Merton Council

Cabinet

15 February 2016

Supplementary agenda

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CAPITAL STRATEGY 2016/20 Section 4

1 Introduction

1.1 Merton's Capital Strategy for 2016-20 has been aligned and integrated with the Business Plan for the period 2016-20. 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 2016/20 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 2016-2020

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 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 have been 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 Environmental 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;

- 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 will be funded from capital receipts as the repayments will be received as capital receipts. It will be reported to Members as and 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) 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 draft council 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 and 2015/16, 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 2019/20). 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:

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
MRP	6,948	6,802	6,660	7,262
Interest	6,696	6,296	6,136	6,316
Capital financing costs	**13,644**	**13,098**	**12,796**	**13,578**
Investment Income	(739)	(727)	(596)	(487)
Net	**12,905**	**12,370**	**12,200**	**13,091**

6 Capital resources 2016-20

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
- 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 primarily based on the Corporate Asset Management Plan 2011-15 (currently being updated), from which is derived 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 2016-2020

8.1.1 New draft guidance has been issued from the DCLG on the flexible use of capital receipts which comes into effect from 1 April 2016. 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 new treatment of capital receipts could be applied:

- To fund one off severance costs and other reconfiguration costs of reconfiguration that will save resources.
- Investment in the revenue costs of IT based change programmes that reduce service spending.
- Funding the development costs of shared services.
- Financing common approaches for procurement across neighbouring authorities.

- Setting alternative delivery models e.g. housing companies to generate income.

  Any strategy to utilise new capital receipts above that applied to fund the capital programme, will under this new treatment, require full council approval.

8.1.2 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	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000s	**£000s**	**£000s**	**£000s**
Sale of Assets	0	0	0	0
Right to buy/VAT Shelter	1,800	1,200	900	900
Total	**1,800**	**1,200**	**900**	**900**

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 1%, as such an increase in receipts of £1m would be expected to generate a £10,000 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	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Capital Expenditure	**37,184**	**39,296**	**38,743**	**32,070**	**12,307**
Slippage*	(1,860)	(3,811)	1,229	2,399	1,325
Total Capital Expenditure	35,324	35,485	39,972	34,469	13,632
Financed by:					
Capital Receipts	14,654	22,699	3,034	900	900
Capital Grants & Contributions	19,097	10,925	9,751	9,108	4,971
Capital Reserves	-	-	-	-	-
Revenue Provisions	1,574	1,635	5,786	20	2
Other Financing Sources	-	-	-	-	-
Net financing need for the year	**0**	**226**	**21,401**	**24,441**	**7,759**

8.1.3 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 5.72%. For the period 2016-20, 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

	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Transport for London LIP (**earmarked) Capital**	2,755	2,765	3,865	TBA
Total: E&R	**2,755**	**2,765**	**3,865**	**TBA**

TBA – To Be Advised

9.2 Children, Schools and Families

CSF	**2016/17 £000s**	**2017/18 £000s**	**2018/19 £000s**	**2019/20 £000s**
Maintenance (non-ringfenced)	TBA	TBA	TBA	TBA
Basic Need (non-ringfenced)	4,448	6,063	TBA	TBA
Total Grant Funding	**4,448**	**6,063**	**TBA**	**TBA**
Devolved Formula Capital (**Earmarked**)	TBA	TBA	TBA	TBA
TOTAL: CS&F	**4,448**	**6,063**	**TBA**	**TBA**
Balance added for outstanding grant allocations - CSF	552	437	5,000	4,955

TBA – To Be Advised

Note: Basic Need has been announced up to 2017/18 and the Capital Maintenance allocation has not been announced for 2016/17.

9.3 Community and Housing

	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Better Care Fund – Minimum Allocation for Disabled Facilities Grant**)**	TBA	TBA	TBA	TBA
Social Care Capital	TBA	TBA	TBA	TBA
Total C&H	**TBA**	**TBA**	**TBA**	**TBA**

The Adult Social Care Grant is to be part of a pooled budget with the Merton Clinical Commissioning Group, no decisions have been made as yet as to how this will be utilised

9.4 Summary of Grant Funding 2016-2020

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 2016/17:-

Grant Funding	2016/17 £0	2017/18 £0	2018/19 £0	2019/20 £0
Environment and Regeneration	2,755	2,765	3,865	TBA
Children, Schools and Families	4,448	6,063	TBA	TBA
Community and Housing	TBA	TBA	TBA	TBA
Total Grant Funding	**7,203**	**8,828**	**3,865**	**TBA**
Balance added for outstanding grant allocations - CSF	552	437	5,000	4,955

10 Summary of Total Resources 2016-20:

10.1 Summary

10.1.1 The total anticipated resources over the plan period 2016-20, including existing grant funding and anticipated CS&F grants, is summarised in the following table:-

	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Grant & Contributions	10,925	9,751	9,108	4,971
Council Funding	24,560	30,221	25,361	8,661
Total	**35,485**	**39,972**	**34,469**	**13,632**

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 2020 to 2025. Additional detail is provided as Annex 5:

Indicative Capital Programme 2020 to 2025

Merton	Updated Budget 20/21 £000s	Updated Budget 21/22 £000s	Updated Budget 22/23 £000s	Updated Budget 23/24 £000s	Updated Budget 24/25 £000s
Corporate Services	3,235	6,312	1,935	1,965	2,817
Community and Housing	630	280	280	280	280
Children, Schools & Families	6,650	4,658	650	755	650
Environment & Regeneration	4,217	4,252	4,217	4,217	4,277
Total Merton	**14,732**	**15,502**	**7,082**	**7,217**	**8,024**

* 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 £242,000 for assets with a life of 5 years to £62,000 for an asset life of 50 years.

11 Capital Bids and Prioritisation Criteria

11.1 Prioritisation of schemes 2019/20

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 reduction put forward over the period 2016-20, on the basis of these criteria by the board to cabinet was £13.4 million 2016-20 (excluding TfL).

12 Detailed Capital Programme 2016-20

12.1 Corporate Services

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. It is nearing the end of a major project for the restacking of offices in the Civic Centre to enable the economic concentration of staff and services on the borough's main civic site and the biggest remaining component of this is the replacement of the Civic Centre lifts. 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. Annex 1 provides the overall scheme level for approval and Annex 3 provides a detailed breakdown of projects.

12.2 Children, Schools and Families

This department's main capital focus is the need for increased provision for pupils, with the major spend shifting from primary to secondary in 2016/17. The provision in the 2016-20 programme has been revised to that shown in the table below:

Children, Schools & Families	Updated Budget 16/17 £000s	Updated Budget 17/18 £000s	Updated Budget 18/19 £000s	Updated Budget 19/20 £000s
Primary School Expansions	4,102	0	0	0
Secondary School Expansions	7,945	14,230	8,690	4,200
SEN	1,095	4,844	3,650	0
Other	856	754	650	755
Children, Schools & Families	**13,998**	**19,828**	**12,990**	**4,955**

Annex 4 provides detail of the movement in the programme from that currently approved. This is the most significant item in the council's capital programme and as such is set out in detail below:

CSF capital programme 2016-20

The requirement to provide sufficient school places is a key statutory requirement. The government provides capital grant to meet some of this need, but there is a significant shortfall for the council to fund primary school places

The capital programme in 2016/17 provides the finance to complete the expansions of Dundonald and Singlegate Primary Schools. This will complete a primary school expansion programme over eight years that is providing an additional 4,410 places (21 additional forms of entry since 2007/08).

Following the latest demographic information and admissions data, no further primary school expansions are planned or funded in the capital programme.

Secondary school places

The significant increase in demand for school places reached the secondary phase from September 2015, with significant increases at secondary age transfer up to 2018/19 that will flow into all secondary age groups.

However, it is expected the extra demand for places can be met through existing accommodation for the first two years. School expansion and a new school will be required to provide sufficient places thereafter so significant budget is proposed for this from 2016-17.

The capital programme for 2016/20 includes £34.6 million for expansions in the borough's existing secondary schools and the first phase of a new secondary school. However, the council is working with the Education Funding Agency to ensure that significant funding for the new 'Harris Wimbledon' school is provided by central government.

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.

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 2016/20 programme for expansion, including ensuring the numbers in the Perseid upper school will match the lower school. Further decisions on specific expansion schemes for special school provision are subject to review.

Other schemes

With regard to other capital schemes, £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.

12.3 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 15 main areas:

Environment & Regeneration	**Updated Budget 16/17 £000s**	**Updated Budget 17/18 £000s**	**Updated Budget 18/19 £000s**	**Updated Budget 19/20 £000s**
Footways Planned Works	1,000	1,000	1,000	1,000
Greenspaces	486	250	350	385
Highways General Planned Works	419	419	422	427
Highways Planned Road Works	1,500	1,500	1,500	1,250
Leisure Centres	5,431	5,228	2,047	300
Other E&R	45	0	0	0
On and Off Street Parking	35	0	0	0
Regeneration Partnerships	2,656	1,370	2,000	0
Street Lighting	462	290	509	290
Street Scene	60	60	60	60
Transport for London	1,755	1,844	1,864	0
Traffic and Parking Management	1,201	156	175	175
Transport and Plant	562	500	5,500	350
Waste Operations	46	46	46	40
Environment & Regeneration	**15,658**	**12,664**	**15,474**	**4,277**

12.3.1 Highways Planned Road Works and Footways Planned Works

These works are based on 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.

