Merton Council
Overview and Scrutiny Commission

Date: 25 January 2018
Time: 7.15 pm
Venue: Committee Rooms C, D & E, Merton Civic Centre, London Road, 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 (Vice-Chair)
Hamish Badenoch
Mike Brunt
Brenda Fraser
Abigail Jones
Sally Kenny
Dennis Pearce
Oonagh Moulton
David Williams

Substitute Members:
Agatha Mary Akyigyina OBE
Michael Bull
Suzanne Grocott
John Sargeant
John Dehaney

Co-opted Representatives
Helen Forbes, Parent Governor Representative - Secondary and Special Sector
Colin Powell, Church of England diocese

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 2017

(7.15 pm - 8.55 pm)

PRESENT: Councillors Peter Southgate (in the Chair), Peter McCabe, Mike Brunt, Brenda Fraser, Abigail Jones, Sally Kenny, Dennis Pearce, Oonagh Moulton, David Williams and Michael Bull

ALSO PRESENT: Councillor Mark Allison (Deputy Leader and Cabinet Member for Finance)

Kris Witherington (Consultation & Community Engagement Manager), Caroline Holland (Director of Corporate Services) and Julia Regan (Head of Democracy Services)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor Hamish Badenoch (substituted by Councillor Michael Bull) and from co-opted members Helen Forbes and Colin Powell.

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.

4 BUSINESS PLAN UPDATE 2018-22 (Agenda Item 4)

Caroline Holland, Director of Corporate Services, introduced the report and highlighted the changes that had been made to assumptions in the Medium Term Financial Strategy since it was last reported to Council in March 2017.

Revenue budget

In response to a question about the impact of the pooled arrangement for the retention of business rates that is currently being negotiated by the London boroughs, Caroline Holland said that the figures were still being modelled but that the council is likely to receive more than it would otherwise have received. However, all of the boroughs have to sign up to the deal for it to proceed.

Caroline Holland provided additional information in response to other questions about the revenue budget:

- the projected income figures from council tax on page 29 assume a year on year increase in the council tax base of at least 0.5% and a 2% increase in council tax charged from 2019/20 onwards
- the balancing the budget reserve will be used in 2018/19 and 2019/20, after which point there will be no money left in that reserve
- all Directors have been asked to review and regularly monitor the delivery of previously agreed savings.

The Chair noted that there had been no reference to the Commission from any of the Scrutiny Panels on the business plan this year.

Capital Budget
Members commented on the large size of the capital budget given that it had been underspent in previous years. Caroline Holland said that she was continuing to challenge officers on the capital bids put forward. Caroline Holland undertook to provide an explanation for the mismatch between figures given on pages 30 and 31 that are inconsistent with those on page 14. ACTION: Director of Corporate Services

In response to a question about the ongoing revenue implications of the cost of servicing the capital programme, Caroline Holland said that the council has tried to use capital receipts to minimise the cost of borrowing and has not needed to borrow since 2006.

Reference to Cabinet
The Chair presented the referral made to the Commission by the financial monitoring task group at its meeting on 14 November 2017 and sought the Commission's agreement to forward this to Cabinet for consideration at its meeting on 11 December.

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 2018-22. In particular, Cabinet is asked to note:

1. The proposed use of £2.9million from the earmarked reserves to balance the budget;
2. That there is just £0.5million head room left on the General Fund; before it reaches the minimum prudent level set for 2017/18
3. That the predicted shortfall of savings to be carried forward from previous years will be £860,000 for 2018/19;
4. That some of the problems experienced in achieving savings are longstanding and persistent, including demographic pressures in Adult Social Care and the unfunded costs of supporting unaccompanied asylum seeking children and those with no recourse to public funds; and intensifying price competition where council services compete with the private sector eg. building control
5. The vacancy rate and use of agency staff and number of unfilled vacancies, after allowing for brought forward savings

5 RESULTS OF THE RESIDENTS' SURVEY 2017 (Agenda Item 5)

Kris Witherington, Consultation & Community Engagement Manager, introduced the report. He reminded the Commission of the background to the survey and said that the findings showed a positive shift in resident satisfaction against many of the measures. He added that where residents expressed dissatisfaction, one of the key concerns was street cleanliness.

Kris Witherington assured members that the 1,000 sample size was the norm for market research and was sufficiently large and selected through quotas to provide statistically valid representative information on the views of Merton residents.

Members expressed concern at the lower satisfaction levels expressed by disabled residents. Kris Witherington said that the 2014 residents survey had shown a similar picture and that he was seeking comparative data from other authorities.

Kris Witherington provided additional information in response to questions:

- follow up work is being carried out in relation to the increase in the proportion of residents who reported difficulties in contacting the council by phone
- individual services have a number of additional feedback mechanisms in place to track customer satisfaction on a regular basis
- the list of services in the survey of children and young people differs from the adult survey because it was agreed with the youth parliament in order to obtain a list that was more relevant to young people

Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance, said that the survey is useful to the council as it flags up residents concerns, identifies which policies are working and identifies trends over time.

Commission Members agreed that they wish to see the survey continue on a biennial basis.

6 WORK PROGRAMME (Agenda Item 6)

RESOLVED: that the Commission agrees the work programme for the remainder of 2017/18 as set out in the report

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Committee: Healthier Communities & Older People Overview and Scrutiny Panel

11 January 2018

Sustainable Communities Overview and Scrutiny Panel

16 January 2018

Children and Young People Overview and Scrutiny Panel

17 January 2018

Overview and Scrutiny Commission

25 January 2018

Wards: ALL

Subject: Business Plan Update 2018-2022 (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: Roger Kershaw

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 2018-22 report received by Cabinet at its meeting on 15 January 2018;
3. That the Panel considers the draft capital programme 2018-22 and indicative programme for 2023-27 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 notes that Cabinet agreed that Merton should participate in the London Business Rates Pilot Pool 2018/19 and signed up to the memorandum of understanding and agreed the draft resolutions as set out;
8. That the Overview and Scrutiny Commission considers the comments of the Panels on the Business Plan 2018-2022 and details provided in the consultation pack and provides a response to Cabinet when it meets on the 19 February 2018.

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 2018/19, including proposed amendments to savings previously agreed by Council, the draft capital programme 2018-22, the draft savings/income proposals and associated equalities analyses for 2018-22, and the draft service plans, and feedback comments to the Overview and Scrutiny Commission. At the meeting Cabinet also agreed to participate in the London Business Rates Pilot Pool 2018/19.

1.2 The Overview and Scrutiny Commission will consider the comments of the Panels and provide a response on the Business Plan 2018-22 to Cabinet when it meets on the 19 February 2018.

2. **Details - Revenue**

2.1 The Cabinet of 11 December 2017 received a report on the business plan for 2018-22.

2.2 At the meeting Cabinet

RESOLVED:

1. That the draft savings/income proposals (Appendix 3) and associated draft equalities analyses (Appendix 7) put forward by officers be agreed and referred to the Overview and Scrutiny panels and Commission in January 2018 for consideration and comment.

2. That the latest amendments to the draft Capital Programme 2018-2022 which was considered by Cabinet on 16 October 2017 and by scrutiny in November 2017.(Appendix 5) be agreed.

3. That the proposed amendments to savings previously agreed (Appendix 2) be agreed.

4. That the Council Tax Base for 2018/19 set out in paragraph 2.6 and Appendix 1 be agreed.

5. That the draft service plans (Appendix 6) be agreed.

6. That the Council participates in the London Business Rates Pilot Pool and signs up to the Memorandum of Understanding and the draft resolutions set out in Appendix 9g be agreed.

3. **Alternative Options**

3.1 It is a requirement that the Council sets a balanced budget. The Cabinet report on 11 December 2017 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 15 January 2018 and 19 February 2018, prior to Council on 28 February 2018, agreeing the Budget and Council Tax for 2018/19 and the Business Plan 2018-22, including the MTFS and Capital Programme 2018-22.

4. **Capital Programme 2018-22**

4.1 Details of the draft Capital Programme 2018-22 were agreed by Cabinet on 19 December 2017 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 14 February 2018 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 2017 with a request that it be brought to all Scrutiny and Cabinet meetings from 11 January 2018 onwards and to Budget Council. This should maintain the improvement for both councillors and officers which makes 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 is easier. It 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
- 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

6. **Timetable**

6.1 The timetable for the Business Plan 2018-22 including the revenue budget 2018/19, the MTFS 2018-22 and the Capital Programme for 2018-22 was agreed by Cabinet on 18 September 2017.

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

7.1 These are set out in the Cabinet report for 11 December 2017. (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 15 January 2018, and 19 February 2018.

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 11 December 2017: Draft Business Plan Update 2018-22 (NB: This excludes Savings, Service Plans and Equalities Assessments which are included in the Business Plan Consultation Pack)

Appendix 2 - Cabinet report 15 January 2018: Draft Business Plan 2018-22(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.

2017/18 Budgetary Control and 2016/17 Final Accounts Working Papers in the Corporate Services Department.
Budget Monitoring working papers
MTFS working papers

13. **REPORT AUTHOR**

– Name: Roger Kershaw
– Tel: 020 8545 3458

email: roger.kershaw@merton.gov.uk

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CABINET

11 December 2017

Agenda item:

Business Plan Update 2018-2022

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: Roger Kershaw

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

Recommendations:

1. That Cabinet considers and agrees the draft savings/income proposals (Appendix 3) and associated draft equalities analyses (Appendix 7) put forward by officers and refers them to the Overview and Scrutiny panels and Commission in January 2018 for consideration and comment.
2. That Cabinet agrees the latest amendments to the draft Capital Programme 2018-2022 which was considered by Cabinet on 16 October 2017 and by scrutiny in November 2017.(Appendix 5)
3. That Cabinet considers the proposed amendments to savings previously agreed. (Appendix 2)
4. That Cabinet agrees the Council Tax Base for 2018/19 set out in paragraph 2.6 and Appendix 1.
5. That Cabinet consider the draft service plans. (Appendix 6)
6. That Cabinet agree that Merton participates in the London Business Rates Pilot Pool and signs up to the Memorandum of Understanding and agrees the draft resolutions set out in Appendix 9g.

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

1.1 This report provides an update to Cabinet on the Business Planning process for 2018-22 and in particular on the progress made so far towards setting a balanced revenue budget for 2018/19 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 2017.

1.3 The report also provides an update on the capital programme for 2018-22 and the financial implications for the MTFS.

1.4 The report provides a general update on all of the latest information relating to the Business Planning process for 2018-22 and an assessment of the implications for the Medium Term Financial Strategy 2018-22.

1.5 The report sets out the details with respect to the proposed London Business Rates Pilot Pool 2018/19 and asks Cabinet to agree the terms.

1.6 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 2018 as part of the consultation pack.

2. **DETAILS**

Introduction

2.1 A review of assumptions in the MTFS was undertaken and reported to Cabinet on 18 September 2017. There was also a report to Cabinet on 16 October 2017 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 2023- 2028. 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 16 October 2017 was as follows:-

(Cumulative Budget Gap)	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
MTFS Gap before Savings	7,018	14,252	29,779	30,608
Savings identified	(7,018)	(9,037)	(9,037)	(9,037)
MTFS Gap (Cabinet October 2017)	0	5,215	20,742	21,571

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 2017, on 14 June 2017, three unions (UNISON, Unite and the GMB), representing more than 1.6 million local government employees in schools and councils across England, Wales and Northern Ireland submitted a pay claim for the year from April 2018 requesting to move the lowest paid staff onto the real living wage of £8.45 an hour (£9.75 in London). In addition the unions want all employees to receive a five per cent pay rise and deletion of the bottom of the NJC and London pay spines points 6-9. The claim follows eight years of government-imposed pay restraint, which has seen wages either frozen or held to a one per cent increase.

With over 130,000 signatures, UNISON's petition 'Pay Up Now! – Scrap the pay cap and give public servants a meaningful pay rise' will be debated in Parliament on 4 December 2017.

The National Joint Council negotiates the pay, terms and conditions of staff in local authorities. Responding in June 2017 to the local government unions' 2018 pay claim for a 5 per cent pay increase for all staff, the Chair of the National Employers said:

"We will be consulting with councils in the coming weeks on pay across the workforce and in particular how we can meet the challenge of the Government's proposed level of the National Living Wage over the next few years. The unions' claim will form part of the consultation. We recognise that public sector workers have had lower than average pay awards for a few years now, but local government continues to face significant financial challenges so we are surprised that the unions are seeking such an ambitious pay award. Local government has lost more than half a million jobs in recent years and meeting this claim would result in many more such job losses."

On 5 December 2017 the National Joint Council made the following offer to unions:-

Council employees have been offered a two-year pay increase from 1 April 2018. The majority of employees - those on salaries starting at £19,430 per annum - would receive an uplift of 2 per cent on 1 April 2018 and a further 2 per cent on 1 April 2019, with those on lower salaries receiving higher increases. The offer also includes the introduction of a new national pay spine on 1 April 2019.

The total increase to the national pay bill resulting from this offer is 5.6 per cent over two years (covering the period 1 April 2018 to 31 March 2020). This pay offer does not apply to council chief executives, senior officers, teachers or firefighters, who are covered by separate national pay arrangements.

The three unions representing local government staff will now put the offer to their respective committees for consideration.

The provision for pay inflation was last reviewed in September 2017 using the approved budget for 2017/18. The National Employers estimate that:-

- This first year of the pay offer would increase the national paybill by 2.707%
- This second year of the pay offer would increase the national paybill by 2.802%
- The total increase to the national paybill over the two-year period would be 5.584%

Using these estimates the latest forecasts of pay inflation included in the MTFS are:-

(Cumulative)	2018/19	2019/20	2020/21	2021/22
Pay inflation (%)	2.707%	2.802%	1.0%	1.0%
Revised Estimate (cumulative £000)	2,108	4,290	5,069	5,848

In the Autumn Budget 2017, the Chancellor of the Exchequer announced that in 2018-19, for those workforces covered by an independent Pay Review Body (PRB), the relevant Secretary of State will shortly write to the PRB Chair to initiate the 2018-19 pay round, before later submitting detailed evidence outlining recruitment and retention data and reflecting the different characteristics and circumstances of their workforce. Each PRB will then make its recommendations in the spring or summer, based on the submitted evidence. Secretaries of State will make final decisions on pay awards, taking into account their affordability, once the independent PRBs report.

2.3.2 Prices

The estimates for price inflation agreed by Council in March 2016 were reviewed and included in the September 2017 report to Cabinet. The latest forecast is set out in the following table:-

(Cumulative)	2018/19	2019/20	2020/21	2021/22
Price inflation (%)	1.5%	1.5%	1.5%	1.5%
Revised Estimate (cumulative £000)	2,258	4,516	6,775	9,033

The Consumer Prices Index (CPI) 12-month rate was 3.0% in October 2017, unchanged from September 2017. The inflation rate for food and non-alcoholic beverages continued to increase to 4.1%, the highest since September 2013.
Rising prices for food and, to a lesser extent, recreational goods provided the largest upward contributions to change in the rate between September 2017 and October 2017. The upward contributions were offset by falling motor fuel and furniture prices.

CPIH, a measure of UK consumer price inflation that includes owner occupiers' housing costs, 12-month inflation rate was 2.8% in October 2017, unchanged from September 2017. Owner occupiers' housing costs remained unchanged between September 2017 and October 2017, having risen a year ago.

The RPI 12-month rate for October 2017 stood at 4.0%, up from 3.9% in September 2017.

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 1 November 2017, the Committee voted by a majority of 7-2 to increase Bank Rate by 0.25% to 0.5%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion. The November 2017 Inflation Report was published on the 2 November 2017. The next MPC meeting to agree the Bank Base Rate will be held in mid December.

In the November 2017 Inflation Report, the MPC noted that "CPI inflation rose to 3.0% in September. It is expected to peak at 3.2% in October, as increases in imported costs — stemming from the past fall in sterling and a more recent pickup in global energy prices — are passed on to consumer prices. Inflation is then expected to fall back as past rises in energy prices drop out of the annual comparison and as the pass-through of rises in other import prices progresses. Alongside that moderation in external pressures, however, domestic inflationary pressures are likely to build to more normal levels."

In terms of prospects for inflation, the MPC state that "CPI inflation has risen further above the 2% target as companies pass on the higher costs stemming from the lower level of sterling. Unemployment has continued to fall and the extent of spare capacity in the economy now seems limited. Moreover, the pace at which the economy can grow without generating inflationary pressure has fallen over recent years. Over the MPC's forecast period, conditioned on a path for Bank Rate that rises to 1% by the end of 2020, demand is projected to grow at a pace that uses up the remaining slack in the economy. As imported inflationary pressures wane, domestic pressures build. Inflation is projected to remain slightly above the 2% target at the three-year point."

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

Table 11: Forecasts for the UK Economy

Source: HM Treasury - Forecasts for the UK Economy (November 2017)			
2017 (Quarter 4)	Lowest %	Highest %	Average %
CPI	2.7	3.2	3.0
RPI	3.6	4.4	4.0
LFS Unemployment Rate	4.1	4.7	4.3
2018 (Quarter 4)	Lowest %	Highest %	Average %
CPI	1.6	3.0	2.4
RPI	2.5	3.8	3.1
LFS Unemployment Rate	3.7	5.1	4.5

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 2017 to 2021 are summarised in the following table:-

Source: HM Treasury - Forecasts for the UK Economy (November 2017)					
	2017	2018	2019	2020	2021
	%	%	%	%	%
CPI	2.7	2.6	2.2	2.1	2.0
RPI	3.6	3.5	3.1	3.2	3.1
LFS Unemployment Rate	4.4	4.4	4.5	4.4	4.5

2.3.3 <u>Inflation > 1.5%:</u>

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.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Inflation exceeding 1.5%	457	468	472	474

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. £3.0m by 2021/22.

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 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 2017.

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

	Current Estimate 2017/18 £000
Freedom Passes	9,029
Taxicards	113
Total	9,142
Uplift in MTFS	450
Provision in MTFS for 2018/19	9,592

Initial indications are that the charge to Merton for 2018/19 will be within the provision but this provision will be reviewed and reported when the figures are finalised.

2.3.6 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 2018-22:-

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £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.

2.3.7 **Budgetary Control 2017/18 and need for growth**

The revenue budgetary control information below summarises the corporate position using the latest available information as at 31 October 2017 as shown in a separate report on the agenda for this meeting. As at 31 October 2017, there is a forecast overspend for the Council of £1.444m.

The main causes of the overspend are:-

- Adult Social Care
- Waste, Public Spaces, Building and Development Control income
- Children's Services
- Housing General Fund, mainly temporary accommodation

The MTFS reported to Cabinet in October 2017 does not include any new provision for growth from 2018/19 to 2020//22 and future years. In terms of addressing issues which were identified as pressures that needed to be addressed in last year's budget the following budget growth was agreed and is included in the MTFS:-

	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**

* Additional grant received

2.3.8 **Capital Financing Costs**

Revenue Implications of Current Capital Programme
As previously reported the Capital Programme has been reviewed and revised and a draft programme for 2018-2022 was approved by Cabinet on 16 October 2017, along with an indicative programme for 2022-27.

Section 6 of this report sets out details of progress made towards preparing the draft capital programme 2018-22.

The estimated capital financing costs are net of investment income and based on the latest draft programme, which includes the revised MRP calculation, the best estimate of new schemes commencing in 2021/22, the effect of estimated government grant funding, estimated funding from the Education Funding Agency (EFA) and slippage/reprofiling based on 2016/17 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:-

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Capital Programme (including slippage)	63,203	31,084	9,267	8,568
Revenue Implications	7,891*	12,208	13,590	12,709

* includes 2017/18 and 2018/19 MRP saving

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 the Autumn Budget on 22 November 2017. The Autumn Budget sets out the government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility (OBR).

2.4.2 Autumn Budget 2017

In the Autumn Budget the Chancellor of the Exchequer published details of Government Department Expenditure Limits (DELs) from which the Provisional Local Government Finance Settlement follows in mid-late December 2017. Officers are currently reviewing the potential impact on the Finance Settlement. There is a summary of the key points included as Appendix 8.

2.4.3 Funding Forecasts for 2018/19 to 2021/22

Forecasting resources for 2018/19 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. There is also the impact of the proposed London-wide Pilot Business Rates Pool which is proposed for 2018/19 and is intended to give London Council 100% control over the Business Rates they collect. Under the pilot responsibilities previously funded by Revenue Support Grant and other grants will be expected to be met by business rates.

2.4.4 Share of Business Rates Yield

In 2017/18 the yield from Business Rates was shared 33% Central Government (Central Share), and the Local Share is 30% to Merton and 37% to the GLA. Under a London Pilot

Pool the central share payable to the Government would reduce to nil but there will continue to be a split between the GLA and London Boroughs. The split is currently estimated to be 36:64. See paragraph 2.5 for details of the proposed London Business Rates Pilot Pool 2018-19

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

2.4.5 London Pension Fund Authority (LPFA) Levy – Update on a proposed arrangement with regard to the pension deficit arising from the Former Pensioner sub-fund operated by the LPFA

In the budget setting report to Council in March 2017, Members were advised that following the abolition of the GLC in 1986 and the ILEA in 1990, the LPFA was established to take over the former GLC/ILEA Pensions fund and associated liabilities of the London Residuary Body (the successor body to the GLC/ILEA). The LPFA divided the fund into two sub funds with the staff in the two groups being in the pensioner sub fund.

Following the 2007 actuarial revaluation the LPFA notified boroughs that they intended to issue a further charge on the boroughs due to the deficit that had arisen on the pensioner sub fund. Discussions were then held with the SLT and draft regulations prepared by the DCLG (or its predecessor) to give effect to the proposed levy. This was challenged by two London boroughs and has remained unresolved. The Government's preference was for London boroughs and the LPFA to try to resolve the issue and subsequently the LPFA abolished the two sub funds which with other changes to the investment strategy has led to an improvement to the deficit position.

In January 2017, the Society of London Treasurers (SLT) advised the Council that the overall total deficit on these liabilities was £177m and discussions with SLT representatives and the LPFA had clarified that a fair proportion of any deficit for the London boroughs to be responsible for is 90% and this would form the basis of further negotiations on future proposals. Merton's share of the deficit was notified as £1.779m but each borough could agree individual plans with the LPFA around recovery arrangements for their specific part of the deficit and the situation will be reviewed every three years at subsequent valuations to assess the current position and agree future contribution recovery. The LPFA indicated that they would be prepared to be as flexible as possible in agreeing terms with individual boroughs and the proposals being discussed represented a significant change and reduction in contributions compared to the original proposals put forward for consultation in 2009, recognising the statutory nature of London boroughs to meet these liabilities over the long term (i.e. up to 30 years)

Based on these figures, the 2017/18 budget and MTFS 2017-21 included £86,000 p.a. which is the estimated annual financing costs if the Council borrows this amount over 30 years.

The latest position (23 November 2017) is that:-

- Documentation is now ready and with LPFA/SLT legal advisors for signature.
- LPFA are currently undertaking a review of the levels of current payments and future provision for asbestosis compensation payments in particular to determine the appropriate level of current levy payments due for 2018/19 and the extent to which the revised payments under the new agreement can be introduced.
- LPFA will also be finalising the administrative and operational processes around any future payments due in line with the agreement and liaising with appropriate contacts to confirm, the aim being to introduce an efficient process that will ensure appropriate identification and payment of any sums due as well as being one that is straightforward for the Boroughs to implement.

Once the LPFA have completed their review they will be in a position to determine the extent to which any payments can be implemented for 2018/19, although the timescales are fairly tight given that the LPFA have to issue levy notices by February. The LPFA will keep the SLT informed of progress and formally notify Boroughs of any outcome of the review.

In the meantime, the MTFS will continue to include £86,000 p.a. as provision for Merton's contribution to funding the deficit.

2.5 **London Business Rates Pilot Pool 2018-19 proposal**

2.5.1 The last Government committed to local government retaining 100% of business rates by 2020 and begun piloting elements of such a scheme in 2017-18 in 6 areas, including the GLA in London.

2.5.2 The London Devolution Memorandum of Understanding, announced by the government in the Spring Budget in March 2017, committed to working with London "to explore options for granting London Government greater powers and flexibilities over the administration of business rates. This includes supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed".

2.5.3 London Councils Leaders' Committee received a report following the Budget in March 2017, which set out the broad rationale and potential financial and strategic benefits of partaking in a pilot as then envisaged. In the event that such a pilot pool were available, it could bring both a financial incentive – through the early reduction of levy payments and access to 100% retained growth – and provide a limited opportunity to address some policy issues.

2.5.4 A pilot on the lines of those currently operating in other areas would not in itself address the full range of powers outlined in London's joint business rates proposition to Government, but participating in a pilot could also enhance Government's view of London's willingness and capacity to take on broader devolution of fiscal and service responsibilities.

2.5.5 On 10 October, Leaders' Committee and the Mayor agreed in principle to pool business rates in a London pilot of 100% retention in 2018-19. Leaders' Committee delegated authority to the 5 elected officers of London Councils (the Chair, Deputy Chair, and three Vice Chairs) to take the in principle agreement forward to arrive at a core proposition for the operation of the pool and to continue discussions with both the Mayor and ministers on this. The elected officers discussed this in October and agreed a final distribution option to take forward with government, on 1 November following discussions via the party groups.

2.5.6 The Chair of London Councils wrote to all Leaders on 10 November confirming the proposal that London Councils and the GLA would take forward to gain agreement with Government. This set out:

- the pool principles;
- the basis for distributing any net financial benefit (15% to reward growth; 35% to reflect population; 35% to reflect Settlement Funding Assessment; and 15% set aside for a "Strategic Investment Pot");
- the preferred option for governance of the strategic investment pot; and
- the expected evaluation process that government would undertake.

2.5.7 In the Autumn Budget 2017 presented on 22 November, the Chancellor delivered his first Budget of the new fiscal timetable, taking tax and expenditure decisions for the financial year ahead. The key announcements in the Autumn Budget relating to London local government included confirmation of the London business rates pilot for 2018-19.

2.5.8 The terms of the 100% pilot have been agreed via a memorandum of understanding (MOU) between the Chair of London Councils, the Mayor, the Secretary of State and the Minister for London.

2.5.9 <u>Next Steps and draft timetable</u>

Now that the detail of the pilot has been formally agreed via an MOU between the Chair of London Councils, the Mayor, the Secretary of State and the Minister for London, to support the creation of the pool and the framework for its operation, each authority will need to take the relevant decisions, through their own constitutional decision-making arrangements:

- To enter the pool (including accepting the Designation by the Secretary of State as an authority within the Pilot Pool and delegating authority over its administration to the lead authority which, following consideration by the elected officers of London Councils, would be the City of London Corporation for the duration of the pilot);
- To agree a Memorandum of Understanding between London authorities for the operation of the pilot pool; and
- Where appropriate, to delegate authority to a lead member or committee to take decisions in relation to the Strategic Investment Pot.

The deadline for all 34 authorities to have done this is anticipated to be mid-January, no later than 28 days after the provisional Local Government Finance Settlement (expected to be mid-December).

In order to facilitate and support authorities in taking these decisions, London Councils have commissioned advice and guidance from Trowers & Hamlins on the legal framework and governance options for the pool.

Timeline to make the pool operational

London Councils to circulate pooling agreement MOU	by Friday 1 December
Government to publish draft baseline figures in the provisional settlement	Mid-December
Boroughs to take formal decisions to participate in the pool and the framework for its operation within 28 days of the Provisional Settlement	by mid-January 2018
Final baselines published in final LGF Settlement	February 2018
Pool goes live	April 1 2018

2.5.10 Achieving the arrangements to implement the pool within the timescales will be a complex issue. To assist Members understanding, the following draft paperwork is attached as Appendix 9 (a) – (f) for information

Document Title	Author
London Business Rates Pilot Pool 2018-19 Final Prospectus – November 2017	London Councils
Memorandum of Understanding on the London 100% business rates retention pilot 2018-19	DCLG, London Councils, Mayor of London
London Business Rates Pooling Pilot Suggested Sample Draft Resolutions for Participating Authorities	London Councils
Greater London Business Rates Pooling Pilot Arrangement - Legal Questions and Answers	London Councils
Pooling Business Rates in London Advice on the legal framework and governance options	Trowers & Hamlin LLP
Business Rates Pilot Pool Legal Note on Executive Functions	Trowers & Hamlin LLP

2.5.11 Based on the provisional estimates produced by London Councils, London would benefit by approximately £240m by operating pool arrangements in 2018/19. Merton would receive an estimated £2.4m of this benefit, but this would not be confirmed until after the 2018/19 financial year.

	Incentives (growth)%	Needs %	Population %	Investment Pot %	Merton share £m
Agreed distribution	15	35	35	15	2.4

Draft resolutions to enable Merton to participate in the pilot pool are set out in Appendix 9g and Cabinet are requested to approve them. However, it would be imprudent at this stage to include any additional resources within the MTFS given that the pilot will only proceed if all of the other London boroughs agree to participate.

For the reasons discussed above, assessing the implications for Merton's funding at this stage, before the Provisional Finance Settlement and the Business Rates Pilot Pool are finalised, is difficult.

2.6 **Council Tax Base**

2.6.1 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 2018/19. 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 2018/19. The Council is required to determine its Council Tax Base by 31 January 2018.

2.6.2 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.

2.6.3 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 2017 is the basis for the calculation of the Council Tax Base for 2018/19.

2.6.4 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 2018/19 compared to 2017/18 is set out in the following table:-

Council Tax Base	**2017/18**	**2018/19**	**Change**
			%
Whole Area	72,442.3	74,124.0	2.3%
Wimbledon & Putney Common Conservators	11,131.2	11,308.8	1.6%

2.7 **Proposed Amendments to Previously Agreed Savings**

2.7.1 Cabinet on 16 October 2017 agreed some proposed amendments to E&R savings which had been agreed in previous year's budgets and also agreed that the financial implications should be incorporated into the draft MTFS 2018-22.

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

- Corporate Services department have identified savings of £0.957m to replace unachievable savings in 2018/19 and propose to defer some savings with no overall effect over the MTFS period.
- Children, schools and Families Department have identified savings of £0.229m in 2018/19 to replace unachievable savings of equivalent value.
- Community and Housing have unachievable savings of £1.463m in 2018/19 and have identified replacement savings of £1.081m in 2018/19, leaving a net balance of £0.382m to be found. C&H department also propose to defer £0.548m of savings from 2018/19 to 2019/20.

2.7.3 The change over the four year MTFS period resulting from these proposals is set out in the following table:-

SAVINGS TARGETS BY DEPARTMENT	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**Total £000**
Corporate Services	177	(103)	(74)	0	0
Children, Schools and Families	0	0	0	0	0
Environment and Regeneration	0	0	0	0	0
Community and Housing	930	(548)	0	0	382
Total	**1,107**	**(651)**	**(74)**	**0**	**382**
Cumulative	**1,107**	**456**	**382**	**382**	

2.7.4 Details of the unachievable savings and their replacements, and the deferred savings are detailed in Appendix 2.

3. FEEDBACK FROM THE OVERVIEW AND SCRUTINY PROCESS IN NOVEMBER 2017

3.1 The information available on the Business Planning process reported to Cabinet on 16 October 2017 was reviewed by the Overview and Scrutiny Panels and Commission in November 2017.

