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County Offices
Newland
Lincoln
LN1 1YL

13 February 2015

Value for Money Scrutiny Committee

A meeting of the Value for Money Scrutiny Committee will be held on **Monday, 23 February 2015 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

Membership of the Value for Money Scrutiny Committee
(11 Members of the Council)

Councillors Mrs A M Newton (Chairman), Mrs J Brockway (Vice-Chairman), P M Dilks, I G Fleetwood, A G Hagues, S F Kinch, C E D Mair, Mrs M J Overton MBE, R B Parker, P Wood and 1 Conservative Vacancy

VALUE FOR MONEY SCRUTINY COMMITTEE AGENDA
MONDAY, 23 FEBRUARY 2015

Democratic Services Officer Contact Details

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E Mail Address	andrea.brown@lincolnshire.gov.uk

Please note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

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Lincolnshire COUNTY COUNCIL
Working for a better future

VALUE FOR MONEY SCRUTINY COMMITTEE
27 JANUARY 2015

PRESENT: COUNCILLOR MRS A M NEWTON (CHAIRMAN)

Councillors Mrs J Brockway (Vice-Chairman), I G Fleetwood, N I Jackson, Mrs M J Overton MBE, P Wood, R A Renshaw and T M Trollope-Bellew

Councillor Ray Morgon, London Borough of Havering attended the meeting as an observer

Officers in attendance:-

Andrea Brown (Democratic Services Officer), David Forbes (County Finance Officer), Michelle Grady (Assistant Director of Finance) and David Hair (Team Leader - Scrutiny and Member Support)

35 WELCOME

The Chairman welcomed all present to the meeting and, in particular, Councillor Ray Morgon of the London Borough of Havering who was in attendance as an observer.

36 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies for absence were received from Councillors C E D Mair, P M Dilks and A G Hagues. Pete Moore, Executive Director of Finance and Public Protection also submitted his apologies.

In line with Local Government (Committee and Political Groups) Regulations 1990, notifications of replacement members had been received as follows:-

1. Councillor T M Trollope-Bellew for Councillor A G Hagues (for this meeting only)
2. Councillor R A Renshaw for Councillor P M Dilks (for this meeting only)
3. Councillor R B Parker for Councillor N I Jackson (until further notice)

Since notification had been received that Councillor R B Parker would be replacing Councillor N I Jackson until further notice, Councillor Parker had submitted his apologies for this meeting. A further notification had been received, as a result, which advised that Councillor N I Jackson would replace Councillor R B Parker for this meeting only.

37 DECLARATION OF COUNCILLORS' INTERESTS

No declarations of Councillors' interests were received at this stage of the proceedings.

38 MINUTES OF THE MEETING OF THE VALUE FOR MONEY SCRUTINY COMMITTEE HELD ON 25 NOVEMBER 2014

RESOLVED

That the minutes of the meeting of the Value for Money Scrutiny Committee held on the 25 November 2014 be confirmed and signed by the Chairman as a correct record.

39 BUDGET PROPOSALS

39a Council Budget 2015/16

Consideration was given to a report of the Executive Director of Finance and Public Protection, which provided the Committee with the budget proposals agreed by the Executive on 6 January 2015 as its preferred options.

David Forbes, County Finance Officer, introduced the report by giving a presentation and circulating, for Members consideration, comments of other Scrutiny Committees on this item.

During discussion, the following points were noted:-

- The county as a whole was a net recipient of business rates via a central government top-up payment. The figures shown were if the rates were pooled with the District Councils. If a council did not pool, the government would only protect the organisation if they lost greater than 8% of the rate. Pooling removes such protection. Business rates income goes up with inflation and as a result of growth in the tax base;;
- The 20% funding for New Homes received within Lincolnshire goes to the County Council and had been used as a general source of funding in the budget. Next year was the fifth year of the initiative and for the first year and part of the second year, it could have been seen as additional money but this was no longer the case as it was now classed as a top-slice of Revenue Support Grant (RSG);
- District Councils were required to recalculate their tax base using the number of properties paying tax, and they are required to make assumptions about collection rates. Changes in the tax base and the performance of the collection fund were reported to precepting bodies like the County Council;
- The total business rate income was split three ways – 50% to government, 40% to districts and 10% to the county. The body who would be significantly impacted by changes in yield would be the District Councils;
- It was confirmed that the increase in the Adult Care Budget was partly due to the impact of the minimum wage increasing;

- A review of transport, including Home to School Transport, was being undertaken. As in other areas, annual fixed price contracts meant that the benefits of lower fuel prices were not being felt but that they may do in coming months as new contracts were let;
- It was noted that the funding regime had been frozen until 2020, as had the impact of the census data;
- The figure noted for redundancy costs was a "guestimate" taken from information within the core offer. This would also include pensions strain costs for over 55s as the redundancy budget also paid for early retirement;
- Although £300k of reductions was included for PCSOs, it was not known what form that would take. The Police and Crime Commissioner would decide how those reductions would be implemented;
- Some other Councils had set up "arms length organisations" to deliver services. Some were charitable Trusts as this would enable them to then access additional government funding;
- A two year budget had not been provided as there were not enough reserves to be able to balance the budget in the second year. Additional funding would depend on decisions from the new government and, additionally, the funding required for the Care Act and Better Care Fund would also impact;
- North Kesteven District Council was the only District Council who invited the County Council to be included within their own public budget consultations;
- A review by government into rural funding suggested two years ago that Lincolnshire should receive £7.5m but actually received £1.3m and this was not expected to change materially until the regime changed in 2020;
- In relation to the Care Act Grant, the £4m allocation was to undertake assessments of people registering with the Local Authority and not to implement the care required. Individuals were to be assessed by the Local Authority and, if deemed to have sufficient resources, would have to pay the first £72k cost of care. This was to be implemented from April 2016;

RESOLVED

That the report be noted.

39b <u>Feedback from the Budget Discussions at Meetings of Scrutiny Committees</u>

Comments from other scrutiny committees, relating to their areas of interest, were circulated at the start of the meeting, to allow members to consider these comments throughout their discussion of the overall budget.

RESOLVED

That the comments of other scrutiny committees be noted.

39c Revenue & Capital Budget Proposals 2015/16

Consideration was given to a report of the Executive Director of Finance and Public Protection, which described the budget proposals arising from the Provisional Local Government Settlement, announced on 18 December 2014.

David Forbes, County Finance Officer, introduced the report with a presentation and confirmed that this was the section of the budget which was pertinent to the remit of the Value for Money Scrutiny Committee. He also referred members to the glossary on page 39 of the report at 39a above for ease of reference.

During discussion, the following points were noted:-

- Although discussions were ongoing with the Boundary Commission to reduce the number of Councillors in Lincolnshire to 71, should they decide to increase the number after the 2017 election, this would result in additional spend;
- Legal Services had a net income budget as they charge for their service, with the remit of making an operating surplus. Fire & Rescue had set up a company which allowed it to trade much more widely. This income then served to underpin their budgets;
- Many support service staff were expected to be TUPE transferred over to LCC, Serco or West Yorkshire Pension Fund;

The Committee agreed that the following comments would be provided to the Executive for their consideration:-

- The Committee recognised that the Better Care Fund was only guaranteed for the forthcoming financial year and that it would be important to recognise this when considering future budgets;

At 3.45pm, Councillor I G Fleetwood left the meeting and did not return.

- The Government's Revenue Support Grant calculations up until the end of the decade would be based on population figures for the County as at the 2011 Census. This would potentially disadvantage Lincolnshire as the County was expected to experience net inward migration during this period;
- The Committee was supportive of efforts by the Council to generate additional income to offset savings requirements and encouraged the Council to continue to do this where possible.

RESOLVED

1. That the report be noted:
2. That the comments noted above be submitted to the Executive for their consideration.

At 3.50pm, Councillor R A Renshaw left the meeting and did not return.

40 VALUE FOR MONEY SCRUTINY COMMITTEE WORK PROGRAMME 2015

Consideration was given to a report which provided the Committee with the opportunity to consider its work programme for the coming year.

Due to the lack of items scheduled for the April meeting, Members were notified of the possibility that this meeting may be cancelled as a result. A final decision would be taken nearer the time.

Members were reminded of a Councillor Development Session, which would be held on the morning of Thursday 12 February 2015 and repeated in the afternoon, entitled Successful Meetings and delivered by David McGrath. All Members were encouraged to attend.

RESOLVED

That the Work Programme be noted and approved as set out in the report.

The meeting closed at 3.50 pm

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Agenda Item 4

Lincolnshire COUNTY COUNCIL
Working for a better future

Report Reference:
Policy and Scrutiny

Open Report on behalf of Judith Hetherington Smith

Report to:	**Value for Money Committee**
Date:	**23 February 2015**
Subject:	**Council Business Plan 2012 - 2015 Performance Report, Quarter Three 2014/15**

Summary: This report summarises performance against the Council Business Plan 2012-2015, highlighting changes since Q2.

Performance Indicators
The position for performance indicators is good with 80% better than or within target. Two performance indicators are worse than target for the first time:

- Percentage of household waste recycled and composted which has been projected to be below target due to reduced composting in the winter months, there has also been approximately 1% increase in non-recycled waste this year; and
- Number of people supported to stop smoking, where lower level of activity and promotion are impacting performance.

Three performance indicators are better than target for the first time:

- People killed or seriously injured in road traffic collisions, and the trend is expected to continue in Q4;
- People successfully completing an exercise referral programme with a 7% increase in performance based on June 2013. North Kesteven and East Lindsey have seen the highest overall completion rates in the county; and
- People supported to better manage their physical condition through the wellbeing service, 92% felt that their needs had been met following contact with service providers.

Council Priority Activities
Four council priority activities are reporting significant issues. Two of these also reported significant issues in Q2: The Lincoln Eastern Bypass, and the Library Needs Assessment Programme. The two reporting significant issues for the first time in Q3 are: Lincoln Castle Revealed where the main risk remains with the Magna Carta Vault, however the project manager has reported at the end of January that all work within the Magna Carta is programmed for completion on the 24th March 2015; and the Grantham Southern Relief Road where the viability of King31 (an industrial and distribution scheme, situated on the A1 at Grantham) is still unresolved and has become critical.

Customers
Customer satisfaction with the Council is 85% - 1 percentage point down from Q2. This feedback was provided through 506 Touchstone surveys in Q3 with customers who received a service from the council. Customer satisfaction of contacting the Customer Service Centre by telephone is 91% compared with 88% in Q2. There were 882 surveys in Q3, customers self-select for this survey. Call abandon rate is much lower in Q3 - 6.2%, compared with 9.1% in Q2. Although there is no longer national benchmarking for local authority contact centres, based in industry research 10% is the point at which satisfaction starts to decrease. Of the 120 complaints received in Q3 only 16.7% (20 out of 120) were upheld – compared with 19% in Q3.

Finance
Total revenue spending is predicted to be £5.124m less than the total budget (excluding the projected underspending on Schools budgets). Net capital spending is projected to be £1.683m less than the approved 2014/15 programme total.

Actions Required:

Committee considers:-

- Any further action necessary on 2014/2015 – Quarter 3 performance.
- If there are any points to bring to the attention of the Executive.

1. Background

The detailed information in this report will be discussed by the relevant scrutiny committee. Performance indicators and Council Priority Areas which fall under the remit of VFM committee are also detailed in this report.

Awaiting information – Corporate dashboard
As people accessing the wellbeing service due to breakdown in unpaid carer role is a new measure, 2014/15 data will be used to set a baseline.

2. Conclusion

80% of performance indicators are better than or within target. Four council priority activities are reporting significant concerns. Customer satisfaction with council services is 85%. Of the complaints received in Q3 only 16.7% (20 out of 120) were upheld. Total revenue spending is predicted to be £5.124m less than the total budget (excluding the projected underspending on Schools budgets). Net capital spending is projected to be £1.683m less than the approved 2014/15 programme total.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

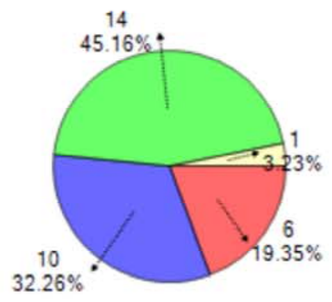
This report was written by Jasmine Sodhi, who can be contacted on 01522 552124 or jasmine.sodhi@lincolnshire.co.uk.

The following information is contained within this report:

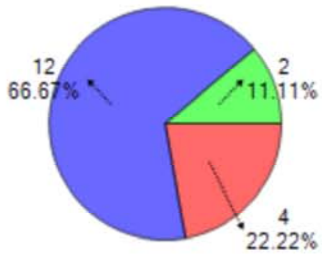
1		**Corporate Dashboard**
		Performance Indicators: Summary Exception Report – those behind target or ahead of target for 2 quarters
		Voice of the Customer Summary Dashboard
		Manage People: Summary Report
		Manage Finance: Summary Report
2	Appendix A	**Council Priority Activities with comments**
3	Appendix B	**Customer Experience Report**
4	Appendix C	**Finance Report**

Corporate Dashboard (April 2014 to December 2014/ Quarter 3)

Performance Indicators



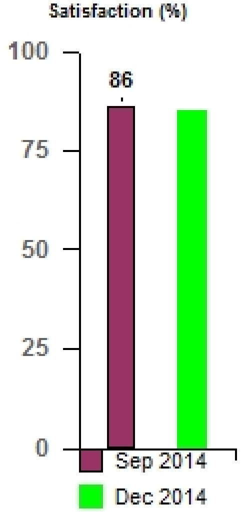
Council Priority Activities

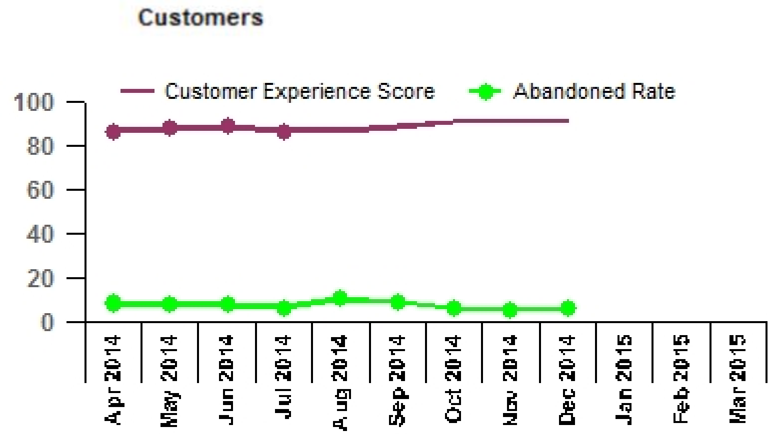


Better than target / No issues
Within target / No significant concerns
Worse than target / Significant issue(s)
Missing information
Not yet started

Performance Indicators compared to this time last year

Value increased, got worse	Value stayed the same	Value increased, got better	Value decreased, got better	n/a	Missing information	Total
7	0	6	3	2	10	31





Key Customer Intelligence Statistics

	Actual (30/09/14)	Actual (31/12/14)
Upheld Complaints	27	20
Compliments	115	88
Comments	4	0

Manage People Indicators

	Actual 31/12/14	Target 31/12/14	Year end target		DoT
Appraisals 13 month rolling	73.99	100.00	100.00	Worse than target	Missing information
Sickness absence 12 month rolling	7.78	8.00	8.00	Better than target	Missing information
Cost sickness absence £	1,406,792.72				
Total FTE, excludes school	4,400.00				

Manage Finance Indicators

	Actual 31/01/15	Annual Budget	Projected outturn	
Net capital spend (including schools)	£19,833,000	£93,683,000	£71,461,000	Worse than target
Net revenue spend (incl schools)	£321,019,000	£509,398,000	£499,854,000	Worse than target

	Actual 31/12/14	Annual Budget	Projected outturn	
Staffing budget (excl schools)	£110,184,540	£152,285,084	£153,859,674	Worse than target

Symbol Key

Better than target	Within target	Worse than target	Value increased, got worse	Value decreased, got worse	Value stayed the same	Value increased, got better	Value decreased, got better	Missing information	Missing year end information	Not yet started

Appendix A(i): Summary Exception Report (Worse or better than target)

Symbol Key		
Performance band	**Symbol**	**Colour**
Better than target	+	Green
Worse than target	◆	Red

Performance Indicators - Red - Adults Scrutiny Committee									
Measure Name	**Actual Sep 2014**	**Target Sep 2014**		**Actual Dec 2014**	**Target Dec 2014**		**Head of Service Comment and Action**	**Scrutiny Committee Date**	**Scrutiny Committee Outcome**
Percentage of people whose outcome on leaving reablement is 'no service required'. This means that after an episode of care for up to 6 weeks the individual requires no further care.	49.8	52.5	◆	47.8	53.8	◆	This quality measure continues to have a downward trend. LPFT continue to work to improve the performance, their new model for LARS will commence on the 1st of February. LPFT consider increased acuity of patients combined with ULHT pressure which saw unprecedented volumes and high acuity of patients presenting particularly from December onwards. LPFT are now very focused on improving this measure and have actions with their ULHT, their own staff and the referring agents to improve the position.	25th February 2015	

Performance Indicators - Red -Community and Public Safety Scrutiny Committee									
Measure Name	**Actual Sep 2014**	**Target Sep 2014**		**Actual Dec 2014**	**Target Dec 2014**		**Head of Service Comment and Action**	**Scrutiny Committee Date**	**Scrutiny Committee Outcome**
Number of Heritage Service Users	2,306,749	2,589,136	◆	3,426,040	3,760,882	◆	Heritage Service interactions are below target and below last year's targets. This is largely due to a decline in online usage. Visits in person to sites are up 18% on the same period of 2013-14.	4 March 2015	
Percentage of co-							This indicator is slightly below target, and has been outside of tolerance for the last five quarters. Consistently F&R render assistance at 88% of co-responder incidents attended. Whilst calls into EMAS are carefully monitored, the operators have to make rapid decisions between mobilising an ambulance or co-responder crew and where there are areas of doubt they do mobilise both resources. Through regular meetings we seek to keep these to a minimum but where a life is considered to		

Performance Indicators - Red -Community and Public Safety Scrutiny Committee									
Measure Name	**Actual Sep 2014**	**Target Sep 2014**		**Actual Dec 2014**	**Target Dec 2014**		**Head of Service Comment and Action**	**Scrutiny Committee Date**	**Scrutiny Committee Outcome**
responder incidents where Fire and Rescue rendered assistance	87.92 %	91.00 %	◆	87.89 %	91.00 %	◆	be at risk, or it is believed that a co-responder crew can attend before an EMAS resource, we accept the dual mobilising. The number of co-responder incidents attended have increased by 11% compared to Q3 last year (additional 276 incidents). 9% of attended co-responder incidents see a dual attendance, with an additional 3% of incidents sadly being where the casualty was deceased upon arrival. It appears that we are unable to achieve the 91% target, and historically the highest performance achieved is 90.45%.	4th March 2015	
Percentage of eligible population aged 40-74 offered an NHS Health Check who received an NHS Health Check	50.00	55.00	◆	47.67	55.00	◆	It is expected that the uptake will improve during Q4. Monthly practice performance reports are going out and practices who have met their invitation target have been asked to stop sending invitations and to concentrate on assessments. The over performance in invitations being sent makes the number of assessments completed look low in comparison, however, 21,314 assessments have been completed by Q3, an average of 7,104 each quarter. If the same numbers are completed in Q4, this would show a year end position of 28,418, an improvement on last year (26,898).	4th March 2015	

Performance Indicators - Green - Adults Scrutiny Committee									
Measure Name	**Actual Sep 2014**	**Target Sep 2014**		**Actual Dec 2014**	**Target Dec 2014**		**Head of Service Comment and Action**	**Scrutiny Committee Date**	**Scrutiny Committee Outcome**
Delayed transfers of care once clients are deemed clinicaly fit for discharge per 100,000 population.	0.9	1.9	✚	1.5	1.9	✚	The performance was expected to peak during the winter cycle due to increased activity. Since the 22 December we have seen unprecedented demands on the health system. The increased activity has resulted in a 15% increased in delays for patients, it is clear our activity mirrors the overall activity levels. Lincolnshire remains one of the better performing authorities with low delayed transfers attributable to social care. We continue to work with ULHT and health partners on reducing the delays through earlier discharge planning for patients.	25th February 2015	

Performance Indicators - Green - Community and Public Safety Scrutiny Committee									
Measure Name	**Actual Sep 2014**	**Target Sep 2014**		**Actual Dec 2014**	**Target Dec 2014**		**Head of Service Comment and Action**	**Scrutiny Committee Date**	**Scrutiny Committee Outcome**
Number of library interactions	2,852,103	2,782,488	+	4,218,992	4,127,669	+	Library interactions are on target for the first three quarters of 2014-15, although they are below the same period last year. The amount of stock issued is 10% down on the same period in 2013.	4 March 2015	
Percentage reduction in repeat victimisation for those domestic violence cases being managed by a MARAC	17.8	20.0	+	19.1	20.0	+	This indicator measure the repeat victimisation rate of high and very high risk domestic abuse cases, expressed as a percentage. It is based on the domestic abuse cases that are referred to the Multi Agency Risk Assessment Conferences (MARACs) of which there are two in the county. In the last 12 months ending December 2014, 844 high and very high domestic abuse cases were discussed at MARAC, 161 cases were those that were considered repeat cases as they had been referred to MARAC following a repeat incident or incidents more than once in the last 12 months. The rate is currently 19.1%. This is significantly better than the current national rate 24.0% and inline with the most similar family rate, 20.0% (September 2014).	4th March 2015	
Total number of fatalities due to primary fires per 100,000 population.	0.14	0.28	+	0.28	0.42	+	Over the 9-month period we have had confirmed 2 fire deaths - 1 of which was not preventable & the other, whilst not directly attributable to the fire, smoke inhalation was considered as being a contributory factor. This particular incident was a dwelling fire. F&R are continuing to work with partners to identify vulnerable people in order to reduce the likelihood of future fire deaths. This work is generating a significant number of referrals & community safety strategy has been changed to move away from traditional approaches to conducting Home Fire Safety Checks to far more targeted work based on data provided from partners. Less vulnerable people are still able to access services, however, this is through a do-it-yourself option online. There has been 1 additional fire fatality during January however, we still hope to remain within our agreed limit for year-end.	4th March 2015	
							Deliberate primary fires over the period are slightly higher than last year, albeit still		

Performance Indicators - Green - Community and Public Safety Scrutiny Committee

Measure Name	Actual Sep 2014	Target Sep 2014		Actual Dec 2014	Target Dec 2014		Head of Service Comment and Action	Scrutiny Committee Date	Scrutiny Committee Outcome
Number of deliberate primary fires per 10,000 population	1.86	2.07		2.71	3.09		better than target. The data shows the main increasing trends to be in Boston (up from 10 at Q3 2013/14 to 24 this year), Skegness (up from 7 at Q3 2013/14 to 14 this year), Grantham (up from 13 at Q3 2013/14 to 17 this year), Sleaford (up from 3 at Q3 2013/14 to 8 this year), Gainsborough (up from 14 at Q3 2013/14 to 22 this year) & North Hykeham (up from 7 at Q3 2013/14 to 13 this year). The most common types of deliberate primary fire involve vehicles (81 of the 196 incidents) & dwellings (28 of the 196 incidents).	4th March 2015	
Percentage of eligible population aged 40-74 offered an NHS Health Check	11.80	10.00		19.39	15.00		At the Q3 point the NHS Health Check programme in Lincolnshire is ahead of target for invitations. Practices tend to send invitations earlier in the year so that they have the opportunity to contact those patients who have not responded in the first instance. This helps them to increase their uptake rate coming up to year end and meet their target uptake payments. Monthly practice performance data is sent to practices to assist them in meeting their year end target numbers for both invitations sent and patients assessed. Practices who have met their 100% invitation target have been asked to stop sending invitations and to concentrate on following up non-responders. We expect to see a reduction in Q4 invitations and an increase in the overall uptake rate.	4th March 2015	

Performance Indicators - Green - Community and Public Safety Scrutiny Committee - 1 quarter lag

Measure Name	Actual Jun 2014	Target Jun 2014		Actual Sep 2014	Target Sep 2014		Head of Service Comment and Action	Scrutiny Committee Date	Scrutiny Committee Outcome
People completing Alcohol treatment in a planned way	65.38	60.00		63.17	60.00		The payment model for alcohol services uses a PbR model. It is set up to reward the providers for ensuing clients successfully complete their treatment pathway. Despite a change in methodology from the National Drug Treatment Monitoring System (NDTMS), the provider continues to sustain above target performance for people completing alcohol treatment in a planned way. Of the 190 clients seen across the partnership, 116 have	4th March 2015	

Performance Indicators - Green - Community and Public Safety Scrutiny Committee - 1 quarter lag

