Merton Council

Cabinet Agenda

Membership

Councillors:

Ross Garrod (Chair)
Eleanor Stringer
Natasha Irons
Brenda Fraser
Stephen Alambritis MBE
Billy Christie
Caroline Cooper-Marbiah
Andrew Judge
Sally Kenny
Peter McCabe

Date:	**Monday 18 July 2022**
Time:	**7.15 pm**
Venue:	**Council Chamber, Merton Civic Centre, London Road, Morden SM4 5DX**

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact democratic.services@merton.gov.uk or telephone 020 8545 3357.

All Press contacts: communications@merton.gov.uk, 020 8545 3181

Cabinet Agenda
18 July 2022

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 matter and must not participate in any vote on that matter. For further advice please speak with the Managing Director, South London Legal Partnership.

CABINET
27 JUNE 2022
(7.15 pm - 7.42 pm)

PRESENT Councillors (in the Chair) Councillor Ross Garrod, Councillor Natasha Irons, Councillor Eleanor Stringer, Councillor Brenda Fraser, Councillor Caroline Cooper-Marbiah, and Councillor Sally Kenny

ATTENDING REMOTELY Councillor Andrew Judge and Councillor Peter McCabe

ALSO PRESENT Councillor Simon McGrath

Hannah Doody (Chief Executive), Caroline Holland (Director Corporate Services), John Morgan (Interim Director Community and Housing), Tom Procter (Head of Contracts and School Organisation), Louise Round (Managing Director South London Legal Partnership), Zara Bishop (Communications Manager), Octavia Lamb (Research and Policy Officer – Labour Group) and Amy Dumitrescu (Democracy Services Manager)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

At the start of the meeting, the Leader of the Council spoke to outline the administration's ambitions.

Apologies were received from Councillors Alambritis and Christie. Councillors McCabe and Judge attended remotely.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest.

3 MINUTES OF THE PREVIOUS MEETINGS (Agenda Item 3)

RESOLVED: That the following minutes are agreed as an accurate record:

- 17 March 2022 (Special Meeting)
- 17 March 2022 (Special Meeting) (Exempt Minutes)
- 21 March 2022
- 21 March 2022 (Exempt Minute)

4 EXTENSION OF CONTRACT FOR TEMPORARY ACCOMMODATION SERVICES (Agenda Item 4)

The Chair announced the items would be taken with Item 7 first and the remaining items in agenda order. For the purposes of the minutes the items are minuted in the published agenda order.

The Cabinet Member for Housing and Sustainable Development presented the report, proposing an extension to the lease at Hall Place, noting that Hall Place included 81 self-contained homes and officers had negotiated to reduce the increase in rent payment by 50% provided the extended lease to 2031 is agreed. The Cabinet Member thanked officers and the provider for their work.

The Interim Director of Community and Housing advised that the housing was of a high quality standard having received the highest rating under a London Wide setting the standard inspection regime and provided accommodation for homeless persons and families.

RESOLVED:

A. That Cabinet approved the extension of the Hall Place Contract into a new lease for a term of 5 years from the date of expiry of the current lease on 4 November 2026.

5 CONTRACT AWARD - SCHOOL CLEANING AND ANCILLARY SERVICES (Agenda Item 5)

The Cabinet Member for Education and Lifelong Learning presented the report.

The Head of Contracts and School Organisation advised the Council ran a contract on behalf of the School and were pleased with the outcome.

In response to a question from the Cabinet Member for Civic Pride, the Cabinet Member for Education and Lifelong Learning responded that Schools were managing their own budgets however the Council encouraged them and worked with them to find a way that they could pay their staff the London Living Wage.

RESOLVED:

A. That Cabinet agreed the Council award to Bidder F (as detailed in the Confidential Appendix to this report) a contract for provision of the school cleaning and ancillary service at a range of schools and other education buildings within the borough for a period of 3 years from 1 August 2022, with an option to extend for up to two further years at the discretion of the council.
B. In accordance with Contract Standing Orders (CSO 24.3) that authority be delegated to the Director of Children, Schools and Families to exercise, in consultation with the Cabinet Member for Education and Lifelong Learning, the council's option to grant one or more extensions of the contract term for any period up to two further years beyond the expiry of the initial contract term on 31 July 2025.

6 SUPPORTED LIVING SERVICES FOR ADULTS WITH A LEARNING DISABILITY (Agenda Item 6)

The Cabinet Member for Health and Social Care presented the report which sought approval to award a contract for supported living across three supported living schemes, noting there were 18 flats across the three schemes to maximise independence and establish a supported living scheme. All bidders had been required to submit bids and were required to pay London Living Wage.

The Interim Director Community and Housing advised that the current contract was a block contract where all residents received the same package, however the new contract would be core hours however people would receive individual care packages.

In response to a question from the Cabinet Member for Education and Lifelong Learning, the Interim Director advised gave any overview of the social values and benefits of the contract, including that the provider would pay the London Living Wage or above, the provider must be provide 6 placements for people not in employment education or training, 48 staff hours for school college visits delivering career talks and 208 weeks of training opportunities for staff.

The Cabinet Member for Civic Pride spoke to welcome the range of values within the contract and to thank officers for their work.

RESOLVED:

A. That Cabinet agreed to award a contract for the provision of Supported Living care and support services for Adults with a Learning Disability, living at a total of eighteen (18) flats across three (3) supported living schemes, for a period of three years with the option to extend for a further 2 years and as outlined in the confidential Part B paper.
B. That Cabinet agreed to delegate to the Director of Community and Housing, in consultation with the Cabinet Member for Health and Social Care, the authority to extend the contract by the further increment of 2 years (as above).

7 OUTTURN 2021/22 REPORT (Agenda Item 7)

The Leader of the Council presented the report, noting that as a result of the negotiations with the DFE in regards to the DSG deficit, there was now a favourable variance, however there remained service pressures in Children, Schools and Families and there had been overspends within departments including Environment and Regeneration due to loss of income in relation to Covid-19 which were likely to continue.

It was noted that additional funding had been put towards the Climate Change reserve (£2m), a Cost of Living Fund and a Civic Pride Fund.

The Director of Corporate Services spoke to highlight that an update to reserves had been included within the report.

3

Cabinet Members spoke to thank officers and to welcome funding within their portfolio areas.

RESOLVED:

A. That Cabinet noted that following hard-fought negotiations with the DfE and subsequent Safety Valve agreement for the DSG deficit, the revenue outturn for 2021/22 is now a favourable position of £10.8m, as the DfE will give us £28m grant to match the £28m the General Fund will need to contribute to reduce the overall DSG deficit to nil.
B. That Cabinet noted that if the Safety Valve had not been entered into, there would have been an adverse variance on the GF of £0.8m, which would have required a call on the Balancing the Budget reserve to balance it.
C. That Cabinet noted additional training for budget managers will be carried out, targeting areas with substantial differences between forecast variances at period 10 and final outturn.
D. That Cabinet considered the outturn position on Capital and approved the Slippage, predominately for the Compulsory Purchase Orders (CPOs) for Clarion's regeneration scheme and delays in equipment due to shortages of chips into 2022/23 and other adjustments detailed in Appendix 2C, 2C1 and Section 7 of the report

8 EXCLUSION OF THE PUBLIC (Agenda Item 8)

RESOLVED: That the public were excluded from the meeting during consideration of the following reports on the grounds that they are exempt from disclosure for the reasons stated in the reports.

9 CHAS SHAREHOLDER APPROVAL (Agenda Item 9)

The report was presented and discussed and it was

RESOLVED: That the recommendations within the report were agreed.

CABINET

Date: 18 July 2022

Subject: Financial Report 2022/23 – Period 2 May 2022

Lead officer: Roger Kershaw

Lead member: Councillor Billy Christie

Recommendations:

A. That Cabinet note the financial reporting data for month 2, May 2022, relating to revenue budgetary control, showing a forecast net adverse variance at 31 May on net expenditure of £4,951m when corporate and funding items are included.

B. That Cabinet note the contents of Section 5 and Appendix 5b of the report and approve the adjustments to the Capital Programme in the Table below:

	Budget 2022-23	Budget 2023-24	Narrative
	£	£	
Environment and Regeneration			
Highways & Footways - Highways bridges & structures	(365,950)	365,950	Reprofiled in line with projected spend
Highways & Footways - Culverts	(208,370)	208,370	Reprofiled in line with projected spend
Wimbledon Area Regeneration - Wimb Public Realm Implement	(805,110)	475,110	Reprofiled in line with projected spend
Wimbledon Area Regeneration - Wimb Vill Herit Led Pblc Realm	(750,000)	750,000	Reprofiled in line with projected spend
Wimbledon Area Regeneration - Wimbledon Hill Rd	330,000		Sub Project of Wimb. Public Realm
Total	**(1,799,430)**	**1,799,430**	

C. That Cabinet ask CMT to investigate and report back on measures to reduce the adverse variance, recognising that CSF have set some actions out already in Section 4.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This is the Period 2 monitoring report for 2022/23 presented in line with the financial reporting timetable.

This financial monitoring report provides -

1.1.1 A full year forecast projection as at period 2.
1.1.2 An update on the financial impact of Covid-19
1.1.3 An update on the capital programme and detailed monitoring information;
1.1.4 An update on Corporate Items in the budget 2022/23;
1.1.5 Progress on the delivery of the 2022/23 revenue savings

2. THE FINANCIAL REPORTING PROCESS

2.1 The Council's services are still under pressure due to the need to support businesses and residents, particularly vulnerable groups in need of social care and there has been a major reduction in the Council's income which is expected to continue for some time. The detrimental impact of Covid-19 continues to be monitored closely given its impact on service delivery. Inflationary pressure in the supply of goods and services to the Council, energy costs, cost of borrowing and potential wage increases against budget add to the Council's financial challenges in 2022/23 and future years.

2.2 There are also significant pressures on the Dedicated Schools Grant (DSG) which are being monitored. CSF are forecasting a £10.7m deficit at the year end which is an improvement on the 2021/22 deficit of £13.5m. The pressures on this budget stem from three areas, staffing, transport and placements. We are currently 2 months into a 5 year recovery plan as agreed with the DFE and we expect to see significant improvements in this area as the plan starts to have a positive impact.

2.3 Chief Officers, together with budget managers with support from Service Financial Advisers are responsible for keeping budgets under scrutiny and ensuring that expenditure within areas which are above budget is being actively and vigorously controlled and where budgets have favourable variances, these are retained until year end. Any final overall adverse variance on the General Fund will result in a call on balances.

3. 2022/23 FORECAST OUTTURN BASED UPON LATEST AVAILABLE DATA

Executive summary – At period 2 (to 31 May 2022), the year-end forecast is a net adverse variance of £6.938m on Net Service Expenditure; a favourable variance of £1.580m on Corporate Provisions; and a small adverse variance of £0.022m relating to Covid-19. A summary is provided on the following details and more detailed analysis by Department is set out in Section 4 of the report.

Summary Position as at 31st May 2022

	Current Budget 2022/23 £000s	Year to Date Budget (May) £000s	Year to Date Actual (May) £000s	Full Year Forecast (May) £000s	Forecast Variance at year end (May) £000s	Outturn variance 2021/22 £000s
Department						
Corporate Services	29,549	4,907	6,512	30,086	537	645
Children, Schools and Families	60,986	10,880	7,556	62,629	1,643	2,426
Community and Housing	66,376	13,722	13,822	66,193	(185)	(699)
Environment & Regeneration	12,052	1,443	(7,042)	16,563	4,512	3,431
Overheads	(431)			0	431	
NET SERVICE EXPENDITURE	**168,532**	**30,952**	**20,848**	**175,471**	**6,938**	**5,803**
Corporate Items						
Impact of Capital on revenue budget	11,066	11,066	694	11,066	0	(235)
Other Central budgets	(13,281)	663	238	(14,861)	(1,580)	(17,298)
Levies	988	82	241	988	0	0
TOTAL CORPORATE PROVISIONS	**(1,227)**	**11,811**	**1,173**	**(2,807)**	**(1,580)**	**(17,533)**
Covid-19	**0**			**0**	22	**176**
TOTAL GENERAL FUND	**167,305**	**42,764**	**22,021**	**172,664**	**5,380**	**(11,730)**
FUNDING						
Revenue Support Grant	(5,350)	-446	-963	-5,350	0	0
Business Rates	(32,380)	0	(1,716)	(32,380)	0	0
Other Grants	(25,602)	(2,133)	(5,039)	(25,602)	0	0
Council Tax and Collection Fund	(103,973)	0	0	(103,973)	0	0

COVID-19 emergency funding	0	0	0	(2,498)	(429)	710
Income compensation for SFC	0	0	0	0	0	
FUNDING	**(167,305)**	**(2,579)**	**(7,718)**	**(169,803)**	**(429)**	**710**
NET	**0**	**40,184**	**14,303**	**7,313**	**4,951**	**(11,020)**

The current level of GF balances is £14.0m and the minimum level reported to Council for this is £14.0m.

Covid-19 Financial Impact

The ongoing situation continues to make forecasting difficult as it is unclear if or when some service areas will see activity return to pre-Covid levels.

Covid Expenditure

Covid expenditure which is incremental is reported centrally on Corporate Items – Covid Costs. These are the incremental costs not covered by specific Covid grants.

Income shortfall

Income budgets are included within departments so the impact of Covid-19 on lost income is reflected in departmental forecasts.

Savings unachieved

Departmental budgets are adjusted for the agreed savings targets for 2022/23 as part of the budget setting process. The savings which are now under pressure due to inflation and other factors are included in the forecast of the departments. This is inclusive of 2021/22 savings which are still under pressure where they have not been adjusted for. Further details are set out in Appendices 6 and 7.

Cashflow

The Covid-19 outbreak created pressure on the council's cash-flow, but the position has stabilised since the middle of 2021. Through prudent treasury cash flow management, the Council continues to meet any additional expenditure from its cash in balances in the bank and primarily from liquid cash balances held in Money Market Funds (MMFs).

From Summer 2021, with the stability and the confidence seen in the UK economy the fixed deposit rates started to go up and as a result the Council started to return to medium term fixed deposit to earn interest income from any short-term excess cash balances.

Since December 2021, the Bank of England has steadily increased the base rate from 0.10% to 1.25% in June 2022. Further increases are expected given the current forecasts for inflation and the Bank's overarching brief to bring inflation down to 2.0% over the medium-term. As a result of this policy the Council can expect to receive additional interest income on deposits, although much of this additional income has already been expected in the 2022/23 budget.

The Council still has a strong position on its liquidity and where the opportunity arises places excess cash in short-term deposits to generate income.

Cash flow is monitored daily, and the current forecast shows the Council has sufficient funds to meet its payment needs going forward over the medium term, but there still is a concern over the longer term in the context of the DSG deficit, subject to the use of Safety Valve funding. However, if a cash shortfall occurs, the Council has the option to borrow from the market to meet its needs.

4. DEPARTMENTAL SUMMARY OF CURRENT POSITION

Corporate Services

Division	Current Budget £000	Full year Forecast (May) £000	Full Year Forecast Variance (May) £000	Outturn Variance 2021/22 £000
Customers, Policy & Improvement	5,486	4,805	(681)	(191)
Infrastructure & Technology	12,709	13,179	470	80
Corporate Governance	2,220	2,249	29	141
Resources	5,903	6,342	440	13
Human Resources	2,154	2,348	195	214
Corporate Other	1,077	1,162	85	388
Total (Controllable)	**29,549**	**30,086**	**538**	**645**

Overview

The department is currently forecasting an adverse variance of £538k at year end.

Customers, Policy and Improvement - £681k favourable variance

The favourable variance is primarily due to various vacancies during the year, such as (£556k) anticipated underspends on consultants' budget within Customer Contact, (£127k) in the AD and Programme Office budgets (£23k). The Voluntary Sector Coordination budget also has a favourable variance of (£44k) on grants expenditure.

The Registrars service achieved a favourable variance of (£80k) due to the strong recovery of income levels following the cessation of Covid restrictions in the previous financial year.

Additional favourable variances include (£26k) due to an over-achievement against the cash collection saving, (£13k) in the Community Engagement team and (£10k) in the Complaints team due to staffing underspends and various running costs less than budget.

