

**Committee:** Financial Monitoring Task

**Group Date:** 5 March 2020

Wards: All

**Subject:** Deep Dive Review of the Capital Programme

Lead officer: Roger Kershaw (Assistant Director Resources)

Lead member: Cllr Mark Allison

Contact officer: Zoe Church (Head of Financial Strategy and Capital)

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## **Recommendations:**

1. To review the capital programme for 2020-24 and report the task group's findings to the Overview and Scrutiny Commission
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## **1. PURPOSE OF REPORT**

- 1.1 This report provides the Financial Monitoring Task Group with a copy of the proposed Capital Strategy to undertake a deep dive review of the Capital Programme 2020-24.

## **2. DETAILS**

- 2.1 The deep dive review of the capital programme was referred to the task group by the Overview and Scrutiny Commission at its meeting on 23 January 2019. The referral arose following the Commission's discussion of the overall cost of the capital programme and its implications for the revenue budget. They asked questions about slippage and whether there was scope to further reduce the capital programme.
- 2.2 Members discussed the potential for impacting on the capital programme beyond 2020 and then agreed to ask the Financial Monitoring Task Group to carry out a deep dive review of the future capital programme.
- 2.3 A short presentation will be made on the night to accompany this report.

## **3. ALTERNATIVE OPTIONS**

- 3.1 Not applicable.

## **4. CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1 Not applicable.

## **5. TIMETABLE**

- 5.1 Not applicable.

## **6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1 Contained within the appended report.

## **7. LEGAL AND STATUTORY IMPLICATIONS**

- 7.1 Not applicable.

## **8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

8.1 Not applicable.

## **9. CRIME AND DISORDER IMPLICATIONS**

9.1 Not applicable.

## **10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1 Contained in the attached report.

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

11.1 Appendix 1 - Capital Strategy 2020-24

## **12. BACKGROUND PAPERS**

12.1 Background papers held within the Resources Division

### CAPITAL STRATEGY 2020-24

#### 1 Introduction

- 1.1 As part of the Prudential Code for Capital Finance in Local Authorities 2017 local authorities are required to produce a capital strategy.
- 1.2 Merton's Capital Strategy for 2020-24 has been aligned and integrated with the Business Plan for the period 2020-24. 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
- 1.3 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.
- 1.4 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 2020-24 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.
- 1.5 The financial pressures facing Merton mean we should no longer aim to be a 'place-maker' but be a 'place-shaper'. The council should be an enabler, working with partners to provide services. Our corporate ambitions are to:
- Support our most vulnerable residents of all ages;
  - Bridge the gap and reduce inequalities;
  - Create a great place to grow up and live in;
  - Maintain a clean and safe environment;
  - Build resilient communities;
  - Continuously improve.

1.5 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 2020-2024**

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. 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.

## **2.4 Capacity, Skills and Culture**

- 2.4.1 Team planning and staff appraisals highlight staff developmental requirements and monitor their progression. Qualified financial staff meet the continual professional development requirements of their relevant CCAB organisation.
- 2.4.2 Member induction and development is led corporately by the Authority's Human Resources division, this is supplemented, where appropriate, with additional financial briefings.

## **2.5 Capital Strategy**

- 2.5.1 This Capital Strategy is a fundamental component of our approach since it reflects our strategic priorities across the council and endeavors 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.
- 2.5.2 Attached as Annex 6 is the Capital Investment Strategy for the investments/loans the Authority will hold/holds to generate financial returns and aid delivery of strategic objectives.

## **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.

3.5 IFRS 9 requires that investment in risk capital will need to be valued annually at fair value with any loss or gain being written through the profit and loss account in the year it occurs.

3.6 IFRS 16 will require all but short-term de-minimis leasing rental/leasing arrangements appear on the Authority's balance sheet from the financial year 2020/21.

## **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 Board comprises the Directors of Corporate and Environment and Regeneration Services with selected key 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;
- Monitor budgets of capital programmes/projects against forecasts;
- Monitor benefits and ensure they are realised. Monitor capital receipts
- 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, this is detailed in the Asset Management Plan (AMP) 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 and 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 kept under review.



### **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. November monitoring provides the final opportunity for budget managers to re-profile budgets into future financial years and January monitoring provides the final opportunity for budget managers to vire their budgets within the current financial year.
- 4.3.2 November monitoring information feeds into the Authority's Medium Term Financial Strategy (MTFS) and is used to assess 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 and onto Cabinet and Standards and General Purposes Committee annually. The Authority's Risk Management Strategy is reviewed and updated annually and presented to CMT, Cabinet and Council.
- 4.4.2 Risk Appetite - The council recognises that its risk appetite to achieve the corporate priorities identified within its business plan could be described in general as an "informed and cautious" approach. Where significant risk arises, we will take effective control action to reduce these risks to an acceptable level.

## **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. Since 2015/16 it has been 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 2022/23, from 2022/23 onwards (£10.1 million 22/23 and £32.6 million 23/24) borrowing will be required. Over the period 2020-25 the Authority is scheduled to repay £30.5 million (27%) of long term debt. 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:

MTFS March 2019	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
MRP	5,049	5,911	7,131	7,962
Interest on Borrowing	6,315	6,315	6,364	6,413
<b>Total Borrowing Costs</b>	<b>11,364</b>	<b>12,226</b>	<b>13,495</b>	<b>14,375</b>
Interest on Investments	(269)	(123)	(17)	(9)
Interest on HC Loan	0	0	0	(983)
CCLA Investment Two Loans @ £10m	(395)	(395)	(395)	(395)
<b>Total Borrowing Costs Net of Investment interest</b>	<b>10,700</b>	<b>11,708</b>	<b>13,083</b>	<b>12,988</b>

Proposed Programme Business Plan 2020-24	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
MRP	4,875	5,635	6,950	7,704
Interest on Borrowing	6,315	6,315	6,110	6,082
<b>Total Borrowing Costs</b>	<b>11,190</b>	<b>11,950</b>	<b>13,060</b>	<b>13,786</b>
Interest on Investments	(285)	(137)	(6)	0
Interest on HC Loan	0	0	0	0
CCLA Investment Two Loans @ £10m	(322)	(322)	(322)	(322)
<b>Total Borrowing Costs Net of Investment interest</b>	<b>10,583</b>	<b>11,491</b>	<b>12,733</b>	<b>13,464</b>

Movement in Projected Costs	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
MRP	(175)	(276)	(181)	(259)
Interest on Borrowing	0	0	(254)	(331)
<b>Total Borrowing Costs</b>	<b>(175)</b>	<b>(276)</b>	<b>(434)</b>	<b>(589)</b>
Interest on Investments	(16)	(14)	11	9
Interest on HC Loan	0	0	0	983
CCLA Investment Two Loans @ £10m	73	73	73	73
<b>Total Borrowing Costs Net of Investment Interest</b>	<b>(117)</b>	<b>(217)</b>	<b>(350)</b>	<b>476</b>

## 6 Capital resources 2020-24

### 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 and repayment of principal
- 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.

