

Cabinet

10 December 2018

Agenda item:

Business Plan Update 2019-2023

Lead officer: Caroline Holland

Lead member: Councillor Mark Allison

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

Contact officer: Roger Kershaw

Urgent report:

Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2019/20 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2019-2023. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 6 March 2019 and set a Council Tax as appropriate for 2019/20.

Recommendations:

1. That Cabinet considers and agrees the draft savings/income proposals (Appendix 7 (a)) and associated draft equalities analyses (Appendix 9 (a)) put forward by officers and refers them to the Overview and Scrutiny panels and Commission in January 2019 for consideration and comment.
 2. That Cabinet considers and agrees the savings and the associated draft equalities analyses for the savings noted in October (Appendices 8 and 9(b))
 3. That Cabinet agrees the latest amendments to the draft Capital Programme 2019-2023 which was considered by Cabinet on 15 October 2018 and by scrutiny in November 2018.(Appendix 5)
 4. That Cabinet considers and agrees the proposed amendments to savings previously agreed. (Appendix 7 (b) and (c))
 5. That Cabinet agrees the proposed Council Tax Base for 2019/20 set out in paragraph 2.6 and Appendix 1.
 6. That Cabinet consider the draft service plans. (Appendix 3)
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides an update to Cabinet on the Business Planning process for 2019-23 and in particular on the progress made so far towards setting a balanced revenue budget for 2019/20 and over the MTFS period as a whole.
- 1.2 Specifically, the report provides details of revenue savings and income proposals put forward by officers towards the savings/income targets agreed by Cabinet in September 2018.
- 1.3 The report also provides an update on the capital programme for 2019-23 and the financial implications for the MTFS.
- 1.4 The report provides a general update on all of the latest information relating to the Business Planning process for 2019-23 and an assessment of the implications for the Medium Term Financial Strategy 2019-23.
- 1.5 This report is one of the budget updates through the financial year and will be referred to the Overview and Scrutiny Panels and Commission in January 2019 as part of the information pack.

2. DETAILS

Introduction

- 2.1 A review of assumptions in the MTFS was undertaken and reported to Cabinet on 17 September 2018. There was also a report to Cabinet on 15 October 2018 which provided an update on progress made towards achieving savings previously agreed and proposed some amendments to these, and also provided details of the latest capital programme, including new bids for 2022/23 and an indicative programme for 2023- 2028. The report referred them to the Overview and Scrutiny panels and Commission for consideration.
- 2.2 Taking into account the information contained in both the September and October Cabinet reports, the overall position of the MTFS reported to Cabinet on 15 October 2018 was as follows:-

(Cumulative Budget Gap)	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
MTFS Gap before Savings	5,092	22,055	24,763	26,591
Savings identified	(4,439)	(6,710)	(6,825)	(6,825)
MTFS Gap (Cabinet October 2017)	653	15,345	17,938	19,766

2.3 Review of Assumptions

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

2.3.1 Pay

The current assumptions regarding pay inflation incorporated into the MTFS reflect the agreed two year pay award for 2018/19 and 2019/20 and then 1% per year thereafter.

- 2.8% in 2019/20 and 1% in each other year of the MTFS

The latest estimates for pay inflation included in the MTFS are:-

(Cumulative)	2019/20	2020/21	2021/22	2022/23
Pay inflation (%)	2.8%	1.0%	1.0%	1.0%
Revised Estimate (cumulative £000)	2,166	2,939	3,712	4,485

Further details on the pay negotiations for 2020/21 and beyond, and the impact on the MTFS, particularly in the latter part of it, will be reported when they are known.

2.3.2 Prices

The estimates for price inflation agreed by Council in February 2018 were reviewed and included in the September 2018 report to Cabinet. The latest forecast is set out in the following table:-

(Cumulative)	2019/20	2020/21	2021/22	2022/23
Price inflation (%)	1.5%	1.5%	1.5%	1.5%
Revised Estimate (cumulative £000)	2,270	4,540	6,810	9,080

The Consumer Prices Index (CPI) 12-month rate was 2.4% in October 2018, unchanged from September 2018. The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.2% in October 2018, unchanged from September 2018. The large downward contributions to the change in the 12-month rate from food and non-alcoholic beverages, clothing and footwear, and some transport elements were offset by upward contributions from rising petrol, diesel and domestic gas prices. Other smaller upward contributions came from items in the miscellaneous goods and services, recreation and culture, and communication sectors.

The RPI 12-month rate for October 2018 was 3.3%, unchanged from September 2018.

Outlook for inflation:

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 31 October 2018, the MPC voted unanimously to maintain the Bank

Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

The MPC's updated projections for inflation and activity are set out in the November Inflation Report published on 1 November 2018. In the November Inflation Report, the MPC considers what the prospects for inflation are for the period under review. It states that "CPI inflation was 2.4% in September, in line with the MPC's expectation at the time of the August Report. Inflation has been boosted by the effects of higher energy and import prices. The contributions from these factors are projected to fade over the forecast period. UK GDP growth in 2018 Q3 is expected to be somewhat stronger than projected in August, but the outlook for growth over the forecast period is little changed. The MPC judges that supply and demand in the economy are currently broadly in balance. Conditioned on a path for Bank Rate that rises gradually over the next three years, and the assumption of a smooth adjustment to new trading arrangements with the EU, the MPC judges that a margin of excess demand is likely to build. That raises domestic inflationary pressures, which partially offset diminishing contributions from energy and import prices. CPI inflation is projected to be above the target for most of the forecast period, before reaching 2% by the end. The economic outlook will depend significantly on the nature of EU withdrawal. The MPC judges that the monetary policy response to Brexit, whatever form it takes, will not be automatic, and could be in either direction."

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

Table 11: Forecasts for the UK Economy

Source: HM Treasury - Forecasts for the UK Economy (November 2018)			
	Lowest %	Highest %	Average %
2018 (Quarter 4)			
CPI	2.1	2.6	2.4
RPI	2.9	3.8	3.3
LFS Unemployment Rate	3.8	4.3	4.0
2019 (Quarter 4)			
CPI	1.6	3.5	2.0
RPI	2.2	4.2	3.0
LFS Unemployment Rate	3.5	4.8	4.1

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 2018 to 2022 are summarised in the following table:-

Source: HM Treasury - Forecasts for the UK Economy (November 2018)					
	2018	2019	2020	2021	2022
	%	%	%	%	%
CPI	2.5	2.1	2.0	2.0	2.1
RPI	3.4	3.2	3.1	3.3	3.3
LFS Unemployment Rate	4.1	4.1	4.2	4.4	4.4

2.3.3 Inflation > 1.5%:

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

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Inflation exceeding 1.5%	450	450	450	450

The cash limiting strategy is not without risks but if the Government's 2% target levels of inflation were applied un-damped across the period then the budget gap would increase by c. £2.9m by 2022/23.

2.3.4 Income

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

2.3.5 Taxicards and Freedom Passes

These schemes are administered by London Councils on behalf of London boroughs. Latest information from London Councils indicates that negotiations with Transport for London (TfL) and the Association of Train Operating Companies (ATOC) will be concluded at the end of November 2017.

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

	Current Estimate 2018/19 £000
Freedom Passes	8,931
Taxicards	113
Total	9,044
Uplift in MTFS	450
Provision in MTFS for 2019/20	9,494

Initial indications are that the charge to Merton for 2019/20 will be within the provision but this provision will be reviewed and reported when the figures are finalised.

2.3.6 Revenuisation

In recent budgets it has been recognised that some expenditure formerly included in the capital programme could no longer be justified as it did not meet the definition of expenditure for capital purposes. Nevertheless, it is important that some of this expenditure takes place and the following amounts have been included in the latest MTFS for 2018-22:-

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Revenuisation	2,000	2,000	2,000	2,000

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

2.3.7 **Budgetary Control 2018/19**

The revenue budgetary control information below summarises the corporate position using the latest available information as at 31 October 2018 as shown in a separate report on the agenda for this meeting. As at 31 October 2018, there is a forecast overspend for the Council of £1.042m.

The main causes of the overspend are:-

- Children's Social Care, SEN transport
- Greenspaces, Property Management, Building and Development Control income
- Housing General Fund, mainly temporary accommodation

The MTFS reported to Cabinet in October 2018 does not include any new provision for growth from 2019/20 to 2022/23 and future years.

The full year effect of growth previously agreed, in 2017/18, is as follows

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Adult Social Care	(2,891)	0	0	0
Waste and Regeneration	(115)	0	0	0
Children's Services	500	500	0	0
Total	(2,506)	500	0	0
Cumulative total	(2,506)	(2,006)	(2,006)	(2,006)

2.3.8 Capital Financing Costs

Revenue Implications of Current Capital Programme

As previously reported the Capital Programme has been reviewed and revised and a draft programme for 2019-2023 was approved by Cabinet on 15 October 2018, along with an indicative programme for 2023-28.

Section 6 of this report sets out details of progress made towards preparing the draft capital programme 2019-23.

The estimated capital financing costs, net of investment income and based on the latest draft programme, which includes the best estimate of new schemes commencing over the period 2019-23, the effect of estimated government grant funding, estimated funding from the Education Funding Agency (EFA) and slippage/reprofiling based on 2017/18 outturn and latest monitoring information, are set out in the following table. This also includes an element of revenue contribution to fund short-life assets:-

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Capital Programme (including slippage)	34,895	26,984	16,219	23,692
Revenue Implications	9,806	10,873	12,294	12,324

2.4 Forecast of Resources and Provisional Local Government Finance Settlement

2.4.1 Background

In recent years at the end of November to mid-December, the government (formerly via the DCLG, now MHCLG) has notified local authorities of their Provisional Local Government Finance Settlement. This has included the amounts of funding allocated to each local authority in terms of Revenue Support Grant, share of Business Rates and other major allocations of grant. The final Settlement figures are published the following January/February but are generally unchanged from the provisional figures. The total amount of funding available for local authorities is essentially determined by the amount of resources that Central Government has allocated as part of its annual Departmental Expenditure Limit which is set out in the Autumn Budget which this year took place on 29 October. The Autumn Budget sets out the government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility's (OBR) "Economic and Fiscal Outlook" which was also published on 29 October 2018.

2.4.2 Autumn Budget 2018

In the Autumn Budget the Chancellor of the Exchequer published details of Government Department Expenditure Limits (DELs) from which the Provisional Local Government Finance Settlement follows in December 2018. Officers are currently reviewing the

potential impact on the Finance Settlement. There is a summary of the key points included as Appendix 4.

2.4.3 Funding Forecasts for 2019/20 to 2022/23

Forecasting resources for 2019/20 and beyond is fraught with difficulties since it requires making assumptions about a wide variety of variables which the Government are not prepared to release at the current time. The continuation of the London-wide Pilot Business Rates Pool from 2018/19 to 2019/20 has been confirmed, subject to signing a revised Memorandum of Understanding, but with a reduced retention level of 75% and removal of the “no detriment” guarantee. Under the pilot, responsibilities previously funded by Revenue Support Grant and other grants will be expected to be met by business rates.

2.4.4 Share of Business Rates Yield

Under the 2018/19 London pilot, the yield from Business Rates was shared 64% to Merton and 36% to the GLA. The latest forecast of the share based on the 2019/20 proposed pilot has not yet been finalised.

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

- 2.4.5 The Government announced on 5 December 2018 that the announcement of the Provisional Local Government Finance Settlement has been postponed until after the “meaningful vote” on Brexit. An analysis on the potential financial impact of the provisional Settlement will be included in the report to Cabinet in January 2019.

2.5 **London Business Rates Pilot Pool 2019-20**

- 2.5.1 On 8 November 2018, the Secretary of State for Housing, Communities and Local Government wrote to the GLA and London Councils responding to the joint proposal from London Government of 25 September 2018 to extend the business rates retention pilot in London. In his response the Secretary of State wrote that he will be “happy to continue the pilot in 2019/20 but only at the level of 75% business rates retention and without the ‘no detriment’ clause. I would also expect to see continuation of the Strategic Investment Pot with a focus on projects that bring strategic benefits across the London government.” A response was requested by 14 November 2018.
- 2.5.2 Whilst the reduction from 100% to 75% and withdrawal of the “no detriment” guarantee represents a worsening of the financial deal between London and central government it is anticipated that there is still a financial benefit of a London pool and the Mayor of London and Chair of London Councils replied on 14 November 2018 agreeing to continue with the pool on the basis of a 75% retention pilot “on the assumption that, in common with other pilots, the London pilot will not be subject to a levy on growth.” The London Government reply also pointed out that “you will understand that a 75% retention pilot does not fully meet our ambitions for London. We cannot help but observe that other parts of the country will continue to retain 100% of their business rates growth, and we look forward to working with you and your colleagues in government to explore ways in

which greater local control of the revenues we raise in London can be matched with greater responsibility and accountability for the vital local services we deliver.”

- 2.5.3 Final projections for Business Rates retention in 2019/20 under the revised pool will be based on London Boroughs NNDR1 returns for 2019/20 which are due to be returned to Central government by 31 January 2019.

2.6 Council Tax Base

- 2.6.1 The Council Tax Base is a key factor which is required by levying bodies and the Council for setting the levies and Council Tax for 2019/20. The council tax base is the measure of the number of dwellings to which council tax is chargeable in an area or part of an area. The Council Tax Base is calculated using the properties from the Valuation List together with information held within Council Tax records. The properties are adjusted to reflect the number of properties within different bands in order to produce the Council Tax Base (Band D equivalent). This will be used to set the Council Tax at Band D for 2019/20. The Council is required to determine its Council Tax Base by 31 January 2019.
- 2.6.2 Regulations set out in the Local Authorities (Calculation of council Tax Base) Regulations 2012 (SI 2012:2914) ensure that new local council tax support schemes, implemented under the Local Government Finance Act 2012, are fully reflected in the council tax base for all authorities.
- 2.6.3 The Council Tax Base Return to central Government takes into account reductions in Council Tax Base due to the Council Tax Support Scheme and also reflects the latest criteria set for discounts and exemptions. The CTB Return for October 2018 is the basis for the calculation of the Council Tax Base for 2019/20.
- 2.6.4 Details of how the Council Tax Base is calculated are set out in Appendix 1. A summary of the Council Tax Bases for the Merton general area and the addition for properties within the Wimbledon and Putney Commons Conservators area for 2019/20 compared to 2018/19 is set out in the following table:-

Council Tax Base	2018/19	2019/20	Change
			%
Whole Area	74,124.0	74,951.7	1.1
Wimbledon & Putney Common Conservators	11,308.8	11,464.4	1.4

2.7 Proposed Amendments to Previously Agreed Savings

- 2.7.1 Cabinet on 15 October 2018 approved some proposed amendments to savings which had been agreed in previous year's budgets and also agreed that the financial implications should be incorporated into the draft MTFs 2019-23.

2.7.2 Details of further requests to defer and/or replace savings are set out in Appendix 7 (b) for replacement savings and Appendix 7 (c) for deferred savings. Including the changes approved by Cabinet in October, the change over the four year MTFS period resulting from these proposals is set out in the following table:-

Deferred Savings and Replacement Savings (Net impact)	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Corporate Services	(106)	106	-	-	-
Children, Schools and Families	-	-	-	-	-
Environment and Regeneration	-	-	-	-	-
Community and Housing	(100)	100	-	-	-
Total	(206)	206	-	-	-
Cumulative Total	(206)	-	-	-	-

3. **FEEDBACK FROM THE OVERVIEW AND SCRUTINY PROCESS IN NOVEMBER 2018**

- 3.1 The information available on the Business Planning process reported to Cabinet on 15 October 2018 was reviewed by the Overview and Scrutiny Panels and Commission in November 2018.
- 3.2 Feedback is included in a separate report to Cabinet on the agenda.

4. **SAVINGS PROPOSALS 2019-23 AND SERVICE PLANNING**

Controllable budgets and Savings Targets for 2019-23

- 4.1 Cabinet on 17 September 2018 agreed savings targets to be identified by service departments over the period 2019-23 as follows:-

Savings Targets	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Corporate Services*	138	2,205	426	379	*3,148
Children, Schools & Families	143	2,740	438	299	3,620
Environment & Regeneration	263	5,066	807	495	6,631
Community & Housing	247	4,751	762	600	6,360
Total	791	14,762	2,433	1,773	19,759
Net Cumulative total	791	15,553	17,986	19,759	

* The Corporate Services target has been adjusted by £0.445m to reflect an increase in income achieved by CS staff improving the Council Tax collection rate by 0.5%.

- 4.2 An initial tranche of savings was considered by Cabinet on 15 October 2018 as set out in the following table:-

SUMMARY (cumulative)	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Corporate Services	75	15	0	0	90
Children, Schools & Families	0	550	0	0	550
Environment & Regeneration	0	0	0	0	0
Community & Housing	0	100	0	0	100
Total	75	665	0	0	740
Net Cumulative total	75	740	740	740	

- 4.3 Details of the initial tranche of savings were considered by Overview and Scrutiny Panels and the Commission during November and feedback is included in a separate report on the agenda.
- 4.4 Service departments have continued to review their budgets and have formulated further proposals to address their targets. The progress made to date is set out in this report.
- 4.3 Proposals that are agreed by Cabinet at this meeting will be referred to the Overview and Scrutiny Commission and panels as part of the information pack for review and comment in January 2019.
- 4.4 The new savings proposals submitted by each department in this cycle are detailed in Appendix 7 (a) and are summarised in the following table:-

SUMMARY (cumulative)	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Corporate Services	97	2,031	353	91	2,572
Children, Schools & Families	143	300	0	0	443
Environment & Regeneration	2,015	1,970	26	14	4,025
Community & Housing	247	628	1,000	0	1,875
Total	2,502	4,929	1,379	105	8,915
Net Cumulative total	2,502	7,431	8,810	8,915	

- 4.5 If all of these are approved, the total new savings including those agreed in October are:-

SUMMARY (cumulative)	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Corporate Services	172	2,046	353	91	2,662
Children, Schools & Families	143	850	0	0	993
Environment & Regeneration	2,015	1,970	26	14	4,025
Community & Housing	247	728	1,000	0	1,975
Total	2,577	5,594	1,379	105	9,655
Net Cumulative total	2,577	8,171	9,550	9,655	

4.5 Summary of progress to date

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

	Targets £'000	Proposals £'000	Balance £'000	Balance %
Corporate Services	3,148	2,662	486	15.4
Children, Schools & Families	3,620	993	2,627	72.6
Environment & Regeneration	6,631	4,025	2,606	39.3
Community & Housing	6,360	1,975	4,385	68.9
Total	19,759	9,655	10,104	51.1

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

4.6 Service Plans

4.6.1 Draft Service Plans are included in Appendix 3.

4.7 Equality Assessments

4.7.1 Draft Equalities Assessments where applicable are included in Appendix 9.

4.8 Use of Reserves in 2018/19 and 2019/20

4.8.1 The application of current revenue reserves in 2018/19 to address any level of overspend will have an ongoing impact on the MTFs going forward. If the actual level of overspend is at the level currently forecast it is possible that the budgeted contribution of £0.091m from the Reserve for Use for Future Years Budgets will have to be increased with a consequent impact on the amount of reserve available in 2019/20. The reduction in the anticipated level of the Reserve for Use for Future Years Budgets will have an adverse impact on the budget gap. Officers are anticipating a contribution from the Business Rates pilot 2018/19, due to be confirmed by the summer of 2019, which will supplement the Reserve for Use for Future Years Budgets.

