippage on capital programme budgets and counterparty risks remain to a degree. The Council can fund its entire borrowing requirement now if this is affordable. In which case, borrowing will be up to CFR.

Council's Year End Balance Sheet Position at 31 March 2017

	2015/16 £'000	2016/17 £'000	Change £'000
CFR	198,616	190,890	(7,726)
PFI and LEASES	**(34,123)**	**(33,377)**	**746**
Underlying Borrowing Requirement	**164,493**	**157,513**	**(6,980)**
External Borrowing	116,976	116,976	0
Under borrowing / Internal borrowing to date	(47,517)	(40,537)	(6,980)

Strategy to 'Unwind' Internal Borrowing

Internal borrowing at 31 March 2017 remains at sustainable levels. However, the Council will commence a review of its strategy to 'unwind' internal borrowing.

Debt Liability Benchmarking

In defining its borrowing strategy, the Council considered the true characteristics of all of the debt instruments in its portfolio, most especially the LOBOs and the various options available to the Council.

Consideration was given to the fact that in the current economic climate the LOBOs in the Council's portfolio will not be called due to their very high interest rate. Should they be called, replacement borrowing will not be required because the council will have cash available in 2018/19 to meet the call options based on the current estimates of the use of internal borrowing for the capital programme.

If all LOBOs are called at once (an unlikely event) then future estimated use of cash to temporarily fund the capital programme is likely to be affected.

The borrowing strategy to temporarily finance its capital programme, led the Council to consider setting a minimum amount of projected liquid cash of £10m. This means that cash outflows for capital purposes would primarily be met from cash investments until £10m was reached, and only at that point, would external borrowing be undertaken except if interest rates were advantageous for long-term loans, then the Council will borrow in advance of need or where interest rates are expected to rise significantly and quickly.

The Council will continue to review, throughout the year, its options around higher and lower levels of cash-backed balances.

Treasury Risk Analysis - Debt

Whilst it is not mandatory for Local Authorities to adopt the CIPFA Risk Toolkit produced by CIPFA's Treasury Management Panel, the Council will continue to utilise and adopt the risk tool kit and participate in the risk study in 2018/19 as there are some merits for the Council in managing its integrated treasury management portfolio and in considering risk mitigation options for its treasury management review process and benchmarking with its peers.

5.3 Treasury Indicators: Limits to Borrowing Activity

Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. (The most likely prudent view, not the worst case scenario. Maximum level of external debt projected – Cipfa)

Operational Boundary	2016/17 Actual £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
External Debt	116,976	113,010	113,010	113,010	111,010	109,010
Other Long Term Liabilities	33,377	31,988	30,493	29,133	26,830	25,219
Operational Boundary	150,353	144,998	143,503	142,143	137,840	134,229

Authorised Limit for External Borrowing

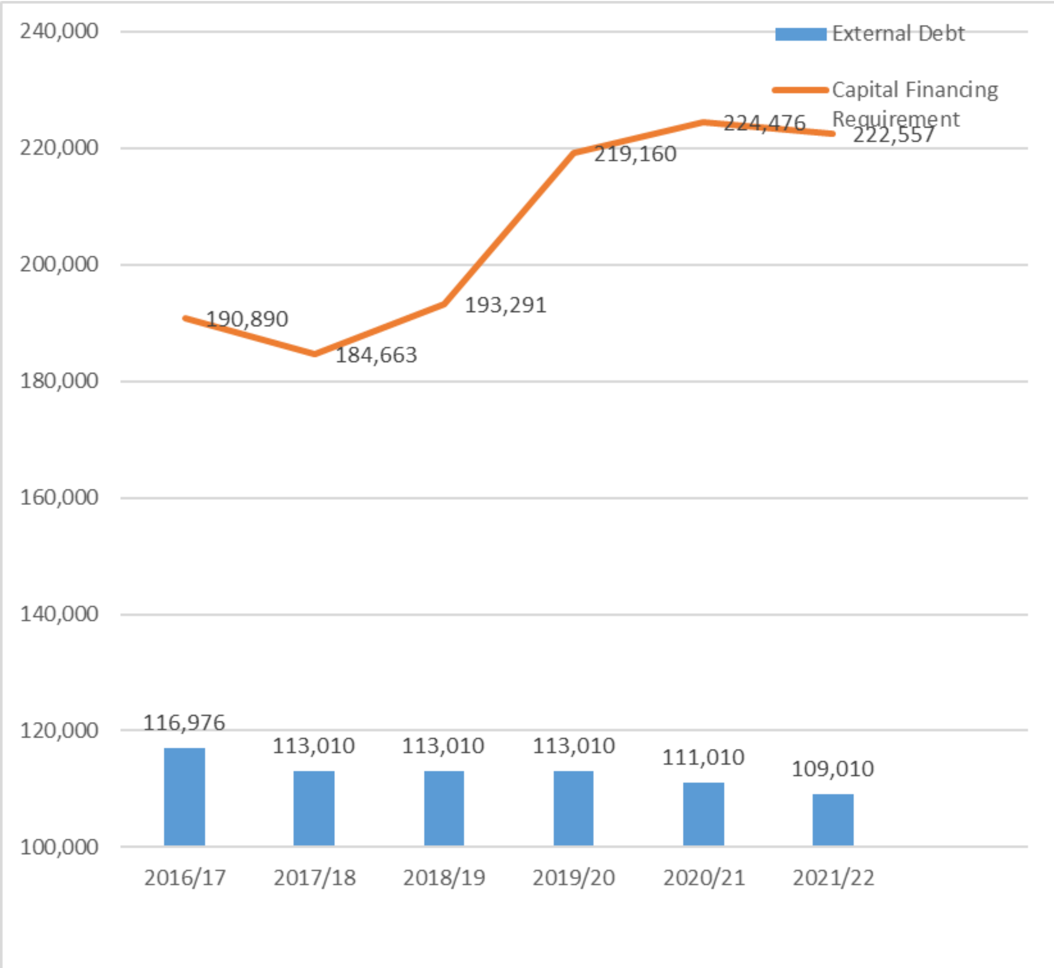
This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents a limit beyond which external borrowing must not go over in the 3 years, and this limit when set is to be revised annually by Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short-term, but is not sustainable in the longer term. (The operational boundary, plus headroom for unusual cash movements – Cipfa)

The Council is asked to approve the following authorised limit:

	Actual 2016/17 £000s	Estimate 2017/18 £000s	Estimate 2018/19 £000s	Estimate 2019/20 £000s	Estimate 2020/21 £000s	Estimate 2021/22 £000s
Operational Boundary	150,353	144,998	143,503	142,143	137,840	134,229
Headroom for unusual cash movements	53,377	80,000	90,000	100,000	100,000	100,000
Authorised Limit	203,729	224,998	233,503	242,143	237,840	234,229

Members are required to note that these authorised limits show the gross maximum borrowing for the year and, in year regulatory accounting changes which may affect the level of debt in the balance sheet as well as allow for any potential overdraft position and short-term borrowing for cashflow purposes. All of which will be counted against the overall borrowing. The authorised limit also provides headroom for any debt rescheduling which may occur during the year and any borrowing in advance of need.

The following graph shows projection of the CFR and borrowing.



Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council should ensure that its gross debt does not (except in the short term) exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

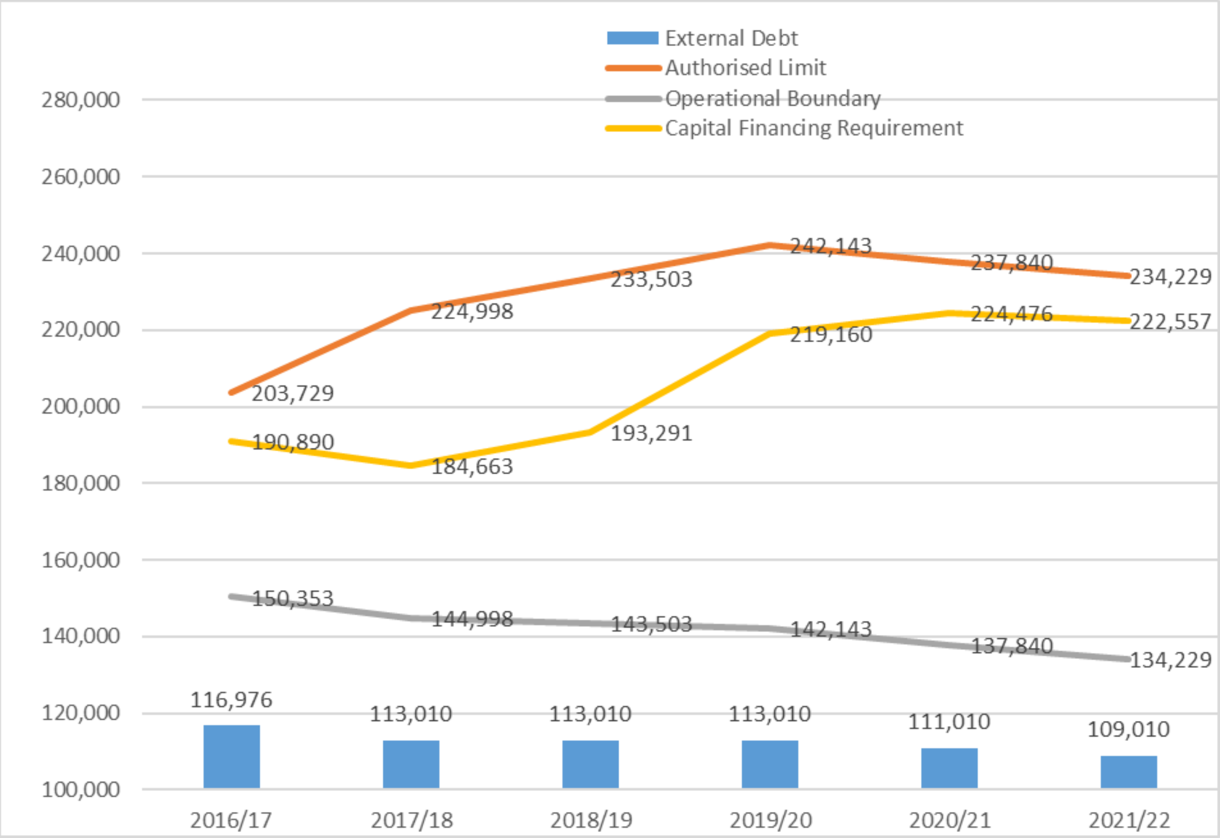
The Director of Corporate Services reports that the Council complied with this key prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget.

5.4 Treasury Management Limits on Activity

The table below shows the debt related treasury activity limits.

Members are asked to note that the maturity structure guidance changed in the CIPFA 2011 guidance notes for Lenders Option Borrowers Option (LOBO) Loans, the maturity dates is now deemed to be the next call date.

As interest rates begin to rise, it may be beneficial for the Council to go into some variable rate investments to avoid being locked into long-term investments at low rates in a period of rising interest rates or shorter duration borrowing to gain advantage of low rates.



The table below shows the fixed and variable interest rate exposure

	2017/18	2018/19	2019/20	2020/21	2021/22
Interest Rate Exposures	**Upper Estimate**	**Upper Estimate**	**Upper Estimate**	**Upper Estimate**	**Upper Estimate**
Upper limit for fixed interest rates based on net debt	100%	100%	100%	100%	100%
Upper limit for variable interest rates based on net debt	50%	50%	50%	50%	50%
Limits on fixed interest rates:					
• **Debt only**	100%	100%	100%	100%	100%
• **Investments only**	100%	100%	100%	100%	100%
Limits on variable interest rates					
• **Debt only**	50%	50%	50%	50%	50%
• **Investments only**	50%	50%	50%	50%	50%

The table below shows the Limits on the Maturity Structure of Borrowing

	Maturity Structure of fixed interest rate borrowing 2018/19			Maturity Structure of variable interest rate borrowing 2018/19		
	Actual at 05/12/2017	**Lower**	**Upper**	**Actual 05/12/2017**	**Lower**	**Upper**
Under 12 months	8.00%	0%	60%	0%	0%	50%
12 months to 2 years	0%	0%	60%	0%	0%	50%
2 years to 5 years	3.45%	0%	60%	0%	0%	50%
5 years to 10 years	23.59%	0%	80%	0%	0%	50%
10 years to 20 years	10.00%	0%	100%	0%	0%	50%
20 years to 30 years	14.39%	0%	100%	0%	0%	50%
30 years to 40 years	24.58%	0%	100%	0%	0%	50%
40 years to 50 years	15.99%	0%	100%	0%	0%	50%

Local Indicators

In setting the indicators below, the Council has taken into consideration investment risks and returns.

The table below shows target borrowing and investment rates

	2016/17 Actual %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Average Investment Target Return	0.78%	0.84%	0.75%	0.75%	1.00%	1.25%
Average Investment Target – Property Fund	n/a	3.5%	3.5%	3.5%	3.5%	3.5%
Long Term Borrowing Target						
• Current Portfolio	5.72%	5.72%	5.22%	5.22%	5.22%	5.22%

The average investment target return above is based on the expected target return for the stated periods.

5.5 Policy on Borrowing in Advance of Need

London Borough of Merton will not borrow more than, or in advance of its need, purely in order to profit from the investment of the extra sums borrowed.

Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance could be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 24 months in advance of need. Where possible rates will be locked using forward borrowing to reduce the risk of the Council holding cash in low interest rate environment.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. The probability of this happening is low.

However should the Council need to borrow in advance of need, then the following will apply.

Year	Maximum Borrowing in advance	Notes
2018/19	No more than 50% of under borrowing requirement	Borrowing in advance will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the period of the approved Medium Term Capital Programme, a maximum of 2 years in advance to reduce carrying costs.
2019/20	No more than 50% of under borrowing requirement	
2020/21	No more than 50% of under borrowing requirement	
2021/22	No more than 50% of under borrowing requirement	

5.6. Debt Rescheduling

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;

- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Cabinet, at the earliest meeting following its action.

The following table shows the maturity profile of the Council's current debt as at December 2017.

Duration	£'000	% of Debt Portfolio
less than 1 year	*10,000	8.13
1 - 2 years	0	0.00
2 - 5 years	4,000	3.25
5 -10 years	31,010	25.21
10 -15 years	0	0.00
15- 20 years	12,500	10.17
20 - 25 years	0	0.00
25-30 years	13,500	10.97
30 - 35 years	0	0.00
35-40 years	32,000	26.01
40 -45 years	20,000	16.26
45-50 years	0	0
Total	**123,010**	**100.00**

* Short term loans which are excluded from the analysis in other tables apart from the cashflow statement.

All of the Council's LOBOs are past their non call period, however, should all LOBOs be called at their next interest due date then the maturity profile will be as shown in the table below, an event which is very unlikely in the current low interest rate environment.

Duration	£'000	% of Debt Portfolio
less than 1 year	*61,000	49.59
1 - 2 years	0	0
2 - 5 years	0	0.00
5 -10 years	26,510	21.55
10 -15 years	0	0.00
15- 20 years	3,500	2.85
20 - 25 years	0	0.00
25-30 years	0	0.00
30 - 35 years	0	0.00
35-40 years	32,000	26.01
40 -45 years	0	0.00
45-50 years	0	0.00
Total	**123,010**	**100.00**

* £10m Short term loans which are excluded from the analysis in other tables apart from the cashflow statement.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:
* the generation of cash savings and / or discounted cash flow savings;
* helping to fulfil the treasury strategy;
* enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

The Council tests the markets for redemption opportunities should they exist. The PWLB loans portfolio was elected for the early redemption review as at December 2017. A total loan value of £52m would incur redemption costs of £25million in addition to any accrued interest due.

The high cost of early redemption is not economically viable in current markets. However there may be cases where the Council is able to negotiate with the counterparty (**Appendix 1**).

The Director of Corporate Services will continue to review and identify any potential for making savings and provide Cabinet with updates when such opportunities arise. Any rescheduling activity will be reported to Cabinet at the earliest meeting following the transaction.

Use of Derivatives
The Council may use derivatives for risk management purposes in line with relevant statutory powers, recommended accounting practices and legal opinions on the use of derivatives by Local Authorities in the UK.

5.7 Borrowing Options

The Council will use a number of borrowing sources. These include the Public Works Loans Board (PWLB maturity, EIP or annuity loans), Market loans, Municipal Bond Agency, Retail Bonds, Loans from other Local Authorities and temporary loans. It is hoped that borrowing rates will be lower than those offered by the PWLB. The Council intends to make use of this new source of borrowing as and when appropriate.

5.8 Changes Which May Affect Treasury Management

- Future Regulatory Changes to Money Market Fund Valuation

Proposed EU legislative changes will require money market funds with constant net asset value to change to variable net asset value. This will mean that investors in the fund will be liable for their share of losses as a result of counterparty failure. Consultation continues on the expected changes.

- Proposed Changes to Leasing

Future changes to accounting for leasing may mean that the cost of service will increase along with increases in MRP and CFR which will affect the Council's underlying borrowing requirement. It is anticipated that there may be some impact on both capital and revenue income and the changes will require all leases to be included on the balance sheet and be measured on PV of future lease payments. The new lease standard (IFRS 13) issued in 2015 is not anticipated to be adopted until 2019/20.

- Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

- Future Challenges to Local Government Funding

Future challenges to local government funding and their effect on cash flow remains a challenge.

6. ANNUAL INVESTMENT STRATEGY

6.1 Investment Policy

London Borough of Merton's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

6.2 Investment Strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations
Bank Rate is forecast to stay flat at 0.50% until Q4, 2018 and not to rise above 1.25% by Q1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

6.3 Alternative Investment Instruments

The Council has in the past restricted its treasury activities to simple investment structures like fixed deposits and money market funds.

However, in the current market, regulatory and economic environment, the Council may be required to utilise various instruments. **Appendix 5** of this report gives a detailed overview of the types of instrument and investment options available to the Council.

The global financial crisis of 2008 led to a major overhaul of regulation, market practices and financial institutions across the world. The changes have been aimed at promoting greater transparency and investor confidence.

Some of these measures include more institution-level regulatory changes like stringent capital, leverage and liquidity requirements in addition to The European Union (EU) Directives on Bank Recovery and Resolution (BRRD) and Deposit Guarantee Schemes (DGSD) among a few are key in this reform. Although these changes are ultimately designed to make financial systems more robust, they are not expected to have a fundamental impact on insolvency creditor hierarchy.

Although the Council does not expect a fundamental change in type of instruments it uses in the delivery of its treasury management activities, a number of new instruments have been included to provide flexibility should there be changes in the economic environment which may warrant their use.

As with any investment, there are varying degrees of risk associated with each instrument or investment options.

Should the Council decide to invest in any asset class a comprehensive analysis will be conducted to understand the associated risk and each instrument will be signed off by the Director of Corporate Services prior to any activity.

6.4 Investment Treasury Indicator and Limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

	31 Dec 2017 Actual £'m	**2017/18 Estimate £'m**	**2018/19 Estimate £'m**	**2019/20 Estimate £'m**	**2020/21 Estimate £'m**	**2021/22 Estimate £'m**
Estimated Principal sums invested greater than 364 days	5m	18m	40m	40m	30m	30m

In addition to fixed deposits, a number of other financial instruments like Property funds will fall under the category of investments with duration exceeding 364 days. In addition to using money market funds, call accounts and notice accounts, the Council will seek to utilise other liquid and transferable instruments like certificate of deposits and gilts for its cashflow balances.

6.5 Use of Specified and Non-Specified Investments
Investment instruments identified for use in the financial year are as follows:

Specified Investments
These are sterling investments of not more than one-year maturity, or those which could be for a longer period where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended with:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- The investment is not a long-term investment;
- The making of the investment is not defined as capital expenditure]; and
- The investment is made with a body or in an investment scheme of high credit quality or with one of the following public-sector bodies:
  - The United Kingdom Government;
  - A local authority in England or Wales (as defined under section 23 of the 2003 Act).

Non-Specified Investments
Non-Specified investments are defined as those not meeting the above criteria and exceeding 365 days in duration.

6.6 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change

Revenue Pressures – 0.1% improvement on £20m is £20k income generated and the cost of no risk is lost revenue therefore risks must be balanced to the Council's risk appetite.

Security - The Council's maximum security risk benchmark for the current portfolio:

- Liquidity – in respect of this area the Council seeks to maintain:
  - Bank overdraft - £1m
  - Liquid short-term deposits of around £5m or more available with one day access.

6.7 Risk Management and Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services (formerly Capita Asset Services). This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks	yellow	£35m	5yrs
Banks	purple	£25m	2 yrs
Banks	orange	£25m	1 yr
Banks – part nationalised	blue	£25m	1 yr
Banks	red	£10m	6 mths
Banks	green	£5m	100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker	Lloyds bank	£5m	1 day
Other institutions limit	-	£5m	1yrs
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£5m	1yrs
	Fund rating	Money Limit	Time Limit
Money market funds	AAA	£35m	Instant
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£25m	Instant
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m	Instant

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

6.8 Country and Sector Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 3**. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

6.9 Banking Arrangements

The Council's bankers are Lloyds bank. The Council's bank accounts include some school accounts and client bank accounts managed as part of its Appointeeship role for residents that require this support. All schools are responsible for the management of their bank accounts.

From time to time the Council may open bank accounts with other banks for specific reasons, subject to approval by the Director of Corporate Services.

6.10 Lending to Community Organisations, Other Third Parties and RSLs - Any loans to or investments in third parties will be made under the Well Being powers of the Council conferred by section 2 of the Local Government Act 2000 or Localism Act of 2011.

The Well Being power can be exercised for the benefit of some or all of the residents or visitors to a local authority's area. The power may also be used to benefit organisations, schools, local enterprises, local companies or even individuals. Loans of this nature will be under exceptional circumstances and must be approved by Cabinet or by delegated authority to the Director of Corporate Services. Authorisation from the Financial Conduct Authority (FCA) will also be sought where applicable.