Partially offsetting the favourable variances are the Press and PR budget which has a £144k adverse variance owing to the use of agency staff and New Priorities. There is also a net adverse variance of £36k in the Translations services due to under-achievement against the income budget as external demand remains low and a £7k adverse variance in the Policy and Strategy team partly due to the use of agency staff.

Infrastructure & Technology - £470k adverse variance

Many of the adverse variances within the division are due to reduced recharges as a result of the change in working arrangements surrounding the covid-19 pandemic. These adverse variances include £208k on the Corporate Print Strategy and £105k on the PDC (Chaucer Centre). These are reviewed throughout the year and adjusted depending on the level of staff returning to the office. Where these are internal recharges, they have not been included in calculating the impact of covid-19 on the Council as they will positively impact other departments and are therefore not a net cost to LBM.

The FM External account is also forecasting a £103k adverse variance due to the lack of commissions since the pandemic began, though the forecast is significantly improved on the outturn position for 2020/21. There is a variance on Corporate Contracts (£36k adverse) due to 2020/21 savings for reducing cleaning in corporate buildings remaining unachievable within the current circumstances. A further £45k adverse variance is within the Client Financial Affairs team, mainly relating to the unachieved saving (reference 2019-20 CS23) relating to the introduction of a charging scheme.

Additional adverse variances include £101,044 - Commercial Services were part funded by MIB and funds will run out in October. Forecast relates to current staffing level to end of year. Awaiting the implementation of the recommendations of the recent review. AD – IT is also forecasting an adverse variance of £79k owing to the use of agency staff and £25k on security services.

There are also multiple favourable variances within the division, such as on the Microsoft EA (Enterprise Agreement) which is forecast less than budgeted by £148k, £29k on IT Service delivery, £24k in Safety Services due to recruitment lag as well as contingency not expected to be required in year and the Business Systems Team is also forecasting a £29k favourable variance.

Postal Services £80k forecast underspend relates to income forecast from postal recharges. This offsets the forecast overspends on Printing and Photocopying where income targets are not expected to be achieved.

Corporate Governance – £29k adverse variance

SLLp (South London Legal Partnership) is currently forecasting a £889k deficit overall, £144k is forecast to be LBM's share. The variance in SLLp is largely due to a 13% reduction in income projection from chargeable hours. In the last two months, the service has done less chargeable work for the boroughs and has been prudent in their forecast. This will be reviewed and updated to reflect any changes in chargeable work.

Resources - £440k adverse variance

Within Resources there are multiple budgets forecasting adverse variances due to Covid-19. Resulting from Covid is an adverse variance forecast in the Bailiffs service of £208k (inclusive of the shared service element) as a result of unachieved income which will be monitored as the circumstances around the pandemic improve and the service is able to operate more fully. The Local Taxation Service has a £268k adverse variance due to anticipated under recovery on the court fees.

The Corporate Accountancy service is forecasting a £10k adverse variance. A further adverse variance of £55k is forecast on insurance premiums and £56k on pensions. Even though six schools moved out of the council cover, the insurance premium did not change significantly. The service is currently working on the open claims and are planning to reduce the annual insurance provision to the insurance fund to mitigate the overspend on the insurance premium. They are also doing detailed work on the properties and there is a possibility that a few of the properties can be removed from the insurance cover for next year and this will help to reduce the insurance premium from 2022/23.

The Financial Systems Team is forecasting a £19k adverse variance owing to salary budget pressure as well as revenue costs for upgrading the financial system planned for later this year.

Within the Benefits Administration services is a £116k favourable variance is largely due to grant receipts from DWP.

Additional adverse variances within the team include £35k on the budget management team due to maternity cover, and £10k on Local welfare support.

Favourable variances within Resources include £14k on the Director of Corporate Services budget due to consultants and subscription budgets not required in year. The Support team within Revenues and Benefits has £19k favourable variances mainly against staffing costs and £12k on business rates.

Human Resources – £195k adverse variance

This adverse variance is primarily due to agency cover in place against the AD budget (£155k variance), HR Business partnerships (£28k) and staff side budget resulting from maternity leave (£12k).

Additionally, there is an adverse variance of £30k relating to the HR Transactions budget for the shared payroll system and iTrent client team charges from Kingston and £10k within Payroll services.

Corporate Items - £85k adverse variance

A favourable variance in the budget for cost of elections is partially offset by an adverse variance due to £75k spend on Project Chaplin.

Environment & Regeneration

Environment & Regeneration	2022/23 Current Budget £000	Full year Forecast (May) £000	Forecast Variance at year end £000	2021/22 Outturn Variance £000
Public Protection	(15,606)	(12,055)	3,551	4,142
Public Space	17,580	17,928	348	157
Senior Management	1,340	1,350	10	(192)
Sustainable Communities	8,737	9,340	603	(675)
Total (Controllable)	**12,051**	**16,563**	**4,512**	**3,431**

Description	2022/23 Current Budget £000	Forecast Variance at year end (May) £000	2021/22 Variance at year end £000
Regulatory Services	608	258	38
Parking Services	(17,493)	3,278	4,181
Safer Merton & CCTV	1,278	15	(77)
Total for Public Protection	**(15,606)**	**3,551**	**4,142**
Waste Services	15,265	(108)	390
Leisure & Culture	572	272	(210)
Greenspaces	2,428	113	(93)
Transport Services	(685)	71	70
Total for Public Space	**17,580**	**348**	**157**
Senior Management & Support	1,340	10	(192)
Total for Senior Management	**1,340**	**10**	**(192)**
Property Management	(2,724)	(118)	(708)
Building & Development Control	7	321	335
Future Merton	11,545	400	(303)
Total for Sustainable Communities	**8,737**	**603**	**(675)**
Total Excluding Overheads	**12,051**	**4,512**	**3,431**

Overview

The department is currently forecasting an adverse variance of £4,512k at year end. The main areas of variance are Regulatory Services, Parking Services, Leisure & Culture, Greenspaces, Property Management, Development & Building Control and Future Merton.

Public Protection

Regulatory Services adverse variance of £258k

The section has cumulative income savings of £135k relating to potential commercial opportunities. Since the pandemic, the focus has been redirected from income generation to Covid-19 service delivery and service improvement including a major IT project. The IT transition Project is scheduled for completion in the first quarter of 22/23 which will then allow some resources to refocus on income generation.

Actions to reduce the use of agency staff is forecast to create a favourable variance of £56k by year-end.

Although the service has seen an increasing in licensing income from alcohol licencing, temporary notices and massage/special treatment licences, the service is still forecasting an income shortfall of £120k. Current forecasts estimate an adverse variance against the trading standards income budget of £95k, environmental health-pollution £59k and health & safety £50k.

Parking Services adverse variance of £3,278k

Covid-19 continues to affect parking revenue across the board including ANPR, PCNs as well as on and off-street charges income. Analysis to better understand the short and longer-term impact of this is ongoing, but current forecasts show the adverse variance on PCN, P&D, and permit income of £1.4m, £867k, and £1.1m, respectively. This is primarily due to a reduction in proposed income from across the various permit categories.

Other adverse variances within the service include skip licences £101k, supplies and services £59k and premises £43k. These adverse variances are being partially offset by a favourable variance on parking admin fee of £235k and third-party payments £21k.

It should be noted that the section has a £3,800k budget expectation relating to the review of parking charges, which began on the 14th of January 2020. The new charges were designed to influence motorists' behaviour and reduce the use of the motor car. The extent to which behaviour has been affected is masked by the impact of Covid-19, but work continues to try and better understand this. A recent review of the budget expectation has indicated a shortfall of £1,800k. Additionally, there is a 2020/21 and 2021/22 saving (ENV1920-01) of £680k relating to an application to change Merton's PCN charge band from band B to band A which was not implemented until February 2022.

Public Space

Waste Services favourable variance of £108k
Included in this section are savings target of £104k (ENV2022-23 01) for disposal processing savings (Food Waste Recyclate). The service is projecting to deliver these savings.

The section is forecasting a favourable variance on disposal costs of (£122k). The current forecast is at par with last year's actuals and is despite changes to our residents' working arrangements, where we have seen a greater increase in the number of households now working from home post pandemic resulted in an increase in overall domestic waste across all kerbside collection services. This section will continue to be closely monitored and the service is currently supporting SLWP in the planning of the re-procurement of both Food and Garden waste processing services which currently expire this financial year.

Other favourable variances include (£157k) on the Council's Environmental Enforcement services in respect of enforcing and issuing Fix Penalty Notices for littering, (£73k) on employee related spend and (£29k) on supplies and service.

These favourable variances are partly offset by an adverse variance of £56k which is being forecast in relation to its waste collection and street cleansing contract, because of agreed and necessary services being undertaken on our behalf by the service provider.

An adverse variance of £153k is also being forecast in relation to the Household, Reuse, Recycling Centre (HRRC), mainly as a result of extending the current contract during 2020/21, via a contract variation, to both minimise future costs and to align the contract period with the other SLWP boroughs. The service is currently exploring alternative access for residents to neighbouring sites along with implementing improvements to the current booking system which has contributed to the management of waste volumes. To date there are no planned service changes, and we note that any significant change to the provision of this service will first be presented to Cabinet for consideration. There is an additional variance of £141k being forecast against the SLWP management fee.

Leisure & Culture adverse variance of £272k

Due to the unprecedented increase in energy bills, the service is currently forecasting to spend double its leisure centre utilities budget resulting in a variance of £434k. The service is also projecting an under recovery on its water sports income from Wimbledon sailing base of £55k and an under recovery in lettings income of £35k.

These adverse variances are partly offset by the following favourable variances on employees (£159k) and supplies and services (£87k) resulting from the reduction in grants payments and social initiatives payments.

During the pandemic, Merton Council issued a loan of £575k to GLL to help it keep afloat. The payment terms offered to GLL were flexible, but to be repaid over the life of the contract, meaning that as GLL recovers financially from the impact of Covid, it can make staged payments.

Greenspaces adverse variance of £113k

The primary reason for the adverse variances is expected under recovery in HFL Canons income of £90k and expected under recovery in parks operations income of £58k.

The service also receives guaranteed cemeteries income for a service managed by Idverde. In addition to the guaranteed income, Merton Council was to receive a discount on the contract of £45k a year as it was predicted that other Councils would join the contract. Merton council was expecting an income of £15k for sports and £34k for adventure golf as well as any excess revenue share over and above the guaranteed income. As only Merton and Sutton were the only councils to join the partnership, this has meant that Merton and Sutton must forgo the discount, and there has been a suspension on golf and sports income.

The above has also resulted in Merton council having to forgo its portion of the excess revenue share from 2018/19 – 2020/21 of £501k.

Sustainable Communities

Future Merton adverse variance of £400k

The reason for the adverse variances on Highways Maintenance of £266k is mainly due to expected cost of reactive repairs but also some over-spend for 1) Bishopsford Bridge, 2) traffic signals (where TfL charge has increased), and 3) a small under achievement on JCD income (now only approx. £20k below target).

Additional adverse variances include Street Lighting £330k, due to the significant increase in energy costs, under recovery in income from Merantun £100k and £100k on Local Plan Fees.

The above adverse variances are partly offset by anticipated underspends on Temp traffic orders (£80k), CPZs (£70k) and streetworks/permitting (£61k).

Property Management favourable variance of £118k

The principal reason for the favourable variance relates to exceeding the commercial rental income expectations by £262k, which includes £167k of one-off income from conducting the backlog of rent reviews in line with the tenancy agreements. There is also a favourable variance on employees of £142k due to an underspend being forecast on salaries against a budget of £314k.

This is being partially offset by an adverse variance of £112k on premises related expenditure, for example, building improvements, utilities, repairs & maintenance costs, and £166k on supplies & services related expenditure, for example, on employment of consultants to progress rent reviews due to lack of internal resource, and valuations to support asset valuations and potential disposals.

Building and Development Control adverse variance of £321k

The adverse variance is primarily due to a £158k under recovery in Building control income and £343k adverse variance on employees. This adverse variance is partly offset by a £87k anticipated over recovery in Development Control income and £95k supplies and services underspend.

The staffing budget has been hugely underspent in past due to holding vacancies until a restructure. They are anticipating that they will spend up to the budget target as review starts next week and they will be filling all vacancies once reviewed. They have already got one agency person in who has started collecting income. Once they have a full team, they will then be generating more income but the impact of this will be known towards end of year.

The services expects that income will undoubtedly be higher than but have been prudent in calculating forecasts to avoid being overly optimistic early in the year.

Children Schools and Families

Children, Schools and Families (£000's)	2022/23 Current Budget	Full Year Forecast	Forecast Variance May	2022/23 Covid Forecast Impact	2021-22 Year Variance
Education					
Education Budgets	£ 19,066	£ 20,610	£ 1,544	£ -	£ 394
Depreciation	£ 9,801	£ 9,801	£ -	£ -	£ -
Other Education Budgets	£ 135	£ 135	£ -	£ -	-£ (114)
Education Services Grant	-£ (1,062)	-£ (1,062)	£ -	£ -	-£ (12)
Education Sub-total	**£ 27,940**	**£ 29,484**	**£ 1,544**	**£ -**	**£ 268**
Other CSF					
Child Social Care & Youth Inclusion	£ 22,138	£ 23,690	£ 1,552	£ -	£ 2,009
Cross Department	£ 875	£ 46	-£ (830)	£ -	£ -
PFI Unitary Costs	£ 8,409	£ 8,409	£ -	£ -	£ 766
Pension and Redundancy Costs	£ 1,624	£ 1,000	-£ (624)	£ -	-£ (617)
Other CSF Sub-total	**£ 33,046**	**£ 33,145**	**£ 98**	**£ -**	**£ 2,158**
Grand Total	**£ 60,986**	**£ 62,629**	**£ 1,642**	**£ -**	**£ 2,426**

Summary

The department is forecasting an overspend of £1.642m as at period 2, compared to the year-end position of an overspend of £2.4m. It is very early in the year, but it is apparent that the trends seen on the latter part of 2021/22 are continuing.

The greatest impact on the forecast since April has been the continuing dependency on agency social workers, the high cost of social care placements, high levels of general inflation and rising fuel costs, which will impact across all budgets but is particularly hitting the costs of the transport and the PFI schools catering contract.
A number of actions are being put in place to try to pull back this forecast overspend:

- a recruitment campaign for social workers building on the recent OFSTED judgement;
- signing up to the London Pledge to try to stem the growth in agency social worker rates;
- all new agency staff requests for Children's Social Care to be agreed at CSC management team meetings;
- working with E&R to try to maximise the use of the bus fleet rather than taxis;
- developing more in-borough special places to reduce out of borough transport;
- a focus on transport in EHCP reviews and a focus on reviewing plans that include transport.

Mitigating action	Forecast impact £000
Agency staff recruitment	480
Transport (bus utilisation and policy)	68
PFI energy cost charge to PFI reserve	1,412
Total	**1,960**

Local Authority Funded Services (£000's)	Budget		May Variance		202122 Outturn Variance	
Child Social Care and Youth Inclusion						
Senior Management	£	303	£	200	£	429
Head of Help & Family Assessment	£	3,070	-£	(676)	-£	(676)
Head of Family Support & Safeguarding	£	4,560	£	1,539	£	2,019
Head of Corporate Parenting	£	12,416	£	1,061	£	809
Head of Adolescent and Safeguarding	£	1,789	-£	(572)	-£	(572)
CSC & Youth Incl Total		**22,138**		**1,552**		**2,009**
Education						
Contracts, Proc & School Org	£	7,854	£	1,474	£	409
Early Years & Children Centres	£	4,191	-£	(146)	-£	(311)
Education - School Improvement	£	64	£	16	-£	(1)
Education Inclusion	£	1,775	-£	(10)	-£	(131)
Schools Delegated Budget	£	-	£	-	-£	(3)
SEN & Disability Integrat Serv	£	2,151	£	19	£	49
Senior Management	£	1,985	£	172	£	364
Policy, Planning & Performance	£	829	£	75	£	75
Departmental Business Support	£	216	-£	(57)	-£	(57)
Education Total	**£**	**19,065**	**£**	**1,543**	**£**	**394**
Other CSF						
Joint Commissioning & Partnrsh	£	875	-£	(830)	£	0
PFI Unitary Charges	£	8,409	£	-	£	766
Depreciation	£	9,801	£	-	-£	(0)
Other Education Budgets	£	135	£	-	-£	(114)
Education Services Grant	-£	(1,062)	£	-	-£	(12)
Pension & Redundancy Costs	£	1,624	-£	(624)	-£	(617)
Education Total	**£**	**19,782**	**-£**	**(1,454)**	**£**	**23**
LA Total	**£**	**60,985**	**£**	**1,641**	**£**	**2,426**

Child Social Care & Youth Inclusion

The main pressures in Child Social Care & Youth Inclusion budget remain the dependency on and increasing cost of agency social workers and the cost of placements for looked alter children. Agency social work rates have been increasing steadily across London. By the end of last year hourly rates had increased by an average of £4ph and due to the restructuring of this division the use of agency social workers increased from 67 to 92. This situation has improved in the last month and at the end of May the number of agency staff had reduced to 66.

