Reference from the Overview and Scrutiny Commission: pre-decision scrutiny of the Business Plan 2015-2019

Recommendations:

A. That Cabinet, in taking decisions relating to the Business Plan 2015-19, takes into account the comments and recommendations made by the Overview and Scrutiny Commission and the outcomes of consideration by the Overview and Scrutiny Panels:
   - References made by the Overview & Scrutiny Panels - paragraphs 2.2 to 2.6

B. That Cabinet adopt a general principle of bringing forward budget savings whenever that can be done, including for the financial year 2015/16.

"2.2 References from the Overview and Scrutiny Panels

2.3 The Commission agreed to forward to Cabinet the comments and recommendations made by the overview and scrutiny panels. These are set out below.

2.4 The Commission agreed to submit additional comments and recommendations as set out below:-

2.5 The Commission asked that the Financial Monitoring Task Group work with the Director of Corporate Services to investigate the scope for alternative sources of revenue to fund some of the savings.

2.6 The Commission asked Cabinet to note its concerns in three main areas:

- The Commission expressed serious concern about the loss of the Council'sYouth Service. (CSF06)
- The Commission had serious concerns about proposed reduction in planning enforcement and ask that officers further develop the proposals and bring back suggestions for further scrutiny. (ER30)
- The Commission has serious concerns about the reduction in services in day care centres. (CH13). A proposal to refer this saving back to Cabinet was lost by five votes to four."

Comments from each Panel

Sustainable Communities Overview and Scrutiny Panel: 8 January 2015
CH42 housing options - Panel agreed to forward a recommendation that this proposal be kept under review to ensure that the council could be confident that this was a viable saving.
ER16 Waste Services – Joint Procurement - Take out 'harmonizing' and replace with 'collaboration' and clarify reference to any impact of saving on parks and waste

services.
ER22/23 Waste Services – Dog Waste options 1 and 2 - The Panel support option 1 (ER22) and ask that Cabinet explore the issues of overflowing bins and bring back benchmarking data on the effectiveness of this approach.
ER30 Building and Development Control (Planning Enforcement) - That the shared service proposals be developed further to inform the decision to be taken in 2016/17to make this change and the proposed associated savings.

Children and Young People Overview and Scrutiny Panel: 13 January 2015
The Children and Young People Scrutiny Panel noted with concern the implications of the proposed savings within the Children, Schools and Families Department, in particular with regard to the Youth Service, but reluctantly accepted them in the light of the overall budget position.

Healthier Communities and Older People O&S Panel: 14 January 2015
The Panel would like the Cabinet to ask officers to look again at the equality impact assessment of all the savings taking into consideration all those who will be affected and particularly looking at the knock on effects on the voluntary sector.
There was some concern about the process for considering the feedback on the consultation on changes to adult social care. At the meeting it was confirmed that scrutiny will now have the opportunity to consider the outcomes before it goes to Cabinet.
The Panel have concerns that the current savings proposals are based upon an inflation rate of 1.5% when it currently stands at 0.5%. This differential could have a huge impact on the level of savings that need to be made

Schools Funding 2015/16

1. Introduction

1.1 The Government announced the Dedicated Schools Grant allocation on 17th December 2014. Merton's allocation split over the three blocks is as follows:

Description	2015/16 £000	2014/15 £000
Schools Block	116,813	98,463
Early Years Block	9,593	12,149
High Needs Block	27,895	27,240
Total as at Schools Forum meeting	**154,301**	**137,852**
Academy recoupment	(16,519)	(4,999)
Final allocation for the year	**137,782**	**132,853**

1.2 The DSG for 2015/16 has increased significantly from 2014/15. This is due to four main factors:

- Non-recoupment Academy and Free School funding allocation are done through the authority's formula from 2015/16. This means that the initial grant allocation was increased by £9.8m with a corresponding increase in academy recoupment.
- Central government increased Merton's Schools Block per pupil funding from £4,534 to £4,824 for 2015/16 as part of an effort to right-size budgets nationally for the least fairly funded Local Authorities. This resulted in additional funding of £6.4m which was split over the three blocks to account for various cost pressures.
- Increase in numbers of pupils resulted in an increase of £1.9m
- The two year old funding which equalled £2.9m of the 2014/15 Early Years Block has not yet been confirmed by government and was excluded from the December grant allocation.

2. Schools Block

2.1 The Schools Block allocation of £116.813m is split into the following blocks:

Description	2015/16 £000	2014/15 £000
Centrally Retained Items	338	339
September bulge growth requirement	1,380	1,380
Transfers to other blocks	3,756	236
Individual School Budgets	111,339	96,508
Total Schools Block	**116,813**	**98,463**

2.2 There are three centrally retained items. These items include School Admissions (£284k), the cost of administering Schools Forum (£12k) and the cost of National Copyright Licences negotiated by the DfE (£61k).

2.3 The September growth requirement was set at £1.380m. This is based on supporting Primary schools with £60k additional funding to support a class of 30 pupils from September.

2.4 The EFA does not take account of transfers between DSG blocks at a local level. These transfers will therefore require adjustment year-on-year. For 2015/16 the transfer from the schools block is summarised in the table below.

Description	**Schools £000**	**Early Years £000**	**High Needs £000**
Adjustments agreed in previous years	(236)	(247)	483
Funding shortfall in post 16 FE and ISP provision	(700)		700
Increase in mainstream and academy statement provision	(343)		343
Increase in additional funding for schools with high number of SEN students	(101)		101
Increase in Independent Day school provision	(800)		800
PRU funding review	(338)		338
Funding increase in special school numbers from schools block	(260)		260
Increase in ARPs (including new ARP from Sep 15 onwards)	(131)		131
Permanent funding for MAOS	(100)		100
Independent hospital provision cost	(50)		50
3% Inflation increase in special schools and retained HNB items	(365)		365
3% Inflation increase in Early Years settings	(329)	329	
Movement in centrally retained items		14	(14)
Increase in de-delegated and centrally retained budgets funded from HNB due to change in NOR	(3)		3
Net Transfer	**(3,756)**	**96**	**3,660**

2.5 As per Schools Forum agreement on 16th October 2014, both Primary and Secondary schools opted to de-delegate the relevant services. The total de-delegated budget for 2015/16 is £1.518m. This together with the £109.821m that will be paid over to schools and Academies equals the Individual Schools Budgets of £111.339m.

2.6 The table below details the total allocation to de-delegated services as well as the unit cost for each of these services.

Service	Schools £000	Unit Cost	Measure
Licences and Subscriptions	129	£6.19	NOR
School Meals Subsidy	19	£1.23	NOR
Schools in Challenging Circumstances	195	£9.37	NOR
Marketing in Schools	68	£3.28	NOR
Merton Education Partnership (Primary)	73	£4.63	NOR
Parenting Cover	640	£30.65	NOR
Refugee Service and EMAG	196	£42.21	EAL
Tree work	45	£2.16	NOR
Behaviour Support	153	£31.47	Low Att
Total budget	**1,518**		

(NOR= Number on Roll; EAL factor= English as an Additional Language; Low Att= Lower Attainment factor for low cost, high incidence SEN)

3. School Funding Formula Factors

3.1 A summary of the factors used and the total budgets allocated against each factor is set out in the funding proforma which is submitted to the DfE for compliance checks.

3.2 As free schools and non-recoupment academies are now included in the Schools Formula, the total values allocated compared to last year will be higher for all secondary school factors.

3.3 As agreed by Schools Forum on 10th December 2014, the additional funding available to be distributed through the Schools Funding Formula following the allocation of funding based on the 2014/15 unit values, was allocated through the AWPU unit values. Due to the increase in DSG these unit values were increased by 6.8% as detailed in the table below.

Description	2015/16	2014/15
Primary	£3,253	£3,043
Secondary Key Stage 3	£4,274	£4,000
Secondary Key Stage 4	£5,177	£4,845

3.4 The Free School Meals factor budgets were set at £2.433m (£2.436m in 2014/15) and £1.550m (£1.093m in 2014/15) for Primary and Secondary schools respectively. The unit values were kept the same as 2014/15 at £684 for Primary and £633 for Secondary schools.

3.5 The unit values for IDACI were kept the same as the previous year for 2015/16. The values are the same for both primary and secondary schools as per the table below.

IDACI Band	Amount
IDACI band 1	£20
IDACI band 2	£40
IDACI band 3	£60
IDACI band 4	£80
IDACI band 5	£90
IDACI band 6	£120

3.6 The unit value for Looked After Children (LAC) was kept the same as in 2014/15 at £1,000.

3.7 The overall budget for the prior attainment factor to support Low Cost, High Incidence SEN students was maintained at the previous year level of £3.784m for Primary schools. Due to the changes in the factors, this resulted in unit values of £932 (£1,109 in 2014/15). As the secondary school factor stayed the same from 2014/15 to 2015/16, the unit value was maintained at £1,628.

3.8 The English as an Additional Language (EAL) factor unit values were kept the same as the previous year at £377 and £907 for Primary and Secondary schools respectively.

3.9 The lump sum and split site factors were kept the same as in 2014/15 at £150k and £68k respectively.

3.10 The rates factor was reduced by £64k to reflect the expected cost for 2014/15. This includes an inflation increase offset by rate relief granted to academies.

3.11 The minimum funding guarantee floor was set at -1.5% by the DfE. Due to the increase in AWPU the requirement for MFG reduced from £1.515m in 2014/15 to £0.420m in 2015/16.

3.12 These figures exclude the 6th form funding which still needs to be provided by the EFA and does not form part of the schools funding formula. It also excludes additional resource provision and individual pupil statement funding which forms part of the high needs block and will be reported on separately.

3.13 Bulge class funding is held centrally, excluded from the formula figures, and will be paid to schools as part of their monthly advances.

3.14 Pupil Premium funding is not included in the formula figures and indicative figures will be provided separately when schools are informed of their budgets for 2015/16.

4. Early Years Block

4.1 The Early Years Block allocation is split into the following areas:

Description	2015-16 £000	2014-15 £000
Transfers between blocks	(97)	246
Centrally Retained Items	707	693
2 Year Old Offer	0	2,927
Contingency	362	26
3 and 4 year old funding- PVI	2,568	2,500
3 and 4 year old funding- maintained schools	5,854	5,757
Pupil Premium	199	0
Total Early Years Block	**9,593**	**12,149**

4.2 The EFA does not take account of transfers between DSG blocks at a local level. These transfers will therefore require adjustment year-on-year. For 2015/16 the transfer to the Early Years block is £97k compared to transfers from this block of £246k for 2014/15. The increase is due to the 3% uplift allocated from the Schools Block of £329k and a £14k transfer from the High Needs Block.

4.3 The £707k for centrally retained items includes funding for quality and standards, childcare and some enhanced early intervention services.

4.4 The two year old funding allocation for Merton for 2014/15 was £2.927m which included a notional amount for statutory places and an allocation for trajectory place funding and planning. The funding method changes for 2015/16. There will no longer be any trajectory funding and the pupil led funding will be based on actual participation rather than statutory places. As the funding will be based on the January 2015 census, government will only confirm this allocation later in the year.

4.5 The contingency has been increased to £362k for 2015/16. This includes an amount towards the funding for SEN requirements as the allocation method for this funding has not yet been formally agreed.

4.6 Based on the 2014 pupil counts, the estimated funding relating to 3 and 4 year old children for Merton maintained schools and PVI settings is expected to be £5.854m and £2.568 respectively for 2015/16. These are indicative budgets and the figures will be updated every term following the actual pupil counts. The formula used to allocate this funding as well as that of 2 year olds is detailed in section 3.

4.7 The EfA has introduced an Early Years Pupil Premium from 1 April 2015. The indicative allocation for Merton is £199k. This will be paid to settings and schools after each terms headcount.

5. Early Years Funding Formula Factors

5.1 Merton's Early Years Funding Formula uses base rates, SEN support and IDACI as factors to calculate allocations. The table below shows the base rates used in the formula.

Description	15-16 Rate £	14-15 Rate £
Schools – Independent	3.71	3.71
Full Day Care	3.97	3.85
Stand alone 15 hour settings	4.17	4.05
Mainstream Schools	3.68	3.57
2 year olds and Childminders	5.40	5.40

For 2015/16, we were able to increase the full day centre, stand alone 15 hour setting, and maintained schools rates by 3% as detailed in the above table. This was done to more closely align the mainstream school rate with the independent school rate.

5.2 IDACI is used as a measure of deprivation for 2015/16. The unit values remained the same as last year as detailed in the table below.

Description	15-16 Rate £	14-15 Rate £
Band 1	0.15	0.15
Band 2	0.20	0.20
Band 3	0.25	0.25
Band 4	0.30	0.30
Band 5	0.35	0.35
Band 6	0.40	0.40

Merton will continue to fund SEN support in 2015/16, and is planning to continue to fund all children on Action Plus, in all settings, at the same rate as 2014/15 of £2.50 per hour. Additional support for 2, 3 and 4 year olds is planned, but the funding mechanism for this is not yet agreed. This funding has been left in contingency until the mechanism has been agreed.

6. High Needs Block

6.1 High Needs Block funding

6.1.1 A place-plus approach to High Needs funding was introduced in 2013/14 with the aim of ensuring that all providers, mainstream and specialist, will be funded on an equivalent basis.

6.1.2 The table on the next page shows how Merton's High Needs Block funding is allocated.

Description	2015/16 £000	2014/15 £000
Mainstream settings (Individual SEN statements)	4,319	3,603
Special Schools	7,566	7,075
Additional Resource Provision bases	2,792	2,661
Pupil Referral Unit (PRU)	1,723	1,334
Centrally retained High Needs funding for commissioned services	12,856	10,699
Post 16 FE and ISP funding	2,060	1,775
Centrally retained High Needs funding for special schools	239	236
Transfers from other blocks	(3,660)	(463)
NMSS expected grant adjustment	0	320
Total Funding	**27,895**	**27,240**

6.2 Mainstream settings

6.2.1 Schools are expected to contribute the first £6,000 of additional educational support for High Needs pupils and students. This additional support is for a provision over and above the standard offer of teaching and learning for all pupils or students in a setting. Pre-16, schools and Academies will continue to receive a clearly identified notional SEN budget from which to make this contribution. Merton will provide this budget for maintained schools while the EFA will provide it for Academies. The notional SEN will comprise three elements as detailed below.

Formula factor	2015/16
Age Weighted Pupil Allowance (AWPU)	2.5%
Deprivation (Free School Meals & IDACI)	10%
Low cost, high incidence SEN (Low Attainment)	100%

6.2.2 The notional SEN budget should be used to support pupils with low cost, high incidence SEN as well as the first £6,000 support for pupils with statements. This includes provision for Action and Action plus students as classified under the previous funding arrangements.

6.2.3 The notional allocation is only a guide and schools are expected to set their budgets in such a way to meet the needs of all their pupils, including those with additional needs, within the resources they receive.

6.2.4 Where schools have a high number of SEN students, the allocation to support these pupils through the schools formula might not be sufficient. Funding will be set aside in the High Needs Block to support such schools. If more than 2.5% of a school's NOR are pupils with statements, the excess percentage will be multiplied by the school's NOR and multiplied by £6,000 to calculate additional support for the school.

Example

9 pupils as a percentage of 186	4.84%
Less 2.5% threshold	2.34%
186 x 2.34%	4.35 pupils
4.35 pupils x £6,000	£26,100

In 2014/15, £272k was allocated to schools through this mechanism. This is estimated to increase to £373k in 2015/16.

6.2.5 The NOR will be based on the October count and the numbers of SEN statements will be based on the numbers as per the October SEN statement payment to schools. The number of statements used will exclude pupils funded in special units.

6.2.6 Merton consulted on whether the statement funding should be reduced for 2015/16 or whether funding should be top-sliced from the Schools Block to fund the increase pressure on this budget. At the Schools Forum on 10th December it was decided that the bands should not be reduced and will remain as per the table below.

