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County Offices
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12 February 2016

Value for Money Scrutiny Committee

A meeting of the Value for Money Scrutiny Committee will be held on **Monday, 22 February 2016 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

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

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

VALUE FOR MONEY SCRUTINY COMMITTEE AGENDA
MONDAY, 22 FEBRUARY 2016

9	**Value for Money Scrutiny Committee Work Programme** *(To receive a report from Nigel West, Head of Democratic Services and Statutory Scrutiny Officer, which provides the Committee with the opportunity to consider its work programme for the forthcoming year)*	103 - 108

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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

Lincolnshire COUNTY COUNCIL
Working for a better future

VALUE FOR MONEY SCRUTINY COMMITTEE
26 JANUARY 2016

PRESENT: COUNCILLOR MRS A M NEWTON (CHAIRMAN)

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

Councillors: M J Hill OBE and M S Jones attended the meeting as observers

Officers in attendance:-

Paul Briddock (Partnership Director – Serco), Andrea Brown (Democratic Services Officer), David Forbes (County Finance Officer), Andrew Hancy (Business Support Manager (Management Side)), Judith Hetherington Smith (Chief Information and Commissioning Officer), Kevin Kendall (County Property Officer), Claire Machej (Head of Finance (Corporate)), Pete Moore (Executive Director of Finance and Public Protection) and Nigel West (Head of Democratic Services)

28 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies for absence were received from Councillor I G Fleetwood. There were no replacement members in attendance.

29 DECLARATIONS OF COUNCILLORS' INTERESTS

There were no declarations of Councillors' interests at this point of the proceedings.

30 MINUTES OF THE MEETING OF THE VALUE FOR MONEY SCRUTINY COMMITTEE HELD ON 24 NOVEMBER 2015

RESOLVED

That the minutes of the Value for Money Scrutiny Committee meeting held on 24 November 2015 be agreed as a correct record and signed by the Chairman.

31 REVENUE AND CAPITAL BUDGET PROPOSALS 2016/17

Consideration was given to a report from the Executive Director of Finance and Public Protection which described the budget proposals arising from the Provisional Local Government Settlement announced on the 17 December 2015. The report also included the implications for the Commissioning Strategies within the responsibility of the Value for Money Scrutiny Committee – *"How We Do Our Business"* and *"Enablers and Support to Council's Outcomes"*.

Claire Machej, Head of Finance (Corporate), guided the Committee through the report and invited relevant officers to introduce details of their own service areas.

David Forbes, County Finance Officer, introduced the Budget and Policy Framework –Finance and Audit (paragraph 1.11), Fisheries precept – Inshore Fisheries and Conservation Authority (IFCA) (paragraph 1.12) and Decision making, including Democratic Processes (paragraph 1.13).

During discussion of this section of the report, the following points were noted:-

- The Inshore Fisheries and Conservation Authority (IFCA) Board had two LCC elected members and a further 21 members;
- It was clarified that the penalties incurred by SERCO were within this financial year and further confirmed that the full amount of penalties available under the contract had been taken this year;
- The reduction in counter fraud activity may be avoided depending on the available wider initiatives as part of the local government finance settlement. The message received from Government was that if schemes could be developed to reduce county fraud activity, capital receipts could be used to support that work;
- In relation to internal audit, caution would be taken not to reduce the level of input too far as the external auditors had the ability to undertake the required level of internal audits themselves and invoice the local authority for that work which would prove more costly;
- Although the Government offered the local authority a four year deal, this presented a number of complications, advantages and disadvantages. The DCLG had suggested a clear and set format for DCLG grants but other grants were also available from other government departments. As a result, it was difficult to set a four year budget as the other Government departments had not offered a similar four year deal. The four year efficiency statement produced by local authorities was not expected to be required until September/October 2016 and, although it may be in the Council's best interest to do that, there were a number of uncertainties at the present time;
- It was confirmed that capital receipts within the revenue budget could also be used for other areas. This was currently out to consultation but, for the next three years, capital receipts could be used on capital expenditure designed to expand the business and reduce expenditure. For example, capital receipts could be used for redundancy charges;

Judith Hetherington Smith, Chief Information and Commissioning Officer, introduced the section on Information Management and Technology (IM&T) Strategy and Support (paragraph 1.16) where the focus was to negotiate with suppliers to reduce third party costs.

During discussion, the following points were noted:-

- Confirmation was received that the broadband project was completely separate to the IM&T budget. Broadband was a joint project with BDUK and funding was to be used for that project only;

- The savings would increase towards the end of the contract as the Council moved away from using its' own IT estate;
- It was asked why the costs were apportioned to 2016/17 rather than 2015/16 or 2014/15 and an explanation given that some of the actions had happened in those years but would continue into the next financial year also. Current contracts would be reviewed when the need arose for different technology and negotiations with suppliers to reduce costs wherever possible.

Kevin Kendall, County Property Officer, introduced the section on Property Strategy and Support (paragraphs 1.17 and 1.18) and explained that the staffing costs were to be reduced by 13% but this would also be on a rolling programme which would run in to the 2016/17 financial year.

During discussion, the following points were noted:-

- Community "Right to Buy" was run in conjunction with District Councils and Lincolnshire County Council had, in the past, leased buildings to local communities although this was dependent on individual circumstances;
- The county could also offer peppercorn leases but they were also dealt with on merit on a case by case basis. These types of leases were typically only entered into a small number of times each year and officers agreed to provide a full list for the Committee;
- Current focus was on rationalising office accommodation with consideration of possibly selling County Farms at a later date in order to generate capital receipts;
- Before sale of any property, a business case was undertaken where consideration was given to the comparison to sell or rent over a period of time. The renting option did not always generate the income as quickly as selling would but all options were considered on a case by case basis;

Judith Hetherington Smith, Chief Information and Commissioning Officer, introduced the section on Commissioning (paragraph 1.21) and explained that the savings had been made by removing vacant posts. The transformation fund would also be removed after this year and it was confirmed that the fund currently stood at £250k.

During discussion, the following point was noted:-

- The commissioning team was one of the teams who save the Council a considerable amount of money. A specialist commissioning team had been implemented, following the restructure last year, which had worked hard to generate millions of pounds of savings for the Council. It was acknowledged that the restructure of the team had generated a considerable amount of savings also.

Andrew Hancy, Business Support Manager (Management Side), introduced Business Support (paragraph 1.22) and advised that a number of methods were to be used to achieve the savings. The majority of the budget within Business Support was apportioned to staffing costs used to support different service areas and as those areas reshape and change, so would Business Support. For example, business support to Fire & Rescue had reduced by 20% following their restructure, with posts being removed as necessary. Consideration was also being given to reductions in corporate support budgets such as the removal of the courier service which would generate further savings.

During discussion, the following points were noted:-

- Concern was raised about the removal of the graduate scheme within the Council as it was thought that the work undertaken by Graduates would still need to be done by other staff but potentially at a higher cost. It was explained that there was a move to apprenticeships as a result of the Apprenticeship Levy. The levy was a requirement therefore there was a need to negate the impact of the levy by the savings made as a result of having an apprentice. At any one time there were approximately 30 apprenticeships and four graduate trainees;

The Head of Finance (Corporate) continued by introducing the section on Strategic Communications (paragraph 1.23). During discussion, the following points were noted:-

- It was suggested that the proposed saving of 0.89% did not appear to be at the same level as other savings proposed across the Council. It was explained that the Communications team had previously undergone a large restructure in 2011 where the team had reduced by nearly 50% although it was advised that the web team had since been disbanded and replaced with the smaller digital engagement team as part of the Communications team. Those teams had saved the Council a considerable amount of money in terms of using the internet more effectively. The Communications team did give good value at present but that would not prevent consideration of further savings in that area in the future;
- Although the value of the communications department was acknowledged, some Members felt that the public did not agree and were particularly critical of County News and the cost involved in producing it;
- County News cost in the region of £200k per year to produce, the main cost of which was for delivery to every household in Lincolnshire. There were legal obligations for the Council to publish certain information each year, Members Allowances and changes to Library Services, for example, which was done through County News. Should the publication be withdrawn, an alternative would need to be sought to ensure these notices reached every household to continue with appropriately engaging with and informing the public;
- Web pages where residents must register, as some other Councils had, was an option but until a comprehensive database of residents who had internet access was available this would not be viable. It was acknowledged that as more residents had internet access, sending out a quarterly newsletter would eventually be unsustainable;
- A suggestion was made to make County News self-financing by selling advertising space. This had been considered previously but the dilemma had been to decide what type, and quantity, of advertising would be appropriate without detracting from the articles;
- It was suggested that residents may have been supportive of County News if they supported the administration group and it needed to be a balanced

consultative document. This point was challenged as County News was not a politically based publication and all articles were relevant to all residents and not any particular political party;

- The demand on social media had been increased which required resource management but further assurance was given that this area would be reviewed at an appropriate time;
- Some Members reported that feedback received during surgeries within their own areas indicated that a lot of residents referred to County News and saved the publication when it included helpful information;
- The perception of County News was how it looked to the public. As a nice looking publication, it was perceived that this would be expensive to produce, which it was not;
- It was confirmed that in 2009 the Communications team consisted of 27 members of staff with an additional, separate, web team. As of today, the team consisted of 19 staff which included the reduced size web team;

The County Property Officer introduced the section on Capital Programmes (paragraph 1.24) where the following point was clarified:-

- The figure of £2.950m quoted within paragraph 1.26 was an essential element of the Capital Programme as it dealt with P1 repairs.

The Head of Finance (Corporate) continued and introduced the section regarding Other Consultations (paragraph 1.27). During discussion the following points were noted:-

- When asked if County News had been mentioned throughout the consultation it was advised that, within the public sessions to-date, there had been very little comment in relation to County News;
- The Committee was advised that, included with the report to the Executive, Appendix G would give a breakdown of the comments received from those consultations. Over 200 pages of comments had been received which would be condensed into key themes;
- It was suggested that it might have been helpful to each Scrutiny Committee to have that information for their consideration as it would give an indication of the public response to the proposals within the remit of those Committees;
- An update of the consultation process to-date would be provided to the Overview and Scrutiny Management Committee on 28 January 2016;
- The main comments received so far had been in relation to public transport with some concerns around highways maintenance and winter gritting. Within Lincoln there had been particular interest in regard to Children's Centre. The main issue raised which was relevant to the Value for Money Scrutiny Committee was in relation to Member's Allowances;
- There had been a large number of specific workshops held for Members to give budget information from specific service areas which had been helpful, providing Member engagement much earlier than in previous years. The Committee felt that this was a significant step forward and asked that the thanks of the Committee for these opportunities be included within the comments to the Executive;

During general discussion of the report, the following points were noted:-

- It was suggested that the relationship between the Executive and Scrutiny Committees could be further improved if the Executive were to provide feedback to individual Committees on their comments, for example why suggestions had been accepted, or not. It was felt that this could also improve discussions at Scrutiny Committees;
- The Committee gave a vote of thanks to the Council staff who had worked tirelessly to ensure that issues with the new systems had been greatly improved to enable the business of the Council to continue.

RESOLVED

1. That the report and comments be noted; and
2. That the comments of the Value for Money Scrutiny Committee, as noted in the discussion points above, be referred to the Executive for their consideration.

32 CONTRACT PERFORMANCE

Consideration was given to a report from the Chief Information and Commissioning Officer which provided the Committee with an update on the recent performance against the contract with Serco.

Judith Hetherington Smith, Chief Information and Commissioning Officer, introduced the report and advised that the December figures for the Customer Service Centre (CSC) had successfully achieved all of their KPIs since the report was published. Paul Briddock, Partnership Director for Serco, was also in attendance for this item.

During discussion, the following points were noted:-

- It was agreed that the agenda title of these update reports should be changed for future meetings to reflect which contract the report referred to;
- Councillor P M Dilks expressed serious concern at the tone of the minutes of the meeting of the Value for Money Scrutiny Committee and requested clarification of the process of preparation of the minutes. The Head of Democratic Services asked if this view was that of the wider Committee and it was confirmed that it was not;
- Councillor P M Dilks had requested, at the previous meeting, a list of outstanding issues from this contract, including how many emergency payments had been made, how many staff had not been paid and how many schools and businesses had been affected as a result. This information was requested again;
- It was reported at the last meeting that an overall plan would be put in place to monitor the situation and this would be presented to the Committee at its meeting in January. The Committee was disappointed that this had not been presented at this meeting and that a known date when the full implementation of the contract was still not available. It was advised that the programme and date should be available at the end of January;

- There had been difficulties in evidencing the data which had taken longer than anticipated. It was important that a client function on behalf of the Council and it was advised that even if there was a 1% error margin, the data would be rejected in its entirety;
- The report referred to the data in November as the December data was not available in time for the report to be published. Paul Briddock, Partnership Director for Serco, gave a verbal update on the December figures – KPIs 4 and 5 had been verified by LCC staff and KPI09 was now green rather than amber;
- The Committee acknowledged that improvements had been made but that Serco would continue to be held to account until the contract requirements were met;
- The difficulties of the contract had been discussed in part with KPMG at the Audit Committee and the County Finance Officer was keeping them up to date on progress. The District Auditor had advised that there may be a risk that the accounts may be qualified this year as a result or that they may be late. It was expected, however, that the normal deadline for the accounts would be met;
- The process of preparing the year end accounts was explained and confirmed that some processes had been completed and tested and others being tested now. Until all processes had been completed, the totality of the issues at the year end would not be known until the end of April/beginning of May;
- Clarification was given that the accounts must be signed by 30 June 2016 and the external audit complete by 30 September 2016. It would not be known if the target of 30 June would be met until the end of April 2016;
- The accounts payable function of invoices across schools and the council was now largely stable. The KPI remained red as this was a stretching target set and reflected the end to end process. Some of the delay had been caused by the processing of Council or school staff but this was still measured as part of Serco performance;
- It was understood that there were issues in relation to posting payroll data to the accounts and as everything had not yet been put through the system it was difficult to gain a full picture of the accounts;
- The Committee were assured that there was ongoing dialogue with schools and bursars and confirmation given that school budgets were able to carry forward overspends and underspends. Children's Services had been in communication with all schools but it was agreed that further clarification could be provided should concerns remain;
- The Committee requested that the most up-to-date performance information be tabled at the meeting if unavailable to be published with the agenda documents;
- The statistics presented were felt to lack the scale of the issue or an explanation as to why an indicator was at the level reported. Comparison was given to the overall Council Business Plan performance report, which provided both figures and an explanation of particular indicators, and a suggestion made to include this level of detail in future reports. This suggestion was supported and officers would endeavour to provide that level of details at the next meeting;

- It was requested that a list of acronyms be provided within the report going forward for the benefit of the public.

