



County Offices
Newland
Lincoln
LN1 1YL

11 September 2015

Value for Money Scrutiny Committee

A meeting of the Value for Money Scrutiny Committee will be held on **Monday, 21 September 2015 at 2.00 pm in Committee Room Three, County Offices, Newland, Lincoln LN1 1YL** for the transaction of business set out on the attached Agenda.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tony McArdle', written over a horizontal line.

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, M A Whittington and P Wood

**VALUE FOR MONEY SCRUTINY COMMITTEE AGENDA
MONDAY, 21 SEPTEMBER 2015**

Item	Title	Pages
1	Apologies for Absence/Replacement Members	
2	Declaration of Councillors' Interests	
3	Minutes of the meeting of the Value for Money Scrutiny Committee held on 23 June 2015	5 - 12
4	Council Business Plan 2015/16 Performance Report, Quarter 1 <i>(To receive a report by Jasmine Sodhi, Equalities and Performance Manager, which presents Quarter 1 data in a new style performance report against the Council Business Plan)</i>	13 - 18
5	Treasury Management Update 2015/16 - Quarter 1 Update Report to 30 June 2015 <i>(To receive a report by Karen Tonge, Treasury Manager, which compares the Quarter 1 activity to the Treasury Management Strategy detailing any issues arising in treasury management during this period)</i>	19 - 44
6	Property Services Contract Update <i>(To receive a report by Kevin Kendall, Chief Property Officer, which provides an update on the contract governance, mobilisation, transition, assurance and improvement framework of the Council's property services contract with Vinci Mouchel)</i>	45 - 62
7	Value for Money Scrutiny Committee Work Programme 2015/16 <i>(To receive a report by David Hair, Team Leader – Scrutiny and Members Support, which provides the Committee with an opportunity to consider its work programme for the forthcoming year)</i>	63 - 68
8	EXCLUSION OF THE PUBLIC AND PRESS <i>The Chairman to propose that under Section 100(A)(4) of the Local Government Act 1972, the Public and Press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12 of the Act.</i>	
9	Serco Contract Performance - Opinion of the Committee <i>(This item provides the Committee with the opportunity to reflect on the meeting of the Audit Committee held on the morning of 21st September when Serco Performance was considered and to agree on any comments or recommendations that the Committee would wish to make)</i>	

Democratic Services Officer Contact Details

Name: **Andrea Brown**

Direct Dial **01522 553787**

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.

All papers for council meetings are available on:
www.lincolnshire.gov.uk/committeerecords



**VALUE FOR MONEY SCRUTINY
COMMITTEE
23 JUNE 2015**

PRESENT: COUNCILLOR MRS A M NEWTON (CHAIRMAN)

Councillors Mrs J Brockway (Vice-Chairman), P M Dilks, A G Hagues, C E D Mair, Mrs M J Overton MBE and R B Parker

Councillor M Jones attended the meeting as an observer.

Officers in attendance:-

Andrea Brown (Democratic Services Officer), Zoe Butler (Head of Service Customer Service Centre), David Forbes (County Finance Officer), Judith Hetherington Smith (Chief Information and Commissioning Officer), Tracy Johnson (Scrutiny Officer), Pete Moore (Executive Director of Finance and Public Protection), Chris Scott (Director, Sector), Jasmine Sodhi (Performance and Equalities Manager) and Karen Tonge (Treasury Manager)

1 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies for absence were received from Councillors P Wood and I G Fleetwood.

No replacement members were in attendance.

2 DECLARATION OF COUNCILLORS' INTERESTS

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

3 MINUTES OF THE MEETING OF THE VALUE FOR MONEY SCRUTINY
COMMITTEE HELD ON 23 FEBRUARY 2015

RESOLVED

That the minutes of the meeting of the Value for Money Scrutiny Committee held on 23 February 2015 be confirmed and signed by the Chairman as a correct record.

The Chairman proposed to take Item 4 of the agenda, Council Business Plan 2012-2015 Performance report, Quarter 4 2014/15, after Item 5, Review of Financial Performance. This was agreed by Members.

4 REVIEW OF FINANCIAL PERFORMANCE

Consideration was given to a report of the Executive Director of Finance and Public Protection which described the Council's financial performance for 2014/15 and made proposals for the carry forward of over and under spendings into the current financial year.

David Forbes, County Finance Officer, introduced the report and reiterated that this report was a pre-scrutiny decision and would be considered by the Executive at its meeting on the 7th July 2015.

During discussion, the following points were noted:-

- An underspend of £17.6m within education was noted as being large and it was explained that schools were prudent with management of their budgets and were not bound by the same restrictions the Local Authority had on those budgets;
- Page 6 of the report noted the "Alternatives Considered" but gave no details of those alternatives. When asked what these alternatives were, it was explained that pressing needs had been advised by directorates and bids for funding in excess of the 1% carry forward allocated could be submitted during the course of the year and these would be considered on merit. These alternatives had been considered by senior officers;
- Members were encouraged to raise the level of detail they would like to have presented at Scrutiny Committees in their discussions as part of the review of the Scrutiny function;
- This report was a year-end position statement with the carry forward being an implication of that position and based on the budget set 12 months earlier;
- It was acknowledged that the Budget had been set with good intention and that the underspend had not been anticipated at the time of setting that Budget;
- The General Reserves were 3.5% of the budget, which equated to £16m, which was slightly below average. The Earmarked Reserves were declining year on year but Lincolnshire's were average in comparison to other Councils. In the current year, £22m of those reserves were being used to balance the budget and, on the current trajectory if this continued, reserves would run out by Christmas of 2016;
- In relation to the corporate redundancy budget around £1m had been spent on redundancies in the Lincolnshire Adults Reablement Service (LARS) following its transfer to the health sector and in line with the agreement reached with health prior to the transfer. In addition, £1m-£1.5m had been set aside for those who *may* be made redundant in the next round of the restructure but as the process started in the last financial year, this had to be included in the budget despite this not being spent;
- The budget was linked to the Council's business plan which gave an indication of the value for money being received for services;
- Members agreed to add a recommendation to encourage the Executive to give considerations to allocate some of the underspend to known pressures within the Council.

RESOLVED

1. That the recommendation to the Executive to recommend to Full Council that the Adult Care underspend up to 1% not be carried forward as part of the Adult Care budget but added to the underspends above 1% for the purpose of resolution 2 below, be supported;
2. That the recommendation to the Executive to recommend to Full Council that the proposals in paragraph 1.90 of Appendix A relating to the treatment of underspends in excess of 1% be supported;
3. That the recommendation to the Executive to note the transfers to and from the reserves carried out in 2014/15 as set out in Table D of Appendix A be supported;
4. That the recommendation to the Executive to note the financial performance in 2014/15 including the Prudential Indicators be supported;
5. That the Executive be asked to give serious consideration to allocate some of the underspend to the known pressures within the Council.

5 COUNCIL BUSINESS PLAN 2012-2015 PERFORMANCE REPORT - QUARTER FOUR 2014/15

Consideration was given to a report from the Chief Information and Commissioning Officer which summarised performance in Quarter 4 2014/15 and highlighted the changes since the previous quarter. This report was the final report against the 2012-2015 Council Business Plan.

Jasmine Sodhi, Performance and Equalities Manager, introduced the report and advised that there was no further information to add to the report as presented.

During discussion, the following points were noted:-

- Financial Performance Indicators were included in Report 5.0, Review of Financial Performance 2014/15, and confirmed that the target for "Payments within 30 days" was 92.5% and the Authority had reached 95.4%;
- A breakdown of the areas visitors to Lincoln Castle were from was requested;
- In relation to targets for local suppliers, the Local Authority had to be quite careful about the best way to review procurement regulations. Within the new regulations, it was stated that advertisements for new contracts must be done nationally whereas previously, Authorities had the discretion to do this more locally;
- Procurement was not always undertaken centrally but those involved in the process did understand the importance of local companies. It was key to remain within the legal guidelines although the Committee was reassured that, where legally possible, local companies would be considered also. It was stressed that some contracts could be localised whereas others could not;
- Some procurement frameworks were selected randomly and, as a competitive process, it was for the companies themselves to ensure they get on to that framework;

**VALUE FOR MONEY SCRUTINY COMMITTEE
23 JUNE 2015**

At 11.00am, Councillor P M Dilks left and did not return.

- Assurance was requested that the Local Authority had referred academies to the Regional Schools Commissioner where performance was poor or not improving. Details of this would be provided after the meeting;
- Sick leave numbers had decreased and this was due to proactive work undertaken to support staff in returning to work. All managers were to undertake a return to work interview regardless of the length of time a member of staff has been away from work. Additionally, a supportive environment was encouraged with one-to-one support.
- Occupational Health had also been reprocurd and this had much improved, providing practical support to both the manager and member of staff. Where members of staff had identified a disability, they had found that this new provider was very knowledgeable and supportive;
- Colleagues had been reminded to report compliments as success needed to be celebrated. Any compliments for staff should be sent to line managers who would feed in to the process;
- The Committee had no additional comments to report to the Executive.

RESOLVED

That the report be noted.

6 TREASURY MANAGEMENT ANNUAL REPORT 2014/15

Consideration was given to a report from the Executive Director of Finance and Public Protection, which compared activity to the Treasury Management Strategy for 2014/15 and detailed issues which may have arisen in treasury management during that period.

Karen Tonge, Treasury Manager, introduced the report and confirmed that Chris Scott, the Council's Treasury Adviser, was also in attendance to answer any questions the Committee may have.