12.3.2 Highways General Planned Works

An indicative list of the major works to be done under this budgeted scheme is as follows:

Leisure Centres	Updated Budget 16/17 £000s	Updated Budget 17/18 £000s	Updated Budget 18/19 £000s	Updated Budget 19/20 £000s
Surface Water Drainage	69	69	72	77
Highways bridges & structures	260	260	260	260
Maintain AntiSkid and Coloured	90	90	90	90
Total Highways General Planned Works	**419**	**419**	**422**	**427**

12.3.3 Leisure

The major works relate to the authority's three Leisure Centres. The first scheme is for general improvements to the three Leisure Centres. The second scheme, Morden Park Pools, is a major investment for the council, with the replacement of the current centre with a new facility.

Leisure Centres	Updated Budget 16/17 £000s	Updated Budget 17/18 £000s	Updated Budget 18/19 £000s	Updated Budget 19/20 £000s
Leisure Centre Plant & Machine	300	300	300	300
Morden Leisure Centre	5,131	4,928	247	0
Wimbledon Park Lake De-Silting	0	0	1,500	0
Total Leisure Centres	**5,431**	**5,228**	**2,047**	**300**

12.3.4 Future Merton

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.

Environment and Regeneration	Updated Budget 16/17 £000s	Updated Budget 17/18 £000s	Updated Budget 18/19 £000s	Updated Budget 19/20 £000s
Regeneration Partnerships				
Industrial Estate Investment	0	450	0	0
Mitcham Major schemes - TfL	1,000	700	0	0
S106 Wim broadway CA	46			
Town Centre Investment	1,037	0	0	0
Morden shopping parades	518	0	0	0
Brighter Business	55	0	0	0
Morden - TfL	0	220	2,000	0
Total Regeneration Partnerships	**2,656**	**1,370**	**2,000**	**0**

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 2016/20 comprises:

Community and Housing	**Updated Budget 16/17 £000s**	**Updated Budget 17/18 £000s**	**Updated Budget 18/19 £000s**	**Updated Budget 19/20 £000s**
Adult Social Care				
CareFirst report Development	14			
Excel Add-Ins	3			
Captive E-Learning CareFirst	8			
Adult Social care Collections	10			
Telehealth	44	0	0	0
Total Adult Social Care	**79**	**0**	**0**	**0**
Housing				
191-193 Western Road	115	0	0	0
Western Road	760	0	0	0
Disabled Facilities Grant	840	755	629	280
Small Repairs Grant	0	0	0	0
Total Housing	**1,715**	**755**	**629**	**280**
Libraries				
Colliers Wood Library Re-Fit	200	0	0	0
West Barnes Library Re-Fit	0	200	0	0
Library Management System	0	100	0	0
Library Self Service	80	0	0	0
Total Libraries	**280**	**300**	**0**	**0**
TOTAL	**2,074**	**1,055**	**629**	**280**

12.5 Overall Programme

12.5.1 The approved Capital Programme for 2016/20 follows at Annex 1, Annex 3 provides an additional breakdown detail of the approved schemes. The summary is as follows:

Merton	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Corporate Services	7,565,460	5,196,000	2,977,000	2,795,000
Community and Housing	2,074,100	1,055,000	628,900	280,000
Children, Schools & Families	13,998,230	19,828,860	12,989,950	4,955,000
Environment & Regeneration	15,658,050	12,663,520	15,473,700	4,277,000
Total Merton	**39,295,840**	**38,743,380**	**32,069,550**	**12,307,000**

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 2015/16 is approved, the 2016/17 Capital Programme will be adjusted accordingly.

12.5.4 Annexe 1 Capital Investment Programme - Schemes for Approval

Annexe 2 Funding the Capital Programme 2016-20

Annexe 3 Detailed Capital Programme 2016-20

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

Annexe 5 Indicative Capital Programme 2020-25

CAPITAL INVESTMENT PROGRAMME - SCHEMES FOR APPROVAL - ANNEX 1

Merton	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Corporate Services	7,565,460	5,196,000	2,977,000	2,795,000
Community and Housing	2,074,100	1,055,000	628,900	280,000
Children, Schools & Families	13,998,230	19,828,860	12,989,950	4,955,000
Environment & Regeneration	15,658,050	12,663,520	15,473,700	4,277,000
Total Merton	**39,295,840**	**38,743,380**	**32,069,550**	**12,307,000**

Merton	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Total Corporate Budgets	982,000	0	0	0
Total Business Improvement	2,227,190	175,000	442,000	190,000
Total Resources	215,000	0	0	0
Total Information Technology	1,525,000	2,021,000	785,000	1,230,000
Total Facilities Management	2,616,270	3,000,000	1,750,000	1,375,000
Total Corporate Services	**7,565,460**	**5,196,000**	**2,977,000**	**2,795,000**
Community and Housing				
Adult Social Care	79,100	0	0	0
Housing				
Western Road	875,000	0	0	0
Disabled Facilities	840,000	755,000	628,900	280,000
Libraries	280,000	300,000	0	0
Total Community and Housing	**2,074,100**	**1,055,000**	**628,900**	**280,000**
Children, Schools and Families				
Primary School Expansions	4,101,720	0	0	0
Secondary School Expansions	7,945,200	14,230,050	8,689,950	4,200,000
SEN	1,095,320	4,844,360	3,650,000	0
Other	855,990	754,450	650,000	755,000
Children, Schools & Families	**13,998,230**	**19,828,860**	**12,989,950**	**4,955,000**

CAPITAL INVESTMENT PROGRAMME - SCHEMES FOR APPROVAL - ANNEX 1 Continued……

Environment & Regeneration	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Footways Planned Works	1,000,000	1,000,000	1,000,000	1,000,000
Greenspaces	486,200	250,000	350,000	385,000
Highways General Planned Works	419,000	419,000	422,000	427,000
Highways Planned Road Works	1,500,000	1,500,000	1,500,000	1,250,000
Leisure Centres	5,430,970	5,228,220	2,047,400	300,000
Other E&R	45,000	0	0	0
On and Off Street Parking	35,000	0	0	0
Regeneration Partnerships	2,656,480	1,370,000	2,000,000	0
Street Lighting	462,000	290,000	509,000	290,000
Street Scene	60,000	60,000	60,000	60,000
Transport for London	1,754,800	1,844,800	1,864,800	0
Traffic and Parking Management	1,201,500	156,000	175,000	175,000
Transport and Plant	561,600	500,000	5,500,000	350,000
Waste Operations	45,500	45,500	45,500	40,000
Environment & Regeneration	**15,658,050**	**12,663,520**	**15,473,700**	**4,277,000**

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 17/18 as grant funding has not been announced. An estimated £528,000 has been added to 16/17 this will be adjusted when funding is announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**
5) **Figures show the anticipated net cost of the provision of a new secondary school**

FUNDING THE CAPITAL PROGRAMME 2015-20 **ANNEX 2**

Merton	Capital Programme £000s	Funded by Merton £000s	Funded by grant and capital contributions £000s
2015/16 Current Budget	29,912	10,674	19,237
Potential Slippage b/f	7,272	6,348	924
2015/16 Revised Budget	37,184	17,022	20,161
Potential Slippage c/f	(1,859)	(795)	(1,064)
Total Spend 2015/16	35,324	16,227	19,097
2016/17 Current Budget	39,296	28,168	11,128
Potential Slippage b/f	1,859	795	1,064
2016/17 Revised Budget	41,155	28,963	12,192
Potential Slippage c/f	(5,670)	(4,403)	(1,267)
Total Spend 2016/17	35,485	24,560	10,925
2017/18 Current Budget	38,743	29,889	8,855
Potential Slippage b/f	5,670	4,403	1,267
2017/18 Revised Budget	44,413	34,292	10,122
Potential Slippage c/f	(4,442)	(4,071)	(371)
Total Spend 2017/18	39,972	30,221	9,751
2018/19 Current Budget	32,070	23,119	8,950
Potential Slippage b/f	4,442	4,071	371
2018/19 Revised Budget	36,511	27,190	9,321
Potential Slippage c/f	(2,042)	(1,829)	(213)
Total Spend 2018/19	34,469	25,361	9,108
2019/20 Current Budget	12,307	7,402	4,905
Potential Slippage b/f	2,042	1,829	213
2019/20 Revised Budget	14,349	9,231	5,118
Potential Slippage c/f	(717)	(570)	(147)
Total Spend 2019/20	13,632	8,661	4,971

