Merton Council

Overview and Scrutiny Commission

Date: 26 January 2017

Time: 7.15 pm

Venue: Committee rooms C, D & E - Merton Civic Centre, London Road, Morden SM4 5DX

AGENDA

This is a public meeting – members of the public are very welcome to attend. The meeting room will be open to members of the public from 7.00 p.m.

For more information about the work of this and other overview and scrutiny panels, please telephone 020 8545 3864 or e-mail scrutiny@merton.gov.uk. Alternatively, visit www.merton.gov.uk/scrutiny

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Overview and Scrutiny Commission membership

Councillors:
Peter Southgate (Chair)
Peter McCabe
Hamish Badenoch
Mike Brunt
John Dehaney
Abigail Jones
Sally Kenny
Dennis Pearce
Oonagh Moulton
David Williams

Substitute Members:
Michael Bull
Agatha Mary Akyigyina
John Sargeant
Joan Henry
Suzanne Grocott

Co-opted Representatives
Mansoor Ahmad, Parent Governor Representative - Primary Sector
Helen Forbes, Parent Governor Representative - Secondary and Special Sector
Colin Powell, Church of England diocese
Vacancy, Roman Catholic Diocese
Geoffrey Newman (Co-opted member, non-voting)

Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that mater and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, .withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

What is Overview and Scrutiny?
Overview and Scrutiny describes the way Merton's scrutiny councillors hold the Council's Executive (the Cabinet) to account to make sure that they take the right decisions for the Borough. Scrutiny panels also carry out reviews of Council services or issues to identify ways the Council can improve or develop new policy to meet the needs of local people. From May 2008, the Overview & Scrutiny Commission and Panels have been restructured and the Panels renamed to reflect the Local Area Agreement strategic themes.

Scrutiny's work falls into four broad areas:

⇒ **Call-in**: If three (non-executive) councillors feel that a decision made by the Cabinet is inappropriate they can 'call the decision in' after it has been made to prevent the decision taking immediate effect. They can then interview the Cabinet Member or Council Officers and make recommendations to the decision-maker suggesting improvements.
⇒ **Policy Reviews**: The panels carry out detailed, evidence-based assessments of Council services or issues that affect the lives of local people. At the end of the review the panels issue a report setting out their findings and recommendations for improvement and present it to Cabinet and other partner agencies. During the reviews, panels will gather information, evidence and opinions from Council officers, external bodies and organisations and members of the public to help them understand the key issues relating to the review topic.
⇒ **One-Off Reviews**: Panels often want to have a quick, one-off review of a topic and will ask Council officers to come and speak to them about a particular service or issue before making recommendations to the Cabinet.
⇒ **Scrutiny of Council Documents**: Panels also examine key Council documents, such as the budget, the Business Plan and the Best Value Performance Plan.

Scrutiny panels need the help of local people, partners and community groups to make sure that Merton delivers effective services. If you think there is something that scrutiny should look at, or have views on current reviews being carried out by scrutiny, let us know.

For more information, please contact the Scrutiny Team on 020 8545 3864 or by e-mail on scrutiny@merton.gov.uk. Alternatively, visit www.merton.gov.uk/scrutiny

OVERVIEW AND SCRUTINY COMMISSION
15 NOVEMBER 2016

(7.15 pm - 9.55 pm)

PRESENT: Councillor Peter Southgate (in the Chair), Councillor Peter McCabe, Councillor Hamish Badenoch, Councillor Mike Brunt, Councillor Abigail Jones, Councillor Sally Kenny, Councillor Dennis Pearce, Councillor Oonagh Moulton and Councillor David Williams. Co-opted members Helen Forbes and Geoffrey Newman

ALSO PRESENT: Councillors Edith Macauley MBE, Cabinet Member for Community Safety, Engagement and Equalities. Khadiru Mahdi, Chief Executive, Merton Voluntary Service Council. John Dimmer (Head of Policy, Strategy and Partnership), James McGinlay (Head of Sustainable Communities), Neil Milligan (Development Control Manager), Paul Walshe (Parking Services Manager), Caroline Holland (Director of Corporate Services), Chris Lee (Director of Environment and Regeneration) and Julia Regan (Head of Democracy Services)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

There were no apologies for absence.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interest.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

The minutes were agreed as an accurate record of the meeting. There were no matters arising.

4 BUSINESS PLAN UPDATE 2017-2021 (Agenda Item 4)

Proposed replacement savings
The Commission considered each of the proposed amendments to previously agreed savings for Corporate Services and Safer Merton.

Caroline Holland, Director of Corporate Services, explained that the amendments relating to Corporate Services resulted in part from delays in delivery of key projects that had impacted on staffing savings and also from a review of HR savings following the withdrawal from the shared service with Sutton. In response to a question about energy savings (CSD2) she said that this had been deferred for a year to provide more time to identify other ways of achieving energy efficiency savings.

Chris Lee, Director of Environment and Regeneration, said that the amendments to the Safer Merton proposed saving resulted from a comprehensive review of the service budget and changes to ways of working that would mean staffing levels could be maintained.

The Commission RESOLVED to accept the proposed amendments to the previously agreed savings for Corporate Services and Safer Merton.

Capital programme

The Commission reviewed and RESOLVED to accept the proposed capital programme for Corporate Services.

Members asked questions about the impact that the capital programme has on the revenue account. Caroline Holland said that the cost of borrowing is shown in the revenue account (on the treasury/capital financing line on page 33) and that every effort was made to maximise grants and other capital receipts in order to minimise this impact. The cost is accounted for as a 4% repayment on capital debt, as directed by government – this is a complicated issue and discussion is taking place with the council's external auditors to explore options for treating it differently.

Medium term financial strategy

The table on page 33 of the agenda sets out the draft medium term financial strategy (MTFS) 2017-21. Caroline Holland explained what each line represented and how the figures had been reached.

In response to questions, Caroline Holland confirmed that the draft MTFS currently shows a balanced budget for 2017/18 and 2018/19 and that this is reliant on the delivery of all planned savings and use of the departmental reserves and the Balancing the Budget Reserve. Departments have been given savings targets for 2019/20 and proposals that begin to balance 2019/20 will be brought forward to scrutiny in January 2017.

Members discussed the contribution that would have been made to the overall budget situation if council tax increases had been applied in previous years. Caroline Holland said that the autumn statement was expected to set out the maximum permitted level of council tax increase that could be taken without triggering a referendum. The autumn statement may also include the options on the adult social care precept.

Referral from the financial monitoring task group

The Chair presented the referral made to the Commission by the financial monitoring task group at its meeting on 10 November 2016 and sought the Commission's agreement to forward this to Cabinet for consideration at its meeting on 12 December.

Members discussed the referral and were mindful of the impact that savings in adult social care were having on service users (demonstrated by representations to the

Healthier Communities and Older People Overview and Scrutiny Panel) as well as the impact than an increase in council tax would have on hard pressed residents.

In response to a question about the recent consultation on council tax and council spending, Caroline Holland shared preliminary results from over 2,000 respondents. She said that there had been broad agreement with the July 2011 priorities and that a majority of respondents would support an increase in council tax in 2017/18 and 2018/19.

Members noted that the Merton Clinical Commissioning Group (CCG) has indicated that it is not minded to continue the current level of Better Care Funding if the council does not take the adult social care precept for 2017/18. Caroline Holland confirmed that other London CCGs had indicated they were reducing the BCF funding to councils and that one of these councils had successfully challenged this. She added that the financial standing of the CCGs was not know. Members said that they hoped that the council would provide a robust challenge to the CCG on this matter.

The Commission RESOLVED to make a reference to Cabinet asking Cabinet to be mindful of the financial monitoring task group's discussion when reviewing the draft Business Plan 2017-21, in particular:

1. The potential impact of the predicted overspend in 2016/17 service budgets of almost £10m;
2 The statement given to the task group by the Director of Community and Housing in response to a question on whether it would be possible to achieve all of the previously agreed savings. The Director said that it was his professional advice that given the scale of the predicted overspend in 2016/17 he does not believe that it will be possible to retrieve the overspend and achieve all of the previously agreed savings as well as meeting the council's statutory duties in relation to adult social care;
3. Upcoming negotiations between the council and Merton Clinical Commissioning Group about the level of Better Care Funding for 2017/18.

5 VOLUNTARY SECTOR AND VOLUNTEERING STRATEGY (Agenda Item 5)

John Dimmer, Head of Policy, Strategy & Partnerships, set out the context and approach taken to develop the draft voluntary sector and volunteering strategy. He highlighted the key themes that were emerging in the strategy and had been discussed at the Merton Partnership Conference on 14 November. Comments on the direction of travel and content of the draft strategy were being sought from the Commission prior to taking it to Cabinet and the Merton Partnership Board for further consideration.

Khadiru Mahdi, Chief Executive of Merton Voluntary Service Council (MVSC), said that although the voluntary sector was thriving in Merton, there were some risks and challenges now and ahead. He highlighted the need for voluntary sector

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organisations to diversify income streams plus the role of public sector commissioning functions in responding to the Social Value Act.

Several Commission members shared some of the difficulties they had experienced whilst bidding for contracts as part of or on behalf of small voluntary organisations. They welcomed the concept of social value being taken into account as part of the bidding process but cautioned that this should be done in an open and transparent way alongside price and quality considerations.

Caroline Holland, Director of Corporate Services, said that revised contract standing orders would be brought to the next meeting of the Standards and General Purposes Committee and that this would include proposals to incorporate social value in a transparent and measurable way.

In response to a question about the future for the myriad of very small voluntary organisations in the borough, Khadiru Mahdi said that MVSC had established a small groups forum that brought them together for action learning sets and this knowledge sharing had been beneficial. John Dimmer added that smaller organisations would face challenges from funding decreases and from the changing nature of service provision that would result in the commissioning of much more complex services in future.

John Dimmer said that it was imperative for the Council and MVSC to communicate those challenges to the voluntary sector and to encourage smaller organisations to work in partnership. Khadiru Mahdi added that the MVSC had started a pilot consortium of health and social care providers to bring together large and small organisations as a template for the future.

In response to a question about the role of the Charity Commission in encouraging partnership working, Khadiru Mahdi said that the Charity Commission had retrenched and was looking to organisations such as MVSC to lead on this.

A member commented that 36 recommendations was rather a lot and that it would be helpful to see how they would be prioritised, measured and given a timeline. John Dimmer agreed and said that a small number of costed actions would underpin and drive the strategy.

In response to a question about the Merton Community Fund John Dimmer said there was a lot of untapped potential and that Merton could learn from successes with similar funds in other boroughs.

The Commission thanked the officers for the report and RESOLVED:

1. To endorse the direction of travel taken by the draft voluntary sector and volunteering strategy
2. To give political backing to the concept of including social value in the contracting process as long as this is done in a transparent and measurable way alongside price and quality considerations.

6 CCTV: UPDATE REPORT ON PROGRESS OF IMPLEMENTATION OF CCTV STEERING GROUP RECOMMENDATIONS (Agenda Item 6)

Paul Walshe, Head of Parking and CCTV Services, introduced the report and drew the Commission's attention to progress made on the recommendations arising from the 2014 review. The new CCTV equipment is much more reliable and takes better quality images. Chris Lee, Director of Environment and Regeneration, added that the service has been contributing to Londonwide work that should result in revenue generation through third parties buying-in to the service.

Councillor Edith Macauley, Cabinet Member for Community Safety, Engagement and Equalities, said that the new cameras and consequent clearer images have been successful in assisting the police to prosecute crime.

Members said that they were pleased with the progress made and pleased to hear that the new cameras had made a positive contribution to the council's partnership work with the police.

The Commission RESOLVED to welcome the progress with implementation of the CCTV Steering Group recommendations.

7 PLANNING ENFORCEMENT UPDATE (Agenda Item 7)

James McGinlay, Head of Sustainable Communities, introduced the report and highlighted the information on the functions of the service, caseload figures and the achievement of a considerable reduction in the backlog of outstanding cases. He said that the service was planning to use an e-form system and to provide information to help residents to classify cases and direct them elsewhere if appropriate.

Members commented that breaches of planning control were of concern to residents and asked what the impact of a reduction in staff would be. James McGinlay and Neil Milligan said that the proposed reduction from 4 to 3 team members could be achieved without a reduction in service quality through a greater use of web information and eforms. Based on their current experience of the service, members requested an improvement in engagement with residents and councillors, in particular faster responses to emails.

Members also commented that they received a lot of complaints about planning enforcement and were therefore surprised at the small number of enforcement notices served. Neil Milligan said that the low numbers reflected success in addressing the issues raised without having to take protracted and expensive legal action.

In response to a question James McGinlay said that the two temporary staff had been in post for more than two years because these are hard to fill posts Londonwide but that the situation was reviewed regularly. Caroline Holland, Director of Corporate Services, said that the council is hoping to be able to use the apprenticeship levy to attract and train its own enforcement officers. James McGinlay said that the Building

Control service had trained staff in junior posts to enable them to take up technical officer posts in the team.

The Commission RESOLVED to recommend that officers issue the service information in the report as a briefing note to all councillors, residents association and community forums.
ACTION: Head of Sustainable Communities

8 WORK PROGRAMME 2016-17 (Agenda Item 8)

The work programme was AGREED.

Councillor Peter Southgate said that he was interested in carrying out a piece of individual review work to investigate toilet provision available to the public in the borough. He undertook to keep the Commission updated.

OVERVIEW AND SCRUTINY COMMISSION
14 DECEMBER 2016

(7.15 pm - 8.50 pm)

PRESENT: Councillors Peter Southgate (in the Chair), Peter McCabe, Mike Brunt, John Dehaney, Abigail Jones, Sally Kenny, Dennis Pearce, Michael Bull, John Bowcott and Najeeb Latif

Co-opted Members Helen Forbes and Geoffrey Newman

ALSO PRESENT: Councillor Ross Garrod (Cabinet Member for Street Cleanliness and Parking)

Councillors Daniel Holden and David Simpson CBE

Venn Chesterton, ULEV and Energy Lead from TTR

Jason Andrews (Environmental Health Pollution Manager), Chris Lee (Director of Environment and Regeneration), Paul Walshe (Parking Services Manager), John Hill (Head of Public Protection and Development) and Julia Regan (Head of Democracy Services)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor Oonagh Moulton (substituted by Councillor Najeeb Latif) and Councillor David Williams (substituted by Councillor Michael Bull).

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interest.

3 CALL-IN OF THE INTRODUCTION OF A DIESEL SURCHARGE FOR ALL TYPES OF RESIDENT AND BUSINESS PARKING PERMITS (Agenda Item 3)

The Chair drew the Commission's attention to a topic suggestion received from a resident this week asking it to scrutinise lowering the cost of resident parking permits for low energy cars. He said that this would be dealt with partly through this meeting and also by the work of the air quality task group.

The Chair invited Councillors David Simpson and Daniel Holden to explain why they had requested a call-in on the introduction of a diesel surcharge for parking permits.

Councillor David Simpson said that he was in favour of measures to improve air quality but that this should be done at a regional or national level. His view was that the surcharge is a piecemeal measure that has been used as an opportunity to raise revenue for the council. He said that the impact of the surcharge would be felt predominantly in the west of the borough as that is where the majority of controlled parking zones are located and that this was therefore a punitive and tokenistic measure.

Councillor Daniel Holden added that the discussion at the Sustainable Communities Overview and Scrutiny Panel had not reached a consensus on introducing the levy this year – he drew members' attention to the letter submitted by Councillor John Sargeant (page 111 of the agenda). Panel members had advised a lead-in time for the levy to give residents a chance to prepare. He said that immediate implementation was unfair and that the charge was too high.

Councillor Daniel Holden asked Cabinet to reconsider its decisions and to introduce other measures in partnership with the GLA and in response to recommendations that would be made by the air quality task group. He also drew members' attention to recommendations made by the RAC (document laid round at meeting and published with the minutes) and the Alliance of British Drivers (page 113 of the agenda) on other measures that could be taken such as clean air zones, anti-idling measures and action to improve traffic flow.

Councillors David Simpson and Daniel Holden made further points in response to questions:

- Vast majority of hotspots are caused by vehicles from outside the borough
- Although the level of pollutants from vehicle emissions is certainly higher than that indicated by manufacturers' tests, modern cars have lower levels of emissions
- Air quality is affected by lots of factors across London and can't be controlled by local measures taken in isolation
- A surcharge should be imposed at London or national level for all diesel vehicles

The Chair invited Venn Chesterton, ULEV and Energy Lead from TTR, to address the meeting. Venn Chesterton said that TTR had carried out extensive research on air quality across the country and has worked with TfL and the GLA on the introduction of the Ultra Low Emission Zone. He said that there were many measures that would have an impact on air quality and that the surcharge was an opportunity for Merton Council to have a positive impact. He said that research showed that people from lower income groups were less likely to own diesel vehicles and that the financial impact on diesel vehicle owners would be small.

Venn Chesterton made two further points in response to questions, that in future small engine petrol cars would be as efficient as diesel and that traffic that slows and then speeds up creates a higher level of emissions than smooth flowing traffic.

The Chair invited Councillor Ross Garrod, Cabinet Member for Street Cleanliness and Parking, to respond to points made by the signatories and by the expert witness, Venn Chesterton.

Councillor Ross Garrod said that the objective of the surcharge was to provide a nudge to residents to reduce ownership of diesel vehicles. He urged the Commission to consider public health factors rather than focussing on the impact on the polluters. He drew the Commission’s attention to information (on page 52 onwards) showing the overlap between air quality hotspots and CPZs as well as mortality data for respiratory disease.

In response to questions, Councillor Ross Garrod said that he could only take measures that were within the council’s power and that communication would take place with affected residents in CPZs. Chris Lee, Director of Environment and Regeneration, added that the intention to introduce a surcharge was signalled over a year ago, though this hadn’t been widely publicised. He said that the phased implementation approach had been adopted in response to concerns raised at the Sustainable Communities Overview and Scrutiny Panel about giving notice to residents.

The officers described other measures being taken to tackle air quality in addition to the diesel surcharge:

- new air quality action plan currently being drafted will include proposals on ultra low emission zones and clean air zones
- transport investment programme monies being used to smooth traffic and ease congestion, principally on main road junctions. Also being used to plant trees and promote the Freedom Pass
- an education programme for parents and pupils is being considered in regard to safe parking around schools and related issues.

John Hill, Head of Public Protection, advised that the GLA has made clear that all tiers of government are expected to play an active role in addressing matters of Air Quality and that it should not be seen as just a national issue. He further advised that the Mayor had written to all London Councils asking them to set out their proposals in respect of measures they are developing to address Air Quality issues at a local level.

Commission members discussed the issues raised and agreed that there is a need to reduce air pollution and accepted that diesel vehicles are a major cause of this but questioned whether the surcharge would change behaviour or whether it would instead lead to avoidance measures such as an increase in off road parking spaces. Members also expressed concern at the level of the surcharge, the short lead-in time and consequent lack of notice for residents.

In response Chris Lee said that there was no evidence that a longer lead-in time would make a difference to how motorists would respond. He said that the phased introduction of the higher charge over a two year period would enable officers to evaluate the impact of the surcharge, identify avoidance measures and to take account of other national and regional policies that might be introduced during that period. This is a fast moving policy area, for example, Westminster Council is, he understood, considering the introduction of a supplementary charge for diesel cars at parking meters.

Chris Lee said that Merton CPZ charges are lower than most other London boroughs and that the surcharge should be set at a level that would make people think about their behaviour. He said that action taken by Merton Council could have a multiplier effect alongside similar actions taken by other boroughs to improve air quality.

In discussion members of the Commission expressed divergent views on whether the council should introduce the surcharge now or wait for national measures to be introduced.

Those in favour of immediate action expressed concern at the impact of air pollution on residents' health, especially for children and young people. They thought that the council should be a leader in introducing measures to tackle air pollution and to encourage residents to use sustainable methods of transport.

Those opposed to the surcharge said that it would be tokenistic , would have marginal impact and that it would be better to wait for regional and national policies that would target all diesel vehicles rather than just those in CPZs.

There were also differing views on whether there should be a parking permit charge for electric vehicles.

It was moved and seconded that the Commission should refer the decision back to Cabinet for reconsideration. Three members voted in favour and 6 against. The Commission therefore RESOLVED to decide not to refer the matter back to Cabinet, in which case the decision shall take effect immediately.

Councillor Abigail Jones, Chair of the Sustainable Communities Overview and Scrutiny Panel, said that the Panel would receive an update on the impact of the surcharge in 12-15 months time and would continue to monitor this and to address the matter of the parking permit charge for electric vehicles.

Committee: Healthier Communities & Older People Overview and Scrutiny Panel

10 January 2017

Children and Young People Overview and Scrutiny Panel

11 January 2017

Sustainable Communities Overview and Scrutiny Panel

12 January 2017

Overview and Scrutiny Commission

26 January 2017

Wards: ALL

Subject: Business Plan Update 2017-2021 (Members are requested to bring the Business Plan Consultation Pack with them to these meetings)

Lead officer: Caroline Holland

Lead member: Councillor Mark Allison

Contact officer: Paul Dale

Recommendations:

1. That the Panel considers the proposed amendments to savings previously agreed set out in the Business Plan Consultation Pack;
2. That the Overview and Scrutiny Commission also consider the Draft Business Plan 2017-21 report received by Cabinet at its meeting on 16 January 2017;
3. That the Panel considers the draft capital programme 2017-21 and indicative programme for 2022-26 set out in Appendix 5 of the attached report on the Business Plan;
4. That the Panel considers the draft savings/income proposals and associated equalities analyses set out in the Business Plan Consultation Pack;
5. That the Panel considers the draft service plans set out in the Business Plan Consultation Pack ;
6. That the Panel considers the contents of the consultation pack circulated;
7. That the Panel considers the proposed growth set out in the business Plan Consultation Pack and considers the options for closing the revised gap in the MTFS set out in the report to Cabinet on 12 December 2016;
8. That the Overview and Scrutiny Commission considers the comments of the Panels on the Business Plan 2017-2021 and details provided in the consultation pack and provides a response to Cabinet when it meets on the 13 February 2017.

1. Purpose of report and executive summary

1.1 This report requests Scrutiny Panels to consider the latest information in respect of the Business Plan and Budget 2017/18, including proposed amendments to savings previously agreed by Council, the draft capital programme 2017-21, the draft savings/income proposals and associated equalities analyses for 2017-21, the draft service plans, the proposed growth 2017-21and the options for closing the revised gap in the MTFS,and feedback comments to the Overview and Scrutiny Commission.

1.2 The Overview and Scrutiny Commission will consider the comments of the Panels and provide a response on the Business Plan 2017-21 to Cabinet when it meets on the 13 February 2017.

2. Details - Revenue

2.1 The Cabinet of 12 December 2016 received a report on the business plan for 2017-21.

2.2 At the meeting Cabinet

RESOLVED:

That Cabinet

1. agrees the draft savings/income proposals (Appendix 2) and associated draft equalities analyses (Appendix 7) put forward by officers and refers them to the Overview and Scrutiny panels and Commission in January 2017 for consideration and comment.