During discussion, the following points were noted:-

- The report considered the Council's total debt borrowing and compared this to the Authorised Limit for External Debt set for 2014/15. It was confirmed that this limit considered all planned borrowing requirements for the year ahead and also allows for a contingency sum to cover any risk of default of investments or temporary borrowing required for cashflow purposes. The limit was monitored throughout the year and reported to the Executive Director of Finance and Public Protection in the likelihood of a breach;
- A view was taken to pay all creditors on 31st March even if their invoices were not due in preparation for moving to the new Agresso Financial System from SAP. This decision impacted on the cashflow of the authority leaving a lower than usual investment balance at 31 March 2015;
- The Council's investment return outperformed the market benchmark by 0.25% largely achieved by lengthening the Weighted Average Maturity (WAM)

of investments held. The Credit Methodology set by Capita was not breached during the year. Capital had removed the Sovereign Support from its credit methodology to reflect change to legislation followed by the Credit Rating Agencies. The Council had altered its Lending List accordingly as a result.

RESOLVED

That the report be noted.

7 FUTURE DELIVERY OF SUPPORT SERVICES (FDSS)

Consideration was given to a report from the Chief Information and Commissioning Officer which provided an update on the outcomes of the work of the Future Delivery of Support Services (FDSS) Programme.

Judith Hetherington Smith, Chief Information and Commissioning Officer, introduced the report and invited comments from the Committee.

During discussion, the following points were noted:-

- In relation to the transition programme, a full consultation with staff was undertaken to ensure that services were not disrupted and that LCC continued to receive a successful service before and after 1st April 2015. All this information was written within the Project Brief;
- Following the transition of staff, the Local Authority had no ability to measure staff satisfaction of the process. The Customer Service Centre continued to measure customer satisfaction although this was now undertaken by Serco on behalf of the Council;
- The Agresso system was held in two separate data centres outside of Lincoln. A series of IT transformations were ongoing and gradually being moved from Lincoln to remote data centres. The higher the level of resilience provided the more costs they would incur. The work was expected to be concluded in March 2016 and the cost of the project work was included within the transformation activity within the Serco contract as was the cost of ongoing maintenance;
- The remote data centres were of a high standard and were used by other public sector organisations, including the Ministry of Defence;
- It was confirmed that Financial Accountancy had been brought in to the authority and that the Pensions Administration had transferred to West Yorkshire. The Property Services function had transferred to VinciMouchel and the Health and Safety team had come back to the Council;
- Agresso went live on 7th April 2015 following which a number of issues were raised and these were continuing. Two options were available for the April payroll, the first to rerun the March payroll from the BACS file or to run using Agresso. It was recognised that neither would provide a wholly accurate outcome. A balanced decision was taken, considering the risk involved following discussions with colleagues from internal audit, finance and Human Resources and that decision was to use the new Agresso system. Although all satisfactory testing had not been completed, it had been agreed that the

majority of staff wages would be processed accurately and would ensure that any errors could be dealt with more quickly and easily. Payrolls had been run in April, May and June with April and May being the most problematic. June had been more successful but did result in some issues. Unit 4 own Agresso and have provided the support for this, working closely together to resolve these issues and many of these have been resolved satisfactorily with the rest expected to be complete in July;

- Where staff were not on the payroll system and did not get paid or any kind of hardship felt by staff, arrangements were made to pay staff via a CHAPS payment. This also resulted in a significant impact to get those processed. It was acknowledged that some staff had been left angry and frustrated as a result of these issues but assurance had been given that everything possible was being done to rectify these issues to seek to ensure they did not happen again;
- Difficulty had also been seen with payment of suppliers and invoices due to issues which had not been anticipated. As previously mentioned, some payments had been made earlier than necessary before the changeover of the systems. The difficulty was that a lot of the invoices received did not have purchase order number and so it was difficult for them to contact the correct department for verification of the invoice. Business Support had provided support in order to help them to understand this in order to overcome the backlog and ensure payments could be made. Serco had made a firm commitment to clear the backlog of invoices by the end of June 2015;
- Schools were also using Agresso and were finding this difficult as it hadn't been working properly. Additionally, they felt that additional training was required.
- Critical invoice processing was implemented to assist any company who may be put in to difficulty as a result of the issues to ensure that payment could be made;
- Internal Auditing continued to work closely with the Agresso Team to ensure that these errors were rectified and measures put in place to avoid any further issues;
- There was a strong institutional memory and a number of those who were involved in this change were also involved in the previous change of system and, due to that previous experience, the transition had been smoother, despite the issues. System changes of this kind were vast and difficult and some issues were anticipated;
- Although the Agresso implementation did not go as smoothly as expected, the fundamental approach of the changeover was not wrong;
- A number of different problems had arisen and it was thought that Serco also underestimated the volume of work involved as well as not providing the correct skill levels to cope with this critical changeover period;
- The staff who TUPE'd from Mouchel was also a lot less than anticipated as they had been offered other jobs within Mouchel, resulting in Serco needing to recruit;
- It was suggested, and agreed, that Serco attend the meeting scheduled for September to address the Committee.

RESOLVED

1. That the report and update be noted;
2. That Serco be invited to attend the next meeting of the Value for Money Scrutiny Committee, scheduled for 22nd September 2015.

8 APPOINTMENT OF LOOKED AFTER CHILDREN/CARE LEAVER REPRESENTATIVE

Consideration was given to a report from Richard Wills, Director responsible for Democratic Services, which invited the Committee to appoint a Looked After Children/Care Leaver Representative for the Committee following approval of the Corporate Parenting Strategy.

Tracy Johnson, Scrutiny Officer, introduced the report and requested a volunteer from the Value for Money Scrutiny Committee.

Two of the Committee members had already volunteered as members of other Committees, Councillors Mrs J Brockway and P M Dilks. Councillor A G Hagues also could not volunteer as he was a member of the Corporate Parenting Panel and was already involved as a member of that Panel.

Following discussion, Councillor Mrs M J Overton MBE agreed to be the Value for Money Scrutiny Committee representative.

RESOLVED

That Councillor Mrs M J Overton MBE be the Looked After Children/Care Leaver representative for the Value for Money Scrutiny Committee.

9 VALUE FOR MONEY SCRUTINY COMMITTEE WORK PROGRAMME 2015

Consideration was given to a report of the Director responsible for Democratic Services which provided the Committee with the opportunity to consider the work programme for the coming year.

It was agreed to add Serco Contract Performance Management to the Work Programme for the September meeting.

No items were listed for consideration at the meeting scheduled for 28th July 2015 therefore it was suggested that the formal meeting be cancelled and a workshop held to consider the scrutiny of the new performance information. The workshop was proposed to be opened up to all Councillors. A session in relation to iPads and the paperless working was also suggested.

The Committee agreed and was keen to have a session regarding iPads as it was difficult to manoeuvre around the Modern.gov app especially if there were supplements published. Also, it was felt that having detailed tables on the projector screens may be helpful when considering documents.

8

**VALUE FOR MONEY SCRUTINY COMMITTEE
23 JUNE 2015**

RESOLVED

1. That the report be noted;
2. That the meeting scheduled for 28th July 2015 be cancelled and replaced with a workshop.

The meeting closed at 12.30 pm

**Open Report on behalf of the Chief Information and Commissioning Officer,
Judith Hetherington Smith**

Report to:	Value for Money Scrutiny Committee
Date:	21 September 2015
Subject:	Council Business Plan 2015/16 Performance Report, Quarter 1

Summary: To present Q1 data in a new style performance report against the Council Business Plan.

Actions Required:

Committee:

- Review, scrutinise and comment on Quarter 1 performance.

1. Background

Council Business Plan 2015/2016

In October Corporate Management Board supported a new Performance Management Framework for the Council which included a proposal to use infographics for performance reporting against the Council Business Plan. The Council Business Plan 2015/16 was approved by Council in February and has been organised around the 17 commissioning strategies.

New style performance reporting

The Council Business Plan 2015/2016 was developed as a simple, easy to read document with a view to using infographics to 'bring the plan to life' as part of a new style performance report. During July feedback was received on proposals for infographics from Corporate Management Board, Informal Executive and a workshop for Elected Members. This feedback has informed the infographics used to display Q1 performance. The infographics are designed to aid effective review and scrutiny of performance and inform decision making.

Feedback from Elected Members on a new style of performance reporting

Feedback has been positive. Members at the workshop specifically liked that:-

- The infographics show trends in performance;
- What is and is not being achieved is identified easily;
- The infographics provide a better balance with the big picture and detail between the commissioning strategies, targets and how we have performed.

Quarter One

The purpose of reporting Q1 data, where it is available, to scrutiny committee is to allow committee to review and scrutinise performance using infographics. The aim is for all of the information in the infographics to be self-explanatory so that whatever is presented to committee should not need explaining. This way of reporting is new and still in development so please do bear this in mind when reviewing and scrutinising Q1 performance.

Performance for the Value for Money Scrutiny Committee

VFM Committee's role as defined in the constitution is the review and scrutiny of measures within the remit of the Committee and all measures in the Council Business Plan by exception. Due to the extent of change in our key suppliers and systems during this year we do not have data available to report in Q1 for the measures within the remit of this Committee. However Value for Money Committee will be joining the Audit Committee on the morning of 21st September for an update report on Agresso and there is a Property update report on the Agenda of the VFM committee. Appendix A lists the measures in the Council Business Plan that are within the remit of this scrutiny committee.

Other scrutiny committees will have met to discuss Q1 performance within their remit before the VFM Committee meeting on 21st September and feedback will be tabled at the VFM meeting.

Meeting dates for other committees are as follows:-

Committee	Meeting date
Community and Public Safety	2nd September
Environmental	4th September
Economic	8th September
Adults	9th September
Children and Young People	11th September
Highways and Transport	14th September

Web based reporting and paper reports

Although ideally we would want to reduce the amount of paper used to present performance information and encourage Elected Members to use technology to view the infographics we have also produced paper based reports for Q1 for scrutiny committees as we develop web based technology to present performance information. A web based presentation of Q1 data (where available) for measures in the Council Business will be available at the VFM Committee meeting on 21st September.