Measure Name	Actual Jun 2014	Target Jun 2014		Actual Sep 2014	Target Sep 2014		Head of Service Comment and Action	Scrutiny Committee Date	Scrutiny Committee Outcome
							successfully completed treatment in a planned way during Q2. Awaiting clarification on current performance due to change in methodology by the National Drug Treatment Management System (NDTMS).		
Wellbeing Service - Percentage of people supported through assistive technology, aid, and adaptions.	94.00	90.00	+	94.00	90.00	+	This indicator measure the percentage of people who required support with aids and adaptations to the home (in order to support independent living) when they entered the Wellbeing Service and who felt that their needs had been met following their contact with service providers. By the end of Q2 304 out of 322 people who cited needs linked to aids and adaptations had their needs met by the wellbeing service.	4th March 2015	

Performance Indicators - Green - Economic Scrutiny Committee

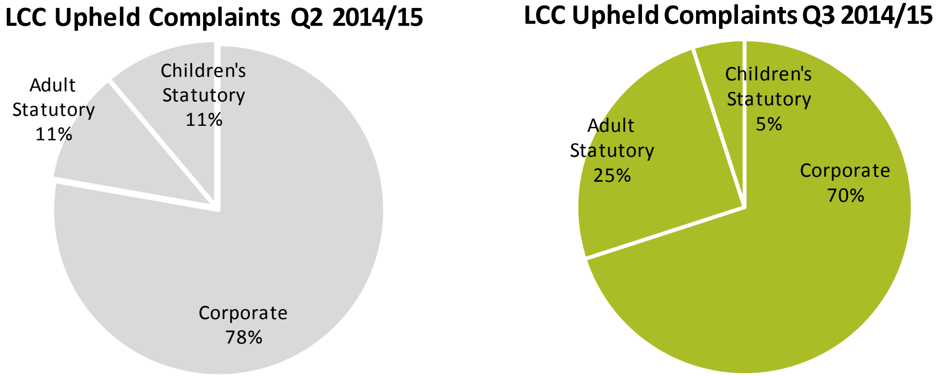
Measure Name	Actual Sep 2014	Target Sep 2014		Actual Dec 2014	Target Dec 2014		Head of Service Comment and Action	Scrutiny Committee Date	Scrutiny Committee Outcome
Number of jobs created or safeguarded	533	242	+	542	363	+	(This indicator is broken down in the following: Number of Jobs Created = 365, Number of Jobs Safeguarded = 177). The number of jobs created and/or safeguarded over the last quarter has reduced when compared to the previous two quarters. It is unclear whether this is a seasonal issue or a slowing of general economic recovery. Quarter 4 data should give a clearer indication as to the ongoing trend. It should, however, be noted we have exceeded the target for the year.	24 February 2015	

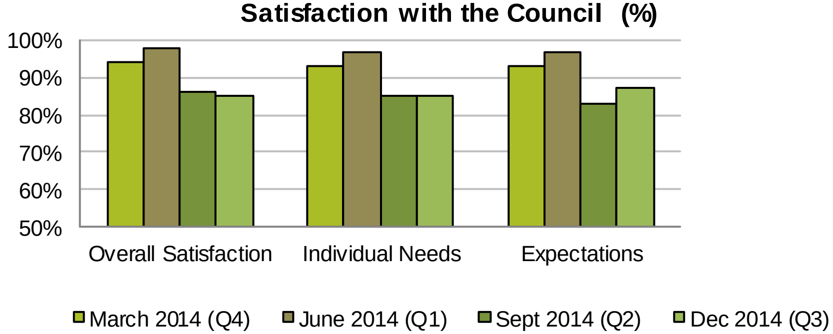
Performance Indicators - Green - Environmental Scrutiny Committee

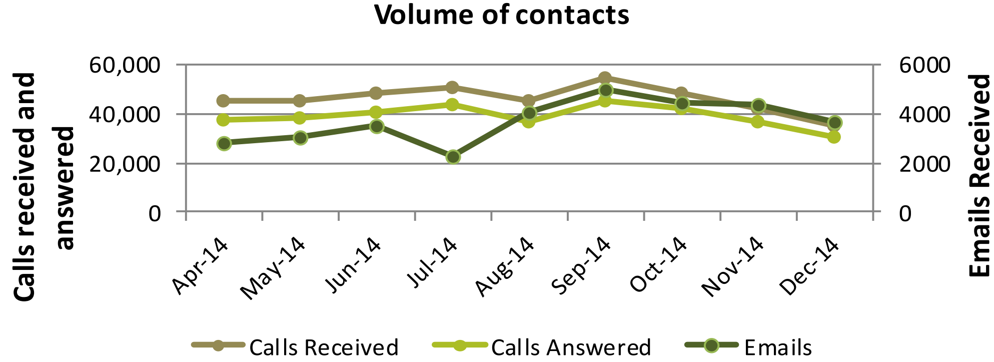
Measure Name	Actual Sep 2014	Target Sep 2014		Actual Dec 2014	Target Dec 2014		Head of Service Comment and Action	Scrutiny Committee Date	Scrutiny Committee Outcome
Tonnage waste to landfill by diverting to the Energy from Waste facility	7,172	11,260	+	12,148	16,890	+	(Estimate as we await third party data). So far this year more than 90% of our non-recycled waste has been diverted from landfill to our Energy from Waste facility.	13 March 2015	
Percentage reduction in tonnes of CO2 emitted from use of fuel (building and transport).	3	2	+	12	3	+	The proxy dataset continues to show reductions in emissions for both buildings and vehicles.	13 March 2015	

Voice of the Customer Summary Dashboard (Quarter 3 2014/15)

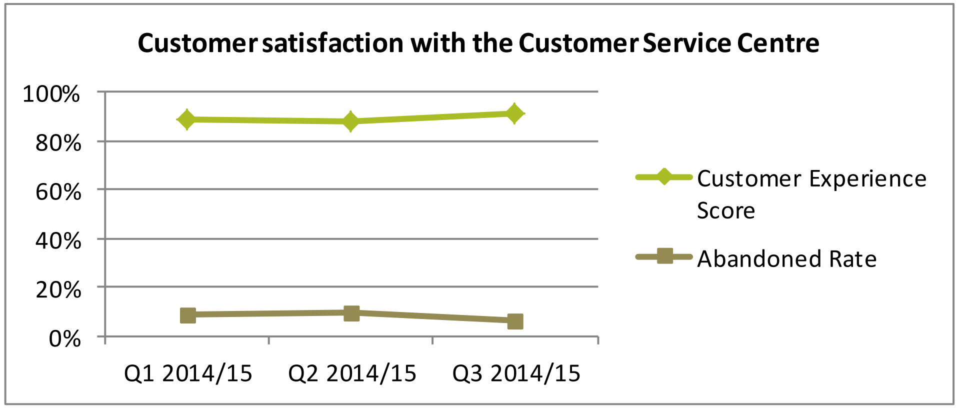
Total Upheld Complaints (Quarterly Comparison)







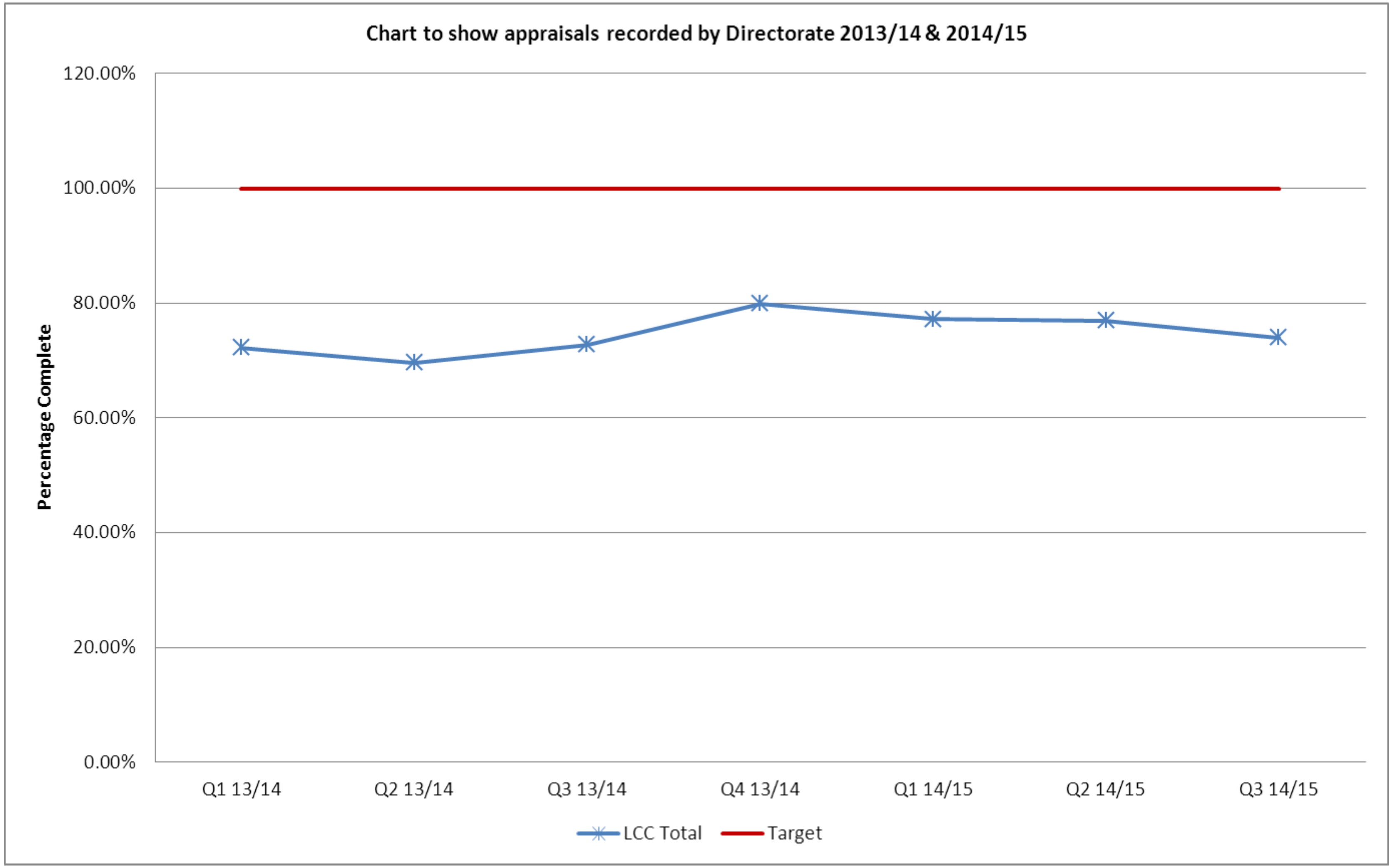
	Sept (Q2 2014/15)	Dec (Q3 2014/15)
Corporate	21	14
Adult Statutory	3	5
Children's Statutory	3	1
Total	27	20



Customer Satisfaction	2014/15 Minimum Service level	2014/15 Target	Sept Q2 14/15	Dec Q3 14/15	
Customer Experience Score	80%	85%	88%	91%	+
Quality Score	80%	85%	*	*	
First Point Resolution	75%	80%	77.2%	76.8%	
Avoidable Contact Rate	25%	20%	15.4%	13.1%	+
Abandoned Rate	<15%	<10%	9.1%	6.2%	+

Manage People: Summary Report (April 2014 to December 2014 – Q3 2014/15)

Appraisals



N.B. As at May 14 the reported monthly and quarterly appraisal figures are based on a 13 month rolling time frame.

- With effect from Q1 14/15, appraisals are reported on a 13 month rolling time frame as this reflects the number of appraisals completed more accurately. Previously appraisals completed were reported on a 12 month rolling time frame which is shown in the figures for the previous quarters.

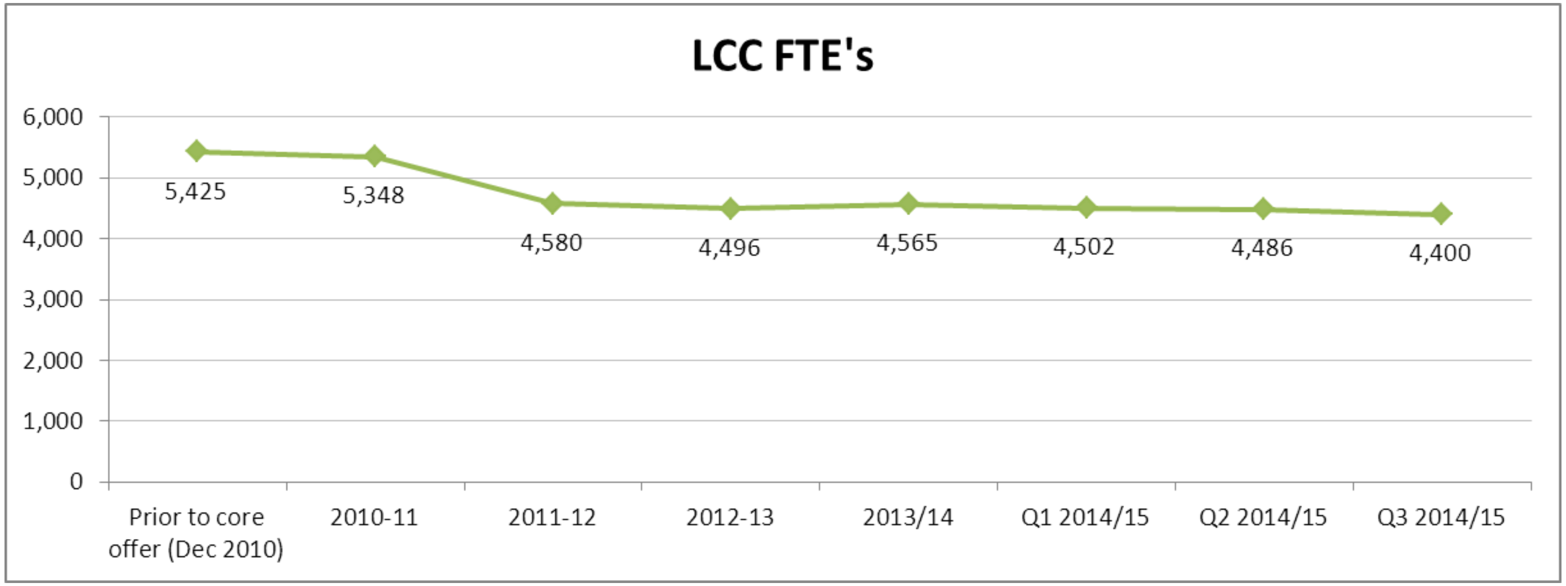
- Due to organisational changes which came into effect from 1 April 2014, direct comparisons with previous service performance will not be possible as we are not measuring 'like for like' performance. However, comparison can be made at the corporate level.

- Although there has been an overall fall in the number of appraisals recorded in Q3 14/15 compared to Q2 14/15, when compared to Q3 13/14 the rate of recorded appraisals is higher. The comparison of Appraisal rates with Q3 13/14 shows an increase of levels in all areas. The overall trend over the 4 quarters is showing an increase in appraisals recorded.

- Appraisals are planned to take place as soon as possible and employees continue to be supported to meet their objectives through regular discussions with their line managers.

- Please note that the graph shows the percentage of appraisals recorded over 13 months from Q2 14/15 and excludes LEA Schools staff (staff employed by schools) and uniformed Lincolnshire Fire and Rescue Service staff.

FTE

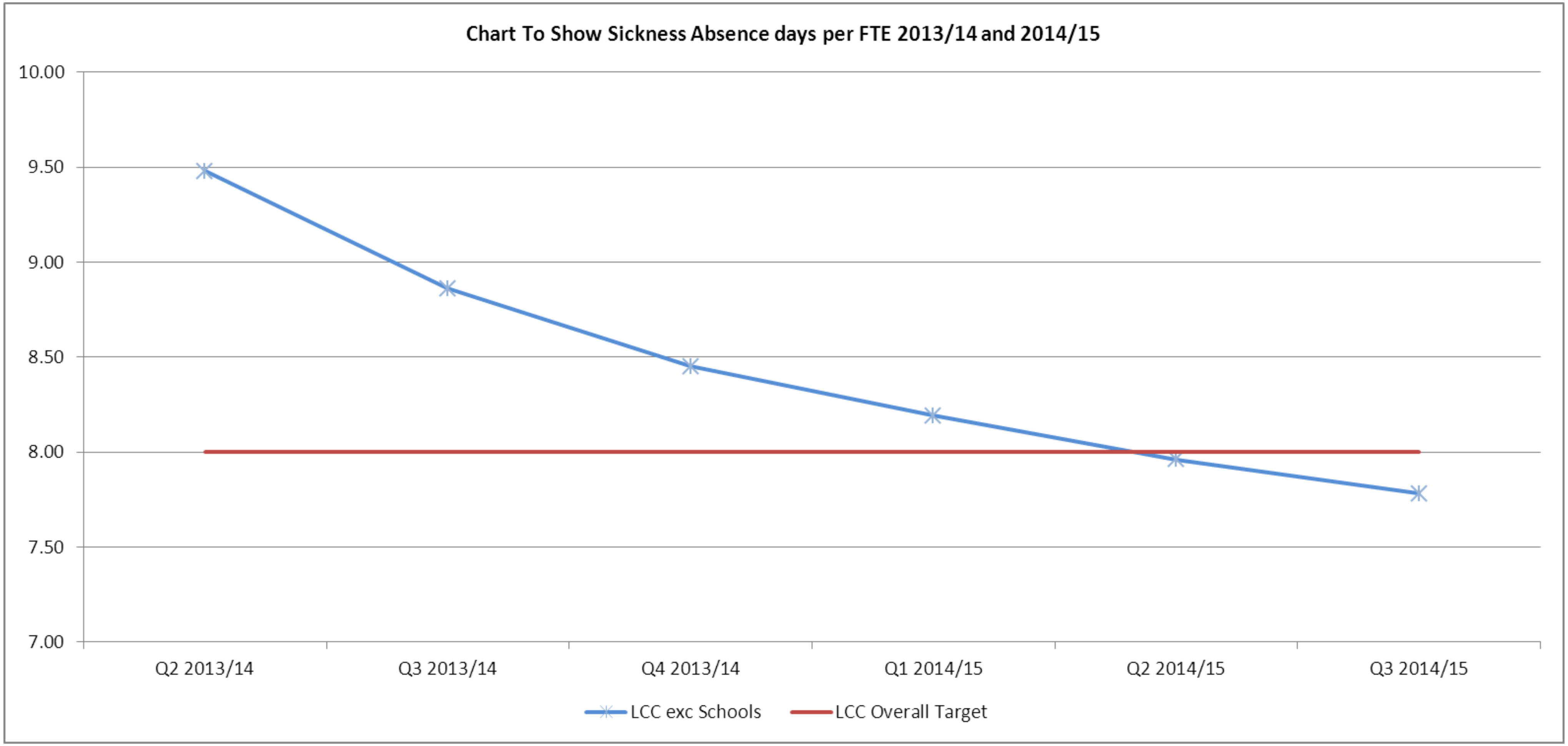


Key information:

- The total LCC Full Time Equivalent (FTE) remains significantly reduced compared to December 2010. The FTE for Q3 2014/15 has fallen when compared to the 2013/14 year end figure. This is the result of the transfer out of The Lincolnshire Assessment and Reablement Service (LARS) staff and Senior Management Review (SMR).

- It should be noted that these are average FTE figures and that the figures also exclude LEA Schools staff (staff employed by schools).

Sickness absence



Key information – Sickness Absence Rates

- The Q3 sickness absence figure has continued to fall when compared to the Q2 2014/15 figure – 7.78 days per FTE compared to 7.96 Days per FTE.
- It is difficult to make direct area comparisons with Q3 2013/14 and Q3 2014/15 due to organisational changes that came into effect from 1 April 2014. Therefore direct comparisons for service areas with 2013/14 will not be possible as we are not measuring 'like for like' performance. However, a direct comparison can be made with the sickness absence days per FTE at the corporate level.
- Support is on-going in areas with higher than average levels of sickness absence such as Adult Care and Children's Services.

- Reports on the top 10 long term sickness cases have been piloted to highlight cases which have a considerable impact on service performance. Actions have been taken as appropriate.

- The number of days lost due to sickness absence continues to reduce through the proactive work of managers with staff and the people management service. This is supported by council wide Health and Wellbeing initiatives, coupled with effective partnerships with the council's occupational health provider.

- This demonstrates the commitment made by LCC to actively reduce sickness absence.

- Absence levels in Adult Care, Children's, Finance & Public Protection and Environment and Economy are below those reported in Q2 2014/15.

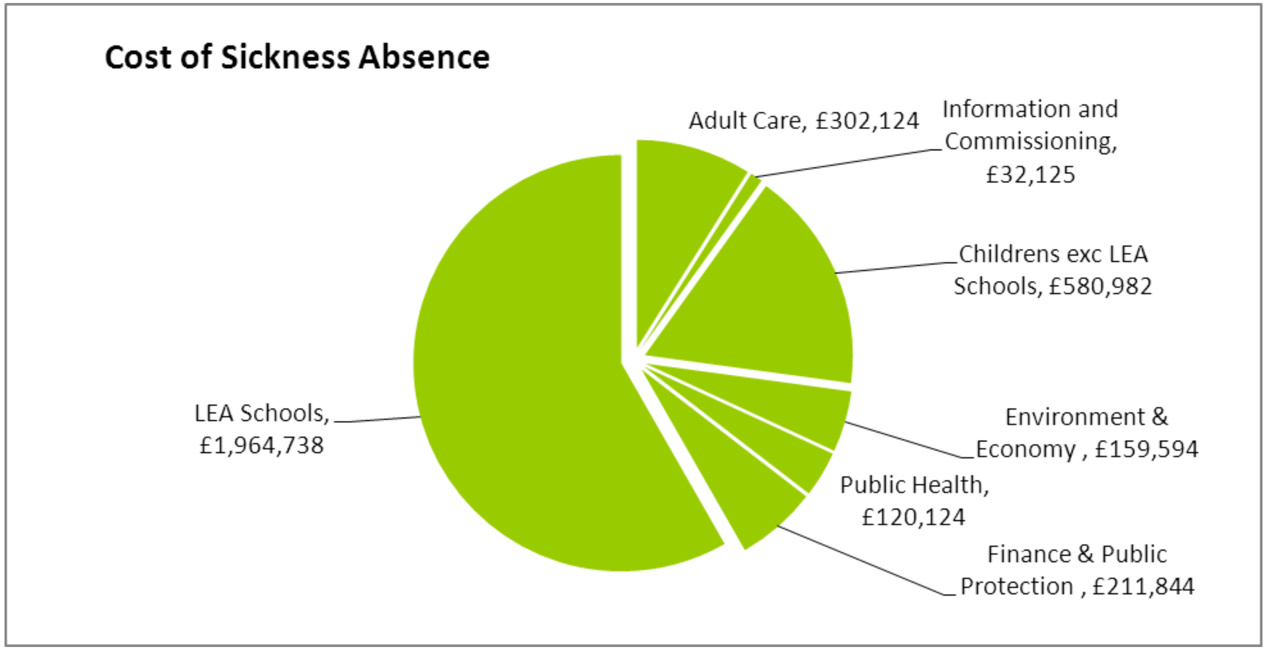
- Please note that the graph excludes LEA Schools staff (staff employed by schools) and Lincolnshire Fire and Rescue Service staff.

Key information – Sickness Absence Cost

- It is difficult to make direct area comparisons with Q3 2014/15 and Q3 2013/14 due to organisational changes that came into effect from 1 April 2014. Therefore direct comparisons for service areas with 2013/14 will not be possible as we are not measuring 'like for like' performance. However, a direct comparison can be made with the total cost of sickness absence at the corporate level.

- Overall the LCC sickness absence costs are significantly lower than Q3 2013/14 - £1,406,793 (exc Schools) compared to £1,571,432. This further illustrates the progress being made in managing sickness absence management.

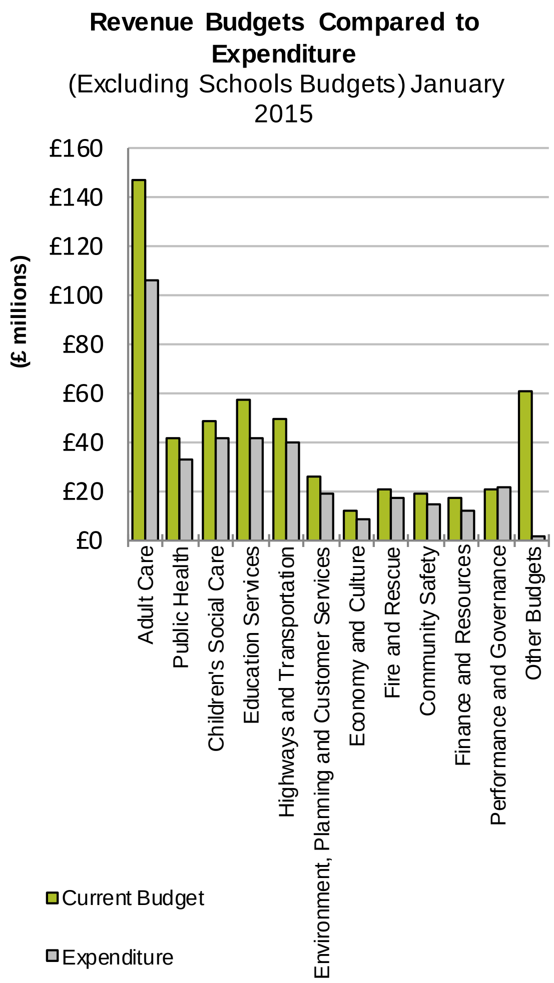
- Please note that the graph excludes Lincolnshire Fire and Rescue Service staff.