Merton has signed up to the London Pledge which will provide consistency and reduce risk of competitive high-cost agency staff spend. We are in the early days of the arrangements which is in place to ensure collaborative practice across boroughs in London. Future agency requirements will be agreed as CSC&YI management team meetings.

We are revising our recruitment campaign and are in discussions with sector lead agencies in devising a microsite to demonstrate the Merton offer in a more consistent and clear way, showcasing our offer to the workforce alongside celebrating the successes of Social Care in the borough. We are awaiting proposals from various agencies and will be looking to launch this quarter which will enable us to attract more permanent talent thereby reducing reliance on agency spend.

It is difficult to predict recruitment success in such a competitive labour market, but we have eight trainees who will be ready to start case holding in September and who will replace agency social workers. A prudent estimate is that this combined with moderate recruitment success has reduced the agency staff forecast by £480k part year effect with obviously greater impact in 2023/24.

The cost of residential placements remains a concern and the high level of general inflation is likely to make this worse over the coming period as providers settle pay claims. The forecast now includes the increased contribution to holiday periods in 52-week residential placements from social care as part of the DSG Safety Valve. A similar contribution is reflected in the Adult Social Care placement forecast (Community & Housing).

Education

The Education budget is facing significant pressures in the cost of transport. Although the Safety Valve programme is starting to have an impact, the number of children with an Education Health & Care Plan (EHCP) which includes home to school transport has been increasing and this was anticipated in the first year of the Safety Valve plan prior to more in borough provision coming online. COVID has reduced the number of taxi firms in the market, reducing competition. The shortage of drivers and increased fuel costs is pushing up the costs of all forms of transport. This is reflected in the increased from year-end in the forecast overspend from £0.39m to £1.6m. That forecast reflects the expected spike in transport needs in September with the start of the new school year.

We will be working with E&R to try to maximise the use of the bus fleet over taxis. We will be providing more local places with the opening of new special places in September which will reduce out of borough travel, although this is already factored into the forecast. We will apply the refreshed transport policy with new applications and through reviews. These additional actions have further mitigated the overspend by £68,000 part year effect.

Other CSF

There is a significant forecast pressure of £1.4m o the PFI schools catering contract caused by fuel and general inflation. However, this in year pressure has been mitigated by charging the overspend to the PFI reserve.

Dedicated Schools Budget (£000's)	Budget	May Variance	April Variance	202122 Outturn Variance
Education				
Contracts, Proc & School Org	£ 291	£ 12	£ -	-£ (16)
Early Years & Children Centres	£ 16,353	-£ (904)	£ -	-£ (3,348)
Education - School Improvement	£ 1,129	-£ (191)	£ -	-£ (41)
Education Inclusion	£ 1,504	-£ (6)	£ -	£ 99
SEN & Disability Integrat Serv	£ 17,476	£ 11,685	£ -	£ 13,899
Sub-total	**£ 36,753**	**£ 10,596**	**£ -**	**£ 10,593**
CSC & Youth Inclusion				
DSG - Child Social Care & Youth Incl	£ 44	-£ (2)	£ -	-£ (7)
Sub-total	**£ 44**	**-£ (2)**	**£ -**	**-£ (7)**
Schools Delegated Budget				
DSG Reserve	**£ -**	**£ -**	**£ -**	**-£ (2)**
Retained Schools Budgets	£ 2,828	-£ (218)	£ -	-£ (417)
Schools Delegated Budget	-£ (39,784)	£ 334	£ -	£ 3,387
Sub-total	**-£ (36,956)**	**£ 116**	**£ -**	**£ 2,967**
DSG Total	**-£ (159)**	**£ 10,710**	**£ -**	**£ 13,553**

Dedicated Schools Grant (DSG) and Safety Valve

The government has launched a Green Paper on SEND, which proposes some significant changes to the way those with SEND are supported. The Schools Bill also includes provision to try to ensure that mainstream schools are inclusive of those with SEND. The combination of the Green Paper, the Schools Bill and the two programmes are an acknowledgement from government that the SEND system is broken. A failure in funding keeping pace with demand and costs have combined with policy changes (such as the extension in responsibility to age 25) to leave the majority of authorities in England with rising demand and increasing deficits. Merton in particular has faced a high level of EHCPs and the impact of having a significant amount of expensive independent sector provision in the area.

Merton is already on a path to refresh our SEND offer and ways of working. Although there is naturally a focus on the deficit in the DSG and the DfE Safety Valve process, it is about rebalancing the system and meeting needs locally. The Merton programme is congruent with the Green Paper and means that we will be well set to implement the changes that will emerge from it.

Merton was invited to join the second tranche of the Safety Valve programme process in July 2021. The programme is a mechanism for the DfE to provide deficit funding to local authorities in recognition of the significant pressures. The agreement with the DfE in March 2022 commits them to £28.8m deficit funding, of which £11.6m has been paid upfront. The remainder will be paid over five years subject to meeting the agreement conditions. In return the Council has committed to delivering the plan against nine conditions and to reduce the deficit to zero with the DfE funding by the end of year five (March 2027). Although the agreement was not signed until March, work commenced in January on implementing the plan in recognition that the actions set out are necessary with or without DfE support.

A key part of the Merton SEND plan is the expansion of local maintained special school places. The preponderance of expensive independent special school provision is a major factor in our deficit and across southwest London and Surrey. We made clear that we would need additional capital to fulfil the need for more places and rapidly pulled together a bid as soon as the bidding round was opened. We were pleased to receive confirmation of £8.2m capital funding in June in addition to the £6.6m capital funding announced in April. This is in addition to £5.8m capital funding provided by the Council in 2021/22 and 2022/23. This will allow us to deliver 284 additional local special schools places starting with the Whatley Avenue annexe to Melrose School. Discussions with DfE about the proposed new special school will commence in July.

The Whatley Avenue annexe will open in September and the number of new Education Health & Care Plans (EHCPs) is stabilising. A review of all placements in independent sector special schools and negotiations with those providers is well underway. Work is also well advanced on enhancing the support that is ordinarily available to meet special needs in mainstream schools without the need for an assessment for an EHCP. Our partnership with our schools is key and we are working with them to promote inclusion and early support. We have recently submitted our first monitoring return which shows good progress against the plan and the nine conditions, and we await feedback.

Although we commenced work in January, formally we are only two months into the five year plan, but it is progressing. The plan commits the Council to balancing the DSG budget in year by 2027 but the DfE acknowledges that it will continue to run at a deficit until then. The forecast to year end of £10.7m is an improvement on the 2021/22 deficit if £13.5m, but we are working to reduce this further in year.

Community and Housing Summary Position

Community & Housing	2022/23 Current Budget £ 'M	2022/23 Full Year Forecast £ 'M (May)	2022/23 Full Year Variance £'M (May)	2022/23 Outturn Variance £'M (Mar'22)
Adult Social Care	60,517	60,097	(420)	(881)
Libraries and Heritage	2,499	2,507	8	105
Merton Adult Learning	4	4	0	0
Housing General Fund	3,519	3,746	227	77
Public Health	(162)	(162)	0	0
Total Favourable/ Unfavourable	66,377	66,192	(185)	(699)

Note. Figures highlighted in 'Red' = underspend

Adult Social Care

Adult Social Care is currently forecasting a favourable variance of £420k. The current position reflects an increase in gross placements since April as reflected in the movement in placements diagram below and the discharge activities provided later in this report.

Placement forecast for 2022/23 is based on Mosaic expenditure figures to May 2022 and income based on 2021/22 billing data. It should also be noted that the Financial Assessment Team has several vacancies, thus are experiencing a backlog of assessments currently and as a result is prioritising assessment for residential and other high-cost packages. This is intended to mitigate the risk of unrecoverable debt increasing. Recruitment to the vacant posts is in progress and despite the scarcity of experienced Financial Assessment Officers the service is confident, based on applications received, about being able to appoint.

Monthly Movements in Packages of Care April 2022 to May 2022

Month	New Customers	Deceased Customers	Customers No Longer Receiving a Service	Net Movement
April'22	53	-21		
May'22	43	-21		
Total	**96**	**-42**		
Annual Average 2021/22	**50**	**-17**	**-20**	**13**
Annual Average 2020/21	**37**	**-27**	**-17**	**-7**
Annual Average 2019/21	**34**	**-24**	**-24**	**-14**
Annual Average 2018/19	**36**	**-23**	**-25**	**-11**

The above table shows that there were 96 new customers to May 2022. The service is currently interrogating data to ascertain leavers to May and how many placements in terms of numbers and cost are due to Covid discharges since April 2022.

The sustained growth in out of hospital demand continues and has not returned to the pre-COVID levels as reflected in the forecasted placements expenditure to May 2022. In addition to this growth in demand, the service is facing significant provider inflation costs driven by a 6.6% increase in the minimum wage and high inflation in other costs areas such as food and fuel.

The service continues to interrogate the placement data to establish causes to spend patterns. Increased Hospital discharge pathway 1 (return to home) is a current primary driver where following hospital discharge, clients go on to need a longer-term homecare package once the 4 weeks discharge to assess period ceased. This has resulted in an increase pressure on the placement budgets.

This service has recently undertaken a recruitment drive to increase capacity for the Reablement team and implement a new reablement process as an analysis of this function showed that only 65% of client were triage through Reablement instead of the predicted 75%.

Discharge activity is expected to remain under severe pressure into 2022/23 as general hospital activity is at record levels, compounded by additional recent Covid admissions, together with an ever-growing backlog of elective procedures.

There is a requirement to maintain the Discharge to Assess model into 2022/23 but the funding for this is not yet announced. It is expected to come through the Better Care Fund, but it is not certain that it will be additional funding rather than a demand on existing funds.

Description of Pathways: -

Pathway 0- 50 % of Clients

- People discharged requring minimal support,or interventions from health and social care services.

Pathway 1- 45% of clients

- People who are discharged and able to return home with a new, additional or a restarted package of care.

Pathway 2- 4% of clients

- People who discharged with a short term intensive support package at a 24 hour bed based setting before returning home.

Pathway 3-1% of clients

- People who require 24 hours bed based care

Comparison of discharge activities between 2021/22 to May 2022

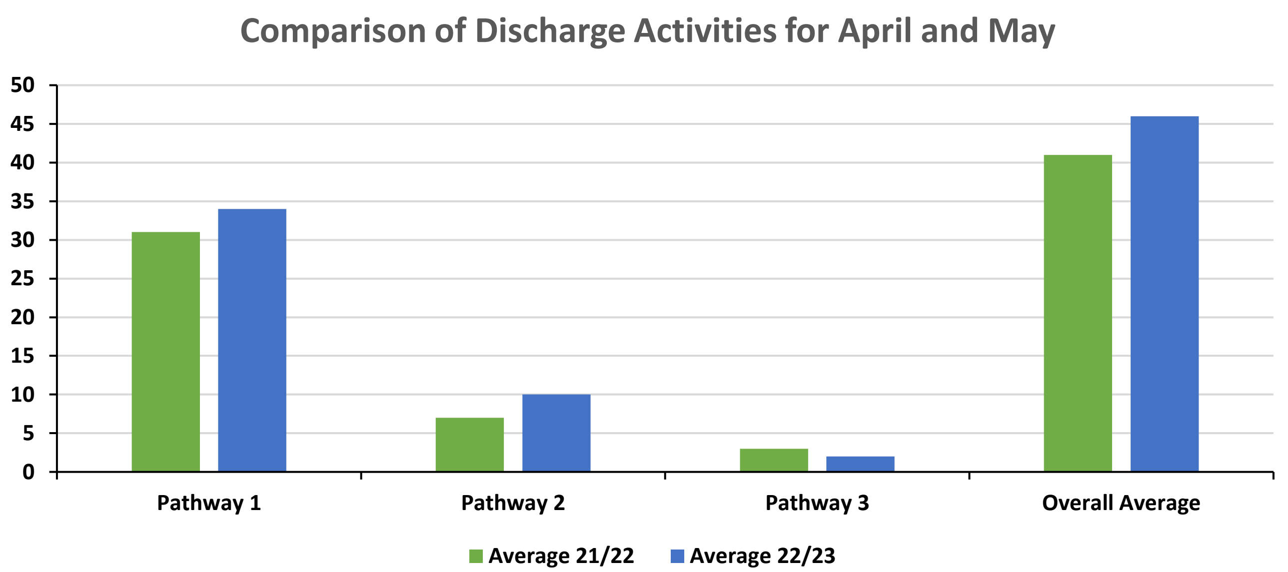
Discharge Activities April to May 2021/22

Week Commencing (2021/22)	Pathway 1	Pathway 2	Pathway 3	Grand Total
05/04	24	6	3	33
12/04	32	9	2	43
19/04	34	11	2	47
26/04	35	7	6	48
03/05	25	5	1	31
10/05	32	11	2	45
17/05	30	5	3	38
24/05	40	6	0	46
31/05	27	6	5	38
Grand Total	279	66	24	369
Average	**31**	**7**	**3**	**41**

Discharge Activities April to May 2022/23

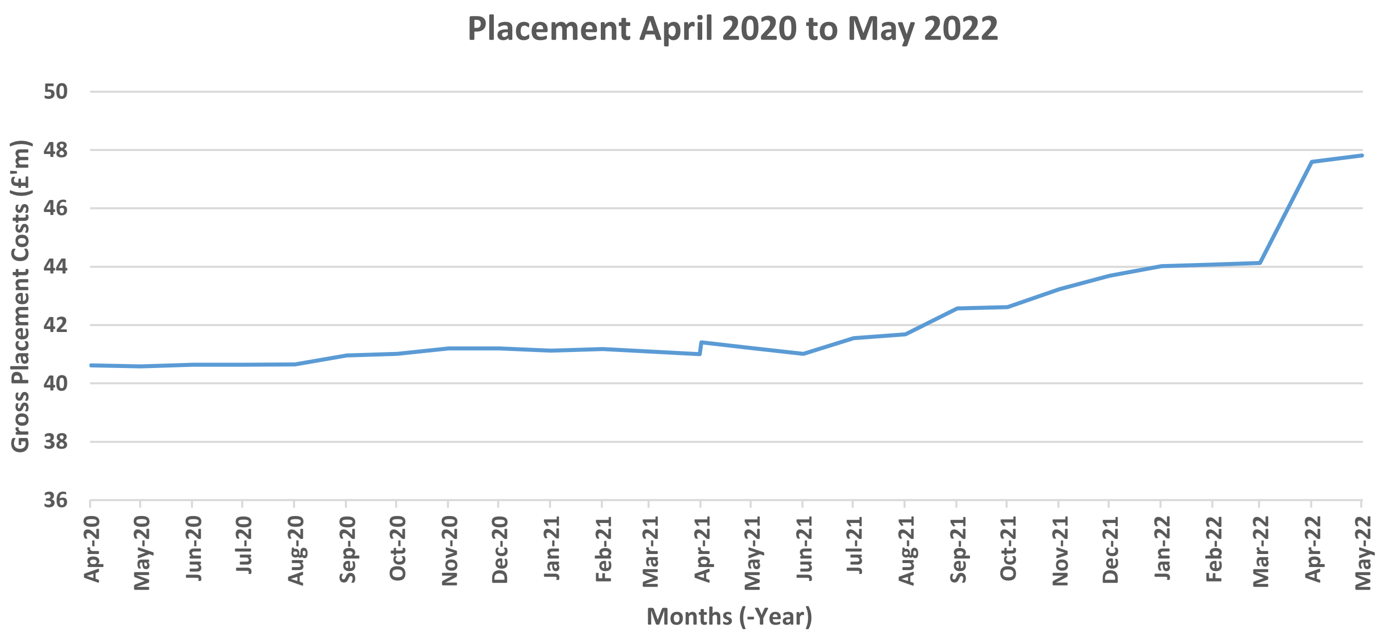
Week Commencing (2022/23)	Pathway 1	Pathway 2	Pathway 3	Grand Total
04/04	34	15	2	51
11/04	34	10	1	45
18/04	30	13	2	45
25/04	25	6	1	32
02/05	36	7	1	44
09/05	33	11	3	47
16/05	45	9	2	56
23/05	27	14	1	42
30/05	38	9	1	48
Grand Total	302	94	14	410
Average	**34**	**10**	**2**	**46**

Bar Chart depicting comparison of the average discharge activities between April to May 2021/22 and 2022/23



This shows the increase in Pathway 1 discharges and the overall increase in the average discharges as compared to April/May 2021/22. This is further reinforced by the graph below which shows an upward trend in gross cost of placements.