RESOLVED

1. That the report and comments be noted; and
2. That the most up-to-date information, which becomes available after publishing of Committee papers, be circulated to the Committee in advance of the meeting.

33 VALUE FOR MONEY SCRUTINY COMMITTEE WORK PROGRAMME

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.

Members were advised that an additional item would be presented to the Committee in February 2016 – One Public Estate.

The County Finance Officer also requested that the following two reports be added to the work programme for February 2016:-

- Treasury Management Update 2015/16 – Quarter 3
- Treasury Management Strategy Statement & Annual Investment Strategy 2016/17

The Chief Information and Commissioning Officer asked the Committee to note her apologies for the next meeting and advised that Sophie Reeve, Chief Commercial Officer, would present the Serco Contract Performance Update on her behalf.

RESOLVED

That the work programme, with the amendments noted above, be agreed.

The meeting closed at 12.15 pm

Lincolnshire COUNTY COUNCIL
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Policy and Scrutiny

Open Report on behalf of the Chief Information and Commissioning Officer

Report to:	**Value for Money Scrutiny Committee**
Date:	**22 February 2016**
Subject:	**Performance of the Corporate Support Services Contract**

Summary:

The service delivery as measured by contractual Key Performance Indicators (KPIs) has shown some improvement from November to December.

The Agresso system continues to be the subject of intense focus from Serco and improvement work continues. Serco say it is confident that the impact of these improvements, especially within the payroll and accounts payable service areas will continue to be demonstrated in the coming months.

The CSC service area has met all available KPI target service levels for December, the first service area to achieve this since service commencement.

Actions Required:

The Committee is asked to note the contents of this report.

1. Background

This report is to provide an update of the contract performance information to enable the Value for Money Scrutiny Committee to fulfil its role in scrutinising performance of one of the Council's key contracts.

2. Performance

Appendix A to the report provides the KPI results for the period April to December, January's figures are currently being prepared.

The contract has target service levels (TSL) and minimum service levels (MSL). When the contract was agreed it was anticipated that the minimum service levels should be capable of being met and the target service levels should be capable of being reached but may need service improvement to achieve this. It is fair to say that the Council recognised from the outset that the agreed KPIs would be challenging for Serco and that has proved to be the case. Where the colour shows as green the target service level has been achieved and amber shows that the minimum service level has been achieved. Red shows that the minimum service level has not been achieved. Where Serco do not provide sufficient performance data to establish that the required service levels have been met or where the performance data is considered to be unreliable those KPIs affected are allocated a red status i.e. minimum service level has not been achieved. These KPIs are recorded as "data not available" in Appendix A. The blue colour indicates a "glide" period; this means that because of a dependency outside of Serco's control e.g. implementation of Mosaic, it is not yet appropriate to expect the agreed targets to be fully met.

Table 1 below provides summary performance statistics of the 43 KPIs for November and December with reference to the target service levels and the minimum service levels.

Table 1: KPI Summary Performance

KPI Performance Level	November (No of KPIs)	December (No of KPIs)
Target Service Level achieved	23	27
Minimum Service Level achieved	7	5
Below Minimum Service Level	11	9
Mitigation Agreed	2	2
TOTAL	43	43

3. People Management (PM)

The KPI performance for people management in December has improved since the previous report. Five of the ten KPIs measured are meeting their target service level (in November it was three), four are below the minimum service level (in November it was five and with one KPI meeting the minimum service level) and one has agreed mitigation the same as in November.

A summary position on the red status People Management KPIs is provided below:

- PM_KPI_02 + – remains unreportable as auditable data is not yet available.
- PM_KPI_03 –there is incomplete data available to evidence that payment deductions have been made on time to third parties as pay over data has

not been supplied to , LGPS, NHS and Teachers pensions. Up to date information has now been made available to HMRC up to and including January's payroll.

- PM_KPI_04 –the KPI sets out service levels for avoidable contacts but as yet there is insufficient information identifying on what basis the calls have been categorised as avoidable contacts

- PM_KPI_05-the KPI sets out service levels for first contact resolution and the supporting data containing details of contacts which were not resolved at the first point of contact is not complete

Serco report some improvement in other payroll statistics based on the number of contacts received in month by Serco declining as detailed in table 2 below:

Table 2: Payroll contacts received by Serco

Payroll Contacts Received by Serco	**October**	**November**	**December**
Schools and Corporate Contacts	2397	1312	684

Serco advise that approximately two thirds of these contacts are business as usual enquiries and do not represent payroll errors. Of the remaining one third issues still remain with payroll under/over payments, pension deductions and over-time payments.

4. Information Management Technology (IMT)

The December KPI performance results for IMT have remained largely similar to the November position with the same number of KPIs meeting their target and minimum service levels.

Of the twelve IMT KPI measures six met their target service level, four met their minimum service level with IMT-KPI-09 and IMT-KPI-11 remaining below the minimum service level.

A summary position on the red status IMT KPIs is provided below:

- IMT_KPI_09 – The finalisation of the Service Catalogue which should have been completed before service take on (February 2015) remains outstanding which prevents measurement of service fulfilment times as the detailed definitions of some services remain to be agreed. Serco are currently advising that the Service Catalogue should be complete by April 2016.

- IMT_KPI_11 – The measurement of this KPI is dependent upon having agreed project milestones in place for all IMT project delivery to enable project progress to be effectively tracked. Once the outstanding Transformation/Remedial project plans have been agreed with appropriate systems to provide the evidence it will be possible to start to measure this KPI. Serco have promised plans during March so this should be capable of being measured from April 2016.

5. Customer Service Centre (CSC)

The CSC service has met all measured KPI target service levels, the first time a service area has achieved this since Services commencement in April 2015. Of the nine CSC KPI measures, eight have met their target service level whilst one still remains in mitigation.

The mitigation arises as it has been agreed that CSC_KPI_08 will be measured on a quarterly, rather than monthly basis to allow a greater number of survey returns to be captured to ensure a more representative result. The performance of this KPI will be reported on in January 2016.

Of particular note within the CSC is that the Customer Experience as measured by CSC_KPI_07 has improved since Serco took the service over. Customer experience scores have increased from an average 89% in 2014/15 to an average of 95% during 2015/16 year to date (April to December). In December the Customer Experience was 98% of customers rating the quality of service as Good or better. The method of data collection and the questions asked were the same in 2014/15 and 2015/16.

6. Adult Care Finance (ACF)

The majority of ACF KPI results continue to demonstrate good performance and December's achievement against the KPIs is the same as November's. Of the nine ACF KPIs measured, seven are meeting their target service levels, one is meeting the minimum service level and one is below its minimum service level.

A summary position on the red status ACF KPI is provided below;

- The performance data for ACF_KPI_06 was not accepted for December as the supporting evidence was not comprehensive.

- Of particular interest is ACF_KPI_03 where Serco is currently operating below the target service level but meeting the minimum service level. Serco attribute this failure to meet the target service level to service users or their representatives not fully completing the required information and/or not returning the completed forms promptly which was exacerbated by the Christmas period. Whilst Serco's performance is not currently meeting the target service level ACF_ KPI _03 requires Serco to undertake adult care financial assessments within 15 Business Days a step change to previous arrangements that allowed up to 42 days. As care costs cannot be retrospectively charged for, this reduction in assessment time should mean that the council receives income for care earlier increasing the total income collected.

7. Financial Administration

The December KPI performance results for Finance show two KPIs failing to meet the minimum service levels with one KPI meeting the minimum service level. The same outcome as in November.

A summary position on the red status ACF KPI is provided below;

- F_KPI_01 invoice payments in the month totalled approximately 27,000 in number and Serco ascribe their failure to meet the KPI service levels at least in part to the fact that the council has a significant proportion of its payments approximately 9,000 on zero day (immediate) payment terms.

- Debt recovery is being hampered by Agresso system issues. Access to a range of required outstanding debt information within Agresso is problematic and this is limiting the performance on F_KPI_03.

The other finance KPI (F_KPI_02) remains at its target service level of 100%.

Of note is an improvement in performance since the last report reflecting better performance in invoice payments (F_KPI_01) and debt recovery (F_KPI_03) albeit still below minimum service levels.

8. Conclusion

The service delivery as measured in contract KPIs has shown improvement from November to December. A particular success is the CSC where all available KPI performance measures met their target service levels.

Serco are acutely aware of the ongoing service issues, including those outlined above, and are working towards bringing the entire contract performance level up to acceptable levels with particular focus on improving the Agresso system.

9. 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 Judith Hetherington Smith who can be contacted on 01522 553603 or at Judith.hetheingtonsmith@lincolnshire.gov.uk.

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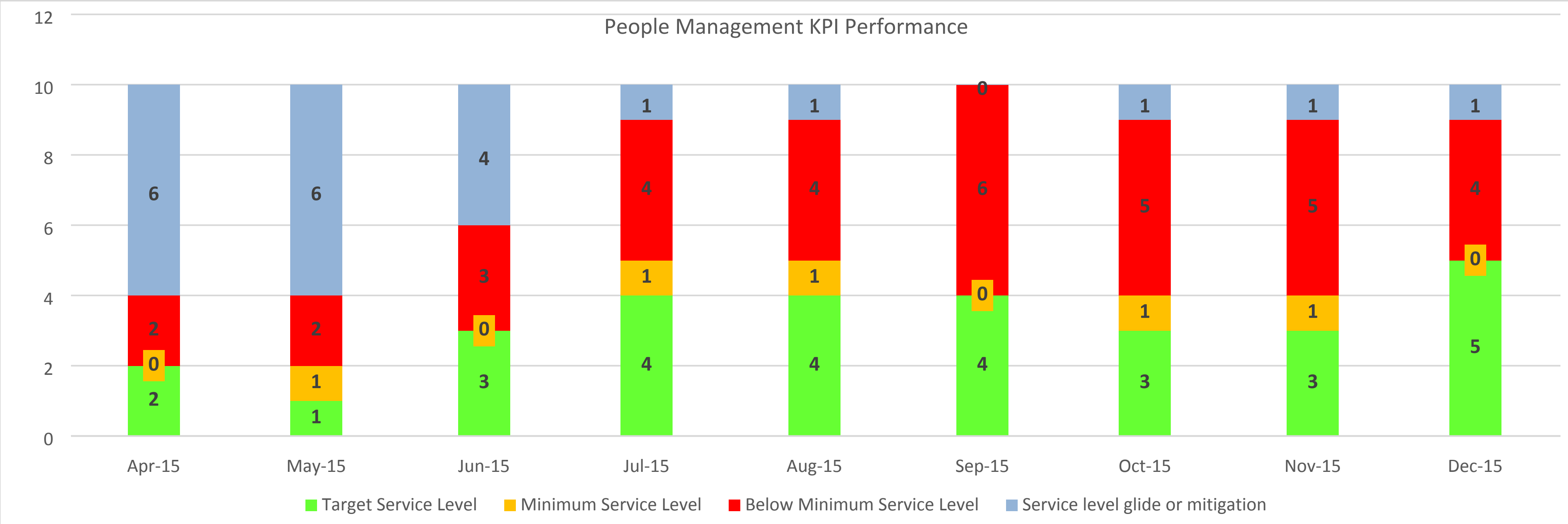
serco

Appendix A - Year to Date Performance Dashboard

People Management

KPI	KPI Short Desc	Freq.	TSL	MSL	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
PM_KPI_01	% of Payroll Recipients paid on the Payment Date per month	M	99.9	99	99.92	99.29	99.95	99.98	99.98	99.98	99.97	Under Review	99.98
PM_KPI_02	% of errors in Payments (caused by Service Provider) identified and resolved per month	M	100	99	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available
PM_KPI_03	% of Payment Deductions paid within Third Party Payment Date per month	M	100	100	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available	100.00	Data not available	Data not available
PM_KPI_04	% Avoidable People Mgt Contact Rate per month	M	15	20	Not Measured	Not Measured	Not Measured	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available
PM_KPI_05	% People Mgt First Contact Resolution Rate per month	M	85	80	Not Measured	Not Measured	Not Measured	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available
PM_KPI_06	Number of People Mgt. Records assessed in Spot Checks to contain errors, omissions or inaccuracies	M	1	3	Not Measured	Not Measured	Not Measured	Not Measured	Not Measured	Under Review	Data not available	0.00	0.00
PM_KPI_07	% of recruitments via electronic vacancy form taking 40 Business Days or less from Authorisation to Appointment to Post	M	99	96	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
PM_KPI_08	% of managers rating their experience of contact as "Good" or better per month	M	95	90	Not Measured	Not Measured	100.00	96.97	100.00	100.00	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed
PM_KPI_09	% of Employees rating their experience of L & D as "Good" or better per month	M	95	90	90.83	100.00	85.84	93.16	90.62	84.57	92.65	93.33	100.00
PM_KPI_10	% of projects/interventions that reduce sickness absence levels delivered on time and in accordance to agreed requirements	M	90	80	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Target Service Level	2	1	3	4	4	4	3	3	5
Minimum Service Level	0	1	0	1	1	0	1	1	0
Below Minimum Service Level	2	2	3	4	4	6	5	5	4
Service level glide or mitigation	6	6	4	1	1	0	1	1	1
Total	10	10	10	10	10	10	10	10	10