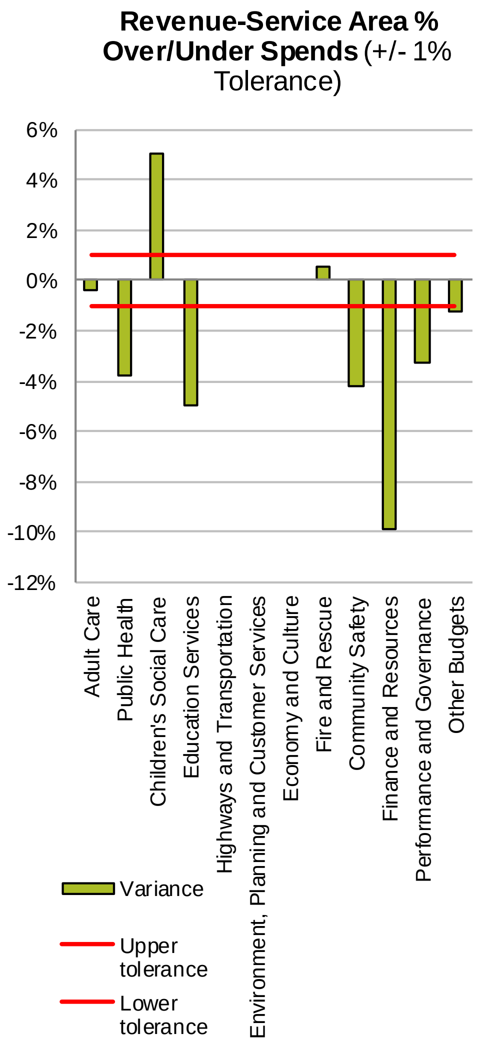


Revenue

Key Information:

- total revenue spending is predicted to be £5.124m less than the total budget (excluding the projected underspendings on Schools budgets);
- total revenue income is predicted to be £0.929m, more than the total budget as a result of additional grant income; and
- general reserves at the year end are forecast on this basis to be within the 2.5% to 3.5% range at the upper end, estimated to be at 3.5% of the total budget based on current spending.

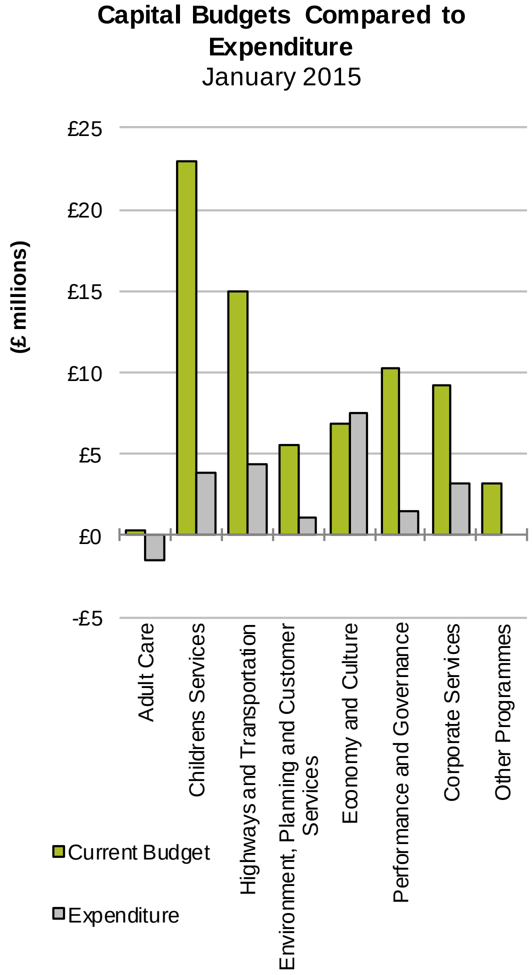


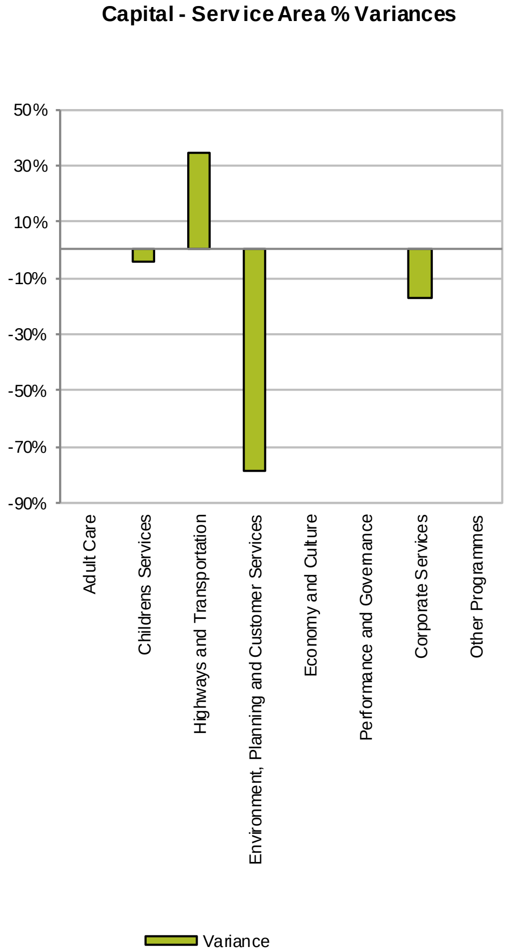


Capital

Key Information:

- net capital spending is projected to be £1.683m less than the approved 2014/15 programme total.





The capital programme comprises a series of schemes/projects which often span a number of years. Hence over/underspends cannot be related to time periods such as this financial year. Where a scheme/project is known to be exhibiting a material variance to its spend profile this will be described in the narrative associated with that Director area.

- Highways and Transportation have overspends of £4.618m relating to the A1073 Spalding to Eye Road Improvement Scheme, and £0.513m relating to the Whisby Road Improvement Scheme.

- Environment, Planning and Customer Services has an underspend of £4.323m relating to the Energy from Waste Plant.

Key

Children's SC – Children's Social Care
H&T – Highways and Transport
EPACS – Environment, Planning and Customer Services
E&C – Economy and Culture
F&R – Finance and Resources
P&G – Performance and Governance

Date created: 14-Jan-15

Position as at 31-Dec-14

Symbol Key				
Green - No Issues	Blue - No significant concerns	Red - Significant issue(s)	Not yet started	Missing information

Activity Name	Overall Summary		Comment
	Nov 2014	Dec 2014	
Value for Money Scrutiny Committee			
Programme			
Case Management Partnership Programme			Things remain very tight. The target go-live date remains viable today, but only just and the next few weeks will be critical in making a final recommendation. The main pressure areas are in System Build (configuration), System Testing (including integration testing with Agresso and Lagan), data migration and on training. Delays in completing the Children's system build has put significant pressure on testing and on training. And delays in CoreLogic software delivery has put significant pressure on some aspects of configuration, reporting, testing and, again, on training. These issues have necessitated the cancellation of training pilots, and of super user training, and delayed the first full week of training, which has required some staff to reschedule their training as a consequence. On the plus side, the main financial interfaces have now been delivered and are being prepared for test, albeit some weeks late. The main system-build, of forms and workflow, is now largely complete, although there is still a lot to do in regard to other key aspects of the configuration, for example, the setup of organisations, teams work roles and system permissions. The build of the production environment hosted at the Iomart data centre is on track, but with significant connectivity issues still to be addressed. The Business Objects reporting capability is now in place and able to access the Mosaic servers. Adults and Public Health training preparations are well in hand but Children's training preparation is under a great deal of pressure owing to system build delays. The first (customer facing) phase of the portal will go live some weeks after Mosaic has been brought into operational use to minimise risk. Mosaic System Governance and Support arrangements are now being addressed albeit later than hoped. All of that said, the team is working very hard in pressured and demanding circumstances to get the system operational safely, which is critical.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 performance item at the 25 November 2014 Committee.

Activity Name	Overall Summary		Comment
	Nov 2014	Dec 2014	
Future Delivery of Support Services	●	●	The Council continues to work with Serco on the transformation of services within IMT, People Management, Finance and the Customer Service Centre ahead of Serco taking over delivery of those services from April 2015. Overall, we are on track for go-live on 1st April, although there are some challenging issues on both the Agresso and IMT projects. The contract between the Council and VINCImouchel for the provision of Property Services from April 2015 has now been signed. Due diligence site visits are underway and transition planning is progressing well. Work with the West Yorkshire Pension Fund for the provision of our pensions administration service continues. Two cycles of data extract have been run, arrangements are inplace for formal TUPE consultation starting in January, and good progress is being made on the provision of accommodation and ICT for the new team. The contract for catering at the secure unit has been awarded to Mouchel Ltd., and will start in April 2015. The insourcing of the Health & Safety service is progressing on plan.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 performance item at the 25 November 2014 Committee.
Information Management Programme	+	+	The programme continues to make good progress. Work continues on additional features to document and image viewing. Go live planned for January 2015. Currently the programme is on schedule and within budget. **Workstream Summary:** Service areas in delivery – 10 (Planning, Environmental Management, Regeneration, Enterprise, Finance, Pensions & Treasury, Fire and Rescue, Flood Risk and development, Countryside, Transportation) Service areas in closure – 4 (TSP, Client Services, Performance – Regeneration, Highways Divisions) Service areas complete – 13 (Democratic Services, Corp Communications, People Management, Performance and Programmes, Safer Communities, Business Support, Registration Service, Corporate Property, CSC, Legal Services, Procurement Lincolnshire, Youth Offending, Audit) **Programme High Level Metrics:** Service areas migrated since March 2014 – 17 Service areas to be migrated by March 2015 - 27 Total user base for IMP – 2738 Total documents now in IMP – 7,677,821
			Scrutiny Comments: Progress was reported as part of the Quarter 2 performance item at the 25 November 2014 Committee.

Activity Name	Overall Summary		Comment
	Nov 2014	Dec 2014	
People Make It Happen People Strategy			Overall the programme remains on plan. Key points at a programme level are: • The Trade Union ballot began on 8th December 2014 and will end on 9th January 2015. The ballot will seek responses from the Trade Union members who will be affected by the proposed changes as to whether they agree to the proposed changes to the terms and conditions of employment. • Work is ongoing around the new People Strategy and meetings are continuing to be held with relevant stakeholders. A paper is being written to be taken to Corporate Management Board (CMB) at the end of January / beginning of February. • Mercer are due to deliver two workshops for the Senior Leadership PRP programme on 20th and 28th January 2015 for those individuals who were unable to attend the initial dates. • The Youth Employment Officer role closes on 6th January 2015 and interviews are scheduled for 14th and/or 16th January 2015. Key highlights across the programmes workstreams include: • Cohort Five of the Senior Leadership Development Programme met for Module 3 on 9th December 2014, and the organisational project presentations for Cohort Two of the Leading from the Middle Programme took place on 17th December 2014. It has been confirmed that 3 more Cohorts will run in 2015 as part of the Leading from the Middle Programme. • It has been agreed that there will be a phase 3 of the Baseline Personnel Security Standard (BPSS). There are 3 possible options of how phase 3 will be undertaken, and a decision needs to be made on which of these options is taken forward. • The Terms of Reference for the Employee Engagement and Wellbeing Steering Group were agreed at the meeting which was held on 15th December 2014.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 performance item at the 25 November 2014 Committee.

Activity Name	Overall Summary		Comment
	Nov 2014	Dec 2014	
Adults Scrutiny Committee			
Programme			
Care Act 2014 Programme			Overall the Programme is on track for implementation on the 1 Apr 2015. There are challenges which continue to be met through the Programme Support Team and decisions through the Department Management Teams and Programme Board. Workstream summary: Prevention, Commissioning and the Market, Information and Advice, Assessment Care Planning and Eligibility, Workforce Planning and Development, IT, Comms, Safeguarding, Finance & Dilnot, Carers-all have matrix and action plans in place and making progress. Safeguarding and Finance progress is reliant on further information/clarification from Department of Health.
			Scrutiny Comments: The Adults Scrutiny Committee considered a detailed report on the Care Act 2014 on 30 July 2014, which included section-by-section analysis of the Act. The Committee's Budget Report for 2015-16 Report, due to be considered on 23 January 2015, provides an update on the budgetary impact of the Act. The Committee is due to receive a presentation on 1 April 2015 from the Lincolnshire Carers and Young Carers Partnership on how carers would expect the Act's provisions to support them.

Activity Name	Overall Summary Nov 2014	Overall Summary Dec 2014	Comment
Children & Young People Scrutiny Committee			
Project			
FWT Troubled Families			The project continues to make progress and is on target to achieve Phase 1 requirements. Planning is still underway for Phase 2. In October 2014, FWT submitted a quarterly claim for those families which had achieved the outcomes necessary to be "turned around", attracting a payment to the local authority. 253 claims were made, of which 52 families achieved the ongoing employment outcome, moving into sustained employment. This means Lincolnshire has turned around 954 families countywide (70% of target, 1370 families). Lincolnshire has already identified and engaged all of its target number of families; turning them around remaining the only national target left to complete. Reaching 70% of the Lincolnshire target in October 2014, granted Lincolnshire early access to the second Phase of the Troubled Families programme (January 2015), due to begin formally in April 2015. This will allow Lincolnshire to participate in the final stages of shaping the next Phase of the programme before its details are finalised. The December 2014 Youth Homelessness report is attached for further information about service performance in the last 12 months.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 Performance report considered at the meeting held on 28 November 2014.
SEND Reform Implementation			This is the last Highlight Report for this Project as it closes 13th January, 2015. All the benefits as laid out in this report have been assigned to a designated service area to monitor over the next 3 years. Their findings will be reported to the SEND Team for service development. Likewise, all the Project's issues and risks have been closed within this Project and have been allocated to the relevant service area who will mitigate and complete - advising updates of improvement and final closure to the SEND Team. All documentation has been signed off, implemented and available on the Local Offer. The SEND budget is assigned to Sheridan Dodsworth to set projections at GL level.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 performance report at the 28 Novemberr 2014 meeting. A report on the lessons learned from the implementation of the SEND Reforms will be presented to the 5 June 2015 meeting.
Youth and Community Development			The project continues to progress, with a number of leases still with legal representatives under negotiation. Community lead delivery continues in the Centres which don't have interested Community Groups.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 performance item at the 28 November 2014 Committee.

Activity Name	Overall Summary Nov 2014	Overall Summary Dec 2014	Comment
Economic Scrutiny Committee			
Programme			
Lincoln Castle Revealed			Works are progressing, however the project continues to have its challenges which require managing and overcoming, these are outlined in the highlight report. The rear range is now in the possession of Realm however an issue relating to Listed Building Consent being granted has resulted in delay and suspension of work. The Magna Carta, Front Range and Externals are all in delay. Full revised programmes are available. The works to the walls continue to progress well however this work is now becoming weather dependant. The programme continues to remain a high level of concern and risk and this is monitored on a weekly basis with the contractor.The main risk remains with the Magna Carta Vault. Extra evening and weekend working has been agreed and is being undertaken by the contractors. This is being accompanied by 24 hours working (at the contractor's own expense).
			Scrutiny Comments: The Committee received a report on a Lincoln Castle Revealed Park and Ride scheme on 9 December 2014 and a report on Lincoln Castle Revealed: 2015 programme on 13 January 2015. An update on Lincoln Castle Revealed will be considered at the meeting on 24 February 2015 which will be followed by another visit to Lincoln Castle.
Project			
Boston Barrier			The project is being led by the Environment Agency (EA) with an £11million contribution from the County Council. The EA are continuing to progress the project through their internal business case and resource allocation processes and recently the project passed an important Gateway Assurance Review. In the meantime there have been river users' workshops held recently in Boston leading to a Task and Finish Group looking at options as to how the barrier will operate and the impact it will have on water level management. We have also jointly commissioned with the Environment Agency and Boston Borough Council an update to the economic benefits as a result of various water level management options being considered. A report on this will be going to Environmental Scrutiny on 30th January 2015 and Executive on 3rd February 2015. The current programme is as follows:- Spring 2014 – Winter 2015 Preliminary design and prepare `Transport and Works Act Order (TWAO)' application. Winter 2015 – Spring 2017 TWAO applications considered by Secretary of State. Includes time for public inquiry. Summer 2017 – late 2019 Barrier construction and associated works Should there not be the need for a public inquiry this will shorten the programme by 6 months and reduce the costs accordingly. This scheme is reported regularly to the Flood and Drainage Management Scrutiny Committee
			Scrutiny Comments: The Environmental Scrutiny Committee received an update on the Scheme at its meeting on 4 December 2014. The Flood and Drainage Management Scrutiny Committee will receive a full report on progress at its meeting on 27 February 2015.

Activity Name	Overall Summary		Comment
	Nov 2014	Dec 2014	
Overview and Scrutiny Management			
Programme			
Implement Superfast Broadband			The Invite to Tender (ITT) for the 2nd phase of funding is due to be launched, but has been delayed by a belated response to the Open Market Review by a fixed wireless operator. Broadband Delivery UK (BDUK) have advised LCC to consider the response fully which has created an additional delay to the ITT process as all of the affected coverage data has had to be amended. Lincolnshire's final Speed and Coverage Template, used to define the intervention area has been submitted to BDUK and has now passed its final assessment/audit. Further clarifications have been requested from the fixed wireless provider mentioned above, the deadline for their response is 7th January.
			Scrutiny Comments: The Committee considered the Programme again on 27th November and was happy with the progress made. It was agreed that a further update would be presented to the Committee in approximately six months' time.

Activity Name	Overall Summary Nov 2014	Overall Summary Dec 2014	Comment
Highways and Transport Scrutiny Committee			
Project			
Grantham Southern Relief Road	●	◆	Judicial Review rejected by the Court, but Larkfleet have appealed further. Design was accelerated on King31-Ph1 and project is ready for tender; could be on site March April 2015. Design now continues on SQLR. Viability of King31 is still an unresolved issue and has become critical; could prevent tendering and hence start on site. Discussion still active with National Rail on ransom and technical design. Discussion still active with Highways Agency over connection to A1. Scrutiny Comments: Progress was reported as part of the Quarter 2 performance item at the 15 December 2014 Committee. The Committee noted that the Judicial Review had not yet been resolved but work was progressing on the King31 element of the project.
Lincoln East West Link Road Phase_1	●	●	Project is on time and on budget. Scrutiny Comments: Progress was reported as part of the Quarter 2 Performance item at the 15 December 2014 Committee. The Committee were pleased that preliminary works had now started.
Lincoln Eastern Bypass	◆	◆	Secretary of State failed to confirm CPO and SRO which delays programme and puts central government funding at risk. Planning consent granted for relocated non motorised user (NMU) bridge. Orders republished in October 2014, over 500 objections received. DfT have indicated Inquiry to be held in June 2015. Scrutiny Comments: Progress was reported as part of the Quarter 2 Performance item at the 15 December 2014 Committee. The Committee noted that a large number of objections had been received to the Compulsory Purchase and Side Road Orders. The Committee were advised at their meeting on 19 January 2015 that the Department for Transport had now decided to hold another Public Inquiry, which was likely to be held in the Spring.
Spalding Western Relief Road	●	●	No significant progress on Phase 1. Further design work to commence shortly for Phases 2 and 3. Spalding Transport Strategy gained Executive endorsement. Scrutiny Comments: Progress was reported as part of the Quarter 2 Performance item at the 15 December 2014 Committee.

Activity Name	Overall Summary Nov 2014	Overall Summary Dec 2014	Comment
Community and Public Safety Scrutiny Committee			
Programme			
Library Needs Assessment Programme	◆	◆	On 3 December 2013 Executive approved the future direction and structure of the library service from May 2014 onwards, including the revised savings profile. A response to the court and claimant was sent on 24.2.2014. The new management and library staffing structures, opening times, new mobile routes commenced on 6 May 2014. Grant applications were received for all 30 of the current Tier 3 sites and a further 7 for potential future community hubs, but the loss of the Judical Review in July 2014, the need to enter into negotiations with GLL and undertake a further period of public consultation has put these developments on hold. This process was completed on 31.10.2014. A panel established under the Council's Community Right to Challenge scheme met and recommended that the submission by GLL was a valid Expression of Interest and the was accepted by the Executive Councillor on 3.12.2014. Proposals for the future shape of the library serivce were published on 15.1.2015 and will be considered by the Community and Public Safety Scrutiny Committee on 27.1.2015 and the Executive is due to be taken on 3.2.2015
			Scrutiny Comments: Progress was reported as part of the Quarter 2 Performance item at the 10 December 2014 Committee. The Committee will be holding an extraordinary meeting on 27 January 2015 to undertake pre-decision scrutiny of the new proposals for library provision.
Project			
Contract and Maintenance of Fire Fleet	●	●	Following the marking of tenders, a contract was awarded to Lindum Plant to commence on 1st April 2015. The new equipment testing arrangements will be delivered to operational staff towards the end of the 1st quarter 2015. Residual testing arrangements to be delivered by Operational Support dept. are currently in hand to support the new contract from 1st April 2015.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 Performance item at the 10 December 2014 Committee.
Future of Control Project LFR	●	●	The programme status is currently the same. The consortium are awaiting new go-live dates for each FRS from the supplier Capita. Lincolnshire currently have a risk associated to their technical officer who has left to take up another position outside the authority which has left the project with no technical support at this point in time. IMT to resolve this issue for LFR.
			Scrutiny Comments: Progress was reported as part of the Quarter 2 Performance item at the 10 December 2014 Committee. The Committee noted that a key member of staff had just tendered their resignation which may have an impact going forward.

Purpose of the report

The purpose of this report is to present a summary of the number and nature of customer feedback received by Lincolnshire County Council from 1st October to 31st December 2014.

The Customer Experience report provides context on customer feedback and provides information about what customers tell us about their experience, when they contact the Council and receive services and the complaints they might have and the key issues for us to focus on to improve the services we provide.

The report also details the Key Performance Indicators used by the Council to measure the customer service provided to citizens, including experience and key performance information relating to the Customer Service Centre.

Complaints regarding individual schools follow their own complaint procedure.

1. Quarterly Summary of Complaints

Service Area	Total Received Q2 14/15	Total Received Q3 14/15	Not upheld	Partially Upheld	Upheld
Corporate	76	**54**	**21**	**19**	**14**
Environment & Economy	47	30	11	16	3
Finance & Public Protection	7	5	4	0	1
Public Health	19	14	2	3	9
Information & Commissioning	0	0	0	0	0
Children's Services	3	5	4	0	1
Statutory	66	**66**	**40**	**20**	**6**
Adult Care	32	37	19	13	5
Children's Care	34	29	21	7	1
Total	142	**120**	**61**	**39**	**20**

Key to outcomes:
Upheld - Complaint has been verified and has been found that LCC are at fault.
Partially Upheld – Complaint has been verified and has been found that LCC are partially at fault.
Not Upheld – Complaint has been verified and has been found that LCC are not at fault.

1.1 Stages

Service Area	Stage 1	Stage 2	Stage 3	Ombudsman
Corporate	**54**	**7**	**0**	**5**
Environment & Economy	30	7	n/a	3
Finance & Public Protection	5	0	n/a	0
Public Health	14	0	n/a	0
Information & Commissioning	0	0	n/a	0
Children's Services	5	0	n/a	2
Statutory	**66**	**0**	**0**	**4**
Adult Care	37	0	n/a	1
Children's Care	29	0	0	3
Total	**120**	**7**	**0**	**9**

Stage 1 – Making a complaint - We aim to provide a final response within 10 working days from a Head of Service or nominated Manager within the relevant service.
Stage 2 – Review - If the customer is not satisfied with the response, they can request for the complaint to go to the next stage which is then dealt with at Director or Assistant Director level.
Stage 3 - only applies to Children's Services which is an independent panel.
Ombudsman – If the customer is still not satisfied with the way the complaint has been handled, they can contact the Local Government Ombudsman.