5. UPDATE TO MTFs 2019-23

5.1 The MTFs gap in October 2018 was c. £20m and with savings proposals of c. £9.7m and other reductions, primarily due to revisions in capital financing costs arising from the capital programme and increases in council tax yield arising from the new council tax

base for 2019/20, subject to the impact of the Budget 2018 announcement on 29 October 2018 and Provisional Local Government Finance Settlement in December, the latest budget gap forecast is:-

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Budget Gap in MTFS	0	3,496	7,352	8,779

- 5.2 A more detailed MTFS is included as Appendix 2.
- 5.3 Draft Service department budget summaries based on the information in this report will be included in the pack available for scrutiny.
- 6. CAPITAL PROGRAMME 2019-23: UPDATE**
- 6.1 The proposed draft Capital Programme 2019-23 and an Indicative Capital Programme 2023-28 were presented to Cabinet on 15 October 2018.
- 6.2 The programme has been reviewed by scrutiny panels.
- 6.3 Monthly monitoring of the approved programme for 2018/19 has been ongoing and there will inevitably be further changes arising from slippage, reprofiling and the announcement of capital grants as part of the local government finance settlement.
- 6.4 Further changes that have been made to the proposed capital programme since it was presented to Cabinet in October 2018 are set out in Appendix 5. These include reprofiling of existing schemes and addition of some new bids commencing over the period of the MTFS.
- 6.5 The estimated revenue implications of funding the draft capital programme are summarised in paragraph 2.3.8 and these have been incorporated into the latest draft MTFS 2019-23.
- 7. BUDGET STRATEGY**
- 7.1 The council has a statutory duty to set a balanced budget.
- 7.2 The MTFS assumes 2% ASC Council Tax flexibility in 2019/20 and a 2.99% general Council Tax increase in 2019/20, with 2% general Council Tax increases in 2020/21, 2021/22 and 2022/23.

- 7.3 Under current Council Tax Referendum principles, Councils are able to have a social care precept of up to 6% over the three year period 2017-2020. Merton agreed social care precepts of 3% in 2017/18, and 1% in 2018/19, leaving a maximum of 2% available in 2019/20, and this has been included in the draft MTFs 2019-23.

8. GLA BUDGET AND PRECEPT SETTING 2019-20 – PROVISIONAL TIMETABLE

- 8.1 The Greater London Authority (GLA) sets a budget for itself and each of the four functional bodies: Transport for London, the London Development Agency, the Metropolitan Police Authority, and the London Fire and Emergency Planning Authority. These budgets together form the consolidated budget.
- 8.2 The GLA expects to issue the Mayor's draft 2019-20 GLA Group budget for consultation before Christmas and details on this will be circulated to Chief Financial Officers and key contacts once published. The date on which the consultation budget will be published is, however, dependent on the timing of the provisional Local Government Finance and Fire and Police Grant settlements which will be announced during December. If these announcements are delayed significantly then it is possible that the publication date of the Mayor's consultation budget may be later than envisaged currently.
- 8.3 The Mayor's draft budget is expected to be considered by the London Assembly on 24 January 2019. The final draft budget is scheduled to be considered by the Assembly on 25 February following which the Mayor will confirm formally the final precept and GLA group budget for 2019-20. It is expected that the final GLA council tax precept will be formally approved on 28 February 2019.
- 8.4 NNDR1 returns will be required to be submitted to the DCLG by 31 January 2019 and, with the addition of information required for the London pilot pool, it is essential that all authorities meet this deadline for the GLA to be able to achieve its timetable. It is anticipated that the percentage shares for 2019-20 used for the returns for London authorities will be the same or similar to those in 2018/19 (i.e. 64% for the 32 boroughs and City of London and 36% for the GLA. This is expected to be confirmed in the provisional local government finance settlement.

9. CONSULTATION UNDERTAKEN OR PROPOSED

- 9.1 There will be consultation as the business plan process develops. This will include the Overview and Scrutiny panels and Commission, business ratepayers and all other relevant parties.
- 9.2 In accordance with statute, consultation is taking place with business ratepayers and a meeting will be arranged for February 2019.

9.3 As previously indicated, a savings proposals information pack will be prepared and distributed to all councillors at the end of December 2018 that can be brought to all Scrutiny and Cabinet meetings from 9 January 2019 onwards and to Budget Council. As it was last year, this should be an improvement for both councillors and officers - more manageable for councillors and it will ensure that only one version of those documents is available so referring to page numbers at meetings will be easier. It will also keep printing costs down and reduce the amount of printing that needs to take place immediately prior to Budget Council.

9.4 The pack will include:

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

10. **TIMETABLE**

10.1 In accordance with current financial reporting timetables.

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

11.1 All relevant implications have been addressed in the report.

12. **LEGAL AND STATUTORY IMPLICATIONS**

12.1 All relevant implications have been addressed in the report.

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

13.1 Draft Equalities assessments of the savings proposals are included in Appendix 9.

14. **CRIME AND DISORDER IMPLICATIONS**

14.1 Not applicable.

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

15.1 Not applicable.

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

Appendix 1: Council Tax Base 2019/20

Appendix 2: MTFS Update

Appendix 3: Service Plans 2019-23 **SEE INFORMATION PACK**

Appendix 4: Budget 2018 – Summary of key Points

Appendix 5: Draft Capital Programme 2019-23 and Capital Strategy 2019/20

Appendix 6: Draft Treasury Management Strategy 2019/20

Appendix 7: Savings Proposals – December Cabinet **SEE INFORMATION PACK**

- (a) New proposals
- (b) Replacement savings
- (c) Deferred savings

Appendix 8: Savings Proposals – October Cabinet **SEE INFORMATION PACK**

- (a) New proposals
- (b) Replacement savings

Appendix 9: Equalities Assessments **SEE INFORMATION PACK**

- (a) December Cabinet Savings Proposals
- (b) October Cabinet Savings Proposals

BACKGROUND PAPERS

Budget files held in the Corporate Services department.

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APPENDIX 1**Council Tax Base 2019/20****1. INTRODUCTION**

- 1.1 The council tax base is the measure of the number of dwellings to which council tax is chargeable in an area or part of an area. The Council Tax base is calculated using the properties from the Valuation List together with information held within Council Tax records. The properties are adjusted to reflect the number of properties within different bands in order to produce the Council Tax Base (Band D equivalent).
- 1.2 Since 2013/14 the Council Tax Base calculation has been affected by the introduction of the new local council tax support scheme and technical reforms to council tax. On 30 November 2012, new regulations set out in the Local Authorities (Calculation of council Tax Base) Regulations 2012 (SI 2012:2914) came into force. These regulations ensure that new local council tax support schemes, implemented under the Local Government Finance Act 2012, are fully reflected in the council tax base for all authorities.
- 1.3 Under the regulations, the council tax base is the aggregate of the relevant amounts calculated for each valuation band multiplied by the authority's estimated collection rate for the year.
- 1.4 The relevant amounts are calculated as
- number of chargeable dwellings in each band shown on the valuation list on a specified day of the previous year,
 - adjusted for the number of discounts, and reductions for disability, that apply to those Dwellings
- 1.5 All authorities notify the DCLG of their unadjusted Council Tax Base using a CTB Form using valuation list information as at 10 September 2018. The deadline for return was 12 October 2018 and Merton met this deadline.
- 1.6 The CTB form for 2018 includes the latest details about the Council Tax Support Scheme and the technical reforms which impacted on discounts and exemptions.
- 1.7 There is a separate council tax base for those properties within the area covered by Wimbledon and Putney Commons Conservators. The Conservators use this, together with the Council Tax bases from RB Kingston, and Wandsworth to calculate the levy which is charged each year.

2. ASSUMPTIONS IN THE MTFS

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

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

2.2 The draft MTFS previously reported to Cabinet during the business planning process has assumed that the Council Tax Base increases 0.5% per year and that the collection rate was 98% in each of the years. Given the levels of collection received in recent years it is proposed to increase this to 98.5% in 2019/20.

2.3 These assumptions have been applied to the latest Council Tax Base information included on the CTB return completed on 12 October 2018 to produce the Council Tax Base 2019/20.

2.4 Information from the October 2018 Council Tax Base Return

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

2.4.2 The information in the CTB returns has been used to calculate the council tax bases and these are summarised in the following table compared to 2018/19:-

Council Tax Base	2018/19	2019/20	Change
			%
Whole Area	74,124.0	74,951.7	1.1%
Wimbledon & Putney Common Conservators	11,308.8	11,464.4	1.4%

3. **IMPLICATIONS FOR COUNCIL TAX YIELD 2019/20**

3.1 On a like for like basis (i.e. assuming council tax charges do not change) the estimated income in 2019/20 compared to 2018/19 is summarised in the following table:-

Council Tax: Whole area	2018/19	2019/20
Tax Base	74,124.0	74,951.7
Band D Council Tax	£1,169.36	£1,169.36
Estimated Yield	£86.678m	£87.646m
Change: 2018/19 to 2019/20 (£m)		+ £0.968m
Change: 2018/19 to 2019/20 (%)		+ 1.1%

3.2 Analysis of changes in yield 2018/19 to latest 2019/20

3.2.1 There are a number of reasons for the change in estimated yield between 2018/19 and the latest estimate based on the CTB data.

3.2.2 Over this period the Council Tax Base increased by 827.7 from 74,124.0 to 74,951.7 which multiplied by the Band D Council Tax of £1,169.36 results in additional yield of £0.968m.

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

a) Number of Chargeable Dwellings and Exempt Dwellings

Between years the number of properties increased by 493 from 84,312 to 84,805 and the number of exempt dwellings increased by 22 from 772 to 794. This means that the number of chargeable dwellings increased by 471 between years. Based on a full charge, this equates to additional council tax of £0.551m.

b) Amount of Council Tax Support Reduction

In 2018/19 there was a reduction of 8,192.1 to the Council Tax Base for local council tax support. This has reduced to 8,177.1 in 2019/20 which is a change of 15 and equates to additional council tax of about £17,540.

c) Changes in Discounts, Exemptions and Premiums

Overall, the number of properties subject to discounts or exemption reduced by 483 and those subject to premiums reduced by 4 between 2018/19 and 2017/18.

d) Change in collection rate

There has been a change made to the estimated collection rate with an increase of 0.5% from 98% to 98.5%.

Summary

The following puts the individual elements together to show how the potential council tax yield changes between 2018/19 and 2019/20:-

	Approx. Change in Council Tax Base	Approx. Change in Council Tax yield
		£m
Increase in number of chargeable dwellings	493	0.576
Change in Council Tax Support Reductions	15	0.018
Change in discounts, exemptions, premiums and distribution	(61)	(0.071)
Increase in Collection Rate from 98% to 98.5%	381	0.445
Total	828	0.968

3.10 Council Tax Yield 2019/20

3.10.1 Assuming no change in Council Tax for 2019/20 the estimated Council Tax yield for 2019/20 is:-

Council Tax: Whole area	Tax Base	Band D 2018/19	Council Tax Yield 2019/20	Council Tax Yield 2018/19
Merton	74,951.7	£1,169.36	£87.646m	£86.678m
WPCC	11,464.4	£29.30	£0.336m	£0.331m
GLA	74,951.7	£294.23	£22.053m	£21.810m

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

3.10.2 The updated MTFs is based on the following assumptions:-

	2019/20	2020/21	2021/22	2022/23
Increase in CT Base	0.5%	0.5%	0.5%	0.5%
Collection Rate (+0.5%)	98.5%	98.5%	98.5%	98.5%
Council Tax - General	2.99%	2%	2%	2%
Council Tax – Adult Social Care	2%	0%	0%	0%

3.10.3 Based on the new Council Tax Base but using the same assumptions as in the MTFs set out in the table in 3.10.2 above, the change in Council Tax Yield is as follows:-

MTFS Council Tax Yield (excluding WPCC)	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
CT Yield (Cabinet 15 October 2018)	91,458	93,722	96,034	98,395
CT Yield (New Council Tax Base)	92,019	94,298	96,624	98,999
Change in CT Yield from new Base	561	576	590	604

DRAFT MTFS 2019-23:				
	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Departmental Base Budget 2018/19	149,808	149,808	149,808	149,808
Inflation (Pay, Prices)	4,244	7,094	9,945	12,796
Autoenrolment/Nat. ins changes	0	0	0	0
FYE – Previous Years Savings	(4,464)	(6,070)	(6,185)	(6,185)
FYE – Previous Years Growth	(2,506)	(2,006)	(2,006)	(2,006)
Amendments to previously agreed savings/growth	206	0	0	0
Change in Net Appropriations to/(from) Reserves	99	242	398	335
Taxi card/Concessionary Fares	450	900	1,350	1,800
Adult Social Care - Additional Spend	1,054	0	0	0
Growth	0	0	0	0
Other	2,479	4,566	4,846	4,922
Re-Priced Departmental Budget	151,369	154,534	158,156	161,470
Treasury/Capital financing	9,806	10,873	12,294	12,324
Pensions	3,552	3,635	3,718	3,801
Other Corporate items	(16,781)	(16,705)	(16,654)	(16,229)
Levies	607	607	607	607
Sub-total: Corporate provisions	(2,816)	(1,590)	(35)	503
Sub-total: Repriced Departmental Budget + Corporate Provisions	148,554	152,944	158,121	161,972
Savings/Income Proposals 2018/19	(2,577)	(8,171)	(9,550)	(9,655)
Sub-total	145,977	144,773	148,571	152,317
Appropriation to/from departmental reserves	(1,350)	(1,493)	(1,649)	(1,586)
Appropriation to/from Balancing the Budget Reserve	(3,220)	(2,804)	0	0
BUDGET REQUIREMENT	141,407	140,475	146,922	150,731
Funded by:				
Revenue Support Grant	(5,076)	0	0	0
Business Rates (inc. Section 31 grant)	(35,360)	(37,726)	(38,286)	(38,501)
Adult Social Care - Improved Better Care Fund	(1,054)	0	0	0
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(2,028)	(1,304)	(1,008)	(800)
Council Tax inc. WPC	(92,350)	(94,629)	(96,955)	(99,330)
Collection Fund – (Surplus)/Deficit	(742)	0	0	0
TOTAL FUNDING	(141,407)	(138,456)	(141,046)	(143,428)
GAP including Use of Reserves (Cumulative)	0	2,020	5,876	7,303
Potential Unfunded ASC commitments due to Loss of Better Care Funding	0	3,218	3,218	3,218
GAP assuming no new ASC Government Grant (Cumulative)	0	5,238	9,094	10,521
Possible Offset if 2019/20 ASC CT hypothecation can be used to replace Better Care Funding	0	(1,742)	(1,742)	(1,742)
GAP assuming no new ASC Government Grant but 2019/20 CT hypothecation can be used(Cumulative)	0	3,496	7,352	8,779

BUDGET 2018

SUMMARY OF KEY POINTS

The Budget 2018 was presented to Parliament in the House of Commons on 29 October 2018. At the same time the Office for Budget Responsibility (OBR) published its October 2018 “Economic and Fiscal Outlook”

This is a summary of the key points arising from the Budget that may have a potential impact on the Council. Specific allocations for Merton will not be confirmed until the Provisional Local Government Finance Settlement for 2019-20 is announced in December 2018.

Business Rates

Small business rate relief – for businesses with a rateable value of less than £51,000 there will be a cut of one-third in business rates. This will be for two years from April 2019.

Public Lavatories – The government are introducing 100% business rates relief for these.

Local Newspaper Discount – The government will continue the £1,500 discount for office space occupied by local newspapers in 2019-20.

Local authorities will be fully compensated for the loss of income arising from these business rates measures.

Investing in UK Towns and Cities – Future High Streets

As part of the government’s “Our Plan for the High Street” and alongside changes to business rates, it will launch a new Future High Streets Fund to invest £675 million in England to support local areas to develop and fund plans to make their high streets and town centres fit for the future. This will invest in town centre infrastructure, including to increase access to high streets and support redevelopment and densification around high streets.

The Future High Fund includes £55 million for heritage-based regeneration, restoring historic high streets to boost retail and bring properties back into use as homes, offices and cultural venues. The Fund will also establish a new High Streets Taskforce to disseminate best practice among local leaders.

High streets planning – The government will consult on planning measures to support high streets to evolve. As part of this, it will consult on creating a more flexible and responsive ‘change of use’ regime with new Permitted Development Rights that make it easier to establish new mixed-use business models on the high street. It will also trial a register of empty shops with selected local authorities, and trial a brokerage service to connect community groups to empty shops.

Social Care

Green Paper on Social Care – In the Budget 2018, the government state that “In the longer term, the government is committed to putting social care on fairer and more sustainable footing and will set out proposals for adult social care in the forthcoming green paper.” The date of publication of the green paper is not yet known.

The budget provides an additional £240m in 2018-19 (previously announced) and £240m in 2019-20 for Adult Social Care. Merton’s share of each £240m is estimated to be £0.748m.

An additional £410m is provided in 2019-20 for adults and children’s social care. Merton’s estimated share of this is £1.278m.

The budget provides an additional £55m in 2018-19 for Disabled Facilities Grant.

The budget provides £84m over five years for up to 20 local authorities for Children’s Social Care Improvement to help more children stay at home with their families.