## **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 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.

7.1.2 In December 2017, the Secretary of State announced the continuation of the capital receipts flexibility programme for a further three years, to give local authorities the continued freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings. By virtue of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 (“the Act”), that the local authorities listed in Annex A (“the Authorities”) treat as capital expenditure, expenditure which:

- i. is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners; and
- ii. is properly incurred by the Authorities for the financial years that begin on 1 April 2016 up to and including 1 April 2021.

### **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 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.
- 7.2.5 The Authority is currently implementing a new IT system for asset accounting and the possibility of this system being used for more widespread asset management will be explored.

## 8 Summary of estimated disposals 2020-2024

### 8.1 Projected Capital Receipts

- 8.1.1 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 have been utilised to fund the capital programme:-

<b>Anticipated Capital Receipts</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Sale of Assets	0	0	0	0
Right to buy/VAT Shelter	900	900	900	900
Repayment of One Public Estate	0	(260)	0	0
<b>Total</b>	<b>900</b>	<b>640</b>	<b>900</b>	<b>900</b>

8.1.2 As there is currently not a need to enter into external borrowing until 2022/23, investment balances will rise with the addition of capital receipts until utilised to fund the capital programme. Average expected interest rates on investments across the years of the capital programme are approximately 1.3%, as such an increase in receipts of £1m would be expected to generate a £13,000 increase in interest in a full year.

8.1.3 The table below shows the funding of the capital programme utilising capital receipts, capital grants and contributions, capital reserves and revenue provisions. Balances held by the authority will generate interest until utilized to fund the capital programme.

<b>Capital Expenditure</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000's</b>
Capital Expenditure	26,945	47,199	28,966	14,020	23,014
Slippage and Underspends	(1,709)	(12,415)	2,992	3,287	1,015
Total Capital Expenditure *	25,236	34,784	31,958	17,307	24,030
<b>Financed by:</b>					
Capital Receipts * and **	10,128	900	640	900	900
Capital Grants & Contributions	13,527	12,046	10,411	5,469	4,155
Revenue Provisions	1,390	4,032	51	56	30
<b>Net financing need for the year</b>	<b>191</b>	<b>17,806</b>	<b>20,857</b>	<b>10,883</b>	<b>18,944</b>

\* Finance lease expenditure is included in the table in Treasury Management Strategy but excluded from this Table

\*\* Includes anticipated in-year capital receipts in the table above

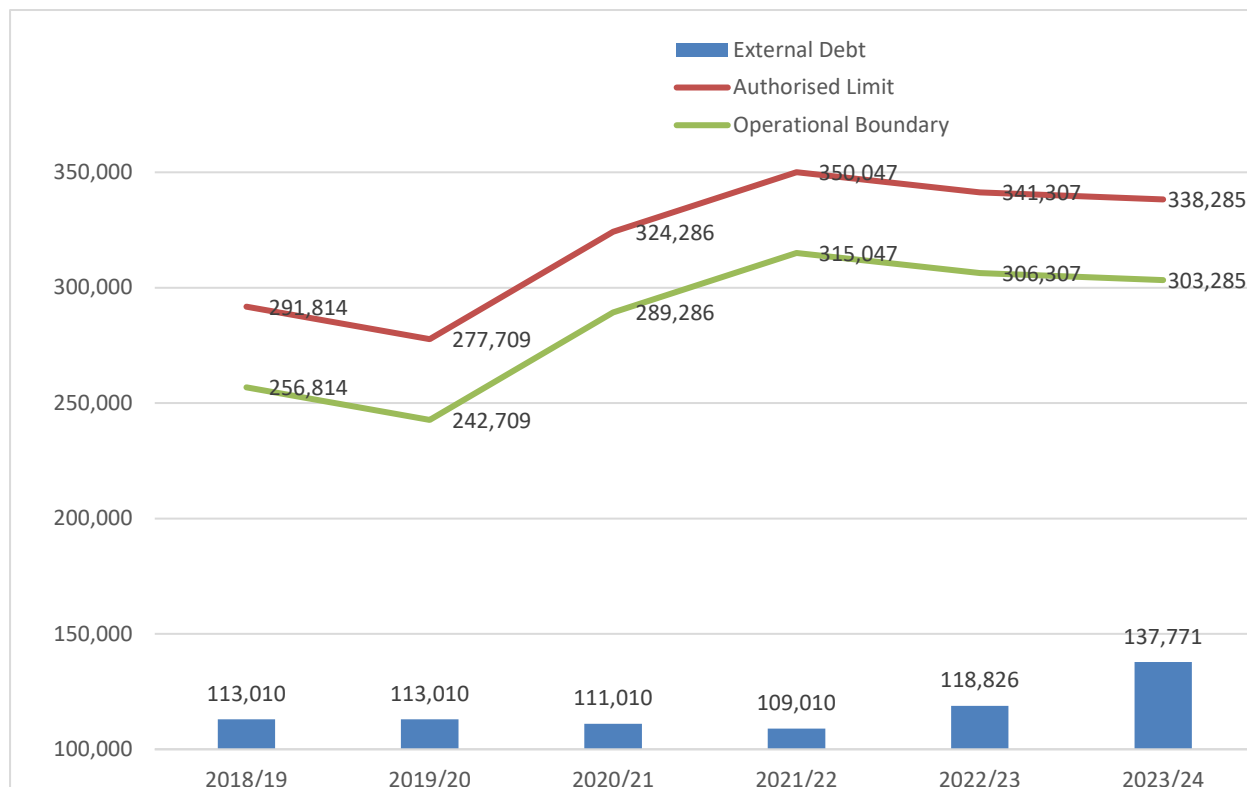
8.1.4 Under the requirements of the Localism Act 2011 parish councils and local voluntary and community organisations have the right to nominate local land or buildings they would like to see included in a list of assets of community value which is maintained by the Local Authority. Once listed the owner 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 5.57%. For the period 2020-24, 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.