Band	Hours support	2015/16	2014/15
Band1	Up to 16 hours	Part of £6,000 notional SEN funding	Part of £6,000 notional SEN funding
Band 2	16 to 19 hours	£5,691	£5,691
Band 3	20 to 23 hours	£7,826	£7,826
Band 4	24 to 27 hours	£9,961	£9,961
Band 5	28 to 31 hours	£12,096	£12,096

6.2.7 £476k of the increase in this budget relates to the grants adjustments that are still outstanding as detailed in paragraph 1.2.

6.3 Special Schools

6.3.1 Specialist SEN and LDD schools will continue to receive a base level of funding on the basis of an agreed number of planned places at £10,000 per place. Top-up funding above this level will increase by 5.47% from 2014/15 to reflect the increase in DSG.

6.3.2 The EFA changed the way in which High Needs Block funding is allocated to a lagged system. This means that they will be using the 2014/15 data to make the 2015/16 adjustments. We are still awaiting the final allocation of the High Needs Block grant for 2015/16.

6.3.3 Due to the increase in numbers in special schools, the HNB funding will be increased by an estimated £260k to cover these cost pressures.

6.3.4 The total for specialist SEN and LDD settings includes the school budgets for Cricket Green, Perseid, and Melrose special schools.

6.4 Additional Resource Provision bases

6.4.1 Places in special units and resourced provision will attract a base level of funding of £10,000 per place as well as top-up funding. Where the numbers in the base have stayed the same, we kept the top-up funding at the same rate as 2014/15. Where numbers have increased, top-up funding was adjusted as additional funding was added to the base totals equal to band 5 (£12,096) of statement funding as agreed by the SEN manager.

6.4.2 The EFA changed the way in which High Needs Block funding is allocated to a lagged system. This means that they will be using the 2014/15 data to make the 2015/16 adjustments. We are still awaiting the final allocation of the High Needs Block grant for 2015/16.

6.4.3 There are currently eight ARP bases in Merton with a ninth planned to start in September 2015 at Hatfeild primary school. In order to fund the increase in provision, the overall ARP budget was increased by £131k.

6.5 Pupil Referral Unit (SMART Centre)

6.5.1 The PRU will receive a base level of funding of £10,000 per place. Top-up funding above this level will be set at £6,478 which represents a funding increase to be more in line with other PRUs in London as well as an inflationary uplift similar to primary, secondary and special schools.

6.5.2 Mainstream schools and Academies have important commissioning responsibilities with regard to pupils of compulsory school age who are placed in Alternative Provision for the purpose of early intervention or as a result of fixed-term exclusion. In such instances, under the new funding arrangements, mainstream schools and Academies will be responsible for paying top-up funding to the AP settings in which they place pupils.

6.5.3 Alternative education and medical service provision are also delivered through the SMART Centre.

6.5.4 The exclusion process currently involves a deduction of AWPU against a national criteria and a local agreement to pay £3,000 per excluded pupil and receive £3,000 for a re-integrated pupil. This agreement is between all secondary maintained schools and academies and will continue in 2015/16.

6.6 Centrally retained funding for commissioned services

6.6.1 These services are retained centrally by the Local Authority to deliver direct services or procure services from external providers to ensure the most economic use of resources. The table below details these services.

Description	2015/16 £000	2014/15 £000
Non-Delegated Statements	9,104	7,520
Cost of Merton pupils in other LA maintained schools	1,859	1,764
Cost of other LA children in Merton maintained schools	(1,029)	(1,053)
Sensory Team	365	344
Virtual School	356	305
SSQ Core Offer	346	346
Language and Learning	294	257
Therapy in Schools - SEN Pupils	279	279
Portage	258	222
Behaviour Support	196	196
Education welfare	160	159
Social Inclusion	149	153
Therapy in Special schools	112	0
Merton Autism Outreach Service (MAOS)	100	0
Vulnerable Children's Education	97	97
SEN support	56	56
Independent hospital provision	50	0
Education support for Looked After Children	50	0
Sports Co-ordinator	32	32
Education psychology	22	22
Total Cost	**12,856**	**10,699**

6.6.2 The main increase on non-delegated statements relates to the £800k required to address the cost pressure on Independent Day school provision. The remainder of the increase relates to estimated adjustments that still need to be made as the final grant has not yet been allocated.

6.7 Post 16 Further Education (FE) College and Independent Specialist Provider (ISP) funding

6.7.1 The funding in this area relates to high level SEN or LDD cost for young people aged over 16 in FE colleges and ISPs. The responsibility for these payments transferred to Local Authorities in September 2013.

6.7.2 Due to the funding shortfall transferred from the EFA to Merton for these costs, a transfer of £700k was made to the HNB to cover the cost pressure.

6.8 Centrally retained funding for special schools

6.8.1 This includes the funding for centrally provided services for the special schools, similar to de-delegated budgets held for the maintained primary and secondary schools. It also includes £207k for prudential borrowing that the Schools Forum agreed at their meeting on 15th October 2007.

6.9 Transfers from other blocks

6.9.1 The EFA does not take account of transfers between DSG blocks at a local level. These transfers will therefore require adjustment year-on-year. For 2015-16 the transfer to the high needs block is summarised in the table under 2.5 in this report.

6.10 Non Maintained Special School (NMSS) expected grant adjustment

Merton is still awaiting the final allocation of the High Needs Block grant for 2015/16 and this figure has not yet been quantified.

7. Schools general

7.1 On 31 March 2014 Merton held balances for 52 schools to the value of £10.896m. Of the 52 schools, 2 had deficit balances with a total value of £127k. The other 50schools had balances ranging from £7k to £1.228m.

7.2 For 2014/15 4 schools submitted deficil balances and the Local Authority is working closely with these schools to review their progress. We are anticipating that 5 to 6 schools will again request deficit budgets for 2015/16, and we will require deficit recovery plans to accompany these requests.

CAPITAL STRATEGY

1 Introduction

1.1 Merton's Capital Strategy for 2015-19 has been aligned and integrated with the Business Plan for the period 2015-19. 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:-

- Sustainable Communities and Transport;
- Safer and Stronger Communities;
- Health and Well Being;
- Children and Young People (Children's Trust);
- 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 2015/19 is therefore based on the set of guiding strategic priorities and principles, as adopted by the council on 13 July 2011:

- Merton should continue to provide a certain level of essential services for residents. The order of priority of 'must' services should be:
  i) Continue to provide everything that is statutory.
  ii) Maintain services – within limits – to the vulnerable and elderly.
- After meeting these obligations Merton should do all that it can to help residents who aspire. This means we should address the following as priorities in this order:
  i) Maintain clean streets and keep council tax low.
  ii) Keep Merton as a good place for young people to go to school and grow up.
  iii) Be the best it can for the local environment.
  iv) All the rest should be open for discussion.

The financial pressures facing Merton mean we should no longer aim to be a 'place-maker' but be a 'place-shaper'. The council should be an enabler, working with partners to provide services.

1.4 Merton's scrutiny function reflects these 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 2015-2019

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 Service Plans

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

2.2.2 This Capital Strategy is a fundamental component of our approach since it reflects our strategic priorities across the council and endeavours to maximise the contribution of the council's limited capital resources to achieving our vision. We will work closely with residents, community organisations and businesses to focus our resources and those of our partners effectively. The strategy also sets out the management arrangements for allocating resources to individual schemes, establishing funding for projects, monitoring progress, managing performance and ensuring that scarce capital resources are allocated efficiently.

3 Accounting Definitions and Practices

3.1 The council's approach to Capital Accounting follows the Code of Practice on Local Authority Accounting, which itself is based on the International Financial Reporting Standards (IFRS) and guidance issued by CIPFA and professional accounting networks.

3.2 As in previous years, there has been continual review of the Capital Programme to ensure that expenditure meets the strict definition and to identify any items which would be more appropriate to be charged to revenue. This has not resulted in any major changes to the future programme.

3.3 The de-minimis of capital expenditure for the authority is set at £10,000 per project. This applies to all schemes within our capital programme, however in exceptional circumstances thresholds below this may be considered where specific items of expenditure are below this de-minimis level but meet proper accounting definitions of capital expenditure.

3.4 Individual schools may choose to adopt the above de-minimis limit or use the limit of £2,000 as mentioned in some Department for Education and HMRC guidance for various types of school.

4 Corporate and strategic capital expenditure appraisal planning and control

4.1 Capital Programme Board

4.1.1 Merton's Capital Strategy is coordinated by the Capital Programme Board. The board, which is effectively a sub-group of the Corporate Management Team (CMT), consists of the Directors and their nominated senior officers from each service department, together with officers from the Business Planning Team.

4.1.2 The role of the board is to ensure that all capital expenditure and investment decisions are made in an informed way, consistent with the achievement of the council's overall corporate strategic objectives (paragraph 1.1) along with monitoring the asset disposals programme. It also has a co-ordinating, reviewing, developing, encouraging, and reporting role, which ensures that Merton makes effective and efficient use of its capital resources, including management of its capital assets. During 2012/14 considerable work has been undertaken reviewing and developing the systems and processes for:

- i) Compiling the Capital Programme
- ii) Monitoring Expenditure and year end / multi-year projection
- iii) Identification and Realisation of Scheme Benefits
- iv) Financing the Programme

4.1.3 The board recommends to cabinet how capital resources should be allocated. The recommendations are based on a review of existing schemes and consideration of growth proposals. The existing Capital Programme is examined for potential reductions and reprofiling. The growth bids are prioritised on the criteria as set out later in this document.

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

4.1.5 The council has had a robust policy for many years of reviewing its property holding and disposing of surplus property, detailed in the Asset Management Plan (AMP) which also includes policy and procedures for land and property acquisition. However, the economic recession slowed disposals in recent years and although the recession has eased will continue to have an effect for 2015/16 and possibly future years. All capital receipts are pooled, unless earmarked by cabinet, and are used either to finance further capital investment or for the payment of premiums on repayment of higher interest loans.

4.2 Capital Programme Approval and Amendment

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

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

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

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

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

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

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

4.3 Capital Monitoring

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

4.3.2 November monitoring information feeds into the Authority's Medium Term Financial Strategy (MTFS) and is used to access the revenue impact over the period of the strategy.

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. For example, in relation to the Primary School Expansion programme, the progress on each school is set out e.g. consultation, planning consent, start on site etc.

4.4 Risk Management

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

5 Revenue budget implications of capital investment

5.1 Revenue cost or savings

5.1.1 The council recognises that the prudential framework provides the council with flexibility, subject to the constraints of the council's revenue budget. This flexible ability to borrow, either from internal cash resources or by external borrowing, coupled with the revised treatment of finance leases with effect from 1 April 2010, means that prudential borrowing is used for the acquisition of equipment, where it is prudent, affordable and sustainable. In 2012/13, 2013/14 and 2014/15, it was possible to borrow from internal cash resources rather than external borrowing and it is forecast that this will continue to be the case until 2018/19. 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:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
MRP	7,421	7,674	9,015	9,547
Interest	6,696	6,696	7,010	7,729
Capital financing costs	**14,117**	**14,370**	**16,025**	**17,276**
Investment Income	(559)	(341)	(197)	(185)
Net	**13,558**	**14,029**	**15,828**	**17,091**

6 Capital resources 2015-19

6.1 Variety of sources

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

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

6.2 Annual Minimum Revenue Provision (MRP) Statement

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

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

7 Asset management review

7.1 Capital receipts

7.1.1 Capital receipts generated from the disposal of surplus and under-utilised land and property are a major source of funding and the potential available capital resources are under constant review and revision. The forecast of capital receipts included in this report are primarily based on the Corporate Asset Management Plan 2011-15, from which is derived a multi-year forecast of planned land and property disposals. In addition, after the transfer of the housing stock to Merton Priory Homes, the council continues to receive a share of the receipts from Right to Buy applications and through future sharing arrangements, receipts from the sales of void properties, sales of development land and VAT saving on expenditure on stock enhancements.

7.2 Property as a corporate resource

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

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

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

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

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

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

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

8 Summary of estimated disposals 2015-2019

8.1 Potential capital receipts

8.1.1 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 would 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 a 'best prudent view' at this time in respect of an anticipated cash flow and therefore future capital receipts have not been assumed as a source of funding for the capital programme at this stage, but do replace the need for external borrowing:-

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2017/18 £000s
Total	2,800	1,800	1,200	900

Note a) The above includes Right to Buys and the VAT shelter
Although difficult to accurately predict, other sales of assets could improve the position.

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

8.2 Debt repayment

8.2.1 The council has had a strategy to reduce its level of debt when opportunity arises in the market. The average interest payable on outstanding debt has is *5.72%*. For the period 2015-19, 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 requirement of the programme.

9 Grant Funding Capital Resources

9.1 Environmental and Regeneration

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Transport for London LIP (**earmarked) Capital**	4,035	*6,010	*4,826	TBA
Total: E&R	**4,035**	**6,010**	**4,826**	**TBA**

TBA – To Be Advised

- Allocation allows for £400,000 revenue allocation

9.2 Children, Schools and Families – *to be updated for further funding announcements*

	2015/16	2016/17	2017/18	2018/19
	£0	**£0**	**£0**	**£0**
Maintenance	2,072	TBA	TBA	TBA
Basic Need	4,236	4,448	TBA	TBA
Total Local Authority Funding	**6,308**	**4,448**	**TBA**	**TBA**
(Both of the above grants are **non-ringfenced**)				
Free School Meals Capital*	110	0	0	0
Targeted Basic Need	2,036	0	0	0
Devolved Formula Capital (**Earmarked**)	525	TBA	TBA	TBA

TBA – To Be Advised
* From the 2014/15 allocation

Note: Basic Need has been announced up to 2016/17and the Capital Maintenance allocation has not been announced for 2015/16. Targeted Basic Need relates to specific schemes. It was allocated for 2013/14 and 2014/15 but the above shows that it is anticipated that just over £2million will be applied in 2015/16.

9.3 Community and Housing

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Better Care Fund – Minimum Allocation for Disabled Facilities Grant**ed)**	528	TBA	TBA	TBA
Social Care Capital	416	TBA	TBA	TBA
Total C&H	**944**	**0**	**0**	**0**

From 2015/16 the Adult Social Care Grant is to be part of a pooled budget with the Merton Clinical Commissioning Group, no decisions have been made as yet as to how this will be utilised

9.4 Summary of Grant Funding 2015-2019

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 2015/16:-

Grant Funding	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Environment and Regeneration	4,035	6,010	4,826	TBA
Children, Schools and Families	9,017	4,448	TBA	TBA
Community and Housing	944	TBA	TBA	TBA
Total Grant Funding	**13,996**	**10,458**	**4,826**	**TBA**
Assumed source of funding - CSF	0	552	5,000	5,000

10 Summary of Total Resources 2015-19:

10.1 Summary

10.1.1 The total anticipated resources over the plan period 2015-19, including existing grant funding and anticipated CS&F grants, is summarised in the following table:-

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Grant & Contributions	17,251	11,387	11,141	6,027
Council Funding	21,608	40,846	33,387	27,820
Total	38,859	52,233	44,528	33,847

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 2018 to 2023. Additional detail is provided as Annex 5:

Indicative Capital Programme 2019 to 2024

Merton	Indicative Budget 19/20	Indicative Budget 20/21	Indicative Budget 21/22	Indicative Budget 22/23	Indicative Budget 23/24
Corporate Services	1,500	1,760	1,645	1,435	1,450
Community and Housing*	340	340	340	340	340
Children, Schools and Families	3,266	7,247	5,060	659	659
Environment and Regeneration*	4,873	4,654	4,654	4,654	4,654
	9,979	**14,001**	**11,699**	**7,088**	**7,103**

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

10.1.4 For every £1 million capital expenditure that is funded by external borrowing it is estimated that there will be annual revenue debt charges of between £242,000 for assets with a life of 5 years to £62,000 for an asset life of 50 years.

11 Capital bids and prioritisation criteria

11.1 Prioritisation of schemes 2018/19

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 growth put forward over the period 2015-19, on the basis of these criteria by the board to cabinet was £3.3 million 2015-18 (excluding TfL).