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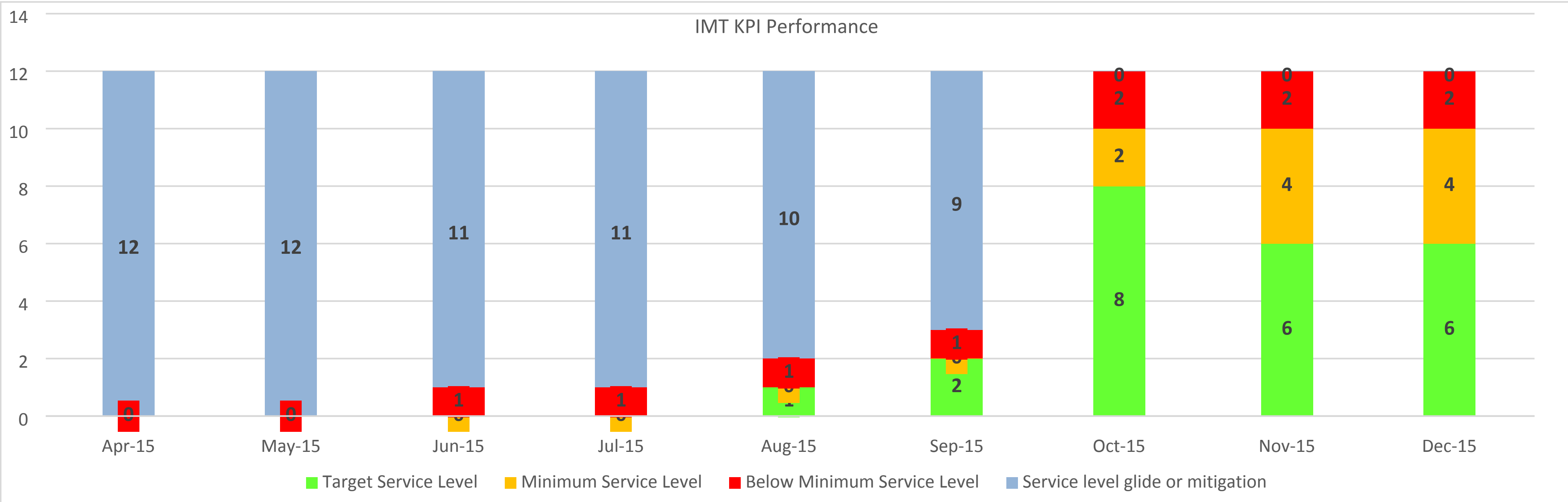
IMT

KPI	KPI Short Desc	Freq.	TSL	MSL	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
IMT_KPI_01	% Users are able to raise Incidents and make Service Requests (Service Availability?) during Service Desk Hours	M	100	97.5	100.00	99.94	99.77	99.86	99.99	100.00	99.99	99.98	99.89
IMT_KPI_02	Priority 1 Incidents not Resolved within Resolution Time	M	1	5	16.00	5.00	0.00	0.00	0.00	0.00	0.00	2.00	3.00
IMT_KPI_03	Priority 2 Incidents not Resolved within Resolution Time	M	3	5	2.00	1.00	1.00	0.00	0.00	1.00	0.00	0.00	0.00
IMT_KPI_04	Priority 1 VIP Incidents not Resolved within Resolution Time	M	1	5	4.00	5.00	8.00	3.00	1.00	5.00	0.00	1.00	3.00
IMT_KPI_05	Number of Priority 1 Incidents reported to Service Desk	M	1	5	33.00	10.00	3.00	2.00	1.00	3.00	1.00	3.00	2.00
IMT_KPI_06	Number of Priority 2 Incidents reported to Service Desk	M	3	5	7.00	1.00	1.00	5.00	1.00	1.00	1.00	1.00	1.00
IMT_KPI_07	% Availability of Platinum Applications & Specified Services	M	99.8	99.3	Data not available	Data not available	Data not available	Data not available	99.99	99.62	99.99	99.94	99.99
IMT_KPI_08	% Availability of Gold Applications & Specified Services	M	97.5	95	Data not available	Data not available	Data not available	Data not available	100.00	100.00	100.00	100.00	100.00
IMT_KPI_09	% Achievement of Service Request Fulfilment within Service Request Fulfilment Time	M	95	85	Data not available	Data not available	Data not agreed	Data not agreed	Data not agreed	Data not agreed	Data not available	Data not available	Data not available
IMT_KPI_10	% of CMDB Changes applied within 14 Core Support Hours of the move or change	M	100	90	Data not available	Data not available	Data not available	Data not available	Data not available	94.23	92.58	95.42	100.00
IMT_KPI_11	% of project milestones achieved each month	M	85	70	Data not available	Data not available	Data not agreed	Data not agreed	Data not available	Data not available	Data not available	Data not available	Data not available
IMT_KPI_12	% of users who score the IT Service as "Good" or above for IT Incident handling	M	70	50	Data not available	Data not available	86.00	80.00	95.80	81.00	83.70	86.00	87.40

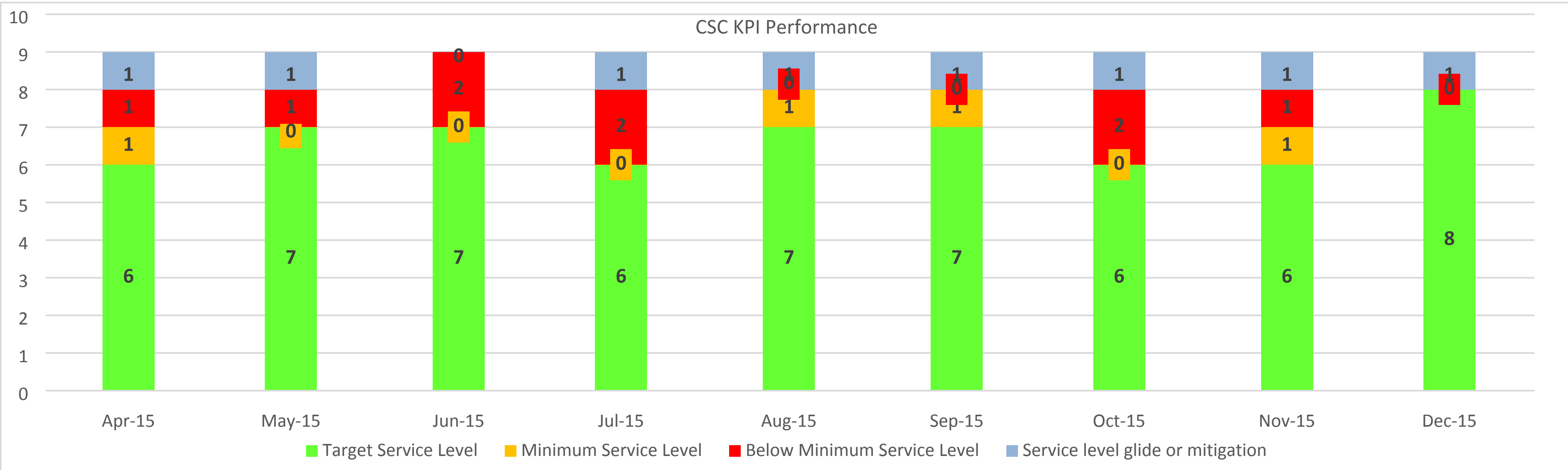
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Target Service Level	**0**	**0**	**0**	**0**	**1**	**2**	**8**	**6**	**6**
Minimum Service Level	**0**	**0**	**0**	**0**	**0**	**0**	**2**	**4**	**4**
Below Minimum Service Level	**0**	**0**	**1**	**1**	**1**	**1**	**2**	**2**	**2**
Service level glide or mitigation	**12**	**12**	**11**	**11**	**10**	**9**	**0**	**0**	**0**
Total	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**



CSC

KPI	KPI Short Desc	Freq.	TSL	MSL	April-15	May-15	June-15	July-15	Aug-15	Sept-15	Oct-15	Nov-15	Dec-15
CSC_KPI_01	% of all Contacts received through Digital Access Channels per month	M	10	7	11.00	10.00	33.90	33.90	37.00	34.42	39.20	43.50	43.10
CSC_KPI_02	% of Contacts received and Resolved via Digital Access Channel per month	M	90	85	99.80	94.00	98.00	98.80	96.00	97.00	94.40	98.63	97.58
CSC_KPI_03	% avoidable Contact Rate per month - consolidated...	M	15	20	7.01	6.50	7.90	7.20	6.20	8.28	7.70	6.30	6.20
CSC_KPI_04	% of total Calls that are Abandoned Calls	M	7	10	9.90	10.20	13.10	12.00	8.40	7.97	12.40	9.74	5.04
CSC_KPI_05	% of Contacts referred to in CSC_PI_01, _02 & _03 responded to within timescale per month	M	95	90	99.90	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
CSC_KPI_06	% First Contact Resolution Rate	M	85	80	73.30	93.20	94.90	96.00	95.70	93.99	92.40	93.60	94.90
CSC_KPI_07	% of Customers rating their experience of contact as "Good" or better per month	M	90	85	92.00	92.00	91.00	92.00	98.00	97.61	97.00	97.00	98.00
CSC_KPI_08	% of Council Service Teams rating the quality of service received as "Good" or better per month	M	85	80	Mitigation Agreed	Mitigation Agreed	96.00	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed
CSC_KPI_09	% of carers assessments (reviews and new), as completed by the CSC, completed accurately and within 20 Business Days	M	100	100	100.00	100.00	88.50	84.70	100.00	100.00	93.90	97.00	100.00

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Target Service Level	**6**	**7**	**7**	**6**	**7**	**7**	**6**	**6**	**8**
Minimum Service Level	**1**	**0**	**0**	**0**	**1**	**1**	**0**	**1**	**0**
Below Minimum Service Level	**1**	**1**	**2**	**2**	**0**	**0**	**2**	**1**	**0**
Service level glide or mitigation	**1**	**1**	**0**	**1**	**1**	**1**	**1**	**1**	**1**
Total	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**



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Adult Care Finance

KPI	KPI Short Desc	Freq.	TSL	MSL	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
ACF_KPI_01	% of ACF First Contact Resolution Rate per month	M	85	75	Data not available	74.60	75.79	83.57	88.82	89.60	89.21	90.00	97.40
ACF_KPI_02	% of Adult Care service users within checking sample, requiring financial assessment, where Adult Care Services Contribution is accurately identified	M	99	90	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
ACF_KPI_03	% of new, and change of circumstance, financial assessments for non-res care completed within 15 Business Days of referral from the Council	M	75	60	Data not available	Data not available	Data not available	75.00	70.43	84.25	85.44	71.54	65.57
ACF_KPI_04	% of new, and change of circumstance, financial assessments for residential care completed within 15 Business Days of referral from the Council	M	75	60	Data not available	Data not available	Data not available	87.00	88.29	89.32	74.08	77.70	76.43
ACF_KPI_05	% of Adult Care Service Users who receive their first Direct Payment within 10 Business Days of referral from the Council	M	95	80	Data not available	Data not available	Data not available	100.00	100.00	100.00	100.00	100.00	100.00
ACF_KPI_06	% of Adult Care Income due which is more than 28 days old	M	5	10	Data not available	29.00	30.36	60.51	18.27	47.18	Data not available	87.90	Data not available
ACF_KPI_07	% of cases where necessay paperwork to enable Council's legal services to secure charges are submitted within time	M	100	90	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
ACF_KPI_08	% of court protection and apointeeship cases that have been actioned correctly and commenced within 5 Business Days of referral	M	90	85	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
ACF_KPI_09	% of Adult Care Finance Users rating their experience of contact with the Council as "Good" or better per month	M	95	90	Data not available	100.00	97.73	95.44	91.92	90.00	87.83	98.19	97.67

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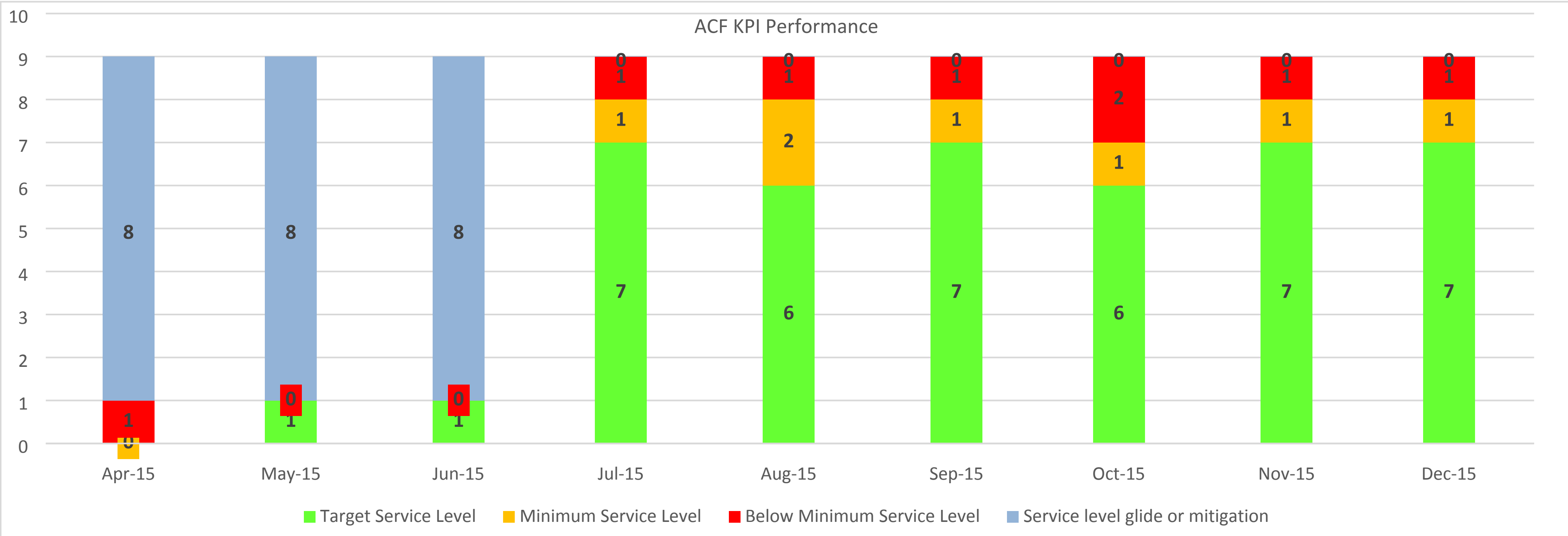
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Target Service Level	**0**	**1**	**1**	**7**	**6**	**7**	**6**	**7**	**7**
Minimum Service Level	**0**	**0**	**0**	**1**	**2**	**1**	**1**	**1**	**1**
Below Minimum Service Level	**1**	**0**	**0**	**1**	**1**	**1**	**2**	**1**	**1**
Service level glide or mitigation	**8**	**8**	**8**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**



Finance

KPI	KPI Short Desc	Freq.	TSL	MSL	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
F_KPI_01	% of Undisputed invoices paid in accordance with vendor terms	M	95	80	Data not available	Data not available	Data not available	Data not available	Data not available	41.77	34.85	30.35	57.89
F_KPI_02	% of payment runs executed to agreed schedule (as agreed one Business Day in advance)	M	100	95	100.00	100.00	95.45	100.00	100.00	100.00	100.00	100.00	100.00
F_KPI_03	% of debt (exc. Adult Care Income and Health Auth. Debt) collected and paid in to relevant Council Account(s) witin 30 days of invoice being issued	M	90	70	Data not available	29.00	50.77	21.99	60.21	44.07	Under Review	28.00	66.90