2. agrees the latest amendments to the draft Capital Programme 2017-2021 which was considered by Cabinet on 12 October 2016 and by scrutiny in November 2016.(Appendix 5)
3. considers the proposed amendments to savings previously agreed. (Appendix 3)
4. agrees the growth as outlined in paragraph 2.3.8 and Appendix 9 and consider the options for closing the revised gap in the MTFS as set out in Section 7 and refers them to the Overview and Scrutiny panels and Commission with more details in January 2017 for consideration and comment.
5. agrees the Council Tax Base for 2017/18 set out in paragraph 2.5 and Appendix 1.
6. consider the draft service plans. (Appendix 6)

3. Alternative Options

3.1 It is a requirement that the Council sets a balanced budget. The Cabinet report on 12 December 2016 sets out the progress made towards setting a balanced budget and options on how the budget gap could be closed. This identified the current budget position that needs to be addressed between now and the next report to Cabinet on 16 January 2017 and 13 February 2017, prior to Council on 1 March 2017, agreeing the Budget and Council Tax for 2017/18 and the Business Plan 2017-21, including the MTFS and Capital Programme 2017-21.

4. Capital Programme 2017-21

4.1 Details of the draft Capital Programme 2017-21 were agreed by Cabinet on 12 December 2016 in the attached report for consideration by Overview and Scrutiny panels and Commission.

5. Consultation undertaken or proposed

5.1 Further work will be undertaken as the process develops.

5.2 There is a meeting on 7 February 2017 with businesses as part of the statutory consultation with NNDR ratepayers. Any feedback from this meeting will be incorporated into the February Cabinet report.

5.3 As previously indicated, a savings proposals consultation pack was prepared and distributed to all councillors at the end of December 2016 with a request that it be brought to all Scrutiny and Cabinet meetings from 10 January 2017 onwards and to Budget Council. This should maintain the improvement for both councillors and officers introduced last year which made the Business Planning process more manageable for councillors and ensures that only one version of those documents is available so referring to page numbers at meetings will be easier. It will also considerably reduces printing costs and reduces the amount of printing that needs to take place immediately prior to Budget Council.

5.4 The consultation pack includes:

- Savings proposals
- Growth proposals
- Equality impact assessments for proposals where appropriate
- Service plans (these will also be printed in A3 to lay round at scrutiny meetings)
- Budget summaries for each department
- Council Tax and Council spending consultation results

6. **Timetable**

6.1 The timetable for the Business Plan 2017-21 including the revenue budget 2017/18, the MTFS 2017-21 and the Capital Programme for 2017-21 was agreed by Cabinet on 19 September 2016.

7. **Financial, resource and property implications**

7.1 These are set out in the Cabinet report for 12 December 2016. (Appendix 1)

8. **Legal and statutory implications**

8.1 All relevant implications have been addressed in the Cabinet reports. Further work will be carried out as the budget and planning proceeds and will be included in the budget reports to Cabinet on the 16 January 2017, and 13 February 2017.

8.2 Detailed legal advice will be provided throughout the budget setting process further to any proposals identified and prior to any final decisions.

9. **Human Rights, Equalities and Community Cohesion Implications**

9.1 All relevant implications will be addressed in Cabinet reports on the business planning process.

9.2 A draft equalities assessment has been carried out with respect to the proposed budget savings and is included in the Business Plan Consultation Pack circulated to all Members.

10. **Crime and Disorder implications**

10.1 All relevant implications will be addressed in Cabinet reports on the business planning process.

11. **Risk Management and Health and Safety Implications**

11.1 All relevant implications will be addressed in Cabinet reports on the business planning process.

Appendices – the following documents are to be published with this report and form part of the report

Appendix 1 - Cabinet report 12 December 2016: Draft Business Plan Update 2017-21 (NB: This excludes Savings, Growth, Service Plans and Equalities Assessments which are included in the Business Plan Consultation Pack)

Appendix 2 - Cabinet report 16 January 2017: Draft Business Plan 2017-21(TO FOLLOW WHEN PUBLISHED)

BACKGROUND PAPERS

12.1 The following documents have been relied on in drawing up this report but do not form part of the report:

Budget files held in the Corporate Services department.

2016/17 Budgetary Control and 2015/16 Final Accounts Working Papers in the Corporate Services Department.
Budget Monitoring working papers
MTFS working papers

13. REPORT AUTHOR

– Name: Paul Dale
– Tel: 020 8545 3458

email: paul.dale@merton.gov.uk Budget files held in the Corporate Services department.

Cabinet

12 December 2016

Agenda item:

Business Plan Update 2017-2021

Lead officer: Caroline Holland

Lead member: Councillor Mark Allison

Key Decision Reference Number: This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

Contact officer: Paul Dale

Urgent report:
Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2017/18 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2017-2021. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 1 March 2017 and set a Council Tax as appropriate for 2017/18.

Recommendations:

1. That Cabinet considers and agrees the draft savings/income proposals (Appendix 2) and associated draft equalities analyses (Appendix 7) put forward by officers and refers them to the Overview and Scrutiny panels and Commission in January 2017 for consideration and comment.
2. That Cabinet agrees the latest amendments to the draft Capital Programme 2017-2021 which was considered by Cabinet on 12 October 2016 and by scrutiny in November 2016.(Appendix 5)
3. That Cabinet considers the proposed amendments to savings previously agreed. (Appendix 3)
4. That Cabinet agree the growth as outlined in paragraph 2.3.8 and Appendix 9 and consider the options for closing the revised gap in the MTFS as set out in Section 7 and refers them to the Overview and Scrutiny panels and Commission with more details in January 2017 for consideration and comment.
5. That Cabinet agrees the Council Tax Base for 2017/18 set out in paragraph 2.5 and Appendix 1.
6. That Cabinet consider the draft service plans. (Appendix 6)

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

1.1 This report provides an update to Cabinet on the Business Planning process for 2017-21 and in particular on the progress made so far towards setting a balanced revenue budget for 2017/18 and over the MTFS period as a whole.

1.2 Specifically, the report provides details of revenue savings and income proposals put forward by officers in order to meet the savings/income targets agreed by Cabinet in September 2016.

1.3 The report also provides an update on the capital programme for 2017-21 and the financial implications for the MTFS.

1.4 The report provides a general update on all the latest information relating to the Business Planning process for 2017-21 and an assessment of the implications for the Medium Term Financial Strategy 2017-21.

1.5 This report is one of the budget updates through the financial year and will be referred to the Overview and Scrutiny Panels and Commission in January 2017.

2. **DETAILS**

Introduction

2.1 A review of assumptions in the MTFS was undertaken and reported to Cabinet on 19 September 2016. There was also a report to Cabinet on 12 October 2016 which provided an update on progress made towards achieving savings previously agreed and proposed some amendments to these, and also provided details of the latest capital programme, including new bids and an indicative programme for 2022- 2027. The report referred them to the Overview and Scrutiny panels and Commission for consideration.

2.2 Taking into account the information contained in both the September and October Cabinet reports, the overall position of the MTFS reported to Cabinet on 12 October 2016 was as follows:-

(Cumulative Budget Gap)	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
MTFS Gap before Savings	9,462	15,206	16,565	31,995
Savings identified	(9,462)	(15,206)	(15,179)	(15,380)
MTFS Gap (Cabinet October 2016)	0	0	1,386	16,615

2.3 **Review of Assumptions**
Since Cabinet in October, work has been continuing to review assumptions, identify new savings/income proposals and analyse information which has been received since then.

2.3.1 Pay

As reported to Cabinet in September 2016, the current assumptions regarding pay inflation incorporated into the MTFS are based on the local government pay award for 2016/17 which has been agreed and will cover the two years from April 2016. For the lowest paid (those on spinal points 6-17) this means a pay rise of between 6.6% and 1.01% in the first year, and between 3.4% and 1.3% in the second. Those on spinal points 18-49 will receive 1% in year one and the same again the following year. The offer also includes a joint review of the NJC pay spine and term-time working for school support staff.

The provision for pay inflation has been reviewed and the following amounts are forecast to be required in the updated MTFS:-

Provision for Pay Inflation:

(Cumulative)	2017/18	2018/19	2019/20	2020/21
Pay inflation (%)	1.0%	1.0%	1.0%	1.0%
MTFS 12/10/2016 (cumulative £000)	984	1,969	2,953	3,938

2.3.2 Prices

The estimates for price inflation agreed by Council in March 2016 were reviewed and included in the September 2016 report to Cabinet. There has been a further review and the latest forecast is set out in the following table:-

	2017/18	2018/19	2019/20	2020/21
Price inflation in MTFS (%)	1.5%	1.5%	1.5%	1.5%
Revised estimate (cumulative £000)	2,200	4,400	6,599	8,799

The Consumer Prices Index (CPI) rose by 0.9% in the year to October 2016, compared with a 1.0% rise in the year to September. The main reasons for the drop in the rate were downward pressures to the prices for clothing and university tuition fees, which rose by less than they did a year ago, as well as falling prices for certain games and toys, overnight hotel stays and non-alcoholic beverages. The reduction in the rate was offset by rising prices for motor fuels, and by prices for furniture and furnishings, which fell by less than they did a year ago.

CPIH, a measure of UK consumer price inflation that includes owner occupiers' housing costs, rose by 1.2% in the year to October 2016, unchanged from September.

The RPI 12-month rate for October 2016 stood at 2.0%, unchanged from September 2016.

Outlook for inflation:

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 2 November 2016, the MPC voted unanimously to keep the Bank Base Rate at 0.25%. It also voted unanimously to continue with the programme of sterling non-financial investment-grade corporate bond purchases totalling up to £10 billion, financed by the issuance of central bank reserves and also voted unanimously to continue with the programme of £60 billion of UK government bond purchases to take the total stock of these purchases to £435 billion, financed by the issuance of central bank reserves.

The MPC's latest projections for output, unemployment and inflation, conditioned on average market yields, are set out in the November Inflation Report. Output growth is expected to be stronger in the near term but weaker than previously anticipated in the latter part of the forecast period. The unemployment rate is projected to rise to around 5½% by the middle of 2018 and to stay at around that level throughout 2019. Largely as a result of the depreciation of sterling, CPI inflation is expected to be higher throughout the three-year forecast period than in the Committee's August projections. In the central projection, inflation rises from its current level of 1% to around 2¾% in 2018, before falling back gradually over 2019 to reach 2½% in three years' time. Inflation is judged likely to return to close to the target over the following year.

In the November Inflation Report, the MPC state that "as in the August projection, CPI inflation is projected to continue to rise over the next three months and over 2017. The contribution to inflation from petrol prices is expected to turn increasingly positive, in part reflecting rises in oil prices since January. In addition, sterling has depreciated by 21% since its peak in November 2015, which will continue to push up the prices of energy and other imported goods and services. The precise path for inflation will depend on the speed and degree to which companies pass through rising external costs to consumer prices, given domestic conditions."

The latest inflation and unemployment forecasts for the UK economy, based on a summary of independent forecasts are set out in the following table:-

Source: HM Treasury - Forecasts for the UK Economy (November 2016)			
2016 (Quarter 4)	Lowest %	Highest %	Average %
CPI	0.6	1.9	1.3
RPI	0.6	3.0	2.2
LFS Unemployment Rate	4.7	5.4	5.0

2017 (Quarter 4)	Lowest %	Highest %	Average %
CPI	0.9	3.8	2.7
RPI	0.7	5.2	3.3
LFS Unemployment Rate	4.6	6.0	5.4

Clearly where the level of inflation during the year exceeds the amount provided for in the budget, this will put pressure on services to stay within budget and will require effective monitoring and control.

Independent medium-term projections for the calendar years 2016 to 2020 are summarised in the following table:-

Source: HM Treasury - Forecasts for the UK Economy (November 2016)					
	2016	2017	2018	2019	2020
	%	%	%	%	%
CPI	0.7	2.7	2.6	2.2	2.1
RPI	1.8	3.5	3.1	3.0	3.1
LFS Unemployment Rate	5.0	5.2	5.5	5.4	5.3

2.3.3 Inflation > 1.5%:

There is also a corporate provision which is held to assist services that may experience price increases greatly in excess of the 1.5% inflation allowance provided when setting the budget. This will only be released for specific demonstrable demand.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Inflation exceeding 1.5%	451	457	468	472

The cash limiting strategy is not without risks but if the Government's 2% target levels of inflation were applied un-damped across the period then the budget gap would increase by c. £2.8m by 2019/20.

2.3.4 Income

The MTFS does not include any specific provision for inflation on income from fees and charges. However, service departments can identify increased income as part of their savings proposals.

2.3.5 Pension Fund

A revaluation will be undertaken using data at 31/3/2016. This will be implemented at 1st April 2017. Discussions during the current financial year have been held with the actuary

Barnett Waddingham LLP and they have undertaken the revaluation and we are awaiting the outcome of this to assess the impact on the budget for 2017/18 and further into the MTFS.

2.3.6 Taxicards and Freedom Passes
These schemes are administered by London Councils on behalf of London boroughs. Latest information from London Councils indicates that negotiations with Transport for London (TfL) and the Association of Train Operating Companies (ATOC) will be concluded at the end of November 2015.

The MTFS includes the following amounts for Taxicards and Freedom Passes:-

	Current Estimate 2016/17 £000
Freedom Passes	9,298
Taxicards	103
Total	9,401
Uplift in MTFS	450
Provision in MTFS for 2017/18	9,851

Initial indications are that the charge to Merton for 2017/18 will be within the provision but this provision will be reviewed and reported when the figures are finalised.

2.3.7 Revenuisation
In recent budgets it has been recognised that some expenditure formerly included in the capital programme could no longer be justified as it did not meet the definition of expenditure for capital purposes. Nevertheless, it is important that some of this expenditure takes place and the following amounts have been included in the latest MTFS for 2017-21:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Revenuisation	2,100	2,100	2,100	2,100

The expenditure charged to capital during the current year is being closely monitored and is being reported through the monitoring report.

2.3.8 **Budgetary Control 2016/17 and need for growth**

The revenue budgetary control information below summarises the corporate position using the latest available information as at 31 October 2016 as shown in a separate report on the agenda for this meeting. As at 31 October 2016, there is a forecast overspend for the Council of £5.740m.

The main causes of the overspend are:-

- Adult Social Care
- Waste
- Children's Services

Officers have been reviewing these budgets as part of the monthly monitoring procedures and it is clear that they will have an ongoing impact going forward and it will therefore be necessary to build some growth (Appendix 9) into the MTFS 2017-21.

The MTFS reported to Cabinet in October 2016 does not include any provision for growth from 2017/18 to 2020//21 and future years. In terms of addressing issues which have been identified as pressures that need to be addressed in 2017/18 the following budget growth is proposed:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Adult Social Care	9,345	252	(2,891)	0*
Waste and Regeneration **	1,582	222	(115)	0
Children's Services	1,000	500	500	500
Total	11,927	974	(2,506)	500
Cumulative total	**11,927**	**12,901**	**10,395**	**10,895**

* Subject to the Improved Better Care Funding remaining as stated
** to be confirmed

2.3.9 **Capital Financing Costs**

<u>Revenue Implications of Current Capital Programme</u>
As previously reported the Capital Programme has been reviewed and revised and a draft programme for 2017-2021 was approved by Cabinet on 12 October 2016, along with an indicative programme for 2022-26.

Section 6 of this report sets out details of progress made towards preparing the draft capital programme 2017-21.

The estimated capital financing costs based on the latest draft programme, which includes the best estimate of new schemes commencing in 2020/21, the effect of estimated government grant funding, estimated funding from the Education Funding Agency (EFA) and slippage/reprofiling based on 2015/16 outturn and latest monitoring information are set out in the following table. This also includes an element of revenue contribution to fund short-life assets:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Capital Programme (including slippage)	39,410	34,807	16,668	8,534
Revenue Implications	12,543	11,146	12,427	12,723

2.4 **Forecast of Resources and Provisional Local Government Finance Settlement**

2.4.1 Background
In recent years at the end of November to mid-December, the Department of Communities and Local Government (DCLG) has notified local authorities of their Provisional Local Government Finance Settlement. This has included the amounts of funding allocated to each local authority in terms of Revenue Support Grant, share of Business Rates and other major allocations of grant. The final Settlement figures are published the following January/February but are generally unchanged from the provisional figures. The total amount of funding available for local authorities is essentially determined by the amount of resources that Central Government has allocated as part of its annual Departmental Expenditure Limit which is set out in Autumn Statements/Spending Reviews published some weeks previously. However, this process is likely to change as the Government has invited local authorities to apply for a four year funding settlement as discussed below.

2.4.2 Multi-Year Funding Forecasts
As previously reported, when the Department for Communities and Local Government published the provisional local government finance settlement for English authorities in December 2015, the consultation document also described the offer of a four year funding settlement to any council that wished to take it up, alongside indicative allocations for each year of the Spending Review period, subject to authorities publishing an efficiency plan.

2.4.3 Cabinet on 19 September 2016, considered and agreed a draft Efficiency Plan and requested officers to submit a final version to the DCLG by the deadline of 14 October 2016 in order to qualify for the four year funding offer. This was completed within the deadline and the Efficiency Plan can be viewed here. The funding has now been confirmed.

2.4.4 Autumn Statement 2016
The Chancellor of the Exchequer published his first Autumn Statement on 23 November 2016. This provides details of Government Department Expenditure Limits (DELs) from which the Provisional Local Government Finance Settlement follows in mid-late December 2016. Officers are currently reviewing the potential impact on the Finance Settlement. There is a summary of the key points included as Appendix 8.

2.4.5 <u>Funding Forecasts for 2017/18 to 2020/21</u>

Forecasting resources for 2017/18 and beyond is fraught with difficulties since it requires making assumptions about a wide variety of variables which the Government are not prepared to release at the current time, although accepting the four year funding offer has provided certainty over the level of RSG up to 2019/20. However, RSG is a reducing part of local government funding and will disappear when local authorities are given responsibility for 100% of Business Rates by the end of this Parliament (May 2020). Responsibilities currently funded by RSG and other grants will be expected to be met by business rates.

At the 2015 Autumn Statement the Government committed to piloting approaches to 100% business rates retention in London, Manchester and Liverpool from 1 April 2017. To ensure that an increase in the "local share" of business rates is fiscally neutral at the point of change, the Government and pilot areas are exploring:

- ending entitlement to certain grants and other funding streams
- devolving additional responsibilities to pilot areas and
- adjusting existing business rate tariffs and top ups.

NB Latest estimated impact on Merton's top-up shows an increase of c.£395k in 2017/18 over 2016/17.

The Government intends to use the pilots to test mechanisms for full rollout of the 100% retention scheme. Changes to responsibilities between central government, local authorities and their preceptors (e.g. in London, the GLA) will impact on the level of business rates share that each one receives.

<u>Share of Business Rates Yield</u>

Currently , the yield from Business Rates is shared 50% Central Government (Central Share), and the Local Share is 30% to Merton and 20% to the GLA. The GLA have advised us that following the Government's decision to introduce a London pilot scheme in 2017-18 - to aid preparation for the move to local authorities retaining 100% of business rates raised locally (expected by 2020-21) - the GLA's share of local business rates will increase, with the increase being offset by a reduction in the Government's central share of retained business rates. The GLA's percentage share from 1 April 2017 will be confirmed in the provisional local government finance settlement but it is expected to be 37% reflecting the inclusion of the GLA's Revenue Support Grant allocation and TfL capital grant within its retained business rates share. The central share payable to the Government would therefore fall from 50% to 33%.

For the reasons discussed above, assessing the implications for Merton's funding at this stage, before the Provisional Finance Settlement is announced, is difficult.

2.4.6 Improved Better Care Fund
The Spending Review 2015 announced the introduction of the improved Better Care Fund worth £105 million in 2017/18, £800 million in 2018/19 and £1.5 billion in 2019/20.

In last year's Settlement Merton's allocations were £1.408m in 2018/19 and £3.061m in 2019/20, which are being used to reduce the level of growth in Adult Social Care in future years. Any changes to Merton's allocation or potential additional responsibilities will be reported as and when announced.

2.4.7 Public Health
In the Autumn Statement 2015, the Chancellor of the Exchequer confirmed that LAs' funding for public health would be reduced by an average of 3.9 per cent in real terms per annum until 2020. This equates to a reduction in cash terms of 9.6 per cent over the same period. The Autumn Statement also confirmed that a central government grant, ring-fenced for use on public health functions, would continue for at least two more years. From a 2015/16 baseline of £3.461 billion (which includes the full year equivalent of the budget for children aged 0-5 and the effect of the in-year saving of £200 million) there will be a reduction in the total grant of 2.2 per cent in 2016/17 and a further reduction of 2.5 per cent in 2017/18.

Merton's allocation announced in the Public Health Ring-Fenced Grant Determination 2016/17 (SI No 31/2719) was £10.998m for 2016/17, with an indicative allocation of £10.727m in 2017/18

2.4.8 Education Services Grant
In the Spending Review 2015, the Government announced a national reduction in Education Services Grant (ESG) and that the General Funding Rate will be abolished completely from 2017/18. Merton's ESG reduced by £0.234m from £2.594m in 2015/16 to £2.360m in 2016/17.

Merton's General Funding allocation in 2016/17 was £1.948m. The general funding rate will not be replaced by an alternative – the intention from DfE seems to be to rely on LAs new ability to top-slice DSG for central functions to cover the funding gap, which for Merton is already fully allocated, and could therefore impact on the General Fund if alternatives cannot be found.

There will be an update in future reports when further details are known.

2.5 Council Tax Base

2.5.1 The Council Tax Base is a key factor which is required by levying bodies and the Council for setting the levies and Council Tax for 2017/18. The council tax base is the measure of the number of dwellings to which council tax is chargeable in an area or part of an area. The Council Tax Base is calculated using the properties from the Valuation List together with information held within Council Tax records. The properties are adjusted to reflect the number of properties within different bands in order to produce the Council Tax Base (Band D equivalent). This will be used to set the Council Tax at Band D for 2017/18.The Council is required to determine its Council Tax Base by 31 January 2017.

2.5.2 Regulations set out in the Local Authorities (Calculation of council Tax Base) Regulations 2012 (SI 2012:2914) ensure that new local council tax support schemes, implemented under the Local Government Finance Act 2012, are fully reflected in the council tax base for all authorities.

2.5.3 The Council Tax Base Return to central Government takes into account reductions in Council Tax Base due to the Council Tax Support Scheme and also reflects the latest criteria set for discounts and exemptions. The CTB Return for October 2016 is the basis for the calculation of the Council Tax Base for 2017/18.

2.5.4 Details of how the Council Tax Base is calculated are set out in Appendix 1. A summary of the Council Tax Bases for the Merton general area and the addition for properties within the Wimbledon and Putney Commons Conservators area for 2017/18 compared to 2016/17 is set out in the following table:-

Council Tax Base	**2016/17**	**2017/18**	**Change**
			%
Whole Area	71,327.0	72,442.3	1.56%
Wimbledon & Putney Common Conservators	11,127.2	11,131.2	0.04%

2.6 **Proposed Amendments to Previously Agreed Savings**

2.6.1 Cabinet on 12 October 2016 agreed some proposed amendments to savings which had been agreed in previous year's budgets and also agreed that the financial implications should be incorporated into the draft MTFS 2017-21.