8.2.2 The chart below shows the debt related treasury activity limits discussed in detail in 4.4 of the Treasury Management Strategy and incorporates the proposed capital programme and funding strategy contained in this document.

### Treasury Management Limits on Activity



8.2.3 The Table below shows the maturity structure of current external debt

	Actual November 2019	Value £'000
less than 1 year	0%	-
1 to 2 years	3.54%	4,000
2 years to 5 years	23.45%	26,510
5 years to 10 years	3.98%	4,500
10 years to 20 years	11.06%	12,500
20 years to 30 years	11.95%	13,500
30 years to 40 years	28.32%	32,000
40 years to 50 years	17.70%	20,000
<b>Total</b>	<b>100.00%</b>	<b>113,010</b>

8.2.4 Section 3 of the Treasury Management Strategy details the Authority's minimum revenue provision policy statement setting out how it intends to fund unsupported capital expenditure over the expected life of assets

8.2.5 Internal borrowing to fund unsupported capital expenditure will reduce the balances available to invest under the treasury management strategy. In contrast, external borrowing will provide additional balance to invest under the Treasury Management Strategy until utilised.

## 9 Grant and Contributions Funding Capital Resources

### 9.1 Grant Funding

The Table below summarises the grants being utilised to fund the proposed capital programme over the planning period:

Grants	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
Heritage Lottery Fund	81	3,028	712	0	0
Transport for London LIP (earmarked) Capital *	2,825	**1,435	**1,300	**1,300	**1,300
<b>Total: E&amp;R</b>	<b>2,906</b>	<b>4,463</b>	<b>2,012</b>	<b>1,300</b>	<b>1,300</b>
<b>School Condition (non-ringfenced)*</b>	1,915	1,900	1,900	1,900	1,900
<b>Basic Need (non-ringfenced)</b>	446	0	0	0	0
<b>Special Provision Grant</b>	1,520	491	0	0	0
<b>Healthy Schools</b>	159	30	0	0	0
<b>Total CSF</b>	<b>4,040</b>	<b>2,421</b>	<b>1,900</b>	<b>1,900</b>	<b>1,900</b>
<b>Devolved Formula Capital (Earmarked)</b>	348	TBA	TBA	TBA	TBA
<b>TOTAL: CSF*</b>	<b>4,388</b>	<b>2,421</b>	<b>1,900</b>	<b>1,900</b>	<b>1,900</b>
<b>Better Care Fund incl. Disabled Facilities Grant)**</b>	1,280	TBA	TBA	TBA	TBA
<b>Total Grant Funding * and **</b>	<b>8,574</b>	<b>6,884</b>	<b>3,912</b>	<b>3,200</b>	<b>3,200</b>

\* CSF and TfL Estimated from 2020-21

\*\* Slipped Schemes from 2019/20 and Indicative allocation for 20-24

### 9.2 Summary of Contributions

9.2.1 The Table below summarises the contributions being utilised to fund the proposed capital programme over the planning period:

Contributions	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
Strategic Community Infrastructure Levy	4,004	5,452	4909	840	0
Neighbourhood Community Infrastructure Levy	478	599	0	0	0
Section 106 Agreements	897	621	633	462	145
<b>Total Used to Fund the Programme</b>	<b>5,379</b>	<b>6,672</b>	<b>5,542</b>	<b>1,302</b>	<b>145</b>



## 10 Summary of Total Resources 2020-24:

### 10.1 Summary

10.1.1 The total anticipated resourcing of the capital programme after allowing for slippage is summarised in the following table:-

	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
Grant & Contributions *	12,046	10,411	5,469	4,155
Council Funding	22,737	21,546	11,839	19,875
<b>Total</b>	<b>34,784</b>	<b>31,958</b>	<b>17,307</b>	<b>24,030</b>

\* The tables in Section 9 show the budget this table summarises the funding position after 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.

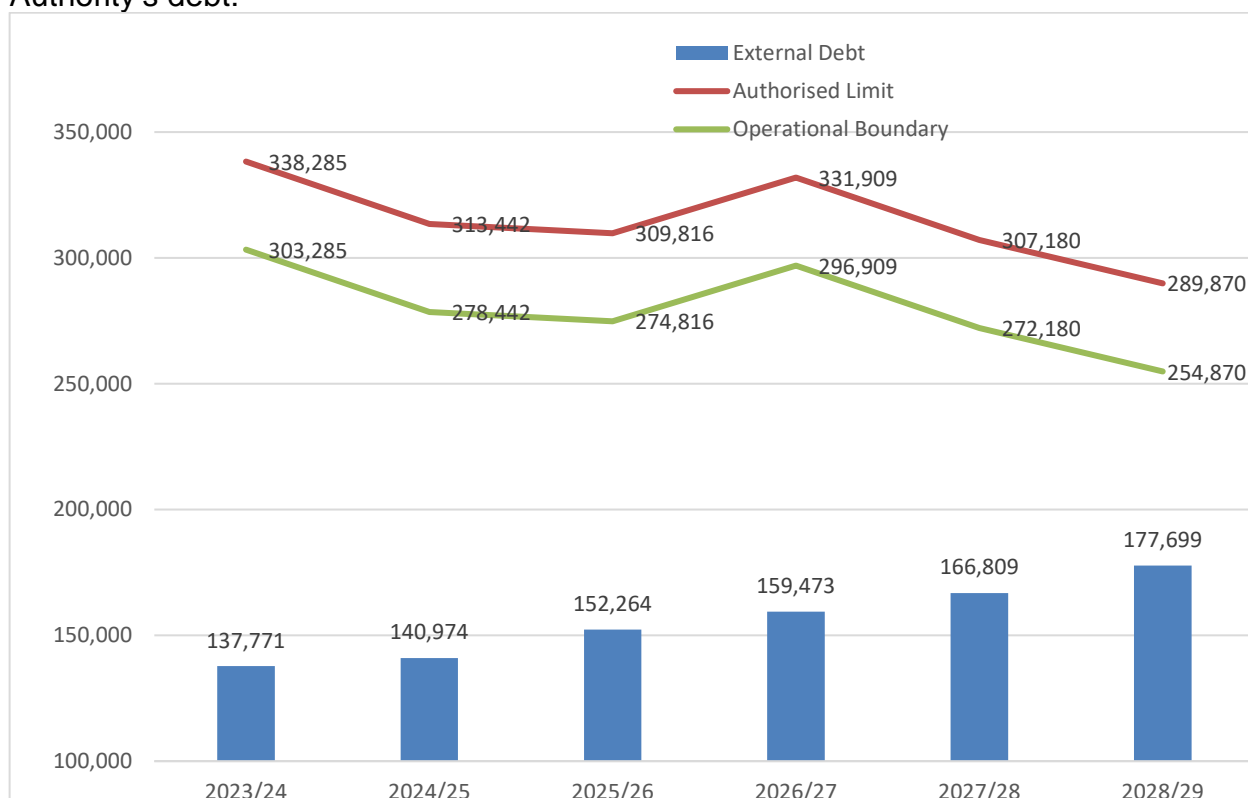
10.1.3 The Table below summarises the Indicative Capital Programme for 2024 to 2029. Additional detail is provided as Annex 5:

Department	Indicative Budget 2024-25	Indicative Budget 2025-26	Indicative Budget 2026-27	Indicative Budget 2027-28	Indicative Budget 2028-29
Corporate Services	3,055	4,186	2,970	3,280	5,670
Community and Housing *	280	630	280	420	280
Children, Schools and Families	1,900	1,900	1,900	1,900	1,900
Environment and Regeneration *	4,039	7,977	4,014	3,979	3,979
<b>Total*</b>	<b>9,274</b>	<b>14,693</b>	<b>9,164</b>	<b>9,579</b>	<b>11,829</b>

\* Please note these figures do not include any allowance of grant funding or expenditure 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 £219k for assets with a life of 5 years to £51k for an asset life of 50 years.

10.1.5 The Table below shows the impact of the indicative programme 2024-29 on the Authority's debt:



## 11 Capital Bids and Prioritisation Criteria

### 11.1 Prioritisation of schemes 2023/24

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 revisions put forward over the period 2020-24, on the basis of these criteria by the board to Cabinet was £13 million (including indicative TfL and Housing Company Funding) as shown below.

Department	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
Corporate Services	(6,823)	6,883	(13,105)	10,889
Community and Housing	0	0	0	0
Children, Schools and Families	(1,400)	2,350	0	0
Environment and Regeneration	5,683	3,921	3,442	1,272
<b>Total</b>	<b>(2,540)</b>	<b>13,154</b>	<b>(9,663)</b>	<b>12,161</b>

## **12 Detailed Capital Programme 2020-24**

### **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. The programme is detailed in Annex 3. Its main capital expenditure is on IT software and hardware, and on improvements to buildings (including invest to save schemes). Annual capital allocations are available to meet ongoing capital commitments within property, IT and invest to save. In addition, provision is made for one off projects, business systems and corporate level schemes and contingencies such as the Housing Company.

### **12.2 Children, Schools and Families**

#### **12.2.1 CSF Capital Programme 2020-24**

The requirement to provide sufficient school places is a key statutory requirement and the Authority must also maintain existing school buildings for non-PFI community primary and special schools. The government provides capital grant to meet some of this need. The individual projects for this department are all listed in Annex 3.

#### **12.2.2 Primary schools**

No further primary school expansion is planned. From 2019/20 £1.9 million per annum is provided for community and voluntary controlled schools (subject to grant funding) this will be limited to urgent health and safety related needs, with the council expecting schools to fund all works below £20,000. Work for the next few years will be prioritised using a conditions survey undertaken in late 2017.

#### **12.2.3 Secondary school places**

The demand for secondary places is monitored regularly and trends in demand are analysed. Following the delivery of the new Harris Wimbledon Academy through the government's Free School programme, no further secondary school expansion is now planned. The capital programme for 2020/24 includes £0.3 million for the final elements of committed schemes.

#### **12.2.4 Special school places**

The increase in demand for special school provision is significant and the council has a lower than average proportion of children attending in-borough state special schools. The government's Special Provision Fund only provides a proportion of the investment needed. Capital funding of just under £5 million is provided in the 2020/24 programme for the expansion of SEN provision within the borough. This includes completion of the expansion of Cricket Green School, providing primary provision for pupils with SEMH (Social, Emotional and Mental Health), expansion of ASD (Autism Spectrum Disorder), and further provision for children with medical needs.

## 12.3 Environment and Regeneration

12.3.1 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.

12.3.2 Annual capital allocations are available to meet ongoing capital commitments within fleet vehicles, ally gating, street trees, highways and footways, sports facilities and parks. In addition, provision is made for one off projects and regeneration activities including Transport for London schemes.

## 12.4 Community and Housing

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 2020-24 is detailed in Annex 3.

12.4.1 Annual capital allocations are available to meet disabled facility grants and provision is made for one off projects.

## 12.5 Overall Programme

12.5.1 The approved Capital Programme for 2020/24 follows at Annex 1, Annex 3 provides an additional breakdown detail of the approved schemes. The summary is as follows:

Department	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
Corporate Services	22,100	11,128	2,895	15,410
Community and Housing	2,004	913	882	425
Children, Schools and Families	4,566	5,500	1,900	1,900
Environment and Regeneration	18,530	11,425	8,343	5,279
<b>Total</b>	<b>47,199</b>	<b>28,966</b>	<b>14,020</b>	<b>23,014</b>

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 2019/20 is approved, the 2020/21 Capital Programme will be adjusted accordingly.