2. Conclusion

Due to the extent of change in our key suppliers and systems during this year Q1 data for the commissioning strategies within the remit of the VFM Committee is not available, however an over view of the new style performance report will be presented at the VFM Committee meeting to demonstrate how this will assist effective review and scrutiny of performance.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report

Appendix A	Council Business Plan 2015/16 measures within the remit of the Value for Money Scrutiny Committee
------------	---

5. 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.

This page is intentionally left blank

We effectively target our resources so that individuals and communities experience the desired benefits and results

Commissioning Strategies	Outcomes Outcomes are the results or benefits for individuals, families, groups, communities, organisations or systems. Outcomes reflect priorities and resources are allocated to achieve stated outcomes.	Measures Measures are how we will monitor and report progress in achieving the outcome.
<p>How we do our business</p> <p>Enablers to the business</p> <p>Partnership engagement and support</p> <p>These three commissioning strategies have been grouped together as they provide the corporate framework within which the Council works, supports other commissioning strategies and carries out its business.</p>	Effective financial and management accounting arrangements	Unqualified annual external audit opinion on the financial statements (Annual Measure) Accountancy service reconfigured to meet the future needs of the council Successful implementation of Aggresso Planning for the next spending review including maintenance of a 4 year financial model
	General reserves maintained within parameters set by the financial strategy	General reserves are 2.5% to 3.5% of the annual budget requirement net of dedicated schools grant
	Maintenance of an adequate governance, risk internal control, regime	Unqualified annual external audit opinion on the Council's Value for Money (Annual Measure) Audit plan, including monitoring through the Audit Committee (This includes Executive Directors assurance statement within their combined assurance report) (Annual Measure) Annual governance statement by the Audit Committee (Review of Council's governance, risk and control framework and assurance arrangements) (Effective or ineffective) (Annual Measure)
	Maximise the organisational strength, capacity, resilience and wellbeing to deliver the Council's strategic objectives through people	Reinforce the Council's commitment to be a good employer through improved employee feedback through the development of staff survey Employee turnover Sickness absence
	Get better value from our use of land and buildings by assessing performance	Progression towards £1 million savings by March 2019 Progression towards the annual capital receipts target
	Staff are made aware of their information governance responsibilities	Percentage of staff who have successfully undertaken information governance training within a 12 month period (Annual measure) Percentage of information governance framework policies reviewed and updated within a 12 month period (Annual measure)
	Improve and support staff understanding of information risks and the impact of data breaches	Reported data breaches (Annual measure) Reported data breaches which are the result of human error (Annual Measure) Reported data breaches resulting from a reoccurrence of process failure (Annual Measure)
	Develop the enterprise approach to information governance/assurance to ensure external compliance requirements are met	Successful submission of the Department of Health information Governance toolkit (annual requirement) Categories of performance are Compliant/Not compliant/Improvement required Successful IMT submission of the Cabinet Office public services network code of connection (annual requirement) Categories of performance are Compliant/Not compliant/Improvement required
	New support services partnership contracts perform effectively and efficiently to allow the Council to achieve its commissioning outcomes	Achievement of key performance indicators for the Council Business Plan within the SERCO contract
		Achievement of key performance indicators for the Council Business Plan within the VINCI Mouchel contract (Property Services)
		Management of the customer interface and customer experience through service compliments, complaints, ombudsman complaints and Customer Service Centre key performance indicators

This page is intentionally left blank

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

Report to:	Value for Money Scrutiny Committee
Date:	21 September 2015
Subject:	Treasury Management Update 2015/16 -Quarter 1 Update Report to 30 June 2015

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 the 1st quarter of 2015/16 to 30 June 2015, comparing this activity to the Treasury Management Strategy for 2015/16, approved by the Executive Councillor for Finance on 23 March 2015. 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 30th June 2015:

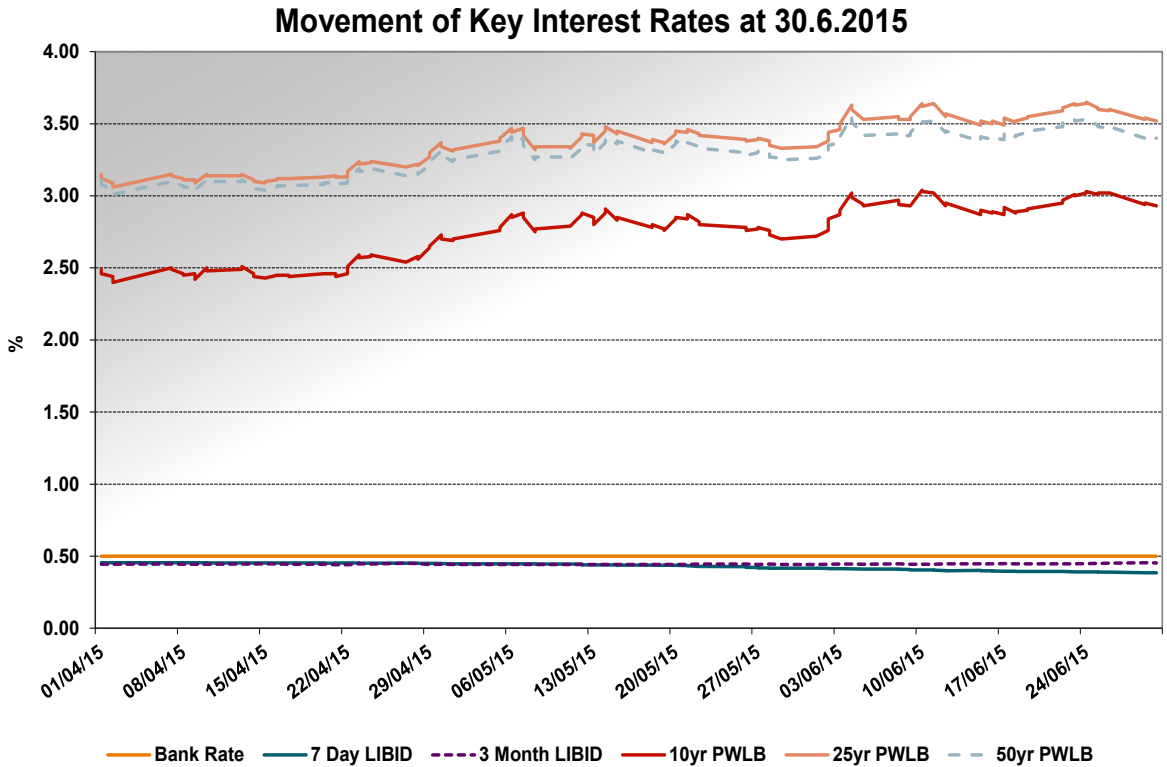
- Interest rate review, economic overview and revised interest rate forecast.
- Annual investment strategy/ authorised lending list changes during the quarter.
- Investment position and comparison with strategy.
- Borrowing & debt rescheduling position and comparison with strategy

2. Interest Rate Review, Economic Overview and Revised Interest Rate Forecast to 30th June 2015

2.1. At the time of setting the Strategy in February 2015, the markets were forecasting short-term Bank Rate to increase to 0.75% from 0.50% in the last quarter of the financial year for the first time since 2008 in response to the low inflation strong growth environment in the UK.

2.2. Long term rates were forecast to rise over 2015/16 by around 0.50%, but remain extremely volatile and difficult to predict due to upside and downside external market influences.

2.3. The graph below shows the actual movement of both UK long term and short term interest rates over the first three months of 2015/16.



2.4. The graph shows that short term rates have remained flat over the quarter as expected and long term rates have risen by around 0.40% from a low dip at the start of the year, bringing them back to forecast levels.

2.5. Economic Background -The quarter ended 30th June 2015 saw the following:

- UK GDP growth was strong in 2014 at 3.0%. Quarter 1 of 2015 was disappointing at only 0.4%. The Bank of England reduced its GDP forecast for 2015 from 2.9% to 2.5% and from 2.9% to 2.7% in 2016.
- Retail sales over Quarter 2 as a whole look to have risen by 0.9%, matching the rise in Quarter 1.
- The unemployment rate fell to 5.5%, not far above pre-crisis levels and the employment rate is the highest since records began. Because of this wage growth is picking up (2.7% in April), with the subdued outlook for inflation underpinning real wage growth.
- Deflation lasted just one month. CPI inflation rose from -0.1% in April to +0.1% in May, reflecting the slower pace of falls in food prices and a rebound in petrol prices and an appreciation of sterling, rather than weakness in demand. Inflation looks set to hover just above zero for the next six months and would not take much to tip back into deflation. The low inflation environment does not appear to be affecting general spending decisions.
- There is no rush to raise interest rates by the Monetary Policy Committee due to the low interest rate environment. The next raise not now being predicated until June 2016.
- Uncertainties have started over the referendum on the UK's membership of the European Union which could happen in 2016 and could hinder the UK's economic recovery going forward.
- The possible exit of Greece from the Eurozone continues to be a concern which could lead to market instability worldwide.

2.6. Capita Asset Services Ltd, the Councils treasury advisors, have recently provided its latest forecast for interest rates, following the Bank of England's (BoE's) Quarterly Inflation Report in August 2015, as follows:

	NOW	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
BANK RATE	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75	1.75
3 month LIBID	0.46	0.50	0.60	0.70	0.80	0.90	1.10	1.30	1.40	1.50	1.80	1.90	1.90
6 month LIBID	0.63	0.70	0.80	0.90	1.00	1.10	1.30	1.50	1.60	1.70	2.00	2.10	2.10
12 month LIBID	0.94	1.00	1.10	1.20	1.30	1.40	1.60	1.80	1.90	2.00	2.30	2.40	2.40
5 yr PWLB	2.19	2.30	2.40	2.50	2.60	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50
10 yr PWLB	2.77	2.90	3.00	3.20	3.30	3.40	3.50	3.70	3.80	3.90	4.00	4.10	4.20
25 yr PWLB	3.31	3.40	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60
50 yr PWLB	3.17	3.40	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60

The forecast shows that the first increase in Bank Rate has been pushed forward to June 2016 from March 2016 and the forecasted increase in longer term PWLB rates interest rate have been pegged back by around 0.20%. Capita have also revised their target levels for new borrowing to 2.30% (5 year), 2.90% (10 year) and 3.40% (25y to 50yr), from 2.20%, 2.80% and 3.40% respectively, as recorded in the Strategy in March.

