County Offices
Newland
Lincoln
LN1 1YL

20 February 2017

Value for Money Scrutiny Committee

A meeting of the Value for Money Scrutiny Committee will be held on **Tuesday, 28 February 2017 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

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

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

VALUE FOR MONEY SCRUTINY COMMITTEE AGENDA
TUESDAY, 28 FEBRUARY 2017

10	**Value for Money Scrutiny Committee Work Programme** *(To receive a report from Daniel Steel, Scrutiny Officer, which provides the Committee with the opportunity to consider its' work programme for the forthcoming year)*	135 - 138

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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
17 JANUARY 2017

PRESENT: COUNCILLOR MRS A M NEWTON (CHAIRMAN)

Councillors Mrs J Brockway (Vice-Chairman), P M Dilks, I G Fleetwood, C E D Mair, R B Parker, P Wood and Mrs H N J Powell

Councillor M A Whittington attended the meeting as an observer

Officers in attendance:-

Paul Briddock (Partnership Director, Serco), Andrea Brown (Democratic Services Officer), David Forbes (County Finance Officer), Ciaran Gaughran (Serco Contract Manager), Judith Hetherington Smith (Chief Information and Commissioning Officer), Kevin Kendall (County Property Officer), Pete Moore (Executive Director, Finance and Public Protection), Daryl Pearce (County Officer Public Protection), Sophie Reeve (Chief Commercial Officer), Daniel Steel (Scrutiny Officer), Fiona Thompson (Service Manager - People) and Richard Wills (Executive Director, Environment and Economy)

34 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies for absence were received from Councillors S F Kinch, A G Hagues and Mrs M J Overton MBE.

It was noted that the Chief Executive, having received notice under the Local Government (Committee and Political Groups) Regulations 1990, had appointed Councillor Mrs H N Powell to the Committee in place of Councillor Mrs M J Overton MBE, for this meeting only.

35 DECLARATIONS OF MEMBERS' INTERESTS

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

36 MINUTES OF THE LAST MEETING OF THE VALUE FOR MONEY SCRUTINY COMMITTEE HELD ON 22 NOVEMBER 2016

RESOLVED

That the minutes of the meeting of the Value for Money Scrutiny Committee held on 22 November 2016 be agreed and signed for by the Chairman as a correct record.

37 ANNOUNCEMENTS BY THE EXECUTIVE COUNCILLOR FOR GOVERNANCE AND COMMUNICATIONS, COMMISSIONING, FINANCE AND PROPERTY AND CHIEF OPERATING OFFICERS

It was reported that there were no announcements from either the Executive Councillor for Governance and Communications, Commissioning, Finance and Property or senior officers.

38 PERFORMANCE OF THE CORPORATE SUPPORT SERVICES CONTRACT

Consideration was given to a report from the Chief Information and Commissioning Officer which provided an update of Serco's performance against contractual Key Performance Indicators for October and November 2016.

Judith Hetherington Smith (Chief Information and Commissioning Officer) introduced the report and advised the Committee that the December figures would not be verified until 20 January 2017. The meeting of the Value for Money Scrutiny Committee was being held earlier than usual which meant that the data for December could not be presented. It was confirmed, however, that the report to be presented at the meeting arranged for 28 February 2017 would include figures for December 2016 and the January 2017 figures would be provided for the meeting.

It was noted that the KPI performance results for December 2016 would be the first using the new KPI suite, which included 40 individual KPIs, agreed through the KPI Review 2016/17.

Paul Briddock (Partnership Director for Serco) was also in attendance for this item and confirmed that there had been a great effort made throughout December and that Serco looked forward to the verification of the new figures.

Members were invited to ask questions, during which the following points were noted:-

- It was reported that, although not yet verified, KPI01 in finance appeared to have performed better in December but it was known whether it would be possible to sustain this in January. Although performance was thought to be improving and could be better measured against the new indicators, it was noted that Serco envisaged meeting all indicators by April 2017;
- The Committee again noted that the KPIs would not be met until the contract had been in place for two years and whilst it was acknowledged that improvements had been made in some areas, the overall picture remained a concern;
- The Customer Services Centre (CSC) remained consistently good and the Adult Social Care area of finance had also helped to improve income collection which had resulted in a strong area of performance. Problematic areas of finance related to the timing of invoice payments (KPI01) and payroll including the impact on schools and LCC staff including performance

contractually. This was an area which was expected to see real improvement over the next three months;