Where it is deemed necessary, additional guarantees will be sought. This will be via security against assets and/or through guarantees from a parent company. The Council will also consider other factors like the statutory powers in place, reasonableness of the investment, FCA, objective and revenue earnings for the Council, MRP requirements, accounting issues and categorisation of the expenditure as capital or revenue.

In other instances, the Council may receive soft loans from government agencies.

6.11 Non-Treasury Investment Lending
The Council may be required to make policy investments for the good of its community by lending to local organisations and in some cases schools. Legal agreements are drawn which stipulate the terms of the loan which includes the ability of the organisation to make repayments. The Council may also lend to its wholly owned companies.

6.12 Comparative Reviews - The Council participates in various comparative and benchmarking clubs.

7. Cashflow Management

7.1 CIPFA requires all monies to be under the control of the responsible officer and for cashflow projections to be prepared on a regular and timely basis. Cashflow provides outline of operations. Actuals and forecast are recorded using Logotech systems. At the end of each day the net receipts and payments is either invested or borrowed to ensure that the Council's bank account is kept at a minimum.

Forecasts are based on best estimates which may slip due to unforeseen circumstances and the nature of large projects. The Council can borrow in advance of need if rates fall and borrowing becomes a lot more advantageous than it currently is.

7.2 Purchase and Corporate Credit Cards

The use of corporate credit cards like other accounts payable methods carries significant risks. The Director of Corporate Services is responsible for ensuring that the Council has appropriate controls in place to protect the Council's funds.

8. Policy on the use of External Service Providers

The Council recognises CIPFA's guidance on Treasury Management that the responsibility for Treasury Management cannot be delegated outside the authority and recognises that any external service provider used by the Council is to support the in-house Treasury Management function. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. The Council is aware of the CIPFA Treasury Management Advisors Regulation and Services issued in March 2010.

The Council is also mindful of the requirements of the Bribery Act 2011 as amended in its dealings with external providers. A copy of the Council's policy can be found in the link below.
http://www.merton.gov.uk/democratic_services/w-agendas/w-nonexecreports/1115.pdf

9. Training

A key outcome of the recent investigations into Local Authority investments is the need to ensure that all relevant Treasury Management staff receive appropriate training and knowledge in relation to these activities. Training is provided in-house on the job, via CIPFA seminars and training courses, treasury adviser seminars and training courses and sometimes counterparties conduct training. In addition, members of the team attend national forums and practitioner user groups.

10. The Localism Act

10.1 A key element of the Act is the “General Power of Competence”: “A local authority has power to do anything that individuals generally may do.” CIPFA emphasise that where the legality of the use of derivatives is confirmed, then there is a need for a framework for their use. The Council currently does not use derivatives. Should the need for the use of derivatives arise as a requirement for managing its interest rate exposure or hedging its investments, the Council will take legal advice and report to members before use.

11. Treasury Management Practices

11.1 The 2011 Code reinforces a framework of 12 Treasury Management practices (TMPs), which define the manner in which authorities seek to achieve the policies and objectives outlined in their Treasury Management policy statement. The Council’s detailed Treasury Management practices approved in March 2012/13 can be found on the Council’s intranet. An updated version is included as **Appendix 5**

12. Appendices

12.1 Appendix 1– Early Repayment of Debt Estimate

Appendix 2 – Policy Investments (Non-Treasury Management Investments)

Appendix 3 – Approved Countries for Investment

Appendix 4 – The Treasury Management Role of the S151 Officer

Appendix 5 – Treasury Management Practices 2018/19

Appendix 6 – Prudential Indicators for 2017/18 to 2020/21

Appendix 7 – Glossary

Appendix 8 – Cashflow Forecast

13. Background Papers

- CIPFA Prudential Code for Capital Finance in Local Authorities 2013 Edition
- 2017/18 Treasury Management Strategy report
- The Guide to Local Government Finance (2013 Edition) Module 4: Treasury Management
- CIPFA Practical Considerations in Using Financial Instruments to Manage Risk in the Public Sector
- London Borough of Merton Capital Strategy 2018/22

APPENDIX 1 – Early Repayment of Debt Estimates for a Selection of Debt

PWLB loan Early Redemption Estimates at 30 November 2017

Internal Reference No.	Lender	Last Date Interest was Paid	Loan Start Date	Loan Term (yrs)	Loan Maturity Date	Loan Principal Outstanding (£)	Loan Rate (%)	Term left on Loan (Yrs)	Next Interest Due Date	Discount Rate (%)	Accrued Interest to 30 Nov 2017 (£)	Premium/ Discount (£)	Total Due (£)
1000484711	PWLB	31/10/2017	13/11/2000	24	31/10/2024	5,000,000	5.000	6.9	30/04/2018	0.89	28,767.12	1,369,386.87	6,398,153.99
1000484981	PWLB	31/10/2017	30/11/2000	24	31/10/2024	1,500,000	4.750	6.9	30/04/2018	0.89	8,198.63	385,827.25	1,894,025.88
1005489969	PWLB	20/11/2017	20/05/2005	30	20/05/2035	2,500,000	4.450	17.4	20/05/2018	1.69	6,705.48	1,038,441.13	3,545,146.61
1005490706	PWLB	21/11/2017	21/11/2005	26	21/11/2031	1,000,000	4.250	13.9	21/05/2018	1.51	2,445.21	343,322.01	1,345,767.22
1005490967	PWLB	25/07/2017	10/01/2006	50	25/07/2055	10,000,000	3.950	37.6	25/01/2018	1.64	151,506.85	6,465,579.57	16,617,086.42
1005490976	PWLB	25/07/2017	10/01/2006	50	25/07/2055	5,000,000	3.950	37.6	25/01/2018	1.64	75,753.42	3,232,789.79	8,308,543.21
1006491475	PWLB	28/10/2017	28/04/2006	45.5	28/10/2051	7,000,000	4.400	33.8	28/04/2018	1.71	37,972.60	4,826,644.11	11,864,616.71
1097480120	PWLB	30/09/2017	15/10/1997	25.5	31/03/2023	310,000	6.625	5.3	31/03/2018	0.72	4,107.50	95,019.86	409,127.36
1097480121	PWLB	30/09/2017	15/10/1997	26.5	31/03/2024	12,000,000	6.500	6.3	31/03/2018	0.83	156,000.00	4,167,798.32	16,323,798.32
1097480232	PWLB	30/09/2017	11/11/1997	26.5	31/03/2024	1,700,000	6.750	6.3	31/03/2018	0.83	22,950.00	616,471.52	2,339,421.52
1098480925	PWLB	31/10/2017	30/04/1998	26	30/04/2024	6,000,000	5.875	6.4	30/04/2018	0.83	40,561.64	1,878,553.71	7,919,115.35
						52,010,000					534,968.45	**24,419,834.14**	76,964,802.59

APPENDIX 2 – Policy Investments (Non-Treasury Management Investments)

Type	Duration	
Joint Development Companies	One month to 10 years	Subject to specific terms
Loans to Registered Landlords	One month to 5 years	Subject to specific terms
Open Loan Facility to RCL’s with an affiliation with Merton	One month to 5 years	Subject to specific terms
Loans to wholly owned companies	One month to 30 years	Subject to specific terms
Loan to any other type of organisation	One month to 10 years	Subject to specific terms

APPENDIX 3 – APPROVED COUNTRIES FOR INVESTMENTS (as at 30 November 2017)

Below is the current list of approved countries for investments for use by the Council's treasury team. The countries on the Council's approved list may change from time to time as Sovereign ratings change.

This list is based on those countries which have sovereign ratings of AA- or higher and also, (except - at the time of writing - for Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

APPENDIX 4

Treasury Management Role of the Section 151 Officer

The S151 Officer (Director of Corporate Services)

- recommending clauses, Treasury Management policy / practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of Treasury Management external service providers.
- Approval of appropriate money market funds for the Council to invest in.

APPENDIX 5

LONDON BOROUGH OF MERTON
TREASURY MANAGEMENT PRACTICES 2018/19

TMP 1: RISK MANAGEMENT

The Director of Corporate Services – the responsible officer will implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy / suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Policy on the use of credit risk analysis techniques

- The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- Credit ratings will be used as supplied from all three rating agencies - Fitch, Moody's and Standard & Poor's.
- Treasury management consultants will provide regular updates of changes to all ratings relevant to the Council.
- The treasury manager will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

1.2 Liquidity Risk Management

The Council will ensure it has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it, at all times, to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The treasury management team shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim. At the end of each financial day any unexpected surplus funds are transferred to the main bank account.

Bank overdraft arrangements – A £1 million net overdraft at 2% over base rate on debit balances has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts. Separate facilities are available for the Pension Fund bank account.

a. Short-term borrowing facilities
   The Council accesses temporary loans through approved brokers on the London money market.
b. Special payments
   Where an urgent clearing house automated payment system (CHAPS) payment is required, a CHAPS payment request form must be completed and forwarded to the Head of Transactional Services who then checks for correct required signatures and supporting paperwork. Further guidance can be found on the Council's intranet.

c. Inter account transfer
   From time to time, transactions occur between the Pension Fund and the Council. Reimbursement where necessary is by inter-account transfers between both bank accounts.

1.3 Interest Rate Risk Management and use of Derivatives

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

The Council does not use derivatives, the Council's S151 Officer will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives when used will be clearly stated to members. The treasury management strategy has full details of interest rate exposure limits.

Policies concerning the use of instruments for interest rate management.

- Forward Dealing

  Consideration will be given to dealing for forward periods depending on market conditions. When forward dealing is more than a 364 day period forward, the approval of the Director of Corporate Services is required.

- Callable Deposits

  The council may use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

Policy on Use of Lender's Option Borrower's Option (LOBO) Loans

LOBOs give the lender the option to propose an increase in the interest rate at pre-determined dates, and the borrower, the option to accept the new rate **or** redeem the loan without penalty.

Use of LOBOs is considered as part of the Council's annual borrowing strategy. All long-term borrowing must be approved by the S151 Officer.

1.4 Exchange Rate Risk Management

Occasionally, the Council has to make foreign exchange payments, the Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure.

1.5 Refinancing Risk Management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies raised are managed, with a view to obtaining offer terms at renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage the relationships with counterparties in such a manner as to secure the above objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for rescheduling include:

a) to generate cash savings at minimum risk;
b) to reduce the average interest rate; and
c) to amend the maturity profile and/or the balance of volatility of the debt portfolio

Any rescheduling will be reported to the Council at the meeting immediately following the action.

1.6 Legal and Regulatory Risk Management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 1.1 Credit and Counterparty Risk Management, it will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.
The Council will ensure that its treasury management activities comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council.

The Council's powers to borrow and invest are contained in the Local Government Act 2003, section 12 and Local Government Act 2003, section 1. The treasury management scheme of delegation is contained in the Corporate Services Scheme of Delegation. This document contains the officers who are authorised signatories. The Council's monitoring officer is the Assistant Director Corporate Resources while the S151 Officer is the Director of Corporate Services.

1.7 Fraud, Error and Corruption, and Contingency Management

Treasury tasks are segregated and adequate internal checks have been implemented to minimise risks and fraud. Procedures are documented and staff will not be allowed to take up treasury management activities until they have had proper training and are subject to an adequate and appropriate level of supervision.

Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out. Periodic backups will be made to ensure contingency of systems is available.

Details of Systems and Procedures to be Followed, Including Internet Services

The Council uses Logotech Treasury systems as its treasury management recording tool.

- The Corporate Services Scheme of Delegation sets out the delegation of duties to officers and the Council's constitution details delegated authority of treasury management to the Section 151 Officer.
- All loans and investments are negotiated by the Treasury Manager or other authorised persons.
- All long-term loans must be authorised by the Section 151 Officer.

1.8 Market Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect it from the effects of such fluctuations. This is controlled mainly by setting limits on investment instruments where the principal value can fluctuate. The limits are detailed in the Treasury Management Strategy

TMP 1: SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

This is included in the Treasury Management Strategy.

TMP 2: PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

Periodic Review During the Financial Year

The Director of Corporate Services will hold treasury management review meetings with the Treasury Manager, periodically or as required to review actual activity against the Treasury Management Strategy Statement (TMSS) and cashflow forecasts. This will include:

- Total debt (both on-and off- balance sheet) including average rate and maturity profile.
- Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.
- Cashflow forecast against the actual.

Annual Review After the end of the Financial Year

Annual Treasury Report will be submitted to the Full Council each year after the close of the financial year.

Comparative Review

Each year or on a quarterly basis, comparative review is undertaken to see how the Council's performance on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are set locally). Such reviews are: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- CIPFA Risk Study
- Other

2.2 Benchmarks and Calculation Methodology

2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

2.2.2 Investment

The performance of investment earnings will be measured against any of the following benchmarks:

- In-house benchmark and when necessary other benchmarks such as Bank of England base rate, 7-day LIBID uncompounded, 7-day LIBID compounded weekly, 1-month LIBID and 3-month LIBID compounded quarterly

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers using the CIPFA treasury management benchmark service.

2.3 Policy Concerning Methods for Testing Value-for-money in Treasury Management

The process for advertising and awarding contracts will be in-line with the Council's Contract Standing Orders and procurement guidelines.

2.3.1 Money-broking Services

From time to time, the Council will use money-broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of firm of brokers is maintained by the Treasury Manager. The list takes account of both prices and quality of service. No firm of brokers will be given undue preference.

2.3.2 Consultants / Advisers Services

The Council's treasury management adviser is Link Asset Services (formerly Capita Asset Services).

TMP 3: DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques

3.1.1 Records to be kept

The following records will be retained:

- Daily cash balance forecasts for the day and previous day
- Money market deal booking and deal approval confirmation emails
- Dealing slips for all investment and borrowing transactions

- Brokers' confirmations for all investment and temporary borrowing transactions made through brokers
- Confirmations from borrowing / lending institutions including money market fund portals
- PWLB loan confirmations
- PWLB interest due schedule
- Certificates for market loans, local bonds and other loans
- Deal confirmation letters for deals over one month
- Banking and other contract documents which the treasury team has responsibility for.

3.1.2 Processes to be pursued

- Cashflow analysis
- Debt and investment maturity analysis
- Ledger/Logotech/Bank reconciliations
- Review of counterparty limits in addition to monitoring of counterparties
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc)
- Treasury contracts management

3.1.3 Issues to be addressed

3.1.3.1 In respect of all treasury management decisions made the Council will:

a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
d) Ensure that third parties are judged satisfactory in the context of the council's creditworthiness policies, and that limits have not been exceeded
e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive; and
f) Ensure that adequate investigation on security of the Council's funds has been conducted

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

a) Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
b) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, use of reserves, leasing and private partnerships; and
d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.1.3.3 In respect of investment decisions, the Council will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions; and
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital

TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- Managing cash flow;
- Banking activities;
- Use of external fund managers (other than Pension Fund)
- Leasing;
- Undertaking all treasury management activities for the Pension Fund including its strategy setting.

4.2 Approved Instruments for Investments

English and Welsh authorities: The Annual Investment Strategy has a list of approved instruments.

4.3 Approved Techniques

- Forward dealing
- LOBOs – Lender's Option, Borrower's Option borrowing instrument
- Structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Bonds administered by the Municipal Bond Agency	●	●
Stock issues	●	●
Local (temporary)	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing
Government and EC Capital Grants
Lottery monies
PFI/PPP
Operating and Finance leases
Revenue Contributions

Borrowing will only be done in British Pound Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Corporate Services has delegated powers in accordance with Financial Regulations, Standing Orders and Scheme of Delegation to Officers to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

The Treasury Management Strategy Statement and Prudential and Treasury Indicators state all appropriate limits.

TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 Allocation of Responsibilities

(i) Council (Budget)

- Receiving and reviewing reports on treasury management policy, practice and activity; and
- Approval of annual strategy

(ii) Cabinet

- Approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practice;
- Budget consideration and approval;
- Approval of the division of responsibilities; and
- Receiving and reviewing regular monitoring reports and acting on recommendations.

(iii) Overview and Scrutiny Commission (Financial Monitoring Task Group)

- Reviewing all treasury management reports and making recommendations to the Cabinet

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties are undertaken by separate officers: -

Tasks	Duties	Responsible Officer
Dealing	• Negotiation and approval of deal	Treasury manager
	• Entering of deal into Logotech	Treasury manager/ Fund officer
	• Sending confirmation letter to counterparty (to be signed by authorised signatory)	Treasury manager/Fund officer
	• Checking of brokers and counterparty confirmation notes against Logotech	Fund officer
	• Reconciliation of FMIS Codes and reconciliation to bank statement	Fund officer
	• Sign off of reconciliations	Treasury manager Fund officer

Accounting Entry	• Processing of accounting entry into FMIS (bank reconciliation team)	Bank reconciliation team
Authorisation / Payment of Deal	• Inputting CHAPS on Lloyds link • Approval of CHAPS on Lloyds link and CHAPS form authorisation	Treasury manager/Fund officer Authorisers per bank mandate

5.3 Statement of the Treasury Management Duties/Responsibilities of Each Treasury Post

5.3.1 Responsible Officer

The Responsible Officer is the person charged with professional responsibility for the treasury management function and in this Council it is the Director of Corporate Services and is also the S151 Officer   This person or delegated persons will carry out the following duties: -

a) Recommending clauses, treasury management policy / practices for approval, reviewing the same regularly, and monitoring compliance
b) Submitting regular treasury management policy reports
c) Submitting budgets and budget variations
d) Receiving and reviewing management information reports
e) Reviewing the performance of the treasury management function
f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
g) Ensuring the adequacy of internal audit, and liaising with external audit
h) Recommending the appointment of external service providers.
i) The Responsible Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The Responsible Officer may delegate her power to borrow and invest to members of her staff. The Treasury Manager, the fund officer. Treasury management team staff must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave / sickness.
k) The Responsible Officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that

the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.3.2 Treasury Manager

The responsibilities of this post will be: -

a) Drafting the treasury management strategy and annual report
b) Execution of transactions
c) Adherence to agreed policies and practices on a day-to-day basis
d) Maintaining relationships with counterparties and external service providers
e) Supervising treasury management staff
f) Monitoring performance on a day-to-day basis
g) Submitting management information reports to the Responsible Officer; and
h) Identifying and recommending opportunities for improved practices

5.3.3 Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented; and
b) Ensuring that the Responsible Officer reports regularly to the full Council / Cabinet or General Purpose Committee on treasury policy, activity and performance.

5.3.4 Monitoring Officer

The responsibilities of this post will be: -

a) Ensuring compliance by the Responsible Officer with the treasury management policy statement and treasury management practice and that they comply with the law
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice; and
c) Giving advice to the Responsible Officer when advice is sought

5.3.5 Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practice
b) Reviewing division of duties and operational practice
c) Assessing value for money from treasury activity; and
d) Undertaking probity audit of the treasury function

5.4 Absence Cover Arrangements

Cover for treasury management staff will be to specific delegated staff.

5.5 Dealing Limits

- No investment deal must exceed £5million per transaction
- No borrowing deal at any point in time must exceed £10 million except when existing loans are being repaid.

5.6 List of Approved Brokers

A list of approved brokers is maintained by the Treasury team and a record of all transactions conducted with them can be obtained from Logotech.

Policy on Brokers' Services
It is the Council's policy to rotate business between brokers.

5.7 Policy on Taping of Conversations

The Council currently does not tape conversations with brokers **but** ensures that confirmations are received from counterparties.

5.8 Direct Dealing Practices

The Council will deal direct with counterparties if it is appropriate and the Council believes that better terms will be available. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts
- Call Accounts
- Money Market Funds
- Gilt/CD purchase via custodian; and
- Fixed period account e.g. 15-day fixed period account

5.9 Settlement Transmission Procedures

A confirmation letter signed by an authorised signatory per the Council's bank mandate must be sent to the counterparty if the deal period exceeds one month. Copy of forms folder located in H:/techaccy/treasury/Daily Treasury for PF
For payments, any transfer to be made via Lloyds link CHAPS system must be completed by 2.00 p.m. on the same day to ensure it is authorised. Money market funds may have earlier cut-off time/deadlines.

5.10 Documentation Requirements

For each deal undertaken, a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker and confirmation fax, email or letter.

5.11 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds, appointeeship and custody bank accounts. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded.

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the cabinet and then to the Council (budget) for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) Current Treasury portfolio position
   c) Borrowing requirement
   d) Prospects for interest rates
   e) Borrowing strategy
   f) Policy on borrowing in advance of need
   g) Debt rescheduling
   h) Investment strategy
   i) Creditworthiness policy
   j) Policy on the use of external service providers
   k) Any extraordinary treasury issue
   l) MRP strategy

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives.

6.2 Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

a) The Council's risk appetite in respect of security, liquidity and optimum performance
b) Which specified and non specified instruments the Council will use
c) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
d) Which credit rating agencies the Council will use
e) How the Council will deal with changes in ratings, rating watches and rating outlooks

f) Limits for individual counterparties and group limits
g) Country limits
h) Levels of cash balances
i) Interest rate outlook
j) Budget for investment earnings
k) Policy on the use of external service providers

6.3 Annual Minimum Revenue Provision Statement

This statement sets out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.4 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The Responsible Officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Responsible Officer shall submit the changes for approval to the full Council.

6.5 Other Reporting

- Annual report on treasury management activity
- Other management information reports

TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory / Regulatory Requirements

The accounts are drawn up in accordance with IFRS. The Council has adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to the Council's treasury management activity.

TMP 8: CASH AND CASHFLOW MANAGEMENT

8.1 Arrangements for Preparing Cashflow

Cashflow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous year's cashflow records, adjusted for known changes in levels of income and expenditure, new grant allocations and changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known. Logotech is used to record cashflow.