Capita stress that caution must be exercised in respect of all interest rate forecasts at the current time with risks of upward and downward movement evenly balanced. Some of this risks are detailed below:

Downside Risks: (Rates Falling)

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth is weaker than is anticipated.
- 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.

Upside Risks: (Rates Increasing)

- Uncertainty around the risk of a UK exit from the EU.
- The ECB severely disappointing financial markets with a programme of asset purchases (QE), which proves insufficient to significantly stimulate growth in the Eurozone.
- The commencement by the US Federal Reserve of increases in the Fed. Funds rate in 2015, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to 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.

3. Annual Investment Strategy/ Authorised Lending List Changes to 30th June 2015

3.1. The Council's Annual Investment Strategy was approved, along with the Treasury Strategy, by the Executive Councillor for Finance on 23rd March 2015 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 minimum A+ Long Term Rating (Fitch) and AAA Sovereign Rating, (two out of three agencies), 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. Capita's credit methodology concentrates solely on Short Term and Long Term ratings and is in line with the Credit Rating Agencies, who have removed the uplift in ratings they give to institutions from implied levels of sovereign support, which they feel will no longer be there going forward.

3.4. As part of the Annual Investment Strategy for 2015/16, the minimum Long Term Rating requirement was reduced to A+ from AA- to mitigate the expected reduction in credit ratings of institutions by Rating Agencies in 2015 as a result of the banking legislation leading to the sovereign support withdrawal.

3.5. The table below details changes to the Authorised Lending List during the first quarter up to 30th June 2015, primarily as a result of these changes to the lower minimum requirements.

Counterparty	Action	Reason
Westpac Banking Corporation (Australia)	Addition: Limit £20m / 364 Day.	Revised Credit Methodology.
Nordea Bank (Finland)	Addition: Limit £20m / 364 Day.	Revised Credit Methodology.
Nordea Bank (Sweden)	Addition: Limit £20m / 364 Day.	Revised Credit Methodology.
Pohjola Bank (Finland)	Addition: Limit £20m / 364 Day.	Revised Credit Methodology.
DZ Bank (Germany)	Addition: Limit £20m / 364 Day.	Revised Credit Methodology.
Landwirtschaftliche Rentenbank (Germany)	Addition: Limit £25m / 24 Months.	Revised Credit Methodology.
NRW Bank (Germany)	Addition: Limit £25m / 24 Months.	Revised Credit Methodology.

Clearstream Banking (Luxemberg)	Addition: Limit £25m / 24 Months.	Revised Credit Methodology.
Bank Nderlande Gemeenten (Netherlands)	Addition: Limit £25m / 24 Months.	Revised Credit Methodology.
Rabobank (Netherlands)	Addition: Limit £20m / 364 Days.	Revised Credit Methodology.
Nederlandse Waterschapsbank (Netherlands)	Addition: Limit £25m / 24 Months.	Revised Credit Methodology.
DnB Bank (Norwegian)	Addition: Limit £20m / 364 Days.	Revised Credit Methodology.
Skandinaviska Enskilda Banken (Sweden)	Addition: Limit £20m / 364 Days.	Revised Credit Methodology.
Swedbank (Sweden)	Addition: Limit £20m / 364 Days.	Revised Credit Methodology.
Bank of New York Mellon (USA)	Addition: Limit £25m / 24 Months.	Revised Credit Methodology.
JP Morgan Chase Bank (USA)	Addition: Limit £20m / 364 Days.	Revised Credit Methodology.
Northern Trust Company (USA)	Addition: Limit £20m / 364 Days.	Revised Credit Methodology.
State Street Bank (USA)	Addition: Limit £20m / 364 Days.	Revised Credit Methodology.
LloydsTSB Group (UK)	Removal From List	Loss of Part Nationalised Status

3.6. The Government brought down its holding in Lloyds Banking Group to below 20% in May 2015. As such Capita suggested that their Part-Nationalised status be removed from the Credit Methodology. Without this status the Bank does not meet the Council's minimum credit limit and hence was removed from the Lending List in May. Currently £40m is invested in the Lloyds Group, with Bank of Scotland, which will mature in March 2016. There is no concern over the non-repayment of this sum.

3.7. A full list of the investments held at 30th June 2015, compared to Capita's creditworthiness list, and changes to credit rating of counterparties during June 2015 are shown in Appendix B.

4. Investment Position to 30th June 2015 – Comparison With Strategy

4.1. The Council's investment position and cumulative annualised return at 30th June 2015 are detailed in the table below:

Investment Position At 30.06.15	Return (Annualised %)	Weighted Benchmark (Annualised %)	Outperformance
£238.320m	0.67%	0.39%	0.28%

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 6 months 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 0.67%. Several 364 day investments have been made during the quarter to take advantage of the enhanced yields offered. This has increased the investment portfolio weighted average maturity (WAM) slightly to 139 days at 30th June 2015 from 117 days at 31st March 2015. (Highlighted in Appendix B). The outperformance of the benchmark in the first 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 13 English Counties. The results of this benchmarking for the 1st quarter are detailed below, which shows that the Council's return was above that of the comparators, achieved by having a longer WAM. The Council's return is also above Capita's suggested risk banding achievable for the level of risk being taken on its investments.

Capita Benchmarking – Position at 30/6/2015			
	LCC	Benchmark Group(8)	English Counties (13)
30 June Return %	0.69%	0.68%	0.67%
Risk Banding	0.54% -0.65%	0.58% - 0.68%	0.60% -0.71%
WAM (days)	139	98	93

5. Borrowing & Debt Rescheduling Position to 30th June 2015 – Comparison with Strategy

5.1. The Council's external borrowing position at 30th June 2015 is detailed in the table below and shows no borrowing has been undertaken to date and the cost of the Council's debt is 4.148%.

Borrowing Position at 30.6.2015	Maturing Debt £m	Debt To Fund CapEX £m	Total £m	% Cost
Balance at 1.4.2015	0.0	461.453	461.453	4.147%
New Borrowing to 30.6.2015	0.0	0.0	0.0	
Borrowing Repaid to 30.6.2015	(5.000)	(0.677)	(5.677)	
Debt Rescheduling to 30.6.2015				
-Borrowing Repaid	0.0	0.0	0.0	
-Borrowing Replaced	0.0	0.0	0.0	
Balance at 30.6.2015	(5.000)	460.776	455.776	4.148%
Projected Further Borrowing Required in 2015/16 (net of internal borrowing CF)	0.0	73.862	73.862	
Projected Further Borrowing Repayments – Actual	(5.000)	(0.677)	(5.677)	
- Voluntary	(0.0)	(10.433)	(10.433)	
Projected Borrowing Position at 31.03.2016	(10.000)	523.528	513.528	
Authorised Limit For External Debt 2015/16			592.052	

- 5.2. The Strategy for 2015/16 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.
- 5.3. 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 £84.556m at 31st March 2015. A further £18.312m of internal borrowing will be made in 2015/16 to cover the 2014/15 carry forward of capital expenditure. Scope for further internal borrowing after this will be assessed throughout the year against current levels of cash.
- 5.4. 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 £51m). A limit is set on this type of borrowing to limit the amount of variability within the debt portfolio of debt repayment. The average cost of the Council's LOBO debt is 3.99%.
- 5.5. No debt rescheduling activity of existing debt has taken place to 30th June 2015, 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).
- 5.6. Full Council, at its meeting on 20th February 2015, approved the Council's Prudential Indicators for 2015/16, 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 the first quarter to 30th June 2015.

2. Conclusion

Short Term Interest Rates have remained flat, whilst long term rates rose over the quarter. Weakness in growth and inflation have lowered and pushed forward expected increases in rates during 2015/16. The Council's investment return is

outperforming the market benchmark by 0.28% and also the Capita benchmarking comparators. The WAM has increased slightly in the first quarter as a result of making a series of 1 year investments in the period. The cost of the Council's borrowing is still 4.138%. No external borrowing has been taken to date.

3. 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.