During 2021/22 the department alluded to an anticipated increase in numbers of customers needing care with corresponding increase in costs. It was also observed that that increase seems to be in the older people cohort, which could be due to the impact of the covid-19 pandemic, possibly the effects of long covid-19.



Adult Social Care Internal Provision –favourable Variance - £63k

Direct Provision is forecasting an underspend on staffing due to vacancies in day services and residential care which the service is reluctant to fill at this stage since it is not operating at full capacity. This will be kept under review as there might be a need to recruit if numbers increase at the centres. There is also currently a shortage of available bank staff to cover some residential shifts which has led to staff working overtime to ensure safe staffing levels. An additional amount has been added to budgets to cover utilities cost pressures.

Library & Heritage Service- Unfavourable Variance - £8k

This service is forecasting an unfavourable variance of £8k in May' 2022. This is due to the expected inflationary pressures in 2022/23 for utilities and security costs

Library & Heritage Services are now back to pre-pandemic levels of usage and a significant amount of work is being undertaken to increase income generation from the use of hireable spaces. Examples include recent long-term arrangements with Barclays and Catch 22.

Adult Learning- Breakeven position

Adult Learning continues to forecast a breakeven position. Merton Adult Learning is fully funded by external grants from the GLA (Greater London Authority) and ESFA (Education and Skills Funding Agency).

New funding streams are being allocated to enhance curriculum provision around mathematics (Multiply government initiative) and green skills. The service is in the process of awarding new provider contracts to support with some of this.

Housing General Fund- Unfavourable variance - £227k

This service is currently forecasting an unfavourable variance of £227k for May. Current unfavourable variance made up of an underspend on housing related support and overspend on Temporary Accommodation as the service continues to see a gradual increase in families in temporary accommodation in the borough.

The demand for accommodation continues to exceed supply, which creates difficulties in the re-housing of households with acute housing need including those living in expensive temporary accommodation.

However, despite the challenges of predicting demand upon the TA (Temporary Accommodation) budget there is also the need to be mindful of the effects to TA subsidy, HB (Housing Benefit) contributions and client contributions, which are all factors, which shape the service's predictions.

Analysis of Housing and Temporary Accommodation Expenditure to May 2022

Housing	Total Budget 2022/23 £000	Forecast Expenditure (May'22) £'000	Forecast Variances (May'22) £'000	Outturn Variances (March'22) £000
Temporary Accommodation-Expenditure	2,544	4,026	1,482	1,346
Temporary Accommodation-Client Contribution	(140)	(330)	(190)	(177)
Temporary Accommodation-Housing Benefit Income	(2,087)	(3,274)	(1,187)	(465)
Temporary Accommodation-Subsidy Shortfall	322	1,577	1,255	838
Temporary Accommodation-Grant	0	(981)	(981)	(1,514)
Subtotal Temporary Accommodation	639	1,018	379	28
Housing Other Budgets	2,880	2,728	(152)	49
Total Controllable (Favourable)/Unfavourable Variance	3,519	3,746	227	77

Number of households in Temporary Accommodation in May 2022

Previous Financial Years (Month' Year)	Annual Numbers at Financial Year End
Mar'17	186
Mar'18	**165**
Mar'19	174
Mar'20	**199**
Mar'21	197
Mar'22	**230**

Total numbers in temporary accommodation (TA) in March 2022 was 230 which is an overall increase of 17% on March 2021.

Current Financial Years (Month' Year)	Numbers In	Numbers Out	Net Movement
Apr'22	18	15	233
May'22	28	7	**254**

The table above shows numbers in temporary accommodation (TA) to May 2022. This shows that net numbers in (TA) is increasing and as of May 2022 it is at the highest it has ever been but is significantly lower than neighbouring boroughs.

This is due to a combination of factors: -

1. Increase in demand
2. Fewer private sector rentals
3. Increase in numbers going in into TA but fewer are leaving those accommodation.

Feedback from other boroughs is that this situation is London wide and since January in some cases there has been a doubling of homelessness applications.

Public Health –Breakeven position

The service is forecasting a breakeven position In May 2022.

Potential Cost pressures

The service continues to seek a resolution with NHS provider CLCH for both the children's contract (health visitors and school nurses) and for sexual health. Current conversations are regarding inflationary increases for 2022/23 as the service is seeking to extend contract to 2023/24.

Covid-19 Related Programmes

The team will continue Covid-19 resilience programme and the refreshed Local Outbreak Management Plan (LOMP) which will be funded by the Contain Outbreak Management Fund (COMF) funding in 2022/23.

CORPORATE ITEMS

The details comparing actual expenditure up to 31 May 2022 against budget are contained in Appendix 1. COVID-19 corporate expenditure is again shown on a separate line, but it is intended that in future all Covid related expenditure will be charged to the appropriate service: -

Corporate Items	Current Budget 2022/23 £000s	Full Year Forecast May) £000s	Forecast Variance at year end (May) £000s	Outturn Variance 2021/22 £000s
Impact of Capital on revenue budget	**11,066**	**11,066**	**0**	**(235)**
Investment Income	(396)	(396)	0	(143)
Pension Fund	503	503	0	0
Pay and Price Inflation	6,076	7,046	970	(1,945)
Contingencies and provisions	20,444	17,894	(2,550)	(17,212)
Income Items	(4,223)	(4,223)	0	10
Appropriations/Transfers	(10,091)	(10,091)	0	1,972
Central Items	**12,312**	**10,732**	**(1,580)**	**(17,318)**
Levies	988	988	0	0
Depreciation and Impairment	(25,593)	(25,593)	0	20
TOTAL CORPORATE PROVISIONS	**(1,227)**	**(2,807)**	**(1,580)**	**(17,533)**
COVID-19 Emergency expenditure	0	22	22	235
TOTAL CORPORATE EXPENDITURE inc. COVID-19	**(1,227)**	**(2,785)**	**(1,558)**	**(17,298)**

Based on expenditure to 31 May 2022, a favourable variance of £1.558m including Covid (£1.580m excluding Covid) is forecast for corporate expenditure items. The reasons for the variance are: -

1. An adverse variance of £50k is forecast on the cost of providing the 2022 local government elections including making them Covid compliant

2. As a result of negotiations that led to signing the DSG Safety Valve Agreement at the end of 2021/22, a favourable variance of c.£6.5m of the budget provision towards the DSG deficit would not be needed. However, this is dependent on targets agreed including mitigations and actions to clear the DSG deficit by 2026/27 being achieved. The current DSG forecast is £3.9m over that planned and therefore only £2.6m is available. This is being kept under regular review to ensure that the Safety Valve payments due from the government are not at risk.

3. For 2022/23 the final pay award has not been agreed but provision of 2% was included in the MTFS (Medium Term Financial Strategy). The current high level of inflation and cost of living and pay negotiations in other public sector services indicate that the provision will not be sufficient. An adverse variance of £2.970m is therefore included in the forecast which assumes that the final pay award will be in the region of 5% due in part to the impact of increases in the National Living Wage. To mitigate this, it is assumed that a contribution of £2m will be made from reserves although it should be recognised that this is a one-off resource and the effects of the pay award will be ongoing.

5 Capital Programme 2021-25

5.1 The Table below shows the movement in the 2021/25 corporate capital programme since the last monitoring report:

Depts	Current Budget 22/23	Variance	Revised Budget 22/23	Current Budget 2023-24	Variance	Revised Budget 23/24	Current Budget 2024-25	Variance	Revised Budget 24/25	Current Budget 2025-26	Variance	Revised Budget 25/26
Corporate Services	8,145		**8,145**	19,463		**19,463**	4,755		**4,755**	12,427		**12,427**
Community & Housing	995		**995**	2,495		**2,495**	1,177		**1,177**	1,237		**1,237**
Children Schools & Families	8,772		**8,772**	6,928		**6,928**	8,737		**8,737**	3,479		**3,479**
Environment and Regeneration	17,343	(1,765)	**15,578**	8,183	1,799	**9,983**	6,349		**6,349**	22,923		**22,923**
Total	**35,255**	**(1,765)**	**33,489**	**37,069**	**1,799**	**38,869**	**21,018**	**0**	**21,018**	**40,066**	**0**	**40,066**

5.2 The table below summarises the position in respect of the 2022/23 Capital Programme as of May 2022. The detail is shown in Appendix 5a.

Capital Budget Monitoring - May 2022

Department	Actuals	Year to Date Budget	Variance	Final Budget 2022-23	Forecast Outturn 2022-23	Forecast Variance 2022-23
Corporate Services	146,015	0	146,015	8,145,170	8,145,170	0
Community and Housing	52,486	0	52,486	994,530	994,530	0
Children Schools & Families	172,060	(458,605)	630,665	8,771,520	8,771,520	0
Environment and Regeneration	630,682	0	630,682	15,577,940	15,577,940	0
Total	**1,001,244**	**(458,605)**	**1,459,849**	**33,489,160**	**33,489,160**	**0**

1. Corporate Services – budget managers are projecting full spend on all budgets.
2. Community and Housing – budget managers are projecting full spend on all budgets.
3. Children, Schools and Families – budget managers are projecting full spend on all budgets. The Melrose School expansion is a major scheme which completed at the end of February 2022, some three months later than programmed. The contract is subject to a series of cost claims by the contractor which are being considered line by line by the council's appointed project manager, quantity surveyor and the design consultant.
4. Environment and Regeneration – After the adjustments in the Table below budget managers are forecasting full spend on their budgets.

		Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26	Narrative
Environment and Regeneration		£	£	£	£	
Highways & Footways - Highways bridges & structures	(1)	(365,950)	365,950			Reprofiled in line with projected spend
Highways & Footways - Culverts	(1)	(208,370)	208,370			Reprofiled in line with projected spend
Highways & Footways - Accessibility Programme		16,000				TfL (Transport of London) Funding
Highways & Footways - Casualty Reduction in Schools		12,000				TfL Funding
Cycle Route Improvements - Cycle Improve Residential Street		5,980				TfL Funding
Wimbledon Area Regeneration - Wimb Public Realm Implement	(1)	(805,110)	475,110			Reprofiled in line with projected spend
Wimbledon Area Regeneration - Wimb Vill Herit Led Plc. Realm	(1)	(750,000)	750,000			Reprofiled in line with projected spend

Wimbledon Area Regeneration - Wimbledon Hill Rd	(1)	330,000				Sub Project of Wimb. Public Realm
Total		**(1,765,450)**	**1,799,430**	**0**	**0**	

(1) Requires Cabinet approval

- Appendix 5c shows the revised funding of the proposed budget for 2022/23 and 2023/24
- The table below summarises the movement in the Capital Programme for 2022/23 since its approval in March 2022 (£000s):

Depts.	Original Budget 22/23	Net Slippage 2021/22	Adjustments	New External Funding	New Internal Funding	Re-profiling	Revised Budget 22/23
Corporate Services	8,522	5,454			161	(5,992)	**8,145**
Community & Housing	2,530	87			50	(1,673)	**995**
Children Schools & Families	6,441	888		2,287		(845)	**8,772**
Environment and Regeneration	15,118	3,489		787	273	(4,089)	**15,578**
Total	**32,611**	**9,919**	**0**	**3,074**	**484**	**(12,599)**	**33,489**

- The table below compares capital expenditure (£000s) to May 2022 to that in previous years':

Depts.	Spend To May 2019	Spend To May 2020	Spend to May 2021	Spend to May 2022	Variance 2019 to 2022	Variance 2020 to 2022	Variance 2021 to 2022
CS (Corporate Services)	95	10	(4)	146	51	136	150
C&H	65	36	82	52	(12)	17	(30)
CSF	693	(80)	404	172	(521)	252	(232)
E&R	110	238	815	631	521	393	(185)
Total Capital	**963**	**204**	**1,298**	**1,001**	**39**	**797**	**(296)**

Outturn £000s	23,161	16,930	21,776	
Budget £000s				33,489
Projected Spend May 2022 £000s				33,489
Percentage Spend to Budget				2.99%
% Spend to Outturn/Projection	4.16%	1.20%	5.96%	2.99%
Monthly Spend to Achieve Projected Outturn £000s				3,079

- May is two months of the way through the financial year and departments have spent just under 3.0% of the budget. Spend to date is higher than two of the last three previous financial years

Department	Spend To April 2022 £000s	Spend To May 2022 £000s	Increase £000s
CS	(4)	146	150
C&H	1	52	52
CSF	(114)	172	286
E&R	(575)	631	1,205
Total Capital	**(691)**	**1,001**	**1,693**

- During May 2022 officers spent just under £1.7 million, to achieve year end spend officers would need to spend approximately £3.1 million each month to year end. Finance officers will continue to review in detail the projected outturn with budget managers.

- On 17 June 2022, the Authority received notification that it will receive £8,270,367 safety net funding in addition to the £6,624,992 High Needs Grant announce earlier in the financial year. The DfE complimented officers on the strength of Merton's proposals and this is reflected in the Authority receiving everything it bid for. It is clear from the award that the DfE is expecting all the high needs allocation to be applied to the SEN expansions in the bid. Appendix 5d summarises the impact this and other amendments to the programme have on its funding.

1) CONSULTATION UNDERTAKEN OR PROPOSED

- All relevant bodies have been consulted.

2) TIMETABLE

- Following current financial reporting timetables.

3) FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- All relevant implications have been addressed in the report.

4) LEGAL AND STATUTORY IMPLICATIONS

- All relevant implications have been addressed in the report.

5) HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- Not applicable

6) CRIME AND DISORDER IMPLICATIONS

- Not applicable

7) RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- The risk of part non-delivery of savings is already contained on the key strategic risk register and will be kept under review.

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

Appendix 1-	Detailed Corporate Items table
Appendix 2 –	Pay and Price Inflation
Appendix 3 –	Treasury Management: Outlook
Appendix 5a –	Current Capital Programme
Appendix 5b -	Detail of Virements
Appendix 5c -	Summary of Capital Programme Funding
Appendix 6-	Progress on Savings 2021/22
Appendix 7-	Progress on Savings 2022/23

8) BACKGROUND PAPERS

- Budgetary Control files held in the Corporate Services department.