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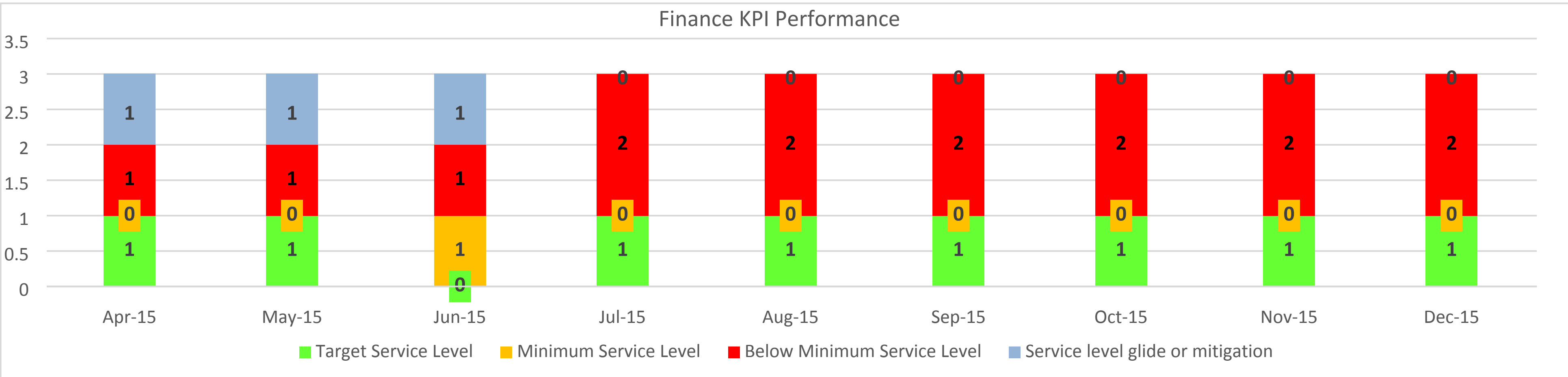
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Target Service Level	1	1	0	1	1	1	1	1	1
Minimum Service Level	0	0	1	0	0	0	0	0	0
Below Minimum Service Level	1	1	1	2	2	2	2	2	2
Service level glide or mitigation	1	1	1	0	0	0	0	0	0
Total	3	3	3	3	3	3	3	3	3



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Policy and Scrutiny

Open Report on behalf of the Executive Director of Finance and Public Protection

Report to:	**Value for Money Scrutiny Committee**
Date:	**22 February 2016**
Subject:	**Property Services Contract Update**

Summary:

This report updates the Committee on the performance of the Property Services Contract with VINCImouchel.

Actions Required:

The Committee is asked to note this report.

1. Background

On 21st September 2015, Scrutiny committee considered a report that provided an update on the contract governance, mobilisation, transition, assurance and improvement framework of the Council's property services contract with VINCImouchel. The committee requested that corporate property return and brief on contract performance.

2. Contract Performance

2.1 Service Manager's Assessment

The contract manager in the NEC form of contract is termed the 'Service manager', and the named person is Kevin Kendall.

The Property Services contract is now 11 months old and Council officers and VINCImouchel staff have worked hard to bring the contract to life. The transition to the contract on 1st April maintained business as usual with no service interruptions.

The systems that support the service are in place: property service centre; property database - Concerto and the NEC3 contract processes. Contractual processes encourage staff from both parties to engage on service matters, improving communication and risk management.

One of the more visible changes of the new contract has been improvements to the Quad restaurant in County Offices.

2.2 Health and Safety

The vision for the contract and property estate was for it to be 'Safe, Efficient and Sustainable' and providing a safe property estate and service was a key driver in the procurement and selection of the new supplier. Progress to date includes:

- No significant H&S incidents, accidents or near misses
- A health and safety audit has been conducted by LCC, resulting in a pass.
- LCC and VINCImouchel staff briefed on positive intervention approach to H&S

2.3 Finance

- **Run Rate.** The cumulative contract spend is known as the run rate and as of the end of January 2016 this is currently showing a modest element of gain share at £7,544, this is against profiled target cost for this stage in the contract of £4,056,689. The target for year 1 was break even and this is on target.
- **Pain/ Gain Assessment.** Pain gain is calculated on a 6 monthly basis and applied at the end of the financial year, gain share is 50/50 and pain is on a sliding scale with LCC's pain share capped, the current run rate gain if maintained would provide LCC with a gain share of £3772. Gain share is only applied if VINCImouchel achieve above 75% performance
- **Low Service Damages (LSD).** Another key incentive for performance in the contract is LSD, where damages are applied if specified performance is not achieved. So far, a total of 48 tasks have attracted the application of a charge for low service. This is a very low number based on the volume of transactions, which currently stands at 2040. Subcontractors deliver a number of services for VINCImouchel and some of these failures have been by subcontractors. There is a fully auditable trail of events in Concerto from the placing of an order through to completion of the task and these are used to enable lessons to be learned. The LSD figure applied to date is £6,900.

2.4 Workload Planning and Governance

- **Task Order Process.** The contractual process for placing orders with VINCImouchel for non-core services is via a task order. There having been some teething issues in processing task orders which have resulted in delays in the turnaround of proposals from VINCImouchel however this has not impacted on LCC frontline service delivery. This issue was identified by the contract Early Warning process enabling matters to be highlighted and dealt with
- **Joint Programme Board.** A board has been established to enable the effective resource planning of projects and programmes of work and to minimise waste. There is a very significant programme activity including the procurement of school projects, and capital repairs and maintenance. The Concerto system is used as the central resource to record and monitor progress on projects.

2.5 Service Performance

- **Key Performance Indicators (KPI's).** The contract performance is measured through 80 performance indicators summarised in 6 KPI's Most of the PI assessment is data driven directly from Concerto. Others require an assessment to be made by the *Service Manager* or delegated LCC officers. There are a number of PIs where the measure has not yet occurred (for example on larger projects which have long timescales). The current overall performance stands at 89.3% against a Year 1 overall target of 90%. The percentage threshold that the contract must achieve overall to gain access to gainshare is set at 75%.

QUARTER 3		
Code	SERVICE STREAM	Score
PS	Project Services	82%
MS	Managed Services	87%
HFM	Hard FM Services	88%
SFM	Soft FM Services	96%
OPS	Other Property Services	100%
GEN	General	83%
	Total	89.3%
	Target Year 1	90.0%

Project Services
This service theme includes the delivery of capital projects and has 17 performance measures, 12 are on or above target with 5 currently below target, the overall performance for is 82%. The areas currently below target relate to the task order process referred to earlier in this report and there are now action plans in place to address delays in the task order process, and educating the team on timely and accurate update of Concerto in relation to completed projects.

Managed Services
This service theme includes the property service centre (PSC), management of asbestos and legionella, and management of the office estate and includes 19 performance measures, with 4 currently below target; however the overall performance for this theme is 87%. This area has some very challenging 100% targets; these include no 'dropped calls' in the PSC and planned inspections for H&S and site risk assessment. Whilst this particular KPI is currently 87%, there is a detailed plan in place to achieve 100% completion by 31/3/16.

Hard Facilities Management Services
This service theme includes reactive building maintenance, schools buyback programme, condition survey programme, and includes 12 performance measures; 4 are currently below target, however the overall performance for this theme currently is 88%.

The KPI data output does not take account of mitigating factors such as lead times in the ordering of replacement components that may not be immediately available for a building repair, thus affecting the ability to complete the repair within the contract time scales. This explains some of the underperformance. There is ongoing training within the team to ensure correct categorisation/prioritisation of calls. This is important as incorrect prioritisation can impact the ability to meet performance times.

Soft Facilities Management Services
This service theme includes cleaning, grounds maintenance and pest control, and includes 16 performance measures, 12 are on or above target with 4 currently below target, however the overall performance for this theme is above the overall target at 96%.

Other Property Services
This service theme includes estates, energy and travellers services and includes 13 performance measures, all of these are on target, however 5 of these are annual measures. No action has been identified as necessary at this time.
General
This theme includes an annual overall client satisfaction assessment and waste to land fill and includes 2 performance measures and the waste to landfill is on target

- **Review of performance indicators**
  As part of continuous improvement ethos and Contractual review mechanisms of this contract, there will be a formal review of the KPIs to be implemented in Year 2 of the contract. This will ensure that the KPIs remain fit for purpose, focussed and output driven. It has already been identified that a number of KPIs are duplicated, or not required, or need amending.

  Reducing the overall number of the KPIs, but increasing the weighting of the remaining KPIs will be beneficial in that:

  1) It holds the Contractor more to account
  2) It helps with clarity for the service delivery teams

- **Performance Figures.** The table below highlights some key contract statistics:

CONTRACT STATISTICS	
Reactive calls logged	6,000
Planned Preventative Maintenance tasks completed	6,500
Reactive calls completed by in house team (MRT)	750
Total cleaning hours completed	78,000
Customer Satisfaction with PSC Service (MSO01)	95%
Customer satisfaction of feasibility stage (PSO06)	8.5 / 10
Project task orders issued	191
Value of project task orders issued	2,212,459

2.6 Continuous Improvement

As well as safety, a key driver for the new contract is efficiency and this is supported by a Continuous improvement programme. This programme collects all data on performance from a wide range of sources. This data is analysed and prioritised to advise the continuous improvement projects. In addition to KPI data, other data sources include:

- **Staff Survey.** From the outset a staff survey and independent review were planned after the first 6-9 months, and the results are currently being processed but have already proved to be invaluable in highlighting some areas for development that will create efficiencies in service delivery.
- **Ideas and Suggestions.** There have been 83 ideas and suggestions submitted by staff to date. Many are line management level items and have been dealt with accordingly. Others will be rolled into items identified in the review and survey and incorporated in continuous improvement projects, one of these areas will be the property service centre

To support the continuous improvement programme, core improvement training is being put in place. Representatives from VINCI, Kier (Mouchel) and LCC, will be trained in February to facilitate continuous improvement initiatives, staff are being trained in LEAN 6 Sigma to Green Belt standard. These staff will be assigned to support key improvement projects. These projects include cross-organisation reviews of ‘end-to-end’ processes, meaning that all aspects of a particular process are included in the review, whether the activity occurs within LCC or VINCImouchel. This is aimed at widening the understanding of activities across the organisations, identifying where improvements/efficiencies can be achieved and thereby gaining greater buy-in to changes.

The Continuous improvement approach for catering in the Quad has resulted in the doubling of customer numbers and turnover since April 2015. Customer feedback has demonstrated that key areas of improvement have been better choice of food and refreshments and the introduction of a (contactless) card machine with up to 2000 transactions per month now taken by card payments

3. Conclusion

Contract performance is on target and the Committee is asked to note performance progress to date.

4. Consultation

a) Policy Proofing Actions Required

N/A

5. Appendices

These are listed below and attached at the back of the report	
Report	Value for Money Scrutiny Committee – Property Services Contract Update – 21 September 2015
Annex A	Qtr 3 KPI Data

6. 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
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Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of the Executive Director of Finance and Public Protection

Report to:	**Value for Money Scrutiny Committee**
Date:	**22 February 2016**
Subject:	**One Public Estate – Greater Lincolnshire Partnership**

Summary:

This report provides an overview and update on the One Public Estate Programme (OPE)

Actions Required:

The Committee is asked to note this report.

1. Introduction

On 7th December 2015, The LGA advised LCC on behalf of the Greater Lincolnshire Partnership (GLP) that it had been successful in its submission for entry into the Government's One Public Estate (OPE) Programme. The OPE concept is referred to in GLP's approach to devolved powers.

The Government's OPE programme (led by the Cabinet Office) provides funding to kick start the OPE concept in a locality. The aims of OPE are to coordinate the use of public assets to enable the better delivery of public services, Economic Regeneration, Housing and to help deliver revenue savings.

2. Services and Assets Delivery Plan

The GLP bid for OPE funding took the form of a Services and Assets Delivery Plan (SADP) and this contained the aspirations of the programme, list of projects and Governance proposals

The Cabinet Office were quite clear in the bid criteria that projects included in the bid for funding needed to identify indicative outputs and to identify how the OPE funding would facilitate these

The SADP identified £175,000 for project feasibility activity, £90,000 of targeted project support and £70,000 to establish a programme office (staff resources). This total of £340,000 was approved and GLP were one of only a few consortia to receive the full funding allocation and to be given the green light to proceed without any further bid clarification.

A key condition of the entry into the programme is that asset data is uploaded onto the Government property database ePIMS; this provides very similar data to the transparency data which Local Authorities are already mandated to provide. Formal entry into the programme will not be confirmed until this data is uploaded.

3. Current Position

All 9 local Authorities have been contacted by LCC to coordinate the uploading of data and the Government ePIMS team have allocated technical support to assist. It is anticipated that data will be on the system by early March with refinement of data over the following 2 months. The data will include land and buildings; it doesn't need to include housing stock. Uploading of this data will allow the GLP programme to have access to the wider Government estate information and then start exploring further opportunities

The Governance proposals included in the SADP identified an OPE Board which is a core requirement from the Cabinet Office and they require the key national bodies to sit on this including NHS, MoD, Cabinet Office and locally the LEP's. The project Sponsor is Manjeet Gill and OPE development is being coordinated by LCC who will be the accountable body for the funding

The existing OPE Boards including those North Lincolnshire and NHS will be linked to the overall programme governance.

The first OPE Board date will be scheduled shortly and the Board will be accountable for the delivery of the programme and any changes to the content. The Cabinet Office are keen to see quick wins from the programme and have advised that there is further OPE funding available for successful consortia.

4. Next Steps

On OPE Board will be established and this will be tasked with confirming and prioritising projects in the programme and a further report will be presented to VFM committee when this detail is established.