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

4. SAVINGS PROPOSALS 2018-22 AND SERVICE PLANNING

Controllable budgets and Savings Targets for 2018-22

4.1 Cabinet on 18 September 2017 agreed savings targets to be identified by service departments over the period 2018-22 as follows:-

SAVINGS TARGETS BY DEPARTMENT	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Corporate Services	0	2,363	1,911	169	4,443
Children, Schools and Families	0	0	3,328	132	3,460
Environment and Regeneration	0	3,256	3,352	262	6,870
Community and Housing	0	0	6,693	265	6,958
Total	0	5,619	15,284	828	21,731
Cumulative	0	5,619	20,903	21,731	

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 are agreed by Cabinet at its meeting on 11 December will be referred to the Overview and Scrutiny Commission and panels as part of the consultation pack for review and comment in January 2018.

4.4 The proposals submitted by each department are summarised in the following table and set out in detail in Appendix 3.

SUMMARY (cumulative)	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Corporate Services	0	1,014	187	40	1,241
Children, Schools & Families	0	0	150	0	150
Environment & Regeneration	0	280	95	75	450
Community & Housing	0	500	1,100	0	1,600
Total	0	1,794	1,532	115	3,441
Net Cumulative total	0	1,794	3,326	3,441	

4.5 **Summary of progress to date**

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

	Targets	Proposals	Net change replacements	Balance
	£'000	£'000	£'000	£'000
Corporate Services	4,443	(1,241)	0	3,202
Children, Schools & Families	3,460	(150)	0	3,310
Environment & Regeneration	6,870	(750)	0	6,120
Community & Housing	6,958	(1,600)	382	5,740
Total	21,731	(3,741)	382	18,372

*E&R Savings above include £300k in 2019/20 agreed by Cabinet in October 2017.

4.5.2 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.

4.6 Service Plans

4.6.1 Draft Service Plans are included in Appendix 6.

4.7 Equality Assessments

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

4.8 Use of Reserves in 2017/18 and 2018/19

4.8.1 The application of revenue reserves in 2017/18 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 budgeted contribution of £2.443m from the Reserve for Use for Future Years Budgets will have to be increased with a consequent impact on the amount of reserve available in 2018/19. 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 2018-22

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 Budget announcement on 22 November 2017 and Provisional Local Government Finance Settlement in December.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap in MTFS	**0**	**3,732**	**17,500**	**18,196**

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 2018-22: UPDATE

6.1 The proposed draft Capital Programme 2018-22 and an Indicative Capital Programme 2022-27 were presented to Cabinet on 16 October 2017.

6.2 The programme has been reviewed by scrutiny panels.

6.3 Monthly monitoring of the approved programme for 2017/18 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 2017 are set out in Appendix 5.

6.5 The estimated revenue implications of funding the draft capital programme are summarised in paragraph 2.3.8 and these have been incorporated into the latest draft MTFS 2018-22.

7. BUDGET STRATEGY

7.1 The council has a statutory duty to set a balanced budget.

7.2 The MTFS assumes 3% ASC Council Tax flexibility in 2018/19 and a 2% Council Tax increase in 2019/20, 2020/21 and 2021/22.

7.3 Also, as part of the 2017/18 budget, local authorities were required to validate their use of the Government's Adult Social Care flexibility arrangements. This required the authority to certify that it was using the adult social care precept on council tax for 2017-18 and to provide details comparing the changes in adult social care budgets with those of other non-ringfenced services. It is expected that a similar requirement will applied in 2018/19 but details are not yet known.

8. GLA BUDGET AND PRECEPT SETTING 2018-19 – PROVISIONAL TIMETABLE

8.1 The Greater London Authority (GLA) sets a budget for itself and each of the four functional bodies: Transport for London, the London Development Agency, the Metropolitan Police Authority, and the London Fire and Emergency Planning Authority. These budgets together form the consolidated budget.

8.2 The GLA expects to issue the Mayor's draft 2018-19 GLA Group budget for consultation before Christmas and details on this will be circulated to Chief Financial Officers and key contacts once published. The date on which the consultation budget will be published is, however, dependent on the timing of the provisional Local Government Finance and Fire and Police Grant settlements which will be announced during December. If these announcements are delayed significantly then it is possible that the publication date of the Mayor’s consultation budget may be later than envisaged currently.

8.3 The Mayor’s draft budget is expected to be considered by the London Assembly on Thursday 25 January 2018. The final draft budget is scheduled to be considered by the Assembly on Thursday 22 February following which the Mayor will confirm formally the final precept and GLA group budget for 2018-19. It is expected that the final GLA council tax precept will be formally approved on 22 February 2018. The final precept amounts and the approved supporting text for the Mayor’s communication to council taxpayers will be issued to billing authorities by no later than Friday 23 February 2018.

8.4 NNDR1 returns will be required to be submitted to the DCLG by 31 January 2018 and due to the introduction of the London pool it is essential that all authorities meet this deadline for the GLA to achieve its timetable. It is anticipated that the percentage shares for 2018-19 used for the returns for London authorities will be 64% for the 32 boroughs and City of London and 36% for the GLA in line with the apportionment agreed by the Congress of Leaders on 10 October. This is expected to be confirmed in the provisional local government finance settlement.

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, business ratepayers and all other relevant parties.

9.2 In accordance with statute, consultation is taking place with business ratepayers and a meeting will be arranged for February 2018.

9.3 As previously indicated, a savings proposals consultation pack will be prepared and distributed to all councillors at the end of December 2017 that can be brought to all Scrutiny and Cabinet meetings from 10 January 2018 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.

9.4 The pack will include:

- Savings proposals
- Equality impact assessment for each saving proposal. Draft EAs are included as Appendix 7 to this report and will be reviewed prior to circulation of the consultation pack.
- Service plans (these will also be printed in A3 to lay round at scrutiny meetings)

10. TIMETABLE

10.1 In accordance with current financial reporting timetables.

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

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: Council Tax Base 2018/19
Appendix 4: MTFS Update
Appendix 5: Capital Programme 2018-22
Appendix 8: Autumn Budget 2017 – Summary of key Points
Appendix 9a: London Business Rates Pilot Pool 2018-19 Final Prospectus – November 2017
Appendix 9b: Memorandum of Understanding on the London 100% business rates retention pilot 2018-19
Appendix 9c: London Business Rates Pooling Pilot - Suggested Sample Draft Resolutions for Participating Authorities
Appendix 9d: Greater London Business Rates Pooling Pilot Arrangement - Legal Questions and Answers
Appendix 9e: Pooling Business Rates in London Advice on the legal framework and governance options
Appendix 9f: Business Rates Pilot Pool - Legal Note on Executive Functions
Appendix 9g: Merton draft resolutions for the London Business Rates Pool Pilot 2018/19

NOW INCLUDED IN CONSULTATION PACK

Appendix 2: Proposed amendments to savings previously agreed
Appendix 3: New savings/income proposals 2018-22
Appendix 6: Service Plans 2018-22
Appendix 7: Draft Equalities Assessments

BACKGROUND PAPERS

Budget files held in the Corporate Services department.

REPORT AUTHOR

– *Name: Roger Kershaw*

– *Tel: 020 8545 3458*

email: roger.kershaw@merton.gov.uk

APPENDIX 1

Council Tax Base 2018/19

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 11 September 2017. The deadline for return was 13 October 2017 and Merton met this deadline.

1.6 The CTB form for 2017 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 was 97.25%% in each of the years.

2.3 These assumptions, with the collection rate increased to 98%, have been applied to the latest Council Tax Base information included on the CTB return completed on 13 October 2017 to produce the Council Tax Base 2018/19.

2.4 Information from the October 2017 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	**2017/18**	**2018/19**	**Change**
			%
Whole Area	72,442.3	74,124.0	2.3%
Wimbledon & Putney Common Conservators	11,131.2	11,308.8	1.6%

3. IMPLICATIONS FOR COUNCIL TAX YIELD 2018/19

3.1 On a like for like basis (i.e. assuming council tax charges do not change) the estimated income in 2018/19 compared to 2017/18 is summarised in the following table:-

Council Tax: Whole area	**2017/18**	**2018/19**
Tax Base	72,442.3	74,124.0
Band D Council Tax	£1,135.31	£1,135.31
Estimated Yield	**£82.244m**	**£84.154m**
Change: 2017/18 to 2018/19 (£000)		+ £1.910m
Change: 2017/18 to 2018/19 (%)		+ 2.3%

3.2 Analysis of changes in yield 2017/18 to latest 2018/19

3.2.1 There are a number of reasons for the change in estimated yield between 2017/18 and the latest estimate based on the CTB data.

3.2.2 Over this period the Council Tax Base increased by 1,681.7 from 72,442.3 to 74,124.0 which multiplied by the Band D Council Tax of £1,135.31 results in additional yield of £1.910m.

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) A Change in collection rate from 97.25% to 98%
There has a change in the estimated collection rate from 97.25% to 98% between 2017/18 and 2018/19. This is based on the achievement of a strong collection rate being maintained.

b) Number of Chargeable Dwellings and Exempt Dwellings
Between years the number of properties increased by 575 from 83,737 to 84,312 but the number of exempt dwellings decreased by 7 from 779 to 772. This means that the number of chargeable dwellings increased by 582 between years. Based on a full charge, this equates to additional council tax of £0.661m.

c) Amount of Council Tax Support Reduction
In 2017/18 there was a reduction of 8,639.2 to the Council Tax Base for local council tax support. This has reduced to 8,192.1 in 2018/19 which is a change of 447.1 and equates to additional council tax of about £0.508m.

d) Changes in Discounts, Exemptions and Premiums
Overall, the number of properties subject to discounts or exemption reduced by 483 and those subject to premiums reduced by 4 between 2018/19 and 2017/18.

Summary
The following puts the individual elements together to show how the potential council tax yield changes between 2017/18 and 2018/19:-

	Approx. Change in Council Tax Base	**Approx. Change in Council Tax yield**
		£m
Increase in number of chargeable dwellings	582	0.661
Change in Council Tax Support Reductions	447	0.508
Change in discounts, exemptions, premiums and distribution	86	0.097
Increase in Collection Rate from 97.25% to 98%	567	0.644
Total	**1,682**	**1.910**

3.10 Council Tax Yield 2018/19

3.10.1 Assuming no change in Council Tax for 2018/19 the estimated Council Tax yield for 2018/19 is:-

Council Tax: Whole area	Tax Base	Band D 2017/18	Council Tax Yield 2018/19	Council Tax Yield 2017/18
Merton	74,124.0	£1,135.31	£84.154m	£82.244m
WPCC	11,308.8	£28.61	£0.324m	£0.318m
GLA	74,124.0	£280.02	£20.756m	£20.285m

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 16 October 2017 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 and increased collection rate, is as follows:-

MTFS Council Tax Yield: EXISTING CT BASE	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Council Tax - 17/18 CT Base, Basic charge excluding ASC precept	80,249	80,650	81,053	81,459
Council Tax - Adult Social Care 3% in 2017/18	2,407	2,420	2,432	2,444
Council Tax - Adult Social Care 3% in 2018/19	2,408	2,419	2,432	2,444
Council Tax General: Change (0% in 18/19, 2% thereafter)	0	1,613	3,242	4,888
Council Tax income	85,064	87,102	89,159	91,235
Council Tax Yield: NEW CT BASE	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Council Tax - New CT Base, Basic charge excluding ASC precept	81,703	82,112	82,522	82,935
Council Tax - Adult Social Care 3% in 2017/18	2,451	2,463	2,476	2,488
Council Tax - Adult Social Care 3% in 2018/19	2,451	2,464	2,475	2,488
Council Tax General: Change (0% in 18/19, 2% thereafter)	0	1,642	3,301	4,976
Council Tax income	86,605	88,681	90,774	92,887

CHANGE IN YIELD	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/21 £'000**
Council Tax - Change in CT Base, excluding ASC precept	1,454	1,462	1,469	1,476
Council Tax - Adult Social Care precept	87	88	87	88
Council Tax - General	0	29	59	88
Council Tax income	1,541	1,579	1,615	1,652

DRAFT MTFS 2018-22:				
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Departmental Base Budget 2017/18	**151,131**	**151,131**	**151,131**	**151,131**
Inflation (Pay, Prices)	4,387	8,849	11,907	14,965
Autoenrolment/Nat. ins changes	315	315	315	315
FYE – Previous Years Savings	(7,018)	(8,737)	(8,737)	(8,737)
FYE – Previous Years Growth	974	(1,532)	(1,032)	(1,032)
Amendments to previously agreed savings/growth	1,107	456	382	382
Change in Net Appropriations to/(from) Reserves	(1,257)	(993)	(851)	(984)
Taxi card/Concessionary Fares	450	900	1,350	1,800
Change in depreciation/Impairment (Contra Other Corporate items)	0	0	0	0
Growth	0	0	0	0
Other	1,360	1,436	3,323	3,604
Re-Priced Departmental Budget	**151,449**	**151,825**	**157,788**	**161,443**
Treasury/Capital financing	7,891	12,208	13,590	12,709
Pensions	3,469	3,552	3,635	3,718
Other Corporate items	(18,528)	(18,866)	(18,652)	(18,661)
Levies	614	614	614	614
Sub-total: Corporate provisions	**(6,554)**	**(2,492)**	**(813)**	**(1,620)**
Sub-total: Repriced Departmental Budget + Corporate Provisions	**144,895**	**149,333**	**156,974**	**159,824**
Savings/Income Proposals 2018/19	0	(2,094)	(3,626)	(3,741)
Sub-total	**144,895**	**147,239**	**153,348**	**156,083**
Appropriation to/from departmental reserves	173	(92)	(234)	(100)
Appropriation to/from Balancing the Budget Reserve	(2,120)	(3,330)	0	0
BUDGET REQUIREMENT	**142,948**	**143,817**	**153,115**	**155,983**
Funded by:				
Revenue Support Grant	(10,071)	(5,076)	0	0
Business Rates (inc. Section 31 grant)	(36,304)	(37,176)	(37,725)	(38,285)
Adult Social Care Improved BCF - Budget 2017	(2,115)	(1,054)	0	0
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(3,110)	(2,984)	(2,000)	(1,500)
Council Tax inc. WPCC	(86,923)	(88,999)	(91,092)	(93,205)
Collection Fund – (Surplus)/Deficit	372	0	0	0
TOTAL FUNDING	**(142,948)**	**(140,085)**	**(135,614)**	**(137,787)**
GAP including Use of Reserves (Cumulative)	**0**	**3,732**	**17,500**	**18,196**

Capital Investment Programme - Schemes for Approval

Merton	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
	£000	£000	£000	£000
Corporate Services	19,558	10,876	2,135	3,862
Community and Housing	729	480	630	280
Children Schools & Families	17,449	7,536	650	650
Environment and Regeneration	25,086	7,738	5,017	4,052
Capital	**62,823**	**26,630**	**8,432**	**8,844**

Merton	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
	£000	£000	£000	£000
Business Improvement	2,412	250	0	1,942
Facilities Management Total	2,960	1,250	950	950
Infrastructure & Transactions	1,085	630	1,060	970
Resources	0	0	125	0
Corporate Items	13,101	8,746	0	0
Corporate Services	**19,558**	**10,876**	**2,135**	**3,862**
Adult Social Care	44	0	0	0
Housing	629	280	280	280
Libraries	100	200	350	0
Community and Housing	**773**	**480**	**630**	**280**
Primary Schools	650	650	650	650
Secondary School	9,391	5,781	0	0
SEN	7,304	1,000	0	0
CSF Schemes	104	105	0	0
Children Schools & Families	**17,449**	**7,536**	**650**	**650**
Public Protection and Development	0	60	0	35
Street Scene & Waste	5,790	340	340	340
Sustainable Communities	19,297	7,338	4,677	3,677
Environment and Regeneration	**25,086**	**7,738**	**5,017**	**4,052**
Capital	**62,866**	**26,630**	**8,432**	**8,844**

Please Note

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

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

3) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2018/19 onwards as grant funding has not been announced.**

FUNDING THE CAPITAL PROGRAMME 2017-22

Merton	Capital Programme £000s	*Funded by Merton £000s	Funded by grant and capital contributions £000s
2017/18 Current Budget	**51,528**	**34,698**	**16,830**
Potential Slippage b/f	0	0	0
2017/18 Revised Budget	**51,528**	**34,698**	**16,830**
Potential Slippage c/f	(7,359)	(6,023)	(1,336)
Potential Underspend not slipped into next year	(912)	(671)	(242)
Total Spend 2017/18	**43,257**	**28,006**	**15,252**
2018/19 Current Budget	**62,866**	**41,740**	**21,126**
Potential Slippage b/f	7,359	6,023	1,336
2018/19 Revised Budget	**70,225**	**47,763**	**22,462**
Potential Slippage c/f	(6,116)	(5,361)	(754)
Potential Underspend not slipped into next year	(906)	(778)	(128)
Total Spend 2018/19	**63,203**	**41,621**	**21,580**
2019/20 Current Budget	**26,630**	**23,788**	**2,843**
Potential Slippage b/f	6,116	5,361	754
2019/20 Revised Budget	**32,746**	**29,149**	**3,597**
Potential Slippage c/f	(1,322)	(1,297)	(26)
Potential Underspend not slipped into next year	(340)	(340)	0
Total Spend 2019/20	**31,084**	**27,512**	**3,571**
2020/21 Current Budget	**8,432**	**7,782**	**650**
Potential Slippage b/f	1,322	1,297	26
2020/21 Revised Budget	**9,754**	**9,080**	**676**
Potential Slippage c/f	(140)	(139)	(1)
Potential Underspend not slipped into next year	(348)	(315)	(33)
Total Spend 2020/21	**9,267**	**8,626**	**642**
2021/22 Current Budget	**8,879**	**8,229**	**650**
Potential Slippage b/f	140	139	1
2021/22 Revised Budget	**9,019**	**8,368**	**651**
Potential Slippage c/f	(108)	(107)	0
Potential Underspend not slipped into next year	(343)	(311)	(33)
Total Spend 2021/22	**8,568**	**7,949**	**619**

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

Detailed Capital Programme 2018-22

	Scrutiny	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
Corporate Services		£000	£000	£000	£000
Customer Contact Programme	OSC	1,050	250	0	1,900
IT Systems Projects	OSC	1,012	0	0	42
Social Care IT System	OSC	350	0	0	0
Business Improvement		**2,412**	**250**	**0**	**1,942**
Works to other buildings	OSC	300	650	650	650
Civic Centre	OSC	300	300	0	0
Invest to Save schemes	OSC	2,010	300	300	300
Water Safety Works	OSC	100	0	0	0
Asbestos Safety Works	OSC	250	0	0	0
Facilities Management Total		**2,960**	**1,250**	**950**	**950**
Planned Replacement Programme	OSC	1,085	630	1,060	970
Infrastructure & Transactions		**1,085**	**630**	**1,060**	**970**
ePayments System	OSC	0	0	125	0
Resources		**0**	**0**	**125**	**0**
Acquisitions Budget	OSC	5,000	0	0	0
Multi Functioning Device (MFD)	OSC	0	600	0	0
Housing Company	OSC	8,101	8,146	0	0
CPOs Morden	OSC				
Corporate Items		**13,101**	**8,746**	**0**	**0**
Corporate Services		**19,558**	**10,876**	**2,135**	**3,862**
Community and Housing		£000	£000	£000	£000
Telehealth	HCOP	44	0	0	0
Adult Social Care		**44**	**0**	**0**	**0**
Disabled Facilities Grant	SC	629	280	280	280
Housing		**629**	**280**	**280**	**280**
West Barnes Library Re-Fit	SC	0	200	0	0
Library Self Service	SC	0	0	350	0
Library Management System	SC	100	0	0	0
Libraries		**100**	**200**	**350**	**0**
Community and Housing		**773**	**480**	**630**	**280**

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

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

3) Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2018/19 onwards as grant funding has not been announced.

Detailed Capital Programme 2018-22 Continued………

	Scrutiny	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22
Children Schools & Families		£000	£000	£000	£000
Schools Cap Maintenance & Accessibility	CYP	650	650	650	650
Primary Schools		**650**	**650**	**650**	**650**
Harris Academy Morden	CYP	2,194	800	0	0
Harris Academy Merton	CYP	100	0	0	0
St Mark's Academy	CYP	1,624	3,681	0	0
Harris Academy Wimbledon	CYP	5,474	1,300	0	0
Secondary School		**9,391**	**5,781**	**0**	**0**
Perseid	CYP	650	0	0	0
Cricket Green	CYP	5,028	0	0	0
Secondary School Autism Unit	CYP	1,330	0	0	0
Unallocated SEN	CYP	296	1,000	0	0
SEN		**7,304**	**1,000**	**0**	**0**
Admissions IT System	CYP	0	105	0	0
Capital Loans to schools	CYP	104	0	0	0
CSF Schemes		**104**	**105**	**0**	**0**
Children Schools & Families		**17,449**	**7,536**	**650**	**650**
Environment & Regeneration		£000	£000	£000	£000
Parking Improvements	SC	0	60	0	0
Public Protection and Development	SC	0	0	0	35
Public Protection and Development		**0**	**60**	**0**	**35**
Fleet Vehicles	SC	400	300	300	300
Alley Gating Scheme	SC	40	40	40	40
Smart Bin Leases - Street Scene	SC	6	0	0	0
Waste SLWP	SC	5,344	0	0	0
Street Scene & Waste		**5,790**	**340**	**340**	**340**
Street Trees	SC	60	60	60	60
Highways & Footways	SC	3,581	3,067	3,067	3,067
Unallocated Tfl	SC	1,865	0	0	0
Mitcham Area Regeneration	SC	2,032	301	0	0
Morden Area Regeneration	SC	3,000	3,000	1,000	0
Morden Leisure Centre	SC	5,756	169	0	0
Sports Facilities	SC	1,550	250	250	250
Parks	SC	1,452	491	300	300
Sustainable Communities		**19,297**	**7,338**	**4,677**	**3,677**
Environment and Regeneration		**25,086**	**7,738**	**5,017**	**4,052**
Capital		**62,723**	**26,630**	**8,432**	**8,844**

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

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

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

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

Indicative Capital Programme 2022-27

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

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

Please Note

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

Autumn Budget 2017 and Economic Outlook

The Autumn Budget 2017 was published on 22 November 2017 and used as its economic basis the November 2017 Economic and Fiscal Outlook by the Office for Budget Responsibility (OBR) also published the same day. In its outlook the OBR noted that "The UK economy has slowed this year as households' real incomes and spending have been squeezed by higher inflation. GDP growth has been a little weaker than we expected in March, but once again we have been more surprised by the strength of employment growth and the corresponding weakness of productivity growth. The persistence of weak productivity growth does not bode well for the UK's growth potential in the years ahead."

Furthermore, the OBR believes that:-

"The outlook for the economy over the next five years looks weaker than we forecast in March, primarily because we see less scope for productivity growth."

The OBR now expects to see slower GDP growth over the forecast period, mainly refecting a change in its forecast for productivity growth. It has revised down its forecast for GDP growth by 0.5 percentage points to 1.5% in 2017, then growth slows in 2018 and 2019, before rising to 1.6% in 2022.

Inflation- The value of sterling is little changed compared to Spring Budget 2017 in trade-weighted terms, but is around 10% below the level seen in the first half of 2016. This has fuelled an increase in inflation over the past year. Consumer Prices Index (CPI) inflation has risen from 0.9% in October 2016 to 3.0% in October this year and stands above the ten-year average of 2.4%. The increase has primarily been driven by a rise in goods price inflation, which has increased from -0.4% to 3.3% over the past year. In contrast, services price inflation has not increased materially, and remains below its long-run average.

Key Economic & Fiscal Indicators

	2016	2017	2018	2019	2020	2021	2022
Gross domestic product (GDP) (%)	1.8	1.5	1.4	1.3	1.3	1.5	1.6
Public sector net borrowing (£bn)	45.7	49.9	39.5	34.7	32.8	30.1	25.6
Public sector net borrowing (deficit % of GDP)	2.3	2.4	1.9	1.6	1.5	1.3	1.1
Public sector net debt (% of GDP)	85.8	86.5	86.4	86.1	83.1	79.3	79.1
LFS unemployment (% rate)	4.9	4.4	4.3	4.4	4.6	4.6	4.6
Employment (millions)	31.7	32.1	32.3	32.4	32.5	32.6	32.7
CPI Inflation (%)	0.7	2.7	2.4	1.9	2.0	2.0	2.0

Source: H.M.Treasury – Autumn Statement 2017; OBR - Economic & Fiscal Outlook, November 2017

Announcements in the Budget 2017 with Public Sector Implications

Business rates –

- bringing forward to 1 April 2018 the planned switch in indexation from RPI to the main measure of inflation (currently CPI)
- legislating retrospectively to address the so-called "staircase tax". Affected businesses will be able to ask the Valuation Office Agency (VOA) to recalculate valuations so that bills are based on previous practice backdated to April 2010 – including those who lost Small Business Rate Relief as a result of the Court judgement. The government will publish draft legislation shortly
- continuing the £1,000 business rate discount for public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2018
- increasing the frequency with which the VOA revalues non-domestic properties by moving to revaluations every three years following the next revaluation, currently due in 2022. To enable this, ratepayers will be required to provide regular information to the VOA on who is responsible for business rates and property characteristics including use and rent.

The government will consult on the implementation of these changes in the spring. Local government will be fully compensated for the loss of income as a result of these measures.

100% Business Rates Retention - The government has agreed a pilot of 100% business rates retention in London in 2018-19. The Greater London Authority (GLA) and London boroughs will come together to form a pool and invest revenue growth strategically on a pan- London basis.

Council Tax

- Empty homes premium – The government is keen to encourage owners of empty homes to bring their properties back into use. To help achieve this, local authorities will be able to increase the council tax premium from 50% to 100%.

Housing Investment

The Budget announced a package aimed to raise housing supply by the end of this Parliament to 300,000 per year, through:

- making available £15.3 billion of new financial support for housing over the next five years
- introducing planning reforms that will ensure more land is available for housing, and that maximises the potential in cities and towns for new homes while protecting the Green Belt

The Budget also announced further support for those aiming to get on the housing ladder now. The government will permanently exempt first time buyers from stamp duty for properties up to £300,000, with purchasers benefiting on homes up to £500,000.

<u>Local Housing Allowance</u>

• The government will increase the Targeted Affordability Fund by £125 million (£40 million in 2018-19 and £85 million in 2019-20) in areas of greatest pressure.

Right to Buy
• Government will proceed with a £200 million largescale regional pilot of the Right to Buy for housing association tenants in the Midlands.

Homelessness
• Government will provide £20 million of funding for schemes to support people at risk of homelessness to access and sustain tenancies in the private rented sector.

NHS and Health
The government will provide the NHS with £2.8 billion of additional resource funding in England. This will help it get back on track to meet its performance targets on waiting times both in A&E and after patients are referred to treatment:

- £335 million of this will be provided this year, to help the NHS to increase capacity over winter
- £1.6 billion will be provided in 2018-19
- £900 million will be provided in 2019-20, to help address future pressures
- Disabled Facilities Grant – The government will provide an additional £42 million for the Disabled Facilities Grant in 2017-18

NHS Pay

- The government is committing to funding pay awards for NHS staff on the Agenda for Change contract that are agreed as part of a pay deal to improve productivity, recruitment and retention.
- To protect frontline services in the NHS, the government is also committing to fund pay awards as part of a pay deal for NHS staff on the Agenda for Change contract, including nurses, midwives and paramedics. Any pay deal will be on the condition that the pay award enables improved productivity in the NHS, and is justified on recruitment and retention grounds. This does not prejudge the role of the independent NHS Pay Review Body in recommending the level of pay award that these staff should receive.

Public sector pay

- In 2018-19, for those workforces covered by an independent Pay Review Body (PRB), the relevant Secretary of State will shortly write to the PRB Chair to initiate the 2018-19 pay round, before later submitting detailed evidence outlining recruitment and retention data and reflecting the different characteristics and circumstances of their workforce. Each PRB will then make its recommendations in the spring or summer, based on the submitted evidence. Secretaries of State will make final decisions on pay awards, taking into account their affordability, once the independent PRBs report.

Not addressed in the Budget

Adult Social Care – there was nothing to address the growing funding pressures on this service. It had previously been announced that publication of the Adult Social Care Green paper has been pushed back to Summer 2018.

Children's Social Care – there was nothing to address the growing funding pressures on this service.

On these two issues the Local Government Association commented:-

"It is hugely disappointing that the Budget offered nothing to ease the financial crisis facing local services. Funding gaps and rising demand for our adult social care and children's services are threatening the vital services which care for our elderly and disabled, protect children and support families. This is also having a huge knock-on effect on other services our communities rely on….The Chancellor has recognised the financial challenges facing the NHS. However, the best way to reduce pressures on the NHS is to tackle the chronic underfunding of care and support services, and to prevent people presenting at A&E in the first place. We therefore call on the Government to ensure that spending plans for the new funding are agreed with local government."

Unemployment is also at its lowest rate since 1975.

In 2017 growth has remained solid, but slowed slightly at the start of the year. The UK economy is forecast to grow by 1.5% in 2017. It will then grow at a slightly slower rate in the next three years, before picking up in 2021 and 2022.

Inflation is forecast to peak at 3% in the final months of this year, as measured by the Consumer Prices Index (CPI). It will then fall towards the target of 2% over the next year.

2. Borrowing has fallen by three quarters since 2010, but debt is still high

In 2009-10 the UK borrowed £1 in every £4 that was spent. Last year it was £1 in every £16.

The fall in borrowing means we are adding less to our debt every year. However the UK still has a debt of over £1.7 trillion – around £65,000 for every household in the country.

3. An extra £3 billion to prepare for Brexit over the next two years

The money will make sure the government is ready on day 1 of exit. It will include funding to prepare the border, the future immigration system and new trade relationships.

4. £6.3 billion of new funding for the NHS

£3.5 billion will be invested in upgrading NHS buildings and improving care.

£2.8 billion will go towards improving A&E performance, reducing waiting times for patients, and treating more people this winter.

5. Abolishing stamp duty land tax (SDLT) on homes under £300,000 for first-time buyers from 22 November

95% of first-time buyers who pay stamp duty will benefit.

First-time buyers of homes worth between £300,000 and £500,000 will not pay stamp duty on the first £300,000. They will pay the normal rates of stamp duty on the price above that. This will save £1,660 on the average first-time buyer property.

80% of people buying their first home will pay no stamp duty.

There will be no relief for those buying properties over £500,000.

6. 300,000 new homes a year, an amount not achieved since 1970

£15.3 billion new financial support for house building over the next five years – taking the total to at least £44 billion. This includes £1.2 billion for the government to buy land to build more homes, and £2.7 billion for infrastructure that will support housing.

The government will also create 5 new ‘garden’ towns.

Changes to the planning system will encourage better use of land in cities and towns. This means more homes can be built while protecting the green belt.

7. The National Living Wage and the National Minimum Wage will increase from April 2018

The National Living Wage for those aged 25 and over will increase from £7.50 per hour to £7.83 per hour from April 2018. Over 2 million people are expected to benefit. For a full-time worker, it represents a pay rise of over £600 a year.

The National Minimum Wage will also increase:

21 to 24 year olds	18 to 20 year olds	16 and 17 year olds	Apprentices
£7.38 per hour	£5.90 per hour	£4.20 per hour	£3.70 per hour

8. The tax-free personal allowance will rise with inflation to £11,850 from April 2018

The personal allowance – the amount you earn before you start paying income tax – will rise from £11,500 to £11,850. This means that in 2018-19, a typical taxpayer will pay £1,075 less income tax than in 2010-11.

9. Fuel duty will remain frozen for an eighth year

In 2018, fuel duty will remain frozen for the eighth year in a row, saving drivers £160 a year on average.