4. 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 June 2015 - Capita Asset Services Ltd

5. 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 2015/16 23/3/2015	Lincolnshire County Council, Finance and Public Protection
Council Budget 2015/16 and Capital Programme Change 2014/15 - 20/02/2015	Lincolnshire County Council, Finance and Public Protection

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

This page is intentionally left blank

LINCOLNSHIRE COUNTY COUNCIL LENDING OF TEMPORARY SURPLUSES

Country		Lending Limit £m	Maturity Limit	# Watch/ Outlook Adjusted		FITCH IBCA Credit Rating Long Term	Sovereign	For Tre: CDS Overlay	
	1 Other Local Authorities	20 each	24 Months						
	2 Debt Management Account Deposit Facility	50	6 Month						
	3 UK Banks :								
	# HSBC Group	20	364 Day						
UK	HSBC Bank Plc	20	364 Day	364 Day	SB	AA-	AA+	364 Day	
	HSBC Evergreen Notice Account	20	364 Day						
	# RBS Group - Part Nationalised	40	364 Day						
UK	National Westminster Plc	40	364 Day		NO	A	AA+		
	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		NO	A	AA+		
UK	Standard Chartered Bank	20	364 Day	364 Day	NO	AA-	AA+	364 Day	
UK	Bank of New York (International) Mellon Ltd	20	364 Day	364 Day	FO	AA-	AA+	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	
AUS	Westpac Banking Corporation	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	364 Day	
	# Nordea Group	20	364 Day						
FIN	Nordea Bank Finland	20	364 Day	364 Day	SB	AA-	AAA	364 Day	
SWE	Nordea Bank AB	20	364 Day	364 Day	SB	AA-	AAA	364 Day	
FIN	Pohjola Bank	20	364 Day	364 Day	SB	A+	AAA	364 Day	
GER	DZ Bank AG	20	364 Day	364 Day	SB	AA-	AAA	364 Day	
GER	Landwirtschaftliche Rentenbank	25	24 Months	24 Months	SB	AAA	AAA	24 Months	
GER	NRW Bank	25	24 Months	24 Months	SB	AAA	AAA	24 Months	
LUX	Clearstream Banking	25	24 Months	24 Months	SB	AA	AAA	24 Months	
NETH	Bank Nederlande Gemeenten	25	24 Months	24 Months	SB	AA+	AAA	24 Months	
NETH	Cooperative Centrale Raiffeisen Boerenleenbank BA (Rabobank)	20	364 Day	364 Day	SB	AA-	AAA	364 Day	
NETH	Nederlandse Waterschapsbank	25	24 Months	24 Months	SB	AA+	AAA	24 Months	
NOR	DnB Bank	20	364 Day	364 Day	SB	Aa2	AAA	364 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	
SWE	Skandinaviska Enskilda Banken AB	20	364 Day	364 Day	FO	A+	AAA	364 Day	
SWE	Swedbank AB	20	364 Day	364 Day	FO	A+	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 Account	20	364 Day	364 Day					
	Svenska Handelsbanken- 10 Day Notice Account	20	364 Day	364 Day					
	Svenska Handelsbanken- Call Account	20	364 Day	364 Day					
USA	Bank of New York Mellon	25	24 Months	24 Months	SB	AA	AAA	24 Months	
USA	JP Morgan Chase Bank	20	364 Day	364 Day	SB	AA-	AAA	364 Day	
USA	Northern Trust Company	20	364 Day	364 Day	SB	AA-	AAA	364 Day	
USA	State Street Bank and Trust Company	20	364 Day	364 Day	SB	AA	AAA	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 D Forbes /J Ray / K Tonge / N Kay.								
	Revised: 29th June 2015								

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 A+ 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.

A - High Credit Quality - Low expectation of credit risk. Strong capacity for timely payment of financial commitments. More vulnerable to adverse business or economic conditions.

“+” 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 of AAA from a minimum two out of three Credit Rating Agencies 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 (Moody's)

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.

Capita 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.

This page is intentionally left blank

Lincolnshire County Council
Monthly Investment Analysis Review
June 2015



Monthly Economic Summary

General Economy

June has been an eventful month with market volatility ramping up as onshore Chinese equity markets took a tumble of 20% to enter “bear market” territory and concerns over a Greek default peaked. This saw investors opting for safe-havens flows resulting in downward pressures on UK gilt yields in the latter stages of the month. Elsewhere, in the US, strong Non-Farm payrolls for May resulted in a renewed confidence in the economy’s growth placing an increased likelihood of a first rate rise in September 2015.

The Bank of England kept interest rates on hold at a record low of 0.5% in June as it waits to see how quickly Britain’s economy recovers from the slowdown. The Monetary Policy Committee (MPC) agreed that the path for UK monetary policy would depend on which path inflation takes and would not be determined by the actions of other central banks.

UK quarter-on-quarter GDP for the first three months of the year was revised up, to 0.4 percent, from the previous estimate of 0.3 percent. Growth in year-on-year terms was also revised up, to 2.9 percent, from 2.5 percent. These positive revisions were driven mostly by a 4.5 percent increase in household disposable income and a boost in the construction industry. However, the boost in construction is partly due to revised methods of measuring output.

Domestic consumer-level inflation turned positive in May (+0.1% year-on-year) after falling below zero in April, being mostly driven by a recovery in global oil prices. However, forecasters still expect inflation to remain low for the remainder of 2015 as a number of deflationary pressures will continue to weigh on overall prices.

In its latest reading, UK workers’ pay grew more than expected in the three months to April helping to push the sterling to a seven year high trading at \$1.5930. Total weekly average earnings in the three months to April including bonuses rose by 2.7 percent, its fastest rate in almost four years. The Bank of England is keeping a close eye on wage growth as it considers on when to start raising interest rates as sustained strength in this can typically lead to increased consumer demand and a subsequent general rise in prices. In addition to the wage data, the latest employment statistics also showed that the number of people in work rose by 114,000 in the three months to April, whilst the number of people claiming job seekers allowance fell by 6,500 in May.

UK manufacturing PMI activity survey headline rate eased modestly higher in May, expanding from April’s seven month low of 51.8, to 52.0. Despite the improvement, the sector looks set to cause a minor drag on the economy in Q2 due to the combination of a strong pound and weak business investment. In contrast the services PMI suffered a slowdown in May, suffering - its sharpest month-to-month fall in four years. The services PMI slipped back to 56.5 in May down from April’s figures of 59.5. Nevertheless, the headline rate still suggests activity is growing within the sector.

Strong growth from income tax receipts in May helped drive government borrowing down to £10.13bn from last year’s figure of £12.35bn. The boost in income tax was driven by a proportionally higher rate of high rate earners within employment in the UK. This month’s figures show public finances are finally starting to benefit from the past year’s robust economic growth, which, therefore, could potentially pave the way for a less aggressive stance on spending cuts.

Retail Sales in May (on a month-on-month basis) slowed sharply after last month’s strong growth. However retail sales volumes in May still rose by 0.2% and, compared to the same period a year earlier, retail sales were up 4.5%. On the whole, sales are on track to be up by 0.9% on the previous quarter and should make a strong contribution to Q2 GDP growth.

In the US, job growth grew sharply in May. Nonfarm payrolls increased by 280,000, its largest gain since December 2014. On the back of this the unemployment rate rose to 5.5 percent in May coming from April’s near seven low of 5.4 percent. While seemingly at odds, the rise in the unemployment rate was indicative of more people actively looking for jobs, rather than continue to give up trying to find work. Payrolls for March and April were revised to show 32,000 more jobs were created than previously estimated. Couple that with the eight cent gain in average hourly earnings the data supported the view of a possible September rate hike.

The Greek government in June decided to implement capital controls over their banks, limiting account withdrawals to €60 a day. In addition to this, the Greek prime minister made the decision to call a referendum on whether the country should accept the bailout terms being proposed by its creditors. However, this referendum may be invalid as it will not be held until 5th July and Greece’s current bailout expires on Tuesday 30th June. As well as this, their creditor’s proposal for a new deal will also expire on Tuesday 30th therefore meaning Greece will have

Currency

Sterling opened the month at \$1.52 against the US dollar and steadily increased to reach \$1.57. Against the Euro, sterling opened the month at €1.40 and closed at €1.41.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in June. They expect the first Bank Rate increase to come in Q2 2016.

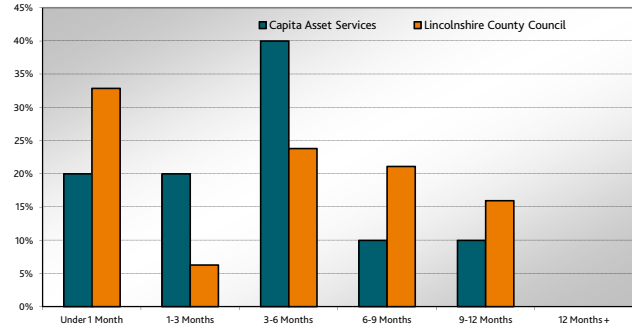
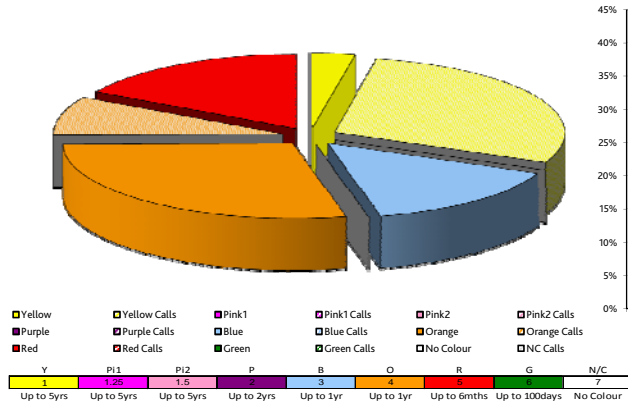
Bank Rate	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.75%