12 Detailed Capital Programme 2015-19

12.1 Corporate Services

This department is responsible for the administration of finance and staff, together with the corporate buildings including IT and utility services. Its main capital expenditure is on IT software and hardware, and on improvements to buildings. It is nearing the end of a major project for the restacking of offices in the Civic Centre to enable the economic concentration of staff and services on the borough's main civic site and the biggest remaining component of this is the replacement of the Civic Centre lifts. There are also budgets held centrally under Corporate Services to ensure funds are available to take up opportunities arising in the local property market, to leverage match funding or to enable transformation of services. Annex 1 provides the overall scheme level for approval and Annex 3 provides a detailed breakdown of projects.

12.2 Children, Schools and Families

This department's main capital focus is the need for increased provision for pupil, with the major spend shifting from primary to secondary in 2016/17. The provision in the 2014-18 programme has been revised to that shown in the table below:

Children, Schools and Families	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Primary School Expansions	12,031	4,092	3,849	2,575
Secondary School Expansions	670	15,375	11,500	13,954
SEN	2,941	3,910	3,000	850
Other	1,463	2,707	2,630	2,725
Children, Schools and Families	17,105	26,084	20,979	20,104

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

CSF capital programme 2015-19

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

Primary school places

Just over £22.5 million of the proposed programme 2015-19 relates to the requirement to provide sufficient primary school places but there is also some capital for other categories of expenditure.

As a result the council has either completed, or is in the progress of permanent expansion to provide 21 additional forms of entry since 2007/08. These are at the following 20 schools: Wimbledon Chase, Holy Trinity CE, St. Thomas of Canterbury, Benedict, Hollymount, Joseph Hood, Aragon, Cranmer, Merton Abbey, St Mary's, All Saints CE, Gorringe Park, Hillcross, Pelham, Dundonald, Poplar, Liberty, Singlegate (2FE extra, through additional adjacent site), Wimbledon Park, and William Morris.

Following analysis of more recent demographic information and admissions data, officers are adopting a prudent and cautious approach to planning for future expansions. No further permanent expansions will be undertaken until additional sustained demand for places is identified. The capital programme enables temporary accommodation to be provided in up to three schools in 2017-18 with additional budget also allocated from 2015-16 to enable further permanent expansions to be undertaken should the need materialise. The position will be kept under regular review by officers.

Secondary and special school places

The significant increase in demand for school places will reach the secondary phase from 2015/16 but it is expected this can be met through existing accommodation for the first two years. New build, expansion and enabling works will be required to provide sufficient places thereafter so significant budget is proposed for this from 2016-17.

The capital programme for 2015/19 includes £25 million for expansions in the borough's existing secondary schools and £16.6 million for the first phase of a new secondary school.

Due to the difficulty of accurately forecasting the specific level of pupil transfer from the last year of primary school to secondary school the level of secondary school expansion required will be subject to regular reviews over the capital programme period. There is therefore uncertainty over the size, timing and cost of the secondary expansion, this includes a lack of clarity regarding government funding.

The capital programme also includes a sum for additionally resourced SEN provision for pupils on the autism spectrum and more will be required in 2015/16 for permanent additional special school places.

Other schemes

With regard to other capital schemes, £650,000 per annum is provided for schools this will be limited to urgent health and safety related needs, with the council expecting schools to fund all works below £20,000.

Finally, a £6.34million provision for 2015-19 is being made for inflation on the expansion programme.

12.3 Environment and Regeneration

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

The individual projects for this department are all listed in Annex 3. Other than the grant funded Transport for London scheme for the upgrade of principal roads, the departments main schemes relate to 15 main areas:

Environment and Regeneration	**Updated Budget 15/16**	**Updated Budget 16/17**	**Updated Budget 17/18**	**Updated Budget 18/19**
Footways Planned Works	**1,000**	**1,000**	**1,000**	**1,000**
Greenspaces	**636**	**365**	**250**	**350**
Highways General Planned Works	**459**	**419**	**419**	**419**
Highways Planned Road Works	**1,500**	**1,500**	**1,500**	**1,500**
Leisure Centres	**1,200**	**9,300**	**1,300**	**1,800**
Other E&R	**351**	**0**	**0**	**0**
On and Off Street Parking	**1,300**	**0**	**0**	**0**
Regeneration Partnerships	**5,049**	**10,221**	**3,000**	**0**
Street Lighting	**200**	**462**	**290**	**509**
Street Scene	**375**	**60**	**60**	**100**
Transport for London	**1,935**	**1,826**	**1,826**	**0**
Traffic and Parking Management	**179**	**150**	**156**	**175**
Transport and Plant	**547**	**500**	**500**	**500**
Safer Merton - CCTV & ASB	**300**	**300**	**0**	**0**
Waste Operations	**210**	**26**	**26**	**26**
Environment and Regeneration	15,240	26,129	10,327	6,379

12.3.1 <u>Highways Planned Road Works and Footways Planned Works</u>

These works are based on annual condition surveys of the whole of the borough. As a result, items are prioritised and drawn up in programmes of works. These programmes may be amended as circumstances alter.

12.3.2 Highways General Planned Works

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

	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Demand for Surface Water Drainage - Flooding	62	69	69	69
Highways bridges and structures improvements	260	260	260	260
Anti-Skid and Coloured	90	90	90	90
Other	47	0	0	0

12.3.3 Leisure

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

	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Replacement of Leisure Centre Plant and Machinery	300	300	300	300
Morden Park Pools	900	9,000	1,000	0
Wimbledon Park De-Silting	0	0	0	1,500

12.3.4 Future Merton

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

	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Investment in industrial estates	750	0	0	0
Mitcham Schemes	2,081	884	0	0
Colliers Wood Schemes	162	0	0	0
Town Centre Improvements	1,688	1,037	0	0
Wimbledon - TfL	200	3,000	0	0
Morden – TfL	0	300	3,000	0
Transportation Enhancements*	0	5,000	0	0
Other	168	0	0	0

12.4 Community and Housing

12.4.1 This department aims to provide residents with the chance to live independent and fulfilling lives, in suitable homes within sustainable communities, with chances to learn, use information, and acquire new skills.

The departmental Capital Programme for 2015/19 comprises:

Community and Housing	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Adult Social Care	54	0	0	0
Merton Adult Education	0	0	0	0
Housing				
The Gables Mitcham	0	0	0	0
8 Wilton Road	0	0	0	0
Western Road	115	0	0	0
Disabled Facilities	1,642	784	340	340
Other Housing	0	0	0	0
Libraries	350	550	0	0
Community and Housing	**2,161**	**1,334**	**340**	**340**

12.5 Overall Programme

12.5.1 The approved Capital Programme for 2015/19 follows at Annex 1`, Annex 3 provides an additional breakdown detail of the approved schemes. The summary is as follows:

Merton	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Corporate Services	7,428	3,862	2,881	2,757
Community and Housing	2,161	1,334	340	340
Children, Schools and Families	17,105	26,084	20,979	20,104
Environment and Regeneration	15,240	26,129	10,327	6,379
Total	**41,933**	**57,408**	**34,526**	**29,579**

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 2014/15 is approved, the 2015/16 Capital Programme will be adjusted accordingly.

12.5.4 Annexe 1 Capital Investment Programme - Schemes for Approval

Annexe 2 Funding the Capital Programme 2015-19

Annexe 3 Detailed Capital Programme 2015-19

Annexe 4 Analysis of Growth

Annexe 5 Indicative Capital Programme 2019-24

CAPITAL INVESTMENT PROGRAMME - SCHEMES FOR APPROVAL - £000s ANNEX 1

Merton	**Updated Budget 15/16**	**Updated Budget 16/17**	**Updated Budget 17/18**	**Updated Budget 18/19**
Corporate Services	7,428	3,862	2,881	2,757
Community and Housing	2,161	1,334	340	340
Children, Schools and Families	17,105	26,084	20,979	20,104
Environment and Regeneration	15,240	26,129	10,327	6,379
	41,933	**57,408**	**34,526**	**29,579**

Corporate Services	**Updated Budget 15/16**	**Updated Budget 16/17**	**Updated Budget 17/18**	**Updated Budget 18/19**
Corporate Budgets	**1,613**	**1,000**	**0**	**0**
Business Improvement	**2,211**	**0**	**0**	**0**
Corporate Governance	**0**	**0**	**0**	**0**
Resources	**562**	**0**	**0**	**0**
Information Technology	**584**	**1,862**	**1,881**	**1,007**
Facilities Management	**2,458**	**1,000**	**1,000**	**1,750**
Corporate Services	**7,428**	**3,862**	**2,881**	**2,757**

Community and Housing	**Updated Budget 15/16**	**Updated Budget 16/17**	**Updated Budget 17/18**	**Updated Budget 18/19**
Adult Social Care	**54**	**0**	**0**	**0**
Merton Adult Education	**0**	**0**	**0**	**0**
Housing				
The Gables Mitcham	**0**	**0**	**0**	**0**
8 Wilton Road	**0**	**0**	**0**	**0**
Western Road	**115**	**0**	**0**	**0**
Disabled Facilities (2)	**1,642**	**784**	**340**	**340**
Other Housing	**0**	**0**	**0**	**0**
Libraries	**350**	**550**	**0**	**0**
Community and Housing	**2,161**	**1,334**	**340**	**340**

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

ANNEX 1

CAPITAL INVESTMENT PROGRAMME - SCHEMES FOR APPROVAL - £000s

Children, Schools and Families	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Primary School Expansions	12,031	4,092	3,849	2,575
Secondary School Expansions	670	15,375	11,500	13,954
SEN	2,941	3,910	3,000	850
Other (4)	1,463	2,707	2,630	2,725
Children, Schools and Families	17,105	26,084	20,979	20,104

Environment and Regeneration	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Footways Planned Works	1,000	1,000	1,000	1,000
Greenspaces	636	365	250	350
Highways General Planned Works	459	419	419	419
Highways Planned Road Works	1,500	1,500	1,500	1,500
Leisure Centres	1,200	9,300	1,300	1,800
Other E&R	351	0	0	0
On and Off Street Parking	1,300	0	0	0
Regeneration Partnerships	5,050	10,221	3,000	0
Street Lighting	200	462	290	509
Street Scene	375	60	60	100
Transport for London (3)	1,935	1,826	1,826	0
Traffic and Parking Management	179	150	156	175
Transport and Plant	547	500	500	500
Safer Merton - CCTV & ASB	300	300	0	0
Waste Operations	210	26	26	26
Environment and Regeneration (1)	15,240	26,129	10,327	6,379

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

FUNDING THE CAPITAL PROGRAMME 2015-19 **Annex2**

Merton	Capital Programme £000s	Funded by Merton £000s	Funded by grant and capital contributions £000s
2014/15 Current Budget	43,605	13,389	30,216
Potential Slippage c/f	(7,801)	(5,290)	(2,511)
Total Spend 2014/15	35,803	8,099	27,704
2015/16 Current Budget	41,933	20,592	21,341
Potential Slippage b/f	7,801	5,290	2,511
Potential Slippage c/f	(10,875)	(8,630)	(2,245)
Total Spend 2015/16	38,859	17,251	21,608
2016/17 Current Budget	57,408	45,870	11,538
Potential Slippage b/f	10,875	8,630	2,245
Potential Slippage c/f	(16,051)	(13,655)	(2,396)
Total Spend 2016/17	52,233	40,846	11,387
2017/18 Current Budget	34,526	24,700	9,826
Potential Slippage b/f	16,051	13,655	2,396
Potential Slippage c/f	(6,049)	(4,968)	(1,081)
Total Spend 2017/18	44,528	33,387	11,141
2018/19 Current Budget	29,579	24,579	5,000
Potential Slippage b/f	6,049	4,968	1,081
Potential Slippage c/f	(1,781)	(1,727)	(54)
Total Spend 2018/19	33,847	27,820	6,027

DETAILED CAPITAL PROGRAMME 2015-19 - £000s **ANNEX 3**

Corporate Services	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Corporate Budgets					
Acquisitions Budget	OSC	500	500	0	0
Transformation Budgets	OSC	235	0	0	0
Capital Bidding Fund	OSC	878	500	0	0
Total Corporate Budgets		**1,613**	**1,000**	**0**	**0**
Business Improvements					
Replace doc management system	OSC	740	0	0	0
Customer Contact Programme	OSC	785	0	0	0
Replacement SC System	OSC	686	0	0	0
Total Business Improvement		**2,211**	**0**	**0**	**0**
Resources					
Improving Information Systems	OSC	562	0	0	0
Total Resources		**562**	**0**	**0**	**0**
Information Technology					
Planned Replacement Programme	OSC	299	1,412	1,686	957
ITSD Enhancements	OSC	85	250	120	50
Multi-Functioning Device (MFD)	OSC	200	200	75	0
Total Information Technology		**584**	**1,862**	**1,881**	**1,007**
Facilities Management					
Invest to Save Schemes	OSC	1,800	300	300	300
Water Safety Works	OSC	0	150	150	100
Asbestos Safety Works	OSC	0	250	250	250
Capital Works - Facilities	OSC	200	300	300	300
Civic Centre Passenger Lifts	OSC	343	0	0	0
Civic Centre Boilers	OSC	0	0	0	300
Data Centre Support Equipment	OSC	0	0	0	300
Civic Centre Staff Entrance Improvements	OSC	0	0	0	200
Civic Centre Windows	OSC	115	0	0	0
Total Facilities Management		**2,458**	**1,000**	**1,000**	**1,750**
TOTAL		**7,428**	**3,862**	**2,881**	**2,757**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

ANNEX 3

DETAILED CAPITAL PROGRAMME 2015-19 - £000s

Community and Housing	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Adult Social Care					
Laptops for Other Staff	HCOP	54	0	0	0
Total Adult Social Care		54	0	0	0
Housing					
191-193 Western Road	SC	115	0	0	0
Disabled Facilities Grant	SC	1,569	724	280	280
Small Repairs Grant	SC	72	60	60	60
Total Housing		1,757	784	340	340
Libraries					
Relocation of Colliers Wood Library	SC	0	550	0	0
Library Self Service	SC	350	0	0	0
Total Libraries		350	550	0	0
TOTAL		2,161	1,334	340	340

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

DETAILED CAPITAL PROGRAMME 2015-19 - £000s **ANNEX 3**

Children, Schools and Families		Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Primary School Expansions					
Dundonald expansion	CYP	4,039	1,117	0	0
Hillcross School Expansion	CYP	1,624	0	0	0
Merton Abbey	CYP	987	0	0	0
Pelham School Expansion	CYP	2,523	0	0	0
Poplar Permanent Expansion	CYP	411	0	0	0
St Mary's expansion	CYP	159	0	0	0
Singlegate expansion	CYP	2,194	300	0	0
22 FE School Expansion	CYP	95	2,575	2,075	0
23 FE School Expansion	CYP	0	100	555	2,575
26 FE School Expansion	CYP	0	0	619	0
27 FE School Expansion	CYP	0	0	300	0
28 FE School Expansion	CYP	0	0	300	0
Total Primary School Expansions		**12,031**	**4,092**	**3,849**	**2,575**
Scheme 1 Phased Extra 4fe	CYP	180	2,800	0	3,678
Scheme 2 Phased Extra 4fe	CYP	180	2,800	0	2,270
Scheme 3 Phased Extra 4fe reduced to 2fe	CYP	180	2,800	0	0
Scheme 5 Phased Extra 2fe	CYP	0	95	1,500	1,528
Scheme 6 Phased Extra 2fe	CYP	30	1,900	3,000	2,000
Scheme 4 New School Extra 6fe	CYP	100	4,980	7,000	4,479
Secondary School Expansions		**670**	**15,375**	**11,500**	**13,954**
Special Educational Needs					
Cricket Green	CYP	130	1,500	1,500	0
Primary school autism unit	CYP	*1,310	0	0	0
Perseid	CYP	1,150	0	0	850
Perseid - Further 28 Places Primary	CYP	100	1,500	1,500	0
Secondary School Autism Unit	CYP	250	910	0	0
Special Educational Needs		**2,941**	**3,910**	**3,000**	**850**
Other					
Inflation Contingency	CYP	*34	1,952	1,876	2,075
Devolved Formula Capital	CYP	564	0	0	0
Schs Cap Maint & Accessibility	CYP	650	650	650	650
Free School Meals	CYP	110	0	0	0
Schools Equipment Loans	CYP	104	104	104	0
Total Other		**1,463**	**2,707**	**2,630**	**2,725**
TOTAL		**17,105**	**26,084**	**20,979**	**20,104**