1.2 Breakdown of main areas

Service Area	Total Received	Not upheld	Partially Upheld	Upheld
Libraries & Heritage	7	0	0	7
Highways	16	5	10	1
Customer Service Centre	5	2	1	2
Transport	5	1	3	1
Environmental	2	1	1	0
Planning	0	0	0	0
Lincolnshire Road Safety Partnership	2	1	1	0
Technical Services Partnership	3	1	1	1
Regeneration	0	0	0	0
Enterprise	0	0	0	0
Registrations & Celebratory Services	2	0	2	0
Public Health	0	0	0	0
Business Support	2	1	0	1
Safer Communities	2	2	0	0
Youth Offending	0	0	0	0
Fire & Emergency Planning	1	1	0	0
Legal Services	2	2	0	0
Children's Services (non-statutory)	5	4	0	1
People Management	0	0	0	0
Totals	**54**	**21**	**19**	**14**

2. Impact of feedback

Main Themes Identified for upheld Complaints	Improvements or changes implemented as a result of customers complaints
Environment & Economy (Executive Director, Richard Wills)	
Highways • Condition of Outgang Road, Langtoft Fen.	• Complainant has been made aware that a pothole crew attended site, however, due to standing water the essential repairs could not take place. Customer informed that another visit is scheduled before the Christmas break.
Technical Services Partnership • Illuminated bollard not repaired within timescale.	• Complainant informed of scheduled completion date after contractor missed the target completion date.
Transport • Unreliable transport through the wheels to work scheme.	• Complainant received an apology and a financial reimbursement from the scheme provider.
Main themes identified for upheld complaints	**Improvements or changes implemented as a result of customers complaints**
Finance & Pubic Protection (Executive Director, Pete Moore)	
Business Support • Breach of Data Protection	• Complainant received an apology, and been made aware that immediate action was to undertake an investigation to establish the cause of the breach. The investigation has established the facts around what happened and why, and procedures are being changed to reduce the risk of this happening again.

Public Health (Executive Director, Tony Hill)	
Customer Service Centre	
• Switchboard caller left on hold during transfer.	• Complainant received an apology and advisors reminded of the procedure for transferring switchboard calls.
• Advice given regarding registering a death.	• Complainant received an apology and the matter has been discussed with the member of staff concerned.
Libraries & Heritage	
• Customer service in The Collection Play Centre.	• Complainant received an apology and the matter has been discussed with the member of staff concerned.
• IT problems at Washingborough Library.	• Complainant received an apology and advised of a replacement modem fitted with staff instructed on rebooting if necessary.
• Staff conduct at Boston Library.	• Complainant received an apology and the matter has been discussed with the member of staff concerned.
• Staff conduct at Battle of Britain Memorial Flight.	• Complainant received an apology and the matter has been discussed with the member of staff concerned.
• Lincoln Central Library closure.	• Complainant received an apology and informed the reason for the closure was due to staff training. The customer was made aware that the notice outside the library informing of the closure had been removed and a more secure method would be used in future.
• Property left at Gainsborough Library.	• Complainant received an apology for the delay in being contacted and informed of a procedural review when dealing with lost property.
• Cutting down trees in Lincoln Castle.	• Complainant received details on the proposal, including supporting documents. Information was provided on the trees being kept as well as the ones which were planning on being removed.

Information & Commissioning (Chief Information & Commissioning Officer, Judith Hetherington-Smith)	
No Upheld Complaints	
Children's Services (Executive Director, Debbie Barnes)	
• Breach of Data Protection	• Complainant received an apology and the matter has been discussed with the member of staff concerned, including refresher training on handling data.

3. Adult and Children's Social Care Statutory Complaints

Adult Statutory Complaints received by Area Office:	Quarter 2 2014/15	Quarter 3 2014/15
Learning Disability	2	2
Older People/Physical Disabilities	21	23
Customer Service Centre	0	0
18-64 Mental Health	0	1
Safeguarding Adults	1	0
Other	8	11
Total	**32**	**37**

Main themes identified for upheld complaints	**Improvements or changes implemented as a result of customers complaints**
Adult Care (Director, Glen Garrod)	
• Lack of contact after requesting a call back.	• Complainant received an apology and informed of discussions for a courtesy call back to be made if a social worker is dealing with another case.
• Lack of communication regarding a change in care provider.	• Complainant received an apology and has been advised that all staff have been reminded to check for alternative contacts if main contact is unavailable.
• Carers emergency plan not submitted.	• Complainant received an apology and copy of their new plan. Provider reminded of contractual requirements around the submission of carers emergency plans.
• Lack of support after discharge from hospital.	• Complainant received an apology and advised of improvements in liaising with health colleagues to ascertain full discharge plan from hospital.

• Direct payment & support plan not meeting required needs.	• Complainant informed that support plan and direct payment have been increased.

Children's Statutory Complaints received by Area Office:	Quarter 2 2014/15	Quarter 3 2014/15
Children	26	20
Children Looked After	4	2
Children with Disabilities	4	3
Other	0	4
Children Access	0	0
Children Family Support	0	0
Total	**34**	**29**

Main themes identified for upheld complaints	**Improvements or changes implemented as a result of customers complaints**
Children's Services (Executive Director, Debbie Barnes)	
• Lack of regular and consistent counselling appointments.	• Regular appointments booked and complainant informed of the dates of these sessions.

4. Ombudsman Complaints

There were 11 Complaints received by the ombudsman in Quarter 3, 2 of the complaints were Premature.

Category	Detail	Department	Fault/maladministration found?
Statutory	Conduct of two social workers	Children's Services	No fault found
Statutory	Conduct of a social worker and the delay in paying a direct payment	Children's Services	No fault found
Statutory	Paying too much in contributions towards care and LCC's charging policy didn't take all factors into account	Adult Care	No fault found, recommended carers assessment
Statutory	False allegations made against the family	Children's Services	No fault found
Premature Statutory	Incident in a care home	Adult Care	Passed back to LCC
Corporate	Refusal of LCC to provide free home to school transport	Transport	No fault found
Corporate	LCC's refusal to deal with trees near property	Highways	No fault found
Corporate	Drainage issues	Highways	No fault found
Corporate	School admission appeal	Children's Services	No fault found
Corporate	Conduct of a member of staff	Children's Services	No fault found
Premature Corporate	Failure to prune trees	Highways	Passed back to LCC

5. Compliments and Comments

Service Area	Total Compliments Received	Total Comments Received
Corporate	**81**	**0**
Environment & Economy	38	0
Finance & Public Protection	16	0
Public Health	27	0
Information & Commissioning	0	0
Children's Services	0	0
Statutory	**7**	0

Adult Care	4	0
Children's Care	3	0
Totals	**88**	**0**

Examples of Compliments	**Examples of Comments**
• Various compliments for works completed by highways. • Positive feedback received from 'how to protect your business' workshop. • 7 compliments for a conference ran by Lincolnshire domestic abuse. • Compliments for Lincolnshire Archives for information provided. • Compliments for Lincoln Castle, Museum of Lincolnshire Life and The Collection from visitors. • Compliments for social workers for their support with families. • Compliments for various Adult Care team members for their support.	No comments received this quarter.

6. Customer Service Centre Key Indicators

6.1 Background

The Key Performance Indicators that have been introduced for the Customer Service Centre have been designed to ensure that both the efficiency and the quality of the service is measured. In the past, the CSC has largely been measured on the time to answer a call, which did not provide any meaningful information to enable improvements to be made. Equally, we know that for some of our more complex services, such as social care, customers are more concerned with the quality and breadth of support they receive than how quickly the call is answered.

These KPIs will form part of the Serco contract from April 2015.

6.1.1 KPIs in detail

Experience Score (bigger is better)
The experience score is designed to test the experience of our customers in accessing and using the services provided by the Customer Service Centre. Customers are offered an opportunity to take part in a short survey before they are connected to an adviser. If they opt into the survey, they receive a call back from a member of the Touchstone Team or selected Customer Services Advisers. This method ensures that we receive a true picture of the service they received.

Customers are asked nine questions:

How helpful was the adviser you spoke to?
How friendly was the adviser you spoke to?
How easy did you find it to understand the information you were given?
Did the adviser clearly explain what would happen next?
How confident were you that something would happen as a result of your call?
Did the adviser give you a clear timescale for the resolution of your enquiry?
How easy did you find it to contact us?
Based on your overall experience, how acceptable did you find the length of time to answer your call?
Overall, how did your experience of our service compare to your expectations?

Customers can also provide narrative feedback which is captured by the advisers and which forms part of the review of performance, and translated to an action plan where necessary.
Scores can be broken down to an individual service area so that we can see whether any particular service is performing particularly well, or requires improvement.

Quality score (bigger is better)
This indicator measures how well the Customer Service Centre is meeting the needs of the service areas it provides services for. As it is a small sample each month, this indicator is reported on a quarterly basis. Colleagues are asked to rate the Customer Service Centre against the following:

Keeps me appropriately informed
Communicates effectively
Listens effectively to my service's needs
Operates efficiently
Shows consideration and respect
Provides a valuable service
Follows through on promises/commitments
Maintains high standards

Provides quality information
Meets my expectations
Handles problems well
Makes it easy to work with them
Responds promptly to our requests
Treats me as a valued customer

*The frequency of requests for responses from service areas depends on the volumes of contacts handled for the service, ranging from bi-monthly to annually. Narrative can also be provided and forms part of any action planning resulting in the feedback.

First point resolution (bigger is better)
This indicator measures the percentage of contacts that we are able to resolve fully within the Customer Service Centre without the need to refer the customer on to another colleague or service. There is a direct correlation between positive experience and first point resolution. Customer Service Advisers indicate whether the enquiry or service request was fully resolved at the end of the contact.

Avoidable contact (smaller is better)
This indicator highlights where contacts add no value to the customer. Examples of avoidable contact include a customer chasing a service that has not been provided within timescales, a customer contacting us as they don't understand information that has been sent out to them, or where they have been unable to find information on our website. The information that we collect helps to inform areas of improvement, and provide feedback to service areas. Advisers will indicate at the end of the contact whether it was avoidable or not.

Abandoned Rate (smaller is better)
This measures the number of calls that are abandoned once they have entered the Customer Service Centre telephony system. Resource planning is based on ensuring this remains below the target, with 10% generally being an industry standard. This provides us with a picture of whether we have the right resources at the right time; as people will hang up if they have to wait longer than they expect. This is a better measurement than time to answer, as customers have different expectations depending on the service they want to receive. The management team monitor the indicator on a daily basis and Team Leaders are able to see this on a real-time basis to enable them to move resource to stay within tolerance. This indicator is provided by the Avaya telephony system.

6.2 Customer Service Centre KPIs – Quarter 3 2014/15

	2014/15 Minimum Service Level	**2014/15 Target**	**September Q2 (2014/15)**	**December Q3 (2014/15)**	
Customer Experience Score	**80%**	**85%**	88%	91%	+
Quality Score	**80%**	**85%**	*	*	

First Point Resolution	**75%**	**80%**	77.2%	76.8%	
Avoidable Contact Rate	**25%**	**20%**	15.4%	13.1%	+
Abandoned Rate	**<15%**	**<10%**	9.1%	6.2%	+

Finance Report

PURPOSE OF REPORT

This report provides an update on spending compared with budgets for the financial year which started on 1 April 2014.

The tables in this report show the actual income and expenditure for ten months of the current financial year, along with the projections for spending and a comparison of the projections against the approved budgets.

BACKGROUND

1.1 In summary:

- total revenue spending is predicted to be £5.124m less than the total budget (excluding the projected underspendings on Schools budgets);

- total revenue income is predicted to be £0.929m, more than the total budget as a result of additional grant income;

- general reserves at the year end are forecast on this basis to be within the 2.5% to 3.5% range at the upper end, estimated to be at 3.5% of the total budget based on current spending; and

- net capital spending is projected to be £1.683m less than the approved 2014/15 programme total.

DISCUSSION

Revenue

Table A (Position as at 30 January 2015)

REVENUE BUDGET MONITORING 2014/2015					
SERVICE	**CURRENT BUDGET £'000**	**EXPENDI-TURE £'000**	**PROJECTED OUTTURN £'000**	**UNDER OR OVER SPENDING £'000**	**UNDER OR OVER SPENDING %**
SERVICE BUDGETS					
Adult Care	147,171	106,019	146,571	-600	-0.4%
Public Health	41,919	32,842	40,347	-1,572	-3.8%
Public Health Grant Income	-28,506	-29,777	-27,165	1,341	-4.7%
Children's Social Care	49,018	42,039	51,467	2,449	5.0%
Education Services	57,750	41,929	54,867	-2,883	-5.0%
Highways and Transportation	49,716	40,367	49,716	0	0.0%
Environment, Planning and Customer Services	26,417	19,542	26,417	0	0.0%
Economy and Culture	12,391	8,994	12,391	0	0.0%
Finance and Resources	17,215	12,457	15,508	-1,707	-9.9%
Fire and Rescue	21,106	17,161	21,205	99	0.5%
Community Safety	19,218	15,094	18,403	-815	-4.2%
Performance and Governance	20,726	21,784	20,044	-682	-3.3%
TOTAL SERVICE BUDGETS	**434,141**	**328,451**	**429,771**	**-4,370**	**-1.0%**
Schools (Delegated Schools Budgets)	482,341	201,719	478,157	-4,184	-0.9%
Dedicated Schools Grant	-486,385	-219,692	-486,385	0	0.0%
Schools Related Expenditure	21,053	17,693	20,340	-713	-3.4%
Schools Budget (Other Funding)	-1,821	-9,083	-1,821	0	0.0%
NET SCHOOLS BUDGET	**15,188**	**-9,363**	**10,291**	**-4,897**	**-32.2%**
OTHER BUDGETS					
Contingency	1,670	0	1,670	0	0.0%
Capital Financing Charges	55,557	-551	54,258	-1,299	-2.3%
Other Budgets	1,313	885	1,313	0	0.0%
Corporate Redundancy Budget	2,006	1,597	2,551	545	27.2%
TOTAL OTHER BUDGETS	**60,546**	**1,931**	**59,792**	**-754**	**-1.2%**
TOTAL EXPENDITURE	**509,875**	**321,019**	**499,854**	**-10,021**	**-2.0%**
MET FROM					
Formula Grant	-124,575	-77,847	-124,575	0	0.0%
Business Rates	-102,301	-97,197	-102,143	158	-0.2%
Council Tax	-226,361	-181,089	-226,361	0	0.0%
Other Non Specific Grants	-15,397	-13,594	-16,484	-1,087	7.1%
TOTAL MET FROM	**-468,634**	**-369,727**	**-469,563**	**-929**	**6.9%**

Adult Care

Summary

1.2 The forecast outturn as at 31 January 2015 is estimated to show an underspend of £0.600m against a budget of £147.170m.

1.3 Below illustrates the outturn position of all services areas within the Adult Care budget:

Service Area	Budget (£m)	Outturn (£m)	Variance (£m)
Older People	68.331	68.311	0.000
Physical Disabilities	12.265	12.265	0.000
Learning Disabilities	45.971	45.492	0.000
Mental Health	5.636	5.636	0.000
LARS/Day Centres	2.402	2.402	0.000
Infrastructure	12.565	12.265	-0.600
Total	**147.170**	**146.570**	**-0.600**

Older Persons Commissioned Services

1.4 The Older Persons budget is projected to show a balanced budget at the end of the financial year.

1.5 Current analysis continues to highlight pressures in long and short term beds, with the latter as a result of Domiciliary Care providers not being able to pick up cases and to criteria changes around the use of 30 day beds in acute hospitals. There are also pressures within Domiciliary Care as we continue to divert away from residential placements where possible.

Physical Disabilities

1.6 The Physical Disability budget is projected to show a balanced budget at the end of the financial year.

1.7 Long Term residential care gross costs are slightly over budget as at the end of December but homecare cost continue to underspend, although this can be mostly attributed to the decision of most new service users choosing a Direct Payment as their preferred home based service.

Learning Disabilities

1.8 The Learning Disability (LD) service is currently projected to show a balanced budget at the end of the financial year.

1.9 Pressures for LD this year continue to be high cost places which are coming through from Children's as transition cases and complex cases which are being presented from the Adult community. Work is continuing regarding supported living options for these complex individuals but the costs would be of a similar nature and in some instances more.

Mental Health

1.10 Mental Health services are delivered on behalf of Lincolnshire County Council by Lincolnshire Partnership Foundation Trust via a S75 agreement. The 2014/15 budget has been reduced to £5.636m compared to the 2013/14 budget of £6.313m as part of the ongoing plan to reduce the overall cost of the service by £2.375m over four years between 2011/12 and 2014/15. It is expected that the service will deliver a balanced budget this financial year.

The Local Authority Reablement Service (LARS)/Older Peoples (OP) Day Centres

1.11 The LARS service is delivered on behalf of Lincolnshire County Council by Lincolnshire Partnership Foundation Trust via a grant agreement worth £2.3m, with and additional £2m funded via the Better Care Fund. It is anticipated that the LARS service will deliver a balanced budget. The remaining £0.102m relates to services delivered at Stamford Day Centre and is also expected to deliver a balanced budget.

Infrastructure

1.12 Infrastructure includes budgets for the Director of Adult Care, Policy and Development, Performance, Safeguarding and Finance; it also includes the budget for the Integrated Community Equipment Service.

1.13 It is anticipated that the infrastructure budget will be £0.600m underspent at the end of the financial year.

1.14 This is due to a number of factors across the infrastructure budget such as unfilled vacancies, increased income and contributions from other directorates.

Public Health

1.15 The Public Health Service is currently projecting an underspend of £1.572m for 2014/15.

1.16 There is a projected underspend of £0.250m relating to the Lincolnshire Community Assistance Scheme (LCAS) . The scheme was budgeted for prudently, as there has been uncertainty about the demand that would be placed upon it following transfer of this local welfare support from DWP. The remaining underspend is due to staff vacancies being held pending a review of the staff structure within the Public Health Service (£0.592m) and savings on some healthcare contracts and prescribing costs (£0.730m).

1.17 Any underspend on the Public Health service that relates to functions supported by the ring-fenced grant, will require the grant received to be transferred to an earmarked reserve, to ensure the future use of the grant is in accordance with the grant conditions set out by the Department of Health. The outturn projection on the Public Health grant income has been adjusted by £1.341m to reflect this expected transfer to reserve in line with the underspend. This means that the overall position for the service will a £0.231m underspend.

Children's Services

1.18 The last set of outturn projections were completed by Budget Holders in January. The financial position has changed very little since the projections of the previous month, although significant pressures remain on children's social care budgets. The Directorate is projecting to underspend by £0.4m on the non Dedicated School Grant (DSG) budget in 2014/15.

1.19 The DMT members and Heads of Service met again in February to review the position. A group of Heads of Service is continuing to work with team leaders to identify steps that can be taken to contain cost pressures in this and future years.

1.20 No further outturn projections are scheduled to take place in this financial year, but high level monitoring will continue to help identify any material changes in the financial position.

Finance and Resources

1.21 Finance & Resources are projecting a £1.707m underspend.

1.22 The projected under spend in Legal Services Lincolnshire has increased by £0.079m in the month to £0.779m. The under spend in total is due to Legal Services achieving a surplus on income within the year, and also savings made through the locum budget.

1.23 Treasury and Financial Strategy are also projecting an underspend of £0.691m. This is due to a receipt last month of a dividend payment from ESPO that wasn't included in the budget (£0.296m), and also an underspend against the carry forward underspend from last year plus the additional legal surplus budget (£0.395m).

1.24 Corporate Property are projecting a £0.250m underspend for the year made up from £0.086m of budget savings due to building closures, and a further £0.164m of budget savings in the year from the rationalisation programme.

Fire & Rescue

1.25 The projected overspend has risen slightly to £0.099m due to the net effect of many under and overspends. It should be noted that this projection includes industrial action costs of £0.232m to date.

Community Safety

1.26 There is a projected underspend of £0.815m.

1.27 Business Support are currently projecting a £0.545m under spend, this is based on current staffing levels, and, in anticipation of future restructures.

1.28 The Coroner's & Registration Services are currently showing a net projected overspend of £0.131m due to an increase in the long inquest payments from April 2014 which have now also been made pensionable.

1.29 Youth Offending are showing a projected underspend of £0.259m. This is largely due to a number of staff on fixed term contracts having recently left the service. In light of the FBR they are unable to fill these posts at the present time. Further savings have been projected this month within the training budget due to these staff reductions.

1.30 Safer Communities are projecting a slight decrease in their under spend due to £0.008m budget being transferred to the Capital budget to cover costs for the Metlab Garage. The new projection is now £0.142m which is largely due to the delayed start of the Voluntary Perpetrator Scheme.

Performance & Governance

1.31 There is a projected underspend of £0.682m in Performance & Governance.

1.32 There is projected overspend of £0.359m in People Management due to the costs of workforce change for which there is no base budget, this is being offset by under spends within Performance & Governance.

1.33 There is a projected overspend of £0.024m in Information Management & Technology. This has reduced due to a budget virement from the Chief Executive budget that was previously reported as an underspend against an unallocated budget in that area.

1.34 There is a projected underspend in Performance & Programmes and the Chief Executive's area totalling £1.065m.

1.35 This is due to staff savings (£0.170m), the impact of the SMR implementation (£0.394m), and the cessation of the Commissioning for Lincolnshire project (£0.421m).

1.36 The £0.182m of carry forward/legal surplus allocation has now been allocated against the IMT budget above.

1.37 The Policy Resource budget is also underspent by £0.050m. The underspend is being offset by the costs of the judicial review, which is currently projected to be £0.120m.

Schools Budgets

1.38 The projected underspend on the 2014/15 ring-fenced DSG has increased since the last report. There is a still a significant budget pressure on the SEN Out of County budget. Nevertheless, the DMT remains confident that the DSG will not overspend in this financial year. Under DfE' regulations, any underspends have to be carried forward, and the Local Authority's proposals for using those funds will need to be considered by the Schools Forum in October 2015.

Other Budgets

1.39 Capital Financing Charges are currently projecting an underspend of £1.299m. Capital financing charges are lower than originally planned due to slippage in the capital programme which has reduced the borrowing requirement for the year and hence interest payments on borrowing. The Council also plans to use internal balances to finance some of the capital programme in 2014/15, instead of taking external borrowing. This also reduces interest payments on borrowing.

1.40 The corporate redundancy budget has an annual budget of £2.006m, the current expenditure on this budget is £1.597m. At the end of the year there is a projected overspend of £0.545m mainly due to redundancy costs relating to the Senior Management Review. The overspend is expected to increase as a result of further staffing reviews over the coming months.

Council's General Funding

1.41 The Council's general funding is currently projected to be £0.929m in excess of the revenue budget approved at full Council in February 2014. The most significant reasons for this projected increase of funding are as follows:-

- New Homes Bonus Returned Funding - £0.336m. At the time of budget setting, the Council had not been notified of the amount to be received in 2014/15. This is funding that was originally allocated from the 2014/15 Settlement to fund New Homes Bonus, with a commitment from the Government, that any funding not used for this purpose would be returned to local authorities.

- Rural Services Delivery Funding (*previously known as, Efficiency Support for Services in Sparse Areas)* - £0.171m. At the time of budget setting, the Council had not been notified of this additional funding. The Council had already been awarded £0.813m in recognition of the higher costs associated with delivering services in rural areas and added into the Revenue Support Grant. This £0.171m is the Council's share of an additional allocation of £2.000m awarded to the most rural councils and paid through a Section 31 Grant.

- Council Tax Freeze Grant 2014/15 - £0.018m. The actual amount of Grant allocated was higher than the original amount budgeted for.

- Business Rates Flood Relief Grant - £0.010m. In February 2014, the Government announced a temporary business rates relief for properties flooded due to adverse weather conditions. Boston Borough Council was awarded £0.040m resulting in the County Council receiving £0.010m.

- Special Educational Needs & Disability (SEND) Implementation Grant - £0.553m. This is a new non-ring fenced grant received in 2014/15 which was not known about at the time of setting the Council's Budget. The purpose of the SEND Implementation Grant is to provide support in implementing SEND reforms.

- Business Rates-Pooling with Districts - £0.158m. We have been notified by the Pooling Administrator, North Kesteven District Council, that the income we will receive from business rates pooling will be £0.158m less than anticipated.

1.42 Other General Funding matters:-

- Care Bill Implementation Grant - £0.125m. This is a new non-ring fenced grant received in 2014/15 from the Department for Health. This is to provide financial support to local authorities in dealing with their change management programmes in preparing to implement the Care Bill during 2014/15.

- Helping People Home Grant - £0.230m. This is a new non-ring fenced received in 2014/15 which was not known about at the time of setting the Council's Budget. The purpose of this grant is to help address the current pressures on acute hospitals because of delayed discharges to social care.