Please direct any questions raised by this report initially to Kevin Kendall, County Property Officer who can be contacted on 01522 553726 or kevin.kendall@lincolnshire.gov.uk

Lincolnshire COUNTY COUNCIL
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Policy and Scrutiny

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

Report to:	**Value for Money Scrutiny Committee**
Date:	**22 February 2016**
Subject:	**Treasury Management Update 2015/16 - Quarter 3 Report to 31 December 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 2015/16 to 31 December 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. <u>Introduction and Background</u>

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

1.2. This Treasury Report will cover the following positions to 31st December 2015:

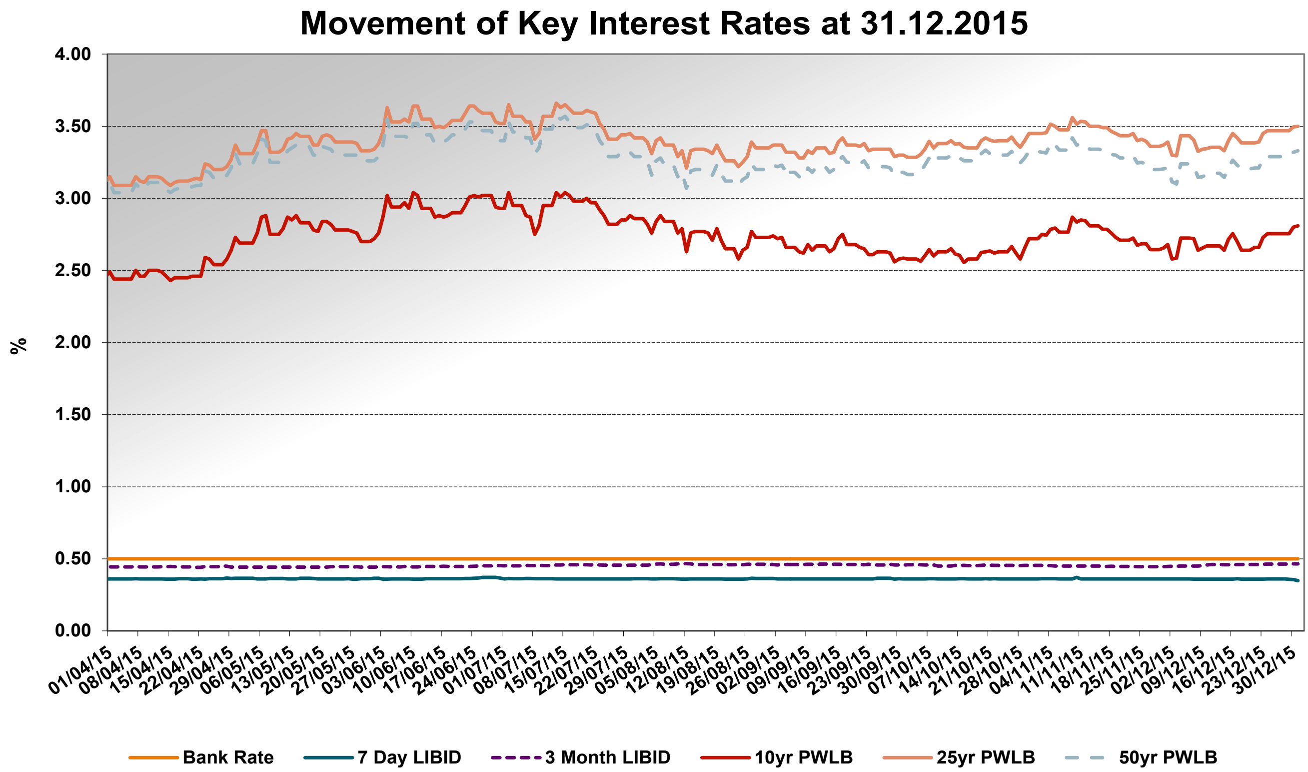
- Interest rate review, economic overview and revised interest rate forecast.
- Annual investment strategy/ authorised lending list changes during the quarter.
- Investment position and comparison with strategy.
- Borrowing & debt rescheduling position and comparison with strategy.

2. Interest Rate Review, Economic Overview and Revised Interest Rate Forecast to 31st December 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 2015/16 to 31st December 2015.



2.4. The graph shows that short term rates have remained flat over the period as expected. Long term rates have risen by 0.40% in June 2015, returning to historic low levels again at the end of September 2015, then rising slightly again by the end of December 2015. The volatility in long term rates has been in reaction to market reaction to good or bad news throughout the year leading to market turbulence.

2.5. Economic Background - The quarter ended 31st December 2015 saw the following:

- UK GDP growth for quarters 1 to 3 was revised down to 0.4%, 0.5% (from 0.7%) and 0.4% (from 0.5%) respectively with a yearly forecast of 2.1% (from 2.4%) predicted. The final quarter estimate of growth picked up to around 0.6% which would imply 2.2% GDP growth in 2015 as a whole. This improvement in the last quarter driven mainly by consumer demand;
- Employment rose to record levels and consequently unemployment rate fell during the quarter; however wage growth slowed to1.9% from 2.5%. The employment increase reflected large increases in self-employment, part time or temporary work thus resulting in no pressure to wage inflation.
- Inflation (CPI) nudged back into positive territory at 0.1% in November 2015, but will remain below target for a long while due to weak wage pressures and falls in energy and food prices.
- With the low inflation environment it will be difficult for the MPC to raise rates as soon as predicted in the UK; The UK remains sandwiched between the US who did raise their rates in December and Europe who cot their rates and extended their QE programme during the quarter.
- The Government reversed the 'Tax Credits Cut' policy in November having found £27bn of savings in the Spending Review. The Government is continuing with its Austerity package however and forecast to achieve a £10bn budget surplus in 2019/20;
- Japan has been hit hard by the downturn in China with growth close to 0%. China is struggling to hit a growth target of 7% with a major fall in its stock market, leading to volatility in financial markets in August and September.

2.6. Capita Asset Services Ltd, the Councils treasury advisors, provided its latest forecast for interest rates on 20 January 2016, before the February Bank of England’s (BoE's) Quarterly Inflation Report, because of the downbeat UK and world economic news received in recent week, as follows:

	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
BANK RATE	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
3 month LIBID	0.52	0.50	0.50	0.60	0.80	0.90	1.00	1.10	1.30	1.40	1.50	1.60	1.80	1.90
6 month LIBID	0.66	0.70	0.70	0.80	0.90	1.00	1.20	1.30	1.50	1.60	1.70	1.80	2.00	2.20
12 month LIBID	0.98	1.00	1.00	1.10	1.20	1.30	1.50	1.60	1.80	1.90	2.00	2.10	2.30	2.40
5 yr PWLB	1.92	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.10	3.20
10 yr PWLB	2.58	2.60	2.70	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.60	3.70
25 yr PWLB	3.36	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10	4.10
50 yr PWLB	3.18	3.20	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90	3.90	4.00	4.00	4.00

The forecast shows that the first increase in Bank Rate has been pushed forward yet again to December 2016 from June 2016 and the forecasted increase in longer term PWLB rates interest rate have been pegged back by around 0.40%. Capita have also revised their target levels for new borrowing to 2.00% (5 year), 2.60% (10 year), 3.40% (25year) and 3.20% (50year), from 2.20%, 2.80%, 3.40% and 3.40% respectively, as recorded in the Strategy in March 2015.

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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 these 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 and increases in inflation are 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.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and/ or US rate increases, causing a flight to safe havens.(bonds).

Upside Risks: (Rates Increasing)

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the US rate 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 31st December 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. There have been no changes to the Authorised Lending List during the quarter up to 31st December 2015.

3.6. Lloyds Banking Group were removed from the Lending List in May 2015 following its loss of Part-Nationalised status after the Government brought down its holding to less than 20%. At 31st December 2015 the Council had £37.25m is invested in the Lloyds Group, with Bank of Scotland, which will mature by March 2016. There is no concern over the non-repayment of this sum.

3.7. A full list of the investments held at 31st December 2015, compared to Capita's creditworthiness list, and changes to credit rating of counterparties during December 2015 are shown in Appendix B

4. Investment Position to 31st December 2015 – Comparison With Strategy

4.1. The Council's investment position and cumulative annualised return at 31st December 2015 are detailed in the table below:

Investment Position At 31.12.15	Return (Annualised %)	Weighted Benchmark (Annualised %)	Outperformance
£266.359m	**0.71%**	**0.44%**	**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 5 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 0.68%. Several investments greater than 6 months have been made during the quarter to take advantage of the enhanced yields offered. The investment portfolio weighted average maturity (WAM) was 103 days at 31st December 2015 from 104 days at 30th September 2015. (Highlighted in Appendix B). The outperformance of the benchmark over the period 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 9 other authorities in the East Midlands area and 13 English Counties. The results of this benchmarking for the 3rd quarter are detailed below, which shows that the Council's return was slightly above that of the comparators, achieved by having a longer WAM. The Council's return is also within Capita's suggested risk banding achievable for the level of risk being taken on its investments.

Capita Benchmarking – Position at 31/12/2015			
	LCC	**Benchmark Group(8)**	**English Counties (13)**
31 December Return %	0.75%	0.71%	0.71%
Risk Banding	0.66% -0.78%	0.61% - 0.72%	0.60% -0.72%
WAM (days)	103	72	71

5. Borrowing & Debt Rescheduling Position to 31st December 2015 – Comparison with Strategy

5.1. The Council's external borrowing position at 31st December 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 4.147%.

Borrowing Position at 31.12.2015	**Maturing Debt £m**	**Debt To Fund CapEX £m**	**Total £m**	**% Cost**
Balance at 1.4.2015 New Borrowing to 31.12.2015 Borrowing Repaid to 31.12.2015	0.0 0.0 (5.000)	461.453 0.0 (1.354)	461.453 0.0 (6.354)	4.147%
Debt Rescheduling to 31.12.2015 -Borrowing Repaid -Borrowing Replaced	 0.0 0.0	 0.0 0.0	 0.0 0.0	
Balance at 31.12.2015	**(5.000)**	**460.099**	**455.099**	**4.147%**
Projected Further Borrowing Required in 2015/16 (net of internal borrowing CF) Projected Further Borrowing Repayments – Actual - Voluntary	0.0 (5.000) (0.0)	70.761 (0.000) (9.571)	70.761 (5.000) (9.571)	
Projected Borrowing Position at 31.03.2016	**(10.000)**	**521.289**	**511.289**	
Authorised Limit For External Debt 2015/16			592.052	

5.2. The table below shows the Council's Capital Expenditure plans and Borrowing Requirement at 31st December 2015, from that originally agreed by Full Council at its meeting on 20th February 2015.

	Original Budget at 01/04/2015 £m	Position at 31/12/2015 £m
Net Capital Expenditure Programme 2015/16	80.362	80.200
Borrowing Requirement 2015/16	73.861	70.761

5.3. 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.

5.4. Minimum Revenue Provision (MRP) is the amount set aside by the Council to repay debt, required by regulation set in 2008. The Council's policy is to repay external debt at this MRP level. The Council calculate MRP by dividing its outstanding borrowing by the average life of those assets which have been financed by borrowing. Revision of certain asset lives under this policy has recently been undertaken resulting in the reduction in MRP for 2015/16 and hence a reduction in the voluntary debt repayment figure for the year (£9.571m from £10.433m).

5.5. 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.

5.6. Total LOBO debt the Council has secured stands at £30m, well within the limit set in the strategy of 10% of total external debt (equating to £46m). A limit is set on this type of borrowing to limit the amount of variability within the debt portfolio of debt repayment. The average cost of the Council's LOBO debt is 3.99%.

5.7. No debt rescheduling activity of existing debt has taken place to 31st December 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).

5.8. A total of £27m temporary borrowing has been taken at an average cost of 0.40% to cover a shortfall in liquidity forecast from December 2015 through to March 2016. In terms of interest this is cost neutral, as surplus funds generated have been invested in Money Market Funds earning on average 0.45%. This is in line with strategy and is an alternative to drawing on higher yielding Notice Accounts when needed. All the temporary borrowing taken matures before 31st March 2016.

5.9. 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 2015/16 to 31st December 2015.

2. Conclusion

Short term Interest rates have remained flat over the period but long term rates have been volatile rising by 0.40% then dropping back again to historically low starting levels, then rising again. Weakness in growth and inflation have lowered and pushed forward expected increases in rates. The Council's investment return is outperforming the market benchmark by 0.28% and also the Capita benchmarking comparators. The WAM of the investment portfolio has remained level at 103 days but remains above that of its comparators. No external borrowing has been taken to date and hence the cost of the Council's borrowing is still 4.147%. Temporary borrowing of £27m has been undertaken to cover predicted liquidity issues later on in the year.

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 December 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 - 20/02/2015	Lincolnshire County Council, Finance & Public Protection

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

Appendix A

LINCOLNSHIRE COUNTY COUNCIL LENDING OF TEMPORARY SURPLUSES

Country			Lending Limit £m	Maturity Limit	# Watch/ Outlook Adjusted		FITCH IBCA Credit Rating Long Term	Soverei	For Trea 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+	6 Months
	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
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
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	PO	A+	AAA	364 Day
SWE		Swedbank AB	20	364 Day	364 Day	PO	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				364 Day
		Svenska Handelsbanken- 10 Day Notice Account	20	364 Day	364 Day				364 Day
		Svenska Handelsbanken- Call Account	20	364 Day	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
	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: 9th November 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 (Moodys)

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

Credit Default Swap (CDS) Spreads

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

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.

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CAPITA

Treasury solutions

Asset Services

Lincolnshire County Council

Monthly Investment Analysis Review

December 2015

Monthly Economic Summary

General Economy

December was dominated by anticipation regarding the outcome of the Federal Reserve meeting. In a watershed moment for the global economy, the first hike in nearly a decade was reported, pushing several months of uncertainty to one side.

The UK services PMI grew for a second month running, reaching 55.9 last month, the fastest pace of expansion since July. This rise from October's 54.9 is set to point towards stronger economic growth in the upcoming months.

For the first time since July, UK CPI returned to positive territory, rising 0.1% annually in November. The ONS numbers reflected rises in transport costs and alcohol and tobacco prices which exerted upside price pressures; however this was slightly offset by a dip in clothing prices, leaving the month-on-month CPI figure standing at 0% for November. With the Brent Crude oil benchmark hovering around $37 a barrel, analysts warn that this positive inflation figure is unlikely to be permanent.

Unemployment within the UK fell to its lowest since the three months to January 2006, with the unemployment rate dwindling to 5.2% in October, confounding forecasts of 5.3%. Nonetheless, in the month alone, regular wages rose by 1.7%, the slowest increase since January. Despite this, with inflation hovering around the zero-mark, rising earnings are expected to translate into notable increases in living standards.

Across "The Pond", US non-farm payrolls increased solidly in November, by 211,000, with the unemployment rate remaining at 5%, the lowest figure for seven-and-a-half years. Data from September and October was revised to show an additional 35,000 more jobs created than previously reported.