8.2 Bank Statements Procedures

The Council receives daily bank statements on a daily basis, download into the folder below. Estimates on Logotech cashflow is updated with actuals from bank statement. **H:\TECHACCY\TREASURY\Daily Treasury for GF General Fund Daily**

TMP 9: MONEY LAUNDERING

9.1 Proceeds of Crime Act 2002 and Amendments

See Council's website and intranet for money laundering process and associated policies
http://intranet/anti_money_laundering_policy.pdf

9.2 The Terrorism Act 2000 and Amendment order

See Council's website and staff intranet on policy. Staff should note that all individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

9.3 The Money Laundering Regulations 2007 and Updates

The Council's money laundering officer is the Head of Audit. See Council's website and intranet for details http://intranet/anti_money_laundering_policy.pdf

Treasury management and banking staff are required to familiarise themselves with all money laundering regulations.

9.4 Procedures for Establishing Identity / Authenticity of Lenders

It is not a requirement under Proceeds of Crime Act (POCA) for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, the Council does not accept loans from individuals except during a bond issue.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on **www.fca.gov.uk**.

9.5 Methodologies for identifying Deposit Takers

Other than those organisations mentioned in para section 6.10 and Appendix 2 of the treasury strategy, in the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list.

These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA Register can be accessed through their website on www.fca.gov.uk.

All transactions will be carried out by CHAPS, faster payments or BACS for making deposits or repaying loans.

TMP 10: TRAINING AND QUALIFICATIONS

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time.
In addition, training may be provided on-the-job, and it is the treasury manager's responsibility to ensure that treasury management staff receive appropriate training.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by the Council's treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

Staff will keep records on their training.

10.3 Member Training Record

Member training will be provided as required.

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Custodian Banks, Consultants, Advisers

This Council may employ the services of other organisations to assist it in the field of treasury management. However, it will ensure that it fully understands what services are being provided and that they meet the needs of the Council, especially in terms of being objective and free from conflicts of interest.

11.1.1 Banking Services

a) The Council's supplier of banking services is Lloyds Bank. The bank is an authorised banking institution authorised to undertake banking activities in the UK by the FCA
b) The branch address is:
Lloyds Banking Group
25 Gresham Street, London
EC2V 7HN

11.1.2 Money-Broking Services

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers.

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

The Council receives mail shots on credit ratings, economic market data and borrowing data. In addition, interest rate forecasts, annual treasury management strategy templates, and from time to time, the Council may receive advice on the timing of borrowing, lending and debt rescheduling. The performance of consultants will be reviewed by the treasury manager to check whether performance has met expectations.

11.1.4 Custodian Banks

The Council will use the services of custodian banks when trading in most transferable instruments like treasury bills. Due procurement process will be followed in the procurement of this service. It should be noted that it is the borrower that pays in most cases and not the lender. Property fund on the other hand do not require custody services, the investor pays all fee.

11.1.5 Credit Rating Information

The Council receives notifications of credit ratings from Link Asset Services.

11.2 Procedures and Frequency for Tendering Services

See TMP2

TMP 12: CORPORATE GOVERNANCE

12.1 List of Documents to be Made Available for Public Inspection

a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. The Council has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

APPENDIX 6

PRUDENTIAL INDICATORS FOR 2017/18 TO 2021/22

PRUDENTIAL INDICATORS	**2017/18 Probable Outturn £'000**	**2018/19 Forecast £'000**	**2019/20 Forecast £'000**	**2020/21 Forecast £'000**	**2021/22 Forecast £'000**
1 CAPITAL EXPENDITURE					
a) Capital Expenditure (includes expenditure funded by supported, unsupported borrowing and other sources)					
i) General Fund estimated as at 22/12/17 (Net of Leasing)	31,515	48,197	38,121	17,319	12,226
Total as at 22/12/17	**31,515**	**48,197**	**38,121**	**17,319**	**12,226**
b) In year Capital Financing Requirement (CFR)					
i) General Fund (Gross of MRP costs)	237	13,987	32,953	13,495	6,986
Total in year CFR	**237**	**13,987**	**32,953**	**13,495**	**6,986**
c) Capital Financing Requirement as at 31 March (Balance Sheet figures)					
i) General Fund (Net of MRP costs)	184,663	193,291	219,160	224,476	222,557
Total	**184,663**	**193,291**	**219,160**	**224,476**	**222,557**
2 AFFORDABILITY					
a) Ratio of Financing Costs to net Revenue Streams					
i) General Fund	10.34%	9.58%	11.55%	12.34%	12.50%
b) General Fund Impact of Prudential (Unsupported) Borrowing on Band D Council Tax Levels (per annum)					
i) In year Increase £	(52.35)	(19.94)	34.12	7.84	6.86
ii) Cumulative Increase (includes MRP costs) £		(72.29)	(38.17)	(30.32)	(23.46)

APPENDIX 6

PRUDENTIAL INDICATORS FOR 2017/18 TO 2021/22 Continued…..

PRUDENTIAL INDICATORS	2017/18 Probable Outturn £'000	2018/19 Forecast £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000
3 LONG-TERM EXTERNAL DEBT					
a) Debt Brought Forward 1 April	116,976	113,010	113,010	113,010	111,010
Debt Carried Forward 31 March	113,010	113,010	113,010	111,010	109,010
Additional Borrowing	(3,966)	0	0	(2,000)	(2,000)
b) Operational Boundary for External Debt (Excludes Revenue Borrowing)					
i) External Debt 31 March	113,010	113,010	113,010	111,010	109,010
ii) Other Long-term Liabilities	31,988	30,493	29,133	26,830	25,219
c) Total Operating Boundary (Excludes Revenue Borrowing)	144,998	143,503	142,143	137,840	134,229
Add margin for cashflow contingency	80,000	90,000	100,000	100,000	100,000
Affordable Borrowing Limit (Includes Revenue Borrowing)	224,998	233,503	242,143	237,840	234,229
Authorised Limit for External Debt (Includes Revenue Borrowing)					
- Gross Debt 31 March	144,998	143,503	142,143	137,840	134,229
- Headroom for Unusual Cash Movements	80,000	90,000	100,000	100,000	100,000
Authorised Borrowing Limit	**224,998**	**233,503**	**242,143**	**237,840**	**234,229**
4 TREASURY MANAGEMENT					
a) Borrowing Limit – Upper Limit for Fixed Interest Rate Exposure Expressed as:					
Net Principal re Fixed Rate Borrowing/Investments	224,998	233,503	242,143	237,840	234,229
b) Borrowing Limit – Upper Limit for Variable Interest Rate Exposure Expressed as a %:					
Net Principal re Variable Rate Borrowing/ Investments	50%	50%	50%	50%	50%
c) Lending Limit – Upper Limit for Total Principal Sums Invested for Over 364 Days Expressed as a % of Total Investments	50%	50%	50%	50%	50%

APPENDIX 6

PRUDENTIAL INDICATORS FOR 2017/18 TO 2021/22 Continued…..

	LOWER LIMIT	UPPER LIMIT
d) Maturity Structure of new Fixed Rate Borrowing, if Taken During 2018/19		
i) Under 12 Months	***0***	*10%*
ii) 12 Months to 24 Months	***0***	*20%*
iii) 24 Months to 5 Years	***0***	*30%*
iv) 5 Years to 10 Years	***0***	*40%*
v) 10 Years and Above	***0***	*100%*

APPENDIX 7

GLOSSARY OF TREASURY MANAGEMENT TERMS

Accrued Interest
Any interest that has accrued since the initial purchase or since the last coupon payment date, up to the date of sale/purchase

Basis Point
One hundredth of 1% e.g. 0.01%

Certificate of Deposit (CD)
A Tradable form of fixed deposit. They can be sold before maturity via the secondary market at a rate that is negotiable. Often issued by banks and Building Societies in any period from 1 month to 5 years.

Coupon
The total amount of interest a security will pay on a yearly basis. The coupon payment period depends on the security.

Covered Bond
Covered bonds are conventional bonds (fixed or floating) issued by financial institutions that are backed by a separate group of loans, usually prime residential mortgages or public sector loans.

Credit Rating
A measure of credit worthiness of a borrower. A credit rating can be assigned to a country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor’s, Fitch and Moody’s.

Credit risk
This is the risk that the issuer of a security becomes temporarily or permanently insolvent, resulting in its inability to repay the interest or to redeem the bond. The solvency of the issuer may change over time due to various factors.

Debt Management Office (DMO)
Debt Management Office is an executive agency of HM Treasury. They are responsible for debt management in the UK, in the form of issuing Treasury Bills and Gilts.

Financial Strength Rating
Rating criteria used by Moody’s ratings agency to measure a bank’s intrinsic safety and soundness.

Floating Rate Note (FRN)
An instrument issued by Banks, Building Societies and Supranational organisations which has a coupon that re-sets usually every 3 months. The refix will often be set at a premium to 3 month LIBOR.

Gilt
A UK Government Bond, sterling denominated, issued by HM Treasury

Index Linked Gilts
A government bond issued by the DMO whose coupon and final redemption payment are related to movement in the RPI (Retail Price Index)

Interest Rate Risk
The risk that an investment's value will change due to a change in the absolute level of interest rate. Interest rate risk affects the value of bonds more directly than stocks, and it's a major risk to all bond holders. As interest rates rise, bond prices fall and vise versa. The rationale is that as interest rates increase, the opportunity cost of holding a bond decreases since investors are able to realise greater yields by switching to other investments that reflect the higher interest rate

LIBOR
London Interbank Offered Rate: set on a daily basis. The rate at which banks lend to each other for different periods

Long Term
Duration in excess of 1 year

Net Asset Value (NAV)
Often used when funds or investment assets are valued. This term generally means the total assets less total liabilities.

Premium
The sale/purchase of an asset at a level that is above the par value or original price. If a security is trading at a premium, current market interest rates are likely to be below the coupon rate of the security.

Short Term
Duration of up to1 year

Support Rating
Fitch Ratings Agency's assessment of extraordinary support given to a financial institution either by the parent and or sovereign.

Supranational Bond
A bond issued by a Supranational organisation (multi-lateral development banks). They are AAA rated organisations in which the share capital is jointly owned and guaranteed by leading developed nations in their respective region.

Treasury Bill (T-Bills)
A Treasury Bills is a short dated instrument issued by HM Treasury. They are issued at a discount, therefore they are not coupon bearing.

Viability Ratings
Assessment of a bank's intrinsic creditworthiness applied by Fitch Ratings Agency. Its aim was to enhance visibility on benefits of support. This replaced the individual ratings.

Yield Curve
The yield curve represents the relationship between yield and maturity. The conventional shape being that as the maturity lengthens, the yield will increase. Each security will have its own yield curve, depending on the yield in every time period available.

2017/2018 Estimated Cash Flow Forecast - December 2017 Position **APPENDIX 8**

Description	2016/17 Actual £000	2017/2018 Actual £000	2018/2019 Actual £000	2019/2020 Actual £000	2020/2021 Actual £000
Payments					
Payroll Related Payments (including payroll element of Schools' advances)-net pay	100,288	114,843	117,140	119,483	121,872
Payroll related-HMRC	39,820	39,459	40,248	41,053	41,874
Payroll related-Teachers Pensions Authority	11,500	13,828	14,105	14,387	14,674
Payroll related-pension fund and disbursements and including back funding and added years	23,431	21,796	22,232	22,677	23,130
Service payments- (Premises, Transport, Supplies and Services and Third Party payments)	308,115	289,320	290,128	300,994	303,925
Transfer Payments-Housing Benefits	83,882	94,589	96,481	98,410	100,379
Bank Charges & Related Expenditure	284	288	294	300	306
Precepts and Levies - CTAX (GLA) and NDR(GLA,CLG) and levies	78,869	86,778	88,514	90,284	92,090
Business Rates and CTax Refunds	6,780	6,176	6,300	6,426	6,554
Capital Payments	30,626	30,962	40,337	38,121	17,319
Total Payments	683,595	698,039	715,778	732,133	722,123
Receipts					
Business Rates Receipts	(95,056)	(99,641)	(101,634)	(103,666)	(105,740)
Council Tax Receipts	(105,428)	(109,179)	(111,363)	(113,590)	(115,862)
DWP - Housing Benefit Subsidy & Admin Grant & Discretionary Housing Payment grant&S31 Grant)	(90,683)	(95,048)	(96,949)	(98,888)	(100,866)
Grants (Including Capital Grants and Public Health Grants)	(218,825)	(221,347)	(225,774)	(230,289)	(234,895)
Other receipts-fees and charges	(71,681)	(60,874)	(69,129)	(53,330)	(52,992)
Payroll Recoupment	(83,304)	(88,323)	(90,089)	(91,891)	(93,729)
VAT Reimbursement	(18,205)	(18,897)	(19,497)	(20,008)	(18,953)
Total Receipts	(683,182)	(693,309)	(714,436)	(711,663)	(723,036)
1. Net Cashflow (Revenue and Capital Cash)-(inflow) Ouflow	413	4,730	1,342	20,471	(914)
Debt Repayment					
Interest Received on investments	(609)	(561)	(371)	(259)	(144)
Interest on Pooled Property Investment	(234)	(239)	(395)	(395)	(395)
Interest Paid on Debt inc DME	6,797	6,702	6,315	6,315	6,315
2. Interest-net (Net cash flow)-(Inflow) Outflow	5,954	5,902	5,549	5,661	5,776
3. Debt repayment	1,034	3,966	0	0	2,000
B/F Cash Deposits Balance (SoA Note 9 Financial Instruments)	85,400	70,900	62,144	54,821	28,689
B/F Bank Balance (SoA Note 14 Cash and cash equivalents)	23,311	30,410	24,568	25,000	25,000
B/Fwd Total	108,711	101,310	86,712	79,821	53,689
Change in cash and investments (1+2+3)- (Inflow) Outflow	7,401	14,598	6,891	26,132	6,862
C/F Cash Deposits Balance (SoA Note 14 Financial Instruments)	70,900	62,144	54,821	28,689	21,827
C/F Bank Balance (SoA Note 14 Cash and Cash Equivalents)	30,410	24,568	25,000	25,000	25,000
C/Fwd Total	101,310	86,712	79,821	53,689	46,827

CAPITAL STRATEGY 2018-22

1 Introduction

1.1 Merton's Capital Strategy for 2018-22 has been aligned and integrated with the Business Plan for the period 2018-22. The Business Plan sets out how the Authority's objectives have been shaped by Merton Partnership in the Community Plan. The Community Plan sets out the overall vision and strategic direction of Merton which are embodied into five strategic themes:-

- Children's Trusts;
- Health and Wellbeing Board;
- Safer and Stronger Communities;
- Sustainable Communities and Transport;
- Corporate Capacity

1.2 Merton Partnership works towards improving the outcomes for people who work, live and learn in the borough and, in particular, to 'bridge the gap' between the eastern and western wards in the borough.

1.3 The financial reality facing local government dominates the choices the council will make for the future of the borough. The development of the Business Plan 2018-22 is therefore based on the set of guiding strategic priorities and principles, as adopted by the council on 13 July 2011:

- Merton should continue to provide a certain level of essential services for residents. The order of priority of 'must' services should be:
  i) Continue to provide everything that is statutory.
  ii) Maintain services – within limits – to the vulnerable and elderly.
- After meeting these obligations Merton should do all that it can to help residents who aspire. This means we should address the following as priorities in this order:
  i) Maintain clean streets and keep council tax low.
  ii) Keep Merton as a good place for young people to go to school and grow up.
  iii) Be the best it can for the local environment.
  iv) All the rest should be open for discussion.

The financial pressures facing Merton mean we should no longer aim to be a 'place-maker' but be a 'place-shaper'. The council should be an enabler, working with partners to provide services.

1.4 Merton's scrutiny function reflects the five strategic themes above and the themes have been incorporated into the bidding process for capital funding to ensure that scarce financial resources are targeted towards strategic objectives.

2 Planning Infrastructure

2.1 Business Plan 2018-2022

2.1.1 The Business Plan sets out the council's vision and ambitions for improvement over the next four years and how this will be achieved. Business Planning and financial planning frameworks are closely aligned and integrated.

2.2 Target Operating Models (TOMs)

2.2.1 TOMs, or Target Operating Models are a series of strategy documents that set out how the organisation will respond to and manage change over the coming months and years. TOMs have been produced for Service Areas or Departments throughout the Council.

2.2.2 A TOM is a statement of how an organisation will deliver its services within a certain structure as a future point in time, TOMs are living documents and will change as the organisation develops. There are a number of elements to a TOM, for Merton these are – Customer Segments, Channels, Services, Organisation, Processes, Information, Technology, Physical Location and People

2.2.3 Developing a TOM is about planning and preparing for change and improvement in a given service. Delivering contexts change and opportunities for improvement are always available, so taking the time to prepare/refresh a TOM allows those within a service to consider its many facets and dependencies and determine how these will change over the coming years. Having an ambitious vision for what the future looks like for the service (which is what a TOM provides), ensures that improvement activity will be more disciplined and controlled and therefore more likely to succeed.

2.3 Service Plans

2.3.1 In developing the Capital Strategy, clear linkages have also been identified with not only the Business Plan, TOMs but also departmental service and commissioning plans beneath this. It reflects the capital investment implications of the approved objectives of those plans, which themselves reflect the council's proposals set out in service based strategies such as the Primary Places Strategy, Local Implementation Plan (Transport), and Asset Management Plans. Priorities for the Corporate Services department are based around how the council manages its resources effectively and how it carries out its wider community leadership role.

2.3.2 This Capital Strategy is a fundamental component of our approach since it reflects our strategic priorities across the council and endeavours to maximise the contribution of the council's limited capital resources to achieving our vision. We will work closely with residents, community organisations and businesses to focus our resources and those of our partners effectively. The strategy also sets out the management arrangements for allocating resources to individual schemes, establishing funding for projects, monitoring progress, managing performance and ensuring that scarce capital resources are allocated efficiently.

3 Accounting Definitions and Practices

3.1 The council's approach to Capital Accounting follows the Code of Practice on Local Authority Accounting, which itself is based on the International Financial Reporting Standards (IFRS) and guidance issued by CIPFA and professional accounting networks.

3.2 As in previous years, there has been continual review of the Capital Programme to ensure that expenditure meets the strict definition and to identify any items which would be more appropriate to be charged to revenue. This has not resulted in any major changes to the future programme.

3.3 The de-minimis of capital expenditure for the authority is set at £10,000 per project. This applies to all schemes within our capital programme, however in exceptional circumstances thresholds below this may be considered where specific items of expenditure are below this de-minimis level but meet proper accounting definitions of capital expenditure.

3.4 Individual schools may choose to adopt the above de-minimis limit or use the limit of £2,000 as mentioned in some Department for Education and HMRC guidance for various types of school.

4 Corporate and strategic capital expenditure appraisal planning and control

4.1 Capital Programme Board

4.1.1 Merton's Capital Strategy is coordinated by the Capital Programme Board. The board, which is effectively a sub-group of the Corporate Management Team (CMT). The composition of the Board and it's Terms of Reference were reviewed in 2015/16. The revisions are designed to make the board more strategic and improve communication flows throughout the organisation. The Board now comprises the Directors of Corporate and Environment and Regeneration Services with selected Level 2 managers from each service department.

4.1.2 The Terms of Reference of the Board are:

- Lead on the development and maintenance of the capital investment strategy and ensure it is consistent with the Council's strategic objectives, TOMs and service plans.
- Ensure that the capital investment strategy informs and is informed by the asset management plan.
- Ensure there is a transparent and clearly communicated process for allocation of capital funds with clear and well documented criteria and decision making process.
- Monitor progress of capital funded schemes and any other critical schemes as determined by CMT. Receive joint reports from Finance/departmental staff on progress against deliverables, milestones and budget forecasts.
- In conjunction with other governing bodies, consider/approve business cases that involve capital investment.
- Monitor issues arising as a result of changes in accounting treatment of capital expenditure and ensure the organisation responds accordingly.
- Assess capital schemes in the context of the Medium Term Financial Strategy to ensure they are affordable in revenue terms.
- Receive reports from the Property Management and Review Manager relating to capital funds coming from the disposal of property, in collaboration with the Property and Asset Management Board.
- Receive benefits reports from Programme/Project Managers when capital projects/programmes are closed. Monitor key benefits to ensure they are realised for large capital schemes.

4.1.3 The role of the Board is to:

- Set framework and guidelines for capital bids;
- Draft the capital programme for consideration by CMT and Cabinet;
- Review capital bids and prioritise in accordance with the Council's strategic objectives;
- Identify and allocate capital funds;
- Monitor progress of capital programmes/projects and key variances between plans and performance;

- o Monitor budgets of capital programmes/projects against forecasts;
- o Monitor benefits and ensure they are realised. Monitor capital receipts
- o Develop and share good practice

4.1.4 The Board will be accountable to the Corporate Management Team who will receive reports and escalated matters from the Board on a regular basis. CMT will set the strategy and direction, the Capital Programme Board will operationalise this and escalate concerns and ideas. The Board will refer to, and take advice from, the Procurement Board on any proposals and/or decisions that have a procurement dimension. The Board will work closely with the Property and Asset Management Board on any property/asset related proposals.

4.1.5 The Board will make agendas and minutes available to the other Governance Boards within 5 working days of the meeting.

4.1.6 During the budget process the Director of Corporate Services recommends to cabinet an initial view as to how the Capital Programme should be funded. However, this recommendation will be informed by the Capital Programme Board's consideration of the capital receipts available and the forecast of future property disposals and the final funding during the closure of accounts will depend on the precise financial position. At this stage it is intended to utilise internal borrowing, capital grant, direct revenue financing, capital receipts and earmarked reserves. Any capital loans given out by the authority, dependent on the size, will normally be funded from capital receipts as the repayments will be received as capital receipts. It will be reported to Members in advance when it is proposed to use external borrowing.