14. Households applying for Universal Credit will get more upfront support

Households in need who qualify for Universal Credit will be able to access a month’s worth of support within five days, via an interest-free advance, from January 2018. This can be repaid over 12 months.

Claimants will be eligible for Universal Credit from the day they apply, rather than after seven days. Housing Benefit will continue to be paid for two weeks after a Universal Credit claim.

Low-income households in areas where private rents have been rising fastest will receive an extra £280 on average in Housing Benefit or Universal Credit.

17. More investment in maths and science in schools

Schools will get £600 for every extra pupil who takes A level or Core maths.

£27 million will help improve how maths is taught in 3,000 schools. £49 million will go towards helping students resitting GCSE maths.

£350,000 of extra funding a year will be given to every specialist maths school that is set up across the country. The number of fully-qualified computer science teachers will also rise from 4,000 to 12,000.

18. £64 million for construction and digital training courses

£34 million will go towards teaching construction skills like bricklaying and plastering. £30 million will go towards digital courses using AI.

This funding is provided in advance of launching a National Retraining Scheme that will help people get new skills. It will be overseen by the government, the Trades Union Congress (TUC) and the Confederation of British Industry (CBI). They will decide on other areas of the economy where new skills and training courses are needed.

19. A £220 million Clean Air Fund for local areas with the highest air pollution

Local authorities will be able to use this money to help people adapt as steps are taken to reduce air pollution. Possible ways the money could be spent include reducing the cost of public transport for those on low incomes or modernising buses with more energy efficient technology.

The money will come from a temporary rise in Company Car Tax and Vehicle Excise Duty on new diesel cars.

21. Business rates will switch to being increased by the Consumer Price Index (CPI) 2 years earlier than planned

Business Rates will rise by CPI from April 2018. Business rates currently rise by the Retail Price Index (RPI), a different way of measuring inflation which tends to be higher than the CPI.

Business rates revaluations will take place every 3 years, rather than every 5 years, starting after the next revaluation, currently due in 2022.

22. Pubs in England will continue to receive a £1,000 business rates discount next year

The discount applies to pubs with a rateable value of up to £100,000.

25. Funding for transport across England

£1.7 billion will go towards improving transport in English cities. Half will be given to Combined Authorities with Mayors, and the rest allocated by a competition.

Office for Budget Responsibility (OBR) – Economic and Fiscal Outlook 22 November 2017

The OBR published its latest update of its forecasts on the 22 November 2017 in the November 2017 Economic and fiscal outlook.

“The UK economy has slowed this year as households’ real incomes and spending have been squeezed by higher inflation. GDP growth has been a little weaker than we expected in March, but once again we have been more surprised by the strength of employment growth and the corresponding weakness of productivity growth. The persistence of weak productivity growth does not bode well for the UK’s growth potential in the years ahead.”

“The outlook for the economy over the next five years looks weaker than we forecast in March, primarily because we see less scope for productivity growth.”

London Business Rates Pilot Pool 2018-19
Final Prospectus – November 2017

Introduction

1. Earlier draft versions of this prospectus were circulated to Leaders in July and September asking all boroughs, the City of London and the GLA to consider the issues involved in establishing a pilot pool ahead of the Leaders' Committee and Congress of Leaders and the Mayor on 10 October.

2. At that meeting Leaders' Committee and the Mayor agreed in principle to pool business rates in a London pilot of 100% retention in 2018-19. Leaders' Committee delegated authority to the 5 elected officers of London Councils (the Chair, Deputy Chair, and three Vice Chairs) to take the in principle agreement forward to arrive at a core proposition for the operation of the pool and to continue discussions with both the Mayor and ministers on this. The elected officers discussed this in October and agreed a final distribution option on 1 November following discussions via the party groups, which was subsequently taken forward.

3. The Government formally confirmed its commitment to establishing a 100% business rate retention pilot in London in April 2018 in the Autumn Budget. This was agreed by a memorandum of understanding (MOU) signed by the Chair of London Councils, the Mayor of London, the Minister for London and the Secretary of State for Communities and Local Government.

4. This final prospectus sets out how the London Business Rates pilot pool will work in practice, were the 32 boroughs, the City of London Corporation and the Mayor of London to form a pool in 2018-19.

Pilot principles

5. The MOU between London Government and the Government on the London 100% business rates retention pilot agrees that:

   - The 100% business rates retention pilot in London will be voluntary, but will be a pool comprising all 32 London boroughs, the Corporation of the City of London and the Greater London Authority.
   - From 1 April 2018 the London authorities will retain 100% of their non-domestic rating income[1]. London will not retain 100% of total rates collected, as it will continue to pay an aggregate tariff to government. The overall level of collected rates that will be retained is around 64% after the tariff is paid.
   - London authorities will also receive section 31 grants in respect of Government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 100% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.
   - The London pool will retain 100% of any growth in business rate income above baselines, and will pay no levy on that growth.

[1] As defined by DCLG.

- In moving to 100% rates retention, the Department for Communities and Local Government will no longer pay Revenue Support Grant (RSG) to the London authorities in 2018/19. Funding baselines will be increased by the equivalent amount to reflect this transfer of RSG, which overall amounts to £775 million in 2018/19 (the full boroughs breakdown can be found at Appendix A).
- London authorities will not be subject to more onerous rules or constraints under the 100% rates retention pilot, than they would have been if they had remained subject to the existing "67% scheme" in place in 2017/18.
- No "new burdens" will be transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.
- In the event that London's business rates income fell, the pool will have a higher "safety net" threshold – 97% rather than 92.5% of the overall baseline funding level – than in the existing system, reflecting the greater reliance local authorities will have on business rates within the pilot.
- The piloted approach is to be without detriment to the resources that would have been available collectively to the 34 London authorities under the current local government finance regime, over the four year settlement period[2]. This "no detriment" guarantee will ensure that the pool, as a whole, cannot be worse off than the participating authorities would have been collectively if they had not entered the pilot pool. In the unlikely event of this arising (the current forecast is for collected rates to 6% above baselines), the government would intervene to provide additional resources.

Pooling principles

6. The MOU with the Government establishes the terms of the 100% retention pilot, but the London business rates pool must be set up following the same process as all other business rates pools. Following legal advice, the detailed pooling agreement that establishes the terms by which the pool will operate will be by an MOU between the 34 pooling authorities – as is the case for the vast majority of business rates pools.

7. The key principles that underpin the London pooling agreement are that:
    - **The pool in 2018-19 would not bind boroughs or the Mayor indefinitely** – the founding agreement includes notice provisions for authorities to withdraw provided notice is given by 31 August each year. Were the pool to continue beyond 2018/19, unanimous agreement would be required to reconfirm a pool from 2020/21 onwards (the expected year in which funding baselines will be update as a result of the Fair Funding Review).
    - **No authority can be worse off as a result of participating** - where authorities anticipate a decline in business rates, the first call on any additional resources generated by the pool would be used to ensure each borough and the GLA receives at least the same amount as it would have without entering the pool (this would include the equivalent of a safety net payment were it eligible for one individually under the

[2] This includes current 67% scheme growth retained under the retention pilot, and reflects Enterprise Zones and "designated areas" where the designations made by the Secretary of State came into force on or before 1 April 2018, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation.

current 67% system). Where authorities expect to grow, they will continue to retain at least as much of that income as they would under the current system, plus a potential share of the aggregate benefits of pooling assuming the pools grows (see paragraphs 14 and 18). Where the pool overall has less income than would have been available collectively under the 67% system, the funding provided by the Government as part of the "no detriment" guarantee would be used to ensure that no individual authority is worse off than it would have been otherwise. Existing Enterprise Zones and "designated areas", along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation, will be taken into account in calculating the level of resources below which the guarantee would operate. For boroughs in an existing pool, DCLG have also indicated that the basis of comparison would include the income due from that pool[3].

- **All members will receive some share of any net benefits arising from the pilot pool** – recognising that growing London's economy is a collective endeavour in which all boroughs make some contribution to the success of the whole, all members of the pool will receive at least some financial benefit, were the pool to generate additional resources.

Lead authority

8. As in other existing pools, it is a statutory requirement that a "lead authority" acts as the accountable body to government and is responsible for the administration of the pooled fund. The City of London has agreed to be the lead authority for the London business rates pool.

9. The lead authority's standard responsibilities will include, but not be limited, to:
   - all accounting for the finances of the pool including payments to and from the Government;
   - management of the pool's collection fund;
   - all audit requirements in relation to the pool;
   - production of an annual report of the pool's activity following final allocation of funds for the year;
   - the administration of the dissolution of the pool;
   - all communications with the DCLG including year-end reconciliations; and
   - the collation and submission of information required for planning and monitoring purposes.

10. It will be for the Lead Authority for the pool to determine the distribution of revenues between members of the pool and also pay the net tariff payment to the Government during the year. In practice, this will mean some authorities will receive net payments from the pool in instalments during the 2018-19 financial year and others will make net payments into the pool depending on their top up and tariff positions and estimated business rates income. These transfers through the pool will also incorporate the GLA's share.

11. Under a delegation arrangement, the GLA will manage treasury management issues and monetary transfers between billing authorities on behalf of the lead authority. This reflects the

[3] Of the 33 London authorities in 2017-18 this includes Barking & Dagenham, Havering and Croydon

fact that the GLA already has the systems in place to manage payment flows to and from billing authorities for business rates retention as well as council tax and the BRS.

12. It is likely that the resources required to perform this function would be 1 FTE post, which would likely be a senior accountant with considerable experience and understanding of collection fund accounting and the business rates retention scheme.

13. In the case of the London pilot pool, the lead authority will have an additional role in formally taking decisions over the allocation of the Strategic Investment Pot following consultation with all participating authorities (as described in paragraphs 21 to 23 below).

Distributing the benefits of pooling

14. The net financial benefit of pooling consists of retaining 100% of growth (rather than 67% across London under the current scheme), and in not paying a levy on that growth (which tariff authorities and tariff pools currently pay). The principle would mean that *any aggregate growth* in the pool overall – because of the increased retention level – would generate additional resources to share, with each pooling member to benefit to some extent.

15. The net financial benefit to participating in the pool in 2018-19 is currently estimated to be in the region of £240 million, based on London Councils' modelling using boroughs' own forecasts. A more accurate forecast will be expected in February 2018 following the completion of individual forecasts for 2018-19.

16. The pooling agreement sets out the principles and method for distributing any net financial benefits that may be generated. The principles are based on four objectives agreed by Leaders and the Mayor:
    - **incentivising growth** (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool)
    - **recognising the contribution of all boroughs** (through a per capita allocation)
    - **recognising need** (through the needs assessment formula); and
    - **facilitating collective investment** (through an investment pot designed to promote economic growth and lever additional investment funding from other sources).

17. The final agreed distribution method recognises all four of these objectives with 15% of any net financial benefit set aside as a "Strategic Investment Pot" (see paragraphs 19 to 23 below); and the resources not top-sliced for the investment pot being shared between the GLA and the 33 billing authorities (the 32 boroughs and the Corporation of London) in the ratio 36:64, in accordance with the principle previously agreed by London Councils and the GLA in the joint business rate devolution proposals to Government in September 2016. Estimated boroughs shares of the estimated £240 million net benefit to the pool and the above distribution weightings are set out in Appendix B.

18. The Mayor of London has committed that the GLA's share of any additional net financial benefit from the pilot will be spent on strategic investment projects. It is therefore anticipated that approximately 50% of net additional benefits arising from the pilot pool will be spent on strategic investment projects. <u>Decisions on the allocation of the GLA's share will be made by</u>

the Mayor of London. Examples of the kinds of projects the Mayor will seek to support with the GLA's share include supporting the delivery of housing through infrastructure investment and the provision of skills and training to further support housing delivery.

Strategic investment pot and pool governance

19. The joint Strategic Investment Pot (SIP) - representing 15% of the total additional net benefit - will be spent on projects that meet each of the following requirements:
    - contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
    - leverage additional investment funding from other private or public sources; and
    - have broad support across London government in accordance with the proposed governance process.

20. For these purposes, "strategic investment" is defined as projects that will contribute to the sustainable growth of London's economy which lead to an increase in London's overall business rate income.

21. Following legal advice regarding the form of the governance mechanism for taking decisions regarding the SIP, decisions will be taken formally by the City of London - as the lead authority - in consultation with all member authorities, reflecting voting principles designed to protect Mayoral, borough and sub-regional interests[4], previously endorsed by Leaders and the Mayor in the London Finance Commission (both 2013 and 2017), and set out in London Government's detailed proposition on 100% business rates in September 2016. These are that:
    - both the Mayor and a clear majority of the boroughs would have to agree;
    - a majority would be defined as two-thirds of the 33 billing authorities (the 32 boroughs and the City of London), subject to the caveat that where all boroughs in a given sub-region disagreed, the decision would not be approved; and
    - if no decisions on allocation can be reached, the available resources would be rolled forward within the pot for future consideration at the next decision making round.

22. The lead authority will oversee the methodology for the allocation of resources and prepare reports on proposals for the SIP, supported by London Councils and the GLA, in accordance with the agreed criteria. Decisions on allocating the strategic investment pot will be taken bi-annually with the lead authority reporting back on decisions, following consultation with all participating authorities, at each meeting of the Congress of Leaders and the Mayor of London.

23. The Lead Authority will prepare reports with proposed recommendations as to SIP allocations and shall circulate the reports to the Participating Authorities for consultation in advance of Congress meetings and each Participating Authority will decide, in accordance with its own governance process and scheme of delegation, whether that Participating Authority wishes to

[4] For these purposes, the sub-regions would be defined as the Central, West, South and Local London sub-regions as defined for devolved employment support arrangements and illustrated in the map at Appendix C. If in the future, boroughs wished to change the initial groupings that could be achieved by agreement of the pool member authorities.

recommend to the lead authority that a strategic investment project is supported or rejected and if rejected together with its reasons for such recommendation.

Future of the pilot

24. The Government will undertake a qualitative evaluation of the progress of the pilot based on the current research programme for the existing business rate retention pilots, with additional focus on the governance mechanism and decision making process, and the scale of resources dedicated to strategic investment.

25. The MOU between London Government and the Government only commits to the pilot operating for one year. However, subject to the evaluation of the pilot, it also commits the Government to working with London authorities to explore: future options for grants including, but not limited to, Public Health Grant and the Improved Better Care Fund; the potential for transferring properties on the central list in London to the local list where appropriate; and legislative changes needed to develop a Joint Committee model for future governance of a London pool.

Designated areas

26. Enterprise Zones and “designated areas” effectively hypothecate future business rate revenues to support investment. Under current arrangements, these are subject to agreement between the government and the boroughs directly involved, in consultation with the GLA, whose revenues are also affected.

27. The Government is not actively encouraging further such arrangements. However, if, during the lifetime of a pilot pool, new “designated areas” or Enterprise Zones were to be created, this could – depending on the nature of the individual scheme – impact on the potential future revenues of all members of the pool and will need to be considered in establishing the pool and framework.

28. It is not proposed that consideration or decision-making in respect of new designated areas be a matter for the pool. However, depending on the nature of individual schemes, such decisions would have to be taken by the relevant local authority after appropriate consultation with those affected.

Accounting and reporting

29. In order that a the lead authority can fulfil its functions and meet its obligations as the accountable body, each member authority will need to provide timely information to the lead authority as well as making timely payments to an agreed schedule.

30. Forecast (NNDR1) and outturn (NNDR3) figures will still be required as per the existing NDR Regulations 2013, in order to enable budget processes to be complete and for the schedule of payments from the lead authority and to government to be determined during the course of the year. The pool would use NNDR1 returns to establish the schedule of payments to be made to the lead authority and for the calculation of any notional levy savings to be made. However, it would not be until the outturn position is known (the NNDR3 form) that actual reconciliation would be made and the final growth/decline for the pool as a whole, and

individual pool members, would be known. This will be in September 2019 after accounts have been audited for the financial year 2018-19.

31. The forecast NDR income figures in the NNDR1 forms determine the growth/decline for that year and it is this figure that would determine the amount to be shared between pool members or between local authorities and central government in the current system.

32. Variances against forecast in the non-domestic rating income are reflected in the forecast surplus or deficit of the collection fund at the start of the following year (information which is collected as part of NNDR1). Appeals provisions impact each year on the calculation of the NNDR income figure: a higher provision in a year, everything else being equal, reduces the NNDR income figure determining growth/decline for that year.

33. A separate pooled collection fund would be required to be established that would sit with the lead authority. A key issue will be the treatment of Collection Fund surpluses and appeals provisions within the pool. The key principle pooling authorities would have to agree is that the benefits (or costs) of actions undertaken by the authorities prior to entering the pool should remain with the authority so that no authority can be worse off than they would have been under the 67% scheme. So – for example – if a provision established in 2013-14 proves not to be necessary and is released during 2018-19, the authority should receive at least as much as it would have under the existing 67% scheme, plus its share of any additional retained revenues.

34. The pool's collection fund account would have to continue beyond the life of the pool until all appeals relating to the pool period were resolved. Provisions released after the operation of the pilot would be distributed on the basis of the pool's founding agreement – i.e. the authority where the provisions originated would receive at least as much as it would under the 67% retention system, with any additional resources being shared according to the pool's agreed distribution mechanism. There would therefore be no "gaming" benefits to individual authorities of setting higher (or lower) provisions. The lead authority would be responsible for administering this.

35. Further work is being undertaken to set out how the accounting and reporting requirements would work in practice, which may require an additional "London pool" form to be administered by the lead authority. This will be confirmed following the Provisional Local Government Finance Settlement in December.

Next steps - Local decisions required to establish the pool

36. Establishing a pilot pool will require two separate decisions to be made by each participating authority:
    - the agreement to accept the designation order by government to form the pool; and
    - agreement between the boroughs, the City of London and the GLA by which London Government collectively decides how to operate the pool and distribute the financial benefits (the pooling MOU).

37. With regard to the former, the Government has prepared a draft "designation order" establishing a London pilot pool that will be sent out by DCLG alongside in the Provisional

Local Government Finance Settlement in December (a draft of the designation order letter will be circulated alongside this final prospectus). If any authority decides to opt out within the following 28 days – that is, by 28 days after the Provisional Local Government Finance Settlement – the pool would not proceed.

38. The pooling agreement MOU between the 34 London authorities will be circulated by Friday 1 December, to be signed by each Leader of the 32 London boroughs, the Chairman of the Policy and Resources Committee of the City of London and the Mayor of London, and.

39. Each authority will need to take the relevant decisions regarding the pooling agreement and designation order, through its own constitutional decision-making arrangements in time for the resulting business rate and funding baselines to be incorporated within the Final Local Government Finance Report in February.

40. In order to facilitate and support authorities in taking these decisions, advice on the legal framework and governance options for the pool has been circulated to Chief Executives and Finance Directors, along with other supporting material to help facilities those local decisions including:

- draft resolutions to support boroughs in drafting any cabinet/committee/council reports
- an FAQs document to answer any legal queries in relation to the pool
- a further legal note on executive decisions
- this final prospectus.

41. The timeline to make the pool operational is as follows:

- Government publishing draft baseline figures in the provisional settlement (Mid-December).
- Boroughs taking formal decisions to participate in the pool and the framework for its operation within 28 days of the Provisional Settlement (by mid-January 2018).
- Final baselines published in final LGF Settlement (February 2018).
- Pool goes live (April 1 2018).

Appendix A – Revenue Support Grant amounts to be rolled in to the funding baselines as part of the London 100% BRR pilot

The amount of Revenue Support Grant (RSG) to be 'rolled-in' to 100% rates retention for 2018/19 for each authority is set out below. This is in addition to the sums rolled in in 2017-18 in respect of the Transport for London investment grant and the Greater London Authority's RSG under the GLA's partial pilot.

	Amount (£m) for 2018/19
Barking & Dagenham	23.3
Barnet	14.9
Bexley	8.5
Brent	33.7
Bromley	4.3
Camden	31.9
City of London	7.5
Croydon	23.3
Ealing	26.2
Enfield	25.7
Greenwich	33.3
Hackney	45.0
Hammersmith & Fulham	23.4
Haringey	30.2
Harrow	7.3
Havering	6.8
Hillingdon	13.1
Hounslow	15.7
Islington	32.6
Kensington & Chelsea	16.3
Kingston upon Thames	1.5
Lambeth	42.8
Lewisham	36.9
Merton	10.1
Newham	46.4
Redbridge	16.8
Richmond upon Thames	0.0
Southwark	47.0
Sutton	11.8
Tower Hamlets	43.8
Waltham Forest	26.1
Wandsworth	30.2
Westminster	38.1

NB: Provisional baselines and tariffs and top-ups will be circulated following the Provisional Local Government Finance Settlement in December.

Appendix B – Forecast shares of net financial benefit in 2018/19 based on £240 million estimate

The figures below represent the estimated shares of the overall net financial benefit currently forecast from the London pool in 2018/19 (£240m), applying the distribution methodology set out in paragraph 17, which applies the following weightings (15% incentives: 35% population; 35% SFA; 15% Strategic Investment Pot).

Table B1 - Breakdown of estimated total net benefit

	£m	%
Incentives pot (boroughs' share)	*23.0*	9.6%
SFA pot (boroughs' share)	*53.7*	22.3%
Population pot (boroughs' share)	*53.7*	22.3%
London Boroughs total	130.3	54.2%
GLA total	73.9	30.8%
Boroughs/GLA total	204.3	85.0%
Strategic Investment Pot	36.0	15.0%
London Total	**240.3**	**100.0%**

Note: The GLA's total is comprised of 36% of each of the incentives, SFA and population pots

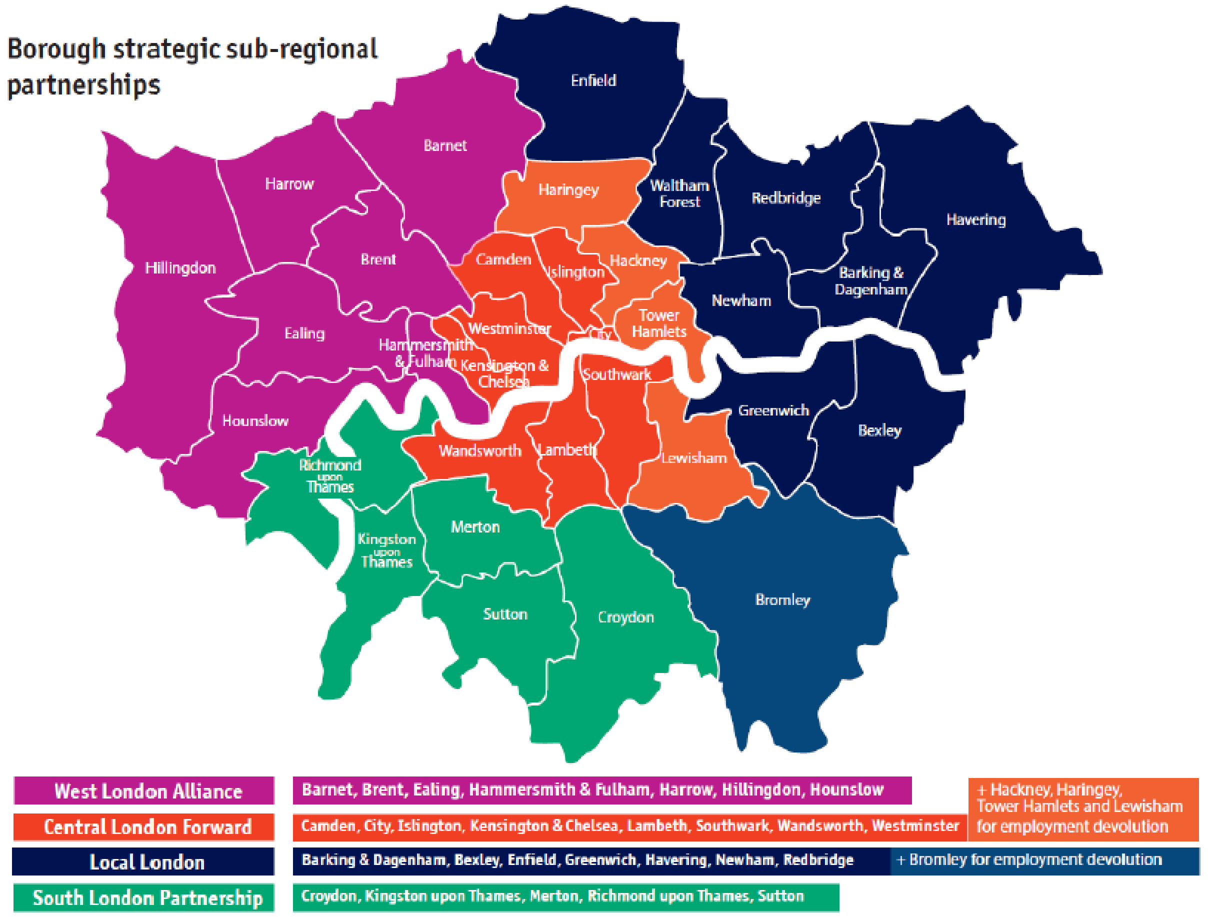
Table B2 – Borough breakdown of estimated net benefit in 2018/19

	£m
Barking & Dagenham	2.8
Barnet	3.7
Bexley	2.8
Brent	4.9
Bromley	2.9
Camden	5.7
City of London	8.2
Croydon	4.3
Ealing	4.4
Enfield	4.2
Greenwich	3.9
Hackney	4.6
Hammersmith & Fulham	2.6
Haringey	3.7
Harrow	2.4
Havering	2.5
Hillingdon	5.4
Hounslow	3.4
Islington	3.8
Kensington & Chelsea	2.2
Kingston upon Thames	1.7
Lambeth	5.3
Lewisham	4.3
Merton	2.4
Newham	6.2
Redbridge	3.2
Richmond upon Thames	1.7

Southwark	6.0
Sutton	2.1
Tower Hamlets	8.0
Waltham Forest	3.4
Wandsworth	3.9
Westminster	3.8
London Boroughs total	**130.3**
GLA total	**73.9**
Boroughs/GLA total	**204.3**
Strategic Investment Pot	**36.0**
London Boroughs total	**240.3**

Note: These figures should be treated with caution and are only indicative. They are based on modelling which uses boroughs’ own estimates from a survey of London Treasurers in May 2017. Where boroughs did not respond, the 2017-18 forecast figures were used.

Appendix C - Illustrative sub-regional groupings for the purposes of the "sub-regional veto" in respective of Strategic Investment Pot decisions



APPENDIX 1

Memorandum of Understanding on the London 100% business rates retention pilot 2018-19

Department for Communities and Local Government

LONDON COUNCILS

MAYOR OF LONDON

……………………….

Rt Hon Sajid Javid MP
Secretary of State for Communities and Local government

……………………….

Sadiq Khan
Mayor of London

……………………….

Rt Hon Greg Hands MP
Minister for London

……………………….

Cllr Claire Kober
Chair, London Councils

Department for Communities and Local Government

LONDON COUNCILS

MAYOR OF LONDON

100% Business Rates Retention Pilot 2018-19 Agreement for London

Introduction

1. In the Spring Budget 2017, the London Devolution Memorandum of Understanding[1] included a commitment to exploring options for granting London government greater powers and flexibilities over the administration of business rates, including supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed.

2. This Memorandum of Understanding confirms the commitment by the Government, the Mayor of London and London local government to pilot the principles of 100% business rates retention in 2018-19 through a pan-London business rates pool. It sets out the terms by which the local authorities listed at **Annex A** will pilot 100% business rates retention.

3. This agreement comes into effect from 1 April 2018 and expires on 31 March 2019.

Pilot principles

4. The pilot pool will be voluntary, but will include all 32 London boroughs, the Corporation of the City of London and the Greater London Authority ["the London authorities"].

5. From 1 April 2018 the London authorities will retain 100% of their non-domestic rating income[2]. They will also receive section 31 grants in respect of Government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 100% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.

6. In moving to 100% rates retention, the Department for Communities and Local Government will no longer pay Revenue Support Grant to the London authorities in 2018/19. The value of these grants in 2018/19 is set out in **Annex B**.

7. The London authorities will not be subject to more onerous rules or constraints under the 100% rates retention pilot, than they would have been if they had remained subject to the 67% scheme in place in 2017-18 reflecting the

[1] https://www.gov.uk/government/publications/memorandum-of-understanding-on-further-devolution-to-london

[2] As defined in the Non-Domestic Rating (Rates Retention) Regulations 2013 (SI2013/452) (as amended).

incremental impact of the Greater London Authority's partial pilot as a result of the rolling in of its revenue support grant and the Transport for London investment grant. No "new burdens" will be transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.

8. Levy and safety net payments due from/to the London business rates pool will be calculated, in accordance with the Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (SI 2013/737) (as amended), as if the London authorities were <u>not</u> 100% pilots, but instead were operating under the 50% rates retention scheme adjusted for the GLA's partial pilot for 2017-18 which is continuing as part of the pool and increased the locally retained share to 67%.

9. However, notwithstanding the calculation of levy and safety net payments under the Regulations, the Government will calculate levy and safety net payments due from/to the London business rates pool on the basis that it has a "zero" levy rate and "safety net threshold" of 97%, and that the London authorities will be retaining 100% of London's business rates income. The difference between any sums due under this calculation and the levy/safety net due under SI 2013/737 will be paid to the London business rates pool via a section 31 grant.

10. The piloted approach is to be without detriment to the resources that would have been available collectively to the 34 London authorities under the current local government finance regime, over the four year settlement period. This includes current 67% scheme growth retained under the retention pilot, and reflects Enterprise Zones and "designated areas" where the designations made by the Secretary of State came into force on or before 1 April 2018, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation.

Distribution of any financial benefit

11. The 34 London authorities will prepare a framework agreement for the operation of a pilot pool in which:
    - each authority will receive at least as much from the pool as they would have individually under the existing 67% retention scheme;
    - 15% of any net financial benefit will be set aside as a "Strategic Investment Pot" (see paragraphs 13 and 14); and
    - the resources not top-sliced for the investment pot will be shared between the GLA and the 33 billing authorities (the 32 boroughs and the Corporation of London) in the ratio 36:64, in accordance with the principle previously

agreed by London Councils and the GLA in the joint business rate devolution proposals to Government in September 2016.

Strategic investment

12. The Mayor of London commits that the GLA’s share of any additional net financial benefit from the pilot will be spent on strategic investment projects. Decisions on the allocation of the GLA’s share will be made by the Mayor of London.

13. For this purpose, and for the separate joint strategic investment pot, “strategic investment" is defined as projects that will contribute to the sustainable growth of London's economy which lead to an increase in London’s overall business rate income. Examples of the kinds of projects the Mayor will seek to support with the GLA’s share include supporting the delivery of housing through infrastructure investment and the provision of skills and training to further support housing delivery.

14. The joint strategic investment pot will be spent on projects that meet each of the following requirements:

    - contribute to the sustainable growth of London’s economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
    - leverage additional investment funding from other private or public sources; and
    - have broad support across London government in accordance with the proposed governance process (see paragraph 16).

15. It is anticipated that approximately 50% of net additional benefits arising from the pilot pool will be spent on strategic investment projects.

Governance

16. Decisions regarding the Strategic Investment Pot will be taken formally by the Corporation of the City of London - as the lead authority - in consultation with all member authorities, reflecting voting principles designed to protect Mayoral, borough and sub-regional interests, previously endorsed by Leaders and the Mayor in the London Finance Commission (both 2013 and 2017), and set out in London Government’s detailed proposition on 100% business rates in September 2016. These are that:

    - both the Mayor and a clear majority of the boroughs would have to agree;

- a majority would be defined as two-thirds of the 33 billing authorities (the 32 boroughs and the Corporation of the City of London), subject to the caveat that where all boroughs in a given sub-region disagreed, the decision would not be approved;
- if no decisions on allocation can be reached, the available resources would be rolled forward within the pot for future consideration at the next decision making round.