- There were ongoing concerns relating to IMT which remained an area of focus for Serco who had commissioned outside help to assist with the issues;
- Within the contract, Serco were allowed one major system failure before any service credit would be applied. Should there be a second occurrence, Serco would incur service credits;
- It was suggested that detailed training, for Councillors, about the award and monitoring of contracts in order to effect change be recommended to the Councillor Development Group;
- It was clarified that any payroll queries were 'triaged' and prioritised in order of severity;
- When asked what the consequences would be to the residents of Lincolnshire should there be a serious system failure, it was explained that Agresso, for example, would cause a lot of disruption to the council which could, in turn, have an impact on other services. The KPI in this instance was constructed realistically to allow for any problems which might occur occasionally;
- In relation to IT, it was acknowledged that businesses were totally dependent on IT hence the need to have tight KPIs on those indicators;
- The future of the Recovery Board and the Terms of Reference were unclear following the agreement of the new Scrutiny Structure and the cessation of the Value for Money Scrutiny Committee after the election in May 2017. Although acknowledged that the Recovery Board was not part of the formal Scrutiny arrangements, the Scrutiny Officer was asked to clarify the position of the Recovery Board following the implementation of the new arrangements.

RESOLVED

1. That the report and contents be noted; and
2. That detailed training in relation to the award and monitoring of contracts be suggested to the Councillor Development Group.

The Chairman advised the Committee that this would be the last meeting which Judith Hetherington Smith (Chief Information and Commissioning Officer) would attend prior to her retirement. On behalf of the Committee, the Chairman gave thanks for the continued support and work offered to the Value for Money Scrutiny Committee during her time with Lincolnshire County Council.

39 <u>REVENUE AND CAPITAL BUDGET PROPOSALS 2017/18</u>

Consideration was given to a report from the Executive Director of Finance and Community Safety which described the budget proposals arising from the Provision Local Government Settlement announced on 17 December 2016. 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"*.

David Forbes (County Finance Officer) guided the Committee through the report, highlighting the savings within Democratic Services to reflect the Boundary

Commission recommendation to reduce the size of the Council from 77 to 70 from May 2017. Relevant officers were invited to introduce details of their own service areas.

Richard Wills (Executive Director of Environment and Economy) introduced the sections on Information Management and Technology Strategy and Support (paragraph 1.16) and Strategic Communications (paragraph 1.22).

Members were invited to ask questions on this section, during which the following points were noted:-

- It was acknowledged that the lack of performance by Serco in Information Management and Technology had hampered progress as it had been necessary to extend staffing requirements in order to implement necessary systems. MOSAIC had taken longer than anticipated to implement but it was noted that this was now working well, however several projects remained outstanding;
- Vacancies for roles included within the budget plan, within Strategic Communications, would be consolidated and removed from the structure as part of the savings plan. It was noted that there would be little difference to the current staffing level as the positions referred to had been vacant for some time. Digital engagement was likely to be developed in the future as this appeared to be the best way to communicate with the public in the current climate;
- Service credits were used towards the end of the financial year and consideration given whether this was possible from the credit budget;
- It was explained that £1.9m remained in the capital budget for issues relating to Agresso but that once the system was running as expected, this money would have to be released.

Daryl Pearce (County Officer Public Protection) introduced the section in relation to Business Support (paragraph 1.21) which proposed savings of £1.233m.

Members were invited to ask questions on this section, during which the following points were noted:-

- Line management had been reduced by 6% which made up some of the savings;
- £600k of the savings was due to a change in contracts including post, courier, photocopying, etc. The Committee requested further information on these savings and it was agreed that this would be provided after the meeting;
- A review was expected to take place in terms of staff allocated to Agresso and requisitioning and also the offer to children's services. The Committee was asked to note the importance of maintaining the offer to services but to ensure the welfare of staff;
- Better procurement and more efficient ways of delivering services was the aim of the review and this was partly dependent on interrelations with other service areas;

- £2.7m had been removed, successfully, from this budget area over the past three years;
- It was confirmed that £1.2m was the target savings and that this particular service area was budget led. Local authorities were required to considerably reduce budgets and had therefore been required to make significant changes in back office function to minimise the impact on frontline services. The Committee was concerned about the proposed savings due to this being, predominantly, a staffing budget. Councillors stressed the need to manage the proposed savings whilst continuing to consider the welfare of staff affected;
- Although a four year financial profile had been prepared, it had been agreed to publish a one year budget at this stage. It was suggested that the new council may decide to prioritise different areas in which case the financial profile and future budgets would need to be amended. A Councillor highlighted concern about having a one year budget and how the County Council would manage the continued reduction in reserves given the ever increasing pressure on services.