4.1.7 The council has had a robust policy for many years of reviewing its property holding and disposing of surplus property, detailed in the Asset Management Plan (AMP) after many years which also includes policy and procedures for land and property acquisition. All capital receipts are pooled, unless earmarked by cabinet, and are used either to finance further capital investment or for the payment of premiums on repayment of higher interest loans.

4.2 Capital Programme Approval and Amendment

4.2.1 The Capital Programme is approved by Council each year. Any change which substantially alters the programme (and therefore the Prudential Indicators) requires full council approval. Rules for changes to the Capital Programme are detailed in the Council's Constitution Financial Regulations and Financial Procedures and the key points are summarised here.

4.2.2 For virements which do not substantially alter the programme the below approval limits apply:

- Virements up to £5k can be signed off by the budget manager, the Chief Financial Officer (CFO) is informed of these changes as part of the monthly financial monitoring
- Virements £5k up to £100k must be approved by the Chief Officer of the area or areas affected along with the Chief Financial Officer, typically this will be as part of the monthly financial monitoring report to CMT however approval can be sought from these officers at any time if necessary
- Virements £100k and upwards go to Cabinet
- Any virement which diverts resources from a scheme not started, resulting in a delay to that scheme, will be reported to Cabinet

(Please note virement rules are cumulative i.e. two virements of £5,000 from one code; the latter would require the approval of Chief Officers)

4.2.3 For increases to the programme for existing schemes up to £100,000 must be approved by the Director of Corporate Services. Increases above this threshold must be approved by Cabinet. In accordance with the Prudential Code if the increase in the Capital Programme will substantially change prudential indicators it must be approved by Council.

4.2.4 For new schemes, the source of funding and any other financial or non-financial impacts must be reported and the limits below apply:

- Budgets of up to £50k can be approved by the Chief Financial Officer in consultation with the relevant Chief Officer
- Budgets of £50k up £500k will be submitted to Cabinet for approval
- Budgets over £500k will be submitted to full Council for approval

Approval thresholds are being reviewed as part of the review of processes for the implementation of the new Financial Information System.

4.3 Capital Monitoring

4.3.1 The Council approves the four year Capital Programme in March each financial year. Amendments to the programme are approved appropriately by CMT, Cabinet and Council. Budget managers are required to monitor their budget monthly, key reviews are undertaken in September and November. December monitoring provides the final opportunity for budget managers to re-profile their budgets for the current financial year.

4.3.2 November monitoring information feeds into the Authority’s Medium Term Financial Strategy (MTFS) and is used to access the revenue impact over the period of the strategy with minor amendments in the later months. November monitoring is also used to measure the accuracy of year end projections.

4.3.3 Councillors receive regular monitoring reports on the overall position of capital expenditure in relation to the budget. They also receive separate progress reports on key spend areas.

4.4 Risk Management

4.4.1 The management of risk is strategically driven by the Corporate Risk Management group. The group collates on a quarterly basis the headline departmental risks and planned mitigation activity from each department, project and partnership. From this information a Key Strategic Risk Register is compiled and presented to CMT quarterly for discussion as part of the financial monitoring report. The Authority's Risk Management Strategy is reviewed and updated annually and presented to CMT, cabinet and Council.

5 Revenue budget implications of capital investment

5.1 Revenue cost or savings

5.1.1 The capital strategy recognises that the prudential framework provides the council with flexibility, subject to the constraints of the council's revenue budget. This flexible ability to borrow, either from internal cash resources or by external borrowing, coupled with the revised treatment of finance leases with effect from 1 April 2010, means that prudential borrowing is used for the acquisition of equipment, where it is prudent, affordable and sustainable. In 2012/13, 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18, it was possible to borrow from internal cash resources rather than external borrowing and it is forecast that this will continue to be the case alongside the use of capital receipts within the current planning period (up to 2021/22). This will be kept under review as part of general Treasury Management.

5.1.2 The revenue effects of the capital programme are from capital financing charges and from additional revenue costs such as annual maintenance charges. The capital financing charges are made up of interest payable on loans to finance the expenditure and of principal repayments on those loans. The principal repayments commence in the year after the expenditure is incurred and are calculated by the application of the statutory Minimum Revenue Provision. The interest commences immediately the expenditure is incurred. The revenue effects of the capital programme are fully taken account of in the MTFS, with appropriate adjustments for slippage, timing of capital payments and the use of internal investment funds.

The revenue effects of the capital programme are built into the MTFS and are summarised below:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
MRP	3,896	4,706	6,431	7,216
Interest	6,315	6,315	6,315	6,213
Capital financing costs	**10,211**	**11,021**	**12,746**	**13,429**
Investment Income	(759)	(633)	(509)	(485)
Interest on Housing Company Loan*	0	0	0	0
Net	**9,452**	**10,388**	**12,237**	**12,944**

* interest scheduled to start in 2022/23

6 Capital resources 2018-22

6.1 Variety of sources

6.1.1 Capital expenditure is funded from a variety of sources:-

- Grants which are not ring-fenced to be spent on a specific project or service
- Specific grants - earmarked for a specific project or purpose
- Capital receipts from the disposal of surplus and under-utilised land and property
- Other contributions such as Section 106/CIL
- Council Funding – through revenue funding, use of reserves or borrowing.

6.2 Annual Minimum Revenue Provision (MRP) Statement

6.2.1 Under guidance from the Department for Communities and Local Government, authorities are required to prepare an annual statement on their policy on making MRP. This mirrors the existing requirements to report to the council on the Prudential borrowing limit and investment policy.

6.2.2 The statement is set out in the Treasury Management Strategy. This approach is under active review.

7 Asset management review

7.1 Capital receipts

7.1.1 Capital receipts generated from the disposal of surplus and under-utilised land and property are a major source of funding and the potential available capital resources are under constant review and revision. The forecast of capital receipts included in this report are based on a multi-year forecast of planned land and property disposals. In addition, after the transfer of the housing stock to Merton Priory Homes, the council continues to receive a share of the receipts from Right to Buy applications and through future sharing arrangements, receipts from the sales of void properties, sales of development land and VAT saving on expenditure on stock enhancements.

7.2 Property as a corporate resource

7.2.1 The council treats its property as a corporate resource, oriented towards achieving its overall goals, underpinned by:

- Clear links to financial plans and budgets.
- Effective arrangements for cross-service working.
- Champions at senior officer and member level.
- Significant scrutiny by councilors.

7.2.2 It ensures that its properties are fit for purpose by making proper provision and action for maintenance and repair. The organisation makes investment and disposal decisions based on thorough option appraisal. The capital programme gives priority to potential capital projects based on a formal objective approval process.

7.2.3 Whole life project costing was used at the design stage for significant projects where appropriate, incorporating future periodic capital replacement costs, projected maintenance and decommissioning costs.

7.2.4 Whole life costing of significant projects, which span more than one year, also forms part of the regular monitoring reports.

7.2.5 The Asset Management Plan is being reviewed and will include greater emphasis on the use of the Council's property assets to support the Council's Transformation Programme, regeneration and increased income/revenue generation.

7.2.6 A new IT system for asset accounting has been brought into use and the possibility of this system being used for more widespread asset management will be explored.

8 Summary of estimated disposals 2017-2021

8.1.1 New guidance has been issued from the DCLG on the flexible use of capital receipts which comes into effect from 1 April 2016 to 31 March 2019. This gives local authorities flexibility to spend capital receipts (excluding Right to Buy receipts) from planned new asset sales on the revenue costs of reform projects, subject to the condition that the projects generate on going revenue savings e.g. transforming service delivery to reduce costs or to improve the quality of service delivery in future years. Below is a plan of activities to which the new treatment of capital receipts could be applied:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non- staff), where this leads to ongoing efficiency savings or service transformation;

- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;

8.1.3 The direction makes it clear that local authorities cannot borrow to finance the revenue costs of service reform. Local authorities can only use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered. Local Authorities may not use their existing stock of capital receipts to finance the revenue costs of reform. Officers are considering how to utilise this flexibility to progress key transformation projects.

8.1.4 The Guidance recommends that the Strategy setting out details of projects to be funded through flexible use of capital receipts be prepared prior to the start of each financial year (Flexible Use of Capital Receipts Strategy). Failure to meet this requirement does not mean that an authority cannot access the flexibility in that year. However, in this instance, the Strategy should be presented to full Council or the equivalent at the earliest possible opportunity.

8.1.5 As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years. The Strategy should also contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.

8.1.6 Due to difficulties in the property market since the economic recession a cautious view has been taken of the potential capital receipts identified. Much of the anticipated capital receipts are as a result of the VAT shelter agreement entered into with Merton Priory Homes as part of the housing stock transfer. There are current proposals for some of the properties under this agreement to be redeveloped which could result in a reduction in receipts from the VAT shelter agreement, however a Development and Disposals Clawback Agreement was entered into as part of the same transfer and this could result in a significant capital receipt should these development plans go ahead. The following table represents an estimate of an anticipated cash flow and therefore these future capital receipts these have been utilised to fund the capital programme:-

Anticipated Capital Receipts	2018/19	2019/20	2020/21	2021/22
	£000s	£000s	£000s	£000s
Sale of Assets	0	0	0	0
Housing Company Loan Repayment	0	0	0	3,665
Right to buy/VAT Shelter	900	900	900	900
Total	**900**	**900**	**900**	**4,565**

As there is currently not a need to enter into external borrowing, investment balances will rise with the addition of capital receipts. Average expected interest rates on investments across the years of the capital programme are approximately 0.5%, as such an increase in receipts of £1m would be expected to generate a £5,000 increase in interest in a full year.

The table below shows the funding of the capital programme utilising capital receipts, capital grants and contributions, capital reserves and revenue provisions.

Capital Expenditure	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital Expenditure	**40,039**	**61,266**	**33,466**	**12,794**	**8,844**
Slippage	(8,448)	(13,035)	5,255	4,524	3,382
Total Capital Expenditure *	31,591	48,231	38,721	17,319	12,226
Financed by:					
Capital Receipts *	12,280	11,284	1,927	1,396	4,557
Capital Grants & Contributions	13,970	21,008	3,826	2,421	681
Revenue Provisions	5,103	1,952	15	7	2
Net financing need for the year	**237**	**13,987**	**32,953**	**13,495**	**6,986**

* Includes finance lease expenditure table in Treasury Management Strategy excludes this expenditure

8.1.7 Under the requirements of the Localism Act 2011 parish councils and local voluntary and community organisations have the right to nominate local land or buildings they would like to see included in a list of assets of community value which is maintained by the Local Authority. Once listed the owner must allow community interest groups up to six months to make an offer before the property can be sold to another. It is envisaged that this may lengthen the disposal time for some properties if they are listed as assets of community value by the Council.

8.2 Debt repayment

8.2.1 The council has had a strategy to reduce its level of debt when opportunity arises in the market. The average interest payable on outstanding debt is 5.22%. For the period 2018-22, capital receipts may continue to be used to pay the premiums on the repayment of those authority debts which have high fixed interest charges, if the terms offered will result in appropriate revenue savings. Any decision to repay debt early will be considered alongside the funding however, this is unlikely to be the case in the short to medium term requirement of the programme.

9 Grant Funding Capital Resources

9.1 Environmental and Regeneration

E&R	**2017/18 £000**	**2018/19 *£000s**	**2019/20 £000s**	**2020/21 £000s**	**2021/22 £000s**
Heritage Lottery Fund	459	3,150	497	**0**	**0**
Transport for London LIP (**earmarked) Capital**	3,503	1,000	TBA	TBA	TBA
Total: E&R	**3,962**	**4,150**	**497**	**TBA**	**TBA**

* Indicative and likely to reduce
TBA – To Be Advised

9.2 Children, Schools and Families

CSF	**2017/18 £000**	**2018/19 £000s**	**2019/20 £000s**	**2020/21 £000s**	**2021/22 £000s**
School Condition (non-ringfenced)*	2,043	1,900	1,900	TBA	TBA
Basic Need (non-ringfenced)	4,525	7,471	446	TBA	TBA
Total Grant Funding	**6,568**	**9,371**	**2,346**	**TBA**	**TBA**
New School (Expected Ringfenced)*	701	5,149	0	0	0
Devolved Formula Capital (Earmarked)	364	TBA	TBA	TBA	TBA
TOTAL: CS&F	**7,269**	**14,520**	**2,346**	**TBA**	**TBA**
Balance added for outstanding grant allocations - CSF	**0**	**0**	**0**	**2346**	**650**

* Based on Indicative Information

TBA – To Be Advised

9.3 Community and Housing

C&H	2017/18 £000	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Better Care Fund including Disabled Facilities Grant*	1,199	TBA	TBA	TBA	TBA

*It is envisaged that some of this fund will be applied to revenue

9.4 Summary of Grant Funding 2018-20212

9.4.1 The new resources notified to date are summarised in the following table. It is expected that there will be additional earmarked resources notified during the financial year 2017/18:

Grant Funding	2017/18 £000	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Environment and Regeneration	**3,962**	**4,150**	**497**	**TBA**	**TBA**
Children, Schools and Families	**7,269**	**14,520**	**2,346**	**TBA**	**TBA**
Community and Housing	**1199**	**TBA**	**TBA**	**TBA**	**TBA**
Total Grant Funding*	**12,430**	**18,670**	**2,843**	**0**	**0**
Balance added for outstanding grant allocations - CSF	**0**	**0**	**0**	**2,346**	**650**

* This shows the grant funding being received by the authority

10 Summary of Total Resources 2018-22:

10.1 Summary

10.1.1 The total anticipated resources over the plan period 2018-22, including existing grant funding and anticipated CS&F grants, is summarised in the following table:-

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Grant & Contributions *	27,222	34,894	14,899	11,546
Council Funding	21,008	3,826	2,421	681
Total	**48,231**	**38,721**	**17,319**	**12,227**

* This table shows the grants and contributions applied to fund the programme allowing for slippage.

10.1.2 Projects for which earmarked resources have been notified have been given authority to proceed, subject to a detailed specification and programme of works being agreed which ensures that the maximum benefits accrue to the council within the overall constraints of the approved funding. Those schemes, on their own, represent a considerable capital investment.

10.1.3 The Table below summarises the Indicative Capital Programme for 2021 to 2026. Additional detail is provided as Annex 5:

Merton	**Updated Budget 2022/23 £000s**	**Updated Budget 2023/24 £000s**	**Updated Budget 2024/25 £000s**	**Updated Budget 2025/26 £000s**	**Updated Budget 2026/27 £000s**
Corporate Services	2,650	3,900	2,862	3,560	2,920
Community and Housing	380	280	280	630	280
Children, Schools & Families *	650	755	650	650	650
Environment & Regeneration *	4,017	4,017	4,077	8,015	4,052
Total Merton	**7,697**	**8,952**	**7,869**	**12,855**	**7,902**

* Please note these figures do not include any allowance of grant funding for Transport for London and Disabled Facilities.

10.1.4 For every £1 million capital expenditure that is funded by external borrowing it is estimated that there will be annual revenue debt charges of between £216,000 for assets with a life of 5 years to £39,600 for an asset life of 50 years.

11 Capital Bids and Prioritisation Criteria

11.1 Prioritisation of schemes 2021/22

The allocation of capital resources, on those schemes to be funded by borrowing, is focused towards the achievement of the council's key strategic objectives as agreed by councillors as highlighted in section 1 of this strategy.

The prioritisation criteria used in respect of growth were 'Statutory', Need (demand and / or priority), attracts match funding and revenue impact (including invest to save). Due to officers' awareness of the need to restrain the capital programme to affordable levels, the increase put forward over the period 2018-22, on the basis of these criteria by the board to cabinet was £1.2 million (excluding TfL).

12 Detailed Capital Programme 2018-22

12.1 Corporate Services

12.1.1 This department is responsible for the administration of finance and staff, together with the corporate buildings including IT and utility services. Its main capital expenditure is on IT software and hardware, and on improvements to buildings (including invest to save schemes).

12.1.2 Business Improvement

Business Improvement are responsible for schemes that develop corporate information technology and are designed to improve efficiency and are detailed in the table below:

Business Improvement	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Customer Contact Programme	1,050	250	0	1,900
Aligned Assets	75	0	0	0
Revenue and Benefits	400	0	0	0
Capita Housing	100	0	0	0
Planning&Public Protection Sys	395	0	0	0
Spectrum Spatial Analyst Repla	42	0	0	42
Social Care IT System	350	0	0	0
ePayments	0	0	125	0
Total Business Improvement	**2,412**	**250**	**125**	**1,942**

12.1.3 Infrastructure and Transactions

Infrastructure and transactions are responsible for the replacement of existing IT equipment at the end of it's useful life and minor enhancements to existing systems and software to ensure their continued efficiency. The Table below details the capital schemes for this area:

Infrastructure & Transactions	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Planned Replacement Programme	275	200	200	200
Data Centre Support Equipment	300	0	0	0
IT Equipment	510	430	860	770
Total Infrastructure & Transactions	**1,085**	**630**	**1,060**	**970**

12.1.4 Facilities Management

Facilities management are responsible for the capital maintenance of Council buildings excluding schools and community centres, the schemes are detailed in the Table below:

Facilities Management	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Repair and Maintenance (R&M)	300	650	650	650
Civic Centre Boilers	300	0	0	0
Civic Centre Lightning Upgrade	0	300	0	0
Invest to Save schemes	2,010	300	300	300
Water Safety Works*	100	0	0	0
Asbestos Safety Works*	250	0	0	0
Total Facilities Management	**2,960**	**1,250**	**950**	**950**

* Included with R&M from 2019/20 onwards

12.1.5 Corporate Items

There are also budgets held centrally under Corporate Services to ensure funds are available to take up opportunities arising in the local property market, to leverage match funding or to enable transformation of services, these are detailed in the Table below:

Corporate Items	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Acquisitions Budget	5,792	0	0	0
Capital Bidding Fund	1,186	0	0	0
Multi-Functioning Device (MFD)	0	600	0	0
Housing Company	9,587	13,088	1,810	0
Compulsory Purchase Orders*	0	0	0	0
Westminster Coroners Court	460	0	0	0
Total Corporate Items	**17,025**	**13,688**	**1,810**	**0**

* Will only be progressed if fully funded

12.2 Children, Schools and Families

12.2.1 This department's main capital focus is the need for increased provision for secondary pupils. The provision in the 2018-22 programme has been revised to that shown in the table below:

Children, Schools & Families	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Primary School Expansions	650	650	650	650
Secondary School Expansions	7,105	6,352	2,552	0
SEN	7,264	1,000	0	0
Other	139	105	0	0
Children, Schools & Families	**15,158**	**8,107**	**3,202**	**650**

12.2.2 CSF capital programme 2018-22

The requirement to provide sufficient school places is a key statutory requirement. The government provides capital grant to meet some of this need.

12.2.3 Primary schools

£650,000 per annum is provided for schools this will be limited to urgent health and safety related needs, with the council expecting schools to fund all works below £20,000.

12.2.4 Secondary school places

There has been an increase in demand for secondary places since September 2015, current forecasts project a significant increase in secondary age transfer in September 2018 which will flow into all secondary age groups.

The capital programme for 2018/22 includes £15.2 million for secondary expansions including funding for the 'Harris Wimbledon'.

Due to the difficulty of accurately forecasting the specific level of pupil transfer from the last year of primary school to secondary school the level of secondary school expansion required will be subject to regular reviews over the capital programme period. There is therefore uncertainty over the size, timing and cost of the secondary expansion, this includes a lack of clarity regarding government funding.

12.2.5 Special school places

The increase in demand for special school provision is proportionally greater for special schools than mainstream schools, though the numbers involved are significantly smaller. Capital funding is provided in the 2018/22 programme for the expansion of SEN Provision within the borough.

12.2.6 Other schemes

A small provision exists for the provision of loans to schools.

12.3 Environment and Regeneration

This department provides a co-ordinated approach to managing the public realm (all borough areas to which the public has access), as well as the regeneration of our town centres and neighbourhoods.

The individual projects for this department are all listed in Annex 3. Other than the grant funded Transport for London scheme for the upgrade of principal roads, the departments main schemes relate to 14 areas:

Environment & Regeneration	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Parking Improvements	0	60	0	0
Public Protection & Development	0	0	0	35
Fleet Vehicles	542	300	300	300
Alley gating	40	40	40	40
Smart Bin Leases	6	0	0	0
SLWP Waste	5,344	0	0	0
Street Trees	60	60	60	60
Highways & Footways	3,581	3,067	3,067	3,067
Transport for London	1,000	0	0	0
Mitcham Area Regeneration	2,032	301	0	0
Morden Area Regeneration	1,000	3,000	1,000	0
Morden Leisure Centre	6,389	242	0	0
Sports Facilities	407	1,500	250	250
Parks	1,452	491	300	300
Environment & Regeneration	**21,853**	**9,060**	**5,017**	**4,052**

12.3.1 Highways and Footways

Footways and Borough Roads budgets will be spent in accordance with the results of annual condition surveys of the whole of the borough. As a result, items are prioritised and drawn up in programmes of works. These programmes may be amended as circumstances alter.

Highways and Footways	**Updated Budget 2018/19 £000s**	**Updated Budget 2019/20 £000s**	**Updated Budget 2020/21 £000s**	**Updated Budget 2021/22 £000s**
Street Lighting	509	290	290	290
Traffic Schemes	150	150	150	150
Surface Water Drainage	72	77	77	77
Footways	1,000	1,000	1,000	1,000
Antiskid & Coloured Surfacing	90	90	90	90
Borough Roads	1,500	1,200	1,200	1,200
Highways & Bridges	260	260	260	260
Environment & Regeneration	**3,581**	**3,067**	**3,067**	**3,067**

12.3.2 Regeneration

Regeneration is a major part of the council's strategy. A vision for Morden town centre is being developed and Mitcham town centre will be sustainably developed. The main areas of expenditure over the Capital Programme period will be those below.