17. It is envisaged that decisions will be taken bi-annually to coincide with meetings of the Congress of Leaders and the Mayor of London.

Evaluation

18. The Government will undertake a qualitative evaluation the progress of the pilot based on the current research programme for the existing business rate retention pilots, with additional focus on the governance mechanism and decision making process, and the scale of resources dedicated to strategic investment.

Next steps

19. As specified in paragraph 3, the pilot will operate for one year. The Government is committed to giving local government greater control over the revenues they raise. Subject to the evaluation of the pilot, the Government will work with London authorities to explore: the options for grants including, but not limited to, Public Health Grant and the Improved Better Care Fund; the potential for transferring properties on the central list in London to the local list where appropriate; and legislative changes needed to develop a Joint Committee model for future governance of a London pool.

20. The Government will prepare a “designation order” establishing a London pilot pool and reflect this in the Provisional Local Government Finance Settlement in December. If any authority decides to opt out within the following 28 days – that is, by 28 days after the Provisional Local Government Finance Settlement – the pool would not proceed.

21. London Government will draft a pooling agreement between the 34 London authorities by which London Government collectively decides how to operate the pool and distribute the financial benefits. Each authority will be required to take the relevant decisions through its own constitutional decision-making arrangements.

Annex A

Authorities in the London Pilot

Barking & Dagenham
Barnet
Bexley
Brent
Bromley
Camden
City of London
Croydon
Ealing
Enfield
Greenwich
Hackney
Hammersmith & Fulham
Haringey
Harrow
Havering
Hillingdon
Hounslow
Islington
Kensington & Chelsea
Kingston upon Thames
Lambeth
Lewisham
Merton
Newham
Redbridge
Richmond upon Thames
Southwark
Sutton
Tower Hamlets
Waltham Forest
Wandsworth
Westminster
Greater London Authority

Annex B

Grants

The amount of Revenue Support Grant (RSG) to be ‘rolled-in’ to 100% rates retention for 2018/19 for each authority is set out below. This is in addition to the sums rolled in in 2017-18 in respect of the Transport for London investment grant and the Greater London Authority’s RSG under the GLA’s partial pilot.

RSG	Amount (£m) for 2018/19
Barking & Dagenham	23.3
Barnet	14.9
Bexley	8.5
Brent	33.7
Bromley	4.3
Camden	31.9
City of London	7.5
Croydon	23.3
Ealing	26.2
Enfield	25.7
Greenwich	33.3
Hackney	45.0
Hammersmith & Fulham	23.4
Haringey	30.2
Harrow	7.3
Havering	6.8
Hillingdon	13.1
Hounslow	15.7
Islington	32.6
Kensington & Chelsea	16.3
Kingston upon Thames	1.5
Lambeth	42.8
Lewisham	36.9
Merton	10.1
Newham	46.4
Redbridge	16.8
Richmond upon Thames	0.0
Southwark	47.0
Sutton	11.8
Tower Hamlets	43.8
Waltham Forest	26.1
Wandsworth	30.2
Westminster	38.1

London Councils

London Business Rates Pooling Pilot

Suggested Sample Draft Resolutions for Participating Authorities

(Note: these are samples and can be combined or condensed to suit individual authorities' own normal styles)

Establishment of Governance Arrangements:

That the [Council/Cabinet/Mayor/Committee] resolves to:

1 approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7)(1) of Schedule 7B Local Government Finance Act 1988;

2 participate in the London Business Rates Pilot Pool with effect from 1 April 2018 [to 31 March 2019];

3 delegate the authority's administrative functions as a billing authority pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013, [GLA only and to delegate the administrative functions as a major precepting authority pursuant to s39(1)(aa) of the Local Government Finance Act 1992] to the City of London Corporation ("**COLC**") acting as the Lead Authority;

4 authorise the Lead Authority to sub-contract certain ancillary administrative functions [regarding the financial transactions [payment of tariffs and top-ups] within the Pool to the GLA as it considers expedient];

Entry into the Memorandum of Understanding:

5 delegate authority to the Chief Finance Officer [in consultation with the [Cabinet] Member for Finance,] to agree the operational details of the pooling arrangements with the participating authorities;

[Either

6(a) enter into such Memorandum of Understanding with the participating authorities as may be necessary to implement and/or regulate the pool and to delegate authority to the Chief Finance Officer [in consultation with the Head of Legal Services] to negotiate, finalise and execute the same on behalf of the authority;]

[Or alternatively

6(b) authorise the Chief Finance Officer, [in consultation with the Head of Legal Services] to make any amendments to [the Memorandum of Understanding, attached at Appendix [ ] to the report,] as may be required by the Secretary of State, and to enter into the final Memorandum of Understanding on behalf of the authority;]

Operation of the Pool:

7 to authorise [elected member eg in his/her official capacity as Leader/directly elected Mayor] to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool consultative as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding;

8 delegate to [Senior Executive Member/Officer/Committee] the authority to consider such consultative reports as the Lead Authority may circulate and to respond on behalf of the authority with regard to any recommendations and in particular, proposals for projects to be approved for funding from the Strategic Investment Pot.

(Optional as these issues will be covered in the Memorandum of Understanding);

9 delegate to the Lead Authority the functions of assessment, due consultation and approval of projects eligible for funding from the Pool's Strategic Investment Pot following consultation with the participating authorities (provided that at least two thirds of such participating London Boroughs are (including the City of London Corporation) in favour of the relevant recommendation as well as the Mayor of London, and that no entire sub-region is in disagreement with the decision) on such terms and conditions as shall ensure value for money and compliance with the law.

(Optional as these issues will be covered in the Memorandum of Understanding.)

Trowers & Hamlins LLP
Ref: HZR
14 November 2017

London Councils

Greater London Business Rates Pooling Pilot Arrangement

Legal Questions and Answers

(This document supplements London Business Rates 100% Retention Pilot 2018 - "Some Questions and Answers" issued by London Councils)

1 **What power does a local authority have to enter into a pooling arrangement for business rates?**

The Secretary of State has the power to designate two or more "relevant authorities" as a pool of authorities for the purposes of the provisions of Schedule 7B of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 2012).

Paragraph 45 (Interpretation) of Schedule 7B defines a "relevant authority" as a billing authority in England, or a major precepting authority in England. The list of billing authorities at Schedule 5, Part 1 of the Non-domestic Rating (Rates Retention) Regulations 2013/452 includes the GLA and the London Boroughs[1] as billing authorities and the GLA is also a precepting authority pursuant to section 39 (1) of the Local Government Finance Act 1992.

2 **What power does a local authority have to enter into a Memorandum of Understanding or Inter Authority Agreement in relation to a business rates pooling arrangement?**

In relation to the project, the participating local authorities have implicit powers to enter into arrangements with each other for the purposes of fulfilling the requirements of Schedule 7B for obtaining an order of the Secretary of State authorising the establishment of a business rate pool.

A Memorandum of Understanding (**MOU**) is generally not contractually binding.

Local authorities have a power to enter into arrangements between them including under section 111 of the LGA 1972: "*Without prejudice to any powers exercisable apart from this section but subject to the provisions of this Act and any other enactment passed before or after this Act, a local authority shall have power to do any thing (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions*". If the MOU is succeeded by a more detailed Inter Authority Agreement (**IAA**) this could be a legally binding contract. If so then the relevant power would be s111, LGA 1972 in conjunction with section 1(1) of the Local Government (Contracts) Act 1997 "*for the provision or making available of … Services for the purposes of, or in connection with the discharge of the function of the local authority*". In the context of establishing a business rate pooling arrangement, the relevant "functions" are those of a billing authority or a major precepting authority.

3 **What decisions will be required to establish the pool by local authorities with executive arrangements?**

On the assumption Option 2 is chosen, then it will initially involve:

(a) a resolution to participate in the pool and accept the Secretary of State's designations of the pool;

(b) delegation of administrative functions by your Executive to the lead authority;

[1] For the purposes of this note, the term "London Borough" should be deemed to include the City of London Corporation.

(c) a decision on the MOU/IAA to be agreed between the members of the pool – including distribution, and the basis of the strategic investment pot (**SIP**).

Subsequently, it will involve receiving reports from the Lead Authority with recommendations as to the proposed allocations of the Strategic Investment Pot to projects and your authority making a decision on how to respond with regard to the Lead Authority's recommendation.

Your authority's Senior Executive Member or a member to whom the Senior Executive Member and Cabinet delegates authority will attend twice yearly meetings to be informed as to the outcome of the Lead Authority's decisions regarding allocation of the SIP for an investment project. It is anticipated that this will be incorporated within the existing system of meetings of the Congress of Leaders and the Mayor of London.

The Lead Authority's decisions regarding SIP projects will be made on the basis of three consultation tests: (i) the GLA and the London Boroughs agree; (ii) London Boroughs' agreement will require two-thirds support; and (iii) support is subject to a sub-regional veto whereby, if all the London Boroughs in a sub-region were to oppose a proposal then it could not be agreed (the sub-regions for this purpose were defined in the London Councils Leader Committee report October 2017). The SIP projects will have been assessed by the Lead Authority against pre-agreed transparent and objective criteria.

4 What decisions will be required to establish the pool by authorities not operating executive arrangements?

Initially, this will involve:

(a) a resolution to participate in the pool and accept the Secretary of State's designation of the pool;

(b) then it will involve a decision regarding delegation of the administrative functions involved in running the pool pursuant to s101, LGA 1972 by your Council or a duly authorised committee to the lead authority; and

(c) a decision on the MOU/IAA to be agreed between the members of the pool – including distribution, and the basis of the strategic investment pot (**SIP**).

Your authority's subsequent decisions as to its view like to decide its views in respect of the Lead Authority's recommendation regarding allocation of the SIP will need to be made by the duly authorised committee on the basis of a report which will be provided by the Lead Authority in advance for this purpose.

Your authority's chosen elected member representative (e.g. the Leader) will attend twice yearly meetings to be informed on the Lead Authority's decision(s) regarding allocation of the SIP. It is anticipated that this will be incorporated within the existing system of meetings of the Congress of Leaders and the Mayor of London.

The Lead Authority's decisions regarding SIP projects will be made on the basis of three consultation tests: (i) GLA and London Boroughs agree; (ii) London Boroughs' agreement will require two-thirds support; and (iii) support is subject to a sub-regional veto whereby, if all the London Boroughs in a sub-region oppose the proposal then it cannot be agreed (the sub-regions for this purpose were defined in the London Councils Leaders' Committee report October 2017). The SIP projects will have been assessed by the Lead Authority against pre-agreed transparent and objective criteria.

5 **What will the Memorandum of Understanding/Inter Authority Agreement involve?**

This will be based on the DCLG's Standard Template for the anticipated 2018/19 business rate pilots. It will be expressed to last for 1 year from 1 April 2018 to 31 March 2019. It will guarantee that the participating authorities will be no worse off than they would have been had they stayed within existing arrangements and that the authorities will not be subject to more onerous rules or constraints than they would have been if they had chosen not to participate in the pool. It will also set out the Lead Authority's administrative and accountable body responsibilities; the rationale for the pool; the principles and basis of allocation of resources; the decision-making arrangements for the Strategic Investment Pot; reviews; dispute resolution and notice arrangements. If it is an MOU it will not be contractually binding but it will express the intention to co-operate and collaborate. If there is a contractually binding IAA this will include more detailed provisions including the exit mechanism.

6 **Will this arrangement have any implications with regard to public procurement law?**

No. There is an exemption under Regulation 12 (7) of the Public Contracts Regulations 2015 for an MOU/IAA given that it is likely to comprise a contract which is concluded exclusively between two or more contracting authorities and which fulfils all of the following conditions:

(a) the contract establishes or implements the cooperation between the participating contracting authorities with the aim of ensuring that public services they have to perform are provided with a view to achieving objectives they have in common;

(b) the implementation of that co-operation is governed solely by considerations relating to the public interest; and

(c) the participating contracting authorities perform on the open market less than 20% of the activities concerned by the corporation the co-operation-not applicable.

However, any works, services or supply contract executed in order to implement the individual projects using the funds in the SIP may well need to be competitively tendered under public procurement law depending on the nature and value of the contract. It is understood that such compliance will be a condition of allocation/project approval.

7 **Will the business rates pool have any implications for state aid?**

State aid is prohibited by Article 107(1) of the TFEU, which sets out that "*save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market*", the pooling arrangement will not affect the amount of business rates that an undertaking will have to pay. However, any projects implemented through use of funds from the Strategic Investment Pot will need to comply with the then current principles of state aid which it is understood will be a condition of allocation/project approval.

8 **Is the business rates pooling arrangement likely to have any implications in far as employment law is concerned?**

No, not for most participating authorities. It is currently anticipated that only a minimal number of staff will need to service the administration of the business rates pooling arrangement within COLC, the lead authority who may sub-contract certain administrative functions of the Pool to the GLA and who will be made available to COLC (as these are similar to activities the GLA already carries out as a precepting authority) to collect its share of retained rates from London Boroughs and the City of London Corporation subject to an arrangement under section 113 of the Local Government Act 1972. On the basis of current estimates, in the order of one full-time equivalent member of staff is likely to be required to service the administration of the London business rates pooling arrangement within the City of London Corporation and the GLA.

9 **Under paragraph 38 (2) of Schedule 7B of the Local Government Finance Act 1988 there is a potential joint and several liability for local authorities entering into a business rates pool in the event the Secretary of State requires them to make a payment, how can this be reconciled with a local authority's common law fiduciary duty to obtain value for money?**

During its lifetime, the Pool will make regular payments to the government, as it will have an aggregate tariff of well over £2 billion pa. It is one of the functions of the Lead Authority to manage those payments on behalf of pool members. The "no detriment guarantee" ensures that the pool cannot be worse off than the sum of the authorities would have been in the existing system and has the advantage that no one participating authority is worse off.

If the Pool ceases to operate, other than as a residual body accounting for the resolution of outstanding appeals, it is theoretically possible that the Pool may have distributed more money than it should have done (if appeals that turn out to be successful prove to have been under-provided for).

This liability is only likely to arise in the event the authorities had underprovided in aggregate in respect of pending appeals and the liabilities were to exceed the collected funds after the Pool was dissolved. This risk is to be managed (as is currently the case) through professional financial management and making appropriate relevant provision. This can also be addressed through contractual provisions in the MOU/IAA.

10 **What consultation has been undertaken to date and do we need to undertake any further consultation before deciding to enter into this arrangement?**

All local authorities must consent to the pooling arrangement. London Councils' discussion and consultation process to date has involved reports to London Councils Leaders' Committee on:

- 11 October 2016[2];
- 21 March[3];
- 11 July 2017[4] (this included the first "draft prospectus" for each borough to consider and consult upon internally over the summer);
- 10 October 2017[5] (this included a revised draft prospectus).

The legislation does not prescribe any public consultation and the pooling arrangement will not change the amounts that ratepayers will have to pay. However, we recognise that some participating authorities may operate their own standard consultation practices and you will need to build these within the constraints of the government's timetable.

11 **Has a public sector equality impact assessment been undertaken to satisfy the public sector equality duty (PSED)?**

None has been necessary yet as the PSED is not engaged. However, it is anticipated the PSED may be engaged on individual projects funded by the SIP where EIAs will be a condition of project approval/allocation.

[2] http://www.londoncouncils.gov.uk/download/file/fid/19337
[3] http://www.londoncouncils.gov.uk/download/file/fid/20294
[4] http://www.londoncouncils.gov.uk/download/file/fid/20709
[5] http://www.londoncouncils.gov.uk/download/file/fid/21341

12 **Will Brexit have any legal implications for the Greater London business rates pooling arrangement?**

Not as currently anticipated but this will be monitored.

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Trowers & Hamlins
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Dated 15 November 2017

London Councils

Pooling Business Rates in London

Advice on the legal framework and governance options

Trowers & Hamlins LLP has produced this advice solely for the benefit of London Councils and does not assume any responsibility or liability to any third party in respect of the contents or accuracy of this advice.

Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ
t +44 (0)20 7423 8000
f +44 (0)20 7423 8001
www.trowers.com

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1 **Executive Summary**

1.1 This note outlines the potential governance options for the proposed London Business Rates 100% retention pilot pool for 2018/19.

1.2 Most of the functions associated with the pool will be administrative and would be performed by a lead authority and accountable body.

1.3 It is proposed that a portion of some of the net gain from the pooling arrangement would be retained as a strategic investment pot (**SIP**) which could be used to fund projects that will deliver economic growth.

1.4 This note suggests alternative governance options for oversight of project funding approvals from the SIP.

1.5 The three most pragmatic forms of governance for the business rates pooling arrangement appear to be:

1.5.1 a joint committee (**Option 1**); or

1.5.2 a quasi-contractual approach involving a lead authority in consultation with participating authorities (**Option 2**); or

1.5.3 a lead authority with a decision-making meeting of duly authorised officers (**Option 3**).

1.6 Of these three options, it would appear that Option 2 would be the most appropriate as it affords more flexibility and would appear to have the most support based on discussions held to date via London Councils.

1.7 Option 2 would be documented in a non-legally binding Memorandum of Understanding. It would involve the individual local authorities delegating authority to the City of London Corporation (COLC), as the Lead Authority, to take decisions on the allocation of the SIP, in consultation with the other 33 participating authorities. As some London Boroughs and COLC do not currently operate executive arrangements, those authorities cannot lawfully delegate decisions to single elected members. Therefore a meeting comprising elected members would need to be consultative in nature to enable all participating authorities to participate in the same way.

1.8 The Lead Authority would consult all individual participating London authorities including the GLA (the **Participating Authorities**) before making any decisions to allocate funds from the SIP to projects. The Lead Authority would only decide to approve projects for SIP funding where both the GLA and two thirds or more of the other Participating Authorities had, assuming no sub-region unanimously disagreed, already voted in favour of a project.

1.9 Currently, the only governance model which could incorporate this level of approval and enable all Participating Authorities' elected members to participate in the same way, whilst accommodating Participating Authorities' diverse constitutional structures, would constitute a consultative meeting of Participating Authorities (Option 2).

1.10 Other options for a governance model for the Pool have been considered but none would appear to be suitable or offer the flexibility or potential appeal of Option 2. Under current legislation, a joint committee structure could not accommodate voting other than by simple majority. A decision-making forum of Participating Authorities' officers would disenfranchise elected members from due consideration and involvement in the decisions of the pool regarding the allocation of the SIP to individual projects. An Economic Prosperity Board (EPB) model would not appear to be viable at this stage as it would require an order from the Secretary of State and its area would overlap with the existing

West London EPB. Nor would an incorporated structure as it has no precedent and may take too long to agree within the limited timescale.

1.11 While the initial pooling agreement will be for 2018/19 only, there is a possibility that the pilot will be extended by government and the pool may therefore continue for a further year in 2019/20. The Pool's operation, including this governance model, will be evaluated by London Councils, the GLA and government and could allow for potential adjustments to the governance model if agreed as expedient, were pooling to continue beyond the first two years.

1.12 We recommend that each authority's decision to participate in the Pool should confirm the allocation of business rates between the collecting authorities, the GLA and the SIP and form part of the terms of reference for the Pool.

2 Background

2.1 We have been instructed by London Councils to provide legal advice in connection with a proposal to establish a business rates pooling arrangement involving the COLC, all of the London Boroughs[1] and the Greater London Authority (**GLA**).

2.2 This advice note considers:

2.2.1 The powers of the London Boroughs to participate in a business rate pooling arrangement with each other and the GLA and any limitations or restrictions which need to be addressed;

2.2.2 The principal options for the form of governance arrangement for the pooling arrangements including the mechanism for allocating funds comprising the SIP.

2.3 The preferred model for the pilot pool would include the following features:

2.3.1 No participating authority would suffer financial detriment as a result of its involvement in the pooling arrangement;

2.3.2 The pooling arrangement should include three categories of distribution as follows:

(a) a percentage of the fund for distribution by the GLA/Mayor;

(b) a percentage of the fund which will be returned to each London Borough; and

(c) a percentage of the fund which will be included in the SIP to be allocated to projects by the Lead Authority taking into account the responses of the Participating Authorities.

2.3.3 The governance of the SIP should permit the Lead Authority to make decisions on the use of resources within the SIP where both the GLA and at least two thirds of the London Boroughs are in favour (subject to no participating authorities in one sub-region[2] unanimously disagreeing with the decision).

3 Powers to establish a Business Rate Pooling Arrangement

3.1 The Secretary of State has the power to designate two or more "relevant authorities" as a pool of authorities for the purposes of the provisions of Schedule 7B of the Local Government Finance Act 1988[3].

3.2 Paragraph 45 (Interpretation) of Schedule 7B defines a "relevant authority" as:

3.2.1 a billing authority in England, or

3.2.2 a major precepting authority in England.

3.3 The list of billing authorities at Schedule 5, Part 1 of the Non-domestic Rating (Rates Retention) Regulations 2013/452 includes the GLA and the London Boroughs as billing

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[1] Henceforth, for the purposes of this advice note, any reference to "London Boroughs" should be deemed to include COLC acting in its capacity as a local authority.

[2] London Councils' link to the map of sub regions: http://www.londoncouncils.gov.uk/download/file/fid/21341. The Lead Authority can make decisions where consultation indicates the GLA and London Boroughs are in favour, and London Borough support is defined as two-thirds majority subject to sub-regional veto – as defined in the London Councils; prospectus.

[3] As amended by the Local Government Finance Act 2012.

authorities and the GLA is also a precepting authority pursuant to section 39 (1) of the Local Government Finance Act 1992.

3.4 Schedule 7B, Part 9 imposes a number of requirements with regard to the designation of a pool including:

3.4.1 The authorities covered by the designation must be notified by the Secretary of State as per Part 9, paragraph 34 (7);

3.4.2 Timing requirements regarding notification before making the local government finance report under paragraph 12 (2);

3.4.3 A condition requiring the authorities to which the pooling designation relates to appoint a lead authority to exercise the functions specified in the condition[4];

3.4.4 Such other condition(s) as the Secretary of State thinks fit[5];

3.4.5 Any regulations with regard to levy payments and safety net payments on account may treat the pool as a "relevant authority" for the purposes of the regulations; and

3.4.6 Furthermore, where a pool of authorities is required to make a payment to the Secretary of State, each authority in the pool is jointly and severally liable to make that payment[6] and where the Secretary of State is required to make a payment to pool authorities, the payment must be made to the lead authority appointed in accordance with conditions under paragraph 35 (1)[7].

3.5 As far as we have been able to ascertain, there is nothing in legislation (except insofar as may be included within a condition by the Secretary of State pursuant to the relevant Designation Order) which would require a pooling arrangement to assume a particular legal structure or corporate form.

3.6 In light of our understanding of discussions which have taken place to date, there are in our view theoretically five principal options which might be available to the GLA and the London Boroughs for the administration of the proposed pooling of business rates in London. These are as follows:

3.6.1 A joint committee (**Option 1**)[8]; or

3.6.2 A lead authority consulting the participating authorities in advance and, within their authority's own constitutional arrangements, decide their authority's view on proposals for the allocation of funds to individual projects from the SIP (**Option 2**);

3.6.3 A lead authority with a meeting of duly authorised officers with delegated authority from their Participating Authorities to make decisions at meetings on allocations of SIP funds (**Option 3**);

3.6.4 The Participating Authorities each becoming members of a separate corporate vehicle, (such as a limited company) for the purpose of operating the pooling arrangement (**Option 4**); and

[4] Paragraph 35(1)(A)
[5] Paragraph 35(2).
[6] Paragraph 38(2) the potential risk associated with this issue can be mitigated contractually – see later at page 12
[7] Paragraph 38(3)
[8] Pursuant to the Local Government Act 1972, section 101 (5) (**Joint Committee Option**) and in respect of the GLA pursuant to section 39 of the Greater London Authority Act 1999.

3.6.5 The establishment of an Economic Prosperity Board (**EPB**) (**Option 5**).

3.7 Given the constraints of the timetable for implementation of the London pooling proposal, we do not propose to explore at present Options 4 or 5 for the following pragmatic reasons**.**

3.8 We would suggest a corporate vehicle (**Option 4**) would not be appropriate in these circumstances given this form has no precedent within other authorities' pooling arrangements; and that it would be ambitious to expect resolution by all the stakeholders of the requisite fundamental issues and documentation (for example, a shareholders or members agreement) to form a company within the timescale is for what is intended to be a two year pilot arrangement. The legal powers to found such a proposal would also require more detailed consideration.

3.9 An EPB (**Option 5**) we suggest would similarly not be feasible in the short term both because it would require an order from the Secretary of State and it would overlap with the current West London EPB area.

4 **"Proper Purpose"**

4.1 Given that local authorities and any pooling arrangement designated by the Secretary of State are generally[9] "creatures of statute", as a matter of public law, the relevant authorities must exercise the powers available to them for a "proper purpose" when deciding which form of governance the pooling arrangement should take. For example, the authorities should not seek to adopt a particular form of governance as an artificial device with the main purpose of circumventing legislation that might otherwise be applicable in order to avoid controls[10].

4.2 However, the authorities are entitled to identify and follow a legitimate route to a legitimate end by reference to the relative operational and financial advantages and disadvantages which will follow from the potential different options available to them.

4.3 By way of example, a decision to choose the lead authority and consultative members model (Option 2) rather than a joint committee (Option 1) because Option 2 would afford more opportunities for consultation with and consideration by the Participating Authorities would be an exercise of powers for a "proper" purpose. Whereas a decision to choose Option 2 with the sole motive of circumventing the statutory controls on voting applicable to Option 1 (referred to in paragraph 5.11 below) might arguably be regarded as an exercise of the relevant power for an "improper" purpose.

4.4 A potential improper purpose argument is an intrinsic risk of any innovative arrangement involving local government and the likelihood of challenge will diminish with the passage of time. In this context, it should be borne in mind that this arrangement will apply to a one or two year pilot and will be evaluated by London Councils and the government before any extension of pooling arrangements in London.

"Wednesbury Reasonableness"

4.5 The Participating Authorities will need to take into account the usual "Wednesbury" principles in making the decision as to which option to adopt. This will involve the authorities paying due regard to any relevant considerations (such as efficiency) and disregarding irrelevant considerations (such as purely political motives to secure re-election).

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[9] Although the COLC is not strictly a creature of statute, COLC must exercise the local authority powers and functions conferred upon it having regard to the same considerations.

[10] _Credit Suisse v Allerdale BC_ [1996] 4 All E.R. 129

4.6 The Participating Authorities should also act in a fairly business-like manner with reasonable care, skill and caution, and with a "due and alert regard" to the interests of their ratepayers[11]. It is our current understanding that the choice of governance structure the pooling arrangement alone will not directly affect ratepayers in London.

[11] _Bromley LBC v Greater London Council_ [1983] 1 A.C. 768; _Roberts v Hopwood_ [1925] A.C. 578; _Prescott v Birmingham Corporation_ [1955] Ch. 210

5 **The Most Viable Governance Options**

5.1 Joint Committee (Option 1)

Powers

5.2 The London Boroughs will be familiar with their powers to establish a joint committee which also underpin the London Councils Leaders' Committee Governing Agreement 2001 (as amended).

5.3 In summary, the legislative basis is contained in sections 101 and 102 of the Local Government Act 1972 (**LGA 1972**), restated here for convenience:

5.4 *"101 (1) Subject to any express provision contained in this Act or any Act passed after this Act, a local authority may arrange for the discharge of any of their functions:*

> *(a) by a committee, a sub-committee or an officer of the authority; or*
>
> *(b) by any other local authority.*"
>
> *102 (1) For the purpose of discharging any functions in pursuance of arrangements made under section 101 above:*
>
> *(b) two or more local authorities may appoint a joint committee of those authorities."*

5.5 Executive functions are not to be delegated under section 101 of the LGA 1972 but can be delegated under similar provisions to those set out above pursuant to sections 9E and 9EA (formerly section 19) of the LGA 2000 and the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012.

5.6 For the purposes of sections 101 and 102 of the LGA 1972, each London Borough and the GLA are "relevant local authorities".

5.7 The GLA is not a participating member of the London Councils Leaders' Committee and accordingly, if a joint committee were the preferred governance model for the business rate pooling arrangement, it would be necessary to establish a further joint committee involving all of the London Boroughs and the GLA.

Governance issues concerning joint committees

5.8 A joint committee has no separate legal identity and no corporate status and so cannot own property and where it purports to employ staff or enter into contracts in effect such arrangements are enforceable against each of the individual authorities. Therefore any agreement will need to address such issues with one authority acting as a "lead" (which is also a requirement under paragraph 35(1) of Schedule 7B of the Local Government Finance Act 1988). In relation to the business rates pooling arrangement, the authorities have identified the City of London Corporation as the proposed lead authority.

5.9 There is a degree of flexibility in relation to the terms of any delegation and authorities may specify the manner in which the delegated functions may be exercised (e.g. by reference to geography, service, or financial parameters).

5.10 Authorities can agree joint arrangements where certain closely specified types of decisions taken by a joint committee might be able to be the subject of a review by any of the Participating Authorities, following certain procedural steps (perhaps including a "cooling off" period before any decisions of the joint committee could be acted upon). These issues, together with the constitutional set up of the joint committee (e.g. numbers of members each authority may appoint; their terms of office; designation and role of COLC as lead authority; allocation of running costs and so on would need to be addressed in a formal agreement between all authorities involved).

5.11 Voting rights for joint committees are prescribed by paragraphs 39 to 44 of Schedule 12 (Meetings and Proceedings of Local Authorities) of the LGA 1972. Paragraph 39 requires that "*all questions coming or arising before a local authority shall be decided by a majority of the members of the authority present and voting thereon at a meeting of the authority*". It is possible that this legislation could be amended and this issue has been raised with government but currently, given the timescales it is unlikely that any such legislative amendments would be made in time for the pilot to start next financial year.

5.12 As a formal committee of the Participating Authorities, a joint committee would of course be subject to the political balance requirements[12] in the Local Government and Housing Act 1989 (LGHA) Schedule 1 and the Local Government (Committees and Political Groups) Regulations 1990. Although we are given to understand, this is unlikely to be an issue in this case as each of the Participating Authorities' leaders would be involved in such an arrangement.

Advantages/What would be possible

Option 1, a joint committee, could offer the following principal advantages:

5.13 it is a model that has been used many times across the country for other functions and the Leeds City Region Business Rates Pool operates through a joint committee;

5.14 it is legally one of the more straightforward entities to set up, and has clear statutory authority;

5.15 it maintains direct democratic oversight of the functions in question;

5.16 it is possible to delegate statutory functions to it directly;

5.17 it would be possible to frame the terms of the delegations to incorporate a framework for decision making on the allocation of funds; and

Disadvantages/What would not be possible

However, there are a number of potential disadvantages associated with this model:

[12] Section 15(5) LGHA states that the seats on any body which fall to be filled by appointments made by any relevant authority or committee of a relevant authority must have regard to the following principles of political balance: (a) that not all of the seats on the body may be allocated to the same political group; (b) that the majority of the seats on the body is allocated to a particular political group if the number of persons belonging to that group is a majority of the authority's membership; (c) subject to (a) and (b), the number of seats on the ordinary committees of a relevant authority which are allocated to each political group bears the same proportion to the total of all the seats on the ordinary committees of that authority as is borne by the number of members of that group to the membership of the authority; and (d) subject to (a) and (c) the number of the seats on the body which are allocated to each political group bears the same proportion to the number of all the seats on that body as is borne by the number of members of that group to the membership of the authority.