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

DETAILED CAPITAL PROGRAMME 2016-20 **ANNEX 3**

Corporate Services	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Corporate Budgets					
Acquisitions Budget	O&SC	500,000	0	0	0
Capital Bidding Fund	O&SC	482,000	0	0	0
Total Corporate Budgets		**982,000**	**0**	**0**	**0**
Business Improvements					
Replace doc management system	O&SC	398,000	0	0	0
Planweb/Stratus Update	O&SC	0	0	42,000	0
M3 LP and PP	O&SC	500,000	0	0	0
Map Information	O&SC	50,000	0	0	0
Aligned Assets	O&SC	0	75,000	0	0
Customer Contact Programme	O&SC	570,000	0	0	0
Data Labling	O&SC	133,850	0	0	0
Electronic Asset Management	O&SC	50,000	0	0	190,000
Revenue & Benefits	O&SC	0	0	400,000	0
Capita Housing	O&SC	0	100,000	0	0
Replacement SC System	O&SC	525,340	0	0	0
Total Business Improvement		**2,227,190**	**175,000**	**442,000**	**190,000**
Resources					
Replacement of Civica Icon	O&SC	106,800	0	0	0
Improving Information Systems	O&SC	108,200	0	0	0
Total Resources		**215,000**	**0**	**0**	**0**
Information Technology					
Planned Replacement Programme	O&SC	1,125,000	1,746,000	510,000	430,000
ITSD Enhancements	O&SC	200,000	200,000	275,000	200,000
Multi-Functioning Device (MFD)	O&SC	200,000	75,000	0	600,000
Total Information Technology		**1,525,000**	**2,021,000**	**785,000**	**1,230,000**
Facilities Management					
Invest to Save Schemes	**O&SC**	1,300,000	300,000	300,000	300,000
Water Safety Works	**O&SC**	150,000	150,000	100,000	0
Asbestos Safety Works	**O&SC**	250,000	250,000	250,000	0
Capital Works - Facilities	**O&SC**	300,000	300,000	300,000	700,000
Civic Centre Passenger Lifts	**O&SC**	116,270	0	0	0
Civic Centre Boilers	**O&SC**	0	0	300,000	0
Data Centre Support Equipment	**O&SC**	0	0	300,000	0
Civic Centre Staff Entrance Improvements	**O&SC**	0	0	200,000	0
Photovoltaics (PV) & Energy Conservation in Schools	**O&SC**	500,000	2,000,000	0	0
Civic Centre Lightning Upgrade	**O&SC**	0	0	0	300,000
Civic Centre Block Paving	**O&SC**	0	0	0	75,000
Total Facilities Management		**2,616,270**	**3,000,000**	**1,750,000**	**1,375,000**
TOTAL		**7,565,460**	**5,196,000**	**2,977,000**	**2,795,000**

DETAILED CAPITAL PROGRAMME 2016-20 Continued.... **ANNEX 3**

Community and Housing	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Adult Social Care					
CareFirst report Development	HC&OP	14,000	0	0	0
Excel Add-Ins	HC&OP	3,000	0	0	0
Captive E-Learning CareFirst	HC&OP	8,350	0	0	0
Adult Social care Collections	HC&OP	10,000	0	0	0
Telehealth	HC&OP	43,750	0	0	0
Total Adult Social Care		**79,100**	**0**	**0**	**0**
Housing					
191-193 Western Road	HC&OP	115,000	0	0	0
Western Road *	HC&OP	760,000	0	0	0
Disabled Facilities Grant	HC&OP	840,000	755,000	628,900	280,000
Small Repairs Grant	HC&OP	0	0	0	0
Total Housing		**1,715,000**	**755,000**	**628,900**	**280,000**
Libraries					
Colliers Wood Library Re-Fit	SC	200,000	0	0	0
West Barnes Library Re-Fit	SC	0	200,000	0	0
Library Management System	SC	0	100,000	0	0
Library Self Service	SC	80,000	0	0	0
Total Libraries		**280,000**	**300,000**	**0**	**0**
TOTAL		**2,074,100**	**1,055,000**	**628,900**	**280,000**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 17/18 as grant funding has not been announced. An estimated £528,000 has been added to 16/17 this will be adjusted when funding is announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**
5) **Figures show the anticipated net cost of the provision of a new secondary school**

DETAILED CAPITAL PROGRAMME 2016-20 Continued.... **ANNEX 3**

Children, Schools and Families	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Primary School Expansions					
Dundonald expansion	C&YP	2,926,910	0	0	0
Singlegate expansion	C&YP	1,174,810	0	0	0
Total Primary School Expansions		**4,101,720**	**0**	**0**	**0**
Scheme 1 Phased Extra 2fe	C&YP	2,181,400	2,181,310	0	0
Scheme 2 Phased Extra 2fe	C&YP	151,000	2,948,740	2,681,000	0
Scheme 3 Phased Extra 2fe	C&YP	542,800	2,000,000	0	0
Scheme 5 Contingency	C&YP	0	100,000	1,530,000	4,200,000
Scheme 4 New School Extra 6fe	C&YP	5,070,000	7,000,000	4,478,950	0
Total Secondary School Expansions		**7,945,200**	**14,230,050**	**8,689,950**	**4,200,000**
Perseid	C&YP	200,000	850,000	650,000	0
Further SEN Provision	C&YP	295,320	3,434,360	3,000,000	
Secondary School Autism Unit	C&YP	600,000	560,000	0	0
Total SEN		**1,095,320**	**4,844,360**	**3,650,000**	**0**
Other					
Schs Cap Maint & Accessibility	C&YP	751,540	650,000	650,000	650,000
Schools Equipment Loans	C&YP	104,450	104,450	0	0
Admissions IT System	C&YP	0	0	0	105,000
Total Other		**855,990**	**754,450**	**650,000**	**755,000**
TOTAL		**13,998,230**	**19,828,860**	**12,989,950**	**4,955,000**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 17/18 as grant funding has not been announced. An estimated £528,000 has been added to 16/17 this will be adjusted when funding is announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**
5) **Figures show the anticipated net cost of the provision of a new secondary school**

DETAILED CAPITAL PROGRAMME 2016-20 Continued…. **ANNEX 3**

Environment and Regeneration	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Footways Planned Works					
Repairs to Footways	SC	1,000,000	1,000,000	1,000,000	1,000,000
Total Footways Planned Works		**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
Greenspaces					
Parks Investment	SC	276,000	216,000	322,500	325,000
Canons Parks for People Dev HLF	SC	113,000	0	0	0
Pay and Display Machines	SC	0	0	0	60,000
Parks Bins - Finance Lease	SC	34,000	34,000	27,500	0
Living Wandle Ravensbury Park	SC	63,200	0	0	0
Total Greenspaces		**486,200**	**250,000**	**350,000**	**385,000**
Highways General Planned Works					
Surface Water Drainage	SC	69,000	69,000	72,000	77,000
Highways bridges & structures	SC	260,000	260,000	260,000	260,000
Maintain AntiSkid and Coloured	SC	90,000	90,000	90,000	90,000
Total Highways General Planned Works		**419,000**	**419,000**	**422,000**	**427,000**
Highways Planned Road Works					
Borough Roads Maintenance	SC	1,500,000	1,500,000	1,500,000	1,250,000
Total Highways Planned Road Works		**1,500,000**	**1,500,000**	**1,500,000**	**1,250,000**
Leisure Centres					
Leisure Centre Plant & Machine	SC	300,000	300,000	300,000	300,000
Morden Leisure Centre	SC	5,130,970	4,928,220	247,400	0
Wimbledon Park Lake De-Silting	SC	0	0	1,500,000	0
Total Leisure Centres		**5,430,970**	**5,228,220**	**2,047,400**	**300,000**
Other E&R					
Mortuary Provision	SC	45,000	0	0	0
Total Other E&R		**45,000**	**0**	**0**	**0**
On and Off Street Parking					
Replacing Handheld Computers	SC	35,000	0	0	0
Total On and Off Street Parking		**35,000**	**0**	**0**	**0**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 17/18 as grant funding has not been announced. An estimated £528,000 has been added to 16/17 this will be adjusted when funding is announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**
5) **Figures show the anticipated net cost of the provision of a new secondary school**