Capital Programme

Table B (Position as at 30 January 2015)

Capital Programme	Gross Budget £'000	Gross Projection £'000	Gross Spend £'000	Variance £'000	Net Budget £'000	Net Projection £'000	Net Spend £'000	Variance £'000
Highways and Transportation								
Lincoln Eastern Bypass	2,000	2,000	1,474	0	2,000	2,000	1,474	0
Lincoln East-West Link	4,958	4,958	1,482	0	4,958	4,958	1,853	0
Grantham Southern Relief Road	800	800	702	0	0	0	702	0
A16/A1073 Spalding to Eye Road Improvement	-2,499	2,119	1,420	4,618	-2,499	2,119	1,420	4,618
Asset Protection	36,536	36,535	29,711	0	6,671	6,671	-528	0
Integrated Transport	11,172	11,172	7,933	0	3,749	4,262	-616	513
Other Highways and Transportation	33	33	14	0	33	33	14	0
Sub Total	**52,999**	**57,617**	**42,736**	**4,618**	**14,912**	**20,043**	**4,319**	**5,131**
Economy and Culture								
Historic Lincoln	6,981	6,981	6,646	0	-302	-302	7,605	0
Other Enterprise Schemes	213	213	33	0	213	213	33	0
Sub Total - Enterprise	**7,194**	**7,194**	**6,679**	**0**	**-89**	**-89**	**7,638**	**0**
Teal Park, Lincoln	342	342	1,300	0	342	342	1,306	0
Grantham Growth Point (Inc Southern Relief Road)	2,298	2,298	34	0	2,298	2,298	34	0
Lincoln Growth Point	968	967	1,024	0	968	967	1,023	0
Lincolnshire Waterways	1,025	1,025	489	0	1,025	1,025	169	0
Skegness Countryside Business Park	1,100	1,100	20	0	1,100	1,100	20	0
LEP Loan Scheme	0	0	0	0	0	0	-2,916	0
Other Regeneration Schemes	1,086	1,087	296	0	1,086	1,087	292	0
Sub Total - Regeneration	**6,819**	**6,819**	**3,164**	**0**	**6,819**	**6,819**	**-72**	**0**
Libraries and Heritage	77	77	-19	0	77	77	-42	0
Sub Total - Libraries and Heritage	**77**	**77**	**-19**	**0**	**77**	**77**	**-42**	**0**
Sub Total	**14,090**	**14,090**	**9,823**	**0**	**6,807**	**6,807**	**7,524**	**0**
Environment, Planning & Customer Services								
Energy from Waste	4,320	-3	89	-4,323	4,320	-3	89	-4,323
Flood Defence	0	0	0	0	0	0	0	0
Other Environmental and Planning	1,178	1,178	1,010	0	1,178	1,178	1,010	0
Sub Total	**5,498**	**1,175**	**1,099**	**-4,323**	**5,498**	**1,175**	**1,099**	**-4,323**
Childrens' Services								
Devolved Capital	3,195	2,136	1,947	-1,060	1,800	2,136	522	336
Provision of School Places (Basic Need)	23,618	19,135	14,317	-4,482	12,562	12,488	4,799	-74
School Condition / Maintenance Capital	1,243	1,640	1,175	396	1,243	1,575	1,089	331
School Modernisation / Condition Capital	9,183	2,136	1,136	-7,047	2,431	2,136	-4,866	-295
Early Years Sufficiency / Extended Provision	471	342	317	-129	471	342	317	-129
Universal Infant Free School Meals	1,085	539	397	-546	0	0	-688	0
Schools Access Initiative	176	108	46	-68	176	108	46	-68
Foster Capital	254	301	137	47	254	255	137	1
Short Breaks for Disabled Children	102	93	82	-9	102	93	82	-9
Other Children's Services	1,703	1,134	827	-569	1,703	792	648	-910
Lincolnshire Secure Unit	30	51	51	21	0	5	-10	5
Lincoln Priory Academies	0	0	1	0	0	0	1	0
Skegness Academy	178	152	65	-26	178	152	65	-26
Sleaford - St George's Academy	150	150	133	0	150	150	133	0
University Academy Holbeach	267	245	231	-22	267	245	231	-22
Priory Ruskin Academy	1,699	1,697	1,484	-2	1,400	1,358	1,145	-43
Previous Project and Programmes	181	207	165	26	181	173	130	-8
Sub Total	**43,535**	**30,065**	**22,513**	**-13,470**	**22,918**	**22,006**	**3,785**	**-911**
Community Services								
Adult Care	2161	2161	326	0	313	313	-1,522	0
Sub Total	**2,161**	**2,161**	**326**	**0**	**313**	**313**	**-1,522**	**0**
Corporate Services								
Property	4,923	4,843	2,184	-80	4,923	4,843	2,184	-80
Property Rationalisation Programme	2,500	1,200	264	-1,300	2,500	1,200	264	-1,300
Property Contingency	0	0	0	0	0	0	0	0
Other Community Safety	54	54	16	0	54	54	16	0
Fire & Rescue and Emergency Planning	1,454	1,380	1,018	-74	569	495	132	-74
Fire Fleet Vehicles and Associated Equipment	1,141	1,015	597	-126	1,141	1,015	597	-126
Sub Total	**10,072**	**8,492**	**4,080**	**-1,580**	**9,187**	**7,607**	**3,193**	**-1,580**
Performance and Governance								
Broadband	14,241	14,241	3,626	0	200	200	-389	0
Infrastructure and Refresh	921	921	438	0	921	921	438	0
Replacement ERP System	7,000	7,000	0	0	7,000	7,000	0	0
CMPP	1,616	1,616	996	0	1,616	1,616	996	0
IMP Development	543	543	388	0	543	543	388	0
ICT Development Fund	0	0	0	0	0	0	0	0
Sub Total	**24,322**	**24,322**	**5,448**	**0**	**10,280**	**10,280**	**1,433**	**0**
Other Programmes								
New Development Capital Contingency Fund	3,230	3,230	0	0	3,230	3,230	0	0
Sub Total	**3,230**	**3,230**	**0**	**0**	**3,230**	**3,230**	**0**	**0**
Total Programme	**155,907**	**141,152**	**86,025**	**-14,755**	**73,144**	**71,461**	**19,833**	**-1,683**

1.43 The capital programme comprises a series of schemes/projects which often span a number of years. Hence over/underspends cannot be related to time periods such as this financial year. Where a scheme/project is known to be exhibiting a material variance to its spend profile this will be described in the narrative associated with that Director area.

Highways and Transportation

1.44 The current overspend on the A1073 Spalding to Eye Road Improvement Scheme is £4.618m. This relates to land and compensation claims on the A1073 Spalding to Eye Road Improvement that have and still are being resolved through the lands tribunal. These tribunals are coming to an end, and will be concluded shortly. The over spend position also includes a £0.500m provision for future part 1 compensation claims. It is hoped these claims will be kept to a minimum. The Executive agreed at its meeting on 6th January 2015 to propose to full council that the Council will fund all of these costs.

1.45 Integrated Transport is £0.513m over budget, due to additional working outside the scope of the original contract on the Whisby Road Improvement scheme. These costs will be funded from the 2015/16 Integrated Transport allocation.

Environment, Planning and Customer Services

1.46 The Energy from Waste plant is now operational and the overall scheme underspend is £4.323m. This is the result of efficient contract management, value engineering and non-use of the contingency allowance. The Executive have agreed at its meeting on 6th January 2015 to propose to full Council that £4.000m of this amount be used to reduce borrowing. The Executive also agreed that £0.323m be used to purchase necessary capital equipment at Louth, Grantham and Skegness household waste recycling centres.

Children's Services

1.47 Children's Services Capital are currently projecting a variance within the current year budget of £0.911m which equates to 4%. Approximately £0.400m of anticipated expenditure on existing projects has slipped into 2015/16. This month has also seen a target change to transfer £0.500m into the capital programme to fund a recently identified scheme due to begin in the new financial year.

Corporate Services

Property

1.48 Property are projecting a £1.380m variance for 15/16. This relates to £1.300m underspend relating to Kiely House purchase, as only 10% of the purchase price has been paid this financial year, and £0.080m underspend against the Disabled Access programme.

Fire and Rescue

1.49 The Fire Service budget has now been re-phased with £1.805m being moved into 15/16. This leaves a budget of £2.595m for 14/15 of which the current projection has a variance of £0.200m in year due to further expected slippages within programmes.

Capital Financing

1.50 The following table sets out the financing of the net capital programme:

NET CAPITAL PROGRAMME FUNDING	
Source of Financing	**£'000**
Revenue Contributions to Capital	6,092
Capital Receipts	2,000
Borrowing	35,540
Capital Grants Reserves	26,200
Revenue Grants transferred into the Capital Programme	3,312
TOTAL FUNDING	**73,144**

RECOMMENDATIONS AND NEXT STEPS

1.51 This report is for information.

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Executive Director of Finance & Public Protection

Report to:	**Value for Money Scrutiny Committee**
Date:	**23 February 2015**
Subject:	**Treasury Management Update 2014/15 - Quarter 3 Report to 31 December 2014**

Summary:

This report has been prepared in accordance with the reporting recommendations of the CIPFA Code of Practice 2011 and details the Council's treasury management activities for 2014/15 to 31 December 2014, comparing this activity to the Treasury Management Strategy for 2014/15, approved by the Executive Councillor for Finance on 25 March 2014. It will also detail any issues arising in treasury management during this period.

Actions Required:

That the report be noted and any comments to be passed onto the Executive Councillor with responsibilities for Finance.

1. Background

1. Introduction and Background

1.1. Treasury Management relates to the policies, strategies and processes associated with managing the cash and debt of the Council through appropriate borrowing and lending activity. It includes the effective control of the risks associated with the lending and borrowing activity and the pursuit of optimum performance consistent with the risks.

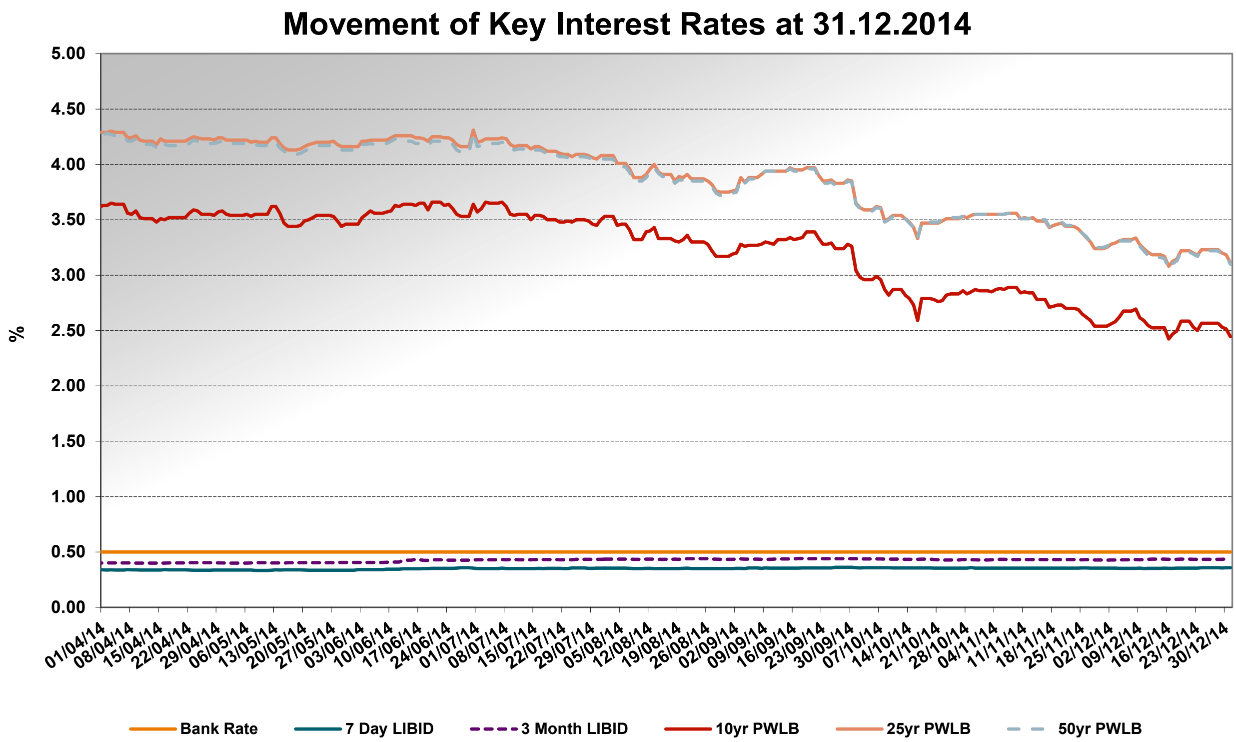
1.2. This Treasury Report will cover the following positions to 31st December 2014:
- Interest rate review, economic overview and revised interest rate forecast.
- Annual investment strategy/ authorised lending list changes during the quarter.
- Investment position and comparison with strategy.
- Borrowing & debt rescheduling position and comparison with strategy.

2. Interest Rate Review, Economic Overview and Revised Interest Rate Forecast to 31st December 2014

2.1. At the time of setting the Strategy in February 2014, the markets were forecasting short-term Bank Rate to remain at 0.50% throughout 2014/15, with an increase not expected until June 2016, later brought forward to March 2015.

2.2. Long term rates were forecast to rise gradually in 2014/15 by only 0.10% or so, remaining at relatively low levels, but remaining volatile and difficult to predict due to external market influences.

2.3. The graph below shows the actual movement of both UK long term and short term interest rates over 2014/15 to 31st December 2014.



2.4. The graph shows that short term rates have remained flat over the period as anticipated. Long term rates however started to fall in August and have continued to fall quite significantly over recent weeks, plunging to phenomenally low levels. Long term rates are currently around 1.00% lower than at the start of the year. This fall has been due to a number of factors, namely concerns over economic and political events worldwide in general and more recently the plunge in oil prices leading to market concerns. These factors have led to a 'flight to quality' by investors, (investors moving into safe haven bonds and out of equities) which in turn increases bond prices and reduces bond yields and hence borrowing rates.

2.5. Economic Background - The quarter ended 31st December 2014 saw the following:

- GDP growth falling back to 0.7%/ 2.6% annual rate during the quarter. Revisions of growth forecasts for 2015 and 2016 reduced (2.6% and 2.4% respectively, although growth still remains strong by UK Standards - fastest growth since 2007). To be sustainable the economy needs to move away from dependence on consumer spending and housing to exporting, particularly manufactured goods;
- Strong growth resulting in unemployment falling much faster than expected with the focus now being on reducing the slack in the economy and increasing labour productivity. Real wage growth now exceeding inflation which should lead to more robust consumer recovery;
- CPI inflation continued to fall reaching 0.50% in December, the lowest rate since May 2000. Recent falls have been linked to cheaper fuel and lower energy prices. Expectation is that the rate remains at this low level for some time;
- No signs of further interest rate hikes from the MPC –citing risks to recovery, weak inflation and slack in the Labour market:
- Government borrowing likely to miss target of being 6% lower this year than last;
- House price growth continued to slow down due to weaker demand;
- US showing strong growth around 5% level since ceasing their QE programme in October 2014, hence first increase in Fed rate predicted to be the middle of 2015.
- Eurozone posted a deflationary -0.2% inflation rate in December 2014 as a result of falls in energy prices. ECB to commence a QE programme of €60bn per month in March 2015 until at least September 2016 to curb this.

2.6. Capita Asset Services Ltd reviewed its interest rate forecast in early January 2015 and have reduced their forecast of rates across the board by around 0.20% to 0.50%, as follows:

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
5yr PWLB rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%

The decrease in rate predictions reflect numerous factors such as the plunge in the price of oil, fears that Greece will exit the Eurozone after their General Election, the ECB starting a full blown QE programme and the possibility of the US increasing their interest rates by mid-2015. All these factors have led to market fears and a flight to quality, which in turn have led to bond yields plunging to phenomenally low levels. Quite how sustainable these low levels will be is difficult to predict. Other factors which may impact are the UK election in May and other World political events.

Increase in Bank Rate has been pushed further forward in this latest estimate to December 2015 due to the fall in inflation. Capita have also revised their target levels for new borrowing to 2.20% (5 year), 2.80% (10 year) and 3.40% (25y to 50yr), from 2.50%, 3.60% and 4.40% respectively, as recorded in the Strategy in March.

It can be seen from the impact to the interest rate forecast above, that there is huge volatility in rates from market reactions, making rates difficult to predict with any certainty going forward. Capita feels that the overall balance of risks to the economic recovery in the UK and interest rate levels is now balanced, listing the following factors:

Downside Risk Factors of Rates falling:

- The Ukraine situation poses a major threat to Eurozone and world growth if it was to deteriorate into economic warfare between the West and Russia, where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world.
- Boost from consumer spending and housing market booms fading beyond 2014, depressing UK growth.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner –the Eurozone, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

- Recapitalisation of European banks requiring more government financial support.

- Lack of support by the people in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity and reform programmes required.

- France: has a €50bn programme of austerity cuts over the next three years but have major obstacles in implementing this programme such as its employment practices and lack of competitiveness.

- Monetary policy action failing to stimulate growth in western economies, especially in the Eurozone and Japan.

- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

- Concern over reluctance of western central banks to raise interest rates significantly for some years and the huge QE measures in place has created a lot of liquidity in the markets, all chasing yield in a low yield environment. The potential for taking increased risks is therefore heightened and is similar to the environment in 2008 which led to the financial crisis.

Upside risks that will increase interest rates:

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the policies adopted by the new government.

- A sudden reversal of Russian policy on military intervention in eastern Ukraine caused by continued depression in oil prices and sanctions.

- The US commencement of increases in their central rate in 2015 leading to flight from bonds to equities.

- A surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.

- UK inflation returning to significantly higher levels than in the wider EU and US causing an increase in the inflation premium inherent to gilts yields.

3. <u>Annual Investment Strategy/ Authorised Lending List Changes to 31st December 2014</u>

3.1. The Council's Annual Investment Strategy was approved, along with the Treasury Strategy, by the Executive Councillor for Finance on 25th March 2014 after being scrutinised by this Committee. This outlines the Council's investment priorities as the security of capital and the liquidity of investments, with the aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity.

3.2. As such investments are only placed with highly credit rated financial institutions, using Capita's suggested creditworthiness approach, including Sovereign Credit Ratings and Credit Default Swap overlay information provided by Capita. In addition to Capita's credit methodology, the Council also maintains a AA- Long Term Rating (Fitch) and AAA Sovereign Rating (Fitch) minimum limit for all its Counterparties excluding the UK and part-nationalised UK banks. Appendix A shows the Council's existing Authorised Lending List based on this creditworthiness approach together with a key explaining the credit rating scores.

3.3. The support element of credit ratings from its scoring has been removed by Capita to concentrate solely on Short Term and Long Term ratings. This is in line with the Credit Rating Agencies who, due to changes in regulatory banking requirements, have indicated that they are starting to remove the uplift in ratings they give to institutions from implied levels of sovereign support, which they feel will no longer be there going forward. The timing of these changes by the Credit Rating Agencies is still subject to discussion. The impact on the Council's Lending List once they have commenced their changes to ratings may require the Council to re-examine its Lending List policy. A review of this policy is therefore being undertaken with Capita and results will be presented to the Executive Councillor for Finance and this Committee in conjunction with the Annual Investment Strategy for 2015/16.

3.4. The table below details changes to the Authorised Lending List during the 3rd quarter to 31st December 2014.

Counterparty	**Action**	**Reason**
Nordea Bank (Finland)	Removal from Lending List	Finland Sovereign Rating reduced to AA+ from AAA by S & P

3.5. No investments were outstanding with counterparties that were removed from the Council's Approved List and no loans were invested for longer than the duration limits in place, due to the lending list changes during the quarter.

3.6. A full list of the investments held at 31st December 2014, compared to Capita's creditworthiness list, and changes to credit rating of counterparties during December 2014 are shown in Appendix B.

4. Investment Position to 31st December 2014 – Comparison With Strategy

4.1. The Council's investment position and cumulative annualised return at 31st December 2014 are detailed in the table below:

Investment Position At 31.12.14	Return (Annualised %)	Weighted Benchmark (Annualised %)	Outperformance
£226.135m	**0.65%**	**0.40%**	**0.25%**

4.2. The investment balance is made up of general and earmarked reserves, Pension Fund cash, borrowing and other income received but not yet used/spent and general movement in debtor and creditor amounts.

4.3. In line with the strategy, investments during the quarter have been made in all periods of 3 weeks to 1 year to lock into rates above base rate level, and extensive use of bank call accounts and money market funds have been made that offer returns ranging from 0.40% to 0.65%. Several 6 month and 1 year investments were made during the quarter to take advantage of the enhanced yields offered. The investment portfolio weighted average maturity (WAM) was 76 days at 31st December 2014 from 109 days at 31st March 2014. (As highlighted in Appendix B). The outperformance of the benchmark in the quarter is a reflection of this strategy.

4.4. The benchmark target return used is a weighted benchmark that uses both the 7 day LIBID and 3 month LIBID market rates, weighted, to better reflect the maturity of the investments made and therefore the risk parameters of the investment portfolio. Being a market rate, this benchmark moves relative to market movements and is therefore the target rate used for investments.

4.5. The investment performance was also benchmarked against the Capita quarterly benchmark analysis, comprising a mixture of 8 other authorities in the East Midlands area and 14 English Counties. The results of this benchmarking for the 3rd quarter are detailed below, which shows that the Council's return was on a par with that of the comparators for both yield and WAM. The Council's return is also within Capita's risk banding achievable for the level of risk being taken on its investments.

Capita Benchmarking – Position at 31/12/2014			
	LCC	**Benchmark Group(8)**	**English Counties (14)**
30 December Return %	0.66%	0.64%	0.68%
Risk Banding	0.61% -0.74%	0.61% - 0.74%	0.63% -0.76%
WAM (days)	76	77	78

5. Borrowing & Debt Rescheduling Position to 31st December 2014 – Comparison with Strategy

5.1. The Council's external borrowing position at 31st December 2014 is detailed in the table below and shows that £20m of new borrowing was undertaken during the quarter leaving the cost of the Council's debt at 4.137% at this time. No further borrowing is due in this financial year leaving a projected borrowing position at 31st March 2015 of £461.453m at a cost of 4.147%.

Borrowing Position at 31.12.2014	**Maturing Debt £m**	**Debt To Fund CapEX £m**	**Total £m**	**% Cost**
Balance at 1.4.2014	0.0	452.807	452.807	4.141%
New Borrowing to 31.12.2014	0.0	20.000	20.000	4.000%
Borrowing Repaid to 31.12.2014	(5.0)	(1.354)	(6.354)	
Debt Rescheduling to 30.9.2014				
-Borrowing Repaid	0.0	0.0	0.0	
-Borrowing Replaced	0.0	0.0	0.0	
Balance at 31.12.2014	**(5.0)**	**471.453**	**466.453**	**4.137%**
Projected Further Borrowing Required in 2014/15 (net of internal borrowing CF)	0.0	10.404	10.404	
Projected Further Borrowing Repayments – Actual	(5.000)	(0.000)	(5.000)	
- Voluntary	(0.0)	(10.404)	(10.404)	
Projected Borrowing Position at 31.03.2015	**(10.000)**	**471.453**	**461.453**	4.147%
Authorised Limit For External Debt 2014/15			594.125	

5.2. The table below shows the Council's Capital Expenditure plans and Borrowing Requirement at 31st December 2014, from that originally agreed by Full Council at its meeting on 21st February 2014.

	Original Budget at 01/04/2014 £m	Position at 31/12/2014 £m
Net Capital Expenditure Programme 2014/15	87.315	75.144
Borrowing Requirement 2014/15	80.815	37.200

5.3. The Strategy for 2014/15 stated that new borrowing would be undertaken in all periods with the aim of achieving an even spread of maturity profile and keeping an increase in the average cost of the Council's debt to a minimum. Borrowing would be undertaken at a time appropriate to coincide with an identified dip in borrowing rates available.

5.4. Internal borrowing is using internal balances instead of taking external borrowing to finance the capital programme. This strategy reduces interest rate risk (the risk of unexpected adverse changes in interest rate) and credit risk (the risk of default by counterparties to whom investments are held as investment exposure falls) and also provides a net saving in interest costs in the short term, provided that Council balances are sufficiently available to maintain this strategy. The balance of internal borrowing stood at £97.973m at 31st March 2014. A further £7.031m of internal borrowing will be made in 2014/15 to cover the 2013/14 carry forward of capital expenditure but it is thought that scope for further internal borrowing after this would be limited due to current levels of cash balance.

5.5. To overcome the cost of carry on any new borrowing (paying interest on borrowing at 4% levels and investing it out at levels of 0.60% until utilised), external LOBO (Lenders Option Borrowers Option) borrowing was arranged on 16th June 2014 for a start date of 31st December 2014. This type of borrowing gives the Lender the option to change the rate at various call intervals and the Borrower the option to either accept or repay. This borrowing maintains an even maturity profile and keeps the cost of borrowing around the existing level of 4.14% in accordance with the strategy. Details of the borrowing taken is detailed in the following table:

Lender	**Amount £**	**Start Date**	**Maturity Date**	**Length**	**Rate %**	**Call Option**
BAE Systems Pension Fund	£10m	31/12/2014	31/12/2061	47 years	4.00%	Every 5 years on/after 31/12/2026
BAE Systems Pension Fund	£10m	31/12/2014	31/12/2057	43 years	4.00%	Every 3 years on/after 31/12/2027

5.6. Total LOBO debt the Council has secured now stands at £30m, well within the limit set in the strategy of 10% of total external debt (equating to £46m). A limit is set on this type of borrowing to limit the amount of variability within the debt portfolio of debt repayment.