* £396k moved from contingency to primary autism unit this will be detailed in a report to Cabinet 9-3-15

DETAILED CAPITAL PROGRAMME 2015-19 - £000s **ANNEX 3**

Environment and Regeneration	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Footways Planned Works					
Repairs to Footways	SC	1,000	1,000	1,000	1,000
Total Footways Planned Works		**1,000**	**1,000**	**1,000**	**1,000**
Greenspaces					
Play Space Pollards Hill - S106	SC	5	0	0	0
Parks Investment	SC	216	331	216	323
Pay and Display Machines	SC	60	0	0	0
Parks Bins - Finance Lease	SC	34	34	34	28
Mostyn Gardens Outdoor Gym	SC	10	0	0	0
Brenley Park Canopy Creation	SC	2	0	0	0
B488 Landscape Dundonald Rec G	SC	5	0	0	0
B489 Landscape Colliers Wd Rc	SC	11	0	0	0
B506 Colliers Wood Rec	SC	5	0	0	0
B627a&b Cottnhm Prk-play area	SC	3	0	0	0
B521 - Morden Park	SC	30	0	0	0
B626a-c Cottnhm Prk&Hollnd Gdn	SC	23	0	0	0
B650 Rowan Road Park Improvmnt	SC	3	0	0	0
New Scheme- Figges Marsh Changing Room	SC	138	0	0	0
Living Wandle Ravensbury Park	SC	76	0	0	0
Pollution	SC	15	0	0	0
Total Greenspaces		**636**	**365**	**250**	**350**
Highways General Planned Works					
Surface Water Drainage	SC	62	69	69	69
Highways bridges & structures	SC	260	260	260	260
Maintain AntiSkid and Coloured	SC	90	90	90	90
B646a Lombard Industrial Estat	SC	24	0	0	0
B639a Fair Green	SC	23	0	0	0
Total Highways General Planned Works		**459**	**419**	**419**	**419**
Highways Planned Road Works					
Borough Roads Maintenance	SC	1,500	1,500	1,500	1,500
Total Highways Planned Road Works		**1,500**	**1,500**	**1,500**	**1,500**
Leisure Centres					
Leisure Centre Plant & Machine	SC	300	300	300	300
Morden Leisure Centre	SC	900	9,000	1,000	0
Wimbledon Park Lake De-Silting	SC	0	0	0	1,500
Total Leisure Centres		**1,200**	**9,300**	**1,300**	**1,800**

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

DETAILED CAPITAL PROGRAMME 2015-19 - £000s **ANNEX 3**

Environment and Regeneration	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Other E&R					
Priests House	SC	300	0	0	0
Mobile Working Initiative	SC	51	0	0	0
Total Other E&R		**351**	**0**	**0**	**0**
On and Off Street Parking					
Tackling Traffic Congestion		1,300	0	0	0
Total On and Off Street Parking		**1,300**	**0**	**0**	**0**
Regeneration Partnerships					
Industrial Estate Investment	SC	750	0	0	0
Mitcham Major schemes	SC	1,900	884	0	0
Match Funding for GLA Bid from Future Merton	SC	122	0	0	0
Restoration Mitcham Clock Tower	SC	29	0	0	0
S106 Wim broadwy CA	SC	46	0	0	0
Town Centre Investment	SC	1,688	1,037	0	0
Mitcham Town Centre Improvements	SC	152	0	0	0
Colliers Wood Town Centre Improvements	SC	90	0	0	0
Wimbledon - TfL	SC	200	3,000	0	0
Morden - TfL	SC	0	300	3,000	0
Transportation Enhancements	SC	0	5,000	0	0
B672a-f Connecting Colliers Wood	SC	72	0	0	0
Total Regeneration Partnerships		**5,050**	**10,221**	**3,000**	**0**
Street Lighting					
Street Lighting Replacement Pr	SC	200	462	290	509
Total Street Lighting		**200**	**462**	**290**	**509**
Street Scene					
Street scene enhancements	SC	250	0	0	0
B591b Shop Front Improvement	SC	43	0	0	0
B591a Street Scene Improvement	SC	18	0	0	0
Street Tree Programme	SC	65	60	60	100
Raynes Park Street Scene	SC	0	0	0	0
Total Street Scene		**375**	**60**	**60**	**100**
Transport for London					
Unallocated	SC	1,935	1,826	1,826	0
Total Transport for London		**1,935**	**1,826**	**1,826**	**0**

ANNEX 3

DETAILED CAPITAL PROGRAMME 2015-19 - £000s

Environment and Regeneration	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Traffic and Parking Management					
Traffic Schemes	SC	135	150	156	175
S106 Cycle Imp Beverley Rounda	SC	44	0	0	0
Total Traffic and Parking Management		**179**	**150**	**156**	**175**
Transport and Plant					
Replacement of Fleet Vehicles	SC	500	500	500	500
Network Rail	SC	9	0	0	0
Shared Space	SC	20	0	0	0
B609 Wim Town Centre trans imp	SC	5	0	0	0
B610 Wim Town Centre trans imp	SC	12	0	0	0
Total Transport and Plant		**547**	**5,500**	**500**	**500**
Safer Merton - CCTV & ASB					
CCTV (match funding)	SC	300	300	0	0
Total Safer Merton - CCTV & ASB		**300**	**300**	**0**	**0**
Waste Operations					
Alley Gating Scheme - Fly Tip	SC	20	20	20	20
Wheelie Bins Pilot	SC	24	0	0	0
Waste Bins - Finance Lease	SC	6	6	6	6
Waste Phase B - Replace RCVs	SC	31	0	0	0
GPS Vehicle Tracking	SC	130	0	0	0
Total Waste Operations		**210**	**26**	**26**	**26**
TOTAL		**15,240**	**26,129**	**10,327**	**6,379**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

ANNEX 4

ANALYSIS OF GROWTH 2015-19 - £000s

Merton	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Corporate Services		1,500	0	0	972
Community and Housing		0	0	0	0
Children, Schools and Families		847	1,702	(524)	(7,475)
Environment and Regeneration		1,185	3,794	4,826	1,309
		3,532	**5,496**	**4,302**	**(5,194)**

Corporate Services	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Information Technology					
Planned Replacement Programme	OSC	0	0	0	397
ITSD Enhancements	OSC	0	0	0	(225)
Total Information Technology		**0**	**0**	**0**	**172**
Facilities Management					
Invest to Save Schemes	OSC	1,500	0	0	0
Civic Centre Boilers	OSC	0	0	0	300
Data Centre Support Equipment	OSC	0	0	0	300
Civic Centre Staff Entrance Improvements	OSC	0	0	0	200
Total Facilities Management		**1,500**	**0**	**0**	**800**
TOTAL		**1,500**	**0**	**0**	**972**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

ANNEX 4

ANALYSIS OF GROWTH 2015-19 - £000s

Children, Schools and Families		Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Primary School Expansions					
24 FE School Expansion	CYP	0	(100)	(1,625)	(1,600)
25 FE School Expansion	CYP	0	(100)	(1,625)	(1,600)
Total Primary School Expansions		**0**	**(200)**	**(3,250)**	**(3,200)**
Scheme 3 Phased Extra 4fe reduced to 2fe	CYP	0	0	0	(1,850)
Scheme 7 Phased Extra 1fe reduced to 0 fe	CYP	0	(50)	(1,100)	(2,640)
Scheme 8 Phased Extra 1fe reduced to 0 fe	CYP	0	(50)	(1,100)	(1,910)
Scheme 4 New School Extra 6fe	CYP	0	0	0	0
Secondary School Expansions		**0**	**(100)**	**(2,200)**	**(6,399)**
Special Educational Needs					
Cricket Green	CYP	0	(1,500)	1,500	0
Primary Autism Unit	CYP	138	0	0	0
Perseid - Further 28 Places Primary	CYP	100	1,500	1,500	0
Special Educational Needs		**100**	**0**	**3,000**	**0**
Other					
Inflation Contingency	CYP	34	1,952	1,876	2,075
Devolved Formula Capital	CYP	525	0	0	0
Schs Cap Maint & Accessibility	CYP	50	50	50	50
Total Other		**747**	**2,002**	**1,926**	**2,125**
TOTAL		**847**	**1,702**	**(524)**	**(7,475)**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

ANNEX 4

ANALYSIS OF GROWTH 2015-19 - £000s

Environment and Regeneration	Scrutiny Panel *	Updated Budget 15/16	Updated Budget 16/17	Updated Budget 17/18	Updated Budget 18/19
Greenspaces					
Parks Investment	SC	0	(60)	0	0
Pay and Display Machines	SC	60	0	0	0
Total Greenspaces		**60**	**(60)**	**0**	**0**
Highways Planned Road Works					
Borough Roads Maintenance	SC	0	0	0	(100)
Total Highways Planned Road Works		**0**	**0**	**0**	**(100)**
Leisure Centres					
Wimbledon Park Lake De-Silting	SC	0	0	0	1,500
Total Leisure Centres		**0**	**0**	**0**	**1,500**
Other E&R					
Priests House	SC	300	0	0	0
Total Other E&R		**300**	**0**	**0**	**0**
Regeneration Partnerships					
Mitcham Major schemes	SC	0	(1)	0	0
Wimbledon - TfL	SC	200	3,000	0	0
Morden - TfL	SC	0	300	3,000	0
Total Regeneration Partnerships		**200**	**3,299**	**3,000**	**0**
Street Scene					
Street Tree Programme	SC	0	0	0	40
Total Street Scene		**0**	**0**	**0**	**40**
Transport for London					
Unallocated	SC	625	555	1,826	0
Total Transport for London		**625**	**555**	**1,826**	**0**
Traffic and Parking Management					
Traffic Schemes	SC	0	0	0	(131)
Total Traffic and Parking Management		**0**	**0**	**0**	**(131)**
TOTAL		**1,185**	**3,794**	**4,826**	**1,309**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant from 16/17 as grant funding has not been announced.**
3) **Excludes expenditure budgets relating to Transport for London Grant from 17/18 as grant funding has not been announced.**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools from 2016/17 as grant funding has not been announced.**

ANNEX 5

INDICATIVE CAPITAL PROGRAMME 2015-19 - £000s

Corporate Services	Scrutiny Panel *	Indicative Budget 19/20	Indicative Budget 20/21	Indicative Budget 21/22	Indicative Budget 22/23	Indicative Budget 23/24
Information Technology						
Planned Replacement Programme	OSC	575	860	770	560	575
Total Information Technology		**575**	**860**	**770**	**560**	**575**
Facilities Management						
Invest to Save Schemes	OSC	300	300	300	300	300
Water Safety Works	OSC	75	50	25	25	25
Asbestos Safety Works	OSC	250	250	250	250	250
Capital Works - Facilities	OSC	300	300	300	300	300
Total Facilities Management		**925**	**900**	**875**	**875**	**875**
TOTAL		**1,500**	**1,760**	**1,645**	**1,435**	**1,450**

Community and Housing	Scrutiny Panel *	Indicative Budget 19/20	Indicative Budget 20/21	Indicative Budget 21/22	Indicative Budget 22/23	Indicative Budget 23/24
Housing						
Disabled Facilities Grant	SC	280	280	280	280	280
Small Repairs Grant	SC	60	60	60	60	60
Total Housing		**340**	**340**	**340**	**340**	**340**
TOTAL		**340**	**340**	**340**	**340**	**340**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant**
3) **Excludes expenditure budgets relating to Transport for London Grant .**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools.**

ANNEX 5

INDICATIVE CAPITAL PROGRAMME 2015-19 - £000s

Children, Schools and Families		Indicative Budget 19/20	Indicative Budget 20/21	Indicative Budget 21/22	Indicative Budget 22/23	Indicative Budget 23/24
Primary School Expansions						
23 FE School Expansion	CYP	1,600	0	0	0	0
Total Primary School Expansions		**1,600**	**0**	**0**	**0**	**0**
Scheme 4 New School Extra 6fe	CYP	0	6,000	4,008	0	0
Secondary School Expansions		**0**	**6,000**	**4,008**	**0**	**0**
Special Educational Needs						
Perseid	CYP	850	0	0	0	0
Special Educational Needs		**850**	**0**	**0**	**0**	**0**
Other						
Inflation Contingency	CYP	166	597	402	9	9
Schs Cap Maint & Accessibility	CYP	650	650	650	650	650
Total Other		**816**	**1,247**	**1,052**	**659**	**659**
TOTAL		**3,266**	**7,247**	**5,060**	**659**	**659**

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

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant**
3) **Excludes expenditure budgets relating to Transport for London Grant .**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools.**

INDICATIVE CAPITAL PROGRAMME 2015-19 - £000s **ANNEX 5**

Environment and Regeneration	Scrutiny Panel *	Indicative Budget 19/20	Indicative Budget 20/21	Indicative Budget 21/22	Indicative Budget 22/23	Indicative Budget 23/24
Footways Planned Works						
Repairs to Footways	SC	1,000	1,000	1,000	1,000	1,000
Total Footways Planned Works		**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Greenspaces						
Parks Investment	SC	350	350	350	350	350
Total Greenspaces		**350**	**350**	**350**	**350**	**350**
Highways General Planned Works						
Surface Water Drainage	SC	69	69	69	69	69
Highways bridges & structures	SC	260	260	260	260	260
Maintain AntiSkid and Coloured	SC	90	90	90	90	90
Total Highways General Planned Works		**419**	**419**	**419**	**419**	**419**
Highways Planned Road Works						
Borough Roads Maintenance	SC	1,500	1,500	1,500	1,500	1,500
Total Highways Planned Road Works		**1,500**	**1,500**	**1,500**	**1,500**	**1,500**
Leisure Centres						
Leisure Centre Plant & Machine	SC	300	300	300	300	300
Total Leisure Centres		**300**	**300**	**300**	**300**	**300**
Street Lighting						
Street Lighting Replacement Pr	SC	509	290	290	290	290
Total Street Lighting		**509**	**290**	**290**	**290**	**290**
Street Scene						
Street Tree Programme	SC	100	100	100	100	100
Total Street Scene		**100**	**100**	**100**	**100**	**100**
Transport for London						
Traffic and Parking Management						
Traffic Schemes	SC	175	175	175	175	175
Total Traffic and Parking Management		**175**	**175**	**175**	**175**	**175**
Transport and Plant						
Replacement of Fleet Vehicles	SC	500	500	500	500	500
Total Transport and Plant		**500**	**500**	**500**	**500**	**500**
Waste Operations						
Alley Gating Scheme - Fly Tip	SC	20	20	20	20	20
Total Waste Operations		**20**	**20**	**20**	**20**	**20**
TOTAL		**4,873**	**4,654**	**4,654**	**4,654**	**4,654**

Please Note

1) **At present the programme contains no provision for the transport implementation costs of the South London Partnership.**
2) **Excludes expenditure budgets relating to Disabled Facilities Grant**
3) **Excludes expenditure budgets relating to Transport for London Grant .**
4) **Excludes expenditure budgets relating to Devolved Formula Capital for schools.**

A) TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction

1.1 Background and Treasury Management Policy Statement

The London Borough of Merton’s treasury management activities spans across the management of its investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

The investment environment we operate in remain difficult, however the Council will continue to scrutinise all investment opportunity or products before use regardless of whether other council's are investing in such.

1.2 Statutory requirements

The Local Government Act 2003 (the Act) as amended in 2011 and supporting regulations, requires the council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code and the CIPFA Treasury Management Code of practice to set Prudential and Treasury Indicators for the next three years and to ensure that the council’s capital investment plans are affordable, prudent and sustainable. The Act requires the council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. CIPFA revised code of practice on treasury management has also been adopted.

1.3 Balanced Budget Requirement

Section 33 of the Local Government Finance Act 1992 requires the council to set a balanced budget. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges caused by increased borrowing to finance additions to capital expenditure and any increases in running costs from new capital projects, are limited to a level which is affordable within the projected income of the council for the foreseeable future.