5.18 from an operational viewpoint, the establishment of a new joint committee will require and engage the associated administrative machinery including compliance with formal requirements of advance publication of agenda papers, voting and publicity. On the one hand, this could be perceived as an advantage in terms of added visibility, transparency and accountability. On the other hand, this could be perceived as involving perhaps slightly more administrative resources. This is a matter for consideration and discussion by the authorities;

5.19 a joint committee has no separate legal personality and would need to operate through a lead authority;

5.20 the statutory restrictions on voting arrangements mean that the preferred governance arrangements addressing the principles for governance prepared by the London Finance Commission and reflected in the draft prospectus for the pilot pool considered by Leaders Committee and the Mayor (see footnote 13 for summary[13]) could not be applied;

5.21 each participating authority will need to ensure that it has obtained the required authorisations under its constitution to enter into the arrangements;

5.22 there are also specific provisions in section 13 LGHA with regard to the status of a person who is not an elected member of any of the authorities but is appointed a member of the joint committee. The disadvantage of a joint committee in this case is that a person who is appointed as a member of the joint committee but who is not an elected member of one of the Participating Authorities would not have a vote[14].

6 **Lead Authority and Consultation of Elected Member Representatives** (Option 2)

Powers

6.1 Local authorities have a power to delegate decisions to other authorities as referred to in paragraphs 5.4 and 5.5 above.

6.2 A pooling arrangement can be operated by agreement between the relevant authorities, whether as a non-legally binding memorandum of understanding (**MOU**); a more detailed formal legally binding contract or possibly, a hybrid arrangement where some provisions are expressed to be legally/contractually binding and others are included as expressions of general intent as to the protocols to be followed. Given the constrained timescale we consider an MOU is the most realistic option for documenting the governance arrangements and it also has precedent in other pools.

6.3 Local authorities have the power to enter into a Memorandum of Understanding to record the governing arrangements between them including under section 111 of the Local Government Act (**LGA**) 1972: "*Without prejudice to any powers exercisable apart from this section but subject to the provisions of this Act and any other enactment passed before or after this Act, a local authority shall have power to do any thing (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the*

[13] In summary: each element of London government should have a stake; no exclusion from the benefits of London's success or be disempowered from addressing local needs; no overriding of the Mayor's interests by the London local authorities, and vice versa; decision-making arrangements must provide for the prevention or breaking of any deadlock; the system must enforce binding decisions which reflect a clear consensus; the system must be simple and clear in the processes and parties' responsibilities; stability by retaining existing responsibilities where possible; there should be scope to respond to other relevant reforms; decision-making should reflect the roles of the authorities (the London Boroughs) and the GLA/Mayor; and the political arrangements should be supported by a formal officer group to provide standing technical advice and support.

[14] Section 13(1) LGHA 1989

discharge of any of their functions". If a contractually binding Inter Authority Agreement were deployed then the relevant powers include section 1(1) of the Local Government (Contracts) Act 1997 "*for the provision or making available of …. services for the purposes of, or in connection with the discharge of the functions of the local authority*". In this context the relevant "functions" are those of a billing authority or a major precepting authority.

6.4 In relation to the London Business Rates Pooling arrangement, the Participating Authorities would have implicit powers to enter into arrangements with each other for the purposes of fulfilling the requirements of Schedule 7B for obtaining an order of the Secretary of State authorising the establishment of a business rate pool.

Governance issues

6.5 By and large, the governance and distribution arrangements would be set out within the terms of the MOU.

6.6 This could <u>either</u> involve a lead authority arrangement with authorities resolving to delegate certain clearly defined administrative functions to a single lead authority with a meeting of elected members who are consulted regarding allocations for the SIP (**Option 2**) <u>or</u> it could involve a lead authority supported by a decision-making forum of authority officer representatives who have delegated authority to make decisions (**Option 3**). The potential mechanics and responsibilities of the lead authority are explained in more detail below.

Lead Authority

6.7 The Participating Authorities could delegate most administrative functions to COLC as the lead authority who would then be responsible for administering the pool and could provide a secretariat with the GLA and London Councils for assessing and preparing reports to the Participating Authorities' applications for the SIP against pre-agreed criteria. We understand that it is currently proposed that the GLA may provide the transactional support role.

MOU

6.8 For this arrangement, the Lead Authority's role would (in addition to its normal responsibilities) cover:

6.8.1 Maintenance and support of the Pool's governance arrangements and the methodology for the allocation of resources;

6.8.2 Assessment and preparation of reports on applications for the SIP in accordance with the agreed criteria.

6.9 The MOU could be expressed not to be legally binding and would not (in the absence of consideration or being expressed as a deed) be a contract. In due course for example if the pilot were deemed to be successful and were continued then, the arrangement in the MOU could be re-expressed as a legally binding Inter Authority Agreement and hence potentially enforceable as a contract between the authorities in part or as a whole.

6.10 As the arrangement under Option 2 or Option 3 would be an unincorporated association, the representatives will be able to operate bespoke voting arrangements (subject to the proviso above regarding a "proper purpose") according to the provisions of the MOU or Inter Authority Agreement.

Option 2 – Consultative Elected Member Representatives

6.11 With regard to the approval of allocations of the SIP for individual projects, the Lead Authority would take decisions following consultation with Participating Authorities. This could involve the Lead Authority preparing reports with proposed recommendations as to SIP allocations and circulating the report to the Participating Authorities for prior consultation and a decision as to which way the relevant authority will vote. The consultative representatives could then meet but decisions would not be made at that meeting.

6.12 If the representatives are to comprise elected members of the authorities, then care will need to be taken by each individual participating authority to ensure their appointments fit with their particular authority's constitution/governance model and scheme of delegation. Authorities which have a Mayor and Cabinet Executive or Leader and Cabinet Executive would be able to appoint the Senior Executive Member (Mayor or Leader) or another executive member as their appointed representative.

6.13 The elected members from authorities with non-executive arrangements (committees) would need to have the decision as to how to respond made in a duly constituted committee or subcommittee meeting of their authority.

6.14 In making decisions regarding allocations of the SIP it will be important that all Participating Authorities take lawful and valid decisions. Given the diversity of constitutional arrangements in London local government, (e.g. elected Mayors and Executives; Leader and Executives; and Committee forms of governance) the only way that all Participating Authorities can be engaged through their elected members on a two thirds response basis would be for each participating authority to take an individual view on the recommendations in a report prepared by the Lead Authority and then communicate their decision to the Lead Authority. This would need to ensure reports were circulated by the Lead Authority at least one month in advance of a meeting of the representatives to allow the individual authorities time to consider and make their decision within their own governance timetables (including scrutiny and call-in). The Lead Authority would then aggregate the individual Participating Authorities' responses and make the decisions regarding the allocation of the SIP to individual projects on the basis of the consultation principles and agreed thresholds. The decision-making process would be scheduled to take place bi-annually to allow the Lead Authority to report the outcome to the Congress of Leaders and the Mayor of London

Option 3 - Officer representatives

6.15 Alternatively, an officer representative arrangement could involve each Participating Authority delegating authority to its own authorised officer representative and the representatives which can respond to SIP allocation decisions. The representative(s) could all be officers[15] (duly authorised and delegated with the authority to exercise the relevant functions by their authority), depending on what the individual authority's particular constitutional/governance arrangements[16] and scheme of delegation allow, with

[15] There is a general power to local authorities to discharge their functions through officers under section 101(1) Local Government Act 1972. Local authorities can delegate to officers as long as decisions are not effectively being made by a member(s) through an officer (*R v Port Talbot BC* [1988] 2 All E.R. 207; *Fraser v SoS for the Environment and the Kensington and Chelsea RLBC* (1987) 56 P. & C.R. 386). However, if a power is delegated to an officer acting in consultation with an executive member(s) then a decision without consulting the member(s) would be ultra vires.

[16] If the relevant authorities have executive arrangements and to the extent executive functions as set out in the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) are involved, then this would need to comply with the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012) where authorities have a committee system or prescribed arrangements.

those officer delegates then being duly empowered to make decisions at the duly constituted representatives meeting.

6.16 The extent of the terms governing the lead authority and consultative members' arrangement could similarly be comprised in a MOU or a more detailed Inter Authority Agreement.

Advantages of Options 2 and 3

6.17 Options 2 and 3 have the advantage of familiarity to DCLG and the Secretary of State: All of the established business pool agreements we have reviewed have been based on MOUs signed by the relevant s151 Officers of the authorities involved whether or not there is a combined authority or joint committee as well.

6.18 Simplicity – in the context of achieving agreement between the Participating Authorities within the time constraints, it may be easier for the Participating Authorities to reach agreement on a shorter MOU than on a more detailed contract, joint committee or corporate shareholding arrangements.

6.19 Voting rights – the statutory requirements regarding voting which apply to joint committees do not apply to the arrangements described in Option 2 or 3. Whilst most of the current MOUs for operational business pooling arrangements do provide for decisions by a simple majority, a number require unanimity (which indicates that the Secretary of State is prepared to agree bespoke voting rights where agreed by the Participating Authorities).

6.20 A contractual arrangement in the form of Option 2 or Option 3 could accommodate the features summarised at paragraph 2.3 of the Background section above.

6.21 Flexibility – the terms of the MOU can specify whether particular provisions are intended to be legally binding between the parties, allowing the Participating Authorities to clarify their legal rights and obligations to one another.

6.22 It should be borne in mind that either Option 2 or 3 could later transition to a joint committee arrangement if the factors mitigating against the latter option (e.g. restrictions on voting rights) were to be resolved by legislation or otherwise.

Disadvantages associated with Options 2 and 3

6.23 Whilst existing MOUs indicate that the Secretary of State is willing to approve bespoke voting arrangements, none include the degree of detail required by the Participating Authorities in this project.

7 Distribution arrangements – key issues

Authorities' decisions to enter into arrangements/terms of reference

7.1 Whichever governance form the Participating Authorities adopt to govern the pooling arrangement it will be necessary for each of them to approve those arrangements formally.

7.2 Confidence that the conditions which the authority leaders set out in their "in principle" agreement to participate is likely to be underpinned if each authority's formal decision to participate includes a condition which confirms the allocation of business rates between the collecting authorities, the GLA and the SIP. Further, this condition could with other terms be mandated as terms of reference for both the pooling arrangement and decisions to allocate funding to SIP initiatives.

7.3 The terms of reference/conditions which are likely to underpin confidence in the proposals appear to us to include:

7.3.1 That no authority should be financially worse off compared to their position if they had not participated in the pooling arrangement - we see this as being of particular importance in order to reassure s151 Officers that the authorities could not be in breach of their common law fiduciary duty to their ratepayers given the potential joint and several liability provision under Schedule 7B, Part 9, paragraph 35(1);

7.3.2 The allocation to each authority and the share allocated to the SIP;

7.3.3 The factors which are to be applied in the allocation of funds from the SIP to individual projects - including:

(a) a requirement to make SIP allocations (within each financial year) with a requirement to seek to do this to meet specified targets;

(b) specified broad economic/growth criteria which must be satisfied to enable an initiative to qualify for funding – we appreciate this will have to be approved by DCLG – existing criteria used by central government business growth funds might be applicable or capable of adaptation;

(c) that the pooling arrangement is time limited unless all of the authorities and government approve an extension;

(d) a mechanism to deal with and distribute either income above that projected or income less than projected;

(e) a liability distribution provision to deal with claw-back on an equitable basis in the event income is subsequently reduced (through rating appeals) after the pool is dissolved; and

(f) a sub-regional right to veto a project for funding.

7.3.4 The report underlying the decision of each authority is likely to consist of a part common to all of them but should also include a part which addresses any particular implications for that individual authority.

7.3.5 Our expectation is that the 'governance arrangement' will in each year approve projected business rate income and subsequently review/reconcile the actual income. With notional allocations being made and a subsequent review to ensure notional allocations had been paid/committed with a process to deal/reallocate any underspent amounts.

7.3.6 If the Participating Authorities decide to appoint one of their members as the lead authority, the MOU or Inter Authority Agreement will need to recognise this. The lead authority will need protection that the consequences of certain actions taken in its name are shared (e.g. through indemnities and financial compensation mechanisms) and conversely, the other authorities will need to be protected from the unauthorised actions of the lead authority, the issue of joint and several liability and will want reassurance that should any payments be made by the Secretary of State to the lead authority under Schedule 7B paragraph 38(3) that these are equitably redistributed.

8 Conclusion

8.1 We would recommend either Option 2 or 3 involving a designated lead authority delegated with the role of undertaking the bulk of administrative decisions and supported by a meeting of representatives.

APPENDIX 9

8.2 If Option 2 were adopted then it should be borne in mind that the elected member representatives could not validly take decisions at the bi-annual meetings, hence they would be consulted in advance.

8.3 If Option 3 were pursued then the officer representatives could be delegated with authority to make decisions on behalf of their authorities.

8.4 Meetings could be convened biannually during the financial year. The pilot arrangement would be documented in a MOU and then in due course in an Inter Authority Agreement if felt advantageous to do so.

Trowers & Hamlins LLP
Ref: HZR
15 November 2017

Dated 16 November 2017

London Councils

Business Rates Pilot Pool

Legal Note on Executive Functions

Trowers & Hamlins LLP has produced this advice solely for the benefit of London Councils and does not assume any responsibility or liability to any third party in respect of the contents or accuracy of this advice.

Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ
t +44 (0)20 7423 8000
f +44 (0)20 7423 8001
www.trowers.com

Circulation Draft dated 16 November 2017

1 **Query: is participation in a business rates pool in pilot and entry into a Memorandum of Understanding an executive function?**

1.1 The relevant functions[1] are:

1.1.1 administrative functions as a billing authority[2] pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013, [and GLA only, administrative functions as a major precepting authority pursuant to s.39(1)(aa) of the Local Government Finance Act 1992];

1.1.2 entry into the Memorandum of Understanding (**MOU**) as ancillary and incidental to those functions pursuant to s.111 Local Government Act 1972[3];

1.1.3 appointment of a representative for consultative purposes.

1.2 With regards to the administrative functions and the entry into the MOU, the Secretary of State has not made any regulations under s.9D(3) Local Government Act 2000 (**LGA 2000**). Therefore by default, the above functions fall to be the responsibility of the executive of the local authority under executive arrangements pursuant to s.9D(2) LGA 2000. Nor are the above functions listed in The Local Authorities (Functions and Responsibilities) (England) Regulations 2000. Hence under s.9DA(2) LGA 2000 the above functions are exercisable by the executive.

1.3 Moreover, pursuant to s.9E LGA 2000, any functions which under the arrangements are the responsibility of *"(a) a mayor and cabinet executive, or (b) a leader and cabinet executive (England), are to be discharged in accordance with this section"*[4]. The *"senior executive member - (a) may discharge any of those functions, or may arrange for the discharge of any of those functions - (i) by the executive, (ii) by another member of the executive, (iii) by a committee of the executive, (iv) by an area committee, or (v) by an officer of the authority"*[5]. Therefore, if operating executive arrangements, the decision with regard to the participation in the business rates pool and signature of the MOU can be made by the mayor and cabinet executive, or the leader and cabinet executive, or senior executive member, or by any other duly empowered individual or meeting in accordance with s.9E LGA 2000 and the authority's scheme of delegation.

[1] "Function" means a function of any nature, whether conferred or otherwise arising before, on or after the passing of this Act: LGA 2000 Act s.9D(9). Any reference in Pt 1A to the discharge of any functions includes a reference to the doing of anything which is calculated to facilitate, or is conducive or incidental to, the discharge of those functions: 2000 Act s.9R(5): see Champion v North Norfolk DC [2013] EWHC 1065 (Admin) (para.1-36) (Cross on Local Government Law (2017, Sweet & Maxwell)

[2] Paragraph 45 (Interpretation) of Schedule 7B defines a "relevant authority" as a billing authority in England, or a major precepting authority in England. The list of billing authorities at Schedule 5, Part 1 of the Non-domestic Rating (Rates Retention) Regulations 2013/452 includes the GLA and the London Boroughs[2] as billing authorities and the GLA is also a precepting authority pursuant to section 39 (1) of the Local Government Finance Act 1992.

[3] Local authorities have a power to enter into arrangements between them including under section 111 of the LGA 1972: "*Without prejudice to any powers exercisable apart from this section but subject to the provisions of this Act and any other enactment passed before or after this Act, a local authority shall have power to do any thing (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions*". If the MOU is succeeded by a more detailed Inter Authority Agreement (**IAA**) this could be a legally binding contract. If so then the relevant power would be s111, LGA 1972 in conjunction with section 1(1) of the Local Government (Contracts) Act 1997 "*for the provision or making available of … Services for the purposes of, or in connection with the discharge of the function of the local authority*".

[4] s.9E(1)(a), (b) Local Government Act 2000

[5] s.9E(2) Local Government Act 2000

1.4 The resolution also involves "appointment of a representative for the purposes of consultation". It is our view that this can similarly be regarded an "executive function" as it:

1.4.1 Will not involve the appointment to an external body per se; and

1.4.2 Provided the appointment does not constitute a change of "office",

1.5 Then the resolution to delegate this consultative role does not fall within Schedule 2 of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000, 'Functions which may be (but need not be) the responsibility of an authority's executive'.

1.6 However, whether a change of office is triggered (thus engaging paragraph 19[6] of Schedule 2) will depend upon the authority's own scheme of delegation and the terms of the relevant individual's current official mandate.

1.7 It is anticipated that the Leaders' Congress will be informed as to the outcome of the Lead Authority's decisions regarding SIP allocation to projects under the London Business rates pool but the Leaders' Congress will not be making decisions on this issue.[7].

Trowers & Hamlins LLP
Ref: HZR
16 November 2017

[6] Schedule 2 of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 'Functions which may be (but need not be) the responsibility of an Authority's Executive'

[7] *"the appointment of any individual - (a) to any office other than an office in which he is employed by the authority; (b) to any body other than – (i) the authority; (ii) a joint committee of two or more authorities; or (c) to any committee or sub-committee of such body, and the revocation of any such appointment"* may be (but need not be) the responsibility of an authority's executive"-Paragraph 19 of Schedule 2 of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000.

London Business Rates Pooling Pilot

Draft Resolutions for Participating Authorities

That Cabinet resolves to:

<u>With respect to Establishment of Governance Arrangements:</u>

1. approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7)(1) of Schedule 7B Local Government Finance Act 1988;

2. participate in the London Business Rates Pilot Pool with effect from 1 April 2018 to 31 March 2019;

3. delegate the authority's administrative functions as a billing authority pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013 to the City of London Corporation ("**COLC**") acting as the Lead Authority;

4. authorise the Lead Authority to sub-contract certain ancillary administrative functions [regarding the financial transactions [payment of tariffs and top-ups] within the Pool to the GLA as it considers expedient];

<u>With respect to Entry into the Memorandum of Understanding:</u>

5. delegate authority to the Chief Finance Officer [in consultation with the Deputy Leader and Cabinet Member for Finance] to agree the operational details of the pooling arrangements with the participating authorities;

6. enter into such Memorandum of Understanding with the participating authorities as may be necessary to implement and/or regulate the pool and to delegate authority to the Chief Finance Officer [in consultation with the Head of Legal Services] to negotiate, finalise and execute the same on behalf of the authority;]

<u>With respect to Operation of the Pool:</u>

7. to authorise the Leader of Merton Borough Council to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool consultative as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding;

8. delegate to [Senior Executive Member/Officer/Committee] the authority to consider such consultative reports as the Lead Authority may circulate and to respond on behalf of the authority with regard to any recommendations and in particular, proposals for projects to be approved for funding from the Strategic Investment Pot.

   (Optional as these issues will be covered in the Memorandum of Understanding);

9. delegate to the Lead Authority the functions of assessment, due consultation and approval of projects eligible for funding from the Pool's Strategic Investment Pot following consultation with the participating authorities (provided that at least two thirds of such participating London Boroughs are (including the City of London Corporation) in favour of the relevant recommendation as well as the Mayor of London, and that no entire sub-region is in disagreement with the decision) on such terms and conditions as shall ensure value for money and compliance with the law.

   (Optional as these issues will be covered in the Memorandum of Understanding.)

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Cabinet

Date: 15 January 2018

Subject: Draft Business Plan 2018-22

Lead officer: Caroline Holland – Director of Corporate Services

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

Urgent report:

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

Recommendations:

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

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

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

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

2. DETAILS

2.1 **Introduction**

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

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

The pack includes:

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

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

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

2.2 **LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19**

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

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

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

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

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

2.2.5 Core Spending Power

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

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

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

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

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

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

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

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

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

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

Detailed Breakdown of Core Spending Power – Merton

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

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

2.2.6 Council Tax

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

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

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

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

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

2.2.7 Business Rates Retention

100% Pilots

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

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

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

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

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

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

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

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

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

Top-up/ Tariff Amounts under pilot/no pilot

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

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

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

In terms of the 2018/19 Provisional Settlement

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

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

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

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

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

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

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

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

2.2.8 Special and specific grants

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

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

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

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

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

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

New Homes Bonus

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

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

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

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

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

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

The reasons for this reduction are:-

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

Improved Better Care Fund

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

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

Compensation for under-indexing the business rates multiplier
At Autumn Budget 2017, the government announced plans to bring forward a move from RPI to CPI indexation of the business rates multiplier. This change will now take effect from 2018/19 instead of 2020/21. The Provisional Settlement confirmed the level of section 31 grant paid to local authorities in compensation for lost income. £250.0 million of funding will be made available in 2018/19, of which £44.3 million will be paid to London boroughs, rising to £375.5 million in 2019/20 (£66.5 million in London).
This new compensation grant has been included within Core Spending Power. Similarly, ongoing grants to compensate for the 2% multiplier caps in 2014/15 and 2015/16 have also been included within core spending power this year.

Merton’s allocation for this is:-

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

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

Merton’s allocation for this is:-

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

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

Merton's allocation for this is:-

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

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

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

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

2.2.9 **School Funding Announcement 2018/19**

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

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

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

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

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

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

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

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

3. Public Health Grant 2018/19

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

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

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

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

4. Council Tax Increases and Adult Social Care Precept

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

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

5. GLA PRECEPT

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

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

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

6. DRAFT CAPITAL PROGRAMME

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

7. GENERAL FUND BALANCES AND RESERVES

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

These include:

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

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

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

(d) to meet unforeseen events

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

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

8. SUMMARY

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

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

9. CONSULTATION UNDERTAKEN OR PROPOSED

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

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

10. **TIMETABLE**

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

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

11.1 All relevant implications have been addressed in the report.

12. **LEGAL AND STATUTORY IMPLICATIONS**

12.1 All relevant implications have been addressed in the report.

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

13.1 Not applicable

14. **CRIME AND DISORDER IMPLICATIONS**

14.1 Not applicable

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

15.1 Not applicable

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

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

BACKGROUND PAPERS

Budget files held in the Corporate Services department.

REPORT AUTHOR

Name: Roger Kershaw
Tel: 020 8545 3458
- email: roger.kershaw@merton.gov.uk

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

LONDON BOROUGH OF MERTON
TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION

1.1 Background

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

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

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

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

1.2 Statutory Requirement

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

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

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

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

1.3 Balanced Budget Requirement

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

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

1.4 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital Issues

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

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

Treasury Management Issues

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

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

2. CURRENT TREASURY POSITION

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

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

The table below shows the position as at December 2017.

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

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

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

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

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

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

3.1 Capital Expenditure

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

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

Members are asked to approve the capital expenditure forecasts:

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

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

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

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

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

** Funding amended for the leasing adjustment

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

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

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

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

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

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

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

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

The table below shows the monetary values for the above ratio

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

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

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

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

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

4. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

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

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

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

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

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

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

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

5. TREASURY MANAGEMENT STRATEGY

5.1 The Prospects for Interest Rates and Economic Forecasts

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

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

Source: Link Asset Services

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment and borrowing rates

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

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

5.2 Borrowing Strategy

Current Borrowing Portfolio Position

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategy to 'Unwind' Internal Borrowing

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

Debt Liability Benchmarking

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

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

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

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

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

Treasury Risk Analysis - Debt

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

5.3 Treasury Indicators: Limits to Borrowing Activity

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

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

Authorised Limit for External Borrowing

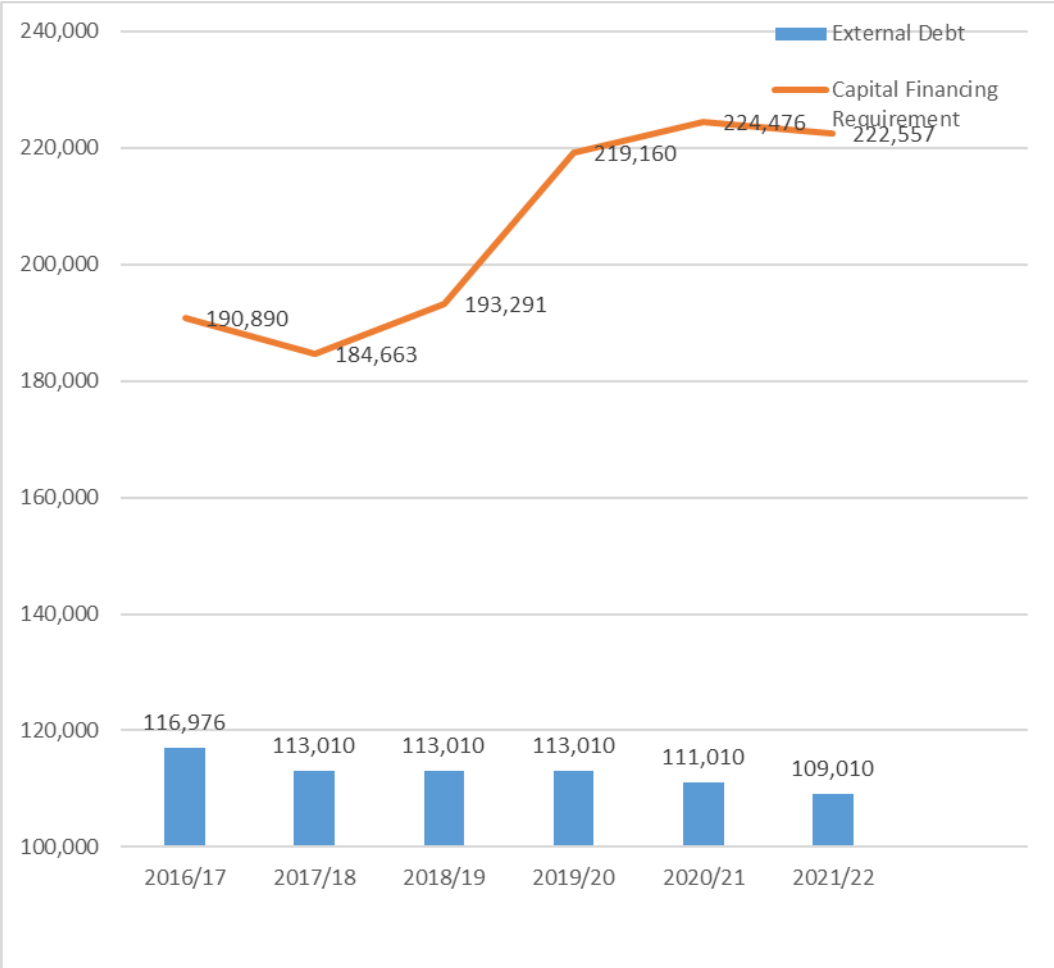
This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents a limit beyond which external borrowing must not go over in the 3 years, and this limit when set is to be revised annually by Council. It reflects the level of external borrowing which, while not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

The Council is asked to approve the following authorised limit:

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

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

The following graph shows projection of the CFR and borrowing.



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

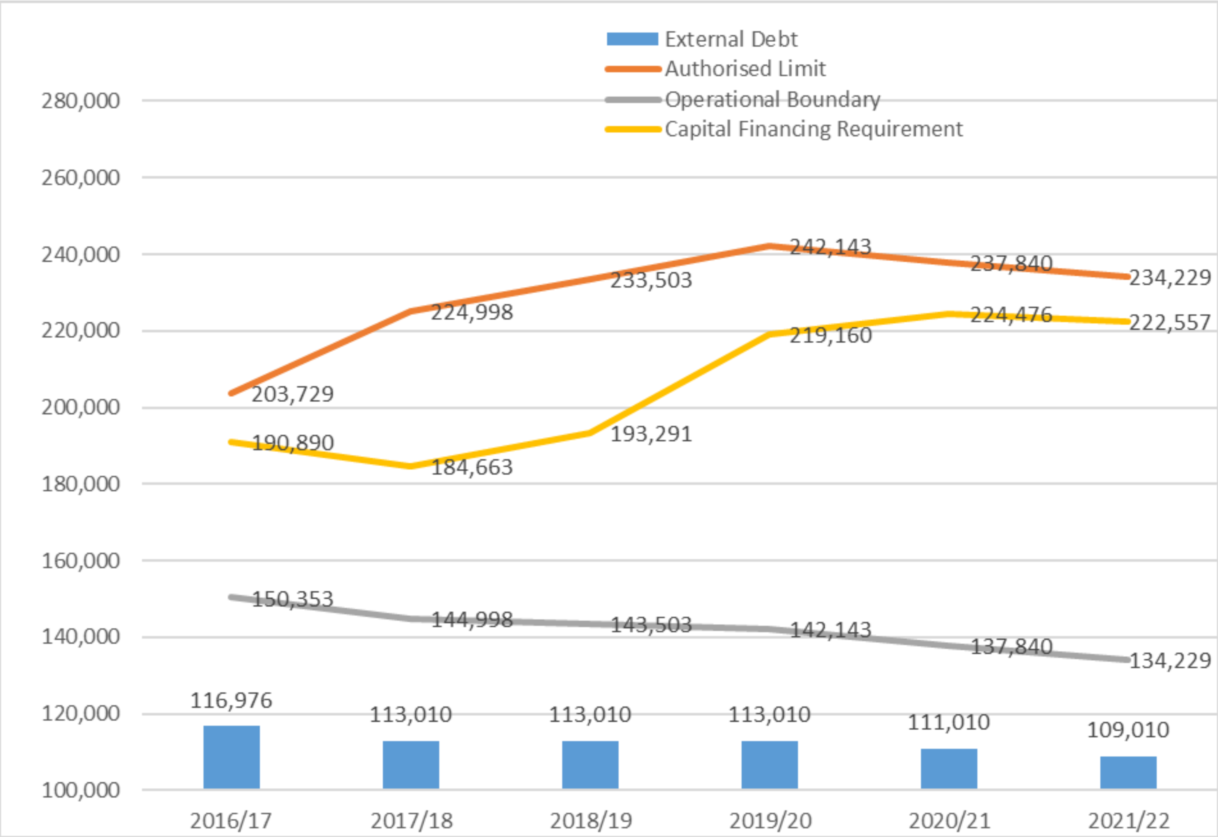
The Director of Corporate Services reports that the Council complied with this key prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget.

5.4 Treasury Management Limits on Activity

The table below shows the debt related treasury activity limits.