5.7. No debt rescheduling activity of existing debt has taken place to 31st December 2014, due to all existing borrowing loans being in premium position. (Meaning that the coupon rate of existing debt is higher than the current market rate for equivalent outstanding periods and so a premium would be incurred to repay this debt back early).

5.8. A further £3m temporary borrowing was taken during the quarter for a 4 month period at a cost of 0.40% to cover a shortfall in liquidity forecast in January 2015, bringing the total temporary borrowing to £12m at an average cost of 0.399% . In terms of interest this is cost neutral, as surplus funds generated have been invested in Money Market Funds earning on average 0.43%. This is in line with strategy and is an alternative to drawing on higher yielding Notice Accounts when needed. All temporary borrowing is due to be repaid before the end of the financial year.

5.9. Full Council, at its meeting on 21st February 2014, approved the Council's Prudential Indicators for 2014/15, set as a requirement of the Prudential Code to ensure the Council's capital financing, in particular its long term borrowing, is prudent, affordable and sustainable. It can be confirmed that no Prudential Indicator limits have been breached in 2014/15 to 31st December 2014.

6. Conclusion

Short term Interest rates have remained flat over the period but long term rates have fallen by around 1.00%, reacting to a combination of worldwide concerns affecting markets, including the plunge in oil prices. Forecasts for future direction of rates are very hard to predict due to these external factors, but Capita now believe downside risks are balanced with upside risks for any movement in rates. The Council's investment return is outperforming the market benchmark still by 0.25% and the WAM is 76 days. The cost of the Council's borrowing is 4.137% predicted to be 4.14% by the year end. A sum of £20m LOBO borrowing was taken on 31st December 2014 at 4% to avoid cost of carry and internal borrowing will be restricted to covering the 2013/14 carry forward only this year. No more long term borrowing is required in 2014/15. Temporary borrowing of £12m has been undertaken to cover predicted liquidity issues later on in the year, which is due to be replaced by the end of the financial year.

7. Consultation

a) Policy Proofing Actions Required

As the contents of this report are factual and the activities being reported on have taken place within existing policies, policy proofing has not been necessary.

8. Appendices

These are listed below and attached at the back of the report	
Appendix A	Authorised Lending List and Credit Rating Key
Appendix B	Investment Analysis Review at December 2014 - Capita Asset Services Ltd

9. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2014/15 25/3/2014	Lincolnshire County Council, Finance and Public Protection
County Council Report - Council Budget 2014/15 21/02/2014	Lincolnshire County Council, Finance & Public Protection

This report was written by Karen Tonge, who can be contacted on 01522 553639 or karen.tonge@lincolnshire.gov.uk .

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LINCOLNSHIRE COUNTY COUNCIL LENDING OF TEMPORARY SURPLUSES

Country			Lending Limit £m	Maturity Limit	# Watch/ Outlook Adjusted		FITCH IBCA Credit Rating Long Term	Soverei	For Tre CDS Overlay
	1	Other Local Authorities	20 each	24 Months					
	2	Debt Management Account Deposit Facility	50	6 Month					
	3	UK Banks :							
		# LloydsHBOS Group -Part Nationalised	40	364 Day					
UK		Lloyds TSB Bank Plc	40	364 Day		SB	A	AAA	
UK		HBOS Treasury Services Plc	40	364 Day		SB	A	AAA	
		Bank of Scotland - Guaranteed Fixed Deposits	40	364 Day					
		Bank of Scotland-Call Reserve Account	40	364 Day					
		# HSBC Group	20	364 Day					
UK		HSBC Bank Plc	20	364 Day	364 Day	SB	AA-	AAA	364 Day
		HSBC Evergreen Notice Account	20	364 Day					
		# RBS Group - Part Nationalised	40	364 Day					
UK		National Westminster Plc	40	364 Day		SB	A	AAA	
		Natwest Instant Access Liquidity Account	40	364 Day					
		Natwest 90 Access - Liquidity Account	40	364 Day					
UK		Royal Bank of Scotland Plc	40	364 Day		SB	A	AAA	
UK		Standard Chartered Bank	20	364 Day	364 Day	SB	AA-	AAA	6 Months
UK		Bank of New York (International) Mellon Ltd	20	364 Day	364 Day	SB	AA-	AAA	364 Day
	4	Other Banks							
AUS		Australia & New Zealand Banking Group	20	364 Day	364 Day	SB	AA-	AAA	364 Day
AUS		Commonwealth Bank of Australia	20	364 Day	364 Day	SB	AA-	AAA	364 Day
AUS		National Australia Bank	20	364 Day	364 Day	SB	AA-	AAA	364 Day
CAN		Bank of Montreal	20	364 Day	364 Day	SB	AA-	AAA	364 Day
CAN		Bank of Nova Scotia	20	364 Day	364 Day	SB	AA-	AAA	364 Day
CAN		Canadian Imperial Bank Commerce	20	364 Day	364 Day	SB	AA-	AAA	364 Day
CAN		Royal Bank of Canada	20	364 Day	364 Day	SB	AA	AAA	364 Day
CAN		Toronto Dominion Bank	20	364 Day	364 Day	SB	AA-	AAA	365 Day
SING		DBS Bank Ltd	20	364 Day	364 Day	SB	AA-	AAA	364 Day
SING		Oversea Chinese Banking Corporation Ltd	20	364 Day	364 Day	SB	AA-	AAA	364 Day
SING		United Overseas Bank	20	364 Day	364 Day	SB	AA-	AAA	364 Day
		# Svenska Group	20	364 Day					
SWE		Svenska Handelsbanken	20	364 Day	364 Day	SB	AA-	AAA	364 Day
		Svenska Handelsbanken - 35 Day Notice Accour	20	364 Day	364 Day				364 Day
		Svenska Handelsbanken- 10 Day Notice Accoun	20	364 Day	364 Day				364 Day
		Svenska Handelsbanken- Call Account	20	364 Day	364 Day				364 Day
	5	AAA Money Market Funds							
		# MMF Group	100	24 Months					
		HSBC Global Liquidity Fund	20	24 Months			AAA		
		SWIP Global Liquidity Fund	20	24 Months			AAA		
		Morgan Stanley Sterling Liquidity Fund	20	24 Months			AAA		
		Deutsche Managed Sterling Fund	20	24 Months			AAA		
		Insight GBP Liquidity Fund	20	24 Months			AAA		
		IGNIS Liquidity Fund	20	24 Months			AAA		

Group Limit of applies where indicated.

** A maximum of 20% of total funds to be held in the Building Society Sector.

** No more than 20% of total funds to be held in any one institution or group.,excluding Govt/MMFs.

Any adverse press comments concerning borrowers/potential borrowers should be referred to T Warnock /J Ray / K Tonge / N Kay.

Revised: 13th Oct 2014

Definition of Credit Ratings and Credit Default Swap Spreads

Credit Ratings:

Long Term Rating (Fitch)

The Long Term rating assesses the borrowing characteristics of banks and the capacity for the timely repayment of debt obligations which apply to instruments of up to 5 years duration.

Long Term Ratings range from AAA, AA, A to DDD, DD, D. Only Institutions with Ratings of AA- and above are acceptable on the Councils Lending List as follows:

AAA - Highest Credit Quality - lowest expectation of credit risk. Exceptionally strong capacity for timely payment of financial commitments. Highly unlikely to be adversely affected by foreseeable events.

AA - Very High Credit Quality - Very low expectation of credit risk. Very strong capacity for timely payment of financial commitments. Not significantly vulnerable to foreseeable events.

"+" Or "-" may be appended to a rating to denote relative status within major rating categories.

Sovereign Ratings (Fitch)

The Sovereign (Governments of Countries) Rating measures a sovereign's capacity and willingness to honour its existing and future obligations in full or on time. It looks at factors such as:

- Macroeconomic performance and prospects;
- Structural features of the economy that render it more or less vulnerable to shocks as well as political risk and governance factors;
- Public finances, including the structure and sustainability of public debt as well as fiscal financing;
- The soundness of the financial sector and banking system, in particular with respect to macroeconomic stability and contingent liability for the sovereign; and
- External finances, with a particular focus on the sustainability of international trade balances, current account funding and capital flows, as well as the level and structure of external debt (public and private).

Sovereign Ratings range from AAA, AA, A to DDD, DD, D. Only countries with a Sovereign Rating AAA are acceptable on the Councils Lending List.

Credit Rating Watches and Outlooks issued by Credit Rating Agencies

Rating Watches -indicate that there is a heightened probability of a rating change in the short term either in a positive or negative direction. A Rating Watch is typically event-driven and, as such, it is generally resolved over a relatively short period.

Rating Outlooks -indicate the direction a rating is likely to move over a one- to two-year period reflecting a position not yet reached but if trends continue will do so hence triggering a rating move.

Money Market Fund Rating (Moodys)

Aaa/MR1+ - this rating denotes the lowest expectation of default risk. It is assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. Funds rated MR1+ are considered to have the lowest market risk.

Credit Default Swap (CDS) Spreads

A CDS is effectively a contract between two counterparties to 'insure' against default. The higher the CDS price of a counterparty, the higher the supposed risk of default. The CDS level therefore provides a perceived current market sentiment regarding the credit quality of a counterparty and generally the movement in the CDS market gives an early warning of the likely changes in credit ratings of a counterparty.

Sector has employed a benchmark system which compares the CDS spread of a counterparty against a pre-determined benchmark rate (iTraxx Senior Financial Index) to produce a CDS status overlay of 'In Range', 'Monitoring' or 'Out of Range' and this status is used to further determine the creditworthiness of the counterparty.

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CAPITA

Treasury solutions

Asset Services

Lincolnshire County Council

Monthly Investment Analysis Review

December 2014

Monthly Economic Summary

General Economy

Although December 2014 was a busy month, it was oil prices plummeting to a 5 year low, putting stress on energy exporting nations, that was most influential. The end of November saw shoppers rushing to the high street and online to make the most of the US styled Black Friday and Cyber Monday sales, pushing retail sales growth to a 10 year high. In addition, The Prudential Regulatory Authority (PRA) released the results of its stress tests of eight UK banks, with only the Co-operative Bank failing.

Growth in Manufacturing output fell to 0.7%, its biggest monthly decline since May. This was hit by a 4.5% fall in computer, electronic and optical products. Manufacturing Purchasing Managers' Index (PMI) rose marginally to 53.5 from 53.3 in October due to growth in new orders helping to push employment in the sector up to a four month high. The Construction PMI fell to 59.4 from 61.4, the weakest reading since October 2013. However, Britain's services sector expanded faster than expected last month, suggesting the economy may be slowing less than previously thought. The Services PMI rose to 58.6 after falling sharply to 56.2 in October, beating all market expectations. This rise in the index was the biggest in over a year and it has exceeded the 50 level that represents growth for nearly two years. The data showed that falling oil prices, which hit a five-year low, were helping firms to offset the effect of staff costs as hiring increased at its fastest rate since July.

Inflation fell for a third consecutive month to 1% in December, the lowest level seen in 12 years. This is partly due to the strength of sterling, which has helped by cutting the price of imports, as well as downward pressure from food and oil prices.

In the Autumn Statement, Chancellor George Osborne abolished the residential slab system so in future the stamp duty rates will only apply to the part of the property price that falls within their respective bands. As a result, stamp duty will be cut for the 98% of homebuyers who pay it. Multinational firms and banks will be taxed 25% on profits generated from economic activity in the UK which gets shifted out of the country.

The PRA tested the balance sheets of eight major UK Banks to see how they would fair against another economic down turn. The results of the test came as no surprise with the Co-operative Bank being the only bank to fail to meet the required capital ratio. The part-nationalised banks Lloyds and RBS only narrowly managed to pass but they are still too vulnerable for comfort. The European Banking Association also released stress test results in December with all four UK banks passing.

UK GDP in year on year terms was revised down to 2.6% for the third quarter, down from 3.0% in a previous estimate. However, the economy is showing positive signs with supermarket competition and cheap fuel prices, encouraging consumer spending. This is also supported by unemployment remaining stable at 6% and wages outstripping inflation, showing that Britain's economy still looks on course to expand at a strong pace in 2015.

Britain's goods trade deficit narrowed in October to its lowest level in seven months. The overall trade deficit narrowed to £2.02bn in October, down nearly £800m and hitting its lowest level since March. This was due to lower fuel imports and a slight rise in exports.

The UK saw US styled "Black Friday" discounts causing record sales growth as retail sales grew at their fastest annual rate in more than a decade in November. Retail sales grew 6.4% on the year which is the fastest annual growth since May 2004. This is due to downward pressure from falling food and oil prices and rising wages, which has resulted in consumers having more money to spend. The GfK consumer confidence index, however, edged down in December to its lowest level since March, as optimism about the economy hit a 17-month low.

The US economy grew to 5.0% annually, revised up from an original estimate of 3.9%, the fastest pace of growth since the third quarter of 2003. With a rapidly strengthening labour market and lower oil prices, there should be enough momentum to keep the Federal Reserve on course to start raising interest rates by the middle of 2015. Furthermore US employers added the largest number of workers in nearly three years with Nonfarm Payrolls rising by 321,000 last month. The unemployment rate remained at a six-year low, at 5.8%. This confirms that the economy is coping well despite slowdowns in China, the Eurozone and a recession in Japan.

Housing Market

Mortgage lender Nationwide reported that British house prices eased for a fourth consecutive month in December, slowing to 0.2% from 0.3%. Year on year house prices rose by 7.2% in December.

Forecast

Capita Asset Services kept its Bank Rate forecast unchanged this month, expecting the first increase in Q2 2015. Capital Economics did not alter their forecast this month

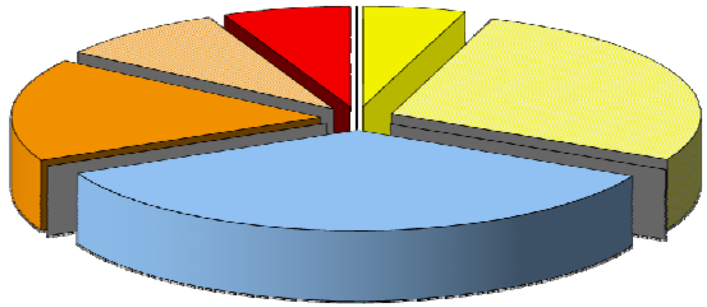
Bank Rate	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

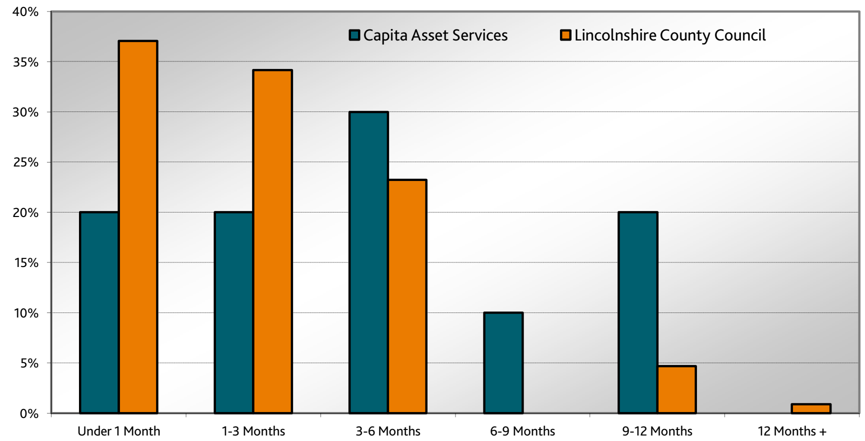
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	1,625,000	0.43%		MMF	AAA	0.000%
MMF Aberdeen	20,000,000	0.43%		MMF	AAA	0.000%
MMF Ignis	20,000,000	0.47%		MMF	AAA	0.000%
MMF Insight	20,000,000	0.41%		MMF	AAA	0.000%
PCC for West Yorkshire	5,000,000	0.50%	22/12/2014	05/01/2015	AA+	0.000%
The Royal Bank of Scotland Plc	7,175,000	0.67%	23/07/2014	23/01/2015	BBB+	0.013%
HSBC Bank Plc	10,000,000	0.61%		Call30	AA-	0.001%
United Overseas Bank Ltd	5,000,000	0.60%	05/08/2014	06/02/2015	AA-	0.002%
Bank of Scotland Plc	5,000,000	0.95%	12/02/2014	11/02/2015	A	0.010%
Bank of Scotland Plc	5,000,000	0.80%	12/05/2014	12/02/2015	A	0.010%
Bank of Scotland Plc	5,000,000	0.95%	24/02/2014	23/02/2015	A	0.013%
Bank of Scotland Plc	5,000,000	0.72%	01/08/2014	23/02/2015	A	0.013%
HSBC Bank Plc	10,000,000	0.66%		Call60	AA-	0.003%
Bank of Scotland Plc	2,250,000	0.95%	04/03/2014	03/03/2015	A	0.015%
Bank of Scotland Plc	5,000,000	0.80%	03/06/2014	03/03/2015	A	0.015%
DBS Bank Ltd	5,000,000	0.65%	03/09/2014	03/03/2015	AA-	0.003%
Oversea Chinese Banking Corporation Ltd	5,000,000	0.60%	20/03/2014	20/03/2015	AA-	0.004%
Bank of Scotland Plc	5,000,000	0.80%	19/06/2014	23/03/2015	A	0.019%
Commonwealth Bank of Australia	10,000,000	0.62%	25/03/2014	24/03/2015	AA-	0.004%
Oversea Chinese Banking Corporation Ltd	5,000,000	0.65%	15/04/2014	31/03/2015	AA-	0.004%
Standard Chartered Bank	5,000,000	0.65%	08/10/2014	31/03/2015	A+	0.021%
The Royal Bank of Scotland Plc	10,000,000	0.80%	09/04/2014	09/04/2015	BBB+	0.054%
Bank of Scotland Plc	5,000,000	0.95%	10/04/2014	09/04/2015	A	0.024%
The Royal Bank of Scotland Plc	5,000,000	0.80%	15/04/2014	15/04/2015	BBB+	0.058%
Standard Chartered Bank	5,000,000	0.67%	29/10/2014	29/04/2015	A+	0.028%
DBS Bank Ltd	2,510,000	0.65%	03/11/2014	05/05/2015	AA-	0.006%
Standard Chartered Bank	5,000,000	0.67%	05/12/2014	05/06/2015	A+	0.037%
The Royal Bank of Scotland Plc	10,000,000	0.94%	23/06/2014	22/06/2015	BBB+	0.095%
DBS Bank Ltd	5,000,000	0.63%	23/12/2014	23/06/2015	AA-	0.008%
The Royal Bank of Scotland Plc	5,000,000	0.98%	27/06/2014	26/06/2015	BBB+	0.097%
Bank of Scotland Plc	2,750,000	1.00%	27/10/2014	26/10/2015	A	0.071%
The Royal Bank of Scotland Plc	2,825,000	0.92%	05/11/2014	04/11/2015	BBB+	0.169%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	24/12/2014	23/12/2015	AA+	0.016%
Doncaster Metropolitan Borough Council	2,000,000	1.10%	13/03/2014	14/03/2016	AA+	0.021%
Total Investments	**£226,135,000**	**0.66%**				0.019%

Lincolnshire County Council

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Portfolios weighted average risk number = 2.74

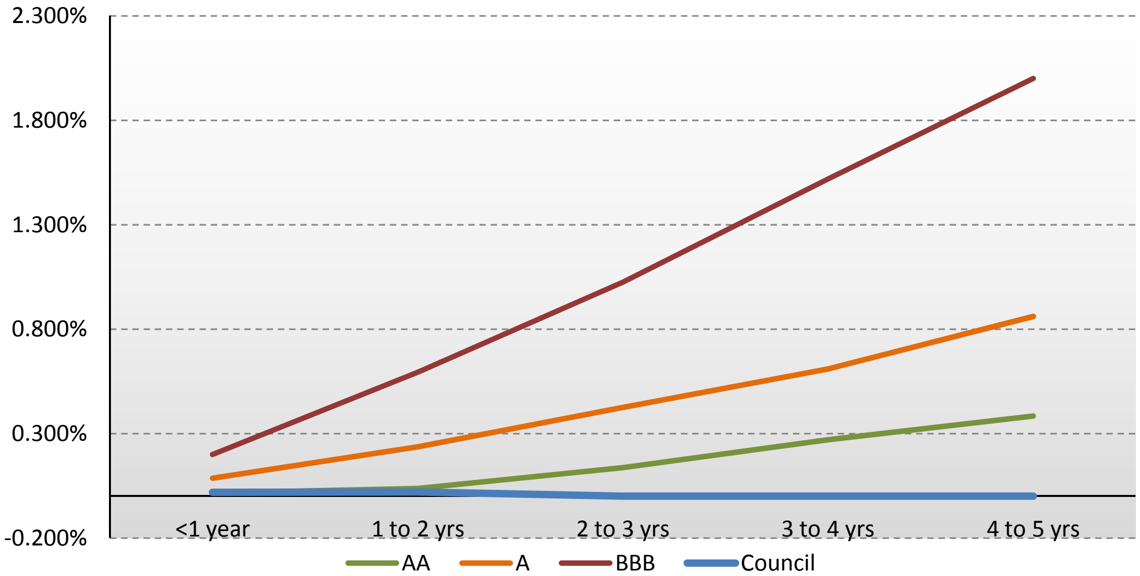
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs WAM	Excluding Calls/MMFs/EMMFs WAM at Execution
Yellow	32.56%	£73,625,000	83.70%	£61,625,000	27.25%	0.48%	37	46	224	280
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	35.38%	£80,000,000	0.00%	£0	0.00%	0.86%	104	322	104	322
Orange	25.43%	£57,510,000	34.78%	£20,000,000	8.84%	0.63%	74	197	89	278
Red	6.63%	£15,000,000	0.00%	£0	0.00%	0.66%	122	179	122	179
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£226,135,000**	**36.10%**	**£81,625,000**	**36.10%**	**0.66%**	**76**	**191**	**112**	**292**

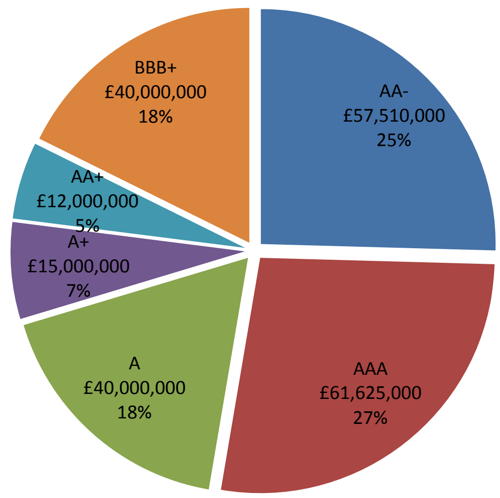
Lincolnshire County Council

Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



Rating Exposure



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
Council	0.019%	0.021%	0.000%	0.000%	0.000%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for “AA”, “A” and “BBB” rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
15/12/2014	1316	France Sovereign Rating	France	Downgraded to ‘AA‘ from ‘AA+’, removed from 'Negative Watch' and placed on a 'Stable' Outlook.

Lincolnshire County Council

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1313	Sumitomo Mitsui Banking Corporation Europe Ltd	UK	Moody's downgraded the Long Term Rating to 'A1' from 'Aa3', placed on a Stable Outlook. Affirmed Short Term Rating at 'P-1'. The Financial Strength Rating remained at 'C' with a Stable Outlook.
19/12/2014	1318	HSBC Bank USA, N.A.	U.S.A	Affirmed Long Term Rating at ‘A1’, 'Stable' Outlook. Affirmed Short Term Rating at ‘P-1’. Affirmed Financial Strength Rating at ‘C-’, Outlook changed to 'Stable' from 'Negative'.
19/12/2014	1319	ING Bank NV	Netherlands	Affirmed Long Term Rating at ‘A2’, 'Negative' Outlook. Affirmed Short Term Rating at ‘P-1’. Affirmed Financial Strength Rating at ‘C-‘, Outlook changed to 'Stable' from 'Negative'.

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1314	Bank of America, N.A.	U.S.A	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
02/12/2014	1314	Merrill Lynch International	UK	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
05/12/2014	1315	Saudi Arabia Sovereign Rating	Saudi Arabia	Affirmed at ‘AA-‘, Outlook changed to 'Stable' from 'Positive'.
17/12/2014	1317	Arab National Bank	Saudi Arabia	Affirmed at ‘A’, Outlook changed to 'Stable' from 'Positive', Short Term Rating Affirmed at ‘A-1’.

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Executive Director of Finance & Public Protection

Report to:	**Value for Money Scrutiny Committee**
Date:	**23 February 2015**
Subject:	**Treasury Management Strategy Statement and Annual Investment Strategy 2015/16**

Summary:

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2015/2016. It is prepared in accordance with the 2011 CIPFA Code of Practice for Treasury Management in the Public Sector, the requirements of which are included as part of Financial Regulations within the Constitution of the Council. These requirements were adopted by the Council in May 2011 as part of agreement to revisions to the Council's Constitution.

The Annual Investment Strategy is an annual statement that sets out the Council's policies for investing its surplus cash for the year ahead and has been prepared in accordance with the Local Government Act 2003, effective from 1st April 2004.