Fiona Thompson (Service Manager – People) introduced the section on People Management (paragraph 1.19) and reported that the Serco Training and Development Team were facilitating the management training as part of the core contract. Members were highlighted to a permanent cost pressure of £32k for the provision of asbestos medical assessments for firefighters.

Members were invited to ask questions, during which the following points were noted:-

- It was explained that a number of senior and middle managers had enrolled onto the new leadership course which comprised a series of master classes as well as access to online management and leadership development resources;
- The overall occupational health budget was held by People Management which incorporated medical assessments for all staff and it was confirmed that medical assessments for asbestos would be undertaken for all firefighters;
- The proposed budget decisions to end the two year graduate programme was identified as being an area of potential risk and it was noted that the average age of the employee base was increasing and this warranted the need to continue to train and develop future talent. It was also noted that the Council aimed to utilise new apprenticeship funding opportunities from April 2017, which included the creation of new higher level apprenticeship frameworks up to Level 8 which was a post graduate level qualification. The report to be presented to the Committee in February 2017 would refer to this and other succession planning activity.

Kevin Kendall (County Property Officer) introduced the section of Property Strategy and Support (paragraph 1.18) which noted the proposed savings of £216k, of which £141k of these savings would be delivered through the continued rationalisation of the Council's property portfolio.

Members were invited to ask questions, during which the following points were noted:-

- Asbestos in schools was a national concern and the Committee asked what the Council was doing in relation to this issue in Lincolnshire. It was explained that there was an asbestos register and an annual programme for the removal of the asbestos with a specific budget to support that programme. The Committee was asked to note that asbestos would not be removed unless it became problematic or if a school was to make any building alterations;
- There were different grades of asbestos and schools also held an asbestos register on site which were to be updated annually. The Committee asked for assurance that these updates were undertaken.

David Forbes (County Finance Officer) introduced the sections on Commissioning (paragraph 1.20) and Capital Programme (paragraph 1.23). Within the Commissioning Budget, the proposed saving of £161k would be achieved by the removal of the position of the Chief Information and Commissioning Officer at the end of March 2017. The Capital Programme included set budgets each year by using the expected demand for schemes and projects for that year.

Members were invited to ask questions, during which the following points were noted:-

- It was confirmed for the Committee that the £3.2m referred to in paragraph 1.24 for maintenance of existing property assets and essential property works linked to Asbestos, work place regulations and disabled access was an annual block which had slowly reduced in recent years. It was acknowledged that the introduction to that paragraph – *"The proposed additions to the net programme in 2017/18 for this commissioning strategy is…"* – could be misleading as the sum indicated was not actually an addition to the budget.

RESOLVED

1. That the report and contents be noted; and
2. That the comments of the Value for Money Scrutiny Committee be provided to the Executive for consideration at its meeting on 7 February 2017.

40 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.

It was confirmed that Sophie Reeve (Chief Commercial Officer) would present future reports on the performance of the Corporate Support Services Contract.

RESOLVED

That the work programme as noted within Appendix A of the report be agreed.

The meeting closed at 11.50 am

Policy and Scrutiny

Open Report on behalf of Tony McArdle, Chief Executive

Report to:	**Value for Money Scrutiny Committee**
Date:	**28 February 2017**
Subject:	**Performance of the Corporate Support Services Contract**

Summary:

This report provides an update of Serco's performance against contractual Key Performance Indicators specified in the Corporate Support Services Contract during December 2016. December's results are the first using the new KPI suite (with 40 KPIs) agreed through the KPI Review 2016/17, a report on which was previously scrutinised by committee.

KPI performance results for January 2017 are still being reviewed at the time of writing this report but will be available in time for the committee meeting as a late addendum report.

The report also provides an update on the progress made on key transformation projects being undertaken by Serco.