Schools and Youth Service

School equipment and maintenance uplift – The budget provides £400m in 2018/19 for schools in England to spend on equipment and facilities.

Maths and Physics Teacher Retention Trial – The budget provides £10m to fund a regional trial to test how to improve retention.

Youth Endowment Fund – The budget provides £200m to fund activities for 10 -14 year olds in England and Wales over at least 10 years, specifically working with those most at risk of youth violence.

Local roads

The government will allocate £420 million to local authorities in 2018-19 to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe. This is available immediately and has been allocated using the Department for Transport’s needs-based formula. Merton’s allocation is £489,000.

To support projects across England that ease congestion on local routes, the government will also make £150 million of National Productivity Investment Fund (NPIF) funding available to local authorities for small improvement projects such as roundabouts.

Housing

The immediate removal of the HRA borrowing cap was confirmed (from 29 October 2018) and the government estimates an additional 10,000 homes a year will be built, costing the policy at £4.6 billion over 5 years (£1.3 billion a year by 2022-23).

The Housing Infrastructure Fund, funded by the NPIF, will increase by £500 million to a total of £5.5 billion.

British Business Bank: The British Business Bank will provide guarantees to support up to £1 billion of lending to SME housebuilders.

Housing associations: £663 million will be provided up to 2020/21 to fund strategic partnerships with nine housing associations.

Community Infrastructure Levy: the government will simplify the system of developer contributions, including removing all restrictions on section 106 pooling for single pieces of infrastructure and simplifying the process for setting a higher zonal CIL in areas of high value uplift. A new Strategic Infrastructure Tariff will also be made available to Combined Authorities.

Help to Buy equity loan: The Help to Buy equity loan scheme will be extended by two years to March 2023, with new regional price caps introduced from 2021. The scheme will end from 2023.

The National Health service (NHS)

The NHS is the government's number one spending priority. Based on the multi-year funding plan announced in June, the NHS budget will increase by £20.5 billion more a year in real terms by 2023/24 at an average real growth rate of 3.4% per year.

The government has set the NHS five financial tests to meet in producing a 10 year plan:

- the NHS (including providers) will return to financial balance
- the NHS will achieve cash-releasing productivity growth of at least 1.1% a year (with a final number to be confirmed in the plan), with all savings reinvested in frontline care
- the NHS will reduce the growth in demand for care through better integration and prevention (with a final number to be confirmed in the plan)
- the NHS will reduce variation across the health system, improving providers' financial and operational performance
- the NHS will make better use of capital investment and its existing assets to drive transformation

Mental Health: Funding for mental health services will grow as a share of the overall NHS budget over the next 5 years with up to £250 million a year invested into mental health crisis services across the country. This will include the establishment of a mental health crisis hotline, extending mental health support to every A&E, improving community services, increasing the fleet of mental health ambulances, and

increasing schools-based mental health support. Additionally, the Individual Placement Support programme will be expanded, assisting the employment of people with severe mental illness.

Welfare

Universal Credit Work Allowance: households with children and people with disabilities will have their work allowance threshold increased by £1,000 per annum.

Movement onto Universal Credit: benefit claimants on jobseeker's allowance, Employment and Support allowance, and Income support will receive an extra fortnights' support during their transition to Universal Credit from 2020.

Self-Employment: the 12 month grace period before the Minimum Income Floor applies will be extended

Deductions: the maximum rate at which deductions can be made from a Universal Credit award will reduce from 40% to 30%.

Implementation period for Universal Credit: Implementation of Universal Credit will take place from July 2019 to December 2023.

Housing Benefit: rent support will remain with housing benefit rather than pension credit for three years, funding for supported housing will remain in a welfare system, and 18-21 year olds will be entitled to housing support under Universal Credit.

Pay

National Living Wage: to increase from £7.83 to £8.21 (4.9%) an hour in April 2019.

Crossrail 2

The government is considering the recommendations of the Independent Affordability Review of Crossrail 2, and will consider the case for the project at the Spending Review.

Office for Budget Responsibility– Fiscal and economic outlook (October 2018)

In the Economic and fiscal outlook (EFO), the Office for Budget Responsibility (OBR) set out forecasts to 2023-24 and also assess whether the Government is on course to meet the medium-term fiscal and welfare spending objectives that it has set itself.

The Office for Budget Responsibility (OBR) published its 2018 “Economic and fiscal outlook” at the same time as the Budget 2018 on 29 October 2018.

There is a legal requirement for the OBR to base its forecasts on current Government policy.

The OBR look at economic developments since their previous forecast, the economic and the fiscal outlooks and how the economy has performed against the Government’s fiscal targets. It concludes that there has been “a significant improvement in the underlying pace of deficit reduction, that on its own would have put the Government on course to achieve its objective of a balanced budget for the first time. As it happens, this underlying improvement had already been swallowed up by the Prime Minister’s promise of higher spending on the NHS made in June. The remaining Budget policy measures are a further near-term giveaway that gradually diminishes over the forecast, leaving the deficit in 2022-23 little changed overall.”

In terms of progress towards achieving its fiscal targets the OBR concludes that the government remains on track to meet three out of four fiscal objectives: bringing the structural deficit below 2% in 2020/21 (‘fiscal target’); ensuring debt falls as a percentage of GDP by 2020/21 (‘supplementary target’); and keeping welfare spending below its cash limit (‘welfare cap’). The OBR believes that the fourth objective of delivering a balanced budget by 2025/26 remains “challenging”, but falls outside of its formal forecasting period. The OBR stresses that its forecasts are based on the assumption of a “relatively smooth exit from the EU next year” and that there would be “severe short-term implications” of a “disorderly” exit.

Some of the key forecasts for the economy and public finances are included in the following table:-

	Outturn 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
Gross Domestic Product (GDP) Growth (%)	1.7	1.3	1.6	1.4	1.4	1.5	1.6
Public Sector Net Borrowing (£bn)	39.8	25.5	31.8	26.7	23.8	20.8	19.8
Public Sector Net Borrowing (% of GDP)	1.9	1.2	1.4	1.2	1.0	0.9	0.8
Public Sector Net Debt (%)	85.0	83.7	82.8	79.7	75.7	75.0	
CPI (%)	2.7	2.6	2.0	2.0	2.1	2.1	2.0
RPI (%)	3.6	3.5	3.1	3.1	3.2	3.1	3.1
LFS Unemployment Rate (%)	4.4	4.0	3.7	3.8	3.9	3.9	4.0

CAPITAL STRATEGY 2019-23

1 Introduction

- 1.1 Merton's Capital Strategy for 2019-23 has been aligned and integrated with the Business Plan for the period 2019-23. The Business Plan sets out how the Authority's objectives have been shaped by Merton Partnership in the Community Plan. The Community Plan sets out the overall vision and strategic direction of Merton which are embodied into five strategic themes:-
- Children's Trusts;
 - Health and Wellbeing Board;
 - Safer and Stronger Communities;
 - Sustainable Communities and Transport;
 - Corporate Capacity
- 1.2 Merton Partnership works towards improving the outcomes for people who work, live and learn in the borough and, in particular, to 'bridge the gap' between the eastern and western wards in the borough.
- 1.3 The financial reality facing local government dominates the choices the council will make for the future of the borough. The development of the Business Plan 2019-23 is therefore based on the set of guiding strategic priorities and principles, as adopted by the council on 13 July 2011:
- Merton should continue to provide a certain level of essential services for residents. The order of priority of 'must' services should be:
 - i) Continue to provide everything that is statutory.
 - ii) Maintain services – within limits – to the vulnerable and elderly.
 - After meeting these obligations Merton should do all that it can to help residents who aspire. This means we should address the following as priorities in this order:
 - i) Maintain clean streets and keep council tax low.
 - ii) Keep Merton as a good place for young people to go to school and grow up.
 - iii) Be the best it can for the local environment.
 - iv) All the rest should be open for discussion.
- 1.4 Merton's scrutiny function reflects the five strategic themes above and the themes have been incorporated into the bidding process for capital funding to ensure that scarce financial resources are targeted towards strategic objectives.

2 Planning Infrastructure

2.1 Business Plan 2019-2023

2.1.1 The Business Plan sets out the council's vision and ambitions for improvement over the next four years and how this will be achieved. Business Planning and financial planning frameworks are closely aligned and integrated.

2.2 Target Operating Models (TOMs)

2.2.1 TOMs, or Target Operating Models are a series of strategy documents that set out how the organisation will respond to and manage change over the coming months and years. TOMs have been produced for Service Areas or Departments throughout the council.

2.2.2 A TOM is a statement of how an organisation will deliver its services within a certain structure as a future point in time, TOMs are living documents and will change as the organisation develops. There are a number of elements to a TOM, for Merton these are – Customer Segments, Channels, Services, Organisation, Processes, Information, Technology, Physical Location and People

2.2.3 Developing a TOM is about planning and preparing for change and improvement in a given service. Taking the time to prepare/refresh a TOM allows those within a service to consider its many facets and dependencies and determine how these will change over the coming years. Having an ambitious vision for what the future looks like for the service (which is what a TOM provides), ensures that improvement activity will be more disciplined and controlled and therefore more likely to succeed.

2.3 Service Plans

2.3.1 In developing the Capital Strategy, clear linkages have also been identified with not only the Business Plan, TOMs but also departmental service and commissioning plans beneath this. It reflects the capital investment implications of the approved objectives of those plans, which themselves reflect the council's proposals set out in service based strategies such as the Primary Places Strategy, Local Implementation Plan (Transport), and Asset Management Plans. Priorities for the Corporate Services department are based around how the council manages its resources effectively and how it carries out its wider community leadership role.

- 2.3.2 This Capital Strategy is a fundamental component of our approach since it reflects our strategic priorities across the council and endeavors to maximise the contribution of the council's limited capital resources to achieving our vision. We will work closely with residents, community organisations and businesses to focus our resources and those of our partners effectively. The strategy also sets out the management arrangements for allocating resources to individual schemes, establishing funding for projects, monitoring progress, managing performance and ensuring that scarce capital resources are allocated efficiently.
- 2.3.3 Attached as Annex 6 is the Capital Investment Strategy for the investments/loans the Authority will hold/holds primarily to generate financial returns.

3 Accounting Definitions and Practices

- 3.1 The council's approach to Capital Accounting follows the Code of Practice on Local Authority Accounting, which itself is based on the International Financial Reporting Standards (IFRS) and guidance issued by CIPFA and professional accounting networks.
- 3.2 As in previous years, there has been continual review of the Capital Programme to ensure that expenditure meets the strict definition and to identify any items which would be more appropriate to be charged to revenue. This has not resulted in any major changes to the future programme.
- 3.3 The de-minimis of capital expenditure for the authority is set at £10,000 per project. This applies to all schemes within our capital programme, however in exceptional circumstances thresholds below this may be considered where specific items of expenditure are below this de-minimis level but meet proper accounting definitions of capital expenditure.
- 3.4 Individual schools may choose to adopt the above de-minimis limit or use the limit of £2,000 as mentioned in some Department for Education and HMRC guidance for various types of school.
- 3.5 IFRS 9 requires that investment in risk capital will need to be valued annually at fair value with any loss being written through the profit and loss account in the year it occurs

4 Corporate and strategic capital expenditure appraisal planning and control

4.1 Capital Programme Board

4.1.1 Merton's Capital Strategy is coordinated by the Capital Programme Board. The board, which is effectively a sub-group of the Corporate Management Team (CMT). The Board comprises the Directors of Corporate and Environment and Regeneration Services with selected Level 2/3 managers from each service department.

4.1.2 The Terms of Reference of the Board are:

- Lead on the development and maintenance of the capital investment strategy and ensure it is consistent with the council's strategic objectives, TOMs and service plans.
- Ensure that the capital investment strategy informs and is informed by the asset management plan.
- Ensure there is a transparent and clearly communicated process for allocation of capital funds with clear and well documented criteria and decision making process.
- Monitor progress of capital funded schemes and any other critical schemes as determined by CMT. Receive joint reports from Finance/departmental staff on progress against deliverables, milestones and budget forecasts.
- In conjunction with other governing bodies, consider/approve business cases that involve capital investment.
- Monitor issues arising as a result of changes in accounting treatment of capital expenditure and ensure the organisation responds accordingly.
- Assess capital schemes in the context of the Medium Term Financial Strategy to ensure they are affordable in revenue terms.
- Receive reports from the Property Management and Review Manager relating to capital funds coming from the disposal of property, in collaboration with the Property and Asset Management Board.
- Receive benefits reports from Programme/Project Managers when capital projects/programmes are closed. Monitor key benefits to ensure they are realised for large capital schemes.

4.1.3 The role of the Board is to:

- Set framework and guidelines for capital bids;
- Draft the capital programme for consideration by CMT and Cabinet;
- Review capital bids and prioritise in accordance with the council's strategic objectives;
- Identify and allocate capital funds;
- Monitor progress of capital programmes/projects and key variances between plans and performance;
- Monitor budgets of capital programmes/projects against forecasts;
- Monitor benefits and ensure they are realised. Monitor capital receipts
- Develop and share good practice

4.1.4 The Board will be accountable to the Corporate Management Team who will receive reports and escalated matters from the Board on a regular basis. CMT will set the strategy and direction, the Capital Programme Board will operationalise this and escalate concerns and ideas. The Board will refer to, and take advice from, the Procurement Board on any proposals and/or decisions that have a procurement dimension. The Board will work closely with the Property and Asset Management Board on any property/asset related proposals.

4.1.5 The Board will make agendas and minutes available to the other Governance Boards within 5 working days of the meeting.

4.1.6 During the budget process the Director of Corporate Services recommends to Cabinet an initial view as to how the Capital Programme should be funded. However, this recommendation will be informed by the Capital Programme Board's consideration of the capital receipts available and the forecast of future property disposals and the final funding during the closure of accounts will depend on the precise financial position. At this stage it is intended to utilise internal borrowing, capital grant, direct revenue financing, capital receipts and earmarked reserves. Any capital loans given out by the authority, dependent on the size, will normally be funded from capital receipts as the repayments will be received as capital receipts. It will be reported to Members in advance when it is proposed to use external borrowing.

4.1.7 The council has had a robust policy for many years of reviewing its property holding and disposing of surplus property, this is detailed in the Asset Management Plan (AMP) which also includes policy and procedures for land and property acquisition. All capital receipts are pooled, unless earmarked by Cabinet, and are used either to finance further capital investment or for the payment of premiums on repayment of higher interest loans.

4.2 Capital Programme Approval and Amendment

4.2.1 The Capital Programme is approved by Council each year. Any change which substantially alters the programme (and therefore the Prudential Indicators) requires full Council approval. Rules for changes to the Capital Programme are detailed in the council's Constitution Financial Regulations and Financial Procedures and the key points are summarised here.

4.2.2 For virements which do not substantially alter the programme the below approval limits apply:

- Virements up to £5k can be signed off by the budget manager and the Chief Financial Officer (CFO) is informed of these changes as part of the monthly financial monitoring
- Virements £5k up to £100k must be approved by the Chief Officer of the area or areas affected along with the Chief Financial Officer, typically this will be as part of the monthly financial monitoring report to CMT however approval can be sought from these officers at any time if necessary
- Virements £100k and upwards go to Cabinet
- Any virement which diverts resources from a scheme not started, resulting in a delay to that scheme, will be reported to Cabinet

(Please note virement rules are cumulative i.e. two virements of £5,000 from one code; the latter would require the approval of Chief Officers)

4.2.3 For increases to the programme for existing schemes up to £100,000 must be approved by the Director of Corporate Services. Increases above this threshold must be approved by Cabinet. In accordance with the Prudential Code if the increase in the Capital Programme will substantially change prudential indicators it must be approved by Council.

4.2.4 For new schemes, the source of funding and any other financial or non-financial impacts must be reported and the limits below apply:

- Budgets of up to £50k can be approved by the Chief Financial Officer in consultation with the relevant Chief Officer
- Budgets of £50k up £500k will be submitted to Cabinet for approval
- Budgets over £500k will be submitted to full Council for approval

Approval thresholds are being reviewed as part of the review of processes after the implementation of the new Financial Information System.

4.3 Capital Monitoring

4.3.1 The Council approves the four year Capital Programme in March each financial year. Amendments to the programme are approved appropriately by CMT, Cabinet and Council. Budget managers are required to monitor their budget monthly, key reviews are undertaken in September and November. December monitoring provides the final opportunity for budget managers to re-profile their budgets for the current financial year.

4.3.2 November monitoring information feeds into the Authority's Medium Term Financial Strategy (MTFS) and is used to assess the revenue impact over the period of the strategy with minor amendments in the later months. November monitoring is also used to measure the accuracy of year end projections.

4.3.3 Councillors receive regular monitoring reports on the overall position of capital expenditure in relation to the budget. They also receive separate progress reports on key spend areas.

4.4 Risk Management

4.4.1 The management of risk is strategically driven by the Corporate Risk Management group. The group collates on a quarterly basis the headline departmental risks and planned mitigation activity from each department, project and partnership. From this information a Key Strategic Risk Register is compiled and presented to CMT quarterly for discussion and onto Cabinet and Standards and General Purposes Committee annually. The Authority's Risk Management Strategy is reviewed and updated annually and presented to CMT, Cabinet and Council.

4.4.2 Risk Appetite - The council recognises that its risk appetite to achieve the corporate priorities identified within its business plan could be described in general as an "informed and cautious" approach. Where significant risk arises, we will take effective control action to reduce these risks to an acceptable level.

5 Revenue budget implications of capital investment

5.1 Revenue cost or savings

5.1.1 The capital strategy recognises that the prudential framework provides the council with flexibility, subject to the constraints of the council's revenue budget. This flexible ability to borrow, either from internal cash resources or by external borrowing, coupled with the revised treatment of finance leases with effect from 1 April 2010, means that prudential borrowing is used for the acquisition of equipment, where it is prudent, affordable and sustainable. Since 2012/13 it has been possible to borrow from internal cash resources rather than external borrowing and it is forecast that this will continue to be the case alongside the use of capital receipts within the current planning period (up to 2020/21). This will be kept under review as part of general Treasury Management.

5.1.2 The revenue effects of the capital programme are from capital financing charges and from additional revenue costs such as annual maintenance charges. The capital financing charges are made up of interest payable on loans to finance the expenditure and of principal repayments on those loans. The principal repayments commence in the year after the expenditure is incurred and are calculated by the application of the statutory Minimum Revenue Provision. The interest commences immediately the expenditure is incurred. The revenue effects of the capital programme are fully taken account of in the MTFs, with appropriate adjustments for slippage, timing of capital payments and the use of internal investment funds.