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

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



The table below shows the fixed and variable interest rate exposure

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

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

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

Local Indicators

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

The table below shows target borrowing and investment rates

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

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

5.5 Policy on Borrowing in Advance of Need

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

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

Borrowing in advance could be made within the constraints that:

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

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

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

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

5.6. Debt Rescheduling

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

The reasons for any rescheduling to take place will include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.7 Borrowing Options

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

5.8 Changes Which May Affect Treasury Management

- Future Regulatory Changes to Money Market Fund Valuation

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

- Proposed Changes to Leasing

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

- Municipal Bond Agency

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

- Future Challenges to Local Government Funding

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

6. ANNUAL INVESTMENT STRATEGY

6.1 Investment Policy

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

6.2 Investment Strategy

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

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

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

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

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

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

6.3 Alternative Investment Instruments

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

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

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

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

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

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

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

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

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

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

6.5 Use of Specified and Non-Specified Investments

Investment instruments identified for use in the financial year are as follows:

Specified Investments

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

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

Non-Specified Investments

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

6.6 Investment Risk Benchmarking

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

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

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

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

6.7 Risk Management and Creditworthiness Policy

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

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

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

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

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

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

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

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

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

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

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

6.8 Country and Sector Limits

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

6.9 Banking Arrangements

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

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

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

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

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

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

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

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

7. Cashflow Management

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

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

7.2 Purchase and Corporate Credit Cards

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

8. Policy on the use of External Service Providers

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

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

9. Training

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

10. The Localism Act

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

11. Treasury Management Practices

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

12. Appendices

12.1 Appendix 1– Early Repayment of Debt Estimate

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

Appendix 3 – Approved Countries for Investment

Appendix 4 – The Treasury Management Role of the S151 Officer

Appendix 5 – Treasury Management Practices 2018/19

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

Appendix 7 – Glossary

Appendix 8 – Cashflow Forecast

13. Background Papers

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

APPENDIX 2

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

PWLB loan Early Redemption Estimates at 30 November 2017

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

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

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

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

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

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

AAA

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

AA+

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

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

APPENDIX 4

Treasury Management Role of the Section 151 Officer

The S151 Officer (Director of Corporate Services)

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

APPENDIX 5

LONDON BOROUGH OF MERTON TREASURY MANAGEMENT PRACTICES 2018/19

TMP 1: RISK MANAGEMENT

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

1.1 Credit and Counterparty Risk Management

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

Policy on the use of credit risk analysis techniques

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

1.2 Liquidity Risk Management

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

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

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

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

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

1.3 Interest Rate Risk Management and use of Derivatives

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

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

Policies concerning the use of instruments for interest rate management.

- Forward Dealing

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

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

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

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

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

1.4 Exchange Rate Risk Management

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

1.5 Refinancing Risk Management

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

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

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

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

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

1.6 Legal and Regulatory Risk Management

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

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

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

1.7 Fraud, Error and Corruption, and Contingency Management

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

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

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

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

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

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

TMP 1: SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS
This is included in the Treasury Management Strategy.

TMP 2: PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

Periodic Review During the Financial Year

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

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

Annual Review After the end of the Financial Year

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

Comparative Review

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

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

2.2 Benchmarks and Calculation Methodology

2.2.1 Debt management

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

2.2.2 Investment

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

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

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

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

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

2.3.1 Money-broking Services

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

2.3.2 Consultants / Advisers Services

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

TMP 3: DECISION-MAKING AND ANALYSIS

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

3.1.1 Records to be kept

The following records will be retained:

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

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

3.1.2 Processes to be pursued

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

3.1.3 Issues to be addressed

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

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

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

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

3.1.3.3 In respect of investment decisions, the Council will:

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

TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

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

4.2 Approved Instruments for Investments

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

4.3 Approved Techniques

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

4.4 Approved Methods and Sources of Raising Capital Finance

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

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

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

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

4.5 Investment Limits

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

4.6 Borrowing Limits

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

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

5.1 Allocation of Responsibilities

(i) Council (Budget)

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

(ii) Cabinet

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

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

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

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties are undertaken by separate officers: -

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

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

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

5.3.1 Responsible Officer

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

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

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

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

5.3.2 Treasury Manager

The responsibilities of this post will be: -

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

5.3.3 Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

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

5.3.4 Monitoring Officer

The responsibilities of this post will be: -

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

5.3.5 Internal Audit

The responsibilities of Internal Audit will be: -

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

5.4 Absence Cover Arrangements

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

5.5 Dealing Limits

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

5.6 List of Approved Brokers

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

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

5.7 Policy on Taping of Conversations

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

5.8 Direct Dealing Practices

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

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

5.9 Settlement Transmission Procedures

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

5.10 Documentation Requirements

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

5.11 Arrangements Concerning the Management of Third-Party Funds.

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

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual Treasury Management Strategy Statement

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

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

6.2 Annual Investment Strategy Statement

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

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

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

6.3 Annual Minimum Revenue Provision Statement

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

6.4 Policy on Prudential and Treasury Indicators

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

6.5 Other Reporting

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

TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory / Regulatory Requirements

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

TMP 8: CASH AND CASHFLOW MANAGEMENT

8.1 Arrangements for Preparing Cashflow

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

8.2 Bank Statements Procedures

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

TMP 9: MONEY LAUNDERING

9.1 Proceeds of Crime Act 2002 and Amendments

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

9.2 The Terrorism Act 2000 and Amendment order

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

9.3 The Money Laundering Regulations 2007 and Updates

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

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

9.4 Procedures for Establishing Identity / Authenticity of Lenders

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

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

9.5 Methodologies for identifying Deposit Takers

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

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

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

TMP 10: TRAINING AND QUALIFICATIONS

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

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

10.1 Details of Approved Training Courses

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

10.2 Records of Training Received by Treasury Staff

Staff will keep records on their training.

10.3 Member Training Record

Member training will be provided as required.

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

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

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

11.1.1 Banking Services

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

11.1.2 Money-Broking Services

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

11.1.3 Consultants'/Advisers' Services

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

11.1.4 Custodian Banks

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

11.1.5 Credit Rating Information

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

11.2 Procedures and Frequency for Tendering Services

See TMP2

TMP 12: CORPORATE GOVERNANCE

12.1 List of Documents to be Made Available for Public Inspection

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

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

APPENDIX 6

PRUDENTIAL INDICATORS FOR 2017/18 TO 2021/22

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

APPENDIX 6

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

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

APPENDIX 6

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

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

APPENDIX 7

GLOSSARY OF TREASURY MANAGEMENT TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long Term
Duration in excess of 1 year

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

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

Short Term
Duration of up to1 year

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

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

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

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

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

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

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

CAPITAL STRATEGY 2018-22

1 Introduction

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

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

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

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

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

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

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

2 Planning Infrastructure

2.1 Business Plan 2018-2022

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

2.2 Target Operating Models (TOMs)

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

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

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

2.3 Service Plans

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

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

3 Accounting Definitions and Practices

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

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

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

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

4 Corporate and strategic capital expenditure appraisal planning and control

4.1 Capital Programme Board

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

4.1.2 The Terms of Reference of the Board are:

- Lead on the development and maintenance of the capital investment strategy and ensure it is consistent with the Council's strategic objectives, TOMs and service plans.

- Ensure that the capital investment strategy informs and is informed by the asset management plan.

- Ensure there is a transparent and clearly communicated process for allocation of capital funds with clear and well documented criteria and decision making process.

- Monitor progress of capital funded schemes and any other critical schemes as determined by CMT. Receive joint reports from Finance/departmental staff on progress against deliverables, milestones and budget forecasts.

- In conjunction with other governing bodies, consider/approve business cases that involve capital investment.

- Monitor issues arising as a result of changes in accounting treatment of capital expenditure and ensure the organisation responds accordingly.

- Assess capital schemes in the context of the Medium Term Financial Strategy to ensure they are affordable in revenue terms.

- Receive reports from the Property Management and Review Manager relating to capital funds coming from the disposal of property, in collaboration with the Property and Asset Management Board.

- Receive benefits reports from Programme/Project Managers when capital projects/programmes are closed. Monitor key benefits to ensure they are realised for large capital schemes.

4.1.3 The role of the Board is to:

- Set framework and guidelines for capital bids;

- Draft the capital programme for consideration by CMT and Cabinet;

- Review capital bids and prioritise in accordance with the Council's strategic objectives;

- Identify and allocate capital funds;

- Monitor progress of capital programmes/projects and key variances between plans and performance;

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

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

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

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

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

4.2 Capital Programme Approval and Amendment

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

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

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

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

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

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

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

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

4.3 Capital Monitoring

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

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

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

4.4 Risk Management

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

5 Revenue budget implications of capital investment

5.1 Revenue cost or savings

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

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

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

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

* interest scheduled to start in 2022/23

6 Capital resources 2018-22

6.1 Variety of sources

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

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

6.2 Annual Minimum Revenue Provision (MRP) Statement

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

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

7 Asset management review

7.1 Capital receipts

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

7.2 Property as a corporate resource

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

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

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

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

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

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

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

8 Summary of estimated disposals 2017-2021

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

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

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

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

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

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

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

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

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

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

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

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

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

8.2 Debt repayment

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

9 Grant Funding Capital Resources

9.1 Environmental and Regeneration

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

* Indicative and likely to reduce
TBA – To Be Advised

9.2 Children, Schools and Families

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

* Based on Indicative Information

TBA – To Be Advised

9.3 Community and Housing

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

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

9.4 Summary of Grant Funding 2018-20212

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

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

* This shows the grant funding being received by the authority

10 Summary of Total Resources 2018-22:

10.1 Summary

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

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

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

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

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

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

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

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

11 Capital Bids and Prioritisation Criteria

11.1 Prioritisation of schemes 2021/22

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

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

12 Detailed Capital Programme 2018-22

12.1 Corporate Services

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

12.1.2 **Business Improvement**

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

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

12.1.3 **Infrastructure and Transactions**

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

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

12.1.4 **Facilities Management**

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

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

* Included with R&M from 2019/20 onwards

12.1.5 **Corporate Items**

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

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

* Will only be progressed if fully funded

12.2 Children, Schools and Families

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

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

12.2.2 CSF capital programme 2018-22

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

12.2.3 Primary schools

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

12.2.4 Secondary school places

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

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

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

12.2.5 Special school places

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

12.2.6 Other schemes

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

12.3 Environment and Regeneration

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

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

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

12.3.1 Highways and Footways

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

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

12.3.2 Regeneration

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

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

12.3.3 Sports Facilities

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

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

12.3.4 Parks

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

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

12.4 Community and Housing

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

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

12.5 Overall Programme

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

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

12.5.2 The funding details for the programme follow at Annex 2

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

12.5.4 Annexe 1 Capital Investment Programme - Schemes for Approval

Annexe 2 Funding the Capital Programme 2018-22

Annexe 3 Detailed Capital Programme 2018-22

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

Annexe 5 Indicative Capital Programme 2022-27

APPENDIX 3

Annex1

Capital Investment Programme - Schemes for Approval

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

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

Please Note

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

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

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

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

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

Annex 3

Detailed Capital Programme 2018-22

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

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

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

Annex 3

Detailed Capital Programme 2018-22 Continued………

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

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

Annex 3

Detailed Capital Programme 2018-22 Continued………

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

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

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

Annex 4

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

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

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

Indicative Capital Programme 2022-27 Annex 5

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

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

Please Note

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

1. INTRODUCTION

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

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

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

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

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

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

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

Ged Curran

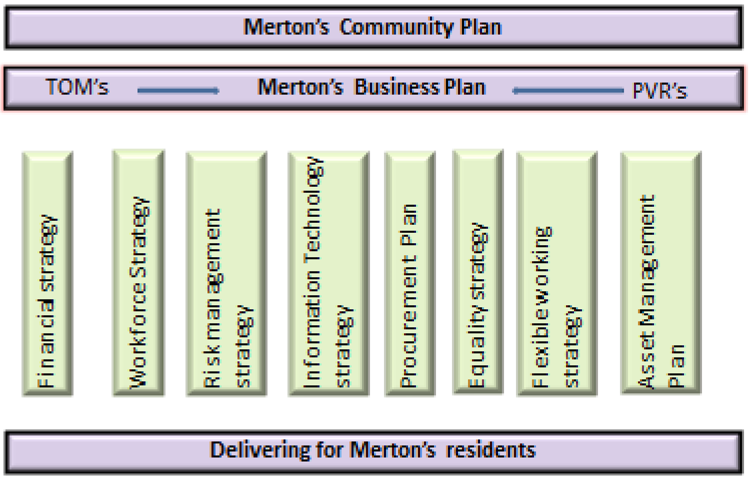
Chief Executive

2. BACKGROUND

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

2.1 Key Council priorities

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



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

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

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

2.2 How the Council has changed in the last 3 years

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

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

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

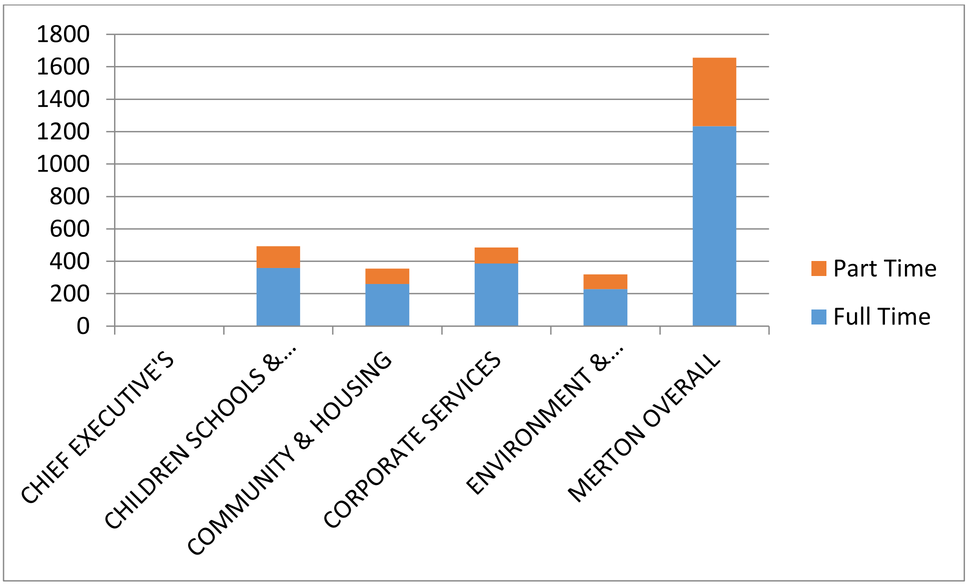
3. HIGH LEVEL SHAPE OF THE WORKFORCE

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

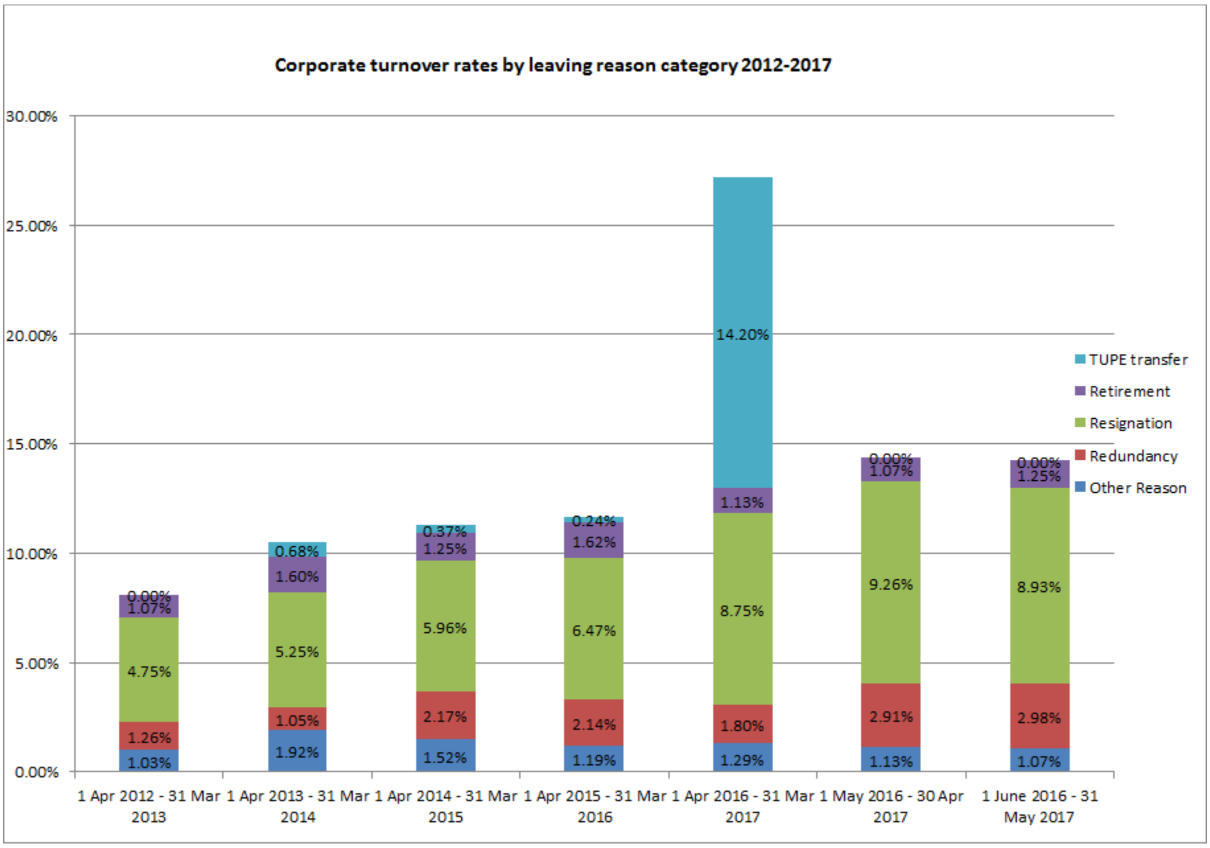
- We have transferred out staff who worked in our Waste and Greenspaces teams to third party contractors. This will have an impact on the demographics of our workforce.
- Changes in the education provision with an emphasis on Early Years
- We host a number of shared services with other boroughs such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

COMPOSITION OF THE WORKFORCE

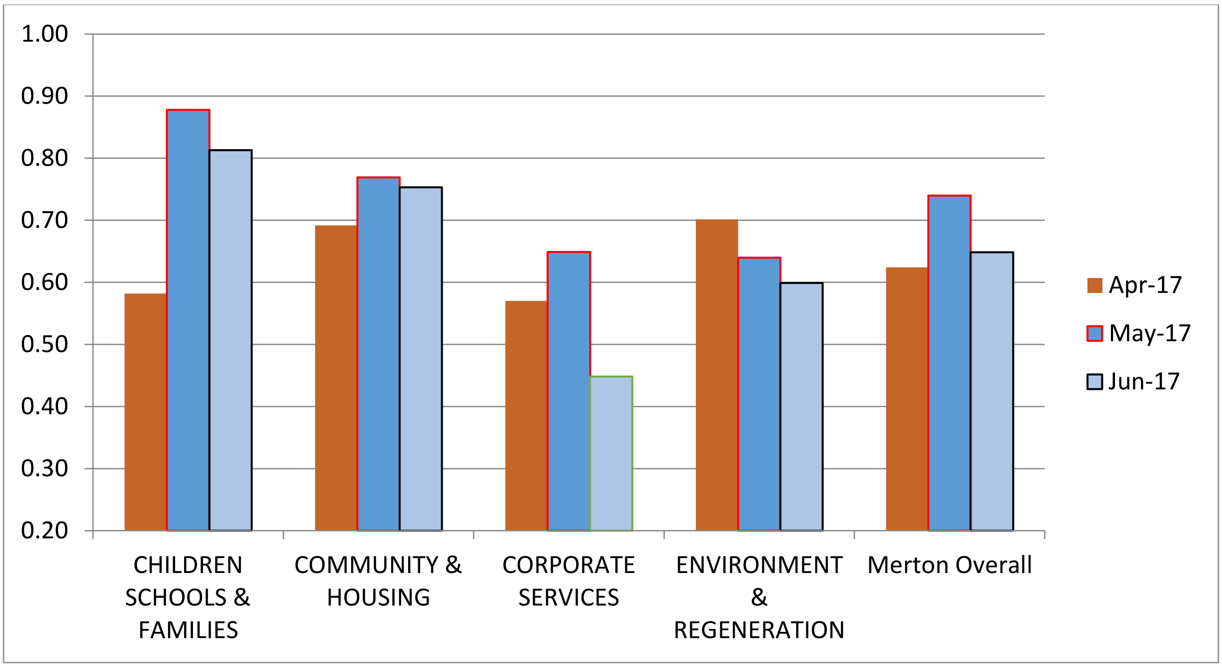
Number of Employees by Department, Part Time and Full Time as at 30th June 2017



Turnover rates by Leaving Reason 2012-2017

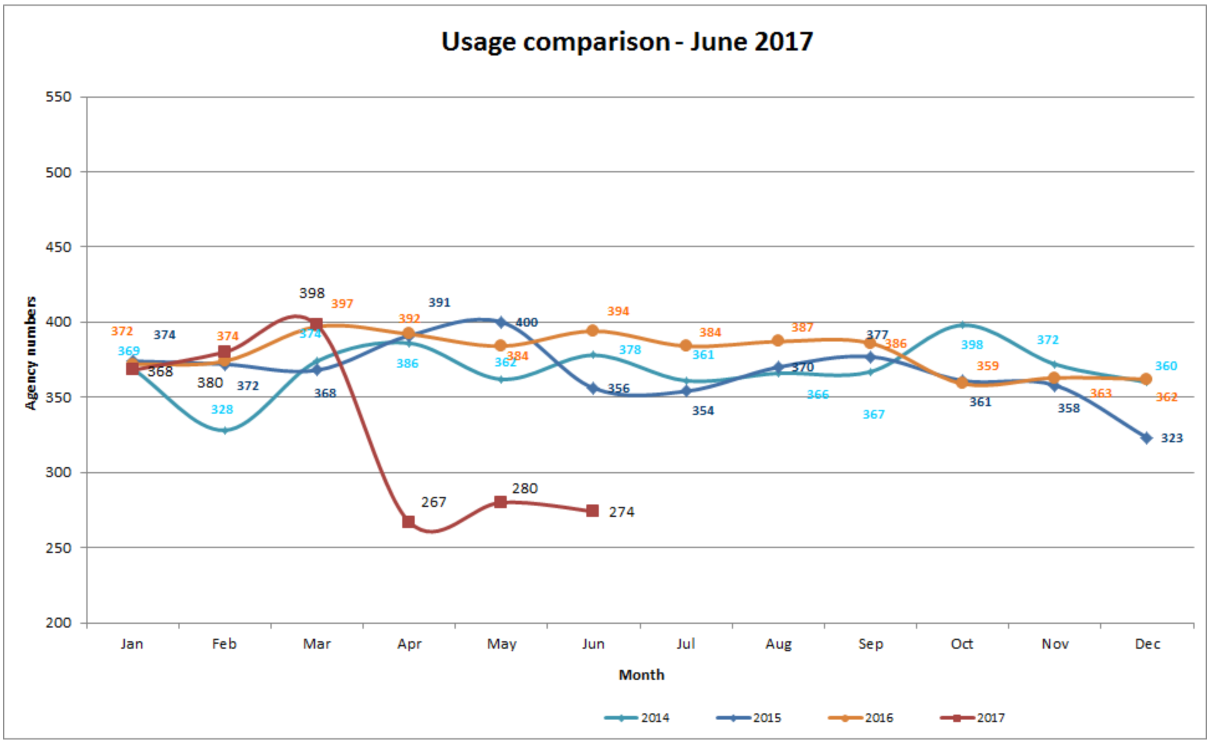


Workforce monthly sickness trends since April 2017: working days lost per FTE



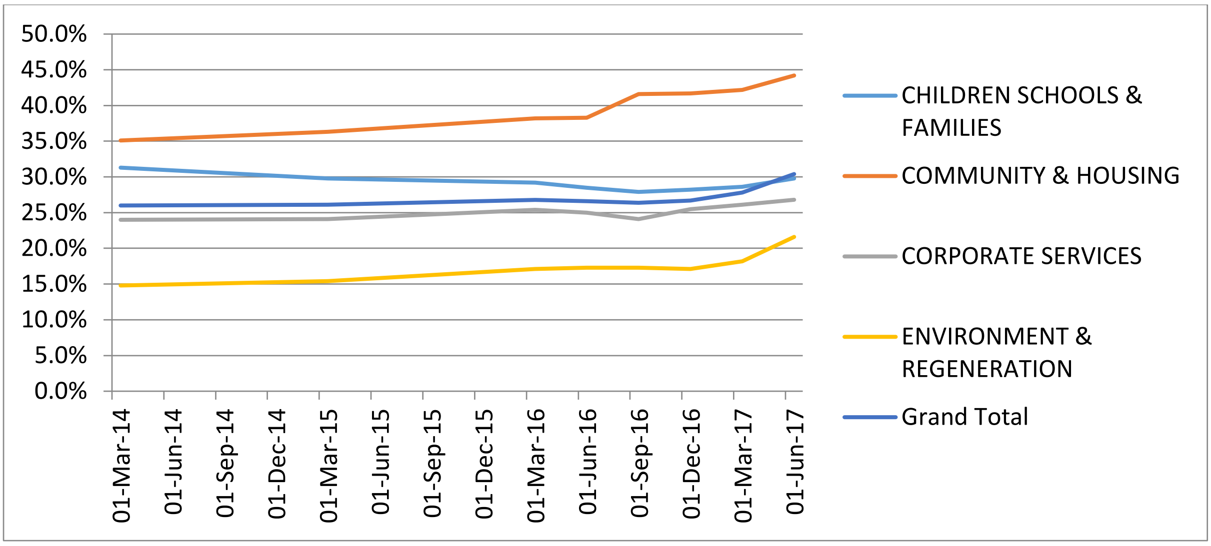
Annual sickness rates are higher than London averages and remain a corporate priority.

Agency Worker Usage 2014-2017



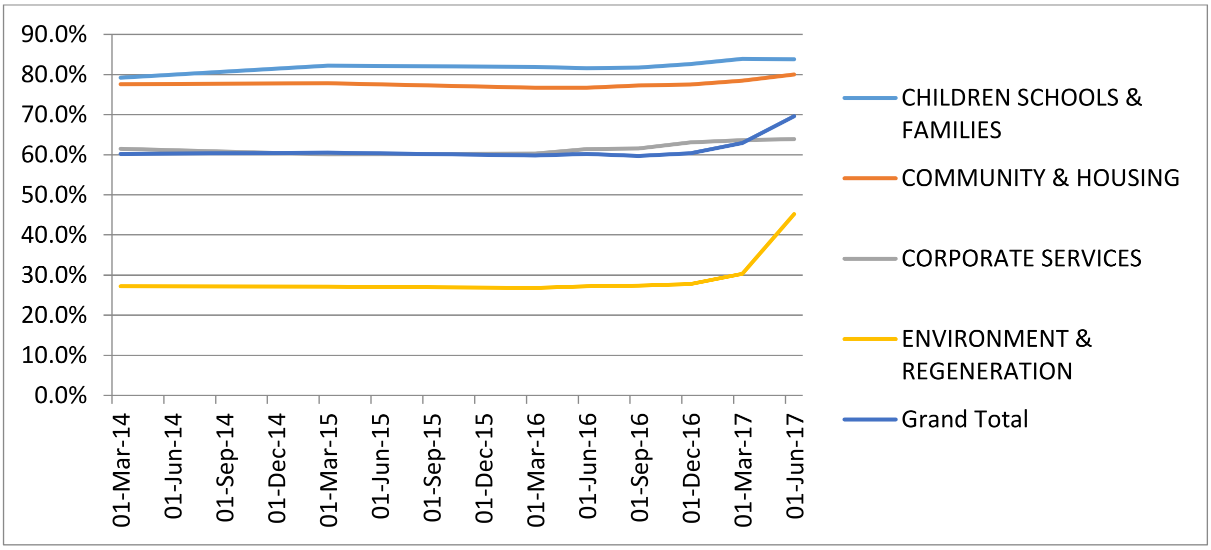
The number of agency workers has reduced with the transfer out of Front Line services.

Workforce BME Employee trend 2014-2017.



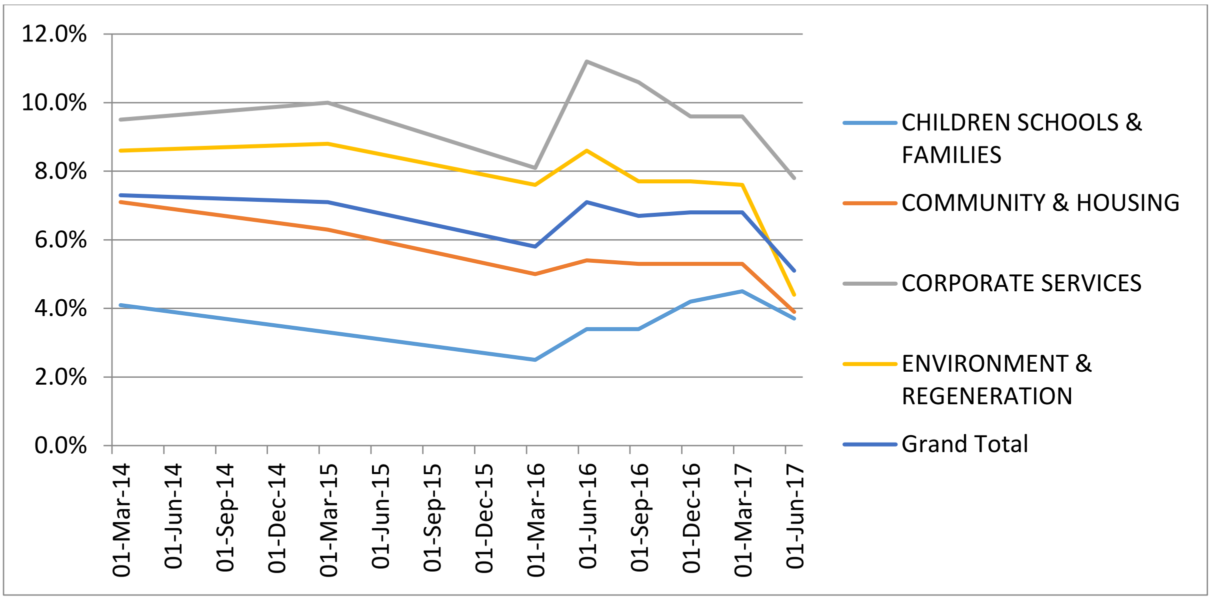
There has been a steady ongoing increase in the % BME employees, with a more marked increase with the transfer out of Green Spaces and Waste Services in February/March 2017.