2.6.2 There are some further requests for changes to existing savings as follows:-

- Environment and Regeneration propose to defer and replace saving EV08 on Waste Disposal deferring the £250k saving from 2017/18 to 2019/20
- Environment and Regeneration propose to replace and defer savings within Development and Building Control

The overall effect of the proposed amendments is set out in the following table:-

SUMMARY (cumulative)	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Corporate Services	0	0	0	0	0
Children, Schools & Families	(60)	27	(201)	0	(234)*
Environment & Regeneration	574	(324)	(250)	0	0
Community & Housing	27	0	0	0	27**
Total	**541**	**(297)**	**(451)**	**0**	**(207)**
Net Cumulative total	**541**	**244**	**(207)**	**(207)**	**(207)**

* The net increase in savings will be applied against the CSF target set..
** The net shortfall in savings will be added to C&H Savings Target set.

2.6.3 Details of the proposed amendments to previously agreed savings are provided in Appendix 3.

3. FEEDBACK FROM THE OVERVIEW AND SCRUTINY PROCESS IN NOVEMBER 2016

3.1 The information available on the Business Planning process reported to Cabinet on 12 October 2016 was reviewed by the Overview and Scrutiny Panels and Commission in November 2016.

3.2 Feedback is included in a separate report to Cabinet on the agenda.

4. SAVINGS PROPOSALS 2017-21 AND SERVICE PLANNING

Controllable budgets and Savings Targets for 2017-21

4.1 Cabinet on 19 September 2016 agreed savings targets to be identified by service departments over the period 2017-21 as follows:-

SERVICE DEPARTMENT's SAVINGS TARGETS FOR 2017-2021 BUSINESS PLANNING PROCESS	Total £000	Balance in amendments to existing savings £000	Total Savings Required £000
Corporate Services	586	0	586
Children, Schools & Families	912	(234)	678
Environment & Regeneration	1,659	0	1,659
Community & Housing	312	27	339
Total Savings/Income Proposals	3,469	(207)	3,262

4.2 Since then service departments have been reviewing their budgets and formulating further proposals to address their targets. The progress made to date is set out in this report.

4.3 Proposals that Cabinet agree at this meeting will be referred to the Overview and Scrutiny Commission and panels for review and comment in January 2017.

4.4 The proposals submitted by each department are summarised in the following table and set out in detail in Appendix 2.

SUMMARY (cumulative)	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**Total £000**
Corporate Services	0	0	586	0	586
Children, Schools & Families	0	0	228	0	228
Environment & Regeneration	0	0	913	0	913
Community & Housing	0	0	339	0	339
Total	**0**	**0**	**2,066**	**0**	**2,066**
Net Cumulative total	**0**	**0**	**2,066**	**2,066**	

4.5 Summary of progress to date

4.5.1 If all of the proposals are accepted, the balance remaining to find is:-

	Targets £'000	**Proposals £'000**	**Balance £'000**
Corporate Services	586	(586)	0
Children, Schools & Families	678	(228)	450
Environment & Regeneration	1,659	(913)	746
Community & Housing	339	(339)	0
Total	3,262	2,066	1,196

4.6 Where departments have not met their target or put forward options that are deemed not to be acceptable then the shortfall will be carried forward to later meetings and future years budget processes to be made good.

4.7 Service Plans

4.7.1 Draft Service Plans are included in Appendix 6.

4.8 Equality Assessments

4.8.1 Draft Equalities Assessments where applicable are included in Appendix 7.

4.9 Use of Reserves in 2016/17 and 2017/18

4.9.1 The application of revenue reserves in 2016/17 to address any level of overspend will have an ongoing impact on the MTFS going forward. If the actual level of overspend is at the level currently forecast it is possible that the Savings Mitigation Fund of £1.3m will be used and the budgeted increase in the Reserve for Use for Future Years Budgets of £2.4m will not take place. The reduction in the anticipated level of the Reserve for Use for Future Years Budgets will have an adverse impact on the budget gap.

5. UPDATE TO MTFS 2017-21

5.1 If the changes outlined in this report are agreed, the forecast gap in the MTFS over the four year period is as follows, subject to the impact of the Autumn Statement announcement on 23 November 2016 and Provisional Local Government Finance Settlement in December.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Budget Gap in MTFS	**1,616**	**14,325**	**15,107**	**21,450**

5.2 A more detailed MTFS is included as Appendix 4.

5.3 Draft Service department budget summaries based on the information in this report will be included in the pack available for scrutiny.

6. CAPITAL PROGRAMME 2017-21: UPDATE

6.1 The proposed draft Capital Programme 2017-21 and an Indicative Capital Programme 2021-27 were presented to Cabinet on 12 October 2016.

6.2 The programme has been reviewed by scrutiny panels.

6.3 Monthly monitoring of the approved programme for 2016/17 has been ongoing and there will inevitably be further changes arising from slippage, reprofiling and the announcement of capital grants as part of the local government finance settlement which has yet to be announced.

6.4 The changes that have been made to the proposed capital programme since it was presented to Cabinet in October 2016 are set out in Appendix 5.

6.5 The estimated revenue implications of funding the draft capital programme are summarised in paragraph 2.3.9 and these have been incorporated into the latest draft MTFS 2017-21.

7. BUDGET STRATEGY

7.1 For the first time in several years the council has a budget gap in the next financial year. The council has a statutory duty to set a balanced budget.

7.2 The table below shows the budget position after growth

	17/18	18/19	19/20	20/21
	£'000	£'000	£'000	£'000
GAP AFTER NEW SAVINGS (cumulative)	**9,875**	**14,325**	**15,107**	**21,450**
Appropriation to/from Balancing the Budget Reserve	(8,259)	0	0	0
Gap to be met from Savings and Income	**1,616**	**14,325**	**15,107**	**21,450**

7.3 The MTFS assumes 2% ASC Council Tax flexibility and 1.75% Council Tax increase in 2019/20, and 2020/21 in line with the Government's assumptions. There are no changes in Council Tax assumed for 2017/18 and 2018/19 in the above figures in line with the commitments of the Administration to freeze council tax.

7.4 The above figures also assume that the level of Better Care Funding included continues at the same level as for 2016/17. i.e. £5.5m. However, Merton CCG have indicated that the Council should plan on the basis of a maximum CCG transfer of the mandatory contribution towards social care funding into the BCF of £3.4m in 2017/18. This will be subject to review and maybe increased if the Council raises Council Tax using the ASC Council Tax flexibility criteria.

7.5 The table below shows the budget position assuming the maximum CCG transfer of the mandatory contribution of £3.4m and therefore a reduction of £2.1m in the level of BCF funding from 2016/17 funding levels.

	17/18	18/19	19/20	20/21
	£'000	£'000	£'000	£'000
GAP AFTER NEW SAVINGS (cumulative)	**9,875**	**14,325**	**15,107**	**21,450**
Appropriation to/from Balancing the Budget Reserve	(8,259)	0	0	0
Gap to be met from Savings and Income	**1,616**	**14,325**	**15,107**	**21,450**
Reduction in Better Care Funding	**2,100**	**2,100**	**0**	**0**
Gap to be met from Savings and Income	**3,716**	**16,425**	**15,107**	**21,450**

7.6 There are limited options for dealing with this:-

7.6.1 Raising the Council tax

The maximum increase without a referendum has not been announced. Last year it was 1.99% for a general rise and a precept of 2% specifically for adult social care.

a) If the 2% ASC precept was to be taken in 2017/18, based upon a 97.25% collection rate this would yield the following amounts.

2017/18	2018/19	2019/20	2020/21
£'000	£'000	£'000	£'000
1,597	1,605	1,613	1,621

The budget gap assuming 2% ASC precept in 2017/18 but not in 2018/19, and assuming no loss of Better Care Funding, would be as set out in the following table:-

	17/18	**18/19**	**19/20**	**20/21**
	£'000	£'000	£'000	£'000
Gap to be met from Savings and Income	**1,616**	**14,325**	**15,107**	**21,450**
Less:				
2% ASC Council Tax Precept in 2017/18	(1,597)	(1,605)	(1,613)	(1,621)
Gap to be met from Savings and Income	**19**	**12,720**	**13,494**	**19,829**

b) If the 2% ASC precept was also to be taken in 2018/19, based upon a 97.25% collection rate this would yield the following amounts.

2017/18	2018/19	2019/20	2020/21
£'000	£'000	£'000	£'000
1,597	3,210	3,226	3,242

The budget gap assuming 2% ASC precept in 2017/18 and 2018/19 and assuming no loss of Better Care Funding would be as set out in the following table:-

	17/18	18/19	19/20	20/21
	£'000	£'000	£'000	£'000
Gap to be met from Savings and Income	**1,616**	**14,325**	**15,107**	**21,450**
Less:				
2% ASC CT Precept in 2017/18 & 2018/19	(1,597)	(3,210)	(3,226)	(3,242)
Gap to be met from Savings and Income	**19**	**11,115**	**11,881**	**18,208**

c) If the council tax were raised by 3.99% including the 2% ASC flexibility in 2017/18, but no increase in 2018/19, this would generate the following amounts.

2017/18	2018/19	2019/20	2020/21
£'000	£'000	£'000	£'000
3,186	3,202	3,218	3,234

Assuming no loss of Better Care Funding as the ASC Council Tax flexibility has been used, the gap would be as follows:-

	17/18	18/19	19/20	20/21
	£'000	£'000	£'000	£'000
Gap to be met from Savings and Income	**1,616**	**14,325**	**15,107**	**21,450**
Less:				
3.99% increase in 2017/18 only	(3,186)	(3,202)	(3,218)	(3,234)
Gap to be met from Savings and Income	**(1,570)**	**11,123**	**11,889**	**18,216**

d) If the council tax were raised by 3.99% including the 2% ASC flexibility in both 2017/18 and 2018/19, this would generate the following amounts.

2017/18	2018/19	2019/20	2020/21
£'000	£'000	£'000	£'000
3,186	6,404	6,436	6,468

This would leave the following gaps:-

	17/18	18/19	19/20	20/21
	£'000	£'000	£'000	£'000
Gap to be met from Savings and Income	**1,616**	**14,325**	**15,107**	**21,450**
Less:				
3.99% increase in 2017/18 and 2018/19	(3,186)	(6,404)	(6,436)	(6,468)
Revised Gap	**(1,570)**	**7,921**	**8,671**	**14,982**
Appropriations to/from Balancing the Budget Reserve	**1,570**	**(1,570)**	**0**	**0**
Gap to be met from Savings and Income	**0**	**6,351**	**8,671**	**14,982**

7.6.2 Making spending reductions in 2017/18

If the same weighted controllable budgets were used as are normally the following pattern of savings would be required.

	Weighted Controllable budget	Saving £000
Corporate Services	20.8%	773
CSF	15.5%	576
ES	30.9%	1,148
CH	32.8%	1,219
	100.0%	3,716

If CSF and C&H are excluded from taking additional savings , the savings required by CS and E&R based on controllable budgets would be:-

	Weighted Controllable budget	Saving £000
Corporate Services	40.2%	1,494
ES	59.8%	2,222
		3,716

7.6.3 Use of GF Balances and Un-earmarking earmarked reserves. This is not recommended as it does not produce any long term improvement in the Council's financial position and would reduce the ability to carry out cost reduction projects in the future.

8. CONSULTATION UNDERTAKEN OR PROPOSED

8.1 There will be extensive consultation as the business plan process develops. This will include the Overview and Scrutiny panels and Commission, business ratepayers and all other relevant parties.

8.2 The Council launched a consultation with residents on council tax and council spending on 9 September 2016. Residents had until 4 November 2016 to respond and the outcome will be taken into consideration when the decisions are to be made with respect to the council tax and MTFS for 2017-21 as part of the Business Planning Process.

The outcomes from the consultation are detailed elsewhere on the agenda.

8.3 However, as part of the response, the CCG have indicated that there would be a reduction in funding of approximately £2m if there was not an increase in Council Tax.

8.4 In accordance with statute, consultation is taking place with business ratepayers and a meeting will be arranged for early in 2017.

8.5 As previously indicated, a savings proposals consultation pack will be prepared and distributed to all councillors at the end of December 2016 that can be brought to all Scrutiny and Cabinet meetings from 10 January 2017 onwards and to Budget Council. As it was last year, this should be an improvement for both councillors and officers - more manageable for councillors and it will ensure that only one version of those documents is available so referring to page numbers at meetings will be easier. It will also keep printing costs down and reduce the amount of printing that needs to take place immediately prior to Budget Council.

8.6 The pack will include:

- Savings proposals
- Equality impact assessment for each saving proposal
- Service plans (these will also be printed in A3 to lay round at scrutiny meetings)

9. TIMETABLE

9.1 In accordance with current financial reporting timetables.

10. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

10.1 All relevant implications have been addressed in the report.

11. **LEGAL AND STATUTORY IMPLICATIONS**

11.1 All relevant implications have been addressed in the report.

12. **HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

12.1 Draft Equalities assessments of the savings proposals are included in Appendix 7.

13. **CRIME AND DISORDER IMPLICATIONS**

13.1 Not applicable

14. **RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

14.1 Not applicable

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

Appendix 1: Council Tax Base 2017/18
Appendix 4: MTFS Update
Appendix 5: Capital Programme 2017-21
Appendix 8: Autumn Statement 2016 – Summary of key Points

NOW INCLUDED IN CONSULTATION PACK

Appendix 2: New savings/income proposals 2017-21
Appendix 3: Proposed amendments to savings previously agreed
Appendix 6: Service Plans 2017-21
Appendix 7: Equalities Assessments
Appendix 9: Growth proposals

BACKGROUND PAPERS

Budget files held in the Corporate Services department.

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APPENDIX 1

Council Tax Base 2017/18

1. INTRODUCTION

1.1 The council tax base is the measure of the number of dwellings to which council tax is chargeable in an area or part of an area. The Council Tax base is calculated using the properties from the Valuation List together with information held within Council Tax records. The properties are adjusted to reflect the number of properties within different bands in order to produce the Council Tax Base (Band D equivalent).

1.2 Since 2013/14 the Council Tax Base calculation has been affected by the introduction of the new local council tax support scheme and technical reforms to council tax. On 30 November 2012, new regulations set out in the Local Authorities (Calculation of council Tax Base) Regulations 2012 (SI 2012:2914) came into force. These regulations ensure that new local council tax support schemes, implemented under the Local Government Finance Act 2012, are fully reflected in the council tax base for all authorities.

1.3 Under the regulations, the council tax base is the aggregate of the relevant amounts calculated for each valuation band multiplied by the authority's estimated collection rate for the year.

1.4 The relevant amounts are calculated as

- number of chargeable dwellings in each band shown on the valuation list on a specified day of the previous year,
- adjusted for the number of discounts, and reductions for disability, that apply to those Dwellings

1.5 All authorities notify the DCLG of their unadjusted Council Tax Base using a CTB Form using valuation list information as at 12 September 2016. The deadline for return was 14 October 2016 and Merton met this deadline.

1.6 The CTB form for 2016/17 includes the latest details about the Council Tax Support Scheme and the technical reforms which impacted on discounts and exemptions.

1.7 There is a separate council tax base for those properties within the area covered by Wimbledon and Putney Commons Conservators. The Conservators use this, together with the Council Tax bases from RB Kingston, and Wandsworth to calculate the levy which is charged each year.

2. ASSUMPTIONS IN THE MTFS

2.1 Other than changes in the actual council tax rates levied, in producing a forecast of council tax yield in future years, there are two key variables to be considered:-

- the year on year change in Council Tax Base
- the council tax collection rate

2.2 The draft MTFS previously reported to Cabinet during the business planning process has assumed that the Council Tax Base increases 0.5% per year and that the collection rate is 97.25% in each of the years.

2.3 These assumptions have been applied to the latest Council Tax Base information included on the CTB return completed on 14 October 2016 to produce the Council Tax Base 2017/18.

2.4 Information from the October 2016 Council Tax Base Return

2.4.1 The Council makes two CTB returns, one for the whole area of the borough and the other for the area covered by the Wimbledon and Putney Common Conservators for which an additional levy is applied.

2.4.2 The information in the CTB returns has been used to calculate the council tax bases and these are summarised in the following table compared to 2016/17:-

Council Tax Base	**2016/17**	**2017/18**	**Change**
			%
Whole Area	71,327.0	72,442.3	1.56%
Wimbledon & Putney Common Conservators	11,127.2	11,131.2	0.04%

3. IMPLICATIONS FOR COUNCIL TAX YIELD 2017/18

3.1 Assuming that council tax charges remain as for 2016/17 the estimated income in 2017/18 compared to 2016/17 and the current assumption in the MTFS are summarised in the following table:-

Council Tax: Whole area	**2016/17**	**2016/17**
Tax Base	71,327.0	72,442.3
Band D Council Tax	£1,102.25	£1,102.25
Estimated Yield	**£78.620m**	**£79.850m**
Change: 2016/17 to 2017/18 (£000)		+ £1.230m
Change: 2016/17 to 2017/18 (%)		+ 1.6%

3.2 Analysis of changes in yield 2016/17 to latest 2017/18

3.2.1 There are a number of reasons for the change in estimated yield between 2016/17 and the latest estimate based on the CTB data.

3.2.2 Over this period the Council Tax Base increased by 1,115.3 from 71,327 to 72,442.3 which multiplied by the Band D Council Tax of £1,102.25 results in additional yield of £1.230m.

3.2.3 An exact reconciliation for the change between years is not possible because of changes in distribution of Council Tax Support and discounts and benefits, and premiums between years varies and bands. However, broadly the changes can be analysed as follows:-

a) No Change in collection rate from 97.25%
There has been no change in the estimated collection rate of 97.25% between 2016/17 and 2017/18.

b) Number of Chargeable Dwellings and Exempt Dwellings
Between years the number of properties increased by 659 from 83,078 to 83,737 and the number of exempt dwellings increased by 8 from 771 to 779. This means that the number of chargeable dwellings increased by 651 between years. Based on a full charge, this equates to additional council tax of £0.667m.

c) Amount of Council Tax Support Reduction
In 2016/17 there was a reduction of 9,099.9 to the Council Tax Base for the local council tax support. This has reduced to 8,639.2 in 2017/18 which is a change of 460.7 and equates additional council tax of about £0.472m.

d) Changes in Discounts, Exemptions and Premiums
Overall, the level of discounts, exemptions and premiums in the 2017/18 calculation is less than that included in 2016/17 resulting in an increase of about 52 in the council tax base which increases yield by around £0.090m

e) Summary
The following puts the individual elements together to show how the potential council tax yield changes between 2015/16 and 2016/17:-

	Approx. Change in Council Tax Base	**Approx. Change in Council Tax yield**
		£m
Increase in number of chargeable dwellings	651	0.667
Change in Council Tax Support Reductions	461	0.472
Change in discounts, exemptions, premiums and distribution	3	0.090
Total	**1,115**	**1,229**

3.10 Council Tax Yield 2017/18

3.10.1 Assuming no change in Council Tax for 2017/18 the estimated Council Tax yield for 2017/18 is:-

Council Tax: Whole area	Tax Base	Band D 2016/17	Council Tax Yield 2017/18	Council Tax Yield 2016/17
Merton	71,327.0	£1,102.25	£79.850m	£78.620m
WPCC	11,127.2	£26.97	£0.300m	£0.300m
GLA	71,327.0	£276.00	£19.994m	£19.686m

The amounts collected for the GLA and WPCC are paid over to each of them as precepts.

3.10.2 The MTFS reported to Cabinet on 12 October 2016 assumed an annual collection rate of 97.25% and year on year increases in Council Tax Base of 0.5%. The potential change in Council Tax yield on that included in the MTFS based on the new Council Tax Base is as follows:-

MTFS Council Tax Yield: EXISTING CT BASE	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Council Tax - 16/17 CT Base, No change in precept	79,013	79,408	79,805	80,204
Council Tax - Adult Social Care up to 2% flexibility	-	-	1,596	3,198
Council Tax Change (1.75%)	-	-	1,397	2,807
Council Tax income	79,013	79,408	82,798	86,209
Council Tax Yield: NEW CT BASE	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Council Tax - New CT Base, No change in precept	79,850	80,249	80,650	81,053
Council Tax - Adult Social Care up to 2% flexibility	-	-	1,613	3,234
Council Tax Change (1.75%)	-	-	1,411	2,830
Council Tax income	79,850	80,249	83,674	87,117

CHANGE IN YIELD	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Council Tax - New CT Base, No change in precept	837	841	845	849
Council Tax - Adult Social Care up to 2% flexibility	-	-	17	36
Council Tax Change (1.75%)	-	-	15	23
Council Tax income	837	841	876	908

DRAFT MTFS 2017-21:				
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Departmental Base Budget 2016/17	**139,982**	**139,982**	**139,982**	**139,982**
Inflation (Pay, Prices)	3,184	6,368	9,553	12,737
Autoenrolment/Nat. ins changes	857	1,172	1,172	1,172
FYE – Previous Years Savings	(9,429)	(15,173)	(15,173)	(15,173)
Amendments to previously agreed savings	541	244	(207)	(207)
Change in Net Appropriations to/(from) Reserves	(1,158)	(2,278)	(2,013)	(1,871)
Taxi card/Concessionary Fares	450	901	1,351	1,801
Change in depreciation/Impairment (Contra Other Corporate items)	4,681	4,681	4,681	4,681
Growth	11,927	12,901	10,395	10,895
Other	71	144	220	301
Re-Priced Departmental Budget	**151,106**	**148,943**	**149,960**	**154,317**
Treasury/Capital financing	12,543	11,146	12,427	12,723
Pensions	4,592	4,799	5,015	5,015
Other Corporate items	(17,851)	(17,504)	(17,856)	(17,856)
Levies	628	628	628	628
Sub-total: Corporate provisions	**(88)**	**(931)**	**214**	**510**
Sub-total: Repriced Departmental Budget + Corporate Provisions	**151,018**	**148,012**	**150,174**	**154,827**
Savings/Income Proposals 2017/18	0	0	(2,066)	(2,066)
Sub-total	**151,018**	**148,012**	**148,108**	**152,761**
Appropriation to/from departmental reserves	(843)	277	12	(130)
Appropriation to/from Balancing the Budget Reserve	(8,259)	0	0	0
BUDGET REQUIREMENT	**141,916**	**148,288**	**148,121**	**152,632**
Funded by:				
Revenue Support Grant	(15,520)	(10,071)	(5,076)	0
Business Rates (inc. Section 31 grant)	(34,847)	(35,553)	(36,295)	(36,952)
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(4,763)	(2,993)	(2,871)	(2,000)
Council Tax inc. WPCC	(80,150)	(80,549)	(83,974)	(87,432)
Collection Fund – (Surplus)/Deficit	(224)	0	0	0
TOTAL FUNDING	**(140,300)**	**(133,963)**	**(133,014)**	**(131,181)**
GAP including Use of Reserves (Cumulative)	**1,616**	**14,325**	**15,107**	**21,450**

Potential Loss of Better Care Funding	2,100	2,100		

CAPITAL STRATEGY 2017/21

1 Introduction

1.1 Merton's Capital Strategy for 2017-21 has been aligned and integrated with the Business Plan for the period 2017-21. 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 2017/21 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 2017-2021

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 were reviewed in 2015/16. The revisions are designed to make the board more strategic and improve communication flows throughout the organisation. The Board now comprises the Directors of Corporate and 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 capital strategy recognises that the prudential framework provides the council with flexibility, subject to the constraints of the council's revenue budget. This flexible ability to borrow, either from internal cash resources or by external borrowing, coupled with the revised treatment of finance leases with effect from 1 April 2010, means that prudential borrowing is used for the acquisition of equipment, where it is prudent, affordable and sustainable. In 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17, 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 2020/21). 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:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
MRP	6,713	5,537	6,775	7,137
Interest	6,437	6,173	6,173	6,103
Capital financing costs	**13,150**	**11,709**	**12,948**	**13,240**
Investment Income	(607)	(564)	(521)	(517)
Net	**12,543**	**11,146**	**12,427**	**12,723**

6 Capital resources 2017-21

6.1 Variety of sources

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

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

6.2 *Annual Minimum Revenue Provision (MRP) Statement*

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

6.2.2 *The statement is set out in the Treasury Management Strategy.* This approach is under active review and will be reported once concluded

7 Asset management review

7.1 Capital receipts

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

7.2 Property as a corporate resource

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

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

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

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

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

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

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

8 Summary of estimated disposals 2017-2021

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

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

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

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

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

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

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

Anticipated Capital Receipts	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£000s	**£000s**	**£000s**	**£000s**
Sale of Assets	0	0	0	0
Right to buy/VAT Shelter	1,200	900	900	900
Total	**1,200**	**900**	**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 0.5%, as such an increase in receipts of £1m would be expected to generate a £5,000 increase in interest in a full year.