The revenue effects of the capital programme are built into the MTFs and are summarised below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
MRP	4,141	5,012	6,267	7,107
Interest	6,315	6,356	6,422	6,595
Capital financing costs	10,456	11,368	12,689	13,702
Investment Income	(650)	(495)	(395)	(395)
Interest on Housing Company Loan	0	0	0	(983)
Net	9,806	10,873	12,294	12,324

6 Capital resources 2019-23

6.1 Variety of sources

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

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

6.2 Annual Minimum Revenue Provision (MRP) Statement

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

6.2.2 The statement is set out in the Treasury Management Strategy.

7 Asset management review

7.1 Capital receipts

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

7.2 Property as a corporate resource

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

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

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

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

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

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

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

8 Summary of estimated disposals 2019-2023

8.1 Flexibility in the use of Capital Receipts

- 8.1.1 In December 2017, the Secretary of State announced the continuation of the capital receipts flexibility programme for a further three years, to give local authorities the continued freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings. By virtue of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 (“the Act”), that the local authorities listed in Annex A (“the Authorities”) treat as capital expenditure, expenditure which:
- i. is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners; and
 - ii. is properly incurred by the Authorities for the financial years that begin on 1 April 2016 up to and including 1 April 2021.
- 8.1.2 In further exercise of the Secretary of State’s powers under section 20 of the Act, it is a condition of this direction that expenditure treated as capital expenditure in accordance with it only be met from capital receipts, within the meaning of section 9 of the Act and regulations made under that section (for current provisions see Part 4 of S.I. 2003/3146, as amended), which have been received in the years to which this direction applies; and
- 8.1.3 This direction is given for the purposes of Chapter 1 of Part 1 of the Act only. It does not convey any other consent that may be required or any view as to the propriety of the expenditure. It is for the Authority to be satisfied that any amount to which this direction is applied is properly incurred in the financial year concerned.
- 8.1.4 When applying the direction, the Authorities are required to have regard to the Guidance on Flexible Use of Capital Receipts. The Guidance recommends that the Strategy setting out details of projects to be funded through flexible use of capital receipts be prepared prior to the start of each financial year (Flexible Use of Capital Receipts Strategy). Failure to meet this requirement does not mean that an authority cannot access the flexibility in that year. However, in this instance, the Strategy should be presented to full Council or the equivalent at the earliest possible opportunity.
- 8.1.5 As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years. The Strategy should also contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.

8.2 Projected Capital Receipts

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

Anticipated Capital Receipts	2019/20	2020/21	2021/22	2022/23
	£000s	£000s	£000s	£000s
Sale of Assets	0	0	0	0
Housing Company Loan Repayment	0	0	0	3,590
Right to buy/VAT Shelter	900	900	900	900
Repayment of One Public Estate	0	0	(260)	0
Total	900	900	640	4,490

As there is currently not a need to enter into external borrowing, investment balances will rise with the addition of capital receipts. Average expected interest rates on investments across the years of the capital programme are approximately 1.1%, as such an increase in receipts of £1m would be expected to generate a £11,000 increase in interest in a full year.

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

Capital Expenditure	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Capital Expenditure	39,144	48,031	18,738	15,437	21,296
Slippage	(7,291)	(13,135)	8,246	783	2,397
Total Capital Expenditure *	31,853	34,895	26,984	16,219	23,692
Financed by:					
Capital Receipts *	19,209	3,954	900	640	4,490
Capital Grants & Contributions	12,219	8,070	3,824	3,089	3,084
Revenue Provisions	222	3,560	48	50	56
Net financing need for the year	203	19,311	22,211	12,441	16,061

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

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

8.3 Debt repayment

8.3.1 The council has had a strategy to reduce its level of debt when opportunity arises in the market. The average interest payable on outstanding debt is 5.22%. For the period 2019-23, capital receipts may continue to be used to pay the premiums on the repayment of those authority debts which have high fixed interest charges, if the terms offered will result in appropriate revenue savings. Any decision to repay debt early will be considered alongside the funding however, this is unlikely to be the case in the short to medium term requirement of the programme.

9 Grant Funding Capital Resources

9.1 Environmental and Regeneration

E&R	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Heritage Lottery Fund	0	1,693	1,500	712	0
Transport for London LIP (earmarked) Capital	1,000	TBA	TBA	TBA	TBA
Total: E&R	1,000	1,693	1,500	712	TBA

TBA – To Be Advised

9.2 Children, Schools and Families

CSF	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
School Condition (non-ringfenced)*	1,900	1,900	TBA	TBA	TBA
Basic Need (non-ringfenced)	7,471	446	0	TBA	TBA
Special Provision Grant	491	834	491	TBA	TBA
Healthy Schools	189	TBA	TBA	TBA	TBA
Total Grant Funding	10,051	3,180	491	TBA	TBA
New School (Expected Ringfenced)*	5,149	0	0	0	0
Devolved Formula Capital (Earmarked)	353	TBA	TBA	TBA	TBA
TOTAL: CS&F	15,553	3,180	491	TBA	TBA
Balance added for outstanding grant allocations - CSF	0	0	1,900	1,900	1,900

* Based on Indicative Information

TBA – To Be Advised

9.3 Community and Housing

C&H	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Better Care Fund (including Disabled Facilities Grant)	*1,186	TBA	TBA	TBA	TBA

*It is envisaged that some of this fund will be applied to revenue

9.4 Summary of Grant Funding 2018-2023

9.4.1 The new resources notified to date are summarised in the following table. It is expected that there will be additional earmarked resources notified during the financial year 2019/20:

Grant Funding	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Environment and Regeneration	1,000	1,693	1,500	712	TBA
Children, Schools and Families	15,553	3,180	491	TBA	TBA
Community and Housing	1,186	TBA	TBA	TBA	TBA
Total Grant Funding*	17,739	4,873	1,991	712	0
Balance added for outstanding grant allocations - CSF	0	0	1,900	1,900	1,900

* This shows the known grant funding being received by the authority

10 Summary of Total Resources 2019-23:

10.1 Summary

10.1.1 The total anticipated resources over the plan period 2019-23, including existing grant funding and anticipated CS&F grants, is summarised in the following table:-

	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Grant & Contributions *	26,824	23,159	13,131	20,608
Council Funding	8,070	3,824	3,089	3,084
Total	34,895	26,984	16,219	23,692

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

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

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

Merton	Updated Budget 2023/24 £000s	Updated Budget 2024/25 £000s	Updated Budget 2025/26 £000s	Updated Budget 2026/27 £000s	Updated Budget 2027/28 £000s
Corporate Services	4,521	2,955	3,335	2,970	3,380
Community and Housing	425	280	630	280	420
Children, Schools & Families *	1,900	1,900	1,900	1,900	1,900
Environment & Regeneration *	4,007	4,067	8,005	4,042	4,007
Total Merton	10,853	9,202	13,870	9,192	9,707

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

10.1.4 For every £1 million capital expenditure that is funded by external borrowing it is estimated that there will be annual revenue debt charges of between £219k for assets with a life of 5 years to £51k for an asset life of 50 years.

11 Capital Bids and Prioritisation Criteria

11.1 Prioritisation of schemes 2022/23

The allocation of capital resources, on those schemes to be funded by borrowing, is focused towards the achievement of the council's key strategic objectives as agreed by councillors as highlighted in section 1 of this strategy.

The prioritisation criteria used in respect of growth were 'Statutory', Need (demand and / or priority), attracts match funding and revenue impact (including invest to save). Due to officers' awareness of the need to restrain the capital programme to affordable levels, the revisions put forward over the period 2019-23, on the basis of these criteria by the board to Cabinet was £7 million (excluding TfL) as shown below.

	2019/20	2020/21	2021/22	2022/23
Corporate Services	923	275	(8,214)	11,517
Community and Housing	35	488	633	502
Children, Schools and Families	(6,499)	2,416	2,500	1,250
Environment and Regeneration	1,110	265	240	330
Total	(4,431)	3,444	(4,841)	13,599

12 Detailed Capital Programme 2019-23

12.1 Corporate Services

12.1.1 This department is responsible for the administration of finance and staff, together with the corporate buildings including IT and utility services. Its main capital expenditure is on IT software and hardware, and on improvements to buildings (including invest to save schemes).

12.1.2 Infrastructure and Transactions

Infrastructure and transactions are responsible for the maintenance and development of IT Systems and replacement of existing IT equipment at the end of its useful life. The Table below details the capital schemes for this area:

Corporate IT Projects	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Customer Contact Programme	250	0	1,900	0
Ancillary Systems	0	0	50	0
Youth Justice	100	0	0	0
School Admissions System	0	125	0	0
Aligned Assets	75	0	0	0
Environmental Asset Management	0	0	0	240
Revenue and Benefits	400	0	0	0
Capita Housing	100	0	0	100
Planning&Public Protection Sys	330	0	0	0
GIS Mapping	50	150	0	0
Replacement SC System	400	0	0	0
Financial System	0	0	0	700
ePayments	0	125	0	0
Planned Replacement Programme ⁽¹⁾	1,015	200	970	1,005
Data Centre Support Equipment	290	0	0	0
IT Equipment ^{(in (1) above from 21/22)}	430	860	0	0
Total Business Improvement	3,440	1,460	2,920	2,045

Infrastructure and transactions are responsible for the capital maintenance of council buildings excluding schools and community centres, the schemes are detailed in the Table below:

Facilities Management	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Repair and Maintenance	650	650	650	650
Civic Centre Boilers	200	0	0	0
Civic Centre Lightning Upgrade	300	0	0	0
Invest to Save schemes	300	300	300	300
Total Facilities Management	1,450	950	950	950

12.1.3 Corporate Items

There are also budgets held centrally under Corporate Services to ensure funds are available to take up opportunities arising in the local property market, to leverage match funding or to enable transformation of services, these are detailed in the Table below:

Corporate Items	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Acquisitions Budget	0	0	0	6,985
Capital Bidding Fund	0	0	0	1,186
Corporate Capital Contingency	0	0	0	3,000
Multi-Functioning Device (MFD)	600	0	0	0
Housing Company	22,325	1,810	0	0
Westminster Coroners Court	460	0	0	0
Total Corporate Items	23,385	1,810	0	11,172

12.2 Children, Schools and Families

12.2.1 This department's main capital focus is the need for increased provision for secondary pupils. The provision in the 2019-23 programme has been revised to that shown in the table below:

Children, Schools & Families	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Primary School Expansions	1,900	1,900	1,900	1,900
Secondary School Expansions	2,944	0	0	0
SEN	4,852	3,718	1,250	0
Children, Schools & Families	9,696	5,618	3,150	1,900

*School Capital Maintenance Budget

12.2.2 CSF Capital Programme 2019-23

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

12.2.3 Primary schools

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

12.2.4 Secondary school places

The demand for secondary places is monitored regularly and trends in demand are analysed. The secondary expansion programme has been reviewed downwards as part of the current bidding process.

The capital programme for 2019/23 includes £2.92 million for secondary expansions including some council funding to enable the new Harris Academy Wimbledon School site to be made available.

12.2.5 Special school places

The increase in demand for special school provision is proportionally greater for special schools than mainstream schools, though the numbers involved are significantly smaller. Capital funding is provided in the 2019/23 programme for the expansion of SEN provision within the borough. The largest planned project is the expansion of Cricket Green School.

12.3 Environment and Regeneration

This department provides a co-ordinated approach to managing the public realm (all borough areas to which the public has access), as well as the regeneration of our town centres and neighbourhoods.

The individual projects for this department are all listed in Annex 3. Other than the grant funded Transport for London scheme for the upgrade of principal roads, the departments main schemes relate to 17 areas:

Environment & Regeneration	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Parking Improvements	60	0	0	0
Public Protection & Development	0	0	35	0
Fleet Vehicles	300	300	300	300
Alley gating	30	30	30	30
Smart Bin Leases	0	0	0	0
SLWP Waste	0	0	0	340
Street Trees	60	60	60	60
Highways & Footways	3,517	3,317	3,317	3,067
Mitcham Transport Improvements	425	0	0	0
Transport for London	0	0	0	0
Mitcham Area Regeneration	1,301	1,000	533	0
Wimbledon Area Regeneration	300	0	0	0
Morden Area Regeneration	500	2,000	2,500	0
Borough Regeneration	170	25	0	0
Morden Leisure Centre	242	0	0	0
Sports Facilities	1,650	250	250	250
Parks	991	800	479	300
Environment & Regeneration	9,545	7,782	7,504	4,347

12.3.1 Highways and Footways

Footways and Borough Roads budgets will be spent in accordance with the results of annual condition surveys of the whole of the borough. As a result, items are prioritised and drawn up in programmes of works. These programmes may be amended as circumstances alter.

Highways and Footways	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Street Lighting	290	290	290	290
Traffic Schemes	150	150	150	150
Surface Water Drainage	77	77	77	77
Footways	1,000	1,000	1,000	1,000
Antiskid & Coloured Surfacing	90	90	90	90
Borough Roads	1,700	1,200	1,200	1,200
Highways & Bridges	60	260	260	260
Various Culverts Strengthening & Upgrade	150	250	250	0
Highways and Footways	3,517	3,317	3,317	3,067

12.3.2 Regeneration

Regeneration is a major part of the council's strategy. A vision for Morden town centre is being developed and Mitcham town centre will be sustainably developed. The main areas of expenditure over the Capital Programme period will be those below.

Regeneration	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Mitcham Area Regeneration				
Canons Parks for the People	1,301	1,000	533	0
Wimbledon Area Regeneration				
Crowded Places/Hostile Vehicle Mitigation	300	0	0	0
Morden Area Regeneration				
Transportation Enhancements	500	2,000	2,500	0
Borough Regeneration				
Premises Capital Refurbishment	75	25	0	0
Christmas Decorations	95	0	0	0
Total Regeneration Partnerships	2,271	3,025	3,033	0

12.3.3 Sports Facilities

An annual provision exists for the capital works at our three leisure centres. In addition there is a one off scheme to de-silt Wimbledon Park Lake.

Sports facilities	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Leisure Centre Plant & Machine	250	250	250	250
Wimbledon Park Lake De-Silting	1,250	0	0	0
Polka Theatre	150	0	0	0
Total Leisure Centres	1,650	250	250	250

12.3.4 Parks

An annual provision exists for the capital works at our Parks. In addition there is a one off scheme in respect of the Canon's Park.

Parks	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Parks Investment	295	300	300	300
Canons Parks for the People	696	500	179	0
Total Parks	991	800	479	300

12.4 Community and Housing

12.4.1 This department aims to provide residents with the chance to live independent and fulfilling lives, in suitable homes within sustainable communities, with chances to learn, use information, and acquire new skills. The departmental Capital Programme for 2019-23 comprises:

Community and Housing	Updated Budget 2019/20 £000s	Updated Budget 2020/21 £000s	Updated Budget 2021/22 £000s	Updated Budget 2022/23 £000s
Housing				
Disabled Facilities Grant	280	280	280	280
LD Supported Living	0	488	633	462
Libraries				
West Barnes Library Re-Fit	200	0	0	0
Installation of Public Toilets at Mitcham Library	35	0	0	0
Library Self Service	0	350	0	0
Libraries Management System	0	0	0	140
Total Community and Housing	515	1,118	913	882

12.5 Overall Programme

12.5.1 The approved Capital Programme for 2019/23 follows at Annex 1, Annex 3 provides an additional breakdown detail of the approved schemes. The summary is as follows:

Merton	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22	Proposed 2022/23
	£000	£000	£000	£000
Corporate Services	28,275	4,220	3,870	14,167
Community and Housing	515	1,118	913	882
Children Schools & Families	9,696	5,618	3,150	1,900
Environment and Regeneration	9,545	7,782	7,504	4,347
Capital	48,031	18,738	15,437	21,296

12.5.2 The funding details for the programme follow at Annex 2

12.5.3 Within the funding details the authority has anticipated some slippage for schemes that require a consultation process or a planning application or where the implementation timetable is not certain. The slippage anticipated reduces the spend in the year it is budgeted but increases the spend in the following year when it is incurred. When slippage from 2018/19 is approved, the 2019/20 Capital Programme will be adjusted accordingly.

- 12.5.4 Annex 1 Capital Investment Programme - Schemes for Approval
 Annex 2 Funding the Capital Programme 2019-23
 Annex 3 Detailed Capital Programme 2019-23
 Annex 4 Analysis of Growth/(Reduction) from current approved programme
 Annex 5 Indicative Capital Programme 2023-28
 Annex 6 Capital Investment Strategy

Annex1

Capital Investment Programme - Schemes for Approval

Merton	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22	Proposed 2022/23
	£000	£000	£000	£000
Corporate Services	28,275	4,220	3,870	14,167
Community and Housing	515	1,118	913	882
Children Schools & Families	9,696	5,618	3,150	1,900
Environment and Regeneration	9,545	7,782	7,504	4,347
Capital	48,031	18,738	15,437	21,296

Merton	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22	Proposed 2022/23
	£000	£000	£000	£000
Customers, Policy & Improvement	250	0	1,900	0
Facilities Management	1,450	950	950	950
Infrastructure & Transactions	3,190	1,335	1,020	1,345
Resources	0	125	0	700
Corporate Items	23,385	1,810	0	11,172
Corporate Services	28,275	4,220	3,870	14,167
Housing	280	768	913	742
Libraries	235	350	0	140
Community and Housing	515	1,118	913	882
Primary Schools	1,900	1,900	1,900	1,900
Secondary School	2,944	0	0	0
SEN	4,852	3,718	1,250	0
CSF Schemes	0	0	0	0
Children Schools & Families	9,696	5,618	3,150	1,900
Public Protection and Developm	60	0	35	0
Street Scene & Waste	330	330	330	670
Sustainable Communities	9,155	7,452	7,139	3,677
Environment and Regeneration	9,545	7,782	7,504	4,347
Capital	48,031	18,738	15,437	21,296

Please Note

- 1) Excludes expenditure budgets relating to Disabled Facilities Grant funding from 2019/20.
- 2) Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.