Following the robust non-farm data, markets stood prepared and priced in their outlook of a December rate hike, resulting in stocks rising sharply prior to the Fed meeting. The outcome of the much-anticipated meeting was in line with expectations, with the target Federal Funds rates finally increased, by a unanimous vote in favour, for the first time since 2006, by 25bps to 0.25%-0.50%. The subsequent statement revealed the opinion that the economy had expanded "at a moderate pace", alongside considerable improvements in the US labour market this year. Immediately following the announcement of the hike, the US Dollar appreciated further against Sterling, with the rate falling back below the $1.50 level. Many of the European stock markets welcomed the rate rise, including the FTSE 100 index, which rose by 1.1% following the news.

The third and final estimate of UK GDP for Q3 revealed that economic growth was slower than previously thought, mainly weighed down by a worse-than-expected performance in the dominant services sector, which accounts for well over 70% of UK economic activity. The ONS revised the Q3 GDP figure from 0.5% to 0.4%, alongside a slowdown of the annual growth, from the previous estimate of 2.3% to 2.1%, the weakest it has been since Q3 2013. Despite the UK being the fastest growing economy in the G7 last year, it is evident that risks to the economy still remain.

UK retail sales outperformed forecasts in November, mainly driven by the sales on Black Friday. Alongside a 1.7% m/m increase from October, sales grew 5% compared with the same time last year, offering evidence that strong consumer confidence, alongside higher employment and rising real wage growth, has contributed to robust retail sales figures. Despite this, data from GfK has disclosed that although confidence amongst consumers in the UK has edged up from a 6-month low, households are more concerned about the economy than they were in December 2014.

The disappointing figures for November's public finances lead analysts to believe that George Osborne will find difficulty in meeting the OBR's public borrowing forecast for the fiscal year. With public sector net borrowing (excluding public sector banks) reaching a total of £14.2bn, expectations of £11.9bn were greatly exceeded, as was last year's November total of £12.9bn, it seems almost impossible now for the Chancellor to meet the forecasts set.

Currency

Sterling opened the month at $1.506 against the US dollar and closed at $1.483. Against the Euro, Sterling opened at €1.424 and closed at €1.359.

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 December. They expect the first Bank Rate increase to come in Q2 2016.

Bank Rate	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	0.50%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.50%	0.75%	0.75%	1.00%	1.00%

Lincolnshire County Council

Current Investment List

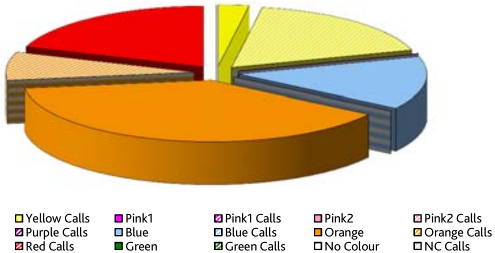
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	14,730,000	0.47%		MMF	AAA	0.000%
MMF Aberdeen	18,320,000	0.48%		MMF	AAA	0.000%
MMF Standard Life	14,209,000	0.49%		MMF	AAA	0.000%
Bank of Scotland Plc	5,000,000	0.80%	09/04/2015	08/01/2016	A	0.001%
Standard Chartered Bank	5,000,000	0.80%	24/04/2015	25/01/2016	A+	0.004%
HSBC Bank plc	10,000,000	0.61%		Call30	AA-	0.001%
DZ Bank AG (Deutsche Zentral-Genosse	5,000,000	0.66%	07/08/2015	08/02/2016	AA-	0.001%
Cooperatieve Centrale Raiffeisen Boere	5,000,000	0.66%	07/08/2015	08/02/2016	A+	0.007%
Bank of Scotland Plc	10,000,000	1.00%	16/02/2015	15/02/2016	A	0.008%
Bank of Scotland Plc	10,000,000	1.00%	02/03/2015	29/02/2016	A	0.010%
Bank of Scotland Plc	7,250,000	1.00%	04/03/2015	02/03/2016	A	0.011%
Skandinaviska Enskilda Banken AB	6,000,000	0.71%	03/06/2015	03/03/2016	A+	0.011%
DZ Bank AG (Deutsche Zentral-Genosse	4,000,000	0.69%	03/09/2015	03/03/2016	AA-	0.001%
Commonwealth Bank of Australia	5,000,000	0.65%	11/09/2015	11/03/2016	AA-	0.001%
Doncaster Metropolitan Borough Counc	2,000,000	1.10%	13/03/2014	14/03/2016	AA+	0.001%
Bank of Scotland Plc	5,000,000	1.00%	23/03/2015	21/03/2016	A	0.014%
Skandinaviska Enskilda Banken AB	8,175,000	0.74%	03/07/2015	23/03/2016	A+	0.014%
HSBC Bank plc	10,000,000	0.68%		Call90	AA-	0.002%
United Overseas Bank Ltd	4,850,000	0.62%	12/10/2015	31/03/2016	AA-	0.002%
Standard Chartered Bank	5,000,000	0.72%	19/11/2015	01/04/2016	A+	0.016%
The Royal Bank of Scotland Plc	10,000,000	0.91%	09/04/2015	07/04/2016	BBB+	0.040%
The Royal Bank of Scotland Plc	7,175,000	0.91%	15/04/2015	13/04/2016	BBB+	0.043%
Skandinaviska Enskilda Banken AB	5,825,000	0.80%	27/04/2015	25/04/2016	A+	0.020%
DZ Bank AG (Deutsche Zentral-Genosse	6,000,000	0.64%	04/11/2015	04/05/2016	AA-	0.002%
DBS Bank Ltd	5,000,000	0.63%	05/11/2015	05/05/2016	AA-	0.002%
Standard Chartered Bank	5,000,000	0.74%	06/11/2015	06/05/2016	A+	0.022%
The Royal Bank of Scotland Plc	5,000,000	0.90%	14/05/2015	12/05/2016	BBB+	0.055%
Svenska Handelsbanken AB	6,050,000	0.99%	17/07/2015	26/05/2016	AA-	0.003%
DBS Bank Ltd	5,000,000	0.60%	30/11/2015	31/05/2016	AA-	0.003%
The Royal Bank of Scotland Plc	10,000,000	0.93%	22/06/2015	20/06/2016	BBB+	0.071%
DBS Bank Ltd	5,000,000	0.75%	23/12/2015	23/06/2016	AA-	0.003%
The Royal Bank of Scotland Plc	5,000,000	0.95%	03/07/2015	01/07/2016	BBB+	0.075%
DBS Bank Ltd	5,000,000	0.68%	26/10/2015	26/07/2016	AA-	0.004%

Current Investment List

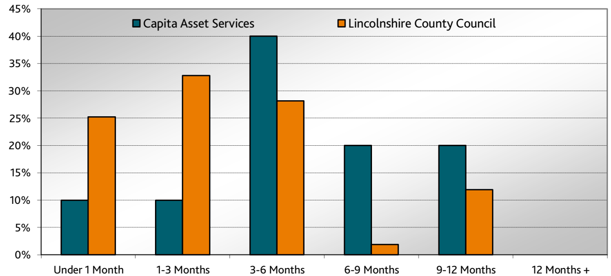
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Toronto Dominion Bank	5,000,000	0.80%	16/10/2015	14/10/2016	AA-	0.005%
Toronto Dominion Bank	5,000,000	0.81%	16/10/2015	14/10/2016	AA-	0.005%
Toronto Dominion Bank	8,500,000	0.90%	29/10/2015	27/10/2016	AA-	0.005%
United Overseas Bank Ltd	6,775,000	0.80%	04/11/2015	02/11/2016	AA-	0.006%
Toronto Dominion Bank	1,500,000	0.89%	06/11/2015	04/11/2016	AA-	0.006%
North Tyneside Metropolitan Borough (	5,000,000	0.75%	23/12/2015	21/12/2016	AA+	0.007%
Total Investments	**£266,359,000**	**0.75%**				0.012%

Lincolnshire County Council

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



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

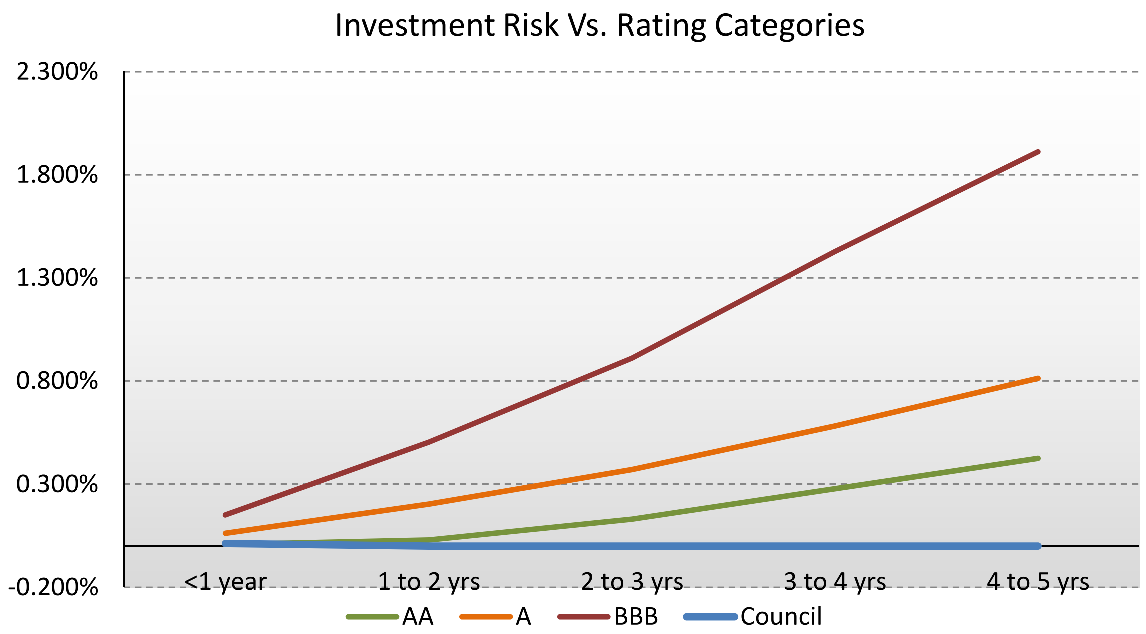


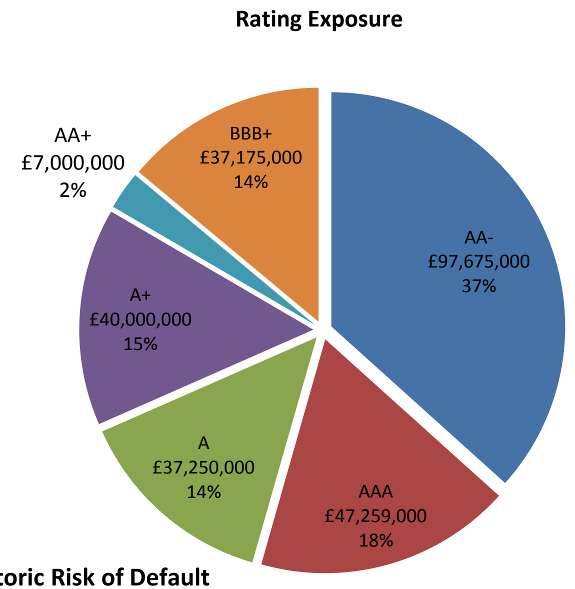
Portfolios weighted average risk number = 3.45

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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs WAM	Excluding Calls/MMFs/EMMFs WAM at Execution
Yellow	20.37%	£54,259,000	87.10%	£47,259,000	17.74%	0.53%	36	61	275	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	13.96%	£37,175,000	0.00%	£0	0.00%	0.92%	135	364	135	364
Orange	46.06%	£122,675,000	16.30%	£20,000,000	7.51%	0.73%	141	231	157	264
Red	19.62%	£52,250,000	0.00%	£0	0.00%	0.91%	61	308	61	308
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£266,359,000**	**25.25%**	**£67,259,000**	**25.25%**	**0.75%**	**103**	**230**	**132**	**301**

Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.007%	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	0.012%	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
09/12/2015	1404	UBS Ltd, UBS AG	UK, Switzerland	The Outlook on both bank Long Term rating was changed from 'Stable' to 'Positive'.
09/12/2015	1405	Deutsche Bank AG	Germany	The Long Term Rating on Deutsche Bank was downgraded from 'A' to 'A-'. The Viability Rating was downgraded from 'a' to 'a-'. The Short Term Rating was affirmed at 'F1'. The Outlook on its Long Term rating was changed from 'Negative' to 'Stable'.

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
15/12/2015	1407	The Royal Bank of Scotland plc, National Westminister Bank Plc, The Royal Bank of Scotland Plc	UK	Outlook on the banks' long term rating was changed from 'Stable' to 'Positive'.

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
03/12/2015	1402	Skandinaviska Enskilda Banken AB, Swedbank AB	Sweden	Swedbank AB: Long term and short term ratings raised to 'AA-/A-1+' from 'A+/A-1'. Skandinaviska Enskilda Banken AB: Long term and short term ratings have been affirmed at 'A+/A-1'
03/12/2015	1403	BNP Paribas Fortis, BNP Paribas, Credit Agricole Corporate and Investment Bank, Credit Agricole SA, Societe Generale, ABN AMRO Bank N.V., Rabobank, UBS AG, UBS Ltd	Belgium, France, Netherlands, Switzerland	Multiple outlook changes but no colour changes
11/12/2015	1406	Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank, National Bank of Canada	Canada	Outlooks revised on Canadian banks that is viewed as having either 'high' or 'moderate' systematic importance to stable from negative. The credit ratings on the banks remain unchanged.

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

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

Report to:	**Value for Money Scrutiny Committee**
Date:	**22 February 2016**
Subject:	**Treasury Management Strategy Statement and Annual Investment Strategy 2016/17**

Summary:

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2016/2017. It is prepared in accordance with the 2011 CIPFA Code of Practice for Treasury Management in the Public Sector, the requirements of which are included as part of Financial Regulations within the Constitution of the Council. These requirements were adopted by the Council in May 2011 as part of agreement to revisions to the Council's Constitution.

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

Actions Required:

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

1. Background

1. INTRODUCTION/BACKGROUND

1.1. Treasury Management

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

1.2. Relevant Treasury Management Regulation / Legislation

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

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

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

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

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

1.3. Purpose of Report

1.3.1. This report comprises the Treasury Management Strategy Statement for 2016/2017 as Section 2 and the Annual Investment Strategy for 2016/2017 as Section 3 and has been prepared in accordance with the CIPFA Code of Practice for Treasury Management 2011 and subsequent revisions.

- Treasury Management Strategy Statement 2016/2017
  The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2016/2017.