Part of the Treasury Management operation is to ensure that its cash flow is adequately planned, with cash being available for spend when it is needed. Cash yet to be used are invested in low risk and good credit quality counterparties or instruments with the consideration first for adequate liquidity and security before investment return.

The other main function 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. To manage this, the council has to control and plan its long term cash flow, while the management of longer term cash may involve arranging long or short dated loans, or using longer term cash flow surpluses. On some occasion and after careful thought of the S151 Officer any debt previously drawn may be restructured or repaid to meet council risk or cost objectives.

1.4 The Treasury Management strategy for 2015/16 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the Minimum Revenue Provision strategy.

Treasury Management Issues

- the current treasury position as at December 2014;
- treasury indicators which will limit the treasury risk and activities of the council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling and early repayment of debt review;
- the Annual Investment Strategy and alternative investment instruments (Policy on new lending and borrowing instruments);
- creditworthiness policy
- Treasury Management Principles (Appendix 6);
- cash flow policy; and
- policy on use of external service providers; and
- Financial Instruments available to the Council (Appendix 4)

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

2. The Current Treasury Position

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

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

The table below shows the position as at 31 January 2015.

Year End Resources	2013/14 Actual £'000	31 January 2014 Actual £'000	31 March 2014/15 Estimate £'000	31 March 2015/16 Estimate £'000
Investments	80,000	96,450	78.4	70.2
Interest on investments	790	499	777	654
Borrowing Long Term Borrowing Short Term Borrowing	116,976	116,976	116,976	116,976
Total External Debt	**116,976**	**116,976**	**116,976**	**116,976**
Interest on External Debt Long Term Short Term	6,692 23	5,133	6,682	6,682
Total Interest on External Debt	**6,715**	**5,133**	**6,682**	**6,682**

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

3. The Capital Prudential Indicators

3.1 Capital expenditure plans are one of the key drivers of Treasury Management activity, the output of the capital expenditure plans is reflected in prudential indicators which are designed to provide members with an overview and confirm capital expenditure plans.

Capital Expenditure – this indicator is a summary of the council's capital expenditure plans as reported in the MTFS. It should be noted that the figures in the table below do not reflect any slippage in the capital programme. Environment and Regeneration figures include projects relating to Public Health programs however these fully funded and do not have any MRP implications. The 2014/15 figures have been adjusted for finance lease implications.

Capital Expenditure	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Children Schools & Families	12,610	24,566	17,105	26,084	20,979	20,104
Community & Housing	1,595	2,665	2,161	1,334	340	340
Corporate Services	6,252	5,362	7,228	3,662	2,806	2,757
Environment & Regeneration	11,167	11,605	15,201	26,090	10,288	6,346
CHAS	0	0	0	0	0	0
Total Non-HRA	**31,624**	**44,198**	**41,695**	**57,170**	**34,413**	**29,547**

The table below shows how the capital expenditure plans are being financed by revenue or capital resources. A short fall of resources means a borrowing need. The capital programme expenditure figures used in calculating the financing costs have been adjusted for slippage in the programme as at December 2014.

Capital Expenditure	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Expenditure	**31,624**	**44,198**	**41,695**	**57,170**	**34,413**	**29,547**
Slippage*	0	8,889	1,985	9,504	(6,730)	(11,486)
Total Capital Expenditure	31,624	35,309	39,710	47,666	41,143	41,033
Financed by:						
Capital Receipts	600	56	1,554	3,455	2,839	2,103
Capital Grants & Contributions	15,253	26,891	21,971	11,410	12,622	6,023
Capital Reserves						
Revenue Provisions	6,421	2,329	3,031	0	0	0
Other Financing Sources						
Net financing need for the year	**9,350**	**6,033**	**13,154**	**32,801**	**25,682**	**32,907**

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

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

The second prudential indicator Capital Financing Requirement (CFR), is simply the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources i.e. a measure of the 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.

This council has no Housing Revenue Account (HRA) and no new PFI schemes in 2015/16 is expected. Public Health capital projects are fully funded therefore have no CFR implications.

The 2014/15 forecast movement in CFR shows a reduction of £3,208k because the expenditure to be funded from borrowing in 2014/15 is less than the amount of MRP charged in the year.
The current projection as at 31 January 2015 for 2014/15 year end is an estimated cash balance of £78.4m. The current cash flow forecast has been

based on assumptions in the MTFS and capital program spend forecast after slippage. 2014/15 forecast £35.31m, 2015/16 £39.71m, and 2016/17 £47.67m. These are based on best estimates which may sometimes slip due to unforeseen circumstances and the nature of large projects and the level of grant income as well as fees and charges for the council may change. Based on current forecasts the earliest the council can borrow is end of 2017/18 in anticipation for 2018/19.
It should be noted that the council can borrow in advance of need if rates fall and borrowing becomes a lot more cheaper that it currently is.

	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Financing Requirement						
CFR (non-housing)	214,060	210,852	214,671	238,169	253,480	275,638
Total CFR	**214,060**	**210,852**	**214,671**	**238,169**	**253,480**	**275,638**
Movement in CFR	**535**	**(3,208)**	**3,820**	**23,498**	**15,312**	**22,157**
Movement in CFR represented by						
Net financing need for the year (above)	9,350	6,033	13,154	32,801	25,682	32,907
Less Capital MRP/VRP	7,610	7,543	7,586	7,667	8,723	9,269
Less Other MRP/VRP (leasing, PFI)	685	1,141	1,151	996	961	746
Less Other MRP/VRP – PFI – Partial termination	520	557	597	640	686	735
Less Other financing movements • Adjustment of PFI Liability • Adjustment of MRP						
Movement in CFR	**535**	**(3,208)**	**3,820**	**23,498**	**15,312**	**22,157**

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 and NNDR that is spent in paying the consequences of borrowing associated with delivery of capital investment i.e. principal and interest charges of long term borrowing.

	2013/14 Actual %	**2014/15 Estimate %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**
Ratio of Financing Costs to Net Revenue Stream (Non HRA)	11.15%	11.61%	12.25%	13.62%	15.37%	16.54%

The table below shows the monetary values for the above ratio

	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Net Revenue Financing Costs	18,385	18,871	18,994	19,445	21,063	22,063
Net Financing Stream**	164,869	162,542	155,016	142,730	137,044	133,378

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.

%	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Council tax – band D	**2.47%**	**0.64%**	**0.16%**	**0.58%**	**2.08%**	**1.28%**

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

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Incremental Change in Capital Financing Costs (£000)	1,830	486	123	451	1,618	1,000
Council Tax Base	66,981	68,087	69,638	69,986	70,336	70,688
Incremental Impact on Council Tax - Band D* (£)**	**£27.32**	**£7.14**	**£1.77**	**£6.44**	**£23.00**	**£14.14**
Council Tax - Band D (£)	1,106.56	1,106.56	1,106.45	1,106.45	1,106.45	1,106.45

***2014/15 is actual council tax amounts, 2015/16 is proposed.. However the council tax base for future years is an approximation of future years.

4. Minimum Revenue Provision Statement and Policy (MRP)

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

For capital expenditure incurred before 1 April 2008 or by Supported Capital Expenditure, the MRP policy follows CLG regulations (option 1). This provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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

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

The Council is required to have regard for the Local government Involvement in health Act 2007 and 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)
Properties valued over £1m	
Buildings	50
Mechanical & Electrical	20
External	20
Properties valued under £1m	
Buildings	40
Infrastructure (roads etc)	25
Computer software	5
Computer hardware	5
Large vehicles – e.g. buses, RCVs	7
Small vehicles – e.g. cars, vans	5
Other equipment e.g. CCTV	5

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

5. Treasury Management Strategy

5.1 The Prospects for Interest Rates and economic forecasts

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

The following table gives the central position on the council's Treasury Management adviser's view on the prospects on interest rates.

Annual Average %	Bank Rate (%)	PWLB Borrowing Rates (%)			
		5 year	10 year	25 year	50 year
Dec 2014	0.50	2.05	2.69	3.38	3.37
March 2015	0.50	2.20	2.80	3.40	3.40
June 2015	0.50	2.20	2.80	3.50	3.50
Sept 2015	0.50	2.30	3.00	3.70	3.70
Dec 2015	0.75	2.50	3.20	3.80	3.80
March 2016	0.75	2.60	3.30	4.00	4.00
June 2016	1.00	2.80	3.50	4.20	4.20
Sept 2016	1.00	2.90	3.60	4.30	4.30
Dec 2016	1.25	3.00	3.70	4.40	4.40
March 2017	1.25	3.20	3.80	4.50	4.50
June 2017	1.50	3.30	3.90	4.60	4.60
Sept 2017	1.75	3.40	4.00	4.70	4.70
Dec 2017	1.75	3.50	4.10	4.70	4.70
Mar 2018	2.00	3.60	4.20	4.80	4.80

Source: Capita Asset Services

Recent fall in oil prices are expected to leads to growth in the economy. ECB stimulus to the Eurozone economy is expected to positively impact the UK economy..

The Bank of England have confirmed that inflation target will remain at 2% and UK house price growth began to slow. UK base rate rise expected around Q1 2016. Fiscal policies will continue to affect growth especially with inflation being below target rates. There is risk that markets may overreact when policy interest rates start to rise

In the Eurozone, industrial production growth annual growth fell from +0.8% to -0.4% due to base effects. Although industries expect a better performance in quarter 4, any growth will not mask the general weakness in the Eurozone over the whole of 2014. The Eurozone remains a concern due to the lack of ability to cut costs like the UK and US in order to stimulate growth. Sovereign QE is expected.

In the US, retail sales fell by 0.9% in December but annualised quarter 4 real consumption growth of 3.5% should support GDP growth of around 3%. Concerns have been raised about Core sales falling by and inflationary pressures remain subdued. US interest rates is expected to rise in 2015

Poor US data, added to weakness of UK inflation saw further investor demand for gilts push yield to fresh record lows. Growth in China has slowed.

5.2 Borrowing Strategy

Current Borrowing Portfolio Position

The table below shows the CFR as at 31 January 2014 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 Capital Financing Requirement in the medium to long term. The expected change in debt is a fluid figure which may change as the capital program spends and financing changes. The lease balances do not include adjustments for new implications in 2014/15.

	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
External Debt at 1 April	116,976	116,976	116,976	116,976	116,976	113,010
Expected change in Debt (repayment and new debt)****	0	0	0	0	-3,966	0
Closing External Debt	**116,976**	**116,976**	**116,976**	**116,976**	**113,010**	**113,010**
PFI Balance b/f	21,000	20,449	19,524	18,664	17,959	17,164
In year movement	-551	-925	-860	-705	-795	-684
Closing Balance PFI	**20,449**	**19,524**	**18,664**	**17,959**	**17,164**	**16,480**
PFI Partial Termination Balance b/f	16,287	15,767	15,210	14,613	13,973	13,287
In year movement	-520	-557	-597	-640	-686	-735
Closing Balance Partial Termination PFI	**15,767**	**15,210**	**14,613**	**13,973**	**13,287**	**12,552**
TOTAL PFI	**36,216**	**34,734**	**33,277**	**31,932**	**30,451**	**29,032**
Finance Leases at 1 April	855	1,072	861	652	432	335
Expected Change in Finance Leases	-240	-211	-209	-220	-97	-80
Closing Balance Finance Leases	**615**	**861**	**652**	**432**	**335**	**255**
Salix Loan		**58**	**48**	**38**	**28**	**18**
Salix in year movement		**-10**	**-10**	**-10**	**-10**	**-10**
Closing Balance Salix		**48**	**38**	**28**	**18**	**8**
Actual gross debt at 31 March	**153,807**	**152,619**	**150,943**	**149,368**	**143,814**	**142,305**
Capital Financing Requirement	**214,060**	**210,852**	**214,671**	**238,169**	**253,480**	**275,638**
Under/(over) borrowing	**-60,253**	**-58,233**	**-63,728**	**-88,801**	**-109,666**	**-133,333**

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

The table above shows a relatively flat CFR forecast for 2013/14 and 2014/15, there are also no maturing debt till 2017/18 hence little borrowing pressure therefore the council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. PFI and finance lease portion of the CFR will not be funded by additional loan. Capital forecasts relating to 2017/18 and 2018/19 are very much subject to change at this stage.

The Council's decision to use internal borrowing is currently prudent as it eliminates the revenue cost of carry as investment returns remain low, there is sometimes slippage on capital program budgets and counterparty risks still remains to a degree. There are a number of options available to the Council

- Fund its entire borrowing requirement now if this is affordable. In which case borrowing will be up to CFR

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

Council's Year End Balance Sheet Position at 31 March 2014

	2012/13 £'000	2013/14 £'000	Change £'000
CFR	213,525	214,060	-535
PFI and LEASES	**-37,902**	**-36,831**	**-1,071**
Underlying Borrowing Requirement	**175,623**	**177,229**	**-1,606**
External Borrowing	124,976	116,676	8,280
Under borrowing / Internal borrowing to date	50,647	60,253	-9,606

Strategy to 'unwind' internal borrowing

The level of internal borrowing at 31 March 2015 remain 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 LOBO's and the various options available to the council. Consideration was given to the fact that in the current economic climate the LOBO's 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 2015/16 to meet the call options based on the current estimates of the use of internal borrowing for the capital program. However if all LOBO's are called at once (an unlikely event) then future estimated use of cash to temporarily fund the capital program may be affected.

All Counter parties were contacted in 2014 and most responded and cited a minimum rate they would consider reviewing the call option on the LOBO as being over 3%. Bank of England rate is currently 0.50% with rates not expected to rise to 0.75% before Q4 2015.

The borrowing strategy to temporarily finance its capital program, led the council to consider setting a minimum amount of projected liquid cash of £10m. This means that cash outflows for capital purposes would primarily be met from cash investments until £10m was reached and only at that point would external borrowing be undertaken except if interest rates fall well below its borrowing trigger rate 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 through out the year its options around higher and lower levels of cash-backed balances.
The council has given consideration to future borrowing rates for new borrowing and has set a trigger rate of 3.00% for 25 to 30 year PWLB loans.

Treasury Risk Analysis - Debt

Whilst it is not mandatory for Local Authorities to adopt the CIPFA Risk Toolkit produced by CIPFA's Treasury Management Panel, the Council will continue to utilise and adopt the risk tool kit and participate in the risk study in 2015/16 as there are some merits for the council in managing its integrated treasury management portfolio and in considering risk mitigation options for its treasury management review process and benchmarking with its peers.

5.3 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed.

Operational boundary £'000	**2013/14 Actual £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**
External Debt	116,976	116,976	116,976	116,976	113,010	113,010
Other long term liabilities	36,831	35,643	33,967	32,392	30,804	29,295
Operational Boundary	153,807	152,619	150,943	149,368	143,814	142,305

The Authorised Limit for external borrowing

The limit 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.

	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Gross Debt	153,807	152,619	150,943	149,368	143,814	142,305
Authorised Limit	**183,192**	**212,619**	**220,943**	**219,368**	**213,814**	**212,305**

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

5.4 Treasury Management Limits on Activity

The table below shows the debt related treasury activity limits.

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

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

The table below shows the fixed and variable interest rate exposure

	2014/15	2015/16	2016/17	2017/18	2018/19
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**	40%	40%	40%	40%	40%
• **Investments only**	40%	40%	40%	40%	40%

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

	Maturity Structure of fixed interest rate borrowing 2015/16				Maturity Structure of variable interest rate borrowing 2015/16		
	Actual at 31/01/2015	**Lower**	**Upper**		**Actual 31/01/2015**	**Lower**	**Upper**
Under 12 months	0.0%	0%	60%		0%	0%	50%
12 months to 2 years	0.0%	0%	60%		0%	0%	50%
2 years to 5 years	3.39%	5%	60%		0%	0%	50%
5 years to 10 years	26.08%	5%	80%		0%	0%	50%
10 years and above	70.53%	93%	100%		0%	0%	50%

Local Indicators

In setting indicators below, the Council has taken into consideration investment risks and returns. The table below shows target borrowing and investment rates

	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Average Investment Target Return	0.78%	0.84%	0.75%	0.75%	1.00%	1.25%
Average Investment Target – Property Fund	n/a	n/a	3.5%	3.5%	3.5%	3.5%
Long Term Borrowing Target • Current Portfolio	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%
• **Future Debt if trigger rate led to borrowing in advance of need**			3.00%	3.00%	3.00%	3.00%

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

Period	Overnight	7 day	1 month	3 month	6 month	12 months
Target Rate	0.25%	0.35%	0.36%	0.40%	0.60%	0.90%

5.5 Policy on Borrowing in Advance of Need

The London Borough of Merton will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds.