9) REPORT AUTHOR

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APPENDIX 1

3E.Corporate Items	Original Budget 2022/23 £000s	Current Budget 2022/23 £000s	Year to Date Budget May) £000s	Year to Date Actual (May) £000s	Full Year Forecast May) £000s	Forecast Variance at year end (May) £000s	Outturn Variance 2021/22 £000s
Cost of Borrowing	11,066	11,066	11,066	694	11,066	0	(235)
Use for Capital Programme						0	0
Impact of Capital on revenue budget	**11,066**	**11,066**	**11,066**	**694**	**11,066**	**0**	**(235)**
Investment Income	**(396)**	**(396)**	**(396)**	**(157)**	**(396)**	**0**	**(143)**
Pension Fund	**503**	**503**	**42**	**0**	**503**	**0**	**0**
Corporate Provision for Pay Award	3,468	2,076	173	0	3,046	970	(195)
Corporate Provision for National Minimum Wage	1,500	1,500	125	0	1,500	0	(1,500)
Provision for excess inflation	2,500	2,500	208	0	2,500	0	(250)
Pay and Price Inflation	**7,468**	**6,076**	**506**	**0**	**7,046**	**970**	**(1,945)**
Contingency	1,500	1,500	125	0	1,500	0	(488)
Bad Debt Provision	1,500	1,500	125	0	1,500	0	(2,397)
Loss of income arising from P3/P4	400	400	33	0	400	0	(200)
Loss of HB Admin grant	23	23	2	0	23	0	(23)
Apprenticeship Levy	450	450	38	109	450	0	(69)
Revenuisation and miscellaneous	6,028	6,028	502	286	6,078	50	(3,153)
Growth - Provision against DSG	10,543	10,543	879	0	7,943	(2,600)	(10,882)
Contingencies and provisions	**20,444**	**20,444**	**1,704**	**394**	**17,894**	**(2,550)**	**(17,212)**
Other income	0	0	0	0	0	0	10
CHAS IP/Dividend	(2,223)	(4,223)	(352)	(2,000)	(4,223)	0	0
Income items	**(2,223)**	**(4,223)**	**(352)**	**(2,000)**	**(4,223)**	**0**	**10**
Appropriations: CS Reserves	(2,167)	(2,167)	(181)	0	(2,167)	0	0
Appropriations: E&R Reserves	(1,314)	(1,314)	(109)	0	(1,314)	0	0
Appropriations: CSF Reserves	(300)	(300)	(25)	0	(300)	0	0
Appropriations: C&H Reserves	(104)	(104)	(9)	0	(104)	0	0
Appropriations:Public Health Reserves	(93)	(93)	(8)	0	(93)	0	0
Appropriations:Corporate Reserves	(8,112)	(6,112)	(509)	0	(6,112)	0	1,972
Appropriations/Transfers	**(12,091)**	**(10,091)**	**(841)**	**0**	**(10,091)**	**0**	**1,972**
Depreciation and Impairment	**(25,593)**	**(25,593)**	**0**	**0**	**(25,593)**	**0**	**20**
Central Items	**(822)**	**(2,215)**	**11,729**	**(1,068)**	**(3,795)**	**(1,580)**	**(17,533)**
Levies	**988**	**988**	**82**	**241**	**988**	**0**	**0**
TOTAL CORPORATE PROVISIONS	**166**	**(1,227)**	**11,811**	**(827)**	**(2,807)**	**(1,580)**	**(17,533)**
COVID-19 Emergency expenditure					22	**22**	**235**
TOTAL CORPORATE EXPENDITURE inc. COVID-19	**166**	**(1,227)**	**11,811**	**(827)**	**(2,785)**	**(1,558)**	**(17,298)**

Appendix 2

<u>Inflation & Pay Forecast at May 2022</u>

On 22 June it was announced by the Office for National Statistics that year-on-year inflation had increased to 9.1%, the highest rate in 40 years amid record prices for petrol and significant increases in the cost of food and energy.

The Consumer Prices Index (CPI) rose by 9.1% in the 12 months to May 2022, up from 9.0% in April. On a monthly basis, CPI increased 0.7% in May 2022, compared with 0.6% in May 2021. Rising prices for food and non-alcoholic beverages, compared with falls a year ago, resulted in the largest upward contribution to the change in both the CPIH and CPI 12-month inflation rates between April and May 2022. There were also large upward contributions to the annual inflation rate in May 2022 from housing and household services principally from electricity, gas and other fuels, and owner occupiers' housing costs and transport principally from motor fuels and second-hand cars.

The largest offsetting downward contributions to change in the rates were from recreation and culture and clothing and footwear.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 7.9% in the 12 months to May 2022, up from 6.2% in the 12 months to April.

The RPI rate for May 2022 was 11.7%, which is up from 11.1% in April.

Earlier in June the bank of England warned that inflation was on track to reach 11.0% later this year after allowing for further increases in gas and electricity prices.

The Council's Business Plan for the medium-term agreed at Council in March 2022 supported an increase of 2.5% in 2022/23 followed by further increases of 1.5% in each of the years 2023/24 to 2025/26. Each additional 1% of inflation adds c. £1.5m to the Council's expenditure. A provision for volatile prices is held corporately, with £2.5m provided for 2022/23 and a further £0.5m in each of the years 2023/24 to 2025/26.

<u>Pay and Price Inflation as of June 2022</u>

In 2022/23, the budget includes 2% for increases in pay and 2.5% for increases in general prices, with an additional amount of £2.5m which will be held to help services that may experience price increases greatly in excess of the inflation allowance provided when setting the budget. With CPI inflation currently at 9.1% and RPI at 11.7% and the Council's overall revenue budget under extreme pressure, this budget will be retained as cover and only released in exceptional circumstances.

<u>Pay:</u>

For 2022/23 the final pay award has not been agreed but provision of 2% was included in the MTFS 2022-26.

On 6 June 2022, the three local government unions, UNISON, GMB and Unite, representing 1.4 million council and school employees, submitted a pay claim for staff in England, Wales and Northern Ireland.

The 2022 claim, which would apply from the start of April 2022, would see council employees receive either a £2,000 rise at all pay grades or the current rate of RPI (presently 11.7%), whichever is higher for each individual.

Given the current pressure that pay negotiations are under, and the continuing upward forecast for inflation in the coming months, it seems inevitable that the current 2% provision will not be sufficient and an award of 5% is more realistic and an unfavourable variance of c. £2.970m (3%) is currently forecast.

Pay growth has continued to strengthen in line with the sustained tightening in the labour market. Whole-economy average weekly earnings growth rose to 5.4% in the three months to February relative to a year ago, partly reflecting strength in bonuses. Private sector regular pay growth – which excludes bonuses – also rose, to 4.5%, stronger than expected in February. That translates to growth in Bank staff's estimate of underlying pay, which strips out estimates of compositional and furlough effects of around 4%. Since labour costs tend to make up a large proportion of costs for service sector firms, it is likely that the strength in pay growth can explain some of the recent rises in services inflation. Indicators of pay growth are above pre-Covid levels. HMRC data suggest that median pay growth – which is less affected by compositional effects – had already reached 5% in the three months to March. The KMPG/REC UK Report on Jobs permanent salaries index rose in February, close to its peak reached late last year. And the percentage of firms expecting pay growth of 3% or higher over the next 12 months in the Lloyds Business Barometer survey remains elevated, at over twice its pre-Covid level.

The Council's Business for the medium-term agreed at Council in March 2022 assumes pay increases of 2.0% in each of the years covered by the Plan (2022/23 - 2025/26).

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

	2022 Q2	**2023 Q2**	**2024 Q2**	**2025 Q2**
GDP	3.2 (3.2)	0.0 (1.2)	0.2 (1.0)	0.7
CPI inflation	9.1 (7.0)	6.6 (3.5)	2.1 (1.9)	1.3
LFS unemployment rate	3.6 (3.9)	3.9 (4.4)	4.6 (4.7)	5.5
Excess supply/**Excess demand**	**+½** (0)	-1¼ (-½)	-1¾ (-½)	-2¼
Bank Rate	1.0 (0.7)	2.5 (1.4)	2.4 (1.4)	2.0

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: Forecasts for the UK Economy

Source: HM Treasury - Forecasts for the UK Economy (June 2022)			
2022 (Quarter 4)	Lowest %	Highest %	Average %
CPI	5.8	10.5	8.6
RPI	8.3	14.4	10.9
LFS Unemployment Rate	3.5	5.0	4.0
2023 (Quarter 4)	Lowest %	Highest %	Average %
CPI	0.6	8.1	3.0

RPI	1.9	9.6	4.1
LFS Unemployment Rate	3.2	4.8	4.1

Note the wide range between highest and lowest forecasts which reflects the volatility and uncertainty arising from volatile fuel and utility costs affecting on the cost of living and the difficulty of forecasting how the situation will evolve. 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 2022 to 2026 are summarised in the following table:-

Source: HM Treasury - Forecasts for the UK Economy (May 2022)					
	2022	2023	2024	2025	2026
	%	%	%	%	%
CPI	7.5	4.2	2.5	2.6	2.5
RPI	9.1	5.9	3.6	3.9	4.1
LFS Unemployment Rate	4.0	4.0	3.9	3.8	3.8

Treasury Management: Outlook

The Bank's Monetary Policy Committee (MPC) sets monetary policy to keep inflation low and stable, which supports growth and jobs. Subject to maintaining price stability, the MPC must also support the Government's economic policy. The Government has set the MPC a target for the 12-month increase in the Consumer Prices Index of 2%.

The MPC currently uses two main monetary policy tools.

- setting the interest rate that banks and building societies earn on deposits, or 'reserves', placed with the Bank of England — this is Bank Rate.
- buying government and corporate bonds, financed by the issuance of central bank reserves — this is asset purchases or quantitative easing.

Key judgements and risks

The conclusions that the MPC reach in the May 2022 Monetary Policy Report are supported by the following Key Judgements: -

Key judgement 1: persistently higher global commodity prices and tradable goods prices from supply chain constraints, both accentuated by the invasion of Ukraine, lead to a sharp slowdown in world activity and push global consumer price inflation up further before their effects eventually dissipate.

Key judgement 2: the labour market tightens further in the near term before the slowdown in demand leads to a rise in unemployment and excess supply over the rest of the projection.

Key judgement 3: demand growth in the UK slows sharply over the first half of the projection, predominantly reflecting the adverse impact of higher global commodity and tradable goods prices.

Key judgement 4: the vast majority of the increase and subsequent fall in CPI inflation reflects the impact of external factors. Domestic price pressures rise further this year, as wage growth strengthens and companies rebuild their margins. The increase in excess supply moderates these forces such that inflation is close to the 2% target in two years' time and well below it in three years.

The Bank of England have made the following points about the current economic conditions

Global

Prior to the war, global GDP growth was slightly stronger than expected partly because Omicron weighed on activity by less than predicted. The build up to and subsequent Russian invasion of Ukraine has pushed up commodity prices further, lifted the outlook for global consumer price inflation, and led to a deterioration in the near-term outlook for global growth.

United Kingdom

At its meeting ending on 15 June 2022, the MPC voted by a majority of 6-3 to increase Bank Rate by 0.25 percentage points, to 1.25%.

The MPC outlined the background behind the decision as “the market implied path for Bank Rate had risen materially since the MPC’s previous meeting, reaching around 2.9% by end-2022 and peaking at 3.3% in 2023. This path continued to be higher than the expectations for Bank Rate of respondents to the Bank’s latest Bank of England Market Participants Survey, perhaps in part reflecting upside risks to the inflation outlook domestically and internationally. The sterling effective exchange rate had depreciated by around 2½% since the previous MPC meeting and by almost 4% compared to the 15-day moving average on which the May Monetary Policy Report projections had been conditioned. Sterling had been particularly weak against the US dollar”

The Chancellor of the Exchequer had announced a £15 billion Cost of Living Support package on 26 May. This had included: a direct one-off payment of £650 for households on means-tested benefits; a payment of £300 to pensioners; and a £150 Bank of England Page 5 payment to people on disability benefits. There had been a doubling of the universal rebate through the Energy Bills Support Scheme, providing an additional £200 to households. The Chancellor had also announced that the original £200 rebate would no longer have to be repaid in subsequent years. The announced measures took effect over the second half of this year, with additional payments for households receiving means-tested benefits starting as soon as July. The payments to Benefit recipients were skewed towards people on lower incomes. Taken together, and using standard fiscal multipliers, initial Bank staff analysis suggested that these measures were likely to boost GDP by around 0.3% and raise CPI inflation by 0.1 percentage points in the first year, with some upside risks around these estimates given the targeted and front-loaded nature of some of the measures.

Three members preferred a 0.5 percentage point increase in Bank Rate at this meeting. These members put a higher weight on the prospect of more resilience in demand or shortfalls in supply or both, such that cost and capacity pressures would remain relatively strong over the forecast period. These members also judged that monetary policy should lean strongly against risks that recent trends in pay growth, firms’ pricing decisions, and inflation expectations in the economy more widely would become more firmly embedded. Faster policy tightening now would help to bring inflation back to the target sustainably in the medium term and reduce the risks of a more extended and costly tightening cycle later. The MPC would take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. The scale, pace and timing of any further increases in Bank Rate would reflect the Committee’s assessment of the economic outlook and inflationary pressures. The Committee would be particularly alert to indications of more persistent inflationary pressures, and would if necessary act forcefully in response.

In its May Monetary Policy Report the MPC set out updated central projections for activity and inflation in the UK. The projections in the report are conditioned on a market-implied path for Bank Rate that rises to around 2½% by mid-2023, before falling to 2% at the end of the forecast period. Fiscal policy is assumed to evolve in line with announced Government policies. Wholesale energy prices are assumed to follow their respective futures curves for the first six months of the projections and remain constant beyond that, in contrast to futures curves, which are downward sloping over coming years. There are material risks around this assumption.

The MPC's forecast projections

	2022 Q2	**2023 Q2**	**2024 Q2**	**2025 Q2**
GDP	3.2 (3.2)	0.0 (1.2)	0.2 (1.0)	0.7
CPI inflation	9.1 (7.0)	6.6 (3.5)	2.1 (1.9)	1.3
LFS unemployment rate	3.6 (3.9)	3.9 (4.4)	4.6 (4.7)	5.5
Excess supply/**Excess demand**	**+½** (0)	-1¼ (-½)	-1¾ (-½)	-2¼
Bank Rate	1.0 (0.7)	2.5 (1.4)	2.4 (1.4)	2.0

Capital Budget Monitoring – May 2022

Description	Actuals	Year to Date Budget	Variance	Current Budget 2022-23	Forecast Outturn 2022-23	Forecast Variance 2022-23
Capital	**1,001,244**	**(458,605)**	**1,459,849**	**33,489,160**	**33,489,160**	**0**
Corporate Services	**146,015**	**0**	**146,015**	**8,145,170**	**8,145,170**	**0**
Customer Contact Programme	0	0	0	468,000	468,000	0
Works to other buildings	44,131	0	44,131	1,189,720	1,189,720	0
Civic Centre	0	0	0	360,000	360,000	0
Invest to Save schemes	0	0	0	717,560	717,560	0
Business Systems	0	0	0	2,473,940	2,473,940	0
Social Care IT System	0	0	0	281,000	281,000	0
Disaster recovery site	9,792	0	9,792	94,080	94,080	0
Planned Replacement Programme	92,093	0	92,093	1,229,820	1,229,820	0
Acquisitions Budget	0	0	0	469,050	469,050	0
Westminster Coroners Court	0	0	0	862,000	862,000	0
Community and Housing	**52,486**	**0**	**52,486**	**994,530**	**994,530**	**0**
Telehealth	0	0	0	30,400	30,400	0
Disabled Facilities Grant	52,486	0	52,486	885,130	885,130	0
Major Projects - Social Care H	0	0	0	50,000	50,000	0
Major Library Projects	0	0	0	5,000	5,000	0
Libraries IT	0	0	0	24,000	24,000	0

Capital Budget Monitoring – May 2022

Description	Actuals	Year to Date Budget	Variance	Current Budget 2022-23	Forecast Outturn 2022-23	Forecast Variance 2022-23
Children Schools & Families	**172,060**	**(458,605)**	**630,665**	**8,771,520**	**8,771,520**	**0**
Primary Schools						
Hollymount	0	0	0	4,200	4,200	0
West Wimbledon	(7,388)	0	(7,388)	158,610	158,610	0
Hatfield	67,296	0	67,296	85,290	85,290	0
Hillcross	0	0	0	220,110	220,110	0
Joseph Hood	0	0	0	81,120	81,120	0
Dundonald	2,500	0	2,500	36,080	36,080	0
Merton Abbey	0	0	0	8,610	8,610	0
Merton Park	(809)	0	(809)	14,500	14,500	0
Pelham	(879)	0	(879)	126,000	126,000	0
Poplar	0	0	0	40,000	40,000	0
Wimbledon Chase	(2,371)	0	(2,371)	185,390	185,390	0
Wimbledon Park	19,030	0	19,030	164,130	164,130	0
Abbotsbury	0	0	0	137,000	137,000	0
Malmsbury	0	0	0	47,000	47,000	0
Morden	(2,219)	0	(2,219)	75,000	75,000	0
Bond	0	0	0	52,000	52,000	0
Cranmer	5,061	0	5,061	250,830	250,830	0
Gorringe Park	0	0	0	60,000	60,000	0
Haslemere	0	0	0	251,740	251,740	0
Liberty	(487)	0	(487)	80,490	80,490	0
Links	(2,739)	0	(2,739)	114,850	114,850	0
Singlegate	0	0	0	145,000	145,000	0
St Marks	(2,739)	0	(2,739)	68,760	68,760	0
Lonesome	(1,665)	0	(1,665)	161,280	161,280	0
Sherwood	(2,350)	0	(2,350)	150,150	150,150	0
William Morris	(3,170)	0	(3,170)	18,420	18,420	0
Unlocated Primary School Proj	0	(576,520)	576,520	425,300	425,300	0