DETAILED CAPITAL PROGRAMME 2016-20 Continued.... ANNEX 3

Environment and Regeneration	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Regeneration Partnerships					
Industrial Estate Investment	SC	0	450,000	0	0
Mitcham Major schemes - TfL	SC	1,000,000	700,000	0	0
S106 Wim broadwy CA	SC	46,480	0	0	0
Town Centre Investment	SC	1,037,000	0	0	0
Morden shopping parades	SC	518,000	0	0	0
Brighter Business	SC	55,000	0	0	0
Morden - TfL	SC	0	220,000	2,000,000	0
Total Regeneration Partnerships		**2,656,480**	**1,370,000**	**2,000,000**	**0**
Street Lighting					
Street Lighting Replacement Pr	SC	462,000	290,000	509,000	290,000
Total Street Lighting		**462,000**	**290,000**	**509,000**	**290,000**
Street Scene					
Street Tree Programme	SC	60,000	60,000	60,000	60,000
Total Street Scene		**60,000**	**60,000**	**60,000**	**60,000**
Transport for London					
Unallocated	SC	1,754,800	1,844,800	1,864,800	0
Total Transport for London		**1,754,800**	**1,844,800**	**1,864,800**	**0**
Traffic and Parking Management					
Traffic Schemes	SC	150,000	156,000	175,000	175,000
Tackling Traffic Congestion		532,500	0	0	0
CCTV (match funding)	SC/O&S	399,000	0	0	0
£1 Coinage Changs P&D Machines	SC	120,000	0	0	0
Total Traffic and Parking Management		**1,201,500**	**156,000**	**175,000**	**175,000**
Transport and Plant					
Replacement of Fleet Vehicles	SC	500,000	500,000	500,000	350,000
Shared Space	SC	20,000	0	0	0
B610 Wim Town Centre trans imp	SC	41,600	0	0	0
Transportation Enhancements	SC	0	0	5,000,000	0
Total Transport and Plant		**561,600**	**500,000**	**5,500,000**	**350,000**
Waste Operations					
Alley Gating Scheme - Fly Tip	SC	40,000	40,000	40,000	40,000
Waste Bins - Finance Lease	SC	5,500	5,500	5,500	0
Total Waste Operations		**45,500**	**45,500**	**45,500**	**40,000**
TOTAL		**15,658,050**	**12,663,520**	**15,473,700**	**4,277,000**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 17/18 as grant funding has not been announced. An estimated £528,000 has been added to 16/17 this will be adjusted when funding is announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**
5) **Figures show the anticipated net cost of the provision of a new secondary school**

ANALYSIS OF GROWTH 2016-20 **ANNEX 4**

Corporate Services	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Business Improvements					
Planweb/Stratus Update	O&SC	0	0	42,000	0
M3 LP and PP	O&SC	500,000	0	0	0
Map Information	O&SC	50,000	0	0	0
Aligned Assets	O&SC	0	75,000	0	0
Electronic Asset Management	O&SC	0	0	0	190,000
Revenue & Benefits	O&SC	0	0	400,000	0
Capita Housing	O&SC	0	100,000	0	0
Total Business Improvement		**550,000**	**175,000**	**442,000**	**190,000**
Information Technology					
Planned Replacement Programme	O&SC	(287,000)	60,000	(447,000)	(145,000)
ITSD Enhancements	O&SC	(50,000)	80,000	225,000	200,000
Multi-Functioning Device (MFD)	O&SC	0	0	0	600,000
Total Information Technology		**(337,000)**	**140,000**	**(222,000)**	**655,000**
Facilities Management					
Water Safety Works	O&SC	0	0	0	(75,000)
Asbestos Safety Works	O&SC	0	0	0	(250,000)
Capital Works - Facilities	O&SC	0	0	0	400,000
Photovoltaics (PV) and Energy Conservation in Schools	O&SC	500,000	2,000,000	0	0
Civic Centre Lightning Upgrade	O&SC	0	0	0	300,000
Civic Centre Block Paving	O&SC	0	0	0	75,000
Total Facilities Management		**500,000**	**2,000,000**	**0**	**450,000**
TOTAL		**713,000**	**2,315,000**	**220,000**	**1,295,000**

* OSC= Overview and Scrutiny Commission, CYP = Children and Young People, HCOP = Healthier Communities and Older People SC = Sustainable Communities,
** Negative growth in the capital programme is as a result of reduction when compared to the approved (16/19) and indicative (19/20) programme.

ANALYSIS OF GROWTH 2016-20 ANNEX 4

Community and Housing	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Housing					
Small Repairs Grant	SC	(60,000)	(60,000)	(60,000)	(60,000)
Total Housing		**(60,000)**	**(60,000)**	**(60,000)**	**(60,000)**
Libraries					
West Barnes Library Re-Fit	SC	0	200,000	0	0
Library Management System	SC	0	100,000	0	0
Total Libraries		**0**	**300,000**	**0**	**0**
TOTAL		**(60,000)**	**240,000**	**(60,000)**	**(60,000)**

ANALYSIS OF GROWTH 2016-20 Annex 4

Children, Schools and Families	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Primary School Expansions					
Beecholme	C&YP	(2,575,000)	(2,075,000)	0	0
23 FE School Expansion 1fe Expansion	C&YP	(100,000)	(555,000)	(2,575,000)	(1,600,000)
26 FE School Expansion - Temp C/rooms	C&YP	0	(618,780)	0	0
27 FE School Expansion - Temp C/rooms	C&YP	0	(300,000)	0	0
28 FE School Expansion – Temp C/rooms	C&YP	0	(300,000)	0	0
Total Primary School Expansions		**(2,675,000)**	**(3,848,780)**	**(2,575,000)**	**(1,600,000)**
Secondary					
Scheme 1 Phased Extra 4fe	C&YP	(682,600)	2,181,310	(3,677,560)	0
Scheme 2 Phased Extra 4fe	C&YP	(2,780,000)	2,948,740	410,880	0
Scheme 3 Phased Extra 2fe	C&YP	(2,362,200)	2,000,000	0	0
Scheme 5 Phased Extra 2fe	C&YP	(95,000)	(1,400,000)	2,360	4,200,000
Scheme 6 Phased Extra 2fe	C&YP	(1,900,000)	(3,000,000)	(2,000,000)	0
Scheme 4 New School Extra 6fe	C&YP	(110,000)	0	0	0
Total Secondary School Expansions		**(7,929,800)**	**2,730,050**	**(5,264,320)**	**4,200,000**
Secondary School Expansions					
Cricket Green	C&YP	(2,057,210)	(1,500,000)	0	0
Perseid	C&YP	200,000	850,000	(200,000)	(850,000)
Further SEN Provision	C&YP	295,320	3,434,360	3,000,000	0
Perseid - Further 28 Places Primary	C&YP	(1,600,000)	(1,500,000)	0	0
Secondary School Autism Unit	C&YP	(560,000)	560,000	0	0
Total SEN		**(3,721,890)**	**1,844,360**	**2,800,000**	**(850,000)**
Other					
Inflation Contingency	C&YP	(2,433,860)	(1,875,580)	(2,074,530)	(165,600)
Admissions IT System	C&YP	0	0	0	105,000
Total Other		**(2,433,860)**	**(1,875,580)**	**(2,074,530)**	**(60,600)**
TOTAL		**(16,760,550)**	**(1,149,950)**	**(7,113,850)**	**1,689,400**

ANALYSIS OF GROWTH 2016-20 **ANNEX 4**

Environment and Regeneration	Scrutiny	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20
Greenspaces					
Parks Investment	SC	0	0	0	(25,000)
Pay and Display Machines	SC	0	0	0	60,000
Total Greenspaces		**0**	**0**	**0**	**35,000**
Highways General Planned Works					
Surface Water Drainage	SC	0	0	3,000	8,000
Total Highways General Planned Works		**0**	**0**	**3,000**	**8,000**
Highways Planned Road Works					
Borough Roads Maintenance	SC	0	0	0	(250,000)
Total Highways Planned Road Works		**0**	**0**	**0**	**(250,000)**
Other E&R					
Mortuary Provision	SC	45,000	0	0	0
Total Other E&R		**45,000**	**0**	**0**	**0**
On and Off Street Parking					
Replacing Handheld Computers	SC	35,000	0	0	0
Total On and Off Street Parking		**35,000**	**0**	**0**	**0**
Regeneration					
Mitcham Major schemes - TfL	SC	(1,484,000)	700,000	0	0
Wimbledon - TfL	SC	(3,200,000)	0	0	0
Morden - TfL	SC	(300,000)	(2,780,000)	2,000,000	0
Total Regeneration		**(4,984,000)**	**(2,080,000)**	**2,000,000**	**0**
Street Lighting					
Street Lighting Replacement Pr	SC	0	0	0	(219,000)
Total Street Lighting		**0**	**0**	**0**	**(219,000)**
Street Scene					
Street Tree Programme	SC	0	0	(40,000)	(40,000)
Total Street Scene		**0**	**0**	**(40,000)**	**(40,000)**
Transport and Plant					
Replacement of Fleet Vehicles	SC	0	0	0	(150,000)
Total Transport and Plant		0	0	0	**(150,000)**
Transport for London					
TfL Allocation		(71,200)	18,800	1,864,800	0
Total Transport for London		**(71,200)**	**18,800**	**1,864,800**	**0**
Waste Operations					
Alley Gating Scheme - Fly Tip	SC	20,000	20,000	20,000	20,000
Total Waste Operations		**20,000**	**20,000**	**20,000**	**20,000**
TOTAL		**(4,955,200)**	**(2,041,200)**	**3,847,800**	**(596,000)**