FUNDING THE CAPITAL PROGRAMME 2017-22

Annex2

Merton	Capital Programme £000s	Funded by Merton £000s	Funded by grant and capital contributions £000s
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2018/19 Current Budget	39,144	23,599	15,544
Potential Slippage b/f	0	0	0
2018/19 Revised Budget	39,144	23,599	15,544
Potential Slippage c/f	(5,960)	(2,806)	(3,154)
Potential Underspend not slipped into next year	(1,331)	(1,161)	(172)
Total Spend 2018/19	31,853	19,633	12,219

2019/20 Current Budget	48,031	42,302	5,729
Potential Slippage b/f	5,960	2,806	3,154
2019/20 Revised Budget	53,990	45,108	8,882
Potential Slippage c/f	(17,222)	(16,788)	(433)
Potential Underspend not slipped into next year	(1,873)	(1,494)	(379)
Total Spend 2019/20	34,895	26,824	8,070

2020/21 Current Budget	18,738	14,080	4,659
Potential Slippage b/f	17,222	16,788	433
2020/21 Revised Budget	35,960	30,867	5,092
Potential Slippage c/f	(6,526)	(5,763)	(763)
Potential Underspend not slipped into next year	(2,450)	(1,945)	(505)
Total Spend 2020/21	26,984	23,159	3,824

2021/22 Current Budget	15,437	11,912	3,525
Potential Slippage b/f	6,526	5,763	763
2021/22 Revised Budget	21,963	17,676	4,288
Potential Slippage c/f	(3,654)	(3,057)	(597)
Potential Underspend not slipped into next year	(2,089)	(1,487)	(602)
Total Spend 2021/22	16,219	13,131	3,089

2022/23 Current Budget	21,296	18,654	2,642
Potential Slippage b/f	3,654	3,057	597
2022/23 Revised Budget	24,950	21,711	3,239
Potential Slippage c/f	(840)	(794)	(45)
Potential Underspend not slipped into next year	(417)	(308)	(109)
Total Spend 2022/23	23,692	20,608	3,084

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

Detailed Capital Programme 2019-23

Annex 3

	Scrutiny	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22	Proposed 2022/23
Corporate Services		£000	£000	£000	£000
Customer Contact Programme	OSC	250	0	1,900	0
Works to other buildings	OSC	650	650	650	650
Civic Centre	OSC	500	0	0	0
Invest to Save schemes	OSC	300	300	300	300
IT Systems Projects	OSC	1,055	275	50	340
Social Care IT System	OSC	400	0	0	0
Planned Replacement Programme	OSC	1,735	1,060	970	1,005
Infrastructure & Transactions		3,190	1,335	1,020	1,345
Major Projects		0	125	0	700
Financial System	OSC	0	0	0	700
ePayments System	OSC	0	125	0	0
Acquisitions Budget	OSC	0	0	0	6,985
Capital Bidding Fund	OSC	0	0	0	1,186
Corporate Capital Contingency	OSC	0	0	0	3,000
Multi Functioning Device (MFD)	OSC	600	0	0	0
Housing Company	OSC	22,325	1,810	0	0
Westminster Coroners Court	OSC	460	0	0	0
Corporate Services		28,275	4,220	3,870	14,167
Community and Housing		£000	£000	£000	£000
Disabled Facilities Grant	SC	280	280	280	280
LD Supported Living	SC	0	488	633	462
West Barnes Library Re-Fit	SC	200	0	0	0
Installation of Public Toilets at Mitcham Library	SC	35	0	0	0
Library Self Service	SC	0	350	0	0
Library Management System	SC	0	0	0	140
Community and Housing		515	1,118	913	882
Children Schools & Families		£000	£000	£000	£000
Schs Cap Maint & Accessibility	CYP	1,900	1,900	1,900	1,900
Harris Academy Morden	CYP	0	0	0	0
St Mark's Academy	CYP	0	0	0	0
Harris Academy Wimbledon	CYP	2,944	0	0	0
Perseid	CYP	0	0	0	0
Cricket Green	CYP	4,152	0	0	0
Secondary School Autism Unit	CYP	272	1,088	0	0
Further SEN Provision	CYP	188	0	0	0
Melrose primary SEMH annex - 16 places	CYP	100	1,500	0	0
Primary ASD base 1 - 20 places	CYP	100	800	0	0
Secondary SEMH/medical PRU - 20 places	CYP	20	80	800	0
New ASD Provision	CYP	20	250	450	0
Admissions IT System	CYP	0	0	0	0
Children Schools & Families		9,696	5,618	3,150	1,900

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

Detailed Capital Programme 2019-23 Continued.....

	Scrutiny	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22	Proposed 2022/23
Environment & Regeneration		£000	£000	£000	£000
Parking Improvements	SC	60	0	0	0
Public Protection and Development	SC	0	0	35	0
Fleet Vehicles	SC	300	300	300	300
Alley Gating Scheme	SC	30	30	30	30
Smart Bin Leases - Street Scene	SC	0	0	0	0
Waste SLWP	SC	0	0	0	340
Street Trees	SC	60	60	60	60
Highways & Footways	SC	3,517	3,317	3,317	3,067
Mitcham Transport Improvements	SC	425	0	0	0
Unallocated Transport for London	SC	0	0	0	0
Mitcham Area Regeneration	SC	1,301	1,000	533	0
Wimbledon Area Regeneration	SC	300	0	0	0
Morden Area Regeneration	SC	500	2,000	2,500	0
Borough Regeneration	SC	170	25	0	0
Morden Leisure Centre	SC	242	0	0	0
Sports Facilities	SC	1,650	250	250	250
Parks	SC	991	800	479	300
Environment and Regeneration		9,545	7,782	7,504	4,347
Capital		48,031	18,738	15,437	21,296

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

- 1) Excludes expenditure budgets relating to Disabled Facilities Grant funding from 2019/20.
- 2) Excludes expenditure budgets relating to Transport for London Grant from 19/20 as grant funding has not been announced.

Annex 4

Growth/(Reductions) against Approved Programme 2019-22 and Indicative Programme 2022-23

Merton	Scrutiny	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22	Proposed 2022/23
		£000	£000	£000	£000
Infrastructure & Transactions	OSC	923	275	8	345
Corporate Items	OSC	0	0	(8,222)	11,172
Corporate Services		923	275	(8,214)	11,517
Housing	SC	0	488	633	462
Libraries	SC	35	0	0	40
Community and Housing		35	488	633	502
Primary Schools	CYP	1,250	1,250	1,250	1,250
Secondary School	CYP	(5,796)	(2,552)	0	0
SEN	CYP	(1,848)	3,718	1,250	0
CSF Schemes	CYP	(105)	0	0	0
Children Schools & Families		(6,499)	2,416	2,500	1,250
Street Scene & Waste	SC	(10)	(10)	(10)	330
Sustainable Communities	SC	1,120	275	250	0
Environment and Regeneration		1,110	265	240	330
Capital		(4,431)	3,444	(4,841)	13,599

Annex 5

Indicative Capital Programme 2023-28

	Scrutiny	Proposed Indicative 2023/24	Proposed Indicative 2024/25	Proposed Indicative 2025/26	Proposed Indicative 2026/27	Proposed Indicative 2027/28
Corporate Services		£000	£000	£000	£000	£000
Customer Contact Programme	OSC	0	0	1,000	1,000	1,000
Works to other buildings	OSC	650	650	650	650	650
Invest to Save schemes	OSC	300	300	300	300	300
Planned Replacement Programme	OSC	720	905	1,060	970	1,005
IT Systems Projects	OSC	751	500	325	50	425
Ancillary Systems	OSC	0	0	0	50	0
Youth Justice	OSC	0	100	0	0	0
School Admissions System	OSC	0	0	125	0	0
Regulatory Services	OSC	0	0	0	0	0
Parking System	OSC	126	0	0	0	0
Aligned Assets	OSC	75	0	0	0	75
Environmental Asset Management	OSC	0	0	0	0	250
Revenue and Benefits	OSC	0	400	0	0	0
Capita Housing	OSC	0	0	0	0	100
Planning & Public Protection Sys	OSC	550	0	0	0	0
Spectrum Spatial Analys	OSC	0	0	200	0	0
Social Care IT System	OSC	2,100	0	0	0	0
Multi Functioning Device (MFD)		0	600	0	0	0
Corporate Services		4,521	2,955	3,335	2,970	3,380
Community and Housing		£000	£000	£000	£000	£000
Disabled Facilities Grant	SC	280	280	280	280	280
LD Supported Living	SC/HCOP	145	0	0	0	0
Library Enhancement Works	SC	0	0	350	0	0
Library Management System	SC	0	0	0	0	140
Community and Housing		425	280	630	280	420
Children Schools & Families		£000	£000	£000	£000	£000
Schools Cap Maint & Accessibility	CYP	1,900	1,900	1,900	1,900	1,900
Children Schools & Families		1,900	1,900	1,900	1,900	1,900
Environment and Regeneration		£000	£000	£000	£000	£000
Parking Improvements	SC	0	60	0	0	0
Public Protection and Development	SC	0	0	0	35	0
Fleet Vehicles	SC	300	300	300	300	300
Alley Gating Scheme	SC	30	30	30	30	30
Waste SLWP	SC	0	0	3,998	0	0
Street Trees	SC	60	60	60	60	60
Highways & Footways	SC	3,067	3,067	3,067	3,067	3,067
Unallocated Transport for London	SC	0	0	0	0	0
Sports Facilities	SC	250	250	250	250	250
Parks	SC	300	300	300	300	300
Environment and Regeneration		4,007	4,067	8,005	4,042	4,007
Capital		10,853	9,202	13,870	9,192	9,707

Capital Investment Strategy

ANNEX 6

1. Overview

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

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

2. Detail

During the 2018-19 financial year the Authority has undertaken and agreed to undertake one investment transaction:

- i) The purchase of the leasehold interest in Battle Close (the Council already owned the freehold interest). The asset will be added to the Authority's balance sheet as an investment asset.
- ii) The Authority establishes a Wholly Owned Housing Company (Merantun) to provide an investment opportunity for the Authority

During 2018/19 IFRS 9 will come into force, this will impact on the balance sheet as it requires certain transactional arrangements being shown on the balance sheet at fair value:

3. Security

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

- i) Loan to the Wholly Owned Housing Company estimated at circa £13 million combined with (*loan funding currently under review*)
- ii) Equity estimated circa £11.5 million (£8.2 Land Equity and £3.3 million Working Capital - *funding currently under review*)
- iii) IFRS 9 requires that investment in risk capital will need to be valued annually at fair value with any loss being written through the profit and loss account in the year it occurs

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

4. Liquidity

Investments are held in CHAS 2013 Limited and Merantun. It is not currently envisaged that these investments need to be redeemed in the short to medium term. If such a need did arise the following example demonstrates the flexibility available to the council:

Merantun – the following three approaches are possible:

- i) Sites could be sold by the company at a profit once planning permission has been obtained
- ii) the business model proposed development of housing on four sites within the first three years, at this juncture housing can be sold at any time to generate receipts through to the Council
- iii) The Housing Company itself could be sold

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

If the Authority needed to release the money invested in Battle Close it could sell the site with or without planning permission.

5. Yield

The yield in the financial return generated to the Authority for example:

The Loan to Merantun will be made at a rate 6.5+% (*loan amount, timing/flexibility and interest rate are currently under review*)

The Model Assessed the Internal Rate of Return as 6.39% (*currently under review*)

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

6. Borrowing in Advance of Need

Section 5.2 of the Treasury Management Strategy sets out the Authority's borrowing strategy and the extent to which the Authority has internally borrowed. Current indications are that interest rates are likely to rise making it more expensive to borrow. Consideration will be given to the timing of required borrowing to minimise the cost to the Authority and with regard to the current debt portfolio (detailed in Section 5.6 of the Treasury Management Strategy)

7. Risk Assessment

The council recognises that its risk appetite to achieve the corporate priorities identified within its business plan could be described in general as an "informed and cautious" approach. Where significant risk arises, we will take effective control action to reduce these risks to an acceptable level.

It is also recognised that a higher level of risk may need to be accepted, for example, to generate higher returns from loans and investment. To offset this there are areas where the council will maintain a very cautious approach for example in matters of compliance with the law, and public confidence in the council, supporting the overall “informed and cautious” position on risk. For example:

Merantun – as part of the business case for the setting up of a wholly owned housing company detailed assessment was made of competitor activity and build costs. Flexibility is available in the timing of site and property disposal, but decisions by the company would be made on a commercial basis.

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

8. Capacity, Skills and Culture

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

Within the Business model for Merantun it is recognised that the company may set up joint ventures with trusted partners for the development of some larger sites that would require specialist land assembly skills and larger sums of cash to assist with delivering the development if this is deemed to be appropriate and support the business case. It would contract with construction specialists and construction companies for the development of sites – this should minimise the risk exposure during site development.

LONDON BOROUGH OF MERTON

DRAFT TREASURY MANAGEMENT POLICY STATEMENT- 2019-20

1. INTRODUCTION

1.1 Background

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

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

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

- a) To set the Council’s Prudential Indicators for 2019/20 to 2022/23
- b) Approve the Minimum Revenue Provision (MRP) policy for 2019/20; and
- c) To agree the Treasury Management Strategy for 2019/20.

This will include the annual investment strategy, containing the parameters of how the investments are to be managed.

1.2 Statutory Requirement

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

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

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

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

1.3 Balanced Budget Requirement

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

The other main function of treasury management is the funding of the Council’s capital plans. These capital plans provide a guide to the long or short-term borrowing need of the

Council, essentially the longer term cashflow planning, to ensure that the Council can meet its capital spending obligations. The management of longer term cash may involve arranging long or short dated loans, or using longer term cashflow surpluses. Subject to S151 Officer's approval, any debt previously drawn may be restructured or repaid to meet the Council's risk or cost objectives.

1.4 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

Capital Programme

- To determine the Council's capital plans and prudential indicators for 2019/20 to 2022/23;
- To approve the Minimum Revenue Provision (MRP) policy for 2019/20.

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

Treasury Management Programme

- To agree the Council's treasury management strategy for 2019/20
- current treasury position as at December 2018;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling and early repayment of debt review;
- Annual Investment Strategy and alternative investment instruments (Policy on new lending and borrowing instruments);
- creditworthiness policy;
- Treasury Management Practices (**Appendix 5**);and
- cash flow policy

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

2. CURRENT TREASURY POSITION

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

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

The table below shows the position as at November 2018.

Year End Resources	2017/18 Actual £'000	30 November 2018 Actual £'000	31 March 2018/19 Estimate £'000	31 March 2019/20 Estimate £'000
Investments	59,500	86,500	51,900*	28,500*
Interest on investments	762	527	900	495
Borrowing				
Long-term Borrowing	113,010	113,010	113,010	113,010
Short-term Borrowing				
Total External Debt	113,010	113,010	113,010	113,010
Interest on External Debt				
Long-term	6,592	2,745	6,315	6,315
Short-term	0	0	0	0
Total Interest on External Debt	6,692	2,745	6,315	6,315

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

* It is assumed that the council will use the internal borrowing to meet the capital expenditure and as a result cash available to invest will reduce and the interest income too.

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

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

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

3.1 Capital Expenditure

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

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

Please find below the capital expenditure forecast.

Merton	Proposed 2019/20	Proposed 2020/21	Proposed 2021/22	Proposed 2022/23
	£000	£000	£000	£000
Corporate Services	14,427	14,928	5,382	14,566
Community and Housing	431	725	601	1,318
Children Schools & Families	10,783	5,928	3,288	2,358
Environment and Regeneration	9,255	5,402	6,948	5,450
Capital	34,895	26,984	16,219	23,692

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

The table below shows how the capital expenditure plans are being financed by revenue or capital resources. A shortfall of resources means a borrowing need. The capital programme expenditure figures used in calculating the financing costs have been adjusted for slippage in the programme as at October 2018

Capital Expenditure	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Capital Expenditure	39,144	48,031	18,738	15,437	21,296
Slippage*	(7,325)	(13,735)	8,246	783	2,397
Total Capital Expenditure	31,819	34,295	26,984	16,219	23,692
Financed by:					
Capital Receipts	19,209	3,954	900	640	4,490
Capital Grants & Contributions	12,219	8,070	3,824	3,089	3,084
Revenue Provisions	222	3,560	48	50	56
Net financing need for the year (a)	169	18,711	22,212	12,441	16,061

* Includes finance lease expenditure table in Treasury Management Strategy excludes this expenditure

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

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

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

The Council has no Housing Revenue Account (HRA) and no new PFI scheme in 2019/20 is expected.

The 2018/19 forecast movement in CFR shows a decrease of £4.731 million because the expenditure to be funded from borrowing in 2017/18 is less than the amount of MRP charged in the year.

The current cashflow projection as at November 2018 for 2018/19 year end is an estimated cash balance of £100m (including all short term deposits). The current forecast has been based on assumptions in the MTFs and capital programme spend forecast after slippage.

The 2018/19 forecast £31.3m, 2019/20 £35.6m, and 2020/21 £26.1m are based on best estimates which may slip due to unforeseen circumstances and the nature of large projects and the level of grant income. Also, fees and charges for the Council may change. Based on current forecasts the earliest the Council may borrow is in 2018/19 in anticipation for 2019/20. However, the Council can borrow in advance of need if rates are likely to rise and borrowing becomes a lot more advantageous than it would be.