Appendix 5a

Capital Budget Monitoring – May 2022

Description	Actuals	Year to Date Budget	Variance	Current Budget 2022-23	Forecast Outturn 2022-23	Forecast Variance 2022-23
Secondary						
Harris Academy Morden	0	0	0	135,000	135,000	0
Harris Academy Merton	0	0	0	34,170	34,170	0
Raynes Park	0	0	0	76,000	76,000	0
Ricards Lodge	0	0	0	21,610	21,610	0
Rutlish	13,964	0	13,964	23,080	23,080	0
Harris Academy Wimbledon	0	0	0	14,940	14,940	0
SEN						
Perseid	(41,126)	0	(41,126)	399,490	399,490	0
Cricket Green	(15,000)	0	(15,000)	46,120	46,120	0
Melrose	(31,606)	0	(31,606)	97,000	97,000	0
Melrose Whatley Ave SEN	65,982	0	65,982	0	0	0
Unlocated SEN	11,332	0	11,332	2,972,940	2,972,940	0
Melbury College - Smart Centre	0	0	0	131,360	131,360	0
Medical PRU	42,489	0	42,489	461,700	461,700	0
Mainstream SEN (ARP)	0	0	0	397,910	397,910	0
Other						
CSF Safeguarding	0	0	0	152,000	152,000	0
Devolved Formula Capital	58,954	117,915	(58,961)	353,740	353,740	0
Children's Centres	0	0	0	55,000	55,000	0
Youth Provision	0	0	0	237,600	237,600	0

Appendix 5a

Capital Budget Monitoring – May 2022

Description	Actuals	Year to Date Budget	Variance	Current Budget 2022-23	Forecast Outturn 2022-23	Forecast Variance 2022-23
Environment and Regeneration	**630,682**	**0**	**630,682**	**15,577,940**	**15,577,940**	**0**
On Street Parking - P&D	61,078	0	61,078	672,780	672,780	0
Off Street Parking - P&D	30,283	0	30,283	534,510	534,510	0
CCTV Investment	0	0	0	1,015,840	1,015,840	0
Public Protection and Development	0	0	0	50,000	50,000	0
Fleet Vehicles	0	0	0	748,470	748,470	0
Alley Gating Scheme	150	0	150	46,000	46,000	0
Waste SLWP	(119,173)	0	(119,173)	433,430	433,430	0
Street Trees	0	0	0	103,990	103,990	0
Raynes Park Area Roads	0	0	0	43,500	43,500	0
Highways & Footways	616,798	0	616,798	5,814,940	5,814,940	0
Cycle Route Improvements	4,554	0	4,554	368,640	368,640	0
Mitcham Area Regeneration	(24,652)	0	(24,652)	1,183,950	1,183,950	0
Wimbledon Area Regeneration	10,089	0	10,089	1,265,870	1,265,870	0
Morden Area Regeneration	0	0	0	350,000	350,000	0
Borough Regeneration	13,647	0	13,647	807,140	807,140	0
Property Management Enhancement	0	0	0	35,000	35,000	0
Wimbledon Park Lake and Waters	133,873	0	133,873	520,210	520,210	0
Sports Facilities	(40,043)	0	(40,043)	315,220	315,220	0
Parks	(55,921)	0	(55,921)	1,268,450	1,268,450	0

Appendix 5b

Virement, Re-profiling and New Funding - May 2022

		2022/23 Budget	Virements	Funding Adjustments	Reprofiling	Revised 2022/23 Budget	2023/24 Budget	Movement	Revised 2023/24 Budget	Narrative
-		£	£		£	£	£		£	
Environment and Regeneration										
Highways & Footways - Highways bridges & structures	(1)	**965,950**			(365,950)	**600,000**	**260,000**	365,950	**625,950**	Reprofiled in line with projected spend
Highways & Footways - Culverts	(1)	**508,370**			(208,370)	**300,000**	**0**	208,370	**208,370**	Reprofiled in line with projected spend
Highways & Footways - Accessibility Programme				16,000		**16,000**	**0**		**0**	TfL Funding
Highways & Footways - Causality Reduction in Schools		**0**		12,000		**12,000**	**0**		**0**	TfL Funding
Cycle Route Improvements - Cycle Improve Residential Stre		**23,580**		5,980		**29,560**	**0**		**0**	TfL Funding
Wimbledon Area Regeneration - Wimb Public Realm Implement	(1)	**975,110**	(330,000)		(475,110)	**170,000**	**0**	475,110	**475,110**	Reprofiled in line with projected spend
Wimbledon Area Regeneration - Wimb Vill Herit Led Plc. Realm	(1)	**800,000**			(750,000)	**50,000**	**0**	750,000	**750,000**	Reprofiled in line with projected spend
Wimbledon Area Regeneration - Wimbledon Hill Rd	(1)	**122,540**	330,000			**452,540**		0	**0**	Sub Project of Wimb. Public Realm
Total		**3,395,550**	**0**	**33,980**	**(1,799,430)**	**1,630,100**	**260,000**	**1,799,430**	**2,059,430**	

(1) Requires Cabinet approval

Capital Programme Funding Summary 2022/23

	Funded from Merton's Resources	Funded by Grant & Capital Contributions	Total
	£000s	£000s	£000s
Approved Capital Programme 2-3-22	25,850	6,761	32,611
Outturn Adjustments	(965)	3,608	2,643
Approved Outturn	24,885	10,369	35,255
Childrens, Schools and Families			
Safety Valve Funding	(447)	447	0
Environment and Regeneration			
Highways & Footways - Highways bridges & structures	(366)	0	(366)
Highways & Footways - Culverts	(208)	0	(208)
Highways & Footways - Accessibility Programme	0	16	16
Highways & Footways - Casuality Reduction in Schools	0	12	12
Cycle Route Improvements - Cycle Improve Residential Stre	0	6	6
Wimbledon Area Regeneration - Wimb Public Realm Implement	(475)	0	(475)
Wimbledon Area Regeneration - Wimb Vill Herit Led Plc. Realm	(750)	0	(750)
	0	0	0
May 22 Monitoring	22,639	10,850	33,489

Appendix 5c

Capital Programme Funding Summary 2023/24

	Funded from Merton's Resources	Funded by Grant & Capital Contributions	Total
	£000s	£000s	£000s
Approved Capital Programme 2-3-22	**13,823**	**4,227**	**18,050**
Outturn Adjustments	**2,894**	**16,125**	**19,019**
Approved Outturn	**16,717**	**20,352**	**37,069**
Childrens, Schools and Families			
Safety Valve Funding	**(1,336)**	**1,336**	**0**
Environment and Regeneration			
Highways & Footways - Highways bridges & structures	**366**	**0**	**366**
Highways & Footways - Culverts	**208**	**0**	**208**
Wimbledon Area Regeneration - Wimb Public Realm Implement	**475**	**0**	**475**
Wimbledon Area Regeneration - Wimb Vill Herit Led Plc. Realm	**750**	**0**	**750**
May 22 Monitoring	**17,181**	**21,688**	**38,869**

Capital Programme Funding Summary 2024/25

	Funded from Merton's Resources	Funded by Grant & Capital Contributions	Total
	£000s	£000s	£000s
Approved Capital Programme 2-3-22	**11,129**	**4,820**	**15,949**
Outturn Adjustments	**4,762**	**307**	**5,069**
Approved Outturn	**15,891**	**5,127**	**21,018**
Childrens, Schools and Families Safety Valve Funding	**(4,437)**	**4,437**	**0**
May 22 Monitoring	**11,454**	**9,564**	**21,018**

Capital Programme Funding Summary 2025/26

	Funded from Merton's Resources	Funded by Grant & Capital Contributions	Total
	£000s	£000s	£000s
Approved Capital Programme 2-3-22	**34,469**	**3,400**	**37,869**
Outturn Adjustments	**1,370**	**827**	**2,197**
Approved Outturn	**35,839**	**4,227**	**40,066**
Childrens, Schools and Families Safety Valve Funding	**650**	**(650)**	**0**
May 21 Monitoring	**36,489**	**3,577**	**40,066**

Appendix 6 Progress on Savings 2021/22

Department	Target Savings 2021/22	Shortfall 2021/22	Period 1 Forecast Shortfall	Projected Shortfall 2022/23
	£000	**£000**	**£000**	**£000**
Corporate Services	1,322	232		
Children Schools and Families	1,460			
Community and Housing	2,541	910		910
Environment and Regeneration	1,375	1,269		
Total	**6,698**	**2,411**	**0**	**910**

Appendix 7 Progress on Savings 2022/23:

Department	Target Savings 2020/21	Shortfall 2020/21	Shortfall 2021/22	Projected Shortfall 2022/23 (May'22)
	£000	**£000**	**£000**	**£000**
Corporate Services	2,718	883	213	678
Children Schools and Families	2,969	664	500	100
Community and Housing	2,460	128	128	128
Environment and Regeneration	3,927	3,373	2,837	0
Total	**12,074**	**5,048**	**3,678**	**906**

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Committee: Cabinet

Date: 18 July 2022

Subject: London Borough of Merton Treasury Management Strategy - Annual Review 2021/22

Lead officer: Caroline Holland, Director Corporate Services

Lead member: Councillor Billy Christie, Cabinet Member for Finance and Corporate Services

Contact officer: Nemashe Sivayogan, Treasury and Pensions Manager

Recommendations:

A. This is an update on the Merton Treasury management activity during 2021-22 and details any activities in accordance with the Treasury management strategy approved in March 2021.

B. That Cabinet note the report together with compliance with the CIPFA code.

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. The Council undertakes Treasury Management Activities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which requires that the Council receives an annual strategy report by 31 March for the year ahead and an annual review report of the previous year by 30 September. This report is the review of Treasury Management activities during 2021/22.

2 DETAILS

2.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council March 2021)
- a mid-year (minimum) treasury update report – to the finance director. And monthly treasury management updates.
- an annual review following the end of the year describing the activity compared to the strategy (this report)

2.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2.3 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

2.3.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need: or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.3.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital expenditure.	21,776	30,203	21,971
Financed in Year	21,776	18,730	10,176
Unfinanced Capital Expenditure	0	11,473	11,795

2.4 THE COUNCIL'S OVERALL BORROWING NEED

2.4.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). As at the December balance sheet projection the council was 17% under borrowed. This will increase if the council does not undertake any new borrowing.

2.4.2 **Gross borrowing and the CFR** – in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21), plus the actuals of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the council is not borrowing to support revenue expenditure.

Capital Financing Requirement(CFR)	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Total CFR	160,945	175,452	177,304

2.4.3 **The authorised limit –** this is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. Once this has been set, the council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

2.4.4 **The operational boundary –** is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

2.5 THE COUNCIL'S OVERALL TREASURY POSITION AS AT 31 MARCH 2022

2.5.1 At the beginning and the end of 2021/22 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	Balance as at 31 March 2021	Balance as at 31 March 2022
CFR including PFI & lease	167,460	160,945
CFR excluding PFI & lease	138,653	133,811
External Borrowing	111,010	109,010
Over/(Under) Borrowing	(28,807)	(36,009)

	Investment		Debt	
	31-Mar-21	31-Mar-22	31-Mar-21	31-Mar-22
Average interest Rate (%)	0.18	0.64	5.56	5.54
Average period	174 days	179 days	33 Yrs	32 Yrs
Total interest (£000)	840	530	6,307	6,079
Balance as at 31 March (£000)	55,000	70,000	111,010	109,010

*Cash held in Money Market funds not included above.

2.5.2 In 2021-22 interest rates started to recover after the effects of the pandemic. This was further boosted by the Bank of England increasing interest rates from December 2021. There have been further interest rate rises since then which in turn has seen returns on deposits increase rapidly.

2.5.3 By carefully picking the counterparties and the investments in 2021-22 the investment income generated from the treasury investments is £530k. This is £143k above the budgeted figure of £387k.

2.5.4 The council has slowly and prudently started to deposit funds into counterparties again in 2021-22 as we move out of the pandemic. However, being risk adverse and prudent. the council is only investing in main UK banks and has decided not to deposit funds into Local Authorities. Money Market Funds have started to pick up and current rates are around the 0.50% mark. These funds are a good option for immediate liquid cash whist giving a reasonable related return.

2.5.5 The Council approved the opening of two more MMFs in November 2020 and this gave opportunity to spread our cash balance and still maintain liquidity.

2.5.6 The Council uses external borrowing to fund its long-term capital expenditures. The Council has taken no new loans since 2007. The current debt portfolio maturity structure is shown below. In the year the council paid back a £2m LOBO loan and reduced its long-term borrowing to £109m

Maturity structure of the debt portfolio.	2020/21 Actual £'000	2020/21 Actual %
Under 12 months	310	0.28
12 months and within 24 months	0	0
24 months and within 5 years	26,200	24.03
5 years and within 10 years	5,500	5.05
10 years and within 15 years	11,500	10.55
15 years and over	65,500	60.09
Total Debt	**109,010**	**100**

2.6 BORROWING OUTTURN FOR 2021/22

2.6.1 An analysis of movements at nominal values on loans during the year is shown below:

	Balance at 31/03/2021 £000's	Loans raised £000's	Loans repaid £000's	Balance at 31/03/2022 £000's
PWLB	52,010		-	52,010
Temporary Loans		-	-	
Other loans	59,000	-	2,000	57,000
Total Debt	111,010		2,000	109,010

2.6.2 The Council has not borrowed more than its requirement or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

2.7 INVESTMENT OUTTURN FOR 2021/22

2.7.1 The Council's investment policy is governed by DULHC guidance, which was been implemented in the annual investment strategy approved by the Council on the 3rd March 2021

This policy set out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

2.7.2 The Council manages its investments in-house (with advice from Link Asset Services) with the overall objective to balance risk with return and the overriding consideration being given to the security of the available funds.

2.7.3 The investment activity during the year conformed to the approved strategy. The Council had no liquidity difficulties.