12.5.4 Annex 1	Capital Investment Programme - Schemes for Approval
Annex 2	Funding the Capital Programme 2020-24
Annex 3	Detailed Capital Programme 2020-24
Annex 4	Analysis of Growth/(Reduction) from current approved programme
Annex 5	Indicative Capital Programme 2024-29
Annex 6	Capital Investment Strategy

## Capital Investment Programme - Schemes for Approval

## Annex 1

Department	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
Corporate Services	22,100	11,128	2,895	15,410
Community and Housing	2,004	913	882	425
Children, Schools and Families	4,566	5,500	1,900	1,900
Environment and Regeneration	18,530	11,425	8,343	5,279
<b>Total</b>	<b>47,199</b>	<b>28,966</b>	<b>14,020</b>	<b>23,014</b>

Department	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
<b>Corporate Services</b>				
Customer Policy and Improvement	1,350	1,900	0	0
Facilities	1,311	1,250	950	1,675
IT Infrastructure	1,892	1,095	1,245	3,420
Resources	0	0	700	0
Corporate	17,546	6,883	0	10,315
<b>Total Corporate Services</b>	<b>22,100</b>	<b>11,128</b>	<b>2,895</b>	<b>15,410</b>
<b>Community and Housing</b>				
Adult Social Care	39	0	0	0
Housing	1,415	913	742	425
Libraries	550	0	140	0
<b>Total Community and Housing</b>	<b>2,004</b>	<b>913</b>	<b>882</b>	<b>425</b>
<b>Children, Schools and Families</b>				
All Sectors	1,900	1,900	1,900	1,900
Secondary	300	0	0	0
Special	2,366	3,600	0	0
<b>Total Children, Schools and Families</b>	<b>4,566</b>	<b>5,500</b>	<b>1,900</b>	<b>1,900</b>
<b>Environment and Regeneration</b>				
Public Protection and Development	1,104	1,254	480	0
Street Scene and Waste	737	330	670	330
Sustainable Communities	16,689	9,841	7,193	4,949
<b>Total Environment and Regeneration</b>	<b>18,530</b>	<b>11,425</b>	<b>8,343</b>	<b>5,279</b>
<b>Total Capital</b>	<b>47,199</b>	<b>28,966</b>	<b>14,020</b>	<b>23,014</b>

### Please Note

1. Excludes budgets relating to future year announcements of Better Care Fund
  2. Includes indicative budgets relating to future year announcements of Transport for London Grant
- OSC = Overview and Scrutiny, CYP = Children and Young People, HCOP = Heathier Communities and Older People and SC = Sustainable Communities

Merton	Capital Programme £000s	Funded by Merton £000s	Funded by grant and capital contributions £000s
<b>2019/20 Current Budget</b>	26,945	12,686	14,259
Potential Slippage b/f	0	0	0
<b>2019/20 Revised Budget</b>	26,945	12,686	14,259
Potential Slippage c/f	(1,194)	(612)	(582)
Potential Underspend not slipped into next year	(515)	(366)	(150)
<b>Total Spend 2019/20</b>	<b>25,236</b>	<b>11,709</b>	<b>13,527</b>

<b>2020/21 Current Budget</b>	47,199	32,716	14,483
Potential Slippage b/f	1,194	612	582
<b>2020/21 Revised Budget</b>	48,393	33,328	15,065
Potential Slippage c/f	(11,504)	(8,898)	(2,605)
Potential Underspend not slipped into next year	(2,105)	(1,692)	(413)
<b>Total Spend 2020/21</b>	<b>34,784</b>	<b>22,737</b>	<b>12,046</b>

<b>2021/22 Current Budget</b>	28,966	19,233	9,734
Potential Slippage b/f	11,504	8,898	2,605
<b>2021/22 Revised Budget</b>	40,470	28,131	12,339
Potential Slippage c/f	(6,909)	(5,227)	(1,682)
Potential Underspend not slipped into next year	(1,603)	(1,357)	(246)
<b>Total Spend 2021/22</b>	<b>31,958</b>	<b>21,546</b>	<b>10,411</b>

<b>2022/23 Current Budget</b>	14,020	9,238	4,782
Potential Slippage b/f	6,909	5,227	1,682
<b>2022/23 Revised Budget</b>	20,929	14,466	6,464
Potential Slippage c/f	(2,286)	(1,537)	(749)
Potential Underspend not slipped into next year	(1,336)	(1,090)	(246)
<b>Total Spend 2022/23</b>	<b>17,307</b>	<b>11,839</b>	<b>5,469</b>

<b>2023/24 Current Budget</b>	23,014	19,389	3,625
Potential Slippage b/f	2,286	1,537	749
<b>2023/24 Revised Budget</b>	25,300	20,926	4,374
Potential Slippage c/f	(871)	(760)	(110)
Potential Underspend not slipped into next year	(399)	(290)	(109)
<b>Total Spend 2023/24</b>	<b>24,030</b>	<b>19,875</b>	<b>4,155</b>

## Detailed Capital Programme 2020-24

## Annex 3

Department	Scrutiny	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
<b>Corporate Services</b>					
Customer Policy and Improvement					
Customer Contact Programme	OSC	1,350	1,900	0	0
<u>Facilities</u>					
Other Buildings - Capital Building Works	OSC	650	650	650	650
Civic Centre Boilers	OSC	201	0	0	0
Civic Centre Lightning Upgrade	OSC	0	300	0	0
Combined Heat and Power (CHP) System Rep.	OSC	0	0	0	450
Absorption Chiller Replacement	OSC	0	0	0	275
Civic Centre Cycle Parking	OSC	60	0	0	0
Invest to Save schemes	SC	400	300	300	300
<u>IT Infrastructure</u>					
Aligned Assets	OSC	0	75	0	0
Environmental Asset Management	OSC	0	0	240	0
Revenue and Benefits	OSC	400	0	0	0
Capita Housing	OSC	100	0	0	0
ePayments Project	OSC	157	0	0	0
School Admission System	OSC	125	0	0	0
Planning&Public Protection Sys	OSC	200	0	0	550
Spectrum Spatial Analyst Repla	OSC	165	0	0	0
Ancillary IT Systems	OSC	0	50	0	0
Youth Justice IT Systems	OSC	85	0	0	0
Replacement SC System	OSC	0	0	0	2,100
Project General	OSC	390	870	705	770
Data Centre Support Equipment	OSC	150	0	0	0
Network Switch Upgrade	OSC	0	0	200	0
IT Equipment	OSC	120	100	100	0
<u>Resources</u>					
Financial Systems	OSC	0	0	700	0
<u>Corporate</u>					
Acquisitions Budget	OSC	0	0	0	6,985
Capital Bidding Fund	OSC	0	0	0	1,186
Multi-Functioning Device (MFC)	OSC	600	0	0	0
Westminster Coroners Court	OSC	455	0	0	0
Housing Company	OSC/SC	16,491	6,883	0	0
Corporate Capital Contingency	OSC	0	0	0	2,144
<b>Total Corporate Services</b>		<b>22,100</b>	<b>11,128</b>	<b>2,895</b>	<b>15,410</b>