- The Annual Investment Strategy 2016/2017
  The Annual Investment Strategy sets out the Council's policies for investing its surplus cash for the year 2016/2017 and for giving priority to the security and liquidity of its investments over the return on those investments. It forms the basis of the 'Approved Investment Criteria' followed by the Council when making its investments.

1.4. Reporting Arrangements

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

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

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

2. TREASURY MANAGEMENT STRATEGY STATEMENT 2016/2017

2.1. Introduction

2.1.1. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in light of the anticipated movement in interest rates. The strategy for 2016/2017 is therefore based upon the Treasury officers' current views on interest rates for the year ahead, supplemented with leading market forecasts provided by the Council's treasury management advisor, Capita Asset Services Ltd. The strategy covers the following areas:

- The current long term external borrowing/investment position;
- Borrowing requirement 2015/2016 to 2018/2019;
- Affordable borrowing limit for 2016/17 to 2018/19;
- Prudential indicators 2016/2017 to 2018/2019;
- Prospect for interest rates 2016 to 2019;
- Long term borrowing strategy 2016/2017;
- Debt rescheduling opportunities;
- Investment strategy 2016/2017;
- Short term (cash flow) borrowing strategy 2016/2017;
- Other current treasury issues.

2.2. Current Long Term External Borrowing & Investment Position

2.2.1. In order to place the Treasury Management Strategy in context, the Council's treasury portfolio position at 31.12.2015 comprised:

		Principal £million	Ave Rate %
Long Term Borrowing			
Opening Balance	31.03.15	461.453	4.147
New Borrowing to	31.12.15	0.000	
Borrowing Repaid to	31.12.15	(6.354)	
Rescheduling:			
Borrowing Repaid Early to	31.12.15	0.0	
Borrowing Replaced	31.12.15	0.0	
Total Borrowing at	**31.12.15**	**455.099**	**4.147**
Investments			
LCC at	31.12.15	258.736	
Pension Fund at	31.12.15	7.623	
Total Investments at	**31.12.15**	**266.359**	**0.746**
Net Borrowing at	**31.12.15**	**188.740**	

2.3. Long Term Borrowing Requirement 2015/2016 to 2018/2019

2.3.1. The long term borrowing requirement for 2015/2016 to 2018/2019, as detailed in the Council Budget -2016/17 Report, which is to be considered by the County Council at its meeting on the 19th February 2016, is as follows:

Long Term Borrowing Requirement	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
New Borrowing	70.761	78.794	28.760	8.592	**186.907**
Replacement Borrowing	11.354	15.354	15.354	35.497	**77.559**

2.3.2. Some of the 2015/16 borrowing requirement may be met by internal resources, not external borrowing. The balance of internal borrowing at the start of the year was £84.566m. Because of the internal borrowing undertaken, the Council's actual external borrowing position remains below its Capital Financing Requirement (CFR), a Prudential Indicator, which is a measure of the Council's underlying borrowing need.

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

2.4. Affordable Borrowing Limit for 2016/2017 to 2018/2019

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

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

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

2.4.4. The Prudential Indicator for the 'Authorised Limit for External Debt', as required by the Prudential Code, is the statutory Affordable Borrowing Limit as determined under the 2003 Act, and this limit must be set on a rolling basis for the forthcoming financial year and two successive financial years. The Council's Authorised Limit For External Debt for 2016/17 to 2018/19 has been set as follows: -

	2016/17 £million	**2017/18 £million**	**2018/19 £million**
Borrowing	584.851	611.799	637.747
Other Long Term Liabilities	14.198	13.722	13.107
TOTAL	**599.049**	**625.521**	**650.854**

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

2.5. Prudential Indicators for 2016/2017 to 2018/2019

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

2.5.2. They have been extracted from the comprehensive list of all Prudential Indicators proposed for the Council submitted, as per the requirements of the Prudential Code, with the Council Budget 2016/17 Report, which is to be considered at the meeting of the County Council on 19th February 2016.

2.6. Prospect for Interest Rates 2016-2019

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

Annual Average %	Bank Rate %	Money Rates %		PWLB Borrowing Rates % (Certainty Rate)		
		3 month	1 year	5 year	25 year	50 year
Mar 2016	0.50	0.50	1.00	2.00	3.40	3.20
June 2016	0.50	0.50	1.00	2.10	3.40	3.20
Sept 2016	0.50	0.60	1.10	2.20	3.50	3.30
Dec2016	0.75	0.80	1.20	2.30	3.60	3.40
Mar2017	0.75	0.90	1.30	2.40	3.70	3.50
June 2017	1.00	1.00	1.50	2.50	3.70	3.60
Sept 2017	1.00	1.10	1.60	2.60	3.80	3.70
Dec 2017	1.25	1.30	1.80	2.70	3.90	3.80
Mar 2018	1.25	1.40	1.90	2.80	4.00	3.90
Jun 2018	1.50	1.50	2.00	2.90	4.00	3.90
Sept 2018	1.50	1.60	2.10	3.00	4.10	4.00
Dec 2018	1.75	1.80	2.30	3.10	4.10	4.00
Mar 2019	1.75	1.90	2.40	3.20	4.10	4.00

Economic Commentary

2.6.2. UK GDP growth rate in 2015 looks likely to be weaker than that of 2013 (2.2%) and 2014(2.9%) by coming in at around 2%. The November Bank of England (BOE) Inflation Report included a forecast for growth to remain around 2.5% to 2.7% over the next three years, driven mainly by strong consumer demand as a result of a recovery in wage inflation at the same time that CPI inflation has fallen to near zero since February 2015. Weak worldwide economic statistics and volatile financial markets have been flagged as concerns to this forecast.

2.6.3. The BOE Inflation Report also has a subdued forecast for inflation which was expected to barely get back up to the 2% target within the 2 to 3 year time horizon. Falling oil, gas and food prices mean that inflation will struggle to reach 1% by the end of 2016, forecast not to reach 2% until the second half of 2017.

2.6.4. Weakening of growth and inflation prospects and the deterioration of prospects worldwide, particularly in emerging markets, have led to the forecast for the first increase in rates being pushed forward again to December 2016. The risk of this increase being pushed further forward is likely.

2.6.5. The US increased their Base Rate by 0.25% in December 2015 as a result of strong growth and unemployment figures. However the Fed indicated that further increases will be at a much slower rate, and to a much lower ultimate ceiling, mirroring comments by our own Monetary Policy Committee (MPC).

2.6.6. In the Eurozone, the ECB extended the £1.1 trillion programme of quantitative easing to buy up high credit quality government debt of selected EZ countries and also cut its deposit facility rate by 0.10% from -0.2% to -0.3% during the year. This has led to some improvement in economic growth whilst their inflation remains around zero.

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

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

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances (internal borrowing) has served well over the last few years, however, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future, when external borrowing has to be taken;

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

2.7. Long Term Borrowing Strategy 2016/2017

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

- Long term rates are difficult to predict for reasons already stated. They are forecast to rise gradually over 2016/17 by around 0.30% starting from a lower base than previously predicted, but will still be at a historically low level. At the time of writing suggested target rates for borrowing are as follows: 50 yr 3.20%, 25 yr – 3.40%, 10yr – 2.60% and 5 yr – 2.00%.

- The Council's Long Term Borrowing Maturity Profile as at 22nd February 2016 can be seen as Appendix D. It shows actual maturities and also possible maturities from the LOBO debt taken. Gaps in the maturity profile are between 13 years and 37 years, then after 44 years. Any new borrowing taken should focus on these lengths at prevailing rates of interest.

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

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

- Short term borrowing (up to 10 years) from the money market or other local authorities, at investment level rates, will be an available option.

External V Internal Borrowing

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

2.7.3. The table below shows the comparison between the Council's gross and net debt positions at the year end from 2014/15 to 2018/19.

Comparison of gross and net debt at year end	**2014/15 Actual £m**	**2015/16 Probable Outturn £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Actual External Debt (Gross)	461.453	511.289	566.561	570.368	552.120
Cash Balances (Investments)	159.034	136.763	117.214	117.214	117.214
Net Debt	302.419	374.526	449.347	453.154	434.906
Net Debt as % of Gross Debt	65.5%	73.3%	79.3%	79.4%	78.8%

2.7.4. The table shows that the difference between gross and net debt is the level of investments held by the Council. It shows that the level of investments should fall in 2015/16, reflecting the internal borrowing strategy taken to a level whereby opportunities for further internal borrowing from 2016/17 onwards are limited in order to maintain adequate balances for liquidity/cash flow requirements. The falling investment levels also reflect the planned use of reserves in the forthcoming years to meet budget shortfalls.

Minimum Revenue Provision / Repayment of Debt

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

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

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

Type of Asset	**Estimated Asset Life in Years**
Land	50
Construction	70 Revised from 40
Matched Funding	41 New
Repair & Maintenance	20
Infrastructure	120 Revised from 60
Road Maintenance	20
Bridges	120
Integrated Transport	20
Waste Transfer Plant	40
Heavy Engineering Equipment	30
Vehicles	4
Long Life Specialist Vehicles	15
Equipment	5
IT	4
ERP Finance System	10 New
Mosaic	10 New
Broadband	15 New

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

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

Borrowing in Advance of Need

2.7.9. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- consider the merits and demerits of alternative forms of funding.
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- limit borrowing in advance to no more than 25% of the expected increase in borrowing need (CFR) over the three year planning period. (Voluntary Prudential Indicator).

2.7.10. Given the factors detailed in 2.7 above, the following borrowing strategy will be adopted for 2016/17:

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

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

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

Borrowing in advance of need will be undertaken during the year if considered appropriate following the Council's policy as detailed in 2.7.9 above.

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

2.8. Debt Rescheduling

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

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

2.8.3. To date interest savings have been made by rescheduling existing PWLB EIP[2] loans into PWLB maturity[3] loans. At the time of writing £18.931 million of EIP debt, from the Council's total debt portfolio of £455.099 million, remains to be rescheduled given the opportunity.

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

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

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

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

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

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

2.8.6. The appropriate timing of any rescheduling will be monitored throughout 2016/17 by the Council and Capita Asset Services Ltd. However, PWLB to PWLB debt restructuring is now much less attractive because of the large premiums that would be incurred due to the introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt.

2.9. Investment Strategy 2016/2017

2.9.1. A 0.25% increase in Bank Rate is forecast to come in the third quarter of 2016/17 around December 2016, rising another 0.25% by the end of the financial year. The risk to this forecast is however weighted towards the downside, given the slow pace of growth and inflation.

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

2.9.3. The Council's investment level is forecast to be around £150 million net of Pension Fund cash in 2016/17, of which around £80 million can be identified as 'core' balances which will be available to invest for longer periods of investment. The remaining balance of cash is cash-flow driven.

2.9.4. The Council's investment priorities are:

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

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

2.9.5. Given these factors above, the following investment strategy will be adopted for 2016/17:

For the element of the Council's investment portfolio that represents 'core' balances, investments will be made in all periods of 3 months to 2 years, to acceptable counterparties, to lock into rates in excess of the predicted base rate level. The Council will avoid locking into longer term deals (beyond 1 year) while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile. Extensive use of Bank Business Reserve Accounts and Money Market Funds[6] will be made, that offer returns close to or in excess of base rate level, for the Council's 'core' cash and cash flow generated balances. The target investment return for investments for 2016/17 is the weighted 7 day/3 month LIBID benchmark that reflects the risk parameters of the investment portfolio. This is a relative benchmark which moves with the markets, but as an indication the benchmark rate at 31st December 2015 was 0.44%.

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

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

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

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

[6] Pooled investment vehicles offering returns equivalent of up to 1 month cash deposits whose assets comprise of cash type investments such as Certificates of Deposit, Commercial Paper and Cash Deposits.

[7] A bearer instrument which certifies that a sum of money has been deposited with the bank issuing the certificate at a fixed yield and on the stated maturity date the deposit is repaid with interest. The maturity length is typically from 1 month to 1 year.

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

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

institutions identified in the Council's approved counterparty investment list.

2.10. Short Term (Cash Flow) Borrowing Strategy 2016/2017

2.10.1. During 2016/2017, when short term interest rates for temporary borrowing are significantly lower than yields earned on the Council's Call Accounts and Money Market Funds, then if required for cash flow purposes, temporary short term borrowing will be taken instead of drawing on investments, in order to minimise the loss of interest from withdrawing funds at higher rates or to cover

2.11. Other Current Treasury Issues

2.11.1. Long Term Borrowing – School Loans Scheme 2016/17
Long Term Borrowing from the PWLB on behalf of schools as part of the schools loan scheme will be undertaken throughout 2016/2017 as and when required and on terms requested by schools.

2.11.2. Leasing Requirements – School IT and General Equipment
It is anticipated that up to £500,000 of School IT and general equipment can be leased in 2016/2017 as part of an agreed strategy for acquiring use of such equipment by schools. Three and five year finance leases will be arranged on behalf of the schools as required.

2.11.3. Policy on the Use of External Service Providers
The Council uses Capita Asset Services Ltd as its external treasury management advisers.

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

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2.11.4. Pension Fund Cash

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

3. ANNUAL INVESTMENT STRATEGY 2016/2017

3.1. In accordance with Section 15(1) of the Local Government Act 2003, Lincolnshire County Council has adhered to the Guidance on Local Government Investments issued by the Secretary of State, and as such has produced its Annual Investment Strategy for 2016/2017 detailed below.

3.2. The Council's investment priorities will be security first, liquidity second, and then return. The intention of the Strategy is to provide security of investment and minimisation of risk. The aim of the Strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. Investment instruments identified for use in 2016/2017 under Specified and Non-Specified investment categories are detailed below.

3.3. Specified Investments

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

- Investments made in sterling, which mature within and including 12 months (such investments to include fixed, callable or forward term deposits as appropriate[10], Certificates of Deposit, Treasury Bills and Dated Bonds), with the following categories: -

    - UK Government/ Supranationals/ Multilateral Development Banks
    - Local Authorities
    - Body or Investment Scheme meeting the required level of credit quality as determined by credit rating agencies. Lincolnshire County Council has determined this required level of credit quality to be as follows: -

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

<table>
<tr><th>Body or Investment Scheme</th><th>Capita Weighted Credit Colour Band</th><th>Minimum Acceptable Credit Rating +</th></tr>
<tr><td rowspan="4">Bank, Building Society or Corporate</td><td>Blue (Nationalised / Semi Nationalised UK Banks only</td><td rowspan="2">Long Term Rating (Any two Rating Agencies):
A+</td></tr>
<tr><td>Orange</td></tr>
<tr><td>Red</td><td rowspan="2">Sovereign Rating (Any two Rating Agencies): AA-</td></tr>
<tr><td>Green</td></tr>
<tr><td>Money Market Funds</td><td></td><td>Long Term Rating (Moodys): Aaa/MR1+ or (Fitch): AAA or (S & P): AAAm</td></tr>
</table>

+For definition of credit ratings see Appendix F.