Should interest rates reach the borrowing trigger rates of 3.00% or less for PWLB 25 year loan then, borrowing in advance could be made within the constraints that:

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. The possibility of this happening is very slim. However should the council need to borrow in advance of need, then the following will apply.

Year	Maximum Borrowing in advance	Notes
2015/16	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.
2016-17	No more than 50% of under borrowing requirement	
2017-18	No more than 50% of under borrowing requirement	
2018-19	No more than 50% of under borrowing requirement	

5.6. Debt Rescheduling

Long term fixed rates have remained relatively unchanged over the past three years, although borrowing costs remain historically attractive redemption rates are prohibitive. The table below shows the maturity profile of the council's current debt as at 31 January 2015.

Duration	£'000	% of Debt Portfolio
less than 1 year	0	0.00
1 - 2 years	0	0.00
2 - 5 years	3,966	3.39
5 -10 years	30,510	26.08
10 -15 years	4,500	3.85
15- 20 years	1,000	0.85
20 - 25 years	11,500	9.83
25-30 years	13,500	11.54
30 - 35 years	0	0.00
35-40 years	17,000	14.53
40 -45 years	15,000	12.82
45-50 years	20,000	17.10
Total	**116,976**	**100.00**

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

Duration	£'000	% of Debt Portfolio
less than 1 year	63,000	53.86
1 - 2 years	0	0.00
2 - 5 years	1,966	1.68
5 -10 years	26,510	22.66
10 -15 years	0	0.00
15- 20 years	1,000	0.85
20 - 25 years	2,500	2.14
25-30 years	0	0.00
30 - 35 years	0	0.00
35-40 years	7,000	5.98
40 -45 years	15,000	12.82
45-50 years	0	0.00
Total	**116,976,258**	**100.00**

The Council tests the markets for redemption opportunities should they exist. The PWLB loans portfolio was elected for the early redemption review in January. A total loan value of £52m would incur redemption costs of £24million in addition to any accrued interest due.
The high cost of premium buttresses the fact that loan redemption is not economically viable in current markets. However there may be cases where the Council may be in the position to negotiate with the counterparty. (Appendix 1).
The Director of Corporate Services will continue to review and identify any residual potential for making savings and provide cabinet with updates when such circumstances present itself. All rescheduling made will be reported to cabinet at the earliest meeting following action.

Use of Derivatives
In using derivatives as part of its risk management tools, the Council will ensure that relevant statutory powers, accounting practices and legal opinions on the use of derivatives by Local Authorities in the UK are met.

5.7 Borrowing Options
The Council will use a number of borrowing sources available at its disposal. 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.

5.8 Key and Future Changes which may affect Treasury Management

- Future Regulatory Changes to Money Market Fund Valuation

Proposed EU legislative changes which 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 all losses as a result of counterparty failure. Consultation continues on the expected changes.

Moody's Rating Agency restarted its review on the money market funds on the back end of the European election in May 2014.

- 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 underlying borrowing requirement of the Council. 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 balance sheet and be measured on PV of future lease payments. The new lease standard is expected to be issued in 2015 with adoption anticipated in 2017 or 2018.

- Municipal Bond Agency

It is likely that the Municipal Bond Agency currently in the process of being set up will be offering loans to local authorities in the near future. It is also hoped that borrowing rates will be lower than those offered by the PWLB.

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

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

- Future challenges to Local government Funding

Future challenges to local government funding and their effect on cash flow remains a challenge.

- Proposed changes to ratings methodology by the three main Ratings Agencies.

Ratings assumptions are expected to be updated by the three main rating agencies, reacting primarily to European regulatory changes which are due to come into effect in January 2016. However rating changes could happen before this date and could be widened out to affect financial institutions in other regions in the future. Implied sovereign support is expected to be removed, the timing of this is unclear but could come in 2015 for UK institutions. The Council is reviewing other factors of evaluating counterparties.

- Banking Sector Regulatory Reforms

  - Bail-in – UK regulation changes are expected to be based on 'no creditor worse off' principles and institutions are required to hold far greater levels of better quality capital. It is expected that incidents of

bank failure should be reduced and the impact on wider market should be reduced.
There is a possibility that as a result of recent Regulatory changes and developments, the Regulator might require institutional investors to undertake their own enhanced analysis before investing. Banks are now expected to publish key ratings going forward. However this will not eliminate all counterparty and credit risks completely and evaluation parameters to be used for counterparties will not be the same across the board.

6. Annual Investment Strategy

6.1 Investment Policy

The London Borough of Merton's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's investment priorities will be security first, liquidity second, then return.

6.2 Investment Strategy

The council does not place cash with fund managers as all of its cash is managed in house. Base rate is forecast to remain at 0.50% till Q4 2015.
The forecast rates have been built on the basis that bank rate is expected to remain unchanged to around quarter one of 2016, however if interest rates do not rise then future income expectations may not be met. Local indicators /benchmark for investments set is included in paragraph 5.4 this report.

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

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

Strategic cash will aim to be locked for longer periods of up to 12 months or more to enable the council to gain the advantage of good rates. However this is also constrained by counterparty risk. Operational cash will predominantly be overnight cash and cash locked away for less than three months.

6.3 Alternative investment instruments

The Council has in the past restricted its treasury activities to simple investment structures like fixed deposits and money market funds.
However in today's market, regulatory and economic environment, the council may be required to utilise varied number of instruments. Appendix 4 of this reports gives a detailed over view of the various instruments and investment options available to the Council.

The global financial melt-down of 2007 led to a major overhaul of regulators, financial markets and financial institutions across the world. These have been

aimed at promoting investor confidence and make financial markets and operators safer and transparency.
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 sounder they not expected to have a fundamental impact on Insolvency creditor hierarchy.

Although the Council does not expect a fundamental change in type of instruments is 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 will warrant their use. As with any investment there are varying degree of risks associated with each of these asset instruments or investment options.

Should the council choose to invest in these asset classes a comprehensive analysis will be conducted to understand the risk associated them and each instrument will be signed off by the Director of Corporate Services before use.

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 2014 Actual £'m	2014/15 Estimate £'m	2015/16 Estimate £'m	2016/17 Estimate £'m	2017/18 Estimate £'m	2018/19 Estimate £'m
Estimated Principal sums invested greater than 365 days	8m	18m	40m	40m	40m	40m

In addition to fixed deposits a number of other financial instruments like Property funds will fall under the category of investments with duration exceeding 365 days. For its cash flow generated balances, in addition to using money market funds, call accounts, notice accounts, the council will seek to utilise other liquid and transferable instruments like certificate of deposits and gilts.

6.5 **The 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 Council's risk appetite.

Security - The council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.00% historic risk of default which is not due to administrative faults when compared to the whole 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

Investment Risk
Investment risk is carefully monitored and steps are taken to ensure that the Council mitigates its risk. Counterparties are given a risk score of 1 to 7 with counterparties like money market funds, of the highest ratings (AAA or AA+) are given the lowest risk score. Duration of investments in addition to counterparty compliance with regulatory requirements is also taken into consideration as counterparty ratings change.
Diversification of the portfolio through the use of high grade liquid and transferable instruments and highly rated counterparties.

Counterparty Risk and Credit Risk

In managing its risk, the London Borough of Merton will only use financial instruments for the prudent management of its financial affairs and never for speculative purposes.

In order to minimise the risk to investments, the council's minimum acceptable credit quality of counterparties for inclusion on its lending list is listed below. Credit ratings are monitored daily in the first instance as prescribed by CIPFA using daily electronic notifications of the three agencies received from the council's treasury adviser. Direct news feeds is also received from all three Rating Agencies. When choosing new counterparties, the Council does perform enhanced analysis and a due diligence report on the Counterparty is prepared for the Director of Corporate Services sign off.

In addition other monitoring takes the form of;

- Review where possible daily financial news and treasury journals for news on counterparties and sovereigns;
- Receiving and reading direct mail shots from the ratings agencies- ratings watch;
- Where possible Share price monitoring of counterparties for early warning signals;
- Monitor other market information and pricing data such as the Credit Default Swaps via data obtained from the council's treasury adviser;
- As part of daily contact with brokers market information will be obtained;
- The counterparties exposure to sovereign debt; and
- Checking of pprovisions which the counterparty has in place in compliance with Financial Conduct Authority (FCA) and EU rules
- Regular meetings with counterparties to understand their business model and key issues which affect them.
- European Banking Association Bank Reports and Euopean Securities Market Association report and news. Understanding the key like Core equity tier I ratio and how non-performing asset ratio.
- For money market funds in addition to the credit rating, the Weighted Average Maturity and the constituents counterparties is monitored daily in addition to comprehensive month end reviews..
- The Council's aggregate exposure to counterparties including its money market constituent funds will be monitored on a daily basis.

Investment instruments identified for use in the financial year are listed in Appendices 2A and 2B to this report under the categories of specified and non specified investment categories.

Institutions
The minimum credit criteria the council will use for individual counterparty institutions is stated below:

BANKS AND BUILDING SOCIETIES MINIMUM CRITERIA ACROSS ALL THREE RATING AGENCIES			
	FITCH	MOODY's	S&P
Short Term	F1	P-1	A-1
Long Term	A-	A3	A-

The minimum credit criteria has taken into account possible future changes in ratings methodology by the three main Ratings Agencies. Key focus is on Short and Long term ratings.

Rating agencies are expected to remove implied sovereign support for financial institution ratings based in the EU at some stage ahead of January 2016 (when bail-in measures are finally enacted). However the timing and extent of changes is still not clear. As such, even if ratings are downgraded, the impact on the Council's current list would be modest. Security of capital remain the primary factor for the Council.

Where an institution does not meet the underlying minimum criteria it will not be used. The Council will continue to use high quality counterparties, be mindful of its own cashflow requirements and will ensure suitable diversification among its investments. Should rating agency action materially reduce the number of suitable counterparties, the Council has sufficient capacity to invest in alternate options by utilising other suitable instruments included in appendix 4 of this report.
The availability of these instruments in the Council's strategy will enable it to deal with anticipated reductions in yield of pooled investments like money market funds where shorted instruments with high levels of liquidity is offered.

All three major rating agencies (Fitch, Moody's and Standards & Poor's are expected to publish changes to their methodologies due to changes in EU regulations expected to come into effect in 2016. Some of the key changes expected are:

Fitch
Changes are expected as a result anticipated reassessment of systemic support applied to financial institution ratings, although reductions in Support ratings may be off- set by improvements in Viability ratings.

Moody – removal of implied sovereign support will marry up standalone and Long Term ratings at some stage in the future while potential the potential that some institutions my suffer Long Term rating reductions in the future may be a reality.

Standards & Poor's – removal of implied sovereign support will marry up standalone and Long Term ratings at some stage in the future, potential Long

Term ratings reductions expected for some institutions although this could be offset by improved standalone position.

The table below shows the minimum credit criteria money market funds and key investment types.

	FITCH	MOODY's	S&P
	LT	LT	LT
Money Market Funds	AAAmmf	Aaa-mf	AAAm
UK Gilts	Assume rating of UK Government Soverign		
Government Instituitions and DMADF	N/A (assume rating of UK Government Soverign		
Local authorities, parish councils Collateralised Deposits	N/A (assume rating of UK Government Soverign		
Supranational Institutions	AAA	Aaa	AAA
Multerlateral Development Banks	AAA	Aaa	AAA
Bonds including Corporates	AA-	Aa3	AA-
Certificate of Deposits	AA-	Aa3	AA-

European Central Bank Stress Tests
The Council will continue to monitor and take into account results of stress tests conducted by the European Central Bank in the selection of its counterparties. Results from the recent stress test conducted by the ECB saw all of the banks the Council invests in pass the test. Future test results and regulatory changes will continued to be monitored and results taken into consideration in the selection of counterparties.

UK Bank Stress Tests
The Bank of England released results of its recent stress test in December 2014. All banks the Council invests in passed the test. Unlike the ECB test, the Bank of England test focussed on household sector and is expected to be conducted annually with the potential for future iterations to cover a wide range of institutions.
Duration of use for Counterparties - In coming to a decision on duration the Council will consider suggested duration from its adviser. Counterparties may therefore fall in to duration categories of:

- not to be used,
- use for three months or less ,
- use for six months or less,
- use for one year or less or
- use for one year or more
- use for two years or less or
- use for five years or less (this will apply to AA+ rated government debt, bond or property funds)

The council in addition to the criteria above will also consider the sovereign ratings and economic conditions prevalent in sovereign of each of its counterparties. This is included in Appendix 2 of this report.

6.8 Counterparty Downgrades

A counterparty will be removed from the council's approved list on the following grounds:

- If a counterparty fails the Bank of England stress test or ECB stress test, its further use as a new investment will be withdrawn;
- 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;
- If the council is advised of adverse movements in CDS which shows extreme market movements which may result in downgrade of an institution;
- If market information or market data indicate that there is cause for concern about a counterparty, its further use as a new investment will be withdrawn;
- If a counterparty financial collapses;
- If the counterparty's capital and other key ratios is below the regulatory minimum and regulator has raised serious concerns; and
- If the Sovereign rating of the counterparty is downgraded below the council's minimum rating for a soverign.

Treasury Risk Analysis – Investments
The Council's portfolio of investments constantly changes. The tables below show the Security/Liquidity/Yield characteristics of the council's investments as at 31 December 2014.

Portfolio Breakdown			Institution Type			Country	
Fixed Deposits	98.88%		Banks	58.72%		UK	100%
Call	0.01%		Building Societies	21.29%		Foreign ex MMF's	0%
MMF	1.11%		Government/LA	22.88%			
CD's	0%		MMF	1.11%			
			Other	0%			
Total	**100%**		**Total**	**100%**		**Total**	**100%**

Maturity Structure of Investments as at 31 December 2014

	Number of Investments	**£ ('000)**	**%**
< 1 month	6	11,630	11.57
1 – 3 months	10	23,000	22.88
3 – 6 months	5	17,500	17.41
6 – 9 months	7	24,600	24.47
9 – 12 months	6	15,800	15.72
12 months+	2	8,000	7.96
Total		100,530	100.00

6.9 Provisions for Credit Related Losses

If any of the council's investments appears at risk of loss due to default (i.e. this is a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the council will make revenue provision of an appropriate amount.

Insolvency Creditor Hierarchy - Order of priority (from January 2015)

Insolvency Creditor Hierarchy (a) Order of Priority from January 2015

Fixed charge holders (ie security in the form of: mortgage, fixed charge, pledge, lien), including:
- Capital market transactions (eg covered bonds)
- Trading book creditors (eg collateralised positions)

Liquidators (fees and expenses)

Preferential creditors (ordinary), including:
- FSCS, taking the place of all protected depositors for amounts up to £85,000(b)
- Employees with labour-related claims

Preferential creditors (secondary):(b)
- Depositors that are individuals and micro, small or medium-sized businesses for amounts in excess of £85,000

Floating charge holders(c)

Unsecured senior creditors, including:
- Bondholders
- Trading book creditors (eg uncollateralised positions)
- Creditors with master netting agreements (net position only)
- Commercial or trade creditors arising from the provision of goods and services
- Depositors that are not individuals or micro, small and medium-sized businesses for amounts in excess of £85,000(b)
- FSCS, taking the place of individuals with funds invested with the insolvent firm (including protected amounts up to £50,000)(d)

Unsecured subordinated creditors (eg subordinated bondholders)

Interest incurred post-insolvency(e)

Shareholders (preference shares)

Shareholders (ordinary shares)

(a) Proceeds recovered through an insolvency are used to meet the claims of creditors in the top row first, with any excess being passed down to meet claims of creditors in the second row, and so on. Any losses arising from a shortfall between proceeds and creditor claims are incurred firstly by shareholders, and then pass up the creditor hierarchy until they are fully absorbed. Creditors within a row are treated equally (rank 'pari passu').
(b) Amendments to existing creditor hierarchy introduced by the Bank Recovery and Resolution Directive.
(c) Floating charges that constitute financial collateral arrangements or collateral security (pursuant to the UK Financial Collateral Arrangements Regulation and the Financial Markets and Settlement Finality Regulations) rank senior to preferential creditors and liquidators' fees and expenses.
(d) Some smaller businesses are also protected by the FSCS for investment business up to £50,000.
(e) Ranking for all statutory interest from the date of the winding-up order until a final dividend is declared or all proved debts have been paid — unless otherwise specified by the terms of the debt contract. Statutory interest may rank ahead of unsecured subordinated creditors, depending on the precise circumstances, including the terms of the subordination.