**Please Note**

1. Excludes budgets relating to future year announcements of Better Care Fund
  2. Includes indicative budgets relating to future year announcements of Transport for London Grant
- OSC = Overview and Scrutiny, CYP = Children and Young People, HCOP = Heathier Communities and Older People and SC = Sustainable Communities



**Detailed Capital Programme 2020-24 Continued.....**

**Annex 3**

Department	Scrutiny	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
<b>Community and Housing</b>					
<u>Adult Social Care</u>					
Telehealth	HCOP	39	0	0	0
<u>Housing</u>					
Disabled Facilities Grant	SC/HCOP	927	280	280	280
Learning Disability Aff Housing	SC/HCOP	488	633	462	145
<u>Libraries</u>					
Library Self Service	SC	350	0	0	0
West Barnes Library Re-Fit	SC	200	0	0	0
Library Management System	SC	0	0	140	0
<b>Total Community and Housing</b>		<b>2,004</b>	<b>913</b>	<b>882</b>	<b>425</b>

Department	Scrutiny	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
<b>Children, Schools and Families</b>					
<u>All Sectors</u>					
Unallocated - Schools Capital maintenance	CYP	1,900	1,900	1,900	1,900
<u>Secondary</u>					
Harris Academy Wimbledon New School	CYP	300	0	0	0
<u>Special</u>					
Perseid - Schools Capital maintenance	CYP	8	0	0	0
Cricket Green School Expansion	CYP	100	0	0	0
Melrose Primary SEMH annexe 16	CYP	1,150	400	0	0
Melrose Secondary SEMH 14 Places	CYP	200	750	0	0
Harris Morden Sec Autism Unit	CYP	160	1,200	0	0
Further SEN Provision	CYP	288	0	0	0
Primary ASD base 1-20 places	CYP	100	0	0	0
Secondary SEMH/medical PRU	CYP	80	800	0	0
New ASD Provision	CYP	250	450	0	0
Melbury College - Healthy Schools	CYP	30	0	0	0
<b>Total Children, Schools and Families</b>		<b>4,566</b>	<b>5,500</b>	<b>1,900</b>	<b>1,900</b>

**Please Note**

1. Excludes budgets relating to future year announcements of Better Care Fund
  2. Includes indicative budgets relating to future year announcements of Transport for London Grant
- OSC = Overview and Scrutiny, CYP = Children and Young People, HCOP = Healthier Communities and Older People and SC = Sustainable Communities

**Detailed Capital Programme 2020-24 Continued.....**

**Annex 3**

Department	Scrutiny	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
<b>Environment and Regeneration</b>					
<u>Public Protection and Development</u>					
P&D machines for emission-based charging	SC	500	0	0	0
Car Park Upgrades	SC	464	520	0	0
CCTV cameras and infrastructure upgrade	SC	140	699	480	0
Public Protection and Developm	SC	0	35	0	0
<u>Street Scene and Waste</u>					
Replacement of Fleet Vehicles	SC	584	300	300	300
Envir. Imps - Mechanical Street Washer	SC	75	0	0	0
Alley Gating Scheme	SC	30	30	30	30
Waste SLWP IT & Premises	SC	18	0	0	0
Waste Bins	SC	30	0	0	0
Replacement of Fleet Vehicles	SC	0	0	340	0
<u>Sustainable Communities</u>					
Street Tree Programme	SC	60	60	60	60
New street tree planting programme	SC	50	50	0	0
Street Lighting Replacement Prog.	SC	290	290	290	290
Casualty Reduction & Schools	SC	70	0	0	0
Traffic Schemes	SC	250	150	150	150
Surface Water Drainage	SC	69	69	69	69
Repairs to Footways	SC	1,000	1,000	1,000	1,000
Maintain AntiSkid and Coloured Surface	SC	70	70	70	70
Borough Roads Maintenance	SC	1,200	1,200	1,200	1,200
Highways bridges & structures	SC	480	260	260	260
Bishopsford Bridge	SC	2,000	690	0	0
Culverts Upgrade	SC	250	250	0	0
Unallocated TFL	SC	1,300	1,300	1,300	1,300
Cycle access/parking	SC	10	0	0	0
Lost Rivers Repairs	SC	100	100	100	0
Mitcham Town Centre	SC	382	0	0	0
Figges Marsh	SC	55	0	0	0
Regeneration - Canons - Parks for People	SC	2,244	533	0	0
Wimbledon Public Realm Implementation	SC	500	500	500	0
Crowded Places-Hostile Vehicl	SC	268	0	0	0
Morden TC Regeneration Match Funding	SC	2,000	2,500	1,500	0
Haydons Road Shop Front Improvement	SC	204	0	0	0
Christmas Lighting	SC	95	0	0	0
Vacant Premises Upgrade	SC	25	0	0	0
Wimbledon Park Lake Reservoir Safety	SC	1,318	0	0	0
Leisure Centre Plant & Machine	SC	250	250	250	250
Parks Investment	SC	300	300	300	300
Parks - Canons - Parks for People	SC	1,188	179	0	0
Merton Park Green Walks	SC	38	0	0	0
Abbey Recreation Ground	SC	40	0	0	0
New interactive water play feature at Wimbledon Park	SC	226	0	0	0
Wimbledon Park Surfacing of top entrance car park	SC	40	0	0	0
Paddling Pools (borough wide) OPTION 1	SC	90	90	90	0
Paddling Pools (borough wide) OPTION 2	SC	226	0	0	0
Mortuary Provision	SC	0	0	54	0
<b>Total Environment and Regeneration</b>		<b>18,530</b>	<b>11,425</b>	<b>8,343</b>	<b>5,279</b>
<b>Total Capital</b>		<b>47,199</b>	<b>28,966</b>	<b>14,020</b>	<b>23,014</b>