Regeneration	**Updated Budget 2018/19 £000s**	**Updated Budget 2019/20 £000s**	**Updated Budget 2020/21 £000s**	**Updated Budget 2021/22 £000s**
Mitcham Area Regeneration				
Canons Parks for the People	2,032	301	0	0
Morden Area Regeneration				
Transportation Enhancements	1,000	3,000	1,000	0
Total Regeneration Partnerships	**3,032**	**3,301**	**1,000**	**0**

12.3.3 Sports Facilities

An annual provision exists for the capital works at our three leisure centres. In addition there is a one off scheme to de-silt Wimbledon Park Lake.

Sports facilities	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Leisure Centre Plant & Machine	300	250	250	250
Wimbledon Park Lake De-Silting	107	1,250	0	0
Total Leisure Centres	**407**	**1,500**	**250**	**250**

12.3.4 Parks

An annual provision exists for the capital works at our Parks. In addition there is a one off scheme in respect of the Canon's Park.

Parks	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Parks Investment	308	295	300	300
Parks Bins - Finance Lease	28	0	0	0
Canons Parks for the People	1,117	196	0	0
Total Parks	**1,452**	**491**	**300**	**300**

12.4 Community and Housing

12.4.1 This department aims to provide residents with the chance to live independent and fulfilling lives, in suitable homes within sustainable communities, with chances to learn, use information, and acquire new skills. The departmental Capital Programme for 2018-22 comprises:

Community and Housing	Updated Budget 2018/19 £000s	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s
Adult Social Care				
Telehealth	44	0	0	0
Housing				
Disabled Facilities Grant	629	280	280	280
Libraries				
West Barnes Library Re-Fit	0	200	0	0
Library Self Service	0	0	350	0
Libraries Management System	100	0	0	0
Total Community and Housing	**773**	**480**	**630**	**280**

12.5 Overall Programme

12.5.1 The approved Capital Programme for 2018/22 follows at Annex 1, Annex 3 provides an additional breakdown detail of the approved schemes. The summary is as follows:

Merton	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
	£000	£000	£000	£000
Corporate Services	23,482	15,818	3,945	3,862
Community and Housing	773	480	630	280
Children Schools & Families	15,158	8,107	3,202	650
Environment and Regeneration	21,853	9,060	5,017	4,052
Capital	**61,266**	**33,466**	**12,794**	**8,844**

12.5.2 The funding details for the programme follow at Annex 2

12.5.3 Within the funding details the authority has anticipated some slippage for schemes that require a consultation process or a planning application or where the implementation timetable is not certain. The slippage anticipated reduces the spend in the year it is budgeted but increases the spend in the following year when it is incurred. When slippage from 2017/18 is approved, the 2018/19 Capital Programme will be adjusted accordingly.

12.5.4 Annexe 1 Capital Investment Programme - Schemes for Approval

Annexe 2 Funding the Capital Programme 2018-22

Annexe 3 Detailed Capital Programme 2018-22

Annexe 4 Analysis of Growth/(Reduction) from current approved programme

Annexe 5 Indicative Capital Programme 2022-27

Annex1

Capital Investment Programme - Schemes for Approval

Merton	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
	£000	£000	£000	£000
Corporate Services	23,482	15,818	3,945	3,862
Community and Housing	773	480	630	280
Children Schools & Families	15,158	8,107	3,202	650
Environment and Regeneration	21,853	9,060	5,017	4,052
Capital	**61,266**	**33,466**	**12,794**	**8,844**

Merton	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
	£000	£000	£000	£000
Business Improvement	2,412	250	0	1,942
Facilities Management Total	2,960	1,250	950	950
Infrastructure & Transactions	1,085	630	1,060	970
Resources	0	0	125	0
Corporate Items	17,025	13,688	1,810	0
Corporate Services	**23,482**	**15,818**	**3,945**	**3,862**
Adult Social Care	44	0	0	0
Housing	629	280	280	280
Libraries	100	200	350	0
Community and Housing	**773**	**480**	**630**	**280**
Primary Schools	650	650	650	650
Secondary School	7,105	6,352	2,552	0
SEN	7,264	1,000	0	0
CSF Schemes	139	105	0	0
Children Schools & Families	**15,158**	**8,107**	**3,202**	**650**
Public Protection and Development	0	60	0	35
Street Scene & Waste	5,932	340	340	340
Sustainable Communities	15,921	8,660	4,677	3,677
Environment and Regeneration	**21,853**	**9,060**	**5,017**	**4,052**
Capital	**61,266**	**33,466**	**12,794**	**8,844**

Please Note

1) **Excludes expenditure budgets relating to Disabled Facilities Grant funding from 2018/19.**

2) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**

FUNDING THE CAPITAL PROGRAMME 2017-22 **Annex2**

Merton	Capital Programme £000s	*Funded by Merton £000s	Funded by grant and capital contributions £000s
2017/18 Current Budget	**40,039**	**22,572**	**17,467**
Potential Slippage b/f	0	0	0
2017/18 Revised Budget	**40,039**	**22,572**	**17,467**
Potential Slippage c/f	(7,274)	(4,093)	(3,181)
Potential Underspend not slipped into next year	(1,175)	(859)	(316)
Total Spend 2017/18	**31,591**	**17,621**	**13,970**
2018/19 Current Budget	**61,266**	**41,924**	**19,342**
Potential Slippage b/f	7,274	4,093	3,181
2018/19 Revised Budget	**68,540**	**46,017**	**22,523**
Potential Slippage c/f	(17,722)	(16,441)	(1,279)
Potential Underspend not slipped into next year	(2,588)	(2,351)	(236)
Total Spend 2018/19	**48,231**	**27,222**	**21,008**
2019/20 Current Budget	**33,466**	**30,624**	**2,843**
Potential Slippage b/f	17,722	16,441	1,279
2019/20 Revised Budget	**51,187**	**47,066**	**4,122**
Potential Slippage c/f	(10,359)	(10,063)	(296)
Potential Underspend not slipped into next year	(2,108)	(2,108)	0
Total Spend 2019/20	**38,721**	**34,894**	**3,826**
2020/21 Current Budget	**12,794**	**10,448**	**2,346**
Potential Slippage b/f	10,359	10,063	296
2020/21 Revised Budget	**23,153**	**20,512**	**2,642**
Potential Slippage c/f	(4,026)	(3,961)	(65)
Potential Underspend not slipped into next year	(1,808)	(1,652)	(156)
Total Spend 2020/21	**17,319**	**14,899**	**2,421**
2021/22 Current Budget	**8,844**	**8,194**	**650**
Potential Slippage b/f	4,026	3,961	65
2021/22 Revised Budget	**12,870**	**12,155**	**715**
Potential Slippage c/f	(300)	(297)	(2)
Potential Underspend not slipped into next year	(343)	(311)	(33)
Total Spend 2021/22	**12,226**	**11,546**	**681**

*Funded by Merton refers to expenditure funded through Capital Receipts, Revenue Reserves and by borrowing.

Annex 3

Detailed Capital Programme 2018-22

	Scrutiny	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
Corporate Services		£000	£000	£000	£000
Customer Contact Programme	OSC	1,050	250	0	1,900
IT Systems Projects	OSC	1,012	0	0	42
Social Care IT System	OSC	350	0	0	0
Business Improvement		**2,412**	**250**	**0**	**1,942**
Works to other buildings	OSC	300	650	650	650
Civic Centre	OSC	300	300	0	0
Invest to Save schemes	OSC	2,010	300	300	300
Water Safety Works	OSC	100	0	0	0
Asbestos Safety Works	OSC	250	0	0	0
Facilities Management Total		**2,960**	**1,250**	**950**	**950**
Planned Replacement Programme	OSC	1,085	630	1,060	970
Infrastructure & Transactions		**1,085**	**630**	**1,060**	**970**
ePayments System	OSC	0	0	125	0
Resources		**0**	**0**	**125**	**0**
Acquisitions Budget	OSC	5,792	0	0	0
Capital Bidding Fund	OSC	1,186	0	0	0
Multi Functioning Device (MFD)	OSC	0	600	0	0
Housing Company	OSC	9,587	13,088	1,810	0
Compulsory Purchase Orders	OSC	0	0	0	0
Westminster Coroners Court	OSC	460			
Corporate Items		**17,025**	**13,688**	**1,810**	**0**
Corporate Services		**23,482**	**15,818**	**3,945**	**3,862**
Community and Housing		£000	£000	£000	£000
Telehealth	HCOP	44	0	0	0
Adult Social Care		**44**	**0**	**0**	**0**
Disabled Facilities Grant	SC	629	280	280	280
Housing		**629**	**280**	**280**	**280**
West Barnes Library Re-Fit	SC	0	200	0	0
Library Self Service	SC	0	0	350	0
Library Management System	SC	100	0	0	0
Libraries		**100**	**200**	**350**	**0**
Community and Housing		**773**	**480**	**630**	**280**

* OSC= Overview and Scrutiny Commission, CYP = Children and Young People, HCOP = Healthier Communities and Older People SC = Sustainable Communities,

1) **Excludes expenditure budgets relating to Disabled Facilities Grant funding from 2018/19.**
2) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
3) **Compulsory Purchase orders will only be progressed if fully funded**

Annex 3

Detailed Capital Programme 2018-22 Continued………

	Scrutiny	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
Children Schools & Families		£000	£000	£000	£000
Schs Cap Maint & Accessibility	CYP	650	650	650	650
Primary Schools		650	650	650	650
Harris Academy Morden	CYP	844	2,200	0	0
Harris Academy Merton	CYP	321	0	0	0
St Mark's Academy	CYP	200	2,552	2,552	0
Harris Academy Wimbledon	CYP	5,740	1,600	0	0
Secondary School		7,105	6,352	2,552	0
Perseid	CYP	610	0	0	0
Cricket Green	CYP	5,028	0	0	0
Secondary School Autism Unit	CYP	1,330	0	0	0
Unlocated SEN	CYP	296	1,000	0	0
SEN		7,264	1,000	0	0
Admissions IT System	CYP	0	105	0	0
Capital Loans to schools	CYP	109	0	0	0
Children's Safeguarding	CYP	30			
CSF Schemes		139	105	0	0
Children Schools & Families		15,158	8,107	3,202	650

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1) **Excludes expenditure budgets relating to Disabled Facilities Grant funding from 2018/19.**
2) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
3) **Compulsory Purchase orders will only be progressed if fully funded**

Annex 3

Detailed Capital Programme 2018-22 Continued………

	Scrutiny	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
Environment & Regeneration		£000	£000	£000	£000
Parking Improvements	SC	0	60	0	0
Public Protection and Developm	SC	0	0	0	35
Public Protection and Developm		**0**	**60**	**0**	**35**
Fleet Vehicles	SC	542	300	300	300
Alley Gating Scheme	SC	40	40	40	40
Smart Bin Leases - Street Scen	SC	6	0	0	0
Waste SLWP	SC	5,344	0	0	0
Street Scene & Waste		**5,932**	**340**	**340**	**340**
Street Trees	SC	60	60	60	60
Highways & Footways	SC	3,581	3,067	3,067	3,067
Unallocated Tfl	SC	1,000	0	0	0
Mitcham Area Regeneration	SC	2,032	301	0	0
Morden Area Regeneration	SC	1,000	3,000	1,000	0
Morden Leisure Centre	SC	6,389	242	0	0
Sports Facilities	SC	407	1,500	250	250
Parks	SC	1,452	491	300	300
Sustainable Communities		**15,921**	**8,660**	**4,677**	**3,677**
Environment and Regeneration		**21,853**	**9,060**	**5,017**	**4,052**
Capital		**61,266**	**33,466**	**12,794**	**8,844**

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1) **Excludes expenditure budgets relating to Disabled Facilities Grant funding from 2018/19.**
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3) **Compulsory Purchase orders will only be progressed if fully funded**

Annex 4

Growth/(Reductions) against Approved Programme 2018-21 and Indicative Programme 2021-22

Merton	Scrutiny	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
		£000	£000	£000	£000
Business Improvement	OSC	1,050	250	0	(100)
Facilities Management Total	OSC	0	0	0	0
Infrastructure & Transactions	OSC	0	0	0	0
Resources	OSC	0	0	0	0
Corporate Items	OSC	0	0	0	0
Corporate Services		**1,050**	**250**	**0**	**(100)**
Adult Social Care	HCOP	0	0	0	0
Housing	SC	0	0	0	0
Libraries	SC	0	0	0	0
Community and Housing		**0**	**0**	**0**	**0**
Primary Schools	CYP	0	0	0	0
Secondary School	CYP	0	0	0	0
SEN	CYP	0	0	0	0
CSF Schemes	CYP	0	0	0	0
Children Schools & Families		**0**	**0**	**0**	**0**
Public Protection and Developm	SC	0	0	0	0
Street Scene & Waste	SC	0	0	0	0
Sustainable Communities	SC	0	0	0	0
Environment and Regeneration		**0**	**0**	**0**	**0**
Capital		**1,050**	**250**	**0**	**(100)**

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Indicative Capital Programme 2022-27 Annex 5

	Scrutiny	Proposed Indicative 2022/23	Proposed Indicative 2023/24	Proposed Indicative 2024/25	Proposed Indicative 2025/26	Proposed Indicative 2026/27
Corporate Services		**£000**	**£000**	**£000**	**£000**	**£000**
Customer Contact Programme	OSC	0	0	0	1,000	1,000
IT Systems Projects	OSC	100	75	682	550	0
Social Care IT System	OSC	0	2,100	0	0	0
Business Improvement		**100**	**2,175**	**682**	**1,550**	**1,000**
Works to other buildings	OSC	650	650	650	650	650
Invest to Save schemes	OSC	300	300	300	300	300
Facilities Management Total		**950**	**950**	**950**	**950**	**950**
Planned Replacement Programme	OSC	900	775	630	1,060	970
Infrastructure & Transactions		**900**	**775**	**630**	**1,060**	**970**
Financial System	OSC	700	0	0	0	0
Resources	OSC	**700**	**0**	**0**	**0**	**0**
Multi Functioning Device (MFD)		0	0	600	0	0
Corporate Items		**0**	**0**	**600**	**0**	**0**
Corporate Services		**2,650**	**3,900**	**2,862**	**3,560**	**2,920**
Community and Housing		**£000**	**£000**	**£000**	**£000**	**£000**
Disabled Facilities Grant	SC	280	280	280	280	280
Housing		**280**	**280**	**280**	**280**	**280**
Library Enhancement Works	SC	0	0	0	350	0
Library Management System	SC	100	0	0	0	0
Libraries		**100**	**0**	**0**	**350**	**0**
Community and Housing		**380**	**280**	**280**	**630**	**280**
Children Schools & Families		**£000**	**£000**	**£000**	**£000**	**£000**
Schs Cap Maint & Accessibility	CYP	650	650	650	650	650
Primary Schools		**650**	**650**	**650**	**650**	**650**
Admissions IT System	CYP	0	105	0	0	0
CSF Schemes		**0**	**105**	**0**	**0**	**0**
Children Schools & Families		**650**	**755**	**650**	**650**	**650**
Environment and Regeneration		**£000**	**£000**	**£000**	**£000**	**£000**
Parking Improvements	SC	0	0	60	0	0
Public Protection and Development	SC	0	0	0	0	35
Street Scene & Waste		**0**	**0**	**60**	**0**	**35**
Fleet Vehicles	SC	300	300	300	300	300
Alley Gating Scheme	SC	40	40	40	40	40
Waste SLWP	SC	0	0	0	3,998	0
Street Scene & Waste		**340**	**340**	**340**	**4,338**	**340**
Street Trees	SC	60	60	60	60	60
Highways & Footways	SC	3,067	3,067	3,067	3,067	3,067
Sports Facilities	SC	250	250	250	250	250
Parks	SC	300	300	300	300	300
Sustainable Communities		**3,677**	**3,677**	**3,677**	**3,677**	**3,677**
Environment and Regeneration		**4,017**	**4,017**	**4,077**	**8,015**	**4,052**
Capital		**7,697**	**8,952**	**7,869**	**12,855**	**7,902**

* OSC= Overview and Scrutiny Commission, CYP = Children and Young People, HCOP = Healthier Communities and Older People SC = Sustainable Communities,

Please Note

1) Excludes expenditure budgets relating to Disabled Facilities Grant, Transport for London Grant Excludes expenditure budgets relating to Devolved Formula Capital for schools.
2) Compulsory Purchase orders will only be progressed if fully funded

1. INTRODUCTION

Welcome to Merton's Workforce strategy, which outlines our aims for the period 2018 – 2021 and shows how we will support, engage with and develop our workforce, so they are equipped to meet the challenges of continuing to deliver high quality services to our customers and local communities.

The people, who work for, work with, volunteer with, and wish to work for Merton Council, are vital for us to reach our goals. All of our achievements as a council, and the excellent services we deliver to our public, are reliant on us having a suitably skilled, able and equipped workforce, who demonstrates our values and behaviours. The Council has won a number of awards, which is testament to the commitment, and professionalism of our people. This strategy aims to build on the success and dedication of the current workforce, and ensure that we have the structures and resources to meet the challenges of the future.

Through our Merton 2015 programme we have transformed the way we work and what we do - successfully delivering savings and new approaches to the services we offer our residents, while maintaining customer satisfaction. In order to achieve further changes, council departments have designed Target Operating Models, which are focussed on providing the highest quality services to the public, operating with efficiency and accountability.

The Council's ambition to be London's Best Council provides the Council with the momentum to continue to strive to be the best that we can be individually and collectively. Being London's Best Council provides a structure, which is supported by the themes from the workforce strategy.

The strategy shows how departments, managers and human resources will jointly contribute towards achieving our organisational priorities, and addresses six key areas:

- Workforce planning
- Recruitment and Retention
- Organisation and Workforce Development
- Morale, Health and wellbeing
- Leadership
- Apprenticeships

Through the action plans and outcome measures that we are proposing, we believe that we will equip Merton Council with the modern and dynamic workforce that is needed to take on the challenges of delivering excellent public services for years to come.

Ged Curran

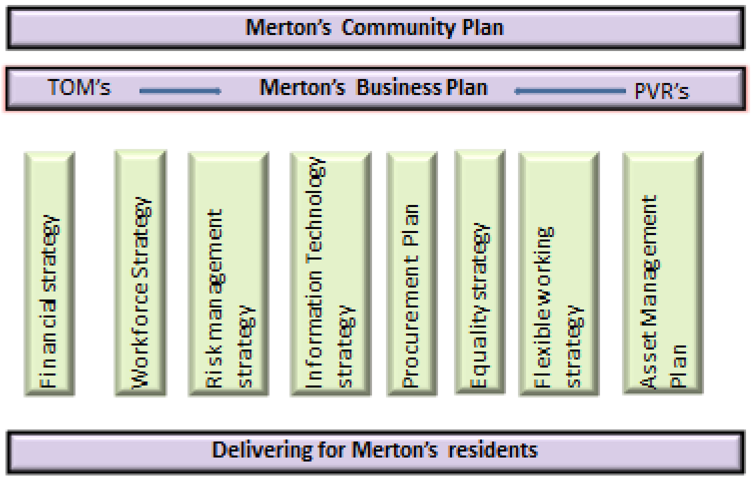
Chief Executive

2. BACKGROUND

Merton Council is undergoing a period of sustained and conscious transformation in order to best respond to the changing environment (especially financial) and customer expectations. We are working together to shape services and the organisation to ensure a successful future for our residents and staff.

2.1 Key Council priorities

The key priorities for the borough are captured within the Community Plan, developed by the Merton Partnership. The strategy is closely aligned to the Community Plan, which sets the overall long-term direction and vision for the borough to 2021 it links with the medium term financial strategy.



The Community Plan identified the first four priority areas, with Corporate Capacity having been added by the Council.

- Children and Young People – Better opportunities for youngsters
- Health and Well Being – A healthy and fulfilling life
- Sustainable Communities and Transport – Keeping Merton moving
- Safer and Stronger – Being safe and strong
- Corporate Capacity

The theme of Corporate Capacity encompasses the effective recruitment, development and management of staff. This Workforce Strategy outlines how we will transform the Council's workforce and be fit for purpose in 2021.

2.2 How the Council has changed in the last 3 years

We take a proactive approach to planning for our future. Since our Workforce Strategy was published in 2015, we have been continuing to manage our transformation programme through the Merton Improvement Board and Departmental Management Teams. Despite reducing our workforce to (1500 fte) our quest to continuously improve has remained. The annual residents' survey states that the vast majority of Merton residents are satisfied with their local area as a place to live (92%). This is a positive finding and is 12-percentage points higher than the national benchmark of 80% (LGA polling Feb 17). The 2016 staff survey shows that we have a committed workforce who are willing to go the extra mile to deliver services to our customers (89%). The Council is now aiming to be London's Best Council.

Continued delivery of quality and value for money services for our residents has been achieved through reviewing our service delivery models and developing innovative solutions, including shared services, partnership working and the development of volunteering in the borough. Continuous improvement is at the heart of our approach and we have introduced lean methodology to drive out waste from our processes and now work in a highly focused and lean operation.

Our employees shown themselves equal to the challenges, and as we plan the future shape of our services and organisation, we are laying the foundations to ensure that the workforce continues to enable the Council to best serve our residents.