2.7.4 the table below shoes the investment breakdown and the movement in 2021/22

	Investment at 31/03/21 £000's	Amount Invested in year £000's	Investments realised in year £000's	Balance at 31/03/22 £000's
Fixed Rate Investments	45,000	25,000	(10,000)	60,000
Money Market Fund	60,000		(10,000)	50,000
CCLA Investment	10,000			10,000
Total Investments	115,000	25,000	(20,000)	120,000

2.7.5 All investments within the investment portfolio have a maturity date within 1 year.

2.7.6 The table below gives details of the fixed deposits made during the year.

Counter party	Date of investment	Maturity	Value	rate%
Close Brothers Bank	29/03/2022	29/09/2022	5,000,000	1.20
National Westminster Bank	20/01/2022	20/01/2023	5,000,000	0.86
Goldman Sachs	01/02/2022	01/08/2022	5,000,000	0.82
Goldman Sachs	28/02/2022	31/08/2022	5,000,000	1.10
Santander	31/03/2022	31/03/2023	10,000,000	0.55
Close Brothers Bank	28/03/2022	28/09/2022	5,000,000	1.20
National Westminster Bank	20/10/2021	20/10/2022	5,000,000	0.28
National Westminster Bank	16/07/2021	19/04/2022	5,000,000	0.13
National Westminster Bank	02/11/2021	03/05/2022	5,000,000	0.43
NATIONWIDE B.S	10/11/2021	10/11/2022	5,000,000	0.15
National Westminster Bank	26/01/2022	26/01/2023	5,000,000	0.94

2.8. Investment strategy and control of interest rate risk

Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

Link Group Interest Rate View	7.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

2.9 Borrowing strategy and control of interest rate risk

During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

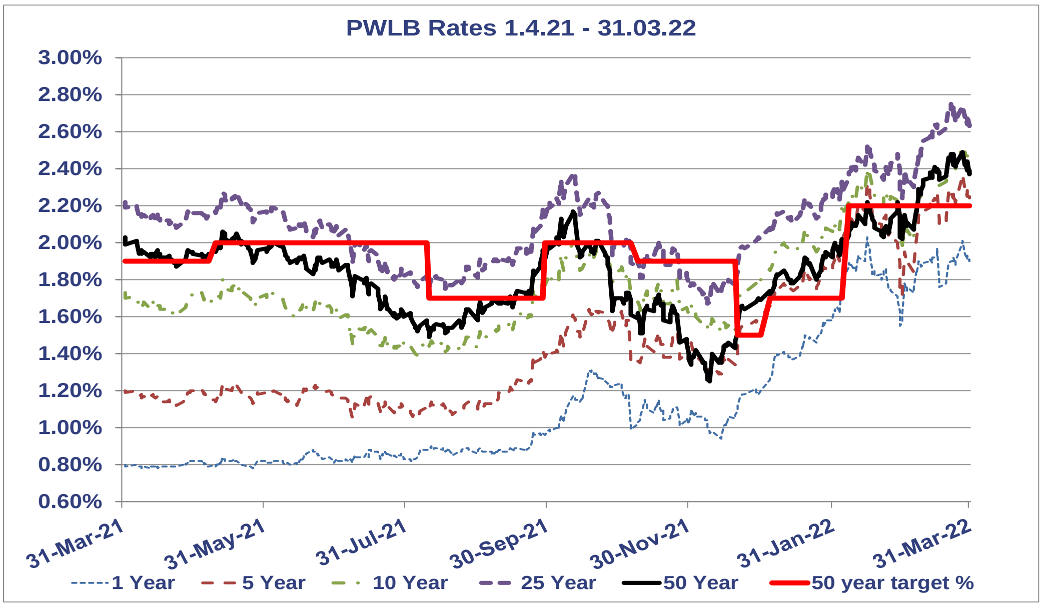
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Corporate Services therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks. The council continued to invest in deposits for a maximum term of one year to avoid any long-term fluctuations in interest rates. The Council continues to adopt their advisor, LINK's methodology in that the council would only place deposits in counterparties that are on their approved credit rating list.

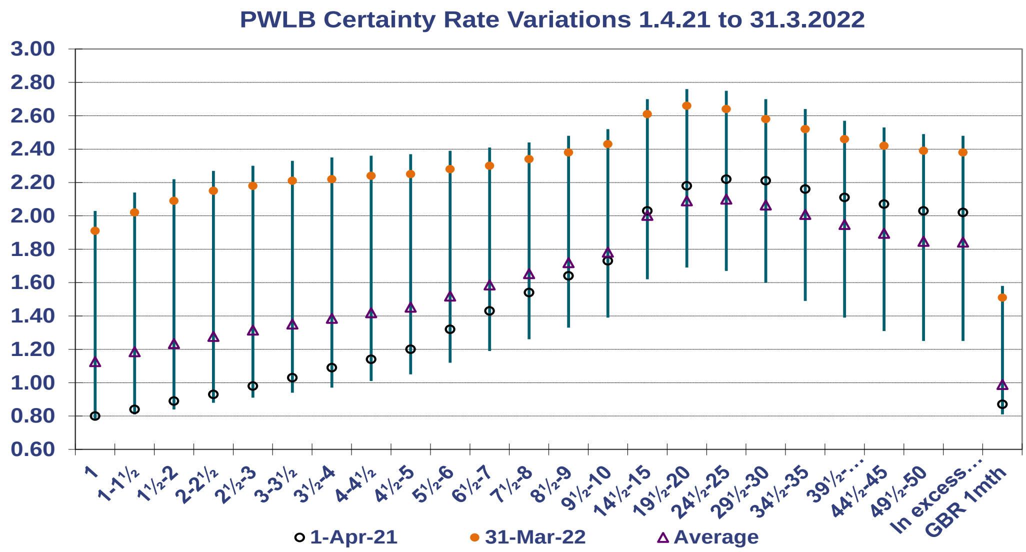
if it had been felt that there was a significant risk of a sharp FALL in long- and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding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

- if it had been felt that there was a significant risk of a much sharper RISE in long- and short-term rates than initially expected, 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 would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

2.10 PWLB RATES 2021/22



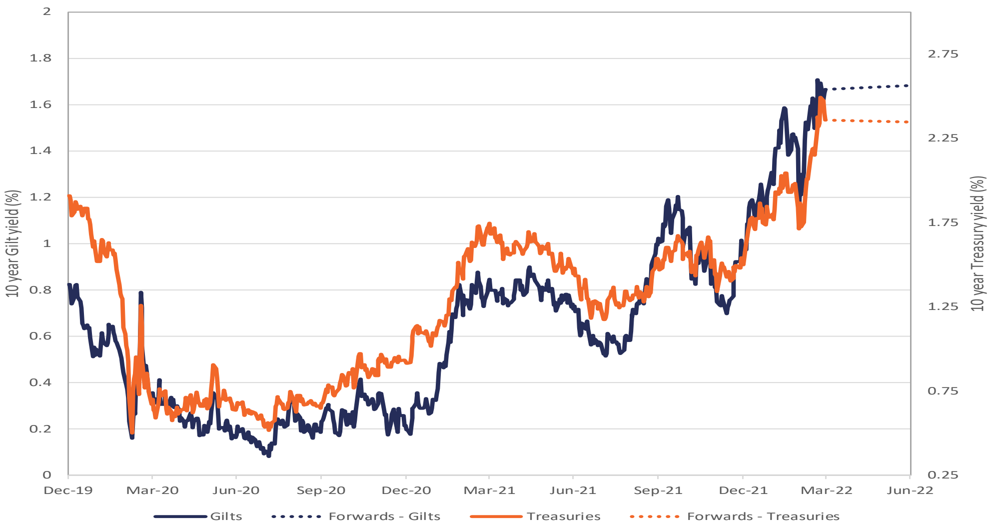


2.11 HIGH/LOW/AVERAGE PWLB RATES FOR 2021/22

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

2.12 Graph of UK gilt yields v. US treasury yields



Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

2.13 There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to currently 1.25% and may rise higher later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

3. ALTERNATIVE OPTIONS

4. CONSULTATION UNDERTAKEN OR PROPOSED

4.1 Regular advise from the Treasury management consultant

5. TIMETABLE

N/A

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1.1 Financial implications are covered in the main report. Treasury management, in particular the management of debt, is becoming an increasingly important area for the Council. Members need to be aware of the financial risks and potential benefits of the Strategy.

7. LEGAL AND STATUTORY IMPLICATIONS

7.1.1 The statutory and regulatory requirement requiring a Treasury Management Strategy and review are contained above in this report and there are no further implications arising out of this report.

8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

N/A

9. CRIME AND DISORDER IMPLICATIONS

N/A

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

N/A

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

None

12. BACKGROUND PAPERS

1. Regular market updates from various sources
2. Treasury Management Strategy 2021-22

Committee: Cabinet

Date: 18th July 2022

Wards: All

Subject: Contract Extension of the Integrated Sexual Health (ISH) Service

Lead officer: Dr Dagmar Zeuner, Director of Public Health

Lead member: Cllr Peter McCabe, Cabinet Member for Health and Social Care

Contact officer: Kate Milsted, Sexual Health Commissioning Manager

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Recommendations:

That Cabinet:

A. Approve the extension of the contract with Central London Community Healthcare NHS Trust (CLCH) for the provision of the Integrated Sexual Health (ISH) Service within the boroughs of Merton, Richmond upon Thames and Wandsworth for a period of 18 months, from 01 October 2022 until 31 March 2024.

B. Approve the variation of the existing contract to enact the following:

1. To move from an activity based to a block payment mechanism constituted of the elements outlined in Table 1at 6.1.5 below.
2. Addition of a service development fund with the aim of beginning to shape future service delivery post 31st March 2024. Payment will only be made if actions in the agreed action plan are achieved.
3. To re-allocate resources so that patients are seen at Wideway Medical Practice which allows better access to routine contraception and aligns with the future direction of sexual health services.
4. To maintain four day per week provision at Patrick Doody clinic in Wimbledon by providing a small additional payment.
5. Amendment to the age range for bespoke young people's clinics from 21 and under to 19 and under based on patient feedback regarding access for the most vulnerable.
6. To note the removal of the 'aligned' community based services from the contract. Approval was given by Procurement Board in December 2021 to commission these under a wider South West London contract for those at highest risk of poor sexual health. The same resources have been allocated.

C. Approve the financial contribution from Merton Local Authority which is in part 2 of this report.

Exempt or confidential report

The following paragraph of Part 4b Section 10 of the constitution applies in respect of information given in the appendix and it is therefore exempt from publication:

Information relating to the financial or business affairs of any particular person (including the Authority holding that information). Members and officers are advised not to disclose the contents of the Appendix

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report seeks CMT's agreement to extend the contract for Integrated Sexual Health (ISH) for 18 months from 1st October 2022 – 31st March 2024 and for the proposed contract variations.

1.2. The original award report agreed by Cabinet in 2017 did not include delegated responsibility for the extension period.

1.3. The 5-year contract term for the ISH service ends on 30 September 2022. The contract is delivered by Central London Community Health Trust (CLCH). This contract is co-commissioned by the London Boroughs of Merton (LBM), Wandsworth and Richmond upon Thames (WR). Wandsworth are the Lead Commissioner.

1.4. The COVID pandemic impacted on the capacity and capability of LBM to develop commissioning intensions and progress procurement prior to the end of the current contract period.

1.5. The proposed variations (described above) will:

- Provide financial stability to the provider
- Enable service transformation including intelligence, increased access and efficacy of contraception services, sustain critical assets.
- Reduce health inequalities in line with Merton's Sexual Health Strategy 2020-25.

2 DETAILS

2.1. **Background**

2.2. The ISH service is provided by Central London Community Health (CLCH). ISH is commissioned with the London Boroughs of Wandsworth and Richmond upon Thames. The contract started in1st October 2017.

2.3. The 5-year contract term for the ISH contract ends on 30 September 2022. Clause A34 of the contract enables the Councils to extend the contract by two further periods of one year. In this case an 18-month option is being proposed.

2.4. The COVID pandemic impacted on the capacity and capability of LBM to develop commissioning intensions and progress procurement prior to the end of the current contract period.

2.5. The service includes STI testing & treatment, contraception, outreach and information & advice.

2.6. The service is organised around a hub in Clapham Junction. There are spoke clinics at the Patrick Doody Clinic in Wimbledon, the Wideway Clinic in Mitcham, Danbury Avenue in Wandsworth, Holly Road in Richmond and 'Off the Record' in Richmond.

2.7. Spectra CIC and Metro are subcontracted by CLCH. They deliver outreach, mentoring, workshops in schools to young people. They also deliver the chlamydia screening programme for 15–24-year-olds.

2.8. In the pandemic walk in services were closed and the service experienced staffing issues. Activity is recovering now. It is currently 65% of pre-pandemic levels.

2.9. The service is well regarded. Patients score the service highly.

2.10. **Proposed contract variations**

2.11. ***Move to a block payment mechanism***

2.12. Individuals can access sexual health services outside of the borough in which they live so a tariff (ISHT) enables services to be paid by their activity. This results in a lack of financial security for the provider and risks the sustained delivery of the service for LBM and its population. In the pandemic the contract defaulted to a block payment based on activity in 2019/20, as a way of sustaining services. It is proposed to maintain a block payment to ensure financial stability, share risk and sustain the services in the extension period.

2.13. ***Addition of a service development fund (SDF) to encourage service re-design and shape future service delivery***

2.14. Services require review and transformation to meet the changing needs of the population, to take advantage of new opportunities for service delivery and to reduce inequalities experienced by the residents of East Merton.

2.15. To enable transformation, a SDF is proposed aligned to the following objectives. Payment is dependent on CLCH meeting these objectives.

2.16. ***SDF 1: Improved and detailed monitoring***

2.17. Future redesign requires a detailed understanding of the service and the population it serves which goes beyond high level KPIs. This requires and investment in increased capacity and capability.

2.18. ***SDF 2: Maximising access to Long-Acting Reversible Contraception (LARC)***

2.19. ***SDF 3: Achievement of the 25% contraception / 75% STI service provision KPI (existing ISH KPI 2, 2a)***

2.20. Achievement of SDF 2 and SDF 3 requires building the capacity and capability of GP practices to provide contraceptive services. This will increase access and efficacy.

2.21. ***Re-allocation of resources to Wideway Medical Practice***

2.22. Aligned with the aim to locate contraception services in GP practices, it is the intention that services at Wideway Clinic, which have been closed since the start of the pandemic, are permanently re-allocated to the Wideway Medical Practice (WMP) on the same site. Residents of East Merton will benefit from the increased opening hours provided by the WMP.

2.23. ***Incorporate an additional payment to maintain 4 day per week provision at Patrick Doody clinic***

2.24. The Patrick Doody Clinic is well established, well used and a critical asset in any future service transformation. Targeted investment is required to sustain 4-day access to this provision in the short-term pending the shift to GP provision of contraception across the borough.

2.25. ***Amendment to the age range for the young people's clinic***

2.26. Vulnerable young people have told us that they are put off from accessing clinics because by the presence of young adults. In response and in alignment with services across London, the age limit will reduce to 19.

2.27. ***Removal of the 'aligned' community-based services***

2.28. With the agreement of all parties, CLCH will stop subcontracting arrangements, for Merton this includes specialist services for young people. These are being recommissioned as part of a South West London contract for those at highest risk of poor sexual health. There will be impact on Merton's budget. .

3 ALTERNATIVE OPTIONS

Option	Advantages	Disadvantages
1. Do not enter into a contract extension / withdraw services	None	Contracts come to an end on 30th September 2022 so there would be no provision in the borough meaning the Council do not meet their responsibility to provide mandated sexual health services Increased cost as residents do not get early intervention, access to contraception or STI screening so are more likely to engage in risky sexual behaviour, which could lead to unplanned pregnancy, increased sexually transmitted infections and late diagnosis of HIV Reputational risk of cutting well used and regarded sexual health services aimed at those most at risk, and also leading to redundancy of staff. Increased inequalities in sexual health. The target groups for these services are disproportionately at risk of poor sexual health and the associated outcomes.

2. Procure new services	Would allow for a new service model to be procured but there is insufficient time to do this by 1st October 2022 so this is a longer term advantage.	There is insufficient time to procure a service of this size and value. It is unknown whether there is a market to attract other providers. When initially procured there was only one bidder. If this were the case a procurement exercise could lead to no provider and the same disadvantages as in option 1. The service model needs to be re-designed in light of changes which have occurred since 2017 and especially due to the pandemic e.g. development of e-services, move to phone consultations, different commissioning models in primary care. Time is needed to scope, review and re-commission.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. As this is a contract extension and so within the terms of the original contract, no further consultation has been undertaken. Extensive consultation was undertaken before the original contract was procured which fed into the procurement process.

4.2. Consultation will be undertaken over the next 6-12 months to inform the future model for sexual health services which would come into effect from 1st April 2024.

5 TIMETABLE

Milestone	Target Date
GW3 report approved by Community & Housing OPG	4th May 2022
Forward plan inclusion	4th May 2022
GW3 report approved by Procurement Board	17th May 2022
Cabinet report submitted to LSG for approval	4th July 2022

Report taken to Cabinet for approval	18th July 2022
Contract extension paperwork issued	By end of August 2022
Contract extension start date	1st October 2022

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. The full financial commitment for the contract extension period will be allocated from the Public Health Grant allocated to Merton.

6.2. The contract will be a block arrangement and so the Council can be assured that there will be no risk of budget over-spend.