Workforce Gender trend 2014-2017



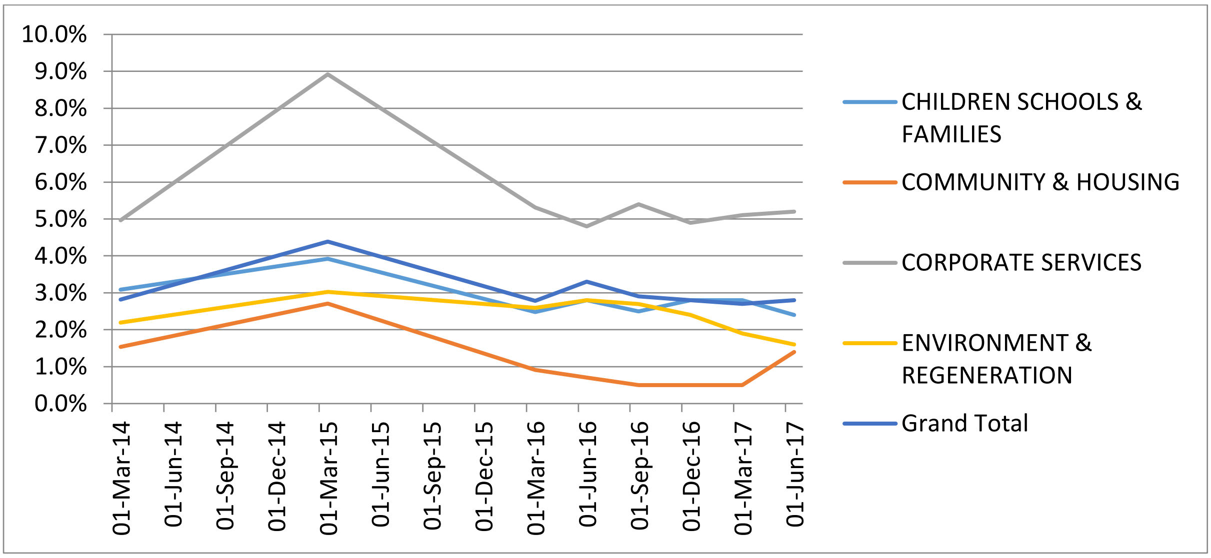
After remaining stable for many years, the percentage of female employees in the workforce increased with the mainly male Green Spaces and Waste services in February/March 2017.

Workforce Disabled trend 2014-2017



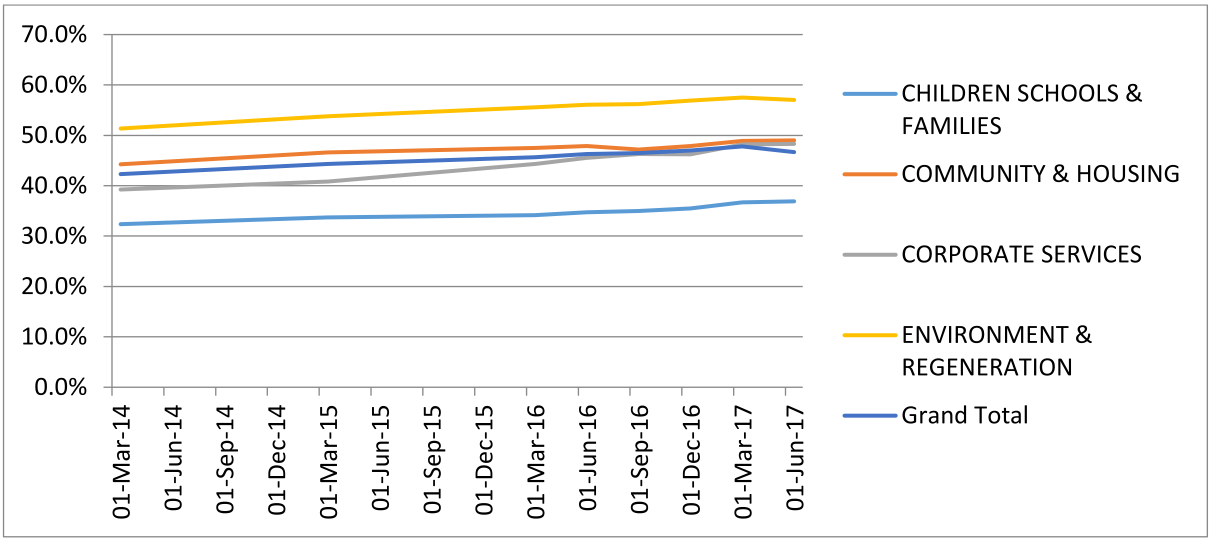
The proportion of employee who have declared a disability has been declining for some years, with a more marked decrease following the Green Spaces/Waste transfers.

Workforce younger employees age 16-24 trend 2014-2017



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

Workforce older employees age 50+ trend 2014-2017



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

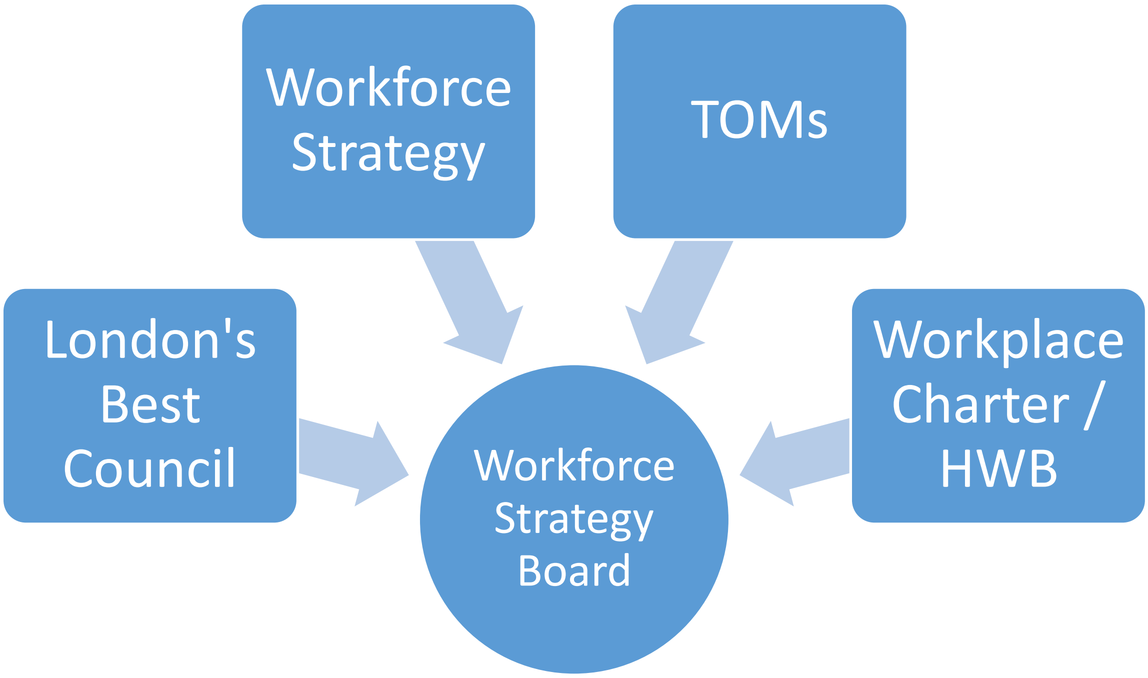
4. STRATEGY

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

4.1 Model for achieving the strategy

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

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



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

5. KEY WORKFORCE PRIORITIES FOR THE FUTURE

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

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

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

5.1 Workforce planning

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

What we want to achieve

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

Why this is a priority?

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

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

Actions and outcomes

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

5.2 Recruitment and retention

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

What we want to achieve

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

Why this is a priority

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

Actions and Outcomes

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

5.3 Organisational and workforce development

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

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

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

What we want to achieve

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

Why this is a priority

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

Actions and Outcomes

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

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

5.4 Morale, health and wellbeing

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

What we want to achieve

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

Why this is a priority

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

Actions and outcomes

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

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

5.5 Leadership

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

What we want to achieve

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

Why this is a priority

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

Actions and Outcomes

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

5.6 Apprenticeships

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

What we want to achieve

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

Why this is a priority

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

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

Actions and Outcomes

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

6. Conclusion

Delivering the actions in this strategy will:

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

PROCUREMENT STRATEGY 2017

Section 1 – Introduction

Procurement is defined in the National Procurement Strategy as:

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

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

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

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

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

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

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

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

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

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

Section 2 – Objectives and Benefits

The overarching objectives of this strategy are:

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

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

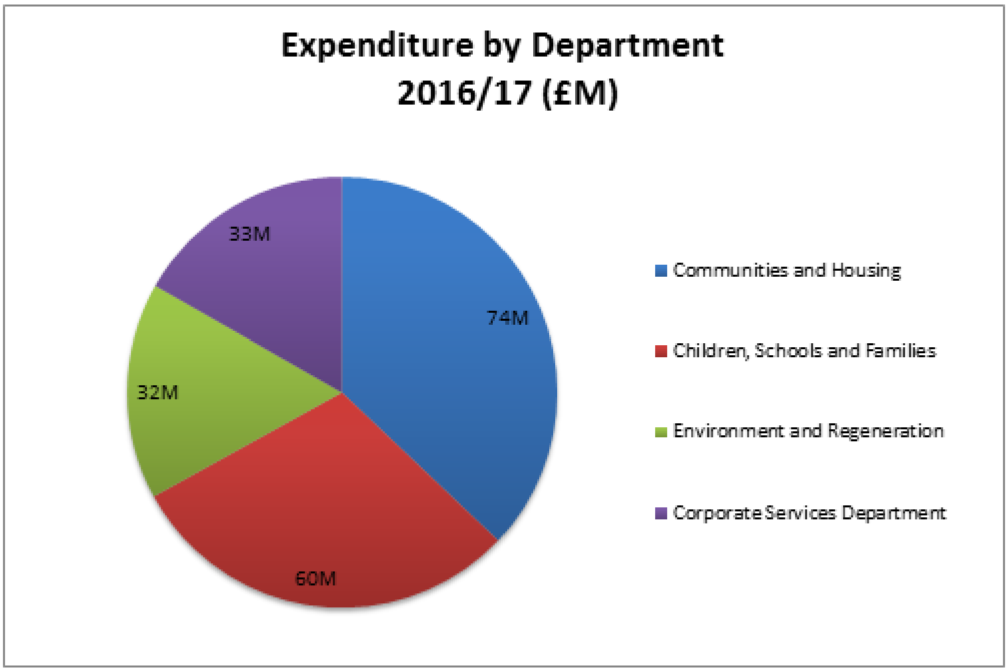
- ➢ Demonstrate continuous improvement and achieve value for money through the efficient procurement of goods and services
- ➢ More efficient procurement processes
- ➢ Better risk management
- ➢ Strategic procurement planning
- ➢ Effective spend analysis and measurable cash savings
- ➢ Proactive contract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

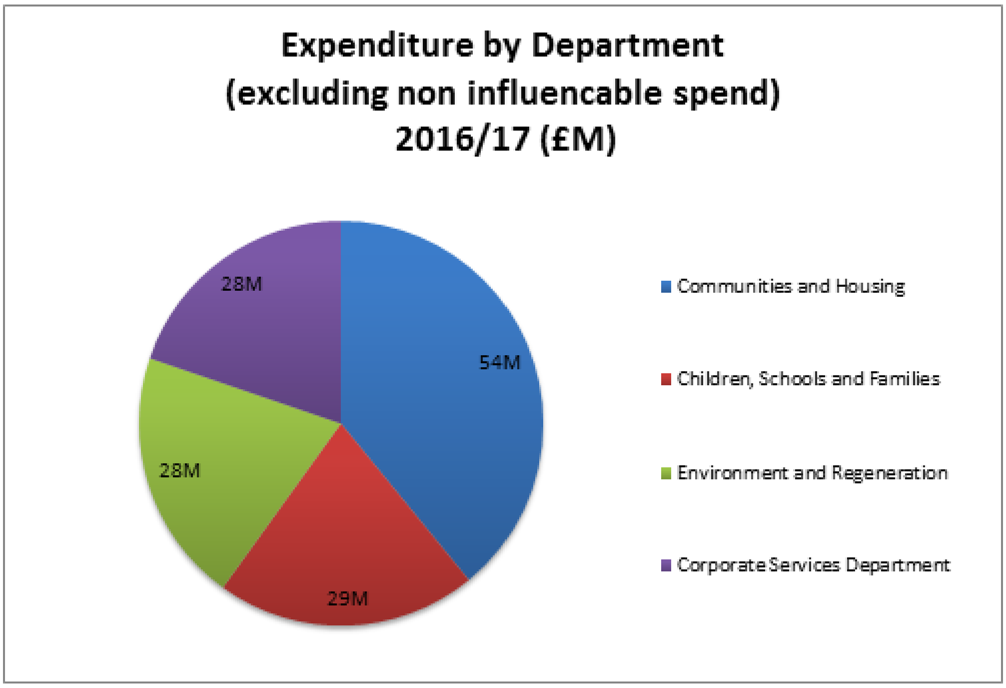
Our vision for procurement is to provide a first class service for our residents whilst we build on best practice to ensure value for money in all our procurement exercises.

Section 3 - Overview of Procurement

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

Updated expenditure 1 April 2016 – 31 March 2017





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

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

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

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

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

The main objectives of the CST are to:

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

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

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

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

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

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

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

Section 4 – Key Themes

a. Value for Money (VFM)

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

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

Principal Objectives

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

b. Category Management

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

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

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

Principal Objectives

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

c. Contract Management

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

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

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

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

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

Principal Objectives

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

d. Partnering and Collaboration

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

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

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

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

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

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

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

Principal Objectives

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

e. Market Management

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

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

Principal Objectives

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

f. Supplier Relationship Management

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

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

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

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

Principal Objectives

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

g. Developing People and Improving Skills

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

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

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

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

The forums will:

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

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

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

h. Systems and Processes

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

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

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

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

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

Section 5 - Governance Framework

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

a. The Corporate Management Team

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

b. Contract Standing Orders

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

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

c. The Procurement Board

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

The main functions of the Procurement Board are:

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

d. Departmental Management Teams

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

e. Operational Procurement Group

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

f. Procurement Gateway process

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

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

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

g. Financial Regulations and Procedures

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

h. Procurement Plans

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

i. Procurement Templates and Toolkits

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

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

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

j. The Contracts Register

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

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

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

k. e-Procurement

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

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

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

l. Looking to the Future

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

Section 6 – Key Actions

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

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

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

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

By 2022, we will have:

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

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

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

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

Contract Activity

List of key tenders planned for 2018 include:

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

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

Contacting Us

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

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

Other useful websites

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

Committee: Overview and Scrutiny Commission
Date: 25 January 2018

Wards:	All
Subject:	**Scrutiny of the Business Plan 2018-2022: 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 2018-22, 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 11 December 2017, 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 2018-2022 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 2018-22.

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 2018-22 Business Plan was undertaken as follows:-

- Children & Young People Overview & Scrutiny Panel: 8 November 2017
- Sustainable Communities Overview & Scrutiny Panel: 2 November 2017
- Healthier Communities & Older People Scrutiny Panel:7 November 2017
- Overview and Scrutiny Commission: 15 November 2017

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

- Sustainable Communities Overview & Scrutiny Panel: 16 January 2018
- Children & Young People Overview & Scrutiny Panel: 17 January 2018
- Healthier Communities & Older People Scrutiny Panel:11 January 2018
- Overview and Scrutiny Commission: 25 January 2018

6.4 The responses from round two will be presented to Cabinet on 19 February 2018. A meeting of full Council will then take place on 28 February 2018.

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 16 October and 11 December 2017.

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 2018-22.

13. BACKGROUND PAPERS

13.1 Minutes of the meetings of the Overview & Scrutiny Panels in January 2018

Appendix 1

References/Comments from Scrutiny Panels to the Overview & Scrutiny Commission 25 January 2018

Scrutiny of the Business Plan 2018-2022

Healthier Communities and Older People O&S Panel: 11 January 2018

The Healthier Communities and Older People Overview and Scrutiny Panel discussed the proposed savings and had no comments that they wished to draw to the attention of Cabinet.

Sustainable Communities Overview and Scrutiny Panel: 16 January 2018

To follow

Children and Young People Overview and Scrutiny Panel: 17 January 2018

To follow

Committee: Overview and Scrutiny Commission

Date: 25 January 2018

Wards: All Wards

Subject: Scrutiny review of the recruitment and retention of teachers in Merton

Lead officer: Julia Regan, Head of Democracy Services

Lead member: Councillor Peter Southgate, Chair of Overview and Scrutiny Commission

Contact Officer: Julia Regan; julia.regan@merton.gov.uk; 020 8545 3864

Recommendations:

A. That the Overview and Scrutiny Commission considers and endorses the report arising from the scrutiny review of the recruitment and retention of teachers in Merton, attached at Appendix 1; and

B. That the Commission agrees to forward the review report to Cabinet for approval and implementation of the recommendations, by means of an action plan to be drawn up by officers working with the Cabinet Member(s) to be designated by Cabinet

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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 To present the combined scrutiny review report on the recruitment and retention of teachers in Merton to the Overview and Scrutiny Commission for endorsement and to seek agreement to forward to Cabinet for its consideration

2. DETAILS

2.1 This issue was initially drawn to the attention of the Children and Young People Overview and Scrutiny Panel by the headteacher of the Priory School. The Panel, mindful that this was a cross-cutting issue, particularly in relation to housing supply, referred the matter to the Overview and Scrutiny Commission.

2.2 The Commission agreed to establish a task group with very focussed terms of reference:

- To identify the issues that impact on the recruitment and retention of staff in Merton's schools;
- To consider how Merton Council and its partners can assist schools with the recruitment and retention of high quality staff in Merton's schools.

2.3 The task group's findings and recommendations are set out in a report for the Commission's consideration, attached at Appendix 1. The Commission is requested to consider and endorse the report for submission to Cabinet.

3. ALTERNATIVE OPTIONS

3.1 The Overview and Scrutiny Commission can select topics for scrutiny review and for other scrutiny work as it sees fit, taking into account views and suggestions from officers, partner organisations and the public.

4. CONSULTATION UNDERTAKEN OR PROPOSED

4.1 In carrying out its review, the task group questioned council officers and headteachers as well as receiving written views from newly qualified teachers in Merton.

4.2 Appendix 1 lists the written evidence received by the task group and Appendix 2 contains a list of witnesses at each meeting and details of visits made by the task group.

5. TIMETABLE

5.1 The task group was established by the Council's Overview and Scrutiny Commission and so this report will be presented to its meeting on 25 January 2018 for the Commission's approval, with a view to presenting to Cabinet at its meeting on 19 February 2018.

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1 None for the purposes of this covering report. Any specific resource implications will be identified and presented to Cabinet prior to agreeing an action plan for implementing the report's recommendations.

7. LEGAL AND STATUTORY IMPLICATIONS

7.1 None for the purposes of this report.

8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1 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 engaging with local partners in scrutiny reviews. Furthermore, the outcomes of reviews are intended to benefit all sections of the local community.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None for the purposes of this report.

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 None for the purposes of this report.

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

11.1 Appendix 1 – task group review report on the recruitment and retention of teachers in Merton

12. BACKGROUND PAPERS

12.1 Notes of task group meetings.

London Borough of Merton

Report and recommendations arising from the scrutiny task group review of the recruitment and retention of teachers in Merton

Overview and Scrutiny Commission

January 2018

Task group membership

Councillor Peter Southgate (Chair)
Councillor Agatha Akyigyina
Councillor Joan Henry
Councillor James Holmes
Councillor Dennis Pearce
Helen Forbes (Co-opted Member)

Scrutiny support:

Julia Regan, Head of Democracy Services
For further information relating to the review, please contact:

Democracy Services Team
Corporate Services Department
London Borough of Merton
Merton Civic Centre
London Road
Morden
Surrey SM4 5DX

Tel: 020 8545 3864
E-mail: scrutiny@merton.gov.uk

Acknowledgements

The task group would particularly like to thank the headteachers, newly qualified teachers and council officers who shared their experiences and thoughts with us.

All contributors are listed in Appendices1 and 2 of this report.

Chair's foreword
At the beginning of January, UCAS reported that applications for teacher training courses were down by one third on the previous year, threatening to make an already tight supply situation even worse in the future.

Merton schools are not immune from these pressures, and the decision to undertake a review of teacher recruitment and retention stems from concerns expressed to us by headteachers themselves.

What do we have going for us in Merton? The turnaround in the academic performance of our schools over the past 15 years is perhaps our biggest success story, and one that has been of enormous benefit to the life chances of our children. So we should celebrate that, and make sure newly qualified teachers know they will be gaining exceptional teaching experience if they start their careers in Merton.

As is often the case, we found that we have many benefits to offer teachers coming to Merton, but we don't always publicise them as well as we might. So several of our recommendations are to communicate what's already available more effectively – discounts on leisure facilities and health benefits, for example.

But we cannot ignore the prohibitive cost of housing in balancing the case for and against coming to teach in Merton. We take the view that home ownership is probably out of reach for anyone on a teacher's salary, and focussed our recommendations instead on the rental market, where teachers would be reliable tenants for both private and public landlords (including Merantun Development, Merton's own property company), justifying 3 – 5 year tenancy offers. More controversially, we make the case for subsidising rents in Merton properties where we wish to retain excellent teachers whom we might otherwise lose.

This review has packed in a lot of work in a short timeframe, interviewing witnesses and gathering evidence, in order to complete before council business is suspended for the local elections in May. Deadlines impose a useful discipline, but the burden has fallen squarely on Julia Regan, our hard working scrutiny officer who has turned this review around in record time. On behalf of all the members of the task group, I would like to record our grateful thanks to Julia.

Councillor Peter Southgate
Chair, Overview and Scrutiny Commission

Executive Summary

The task group was set up in order to investigate the difficulties that schools in Merton were experiencing with the recruitment and retention of teachers. The task group was also asked to consider how Merton Council and its partners could assist schools with the recruitment and retention of high quality staff.

The report is evidence based, drawing on and reflecting the wide range of written and oral evidence received. In particular, the task group has taken into account the experiences and views of local headteachers and newly qualified teachers. Task group members also spoke to council officers and received information about teacher recruitment and retention nationally.

The task group found that headteachers' experiences of recruitment and retention in Merton are similar to the national picture. Recruitment has been a particular challenge for headteachers, with the main barriers reported to be national issues (pay, status, workload) , lack of candidates and the cost of living in the local area. Retention is a lesser challenge, with a particular pinchpoint when teachers are about three years into their career and at a point when they no longer wish to continue living in short term rented or shared accommodation.

The task group noted that good school performance has a positive impact on both recruitment and retention and were therefore encouraged by evidence of sustained improvement in performance in Merton schools and the high proportion of schools that have been rated "good" or "outstanding" by Ofsted.

The task group found that the council already has appropriate systems and structures in place for teacher recruitment. It has made recommendations aimed at using these more effectively and promoting them more widely to headteachers.

Similarly, there is a range of benefits already on offer to teachers, so the task group has made recommendations to re-invigorate their promotion as well as encouraging governing bodies to organise activities that would promote staff health and wellbeing.

The cost of local accommodation was found to be a key factor affecting both recruitment and retention. The task group has made a number of recommendations that are intended to improve teachers' experience of the private rented sector, including the proposed introduction of an interest free loan to assist teachers with payment of rent deposits.

The task group's recommendations run throughout the report and are listed in full overleaf.

List of task group's recommendations

	Responsible decision making body
Recommendation 1 (paragraph 25)	
We recommend that Cabinet should confirm that it is committed to continuing to celebrate the successes of Merton's schools in order to attract teachers of the highest quality and to promote local schools as the first preference for parents seeking an excellent education for their children.	Cabinet
Recommendation 2 (paragraph 30)	
We recommend that the School Effectiveness Partnership Board should consider a more proactive and personalised approach to match applicants in the Eteach talent pool with specific school vacancies in order to increase its effectiveness.	School Effectiveness Partnership Board
Recommendation 3 (paragraph 37)	
We recommend that, once the government has released details, the School Effectiveness Partnership Board should consider if the teacher apprenticeship scheme could be implemented in Merton.	School Effectiveness Partnership Board
Recommendation 4 (paragraph 55)	
We recommend that the School Effectiveness Partnership Board should promote a wide range of recruitment routes to assist headteachers with advertising vacancies in their schools.	School Effectiveness Partnership Board
Recommendation 5 (paragraph 66)	
We recommend that the provision of a flu vaccine to school staff should be included in a service level agreement so that headteachers can assess the costs and benefits of taking up this service.	Cabinet
Recommendation 6 (paragraph 69)	
We recommend that Cabinet should encourage school governing bodies to organise activities in their school that would promote the general health and wellbeing of school staff. The council's Public Health team would be able to provide advice to governing bodies if required.	Cabinet

Recommendation 7 (paragraph 72)	
We recommend that Cabinet publicise to school staff and explain how to take up the existing council staff discount on annual memberships at Canons Leisure Centre, Morden Park Pools and Wimbledon Leisure Centre.	Cabinet
Recommendation 8 (paragraph 75)	
We recommend that all the benefits that are currently available to teachers and other school staff should be publicised to all school staff and clearly documented on all relevant webpages. This should include the interest free season ticket loan, purchase of a bicycle through the Cycle to Work Scheme (salary sacrifice) and nursery/childcare vouchers.	Cabinet
Recommendation 9 (paragraph 82)	
We recommend that Cabinet should ask the Head of Housing Needs and Strategy to write to local housing associations to ask if they have any “hard to let” properties that could be made available to teachers at an affordable rent (including short term assured tenancies).	Cabinet
Recommendation 10 (paragraph 84)	
We further recommend that Cabinet consider whether the 3-5 year private rental tenancies that will be available through the Local Authority Property Company from 2019/20 could be offered to teachers in the first instance, thus offering teachers an element of financial security.	Cabinet
Recommendation 11 (paragraph 87)	
We recommend that Cabinet should explore the business case for supporting the retention of excellent teachers in the borough by offering a small number of private rented properties through the Local Authority Property Company to such teachers at a reduced rent.	Cabinet
Recommendation 12 (paragraph 89)	
We recommend that Cabinet should ask the Head of Housing Needs and Strategy to approach the Landlords Forum with a “good tenant offer” whereby the council would guarantee a supply of teachers as private tenants for a fixed number of years in return for a reduced rent.	Cabinet
Recommendation 13 (paragraph 92)	
We recommend that Cabinet should ask the Head of Housing Needs and Strategy to provide school staff with a list of shared ownership schemes that might be suitable for teachers, whilst not recommending any scheme in particular.	Cabinet

Recommendation 14 (paragraph 96)	
We recommend that Cabinet consider setting up a rent deposit scheme that would operate in a similar way to the existing season ticket loan. This would provide teachers with an interest free loan that would be paid back to the council in a set number of instalments.	Cabinet
Recommendation 15 (paragraph 99)	
We recommend that the Sustainable Communities Overview and Scrutiny Panel should receive a briefing on the Mayor of London's London Living Rent initiative in order to identify potential benefits for Merton residents	Sustainable Communities Overview and Scrutiny Panel
Recommendation 16 (paragraph 103)	
We recommend that the School Effectiveness Partnership Board should consider how best to build on the effective programme of continuous professional development that is already being delivered. The Board could consider the role of local colleges and universities in further enhancing the options available, including through use of the Apprenticeship Levy.	School Effectiveness Partnership Board

Report of the Scrutiny Task Group Review of the Recruitment and Retention of Teachers in Merton

Introduction

Purpose

1. This issue was initially drawn to the attention of the Children and Young People Overview and Scrutiny Panel by the headteacher of the Priory School. The headteacher highlighted the difficulties that schools in Merton were experiencing with the recruitment and retention of teachers in particular but also other members of staff. She said that although there was evidence that this was not unique to Merton, she believed that there were measures that could be taken at a local level that would alleviate the situation.

2. The Children and Young People Overview and Scrutiny Panel, mindful that this is a cross-cutting issue, particularly in relation to housing supply, referred the matter to the Overview and Scrutiny Commission.

3. The Commission, mindful of the relatively short timescale for this review, agreed to establish a task group with very focussed terms of reference:

    - To identify the issues that impact on the recruitment and retention of staff in Merton's schools;
    - To consider how Merton Council and its partners can assist schools with the recruitment and retention of high quality staff in Merton's schools.

What the task group did

4. The task group has had four formal meetings plus two discussions with primary and secondary school headteachers. It has received a presentation on the national picture and the local context plus a number of background policy documents.

5. The task group sent a questionnaire to headteachers about their experiences of recruitment and retention. Newly qualified teachers were surveyed to find out what had attracted them to Merton and what factors would influence whether they stayed or moved elsewhere in future. The task group also wrote to local teaching unions inviting them to submit their views.

6. Appendix 1 lists the written evidence received by the task group and Appendix 2 contains a list of witnesses at each meeting.

7. This report sets out the task group's findings, conclusions and recommendations. The task group's recommendations run throughout the report and are set out in full in the executive summary at the front of this document.

The national picture

8. The State of Education Survey Report, 2016, found that 62% of headteachers nationally (76% for secondary schools) reported that recruitment and retention of teaching staff had been a difficult area to manage over the previous 12 months. The Survey found that recruitment and retention of teachers was reported to be the second highest concern for the next 12 months, after budget pressures.

9. The Survey found that 56% of heads in London schools stated they were facing a shortage of teachers compared to 37% nationally. Again the percentage was higher for secondary schools than for primary.

10. Headteachers reported that the biggest challenge they faced when recruiting teachers is the quality of applications (40%), followed by the low number of applications (21%). The demographics of the local area was less of a challenge (7%) as was school location (5%).

11. The main reason given for teachers leaving was to take up a job at another school. Workload pressures and retirement were also significant reasons for leaving. Relocation was cited as a factor by 31% of secondary heads and 24% primary heads; family reasons were cited by 7% secondary heads and 22% primary heads.

12. Governing bodies reported that they had taken a variety of steps to retain staff, including development opportunities, flexible working, non-monetary rewards or incentives and reduced paperwork or teaching hours.

13. The House of Commons Education Select Committee published a review report in February 2017on the recruitment and retention of teachers. The Select Committee considered supply-side factors as well as workload and professional development. They called for evidence based policies to improve the supply and retention of high quality teachers and recommended that school leaders should carry out exit interviews to better understand staff turnover.

14. The Select Committee found that the government has failed to meet its recruitment targets and recommended that, whilst continuing to seek to recruit sufficient new teachers, the government should also place more emphasis on improving teacher retention as a cost effective way of addressing supply as well as strengthening the pool of teachers to draw on for leadership positions. A number of recommendations were aimed at improving continuous professional development. The review also urged the government and Ofsted to recognise their role in increasing workload, which has been cited as a factor for teachers leaving the profession.

The local context

15. Merton primary and secondary headteachers reported to us that recruitment had been a difficult area to manage over the past 12 months. Retention was reported as slightly less difficult to manage than recruitment, particularly in primary schools

16. Headteachers reported that the key challenges and barriers to recruitment include national issues (pay, status, workload), lack of candidates and the cost of living in local area. Our discussion with secondary headteachers revealed the difficulties they experience in competing with Academy chains that can offer an enhanced salary and benefits package, new buildings, sixth forms and professional development programmes.

17. We noted that Merton schools have an advantage over neighbouring outer London boroughs of being able to pay the inner London weighting allowance (worth £2,000) to teachers.

18. The cost of accommodation was reported to be a key barrier for retention in both primary and secondary schools. Workload, salary and burnout were also cited as factors by primary heads. Secondary heads cited competition/poaching from other schools and the demands of the role.

19. We found that the pinch points for retention in both primary and secondary schools occur when teachers reach a point in their lives at which they wish to have more permanent accommodation arrangements and/or start a family. Often this will result in teachers moving away from the borough.

20. We heard that good school performance has a positive impact on teacher recruitment and retention. Merton, in having a high proportion of schools rated "good" or "outstanding" by Ofsted, therefore should have an advantage in being able to attract good teachers to work in the borough. Conversely, when a school is rated as "requiring improvement", this can be destabilising for the school and lead to a high turnover of staff.

21. We were also pleased to hear that Merton has benefitted from the retention of a number of excellent headteachers for many years.

22. The council's Children Schools and Families Department has put in place a number of mechanisms to support school effectiveness and these also have an impact on recruitment and retention. Strategic oversight of recruitment to maintained schools in Merton is provided by the School Effectiveness Partnership Board. The Board's predecessor commissioned the production of a website to encourage teachers to work in Merton. The Board is currently reviewing the content of the

website and focussing on ways to support schools with recruitment and retention.