Lincolnshire County Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	8,925,000	0.41%		MMF	AAA	0.000%
MMF Aberdeen	20,000,000	0.45%		MMF	AAA	0.000%
MMF Standard Life	20,000,000	0.48%		MMF	AAA	0.000%
MMF Insight	19,435,000	0.43%		MMF	AAA	0.000%
HSBC Bank Plc	10,000,000	0.61%		Call30	AA-	0.001%
HSBC Bank Plc	10,000,000	0.67%		Call90	AA-	0.002%
Standard Chartered Bank	5,000,000	0.70%	31/03/2015	30/09/2015	A+	0.016%
United Overseas Bank Ltd	5,135,000	0.58%	10/04/2015	12/10/2015	AA-	0.002%
Bank of Scotland Plc	2,750,000	1.00%	27/10/2014	26/10/2015	A	0.020%
DBS Bank Ltd	5,000,000	0.57%	24/04/2015	26/10/2015	AA-	0.002%
Standard Chartered Bank	5,000,000	0.71%	29/04/2015	29/10/2015	A+	0.021%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	6,000,000	0.61%	30/04/2015	30/10/2015	A+	0.021%
The Royal Bank of Scotland Plc	2,825,000	0.92%	05/11/2014	04/11/2015	BBB+	0.052%
DBS Bank Ltd	5,000,000	0.58%	05/05/2015	05/11/2015	AA-	0.002%
DBS Bank Ltd	5,000,000	0.58%	29/05/2015	30/11/2015	AA-	0.003%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	5,000,000	0.63%	29/05/2015	30/11/2015	A+	0.026%
Standard Chartered Bank	5,000,000	0.71%	12/06/2015	11/12/2015	A+	0.028%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	24/12/2014	23/12/2015	AA+	0.003%
DBS Bank Ltd	5,000,000	0.61%	23/06/2015	23/12/2015	AA-	0.003%
Bank of Scotland Plc	5,000,000	0.80%	09/04/2015	08/01/2016	A	0.033%
Standard Chartered Bank	5,000,000	0.80%	24/04/2015	25/01/2016	A+	0.036%
Bank of Scotland Plc	10,000,000	1.00%	16/02/2015	15/02/2016	A	0.039%
Bank of Scotland Plc	10,000,000	1.00%	02/03/2015	29/02/2016	A	0.041%
Bank of Scotland Plc	7,250,000	1.00%	04/03/2015	02/03/2016	A	0.042%
Skandinaviska Enskilda Banken AB	6,000,000	0.71%	03/06/2015	03/03/2016	A+	0.042%
Doncaster Metropolitan Borough Council	2,000,000	1.10%	13/03/2014	14/03/2016	AA+	0.005%
Bank of Scotland Plc	5,000,000	1.00%	23/03/2015	21/03/2016	A	0.045%
The Royal Bank of Scotland Plc	10,000,000	0.91%	09/04/2015	07/04/2016	BBB+	0.116%
The Royal Bank of Scotland Plc	7,175,000	0.91%	15/04/2015	13/04/2016	BBB+	0.119%
Skandinaviska Enskilda Banken AB	5,825,000	0.80%	27/04/2015	25/04/2016	A+	0.051%
The Royal Bank of Scotland Plc	5,000,000	0.90%	14/05/2015	12/05/2016	BBB+	0.131%
The Royal Bank of Scotland Plc	10,000,000	0.93%	22/06/2015	20/06/2016	BBB+	0.147%
Total Investments	£238,320,000	0.69%				0.030%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



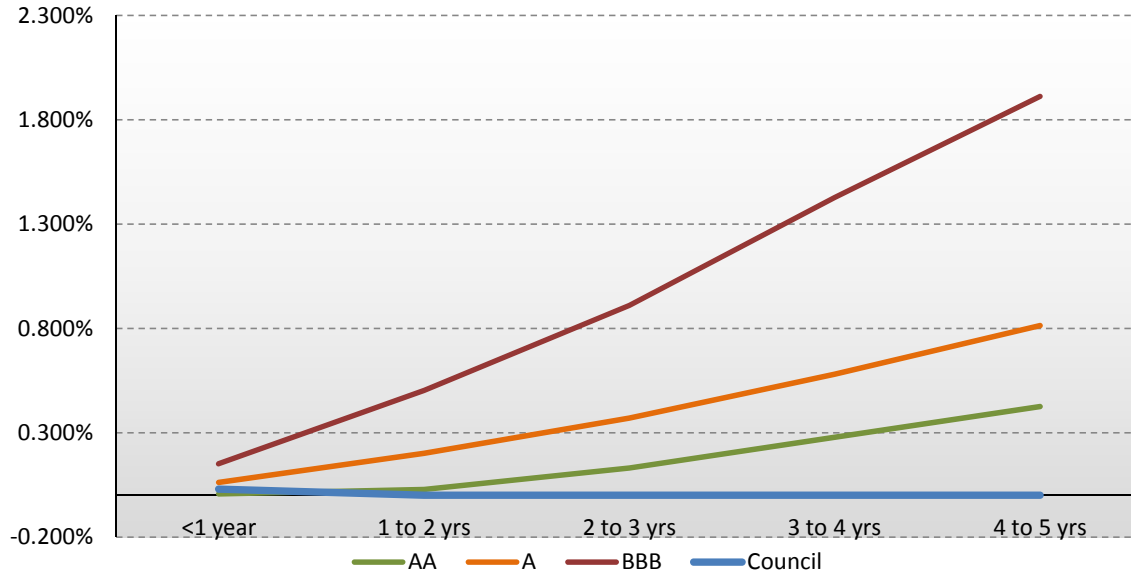
Portfolios weighted average risk number = **3.07**

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	WAM at Execution
Yellow	31.62%	£75,360,000	90.71%	£68,360,000	28.68%	0.49%	19	44	199	469
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	14.69%	£35,000,000	0.00%	£0	0.00%	0.92%	297	364	297	364
Orange	36.91%	£87,960,000	22.74%	£20,000,000	8.39%	0.66%	139	179	163	214
Red	16.78%	£40,000,000	0.00%	£0	0.00%	0.98%	228	353	228	353
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
Total	100.00%	£238,320,000	37.08%	£88,360,000	37.08%	0.69%	139	192	213	298

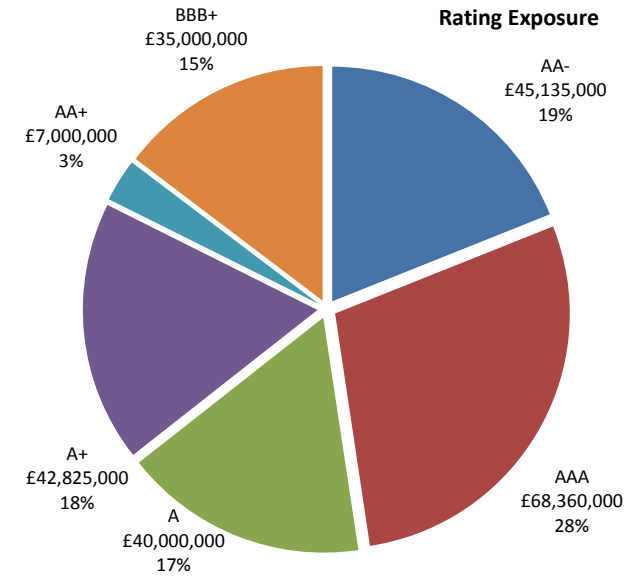
Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



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	0.007%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.030%	0.000%	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
04/06/2015	1357	Skipton Building Society	UK	Long Term Rating upgraded to 'BBB+' from 'BBB', Outlook changed to Stable from Positive. Short Term Rating Affirmed at 'F2', Viability Rating upgraded to 'bbb+' from 'bbb', Support Rating Affirmed at '5'
09/06/2015	1363	Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	Netherlands	Long Term Rating Affirmed at 'AA-', Outlook changed to Stable from Negative. Short Term Rating Affirmed at 'F1+'
23/06/2015	1370	Credit Industriel et Commercial	France	Long Term Rating Affirmed at 'A+', Stable Outlook. Short Term Rating Affirmed at 'F1'. Viability Rating Affirmed at 'a+'. Support Rating Downgraded to '5' from '1'
23/06/2015	1371	Credit Agricole Corporate and Investment Bank	France	Long Term Rating Affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating Affirmed at 'F1'
23/06/2015	1371	Credit Agricole SA	France	Long Term Rating Affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating Affirmed at 'F1'. Viability Rating Affirmed at 'a'. Support Rating Affirmed at '5'