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

Capital Expenditure	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**
Capital Expenditure	**39,261**	**38,623**	**33,205**	**16,076**	**8,432**
Slippage	(6,428)	787	1,602	592	102
Total Capital Expenditure	32,833	39,410	34,807	16,668	8,534
Financed by:					
Capital Receipts	14,812	19,117	900	900	900
Capital Grants & Contributions	15,554	14,729	13,055	5,485	628
Revenue Provisions	2,394	5,332	1,356	2	0
Net financing need for the year	**72**	**232**	**19,497**	**10,282**	**7,006**

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

8.2 Debt repayment

8.2.1 The council has had a strategy to reduce its level of debt when opportunity arises in the market. The average interest payable on outstanding debt is 5.72%. For the period 2017-21, 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

	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Transport for London LIP (**earmarked) Capital**	2,765	*3,865	TBA	TBA
Total: E&R	**2,755**	**2,765**	**TBA**	**TBA**

* Indicative and likely to reduce
TBA – To Be Advised

9.2 Children, Schools and Families

CSF	2017/18	2018/19	2019/20	2020/21
	£000s	**£000s**	**£000s**	**£000s**
School Condition (non-ringfenced)*	1,800	TBA	TBA	TBA
Basic Need (non-ringfenced)	6,063	7,471	TBA	TBA
Total Grant Funding	**7,863**	**7,471**	**TBA**	**TBA**
New School (Expected Ringfenced)*	4,850	0	0	0
Devolved Formula Capital (Earmarked)	TBA	TBA	TBA	TBA
TOTAL: CS&F	**12,713**	**7,471**	**TBA**	**TBA**
Balance added for outstanding grant allocations - CSF	**0**	**529**	**5,000**	**650**

* Based on Indicative Information

TBA – To Be Advised

9.3 Community and Housing

	2017/18	2018/19	2019/20	2020/21
	£0	£0	£0	£0
Better Care Fund – Minimum Allocation for Disabled Facilities Grant**)**	TBA	TBA	TBA	TBA

9.4 Summary of Grant Funding 2017-2021

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	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£000s	**£000s**	**£000s**	**£000s**
Environment and Regeneration	**2,765**	**3,865**	**TBA**	**TBA**
Children, Schools and Families	**12,713**	**7,471**	**TBA**	**TBA**
Community and Housing	**TBA**	**TBA**	**TBA**	**TBA**
Total Grant Funding*	**15,478**	**11,336**	**0**	**0**
Balance added for outstanding grant allocations - CSF	**0**	**529**	**5,000**	**650**

* This shows the grant funding being received by the authority

10 Summary of Total Resources 2017-21:

10.1 Summary

10.1.1 The total anticipated resources over the plan period 2017-21, including existing grant funding and anticipated CS&F grants, is summarised in the following table:-

	2017/18 £000s	**2018/19 £000s**	**2019/20 £000s**	**2020/21 £000s**
Grant & Contributions *	14,729	13,054	5,484	628
Council Funding	24,680	21,752	11,185	7,906
Total	**39,410**	**34,807**	**16,668**	**8,534**

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

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

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

Indicative Capital Programme 2021 to 2026

Merton	Updated Budget 21/22	Updated Budget 22/23	Updated Budget 23/24	Updated Budget 24/25	Updated Budget 25/26
Corporate Services	3,962,000	2,510,000	4,800,000	2,862,000	4,560,000
Community and Housing	280,000	280,000	280,000	280,000	630,000
Children, Schools & Families *	650,000	650,000	755,000	650,000	650,000
Environment & Regeneration *	4,052,000	4,017,000	4,017,000	4,077,000	8,075,000
Total Merton	**8,944,000**	**7,457,000**	**9,852,000**	**7,869,000**	**13,915,000**

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

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

11 Capital Bids and Prioritisation Criteria

11.1 Prioritisation of schemes 2020/21

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 2017-21, on the basis of these criteria by the board to cabinet was £14.8 million 2017-21 (excluding TfL).

12 Detailed Capital Programme 2017-21

12.1 Corporate Services

12.2 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. In order to support more intensive use of the civic centre HQ as part of the flexible working project, capital investment in the overall building infrastructure is essential, including replacement of the main boilers and heat exchangers that are approaching the end of their economic lifespan. 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.

12.3 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 2017-21 programme has been revised to that shown in the table below:

Children, Schools & Families	Updated Budget 17/18 £000s	Updated Budget 18/19 £000s	Updated Budget 19/20 £000s	Updated Budget 20/21 £000s
Primary School Expansions	30	0	0	0
Secondary School Expansions	8,889	6,156	4,481	0
SEN	3,196	5,310	1,000	0
Other	804	650	755	650
Children, Schools & Families	**12,920**	**12,116**	**6,236**	**650**

Please note £1million has moved from Secondary Expansions to SEN since November Cabinet

CSF capital programme 2017-21

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 2017/18 provides the finance to complete the expansion of Dundonald Primary School. 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 2017/21 includes £19.6 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 2017/21 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 12 main areas:

Environment & Regeneration	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20	Updated Budget 20/21
Footways Planned Works	1,000,000	1,000,000	1,000,000	1,000,000
Greenspaces	235,000	335,000	355,000	300,000
Highways General Planned Works	419,000	422,000	427,000	427,000
Highways Planned Road Works	1,500,000	1,500,000	1,200,000	1,200,000
Leisure Centres	9,018,670	2,117,450	257,950	250,000
Regeneration Partnerships	1,145,870	1,000,000	3,000,000	1,000,000
Street Lighting	290,000	509,000	290,000	290,000
Street Scene	60,000	60,000	60,000	60,000
Transport for London	2,064,800	3,864,800	0	0
Traffic and Parking Management	156,000	150,000	150,000	150,000
Transport and Plant	1,686,000	3,070,000	300,000	300,000

Waste Operations	160,500	2,719,500	40,000	40,000
Environment & Regeneration	**17,735,840**	**16,747,750**	**7,079,950**	**5,017,000**

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 17/18 £000s**	**Updated Budget 18/19 £000s**	**Updated Budget 19/20 £000s**	**Updated Budget 20/21 £000s**
Surface Water Drainage	69	72	77	77
Highways bridges & structures	260	260	260	260
Maintain AntiSkid and Coloured	90	90	90	90
Total Highways General Planned Works	**419**	**422**	**427**	**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 17/18 £000s**	**Updated Budget 18/19 £000s**	**Updated Budget 19/20 £000s**	**Updated Budget 20/21 £000s**
Leisure Centre Plant & Machine	450	300	250	250
Morden Leisure Centre	8,319	567	8	0
Wimbledon Park Lake De-Silting	250	1,250	0	0
Total Leisure Centres	**9,019**	**2,117**	**258**	**250**

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 17/18 £000s**	**Updated Budget 18/19 £000s**	**Updated Budget 19/20 £000s**	**Updated Budget 20/21 £000s**
Regeneration Partnerships				
Mitcham Major Schemes - TfL	700	0	0	0
Industrial Estate Investment	446	0	0	0

Transportation Enhancements	0	1,000	3,000	1,000
Total Regeneration Partnerships	**1,146**	**1,000**	**1,000**	**1,000**

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 2017/21 comprises:

Community and Housing	**Updated Budget 17/18 £000s**	**Updated Budget 18/19 £000s**	**Updated Budget 19/20 £000s**	**Updated Budget 20/21 £000s**
Libraries				
Library Self Service	0	0	0	350
Colliers Wood Re-Fit	200	0	0	0
West Barnes Library Re-Fit	200	0	0	0
Library Management System	100	0	0	0
Housing				
Disabled Facilities Grant	755	629	280	280
Total Community and Housing	**1,255**	**629**	**280**	**630**

12.5 Overall Programme

12.5.1 The approved Capital Programme for 2017/21 follows at Annex 1, Annex 3 provides an additional breakdown detail of the approved schemes. The summary is as follows:

Merton	**Updated Budget 17/18**	**Updated Budget 18/19**	**Updated Budget 19/20**	**Updated Budget 20/21**
Corporate Services	6,712,000	3,712,000	2,480,000	2,135,000
Community and Housing	1,255,000	628,900	280,000	630,000
Children, Schools & Families	12,920,030	12,116,200	6,236,000	650,000
Environment & Regeneration	17,735,840	16,747,750	7,079,950	5,017,000
Total Merton	**38,622,870**	**33,204,850**	**16,075,950**	**8,432,000**

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 2016/17 is approved, the 2017/18 Capital Programme will be adjusted accordingly.

12.5.4 Annexe 1 Capital Investment Programme - Schemes for Approval

Annexe 2 Funding the Capital Programme 2017-21

Annexe 3 Detailed Capital Programme 2017-21

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

Annexe 5 Indicative Capital Programme 2021-26

CAPITAL INVESTMENT PROGRAMME - SCHEMES FOR APPROVAL - ANNEX 1

Merton	**Updated Budget 17/18**	**Updated Budget 18/19**	**Updated Budget 19/20**	**Updated Budget 20/21**
Corporate Services	6,712,000	3,712,000	2,480,000	2,135,000
Community and Housing	1,255,000	628,900	280,000	630,000
Children, Schools & Families	12,920,030	12,116,200	6,236,000	650,000
Environment & Regeneration	17,735,840	16,747,750	7,079,950	5,017,000
Total Merton	**38,622,870**	**33,204,850**	**16,075,950**	**8,432,000**

Merton	**Updated Budget 17/18**	**Updated Budget 18/19**	**Updated Budget 19/20**	**Updated Budget 20/21**
Total Business Improvement	816,000	1,377,000	0	0
Total Resources	0	0	0	125,000
Total Information Technology	1,946,000	1,085,000	630,000	1,060,000
Total Facilities Management	3,950,000	1,250,000	1,850,000	950,000
Total Corporate Services	**6,712,000**	**3,712,000**	**2,480,000**	**2,135,000**
Community and Housing				
Housing	755,000	628,900	280,000	280,000
Libraries	500,000	0	0	350,000
Total Community and Housing	**1,255,000**	**628,900**	**280,000**	**630,000**
Children, Schools and Families				
Primary School Expansions	30,000	0	0	0
Secondary School Expansions	8,889,290	6,156,200	4,481,000	0
SEN	3,196,290	5,310,000	1,000,000	0
Other	804,450	650,000	755,000	650,000
Children, Schools & Families	**12,920,030**	**12,116,200**	**6,236,000**	**650,000**

Please note £1million has moved from Secondary Expansions to SEN since November Cabinet

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

Environment & Regeneration	Updated Budget 17/18	Updated Budget 18/19	Updated Budget 19/20	Updated Budget 20/21
Footways Planned Works	1,000,000	1,000,000	1,000,000	1,000,000
Greenspaces	235,000	335,000	355,000	300,000
Highways General Planned Works	419,000	422,000	427,000	427,000
Highways Planned Road Works	1,500,000	1,500,000	1,200,000	1,200,000
Leisure Centres	9,018,670	2,117,450	257,950	250,000
Regeneration Partnerships	1,145,870	1,000,000	3,000,000	1,000,000
Street Lighting	290,000	509,000	290,000	290,000
Street Scene	60,000	60,000	60,000	60,000
Transport for London	2,064,800	3,864,800	0	0
Traffic and Parking Management	156,000	150,000	150,000	150,000
Transport and Plant	1,686,000	3,070,000	300,000	300,000
Waste Operations	160,500	2,719,500	40,000	40,000
Environment & Regeneration	**17,735,840**	**16,747,750**	**7,079,950**	**5,017,000**

Please Note

1) Excludes expenditure budgets relating to Disabled Facilities Grant funding from 2017/18.

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

3) Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2017/18 as grant funding has not been announced.

4) Excludes any expenditure budgets relating to a Housing Company

FUNDING THE CAPITAL PROGRAMME 2016-21 **Annex2**

Merton	Capital Programme £000s	Funded by Merton £000s	Funded by grant and capital contributions £000s
2016/17 Current Budget	**39,261**	**22,575**	**16,686**
Potential Slippage b/f	0	0	0
2016/17 Revised Budget	**39,261**	**22,575**	**16,686**
Potential Slippage c/f	(5,166)	(4,614)	(552)
Potential Underspend not slipped into next year	(1,262)	(685)	(578)
Total Spend 2016/17	**32,833**	**17,278**	**15,555**
2017/18 Current Budget	**38,623**	**23,876**	**14,747**
Potential Slippage b/f	5,166	4,614	552
2017/18 Revised Budget	**43,789**	**28,490**	**15,299**
Potential Slippage c/f	(3,470)	(2,966)	(503)
Potential Underspend not slipped into next year	(909)	(842)	(67)
Total Spend 2017/18	**39,410**	**24,680**	**14,729**
2018/19 Current Budget	**33,205**	**20,362**	**12,844**
Potential Slippage b/f	3,470	2,966	503
2018/19 Revised Budget	**36,675**	**23,328**	**13,347**
Potential Slippage c/f	(1,469)	(1,239)	(230)
Potential Underspend not slipped into next year	(399)	(336)	(63)
Total Spend 2018/19	**34,807**	**21,752**	**13,054**
2019/20 Current Budget	**16,076**	**10,796**	**5,280**
Potential Slippage b/f	1,469	1,239	230
2019/20 Revised Budget	**17,545**	**12,036**	**5,510**
Potential Slippage c/f	(551)	(540)	(11)
Potential Underspend not slipped into next year	(326)	(312)	(14)
Total Spend 2019/20	**16,668**	**11,185**	**5,484**
2020/21 Current Budget	**8,432**	**7,782**	**650**
Potential Slippage b/f	551	540	11
2020/21 Revised Budget	**8,983**	**8,322**	**661**
Potential Slippage c/f	(101)	(100)	(1)

Potential Underspend not slipped into next year	(348)	(315)	(33)
Total Spend 2020/21	**8,534**	**7,906**	**628**

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

DETAILED CAPITAL PROGRAMME 2017-21 **ANNEX 3**

Department	**Scrutiny**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Corporate Services					
Business Improvement					
Replacement Social Care System	OSC	425,540	350,000	0	0
Planning&Public Protection Sys	OSC	40,000	510,000	0	0
Revenue and Benefits	OSC	0	400,000	0	0
Spectrum Spatial Analyst Replacement	OSC	0	42,000	0	0
Capita Housing	OSC	100,000	0	0	0
Aligned Assets	OSC	0	75,000	0	0
Replacement Document Management System	OSC	0	0	0	0
Electronic Asset Management	OSC	250,460	0	0	0
Customer Contact	OSC	0	0	0	0
Corporate					
Facilities Management					
Invest to Save Schemes	OSC	900,000	300,000	300,000	300,000
Capital Works Facilities	OSC	300,000	300,000	650,000	650,000
Water Safety Works	OSC	150,000	100,000	0	0
Asbestos Safety Works	OSC	250,000	250,000	0	0
Schools PV&Energy conservation	OSC	2,000,000	0	0	0
Civic Centre Boilers	OSC	0	300,000	0	0
Civic Centre Staff Entrance Improvements	OSC	200,000	0	0	0
Civic Centre Lightning Upgrade	OSC	0	0	300,000	0
Civic Centre Block Paving	OSC	75,000	0	0	0
Multi-Function Device	OSC	75,000	0	600,000	0
Information Technology					
Planned Replacement Programme	OSC	1,746,000	510,000	430,000	860,000
IT Enhancements	OSC	200,000	275,000	200,000	200,000
Data Centre Support Equipment	OSC	0	300,000	0	0
Resources					
Replacement of Civica Icon	OSC	0	0	0	125,000
Total Corporate Services		**6,712,000**	**3,712,000**	**2,480,000**	**2,135,000**

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

DETAILED CAPITAL PROGRAMME 2017-21 Continued.... **ANNEX 3**

Department	Scrutiny	2017-18	2018-19	2019-20	2020-21
Community and Housing					
Libraries					
Library Self Service	SC	0	0	0	350,000
Colliers Wood Re-Fit	SC	200,000	0	0	0
West Barnes Library Re-Fit	SC	200,000	0	0	0
Library Management System	SC	100,000	0	0	0
Housing					
Disabled Facilities Grant	SC	755,000	628,900	280,000	280,000
Total Community and Housing		**1,255,000**	**628,900**	**280,000**	**630,000**

Department	Scrutiny	2017-18	2018-19	2019-20	2020-21
Children, Schools and Families					
Primary Expansions					
Dundonald	CYP	30,000	0	0	0
Secondary Expansion					
Secondary School expansion	CYP	30,000	0	0	0
St Marks	CYP	200,000	1,423,600	3,681,000	0
New 6fe School	CYP	5,116,250	2,689,100	0	0
Harris merton	CYP	3,372,980	0	0	0
Harris Morden	CYP	200,060	2,043,500	800,000	0
SEN Expansion					
Perseid	CYP	931,930	650,000	0	0
Secondary School Autism Unit	CYP	200,000	1,160,000	0	0
Further SEN	CYP	2,064,360	3,500,000	1,000,000	0
Other CSF					
Schools Capital Maintenance	CYP	670,000	650,000	650,000	650,000
School Loans	CYP	104,450	0	0	0
Admissions IT	CYP	0	0	105,000	0
Total Children, Schools and Families		**12,920,030**	**12,116,200**	**6,236,000**	**650,000**

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

Please note £1million has moved from St Marks Secondary to Further SEN since November Cabinet

Please Note

1) **Excludes expenditure budgets relating to Disabled Facilities Grant from 17/18.**
2) **Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**
4) **Excludes any expenditure budgets relating to a Housing Company**

DETAILED CAPITAL PROGRAMME 2017-21 Continued.... **ANNEX 3**

Department	Scrutiny	2017-18	2018-19	2019-20	2020-21
Environment and Regeneration					
Footways Planned Works					
Repairs to Footways	SC	1,000,000	1,000,000	1,000,000	1,000,000
Greenspaces					
Parks investment	SC	201,000	307,500	295,000	300,000
Parks Bins - Finance Lease	SC	34,000	27,500	0	0
Pay & Display Machine	SC	0	0	60,000	0
Highways General Planned Works					
Surface Drainage Water	SC	69,000	72,000	77,000	77,000
Highways and Bridges Structures	SC	260,000	260,000	260,000	260,000
Maintain AntiSkid and Coloured	SC	90,000	90,000	90,000	90,000
Highways Planned Road Works					
Borough Roads Maintenance	SC	1,500,000	1,500,000	1,200,000	1,200,000
Leisure Centres					
Leisure Centre Plant and Machines	SC	450,000	300,000	250,000	250,000
Morden Leisure Centre	SC	8,318,670	567,450	7,950	0
Wimbledon Park Lake De-Silting	SC	250,000	1,250,000	0	0
Regeneration Partnerships					
Mitcham Major Schemes - TfL	SC	700,000	0	0	0
Industrial Estate Investment	SC	445,870	0	0	0
Transportation Enhancements	SC	0	1,000,000	3,000,000	1,000,000
Street Lighting					
Street Lighting	SC	290,000	509,000	290,000	290,000
Street Scene					
Street Tree Programme	SC	60,000	60,000	60,000	60,000
Transport for London					
TfL Unallocated	SC	1,844,800	1,864,800	0	0
Morden TfL	SC	220,000	2,000,000	0	0
Transport and Plant					
Replacement Fleet Vehicles	SC	400,000	400,000	300,000	300,000
SWLP Vehicles	SC	1,286,000	2,670,000	0	0
Traffic and Parking Management					
Traffic Schemes	SC	156,000	150,000	150,000	150,000
Waste Operations					
Alley Gating	SC	40,000	40,000	40,000	40,000
Waste Bins - Finance Lease	SC	5,500	5,500	0	0
SWLP IT	SC	42,000	0	0	0
SWLP Depot	SC	73,000	0	0	0
SWLP Wheelie Bins	SC	0	2,674,000	0	0
Total Environment and Regeneration		**17,735,840**	**16,747,750**	**7,079,950**	**5,017,000**

APPENDIX 5

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

Analysis of Growth against Approved Programme 2017/20 and Indicative Programme 2020/21
ANNEX 4

Department	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Corporate Services				
Business Improvement				
Replacement Social Care System	200,000	350,000	0	(150,000)
Planning&Public Protection Sys	(510,000)	510,000	0	0
Electronic Asset Management	0	0	(190,000)	0
Customer Contact	0	0	0	(200,000)
Corporate				
Facilities Management				
Capital Works Facilities	0	0	(50,000)	(50,000)
Resources				
Improving Financial Systems	0	0	0	(700,000)
Total Corporate Services	**(310,000)**	**860,000**	**(240,000)**	**(1,100,000)**
Children, Schools and Families				
Secondary Expansion				
St Marks	(911,800)	(1,257,400)	1,681,000	0
New 6fe School	0	0	(1,979,100)	(6,000,000)
Harris Morden	(1,643,500)	1,343,500	800,000	0
Raynes Park	(100,000)	(1,530,000)	(4,200,000)	0
SEN Expansion				
Secondary School Autism Unit	(960,000)	1,160,000	0	0
Further SEN	(500,000)	500,000	0	0
Total Children, Schools and Families	**(4,115,300)**	**216,100**	**(3,698,100)**	**(6,000,000)**
Environment and Regeneration				
Greenspaces				
Parks investment	0	0	0	(25,000)
Highways Planned Road Works				
Borough Roads Maintenance	0	0	(50,000)	(50,000)
Leisure Centres				
Leisure Centre Plant and Machines	0	0	(50,000)	(50,000)
Regeneration Partnerships				
Transportation Enhancements	0	(4,000,000)	3,000,000	1,000,000
Transport and Plant				
Replacement Fleet Vehicles	(100,000)	(100,000)	(50,000)	(50,000)
Traffic and Parking Management				
Traffic Schemes	0	(25,000)	(25,000)	(25,000)
Total Environment and Regeneration	**(100,000)**	**(4,125,000)**	**2,825,000**	**800,000**
Total Merton	**(4,525,300)**	**(3,048,900)**	**(1,113,100)**	**(6,300,000)**