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

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement						
CFR (non-housing)	183,712	177,509	188,819	203,396	207,017	213,379
Total CFR	183,712	177,509	188,819	203,396	207,017	213,379
Movement in CFR	(6,288)	(6,203)	11,309	14,578	3,621	6,361
Movement in CFR represented by						
Net financing need for the year (above)	0	169	18,711	22,212	12,441	16,061
Less Capital MRP/VRP (b)	6,789	4,909	5,024	5,886	7,131	7,962
Less Other MRP/VRP - leasing and PFI	876	728	1,590	904	784	768
Less Other MRP/VRP - PFI - Termination	686	735	788	844	905	970
Less Other financing movements						
Adjustment of PFI Liability						
Adjustment of Leasing Liability	(500)					
Adjustment of MRP	(1,563)					
Movement in CFR	(6,288)	(6,203)	11,309	14,578	3,621	6,361

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

The table below shows the monetary values for the above ratio and includes leasing costs

	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Net Revenue Financing Costs	16,786	14,499	16,485	16,290	17,511	17,319
Net Revenue Stream	146,066	142,209	139,942	135,735	138,116	140,259
Ratio of Financing Costs to Net Revenue Stream (Non HRA)	11.49%	10.20%	11.78%	12.00%	12.68%	12.35%

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

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

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Incremental Change in Capital Financing Costs (£000)	(1,891)	(2,287)	1,986	(195)	1,221	(192)
Council Tax Base	72,442	74,124	74,952	75,327	75,703	76,081
Incremental Impact on Council Tax - Band D (£)	(26.10)	(30.85)	26.49	(2.59)	16.13	(2.53)
Council Tax - Band D (£)	1,139.71	1,169.36	1,227.71	1,252.26	1,277.31	1,302.86

***2017/18 and 2018/19 uses actual council tax amounts. Future years use assumptions in the MTFS. For planning purposes.

4. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

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

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

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

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

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

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

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

5. TREASURY MANAGEMENT STRATEGY**5.1 The Prospects for Interest Rates and Economic Forecasts**

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

Annual Average %	Bank Rate (%)	PWLB Borrowing Rates (%)			
		5 year	10 year	25 year	50 year
Dec 2018	0.75	2.00	2.50	2.90	2.70
March 2019	0.75	2.10	2.50	2.90	2.70
June 2019	1.00	2.20	2.60	3.00	2.80
Sept 2019	1.00	2.20	2.60	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.10	2.90
March 2020	1.25	2.30	2.80	3.20	3.00
June 2020	1.25	2.40	2.90	3.20	3.10
Sept 2020	1.25	2.50	2.90	3.20	3.10
Dec 2020	1.40	2.50	2.90	3.30	3.10
March 2021	1.40	2.60	3.00	3.40	3.20
June 2020	1.45	2.60	3.00	3.50	3.30
Sept 2020	1.50	2.70	3.10	3.50	3.30
Dec 2020	1.50	2.70	3.10	3.60	3.40
Mar 2021	1.60	2.80	3.20	3.60	3.40

Source: Link Asset Services

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by

repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

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

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

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

5.2 Borrowing Strategy

Current Borrowing Portfolio Position

The table below shows the CFR as at December 2018 against the gross debt position of the Council. The gross debt includes other long-term liabilities like PFI and finance lease obligations. Gross debt should not exceed CFR in the medium to long-term.

Estimated debt may change as the capital programme spends and financing changes. The lease balances do not include adjustments for new implications in 2018/19.

Narrative	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s	£000s	£000s
External Debt at 1 April	116,976	113,010	113,010	113,010	113,479	119,267
Expected change in Debt (repayment and new debt)	(3,966)	0	0	469	5,788	8,577
Closing External Debt	113,010	113,010	113,010	113,479	119,267	127,844
PFI Balance b/f	18,664	17,869	17,185	15,631	14,826	14,182
In year movement	(795)	(684)	(1,554)	(805)	(644)	(590)
Closing Balance PFI	17,869	17,185	15,631	14,826	14,182	13,592
PFI Partial Termination Balance b/f	14,613	13,927	13,192	12,404	11,560	10,655
In year movement	(686)	(735)	(788)	(844)	(905)	(970)
Closing Partial termination Balance PFI	13,927	13,192	12,404	11,560	10,655	9,685
Total PFI	31,796	30,377	28,035	26,386	24,837	23,277
Finance Leases at 1 April	81	44	36	99	140	178
Expected Change in Finance Leases	(37)	(8)	63	41	38	(2)
Closing Balance Finance Leases	44	36	99	140	178	176
Salix Loan	25	15	5	0	0	0
Salix in year movement	(10)	(10)	(5)	0	0	0
Closing Balance Salix	15	5	0	0	0	0
Actual Gross Debt at 31 March	144,865	143,428	141,144	140,005	144,282	151,297
Capital Financing Requirement	183,712	177,509	188,819	203,396	207,017	213,379
(Under)/over Borrowing	(38,847)	(34,082)	(47,675)	(63,392)	(62,736)	(62,081)

The table contained in section 5.2 shows the CFR forecast for 2018/19 to 2022/23. Also, there is no maturing debt until 2020/21, borrowing pressure from expenditure plans within the capital programme exist from 2019-23. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances

and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Director of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

PFI and finance lease portion of the CFR will not be funded by additional loan. Capital forecasts relating to 2019/20, 2020/21 and 2021/22 are very much subject to change at this stage.

The Council's decision to use internal borrowing is prudent as it eliminates the revenue cost of carry as investment returns remain low, there is sometimes slippage on capital programme budgets and counterparty risks remain to a degree. The Council can fund its entire borrowing requirement now if this is affordable. In which case, borrowing will be up to CFR.

Council's Year End Balance Sheet Position at 31 March 2018

	2016/17	2017/18	Change
	£'000		£'000
CFR	190,000	183,712	(6,288)
PFI and LEASES	(33,383)	(31,855)	1,527
Underlying Borrowing Requirement	156,617	151,857	(4,761)
External Borrowing	116,976	113,010	(3,966)
Under borrowing / Internal borrowing to date	(39,641)	(38,847)	795

Strategy to 'Unwind' Internal Borrowing

Internal borrowing at 31 March 2018 remains at sustainable levels. However, the Council will commence a review of its strategy to 'unwind' internal borrowing.

Debt Liability Benchmarking

In defining its borrowing strategy, the Council considered the true characteristics of all of the debt instruments in its portfolio, most especially the LOBOs and the various options available to the Council.

Consideration was given to the fact that in the current economic climate the LOBOs in the Council's portfolio will not be called due to their very high interest rate. Should they be called, replacement borrowing will not be required because the council will have cash available in 2019/20 to meet the call options based on the current estimates of the use of internal borrowing for the capital programme.

If all LOBOs are called at once (an unlikely event) then future estimated use of cash to temporarily fund the capital programme is likely to be affected.

The borrowing strategy to temporarily finance its capital programme, led the Council to consider setting a minimum amount of projected liquid cash of £10m. This means that cash outflows for capital purposes would primarily be met from cash investments until £10m was reached, and only at that point, would external borrowing be undertaken except if interest

rates were advantageous for long-term loans, then the Council will borrow in advance of need or where interest rates are expected to rise significantly and quickly.

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

5.3 Treasury Indicators: Limits to Borrowing Activity

Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. (The most likely prudent view, not the worst case scenario. Maximum level of external debt projected – Cipfa)

Operational Boundary	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s	£000s	£000s
External Debt	113,010	113,010	113,010	113,479	119,267	127,844
Other Long Term Liabilities	31,855	30,418	28,134	26,526	25,015	23,453
Operational Boundary	144,865	143,428	141,144	140,005	144,282	151,297

Authorised Limit for External Borrowing

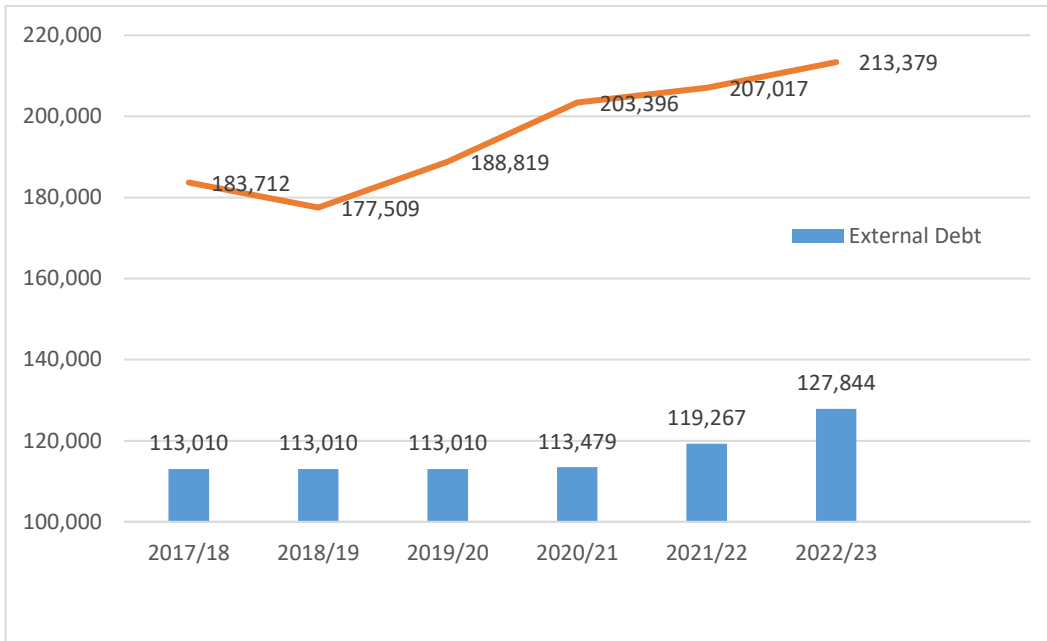
This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents a limit beyond which external borrowing must not go over in the 3 years, and this limit when set is to be revised annually by Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short-term, but is not sustainable in the longer term. (The operational boundary, plus headroom for unusual cash movements – Cipfa)

The Council is asked to approve the following authorised limit:

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s	£000s	£000s
Operational Boundary	144,865	143,428	141,144	140,005	144,282	151,297
Other Long Term Liabilities	80,000	90,000	100,000	100,000	100,000	100,000
Authorised Limit	224,865	233,428	241,144	240,005	244,282	251,297

Members are required to note that these authorised limits show the gross maximum borrowing for the year and, in year regulatory accounting changes which may affect the level of debt in the balance sheet as well as allow for any potential overdraft position and short-term borrowing for cashflow purposes. All of which will be counted against the overall borrowing. The authorised limit also provides headroom for any debt rescheduling which may occur during the year and any borrowing in advance of need.

The following graph shows projection of the CFR and borrowing.



Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council should ensure that its gross debt does not (except in the short term) exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

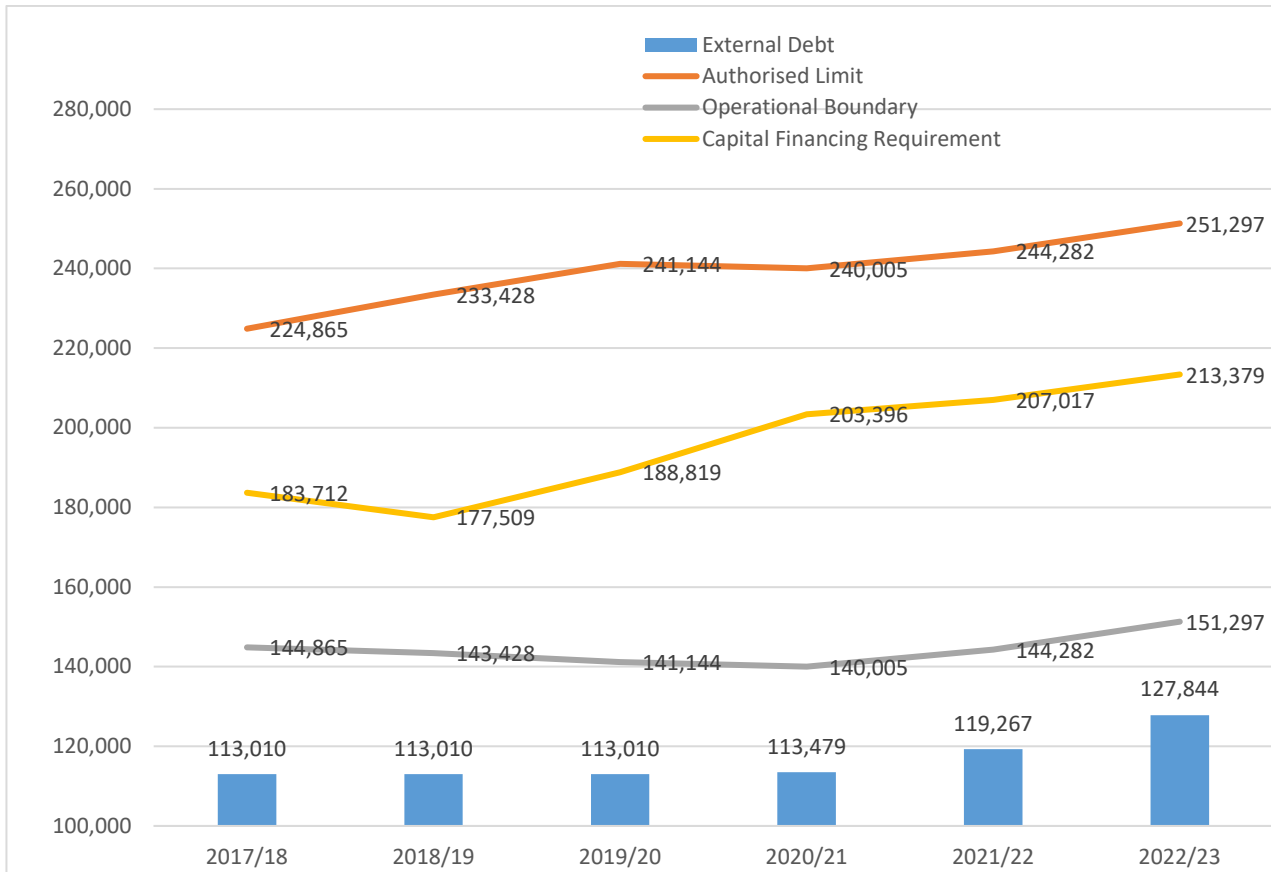
The Director of Corporate Services reports that the Council complied with this key prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget.

5.4 Treasury Management Limits on Activity

The table below shows the debt related treasury activity limits.

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

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



The table below shows the fixed and variable interest rate exposure

	2018/19	2019/20	2020/21	2021/22	2022/23
Interest Rate Exposures	Upper Estimate	Upper Estimate	Upper Estimate	Upper Estimate	Upper Estimate
Upper limit for fixed interest rates based on net debt	100%	100%	100%	100%	100%
Upper limit for variable interest rates based on net debt	50%	50%	50%	50%	50%
Limits on fixed interest rates:					
• Debt only	100%	100%	100%	100%	100%
• Investments only	100%	100%	100%	100%	100%
Limits on variable interest rates					
• Debt only	50%	50%	50%	50%	50%
• Investments only	50%	50%	50%	50%	50%

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

	Maturity Structure of fixed interest rate borrowing 2018/19			Maturity Structure of variable interest rate borrowing 2018/19		
	Actual at 21/11/2018	Lower	Upper	Actual 21/11/2017	Lower	Upper
Under 12 months	0%	0%	60%	0%	0%	50%
12 months to 2 years	0%	0%	60%	0%	0%	50%
2 years to 5 years	3.81%	0%	60%	0%	0%	50%
5 years to 10 years	27.17%	0%	80%	0%	0%	50%
10 years to 20 years	11.06%	0%	100%	0%	0%	50%
20 years to 30 years	11.94%	0%	100%	0%	0%	50%
30 years to 40 years	28.32%	0%	100%	0%	0%	50%
40 years to 50 years	17.70%	0%	100%	0%	0%	50%

Local Indicators

In setting the indicators below, the Council has taken into consideration investment risks and returns.

The table below shows target borrowing and investment rates

	2017/18 Actual %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %
Average Investment Target Return	0.80%	0.84%	1.00%	1.00%	1.00%	1.25%
Average Investment Target – Property Fund	4.19	4.0%	4.0%	4.0%	4.0%	4.0%
Long Term Borrowing Target						
• Current Portfolio	5.94%	5.72%	5.22%*	5.22%*	5.22%*	5.22%*

** If we are borrowing in future years, will this change?

The average investment target return above is based on the expected target return for the stated periods.

5.5 Policy on Borrowing in Advance of Need

London Borough of Merton will not borrow more than, or in advance of its need, purely in order to profit from the investment of the extra sums borrowed.

Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance could be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 24 months in advance of need. Where possible rates will be locked using forward borrowing to reduce the risk of the Council holding cash in low interest rate environment.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. The probability of this happening is low.

However should the Council need to borrow in advance of need, then the following will apply.

Year	Maximum Borrowing in advance	Notes
2019/20	No more than 50% of under borrowing requirement	Borrowing in advance will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the period of the approved Medium Term Capital Programme, a maximum of 2 years in advance to reduce carrying costs.
2020/21	No more than 50% of under borrowing requirement	
2021/22	No more than 50% of under borrowing requirement	
2022/23	No more than 50% of under borrowing requirement	

5.6. Debt Rescheduling

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

The reasons for any rescheduling to take place will include:

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

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

All rescheduling will be reported to the Cabinet, at the earliest meeting following its action.

The following table shows the maturity profile of the Council's current debt as at November 2018.

Duration	£'000	% of Debt Portfolio
less than 1 year	0	0.00
1 - 2 years	0	0.00
2 - 5 years	4,310	3.81
5 -10 years	30,700	27.17
10 -15 years	1,000	0.88
15- 20 years	11,500	10.18
20 - 25 years	13,500	11.95
25-30 years	0	0.00
30 - 35 years	7,000	6.19
35-40 years	25,000	22.12
40 -45 years	20,000	17.70
45-50 years	0	0

All of the Council's LOBOs are past their non call period, however, should all LOBOs be called at their next interest due date then the maturity profile will be as shown in the table below, an event which is very unlikely in the current low interest rate environment.

Duration	£'000	% of Debt Portfolio
less than 1 year	51,000	45.13
1 - 2 years	0	0
2 - 5 years	310	0.27
5 -10 years	21,200	18.76
10 -15 years	1,000	0.88
15- 20 years	2,500	2.21
20 - 25 years	0	0.00
25-30 years	0	0.00
30 - 35 years	7,000	6.19
35-40 years	15,000	13.29
40 -45 years	15,000	13.27
45-50 years	0	0.00

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

The reasons for any rescheduling to take place will include:

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

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

The Council tests the markets for redemption opportunities should they exist. The PWLB loans portfolio was elected for the early redemption review as at December 2018. A total loan value of £52m would incur redemption costs of £25million in addition to any accrued interest due.

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

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

Use of Derivatives

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

5.7 Borrowing Options

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

5.8 Changes Which May Affect Treasury Management

- *Future Regulatory Changes to Money Market Fund Valuation*
Proposed EU legislative changes will require money market funds with constant net asset value to change to variable net asset value. This will mean that investors in the fund will be liable for their share of losses as a result of counterparty failure. Consultation continues on the expected changes.
- *Proposed Changes to Leasing*
Future changes to accounting for leasing may mean that the cost of service will increase along with increases in MRP and CFR which will affect the Council's underlying borrowing requirement. It is anticipated that there may be some impact on both capital and revenue income and the changes will require all leases to be included on the balance sheet and be measured on PV of future lease payments. The new lease standard (IFRS 13) issued in 2015 is not anticipated to be adopted until 2019/20.
- *Municipal Bond Agency*
It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.
- *Future Challenges to Local Government Funding*
Future challenges to local government funding and their effect on cash flow remains a challenge.