Actions Required:

Members of the Value for Money Scrutiny Committee are invited to consider and comment on the report and highlight any recommendations or further actions for consideration.

1. Abbreviations

CSS	Corporate Support Services	**PM**	People Management
KPI	Key Performance Indicator	**F**	Finance (Exchequer)
TSL	Target Service Level	**ACF**	Adult Care Finance
MSL	Minimum Service Level	**CSC**	Customer Services Centre
IMT	Information Management and Technology	**RAG**	Red / Amber / Green

2. Background

In March 2014, Serco Limited was awarded the Corporate Support Services (CSS) Contract by the Council to deliver a number of back-office functions including:

- People Management (PM)
- Information Management and Technology (IMT)
- Customer Service Centre (CSC)
- Adult Care Finance (ACF)
- Exchequer Finance (F)

Serco commenced service delivery of these functions on April 1 2015. The purpose of the report is to provide an update of Serco's performance in December 2016 (month 21 since services commencement date). It also provides an overview of the strategic transformation projects being delivered by Serco.

The report enables the Value for Money Scrutiny Committee to fulfil its role in scrutinising performance of one of the Council's key contracts.

3. Performance

Appendix A to the report provides the detailed Key Performance Indicators (KPIs) results for the previous 12 months (January 2016 to December 2016) of service delivery broken down by service area. January 2017 KPI performance figures are being prepared at the time of writing this report but will be available for the January committee meeting in the form of an addendum report.

Table 1 below provides summary red/amber/green (RAG) status of the KPIs used to measure all of the service areas for the period September 2016 to December 2016. Red status indicates that Serco's performance against the KPI has failed to meet Minimum Service Levels (MSL), amber status indicates a failure to meet the Target Service Levels (TSL) but has achieved MSL, and green indicates that Serco's performance as measured against the KPI has either met or exceeded the TSL as set out under the CSS Contract.

Table 1: Overall KPI Summary Performance

Overall (All Services) Contract Performance	September 2016 (no of KPIs)	October 2016 (no of KPIs)	November 2016 (no of KPIs)	December 2016 (no of KPIs)
Target Service Level (TSL) achieved	26	24	26	27
Minimum Service Level (MSL) achieved	6	4	5	3
Below Minimum Service Level (MSL)	7	12	9	3
Mitigation Agreed	4	3	3	7
TOTAL	43	43	43	40

December 2016 saw the first use of the new KPI suite agreed between LCC and Serco. It is difficult to draw comparison with overall performance in previous months as it would not be comparing like with like although it can be seen from the table that the number of failed KPIs (thus red) has reduced. In part this is down to the resolution of the previously longstanding disagreements between LCC and Serco on a number of KPIs on the method of measurement which had been a problem under the previous KPI arrangements.

Coincidentally, with the first use of the new KPI suite in December, Mosaic went live and is being used by Serco to deliver a number of adult care functions. This effected Serco’s performance against 6 KPIs in the CSC, IMT and Adult Care Finance. As Mosaic was a delayed LCC initiative which should have gone live prior to Serco commencing service delivery, it was reasonable not to hold Serco to account against these effected KPIs which would in turn create service credits. Thus LCC granted mitigation relief against the effected KPIs. Mosaic going live is bringing many benefits, but as with any major system change it takes time for staff to adjust to new ways of working and some tasks initially take longer as the new approach settles in.

Failed KPIs

Table 8 (in section 9) of this report sets out all of the KPIs which have failed to meet the MSL (thus red) in December and the effect this failure has on the Council.

Mitigation

Additionally Table 9 (in section 10) sets out the background and rationale for LCC granting mitigation for seven KPIs in December. The blue colour indicates mitigation, this means that because of a dependency outside of Serco's control e.g. implementation of Mosaic; it is not appropriate to expect the agreed targets to be fully met. Granting mitigation relieves Serco from the application of abatement points. Abatement points are used to calculate service credits applied to the mo

4. People Management (PM)

Table 2 below shows the summary KPI performance for the People Management (PM) service.