* 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 (17/20) and indicative (20/21)

INDICATIVE CAPITAL PROGRAMME 2021-26 **ANNEX 5**

Department	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Corporate Services					
Business Improvement					
Replacement Social Care System	0	0	2,100,000	0	0
Planning&Public Protection Sys	0	0	0	0	550,000
Revenue and Benefits	0	0	0	400,000	0
Spectrum Spatial Analyst Replacement	42,000	0	0	42,000	0
Capita Housing	0	100,000	0	0	0
Aligned Assets	0	0	75,000	0	0
Replacement Document Management System	0	0	900,000	0	0
Electronic Asset Management	0	0	0	240,000	0
Customer Contact	2,000,000	0	0	0	2,000,000
Facilities Management					
Invest to Save Schemes	300,000	300,000	300,000	300,000	300,000
Capital Works Facilities	650,000	650,000	650,000	650,000	650,000
Multi-Function Device	0	0	0	600,000	0
Information Tecnology					
Planned Replacement Programme	770,000	560,000	575,000	430,000	860,000
IT Enhancements	200,000	200,000	200,000	200,000	200,000
Resources					
Improving Financial Systems	0	700,000	0	0	0
Total Corporate Services	**3,962,000**	**2,510,000**	**4,800,000**	**2,862,000**	**4,560,000**
Community and Housing					
Libraries					
Library Self Service	0	0	0	0	350,000
Housing					
Disabled Facilities Grant	280,000	280,000	280,000	280,000	280,000
Total Community and Housing	**280,000**	**280,000**	**280,000**	**280,000**	**630,000**
Children, Schools and Families					
Other CSF					
Schools Capital Maintenance	650,000	650,000	650,000	650,000	650,000
Admissions IT	0	0	105,000	0	0
Total Children, Schools and Families	**650,000**	**650,000**	**755,000**	**650,000**	**650,000**

INDICATIVE CAPITAL PROGRAMME 2021-26 Continued………. **ANNEX 5**

Department	2021-22	2022-23	2023-24	2024-25	2025-26
Environment and Regeneration					
Footways Planned Works					
Repairs to Footways	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Greenspaces					
Parks investment	300,000	300,000	300,000	300,000	300,000
Pay & Display Machine	0	0	0	60,000	60,000
Highways General Planned Works					
Surface Drainage Water	77,000	77,000	77,000	77,000	77,000
Highways and Bridges Structures	260,000	260,000	260,000	260,000	260,000
Maintain AntiSkid and Coloured	90,000	90,000	90,000	90,000	90,000
Highways Planned Road Works					
Borough Roads Maintenance	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Leisure Centres					
Leisure Centre Plant and Machines	250,000	250,000	250,000	250,000	250,000
Other E&R					
Replacing Handheld Computers	35,000	0	0	0	0
Street Lighting					
Street Lighting	290,000	290,000	290,000	290,000	290,000
Street Scene					
Street Tree Programme	60,000	60,000	60,000	60,000	60,000
Transport and Plant					
Replacement Fleet Vehicles	300,000	300,000	300,000	300,000	300,000
SWLP Vehicles	0	0	0	0	3,956,000
Traffic and Parking Management					
Traffic Schemes	150,000	150,000	150,000	150,000	150,000
Waste Operations					
Alley Gating	40,000	40,000	40,000	40,000	40,000
SWLP IT	0	0	0	0	42,000
Total Environment and Regeneration	**4,052,000**	**4,017,000**	**4,017,000**	**4,077,000**	**8,075,000**
Total Merton	**8,944,000**	**7,457,000**	**9,852,000**	**7,869,000**	**13,915,000**

* 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 (17/20)and indicative (20/21) programme.

Please Note

1) **Excludes expenditure budgets relating to Disabled Facilities Grant**
2) **Excludes expenditure budgets relating to Transport for London Grant .**
3) **Excludes expenditure budgets relating to Devolved Formula Capital for schools.**
4) **Excludes any expenditure budgets relating to a Housing Company**

AUTUMN STATEMENT 2016

The new Chancellor of the Exchequer, Philip Hammond, delivered his first Autumn Statement 0n 2016. Following the result of the referendum to leave the European Union, the Statement announced that this presents both new opportunities and new challenges but "in the near term, the UK's economic outlook has become more uncertain."

UK Economy
"The Office for Budget Responsibility (OBR) forecasts that GDP growth will slow to 1.4% in 2017, and then recover to 1.7% in 2018, 2.1% in both 2019 and 2020, and 2.0% in 2021. The OBR expects lower business investment and household spending to weigh on GDP in the near term."

Key Economic & Fiscal Indicators

	2015	2016	2017	2018	2019	2020	2021
Gross domestic product (GDP) (%)	2.2	2.1	1.4	1.7	2.1	2.1	2.0
Public sector net borrowing (£bn)	76.0	68.2	59.0	46.5	21.9	20.7	17.2
Public sector net borrowing (deficit % of GDP)	4.0	3.5	2.9	2.2	1.0	0.9	0.7
Public sector net debt (% of GDP)	84.2	87.3	90.2	89.7	88.0	84.8	81.6
LFS unemployment (% rate)	5.4	5.0	5.2	5.5	5.4	5.4	5.4
Employment (millions)	31.3	31.7	31.8	31.9	32.0	32.2	32.3
CPI Inflation (%)	0.0	0.7	2.3	2.5	2.1	2.0	2.0

Source: H.M.Treasury – Autumn Statement 2016; OBR - Economic & Fiscal Outlook, November 2016

Public finances and fiscal policy
"The OBR's forecast for the public finances shows a deterioration since Budget 2016, due to disappointing tax revenues over the first half of this year, a weaker economic outlook weighing on receipts from income taxes, and higher spending by local authorities, public corporations, and on welfare benefits. Compared with the OBR's Budget 2016 forecast, borrowing is higher in every year of the forecast and £32 billion higher in 2020-21. Debt peaks at over 90% of GDP in 2017-18 due to a combination of higher borrowing, lower asset sales, and the impact of the Bank of England's monetary policy operations."

Public Spending
"With the deficit still sizeable, control of public spending and delivery of efficiencies is vital. The government is committed to the overall plans for departmental resource spending set out at Spending Review 2015. In the Autumn Statement, new spending initiatives, with the exception of the National Productivity Investment Fund (NPIF), have been fully funded."

<u>Departmental Expenditure Limits</u>
"Budget 2016 set out that departmental resource spending will continue to grow with inflation in 2020-21. Departmental spending will also grow with inflation in 2021-22. The government will meet the commitments on public spending set out for this Parliament: including commitments to priority public services, to international development and defence, and to pensioners. The government will continue to constrain public spending in the next Parliament to reach a balanced budget and live within its means. The commitments it is able to make on protecting public spending priorities in the next Parliament will need to be determined in light of evolving prospects for the fiscal position. The government will do this at the next Spending Review."

Table 1.5 (Autumn Statement): Total Managed Expenditure[1, 2] (in £ billion, unless otherwise stated)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Current expenditure						
Resource AME	370.2	386.9	400.3	407.2	421.1	439.8
Resource DEL excluding depreciation	309.0	304.2	306.3	305.6	311.5	317.6
Ring-fenced depreciation	20.6	21.9	22.8	23.3	21.9	22.8
Total public sector current expenditure	**699.8**	**713.0**	**729.4**	**736.2**	**754.5**	**780.1**
Capital expenditure						
Capital AME	26.6	26.7	25.8	27.3	30.4	32.0
Capital DEL	52.3	57.2	59.2	60.2	70.6	74.2
Total public sector gross investment	**79.0**	**84.0**	**85.1**	**87.5**	**101.1**	**106.3**
Total managed expenditure	**778.8**	**797.0**	**814.5**	**823.7**	**855.6**	**886.4**
Total managed expenditure (% of GDP)	*39.9%*	*39.8%*	*39.1%*	*38.0%*	*38.0%*	*37.8%*

The Chancellor signalled no changes in ring-fencing of protected departments nor in the pensions triple lock during this Parliament but suggested that these would need to be looked at before the next Parliament

National Productivity Investment Fund (NPIF)

The government prioritised capital spending at Spending Review 2015 and is now setting out plans to go further. The Autumn Statement announces a new NPIF which will be targeted at 4 areas that are critical for improving productivity: housing, transport, digital communications, and research and development (R&D). The NPIF will provide for £23 billion of spending between 2017-18 and 2021-22.

Table 3.1 (Autumn Statement): National Productivity Investment Fund (£ million)[1]

	2017-18	2018-19	2019-20	2020-21	2021-22[4]
Housing					
Accelerated construction	285	635	665	380	*
Affordable housing[2]	1,120	1,125	880	340	*
Housing Infrastructure Fund	60	300	945	1,425	*
Transport					
Roads and local transport	365	500	430	650	*
Next generation vehicles	75	100	110	115	*
Digital railways enhancements	30	55	165	285	*
Cambridge-Milton Keynes-Oxford corridor	5	135	0	0	*
Digital Communications[3]					
Fibre and 5G investment	25	150	275	290	*
Research and Development					
Research and Development funding	425	820	1,500	2,000	*
Total	**2,390**	**3,820**	**4,970**	**5,485**	**7,000**

[1] Figures represent the total costs associated with the funding allocations announced at the Autumn Statement, including the impact on Devolved Administration budgets through the application of the Barnett formula.

[2] The affordable housing line includes the impact on Housing Association spending of £1.4 billion extra capital grant from central government to fund 40,000 new homes, and introducing tenure flexibility across the Affordable Homes Programme.

[3] Figures show PSGI impact of policies only, and do not include funding for the Digital Infrastructure Investment Fund.

[4] Capital budgets have not yet been set for 2021-22. Allocation of the £7 billion will be made in due course alongside wider capital budgets.

Source: HM Treasury.

Housing
The government will publish a Housing White Paper shortly, setting out a comprehensive package of reform to increase housing supply and halt the decline in housing affordability. In the Autumn Statement the Chancellor announced a £2.3bn Housing Infrastructure Fund to build 100,000 new houses in areas of high demand. Funded by a new National Productivity Investment Fund (NPIF) and allocated to local government on a competitive basis it is intended to "provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest"
Affordable homes – the government will relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership, to meet the housing needs of people in different circumstances and at different stages of their lives. The NPIF will provide an additional £1.4 billion to deliver an additional 40,000 housing starts by 2020-21. Affordable housing settlement - The government confirmed the GLA's affordable housing settlement will be £3.15 billion, to deliver over 90,000 housing starts by 2020-21.
Right to Buy – The government will fund a large-scale regional pilot of the Right to Buy for housing association tenants. Over 3,000 tenants will be able to buy their own home with Right to Buy discounts under the pilot.

Business Rates
- The Government's preferred option for the Transitional Relief scheme has been confirmed – with the cap for large businesses being reduced from 45% to 42% in 2017-18 and from 50% to 32% in 2018-19. This benefits London businesses by £46 million in 2017-18 and £33 million in 2018-19 (against aggregate increases of around £1.1 billion a year).
- 100% relief announced for new full-fibre infrastructure for a 5 year period from 1 April 2017.
- Rural rate relief will double to 100% from 1 April 2017.
- Government reconfirmed the Business tax road map – including reducing business rates by £6.7 billion over the next 5 years (previously announced at Budget 2016).

Public Spending and Welfare
The Government remains committed to delivering overall spending plans set at Spending Review 2015. All new announcements in the Autumn Statement, apart from the NPIF, are fully funded. The government intends to deliver the welfare savings already identified but has no plans to introduce further welfare savings measures in this Parliament beyond those already announced.
Universal Credit taper –From April 2017, the taper rate that applies in Universal Credit will be reduced from 65% to 63%. The Government estimates that 3 million households will benefit from this change.
Local Housing Allowance (LHA) rates in social housing
The implementation of the cap on Housing Benefit and LHA rates in the social rented sector will be delayed by 1 year, to April 2019. The cap will be applied to all supported housing tenancies from April 2019, and the government will provide additional funding to Local Authorities, so that they can meet the additional costs of supported housing in their area. For general needs housing, the cap will now apply from April 2019 for all tenants on Universal Credit, and to Housing Benefit tenants whose tenancies began or were renewed since April 2016.

Employment
National Living Wage and National Minimum Wage rates – Following the recommendations of the independent Low Pay Commission, the Government will increase the National Living Wage (NLW) by 4.2% from £7.20 to £7.50 from April 2017. This is estimated to mean a pay rise for over a million workers.
Off-payroll working rules – the Government confirmed it will reform the offpayroll working rules in the public sector from April 2017 by moving responsibility for operating them, and paying the correct tax, to the body paying the worker's company. The 5% tax-free

allowance will be removed for those working in the public sector, reflecting the fact that workers no longer bear the administrative burden of deciding whether the rules apply.

Local infrastructure
The Government will award £1.8 billion to Local Enterprise Partnerships (LEPs) across England and £492 million of this will go to London and the south east. Awards to individual LEPs will be announced in the coming months. This funding of local infrastructure will improve transport connections, unlock house building, boost skills, and enhance digital connectivity. The government will also consult on lending local authorities up to £1 billion at a new local infrastructure rate of gilts + 60 basis points for three years to support infrastructure projects that are high value for money.

Flood defence and resilience
The government will invest £170 million in flood defence and resilience measures. £20 million of this investment will be for new flood defence schemes, £50 million for rail resilience projects and £100 million to improve the resilience of roads to flooding.

English devolution
The Government will transfer to London, and to Greater Manchester, the budget for the Work and Health Programme, subject to the two areas meeting certain conditions, including on co-funding. The government has also confirmed the Greater London Authority's (GLA) affordable housing settlement, under which the GLA will receive £3.15 billion to deliver over 90,000 housing starts by 2020-21, and will devolve the adult education budget to London from 2019-20 (subject to readiness conditions). The government will continue to work with London to explore further devolution of powers over the coming months.

Potential Impact on Local Government Funding
In their summation of the Autumn Statement , London Councils concluded that "It is not expected that the policy changes announced will impact on local government funding. The final 2016-17 Local Government finance settlement set out four year funding allocations for local government in February. The £3.5 billion of additional public spending reductions from the "departmental efficiency review" announced in the Spending Review will report in 2018. The government has indicated that £1 billion of this will be reinvested to support "priority areas", but this will not impact on local government funding.

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Three Year budget forecast- ASC

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	NOTES
MTFS Budget Allocation (net)	48,034	46,289	44,550	45,680	
Overspend B/fwd- Placements		6,607	8,045	8,297	
Overspend B/fwd- Income		1,300	1,300	1,300	
Client Income		-	-	-	No change assumed
BCF income		-	*1,400*	*3,060*	BCF as per draft finance settlement
MTFS Budget adjusted	**48,034**	**54,196**	**55,295**	**58,337**	
Total Forecasted Expenditure					
Outturn Forecasted for each Financial year (net)- P7	56,159	54,196	55,634	55,547	
Additional Estimated In year Costs:-					
Staffing	-	-	-	-	Assumes 1% as per budget
Provider inflation(all provisions)	-	*401*	*532*	*518*	Assumes 4.2% NLW and 1% other provider costs inflation
Res & Nursing OP activity	-	*0*	*0*	*0*	No change projected based on plateauing of downward trend
Transition PD/LD/MH activity	-	*471*	*471*	*471*	Transitions based on 5 year ave
Home Care activity growth	-	*359*	*359*	*359*	Assumes 4.9% growth (5 year average)
Deprivation of Liberties	*-33*	-	-	-	Improvement in DoLs spend at P8
Other care/support activity	-	-	-	-	No change projected (savings shown below)
Savings	*226*	-1,539	-1,449	*-1,449*	Assumes P6 16/17 position then 70%
Forecast outturn (net)	**56,352**	**53,889**	**55,547**	**55,446**	
Forecasted overspend- Placements	**-6,607**	**-8,045**	**-252**	**2,891**	
Forecasted over spend-Income	**-1,300**	**-1,300**	**0**	**0**	
Sub-Total Forecasted Overspend	**-7,907**	**-9,345**	**-252**	**2,891**	
Growth-Placements (recommended)	-	8,045	252	-2,891	
Growth-Income (recommended)	-	1,300	-	-	
Total Forecasted Overspend	**-8,318**	**0**	**-0**	**0**	

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CABINET

Date: 16 January 2017

Subject: Draft Business Plan 2017-21

Lead officer: Caroline Holland – Director of Corporate Services

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

Urgent report:
Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2017/18 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2017-2021. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 1 March 2017 and set a Council Tax as appropriate for 2017/18.

Recommendations:

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1. That Cabinet notes the financial information arising from the Provisional Settlement 2017/18 and that the financial implications will be incorporated into the draft MTFS 2017-21 and draft capital programme 2017-21.
2. That Cabinet notes the latest update of the draft MTFS for 2017 – 21

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

1.1 This report provides an update to Cabinet on the Business Planning process for 2017-21 and in particular on the current position relating to the revenue budget for 2017/18, and the draft MTFS 2017-21.

1.2 It also sets out the latest information and analysis of the Local Government Finance Settlement 2017/18 which was published on 15 December 2016 and summarises the implications for Merton's budget and MTFS.

2. DETAILS

2.1 **Introduction**

2.1.1 The report provides a general update on all the latest information relating to the Business Planning process for 2017-21, including the Provisional Local Government Settlement 2017/18.

2.1.2 A review of assumptions in the MTFS was undertaken and reported to Cabinet on 12 December 2016. On 28 December 2016 a savings proposals consultation pack of all details previously presented to Cabinet at its meetings was sent to all Members. This can be brought to all Scrutiny and Cabinet meetings from 10 January 2017 onwards and to Budget Council. This is the same procedure as last year which was an improvement for both councillors and officers – more cost effective and more manageable for councillors since it will ensure that only one version of those documents is available so referring to page numbers at meetings will be easier. It will considerably reduce printing costs and reduce the amount of printing that needs to take place immediately prior to Budget Council.

The pack includes:

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

2.1.3 The total draft amendments to previously agreed savings, new savings proposals and new growth proposals agreed by Cabinet previously and the remaining gap on the MTFS as reported to Cabinet on 12 December 2016 is summarised in the following table:-

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Amendment to Savings previously agreed	541	(297)	(451)	0
New Savings proposals	0	0	(2,066)	0
New Growth Proposals	11,927	974	(2,506)	500
Net (Savings)/Growth	12,468	677	(5,023)	500
Cumulative Net (Savings)/Growth	12,468	13,145	8,122	8,622
Gap remaining (cumulative)	1,616	14,325	15,107	21,450

2.2 LOCAL GOVERNMENT FINANCE SETTLEMENT 2017/18

2.2.1 Details of the provisional Local Government Settlement were published on 15 December 2016.

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

2.2.3 The provisional Settlement outlined provisional core funding allocations (Settlement Funding Assessment (SFA) for local authorities for the three year period 2017-18 to 2019-20. It confirmed the Four year funding offer to local authorities that had accepted the offer and published an Efficiency Plan.

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

	2016/17 Adjusted	2017/18	2018/19	2019/20	Real terms change '16/17 to '19/20
Merton (£m)	55.5	48.5	44.7	41.0	
Annual % Change	-	-12.5%	-7.9%	-8.4%	
Cumulative % change	-	-12.5%	-19.4%	-26.2%	-30.3%
England (£m)	18,601.5	16,632.4	15,598.8	14,584.3	
Annual % Change	-	-10.6%	-6.2%	-6.5%	
Cumulative % change	-	-10.6%	-16.1%	-21.6%	-25.7%
London Boroughs (£m)	3,398.5	3,078.3	2,905.6	2,732.7	
Annual % Change	-	-9.4%	-5.6%	-6.0%	
Cumulative % change	-	-9.4%	-14.5%	-19.6%	-23.8%

2.2.5 Core Spending Power

The only change to the definition of Core Spending Power in 2017/18 is the addition of a new Adult Social Care Support Grant in 2017-18.

The table below shows the breakdown of 'Core Spending Power' by funding element Merton's. This is the Government's calculation and the Council Tax figures assume growth in the Council Tax Base at the average annual growth between 2013-14 and 2016-17 throughout the period to 2019-20. It also assumes that Council Tax Band D will increase in line with the 2% referendum limit for each year up to 2019-20. In addition, the Government assume potential additional council tax will be available from Adult Social Care flexibility. For 2016-17 this is based on actual take up (i.e. 0% for Merton) but 2% for years 2017-18 to 2019-20 is assumed.

At the England level across the four years, spending power will increase by £1.1billion from £43.6 billion to £44.7 billion (2.6% cash increase). Within this, SFA will reduce by £4.0 billion (22%) and New Homes Bonus (NHB) by £0.6 billion (39%), which is largely offset by the government's estimate of council tax increasing by £4.4 billion (19%). For Merton, the analysis is:-

	Baseline	**Provisional**	**Illustrative**	**Illustrative**	**Change (16-17 to 19/20**	
	2016-17	**2017-18**	**2018/19**	**2019/20**	**£m**	**%**
Council Tax						
- Council Tax Requirement	78.920	82.203	85.622	89.184	10.264	13.01
- Assumed revenue from ASC precept	0.000	1.612	3.391	5.350	5.350	N/A
Sub-total: Council Tax	**78.920**	**83.815**	**89.013**	**94.534**	**15.614**	**19.78**
Settlement Funding Assessment						
Baseline Funding (NNDR)	32.911	33.582	34.663	35.896	2.985	9.07
Revenue Support Grant	22.589	14.963	10.071	5.076	(17.513)	(77.53)
Sub-total: SFA	**55.500**	**48.545**	**44.734**	**40.972**	**(14.528)**	**(26.17)**
Improved Better Care Fund	0.000	0.000	1.408	3.061	3.061	N/A
New Homes Bonus	4.734	4.150	3.110	2.984	(1.750)	(36.97)
Transition Grant	0.567	0.557	0.000	0.000	(0.567)	(100.00)
The 2017-18 Adult Social Care Support Grant	0.000	0.751	0.000	0.000	0.000	0.000
Core Spending Power	**139.721**	**137.817**	**138.265**	**141.551**	**1.830**	**1.310**
Change over Spending Review period (i.e. 2015/16 to 2019/20)					**(4.222)**	**(2.90)**

2.2.6 With respect to estimates of Business Rates, the NNDR (Baseline Funding) figures in the Core Spending calculation in the Settlement are derived from the 2013/14 baseline figure and uprated by the September change in RPI. Merton will remain a top-up authority, as are the majority of other London Boroughs, although this position has changed for some London boroughs. This means that on top of its 30% share of the Business Rates yield, Merton receives a top-up payment to bring it up to the Baseline funding level. The top-up is also increased in line with the small business non-domestic rating multiplier each year and this was originally planned to continue until the Business Rates system is reset in 2020 but the Government have now indicated that they propose to use them to adjust for new burdens, and changes in needs assessments and changes arising from revaluation.