**Growth/(Reductions) against Approved Programme 2020-23 and Indicative Programme 2023-24**

Department	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
Corporate Services	(6,823)	6,883	(13,105)	10,889
Community and Housing	0	0	0	0
Children, Schools and Families	(1,400)	2,350	0	0
Environment and Regeneration	5,683	3,921	3,442	1,272
<b>Total</b>	<b>(2,540)</b>	<b>13,154</b>	<b>(9,663)</b>	<b>12,161</b>

Department	Proposed Budget 2020-21	Proposed Budget 2021-22	Proposed Budget 2022-23	Proposed Budget 2023-24
<b>Corporate Services</b>				
Facilities	60	0	0	725
IT Infrastructure	0	0	(100)	(151)
Corporate	(6,883)	6,883	(13,005)	10,315
<b>Total Corporate Services</b>	<b>(6,823)</b>	<b>6,883</b>	<b>(13,105)</b>	<b>10,889</b>
<b>Children, Schools and Families</b>				
Special	(1,400)	2,350	0	0
<b>Total Children, Schools and Families</b>	<b>(1,400)</b>	<b>2,350</b>	<b>0</b>	<b>0</b>
<b>Environment and Regeneration</b>				
Public Protection and Development	1,104	1,219	480	0
Street Scene and Waste	75	0	0	0
Sustainable Communities	4,504	2,702	2,962	1,272
<b>Total Environment and Regeneration</b>	<b>5,683</b>	<b>3,921</b>	<b>3,442</b>	<b>1,272</b>
<b>Total Capital</b>	<b>(2,540)</b>	<b>13,154</b>	<b>(9,663)</b>	<b>12,161</b>

**Indicative Capital Programme 2024-29**

**Annex 5**

Department		Indicative Budget 2024-25	Indicative Budget 2025-26	Indicative Budget 2026-27	Indicative Budget 2027-28	Indicative Budget 2028-29
<b>Corporate Services</b>						
Customer Contact Programme	OSC	0	1,000	1,000	1,000	0
Other Buildings - Capital Building Works	OSC	650	650	650	650	650
Invest to Save schemes	OSC	300	300	300	300	300
Aligned Assets	OSC	0	0	0	75	0
Environmental Asset Management	OSC	0	0	0	250	0
Revenue and Benefits	OSC	0	400	0	0	0
Capita Housing	OSC	0	100	0	0	0
ePayments Project	OSC	0	125	0	0	0
School Admission System	OSC	0	125	0	0	0
Planning&Public Protection Sys	OSC	0	0	0	0	550
Kofax Scanning	OSC	0	100	0	0	0
Spectrum Spatial Analyst Repla	OSC	0	200	0	0	0
Parking System	OSC	0	126	0	0	0
Ancillary IT Systems	OSC	0	0	50	0	0
Youth Justice IT Systems	OSC	100	0	0	0	0
Planned Replacement Programme	OSC	1,405	1,060	970	1,005	770
Financial Systems	OSC	0	0	0	0	700
Multi-Functioning Device (MFC)	OSC	600	0	0	0	600
<b>Total Corporate Services</b>		<b>3,055</b>	<b>4,186</b>	<b>2,970</b>	<b>3,280</b>	<b>5,670</b>
<b>Community and Housing</b>						
Disabled Facilities Grant	SC/HCOP	280	280	280	280	280
Library Self Service	SC	0	350	0	0	0
Library Management System	SC	0	0	0	140	0
<b>Total Community and Housing</b>		<b>280</b>	<b>630</b>	<b>280</b>	<b>420</b>	<b>280</b>
<b>Children, Schools and Families</b>						
Unallocated - Schools Capital maintenance	CYP	1,900	1,900	1,900	1,900	1,900
<b>Total Children, Schools and Families</b>		<b>1,900</b>	<b>1,900</b>	<b>1,900</b>	<b>1,900</b>	<b>1,900</b>
<b>Environment and Regeneration</b>						
Pay and Display Machines	SC	60	0	0	0	0
Public Protection and Developmnt	SC	0	0	35	0	0
Replacement of Fleet Vehicles	SC	300	300	300	300	300
Alley Gating Scheme	SC	30	30	30	30	30
Waste SLWP IT & Premises	SC	0	42	0	0	0
Replacement of Fleet Vehicles	SC	0	3,956	0	0	0
Street Tree Programme	SC	60	60	60	60	60
Street Lighting Replacement Pr	SC	290	290	290	290	290
Traffic Schemes	SC	150	150	150	150	150
Surface Water Drainage	SC	69	69	69	69	69
Repairs to Footways	SC	1,000	1,000	1,000	1,000	1,000
Maintain AntiSkid and Coloured Surface	SC	70	70	70	70	70
Borough Roads Maintenance	SC	1,200	1,200	1,200	1,200	1,200
Highways bridges & structures	SC	260	260	260	260	260
Leisure Centre Plant & Machine	SC	250	250	250	250	250
Parks Investment	SC	300	300	300	300	300
<b>Total Environment and Regeneration</b>		<b>4,039</b>	<b>7,977</b>	<b>4,014</b>	<b>3,979</b>	<b>3,979</b>
<b>Total Capital</b>		<b>9,274</b>	<b>14,693</b>	<b>9,164</b>	<b>9,579</b>	<b>11,829</b>

### 13. Overview

This annex is new to the Capital Strategy and details the approach adopted in non-core investment activity and sets out how this will help the Authority to deliver its core functions. The definition of Investment covers all financial assets of a local authority as well as non-financial assets that the organisation holds primarily to generate financial returns, such as investment property portfolios.