Actions Required:

That the report be noted and any comments passed onto the Executive Councillor with responsibilities for Finance.

1. Background

1. <u>INTRODUCTION/BACKGROUND</u>

1.1. <u>Treasury Management</u>

1.1.1. Treasury Management relates to the policies, strategies and processes associated with managing the short and long term cash and debt of the Council through appropriate borrowing and lending activity.

1.2. **Relevant Treasury Management Regulation / Legislation**

The Council's treasury management activities are governed by the 2011 CIPFA Code of Practice for Treasury Management in the Public Sector and subsequent amendments, whose key requirements were adopted by the Council in May 2011 as part of Financial Regulations -Section C.

1.2.1. The Local Government Act 2003, effective from 1st April 2004;

~ Requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next 3 years to ensure that the Council's capital investment plans (including borrowing plans) are affordable, prudent and sustainable.

~ Requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

~ Gives the Council statutory power to invest for "any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs", including investments made in the course of treasury management.

1.3. Purpose of Report

1.3.1. This report comprises the Treasury Management Strategy Statement for 2015/2016 as Section 2 and the Annual Investment Strategy for 2015/2016 as Section 3 and has been prepared in accordance with the CIPFA Code of Practice for Treasury Management 2011 and subsequent revisions.

- Treasury Management Strategy Statement 2015/2016
  The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2015/2016.

- The Annual Investment Strategy 2015/2016
  The Annual Investment Strategy sets out the Council's policies for investing its surplus cash for the year 2015/2016 and for giving priority to the security and liquidity of its investments over the return on those investments. It forms the basis of the 'Approved Investment Criteria' followed by the Council when making its investments.

1.4. Reporting Arrangements

1.4.1. In accordance with the requirements of the revised Code, this Treasury Management Strategy and Annual Investment Strategy will be presented to the Value for Money Scrutiny Committee for scrutiny and then submitted to the Executive Councillor with responsibility for finance for approval prior to the start of the financial year.

1.4.2. Quarterly reports will then be presented to the Value for Money Scrutiny Committee throughout the financial year which will monitor and report on actual activity against the approved Strategy.

1.4.3. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

2. TREASURY MANAGEMENT STRATEGY STATEMENT 2015/2016

2.1. Introduction

2.1.1. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in light of the anticipated movement in interest rates. The strategy for 2015/2016 is therefore based upon the Treasury officers' current views on interest rates for the year ahead, supplemented with leading market forecasts provided by the Council's treasury management advisor, Capita Asset Services Ltd. The strategy covers the following areas:

- The current long term external borrowing/investment position;
- Borrowing requirement 2014/2015 to 2017/2018;
- Affordable borrowing limit for 2015/16 to 2017/18;
- Prudential indicators 2015/2016 to 2017/2018;
- Prospect for interest rates 2015 to 2018;
- Long term borrowing strategy 2015/2016;
- Debt rescheduling opportunities;
- Investment strategy 2015/2016;
- Short term (cash flow) borrowing strategy 2015/2016;
- Other current treasury issues.

2.2. Current Long Term External Borrowing & Investment Position

2.2.1. In order to place the Treasury Management Strategy in context, the Council's treasury portfolio position at 31.12.2014 comprised:

		Principal £million	Ave Rate %
Long Term Borrowing			
Opening Balance	31.03.14	452.807	4.141
New Borrowing to	31.12.14	20.000	
Borrowing Repaid to	31.12.14	(6.354)	
Rescheduling:			
Borrowing Repaid Early to	31.12.14	0.0	
Borrowing Replaced	31.12.14	0.0	
Total Borrowing at	**31.12.14**	**466.453**	**4.137**
Investments			
LCC at	31.12.14	223.366	
Pension Fund at	31.12.14	2.769	
Total Investments at	**31.12.14**	**226.135**	**0.662**
Net Borrowing at	**31.12.14**	**240.318**	

2.3. Long Term Borrowing Requirement 2014/2015 to 2017/2018

2.3.1. The long term borrowing requirement for 2014/2015 to 2017/2018, as detailed in the Council Budget -2015/16 and Capital Programme Changes 2014/15 Report, which is to be considered by the County Council at its meeting on the 20th February 2015, is as follows:

Long Term Borrowing Requirement	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
New Borrowing	35.700	73.862	67.798	26.112	**203.472**
Replacement Borrowing	11.354	11.354	15.354	15.354	**53.416**

2.3.2. It is intended that £7.031m of the 2014/15 borrowing requirement will be met by internal resources, not external borrowing bringing the balance of internal borrowing to £105m in total. Because of the internal borrowing undertaken the Council's actual external borrowing position remains below its Capital Financing Requirement (CFR), a Prudential Indicator, which is a measure of the Council's underlying borrowing need.

2.3.3. This borrowing requirement falls within the Council's 'affordable borrowing limit' as outlined below.

2.4. Affordable Borrowing Limit for 2015/2016 to 2017/2018

2.4.1. The Council has a statutory duty, in accordance with the Local Government Act 2003, to determine and keep under review how much it can afford to borrow i.e. to determine its "Affordable Borrowing Limit".

2.4.2. The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is acceptable. Both external borrowing and other forms of financing, such as finance leasing and private finance initiative arrangements (PFI) are included within this Affordable Borrowing Limit.

2.4.3. It is also a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. This means that increases in capital expenditure must be limited to a level whereby increased capital finance costs are set to a level that is affordable within the projected income of the Council for the foreseeable future.

2.4.4. The Prudential Indicator for the 'Authorised Limit for External Debt', as required by the Prudential Code, is the statutory Affordable Borrowing Limit as determined under the 2003 Act, and this limit must be set on a rolling basis for the forthcoming financial year and two successive financial years. The Council's Authorised Limit For External Debt for 2015/16 to 2017/18 has been set as follows: -

	2015/16 £million	**2016/17 £million**	**2017/18 £million**
Borrowing	592.052	626.021	617.618
Other Long Term Liabilities	15.083	14.443	13.975
TOTAL	**607.135**	**640.464**	**631.593**

2.4.5. The County Finance Officer has responsibility to set the Authorised Limit for External Debt, to monitor the external debt level and to report to the Executive Councillor with responsibilities for finance, if he is of the view that the limit is likely to be breached. The Executive Councillor has then to decide to take appropriate action for the limit not to be breached or to raise the limit if prudent to do so.

2.5. Prudential Indicators for 2015/2016 to 2017/2018

2.5.1. Appendix A outlines the Council's Prudential Indicators that are relevant for the purposes of setting an integrated treasury management strategy.

2.5.2. They have been extracted from the comprehensive list of all Prudential Indicators proposed for the Council submitted, as per the requirements of the Prudential Code, with the Council Budget - 2015/16 and Capital Programme Changes 2014/15 Report, which is to be considered at the meeting of the County Council on 20th February 2015.

2.6. Prospect for Interest Rates 2015-2018

2.6.1. The Council has appointed Capita Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates taking into account the current outlook for the UK Economy. Appendix B draws together a number of current City Institution forecasts for short term and longer fixed interest rates. The following table gives the Capita central view.

Annual Average %	**Bank Rate %**	**Money Rates %**		**PWLB Borrowing Rates % (Certainty Rate)**		
		3 month	**1 year**	**5 year**	**25 year**	**50 year**
Mar 2015	0.50	0.50	0.90	2.20	3.40	3.40
June 2015	0.50	0.50	1.00	2.20	3.50	3.50
Sept 2015	0.50	0.60	1.10	2.30	3.70	3.70
Dec2015	0.75	0.80	1.30	2.50	3.80	3.80
Mar2016	0.75	0.90	1.40	2.60	4.00	4.00
June 2016	1.00	1.10	1.50	2.80	4.20	4.20
Sept 2016	1.00	1.10	1.60	2.90	4.30	4.30
Dec 2016	1.25	1.30	1.80	3.00	4.40	4.40
Mar 2017	1.25	1.40	1.90	3.20	4.50	4.50
Jun 2017	1.50	1.50	2.00	3.30	4.60	4.60
Sept 2017	1.75	1.80	2.30	3.40	4.70	4.70
Dec 2017	1.75	1.90	2.40	3.50	4.70	4.70
Mar 2018	2.00	2.10	2.60	3.60	4.80	4.80

Economic Commentary

2.6.2. UK GDP growth surged during 2013 and the first half of 2014. It has slowed down since then but still remains strong by UK standards and forecasts for 2015 and 2016 are 2.6% and 2.4% respectively. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established.

2.6.3. One drag on the economy has been that wage inflation has only recently stared to exceed CPI inflation, so enabling disposable income and living standards to start improving. Labour productivity must also improve significantly to enable wage rates to increase and further support consumer disposable income and economic growth.

2.6.4. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November 2014, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year which will help improve consumer disposable income and so underpin economic growth in 2015.

2.6.5. Unemployment has been falling faster than expected which will eventually feed through into pressure for wage increases, though current views on the amount of slack in the labour market probably means that this will be unlikely to happen in 2015.

2.6.6. The US, the biggest world economy, has generated stunning growth rates of around 5% and it looks very much as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Given this the US are expected to be the first major western economy to start on central rate increases by mid-2015.

2.6.7. A more detailed view of the current economic outlook is contained within Appendix C to this report.

2.6.8. The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece has elected the radical left-wing Syriza party which is anti-EU and anti-austerity. If this results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti-EU and anti-austerity political parties throughout the EU are much more difficult to quantify.

- The Eurozone has experienced a downturn in growth and inflation during the second half of 2014. Worries over the Ukraine situation, Middle East and Ebola have led to concerns that it is heading for a prolonged deflation and very weak growth. Sovereign debt difficulties for some countries still exist and so it is possible over the next few years that levels of government debt to GDP ratios could continue to rise resulting in loss of investor confidence. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have risen during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances (internal borrowing) has served well over the last few years, however, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future, when external borrowing has to be taken;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

2.7. Long Term Borrowing Strategy 2015/2016

2.7.1. In view of the above forecast for interest rates the Council's borrowing strategy will be based upon the following information.

- Long term rates are difficult to predict for reasons already stated. They are forecast to rise gradually over 2015/16 and are on a rising trend in general, albeit from a lower starting point than previously predicted. At the time of writing suggested target rates are as follows: 50 yr 3.40%, 25 yr – 3.40%, 10yr – 2.80% and 5 yr – 2.20%.

- The Council's Long Term Borrowing Maturity Profile as at 23rd February 2015 can be seen as Appendix D. It shows actual maturities and also possible maturities from the LOBO debt taken. Gaps in the maturity profile are between 15 years and 37 years, then after 44 years. Any new borrowing taken should focus on these lengths at prevailing rates of interest.

- Market loans and LOBO[1] loans may be available at rates below PWLB rates. However an appropriate balance between PWLB and market debt should be maintained in the debt portfolio.

- Short term borrowing (up to 3 years) from the money market or other local authorities, at investment level rates, will be an available option.

[1] A LOBO is a 'Lender's Option, Borrowers Option' money market loan, whereby the Lender has the option to change the rate of a loan after a designated fixed period of time and the Borrower (LCC) has the option to accept this new rate or repay the loan. The fixed period of time is typically for 1 to 20 years and the total length of the LOBO is typically for 50 to 70 years.

External V Internal Borrowing

2.7.2. The Council is currently maintaining an ‘under-borrowed’ position, given its decision not to borrow externally in 2011/12 and to some extent since then. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external debt, and internal balances and cash flow have been used instead as a temporary measure (referred to as internal borrowing). This strategy has been prudent as investment returns are low and counterparty risk is high.

2.7.3. The table below shows the comparison between the Council’s gross and net debt positions at the year end from 2013/14 to 2017/18.

Comparison of gross and net debt at year end	**2013/14 Actual £m**	**2014/15 Probable Outturn £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
Actual External Debt (Gross)	452.807	459.718	511.792	552.492	549.203
Cash Balances (Investments)	186.475	155.000	142.829	152.610	162.610
Net Debt	266.332	304.718	368.963	399.882	386.593
Net Debt as % of Gross Debt	58.8%	66.3%	72.1%	72.4%	70.4%

2.7.4. The table shows that the difference between gross and net debt is the level of investments held by the Council. It shows that the level of investments should fall in 2014/15, reflecting the internal borrowing strategy taken to a level whereby opportunities for further internal borrowing from 2015/16 onwards are limited in order to maintain adequate balances for liquidity/cash flow requirements.

Minimum Revenue Provision / Repayment of Debt

2.7.5. New regulations in 2008 set a duty for the Council to set aside a minimum revenue provision (MRP) for the repayment of debt to the Revenue Account each year, which it considers to be prudent. Statutory guidance which accompanies the regulations provides options for calculating MRP. The aim is to ensure that debt is repaid over a period reasonably commensurate with the period over which the capital expenditure funded by borrowing provides benefits.

2.7.6. The Council at its meeting on 13th February 2009 agreed to apply the **average life method** of calculating MRP for 2009/10 onwards, as supported by the then Resources Policy Development Group (PDG) and the Council’s External Auditors. Full details of the proposal from the Resources PDG 12 January 2009 can be found as Appendix E.

2.7.7. Revision of certain asset lives under this policy was undertaken in 2013/14 to bring them in line with the depreciation policy applied for the Financial Statements. The table below shows the revised estimates for asset lives now used under the MRP policy:

Type of Asset	Estimated Asset Life in Years
Land	50
Construction	40
Repair & Maintenance	20
Infrastructure	60
Road Maintenance	20
Bridges	120
Integrated Transport	20
Waste Transfer Plant	40
Heavy Engineering Equipment	30
Vehicles	4
Long Life Specialist Vehicles	15
Equipment	5
IT	4

2.7.8. The Council's policy is to repay external debt at the MRP level and as a measure of affordability the following voluntary Prudential Indicator Limit has been set:

'**MRP and Interest as a percentage of the Councils Income will not exceed 10%'.**

Borrowing in Advance of Need

2.7.9. The Council 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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.

- consider the merits and demerits of alternative forms of funding.

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

- limit borrowing in advance to no more than 25% of the expected increase in borrowing need (CFR) over the three year planning period. (Voluntary Prudential Indicator).

2.7.10. Given the factors detailed in 2.7 above, the following borrowing strategy will be adopted for 2015/16:

The Council will take new borrowing from the PWLB in all periods with the aim of achieving an even spread of maturity profile and keeping an increase in the average cost of the Council's debt to a minimum. Target levels will be monitored and timing of borrowing taken will coincide with any reduced rate opportunity below the target levels identified.

Consideration will be given to borrowing market loans or LOBOs, to fit into the above maturity strategy, in order to take advantage of the lower rates offered on these loans. This proportion limited to no more than 10% of total external borrowing for each of market loans and LOBOs.

Short term borrowing from the money markets or other local authorities will be considered if appropriate.

Borrowing in advance of need will be undertaken during the year if considered appropriate following the Council's policy as detailed in 2.7.8 above.

2.7.11. To support the above strategy, prevailing interest rates and market forecasts will be continually monitored throughout the year and appropriate borrowing actions, including debt rescheduling if appropriate, will be taken in response to any sharp rise or fall in long and short term interest rates occurring throughout the year.

2.8. Debt Rescheduling

2.8.1. Debt rescheduling involves repaying existing loans and replacing these with new loans at different terms for the prime objective of generating financial savings on interest paid.

2.8.2. The Council's Financial Strategy states that 'the Council will actively pursue debt rescheduling to the extent that it will generate financial savings without adding significantly to the overall debt burden'.

2.8.3. To date interest savings have been made by rescheduling existing PWLB EIP[2] loans into PWLB maturity[3] loans. At the time of writing £20.285 million of EIP debt, from the Council's total debt portfolio of £466.453 million, remains to be rescheduled given the opportunity.

2.8.4. Repaying debt early does incur a premium[4] or discount[5] depending on the current level of interest rates compared to the rate of interest on the debt repaid. The timing of any rescheduling during the year will take place to minimise premium or maximise the discount available. This is achieved by repaying loans at a peak in current interest rate levels to reduce the amount of premium due and locking into replacement loans at a trough in current interest rates. This strategy can incur an interest cost due to the delay in replacing debt repaid or interest can be made by borrowing in advance of repaying debt. There is also a level of interest rate risk of any timing decision.

2.8.5. Where possible suitable loans will be selected for rescheduling that match out both premium and discounts, thereby eliminating the cash impact to the Council. Any positions taken via rescheduling will be in accordance with the borrowing strategy position outlined in Section 2.7 above.

2.8.6. The appropriate timing of any rescheduling will be monitored throughout 2015/16 by the Council and Capita Asset Services Ltd. However, PWLB to PWLB debt restructuring is now much less attractive because of the large premiums that would be incurred due to the introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt.

2.9. Investment Strategy 2015/2016

2.9.1. A 0.25% increase in Bank Rate is forecast to come in the third quarter of 2015/16 around December 2015 and further increases in the year are not then expected. There is upside risk to this forecast if economic growth remains strong and unemployment continues to fall.

[2] With EIP loans, an equal amount of principal is repaid on a half yearly basis throughout the term of the loan with interest calculated on the reducing balance, hence total payments reduce over the lifetime of the loan.

[3] With Maturity loans, only interest repayments are made during the life of the loan and repayment of principal is made in full at the end of the loan period.

[4] A premium is incurred on repaying a loan early when the interest rate of the loan to be repaid is higher than the current rate available for the remaining duration of the existing loan.

[5] A discount is incurred on repaying a loan early when the interest rate of the loan to be repaid is lower than the current rate available for the remaining duration of the existing loan.

However, should the pace of growth fall back any increase could be stalled.

2.9.2. Investments of up to 2 years are considered acceptable to good quality counterparties, limits permitting where acceptable rates are achievable and sufficient liquidity is available.

2.9.3. The Council's investment level is forecast to be around £150 million net of Pension Fund cash in 2015/16, of which around £80 million can be identified as 'core' balances which will be available to invest for longer periods of investment. The remaining balance of cash is cash-flow driven.

2.9.4. The Council's investment priorities are:

(a) the security of capital and
(b) the liquidity of its investments

The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and hence has a low risk appetite for placing investments.

2.9.5. Given these factors above, the following investment strategy will be adopted for 2015/16:

For the element of the Council's investment portfolio that represents 'core' balances, investments will be made in all periods of 3 months to 2 years, to acceptable counterparties, to lock into rates in excess of the predicted base rate level. The Council will avoid locking into longer term deals (beyond 1 year) while investment rates are down at historically low levels or towards the end of the financial year unless exceptionally attractive rates are available which make longer term deals worthwhile. Extensive use of Bank Business Reserve Accounts and Money Market Funds[6] will be made, that offer returns close to or in excess of base rate level, for the Council's 'core' cash and cash flow generated balances. The target investment return for investments for 2015/16 is the weighted 7 day/3 month LIBID benchmark that reflects the risk parameters of the investment portfolio. This is a relative benchmark which moves with the markets, but as an indication the benchmark rate at 31st December 2014 was 0.40%.

Investment in Certificates of Deposit[7], Treasury Bills[8] and Dated Bonds held to maturity[9] will also be considered where appropriate.

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[6] Pooled investment vehicles offering returns equivalent of up to 1 month cash deposits whose assets comprise of cash type investments such as Certificates of Deposit, Commercial Paper and Cash Deposits.
[7] A bearer instrument which certifies that a sum of money has been deposited with the bank issuing the certificate at a fixed yield and on the stated maturity date the deposit is repaid with interest. The maturity length is typically from 1 month to 1 year.

Short dated deposits (overnight to 1 month) will also be made for the Council's cash-flow generated balances in order to benefit from compounding of interest.

2.9.6. In addition to the above strategy, prevailing interest rates and market forecasts will be continually monitored throughout the year and appropriate investment actions will be taken in response to any sharp rise or fall in long and short-term interest rates occurring throughout the year.

2.9.7. All Investments will be made in accordance with the Council's Annual Investment Strategy, as outlined in Section 3 of this report and with the institutions identified in the Council's approved counterparty investment list.

2.10. Short Term (Cash Flow) Borrowing Strategy 2015/2016

2.10.1. During 2015/2016, when short term interest rates for temporary borrowing are significantly lower than yields earned on the Council's Call Accounts and Money Market Funds, then if required for cash flow purposes, temporary short term borrowing will be taken instead of drawing on investments, in order to minimise the loss of interest from withdrawing funds at higher rates or to cover

2.11. Other Current Treasury Issues

2.11.1. Non-Treasury Management Investment

A revolving credit facility of £158000 (€200000), over a period of 3 years, has been given to Incendi Ltd, a limited company to be set up by Lincolnshire Fire & Rescue for trading purposes, to be wholly owned by Lincolnshire County Council. This loan will provide cash flow to meet set up and initial trading costs. It is classified as a service investment rather than a treasury investment and is therefore outside of the specified/ non specified investment categories.

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[8] Short term securities issued by HM Treasury on a discounted basis i.e. issued below 100, with 100 being received on maturity with the difference equalling the interest return.

[9] A debt security instrument that governments, supranationals, and companies sell to investors (issue) to finance a variety of projects and activities. The investor buys the bond and receives fixed or variable coupons (interest) in return. Bonds can be dated (mature/repayable on a certain date) or non-dated (never mature). Bonds are tradeable (can be bought and sold) and hence the price of a bond fluctuates over its life. The total yield (return) on a bond for investor equals the npv of the cashflows (e.g. price paid, coupons received, nominal value received on maturity).

2.11.2. Long Term Borrowing – School Loans Scheme 2015/16

Long Term Borrowing from the PWLB on behalf of schools as part of the schools loan scheme will be undertaken throughout 2015/2016 as and when required and on terms requested by schools.

2.11.3. Leasing Requirements – School IT and General Equipment

It is anticipated that up to £500,000 of School IT and general equipment can be leased in 2015/2016 as part of an agreed strategy for acquiring use of such equipment by schools. Three and five year finance leases will be arranged on behalf of the schools as required.

2.11.4. Policy on the Use of External Service Providers

The Council uses Capita Asset Services Ltd as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. 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.

2.11.5. PWLB Governance Structure

The CLG announced in December 2014 that it will be abolishing the Public Works Loan Board (PWLB) Commissioners and renaming the PWLB in 2015 in conjunction with the current National Infrastructure Bill passing through the House of Lords. The PWLB is a Government department that provides borrowing to Local Authorities. The CLG have confirmed that current lending arrangements to Councils will remain in place.

2.11.6. Pension Fund Cash

In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which were implemented on 1st January 2010, effective from 1st April 2010, an agreement has been drawn up governing the procedures that were already in place for the pooling of Pension Fund cash with Council balances for investment.

3. ANNUAL INVESTMENT STRATEGY 2015/2016

3.1. In accordance with Section 15(1) of the Local Government Act 2003, Lincolnshire County Council has adhered to the Guidance on Local Government Investments issued by the Secretary of State, and as such has produced its Annual Investment Strategy for 2015/2016 detailed below.

3.2. The Council's investment priorities will be security first, liquidity second, and then return. The intention of the Strategy is to provide security of investment and minimisation of risk. The aim of the Strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. Investment instruments identified for use in 2015/2016 under Specified and Non-Specified investment categories are detailed below.

3.3. Specified Investments

3.3.1. In accordance with CLG Guidance on Local Government Investments, this Council will invest its surplus funds throughout the year in the following specified investments, which it regards as offering high security and high liquidity.

- Investments made in sterling, which mature within and including 12 months (such investments to include fixed, callable or forward term deposits as appropriate[10], Certificates of Deposit, Treasury Bills and Dated Bonds), with the following categories: -
  - UK Government/ Supranationals/ Multilateral Development Banks
  - Local Authorities
  - Body or Investment Scheme meeting the required level of credit quality as determined by credit rating agencies. Lincolnshire County Council has determined this required level of credit quality to be as follows: -

[10] Fixed Deposit : Investment fixed for specific term at specific rate.
Callable Deposit : Investment whereby borrower has option to pay back deposit at specific intervals.
Forward Deposit : Investment whereby period, rate and amount are agreed in advance of a future date. The forward period plus the deal period to be within the maturity limit allowed.

Body or Investment Scheme	Capita Weighted Credit Colour Band	Minimum Acceptable Credit Rating +
Bank, Building Society or Corporate	Blue (Nationalised / Semi Nationalised UK Banks only)	Long Term Rating (Fitch and equivalent Rating Agencies): A+
	Orange	
	Red	Sovereign Rating (Any two Rating Agencies): AAA
	Green	
Money Market Funds		Long Term Rating (Moodys): Aaa/MR1+ or (Fitch): AAA or (S & P): AAAm

+For definition of credit ratings see Appendix F.

This Council uses the creditworthiness service provided by Capita Asset Services, its treasury management advisor. This service has been progressively enhanced and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies –see Appendix F for definition.
- Credit default swap (CDS) spreads to give early warning of likely changes in credit ratings – see Appendix F for definition.