6.3. As funding for Pre-Exposure Prophylaxis is included in the Public Health Grant under a separate funding line, it is proposed that payment for these consultations continues on the agreed London ISHT tariff which allows attendances to be monitored.

6.4 London Borough of Merton will only be responsible for the services and activity relating to the borough.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. The Council's CSOs (Contract Standing Orders) 27 and Regulation 72 of the Public Contracts Regulations 2015 (PCRs) are relevant in this case.

7.2. The Council's CSO (Contract Standing Orders) 27.2 provides that contracts may be extended, if any such changes are provided for within the terms of the contract and /or allowed within the PCRs.

7.3. There is provision within the terms of the original contract to extend for two 12-month periods. However, the Council has chosen to extend this contract for 18 months. In relation to the extension period the Council may modify a contract where the modification is not substantial under Regulation 72(1)(e) of the Public Contracts Regulations 2015. This will be lawful whereas in the current case, changes to the contract (including the KPIs and Specification) are not materially different in scope and the modifications would not affect the outcome of the original procurement.

7.4. In relation to the additional services the Council may procure these additional services under Regulation 72(1)(b) of the Public Contracts Regulations 2015.

7.5. Council Officers must be able to demonstrate that the extension will offer Best Value to the Council and that the contract will continue to meet the Council's requirements.

7.6. The Council must ensure that the Contracts Register is updated accordingly.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. The service model and delivery is mindful of the inequalities in each of the boroughs it serves and the inequities in terms of access. The specification particularly focuses on those at risk of poor sexual health which includes Black and Minority Ethnic Groups (BAME); Lesbians, Gay, Bisexual and Transgender people (LGBT+); and under 25-year-olds. Furthermore, the service aims to improve quality, access, equity and safety, including safeguarding in areas such as Female Genital Mutilation (FGM), and Child Sexual Exploitation (CSE).

8.2. The service contributes to a reduction in health inequalities and equity across our communities, especially in relation to sexual and reproductive health. A service user forum and monthly service user surveys ensures that patient feedback is used to inform service delivery priorities.

8.3. There are not expected to be any human rights issues.

9 CRIME AND DISORDER IMPLICATIONS

9.1. There are no crime and disorder implications

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 All risks, assumptions, issues and dependencies are being actively managed as part of the service and are reported back to commissioners as part of quarterly contract meetings.

10.2 There are not expected to be any Health and Safety implications.

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

11.1 Appendix A – Integrated sexual health service financial information.

12 BACKGROUND PAPERS

12.1. Cabinet paper 20th March 2017 – *Award of Integrated Sexual Health Contract in partnership with London Boroughs Richmond and Wandsworth.*

Committee: Cabinet

Date: 18 July 2022

Wards: All

Subject: Public Health Community Services Contracts for Children and Young People

Lead officer: Dagmar Zeuner, Director of Public Health

Lead member: Cllr Peter McCabe, Cabinet Member for Health and Social Care

Contact officer: Jo Tonkin, Interim Consultant in Public Health

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Recommendations:

A. The purpose of this paper is to seek agreement for an exemption from Contract Standing Order 19 to directly award Central London Community Health Trust (CLCH) a contract which extends their existing contract for the delivery of Health Visiting, School Nursing and Young Parents Service in the London Borough of Merton for the period 1st April 2023 to 31st March 2024.

B. The extension will ensure continuity of these essential public health services for children whilst a robust review is undertaken, and a commissioning and procurement plan is developed and implemented.

C. The value of the Exemption is provided in Appendix B (Exempt)

Exempt or confidential report

The following paragraph of Part 4b Section 10 of the constitution applies in respect of information given in Appendix B and it is therefore exempt from publication: Information relating to the financial or business affairs of any particular person (including the Authority holding that information). Members and officers are advised not to disclose the contents of Appendix B

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This paper seeks agreement for an exemption from Contract Standing Order 19 to directly award Central London Community Health Trust (CLCH) a contract which extends their existing contract for the delivery of Health Visiting, School Nursing and the Young Parents Service in the London Borough of Merton (LBM) for the period 1st April 2023 to 31st March 2024.

1.2. These services are funded through the Public Health Grant and Agenda for Change payments. They include mandated components which LBM are required to deliver as well as critical safeguarding services.

1.3. LBM is an Associate Commissioner for the contract which started on the1st April 2016. It was awarded for 5 years. A Direct Award was agreed by Cabinet for the period 1st April 2021 to 31st March 2023.

1.4. Plans to develop and procure an integrated place-based model for the delivery of community health services with the CCG were reviewed after the initial engagement stage. It was then interrupted by the COVID pandemic and further by reforms to the health system.

1.5. A review has started and will lead into an appraisal of the options for a commissioning and procurement plan.

1.6. Operational meetings with CLCH manage performance and mitigate risks. They report to the Integrated Commissioning Group co-chaired by Jane McSherry.

1.7. A more formal contract management meeting led by South West London CCG (SWLCCG) the Lead Commissioner, will be re-established in August.

1.8. **Why is an exemption being sought?**

1.9. A plan to collaborate with Merton CCG and procure a new model of place based integrated community health collaborative for children and adults has not proceeded.

1.10. The COVID pandemic impacted the capacity and capability to initiate a procurement process at scale.

1.11. The procurement process for these services is large, complex, presents risks and requires time and due process to be delivered effectively and safely.

1.12. A review and options appraisal are needed prior to inform the commissioning and procurement plan.

1.13. A new procurement approach, the Provider Selection Regime is being introduced for public health services. The implications of this need to be assessed.

2 DETAILS

2.1. **Background Information**

2.2. The contract is for the delivery of Health Visiting, School Nursing, and the Young Parents' Service deliver mandated visits and assessments and critical safeguarding services.

2.3. The contract was awarded for 3 years from 1st April 2016 with the option of an additional 2-year extension. After the 2-year extension, an additional 2-year exemption was sought and agreed from 31 March 2021-1st April 2023.

2.4. The contract sits in a wider contract for Community Health Services led by SWLCCG.

2.5. The current supplier is Central London Community Health Trust (CLCH) which CQC judged as ‘good’ for the delivery of community health services for children and young people and their families in 2020.

2.6. The total contract value for the period 2016/17 – 2020/21, the exemption grated for 24 months from 1st April 2021 to 31 March 2023 were provided in Appendix B (exempt).

2.7. **What the Services deliver**

2.8. **Health visitors** support families from the antenatal period up to school entry (0-5 years). They deliver 5 nationally mandated visits to the child and their family.

<u>Mandated Visits provided by Health Visitors</u>

Antenatal Health Promoting Visit
New Birth Visit
6–8-week check
1 year old check
2.5-year-old check

To 2020/21, the service has performed significantly better than its statistical neighbours with the exception of the 2.5-year review.

2.9. Each visit includes an assessment of critical developmental milestones. Trusted and expert advice is provided. If a family is assessed as vulnerable due to physical, mental, or social stressors, more support is available.

2.10. The service includes a specialist outreach team which proactively engages with families in temporary housing and in refuges.

2.11. **The Young Parents Service** provides more frequent support for young, vulnerable mothers whose babies are particularly at risk of poor outcomes. These families are also encouraged to access peer support sessions facilitated by the service in Children's Centres.

2.12. **School Nurses** support children aged 5-19. They assess the health of children in Reception Year. Those at greater risk are provided with an additional assessment in Year 6. School nurses also deliver the National Child Measurement Programme which is a nationally mandated assessment of the Body Weight Index of children. This generates intelligence about children who are underweight and overweight. The assessments also identify children and families who would benefit from advice, information, or referral. School nurses receive referrals from schools and children and young people and offer advice, information and make referrals to specialist assessment and support.

2.13. **The Services' Contribution to Preventing Special Educational Needs and Disability**

2.14. The mandated visits made by Health Visitors are critical for the identification of development delays which may indicate a child has a SEN or a disability. They deliver interventions which can improve outcomes for these children. They also make referrals for more specialist assessment and care.

2.15. Children with additional health and social needs are handed over from health visiting to school nursing as they enter school.

2.16. Health Visitors and School Nurses contribute to Education and Health Care Plans (EHCPs).

2.17. **The Services' Contribution to Safeguarding**

2.18. Health Visitors and School Nurses make a significant contribution to safeguarding children. Their systematic engagement of children and families means they are able to identify safeguarding concerns. Their health expertise means that they can make a critical contribution to multi-agency child protection.

2.19. **Proposed Contract period:**

2.20. It is proposed that the exemption period is extended from 1st April 2023 to 31st March 2024 to allow for a robust commissioning and procurement process.

2.21. The total value of the Exemption from 1st April 2023-31st March 2024 is provided in Appendix B (exempt).

2.22. **Why the Exemption is being sought?**

2.23. Plans to collaborate with Merton CCG and procure a new model of place based integrated community health collaborative for children and adults were reviewed in 2021 after initial market engagement. Merton CCG has since merged into SWLCCG. The response from the market in 2021 and the Health and Care Act 2022 mean that the plans cannot be realised in the timescales required by LBM.

2.24. The COVID pandemic has impacted on the capacity and capability of the commissioning team, stakeholders, and the market to initiate and engage with a procurement process at scale.

2.25. NHS has been in Level 4 Incident response whereby NHS services are managed nationally. This has limited the CCGs progress on re-establishing and enacting commissioning intentions.

2.26. The procurement process for these services is large, complex, presents risks and requires time and due process to be delivered effectively and safely.

2.27. An additional complicating factor is the integration of this contract with CCG funded child health services. Mobilisation will need to consider the unintended consequences on children in Merton whose needs are met through CCG funded services.

2.28. The legislative and organisational context for the procurement of public health and health services is subject to significant change. This includes the introduction of Provider Selection Regime. As the details of this approach emerge, an assessment of the opportunities and requirements will be undertaken.

2.29. **Performance and Risk Management**

2.30. Services are delivering broadly in line with service specifications. Performance is improving and returning to pre pandemic levels, which were generally better than the London and England average. This is despite increases in the complexity of the needs of children and families.

2.31. Formal contract monitoring meetings led by SWLCCG are being stepped up. Fortnightly operational meetings are in place to mitigate risk and oversee performance. Any issues are escalated to LBM and SWLCCGs Children and Young People Integrated Commissioning meeting, co-chaired by Director of Children's Service, Jane McSherry.

2.32. **Review Redesign and Procurement Timeline**

2.33. In line with best practice in commissioning, a review of the service, engaging multiple stakeholders, has started and will report at the end of June. It will be proceeded by an appraisal of options for procurement.

2.34. A standard procurement is expected to take 18 months. Once awarded, evidence from other authorities suggest mobilisation of a contract of this scale may take 6 months.

2.35. Appendix A provides a procurement timetable if a standard procurement process is agreed.

3 ALTERNATIVE OPTIONS

3.1. **Option**	3.2. **Advantages**	3.3. **Disadvantages**
1. Do not extend or vary the contract	There are no advantages to not extending the contract	Not enough time to engage all stakeholders and consider new service options or take account of PSR changes**.**
2. Vary/extend the contract	It offers consistency of service to residents and continued delivery of functions which are mandated. Allows time to engage all stakeholders & consider other service models. It offers assurances to existing providers and key strategic partners that service continuity is being maintained at a challenging time. The Council would continue to control the market by setting prices in accordance to contract terms. Allows time to implement potential procurement changes in response to the impending PSR (Provider Selection Regime) due in July 2022	Potential breach of the Public Contract Regulations given the total contract value to date. Difficult to demonstrate value for money given that no competition for this provision has been carried out for a number of years.
3. Carry out a separate procurement for the goods, services or works	This would enable the Council to test the market to evidence value for money.	Current Commissioning and procurement capacity could risk the quality of the procurement carried out. The is insufficient resource to conduct adequate market testing to let a new tender prior to April 2023. Missed opportunity to use a more collaborative approach with key stakeholders for service development and the improvement of outcomes. Missed opportunity to use new Provider Framework to maximise outcomes and resources.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. Joint Communities and Housing and Children Families and Schools DMT has been consulted.

4.2. A review of the services is currently being conducted which will involve 1) users of services like children and young people, parents, and carers 2) staff and stakeholders like Health Visitors, School Nurses, Headteachers, GPs 3) Clinical leaders in Merton.

5 TIMETABLE

5.1. Cabinet Date: 18 July 2022

5.2. LSG Date: 4 July 2022

5.3. Appendix A provides a timeline for commissioning and procurement of the 0-19 services.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

The values of the Annual Contract Value including Extension (Year 3 + 1 +2), Exemption #1 (Year 1 + 2) and Exemption #2 are provided in Appendix B.

6.1. This will be funded from the Public Health Grant and monitored by the responsible budget managers. Since CLCH is an NHS organisation we are unable to obtain relevant data from Equifax. Additional work was then undertaken to search for the most recent published accounts of this organisation to ascertain financial viability. Thus, I recommend £5m for a single contract and £12m for all contracts.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. Officers are recommending approval of an exemption from CSO (Contract Standing Orders) 19 (Contracts Above the Upper Threshold (£100,001) to make a direct award of a contract to the incumbent provider, Central London Community Health Trust (CLCH)

7.2. The direct award will facilitate an extension of the contract for the delivery of Health Visiting, School Nursing and Young Parents Service which are mandated components of the Healthy Child Programme which the Council is required to deliver.

7.3. CSO (Contract Standing Orders) 7 and Appendix 2 set out the grounds and authorisation required where an exemption to the CSOs is requested. The Director of Corporate Services is authorised to grant this exemption if she is satisfied that there is the requisite justification as detailed in CSO 7.3. The reasons for the exemption detailed in the body of this report appear to meet the requirements of CSO 7.3 (ii), in that there are exceptional circumstances that have led to a need to depart from the CSOs and evidence has been provided which demonstrates the exemption is necessary to achieve the Council’s objectives; and it is also a reason for granting an exemption listed in Appendix 2 section B (c),(d), (f) and (i) of the CSOs.

7.4. Where granted, exemptions must be placed on the exemptions register and reported to the Procurement Board.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. ‘Equalities Merton’ aims for full and equal access to learning, employment, services and cultural life and the celebration of diversity.

8.2. Health Visiting, School Nursing and the Young Parents Service play a critical positive role in reducing health inequalities. Health Visiting and School Nursing’s universal role ensures that all families receive support and those families who need more support are systematically identified, engaged, and receive interventions. This approach overcomes inequalities of perceived and expressed need and access to services. This includes the proactive identification of mental ill-health, disproportionately experienced by women.

8.3. The Young Parents Service provides additional support to young people who are parents. These young families are disproportionately from low-income communities and are generally young women. They are affected by poverty and at risk of poor physical and emotional health outcomes.

9 CRIME AND DISORDER IMPLICATIONS

9.1. There are no relevant implications for Crime and Disorder.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. Health Visiting and School Nursing include mandated components which the London Borough of Merton are required to deliver. These services also deliver critical safeguarding services. Therefore, any disruption to the delivery of these services represents a reputational and safeguarding risk.

10.2. Disruption will be mitigated (low impact/ likelihood/) through the exemption and the continuity of the contract pending a review, assessment of need, an options appraisal and procurement plan.

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

1. Appendix A Timescale for Commissioning and Procurement of Health Visiting, School Nursing, and the Young Parents Service
2. Appendix B - Financial Information of Commercial Sensitivity

12 BACKGROUND PAPERS

13 APPENDIX A

PHASE	Commissioning Task	Procurement Task	Dates (approximate)
Plan	Draft specification / model of care		July 2022
	Options Appraisal		July 2022
		Agree Procurement Plan (based on options appraisal)	July 2022
	Draft early EQIA		July 2022

PHASE	Commissioning Task	Procurement Task	Dates (approximate)
		Early Market engagement	September 2022
	Update CYP Health Needs Assessment		September to December 2022
		Cost and agree capacity	December 2022
	Establish Project group (project plan and risk management) and engage clinical lead		September 2022
	User Engagement		September 2022
Secure Services	Manage provider relationships		On going
	Finalize specification	Draw up contract	October 2022- October 2023
		Market testing	
		Draw up Information to Tender docs – award criteria, method statement, TUPE information,	
		Advertise	
		Evaluate	
		Award	
		Publish and address legal challenge	
Mobilize		Mobilize	October 2023-March 2024
Review	Establish contract management processes		March 2024

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