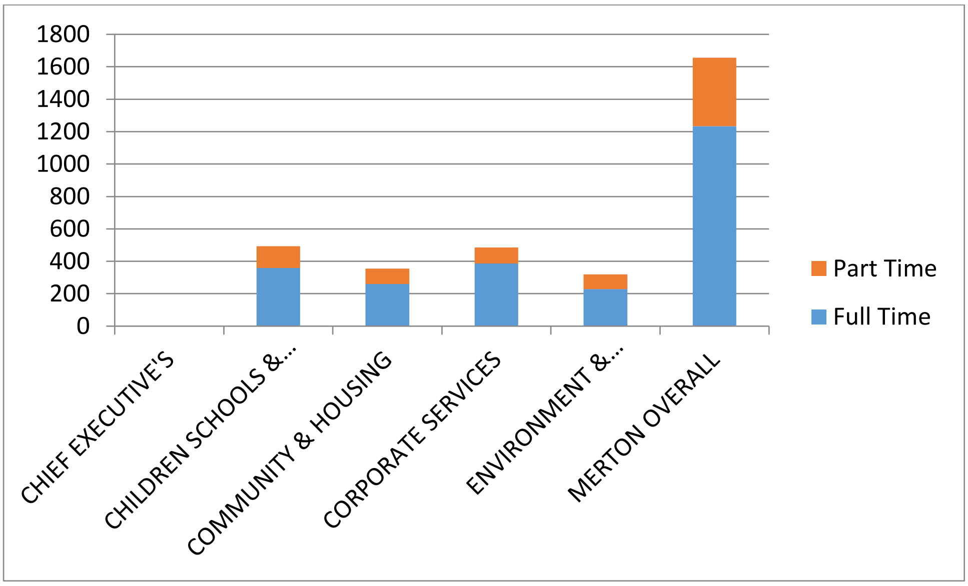
3. HIGH LEVEL SHAPE OF THE WORKFORCE

The workforce in Merton has changed over the last three years. In particular:

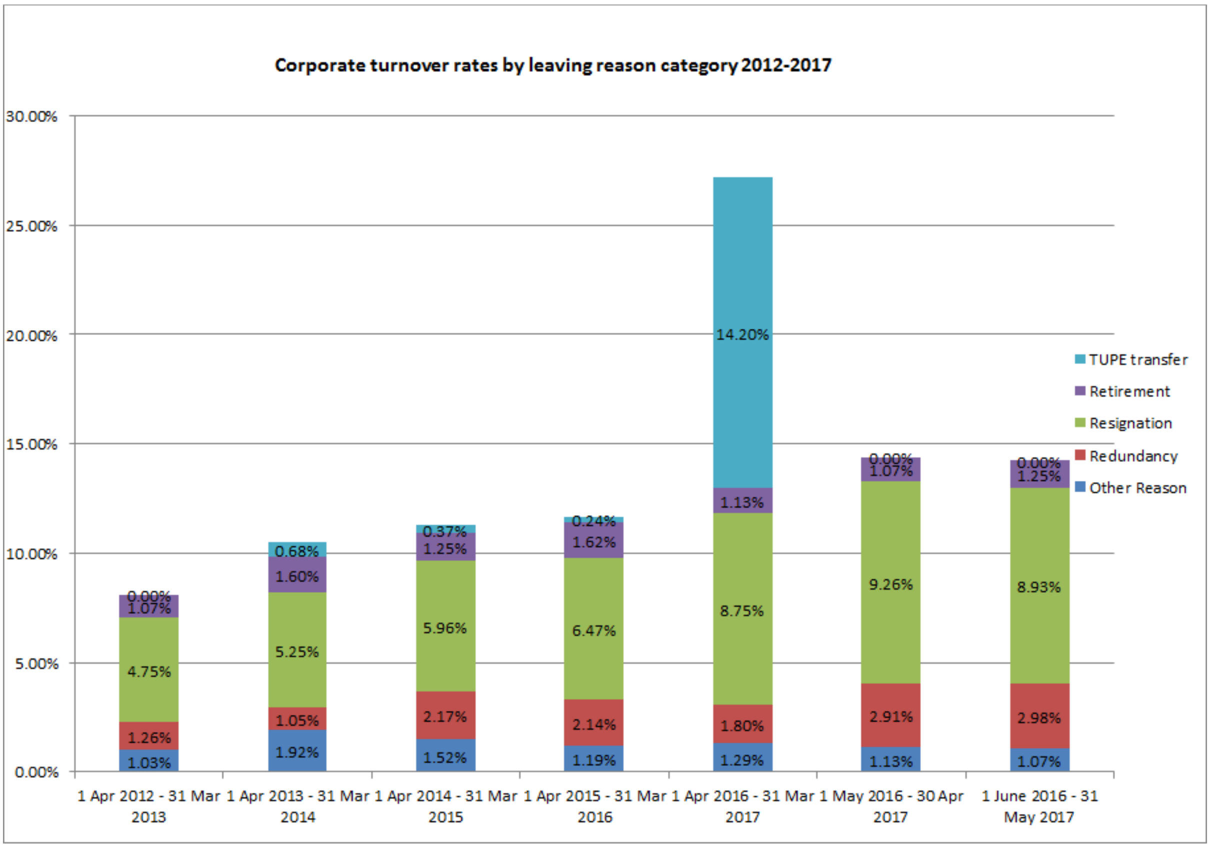
- We have transferred out staff who worked in our Waste and Greenspaces teams to third party contractors. This will have an impact on the demographics of our workforce.
- Changes in the education provision with an emphasis on Early Years
- We host a number of shared services with other boroughs such as Regulatory Services and Legal Services
- We have reduced our agency spend over the period – through a combination of temp-perm recruitment, targeted advertising campaigns and the transfer out of teams that had high agency usage. We have also negotiated a reduction in the cost of that contract
- The Council is still in the early stages of adjusting to the new IR35 regulations and these will doubtless have an impact on the shape of our workforce.
- The workforce is ageing with an increasing number of employees over the age of fifty.
- Merton's sickness remains high and remains above the London average.

COMPOSITION OF THE WORKFORCE

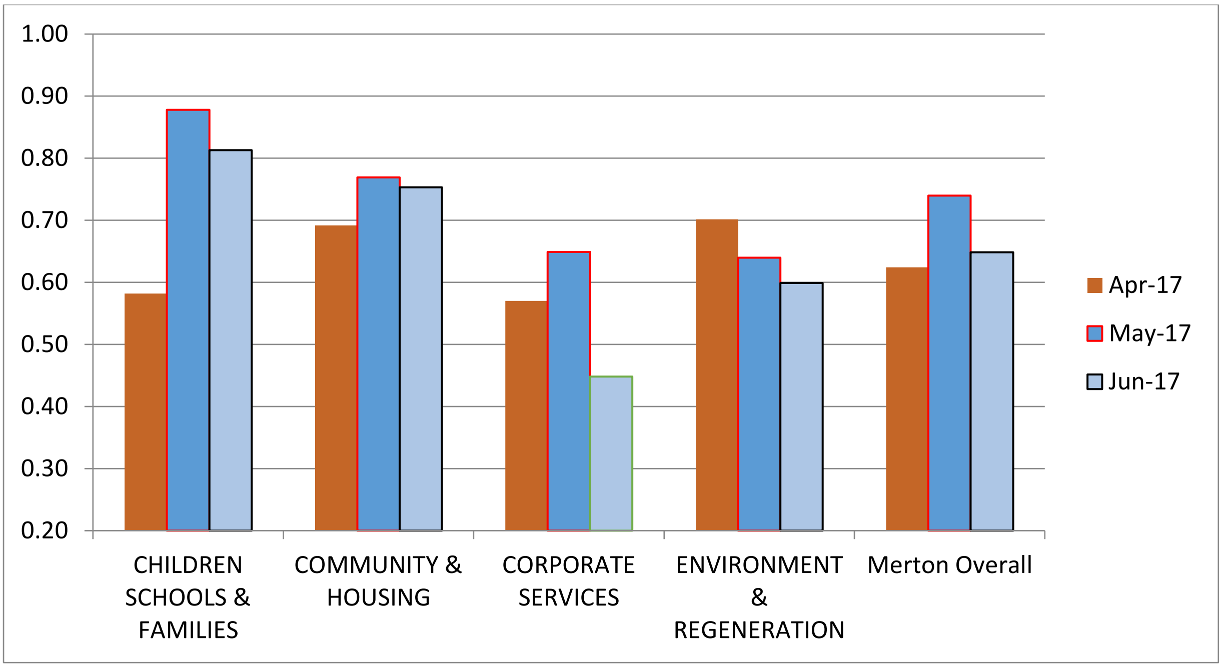
Number of Employees by Department, Part Time and Full Time as at 30th June 2017



Turnover rates by Leaving Reason 2012-2017

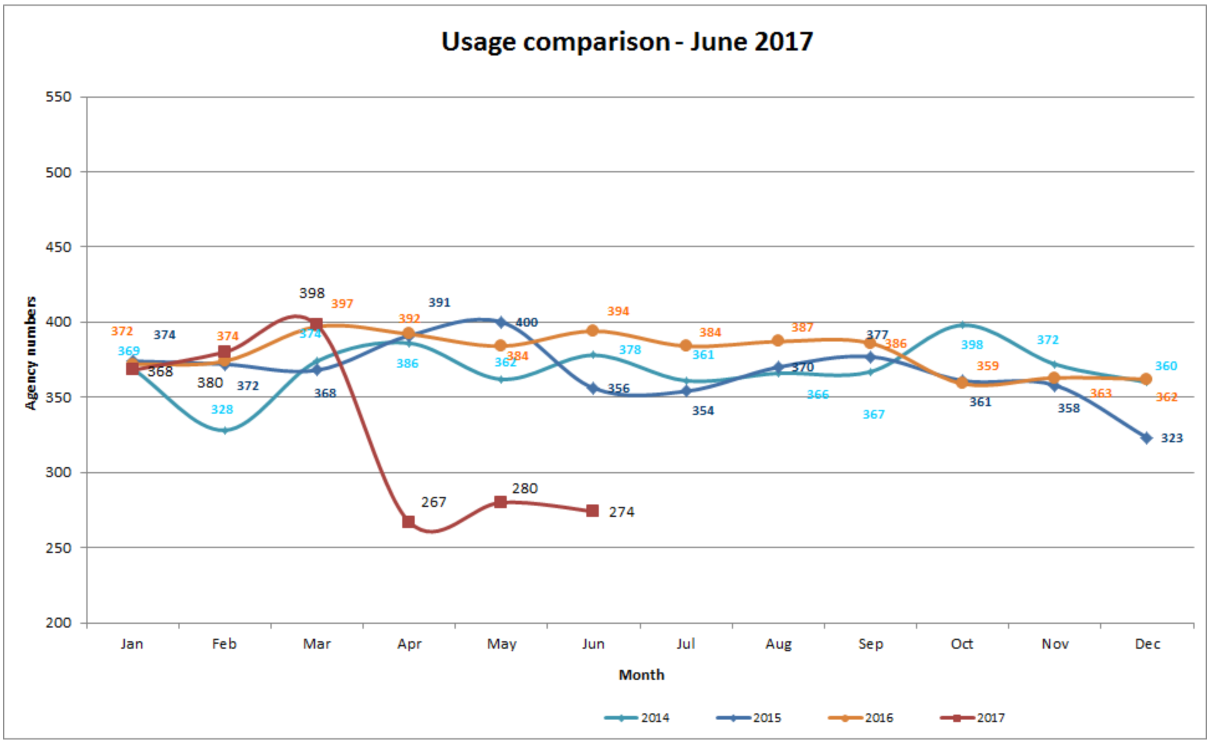


Workforce monthly sickness trends since April 2017: working days lost per FTE



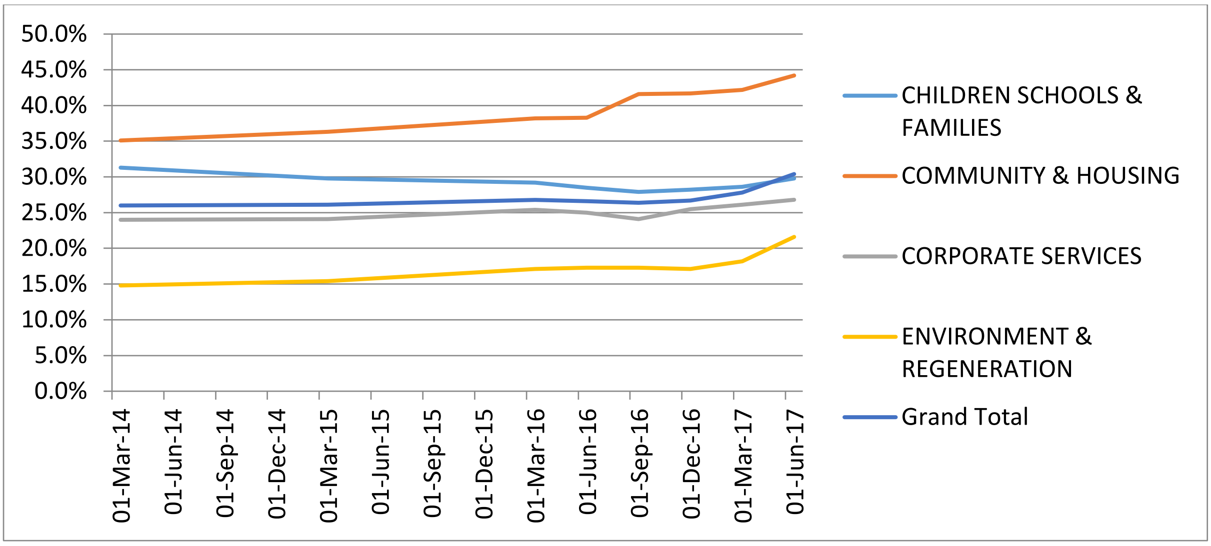
Annual sickness rates are higher than London averages and remain a corporate priority.

Agency Worker Usage 2014-2017



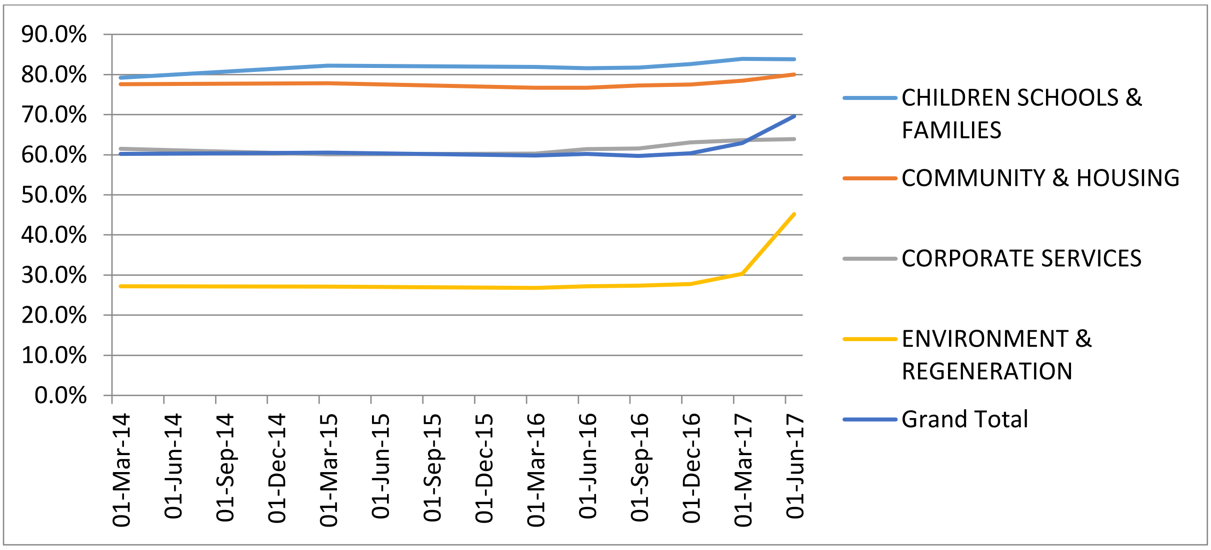
The number of agency workers has reduced with the transfer out of Front Line services.

Workforce BME Employee trend 2014-2017.



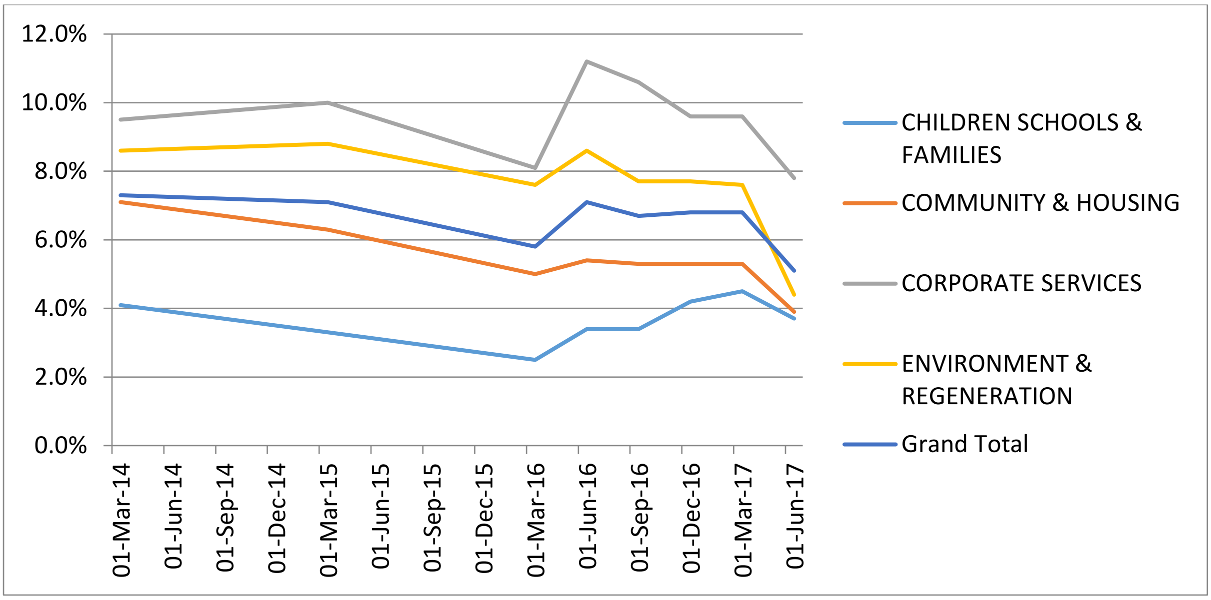
There has been a steady ongoing increase in the % BME employees, with a more marked increase with the transfer out of Green Spaces and Waste Services in February/March 2017.

Workforce Gender trend 2014-2017



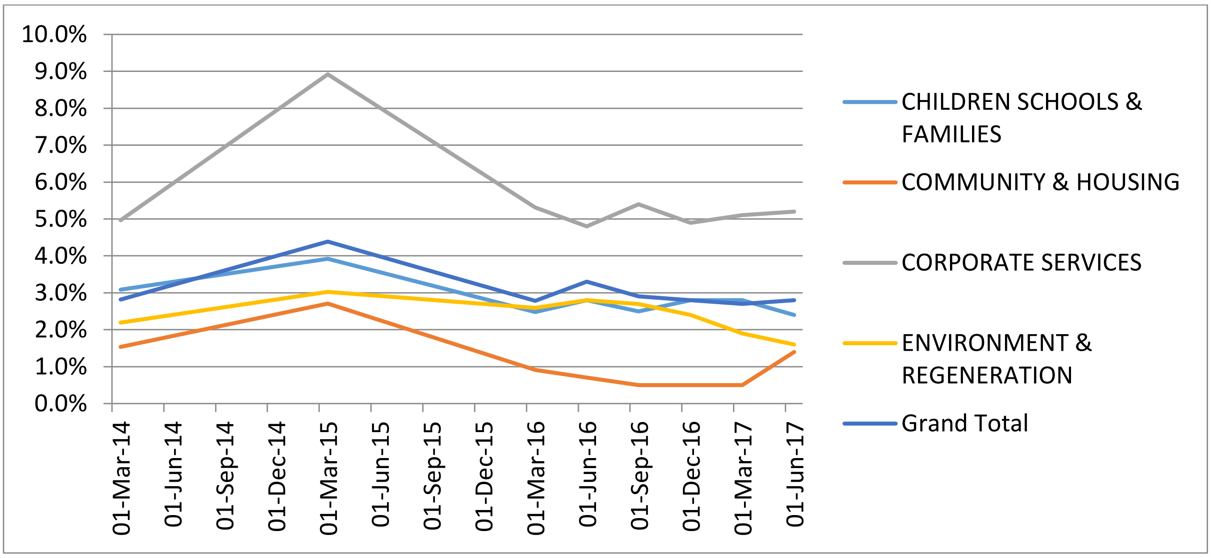
After remaining stable for many years, the percentage of female employees in the workforce increased with the mainly male Green Spaces and Waste services in February/March 2017.