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
04/06/2015	1356	Ulster Bank Ltd	UK	Long Term Rating upgraded to 'A3' from 'Baa3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating upgraded to 'P-2' from 'P-3', removed from Positive Watch
05/06/2015	1358	Abbey National Treasury Services Plc	UK	Long Term Rating upgraded to 'A1' from 'A2', Positive Watch. Short Term Rating affirmed at 'P-1'
05/06/2015	1358	Bank Of Scotland Plc	UK	Long Term Rating affirmed at 'A1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1358	Clydesdale Bank	UK	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-2'
05/06/2015	1358	Lloyds Bank Plc	UK	Long Term Rating affirmed at 'A1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1358	Lloyds Banking Group Plc	UK	Long Term Rating downgraded to 'Baa1' from 'A2', removed from Negative Watch and placed on Positive Outlook
05/06/2015	1358	Santander UK Plc	UK	Long Term Rating upgraded to 'A1' from 'A2', Positive Watch. Short Term Rating affirmed at 'P-1'
05/06/2015	1359	Coventry Building Society	UK	Long Term Rating upgraded to 'A2' from 'A3', removed from Positive Watch and placed on Positive Outlook. Short Term Rating upgraded to 'P-1' from 'P-2' removed from Positive Watch
05/06/2015	1359	Leeds Building Society	UK	Long Term Rating upgraded to 'A2' from 'A3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating upgraded to 'P-1' from 'P-2' removed from Positive Watch
05/06/2015	1359	Nationwide Building Society	UK	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1359	Nottingham Building Society	UK	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-2'
05/06/2015	1359	Skipton Building Society	UK	Long Term Rating upgraded to 'Baa2' from 'Baa3', Positive Watch. Short Term Rating upgraded to 'P-2' from 'P-3', removed from Positive Watch
05/06/2015	1359	West Bromwich Building Society	UK	Long Term Rating upgraded to 'B1' from 'B2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'NP'
05/06/2015	1359	Yorkshire Building Society	UK	Long Term Rating upgraded to 'A3' from 'Baa1', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'P-2'
05/06/2015	1360	BNP Paribas Fortis	Belgium	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1360	KBC Bank NV	Belgium	Long Term Rating affirmed at 'A2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
08/06/2015	1361	Finland Sovereign Rating	Finland	Sovereign Rating affirmed at 'AAA', Outlook changed to Negative from Stable
17/06/2015	1368	Danske Bank	Danmark	Long Term Rating upgraded to 'A2' from 'A3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating upgraded to 'P-1' from 'P-2', removed from Positive Watch
17/06/2015	1368	Nordea Bank Finland Plc	Finland	Long Term Rating affirmed at 'Aa3', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	DnB Bank	Norway	Long Term Rating upgraded to 'Aa2' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
17/06/2015	1368	Nordea Bank AB	Sweden	Long Term Rating affirmed at 'Aa3', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	Skandinaviska Enskilda Banken AB	Sweden	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	Swedbank AB	Sweden	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	Svenska Handelsbanken AB	Sweden	Long Term Rating upgraded to 'Aa2' from 'Aa3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	BayernLB	Germany	Long Term Rating affirmed at 'A3', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'P-2'
22/06/2015	1369	DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	Germany	Long Term Rating upgraded to 'Aa2' from 'A1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	Landesbank Baden Wuerttemberg	Germany	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	LandesBank Berlin AG	Germany	Long Term Rating affirmed at 'A1', removed from Negative Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	Landesbank Hessen-Thueringen Girozentrale (Helaba)	Germany	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating affirmed at 'A3', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'P-2'
22/06/2015	1369	UniCredit Bank AG	Germany	Long Term Rating upgraded to 'A2' from 'Baa1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating upgraded to 'P-1' from 'P-2', removed from Positive Watch
25/06/2015	1372	Banque et Caisse d'Eprgne de l'Etat	Luxembourg	Long Term Rating downgraded to 'Aa2' from 'Aa1', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
08/06/2015	1362	ING Bank NV	Netherlands	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
09/06/2015	1364	Commerzbank AG	Germany	Long Term Rating downgraded to 'BBB+' from 'A-', removed from Negative Watch and placed on Negative Outlook. Short Term Rating affirmed at 'A-2'
09/06/2015	1364	Deutsche Bank AG	Germany	Long Term Rating downgraded to 'BBB+' from 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating downgraded to 'A-2' from 'A-1', removed from Negative Watch
09/06/2015	1364	UniCredit Bank AG	Germany	Long Term Rating downgraded to 'BBB' from 'A-', removed from Negative Watch and placed on Negative Outlook. Short Term Rating affirmed at 'A-2', removed from Negative Watch
09/06/2015	1365	Bank of Scotland Plc	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	Barclays Bank plc	UK	Long Term Rating downgraded to 'A-' from 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating downgraded to 'A-2' from 'A-1', removed from Negative Watch
09/06/2015	1365	HSBC Bank plc	UK	Long Term Rating affirmed at 'AA-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1+', removed from Negative Watch
09/06/2015	1365	Lloyds Bank Plc	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	Lloyds Banking Group plc	UK	Long Term Rating upgraded to 'BBB+' from 'BBB', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'A-2'
09/06/2015	1365	Santander UK plc	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Negative Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	Standard Chartered Bank	UK	Long Term Rating affirmed at 'A+', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'
09/06/2015	1365	National Westminster Bank Plc	UK	Long Term Rating downgraded to 'BBB+' from 'A-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating 'A-2'
09/06/2015	1365	The Royal Bank of Scotland Plc	UK	Long Term Rating downgraded to 'BBB+' from 'A-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating 'A-2'
09/06/2015	1365	Ulster Bank Ltd	UK	Long Term Rating downgraded to 'BBB' from 'BBB+', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-2', removed from Negative Watch
09/06/2015	1365	Nationwide Building Society	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	HSBC Bank USA, N.A.	USA	Long Term Rating affirmed at 'AA-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1+', removed from Negative Watch
09/06/2015	1365	RBS Citizens, NA	USA	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative, Short Term Rating affirmed at 'A-2'
09/06/2015	1366	Credit Suisse AG	Switzerland	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
09/06/2015	1366	UBS AG	Switzerland	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
09/06/2015	1366	Credit Suisse International	UK	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'

Monthly Credit Rating Changes

S&P

09/06/2015	1366	UBS Ltd	UK	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
12/06/2015	1367	UK Sovereign Rating	UK	Sovereign Rating affirmed at 'AAA', Outlook changed to Negative from Stable
25/06/2015	1373	Swedbank AB	Sweden	Long Term Rating affirmed at 'A+', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
25/06/2015	1374	DnB Bank	Norway	Long Term Rating affirmed at 'A+', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'A-1'

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	Value for Money Scrutiny Committee
Date:	21 September 2015
Subject:	Property Services Contract update

Summary:

This report provides an update on the contract governance, mobilisation, transition, assurance and improvement framework of the Council's property services contract with VINCI mouchel.

Actions Required:

The Committee is asked to consider and comment on the report and progress made with the contract to-date.

1. Background

On 29th July 2014, the Value for Money Scrutiny Committee considered a report prepared for the Executive recommending that the Property Services contract with a 5 year saving of £2m be awarded to VINCI mouchel. The Committee supported the recommendations in the report.

The property services contract consists of three distinct work streams:

- 1) Development - strategy, estates & valuation and property records
- 2) Delivery – Capital projects
- 3) Operations - Hard and soft facilities management* see footnote.

Each work stream is led by Council Officers and they have a counterpart in VINCI mouchel.

In advance of the appointment of VINCI mouchel, Corporate Property restructured its service, aligning with the structure of the new contract prior to the contract mobilisation period.

* Hard facilities are the repairs and maintenance, and minor works carried out on properties.
Soft facilities include; cleaning, catering, waste management, grounds maintenance, pest control

2. Key components of the new contract

2.1 Governance

Effective governance is central to the successful implementation of the contract and a Mobilisation Steering Group was formed in September 2014. The Group, chaired by the senior managers of both parties, met on a weekly basis to coordinate and prioritise key activity. Since the 1st April 2015, the Group, renamed the Transition Steering Group, continues to track the progress of the areas that are still under development.

Routine management of the contract includes fortnightly joint meetings, chaired by the work stream leads.

Work stream leads report monthly to the Joint Management Board (JMB), chaired by the County Property Officer and attended by the VINCI mouchel senior managers. Senior level governance is provided through quarterly meeting of the Executive Board, attended by the Executive Director of Finance and Public Protection, the County Property Officer, the Operations Director of VINCI mouchel and Directors from Kier and VINCI Facilities. The Portfolio Holder for Property and Finance will be updated on a quarterly basis.

2.2 Service Manager Delegations

The Employer's representative, the Service Manager, is named in the contract as the County Property Officer. The form of contract enables contract management to be delegated appropriately to members of the Corporate Property team, allowing for close and effective management of the services being provided. The LCC Contract Manager oversees all service areas and contractual compliance and each work stream lead is responsible for their area, on behalf of the Service Manager. This formal management approach encourages ownership and management of risk at the appropriate level and clearly identifies an escalation route.

2.3 Property Database - Concerto

The property services contract uses Concerto which is an industry leading web-based property records system that enables Corporate Property to manage property data. As well as storing all key information about individual properties, it also has areas designated to each work stream, tracking the progress of all work orders, from repair teams to the activity of the professional services. Programmes and projects are managed on the system and the 'contract notices' section aids managing risks and their potential effects on a project. There is also a section for the management of contractual communications.

The focus during mobilisation was to ensure Concerto could deliver the Day-1 requirement. This consisted of a number of key actions that, if the system were to fail, would hinder the operation of the property contract, e.g. the correct allocation of suppliers or prioritisation of work requests. Day 1 requirements were delivered and, throughout mobilisation, the system has been continuously developed and improved, managed by VINCI mouchel with client input.

Through Corporate Property working closely with Corporate Audit, concerns over access security (identified by Leicester City Council) were brought to our attention. Leicester were invited to test LCC's system and the results have been positive, with no breach reported to date.

2.4 Communication

All activities and communications in Concerto leave an audit trail, enabling issues and processes to be logged and transparent. Analysis of the information is a key enabler of continuous improvement.

Contractual communication timelines, built into Concerto, ensure that responses are received and managed in a timely and efficient manner. Failure to do so can affect performance figures which, in turn, can jeopardise financial incentives. The contract response period for all matters is 14 days, unless otherwise agreed by both parties.

2.5 Service Delivery Plans

Each work stream developed a Service Delivery Plan during contract mobilisation. The Plan gives a detailed description of the scope of the service and how the contractor will deliver it. Regular reviews against these base-lined documents will prevent straying from the original content of the contract.

Modifications, through improvements or changes to the service, are managed by contractual processes.

2.6 Contract Management Manual

The Contract Management Manual was commenced during mobilisation and its development is well advanced and all key processes are documented. The Manual provides detailed guidance of how the contract is to be managed. It consists of a collection of key documentation, outlining core processes that can each be refined and updated. It also explains the reasoning behind decisions made in the early stages to inform future managers of the original intent.

2.7 Property Service Centre (PSC)

The Property Service Centre co-locates the previous 'helpdesk' with operational decision makers. This has led to timely and well-considered responses to the majority of calls or emails to the property services team. Some 92% of customer satisfaction surveys rate the service as good or very good. The target is 95% for year one.

The PSC concept was new to many of the staff that TUPE'd into the new role and there has been a great deal of work to change behaviour. Training and the refining of processes is ongoing.

2.8 Financial Reports

The three significant contractual financial reports are referred to below with the progress made to date.

- 1) **Budget Forecasting Reports.** VINCI mouchel are contracted to provide budget forecasts at five week intervals. Currently, data is provided from three sources, namely: Concerto, Connect (a Mouchel system) and Coins (a VINCI system). This requires manual entries from the VINCI mouchel commercial team. Development is ongoing to enhance communication between Concerto and the other systems,

making the process more efficient and transparent. The Council can interrogate parent company systems by request, under the terms of the contract. A full review of spend will take place in October 2015.