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

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

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

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

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

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

***Sovereign Rating**
The Council's additional minimum Sovereign Rating has been reduced from AAA to AA-. This is due to recent banking legislation introduced last year, whereby less emphasis is placed on Sovereign Ratings by the Credit Rating Agencies who have removed the effect of Sovereign Support from an entities individual rating. This now makes it more important to focus solely on the ratings of an entity itself within an investment strategy. Dropping the minimum Sovereign limit to AA- is in line with Capita's creditworthiness policy and will allow greater depth and diversification to the Council's Counterparty list (opening up access to banks in Belgium and France again), while still maintaining the tenets of security and liquidity.

****Long Term Rating**
The Council's additional minimum Long Term Rating is set at A+ or equivalent. It is proposed to accept this rating from a minimum of two out of the three rating agencies from 2016/17. Several banks, including Bank of Scotland/Lloyds TSB, are consistently rated at A+ by two agencies, but A by the third. This is only one notch down by the third agency, Standard & Poors, reflecting its different method of calculating its ratings than the other two, rather than a poorer reflection of its view of the entities in question. Allowing two out of three, will enable the Council to include such entities on its Lending List with no additional risk. This action is again supported by Capita.

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

Duration and Limits

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

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

*** *Applies to nationalised or semi nationalised UK Banks*:-

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

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

At the time of writing, the only UK Bank falling into this category is now the Royal Bank of Scotland Group, which included National Westminster Bank.

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

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

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

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

3.4. Non-Specified Investments

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

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

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

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

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

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

+ For definition of credit ratings see Appendix F.

The following duration and amount limits have been assigned to these colour bands based on average balances as follows:

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

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

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

3.5. Additions to Non-Specified Investment List

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

3.6. Liquidity of Investments

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

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

3.7. **Training Needs for Treasury Management Staff**

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

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

2. Conclusion

The Treasury Management Strategy, determining appropriate borrowing and investment decisions, and the Annual Investment Strategy, outlining the Council's policy for investments, have been set for 2016/17 in light of the anticipated economic environment and movement of interest rates for the year ahead.

3. Consultation

a) Policy Proofing Actions Required

Not applicable.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Prudential and Treasury Indicator Table 2016/17 to 2018/19.
Appendix B	Interest Rate Forecast for 2016-2019.
Appendix C	Economic Background.
Appendix D	Long Term Borrowing Maturity Profile at 22-2-2016.
Appendix E	Minimum Revenue Provision Policy.
Appendix F	Definition of Credit Ratings and Credit Default Swap Spreads.

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
Council Budget 2016/17 - 19th February 2016	Lincolnshire County Council, Finance & Public Protection
Minimum Revenue Provision - 12th January 2009	Lincolnshire County Council, Finance & Public Protection
LCC Treasury Management Policy Statement and Treasury Management Practices	Treasury and Financial Strategy Section, Finance & Public Protection

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

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Policy & Scrutiny Report
Value for Money Scrutiny Committee – 22nd February 2016.
Treasury Management Strategy Statement and Annual Investment Strategy 2016/17

APPENDIX A

PRUDENTIAL INDICATORS:	*2015/16*	2016/17	2017/18	2018/19
Affordability:				
Increase in council tax levels	*-£2.07*	£22.29	£11.63	£15.66
Ratio of Net Financing Costs to Net Revenue Stream	*5.89%*	6.58%	6.94%	7.43%
Ratio of MRP & Interest Payments to Net Revenue Stream -10% limit (Voluntary Indicator)	*5.96%*	6.69%	7.18%	7.75%
Capital Expenditure:	***£m***	**£m**	**£m**	**£m**
Capital Financing Requirement CFR (as at 31 March)	*596.583*	599.970	631.704	640.563
Gross External Borrowing Forecast	*500.424*	505.072	537.246	546.676
TREASURY INDICATORS (within the Prudential Code):				
Authorised limit for external debt -				
Borrowing	*569.078*	584.851	611.799	637.747
Other long term liabilities	*14.938*	14.198	13.722	13.107
TOTAL	*584.016*	599.049	625.521	650.854
Operational boundary -				
Borrowing	*545.078*	560.851	587.799	613.747
Other long term liabilities	*12.938*	12.198	11.722	11.107
TOTAL	*558.016*	573.049	599.521	624.854
TREASURY INDICATORS (with the TM Code):				
Gross and Net Debt				
Borrowing in advance of need limited to percentage of the expected increase in CFR over the 3 year budget period. (Voluntary Indicator)	*25%*	25%	25%	25%
Upper limit for fixed interest rate exposure	***£m***	**£m**	**£m**	**£m**
Net principal re fixed rate borrowing less investments	*640.563*	640.563	640.563	640.563
Upper limit for variable rate exposure	***£m***	**£m**	**£m**	**£m**
Net principal re variable rate borrowing less investments	*192.169*	192.169	192.169	192.169
	£m	**£m**	**£m**	**£m**
Upper limit for total principal sums invested for over 364 days (per maturity date)	*40.000*	40.000	40.000	40.000

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

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Policy & Scrutiny Report **Appendix B**

Value for Money Scrutiny Committee -22nd February 2016

Treasury Management Strategy Statement & Annual Investment Strategy 2016/17

Interest Rate Forecasts 2016-2019

Capita Asset Services Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

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Treasury Management Staretgy Statement & Annual Investment Strategy 2016/17

APPENDIX C

Economic Background –Capita Asset Services Ltd

The UK Economy
UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- *Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.*
- *Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.*
- *Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.*

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.

However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and ‘noflation’ was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 19 January 2016. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. . There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 4 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in January 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2017.

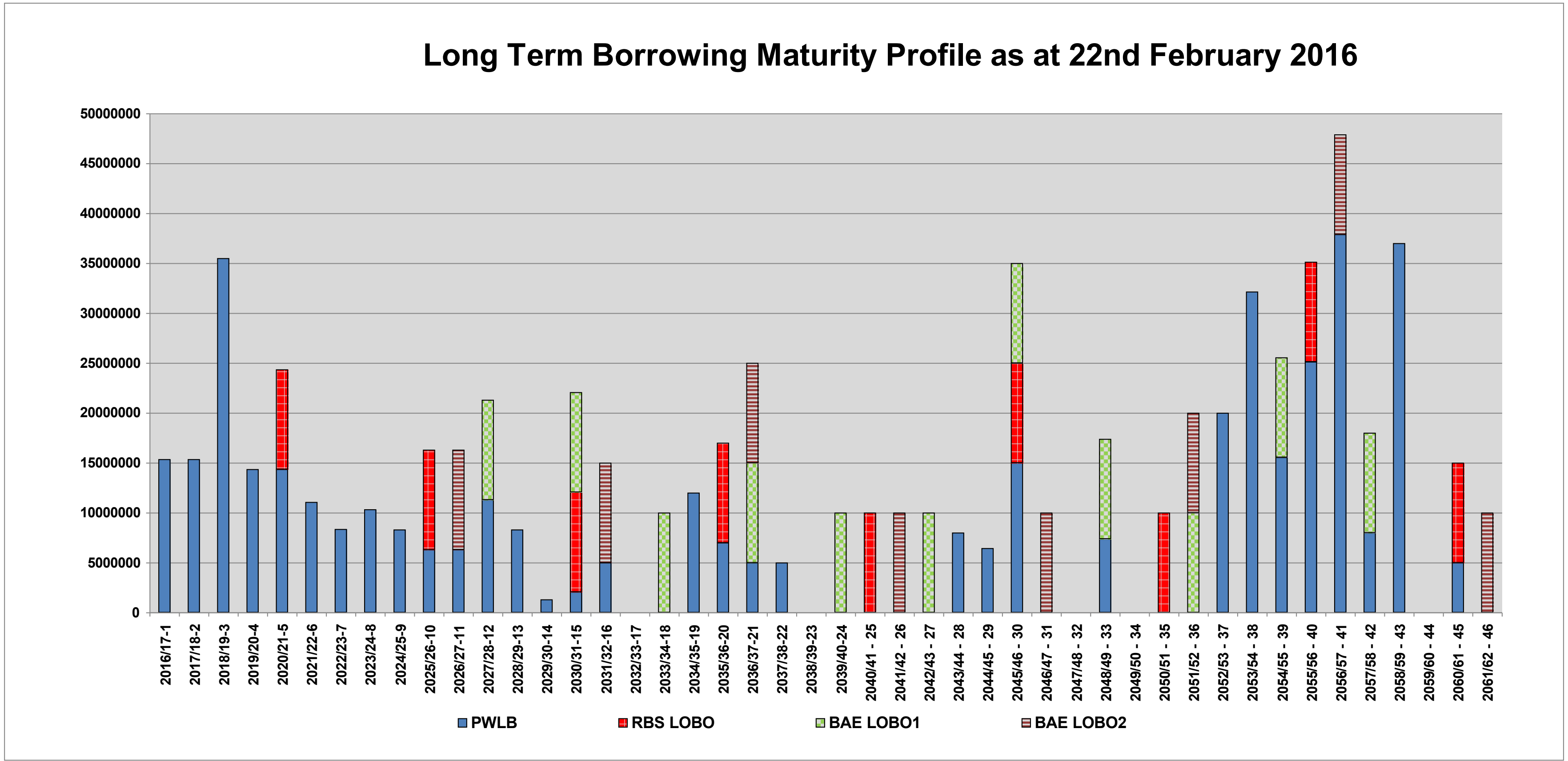
Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- 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 combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate 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.

Policy & Scrutiny Report
Value For Money Scruntiny Committee -22nd February 2016 **Appendix D**
Treasury Management Strategy Statement & Annual Investment Report 2016/17



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APPENDIX E

Resources Policy Development Group
12 January 2009

MINIMUM REVENUE PROVISION

Report by the Director of Resources

Introduction

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

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

Background

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

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

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

The Council must select and apply one of these options.

MRP options

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

The options are described below.

Capital financing requirement method

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

Depreciation method

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

Average life method

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

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

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

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

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

Asset lives

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

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

Impact on the Council's spending

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

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

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

The MRP should therefore be met within existing budget proposals.

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

Recommendation

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

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APPENDIX F

Definition of Credit Ratings and Credit Default Swap Spreads

Credit Ratings:

Long Term Rating (Fitch)

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

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

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

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

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

Sovereign Ratings (Fitch)

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

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

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

Credit Rating Watches and Outlooks issued by Credit Rating Agencies

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

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

Money Market Fund Rating (Moodys)

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

Credit Default Swap (CDS) Spreads

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

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

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of the Director responsible for Democratic Services

Report to:	**Value for Money Scrutiny Committee**
Date:	**22 February 2016**
Subject:	**Value for Money Scrutiny Committee Work Programme**

Summary:

This item enables the Committee to consider and comment on the content of its work programme for the coming year.

Actions Required:

To consider and comment on the work programme as set out in Appendix A to this report.

1. Background

The Committee's work programme for the coming year is attached at Appendix A to this report. The Committee is invited to consider and comment on the content of the work programme.

Work Programme Definitions

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

Budget Scrutiny - The Committee is scrutinising the previous year's budget, or 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

To consider and comment on the Work Programme.

3. Consultation

a) Policy Proofing Actions Required

This report does not require policy proofing.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Value for Money Scrutiny Committee Work Programme
Appendix B	Forward Plan of Decisions relating to 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 Nigel West, who can be contacted on 01522 552840 or by e-mail at nigel.west@lincolnshire.gov.uk

APPENDIX A

VALUE FOR MONEY SCRUTINY COMMITTEE

Chairman: Councillor Mrs Angela Newton
Vice Chairman: Councillor Mrs Jackie Brockway

22 February 2016		
Item	**Contributor**	**Purpose**
Serco Contract Performance	Judith Hetherington-Smith Chief Information and Commissioning Officer	Performance Scrutiny
Property Services update	Kevin Kendall, Chief Property Officer	Update Report
Treasury Management Quarter 3 Performance (1 October to 31 December 2015)	Karen Tonge, Treasury Manager	Performance Scrutiny
Treasury Management Strategy Statement 2016/17	Karen Tonge, Treasury Manager	Pre-Decision Scrutiny – (Executive Councillor: Finance and Property, 21 March 2016)

26 April 2016		
Item	**Contributor**	**Purpose**
Serco Contract Performance	Judith Hetherington-Smith Chief Information and Commissioning Officer	Performance Scrutiny

21 June 2016		
Item	**Contributor**	**Purpose**
Treasury Management Performance Quarter 4 (1 January to 31 March 2016) including Treasury Management Annual Report	Karen Tonge, Treasury Manager	Performance Scrutiny
Serco Contract Performance	Judith Hetherington-Smith Chief Information and Commissioning Officer	Performance Scrutiny

26 July 2016		
Item	**Contributor**	**Purpose**
Serco Contract Performance	Judith Hetherington-Smith Chief Information and Commissioning Officer	Performance Scrutiny

Items to be scheduled

- People Strategy Update
- Voice of the Customer Annual Feedback Report
- Corporate Health and Safety Annual Report

For more information about the work of the Value of Money Scrutiny Committee please contact Nigel West, Head of Democratic Services and Statutory Scrutiny Officer, on 01522 552840 or by e-mail at nigel.west@lincolnshire.gov.uk

APPENDIX B

Forward Plan of Decisions relating to Value for Money Scrutiny Committee

DEC REF	MATTERS FOR DECISION	DATE OF DECISION	DECISION MAKER	PEOPLE/GROUPS CONSULTED PRIOR TO DECISION	DOCUMENTS TO BE SUBMITTED FOR DECISION	HOW AND WHEN TO COMMENT PRIOR TO THE DECISION BEING TAKEN	RESPONSIBLE PORTFOLIO HOLDER AND CHIEF OFFICER	KEY DECISION YES/NO	DIVISIONS AFFECTED
I010711	Treasury Management Strategy Statement and Annual Investment Strategy 2016/17	21 March 2016	Executive Councillor: Finance, Property	Value for Money Scrutiny Committee	Report	County Finance Officer Tel: 01522 553642 Email: david.forbes@lincolnshire.gov.uk	Executive Councillor: Finance, Property and Executive Director of Finance and Public Protection	No	All Divisions

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