Workforce Disabled trend 2014-2017



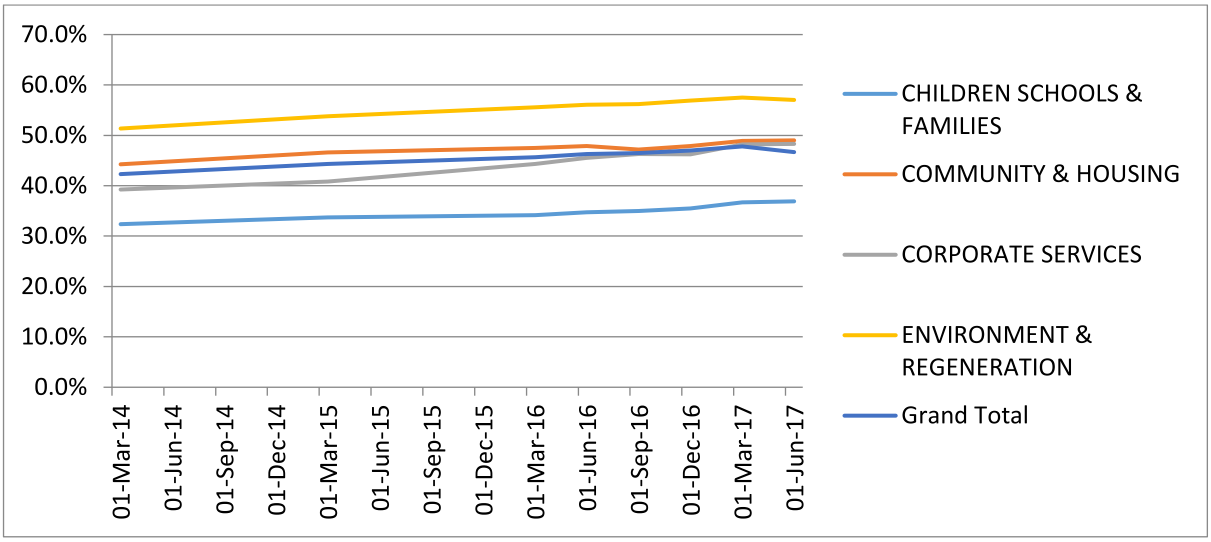
The proportion of employee who have declared a disability has been declining for some years, with a more marked decrease following the Green Spaces/Waste transfers.

Workforce younger employees age 16-24 trend 2014-2017



After a peak during 2014/2015 due to the recruitment of apprentices, the proportion of young people in the workforce has declined. A fresh intake of entry-level apprentices is planned for 2017/2018.

Workforce older employees age 50+ trend 2014-2017



Whilst the proportion of young people in the workforce has decreased, the proportion of older employees has been showing a slow but steady increase – driven in part by more employees remaining in post beyond the age of 65 due to the removal of the compulsory retirement age.

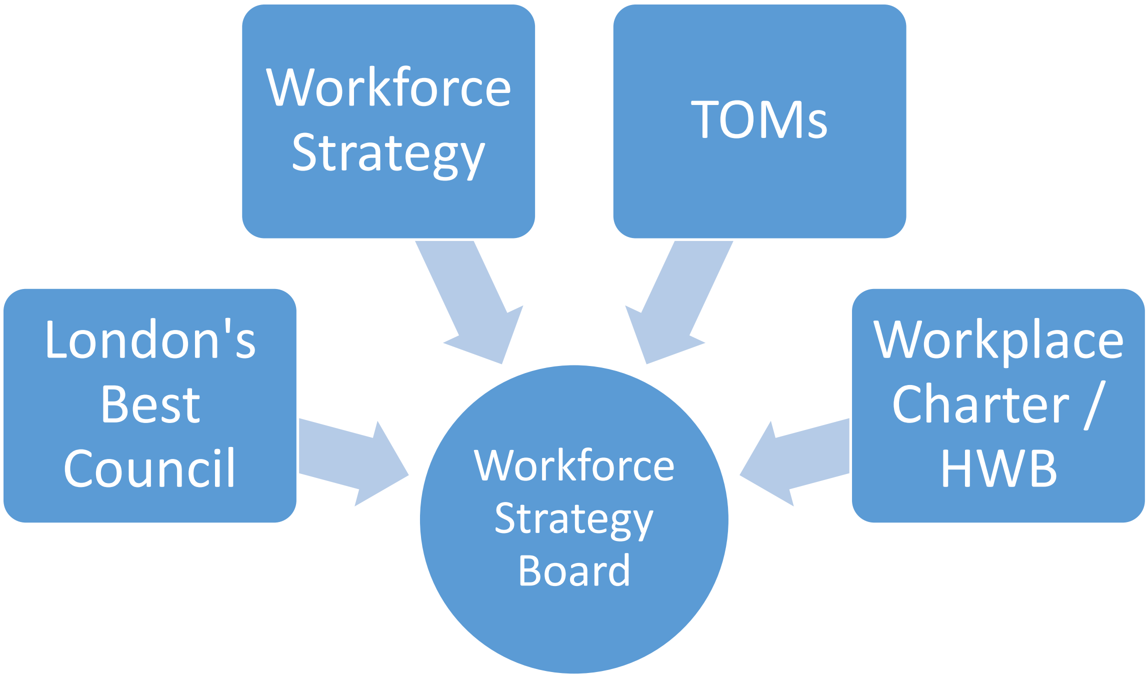
4. STRATEGY

The direction for the workforce strategy is the same as for the council as a whole; to be London's best council and in this context to have London's best workforce

4.1 Model for achieving the strategy

The Council has a two-pronged model for achieving its workforce strategy. The workforce strategy board has a strategic oversight of all people issues in the local authority. It also manages the interface between key corporate boards and priorities and the DMTs to ensure that there is a consistent process.

It is supported in this by DMTs as we recognise that they are the driver of change and improvement in the local authority. DMTs are responsible for employee engagement, recruitment and development with the Board providing the infrastructure to support this ambition. This can seen on the following diagram:



In addition to this, the workforce strategy board will monitor the action and outcomes identified within this document, setting targets and monitoring delivery. This will take place quarterly.

5. KEY WORKFORCE PRIORITIES FOR THE FUTURE

We have identified six priorities for workforce transformation to support the realisation of the Council's plans for the future:

- Workforce planning
- Recruitment and Retention
- Organisation and Workforce Development
- Morale, Health and wellbeing
- Leadership
- Apprenticeships

What we want to achieve, why this is a priority, what actions we will take and who will be responsible to lead each action are outlined in the following sections.

5.1 Workforce planning

The shape of the workforce in Merton is developing to reflect new service delivery models and to support the organisation to achieve its business objectives and outcomes. We will still deliver similar services, but through a number of new ways for example through our partners, shared services and efficient delivery models.

What we want to achieve

- Correct alignment of workforce size, skills base
- An agile workforce, which is responsive to changing needs
- A workforce which is representative of and sensitive to the community which is serves
- HR policies which are clear and consistent, and which are focussed on a manager-led approach to managing staff issues.

Why this is a priority?

The composition of Merton's current workforce requires changes to ensure our continued success, meet future requirements and to better reflect our communities. We need to be able to accurately predict the shape of the workforce we will need to deliver our strategic plans and our services.

Work has been done to expand and improve the HR data provided to CMT and various council committees but there is recognition that this can be improved further. In addition, management information about the work of the HR service would supplement this.

Actions and outcomes

Action	Outcome
Based on departmental TOMs, design the future shape of the workforce to best match its service delivery plans and financial context;	A new workforce structure is in place supporting future service plans
Determine organisational structures, which support future delivery models - determine the desired combination of directly employed staff, shared services, externalised work, agency workers and volunteers, as well as appropriate spans of control for each service area;	A structure is in place that allows us to recruit intelligently and with an element on long term planning rather than being reactive.
Review and action requirements to reflect legislative and regulatory changes as they emerge (e.g. Care Bill, BSF and Children and Families Act);	We are proactively training our workforce to ensure that they are appropriately skilled for the work they do. Better Training Needs Analysis
Manage the transition from the current to the future structure;	Smooth well, managed and on time transition supporting our staff and saving the organisation money
Establish on-going monitoring for workforce arrangements through accurate and relevant management information for decision-making e.g. workforce, equality, productivity and financial data;	Better decision making, more forward planning

5.2 Recruitment and retention

The organisation has a clear and effective recruitment and retention focus and plan of key workforce skills and behaviours. This includes succession planning, and managing turnover.

What we want to achieve

- Make Merton an employer of choice through creating an innovative and positive brand image;
- Ensure future key talent is successfully recruited, retained and developed in appropriate roles within the Council to deliver effective services to residents and that capacity is built across the future workforce to implement new service delivery models;
- Establish inter-organisational collaboration to ensure that Merton's residents are served by the best people, whether within the Council or through our partners;
- Reduce recruitment and turnover costs and agency use;

Why this is a priority

We want to recruit, develop and retain talented people to enable us to deliver outstanding services to our residents. As our requirements and service delivery models change, our recruitment activity needs to evolve and respond to meet demand as cost effectively as possible. We want to attract the right people with the right skills and behaviours. We want to build leadership and strategic capacity. In specific divisions within the Council we have a high level of turnover, retention needs to be understood and stabilized.

Actions and Outcomes

Action	Outcome
Continue to optimise technological solutions and embed the functionality of our applicant tracking system to meet hiring managers' and candidates' needs;	HR processes are easy to self-serve and managers need less administrative support
Develop our employer brand, value proposition to become an employer of choice, building on the success of recent awards;	Merton Council perceived to be an employer of choice, attracting high quality candidates;
Given financial constraints, focus work on reward and remuneration for hard to recruit and retain roles by analysing market trends and developing cost effective solutions; sustain effective recruitment and retention of key staff groups, e.g. qualified social workers and children's specialist functions;	Core professional and business critical skills are retained and available within the Council Reduction and better targeting in the use of agency staff – reduction in agency rates in social work roles;
Collaborate with strategic partners to develop a mobile and agile workforce serving the residents of Merton, develop new models, such as inter-organisational working, partnerships and volunteering;	The structure and size of the Council meets current requirements and is adaptable to future needs Talented people are delivering our services through direct employment or other service delivery models including partnership working, shared services or volunteering;
Create new approaches for staff to develop and progress up the organisation, in the context of an organisation which is reducing in size and where opportunities to create suitable vacancies are more limited. It may need to be accepted that where we invest in staff career development, in some cases those staff may then move on to new opportunities outside the organisation.	Balanced workforce in terms of skills, age and experience, addressing current concerns in workforce demographics; Employees are more satisfied with opportunities to develop themselves and progress their employability;

5.3 Organisational and workforce development

The workforce must be equipped with the skills and behaviours enable the Council to achieve new and improved service delivery models (e.g. flexible working, customer service, IT).

Key to delivering certain elements of this training with fewer resources is to consider different ways of learning such as blended learning, e-learning and webinars, not only to reduce costs but to offer greater flexibility to staff in how and where they can access learning opportunities. Use of apprenticeship levy funding to develop existing staff can also be used to ease pressure on learning and development budgets

Consideration should be given to whether any funding for training and/or development should be requested up front so that L&D expenses to be frontloaded within these change projects. It should be noted in this context that control of the L&D budget, and release of any funding, rests with Human Resources.

What we want to achieve

- Accurate mapping of future workforce function, form, skills and behaviours to alternative business delivery models
- Ensure staff work in a modern, flexible way to improve productivity and efficiency and equip them with key future skills and behaviours to enable them to do so
- Provide first class customer service to meet our residents' needs, through new service channels where appropriate
- Best practice in safeguarding is embedded in all relevant roles and activities
- Develop staff to undertake skilled hard to recruit roles
- Promote diversity and cultural awareness for staff and managers
- Change management and communication training should champion best practice in the continuing transformation within the council and to support staff through this.

Why this is a priority

It is crucial for Merton's success that our workforce has the right skills, behaviours and adaptability to meet the demands of the transformation and new service delivery models. Our managers need the skills and resources to effectively lead our teams and we need to be able to respond to organisational as well as legislative changes. The requirements on organisational and workforce development are changing, with more focused and flexible options becoming the norm.

Actions and Outcomes

Action	Outcome
Managers' capability development specifically on building strategic capacity through future planning, accurate workforce planning and designing spans of control	Increased customer satisfaction with effectively delivered services.
Develop first class customer service behaviours to meet our residents' needs, through new service channels where appropriate;	Increased customer satisfaction with effectively delivered services.
Embed the management and staff behaviours across the organisation to support performance	Leaderships behaviours are clearly demonstrated and performance improved;
Ensure that all statutory CPD requirements are met;	A statutorily compliant workforce
Establish effective change management practices to support employees through the transformation;	Employees feel supported through organisational change and report that communication was effective; Employees report that they feel supported in performing their roles in a day-to-day basis and through organisational changes
Prioritise learning and development spending to best support the Council's objectives and transformation;	Learning needs are effectively identified and support the organisations' overall objectives in the most cost effective way; Outcomes of learning and development activity can be clearly linked to the delivery of our priorities and key workforce objectives;

Action	Outcome
	Learning and development accessible to all staff and partners where appropriate; Performance of staff is increased through development of key skills and behaviours supported through honest performance appraisal conversations;
Further develop commercial and commissioning skills as these are key priorities for the workforce of the future	Savings are achieved and commissioned services are improved.
Run a diversity and cultural awareness programme including training	A more cohesive workforce able to serve our communities better
Develop the Council's future leaders	Potential future leaders have been identified, ensure equal access to opportunities and people are engaged on a talent management programme

5.4 Morale, health and wellbeing

We need to ensure that the organisation understands what a healthy workforce looks like and supports staff to achieve this.

What we want to achieve

- An improved understanding of the issues underpinning workforce wellbeing, and develop actions to optimise wellbeing, productivity, engagement and attendance.
- Improved morale and employee engagement

Why this is a priority

We want to be a healthy and motivated workforce, able to meet the demands of the Council, its residents and customers. We want to understand and address the root causes of sickness and act to enhance engagement and support the wellbeing of staff and improve attendance rates.

Actions and outcomes

Action	Outcome
Promote a healthy workplace, including initiatives on mental health and wellbeing	A healthier workforce with a reduction in number of days lost through sickness – a stretch target of moving to the bottom quartile from the upper quartile for London. Employees are aware of available support structures and make use of these as required e.g. Employee Assistance Helpline
Improve access to data and information for managers, to help them manage sickness better – embedding an attendance and performance culture	A healthier workforce with a reduction in number of days lost through sickness – a stretch target of moving to the bottom quartile from the upper quartile for London,
Provide policies and practices that reflect the requirement for new ways of working and service delivery	Employees are more satisfied with their work / life balance

Action	Outcome
	Flexible working practices are effectively implemented and have a positive impact on morale
Review employee engagement initiatives and develop ways to increase engagement and morale	We have a culture of employee engagement: Staff Attitude Survey results improving each time with a stretch target of 80% satisfaction

5.5 Leadership

To lead the changes outlined in this strategy, the Council requires its leaders to be able to engage with staff; even in times of ambiguity and significant change. Merton requires its leaders to be solutions focussed, inspirational and be able to work collaboratively with other leaders and partners to deliver seamless services to our employees, partners, residents and customers.

What we want to achieve

We want to provide strong leadership, clear direction, trust and confidence to the workforce and members. We want our leaders to be open, fair, transparent and clear about the vision and the journey. We want our leaders to have integrity and a good understanding about the services they deliver to our residents and customers

Why this is a priority

We want to ensure that we are able to provide good services during a time of financial constraint and in an environment, which is volatile, uncertain, chaotic and ambiguous (VUCA).

Actions and Outcomes

Action	Outcome
Development of programme for leaders	More collaborative working Less silo working Build collective ownership Reduction in blame
Improve project delivery	More success in the Council's delivery of large and small projects
Managing our resources effectively	Budgets are well controlled, staff are well supported, contracts are well managed.

5.6 Apprenticeships

With the introduction of the government's apprenticeship levy from April 2017, the Council will be making levy contributions of £577k per annum.

What we want to achieve

In order to maximize "claw back" of monies the Council will expand its apprenticeship program to include higher-level apprenticeships for existing employees addressing a number of identified training needs including, developing management and commissioning skills, and professional development. Apprenticeships will also be used to develop staff to carry out hard-to-recruit roles in the workforce.

Why this is a priority

The Government requires all organisations to increase the number of apprentices within their workforce.

In addition, the use of apprentices, and especially higher level apprentices, provides Merton with an opportunity to upskill our workforce at a time when other budgets to support this are reducing. Apprenticeships also help with elements of workforce planning and enable us to meet our duties corporate parents and to school leavers in Merton.

Actions and Outcomes

Action	Outcome
Leverage the opportunities for development arising from shared services and partnerships, and the new apprenticeship frameworks;	More apprentices
Increase apprenticeships through our contracting	More commitments to apprenticeships within specifications, contracts and well monitored
Develop a menu of higher level apprenticeships	Ensure take up of higher level apprentices across the organisation
Working closely with CSF to ensure provisions are made for apprenticeships for vulnerable people	Well-supported young people progressing well through apprentice training.
Aim to replace longstanding agency assignments with apprentices	Less agency staff and more apprentices

6. Conclusion

Delivering the actions in this strategy will:

- enable the Council to realise its ambition to be London's Best Council.
- support the changes we need to make to ensure deliver effective services efficiently
- promote and develop a flexible and dynamic workforce

PROCUREMENT STRATEGY 2017

Section 1 – Introduction

Procurement is defined in the National Procurement Strategy as:

“The process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the whole cycle from identification of need, through to the end of a service contract or the end of the useful life cycle of an asset. It involves options appraisal and the critical ‘make or buy’ decision which may result in the provision of services in house in appropriate circumstances”

Although the definition is primarily about procurement, it also about the need to secure sustainable services, products and outcomes which meet the needs of the community we serve. Strategic procurement also encompasses collaboration, including the need to develop partnerships, consider delivery options and ensure value for money for every pound spent.

This document sets out the Council’s strategic approach to procurement for the next three years. It is not intended to be a procurement manual; however, the principles should be applied to all procurement and commissioning, recognising that procurement must work closely with our health and social care colleagues to deliver value for money from all commissioning and procurement.

Consideration of this strategy is not optional and it should be read in conjunction with the Council’s Contract Standing Orders (CSO’s).

The Procurement Strategy emphasises the continuing importance of sustainable procurement being used to support wider social, economic and environmental objectives in ways that offer real long term benefits to the residents of this borough.

Cost reduction and efficiency targets will not be achieved if the Council fails to approach competition positively, taking full account of the opportunities for innovation and genuine partnerships, which are available from working with others in the public, private and Voluntary, Community and Faith Sectors (“VCFS”).

This strategy provides a corporate focus for procurement. It embraces the Council’s commitment to strategic procurement and sets out the Council’s aspirations. It is not a ‘user manual’. More detail on procurement processes and issues will be found within the Contract Standing Orders and on the procurement intranet.

The strategy will contribute to delivering the long term goals of:

- The Business Plan 2018-22
- The MTFS
- Community Plan
- London’s Best Council by 2020

The principal means of disseminating detailed procurement guidance are the Commercial Services Team (CST), and the intranet.

Section 2 – Objectives and Benefits

The overarching objectives of this strategy are:

- To evaluate and improve current procurement practices to achieve better value for money and to ensure customer/client needs are met
- To ensure best practice examples are identified and applied consistently across the organisation
- To align procurement activities with other strategies adopted and to ensure that corporate objectives are addressed
- To ensure that current and future procurement activities are planned, monitored, and reviewed effectively including identifying opportunities for collaboration with both private and public sector bodies as well as the VCFS
- To ensure the delivery of a category management approach to commissioning and procurement, across the entire organisation

In taking this strategy forward, the Council expects to realise the following benefits:

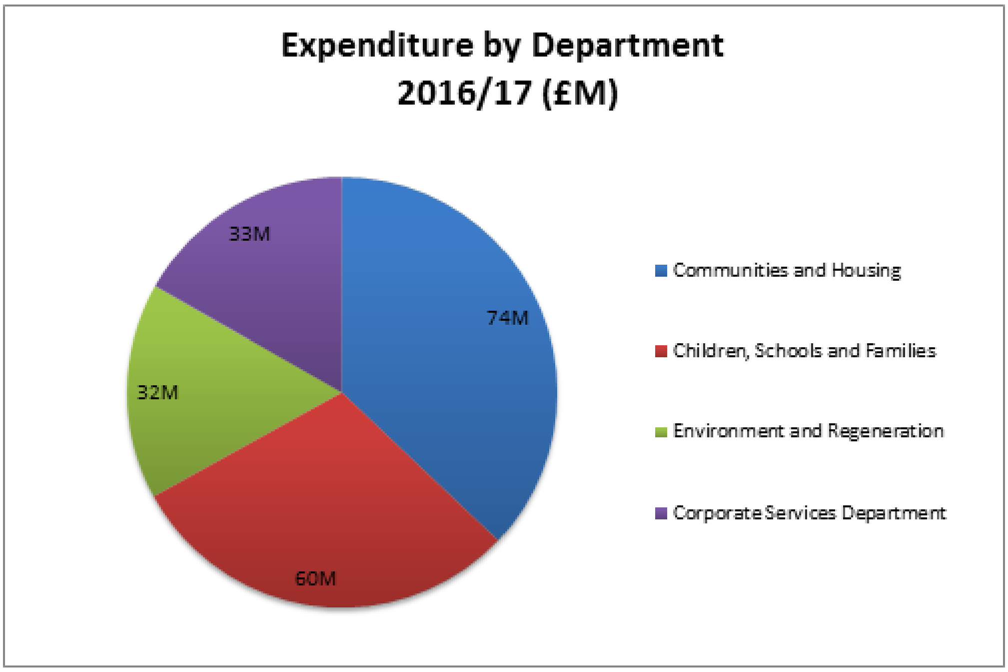
- ➢ Demonstrate continuous improvement and achieve value for money through the efficient procurement of goods and services
- ➢ More efficient procurement processes
- ➢ Better risk management
- ➢ Strategic procurement planning
- ➢ Effective spend analysis and measurable cash savings
- ➢ Proactive contract management
- ➢ Greater use of standard processes and templates
- ➢ Compliance with appropriate legislation
- ➢ Compliance with the Council's Contract Standing Orders
- ➢ Collaboration, including with other authorities, local businesses and the VCFS
- ➢ Greater use of the e-Tendering system
- ➢ Encourage communication and interaction with local and national suppliers to understand their views
- ➢ Develop relationships between the Council, the business community and the broader voluntary sector which create mutually advantageous, flexible and long term relations

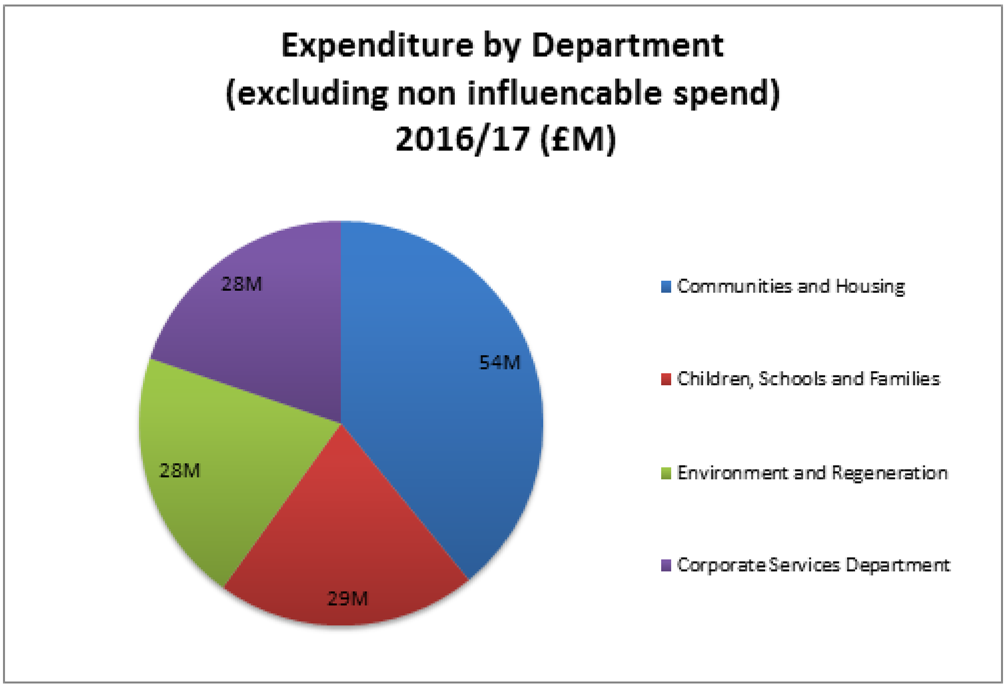
Our vision for procurement is to provide a first class service for our residents whilst we build on best practice to ensure value for money in all our procurement exercises.