The annex will detail the security, liquidity and yield of investments and consider risk management and capacity, skills and culture.

### 14. Detail

During the 2020-21 financial year the Authority is planning the following investment activity:

- i) Section 5 of the Treasury Management Strategy sets out the Authority's short to medium term Investment Strategy. This strategy focusses on short to medium term low risk investments.
- ii) To complement the Authority's investment activity it has established a Wholly Owned Housing Company (Merantun) to provide an investment opportunity for the Authority. This longer term investment strategy is of higher risk, will contribute towards the regeneration and affordable housing activity of the Authority and provide higher returns.
- iii) The Authority has also undertaken a long term investment in CHAS 2013 via the purchase of a £1 share, which generates considerable returns via dividend payments.

From 1 April 2018 (financial year 2018/19) the International Financial Reporting Standard 9 (Financial Instruments) came into force. Its purpose was to make accounting for financial instruments more transparent. By the end of financial year 2019/20 the Council will have a financial investment in the wholly owned housing company of £1.91 million. This investment will appear in the Council's accounts but will not appear in the Group Accounts (i.e those for the Council and its two subsidiaries) as it will be eliminated through the consolidation process which will offset the investment by the Council against the share capital in the Housing Company. There will however be an explanatory note added as part of documentation and this will consider the risk involved in such an investment.

### 15. Security

The activity in Section 2 of this Annex have and will result in:

- i) Short to Medium Term investment of available cash resources in low risk low return investment.
- ii) Financial limits have been set on the Maximum sums currently available to the Housing Company:
  - a. Loan to the Wholly Owned Housing Company up to £13.766 million combined, with
  - b. Equity estimated circa £12.41 million (£8.413 Land Equity and £4.0million Working Capital - funding currently under review)

The Authority utilised two externally developed models and a detailed business case to underpin the proposals to assess the financial viability. Legal documentation requires that all assets are returned to Merton at the cessation of the company.

Sensitivity analysis has been undertaken and vulnerability has been identified in respect of the RPI for housing rentals and house prices – these market factors will be monitored closely.

- iii) The £1 investment in CHAS 2013 provides continued secure returns to the authority from this wholly owned organisation.

## 16. Liquidity

- i) Short to medium term cash investments can be liquidated easily.
- ii) Investments are held in CHAS 2013 Limited and Merantun. It is not currently envisaged that these investments need to be redeemed in the short to medium term. If such a need did arise the following example demonstrates the flexibility available to the council:
- iii) Merantun – the following three approaches are possible:
  - a. Sites could be sold by the company at a profit once planning permission has been obtained
  - b. the business model proposed development of housing on four sites within the first three years, at this juncture housing can be sold at any time to generate receipts through to the Council
  - c. The Housing Company itself could be sold

The authority has a loan with MSJCB and intends to enter into a loan with Merantun, should the Authority need to liquidate these, loans could be sold.

## 17. Yield

### 5.1 Expected yield:

- i) Section 5 of the Treasury Management Strategy details the yield expected from short to medium term cash investments
- ii) Detailed financial modelling has been undertaken for Merantun as part of Capital forecasting and the use of specialised models have evaluated the impact on and return to the Authority. The following return is currently anticipated:
  - a. The Loan to Merantun will be made at a rate 6.5+% (*loan amount, timing/flexibility and interest rate are currently under review*)
  - b. The Model Assessed the Internal Rate of Return as 6.39% (*currently under review*)
- iii) Revenue returns from dividends and use of intellectual property from CHAS 213 are built into the Medium Term Financial Strategy.

In assessing whether investment assets retain sufficient value to provide security of investment officers will be mindful of the fair value model in the International Accounting Standard 40: Investment Property.

## **18. Borrowing in Advance of Need**

- 6.1 Section 4.2 of the Treasury Management Strategy details the current and future level of under borrowing by the Authority and sets out the Authority's borrowing strategy linked to this and internal borrowing. Investment in the wholly owned housing company should not only provide a financial return but will increase the Authority's housing provision and investment currently in the east of the borough.
- 6.2 Current indications are that interest rates are likely to rise making it more expensive to borrow. Consideration will be given to the timing of required borrowing to minimise the cost to the Authority and with regard to the current debt portfolio (detailed in Section 4.5 of the Treasury Management Strategy)

## **19. Risk Assessment**

- 7.1 The council recognises that its risk appetite to achieve the corporate priorities identified within its business plan could be described in general as an "informed and cautious" approach. Where significant risk arises, we will take effective control action to reduce these risks to an acceptable level.
- 7.2 It is also recognised that a higher level of risk may need to be accepted, for example, to generate higher returns from loans and investment. To offset this there are areas where the council will maintain a very cautious approach for example in matters of compliance with the law, and public confidence in the council, supporting the overall "informed and cautious" position on risk.
- 7.3 Within its portfolio of risk Merton has:
  - i) Short to medium term low return, low risk cash investment
  - ii) Medium to long term investment in CHAS 2013 which is providing sizeable dividends and returns for use of intellectual property, and
  - iii) Medium to long term higher risk investment in a wholly owned housing company. Stress testing has identified the sensitivity around increases in rental income and house prices. The length of time investment is required for also enhances risk, flexibility is available in the timing of site and property disposal, but decisions by the company would be made on a commercial basis.

The greatest risk exposure to the Authority is when the sites are being developed after obtaining planning permission. The enhanced value of the site will not be realisable until the housing units are completed as the greatest value added will be from completed site. Once units are built there is flexibility over those sold and those retained for rental. Rental units present a longer term business model which should provide dividend income. Early marketing and sales coupled with progressing rent guarantees will be used to minimise the risk to the company and the council

## **20. Capacity, Skills and Culture**

The Authority will where appropriate, buy in expertise to progress loan and investment activity. It is also appropriate in some cases to develop expertise internally.

Within the Business model for Merantun it is recognised that the company may set up joint ventures with trusted partners for the development of some larger sites that would require specialist land assembly skills and larger sums of cash to assist with delivering the development if this is deemed to be appropriate and support the business case. It would contract with construction specialists and construction companies for the development of sites – this should minimise the risk exposure during site development. It is not envisaged that this approach will be adopted for the four sites currently being progressed.