23. We were delighted to hear that recent figures released by the Department for Education showed that Merton was joint top in the country (with Brent) for progress towards GCSE, made between Key Stage 2 and Key Stage 4 (Progress 8). We hope that this success will encourage teachers to work in Merton and parents to send their children to Merton schools.

24. We were pleased to hear that the Department for Education Progress 8 study findings have already been publicised and that the good reputation of schools has resulted in an increase in the number of parents who are choosing a Merton school as the first preference for their child.

25. We recommend that Cabinet should confirm that it is committed to continuing to celebrate the successes of Merton's schools in order to attract teachers of the highest quality and to promote local schools as the first preference for parents seeking an excellent education for their children. (recommendation 1)

Task Group's Findings - Recruitment

Recruitment routes and methods

26. A number of different recruitment routes are available to schools, as set out in the paragraphs below. Our discussion with headteachers revealed that they will often pursue several routes either simultaneously or consecutively in order to maximise the number and quality of applicants. Primary and secondary heads reported difficulties in attracting sufficient high quality applicants.

27. Eteach website
Eteach works with over 7,500 schools and colleges and last year advertised more than 65,000 jobs to its 1.5 million registered candidates, who made 5 million job searches and 1 million site visits each month.

28. Merton has a service level agreement with Eteach. Each school that is registered with Eteach has a microsite on which its vacancies are advertised together with information about the school. Eteach also provides an NQT "talent pool" on which NQTs can log their CVs and that can be accessed by schools that are registered with Eteach

29. The council's bespoke website has an automatic link to direct applicants to the Eteach site:

Council website http://www.mertonteacherrecruitment.org.uk/

E teach home page http://www.eteachgroup.com

Eteach microsite
https://www.eteach.com/microsite/contentpage.aspx?empno=3651&clusterid=735&pagetype=-10 (this is the Merton page that is accessed through link from the Merton website)

30. We understand that the School Effectiveness Partnership Board might have the scope to encourage a more proactive and personalised approach to be taken in matching applicants in the Eteach talent pool with specific school vacancies. We would like to encourage the Board to consider this and other measures that could be taken to increase the effectiveness of schools' use of Eteach.

31. We therefore recommend that the School Effectiveness Partnership Board should consider a more proactive and personalised approach to match applicants in the Eteach talent pool with specific school vacancies in order to increase its effectiveness. (recommendation 2)

32. Teach Wimbledon
33. Teach Wimbledon is a borough-wide consortium of 15 schools working in conjunction with the council and with Roehampton University to provide a direct route into teaching. It is open to applicants who have a 2:1 degree. Those who are successful at interview are allocated a host

school in which they work whilst also attending Roehampton University to study for a PGCE. Last year all 10 graduates from Teach Wimbledon subsequently got jobs in Merton schools (2 secondary and 8 primary).

34. SCITT

35. Another route in to teaching is school centred initial teacher training (SCITT) which has its own accreditation leading to a PGCE qualification – currently offered at Aragon Primary School. Open to all schools in the borough.

36. Apprenticeships

37. We understand that the new apprenticeship scheme could provide a route for newly qualified teachers but, to date, the scheme has been rather confusing, not well advertised and has a short timescale that has limited take-up. At present there are only two providers. The scheme has the potential to be very attractive to teachers as participants would be paid whilst studying and training.

38. **We recommend that, once the government has released details, the School Effectiveness Partnership Board should consider if the teacher apprenticeship scheme could be implemented in Merton.. (recommendation 3)**

39. Recruitment Agencies

40. Agencies actively recruit trainee teachers in colleges and encourage them to apply for teaching positions through the agency rather than direct to schools. The advantage to the applicant is that they only have to fill in one form in total rather than one per school.

41. Schools that don't recruit through an agency are therefore in competition with the agency to find the best teachers. Schools that do use an agency face considerable financial costs through the fee charged by the agency. We also heard that there is a lack of support from the agency post-placement.

42. We heard that these specialist recruitment agencies are a relatively new phenomenon and are having a particular impact on recruitment to secondary schools. The secondary headteachers told us that they would like local universities to encourage students to apply direct to schools and not through recruitment agencies.

43. We discussed whether it would be possible for Merton to set up its own recruitment agency with a single application form to encourage teachers to apply to Merton schools. On balance, our view is that a more effective use of ETeach as recommended above would be more cost effective for schools than contributing to the establishment and operation of a Merton recruitment agency.

44. Recruitment fairs

45. These are hosted by local universities and are a useful way to identify strong candidates and encourage them to apply for NQT jobs in Merton schools. We were advised that headteacher attendance at these fairs is particularly helpful, though we acknowledge that this requires a considerable time commitment from heads. We discussed whether it might be helpful for Merton to host a recruitment fair locally (as Croydon has done). This would have the advantage of enabling more headteachers to attend but the disadvantage that students might be less likely to travel to attend in Merton.

46. We were advised that recruitment agencies are increasingly advertising online and through social media as well as attending recruitment fairs.

47. Teaching placements and NQTs

48. Successful recruitment of excellent teachers is facilitated through the identification of promising teaching graduates as early as possible in the “supply chain”, particularly through well supported teaching placements so that they are more likely to subsequently apply for a job in a Merton school.

49. Merton schools have established good links with local colleges and universities, particularly Roehampton University. This has led to trainee teachers being sent on placements and schools have been able to encourage good ones to apply for permanent positions as newly qualified teachers (NQTs).

50. Merton generally employs around 100 NQTs each year. We emailed the current NQTs to find out what had attracted them to apply for a job in Merton and what would be likely to encourage them to stay.

51. Of the 35 NQTs who responded to our survey, 8 said that their PCGE placement in a Merton school had been a significant factor in choosing to stay in Merton. They had enjoyed the placement and wished to stay either in the same school or another school in Merton.

52. A number of the NQTs already lived in Merton or nearby and so were attracted by the convenience of the journey to work – views differed on what “nearby” constitutes, for some it was up to an hour’s journey and for others it was living in the vicinity of the school. Some of the NQTs cited the quality of the schools as a reason for working in Merton.

The council’s role in supporting recruitment of teachers

53. We were advised that the council already has appropriate systems and structures in place for teacher recruitment but there is scope to use these more effectively through addressing co-ordination and capacity issues. The School Effectiveness Partnership Board would be the most

appropriate way to progress this, hence recommendations1 and 2 in the preceding sections.

54. We were told by headteachers that the "teaching in Merton" webpages jobs section of the council's website was hard to find. However, the council's website has been recently re-designed and when we looked at it we found that the dedicated webpage is now only two clicks from the council's homepage, which makes it easy for potential applicants to find all the relevant information.

55. From our discussion with primary headteachers it was clear that some headteachers were not aware of all the potential recruitment routes that they could draw on. We understand that the School Effectiveness Partnership Board is compiling this information.

56. We recommend that the School Effectiveness Partnership Board should promote a wide range of recruitment routes to assist headteachers with advertising vacancies in their schools. (recommendation 4)

Task Group Findings – the Merton Offer

57. Our discussions with headteachers found that they would appreciate some support from the council in promoting the benefits of working in Merton and providing employee benefits such as discounts in local shops, gyms and access to mental and physical wellbeing initiatives. Their view was that such an offer would help to attract newly qualified teachers to work in Merton.

58. We were informed by the Head of HR that a "Merton Offer" already exists that brings together a number of benefits available to Merton officers that are also available to teachers. These are set out below. We welcome these and have made recommendations to enhance some aspects of the offer as well as a recommendation to publicise the offer to existing school staff and potential applicants.

59. Kaarp Employee Discount Scheme

60. This provides Merton officers and school staff with discounts for a wide range of products and services (holidays, entertainment, health and fitness, motoring, travel, finance…).

61. Employee Assistance Programme

62. Merton's Employee Assistance Programme enables staff to speak to someone in confidence about work or personal matters. Information sheets are available on a wide range of subjects that might impact on health or wellbeing at home or at work.

63. The service is available to staff in the 40 schools who have purchased the relevant service level agreement at a cost of around £4.50 per employee.

64. Flu vaccine

65. Frontline staff, including health and social care employees, are eligible for a free flu vaccine as part of the council's contract with its occupational health provider.

66. Schools could purchase this service at a cost of around £7.50 per employee, thereby potentially reducing the level of sickness and making a saving on the cost of supply cover.

67. We recommend that the provision of a flu vaccine to school staff should be included in a service level agreement so that headteachers can assess the costs and benefits of taking up this service. (recommendation 5)

68. Merton Health Day

69. A twice yearly event for staff in the Civic Centre providing a mini health check and information from a wide range of health and wellbeing practitioners. These are well attended by staff and feedback has been very positive. We recognise the logistical constraints but would like to

see similar opportunities provided to staff in schools – these could be organised by governing bodies to address the particular needs and circumstances of staff within that school.

70. We recommend that Cabinet should encourage school governing bodies to organise activities in their school that would promote the general health and wellbeing of school staff. The council's Public Health team would be able to provide advice to governing bodies if required. (recommendation 6)

71. <u>Leisure centres</u>

72. Merton Council staff receive a discount on annual memberships at Canons Leisure Centre, Morden Park Pools and Wimbledon Leisure Centre. This discount is already available to staff working in Merton schools. However, feedback from headteachers indicates that school staff may not be aware of their eligibility for this discount.

73. We recommend that Cabinet publicise to school staff and explain how to take up the existing council staff discount on annual memberships at Canons Leisure Centre, Morden Park Pools and Wimbledon Leisure Centre. (recommendation 7)

74. <u>Other</u>

75. Teachers already have access to an interest free season ticket loan, purchase of a bicycle through the Cycle to Work Scheme (salary sacrifice) and nursery/childcare vouchers.

76. We recommend that all the benefits that are currently available to teachers and other school staff should be publicised to all school staff and clearly documented on all relevant webpages. This should include the interest free season ticket loan, purchase of a bicycle through the Cycle to Work Scheme (salary sacrifice) and nursery/childcare vouchers. (recommendation 8)

Task Group Findings - Housing

77. Primary and secondary headteachers regard the cost of local accommodation as a key barrier to recruitment and retention. They have suggested that the council could help by:

- Providing support with finding accommodation for teachers at the start of their careers
- seeking affordable housing options for teachers
- promoting the benefits of working in Merton

78. During our discussion with headteachers, they stressed that newly qualified teachers typically houseshare for the first two to three years and then seek to move on to their own place. Headteachers asked whether it would be possible to offer a shared ownership scheme (or similar) to teachers who have worked in Merton for a minimum of three years in order to provide an incentive to stay.

79. When we asked the newly qualified teachers (NQTs)about what factors would determine whether they stayed in Merton, the cost of housing was by far the most significant factor for almost every respondent:

“very hard to rent in Merton due to cost”

“buying a house is a bit of a far off fantasy that may or may not happen”

80. Our discussion with the Head of Housing Needs and Strategy and the Head of Future Merton plus information about house prices locally have made it clear that purchasing property on the open market is out of the reach of most teachers working in Merton and this is particularly the case for those at the start of their careers.

81. We have therefore focussed our thoughts on measures that could be taken to improve teachers’ experience of the private rented sector. We understand that rental property is still relatively affordable in Merton compared to other parts of London but it is subject to greater demand than ever before.

82. We do recognise that there are other groups of key workers and vulnerable groups in Merton who would also benefit from access to truly affordable housing. These groups were not included in the remit of this task group review and we have therefore confined our recommendations to teachers. In responding to our recommendations, Cabinet will no doubt bear these competing demands in mind.

83. We recommend that Cabinet should ask the Head of Housing Needs and Strategy to write to local housing associations to ask if they have any “hard to let” properties that could be made available to teachers at an affordable rent (including short term assured tenancies). (recommendation 9)

84. We heard that the Local Authority Property Company had been established to develop new purpose built properties for private rent that would provide an income stream for the council. A proportion of these would be affordable and would be managed by a housing association.

85. We further recommend that Cabinet consider whether the 3-5 year private rental tenancies that will be available through the Local Authority Property Company from 2019/20 could be offered to teachers in the first instance, thus offering teachers an element of financial security. (recommendation 10)

86. We were informed that the Local Authority Property Company (LAPC) is a private company so would not be able to offer a discounted rent to teachers. The Company's business plan and decision making sits with the LAPC board and is not part of the council's usual decision making processes .If the council were to take a decision to offer discounted rents then profitability of the LAPC and income to the council would be reduced. If the Council sought to subsidise housing for teachers via the LAPC, Merton Council would have to cover the cost differential, not the LAPC.

87. We are not persuaded that it would be impossible for the council to provide discounted rent to teachers, although we do accept that this would be a political decision for Cabinet to consider whilst balancing the needs of other groups of key workers and the impact that a discounted rent would have on the revenue stream that would be generated for the council.

88. We therefore recommend that Cabinet should explore the business case for supporting the retention of excellent teachers in the borough by offering a small number of private rented properties through the Local Authority Property Company to such teachers at a reduced rent. (recommendation 11)

89. We discussed the feasibility of brokering a deal with private landlords to encourage them to rent to teachers at a reduced rent in return for a guarantee from the council that they would have a supply of teacher tenants for a fixed number of years, thus ensuring good tenants, a fixed income from the properties and no voids.

90. We recommend that Cabinet should ask the Head of Housing Needs and Strategy to approach the Landlords Forum with a "good tenant offer" whereby the council would guarantee a supply of teachers as private tenants for a fixed number of years in return for a reduced rent. (recommendation 12)

91. We also discussed the potential for teachers to take advantage of shared ownership schemes. One such option is Share to Buy which is

the official portal of FIRST STEPS, the Mayor of London's affordable home ownership scheme :
https://www.sharetobuy.com

92. Our view is that shared ownership can be an expensive option. However, we don't wish to preclude teachers from making informed choices and therefore recommend that information about such schemes is made available to them.

93. We recommend that Cabinet should ask the Head of Housing Needs and Strategy to provide school staff with a list of shared ownership schemes that might be suitable for teachers, whilst not recommending any scheme in particular. (recommendation 13)

94. We considered whether it might be feasible to build accommodation for teachers on school land, or to use school caretaker homes that were surplus to requirements. There are many obstacles to proceeding along these lines, not least safeguarding issues as well as regulations regarding changing the use of school playing fields. Also, if the housing was on council land it would be subject to right to buy and the council's other housing needs priorities and therefore not necessarily available for teachers. Any further consideration would require detailed work over a period of time.

95. Finally, we wondered about the feasibility of issuing a council-backed bond as an investment vehicle for local residents that could be used to provide loans for mortgage deposit for teachers who have worked for Merton for a certain number of years and who undertake to remain for a further given number of years.

96. The Director of Corporate Services suggested that it may be possible to set up a loan scheme for teachers who need financial support to meet the costs of a private rental deposit. This scheme could operate rather like the season ticket loan that is already available to council staff – this provides an interest free loan that is then repaid in ten equal instalments.

97. We recommend that Cabinet consider setting up a rent deposit scheme that would operate in a similar way to the existing season ticket loan. This would provide teachers with an interest free loan that would be paid back to the council in a set number of instalments. (recommendation 14)

98. The Cabinet Member for Regeneration, Environment and Housing drew our attention to the Mayor of London's work to develop a London Living Rent, badged as a new type of affordable housing for middle-income Londoners. The aim is to use monies from the Affordable Homes Funding to build housing that will be offered at a lower than market rate rent for tenancies of a minimum of three years. Tenants will be

supported to build up savings to buy a home either through shared ownership or outright purchase.

99. **We recommend that the Sustainable Communities Overview and Scrutiny Panel should receive a briefing on the Mayor of London's London Living Rent initiative in order to identify potential benefits for Merton residents (recommendation 15)**

Task Group's Findings - Retention

Training and development

100. The newly qualified teachers who responded to our questionnaire overwhelmingly cited housing as the most important factor in their decision to leave or stay in Merton schools. Other factors were pay and promotion opportunities as well as opportunities for continuous professional development

101. We heard that Merton provides a lot of continued professional development opportunities for teachers, including school based, Merton-specific tailored training and through partnership arrangements with neighbouring boroughs (South London School Effectiveness Partnership) to provide training as well as offering free network meetings.

102. One constraint is that it is increasingly difficult for headteachers to release teachers from school to attend courses. Also, schools have limited funds for continued professional development. There is potential to augment budget through bids for specific funding for training – for example, some of the primary school clusters have employed someone to develop bids for the delivery of specific projects or curriculum activity. Similarly, the Mitcham Town primary school cluster has a longstanding offer for teachers to undertake a locally delivered MA programme in conjunction with a local university.

103. We recommend that the School Effectiveness Partnership Board should consider how best to build on the effective programme of continuous professional development that is already being delivered. The Board could consider the role of local colleges and universities in further enhancing the options available, including through use of the Apprenticeship Levy. (recommendation 16)

Succession planning

104. Responses from primary headteachers to our questionnaire indicated that a strategic approach to succession planning would be helpful in regard to the retention of excellent teachers. A particular area on which headteachers would like to see a focus is on mentoring and training for those who have completed the year following the NQT year.

105. We were assured that, further to the conclusion of the scrutiny task group that reviewed succession planning, the recommendations had been actively taken forward through a number of initiatives including a training programme for those aspiring to become headteachers (taken up by 42 deputy headteachers), targeted training for women and future leaders from black and minority ethnic backgrounds as well as specific discussions with individual schools.

Concluding remarks

106. We are very grateful that so many headteachers and newly qualified teachers took the time to write and/or speak to us. Hearing their experiences and views first hand has been invaluable in helping us to understand the challenges and barriers that they face and to identify measures that may help to address these.

107. We found that good school performance has a positive impact on both recruitment and retention and were therefore encouraged by evidence of sustained improvement in performance in Merton schools and the high proportion of schools that have been rated “good” or “outstanding” by Ofsted. We have recommended that Cabinet continue to celebrate these successes so that this will encourage high quality teachers to apply to work in Merton schools.

108. We found that recruitment has been a particular challenge for headteachers, with the main barriers reported to be national issues (pay, status, workload), lack of candidates and the cost of living in the local area. Retention is a lesser challenge, with a particular pinchpoint when teachers are about three years into their career and at a point when they no longer wish to continue living in short term rented or shared housing.

109. We found that the council already has appropriate systems and structures in place for teacher recruitment. However there is scope for using these more effectively and promoting them more widely to headteachers so that they are fully aware of all available recruitment routes. We have made recommendations to assist with this.

110. We were pleased to find that there is already a wide range of benefits on offer to teachers and have made recommendations to assist with the promotion of these to candidates, teachers and headteachers. We were impressed by information given to us regarding staff health days held in the Civic Centre and have therefore made a recommendation to encourage governing bodies to organise activities that would promote their staff health and wellbeing.

111. We were struck by the impact that the cost of housing locally has on the recruitment and retention of teachers. We have made a number of recommendations that are intended to improve teachers’ experience of the private rented sector, including the proposed introduction of an interest free loan to assist teachers with payment of rent deposits.

112. We are well aware that there are many other groups of key workers and vulnerable groups in Merton who are similarly affected. However, as these groups were not included in our remit, we have confined our recommendations to teachers. We understand that the council’s Cabinet will need to bear these competing demands, wider responsibilities and financial pressures in mind when considering their response to our recommendations.

What happens next?

113. This task group was established by the Council's Overview and Scrutiny Commission and so this report will be presented to its meeting on 25 January 2018 for the Commission's approval.

114. The Commission will then send the report to the Council's Cabinet on 19 February 2018 for initial discussion.

115. Once Cabinet has received the task group report, it will be asked to provide a formal response to the Commission within two months.

116. The Cabinet will be asked to respond to each of the task group's recommendations, setting out whether the recommendation is accepted and how and when it will be implemented. If the Cabinet is unable to support and implement some of the recommendations, then it is expected that clearly stated reasons will be provided for each.

117. The lead Cabinet Member (or officer to whom this work is delegated) should ensure that other organisations to whom recommendations have been directed are contacted and that their response to those recommendations is included in the report.

118. A further report will be sought by the Commission six months after the Cabinet response has been received, giving an update on progress with implementation of the recommendations.

Appendices

Appendix 1: written evidence

Recruitment and retention of teachers – the national picture – powerpoint presentation, Jane McSherry, Assistant Director of Education, 23 October 2017
Recruitment and retention of teachers, House of Commons Education Committee, Fifth Report of Session 2016-17
State of Education Survey Report 2016
Questionnaires received from 6 primary headteachers and 3 secondary headteachers in Merton
Questionnaires received from 35 newly qualified teachers (NQTs) working in Merton schools

Appendix 2: list of oral evidence

Jane McSherry, Assistant Director of Education, 23 October, 13 November, 11 December 2017 and 4 January 2018
Ewan Morrison, School Improvement Adviser – Professional Development, 13 November 2017
Kim Brown, Head of Organisational Development and HR Strategy, 1 December 2017
Steve Langley, Head of Housing Needs and Strategy, 11 December 2017
Paul McGarry, Head of Future Merton, 11 December 2017
Yvette Stanley, Director of Children Schools and Families, 4 January 2018
Councillor Caroline Cooper-Marbiah, Cabinet Member for Education, 4 January 2018
Caroline Holland, Director of Corporate Services, 4 January 2018
Councillor Martin Whelton, Cabinet Member for Regeneration, Environment and Housing, 4 January 2018

Discussion with secondary school headteachers, Chaucer Centre, 21 November 2017, Councillors Agatha Akyigyina and Joan Henry

Discussion with primary school headteachers, Chaucer Centre, 28 November 2017, Councillors Agatha Akyigyina, Joan Henry and peter Southgate

Overview and Scrutiny Commission Work Programme 2017/18

This table sets out the Overview and Scrutiny Commission's Work Programme for 2017/18 that was agreed by the Commission at its meeting on 6 July 2017. **Amendments have been made subsequently to invite the Borough Commander to attend on 20 September in order to give the Commission an opportunity to discuss the MOPAC consultation on potential police station closures and front office provision.**

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 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 – 6 July 2017

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 2017/18	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	Safer Merton Update	Report	Neil Thurlow, Community Safety Manager	Progress report
Scrutiny reviews	Embedding challenge in models of service delivery	Report	Ged Curran, Chief Executive	Follow up on recommendations of the Shared and Outsourced Services Scrutiny Task Group
	Analysis of Members' annual scrutiny survey 2017	Report	Cllr Peter Southgate Julia Regan	Discuss findings and agree action plan for 2017/18
	Overview and Scrutiny Commission work programme 2017/18	Report	Cllr Peter Southgate Julia Regan	To agree work programme and task group reviews

Meeting date – 20 September 2017

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 crime figures & discussion of MOPAC consultation on potential police station closures & front office provision.
Holding the executive to account	Customer contact programme	Update Report	Sophie Ellis, Assistant Director of Business Improvement	Progress report for comment
Scrutiny reviews	Potential task group review for 2017/18	Report	Cllr Peter Southgate Julia Regan	Decision on whether to commence a task group review on recruitment and retention
	Financial monitoring task group	Minutes of meetings on 25 July	Cllr Hamish Badenoch Julia Regan	Financial monitoring task group

Meeting date – 15 November 2017

Scrutiny category	Item/Issue	How	Lead Member/ Lead Officer	Intended Outcomes
Budget scrutiny	Business Plan 2018/22 - 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 11 December
Holding the executive to account	Annual Residents Survey	Report and presentation	Kris Witherington, Consultation & Community Engagement Manager	Discuss results of the annual residents survey and identify any issues for scrutiny

Meeting date – 25 January 2018 – scrutiny of the budget

Scrutiny category	Item/Issue	How	Lead Member/Lead Officer	Intended Outcomes
Budget scrutiny	Business Plan 2018/22	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 15 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	Report of Teacher Recruitment & Retention task group	Report	Cllr Peter Southgate Julia Regan	To agree report for submission to Cabinet
	Financial monitoring task group	Minutes of meeting	Cllr Hamish Badenoch Julia Regan	To note minutes of meeting held on 14.11.17

Meeting date – 20 February 2018 (new date – meeting moved from 31 January)

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
	Registrars Service	Report	Sean Cunniffe, Head of Customer Contact	Progress report for comment
Scrutiny reviews	Shared and outsourced services task group	Updated action plan	Sophie Ellis, Assistant Director of Business Improvement	To scrutinise progress with implementation of task group recommendations
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 21 March

Meeting date – 21 March 2018

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
	Hate crime strategy	Report and discussion with community organisations	Neil Thurlow, Community Safety Manager Lyla Adwan-Kamara, CEO of Merton Centre for Independent Living	Update and identification of issues for further scrutiny
Holding the executive to account	Equality and Community Cohesion Strategy 2017-20	Action plan	Evereth Willis, Equality and Community Cohesion Officer	To comment on progress made with action plan
Performance management	Overview and Scrutiny Annual Report	Report	Cllr Peter Southgate Julia Regan	To approve and forward to Council
	Planning the Commission's 2018/19 work programme	Report	Cllr Peter Southgate	
Scrutiny reviews	Financial monitoring task group	Minutes of meeting	Cllr Hamish Badenoch Julia Regan	To note minutes of meeting held on 06.03.18

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OVERVIEW AND SCRUTINY COMMISSION - FINANCIAL MONITORING TASK GROUP
14 NOVEMBER 2017
(7.15 pm - 9.05 pm)

PRESENT: Councillor Kelly Braund, Councillor Mike Brunt, Councillor Stephen Crowe, Councillor Dennis Pearce, Councillor Peter Southgate and Councillor David Williams

ALSO PRESENT: Julia Regan (Head of Democracy Services), Caroline Holland (Director of Corporate Services), Bindi Lakhani (Head of Accountancy), James McGinlay (Assistant Director for Sustainable Communities), Roger Kershaw (Interim Assistant Director of Resources), Zoe Church (Head of Business Planning), Chris Lee (Director of Environment and Regeneration) and Doug Napier (Leisure and Culture Greenspaces Manager)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor Hamish Badenoch (Chair) and Councillor Suzanne Grocott.

It was AGREED that Councillor Stephen Crowe would chair the meeting.

2 MINUTES OF MEETING HELD ON 25 JULY 2017 (Agenda Item 2)

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

Matters arising – ACTION: Director of Corporate Services will email task group members with information regarding late invoice for £350k that had been accrued in 2015/16 and accrued again at the end of 2016/17.

3 QUARTER 2 FINANCIAL MONITORING REPORT - 2017/18 (Agenda Item 3)

Caroline Holland, Director of Corporate Services, introduced the report. She drew the task group's attention to the predicted overspend at year end, which has reduced from £1.9m to £1.6m over the past quarter, and the consequent need to balance the budget from reserves or from further savings. She also drew attention to the detail provided in the report on the budget situation for each department as well as detailed information on the capital programme, debt and staffing data.

Caroline Holland provided additional information in response to questions:

- It is expected that the overspend in adult social care will decrease further by the end of the financial year
- Work is ongoing to address transition between children's and adults' social care and this should also assist the budget situation

- The late clawback of Better Care Fund monies (page 17) was unavoidable due to late notification of performance data from the Clinical Commissioning Group

- The council regularly bids for funding opportunities and was recently successful in securing £3.5m Lottery funding for Cannons Park.

Chris Lee, Director of Environment and Regeneration, added that Veolia now bears the risk of any financial losses from the waste service and the council would benefit from a share of any profits.

Zoe Church, Head of Business Planning, explained how the proposed reduction of 2% of outstanding debt would work (cabinet recommendation C – page 5) and why this approach would be beneficial to the council and would provide a much better representation of the life of council assets – detailed figures are set out on page 78.She added that the proposals had been discussed with the external auditors and that they had agreed that this would be a sensible and prudent approach for the council. The savings have already been factored into future budget years in the Medium Term Financial Strategy.

In response to a question about historic debt, Roger Kershaw, Interim Assistant Director of Resources, said that the council is always looking for advantageous refinancing opportunities but that the rules had changed recently so that the Public Works Loans Board has to be compensated for its loss of income arising from any early redemption of debt. He added that there had been a recent early redemption of a commercial loan but that he did not envisage further opportunities in the near future as this would not be in the lenders' interest and they would therefore be unlikely to agree.

David Keppler, Head of Revenues and Benefits, provided further detail about the council's approach to debt collection. He said that writing off debt was the last option, following the exhaustion of all other methods to collect the debt . He reassured members that debts, in particular council tax debts, are pursued for a number of years. The increase in the amount of parking debt is in line with the increase in the number of tickets issued following the introduction of ANPR.

David Keppler said that one of the challenges is that the switch to "realtime" information by the Department of Work and Pensions has lead to an increase in the number of overpayments of housing benefit, which can be difficult to collect. In response to a question about the impact of Universal Credit on housing benefit debt, he said that it should lead to a reduction in the level of housing benefit overpayments but that the rollout would be phased and would therefore take some time to have an impact.

It was AGREED to make a reference to the Commission asking it to note the following points arising from the monitoring report and to take these into account when scrutinising the Business Plan Update 2018-22:

1. The proposed use of £2.9million from the earmarked reserves to balance the budget;
2. That there is just £0.5million head room left on the General Fund; before it reaches the minimum prudent level set for 2017/18
3. That the predicted shortfall of savings to be carried forward from previous years will be £860,000 for 2018/19;
4. That some of the problems experienced in achieving savings are longstanding and persistent, including demographic pressures in Adult Social Care and the unfunded costs of unaccompanied asylum seeking children and those with no recourse to public funds; and intensifying price competition where council services compete with the private sector eg. building control
5. The vacancy rate and use of agency staff and number of unfilled vacancies, after allowing for brought forward savings

4 WIMBLEDON TENNIS CHAMPIONSHIP (Agenda Item 4)

This item was discussed in an EXEMPT session. An EXEMPT minute has been published separately.

Under Part 4B Section 10 of the Council's constitution, the report and minutes are exempt from publication due to the inclusion of "information relating to the financial or business affairs of any particular person (including the Authority holding that information)."

5 COMMERCIALISATION (Agenda Item 5)

Chris Lee, Director of Environment and Regeneration, introduced the report which provides an update on the council's approach to commercialisation and sets out the main areas for commercial opportunities. He said that commercial thinking does not come easily to the authority and, on occasion, external expertise has been brought in to assist. The council's target operating models (TOMs) are currently being redrafted and will include further areas where commercial opportunities may be possible.

Chris Lee provided additional information in response to questions:

- The success of the Local Housing Company will depend on a number of factors, including how successful it is in buying land, developing and marketing properties, operating like a private developer
- The council benefits substantially from the rental stream provided by its non-operational property portfolio and seeks to obtain market rents
- Appointment of a commercial manager would depend on funding and capacity needs
- There may be potential for the regulatory services partnership to operate in a similar way to CHAS in two to three years time if there was sufficient interest and motivation from staff

- There may also be potential for the building control service to operate on more of a commercial footing – dependent on changes that may be made following the Grenfell enquiries

- Council officers have a number of networks and forums to share good practice and learn from other authorities

Members urged the council to take a more dynamic approach to commercialisation and AGREED to ask the Commission to be mindful of income opportunities arising from a more commercial approach by officers, including through examination of the refreshed Target Operating Models in 2018/19.

6 AGENDA ITEMS FOR MEETING ON 6 MARCH 2018 (Agenda Item 6)

AGREED to received the following items at the task group's meeting on 6 March 2018:

- Quarter 3 financial monitoring report – 2017/18
- CHAS (Contractors Health and Safety) – report to set out how the CHAS business model operates, how it differs from other council services and what could be learned from this model of working