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. Rating Agency information and CDS spreads are monitored on a real time basis with knowledge of any changes sent electronically by Capita as soon as they are detected. The Council is satisfied that this service gives an improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

Additional Minimum Rating Criteria/Limits in Place –set by Council

In addition to the Capita creditworthiness recommendations, the Council has also set further minimum credit requirements that restrict the number of acceptable counterparties further and is therefore deemed prudent.

- A minimum Sovereign (Country) Rating from a minimum of two rating agencies of AAA.*
- A minimum Long Term Rating by all rating agencies of A+ or equivalent**.
- A limit of a maximum of no more than 20% of total investments to be placed with any one bank/group, corporate or building society sector - to ensure diversification of investments. (With exception of Part UK Nationalised Banks which are deemed to bear same low risk as UK Government).

*UK Sovereign Rating
The UK is excluded from this AAA minimum requirement, on the basis that being our domiciled country outweighs the extra risk presented by not having a AAA status.

**Long Term Rating
To mitigate the expected reduction in credit ratings of institutions by Rating Agencies in 2015, as a result of banking legislation relating to sovereign support withdrawal, the Council’s additional minimum Long Term rating requirement has been reduced one level to A+ from AA-. This is to maintain a workable lending list in light of what will be downgrades due to legislative changes, not credit quality issues.

Note: Barclays Bank plc does not currently meet the Council's minimum criteria and hence are not on the Council's Lending List. However it was appointed as the Council’s banker in April 2012 and therefore the Council does have a minimum financial exposure to Barclays on a daily basis. When it is not financially viable to make an investment, a cash balance will be left at the bank overnight, so long as Barclays Bank remains on Capita's recommended Counterparty list.

Duration and Limits
From the above methodology the following duration and amount limits have been assigned to each colour band. With Council balances due to fall as a result of falling reserves and internal borrowing, maximum amount limits have been assigned to different levels of balances as shown in the table below. This is a new approach which allows the Council to be more risk sensitive to falling balances going forward.

Capita Weighted Colour Band	**Maximum Duration**	**Maximum Amount Based on Average Balance of**		
		£200m	**£150m**	**£100m**
Blue***	1 Year	£40m	£30m	£25m
Orange	1 Year	£20m	£20m	£15m
Red	6 Months	£15m	£10m	£10m
Green	3 Months	£10m	£5m	£5m

*** *Applies to nationalised or semi nationalised UK Banks*:-
As a result of the banking crisis which started in 2008, Governments across the world have had to inject capital directly into banks to support their capital ratios and to avoid failure of financial institutions. Several banks have been nationalised or part nationalised in this way.

These nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by Councils to identify banks which are of high credit worthiness. As they are no longer separate institutions in their own right, their individual ratings, which assess their stand alone financial strength, are impaired. However, it is considered that institutions that have been nationalised or part nationalised effectively take on the creditworthiness of the Government itself and as such UK nationalised or semi nationalised banks are included within the Councils acceptable investment criteria and will continue to do so as long as they remain semi nationalised.

3.3.2. The County Finance Officer has delegated responsibility to produce an ‘Approved Lending List’ of acceptable counterparties to whom the Council will lend its surplus cash which comply with the specified investments detailed above and the non-specified investments detailed below. The credit ratings of counterparties are monitored on an ongoing basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council’s minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings, the Council will be advised of information in movements in CDS prices of Counterparties against the iTraxx benchmark[11] and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or suspension from the Council’s lending list.

[11] iTraxx Senior Financials Index that measures the “average” level of the most liquid financial CDS prices in the CDS market.

3.3.3. Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

3.4. Non-Specified Investments

3.4.1. In accordance with CLG Guidance on Local Government Investments, non-specified investments are those that do not meet the definition of specified investments as detailed above, and they are viewed as being higher risk.

3.4.2. Having assessed the acceptable level of risk involved in all non-specified investments, it is the decision of the County Finance Officer to allow the prudent investment in the following non-specified investments:

- Sterling investments for a maturity period greater than 12 months up to a maximum of 2 years, (such investments to include fixed, callable or forward deposits, certificates of deposit, treasury bills and dated bonds as appropriate).

3.4.3. The above non-specified investments may be made to any category as detailed in the specified investments above, with the exception of Bodies or Investment Schemes that will be restricted to the following level of credit worthiness criteria:

Body or Investment Scheme	**Capita Weighted Credit Colour Band**	**Minimum Acceptable Credit Rating +**
Bank, Building Society or Corporate	Purple	Long Term Rating (Fitch and equivalent Rating Agencies): A+
	Yellow	Sovereign Rating (Any two Rating Agencies): AAA

+ For definition of credit ratings see Appendix F.

The following duration and amount limits have been assigned to these colour bands based on average balances, (new risk sensitive approach), as follows:

Capita Weighted Colour Band	**Maximum Duration**	**Maximum Amount Based on Average Balance of**		
		£200m	**£150m**	**£100m**
Purple	2 Years	£25m	£20m	£15m
Yellow	2 Years	£20m	£20m	£15m

3.4.4. In line with the Prudential Code Indicator, the maximum amount of total investment that can be held in investments over 12 months at any one time is £40 million. This limit reflects a prudent proportion of the Council's estimated level of core cash balances available to invest for longer periods.

3.4.5. The Executive Councillor with responsibility for finance will be informed on any occasion when investments are lent for over 12 months.

3.5. Additions to Non-Specified Investment List

3.5.1. Proposals to invest in any other non-specified investment will be referred to the County Finance Officer for approval after first seeking the advice of the Authority's Treasury advisors, Capita Asset Services Ltd. If approved by the County Finance Officer, a recommendation for the change to the Annual Investment Strategy will be sought from the Executive Councillor with responsibility for finance.

3.6. Liquidity of Investments

3.6.1. In determining the amount of funds that can prudently be committed for more than 12 months, consideration will be given to the following factors:

- Long Term Cash Flow Forecasts of the Council - 3 years ahead showing:
  - Projected core cash balances over the term of proposed investment
  - Foreseeable spending needs over the term of proposed investment.
  - Level of provision for contingencies.
  - Acceptable level of reserves.

3.7. Training Needs for Treasury Management Staff

3.7.1. The importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them are recognised by the Council. Consequently, the Council seeks to appoint individuals who are both capable and suitably experienced and also will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

3.7.2. All treasury management staff are encouraged to take any suitable training in treasury management provided by CIPFA, Capita Asset Services Ltd or other relevant market participant. Both the Treasury Manager and Treasury Officer for the Council have successfully gained the CIPFA/ACT qualification in International Treasury Management (Public Finance) (Cert ITM-PF).

4. Conclusion

The Treasury Management Strategy, determining appropriate borrowing and investment decisions, and the Annual Investment Strategy, outlining the Council's policy for investments, have been set for 2015/16 in light of the anticipated economic environment and movement of interest rates for the year ahead.

5. Consultation

a) Policy Proofing Actions Required

Not applicable.

6. Appendices

These are listed below and attached at the back of the report	
Appendix A	Prudential and Treasury Indicator Table 2015/16 to 2017/18.
Appendix B	Interest Rate Forecast for 2015-2018.
Appendix C	Economic Background.
Appendix D	Long Term Borrowing Maturity Profile at 23-2-2015.
Appendix E	Minimum Revenue Provision Policy.
Appendix F	Definition of Credit Ratings and Credit Default Swap Spreads.

7. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Council Budget 2015/16 and Capital Programme Change 2014/15 - 20th February 2015	Lincolnshire County Council, Finance & Public Protection
Minimum Revenue Provision - 12th January 2009	Lincolnshire County Council, Finance & Public Protection
LCC Treasury Management Policy	Treasury and Financial Strategy Section, Finance & Public Protection

Statement and Treasury Management Practices	

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Policy & Scrutiny Report
Value for Money Scrutiny Committee – 23rd February 2015.
Treasury Management Strategy Statement and Annual Investment Strategy 2015/16

APPENDIX A

PRUDENTIAL INDICATORS:	***2014/15***	**2015/16**	**2016/17**	**2017/18**
Affordability:				
Increase in council tax levels	*-£8.63*	£8.36	£36.63	£15.90
Ratio of Net Financing Costs to Net Revenue Stream	*5.85%*	6.14%	7.24%	7.51%
Ratio of MRP & Interest Payments to Net Revenue Stream -10% limit (Voluntary Indicator)	*5.88%*	6.24%	7.48%	7.94%
Capital Expenditure:	***£m***	**£m**	**£m**	**£m**
Capital Financing Requirement CFR (as at 31 March)	*581.443*	630.292	669.472	665.617
Gross External Borrowing Forecast	*461.674*	513.440	553.943	550.469
TREASURY INDICATORS (within the Prudential Code):				
Authorised limit for external debt -				
Borrowing	*541.795*	592.052	626.021	617.618
Other long term liabilities	*15.821*	15.083	14.443	13.975
TOTAL	*557.616*	607.135	640.464	631.593
Operational boundary -				
Borrowing	*517.795*	568.052	602.022	593.619
Other long term liabilities	*13.821*	13.083	12.443	11.975
TOTAL	*531.616*	581.135	614.465	605.594
TREASURY INDICATORS (with the TM Code):				
Gross and Net Debt				
Borrowing in advance of need limited to percentage of the expected increase in CFR over the 3 year budget period. (Voluntary Indicator)	*25%*	25%	25%	25%
Upper limit for fixed interest rate exposure	***£m***	**£m**	**£m**	**£m**
Net principal re fixed rate borrowing less investments	*665.617*	665.617	665.617	665.617
Upper limit for variable rate exposure	***£m***	**£m**	**£m**	**£m**
Net principal re variable rate borrowing less investments	*199.685*	199.685	199.685	199.685
	£m	**£m**	**£m**	**£m**
Upper limit for total principal sums invested for over 364 days (per maturity date)	*40.000*	40.000	40.000	40.000

Maturity structure of new fixed rate borrowing during 2012/13	upper limit	lower limit
under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

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Policy & Scrutiny Report **Appendix B**

Value for Money Scrutiny Committee -23rd February 2015

Treasury Management Strategy Statement & Annual Investment Strategy 2015/16

Interest Rate Forecasts 2015 - 2018

Capita Asset Services Interest Rate View	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

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Policy & Scrutiny Report
Value for Money Scrutiny Committiee – 23rd February 2015
Treasury Management Staretgy Statement & Annual Investment Strategy 2015/16

APPENDIX C

Economic Background –Capita Asset Services Ltd

The UK Economy

After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

The Global Economy

Eurozone (EZ). The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

Greece: the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA. The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

China. Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

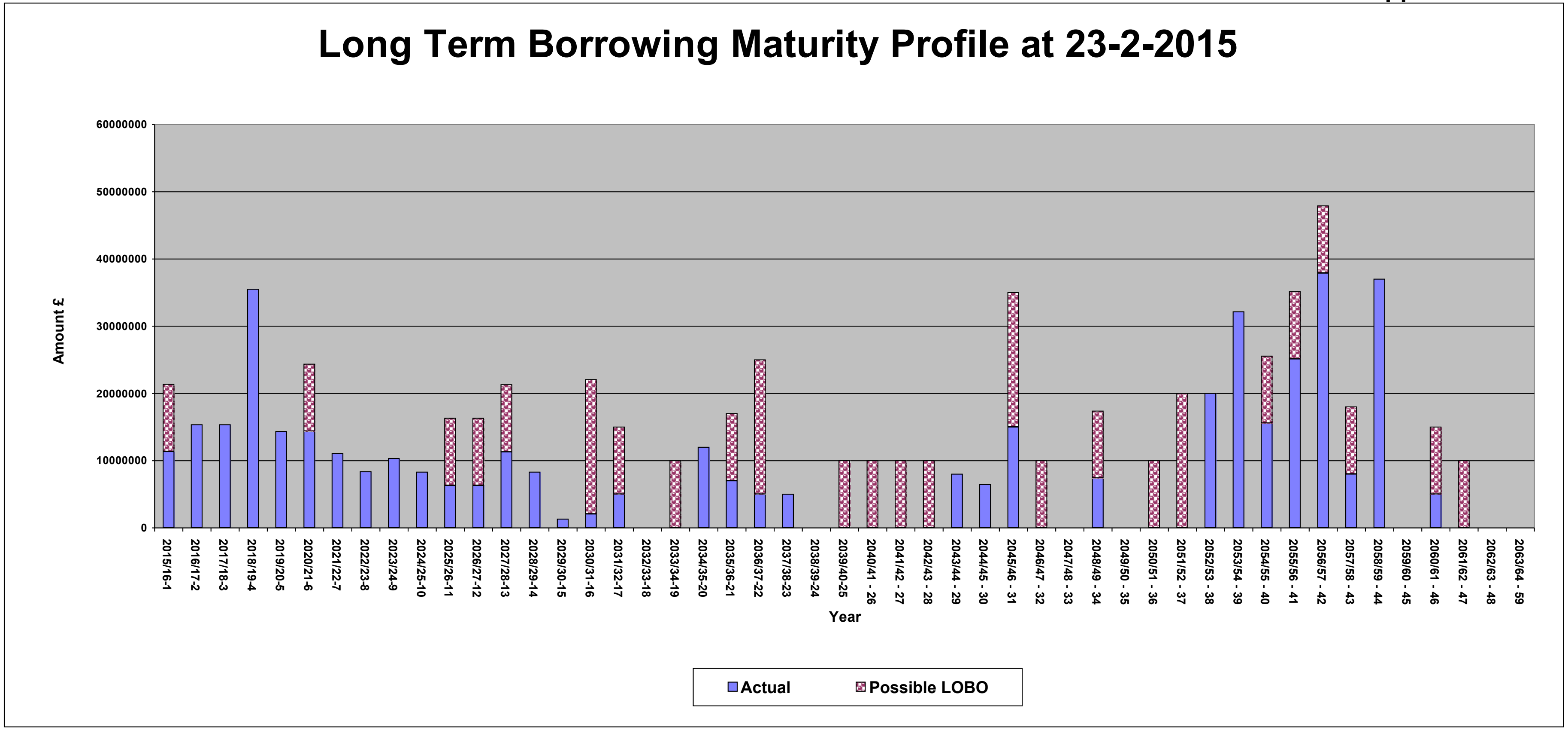
Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Appendix D


Long Term Borrowing Maturity Profile at 23-2-2015
Amount £
0
10000000
20000000
30000000
40000000
50000000
60000000
Year
Actual
Possible LOBO

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APPENDIX E

Resources Policy Development Group
12 January 2009

MINIMUM REVENUE PROVISION

Report by the Director of Resources

Introduction

1. The Council, at its meeting on 27 June 2008, resolved that the Council's policy for minimum revenue provision (MRP) for 2009/10 be developed in consultation with the Resources PDG and with the Council's external auditor and proposed to the Council in February 2009.

2. This report proposes a policy for minimum revenue provision for the PDG's consideration. The Council's external auditor is also being consulted. The policy will need to be considered by the Executive and by the Council in February. In future, the Council is required to approve a policy for MRP each year.

Background

3. Most councils borrow to fund capital spending. They are required to set aside some of their revenues each year as a provision for debt repayment. The requirement has been that a minimum provision should be calculated as 4% of a council's capital financing requirement – essentially its total debt outstanding.

4. New regulations set a duty for a council to set a minimum revenue provision which " it considers prudent."

Statutory guidance which accompanies the regulations provides options for calculating MRP. The aim is to ensure that debt is repaid over a period reasonably commensurate with the period over which the capital expenditure funded by borrowing provides benefits.

The Council must select and apply one of these options.

MRP options

5. The regulations distinguish between "supported" and "unsupported" borrowing in relation to the options. "Supported" borrowing is borrowing which, theoretically, attracts government support for debt repayment through revenue support grant. "Unsupported" borrowing is funded wholly by individual councils.

The options are described below.

Capital financing requirement method

- MRP is calculated as 4% of the Council's capital financing requirement.
- This method can be applied only to "supported" borrowing.

Depreciation method

- MRP is based on depreciation of the assets acquired
- But may cease to be charged when the total provision made equals the amount borrowed.
- Either the depreciation method or the average life method must be applied to "unsupported" borrowing.

Average life method

- MRP is made in equal instalments over the estimated life of the assets acquired through borrowing.

6. It is proposed to adopt the average life method for the reasons set out below.

The capital financing requirement method can be applied only to "supported" borrowing. It would therefore need to be combined with one of the other methods for "unsupported" borrowing. The Council uses both "supported" and "unsupported" borrowing and the distinction between the two types has no relevance for the Council. It would be simpler to apply one calculation method for the whole of the Council's borrowing.

7. The depreciation method, whilst theoretically attractive, introduces some complications. For example, assets must be valued in the Council's balance sheet at current value and the valuations are updated regularly. MRP provision would change as assets are revalued. Depreciation is not normally applied to land. However, some provision for the repayment of borrowing for the acquisition of land would be necessary. Therefore the depreciation method would need to be combined with the asset life method for land acquisition. It would also be necessary to keep individual accounting records for each item of capital expenditure which would be a substantial additional workload.

8. The average life method is simpler than the depreciation method and is the only method that can be applied to the whole of the Council's borrowing. It provides a stable and predictable MRP provision which will assist the Council's budgeting. It is a prudent approach with annual provision for the repayment of debt related directly and clearly to the useful life of the assets acquired through borrowing.

Asset lives

9. The proposed method requires estimates to be made for asset lives. The table below proposes the bases for estimation.

Type of asset	Estimated asset life in years
New capital spending :	
Land	50
Buildings	40
Roads	40
Capital maintenance - buildings	20
Capital maintenance – roads	20
Integrated transport	20
Equipment and vehicles	4
Previous capital spending	25

Impact on the Council's spending

10. The MRP must be charged as part of the Council's revenue spending each year. It may therefore impact on the Council's finances.

The existing provision in the Council's budget is based on a MRP of 4% equivalent to charges made over 25 years.

11. The new annual MRP charges resulting from the proposed policy are likely to be close to this. The average life of assets in the 2007/08 and 2008/09 capital programmes is 24.7 years and 27.2 years respectively It is also proposed to base MRP on an average asset life of 25 years for past capital spending.

The MRP should therefore be met within existing budget proposals.

12. It should also be noted that the MRP is a minimum provision. The Council may, if it wishes, make additional repayments.

Recommendation

The Policy Development Group is asked to support the proposal to adopt the average life method for calculating minimum revenue provision.

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APPENDIX F

Definition of Credit Ratings and Credit Default Swap Spreads

Credit Ratings:

Long Term Rating (Fitch)

The Long Term rating assesses the borrowing characteristics of banks and the capacity for the timely repayment of debt obligations which apply to instruments of up to 5 years duration.

Long Term Ratings range from AAA, AA, A to DDD, DD, D. Only Institutions with Ratings of AA- and above are acceptable on the Councils Lending List as follows:

AAA - Highest Credit Quality - lowest expectation of credit risk. Exceptionally strong capacity for timely payment of financial commitments. Highly unlikely to be adversely affected by foreseeable events.

AA - Very High Credit Quality - Very low expectation of credit risk. Very strong capacity for timely payment of financial commitments. Not significantly vulnerable to foreseeable events.

"+" Or "-" may be appended to a rating to denote relative status within major rating categories.

Sovereign Ratings (Fitch)

The Sovereign (Governments of Countries) Rating measures a sovereign's capacity and willingness to honour its existing and future obligations in full or on time. It looks at factors such as:

- Macroeconomic performance and prospects;
- Structural features of the economy that render it more or less vulnerable to shocks as well as political risk and governance factors;
- Public finances, including the structure and sustainability of public debt as well as fiscal financing;
- The soundness of the financial sector and banking system, in particular with respect to macroeconomic stability and contingent liability for the sovereign; and
- External finances, with a particular focus on the sustainability of international trade balances, current account funding and capital flows, as well as the level and structure of external debt (public and private).

Sovereign Ratings range from AAA, AA, A to DDD, DD, D. Only countries with a Sovereign Rating AAA are acceptable on the Councils Lending List.

Credit Rating Watches and Outlooks issued by Credit Rating Agencies

Rating Watches -indicate that there is a heightened probability of a rating change in the short term either in a positive or negative direction. A Rating Watch is typically event-driven and, as such, it is generally resolved over a relatively short period.

Rating Outlooks -indicate the direction a rating is likely to move over a one- to two-year period reflecting a position not yet reached but if trends continue will do so hence triggering a rating move.

Money Market Fund Rating (Moodys)

Aaa/MR1+ - this rating denotes the lowest expectation of default risk. It is assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. Funds rated MR1+ are considered to have the lowest market risk.

Credit Default Swap (CDS) Spreads

A CDS is effectively a contract between two counterparties to 'insure' against default. The higher the CDS price of a counterparty, the higher the supposed risk of default. The CDS level therefore provides a perceived current market sentiment regarding the credit quality of acounterparty and generally the movement in the CDS market gives an early warning of the likely changes in credit ratings of a counterparty.

Sector has employed a benchmark system which compares the CDS spread of a counterparty against a pre-determined benchmark rate (iTraxx Senior Financial Index) to produce a CDS status overlay of 'In Range', 'Monitoring' or 'Out of Range' and this status is used to further determine the creditworthiness of the counterparty.

Lincolnshire COUNTY COUNCIL
Working for a better future

Open Report on behalf of Richard Wills, Director responsible for Democratic Services

Report to:	**Value for Money Scrutiny Committee**
Date:	**23 February 2015**
Subject:	**Value for Money Scrutiny Committee Work Programme**

Summary:

This report enables the Value for Money Scrutiny Committee to consider its own work programme for the coming year.

Actions Required:

To consider and comment on the content of the work programme as set out in Appendices A and B.

1. Background

Current Work Programme

The current work programme for the Committee is attached at Appendix A to this report along with an overview of anticipated business for the year ahead attached at Appendix B.

Scrutiny Activity Definitions

Set out below are the definitions used to describe the types of scrutiny, relating to the items:

Budget Scrutiny - The Committee is scrutinising the previous year's budget, the current year's budget or proposals for the future year's budget.

Pre-Decision Scrutiny - The Committee is scrutinising a proposal, prior to a decision on the proposal by the Executive, the Executive Councillor or a senior officer.

Performance Scrutiny - The Committee is scrutinising periodic performance, issue specific performance or external inspection reports.

Policy Development - The Committee is involved in the development of policy, usually at an early stage, where a range of options are being considered.

Consultation - The Committee is responding to (or making arrangements to respond to) a consultation, either formally or informally. This includes pre-consultation engagement.

Status Report - The Committee is considering a topic for the first time where a specific issue has been raised or members wish to gain a greater understanding.

Update Report - The Committee is scrutinising an item following earlier consideration.

Scrutiny Review Activity - This includes discussion on possible scrutiny review items; finalising the scoping for the review; monitoring or interim reports; approval of the final report; and the response to the report.

2. Conclusion

The Committee is invited to consider the report.

3. Appendices

These are listed below and attached at the back of the report	
Appendix A	Value for Money Scrutiny Committee Work Programme
Appendix B	Work Programme Overview 2015-16

4. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by David Hair, who can be contacted on 01522 552080 or davidr.hair@lincolnshire.gov.uk

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VALUE FOR MONEY SCRUTINY COMMITTEE

Chairman: Councillor Angela Newton
Vice Chairman: Councillor Jackie Brockway

23 February 2015		
Item	**Contributor**	**Purpose**
2014/15 Council Business Plan, Revenue and Capital Budget and Customer Satisfaction, Quarter 3	Jasmine Sodhi, Performance and Equalities Manager	Budget Scrutiny / Performance Scrutiny
Treasury Management Performance Quarter 3	Karen Tonge, Treasury Manager	Performance Scrutiny
Treasury Management Strategy Statement and Annual Investment Strategy 2015/16	Karen Tonge	Status Report

28 April 2015		
Item	**Contributor**	**Purpose**

23 June 2015		
Item	**Contributor**	**Purpose**
2014/15 Council Business Plan, Revenue and Capital Budget and Customer Satisfaction, Quarter 4	Jasmine Sodhi, Performance and Equalities Manager	Budget Scrutiny / Performance Scrutiny
Treasury Management Performance Quarter 4	Karen Tonge, Treasury Manager	Performance Scrutiny
Property update	Kevin Kendall, Chief Property Officer	Update report
Review of Financial Performance	David Forbes, County Finance Officer	Status Report

For more information about the work of the Value of Money Scrutiny Committee please contact David Hair, Team Leader, Scrutiny & Member Support, on 01522 552080 or by e-mail at davidr.hair@lincolnshire.gov.uk

Future items

Support Service Arrangements – Update
Lincoln Castle Revealed – End of project review - 2015

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Value for Money Scrutiny Committee Work Programme 2015/16

	23/02/2015	28/04/2015	23/06/2015	28/07/2015	22/09/2015	24/11/2015	26/01/2016
Annual Budget							X
Property Update			X				
Quarterly Performance Report	X		X		X	X	
Treasury Management Quarterly Performance	X		X		X	X	
Treasury Management Strategy Statement and Annual Investment Strategy 2015/16	X						
Corporate Health & Safety Annual Report					X		
Legal Services Lincolnshire Annual Report							
Review of Financial Risk Assessment						X	
Review of Financial Performance			X				
Customer Satisfaction Annual Report					X		

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