The figures in the Settlement for Merton are:-

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Rates Baseline	24.8	25.0	24.5	25.3	26.2
Top-Up	7.8	7.9	9.1	9.4	9.7
Baseline Funding	32.6	32.9	33.6	34.7	35.9

This can be a bit misleading when assessing the resources available to the authority because the funding for Business Rates is based on the forecast included in the Council’s NNDR1 return (which is required to be submitted by 31 January 2017).

This can be seen by reference to the Council’s share of Business Rates based on the NNDR1 returns over the past three years since Business Rates Retention began

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
NNDR1 Share (30%)	24.5	25.6	25.8	26.3
Top-Up	7.5	7.7	7.8	7.9
Section 31 payments	0	1.1	1.2	0.8
Total Business Rates inc. in Budget	32.0	34.4	34.8	35.0

Therefore, projections of the Council’s share of Business Rates funding over the next four years are starting from a higher level than the Baseline Funding projections in the Provisional Settlement.

Business Rates	2017/18 £'000	2018/19 £'000	2019/20 £'000
Forecast included in Settlement	(24,500)	(25,288)	(26,188)
Forecast in MTFS based on NNDR1	(26,785)	(27,253)	(28,134)
Additional NNDR assumed in MTFS	(2,285)	(1,965)	(1,946)

2.2.7 Over the MTFS period, a high level of uncertainty will remain with respect to the NNDR projections due to the effects of the revaluation and the move to

100% rates retention. The figures included in the MTFS will be reviewed once the NNDR1 for 2017/18, which is due to be returned to the DCLG on 31 January, has been completed and Members will be updated in the report to Cabinet in January or February 2017. The later years projections also do not take into consideration any impact of Crossrail 2 at this stage.

2.2.8 Special and specific grants

The provisional settlement provided details of a number of special and specific grants (included within the Core Spending Power calculation): the Improved Better Care Fund; New Homes Bonus ; Rural Services Delivery Grant (not applicable to Merton), Transition Grant; and 2017-18 Adult Social Care Support Grant.

Improved Better Care Fund

There is no change to the figures set out in the 2016-17 Settlement. The allocations take into account Council's ability to raise Social Care precept and the allocation methodology, through a separate grant to local government, benefits those councils who benefit less from the additional council tax flexibility for social care. However, the settlement does not confirm how the new flexibility to raise the Social Care Precept will impact the calculation of future year's Improved Better Care Fund allocations. The core spending power projections for this grant assume the original 2% for the social care precept each year to determine allocations.

Improved Better Care Fund	**2017-18 £m**	**2018-19 £m**	**2019-20 £m**	**Total £m**
Merton	-	1.408	3.061	4.469

New Homes Bonus

The Government has confirmed that it will implement its proposal to reduce future allocations to Councils from 6 years to 5 years in 2017/18 and then to 4 years from 2018/19. The Government has decided to introduce an initial baseline of 0.4% below which the bonus will not be paid to "focus on local authorities demonstrating a stronger than average commitment to growth." The 0.4% baseline is expected to reduce the income of councils in receipt of the New Homes Bonus by £241 million in 2017/18 in comparison to indicative figures released in February 2016. This money will be used to fund the Social Care Support Grant. The Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth.

The Government has decided to delay implementing proposals to withhold payments for areas without a local plan in 2017-18. However, it will revisit the case for withholding New Homes Bonus from 2018-19 from local authorities that are deemed not to be planning effectively, making positive decisions on planning applications and delivering housing growth. To encourage more effective local planning the Government will also consider withholding payments for homes that are built following an appeal.

New Homes Bonus	2017-18 £m	2018-19 £m	2019-20 £m	Total £m
Merton	4.150	3.110	2.984	10.244

<u>Transition Grant</u>
Transition Grant was announced in the final 2016/17 Settlement and is being provided to authorities to ease the change from a system based on central government grant to one in which local sources determine a council's revenue. The 2016/17 local government finance settlement allocated Revenue Support Grant by looking at the main resources available to councils, ensuring that councils delivering the same set of services receive the same percentage change in funding for those sets of services. As a result of this change, authorities with relatively more income from council tax and business rates received less revenue support grant in total. The transition grant compensates authorities who are estimated to have lost out.

Transition Grant	2017-18 £m	2018-19 £m	2019-20 £m	Total £m
Merton	0.557	0.000	0.000	0.557

<u>2017-18 Adult Social Care Support Grant</u>
This is a one-off grant that distributes the £241.1 million New Homes Bonus "0.4% Baseline cut off" in proportion to the adult social care relative needs formula from 2013-14 so that all authorities with responsibility for social care receive a share of this funding. Merton's share of the national total is £0.751m.

2017-18 Adult Social Care Support Grant	2017-18 £m	2018-19 £m	2019-20 £m	Total £m
Merton	0.751	0.000	0.000	0.751

2.2.9 **School Funding Announcement 2017/18**

The School Revenue Funding Settlement: 2016 to 2017 was published on 20 December 2016, confirming details of the Dedicated Schools Grant (DSG), Education Services Grant (ESG) and pupil premium.

	Education DSG 2017-18	ESG 2017-18
Merton (£m)	163.1	0.696

The Education Services Grant has reduced from £2.360m in 2016/17 to £0.696m in 2017/18, a reduction of £1.664m (71%).

It was previously reported to Cabinet that in the Spending Review 2015, the Government announced a national reduction in Education Services Grant

(ESG) and that the General Funding Rate will be abolished completely from 2017/18. Merton's ESG reduced by £0.234m from £2.594m in 2015/16 to £2.360m in 2016/17 and the further 71% cut in 2017/18 is a significant loss of grant. As reported, the general funding rate will not be replaced by an alternative – the intention from DfE seems to be to rely on local authorities to top-slice DSG for central functions to cover the funding gap, which for Merton is already fully allocated, and could therefore impact on the General Fund if alternatives cannot be found.

On 14th December 2016, the Department for Education published the second round of its consultation into school funding reform. Alongside confirmation of the factors and weightings that will be included in a new national funding formula for schools and high needs from 2018/19, illustrative allocations were published at a local authority level and individual school level. More detailed analysis of the figures and the implications for Merton is currently being undertaken and will be reported to the February Cabinet.

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

3. Public Health Grant 2017/18

3.1 Alongside the settlement on 18 December 2016, the government published the Public Health Grant allocations for 2017-18. These have not changed from the indicative figures published at last year's settlement for 2017-18. The England total is £3.3 billion (down by 7.6% from £3.4 billion in 2016-17), and London boroughs will receive £665 million (also down by 7.6% from £682 million).

Public Health Grant	**2017-18 £m**	**2018-19 £m**	**2019-20 £m**	**Total £m**
Merton	10.727	0.000	0.000	10.727

The Autumn Statement 2016 confirmed that local authorities funding for public health would be reduced by an average of 3.9% in real terms per annum over the five years to 2020. This equates to 9.6% in cash terms over the same period. The grant in 2017/18 will be ring-fenced for use on public health functions exclusively for all ages.

4. Council Tax Increases and Adult Social Care Precept

4.1 The Provisional Local Government Finance Settlement 2017/18 contains the following principles which will determine whether local authorities have to have a referendum in order to increase their council tax precepts by more than the Government guidelines set:-

- A core principle of a 2% Council Tax limit for that element of the authority's Council Tax increase that will not be hypothecated for Adult Social Care

- An increase to the flexibility offered on the use of the Adult Social Care Precept. In recognition of the particular pressures on adult social care services, especially in the next two years, social care authorities will now be able to introduce the rise sooner. They will have the ability to increase by up to 3% in 2017/18 or 2018/19 but still cannot exceed 6% in total over the three year period.
- To ensure that Councils are using income from the precept for adult social care, Councils will be required to publish a description of their plans, including changing levels of spend on adult social care and other services. This must be signed off by the Chief Financial Officer (Section 151 officer).
- Councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017/18 must also show how they plan to use this extra money to improve social care.
- The Department for Communities and Local Government will be writing to adult social care authorities in the near future with further details on the conditions of the scheme.

5. GLA PRECEPT

5.1 On 21 December 2016, the Mayor of London published his draft revenue budget and capital spending plan for 2017-18 for consultation. This includes his draft budget proposals for the GLA (Mayor and Assembly), the Mayor's Office for Policing and Crime (MOPAC), the London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL), the London Legacy Development Corporation (LLDC) and the new Old Oak and Park Royal Development Corporation (OPDC).

5.2 The consultation budget proposes an increase in the Mayor's Band D council tax precept of £4.02 (1.5 percent) from £276.00 to £280.02 in 2017-18 for council taxpayers in the 32 London boroughs.

5.3 The Mayor’s draft budget is expected to be considered by the London Assembly on 25 January 2017. The final draft budget is scheduled to be published by 10 February 2017 and will be considered by the Assembly on Monday 22 February 2017 following which the Mayor will confirm formally the final precept and GLA group budget for 2017-18.

6. DRAFT CAPITAL PROGRAMME

6.1 There will be an update to the Capital Programme 2017-21 along with the Treasury Management Strategy in February 2017. A draft Treasury Management Strategy is attached as Appendix 2.

7. GENERAL FUND BALANCES AND RESERVES

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

These include:

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

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

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

(d) to meet unforeseen events

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

7.3 Merton's reserves and balances as at 31 March 2016 and forecast for 2016/17 are summarised in the following table:-

*based on Month 8 monitoring	Balance at 31/03 2016	Forecast balance at 31/03/17*
	£000	£000
Balances held by schools	10,504	10,504
General Fund balances	15,151	12,520
Earmarked Reserves	41,690	36,239
Total	67,345	59,263

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

8. **SUMMARY**

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

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Gap remaining (cumulative)	1,114	13,134	13,827	20,753

9. CONSULTATION UNDERTAKEN OR PROPOSED

9.1 There will be extensive consultation as the business plan process develops. This will include the Overview and Scrutiny panels and Commission, the Financial Monitoring Task Group, business ratepayers and all other relevant parties. The consultation meeting with Business Ratepayers is arranged for 7 February 2017.

9.2 Feedback on scrutiny of the Business Plan proposals will be provided by the Overview and Scrutiny Commission on 26 January 2017.

10. TIMETABLE

10.1 The business planning timetable for 2017/18 has been reported to and agreed by Cabinet previously.

11. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

11.1 All relevant implications have been addressed in the report.

12. LEGAL AND STATUTORY IMPLICATIONS

12.1 All relevant implications have been addressed in the report.

13. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

13.1 Not applicable

14. CRIME AND DISORDER IMPLICATIONS

14.1 Not applicable

15. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

15.1 Not applicable

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

Appendix 1	**Medium Term Financial Strategy - Update**
Appendix 2	**Draft Treasury Management Strategy**

BACKGROUND PAPERS
Budget files held in the Corporate Services department.

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DRAFT MTFS 2017-21:				
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Departmental Base Budget 2016/17	**139,982**	**139,982**	**139,982**	**139,982**
Inflation (Pay, Prices)	3,184	6,368	9,553	12,737
Autoenrolment/Nat. ins changes	857	1,172	1,172	1,172
FYE – Previous Years Savings	(9,429)	(15,173)	(15,173)	(15,173)
Amendments to previously agreed savings	541	244	(207)	(207)
Change in Net Appropriations to/(from) Reserves	(1,158)	(2,278)	(2,013)	(1,871)
Taxi card/Concessionary Fares	450	901	1,351	1,801
Change in depreciation/Impairment (Contra Other Corporate items)	4,681	4,681	4,681	4,681
Growth	11,927	12,901	10,395	10,895
Other	443	504	570	635
Re-Priced Departmental Budget	**151,478**	**149,303**	**150,310**	**154,651**
Treasury/Capital financing	12,543	11,146	12,403	12,699
Pensions	4,592	4,799	5,015	5,015
Other Corporate items	(18,223)	(17,864)	(18,206)	(18,190)
Levies	628	628	628	628
Sub-total: Corporate provisions	**(460)**	**(1,291)**	**(160)**	**152**
Sub-total: Repriced Departmental Budget + Corporate Provisions	**151,018**	**148,012**	**150,150**	**154,803**
Savings/Income Proposals 2017/18	0	0	(2,066)	(2,066)
Sub-total	**151,018**	**148,012**	**148,084**	**152,737**
Appropriation to/from departmental reserves	(843)	277	12	(130)
Appropriation to/from Balancing the Budget Reserve	(8,259)	0	0	0
BUDGET REQUIREMENT	**141,916**	**148,288**	**148,097**	**152,608**
Funded by:				
Revenue Support Grant	(15,520)	(10,071)	(5,076)	0
Business Rates (inc. Section 31 grant)	(35,211)	(36,628)	(37,438)	(37,625)
Adult Social Care Support Grant 2017/18	(751)	0	0	0
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(4,150)	(3,110)	(2,984)	(2,000)
Council Tax inc. WPCC	(80,150)	(80,549)	(83,974)	(87,432)
Collection Fund – (Surplus)/Deficit	(224)	0	0	0
TOTAL FUNDING	**(140,803)**	**(135,155)**	**(134,269)**	**(131,855)**
GAP including Use of Reserves (Cumulative)	**1,114**	**13,134**	**13,827**	**20,753**

Potential Loss of Better Care Funding	2,100	2,100		

LONDON BOROUGH OF MERTON
TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION

1.1 Background

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

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

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

a) To set the Council's Prudential Indicators for 2017/18 to 2019/20
b) Approve the Minimum Revenue Provision (MRP) policy for 2017/18; and
c) To agree the Treasury Management Strategy for 2017/18. This will include the annual investment strategy, containing the parameters of how the investments are to be managed.

1.2 Statutory Requirement

The Local Government Act 2003 (the Act) as amended and supporting regulations, require the Council to 'have regard to'

(a) such guidance as the Secretary of State may issue; and
(b) such other guidance as the Secretary of State may by regulations specify for the purposes of this provision

http://www.legislation.gov.uk/ukpga/2003/26/section/15

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

1.3 Balanced Budget Requirement

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

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

1.4 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital Issues

- To determine the Council's capital plans and prudential indicators for 2017/18 to 2019/20;
- To approve the Minimum Revenue Provision (MRP) policy for 2017/18.

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

Treasury Management Issues

- To agree the Council's treasury management strategy for 2017/18
  - current treasury position as at 30 November 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 30 November 2016.

Year End Resources	2015/16 Actual £'000	30 November 2016 Actual £'000	31 March 2016/17 Estimate £'000	31 March 2017/18 Estimate £'000
Investments	85,400	107,200	79,600	72,200
Interest on investments	1,140	451	797	607
Borrowing Long-term Borrowing Short-term Borrowing	116,976	116,976	116,976	113,010
Total External Debt	**116,976**	**116,976**	**116,976**	**113,010**
Interest on External Debt Long-term Short-term	6,686 1	6,702 1	6,702	6,315
Total Interest on External Debt	**6,687**	**6,703**	**6,702**	**6,315**

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

3. CAPITAL PRUDENTIAL INDICATORS 2017/18 - 2020/21

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

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

3.1 Capital Expenditure

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

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

Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Children Schools & Families	14,348	13,396	12,920	12,116	6,236	650
Community & Housing	1,355	1,951	1,334	629	280	630
Corporate Services	2,466	8,975	6,821	3,712	2,480	2,135
Environment & Regeneration	10,910	14,143	18,466	16,748	7,080	5,017
	-	-	-	-	-	-
Total	**29,079**	**38,465**	**39,541**	**33,205**	**16,076**	**8,432**

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 30 November 2016.

Capital Expenditure	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital Expenditure	**29,079**	**38,465**	**39,541**	**33,205**	**16,076**	**8,432**
Slippage*	-	-6,698	843	1,704	597	102
Leasing Budgets in Programme after Slippage		-223	-125	-45	-572	-29
Total Capital Expenditure	29,079	31,544	40,259	34,864	16,101	8,505
Financed by:						
Capital Receipts	9,082	14,105	19,475	855	328	871
Capital Grants & Contributions	18,869	15,306	15,070	13,081	5,486	628
Capital Reserves	607	-	-	-	-	-
Revenue Provisions	429	2,061	5,482	1,537	4	0
Other Financing Sources	-	-	-	-	-	-
Net financing need for the year	**92**	**72**	**232**	**19,391**	**10,284**	**7,006**

*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 2017/18 is expected. Public Health capital projects are fully funded therefore have no CFR implications. The 2016/17 forecast movement in CFR shows a decrease of £8,638k because the expenditure to be funded from borrowing in 2016/17 is less than the amount of MRP charged in the year.
The current cashflow projection as at 30 November 2016 for 2016/17 year end is an estimated cash balance of £79.6m. The current forecast has been based on assumptions in the MTFS and capital programme spend forecast after slippage. The 2016/17 forecast £31.5m, 2017/18 £40.3m, and 2018/19 £34.9m are based on best estimates which may slip due to unforeseen circumstances and the nature of large projects and the level of grant income. Also, fees and charges for the Council may change. Based on current forecasts the earliest the Council may borrow is in 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 in the following table:

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital Financing Requirement						
CFR (non-housing)	198,616	189,978	181,644	192,997	193,274	190,553
Total CFR	**198,616**	**189,978**	**181,644**	**192,997**	**193,274**	**190,553**
Movement in CFR	**(9,210)**	**(8,638)**	**(8,334)**	**11,353**	**277**	**(2,721)**
Movement in CFR represented by						
Net financing need for the year (above)	92	72	232	19,931	10,284	7,006
Less Capital MRP/VRP	7,587	7,154	7,004	6,579	7,634	7,987
Less Other MRP/VRP (leasing, PFI)	1,118	916	876	724	1,585	897
Less Other MRP/VRP – PFI – Partial termination	597	640	686	735	788	844
Less Other financing movements • Adjustment of PFI Liability • Adjustment of MRP						
Movement in CFR	**(9,210)**	**(8,638)**	**(8,334)**	**11,353**	**277**	**(2,721)**

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

	2015/16 Actual £'000	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**
Net Revenue Financing Costs	19,575	16,833	17,105	16,303	19,021	18,155
Net Financing Stream	155,662	148,139	140,300	133,963	133,014	131,181
Ratio of Financing Costs to Net Revenue Stream (Non HRA)	12.58%	11.36%	12.19%	12.17%	14.30%	13.84%

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.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Incremental Change in Capital Financing Costs (£000)	3,020	-2,742	272	-802	2,719	-866
Council Tax Base	69,638	71,327	72,442	72,805	73,169	73,534
Incremental Impact on Council Tax - Band D* (£)**	**43.36**	**-38.44**	**3.76**	**-11.02**	**37.15**	**-11.78**
Council Tax - Band D (£)	1,106.56	1,106.45	1,106.45	1,106.45	1,125.81	1,145.51

***2015/16 is actual council tax amounts, 2016/17 are actual. However the Council tax base for future years is per the MTFS.

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
15 Year Asset	15
10 Year Asset	10
Computer software	5
Computer hardware	5
Large vehicles – e.g. buses, RCVs	7
Small vehicles – e.g. cars, vans	5
Other equipment e.g. CCTV	5

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

5. TREASURY MANAGEMENT STRATEGY

5.1 The Prospects for Interest Rates and Economic Forecasts

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 2017	0.25	1.60	2.30	2.90	2.70
June 2017	0.25	1.60	2.30	2.90	2.70
Sept 2017	0.25	1.60	2.30	2.90	2.70
Dec 2017	0.25	1.60	2.30	3.00	2.80
March 2018	0.25	1.70	2.30	3.00	2.80
June 2018	0.25	1.70	2.40	3.00	2.80
Sept 2018	0.25	1.70	2.40	3.10	2.90
Dec 2018	0.25	1.80	2.40	3.10	2.90
March 2019	0.25	1.80	2.50	3.20	3.00
June 2019	0.50	1.90	2.50	3.20	3.00
Sept 2019	0.50	1.90	2.60	3.30	3.10
Dec 2019	0.75	2.00	2.60	3.30	3.10
Mar 2020	0.75	2.00	2.70	3.40	3.20

Source: Capita Asset Services

The above forecasts reflect broad stimulus measures the Bank of England's Monetary Policy Committee (MPC) took following the vote for the UK to exit the EU (Brexit) at the Referendum on 23rd June 2016, including a cut in base rate from 0.50% to 0.25% on 4th August 2016. Since then, economic statistics suggest that the sharp fall in Sterling strengthened growth and raised inflation forecasts significantly.

During the two-year period (2017 – 2019) post triggering of Article 50, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects already adversely impacted by the uncertainties of Brexit. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as above, until Q2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.
The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.
The overall balance of risks to economic recovery in the UK remains to the downside.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that are highly correlated to geo-political, sovereign debt crisis and emerging market developments.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by central banks reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
  - US presidential election was held on 8th November 2016. Bank funding costs have risen since the US election and markets believe the policies of Mr Donald Trump, the President-elect, could push up interest rates;
  - Italian constitutional referendum was held on 4th December 2016 with the Prime Minister, Matteo Renzi resigning after his defeat sparking fears about the stability of the Italian banking system;
  - Spain has held two inconclusive general elections and is still unable to form a workable government with a coalition holding a majority of seats; the impasse could lead to a third general election – currently tentatively scheduled for 25th December 2016;
  - Dutch general election 15th March 2017;
  - French presidential election April/May 2017;
  - French National Assembly election June 2017;
  - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed funds rate increases and rising inflation expectations in the USA, pushing UK gilt yields upwards.
- The pace and timing of increases in the Fed funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

5.2 Borrowing Strategy

Current Borrowing Portfolio Position

The table below shows the CFR as at 30 November 2016 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 2016/17.

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
External Debt at 1 April	116,976	116,976	116,976	113,010	113,010	113,010
Expected change in Debt (repayment and new debt)****	0	0	(3,966)	0	0	0
Closing External Debt	**116,976**	**116,976**	**113,010**	**113,010**	**113,010**	**113,010**
PFI Balance b/f	19,524	18,664	17,959	17,164	16,480	14,926
In year movement	-860	-705	-795	-684	-1,554	-805
Closing Balance PFI	**18,664**	**17,959**	**17,164**	**16,480**	**14,926**	**14,121**
PFI Partial Termination Balance b/f	15,210	14,613	13,973	13,287	12,552	11,764
In year movement	-597	-640	-686	-735	-788	-844
Closing Balance Partial Termination PFI	**14,613**	**13,973**	**13,287**	**12,552**	**11,764**	**10,920**
TOTAL PFI	**33,277**	**31,932**	**30,451**	**29,032**	**26,690**	**25,041**
Finance Leases at 1 April	219	211	81	39	31	92
Expected Change in Finance Leases	-8	-130	-42	-8	60	42
Closing Balance Finance Leases	**211**	**81**	**39**	**31**	**92**	**134**
Salix Loan	**44**	**34**	**25**	**15**	**5**	**0**
Salix in year movement	**-10**	**-10**	**-10**	**-10**	**-5**	**0**
Closing Balance Salix	**34**	**25**	**15**	**5**	**0**	**0**
Actual gross debt at 31 March	**150,498**	**149,014**	**143,515**	**142,078**	**139,792**	**138,185**
Capital Financing Requirement	**198,616**	**189,978**	**181,644**	**192,997**	**193,274**	**190,553**
(Under)/over borrowing	**-48,118**	**-40,964**	**-38,131**	**-50,919**	**-53,482**	**-52,368**

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

The table above shows the CFR forecast for 2016/17 to 2020/21. 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, 2019/20 and 2020/21 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.