6. ANNUAL INVESTMENT STRATEGY

6.1 Investment Policy

London Borough of Merton's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

6.2 Investment Strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations

Bank Rate forecasts for financial year ends (March) are:

2018/19	0.75%
2019/20	1.25%
2020/21	1.60%
2021/22	1.60%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now
2018/19	0.84%
2019/20	1.00%
2020/21	1.00%
2021/22	1.00%
2022/23	1.25%
2023/24	1.25%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

6.3 Alternative Investment Instruments

The Council has in the past restricted its treasury activities to simple investment structures like fixed deposits and money market funds.

However, in the current market, regulatory and economic environment, the Council may be required to utilise various instruments. **Appendix 5** of this report gives a detailed overview of the types of instrument and investment options available to the Council.

The global financial crisis of 2008 led to a major overhaul of regulation, market practices and financial institutions across the world. The changes have been aimed at promoting greater transparency and investor confidence.

Some of these measures include more institution-level regulatory changes like stringent capital, leverage and liquidity requirements in addition to The European Union (EU) Directives on Bank Recovery and Resolution (BRRD) and Deposit Guarantee Schemes (DGSD) among a few are key in this reform. Although these changes are ultimately designed to make financial systems more robust, they are not expected to have a fundamental impact on insolvency creditor hierarchy.

Although the Council does not expect a fundamental change in type of instruments it uses in the delivery of its treasury management activities, a number of new instruments have been included to provide flexibility should there be changes in the economic environment which may warrant their use.

As with any investment, there are varying degrees of risk associated with each instrument or investment options.

Should the Council decide to invest in any asset class a comprehensive analysis will be conducted to understand the associated risk and each instrument will be signed off by the Director of Corporate Services prior to any activity.

6.4 Investment Treasury Indicator and Limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council’s liquidity requirements and are based on the availability of funds after each year-end.

	31 Dec 2018 Actual £'m	2018/19 Estimate £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m
Estimated Principal sums invested greater than 364 days	5m	18m	40m	40m	30m	30m

In addition to fixed deposits, a number of other financial instruments like Property funds will fall under the category of investments with duration exceeding 364 days. In addition to using money market funds, call accounts and notice accounts, the Council will seek to utilise other liquid and transferable instruments like certificate of deposits and gilts for its cashflow balances.

6.5 Use of Specified and Non-Specified Investments

Investment instruments identified for use in the financial year are as follows:

Specified Investments

These are sterling investments of not more than one-year maturity, or those which could be for a longer period where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended with:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- The investment is not a long-term investment;
- The making of the investment is not defined as capital expenditure]; and
- The investment is made with a body or in an investment scheme of high credit quality or with one of the following public-sector bodies:
 - The United Kingdom Government;
 - A local authority in England or Wales (as defined under section 23 of the 2003 Act).

Non-Specified Investments

Non-Specified investments are defined as those not meeting the above criteria and exceeding 365 days in duration.

6.6 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change

Revenue Pressures – 0.1% improvement on £20m is £20k income generated and the cost of no risk is lost revenue therefore risks must be balanced to the Council's risk appetite.

- Security - The Council's maximum security risk benchmark for the current portfolio:
- Liquidity – in respect of this area the Council seeks to maintain:
 - Bank overdraft - £1m
 - Liquid short-term deposits of around £5m or more available with one day access.

6.7 Risk Management and Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services (formerly Capita Asset Services). This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour
		Colour (and long term rating where applicable)	Money Limit	Time Limit				
Banks		yellow	£35m	5yrs				
Banks		purple	£25m	2 yrs				
Banks		orange	£25m	1 yr				
Banks – part nationalised		blue	£25m	1 yr				
Banks		red	£10m	6 mths				
Banks		green	£5m	100 days				
Banks		No colour	Not to be used					
Limit 3 category – Council’s banker		Lloyds bank	£5m	1 day				
Other institutions limit		-	£5m	1yrs				
DMADF		AAA	unlimited	6 months				
Local authorities		Yellow	£35m	5yrs				
		Fund rating	Money Limit	Time Limit				
Money market funds		AAA	£35m	Instant				
Enhanced money market funds with a credit score of 1.25		Dark pink / AAA	£25m	Instant				
Enhanced money market funds with a credit score of 1.5		Light pink / AAA	£10m	Instant				

The Link Asset Services’ creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council uses other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

6.8 Country and Sector Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 3**. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

6.9 Banking Arrangements

The Council's bankers are Lloyds bank. The Council's bank accounts include some school accounts and client bank accounts managed as part of its Appointeeship role for residents that require this support. All schools are responsible for the management of their bank accounts.

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

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

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

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

In other instances, the Council may receive soft loans from government agencies.

6.11 Non-Treasury Investment Lending

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

7. Cashflow Management

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

Forecasts are based on best estimates which may slip due to unforeseen circumstances and the nature of large projects. Please see Appendix 8 for the cash flow forecast.

7.2 Purchase and Corporate Credit Cards

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

8. Policy on the use of External Service Providers

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

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

9. Training

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

10. The Localism Act

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

11. Treasury Management Practices

- 11.1 The 2011 Code reinforces a framework of 12 Treasury Management practices (TMPs), which define the manner in which authorities seek to achieve the policies and objectives outlined in their Treasury Management policy statement. The Council's detailed Treasury Management practices approved in March 2018/19 can be found on the Council's intranet. An updated version is included as **Appendix 5**

12. Appendices

- Appendix 1– Early Repayment of Debt Estimate
- Appendix 2 – Policy Investments (Non-Treasury Management Investments)
- Appendix 3 – Approved Countries for Investment
- Appendix 4 – The Treasury Management Role of the S151 Officer
- Appendix 5 – Treasury Management Practices 2019/20
- Appendix 6 – Prudential Indicators for 2018/19 to 2022/23
- Appendix 7 – Glossary
- Appendix 8 – Cashflow Forecast

13. Background Papers

- CIPFA Prudential Code for Capital Finance in Local Authorities 2013 Edition
 - 2017/18 Treasury Management Strategy report
 - The Guide to Local Government Finance (2013 Edition) Module 4: Treasury Management
 - CIPFA Practical Considerations in Using Financial Instruments to Manage Risk in the Public Sector
 - London Borough of Merton Capital Strategy 2019/23

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

PWLB loan Early Redemption Estimates at 30 November 2018

Loan Ref	Lender	Loan Start Date	Term	Maturity	Principal	Rate	Last Int paid	Term Left	Next Int Due	Discount Rate	Accrued Int to Nov 30	Premium/Discount	Total Due
1000484711	PWLB	13/11/2000	24	31/10/2024	5,000,000.00	5.00	31/10/2018	5.0	30/04/2019	0.78	20,547.95	1,178,799.94	6,199,347.89
1000484981	PWLB	30/11/2000	24	31/10/2024	1,500,000.00	4.75	31/10/2018	5.0	30/04/2019	0.86	5,856.16	332,076.57	1,837,932.73
1005489969	PWLB	20/05/2005	30	20/05/2035	2,500,000.00	4.45	20/11/2018	16.0	20/05/2019	0.86	3,047.95	997,257.48	3,500,305.43
1005490706	PWLB	21/11/2005	26	21/11/2031	1,000,000.00	4.25	21/11/2018	12.0	21/05/2019	0.86	1,047.95	327,307.92	1,328,355.87
1005490967	PWLB	10/01/2006	50	25/07/2055	10,000,000.00	3.95	25/07/2018	36.0	25/01/2019	0.90	138,520.55	5,750,711.92	15,889,232.47
1005490976	PWLB	10/01/2006	50	25/07/2055	5,000,000.00	3.95	25/07/2018	36.0	25/01/2019	0.90	69,260.27	2,875,355.96	7,944,616.23
1006491475	PWLB	28/04/2006	45.5	28/10/2051	7,000,000.00	4.40	28/10/2018	32.0	28/04/2019	1.67	27,846.58	4,408,923.18	11,436,769.76
1097480120	PWLB	15/10/1997	25.5	31/03/2023	310,000.00	6.63	30/09/2018	4.0	31/03/2019	1.47	3,432.29	77,046.29	390,478.58
1097480121	PWLB	15/10/1997	26.5	31/03/2024	12,000,000.00	6.50	30/09/2018	5.0	31/03/2019	1.80	130,356.16	3,520,230.52	15,650,586.68
1097480232	PWLB	11/11/1997	26.5	31/03/2024	1,700,000.00	6.75	30/09/2018	5.0	31/03/2019	1.80	19,177.40	520,804.79	2,239,982.19
1098480925	PWLB	30/04/1998	26	30/04/2024	6,000,000.00	5.88	31/10/2018	5.0	30/04/2019	1.84	28,972.60	1,589,444.74	7,618,417.34
Total					52,010,000.00						448,065.86	21,577,959.31	74,036,025.17

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

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

APPENDIX 3 – APPROVED COUNTRIES FOR INVESTMENTS (as at 21 November 2018)

Below is the current list of approved countries for investments for use by the Council's treasury team. The countries on the Council's approved list may change from time to time as Sovereign ratings change.

This list is based on those countries which have sovereign ratings of AA- or higher and also, (except - at the time of writing - for Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

APPENDIX 4

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
 - approval of annual strategy.
 - approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
 - budget consideration and approval;
 - approval of the division of responsibilities;
 - Receiving and reviewing regular monitoring and acting on recommendation
-
- **The S151 Officer (Director of Corporate Services)**
 - recommending clauses, Treasury Management policy / practices for approval, reviewing the same regularly, and monitoring compliance;
 - submitting regular Treasury Management policy reports;
 - submitting budgets and budget variations;
 - receiving and reviewing management information reports;
 - reviewing the performance of the Treasury Management function;
 - ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
 - ensuring the adequacy of internal audit, and liaising with external audit;
 - recommending the appointment of Treasury Management external service providers.
 - Approval of appropriate money market funds for the Council to invest in.

APPENDIX 5

LONDON BOROUGH OF MERTON
TREASURY MANAGEMENT PRACTICES 2019/20**TMP 1: RISK MANAGEMENT**

The Director of Corporate Services – the responsible officer will implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy / suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Policy on the use of credit risk analysis techniques

- The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- Credit ratings will be used as supplied from all three rating agencies - Fitch, Moody's and Standard & Poor's.
- Treasury management consultants will provide regular updates of changes to all ratings relevant to the Council.
- The treasury manager will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

1.2 Liquidity Risk Management

The Council will ensure it has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it, at all times, to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The treasury management team shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim. At the end of each financial day any unexpected surplus funds are transferred to the main bank account.

Bank overdraft arrangements – A £1 million net overdraft at 2% over base rate on debit

balances has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts. Separate facilities are available for the Pension Fund bank account.

- a. Short-term borrowing facilities
The Council accesses temporary loans through approved brokers on the London money market.
- b. Special payments
Where an urgent clearing house automated payment system (CHAPS) payment is required, a CHAPS payment request form must be completed and forwarded to the Head of Transactional Services who then checks for correct required signatures and supporting paperwork. Further guidance can be found on the Council's intranet.
- c. Inter account transfer
From time to time, transactions occur between the Pension Fund and the Council. Reimbursement where necessary is by inter-account transfers between both bank accounts.

1.3 Interest Rate Risk Management and use of Derivatives

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

The Council does not use derivatives, the Council's S151 Officer will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives when used will be clearly stated to members. The treasury management strategy has full details of interest rate exposure limits.

Policies concerning the use of instruments for interest rate management.

- Forward Dealing

Consideration will be given to dealing for forward periods depending on market conditions. When forward dealing is more than a 364 day period forward, the approval of the Director of Corporate Services is required.

- Callable Deposits

The council may use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

Policy on Use of Lender's Option Borrower's Option (LOBO) Loans

LOBOs give the lender the option to propose an increase in the interest rate at pre-determined dates, and the borrower, the option to accept the new rate **or** redeem the loan without penalty.

Use of LOBOs is considered as part of the Council's annual borrowing strategy. All long-term borrowing must be approved by the S151 Officer.

1.4 Exchange Rate Risk Management

Occasionally, the Council has to make foreign exchange payments, the Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure.

1.5 Refinancing Risk Management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies raised are managed, with a view to obtaining offer terms at renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage the relationships with counterparties in such a manner as to secure the above objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for rescheduling include:

- a) to generate cash savings at minimum risk;
- b) to reduce the average interest rate; and
- c) to amend the maturity profile and/or the balance of volatility of the debt portfolio

Any rescheduling will be reported to the Council at the meeting immediately following the action.

1.6 Legal and Regulatory Risk Management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 1.1 Credit and Counterparty Risk Management, it will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

The Council will ensure that its treasury management activities comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council.

The Council's powers to borrow and invest are contained in the Local Government Act 2003, section 12 and Local Government Act 2003, section 1. The treasury management scheme of delegation is contained in the Corporate Services Scheme of Delegation. This document

contains the officers who are authorised signatories. The Council's monitoring officer is the Assistant Director Corporate Resources while the S151 Officer is the Director of Corporate Services.

1.7 Fraud, Error and Corruption, and Contingency Management

Treasury tasks are segregated and adequate internal checks have been implemented to minimise risks and fraud. Procedures are documented and staff will not be allowed to take up treasury management activities until they have had proper training and are subject to an adequate and appropriate level of supervision.

Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out. Periodic backups will be made to ensure contingency of systems is available.

Details of Systems and Procedures to be Followed, Including Internet Services

The Council uses Logotech Treasury systems as its treasury management recording tool.

- The Corporate Services Scheme of Delegation sets out the delegation of duties to officers and the Council's constitution details delegated authority of treasury management to the Section 151 Officer.
- All loans and investments are negotiated by the Treasury Manager or other authorised persons.
- All long-term loans must be authorised by the Section 151 Officer.

1.8 Market Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect it from the effects of such fluctuations. This is controlled mainly by setting limits on investment instruments where the principal value can fluctuate. The limits are detailed in the Treasury Management Strategy

TMP 1: SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

This is included in the Treasury Management Strategy.

TMP 2: PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

Periodic Review During the Financial Year

The Director of Corporate Services will hold treasury management review meetings with the Treasury Manager, periodically or as required to review actual activity against the Treasury Management Strategy Statement (TMSS) and cashflow forecasts. This will include:

- Total debt (both on-and off- balance sheet) including average rate and maturity profile.
- Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.
- Cashflow forecast against the actual.

Annual Review After the end of the Financial Year

Annual Treasury Report will be submitted to the Full Council each year after the close of the financial year.

Comparative Review

Each year or on a quarterly basis, comparative review is undertaken to see how the Council's performance on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are set locally). Such reviews are: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- CIPFA Risk Study
- Other

2.2 Benchmarks and Calculation Methodology**2.2.1 Debt management**

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

2.2.2 Investment

The performance of investment earnings will be measured against any of the following benchmarks: In-house benchmark and when necessary other benchmarks such as Bank of England base rate, 7-day LIBID uncompounded, 7-day LIBID compounded weekly, 1-month LIBID and 3-month LIBID compounded quarterly

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers using the CIPFA treasury management benchmark service.

2.3 Policy Concerning Methods for Testing Value-for-money in Treasury Management

The process for advertising and awarding contracts will be in-line with the Council's Contract Standing Orders and procurement guidelines.

2.3.1 Money-broking Services

From time to time, the Council will use money-broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of firm of brokers is maintained by the Treasury Manager. The list takes account of both prices and quality of service. No firm of brokers will be given undue preference.

2.3.2 Consultants / Advisers Services

The Council's treasury management adviser is Link Asset Services (formerly Capita Asset Services).

TMP 3: DECISION-MAKING AND ANALYSIS**3.1 Funding, Borrowing, Lending, and New Instruments/Techniques****3.1.1 Records to be kept**

The following records will be retained:

- Daily cash balance forecasts for the day and previous day
- Money market deal booking and deal approval confirmation emails
- Dealing slips for all investment and borrowing transactions
- Brokers' confirmations for all investment and temporary borrowing transactions made through brokers
- Confirmations from borrowing / lending institutions including money market fund portals
- PWLB loan confirmations
- PWLB interest due schedule
- Certificates for market loans, local bonds and other loans
- Deal confirmation letters for deals over one month
- Banking and other contract documents which the treasury team has responsibility for.

3.1.2 Processes to be pursued

- Cashflow analysis
- Debt and investment maturity analysis
- Ledger/Logotech/Bank reconciliations
- Review of counterparty limits in addition to monitoring of counterparties
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc)
- Treasury contracts management

3.1.3 Issues to be addressed**3.1.3.1 In respect of all treasury management decisions made the Council will:**

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d) Ensure that third parties are judged satisfactory in the context of the council's creditworthiness policies, and that limits have not been exceeded
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive; and
- f) Ensure that adequate investigation on security of the Council's funds has been conducted

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

- a) Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, use of reserves, leasing and private partnerships; and
- d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.1.3.3 In respect of investment decisions, the Council will:

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions; and
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital

TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- Managing cash flow;
- Banking activities;
- Use of external fund managers (other than Pension Fund)
- Leasing;
- Undertaking all treasury management activities for the Pension Fund including its strategy setting.

4.2 Approved Instruments for Investments

English and Welsh authorities: The Annual Investment Strategy has a list of approved instruments.

4.3 Approved Techniques

- Forward dealing
- LOBOs – Lender's Option, Borrower's Option borrowing instrument
- Structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Bonds administered by the Municipal Bond Agency	●	●
Stock issues	●	●
Local (temporary)	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

PFI/PPP

Operating and Finance leases

Revenue Contributions

Borrowing will only be done in British Pound Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Corporate Services has delegated powers in accordance with Financial Regulations, Standing Orders and Scheme of Delegation to Officers to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

The Treasury Management Strategy Statement and Prudential and Treasury Indicators state all appropriate limits.

TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 Allocation of Responsibilities

(i) Council (Budget)

- Receiving and reviewing reports on treasury management policy, practice and activity; and
- Approval of annual strategy

(ii) Cabinet

- Approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practice;
- Budget consideration and approval;
- Approval of the division of responsibilities; and
- Receiving and reviewing regular monitoring reports and acting on recommendations.