Bank Bail-in, stress testing and Implications of recent government regulations

The objective of the Regulatory change is mainly to improve compliance and investor confidence. The new Regulatory environment now require banks to have capital buffers set at specific levels on their balance sheets.
Going forward investors will need to familiarise themselves with key ratios like liquidity coverage ratio, leverage ratio and capital ratio.

Recent Stress testing exercise by the Bank of England and European Central Bank are expected to be ongoing supervisory tools.
Although it would take banks a few years to implement, these regulations affect whole sale and investment banks the most. it is anticipated that these tests would be applied to other counterparties. The classification of banking customers is expected as a result of BASEL III regulations.

6.10 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.

6.11 Country limits

The current economic climate has not only affected companies and financial institutions, it has affected sovereigns as well. In addition to counterparty selection, due care will be placed on country selection and only approved counterparties from countries with a minimum sovereign credit rating of AA- (Appendix 3).

This does not mean that the council will lend to every sovereign that meets this criteria, the list will be added to, or deducted from, by officers in consultation with the Director of Corporate Services, should ratings or other key factors change change in accordance with this policy. The council is mindfull of the fact that investments should not be concentrated in one counterparty or country apart from the UK. Therefore;

- no more than 50% of the council's aggregate investments will be placed with any non-UK country at any time;
- Countries will be monitored as part of the counterparty monitoring for appropriateness against limits suggested by the council's treasury adviser Capita Asset Services and judgement of officers.

6.12 Group Limits - No more that 50% of the council's aggregate funds will be placed in any one banking group.

6.13 Use of Part Nationalised Banks

The Council currently uses Part -Nationalised banks, however government ownership will be monitored.

6.14 'Challenger' Banks

These are 'new' financial institutions aimed at increasing competition in UK banking sector, many have different business models in comparison to high street banks. These banks are not rated at the moment because they do not have the historic data required by Rating Agencies. The Council will continue to monitor their capital and leverage ratios, understand their business models and the policies by which they manage their balance sheet.

6.15 Use of Unrated Building Societies

Generally there is no legal framework that prohibits local authorities from investing in unrated entities. However understanding the organisation and it's business model is key as well as the strength of their balance sheet.

6.16 Lending to Community Organisations, Other Third Parties and RSL's -

Any loans to or investments in third parties will be made under the Well Being powers of the council conferred by section 2 of the Local Government Act 2000 or Localism Act of 2012.

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

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

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

7. Cash Flow Management

7.1 CIPFA requires all monies to be under the control of the responsible officer and for cash flow projections to be prepared on a regular and timely basis. Cash flow 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.
The current projection as at 31 January 2015 for 2014/15 year end is an estimated cash balance of £78.4m. The cash flow forecast has been based on assumptions in the MTFS and capital program spend forecast after slippage. 2014/15 forecast £35.31m, 2015/16 £39.71m, and 2016/17 £47.67m. These are based on best estimates which may sometimes slip due to unforeseen circumstances and the nature of large projects. Based on current forecasts the earliest the council can borrow is end of 2017/18 in anticipation for 2018/19. It should be noted that the council can borrow in advance of need if rates fall and borrowing becomes a lot more cheaper that it currently is.
The cashflow forecast assumes that all new services transferred from Merton CCG to London Borough of Merton will spend all budgets fully. These have been included in a separate lines. Apart from DSG other schools grants have been included at 2014/15 values. A revised version will be submitted in June 2015.

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 issues in March 2010.

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

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

9. Training

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

10. The Localism Act

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

11. Treasury Management Practices

11.1 The 2011 code reinforces a framework of 12 Treasury Management practices (TMPs), which define the manner in which authorities seek to achieve the policies and objectives outlined in their Treasury Management policy statement. The council’s detailed Treasury Management practices approved in March 2012/13 can be found on the council’s intranet. An updated version is included as Appendix 6

12. Appendices

12.1 Appendix 1– Early Repayment of Debt estimate

Appendix 2A – Specified Investments

Appendix 2B – Non Specified Investments

Appendix 2C – Policy Investments

Appendix 3 – Approved Countries for Investment

Appendix 4 – Approved instruments for Investment

Appendix 5 – The Treasury Management Role of the S151 Officer

Appendix 6 – Treasury Management Principles 2015/16

Appendix 7 – Glossary

Appendix 8 – Cash Flow

13. Background Papers

- CIPFA Prudential Code for Capital Finance in Local Authorities 2013 Edition
- 2014/15 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

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

PWLB loan Early Redemption Estimates at 16 January 2015

Internal Reference No.	Lender	Last Date Interest was Paid	Loan Start Date	Loan Term (yrs)	Loan Maturity Date	Loan Principal Outstanding (£)	Loan Rate (%)	Term left on Loan (Yrs)	Next Interest Due Date	Discount Rate (%)	Accrued Interest to 16 Jan 2015 (£)	Premium/Discount (£)	Total Due (£)
1000484711	PWLB	31/10/2014	13/11/2000	24	31/10/2024	5,000,000	5.000	9.9	30/04/2015	1.360	52,739.73	1,662,758.94	6,715,498.67
1000484981	PWLB	31/10/2014	30/11/2000	24	31/10/2024	1,500,000	4.750	9.9	30/04/2015	1.360	15,030.82	464,567.54	1,979,598.36
1005489969	PWLB	20/11/2014	20/05/2005	30	20/05/2035	2,500,000	4.450	20.4	20/05/2015	1.970	17,373.29	1,035,043.18	3,552,416.47
1005490706	PWLB	21/11/2014	21/11/2005	26	21/11/2031	1,000,000	4.250	16.1	21/05/2015	1.830	6,520.55	349,461.61	1,355,982.16
1005490967	PWLB	25/07/2014	10/01/2006	50	25/07/2055	10,000,000	3.950	40.6	25/01/2015	2.070	189,383.56	5,139,503.76	15,328,887.32
1005490976	PWLB	25/07/2014	10/01/2006	50	25/07/2055	5,000,000	3.950	40.6	25/01/2015	2.070	94,691.78	2,569,751.88	7,664,443.66
1006491475	PWLB	28/10/2014	28/04/2006	45.5	28/10/2051	7,000,000	4.400	36.9	30/04/2015	2.090	67,506.85	4,135,608.22	11,203,115.07
1097480120	PWLB	30/09/2014	15/10/1997	25.5	31/03/2023	310,000	6.625	8.2	31/03/2015	1.220	6,076.85	130,425.05	446,501.90
1097480121	PWLB	30/09/2014	15/10/1997	26.5	31/03/2024	12,000,000	6.500	9.2	31/03/2015	1.320	230,794.52	5,370,513.03	17,601,307.55
1097480232	PWLB	30/09/2014	11/11/1997	26.5	31/03/2024	1,700,000	6.750	9.2	31/03/2015	1.320	33,953.42	797,541.92	2,531,495.34
1098480925	PWLB	31/10/2014	30/04/1998	26	30/04/2024	6,000,000	5.875	9.3	30/04/2015	1.320	74,363.01	2,381,747.78	8,456,110.79
						52,010,000					788,434.38	**24,036,922.91**	76,835,357.29

APPENDIX 2A – Specified Investments - Any assessment using viability ratings will cease once the three main Rating Agencies cease to provide them.

Organisation/Instrument/ Sovereign	**Counter Party Minimum Credit Criteria**									**Other Data**	**Maximum Lending Period**	**Limit (Agg)**
	FITCH				MOODY			STANDARDS & POORS		CDS DATA		
	Fitch L/T	Fitch S/T	Fitch Viability	Fitch Support	Moody L/T	Moody S/T	Moody FSR	S&P L/T	S&P S/T	In range		
Term deposits – banks	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	In range	0 – 12 months	80%
Term deposits – banks	A	F1	a	1	A2	P-1	C	A	A-1	In range	0 –12months	60%
Term deposits –building societies	A	F1	a	1	A2	P-1	C	A	A-1	In range	0- 12 months if within limits	40%
Term deposits – Nationalised and Part Nationalised Banks	A	F1	a-	1	A1	P-1	C-	A-	A-1	In range	0 - 12 months if within limits	80%
Structured Deposits												
Term Deposits in Supranational	AAA	n/a	n/a	n/a	Aaa	n/a	a/a	AAA	n/a	n/a	0 – 12 months	90%
		Fund Quality Rating						**Principal Stability Fund Rating**	**Fund Credit Quality Rating**	**Fund Volatility Rating**		
Constant Net Asset Value Money Market Funds	AAAmmf	Excellent			Aaa-mf			AAAm	AAAf	n/a	0 – 3 months	60%
Money Market Funds	AAAmmf				Aaa-mf			AAAm			Daily	80%
Enhanced Money Market Funds	AAAmmf				Aaa-mf			AAAm			0 to 3 months	80&
Term Deposits – UK Government	Assume AA+ UK Government Sovereign rating Status									n/a	0 – 12 months	100%
Term Deposits – LA's with or without credit ratings	Assume AA+ UK Government Sovereign rating Status									n/a	0 – 12 months	50%
Debt Management Agency Deposit	Assume AA+ UK Government Sovereign rating Status									n/a	0 – 12 months	80%
UK Government Gilts	Assume AA+ UK Government Sovereign rating Status									n/a	0 – 12 months	80%
Gilt Funds and Bond Funds	AA+	n/a	n/a	n/a	Aa1	n/a	n/a	AA	n/a		0 – 12 months	50%
Certificate of Deposit	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+		0 -12 months	30%
Corporate Bond (direct, passive and active external management)												
Corporate Bonds LA	AA+				Aa1			AAA		n/a	0 – 12 months	50%

APPENDIX 2B - Non Specified Investments (where rating agencies have issued a counterparty with different ratings score, the lowest ratings score will apply)

Type of investment	**Counter Party Minimum Credit Criteria**									**Other Data**	**Maximum Lending Period**	**Limit (Agg)**
	FITCH				MOODY			STANDARDS & POORS		CDS DATA		
	Fitch L/T	Fitch S/T	Fitch Viability	Fitch Support	Moody L/T	Moody S/T	Moody FSR	S&P L/T	S&P S/T			
Term Deposits in Banks	AAA	F1+	n/a	n/a	Aaa	P-1	-	AAA	A-1+	In range	1 – 3 years	80%
Term Deposits in Supranational	AAA	n/a	n/a	n/a	Aaa	n/a	n/a	AAA	n/a	n/a	1 – 5 years	80%
Money Market Funds	AAAmmf				Aaa-mf			AAAm				80%
Enhanced Cash Funds	AAAmmf				Aaa-mf			AAAm				80%
Collateralised Local Authority Deposits	AA+	n/a	n/a	n/a	Aa1	n/a	n/a	AAA	n/a	n/a	1 – 5 years	80%
Certificates of deposits issued by banks and building societies	AA	n/a	n/a	n/a	Aa3	n/a	n/a	AA-	n/a	In range	1 – 2 years	40%
Term Deposits – UK Governments	AA+				Aa1			AAA		n/a	0 – 5 years	80%
Term Deposits – LA's with or without credit ratings	Assume AA+ UK Government Sovereign rating Status				Assume Aa1 UK Government Sovereign rating Status			Assume AAA UK Government Sovereign rating Status		n/a	0 – 5 years	80%
Debt Management Office Deposit	AA+				Aa1			AAA		n/a	1 – 2 years	80%
UK Government Gilts (Treasury Bills)	AA+				Aa1			AAA	n/a	n/a	0 – 2 years	80%
Gilt Funds and Bond Funds (including Conventional & Index Linked)	AA+	n/a	n/a	n/a	Aa1			AAA			0 – 2 years	30%
Commercial Paper issuance covered by a specific UK Government (explicit) Guarantee	AA+	n/a	n/a	n/a	Aaa	n/a	n/a	AAA			0 – 2 year	20%
Commercial Paper Other	AA	n/a	n/a	1	Aa3	n/a	n/a	AA-	n/a		1 year	20%
Corporate Bonds – direct, passive and active external management												
Covered Bonds	AAA				Aaa			AAA			1 to 5 Years	20%
Property Funds	n/a										1 – 5 years	20%
Retail Bonds	AA				Aa3			AA-			n/a	10%
Equity Funds	n/a										n/a	10%

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

Type	Duration	
Joint Development Companies	One month to 10 years	Subject to specific terms
Loans to Registered Land Lords	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 5 years	Subject to specific terms

APPENDIX 3

Approved countries for investments for use by the council's treasury team. It should however be noted that the countries on the council's approved list may change from time to time as Sovereign ratings change. Where rating agencies have awarded different ratings, the lowest credit rating will apply.

Sovereign Benchmark	Fitch Long Term Ratings	Moody's Long Term Ratings	S&P Long Term Ratings
AAA			
Australia	AAA	Aaa	AAA
Canada	AAA	Aaa	AAA
Denmark	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
Luxembourg	AAA	Aaa	AAA
Norway	AAA	Aaa	AAA
Singapore	AAA	Aaa	AAA
Sweden	AAA	Aaa	AAA
Switzerland	AAA	Aaa	AAA
AA+			
Finland	AAA	Aaa	AA+
Hong Kong	AA+	Aa1	AAA
Netherlands	AAA	Aaa	AA+
U.K	AA+	Aa1	AAA
USA	AAA	Aaa	AA+
AA			
Abu Dhabi (U.A.E)	AA	Aa2	AA
France	AA	Aa1	AA
Qatar	-	Aa2	AA
AA-			
Belgium	AA	Aa3	AA
Saudi Arabia	AA-	Aa3	AA-

Appendix 4

Instruments and investment Options available to the Council to execute treasury management its activities

In other to maintain a diversified investment portfolio, manage risk, increase number of counterparties available, increase liquidity, improve and increase credit quality as well as ensure the security of its capital, the Council may use a number of instruments.
The instruments below have been classified as transferable and non- transferable based on the ease at which they can be liquefied by the investor. Instruments classified as non-transferable can also be liquefied but this is usually at a price to the investor. For example a bank will charge a small fee should an investor want to break out of a 2 year fixed deposit. Most contain break clauses.

It is the Council's policy not to introduce new instruments or counterparties without sign off of the Director of Corporate Services. The execution of some of these instruments may require the use of custodian banks. Due procurement process will be followed in the appointment of custodian.

DIRECT COUNTERPARY INSTRUMENTS

Fixed Deposits (Short term deposits)
A specified amount held at a bank, other financial institutions or Corporate on a fixed term. The receiving entity pays interest at a specified percentage for the time duration of the deposit. At the end of the time period of the deposit the amount that is originally given and interest is returned to the investor. Fixed deposits are also known as term deposits. The selection of counterparty is key. Although terminations are generally discouraged, they can be terminated but the investor is required to pay a penalty called the break-cost should the investor wants receive the principal back before maturity.

Call accounts
Usually with banks these are immediate access accounts. Counterparty risk is key. Investors are paid relatively lower rates because of the immediate access to their cash.

Notice accounts
Usually with banks, Investors access money by giving specified notice to the bank. For example 3 day notice. Once notice is given interest rate falls.