Borrowing interest rates have been on a downward trend since 2016. 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. The policy of avoiding new borrowing by using spare cash balances, has served well over the last few years. However, this needs to be reviewed carefully to avoid incurring higher borrowing costs in future when the Council will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.

Council's Year End Balance Sheet Position at 31 March 2016

	2014/15 £'000	2015/16 £'000	Change £'000
CFR	207,826	198,616	9,210
PFI and LEASES	**-35,553**	**-34,123**	**-1,430**
Underlying Borrowing Requirement	**172,273**	**164,493**	**7,780**
External Borrowing	116,676	116,976	300
Under borrowing / Internal borrowing to date	-55,597	-47,517	-8,080

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 2017/18 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 2016 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 0.25% with rates not expected to rise to 0.75% before Q4 2019.

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

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

Treasury Risk Analysis - Debt

Whilst it is not mandatory for Local Authorities to adopt the CIPFA Risk Toolkit produced by CIPFA's Treasury Management Panel, the Council will continue to utilise and adopt the risk tool kit and participate in the risk study in 2017/18 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	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
External Debt	116,976	116,976	113,010	113,010	113,010	113,010
Other Long-term Liabilities	34,123	32,013	30,490	29,063	26,782	25,175
Operational Boundary	151,099	148,989	143,500	142,073	139,792	138,185

Authorised Limit for External Borrowing

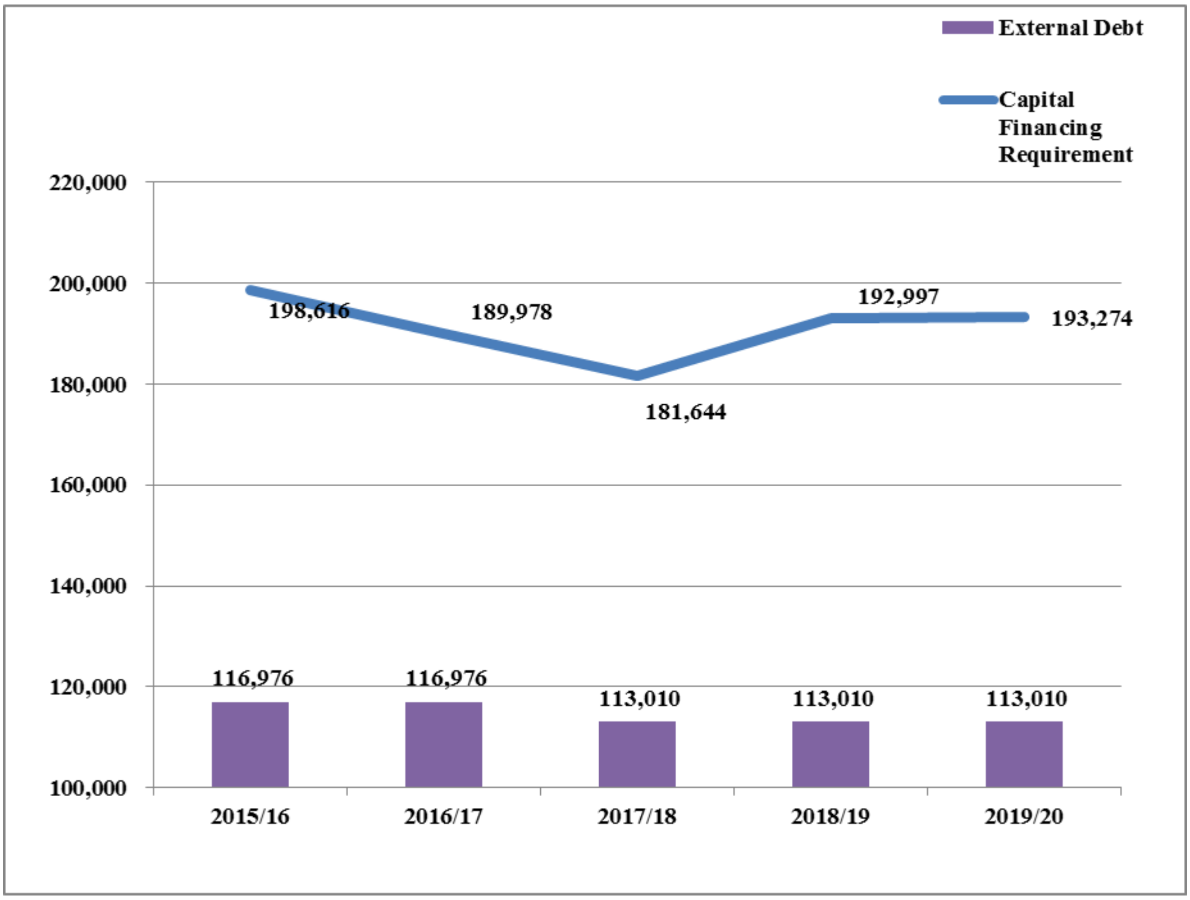
This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents a limit beyond which external borrowing must not go over in the 3 years, and this limit when set is to be revised annually by Council. It reflects the level of external borrowing which, while not 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:

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
External Debt	151,099	148,989	143,500	142,073	139,792	138,185
Other Long-term Liabilities	60,000	70,000	80,000	80,000	80,000	80,000
Authorised Limit	**211,099**	**218,989**	**223,500**	**222,073**	**219,792**	**218,185**

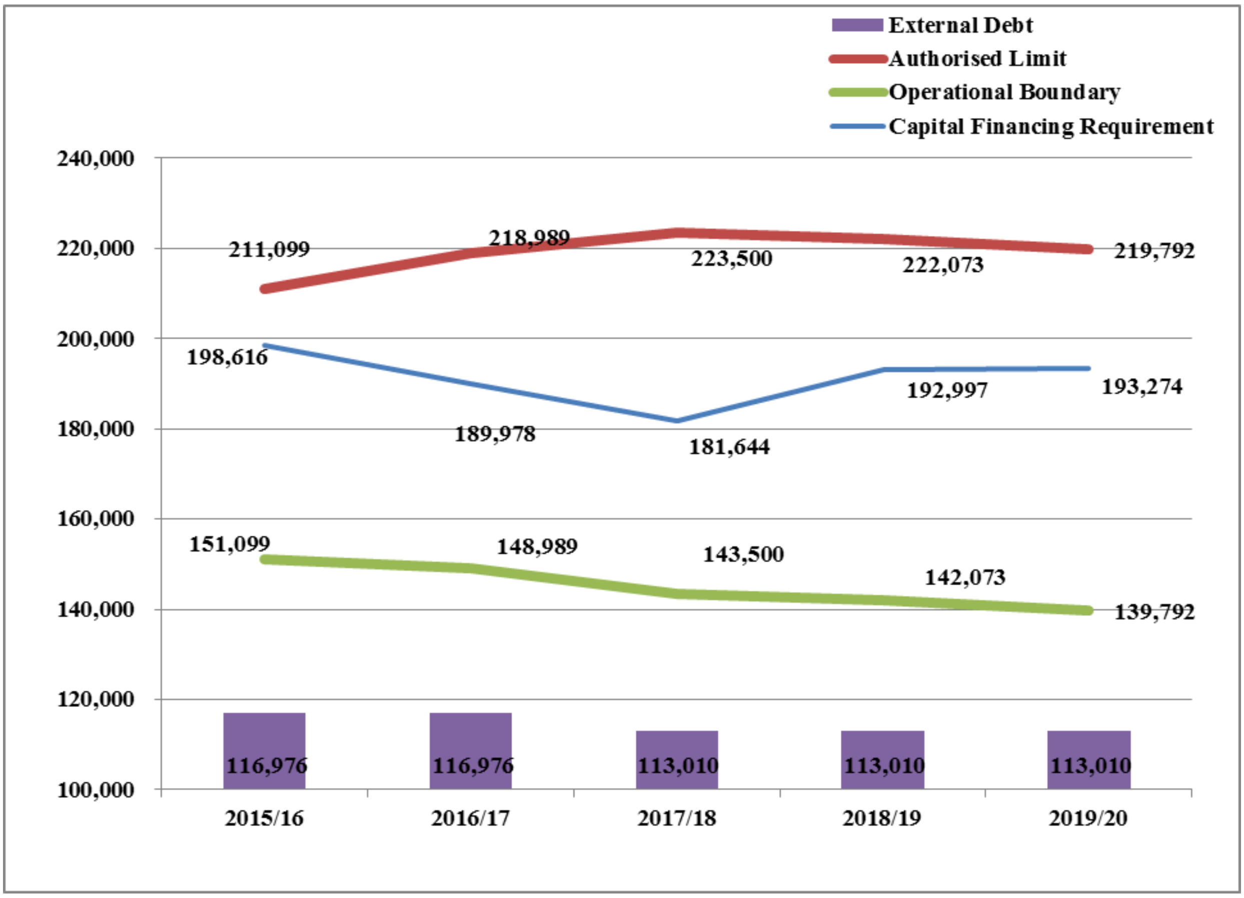
Members are required to note that these authorised limits shows the gross maximum borrowing for the year and, in year regulatory accounting changes which may affect the level of debt in the balance sheet as well as allow for any potential overdraft position and short-term borrowing for cashflow purposes. 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.

The following graph shows projection of the CFR and borrowing.



Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council should ensure that its gross debt does not (except in the short term) exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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



5.4 Treasury Management Limits on Activity

The table below shows the debt related treasury activity limits.

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

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

The table below shows the fixed and variable interest rate exposure

	2016/17	2017/18	2018/19	2019/20	2020/21
Interest Rate Exposures	**Upper Estimate**	**Upper Estimate**	**Upper Estimate**	**Upper Estimate**	**Upper Estimate**
Upper limit for fixed interest rates based on net debt	100%	100%	100%	100%	100%
Upper limit for variable interest rates based on net debt	50%	50%	50%	50%	50%
Limits on fixed interest rates:					
• **Debt only**	100%	100%	100%	100%	100%
• **Investments only**	100%	100%	100%	100%	100%
Limits on variable interest rates					
• **Debt only**	50%	50%	50%	50%	50%
• **Investments only**	50%	50%	50%	50%	50%

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

	Maturity Structure of fixed interest rate borrowing 2017/18				Maturity Structure of variable interest rate borrowing 2017/18		
	Actual at 30/11/2016	**Lower**	**Upper**		**Actual 30/11/2016**	**Lower**	**Upper**
Under 12 months	3.39%	0%	60%		0%	0%	50%
12 months to 2 years	0%	0%	60%		0%	0%	50%
2 years to 5 years	3.42%	0%	60%		0%	0%	50%
5 years to 10 years	22.66%	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

	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 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%	5.70%	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.

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
2017/18	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.
2018-19	No more than 50% of under borrowing requirement	
2019-20	No more than 50% of under borrowing requirement	
2020-21	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 following table shows the maturity profile of the Council’s current debt as at 30 November 2016.

Duration	£'000	% of Debt Portfolio
less than 1 year	3,966	3.39
1 - 2 years	0	0
2 - 5 years	4,000	3.42
5 -10 years	26,510	22.66
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**

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

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

The Council tests the markets for redemption opportunities should they exist. The PWLB loans portfolio was elected for the early redemption review as at 30 November 2016. A total loan value of £52m would incur redemption costs of £25million in addition to any accrued interest due.

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

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

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

5.7 Borrowing Options

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

5.8 Changes Which May Affect Treasury Management

- Future Regulatory Changes to Money Market Fund Valuation

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

- Proposed Changes to Leasing

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

- Municipal Bond Agency

It is 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.

- 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 0.25% till Q4 2019.
The forecast rates have been built on the basis that bank rate is expected to remain unchanged until around the fourth quarter of 2019, 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 2016 Actual £'m	**2016/17 Estimate £'m**	**2017/18 Estimate £'m**	**2018/19 Estimate £'m**	**2019/20 Estimate £'m**	**2020/21 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:
  - o The United Kingdom Government;
  - o 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:
  - o Bank overdraft - £1m
  - o 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.

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

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

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

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

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

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

7. Cashflow Management

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

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

7.2 Purchase and Corporate Credit Cards

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

8. Policy on the use of External Service Providers

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

The Council is also mindful of the requirements of the Bribery Act 2011 as amended in its dealings with external providers. A copy of the Council's policy can be found in the link below.

http://www.merton.gov.uk/democratic_services/w-agendas/w-nonexecreports/1115.pdf

9. Training

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

10. The Localism Act

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

11. Treasury Management Practices

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

12. Appendices

12.1 Appendix 1– Early Repayment of Debt Estimate

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

Appendix 3 – Approved Countries for Investment

Appendix 4 – The Treasury Management Role of the S151 Officer

Appendix 5 – Treasury Management Practices 2017/18

Appendix 6 – Prudential Indicators for 2016/17 to 2019/20

Appendix 7 – Glossary

13. Background Papers

- CIPFA Prudential Code for Capital Finance in Local Authorities 2013 Edition
- 2016/17 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 2017/21

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

PWLB loan Early Redemption Estimates at 30 November 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 30 Nov 2016 (£)	Premium/Discount (£)	Total Due (£)
1000484711	PWLB	31/10/2016	13/11/2000	24	31/10/2024	5,000,000	5.000	7.9	30/04/2017	0.97	20,547.95	1,532,107.50	6,552,655.45
1000484981	PWLB	31/10/2016	30/11/2000	24	31/10/2024	1,500,000	4.750	7.9	30/04/2017	0.97	5,856.16	431,119.08	1,936,975.24
1005489969	PWLB	20/11/2016	20/05/2005	30	20/05/2035	2,500,000	4.450	18.4	20/05/2017	1.85	3,047.95	1,013,124.14	3,516,172.09
1005490706	PWLB	21/11/2016	21/11/2005	26	21/11/2031	1,000,000	4.250	14.9	21/05/2017	1.69	1,047.95	337,449.67	1,338,497.62
1005490967	PWLB	25/07/2016	10/01/2006	50	25/07/2055	10,000,000	3.950	38.6	25/01/2017	1.74	138,520.55	6,199,143.25	16,337,663.80
1005490976	PWLB	25/07/2016	10/01/2006	50	25/07/2055	5,000,000	3.950	38.6	25/01/2017	1.74	69,260.27	3,099,571.62	8,168,831.89
1006491475	PWLB	28/10/2016	28/04/2006	45.5	28/10/2051	7,000,000	4.400	34.8	28/04/2017	1.81	27,846.58	4,676,574.39	11,704,420.97
1097480120	PWLB	30/09/2016	15/10/1997	25.5	31/03/2023	310,000	6.625	6.3	31/03/2017	0.72	3,432.29	113,120.87	426,553.16
1097480121	PWLB	30/09/2016	15/10/1997	26.5	31/03/2024	12,000,000	6.500	7.3	31/03/2017	0.89	130,356.16	4,768,440.63	16,898,796.79
1097480232	PWLB	30/09/2016	11/11/1997	26.5	31/03/2024	1,700,000	6.750	7.3	31/03/2017	0.89	19,177.40	705,632.88	2,424,810.28
1098480925	PWLB	31/10/2016	30/04/1998	26	30/04/2024	6,000,000	5.875	7.4	30/04/2017	0.89	28,972.60	2,142,364.86	8,171,337.46
						52,010,000					448,065.86	**25,018,648.89**	77,476,714.75

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

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

APPENDIX 3 – APPROVED COUNTRIES FOR INVESTMENTS (as at 30 November 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 2017/18

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 2016/17 TO 2019/20

PRUDENTIAL INDICATORS	2016/17 Probable Outturn £'000	2017/18 Forecast £'000	2018/19 Forecast £'000	2019/20 Forecast £'000
1. CAPITAL EXPENDITURE a) Capital Expenditure (includes expenditure funded by supported, unsupported borrowing and other sources) i) General Fund estimated as at 30/11/16 (Net of Leasing)	31,544	40,259	34,864	16,101
Total as at 30/11/16	**31,544**	**40,259**	**34,864**	**16,101**
b) In year Capital Financing Requirement (CFR) i) General Fund (Gross of MRP costs)	7,154	7,004	6,579	7,634
Total in year CFR	**7,154**	**7,004**	**6,579**	**7,634**
c) Capital Financing Requirement as at 31 March (Balance Sheet figures) i) General Fund (Net of MRP costs)	189,978	181,644	192,997	193,274
Total	**189,978**	**181,644**	**192,997**	**193,274**

2. AFFORDABILITY				
a) Ratio of Financing Costs to net Revenue Streams				
i) General Fund	11.36%	12.19%	12.17%	14.30%
b) General Fund Impact of Prudential (Unsupported) Borrowing on Band D Council Tax Levels (per annum)				
i) In year Increase	-£38.44	£3.76	-£11.02	£37.15
ii) Cumulative Increase (includes MRP costs)		-£34.68	-£45.7	-£8.55
3. LONG-TERM EXTERNAL DEBT				
a) Debt Brought Forward 1 April	116,976	113,010	113,010	113,010
Debt Carried Forward 31 March	116,976	113,010	113,010	113,010
Additional Borrowing	**0**	**(3,966)**	**0**	**0**
b) Operational Boundary for External Debt (Excludes Revenue Borrowing)				
i) Borrowing	148,989	143,500	142,073	139,792
ii) Other Long-term Liabilities	32,013	30,490	29,063	26,782
c) Total Operating Debt (Excludes Revenue Borrowing)	181,002	173,990	171,136	166,574
Add margin for cashflow contingency	37,987	49,510	50,937	53,218
Affordable Borrowing Limit (Includes Revenue Borrowing)	218,989	223,500	222,073	219,792
Authorised Limit for External Debt (Includes Revenue Borrowing)				
• Borrowing	148,989	143,500	142,073	139,792
• Other Long-term Liabilities	70,000	80,000	80,000	80,000

Authorised Borrowing Limit	**218,989**	**223,500**	**222,073**	**219,792**
4. TREASURY MANAGEMENT				
a) Borrowing Limit – Upper Limit for Fixed Interest Rate Exposure Expressed as: Net Principal re Fixed Rate Borrowing/Investments	218,989	223,500	222,073	219,792
b) Borrowing Limit – Upper Limit for Variable Interest Rate Exposure Expressed as a %: 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 2017/18		
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.

Agenda Item 7

Committee: Overview and Scrutiny Commission
Date: 26 January 2017
Wards: All
Subject: **Scrutiny of the Business Plan 2017-2021: comments and recommendations from the overview and scrutiny panels**
Lead officer: Julia Regan, Head of Democracy Services
Lead member: Councillor Peter Southgate, Chair of Overview & Scrutiny
Contact officer: Julia Regan; Julia.regan@merton.gov.uk; 020 8545 3864

Recommendations:

A That in determining its response to Cabinet on the business plan 2017-21, the Overview and Scrutiny Commission considers and takes into account the comments and recommendations made by the overview and scrutiny panels.

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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report sets out the comments and recommendations of each of the overview and scrutiny panels following consideration of the business plan. The Overview and Scrutiny Commission is recommended to take these into account when determining its response to Cabinet.

2. DETAILS

2.1 On 12 December 2016, Cabinet agreed to forward a draft business plan for consideration by scrutiny, including draft revenue savings proposals, draft service plans, draft equalities assessments and latest amendments to the capital programme.

2.2 The Overview and Scrutiny Commission has a constitutional duty to coordinate the scrutiny responses on the business plan and budget formulation. The outcome of scrutiny by the panels (described in section 3 below) is presented to Commission for this purpose.

2.3 The substantive report on the Business Plan 2017-2021 is contained elsewhere on this agenda for the Commission's consideration.

3. FINDINGS AND RECOMMENDATIONS OF THE OVERVIEW AND SCRUTINY PANELS

3.1 Appendix 1 contains comments and recommendations made by the scrutiny panels.

3.5 The Overview and Scrutiny Commission is recommended to consider the comments and recommendations put forward by the scrutiny panels when determining its overall scrutiny response to Cabinet on the Business Plan 2017-21.

4. **ALTERNATIVE OPTIONS**

4.1 The Constitution requires the Overview and Scrutiny Commission to consider the comments and recommendations put forward by the overview and scrutiny panels and to agree a joint overview and scrutiny response. Cabinet is then required under the terms of the Constitution to receive, consider and respond to references from overview and scrutiny.

5. **CONSULTATION UNDERTAKEN OR PROPOSED**

5.1 The Constitution contains the requirements for consulting scrutiny on the budget and business plan. There is an initial phase of scrutiny in November each year, with the second round in January/February representing the formal consultation of scrutiny on the proposed Business Plan, Budget and Capital Programme.

6. **TIMETABLE**

6.1 Round one of scrutiny of the 2016-20 Business Plan was undertaken as follows:-

- Children & Young People Overview & Scrutiny Panel: 9 November 2016
- Sustainable Communities Overview & Scrutiny Panel: 1 November 2016
- Healthier Communities & Older People Scrutiny Panel:8 November 2016
- Overview and Scrutiny Commission: 15 November 2016

6.2 Comments and recommendations from round one were reported to Cabinet on 12 December 2016.

6.3 Round two of scrutiny of the Business Plan was undertaken as follows:-

- Sustainable Communities Overview & Scrutiny Panel: 12 January 2017
- Children & Young People Overview & Scrutiny Panel: 11 January 2017
- Healthier Communities & Older People Scrutiny Panel:10 January 2017
- Overview and Scrutiny Commission: 26 January 2017

6.4 The responses from round two will be presented to Cabinet on 13 February 2017. A meeting of full Council will then take place on 1 March 2017.

7. **FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

7.1 These are detailed in the substantive reports elsewhere on this agenda and in the reports considered by Cabinet on 12 October and 12 December 2016.

8. **LEGAL AND STATUTORY IMPLICATIONS**

8.1 The process for developing the budget and business plan is set out in Part 4C of the Council’s Constitution. The role of the Overview and Scrutiny Commission and panels with regard to the development of the budget and business plan is set out in Part 4E of the Constitution.

8.2 The legal and statutory implications relating to the Business Plan are contained in the reports elsewhere on this agenda.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None directly relating to this report.

10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

10.1 It is a fundamental aim of the scrutiny process to ensure that there is full and equal access to the democratic process through public involvement and engagement.

11. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1 These implications are detailed in the reports elsewhere on this agenda.

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

Appendix 1: comments and recommendations made by the scrutiny panels in relation to the Business Plan 2017-21.