(iii) Overview and Scrutiny Commission (Financial Monitoring Task Group)

- Reviewing all treasury management reports and making recommendations to the Cabinet

5.2 Statement of the Treasury Management Duties/Responsibilities of Each Treasury Post

5.2.1 Responsible Officer

The Responsible Officer is the person charged with professional responsibility for the treasury management function and in this Council it is the Director of Corporate Services and is also the S151 Officer. This person or delegated persons will carry out the following duties: -

- a) Recommending clauses, treasury management policy / practices for approval, reviewing the same regularly, and monitoring compliance
 - b) Submitting regular treasury management policy reports
 - c) Submitting budgets and budget variations
 - d) Receiving and reviewing management information reports
 - e) Reviewing the performance of the treasury management function
 - f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - g) Ensuring the adequacy of internal audit, and liaising with external audit
 - h) Recommending the appointment of external service providers.
 - i) The Responsible Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- a) The Responsible Officer may delegate her power to borrow and invest to members of her staff. The Treasury Manager, the fund officer. Treasury management team staff must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave / sickness.
 - b) The Responsible Officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
 - c) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
 - d) It is also the responsibility of the responsible officer to ensure that the Council complies with

the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.2.2 Treasury Manager

The responsibilities of this post will be: -

- a) Drafting the treasury management strategy and annual report
- b) Execution of transactions
- c) Adherence to agreed policies and practices on a day-to-day basis
- d) Maintaining relationships with counterparties and external service providers
- e) Supervising treasury management staff
- f) Monitoring performance on a day-to-day basis
- g) Submitting management information reports to the Responsible Officer; and
- h) Identifying and recommending opportunities for improved practices

5.2.3 Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented; and
- b) Ensuring that the Responsible Officer reports regularly to the full Council / Cabinet or General Purpose Committee on treasury policy, activity and performance.

5.2.4 Monitoring Officer

The responsibilities of this post will be: -

- a) Ensuring compliance by the Responsible Officer with the treasury management policy statement and treasury management practice and that they comply with the law
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice; and
- c) Giving advice to the Responsible Officer when advice is sought

5.2.5 Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practice
- b) Reviewing division of duties and operational practice
- c) Assessing value for money from treasury activity; and
- d) Undertaking probity audit of the treasury function

5.3 Absence Cover Arrangements

Cover for treasury management staff will be to specific delegated staff.

5.4 Dealing Limits

- No investment deal must exceed £5million per transaction
- No borrowing deal at any point in time must exceed £10 million except when existing loans are being repaid.

5.5 List of Approved Brokers

A list of approved brokers is maintained by the Treasury team and a record of all transactions conducted with them can be obtained from Logotech.

Policy on Brokers' Services

It is the Council's policy to rotate business between brokers.

5.6 Policy on Taping of Conversations

The Council currently does not tape conversations with brokers **but** ensures that confirmations are received from counterparties.

5.7 Direct Dealing Practices

The Council will deal direct with counterparties if it is appropriate and the Council believes that better terms will be available. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts
- Call Accounts
- Money Market Funds
- Gilt/CD purchase via custodian; and
- Fixed period account e.g. 15-day fixed period account

5.8 Settlement Transmission Procedures

A confirmation letter signed by an authorised signatory per the Council's bank mandate must be sent to the counterparty if the deal period exceeds one month. Copy of forms folder located in H:/techaccy/treasury/Daily Treasury for PF

For payments, any transfer to be made via Lloyds link CHAPS system must be completed by 2.00 p.m. on the same day to ensure it is authorised. Money market funds may have earlier cut-off time/deadlines.

5.9 Documentation Requirements

For each deal undertaken, a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker and confirmation fax, email or letter.

5.10 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds, appointeeship and custody bank accounts. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded.

TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**6.1 Annual Treasury Management Strategy Statement**

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the cabinet and then to the Council (budget) for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy Statement is concerned with the following elements:
 - a) Prudential and Treasury Indicators
 - b) Current Treasury portfolio position
 - c) Borrowing requirement
 - d) Prospects for interest rates
 - e) Borrowing strategy
 - f) Policy on borrowing in advance of need
 - g) Debt rescheduling
 - h) Investment strategy
 - i) Creditworthiness policy
 - j) Policy on the use of external service providers
 - k) Any extraordinary treasury issue
 - l) MRP strategy
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives.

6.2 Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) Which specified and non specified instruments the Council will use
- c) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- d) Which credit rating agencies the Council will use
- e) How the Council will deal with changes in ratings, rating watches and rating outlooks
- f) Limits for individual counterparties and group limits
- g) Country limits
- h) Levels of cash balances
- i) Interest rate outlook
- j) Budget for investment earnings
- k) Policy on the use of external service providers

6.3 Annual Minimum Revenue Provision Statement

This statement sets out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.4 Policy on Prudential and Treasury Indicators

- a) The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
- b) The Responsible Officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Responsible Officer shall submit the changes for approval to the full Council.

6.5 Other Reporting

- Annual report on treasury management activity
- Other management information reports

TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory / Regulatory Requirements

The accounts are drawn up in accordance with IFRS. The Council has adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to the Council's treasury management activity.

TMP 8: CASH AND CASHFLOW MANAGEMENT

8.1 Arrangements for Preparing Cashflow

Cashflow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous year's cashflow records, adjusted for known changes in levels of income and expenditure, new grant allocations and changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known. Logotech is used to record cashflow.

8.2 Bank Statements Procedures

The Council receives daily bank statements on a daily basis, download into the folder below. Estimates on Logotech cashflow is updated with actuals from bank statement.
H:\TECHACCY\TREASURY\Daily Treasury for GF General Fund Daily

TMP 9: MONEY LAUNDERING

9.1 Proceeds of Crime Act 2002 and Amendments

See Council's website and intranet for money laundering process and associated policies
http://intranet/anti_money_laundering_policy.pdf

9.2 The Terrorism Act 2000 and Amendment order

See Council's website and staff intranet on policy. Staff should note that all individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

9.3 The Money Laundering Regulations 2007 and Updates

The Council's money laundering officer is the Head of Audit. See Council's website and intranet for details http://intranet/anti_money_laundering_policy.pdf

Treasury management and banking staff are required to familiarise themselves with all money laundering regulations.

9.4 Procedures for Establishing Identity / Authenticity of Lenders

It is not a requirement under Proceeds of Crime Act (POCA) for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, the Council does not accept loans from individuals except during a bond issue.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on www.fca.gov.uk.

9.5 Methodologies for identifying Deposit Takers

Other than those organisations mentioned in para section 6.10 and Appendix 2 of the treasury strategy, in the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA Register can be accessed through their website on www.fca.gov.uk.

All transactions will be carried out by CHAPS, faster payments or BACS for making deposits or repaying loans.

TMP 10: TRAINING AND QUALIFICATIONS

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time.

In addition, training may be provided on-the-job, and it is the treasury manager's responsibility to ensure that treasury management staff receive appropriate training.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by the Council's treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

Staff will keep records on their training.

10.3 Member Training Record

Member training will be provided as required.

TMP 11: USE OF EXTERNAL SERVICE PROVIDERS

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Custodian Banks, Consultants, Advisers

This Council may employ the services of other organisations to assist it in the field of treasury management. However, it will ensure that it fully understands what services are being provided and that they meet the needs of the Council, especially in terms of being objective and free from conflicts of interest.

11.1.1 Banking Services

- a) The Council's supplier of banking services is Lloyds Bank. The bank is an authorised banking institution authorised to undertake banking activities in the UK by the FCA
- b) The branch address is:
Lloyds Banking Group
25 Gresham Street, London
EC2V 7HN

11.1.2 Money-Broking Services

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers.

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

The Council receives mail shots on credit ratings, economic market data and borrowing data. In addition, interest rate forecasts, annual treasury management strategy templates, and from time to time, the Council may receive advice on the timing of borrowing, lending and debt rescheduling. The performance of consultants will be reviewed by the treasury manager to check whether performance has met expectations.

11.1.4 Custodian Banks

The Council will use the services of custodian banks when trading in most transferable instruments like treasury bills. Due procurement process will be followed in the procurement of this service. It should be noted that it is the borrower that pays in most cases and not the lender. Property fund on the other hand do not require custody services, the investor pays all fee.

11.1.5 Credit Rating Information

The Council receives notifications of credit ratings from Link Asset Services.

11.2 Procedures and Frequency for Tendering Services

See TMP2

TMP 12: CORPORATE GOVERNANCE

12.1 List of Documents to be Made Available for Public Inspection

- a) The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b) The Council has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

APPENDIX 6

PRUDENTIAL INDICATORS FOR 2018/19 TO 2022/23

PRUDENTIAL INDICATORS	2018/19 Forecast £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
1 CAPITAL EXPENDITURE					
a) Capital Expenditure (includes expenditure funded by supported, unsupported borrowing and other sources)					
i) General Fund estimated (Net of Leasing)	31,819	34,295	26,984	16,219	23,692
Total	31,819	34,295	26,984	16,219	23,692
b) In year Capital Financing Requirement (CFR)					
i) General Fund (Gross of MRP costs)	169	18,711	22,212	12,441	16,061
Total in year CFR	169	18,711	22,212	12,441	16,061
c) Capital Financing Requirement as at 31 March (Balance Sheet figures)					
i) General Fund (Net of MRP costs)	177,509	188,819	203,396	207,017	213,379
Total	177,509	188,819	203,396	207,017	213,379
2 AFFORDABILITY					
a) Ratio of Financing Costs to net Revenue Streams					
i) General Fund	10.20%	11.78%	12.00%	12.68%	12.35%
b) General Fund Impact of Prudential (Unsupported) Borrowing on Band D Council Tax Levels (per annum)					
i) In year Increase £	(30.85)	26.49	(2.59)	16.13	(2.53)
ii) Cumulative Increase (includes MRP costs) £	(56.95)	(30.45)	(33.04)	(16.91)	(19.44)

APPENDIX 6

PRUDENTIAL INDICATORS FOR 2018/19 TO 2022/23

PRUDENTIAL INDICATORS	2018/19 Forecast £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
3 LONG-TERM EXTERNAL DEBT					
a) Debt Brought Forward 1 April	113,010	113,010	113,010	113,479	119,267
Debt Carried Forward 31 March	113,010	113,010	113,479	119,267	127,844
Additional Borrowing	0	0	469	5,788	8,577
b) Operational Boundary for External Debt (Excludes Revenue Borrowing)					
i) External Debt 31 March	113,010	113,010	113,479	119,267	127,844
ii) Other Long-term Liabilities	30,418	28,134	26,526	25,015	23,453
c) Total Operating Boundary (Excludes Revenue Borrowing)	143,428	141,144	140,005	144,282	151,297
Add margin for cashflow contingency	90,000	100,000	100,000	100,000	100,000
Affordable Borrowing Limit (Includes Revenue Borrowing)	233,428	241,144	240,005	244,282	251,297
Authorised Limit for External Debt (Includes Revenue Borrowing)					
- Gross Debt 31 March	143,428	141,144	140,005	144,282	151,297
- Headroom for Unusual Cash Movements	90,000	100,000	100,000	100,000	100,000
Authorised Borrowing Limit	233,428	241,144	240,005	244,282	251,297
4 TREASURY MANAGEMENT					
a) Borrowing Limit – Upper Limit for Fixed Interest Rate Exposure Expressed as: Net Principal re Fixed Rate Borrowing/Investments	233,428	241,144	240,005	244,282	251,297
b) Borrowing Limit – Upper Limit for Variable Interest Rate Exposure Expressed as a %: Net Principal re Variable Rate Borrowing/ Investments	50%	50%	50%	50%	50%
c) Lending Limit – Upper Limit for Total Principal Sums Invested for Over 364 Days Expressed as a % of Total Investments	50%	50%	50%	50%	50%

APPENDIX 6

PRUDENTIAL INDICATORS FOR 2018/19 TO 2022/23

		LOWER LIMIT	UPPER LIMIT
d)	Maturity Structure of new Fixed Rate Borrowing, if Taken During 2019/20		
i)	Under 12 Months	0	10%
ii)	12 Months to 24 Months	0	20%
iii)	24 Months to 5 Years	0	30%
iv)	5 Years to 10 Years	0	40%
v)	10 Years and Above	0	100%

APPENDIX 7

GLOSSARY OF TREASURY MANAGEMENT TERMS

Accrued Interest

Any interest that has accrued since the initial purchase or since the last coupon payment date, up to the date of sale/purchase

Basis Point

One hundredth of 1% e.g. 0.01%

Certificate of Deposit (CD)

A Tradable form of fixed deposit. They can be sold before maturity via the secondary market at a rate that is negotiable. Often issued by banks and Building Societies in any period from 1 month to 5 years.

Coupon

The total amount of interest a security will pay on a yearly basis. The coupon payment period depends on the security.

Covered Bond

Covered bonds are conventional bonds (fixed or floating) issued by financial institutions that are backed by a separate group of loans, usually prime residential mortgages or public sector loans.

Credit Rating

A measure of credit worthiness of a borrower. A credit rating can be assigned to a country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch and Moody's.

Credit risk

This is the risk that the issuer of a security becomes temporarily or permanently insolvent, resulting in its inability to repay the interest or to redeem the bond. The solvency of the issuer may change over time due to various factors.

Debt Management Office (DMO)

Debt Management Office is an executive agency of HM Treasury. They are responsible for debt management in the UK, in the form of issuing Treasury Bills and Gilts.

Financial Strength Rating

Rating criteria used by Moody's ratings agency to measure a bank's intrinsic safety and soundness.

Floating Rate Note (FRN)

An instrument issued by Banks, Building Societies and Supranational organisations which has a coupon that re-sets usually every 3 months. The refix will often be set at a premium to 3 month LIBOR.

Gilt

A UK Government Bond, sterling denominated, issued by HM Treasury

Index Linked Gilts

A government bond issued by the DMO whose coupon and final redemption payment are related to movement in the RPI (Retail Price Index)

Interest Rate Risk

The risk that an investment's value will change due to a change in the absolute level of interest rate. Interest rate risk affects the value of bonds more directly than stocks, and it's a major risk to all bond holders. As interest rates rise, bond prices fall and vice versa. The rationale is that as interest rates increase, the opportunity cost of holding a bond decreases since investors are able to realise greater yields by switching to other investments that reflect the higher interest rate

LIBOR

London Interbank Offered Rate: set on a daily basis. The rate at which banks lend to each other for different periods

Long Term

Duration in excess of 1 year

Net Asset Value (NAV)

Often used when funds or investment assets are valued. This term generally means the total assets less total liabilities.

Premium

The sale/purchase of an asset at a level that is above the par value or original price. If a security is trading at a premium, current market interest rates are likely to be below the coupon rate of the security.

Short Term

Duration of up to 1 year

Support Rating

Fitch Ratings Agency's assessment of extraordinary support given to a financial institution either by the parent and or sovereign.

Supranational Bond

A bond issued by a Supranational organisation (multi-lateral development banks). They are AAA rated organisations in which the share capital is jointly owned and guaranteed by leading developed nations in their respective region.

Treasury Bill (T-Bills)

A Treasury Bills is a short dated instrument issued by HM Treasury. They are issued at a discount, therefore they are not coupon bearing.

Viability Ratings

Assessment of a bank's intrinsic creditworthiness applied by Fitch Ratings Agency. Its aim was to enhance visibility on benefits of support. This replaced the individual ratings.

Yield Curve

The yield curve represents the relationship between yield and maturity. The conventional shape being that as the maturity lengthens, the yield will increase. Each security will have its own yield curve, depending on the yield in every time period available.

Cash flow Appendix 8

	Q1 2018/19 '£000	Q2 2018/19 '£000	Q3 2018/19 '£000	Q4 2018/19 '£000	Q1 2019/20 '£000	Q2 2019/20 '£000	Q3 2019/20 '£000	Q4 2019/20 '£000
	Actual	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated
Opening Balance	671	2,426	577	16,034	21,236	26,519	31,884	37,249
CASH OUTFLOW								
BACS	-128,366	-116,853	-123,672	-125,079	-126,539	-128,617	-128,617	-126,539
Payroll and Pension	-38,854	-44,830	-43,666	-43,124	-43,798	-44,471	-44,471	-43,798
Investments, Loans and Interest payments.	-55,269	-36,013	-33,083	-42,113	-42,771	-43,429	-43,429	-42,771
Miscellaneous	-7,952	-6,499	-4,615	-6,456	-6,557	-6,658	-6,658	-6,557
Capital Payments	-7,955	-7,955	-8,063	-7,954	-8,573	-8,573	-8,573	-8,573
Total Payments	-238,396	-212,150	-213,098	-224,726	-228,238	-231,749	-231,749	-228,238
CASH INFLOW								
Business Rates	14,176	14,363	20,234	16,516	16,774	17,032	17,032	16,774
Investments Maturities	37,469	26,435	22,835	29,372	29,831	30,290	30,290	29,831
COUNCIL TAX	25,149	24,957	34,326	28,591	29,038	29,484	29,484	29,038
Grants	78,499	64,650	72,306	72,958	74,098	75,238	75,238	74,098
OTHER INCOME	44,815	50,050	49,518	48,892	49,656	50,419	50,419	49,656
Legal and property	7,675	821	2,354	3,674	3,731	3,789	3,789	3,731
Teachers' Pension Contribution	223	334	291	287	292	296	296	292
SCHOOLS ADVANCES	23,105	23,695	22,704	23,536	23,903	24,271	24,271	23,903
Other Bodies	2,148	159	738	1,031	1,047	1,064	1,064	1,047
VAT Refund	6,892	4,836	3,249	5,072	5,151	5,230	5,230	5,151
Total Receipts	240,151	210,301	228,555	229,928	233,521	237,114	237,114	233,521
Net Position - surplus/(overdrawn)	2,426	577	16,034	21,236	26,519	31,884	37,249	42,533
Money Market investments	17,900	18,800	16,871	16,871	16,871	16,871	16,871	16,871
Total Cash including MMFs	20,326	19,377	32,905	38,107	43,391	48,756	54,120	59,404

The future cash flow is projected based on actuals to date and on information available. The future forecast will change as it gets continuously projected based on actual spent.