Section 3 - Overview of Procurement

The London Borough of Merton spends approximately £200m each year on goods and services on behalf of Merton's residents. Of that £200m, the Council can influence approximately £140m. The range of goods and services is varied but includes services for schools; waste collection; care services for children and adults; maintaining the highways, parks and services; encouraging business growth; and major construction works.

Updated expenditure 1 April 2016 – 31 March 2017





CST is part of the Infrastructure & Transactions division of Corporate Services department and was set up specifically to provide procurement support, advice and guidance to the departments and responsible officers. Procurement in the Council takes place across all departments and was undertaken in what is called a 'devolved' model. This means that responsible officers in the departments undertake day-to-day operational procurement.

Following a review in 2017, it was agreed to pursue a Centre-led approach.

The consolidated category management approach for high value, high risk expenditure with devolved responsibility for low risk, low value expenditure will ensure a common strategic approach to sourcing and supplier management, driving much needed Value for Money and savings.

The revised approach will provide Departments with a level of local control and influence with respect to commissioning, brokerage and contract management, whilst providing specialist support through a professional central resource able to assist in the development and implementation of sourcing strategies.

CST has recently undergone a restructure so as to better support the agreed delivery model for procurement and is expected to be fully recruited to by March 2018.

The main objectives of the CST are to:

- provide professional procurement resources to support and advise internal and external partners such that all Merton's procurement decisions deliver:
    - Council objectives by demonstrating value for money
    - Synergies with the Council's MTFS
    - The effective use of resources
    - Expenditure that is managed strategically to achieve social and community benefits
    - Continuous improvement in service delivery
    - Deliver efficiency savings over a three-year period through the implementation of category management
- lead the implementation of the Council's Category Management approach and its Make or Buy agenda by providing a professional procurement service to all clients across the Council.
- be responsible for the development and delivery of robust, overarching Category Management plans, working alongside clients to profile and deliver the service areas procurement and commissioning strategies.
- provide strategic commercial advice as and when required
- provide specific advice on EU Regulations, UK Public Contracts Regulations, and associated areas, including latest case law
- drive best practice in procurement
- provide spend data and analysis and to assist in the Identification of potential savings opportunities and areas of collaboration

- ensure the Council's contracts register is kept up to date by working closely with colleagues via departmental OPGs. Responsibility for entering information onto the contracts register and ensuring that the information is up to date and accurate, rests with the departments
- engage with partners and potential partners with the objective of streamlining the procurement process, i.e. making the Council an easier organisation with which to deal
- ensure that officers involved in procurement hold the correct level of knowledge, and to provide skills training where appropriate
- provide up to date support via the intranet, toolkits, procurement guidance and advice.

Procurement is not simply about lowest price; rather it is a strategic tool to ensure that we receive best value whilst putting the needs of Merton's residents first.

Effective procurement is about managing the whole life cycle of the goods and services we procure, and also ensuring that specifications are right and fit for purpose with clear outcomes and purposes.

January 2012 to May 2013, saw a number of improvements implemented, including a strengthened Procurement Board, an enhanced Contracts Register and the implementation of a new e-Tendering system.

Furthermore, the Council also adopted a Procurement Governance and Gateway process which comprises four key elements, the Procurement Board, the Procurement Gateways, the Operational Procurement Groups (OPGs) and the Risk Assessment Tool. These four elements are designed to work together to enable the Procurement Board to exercise effective oversight, control and to provide direction to procurement activity Council wide.

Throughout 2017/18 the use of departmental OPGS has been reinforced and 2018/19 will see the implementation of category management across the organisation.

Section 4 – Key Themes

a. Value for Money (VFM)

In the unprecedented economic climate, the Council will need to make substantial year on year savings for the foreseeable future. Every pound spent must deliver true value to the community, whether that is by better management of our existing contracts, proactive spend analysis, being more commercially aware, or through reviewing current services and potential delivery models.

Knowing how, where and on what our money is spent will be used to drive a supplier review to maximise savings. Furthermore, we intend to review the supply base and drive additional efficiencies by reducing the overall number of suppliers and to utilise the additional leverage obtained. This exercise will also help us to develop and shape supply markets, define the skills to develop the market and to negotiate better outcomes for the Council and service users.

Principal Objectives

- Undertake regular spend analysis of the Council's full non-pay spend with recommendations in how to identify and capture efficiencies
- Supply base review and rationalisation
- Make/buy reviews of services
- Challenge specifications and assumptions around strategic contracts

b. Category Management

By grouping together products and services according to their function (e.g. care, construction, transport, professional services etc.) the Council can better manage the overall spend, whilst maximising our buying power and achieving economies of scale.

A 'Category' is an area of spend determined by known market boundaries separating different products or services. Category Management recognises that suppliers within a certain market are likely to have similarities which enable a tailored approach to procurement.

We are developing our capacity and capability in Category Management to support the major commercial decisions the Council is facing. We will add value to projects we support, bringing commercial insight and support throughout the commissioning lifecycle. Recognising this challenge, we will also develop our staff through a revised professional training programme. It will also enhance their relationship and partnership building skills. This means they will spend less time involved in the administrative task of running tenders and spend more time with customers, commissioners and our major suppliers.

Principal Objectives

- Develop a suite of category strategies to drive further savings and efficiencies
- Embed a category management approach across the Council
- Category Management specific training programme

c. Contract Management

We will manage our major contracts more actively to drive continuous improvement in performance and efficiency and further develop contract management across the Council. We will provide greater visibility of the performance of our top contracts to help to improve the management of major suppliers and ensure they are delivering against the agreed performance standards.

By reviewing strategic contracts and adopting a more commercial approach to the management of our key contracts we will ensure that improvements and efficiencies are delivered.

We will also work with operational contract managers in departments to build on best practice and provide training in contract management techniques.

The outcome of this change will be measured by the monitoring of contract performance and by the identification of improvements in performance levels and additional efficiencies during the life of a contract. Furthermore, as we develop stronger relationships with our key suppliers, we will be recognised as their 'customer of choice' which may lead to increased market intelligence and therefore improve our opportunities for innovation in the marketplace.

Through a clear commercially led approach to contract management, we will ensure a greater focus is directed towards obtaining the required outcomes. This will include increased monitoring and management of supplier performance through robust SLA's and KPI's (including the delivery of community benefits) and where performance is not being achieved, an action and improvement plan will be implemented.

Principal Objectives

- Reduce non-contracted spend
- Embed contract management principles across the Council
- Hold regular performance meetings with suppliers
- Set clear and proportionate KPI and SLA targets for suppliers
- Link payment to performance (where appropriate)

d. Partnering and Collaboration

Partnering means the creation of sustainable, collaborative relationships with suppliers in the public, private, social enterprise and voluntary sectors to deliver services; carry out major projects; or acquire supplies and equipment.

Partnerships can be beneficial and integrated in service delivery, but it needs to be recognised that this is not an easier contract style; indeed, partnering agreements are likely to be more challenging than traditional contracts. A partnership agreement will therefore require careful preparation and procurement. Partnering should be considered when engaging in best value reviews of services as a potential alternative to established methods of service delivery.

When formulating our procurement strategies, we will ensure that we take account of potential opportunities afforded by partnering and collaborating. We will also look at existing framework agreements when considering any future options for procurement and where appropriate the use of any national, regional or pan London procurement arrangements that fit with the Council's strategy.

Collaboration describes the various ways in which councils and other public bodies come together to combine their buying power, to procure or commission goods, works or services jointly or to create shared services.

Collaboration is a form of public partnership; its major benefits are economies of scale and accelerated learning.

We will ensure that contractors and partners have priorities which align with those of the Council and that they understand how they contribute to the Council's performance.

The Council will actively participate with other authorities and organisations where appropriate and feasible, to seek economies through joint procurement, joint commissioning, framework agreements and shared services.

Principal Objectives

- Work with other public bodies to seek joint partnering and collaboration opportunities
- Investigate the greater use of collaborative contracts
- Look to use existing framework agreements where appropriate

e. Market Management

The Council will continue to work with more diverse providers of services. In some areas there are strong markets but in others they are either small or not yet developed. The Council will make full use of all the different methods of delivery available, including joint ventures, public, private and VCFS options. Through procurement, we will support the growth of local businesses and other organisations by encouraging the use of local suppliers. While staying within the legal constraints of public sector procurement, the Council will encourage local suppliers to work with us, recognising and exploiting the ability to create a positive climate for firms based in Merton. The Council will endeavour to support a thriving local business sector, providing opportunities for suppliers to develop the capacity to win future contracts from the Council and other public sector partners.

This approach recognises that by encouraging sustainable high quality local employment, the Council is reducing the demand and thus cost of other public services. The Council will seek to encourage innovation, improve skill levels in Merton, create jobs and retain money in the local economy.

Principal Objectives

- Identify where market capacity may be weak and where new markets may need to be developed
- Encourage suppliers to develop innovative approaches
- Foster a collaborative approach to procurement
- Work to increase the proportion of spend with SME's and VCFS
- Take steps to promote and encourage local economic growth e.g. reducing the barriers to SME and VCFS participation
- Hold regular supplier engagement events

f. Supplier Relationship Management

The Council will build strong, long term, positive relationships with suppliers across all sectors, not just when actively procuring goods and services but also when considering alternative delivery models e.g. social enterprises.

The Council will establish strategic relationships with suppliers to ensure that both parties are delivering against the commitments within the contract and also build upon mutual experience and knowledge to embed continuous improvement practices throughout the contracted period. Effective engagement with suppliers will also inform future specifications. This will ensure that the Council is approaching the market place with requirements which meet clearly defined needs and are commercially attractive to potential bidders.

The Council commits to making all procurement activity fair and transparent and to encourage a diverse range of potential bidders to participate.

A suite of standardised documents and contracts will be developed for use across the Council to ensure consistency and to make the procurement process more accessible to suppliers.

Principal Objectives
- Engage with key suppliers in all sectors
- Robust contract management
- Explore new models of service delivery and welcome dialogue with communities and suppliers to establish new and innovative procurement practices
- Encourage a diverse range of suppliers to work with the Council

g. Developing People and Improving Skills

Procurement is a key activity in sourcing the skills, services and supplies required by the Council to deliver community outcomes. The officers who undertake procurement and contract management activity are vital to the successful delivery of the Councils strategic procurement objectives.

The required capacity and skills will continue to be developed in departments with support and guidance from CST.

CST will develop other ideas to encourage officer participation. These will include the offering of regular ‘drop-in’ sessions, which will allow any topic of interest to be discussed informally. Also, specific targeted training will be developed and made available to officers/teams and divisions as required.

Regular procurement forums for all Merton responsible officers will continue to be offered. Active participation will be encouraged by the use of focus and working groups on specific topics of interest; such as toolkits, market engagement and benchmarking.

The forums will:

- Bring together all professionals across the Council working on procurement activity into a single forum
- Provide a platform for evidence sharing and best practice (both internal and external)
- Introduce and embed a co-ordinated and consistent Merton approach to procurement
- Identify savings and efficiencies opportunities

  The forum is a reference group, accountable to the Procurement Board, with recommendations and updates to be fed bilaterally.

Principal Objectives

- Provide a career path for practitioners of procurement with clear roles and responsibilities
- Provide skills and training and learning & development opportunities for officers
- Ensure that procurement best practice advice is available via the Procurement Toolkit

h. Systems and Processes

Continued use of the e-Tendering system has improved compliance and at the same time it has streamlined the tendering processes.

The contracts register has received a refresh and is now part of the e-Tendering suite which is in the public domain so that any interested parties may view it. This has led to greater visibility of Council spend which will be fed into procurement and resource planning and should lead to greater opportunities for efficiency savings.

It will also make it easier for members of the public to have their requests under the Freedom of Information Act 2000 (FoI's) answered quickly and efficiently.

Ensure council and departmental rolling 1-3-year procurement plans are produced each financial year and kept up to date.

Principal Objectives

- Maintain an up to date contracts register
- Increased use of the e-Tendering system
- Investigating the strategic use of e-Auctions
- Training in the use of the procurement toolkit
- Develop a comprehensive rolling 1-3-year procurement plan

Section 5 - Governance Framework

Merton's procurement is governed by EU law, UK Law and by Merton's Contract Standing Orders. These are mandatory for officers of Merton to follow.

a. The Corporate Management Team

The Corporate Management Team (CMT) will continue to initiate and lead all procurement activity and endorse and support adherence to the procurement strategy across the Council. CMT will set the strategic direction of the Council, empower officers and hold officers to account in the delivery of the strategy.

b. Contract Standing Orders

The Council will comply with the wide range of legislation, regulation and guidance which governs procurement. The Council's Contract Standing Orders, last fundamentally revised in April 2012, have been reviewed and updated to take into account the Public Contracts Regulation 2015 (PCR2015), the Social Value Act 2012, the Concession Contracts Regulations 2016 (CCR2016), lessons learnt over the past three years as well as emerging best practice principles. The revisions to the Council's CSOs were approved by Full Council on 22 November 2017 and came into effect as of 1 December 2017.

Adherence to the Contract Standing Orders will be enforced to ensure the highest standards of probity and compliance, one of Merton's principles underpinning procurement activity.

c. The Procurement Board

The Procurement Board is the primary strategic agent through which procurement activity is governed. The Procurement Board is made up of senior management officers and procurement professionals and is chaired by a Director.

The main functions of the Procurement Board are:

- Oversee the production and management of the procurement strategy
- Assure that procurement is managed competently and legally
- Ensure changes in legislation e.g. The Social Value Act (2012) and best practice are embedded in the Councils procurement practices
- Assessing whether procurement is achieving best value for the Council
- Ensuring that staff engaged in procurement have the required skills
- To be responsible for the Operational Procurement Groups (OPG)

d. Departmental Management Teams

Departmental Management Teams will receive regular reports from their Operational Procurement Group representatives and ensure that the Procurement Strategy is being delivered effectively within their respective departments.

e. Operational Procurement Group

The OPG's are the operational arm of the Procurement Board, and are the means through which departmental procurement activity is planned and coordinated. One OPG exists for each department and the Groups co-ordinate, risk assess and manage the flow of all procurement activity. Each group is championed by a departmental procurement lead who also attends the Procurement Board.

f. Procurement Gateway process

It is a risk based approach which uses a series of minimum criteria and risk triggers to determine which procurement activities will come to the Procurement Board.

Currently projects need to be brought to the Procurement Board for review where:

- the total value is over £2m (or annual value over £750k) (*thresholds under review*)
- or the decision to award the contract is to be made by Cabinet or
- three or more risk triggers are assessed at amber level or greater. These include: political or reputational risk, impact of failure on service user and maturity or volatility of the market.
- The contract is for a concession

g. Financial Regulations and Procedures

The Financial Regulations and Procedures are the internal rules applicable to Merton's financial processes and these have also been reviewed to take account of current and recent changes in procurement practice e.g. use of Framework Agreements. Within the options appraisal carried out for each procurement project there will be included due consideration to the methods of financing the project available i.e. capital borrowing, leasing, and other alternatives.

h. Procurement Plans

These plans identify the required strategic procurement activities for a period extending 1-3 years into the future. The departmental procurement plans inform the Corporate Procurement Plan, which will encompass all major procurements due in the following 1-3 years. This will allow for enhanced planning and scheduling, improved visibility and improved risk management for the Council's major procurement activities. The Corporate Procurement Plan is overseen by the Procurement Board.

i. Procurement Templates and Toolkits

The 'Procurement Toolkit' is available to officers via the Procurement Intranet pages and it provides specific procedural guidance and templates for procurement activity.

The Council will review and keep these up to date. It is against this procedural guidance that individual compliance will be measured to ensure best practice, legal compliance and whether there is any off contract spend.

The CST will be working with departments to improve the current toolkit and templates.

j. The Contracts Register

The Contracts Register is a Council-wide record of all contracts that the Council has entered into above the value of £5,000.

The Contracts Register is currently part-hosted via the London Tenders Portal as part of the Council's e-Tendering system. Responsible Officers must ensure that all contracts are entered onto it and that they are kept up to date.

The Contracts Register will continue to be a key component to co-ordinate and risk manage procurement activity at the corporate level and will assist with FoIs.

k. e-Procurement

During 2015 the Council re-let its contract for Pro-Contract. The system provides officers and suppliers with an effective and efficient way to electronically manage tender and quote processes. The system is designed to allow staff to conduct requests for quotations and tenders online, much more quickly and also to allow potential suppliers to respond without the need to complete numerous paper forms.

We will ensure that the benefits of e-Tendering continue by the promotion and monitoring of the system. The use of the e-Tendering system was made mandatory as of 1 April 2012.

Improved use of the e-Tendering system will provide corporate visibility on spend and prevent duplication of processes. Improved corporate visibility will in turn allow greater scrutiny of the management of spend across the Council.

l. Looking to the Future

We are investigating greater use of e-Auctions and Dynamic Purchasing Systems as a way of saving additional monies.

Section 6 – Key Actions

A procurement action plan will cover the principal objectives detailed in this strategy document.

To help us achieve our vision, there are six key actions we are taking:

1. Implement our people development plan, putting in place a new programme of training, coaching and mentoring
2. Roll out stronger contract and supplier management across the Council for key contracts, identifying clear roles and responsibilities and providing professional support for service teams
3. Develop a rolling three-year corporate procurement plan, incorporating robust departmental plans

4. Provide an updated procurement toolkit and templates for responsible officers
5. Increased use of partnerships and collaboration with other organisations to drive greater efficiencies
6. Implementing a category management approach to commissioning and procurement across the Council.

By 2022, we will have:

Delivered substantial cost savings through strategic contracting, to help meet the Council's budget targets

Developed a best-in-class service which is highly responsive to the needs of customers, and is valued by them as a strategic partner in developing their own plans

Encouraged greater levels of spend with local suppliers and have thriving relationships with local businesses and VCFS communities

Established strong partnerships with other public sector bodies to leverage best value for money

Contract Activity

List of key tenders planned for 2018 include:

Contract Title	Brief description	Department	Division
All Saints Respite Care -for people with a learning disability	Respite care for people with a learning disability	C&H	Adult Social Care
Corporate Insurance Contract		CS	Resources
Dementia Hub	Information, support and advice to people and their families with dementia	C&H	Public Health
Domiciliary Care for CwD 2016-20	Framework Contract for care services	CSF	Children's Social Care
Highways Term Contract	Maintenance & Capital Works Programme	E&R	Sustainable Communities

Contract Title	Brief description	Department	Division
Housing related Support Services	Delivery of Housing related support services to enable customers to remain in their own home notably: customers with mental health needs, single homelessness, Young people at risk (homelessness), generic floating support & floating support for e- offenders	C&H	Adult Social Care
Mechanical and electrical term contract.	Includes lifts, fire and security systems, electrical testing, lightning protection and water hygiene monitoring	CS	Infrastructure & Transactions
Provision of catering services at Merton Civic Centre		CS	Infrastructure & Transactions
School Catering 2019 onwards	Umbrella contract for 44 primary & special schools	CSF	Children's Education
Supported Living for people with a learning disability	Supported Living for people with a learning disability	C&H	Adult Social Care

Contacting Us

Please contact us if you have any questions, comments or feedback about the Procurement Strategy:

E-mail: commercial.services@merton.gov.uk

Other useful websites

National Procurement Strategy https://www.local.gov.uk/national-procurement-strategy
Local Government Transparency Code https://www.gov.uk/government/publications/local-government-transparency-code-2015
Audit Commission http://www.audit-commission.gov.uk
Department for Communities and Local Government http://www.communities.gov.uk
Local Government Association http://www.lga.gov.uk