INDICATIVE CAPITAL PROGRAMME 2020-25 **ANNEX 5**

Corporate Services	Scrutiny	Updated Budget 20/21	Updated Budget 21/22	Updated Budget 22/23	Updated Budget 23/24	Updated Budget 24/25
Business Improvements						
Planweb/Stratus Update	O&SC	0	42,000	0	0	42,000
M3 LP and PP	O&SC	0	500,000	0	0	0
Map Information	O&SC	0	50,000	0	0	0
Aligned Assets	O&SC	0	0	75,000	0	0
Customer Contact Programme	O&SC	200,000	1,800,000	0	0	0
Data Labling	O&SC	0	0	0	0	0
Electronic Asset Management	O&SC	0	0	0	190,000	0
Revenue & Benefits	O&SC	0	0	0	0	400,000
Capita Housing	O&SC	0	0	100,000	0	0
Replacement SC System	O&SC	150,000	1,950,000	0	0	0
Total Business Improvement		**350,000**	**4,342,000**	**175,000**	**190,000**	**442,000**
Resources						
Replacement of Civica Icon	O&SC	125,000	0	0	0	0
Improving Information Systems	O&SC	700,000	0	0	0	0
Total Resources		**825,000**	**0**	**0**	**0**	**0**
Information Technology						
Planned Replacement Programme	O&SC	860,000	770,000	560,000	575,000	575,000
ITSD Enhancements	O&SC	200,000	200,000	200,000	200,000	200,000
Multi-Functioning Device (MFD)	O&SC	0	0	0	0	600,000
Total Information Technology		**1,060,000**	**970,000**	**760,000**	**775,000**	**1,375,000**
Invest to Save Schemes	O&SC	300,000	300,000	300,000	300,000	300,000
Capital Works - Facilities	O&SC	700,000	700,000	700,000	700,000	700,000
Total Facilities Management		**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
TOTAL		**3,235,000**	**6,312,000**	**1,935,000**	**1,965,000**	**2,817,000**

Community and Housing	Scrutiny	Updated Budget 20/21	Updated Budget 21/22	Updated Budget 22/23	Updated Budget 23/24	Updated Budget 24/25
Housing						
Disabled Facilities Grant	HC&OP	280,000	280,000	280,000	280,000	280,000
Total Housing		**280,000**	**280,000**	**280,000**	**280,000**	**280,000**
Libraries						
Library Self Service	SC	350,000	0	0	0	0
Total Libraries		**350,000**	**0**	**0**	**0**	**0**
TOTAL		**630,000**	**280,000**	**280,000**	**280,000**	**280,000**

INDICATIVE CAPITAL PROGRAMME 2020-25 **ANNEX 5**

Children, Schools and Families	Scrutiny	Updated Budget 20/21	Updated Budget 21/22	Updated Budget 22/23	Updated Budget 23/24	Updated Budget 24/25
Secondary School Expansions						
Scheme 4 New School Extra 6fe	C&YP	6,000,000	4,008,000	0	0	0
Total Secondary School Expansions		**6,000,000**	**4,008,000**	**0**	**0**	**0**
Other						
Schs Cap Maint & Accessibility	C&YP	650,000	650,000	650,000	650,000	650,000
Admissions IT System	C&YP	0	0	0	105,000	0
Total Other		**650,000**	**650,000**	**650,000**	**755,000**	**650,000**
TOTAL		**6,650,000**	**4,658,000**	**650,000**	**755,000**	**650,000**

Environment and Regeneration	Scrutiny	Updated Budget 20/21	Updated Budget 21/22	Updated Budget 22/23	Updated Budget 23/24	Updated Budget 24/25
Footways Planned Works						
Repairs to Footways	SC	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Footways Planned Works		**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
Greenspaces						
Parks Investment	SC	325,000	325,000	325,000	325,000	325,000
Pay and Display Machines	SC	0	0	0	0	60,000
Total Greenspaces		**325,000**	**325,000**	**325,000**	**325,000**	**385,000**
Highways General Planned Works						
Surface Water Drainage	SC	77,000	77,000	77,000	77,000	77,000
Highways bridges & structures	SC	260,000	260,000	260,000	260,000	260,000
Maintain AntiSkid and Coloured	SC	90,000	90,000	90,000	90,000	90,000
Total Highways General Planned Works		**427,000**	**427,000**	**427,000**	**427,000**	**427,000**
Highways Planned Road Works						
Borough Roads Maintenance	SC	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Total Highways Planned Road Works		**1,250,000**	**1,250,000**	**1,250,000**	**1,250,000**	**1,250,000**
Leisure Centres						
Leisure Centre Plant & Machine	SC	300,000	300,000	300,000	300,000	300,000
Total Leisure Centres		**300,000**	**300,000**	**300,000**	**300,000**	**300,000**
On and Off Street Parking						
Replacing Handheld Computers	SC	0	35,000	0	0	0
Total On and Off Street Parking		**0**	**35,000**	**0**	**0**	**0**

INDICATIVE CAPITAL PROGRAMME 2020-25 **ANNEX 5**

Environment and Regeneration	Scrutiny	Updated Budget 20/21	Updated Budget 21/22	Updated Budget 22/23	Updated Budget 23/24	Updated Budget 24/25
Street Lighting						
Street Lighting Replacement Pr	SC	290,000	290,000	290,000	290,000	290,000
Total Street Lighting		**290,000**	**290,000**	**290,000**	**290,000**	**290,000**
Street Scene						
Street Tree Programme	SC	60,000	60,000	60,000	60,000	60,000
Total Street Scene		**60,000**	**60,000**	**60,000**	**60,000**	**60,000**
Traffic and Parking Management						
Traffic Schemes	SC	175,000	175,000	175,000	175,000	175,000
Total Traffic and Parking Management		**175,000**	**175,000**	**175,000**	**175,000**	**175,000**
Transport and Plant						
Replacement of Fleet Vehicles	SC	350,000	350,000	350,000	350,000	350,000
Total Transport and Plant		**350,000**	**350,000**	**350,000**	**350,000**	**350,000**
Waste Operations						
Alley Gating Scheme - Fly Tip	SC	40,000	40,000	40,000	40,000	40,000
Total Waste Operations		**40,000**	**40,000**	**40,000**	**40,000**	**40,000**
TOTAL		**4,217,000**	**4,252,000**	**4,217,000**	**4,217,000**	**4,277,000**

* OSC= Overview and Scrutiny Commission, CYP = Children and Young People, HCOP = Healthier Communities and Older People SC = Sustainable Communities,
** Negative growth in the capital programme is as a result of reduction when compared to the approved (15/18)and indicative (18/19) programme.

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant**
3) **Excludes expenditure budgets relating to Transport for London Grant .**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools.**
5) **Excludes re-provision costs for Customer Contact and Social Care Information Technology Systems**

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TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION

1.1 Background

London Borough of Merton's treasury management activities include the management of its 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 2016/17 to 2018/19
b) Approve the Minimum Revenue Provision (MRP) policy for 2016/17; and
c) To agree the Treasury Management Strategy for 2016/17.

1.2 Statutory Requirement

The Local Government Act 2003 (the Act) as amended and supporting regulations, require the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of practice to set Prudential and Treasury Indicators for the next three years and to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act 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 adequate liquidity and security before investment return.

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 2016/17

The strategy for 2016/17 covers two main areas:

Capital Issues

- To determine the Council's capital plans and prudential indicators for 2016/17 to 2018/19;
- To approve the Minimum Revenue Provision (MRP) policy for 2016/17.

Treasury Management Issues

- To agree the Council's treasury management strategy for 2016/17
  - current treasury position as at 31 January 2016;
  - 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 31 January 2016.

Year End Resources	2014/15 Actual £'000	31 January 2015 Actual £'000	31 March 2015/16 Estimate £'000	31 March 2016/17 Estimate £'000
Investments	86,100	98,550	79,600	72,200
Interest on investments	842	286	797	747
Borrowing				
Long-term Borrowing	116,976	116,976	116,976	116,976
Short-term Borrowing				
Total External Debt	**116,976**	**116,976**	**116,976**	**116,976**
Interest on External Debt				
Long-term	6,686	6,686	6,682	6,696
Short-term	1	1		
Total Interest on External Debt	**6,687**	**6,687**	**6,682**	**6,696**

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

3. CAPITAL PRUDENTIAL INDICATORS 2016/17 - 2019/20

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 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.

The 2015/16 figures have been adjusted for finance lease implications.

Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Children Schools & Families	23,495	14,619	13,998	19,829	12,990	4,955
Community & Housing	1,257	1,611	2,074	1,055	629	280
Corporate Services	2,742	6,831	7,565	5,196	2,977	2,795
Environment & Regeneration	9,149	14,123	15,658	12,664	15,474	4,277
	-	-	-	-	-	-
Total	**36,643**	**37,184**	**39,296**	**38,743**	**32,070**	**12,307**

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 31 January 2016.