POOLED FUNDS - Money Market Funds (Constant Net Asset Value and Variable Net Asset Value)
These are open ended funds that invests in short term debt securities, fixed deposits and other monetary instruments. They are regarded as being liquid and of AAA credit quality. Most have a constant net asset value (CNAV) and some have variable net asset value

(VNAV). It is expected that proposed money market regulations may lead to the phasing out of constant net asset value funds.

TRANSFERABLE SECURITIES

Treasury Bills/Gilts
Treasury Bills are short term securities issued by HM Treasury. The rate you buy is the rate you receive at maturity. Treasury Bills have the same credit ratings as the UK government.
Advantage
Low risk in both credit and duration. Very liquid as there is a very active secondary market for them. There is no additional credit risk if held to maturity and no cost to bid.

Certificates of Deposits
These are highly liquid instruments issued by UK and International banks and Building Societies on a daily basis. Rates are comparable to fixed deposits, there is no obligation to hold them to maturity and rates remain fixed until maturity. They are generally ranked like fixed deposits.
Advantage – access to more counterparties and in the event of a down grade of the counterparty or unexpected cash flow requirement they can be sold on the secondary market

Index-linked gilts
These are gilts indexed to inflation.

Bonds
Bonds like any transferable security can be purchased and sold on the secondary market. This attribute therefore makes them highly liquid. Bonds generally provide access to a much wider range of counterparties (like Corporates, government agencies and housing associations) to suit the investors credit criteria and provide a means to respond to perceived interest rate fluctuations. Enhanced security as some counterparties are AAA rated counterparties or sovereigns. Some bonds like covered bonds have added security thereby assisting with bail-in risk mitigation. Bonds can be fixed or floating.
There are different types of bonds which can be issued by HM Treasury (UK Gilts), Supra-nationals (join & several liability of leading developed nations e.g. World Bank or EIB or issued by Corporates.
Major risks of bond investments are credit or counterparty risk, liquidity risk, interest rate risk and event risk.

- Conventional fixed bonds
  These are debt instruments which guarantee to pay the holder a fixed interest payment (coupon). The coupon reflects interest rates at time of issue.
  When investing in conventional fixed bonds the council will ensure that it understands the ranking of the instrument, only bonds of highly rated counterparties are lent to.

- Floating rate notes (FRN'S)
  A bond with a floating /variable rate of interest which re-fixes over a reference rate e.g. LIBOR. These instruments generally protect investors against rising interest rate. Generally they carry a maximum interest rate exposure of 3 months therefore investors will generally re-fix every three months at a margin over 3 months LIBOR if they intend to hold for longer.

- Covered Bonds
  These are bonds fixed or floating that are backed by a separate pool of securities, usually prime residential mortgages. The rating of the bond would be higher than that of the issuer, normally AAA. However the covered rating can be no more than 6 notches above that of the issuer. It should be noted that the issuer remains responsible at all times to pay the coupons and repay the capital.

- Retail Bonds
  Retail Bonds are another form of 'new issue' where corporates look to raise extra capital by borrowing from the investor at a fixed rate for a set period.

Commercial Paper Issued by Corporate Institutions
These are unsecured, short-term debt instrument issued by a corporate to meet short-term liabilities. Maturities on commercial paper rarely range any longer than 270 days. The debt is usually issued at a discount, reflecting prevailing market interest rates.
Commercial paper is not usually backed by any form of collateral, so only corporates with high-quality ratings will easily find buyers.

POOLED FUNDS
There are a number of Pooled Funds such as bond funds, equity funds and property funds. Pooled funds generally have higher management costs that simple vanilla investments. Generally investments are long term (5 to 7 years). Yields are higher and most appreciate in value but there are entry and exit fees as well as annual management charges.

- Pooled Property Funds
  This is generally expected to be held for the medium or long term. They are classified as non-specified investments. Pooled property funds may invest in the UK only or Europe or Globally.

- Pooled Bond Funds
  These are portfolios managed by investment managers which contain a wide

range of bonds in one pot. The investor buys units in the fund. Management fees are deducted from fund value before passing to investor.

- Equity Funds
  Portfolio of equity shares in one pot. The investor purchases units in the fund.

OTHERS

Lending to Community Organisations, Local Authority Owned Companies, Social Enterprise, Other Third Parties and Registered Social Landlords (RSL).
Example of such arrangements are the provision of a loan facility by the Council which the RSL can draw down as and when required within the stipulated time frame.
Rates will be charged at two levels – when the facility has been drawn down from and lower rate for having the facility in place. There is usually an agreed number of times a year the RSL can draw down the facility.
When selecting which RSL to lend to, the Council will seek advice from experts.

APPENDIX 5 **The Treasury Management role of the section 151 officer**

The S151 officer (Director of Corporate Services)

- recommending clauses, Treasury Management policy / practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of Treasury Management external service providers.
- Approval of appropriate money market funds for the council to invest in.

Appendix 6

LONDON BOROUGH OF MERTON TREASURY MANAGEMENT PRINCIPLES 2015/16

TMP1 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, Moodys and Standard & Poors.
- 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 paper work. 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 from forward period's dependant upon market conditions. When forward dealing is more than a 364 day period forward then the approval of the Chief Financial Officer 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 LOBOS (borrowing under lender's option / borrower's option)

Use of LOBOs is considered as part of the 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 levels.

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 so raised are managed, with a view to obtaining offer terms for 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.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this 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 any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) 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 Governance, 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 then 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. While 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 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

2.1.1 Evaluation and Review of Treasury Management Decisions

Periodic reviews during the financial year

The Director of Corporate Services will as and when required may periodically hold treasury management review meetings with the treasury manager to review actual activity against the Treasury Management Strategy Statement and cash flow 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.
- Cash flow forecast against the actual.

2.1.2 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.

2.1.3 Comparative reviews

Each year or on a quarterly basis, comparative reviews are undertaken to see how the performance of the council on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). 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, this takes account both prices and quality of services. No firm of brokers will be given undue preference.

2.3.2 Consultants / advisers services

The council's treasury management adviser is Capita Asset services.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The following records will be retained -

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

3.1.2 Processes to be pursued

- Cash flow 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 every treasury management decision 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.
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
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;
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;

- the 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 – lenders 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 policies, practices and activities
- approval of annual strategy.

(ii) Cabinet

- 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 reports and acting on recommendations

(iii) Overview and Scrutiny Commission (financial monitoring task group)

- reviewing all treasury management reports and making recommendations to the Cabinet.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties are undertaken by separate officers: -

Tasks	Duties	Responsible Officer
Dealing	• Negotiation and approval of deal	Treasury manager
	• Entering of deal into Logotech	Treasury manager/ Fund officer
	• Sending confirmation letter to counterparty (to be signed by authorised signatory)	Treasury Manager/Fund Officer
	• Checking of brokers and counterparty confirmation notes against Logotech	Fund officer
	• Reconciliation of FMIS Codes and reconciliation to bank statement	Fund Officer
	• Sign off of reconciliations	Treasury manager Fund officer
Accounting Entry	• Processing of accounting entry into FMIS (bank reconciliation team)	Bank reconciliation team
Authorisation / Payment of Deal	• Inputting CHAPS on Lloyds link	Treasury Manager/Fund officer
	• Approval of CHAPS on Lloyds link and CHAPS form authorisation	Authorisers per bank mandate

5.3 Statement of the treasury management duties/responsibilities of each treasury post

5.3.1 The responsible officer

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

a) recommending clauses, treasury management policy / practices for approval, reviewing the same regularly, and monitoring compliance
b) submitting regular treasury management policy reports
c) submitting budgets and budget variations

d) receiving and reviewing management information reports
e) reviewing the performance of the treasury management function
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
g) ensuring the adequacy of internal audit, and liaising with external audit
h) recommending the appointment of external service providers.
i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The responsible officer may delegate his power to borrow and invest to members of her staff. The Treasury & Insurance Manager, the fund officer. Treasury management team staff must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave / sickness.
k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the council’s legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the council’s Financial Regulations
m) It is also the responsibility of the responsible officer to ensure that the council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.3.2 Treasury & Insurance 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
h) identifying and recommending
i) opportunities for improved practices

5.3.3 The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented

b) Ensuring that the responsible officer reports regularly to the full Council / cabinet or General Purpose Committee on treasury policy, activity and performance.

5.3.4 The 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 practices 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.
c) Giving advice to the responsible officer when advice is sought.

5.3.5 Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.
d) Undertaking probity audit of treasury function.

5.4 Absence Cover Arrangements

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

5.5 Dealing Limits

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

5.6 List of Approved Brokers

A list of approved brokers is maintained within the Treasury team and a record of all transactions recorded against them can be obtained from Logotech.

Policy on Brokers' Services
It is this council's policy to rotate business between brokers.

5.7 Policy on Taping of Conversations

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

5.8 Direct Dealing Practices

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

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

5.9 Settlement Transmission Procedures

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

5.10 Documentation Requirements

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

5.11 Arrangements Concerning the Management of Third-Party Funds.

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

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted the cabinet and then to the Council (budget) for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) borrowing requirement
   d) prospects for interest rates
   e) borrowing strategy
   f) policy on borrowing in advance of need
   g) debt rescheduling
   h) investment strategy
   i) creditworthiness policy
   j) policy on the use of external service providers
   k) any extraordinary treasury issue
   l) the MRP strategy

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives.

6.2 The 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 The Annual Minimum Revenue Provision Statement

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

6.4 Policy on Prudential and Treasury Indicators

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

6.5 Other reporting

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

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory / Regulatory Requirements

The accounts are drawn up in accordance with IFRS. The council has also has also 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 this council's treasury management activities.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing Cash Flow

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow 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 the day's bank statement into the folder below. Estimates on Logotech cash flow is updated with actuals from bank statement.
H:\TECHACCY\TREASURY\Daily\Bank Statement Export

TMP 9 MONEY LAUNDERING

9.1 Proceeds of Crime Act 2002 and Amendements

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 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 6.16 and appendix 2c 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 FSA register can be accessed through their website on **www.fsa.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.
Additionally, training may also be provided on the job and it will be the responsibility of the treasury manager to ensure that all staff under her authority receives the level of training appropriate to their duties.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our 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 records

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 this 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 TSB Bank. The bank is an authorised banking institution authorised to undertake banking activities 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 the council may receive advice 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 that it is the borrower that pays in most cases and not the lender. Property fund on the other hand do not require custody services, the investor pays all fee.

11.1.5 Credit Rating Information

The council receives notifications of credit ratings from Capita Asset services.

11.2 Procedures and Frequency for Tendering Services

See TMP2

TMP 12 CORPORATE GOVERNANCE

12.1.1 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. It 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.

GLOSSARY OF TREASURY MANAGEMENT TERMS

Appendix 7

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

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

Floating Rate Note (FRN)

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

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

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

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

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

Long Term
Duration in excess of one year

Net Asset Value
Often used when funds or investment assets are valued. This term is 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 in excess of 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. It's aim was to enhance visibility on benefits of support. This replaced he 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 everyti,e period available.

SECTION 5

2014/15 Estimated Cash Flow Forecast January 2015 Position and 2015/16 to 2017/18 Forecast

Cash receipts or payments may sometimes include previous years receipts, payments, overpayments, refunds, prepayments therefore may not agree to in year total budget figures

Description	2013/14 Actual £	Year to Date Actual £	Feb 2015 Forecast £	March 2015 Forecast £	2014/15 Forecast £	2015/16 Forecast £	2016/17 Forecast £	2017/18 Forecast £
Expenditure								
Bank Charges & Related Expenditure	-280,105	-213,316	-20,600	-24,600	-258,516	-271,700	-283,080	-300,180
Other Expenditure	-6,283,525	-6,492,125	-329,219	-339,219	-7,160,563	-4,864,924	-4,835,324	-4,876,024
Capital Expenditure & S106 Payment								
CHAS Payroll,Tax and VAT	0	-724,891	-20,000	-199,000	-943,891	-974,000	-990,000	-1,009,600
Business Rates and CTax Refunds	-4,191,413	-4,480,531	-306,000	-104,000	-4,890,531	-4,422,600	-4,261,000	-4,486,000
HMRC Related Payments	-37,905,995	-31,143,318	-3,070,000	-3,100,000	-37,313,318	-37,770,000	-38,130,000	-38,310,000
Housing Benefit	-91,560,234	-77,593,322	-7,141,000	-7,141,000	-91,875,322	-93,167,000	-93,807,800	-94,418,000
Invoice Payments (Bacs & Cheques & CHAPS)	-379,373,952	-321,848,247	-27,303,000	-40,303,000	-389,454,247	-429,040,000	-428,340,000	-425,640,000
New Services from NHS England (Health Visiting Service & Independent Living)	0	0	0	0	0	-3,200,000	-6,100,000	-6,100,000
Payroll Related Payments (including Schools)	-102,340,589	-86,896,235	-8,772,000	-8,772,000	-104,440,235	-106,605,000	-108,489,000	-107,652,000
LGPS Pension Contributions, Additional Payments and Others)	-20,531,501	-17,386,156	-1,220,000	-11,270,000	-29,876,156	-19,929,000	-20,443,000	-20,620,000
RSG	-30,490,439	-31,050,439	0	0	-31,050,439	-30,490,439	-31,290,439	-31,050,439
Teachers Pension	-12,232,378	-10,783,281	-1,100,000	-1,100,000	-12,983,281	-13,398,000	-13,660,000	-13,920,000
Pensioners Payments (Added Year met by Employer)	-1,826,040	-1,471,090	-164,000	-164,000	-1,799,090	-1,986,000	-1,995,000	-1,956,000
Total Expenditure	-687,016,172	-590,082,950	-49,445,819	-72,516,819	-712,045,588	-746,118,663	-752,624,643	-750,338,243
Income								
Business Rates Receipts	81,049,805	77,914,660	2,359,151	2,309,151	82,582,962	84,505,430	86,171,320	87,509,200
Council Tax Receipts	86,306,899	85,279,336	2,089,201	1,400,000	88,768,537	90,200,000	91,720,000	92,956,000
DWP - Housing Benefit Subsidy & Admin Grant & Discretionary Housing Payment grant&S	105,597,732	72,580,644	7,858,712	7,820,000	88,259,356	94,943,190	94,590,008	94,960,190
Grants (Including Public Health Grants)	231,938,098	186,398,539	23,728,264	20,838,490	230,965,292	237,792,836	231,345,612	230,153,990
Other Income	97,675,495	92,340,294	7,668,975	9,423,475	109,432,744	107,789,276	110,562,735	113,484,876
New Services from NHS England (Health Visiting Service & Independent Living)	0	0	0	0	0	3,200,000	6,100,000	6,100,000
Payroll and Pension Recoupement	89,636,321	76,503,449	7,861,230	7,869,230	92,233,909	92,769,120	94,788,400	95,033,000
VAT Reimbursement	19,250,750	20,919,996	2,000,000	1,800,000	24,719,996	25,000,000	25,300,000	25,800,000
Total Income	711,455,099	611,936,918	53,565,533	51,460,346	716,962,796	736,199,852	740,578,075	745,997,256
Net Income/Expenditure	24,438,927	21,853,968	4,119,714	-21,056,474	4,917,208	-9,918,811	-12,046,568	-4,340,987
Interest Received on Inhouse Investments		499,379	60,370	217,360	777,109	394,450	397,004	400,165
Interest on External Pooled Property Investment						260,000	260,000	260,000
Interest Paid on Debt		-5,133,610	0	-1,502,366	-6,635,976	-6,641,405	-6,691,566	-6,200,965
B/F Investment Balance			96,450,000	100,800,000		78,400,000	62,529,132	44,448,001
B/F Short Term Debt			0	0		0		
B/F Bank Balance			146,293	-23,623		34,898		
Estimated Closing Cash Balance			100,776,377	78,434,898		62,529,132	44,448,001	34,566,214
Estimated Closing Value of Investments			100,700,000	78,400,000		62,500,000	44,400,000	34,500,000
Estimated Closing Bank Balance			76,377	34,898		29,132	48,001	66,214
LIABILITY BENCHMARK	10M	10M	10M	10M	10M	10M	10M	10M