- 2) **Key Performance Indicators (KPIs).** KPI reporting is embedded in Concerto and most of the data is auto-generated. KPIs are reviewed quarterly to identify and improve low performance. The commercial elements of the contract are designed to give an incentive to deliver elements of the service under a target cost that was priced with the tender. Savings or overspend against these targets is split between parties; this is called the pain/gain share. Low performance can affect the contractor's share of any gains. Pain/gain assessments are carried out biannually; the first will occur at the end of September 2015. Examples of KPIs are
 - Pest Control - Surveys and reports completed and up to date for all required location
 - Accuracy of estimates for minor works - forecast cost v outturn cost
 - Employer's compliance with Control of Asbestos Regulations
- 3) **Low Service Damages (LSDs).** LSDs are a financial deduction of the fees that may be imposed on the Contractor for missing contractual targets in reactive maintenance response times and task completion dates. Initial reports have helped identify areas for improvement, ranging from incorrect prioritisation of tasks to a lack of familiarity with the IT systems. A detailed analysis and assessment of all incidents attracting damages has helped improve communication and processes. Subcontractors have been given the opportunity to discuss their performance and plans have been put in place between VINCI mouchel and the supply chain to monitor them. This assessment is carried out twice monthly.

3. Assurance and Improvement Framework

The Assurance and Improvement Framework is part of the Contract Management Manual and ensures that auditing is intrinsically linked to routine business processes and procedures. Corporate Property engaged with Corporate Audit in the early stages of mobilisation and has developed the framework. Early constructive challenge has resulted in a system which benefits from the automated audit trail of routine business, e.g. risk management. This is gradually being implemented in transition.

3.1 Key Principles

Key principles for audit and improvement are that it:

- 1) is carried out by and owned by Corporate Property and VINCI mouchel
- 2) includes internal auditing and peer review
- 3) is data and evidence driven
- 4) maximises use of data that is already collected for other purposes
- 5) includes external learning e.g. from the Lincolnshire Highways Alliance and wider industry
- 6) is accountable to the Executive & Joint Management Boards
- 7) provides constructive challenge
- 8) works with the Council's Internal Auditors

3.2 Scope

Areas that assurance and improvement will cover include:

- 1) commercial and financial
- 2) contractual
- 3) governance
- 4) operational
- 5) performance
- 6) processes and systems
- 7) risk management

3.3 Peer Review

A peer review will be conducted in October 2015 by an independent consultant who will report to the Joint Management Board. The plan is to synchronise these reviews with KPI reviews on a quarterly basis.

4. Conclusion

The Committee is asked to note progress to date. Corporate Property are continuing to deliver and identify further opportunities for efficiencies and savings.

5. Consultation

a) Policy Proofing Actions Required

N/A

6. Appendices

N/A

7. Background Papers


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

Please direct any questions raised by this report to Brian Goodwin, Contract Manager, who can be contacted on 01522 553 503 or by email at brian.goodwin@lincolnshire.gov.uk.

This page is intentionally left blank



Property Services contract update
Value for Money Scrutiny Committee
21 September 2015



An update of the Council's property services contract
with VINCI mouchel

Contract governance

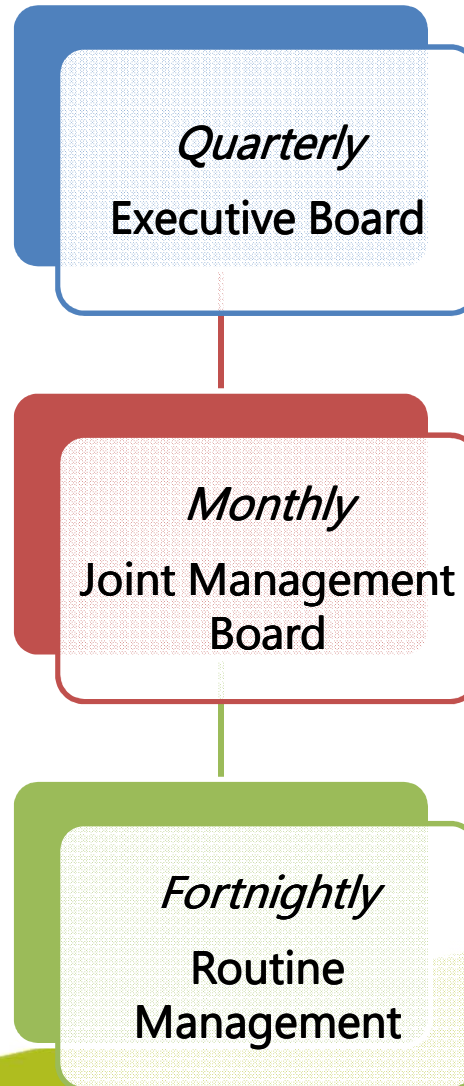
Mobilisation & Transition

Assurance & Improvement Framework

Background

- Contract awarded in July 2014 and commenced 1st April 2015
- Contract consists of three distinct work streams:
 - **Development** – strategy, estates & valuation and property records
 - **Delivery** – Capital projects
 - **Operations** – Hard and Soft facilities management

Governance



Property Database - Concerto

A records and data management system that supports the work and contract requirements

- Information about individual properties, tracks progress of work orders, programmes and projects
- Generates KPI report
- Assists with managing risks with 'contract notices'
- Supports the contractual communications
- Audit functionality

Services Delivery plans

- Service deliver plan for each workstream
- Detailed description of the service and how VINCI mouchel will deliver it
- Base line for regular review of service delivery

Property Service Centre

- Single point of contact for all property services
- Co-locates 'helpdesk' with operational decision makers leading to timely well considered responses
- 92% customer satisfaction to date

Financial Reports

Key activities;

- Budget Forecasting Reports at five week intervals
- Key Performance Indicators (KPIs) reviewed quarterly
- Low Service Damages (LSDs) twice monthly

KPI's

Performance Measures Summary - Providing a Safe, Efficient and Sustainable Property Contract

S. Ref	Section (SERVICE CATEGORY)	Overall % Total	Service (Area)	Service Area Weighting %	Service Area Score %	Overall Score %	Section Score	P/G Monitor	Target
1.0	Project Services	22.5%	Strategic Definition / Preparation and Brief (RIBA Stages 0 and 1)	60.0%	56.5%	12.7%	21.4%	95.0%	Under
			Design, Construction, Handover, Close Out and In Use (RIBA Stages 2 to 7)	40.0%	38.5%	8.7%			
2.0	Managed Services	15.0%	Property Service Centre	40.0%	35.6%	5.3%	13.6%	90.6%	Under
			Asbestos Management	20.0%	20.0%	3.0%			
			Legionella Control	20.0%	15.0%	2.3%			
			Management of Office Accommodation	20.0%	20.0%	3.0%			
3.0	Hard FM Services	22.5%	General Hard FM	25.0%	25.0%	5.6%	19.2%	85.2%	Under
			Planned Preventative Maintenance	40.0%	29.6%	6.7%			
			Reactive Maintenance	25.0%	22.0%	5.0%			
			Minor Works	10.0%	8.7%	1.9%			
4.0	Soft FM Services	22.5%	General Soft FM	30.0%	29.2%	6.6%	22.3%	99.2%	Under
			Cleaning	20.0%	20.0%	4.5%			
			Waste Management	20.0%	20.0%	4.5%			
			Grounds Maintenance	10.0%	10.0%	2.3%			
			Pest Control	10.0%	10.0%	2.3%			
			Catering	10.0%	10.0%	2.3%			
5.0	Other Property Services	12.5%	Property Records Management	20.0%	20.0%	2.5%	12.5%	100.0%	Over
			Estates Management and Valuation	30.0%	30.0%	3.8%			
			Energy & Environmental Management	25.0%	25.0%	3.1%			
			Management of Traveller Sites	15.0%	15.0%	1.9%			
			School Advice Scheme	10.0%	10.0%	1.3%			
6.0	General	5.0%	Customer Satisfaction	70.0%	70.0%	3.5%	4.4%	87.7%	Over
			Waste and Resources Action Programme (WRAP)	30.0%	17.7%	0.9%			

TOTAL	100.0%	93.3%
UNDER TARGET TRIGGER		Yes
PAIN / GAIN PERCENTAGE ADJUSTMENT		93.3%

KPI's

20 KPI's These include:

- Capital project performance
- Asbestos management
- Control of Legionella
- Cleaning
- Energy & Environmental management
- Management of travellers sites

Assurance & Improvement Framework

Key principles

- Data and evidence driven
- Undertaken and owned by Corporate Property and VINCI mouchel
- Peer review
- Includes external learning
- Accountable to Executive & Joint Management Boards

Areas covered

- Commercial & financial
- Contractual
- Governance
- Operational
- Performance & systems
- Risk management

Concerto Demonstration





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

Report to:	Value for Money Scrutiny Committee
Date:	21 September 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

This page is intentionally left blank

VALUE FOR MONEY SCRUTINY COMMITTEE

Chairman: Councillor Angela Newton

Vice Chairman: Councillor Jackie Brockway

2 p.m. 21 September 2015		
Item	Contributor	Purpose
2015/16 Council Business Plan Quarter 1	Jasmine Sodhi, Performance and Equalities Manager	Budget Scrutiny / Performance Scrutiny
Treasury Management Performance Quarter 1	Karen Tonge, Treasury Manager	Performance Scrutiny
Property Services Contract update	Kevin Kendall, Chief Property Officer	Update report
Serco Contract Performance – opinion of the Committee – EXEMPT	All Committee members	Performance Scrutiny

24 November 2015		
Item	Contributor	Purpose
Council Business Plan Quarter 2	Jasmine Sodhi, Performance and Equalities Manager	Budget Scrutiny / Performance Scrutiny
Treasury Management Performance Quarter 2	Karen Tonge, Treasury Manager	Performance Scrutiny
Property Services update	Kevin Kendall	Update Report
Corporate Health and Safety Annual Report 2014 - 15	Fraser Shooter, Corporate Health & Safety Adviser	Annual Report

26 January 2016		
Item	Contributor	Purpose
Budget Proposals 2016/17	David Forbes, County Finance Officer	Budget Scrutiny

Items to be scheduled;

Lincoln Castle Revealed – End of Project Review
People Strategy update

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

This page is intentionally left blank