Capital Expenditure	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Expenditure	**36,643**	**37,184**	**39,296**	**38,743**	**32,070**	**12,307**
Slippage*	-	-1,860	-3,811	1,229	2,399	1,325
Total Capital Expenditure	36,643	35,324	35,485	39,972	34,469	13,632
Financed by:						
Capital Receipts	0	14,654	22,699	3,034	900	900
Capital Grants & Contributions	29,676	19,097	10,925	9,751	9,108	4,971
Capital Reserves	-	-	-	-	-	-
Revenue Provisions	-	1,574	1,635	5,786	20	2
Other Financing Sources	-	-	-	-	-	-
Net financing need for the year	**6,967**	**0**	**226**	**21,401**	**24,441**	**7,759**

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

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 2016/17 is expected. Public Health capital projects are fully funded therefore have no CFR implications. The 2015/16 forecast movement in CFR shows a decrease of £9,246k because the expenditure to be funded from borrowing in 2015/16 is less than the amount of MRP charged in the year.
The current projection as at 31 January 2016 for 2015/16 year end is an estimated cash balance of £79.6m. The current cashflow forecast has been based on assumptions in the MTFS and capital programme spend forecast after slippage. The 2015/16 forecast £35.32m, 2016/17 £35.49m, and 2017/18 £39.97m 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 end of 2017/18 in anticipation for 2018/19. However, the Council can borrow in advance of need if rates fall and borrowing becomes a lot more advantageous than it currently is.
The Council is asked to approve the CFR projections below:

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Financing Requirement						
CFR (non-housing)	207,826	198,580	190,058	203,150	219,342	218,361
Total CFR	**207,826**	**198,580**	**190,058**	**203,150**	**219,342**	**218,361**
Movement in CFR	**(4,140)**	**(9,246)**	**(8,521)**	**13,092**	**16,192**	**(981)**
Movement in CFR represented by						
Net financing need for the year (above)	1,089	0	226	21,401	24,441	7,759
Less Capital MRP/VRP	3,987	7,396	6,948	6,802	6,660	7,262
Less Other MRP/VRP (leasing, PFI)	685	1,253	1,159	821	855	690
Less Other MRP/VRP – PFI – Partial termination	557	597	640	686	735	788
Less Other financing movements • Adjustment of PFI Liability • Adjustment of MRP						
Movement in CFR	**(4,140)**	**(9,246)**	**(8,521)**	**13,092**	**16,192**	**(981)**

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) that is 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

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Net Revenue Financing Costs	18,385	16,044	15,540	14,665	14,388	15,317
Net Financing Stream	162,542	155,016	147,597	139,240	133,123	129,145
Ratio of Financing Costs to Net Revenue Stream (Non HRA)	11.31%	10.35%	10.53%	10.53%	10.81%	11.86%

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. Council tax has remained the same since 2011/12 therefore there has been little or no incremental impact on Council tax band D properties.

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Incremental Change in Capital Financing Costs (£000)	1,830	-2,341	-504	-876	-277	930
Council Tax Base	68,087	69,638	71,327	71,684	72,042	72,402
Incremental Impact on Council Tax - Band D* (£)**	**£26.88**	**-£33.61**	**-£7.07**	**-£12.22**	**-£3.85**	**£12.84**
Council Tax - Band D (£)	1,106.56	1,106.45	1,106.45	1,106.45	1,106.45	1,106.45

***2015/16 is actual council tax amounts, 2016/17 is proposed. However the Council tax base for future years is an average of future years.

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 follows CLG regulations (option 1). This provides 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
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

Consideration is given to economic and interest rate forecasts because they provide likely investment rates (bank rates), likely borrowing rates (PWLB), credit risk profile thereby giving some latitude on when to borrow, repay and invest. However as with every forecast there is also the likelihood of economic factors not following forecasts.

The following table gives the central position on the Council's treasury management adviser's view on interest rates.

Annual Average %	**Bank Rate (%)**	**PWLB Borrowing Rates (%)**			
		5 year	**10 year**	**25 year**	**50 year**
March 2016	0.50	2.00	2.60	3.40	3.20
June 2016	0.50	2.10	2.70	3.40	3.20
Sept 2016	0.50	2.20	2.80	3.50	3.30
Dec 2016	0.75	2.30	2.90	3.60	3.40
March 2017	0.75	2.40	3.00	3.70	3.50
June 2017	1.00	2.50	3.10	3.70	3.60
Sept 2017	1.00	2.60	3.20	3.80	3.70
Dec 2017	1.25	2.70	3.30	3.90	3.80
March 2018	1.25	2.80	3.40	4.00	3.90
June 2018	1.50	2.90	3.50	4.00	3.90
Sept 2018	1.50	3.00	3.60	4.10	4.00
Dec 2018	1.75	3.10	3.60	4.10	4.00
Mar 2019	1.75	3.20	3.70	4.10	4.00

Source: Capita Asset Services

The Bank of England November 2015 Inflation Report included a forecast for GDP growth to be around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand supported by a recovery in wage inflation, declining CPI inflation, and investment expenditure. However, the Report highlighted weakness in some global economic data and volatile financial markets, and their potential impact on growth.

Also, the Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013.

However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation.

Therefore, there is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to start increasing rates.

Weakening UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast in the form of it being pushed further back.

The US economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. The run of strong monthly increases in non-farm payrolls figures for growth in employment in 2015 prepared the way for the Fed to embark on its long awaited first increase in rates by 0.25% at its December meeting.

The accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by the Bank of England Monetary Policy Committee (MPC).

In the Eurozone, the European Central Bank (ECB) rolled out a massive €1.1 trillion programme of quantitative easing, in January 2015, to buy up high credit quality government and other debt of selected Eurozone countries.

This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December 2015 meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases.

The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3.

Financial markets were disappointed by the ECB's lack of decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the Eurozone and getting inflation up from the current level of around zero to its target of 2%.

5.2 Borrowing Strategy

Current Borrowing Portfolio Position

The table below shows the CFR as at 31 January 2015 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 2015/16.

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
External Debt at 1 April	116,976	116,976	116,976	116,976	113,010	113,010
Expected change in Debt (repayment and new debt)****	0	0	0	3,966	0	0
Closing External Debt	**116,976**	**116,976**	**116,976**	**113,010**	**113,010**	**113,010**
PFI Balance b/f	20,449	19,524	18,664	17,959	17,164	16,480
In year movement	-925	-860	-705	-795	-684	-1,554
Closing Balance PFI	**19,524**	**18,664**	**17,959**	**17,164**	**16,480**	**14,926**
PFI Partial Termination Balance b/f	15,767	15,210	14,613	13,973	13,287	12,552
In year movement	-557	-597	-640	-686	-735	-788
Closing Balance Partial Termination PFI	**15,210**	**14,613**	**13,973**	**13,287**	**12,552**	**11,764**
TOTAL PFI	**34,734**	**33,277**	**31,932**	**30,451**	**29,032**	**26,690**
Finance Leases at 1 April	140	328	299	88	33	6
Expected Change in Finance Leases	188	-29	-211	-55	-27	0
Closing Balance Finance Leases	**328**	**299**	**88**	**33**	**6**	**6**
Salix Loan	**41**	**33**	**26**	**19**	**12**	**6**
Salix in year movement	**-8**	**-7**	**-7**	**-7**	**-6**	**-4**
Closing Balance Salix	**33**	**26**	**19**	**12**	**6**	**2**
Actual gross debt at 31 March	**152,071**	**150,578**	**149,015**	**143,506**	**142,054**	**139,708**
Capital Financing Requirement	**207,826**	**198,580**	**190,058**	**203,150**	**219,342**	**218,361**
Under/(over) borrowing	**-55,755**	**-48,002**	**-41,043**	**-59,644**	**-77,288**	**-78,653**

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

The table above shows the CFR forecast for 2015/16 and 2016/17. Also, there is no maturing debt until 2017/18 hence little borrowing pressure therefore the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cashflow has been used as a temporary measure. PFI and finance lease portion of the CFR will not be funded by additional loan. Capital forecasts relating to 2018/19 and 2019/20 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.

Against this background, the Director of Corporate Services will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances to maximise short-term savings. However when interest rates begin to rise, the Council will consider borrowing in advance of need than current forecast requirements show. The duration of loans will be driven by the current loan portfolio, affordability, the position on internal borrowing and borrowing rates.

Council's Year End Balance Sheet Position at 31 March 2015

	2013/14 £'000	2014/15 £'000	Change £'000
CFR	214,060	207,826	6,234
PFI and LEASES	**-36,831**	**-35,062**	**-1,769**
Underlying Borrowing Requirement	**177,229**	**172,764**	**4,465**
External Borrowing	116,676	116,976	-300
Under borrowing / Internal borrowing to date	-60,253	-55,755	-4,498

Strategy to 'Unwind' Internal Borrowing

Internal borrowing at 31 March 2016 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 2016/17 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 may be affected.

All counterparties were contacted in 2015 and most responded and cited a minimum rate they would consider reviewing the call option on the LOBO as being over 3%. Bank of England rate is currently 0.50% with rates not expected to rise to 0.75% before Q4 2016.

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 fall well below its borrowing trigger rate 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 2016/17 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.