13. BACKGROUND PAPERS

13.1 Minutes of the meetings of the Overview & Scrutiny Panels in January 2017

References/Comments from Scrutiny Panels to the Overview & Scrutiny Commission 26 January 2017

Scrutiny of the Business Plan 2017-2021

Sustainable Communities Overview and Scrutiny Panel: 12 January 2017

<u>New departmental savings proposals</u>

Members considered each individual new departmental savings proposal:

ENR2 – “Pay and Display Bays parking for motorcycles and Blue Badge holders”: free parking for Blue Badge holders in Pay & Display parking bays in off street car parks is in excess of statutory requirements . Research has also found that designated Disabled Parking bays off street are not being fully utilised. The introduction of fees for Blue Badge holders using Pay & Display parking off street is therefore intended to ensure full utilisation of designated Disabled Parking bays and to free other bays for use by other drivers. The estimated revenue is based on research conducted on usage of Disabled Parking bays on 1 December 2016 with the resulting potential revenue estimate consider conservative by the department. Whilst three new Disabled Parking bays have been installed recently, numbers and usage will continue to be monitored in the run-up to the launch of the new policy with the potential to increase the number of Disabled Parking bays off street. Any change in charges for Disabled Badge holders using Pay & Display parking bays will be fully communicated in advance with implementation planned for 2019/20. Members noted the need to balance the provision of sufficient Disabled Parking bays with retention of sufficient Pay & Display parking bays to ensure the saving can be realised;

ENR3 – “Increase the cost of existing Town Centre Season Tickets in Morden, Mitcham and Wimbledon”: it is intended to increase the cost of a town centre parking season ticket in Morden, Mitcham and Wimbledon from £300 to £450 per annum. It was noted that these are much in demand. **RESOLVED**: the Panel resolved to recommend to Cabinet that this saving be brought forward and achieved earlier than currently indicated in the Medium Term Financial Strategy;

ENR4 – “Charge local businesses for monitoring their CCTV”: the Panel welcomed the aspiration of realising Merton’s investment in its CCTV facilities to offer CCTV services to existing and new partners to gain a new income stream;

ENR5 – “Delete one Senior Management post”: this saving reflects that Phase C of the South London Waste Partnership means one management post in transport services can be deleted. **RESOLVED**: to recommend to Cabinet that this saving be brought forward and achieved earlier than currently indicated in the Medium Term Financial Strategy; and

ENR6 – “Wider departmental restructure”: this saving reflects that the waste services back office will shift from a support function to a commercialised commissioning and client services team and that there is a need to explore and deliver efficiency savings. The Panel requested that the department look at bringing part of this cost saving forward into 2018/19.

<u>Amendments to previously agreed savings</u>

Members considered amendments to previously agreed savings:

Building Control

As discussed at the previous meeting, a shared planning service is not viable and therefore this previously proposed cost saving cannot be realised. Alternative cost savings have been brought forward. Members expressed their concern about the proposed saving to be realised from no longer sending consultation letters on building applications and relying on site notices only (D&BC6). It was noted that sending consultation letters is beyond statutory duties and has been stopped by Croydon and Lambeth. **RESOLVED:** the Panel resolved to recommend to Cabinet that this be reconsidered given it is a relatively small saving compared to the potential impact on the Council's reputation.

Children and Young People Overview and Scrutiny Panel: 11 January 2017

In response to member questions, officers clarified:

- Pressures on the budget for the Children's Schools and Families Department (CSF) are being caused by a range of factors including; demographic increases, the more complex needs of Merton's children, the requirement to support children in care for longer (potentially up to the age of 25 for those with complex needs or in education) and the increase in Unaccompanied Asylum Seeking Children (and for families for which there is no recourse to public funds);
- Examples of how CSF is seeking to alleviate budget pressures were highlighted; a new contract has been put in place to reduced SEND transport costs and placements are being negotiated to provide best value and cost reduction where possible. The success achieved in reducing SEND transport costs was noted as demonstrating saving proposals can be achieved despite being difficult;
- The cost to the Council of the new Harris Wimbledon Academy is not yet finalised but officers expect it to be in the region of £7.5m net. This represents a considerable cost saving on the typical cost of £30-40m for a new secondary school with the Education Funding Agency providing the rest of the funds. Merton's contribution includes £200K towards the refurbishment of the new Adult Social Care centre and contingency costs;
- Proposed savings resulting from staff reductions will need to be carefully managed in order not to destabilise services. These will be carefully reviewed and managed in order to achieve required changes whilst maintaining services;
- Proposed savings to be achieved from setting-up a multi-borough adoption service are a work in progress and will continue to be refined as the deadline gets closer; and
- Savings proposed now for 2019/20 will continue to be reviewed and assessed over the intervening period to ensure they are realistic. Where it is assessed that they cannot be achieved or only partially achieved, alternative savings will need to be brought forward. Given the extent to which the department is delivering statutory services, all savings and any alternatives require great care.

Healthier Communities and Older People O&S Panel: 10 January 2017

The Healthier Communities and Older People Overview and Scrutiny Panel **RESOLVED** to note Cabinet's budget proposals and expressed grave concern about the forecast gap in the financial years 2018/19, 2019/20, and 2020/21. (As set out in appendix one of the 12 December Cabinet report). A majority of panel members indicated that central government must address the problem and provide additional funds for health and adult social care as a matter of urgency.

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OVERVIEW AND SCRUTINY COMMISSION - FINANCIAL MONITORING TASK GROUP
10 NOVEMBER 2016

(7.15 pm - 10.00 pm)

PRESENT Councillors Hamish Badenoch (in the Chair), Mike Brunt, Stephen Crowe, Suzanne Grocott, Jeff Hanna, Peter Southgate and David Williams

Julia Regan (Head of Democracy Services), Paul Dale (Assistant Director of Resources), Caroline Holland (Director of Corporate Services), Bindi Lakhani (Head of Accountancy), Doug Napier (Leisure and Culture Greenspaces Manager), Rachel Mawson (Transport Services Manager) and Jane McSherry (Assistant Director of Education)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor Dennis Pearce.

2 MINUTES OF MEETING HELD ON 26 JULY 2016 (Agenda Item 2)

The minutes were AGREED as an accurate record of the meeting.

3 2016/17 QUARTER 2 MONITORING REPORT (Agenda Item 3)

Caroline Holland, Director of Corporate Services, briefly introduced the report and drew the task group's attention to the forecast net overspend at year end of £5.7m, including a service overspend of almost £10m which is offset by a number of corporate items as set out in the table on page 24.

Caroline Holland and Paul Dale provided additional information in response to questions:

- Every effort will be made to sustain investment income but the rate of returns to investment have fallen
- Short term borrowing covers the period in February in March when there are very few council tax receipts. Some of this borrowing is for a 12 month period due to advantageous rates
- Overspend in redundancy is due partly to delays in achieving staffing savings and also by a small number of high cost ill health retirements

The task group AGREED to conduct a deep dive review at its next meeting of the CSF budgets for supported lodging/housing, unaccompanied asylum seeking children and no recourse to public funds. The task group wish to understand the causes of overspend and to receive a full analysis of how these budgets are spent.

The task group AGREED to make a recommendation to the Overview and Scrutiny Commission to propose that it makes a reference to Cabinet asking Cabinet to be mindful of the task group's discussion when reviewing the draft business plan 2017-21, in particular:

1. The potential impact of the predicted overspend in 2016/17 service budgets of almost £10m;
2. The statement given to the task group by the Director of Community and Housing in response to a question on whether it would be possible to achieve all of the previously agreed savings. The Director said that it was his professional advice that given the scale of the predicted overspend in 2016/17 he does not believe that it will be possible to retrieve the overspend and achieve all of the previously agreed savings as well as meeting the council's statutory duties in relation to adult social care;
3. Upcoming negotiations between the council and Merton Clinical Commissioning Group about the level of Better Care Funding for 2017/18.

A draft note of the task group's discussion on the Savings and Business Plan items will be appended to the reference.

4 SAVINGS (Agenda Item 4)

Caroline Holland, Director of Corporate Services, said that the report provided an analysis of savings categorised by subjective area as requested by the task group, with a brief explanation of the main causes for shortfalls.

Task group members said that the table setting out the subjective category for unachieved savings (on page 8) was very helpful. Caroline Holland undertook to repeat this format in future monitoring reports and to incorporate achieved savings by subjective category either in the same or a separate table.
ACTION: Director of Corporate Services

In response to a question about the unachieved savings in Greenspaces, Caroline Holland confirmed that these would be recouped next year through Phase C.

Simon Williams, Director of Community and Housing, provided an overview of the approach taken to savings in the department and the reasons why some savings had not been achieved. He said that staffing cost savings had generally been achieved as had savings on contracts for specific services, though some of these savings were delivered late. Savings through generating increased income had become more difficult, particularly for services provided to people in their own homes. There had been successes in reducing procurement costs for support packages in care homes and at home ("placements" - a statutory service) prior to 2014/15 but subsequently there had been cost pressures for providers (such as the minimum wage) and the department had struggled to achieve these savings. The main pressures therefore are the unit costs of care packages rather than increased demand – despite demographic pressures, managed demand has been held down other than in the areas of transitions and, more recently, home care hours.

In response to a question Simon Williams said that around 2,000 people were supported in their own homes at any one time and that reviews of individual care packages were based on an assessment of need. He confirmed that he had considered purchasing places in homes outside London but had found that this would have to be at an unfeasible distance before savings could be made. However his team were assessing whether taking a greater direct stake in the market might lead to lower fee increases: this would be subject to a clear business case if it was progressed.

Task group members asked a number of questions about the achievability of savings and whether a different approach to the budget might be required. Simon Williams said that some of the previously agreed savings in relation to placement costs remain unachievable at present but he is doing everything he can to retrieve the budget situation, including through regular monitoring of a detailed action plan.

Caroline Holland added that, in contrast to Community and Housing, the budget pressures in Children Schools and Families were demand led. She stressed that the expectation is that alternatives would be put in place for savings that could not be achieved through the initial review of the business plan in accordance with the timetable.

In response to a question Simon Williams said that his professional advice was that given the scale of the predicted overspend in 2016/17 he does not believe that it will be possible to retrieve the overspend and achieve all of the previously agreed savings as well as meeting the council's statutory duties in relation to adult social care.

Task group members asked what calls had been made upon the mitigation fund that had been established. Caroline Holland said that the original purpose of the £1.3m fund was to mitigate unintended consequences of delivering savings. As the savings had not been made there had been no call on this fund so far and it is still available for use, particularly when you look at the current revenue overspend at Month 6.

In response to a question about the Better Care Fund (BCF) Simon Williams said that the Merton Clinical Commissioning Group (CCG) provided about £2m above the statutory requirement this year, which was about average for London. He confirmed that the CCG was not obliged to pass on increases in funding from government (approx. £200k) and had not done so due to funding pressures within the NHS.

Simon Williams said that there were difficult negotiations regarding the BCF going on across the country. In Merton, the council is in negotiation with the CCG regarding the level of BCF funding for 2017/18. The CCG has indicated that it is not minded to continue the current level of funding if the council does not take the adult social care precept for 2017/18. Caroline Holland added that three London CCGs had indicated they were reducing the BCF funding to councils and that one of these councils had successfully challenged this. However, NHS London may have a stronger role to play in Merton's CCGs finances.

In response to a question, Caroline Holland confirmed that the council's medium term financial strategy included an assumption of an increase in council tax of 3.75% in 2019/20 and 2020/21.

5 TRANSPORT SERVICE - BUDGET DEEPDIVE (Agenda Item 5)

Rachel Mawson, Transport Services Manager, updated the task group on the cross-departmental work that had been carried out to address identified financial and service issues. She highlighted the new approach to the taxi framework and the work being done to reduce demand, including through encouraging increased take-up of direct payments and independent travel training. Jane McSherry, Assistant Director of Education, added that this would reduce costs and had already reduced the forecast overspend.

In response to a question about the decision to use a dynamic purchasing system for the new taxi framework, Rachel Mawson explained that this provided the opportunity to work with taxi operators during the procurement process and that this should lead to a larger pool of providers and thus more flexibility for the service. She confirmed that providers would receive safeguarding training.

Members asked a number of questions about costs. Rachel Mawson said that the benchmarking carried out in 2015 indicated that Merton was "in the right ballpark" on costs and had enabled the council to learn from other local authorities, including new ways of organising pick-up points.

The task group requested updated data on a number of key metrics that had previously been supplied, including the number of children, number of taxi journeys, number of taxi journeys plus detailed costs. ACTION: Transport Services Manager

The task group had previously received a report on transport services in November 2015, at which point there was a projected overspend of approximately £650k. The latest monitoring report (for September 2016) shows that this projected overspend has now reduced to £164k.

The Chair welcomed the progress that had been made to address demand and reduce costs, whilst also expressing disappointment that this had not been achieved sooner. Jane McSherry assured the task group that the work was still ongoing and that every effort was being made to reduce costs but that the increasing number of children with Education Health and Care Plans would make this work increasingly difficult.

The task group AGREED to receive a further update next year.

6 GREENSPACES - UPDATE ON BUDGET DEEPDIVE (Agenda Item 6)

Doug Napier, Greenspaces Manager, introduced the update report and said that it provided a greater level of detail about the service than the report presented in July as well as additional budget details set out in the appendices.

The task group noted that there had been an underachievement on income from the car park provision for the Wimbledon Tennis Championship each year and asked whether the income expectation should be adjusted or charges raised to meet the budget expectation. Members discussed the complex relationship between the Council and the All England Lawn Tennis Club (AELTC) and the role of the Lawn Tennis Association.

The task group AGREED to receive a report at a future meeting to set out the overall income and costs for the Council of the Wimbledon Tennis Championship and the approach taken to negotiations with the AELTC regarding these.

In response to questions about how the Phase C procurement would impact on the savings target Caroline Holland, Director of Corporate Services, said that the target of £390k was based on the consequent reduction in staffing and economies of scale as well as a share of income from commercial activity. These will be delivered through the contract price being set £390k lower than the current budget. Doug Napier added that the service specification would be very close to the current service.

In response to a question regarding the music events in Wimbledon Park, Doug Napier said that such event were profitable elsewhere and it was a matter of finding something that would work in Merton.

In conclusion, task group members said that they continued to have concerns about the financial management of the Greenspaces service.

7 DRAFT DEEPDIVE TEMPLATE (Agenda Item 7)

The Chair said that he had asked for a template in response to a desire expressed at the Overview and Scrutiny Commission to be able to contextualise and challenge savings proposals and to support the overall process of budget scrutiny. Councillor Jeff Hanna said that he also wished it to be used to guide officers responding to deep dive requests from the task group.

Caroline Holland, Director of Corporate Services, said that much of the contextual information was already available in the service plans. Task group members said that they wished to have the information at a more disaggregated level than that provided by the service plans. Caroline Holland said that, due to the planned implementation of a new financial management system at the start of December, it would not be possible to provide that level of disaggregation in time for the January scrutiny panel meetings. She agreed that it would be possible to add a forecast variance column to the existing service plans this year.

ACTION: Chair to discuss with Head of Democracy Services

8 DATE AND AGENDA FOR NEXT MEETING (Agenda Item 8)

The date of the next meeting is 2 March 2017 – noted that this is the day after Budget Council. ACTION: Head of Democracy Services to consult on an alternative date..

AGREED agenda items:

- Quarter 3 monitoring report
- Deepdive - Wimbledon Tennis Championship
- Deepdive - CSF budgets for supported lodging/housing, unaccompanied asylum seeking children and no recourse to public funds
- Asset management update

ACTION: Head of Democracy Services to check minutes of previous meetings to identify further agenda items.

Overview and Scrutiny Commission Work Programme 2016/17

This table sets out the Overview and Scrutiny Commission's Work Programme for 2016/17 that was agreed by the Commission at its meeting on 7 July 2016. This work programme will be considered at every meeting of the Commission to enable it to respond to issues of concern and incorporate reviews or to comment upon pre-decision items ahead of their consideration by Cabinet/Council.

The work programme table shows items on a meeting by meeting basis, identifying the issue under review, the nature of the scrutiny (pre decision, policy development, issue specific, performance monitoring, partnership related) and the intended outcomes. The last page provides information on items on the Council's Forward Plan that relate to the portfolio of the Overview and Scrutiny Commission so that these can be added to the work programme should the Commission wish to.

The Commission is asked to consider the recommendation from Council on 23 November 2016 that the Leader of the Council should be asked to bring a report to the Overview and Scrutiny Commission on Merton's approach to consultation so that the Commission can consider whether it would wish to make any recommendations. If the Commission decides to accept this recommendation then it will need to identify the meeting at which it wishes to receive this report.

The Overview and Scrutiny Commission has specific responsibilities regarding budget and financial performance scrutiny and performance monitoring which it has delegated to the financial monitoring task group – agendas and minutes are published on the Council's website.

Scrutiny Support

For further information on the work programme of the Overview and Scrutiny Commission please contact: -

Julia Regan, Head of Democracy Services, 0208 545 3864, Julia.regan@merton.gov.uk

Meeting date – 7 July 2016

Scrutiny category	**Item/Issue**	**How**	**Lead Member/ Lead Officer**	**Intended Outcomes**
Holding the executive to account	Leader and Chief Executive – vision, key priorities & challenges for 2016/17	Presentation	Leader of the Council Ged Curran, Chief Executive	Context for Commission's work programme
	Merton Partnership annual report	Report	Chief Executive John Dimmer, Head of Policy, Strategy & Partnerships	Context for Commission's work programme
Scrutiny of crime and disorder	Rehabilitation Strategies	Report	Neil Thurlow, Community Safety Manager	Progress report plus discussion with National Probation Service and MTC Novo
	Discussion of questions to ask Borough Commander at the next meeting			
Scrutiny reviews	Report of the Shared and Outsourced Services Scrutiny Task Group	Report	Cllr Peter Southgate Julia Regan	To agree final report and recommendations
	Analysis of Members' annual scrutiny survey 2016	Report	Cllr Peter Southgate Julia Regan	Discuss findings and agree action plan for 2016/17
	Overview and Scrutiny Commission work programme 2016/17	Report	Cllr Peter Southgate Julia Regan	To agree work programme and task group reviews

Meeting date – 20 September 2016

Scrutiny category	Item/Issue	How	Lead Member/ Lead Officer	Intended Outcomes
Scrutiny of crime and disorder	Borough Commander	Report and in-depth discussion	Borough Commander	Update on policing issues
	Disability hate crime	Report from Merton CIL	Merton Centre for Independent Living	To identify how Commission can support work on hate crime
Holding the executive to account	Customer contact programme	Update Report	Sophie Ellis, Assistant Director of Business Improvement	Progress report for comment
	Council tax consultation	Report on background to the consultation	Paul Evans, Assistant Director of Corporate Governance	Item in response to discussion at Council on 14.09.16
Scrutiny reviews	Financial monitoring task group	Minutes of meetings on 5 and 26 July	Cllr Peter Southgate Julia Regan	Financial monitoring task group

Meeting date – 15 November 2016

Scrutiny category	Item/Issue	How	Lead Member/ Lead Officer	Intended Outcomes
Budget scrutiny	Business Plan 2017/21 - information pertaining to round one of budget scrutiny	Report	Cllr Mark Allison Caroline Holland, Director of Corporate Services	To send comments to Cabinet budget meeting 14 December
Pre decision scrutiny	Voluntary sector and volunteering strategy	Draft report	John Dimmer, Head of Policy, Strategy & Partnerships	To comment on draft strategy
Holding the executive to account	CCTV	Report	John Hill, Head of Public Protection	Progress report on new CCTV system
	Enforcement	Report to provide update on enforcement action taken, with focus on Planning	James McGinlay, Head of Sustainable Communities	To comment on enforcement issues & identify any further action for scrutiny

Meeting date – 26 January 2017 – scrutiny of the budget

Scrutiny category	**Item/Issue**	**How**	**Lead Member/Lead Officer**	**Intended Outcomes**
Budget scrutiny	Business Plan 2017/21	Report – common pack for Panels and Commission	Cllr Mark Allison, Cabinet Member for Finance Caroline Holland, Director of Corporate Services	To report to Cabinet on budget scrutiny round 2
	Business Plan update - latest info from Cabinet 16 January (if any)	Report	Cllr Mark Allison, Cabinet Member for Finance Caroline Holland, Director of Corporate Services	To report to Cabinet on budget scrutiny round 2
Scrutiny reviews	Financial monitoring task group	Minutes of meeting	Cllr Peter Southgate Julia Regan	To note minutes of meeting held on 10.11.16

Meeting date – 7 March 2017

Scrutiny category	Item/Issue	How	Lead Member/Lead Officer	Intended Outcomes
Holding the executive to account	Customer contact programme	Update Report	Sophie Ellis, Assistant Director of Business Improvement	Progress report for comment
Pre decision scrutiny	Equality and Community Cohesion Strategy 2017-20	Draft report	Evereth Willis, Equality and Community Cohesion Officer	To comment on draft strategy
Scrutiny reviews	Financial monitoring task group	Minutes of meeting	Cllr Peter Southgate	To note minutes of meeting held on 23.02.16
	Immunisation scrutiny task group	Report – action plan	Dagmar Zeuner, Director of Public Health	To monitor implementation of recommendations
	Shared and outsourced services task group	Cabinet response and action plan	Sophie Ellis, Assistant Director of Business Improvement	To receive Cabinet response and action plan
	Review of arrangements for co-opted members	Report	Cllr Peter Southgate Julia Regan	To agree future arrangements for co-opted members
Scrutiny of crime and disorder	Discussion of questions for the Borough Commander	Discussion	Cllr Peter Southgate Julia Regan	Discussion to plan line of questioning for meeting on 28 March

Meeting date – 28 March 2017

Scrutiny category	Item/Issue	How	Lead Member/Lead Officer	Intended Outcomes
Scrutiny of crime and disorder	Mayor of London's policing priorities	Report	London Assembly Member	To discuss and comment on policing priorities
	Borough Commander	Report and in-depth discussion	Borough Commander	Update on policing issues
Holding the executive to account	Violence against women and girls	Update report	John Hill, Head of Public Protection	To discuss and comment on progress
	Services for women and children in refuges	Report	John Hill, Head of Public Protection	To discuss and comment on policy and service delivery issues
	Anti-social behaviour	Report plus data	Neil Thurlow, Community Safety Manager	Update report
Performance management	Overview and Scrutiny Annual Report	Report	Cllr Peter Southgate Julia Regan	To approve and forward to Council

Forward plan items relating to remit of the Commission

Award of Electricity and Gas Supply Contracts
Agreement to award supply contracts for the Council's supplies of Electricity and Gas for a 4 year period

Decision due: 13 Feb 2017 by Cabinet

Banking services
To award a contract for corporate banking services.

Decision due: 20 Mar 2017 by Director of Corporate Services

Equality Strategy 2017-21
The Equality Act 2010 requires the council to publish equality objectives every four years to demonstrate how it will meet the Public Sector Equality Duty.

Note - The draft Equality Strategy 2017-21 will be discussed by the Commission at its meeting on 7 March so that its views can be taken into account by Cabinet .

Decision due: 20 Mar 2017 by Cabinet