Operational boundary £'000	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
External Debt	116,976	116,976	116,976	113,010	113,010	113,010
Other Long-term Liabilities	35,062	33,602	32,039	30,496	29,044	26,698
Operational Boundary	152,038	150,578	149,015	143,506	142,054	139,708

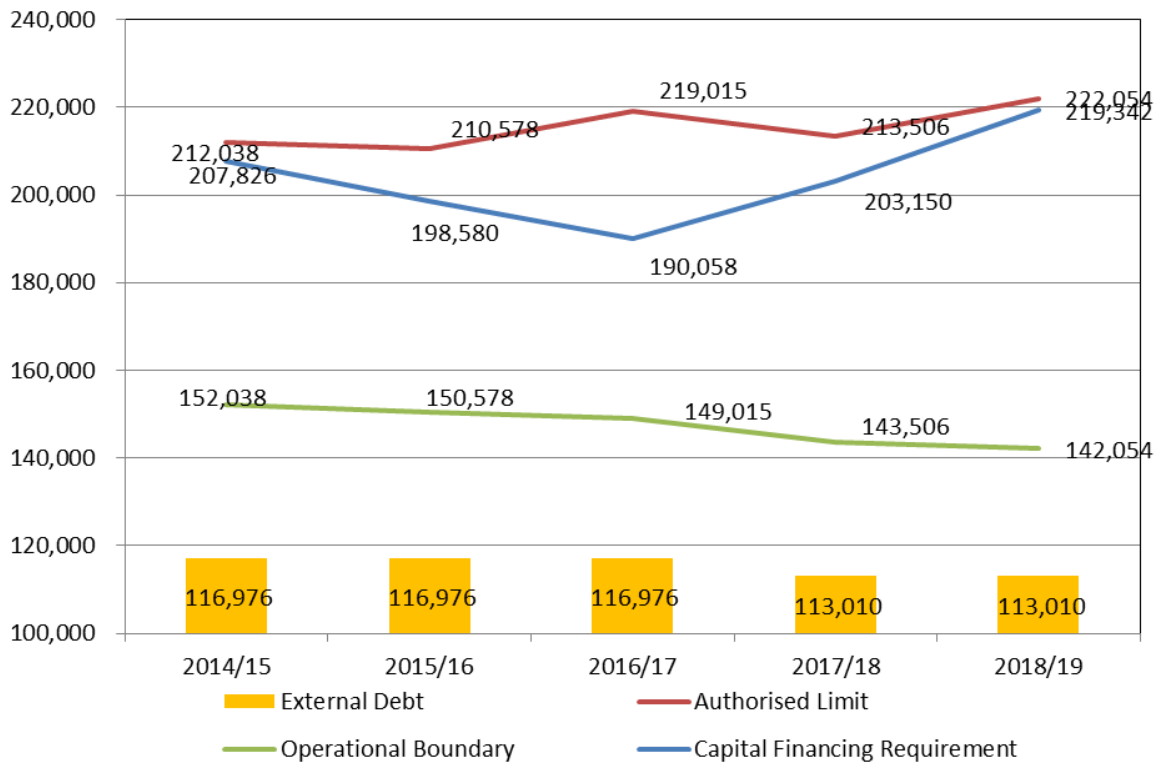
Authorised Limit for External Borrowing

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 Council is asked to approve the following authorised limit:

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
External Debt	152,038	150,578	149,015	143,506	142,054	139,708
Other Long-term Liabilities	60,000	60,000	70,000	70,000	80,000	80,000
Authorised Limit	**212,038**	**210,578**	**219,015**	**213,506**	**222,054**	**219,708**

Members are required to note that these authorised limits shows 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.



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

	2015/16	2016/17	2017/18	2018/19	2019/20
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** • **Investments only**	100% 100%	100% 100%	100% 100%	100% 100%	100% 100%
Limits on variable interest rates • **Debt only** • **Investments only**	50% 50%	50% 50%	50% 50%	50% 50%	50% 50%

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

	Maturity Structure of fixed interest rate borrowing 2016/17				**Maturity Structure of variable interest rate borrowing 2016/17**		
	Actual at 31/01/2016	**Lower**	**Upper**		**Actual 31/01/2016**	**Lower**	**Upper**
Under 12 months	1.71%	0%	60%		0%	0%	50%
12 months to 2 years	1.68%	0%	60%		0%	0%	50%
2 years to 5 years	0.00%	0%	60%		0%	0%	50%
5 years to 10 years	26.08%	0%	80%		0%	0%	50%
10 years to 20 years	14.53%	0%	100%		0%	0%	50%
20 years to 30 years	11.54%	0%	100%		0%	0%	50%
30 years to 40 years	27.36%	0%	100%		0%	0%	50%
40 years to 50 years	17.10%	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

	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 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%	5.72%	5.72%	5.72%	5.72%

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.

Should interest rates reach 3.00% or less for PWLB 25 year loan then, 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
2016/17	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.
2017-18	No more than 50% of under borrowing requirement	
2018-19	No more than 50% of under borrowing requirement	
2019-20	No more than 50% of under borrowing requirement	

5.6. Debt Rescheduling

Long-term fixed rates have remained relatively unchanged over the past three years. Although borrowing costs remain historically attractive, redemption rates are prohibitive.

The table below shows the maturity profile of the Council's current debt as at 31 January 2016.

Duration	£'000	% of Debt Portfolio
less than 1 year	0	0.00
1 - 2 years	3,966	3.39
2 - 5 years	0	0.00
5 -10 years	30,510	26.08
10 -15 years	4,500	3.85
15- 20 years	12,500	10.69
20 - 25 years	0	0.00
25-30 years	13,500	11.54
30 - 35 years	0	0.00
35-40 years	32,000	27.36
40 -45 years	0	0.00
45-50 years	20,000	17.10
Total	**116,976**	**100.00**

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	63,000	53.86
1 - 2 years	1,966	1.68
2 - 5 years	0	0.00
5 -10 years	26,510	22.66
10 -15 years	0	0.00
15- 20 years	3,500	2.99
20 - 25 years	0	0.00
25-30 years	0	0.00
30 - 35 years	0	0.00
35-40 years	22,000	18.81
40 -45 years	0	0.00
45-50 years	0	0.00
Total	**116,976**	**100.00**

The Council tests the markets for redemption opportunities should they exist. The PWLB loans portfolio was elected for the early redemption review as at 16

January 2016. A total loan value of £52m would incur redemption costs of £21million 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 likely that the Municipal Bond Agency currently in the process of being set up will be offering loans to local authorities in the near future. It is also hoped that borrowing rates will be lower than those offered by the PWLB.

- National Infrastructure Bill and Proposed Changes to the Governance of the Public Works Loans Board (PWLB)

It is expected that the role of the PWLB Commissioners will be removed and the PWLB in time will be renamed but not abolished. There is an expectation that the current lending arrangements will remain in place going forward. The background to the development is that there is a bill currently going through the House of Lords called the National Infrastructure Bill.

- 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

The Council does not place cash with fund managers as all of its cash is managed in-house. Base rate is forecast to remain at 0.50% till Q4 2016. The forecast rates have been built on the basis that bank rate is expected to remain unchanged until around the fourth quarter of 2016, however if interest rates do not rise then future income expectations may not be met. Local indicators /benchmark for investments set is included in paragraph 5.4 of this report.

In order to maximise returns, cash available for investments will be split into three categories;

- Operational cash (under 3 months)
- Core cash (available for 3 to 6 months)
- Strategic cash (available for over 6 months)

The aim is to invest strategic cash for a minimum period of 12 months to enable the Council to secure advantageous rates, taking account of counterparty risk. However this is also constrained by counterparty risk. Operational cash will predominantly be lent overnight or for periods less than three months.

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 2015 Actual £'m	**2015/16 Estimate £'m**	**2016/17 Estimate £'m**	**2017/18 Estimate £'m**	**2018/19 Estimate £'m**	**2019/20 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 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 Capita 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 Capita 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 Capita 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.

CHAS 2013 Limited is a wholly owned subsidiary of L.B Merton. It is a service offering Health and Safety pre-qualification assessments to nationally recognised standards. The company uses the Council's bank account, although steps have been taken to open a separate bank account for the company in 2016/17.
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 2012.

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 2016/17

Appendix 6 – Prudential Indicators for 2015/16 to 2018/19

Appendix 7 – Glossary

Appendix 8 – Cashflow Forecast

13. Background Papers

- CIPFA Prudential Code for Capital Finance in Local Authorities 2013 Edition
- 2015/16 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 2016/20

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

PWLB loan Early Redemption Estimates at 16 January 2016

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 16 Jan 2016 (£)	Premium/Discount (£)	Total Due (£)
1000484711	PWLB	31/10/2015	13/11/2000	24	31/10/2024	5,000,000	5.000	8.9	30/04/2016	1.460	54,109.59	1,454,093.81	6,508,203.40
1000484981	PWLB	31/10/2015	30/11/2000	24	31/10/2024	1,500,000	4.750	8.9	30/04/2016	1.460	15,421.23	405,421.07	1,920,842.30
1005489969	PWLB	20/11/2015	20/05/2005	30	20/05/2035	2,500,000	4.450	19.4	20/05/2016	2.250	17,982.88	858,551.09	3,376,533.97
1005490706	PWLB	21/11/2015	21/11/2005	26	21/11/2031	1,000,000	4.250	15.1	21/05/2016	2.0600	6,753.42	294,711.13	1,301,464.55
1005490967	PWLB	25/07/2015	10/01/2006	50	25/07/2055	10,000,000	3.950	39.6	25/01/2016	2.240	191,547.95	4,468,188.25	14,659,736.20
1005490976	PWLB	25/07/2015	10/01/2006	50	25/07/2055	5,000,000	3.950	39.6	25/01/2016	2.240	95,773.97	2,234,094.12	7,329,868.09
1006491475	PWLB	28/10/2015	28/04/2006	45.5	28/10/2051	7,000,000	4.400	35.9	30/04/2016	2.280	69,194.52	3,616,323.89	10,685,518.41
1097480120	PWLB	30/09/2015	15/10/1997	25.5	31/03/2023	310,000	6.625	7.2	31/03/2016	1.270	6,189.38	113,850.47	430,039.85
1097480121	PWLB	30/09/2015	15/10/1997	26.5	31/03/2024	12,000,000	6.500	8.2	31/03/2016	1.400	235,068.49	4,724,495.53	16,959,564.02
1097480232	PWLB	30/09/2015	11/11/1997	26.5	31/03/2024	1,700,000	6.750	8.2	31/03/2016	1.400	34,582.19	702,112.53	2,436,694.72
1098480925	PWLB	31/10/2015	30/04/1998	26	30/04/2024	6,000,000	5.875	8.3	30/04/2016	1.400	76,294.52	2,093,010.68	8,169,305.20
						52,010,000					802,918.14	**20,964,852.57**	73,777,770.71

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 20 January 2016)

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 Capita 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 2016/17

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 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 Governance 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 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 Capita 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 2015/16 TO 2018/19

PRUDENTIAL INDICATORS	2015/16 Probable Outturn £'000	2016/17 Forecast £'000	2017/18 Forecast £'000	2018/19 Forecast £'000
1. CAPITAL EXPENDITURE				
a) Capital Expenditure (includes expenditure funded by supported, unsupported borrowing and other sources) i) General Fund estimated as at 31/12/15	35,324	35,485	39,972	34,469
Total as at 31/12/15	**35,324**	**35,485**	**39,972**	**34,469**
b) In year Capital Financing Requirement (CFR) i) General Fund (Gross of MRP costs)	0	226	21,401	24,441
Total in year CFR	**0**	**226**	**21,401**	**24,441**
c) Capital Financing Requirement as at 31 March (Balance Sheet figures) i) General Fund (Net of MRP costs)	198,580	190,058	203,150	197,373
Total	**198,580**	**190,058**	**203,150**	**219,342**

2. AFFORDABILITY				
a) Ratio of Financing Costs to net Revenue Streams i) General Fund	10.35%	10.53%	10.53%	10.81%
b) General Fund Impact of Prudential (Unsupported) Borrowing on Band D Council Tax Levels (per annum) i) In year Increase	-£33.61	-£7.07	-£12.22	-£3.85
ii) Cumulative Increase (includes MRP costs)		-£40.68	-£52.90	-£56.75
3. LONG-TERM EXTERNAL DEBT				
a) Debt Brought Forward 1 April	116,976	116,976	116,976	113,010
Debt Carried Forward 31 March	116,976	116,976	113,010	113,010
Additional Borrowing	**0**	**0**	**(3,966)**	**0**
b) Operational Boundary for External Debt (Excludes Revenue Borrowing) i) Borrowing ii) Other Long-term Liabilities	150,578 33,602	149,015 32,039	143,506 30,496	142,054 29,044
c) Total Operating Debt (Excludes Revenue Borrowing)	184,180	181,054	174,002	171,098
Add margin for cashflow contingency	26,398	37,961	39,504	50,956
Affordable Borrowing Limit (Includes Revenue Borrowing)	210,578	219,015	213,506	222,054
Authorised Limit for External Debt (Includes Revenue Borrowing) • Borrowing • Other Long-term Liabilities	150,578 60,000	149,015 70,000	143,506 70,000	142,054 80,000

Authorised Borrowing Limit	**210,578**	**219,015**	**213,506**	**222,054**
4. TREASURY MANAGEMENT				
a) Borrowing Limit – Upper Limit for Fixed Interest Rate Exposure Expressed as: Net Principal re Fixed Rate Borrowing/Investments	210,578	219,015	213,506	222,054
b) Borrowing Limit – Upper Limit for Variable Interest Rate Exposure Expressed as: Net Principal re Variable Rate Borrowing/Investments	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%
	LOWER LIMIT		UPPER LIMIT	
d) Maturity Structure of new Fixed Rate Borrowing, if Taken During 2016/17				
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.

2015/16 Estimated Cash Flow Forecast December 2015 Position and 2016/17 to 2018/19 Forecast **APPENDIX 8**

Description	2013/14 Actual £000	2014/15 Actual £000	2015/16 Year to Date (Three quarters to Dec 2015) Actual £000	2015/16 Jan - March Forecast £000	2015/16 Year end Forecast as at Dec 2015 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000
Payments								
Payroll Related Payments (including Schools)-net pay	102,341	104,256	79,817	26,606	106,423	109,615	112,904	116,291
Payroll related-HMRC	37,906	37,321	27,409	9,136	36,545	37,642	38,771	39,934
Payroll related-Teachers Pensions Authority	12,232	13,010	6,319	2,106	8,425	8,678	8,938	9,207
Payroll related-pension fund and disbursements and including back funding and added years	22,710	36,259	11,470	3,823	15,293	15,752	16,225	16,711
Service payments- (Premises, Transport, Supplies and Services and Third Party payments) and payments to preceptors	341,332	339,403	298,670	156,498	455,168	457,610	476,217	482,939
Transfer Payments-Housing Benefits	91,560	92,065	70,885	23,628	94,513	97,349	100,269	103,277
Bank Charges & Related Expenditure	280	252	179	60	239	246	253	261
NET Business Rates Retention Scheme (RSG)	30,490	31,348	11,131	3,710	14,841	15,287	15,745	16,218
Business Rates and CTax Refunds	4,191	5,601	4,631	1,544	6,175	6,360	6,551	6,747
Capital Payments	31,624	37,118	23,305	7,768	31,073	32,006	32,966	33,955
Total Payments	674,666	696,633	533,816	234,880	768,696	780,544	808,839	825,540
Receipts								
Business Rates Receipts	-90,044	-91,292	-75,669	-25,223	-100,892	-103,919	-107,036	-110,247
Council Tax Receipts	-101,963	-103,301	-88,853	-29,618	-118,471	-122,025	-125,686	-129,456
DWP - Housing Benefit Subsidy & Admin Grant & Discretionary Housing Payment grant&S31 Grant)	-105,598	-87,289	-71,225	-23,742	-94,967	-97,816	-100,750	-103,773
Grants (Including Public Health Grants)	-221,440	-228,412	-197,069	-65,690	-262,759	-270,641	-278,761	-287,123
Other receipts-fees and charges	-61,310	-73,621	-56,570	-18,857	-75,426	-77,689	-80,020	-82,420
Payroll Recoupment	-80,631	-82,897	-62,052	-20,684	-82,736	-85,218	-87,775	-90,408
VAT Reimbursement	-19,251	-24,247	-15,689	-5,230	-20,919	-21,546	-22,193	-22,858
Total Receipts	-680,237	-691,059	-567,127	-189,042	-756,169	-778,854	-802,220	-826,286
1. Net Cashflow (Revenue and Capital Cash)	-5,571	5,574	-33,311	45,837	12,527	1,689	6,619	-746
Interest Received on investments	-1,607	-798	-435	-145	-580	-580	-430	-333
Interest on Pooled Property Investment	0	0	-213	-71	-284	-284	-284	-284
Interest Paid on Debt inc DME		-66	2,953	984	3,937	3,937	3,804	3,804
2. Interest-net (Net cash flow)	-1,607	-864	2,305	768	3,073	3,073	3,090	3,187
B/F Cash Deposits Balance (SoA Note 9 Financial Instruments)	80,000	80,000	86,100	103,035	86,100	58,538	53,775	44,066
B/F Bank Balance (SoA Note 14 Cash and cash equivalents)	-530	-182	-252	-3,091	-252	-200	-200	-200
B/F ST Borrowing (SoA Note 9 Financial Instruments)	-8,000	-1,170	-11,910	5,000	-11,910	0	0	0
B/Fwd Total	71,470	78,648	73,938	104,944	73,938	58,338	53,575	43,866
Change in cash and investments (1+2)	-7,178	4,710	-31,006	46,606	15,600	4,763	9,709	2,441
C/F Cash Deposits Balance (SoA Note 14 Financial Instruments)	80,000	86,100	103,035	58,538	58,538	53,775	44,066	41,625
C/F Bank Balance (SoA Note 14 Cash and Cash Equivalents)	-182	-252	-3,091	-200	-200	-200	-200	-200
C/F ST Borrowing (SoA Note 9 Financial Instruments)	-1,170	-11,910	5,000	0	0	0	0	0
B/Fwd Total	78,648	73,938	104,944	58,338	58,338	53,575	43,866	41,425
	0	0	0	-0	0	0	0	0