Table 2: PM KPI Summary Performance

People Management (PM) Performance	September 2016 (no of KPIs)	October 2016 (no of KPIs)	November 2016 (no of KPIs)	December 2016 (no of KPIs)
Target Service Level (TSL) achieved	5	3	4	5
Minimum Service Level (MSL) achieved	0	2	1	0
Below Minimum Service Level (MSL)	4	4	4	3
Mitigation Agreed	1	1	1	1
TOTAL	10	10	10	9

In the PM service area, there were 3 KPI failures (PM_KPI_03, PM_KPI_05 & PM_KPI_11)

PM_KPI_03, (*percentage of Payment Deductions paid within Third Party Payment Date per month*), remained red in December. Performance was 96.88% against a target TSL&MSL of 100%. This was due to one payover failure, the HMRC 'Real Time Information' (RTI) payover. The RTI submission was sent to HMRC on time but some records had been removed due to identified errors, as a result only 31 of 32 payovers were considered sent on the required date.

PM_KPI_05, (*People Management First Contact Resolution Rate of Tier 1 Contacts in each month*), although red, this was the first time this KPI was measured. The result of 72.09% is set against a TSL of 85% and MSL of 80%. As the method of measurement for this KPI is now agreed, it will enable the service areas to review the data behind the performance result and identify improvements and possible training for the advisors taking the calls.

PM_KPI_11, (*Percentage of People Management transaction activity completed within the relevant required timescale / target service level as detailed in the 'PM_KPI_11 Service Level Agreement'*), was red with a performance of 71.42% against a TSL of 80% and an MSL of 75%. This is a new KPI which is supported by a very comprehensive 'Service Level Agreement' (SLA) agreed between LCC and Serco that is made up of a number of functions delivered by Serco (e.g. the issuing of P45 statements within 3 days of request being made). The underperformance of some of these services highlights that Serco are not currently delivering to the agreed targets in all areas. However the targets set are demanding and Serco is committed to ongoing improvements as well as introducing new measures into the

SLA that will provide the Council with better oversight to help manage the performance and outputs.

A key area for improvement in the PM service continues to be the end to end employee life cycle process; from employees starting with LCC through any internal moves or contract changes that might take place, through to them leaving the Council. Analysis has shown that the processes that underpin these activities are inefficient (often requiring multiple entries) and that this can lead to errors in HR admin and payroll and frustration for Serco staff and ultimately LCC Staff. The Employee Life Cycle Project to improve these processes and reduce the number of errors and increase efficiency continued to develop through December and saw very positive engagement from Serco and LCC staff. The aim is to start to implement these new processes in April 2017.

A high assurance rating has been received from LCC Audit in respect of the management of employment policies and procedure, a function delivered by Serco. The appraisal policies and procedures review reflecting the new performance management process has been rolled out to managers with all George pages and guidance notes updated accordingly. The roll out of the appraisal briefings stepped up a pace with the e-learning going live and the first workshops taking place. Initial feedback and take up has been very positive with the face to face delivery starting in mid-January 2017. Grievance and Dignity at Work policies have also been updated and issued to LCC managers.

Payroll

Appendix C to this report shows the payroll contacts received by Serco between April 2016 and January 2017. All contacts received by Serco before April 2016 have been resolved.

Table 3 below shows payroll contacts received by Serco over the last 6 months (August 2016 – January 2017).

The table (and appendix) details the contacts made by corporate staff and schools staff separately and then provides a total of the two sections. Additionally the table provides detail of how many of the contacts received have been resolved and what number remains outstanding. The final row of the table provides an overall resolution rate for contacts received for both schools and corporate staff.

Please note that the resolution rate and the number of resolved/outstanding contacts stated within the table and appendix represents a snapshot of the position as of 02 February 2017. Serco continuously work to resolve the outstanding payroll contacts and it is to be expected that more recent contacts have a lower resolution rate as Serco have had less time to resolve them when compared to older contacts.

Table 3: Payroll contacts received by Serco over the last 6 months (Figures correct as of 02 February 2017)

Payroll Contacts Received by Serco	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017
Corporate Contacts (of which Resolved / Outstanding)	**221** (219/2)	**213** (212/1)	**220** (220/0)	**163** (154/9)	**143** (125/18)	**98** (79/19)
School Contacts (of which Resolved / Outstanding)	**309** (287/22)	**446** (386/60)	**412** (282/130)	**431** (234/197)	**237** (103/134)	**123** (28/95)
Total Contacts (of which Resolved / Outstanding)	**530** (506/24)	**659** (598/61)	**632** (502/130)	**594** (388/206)	**380** (228/152)	**221** (107/114)
Overall Resolution Rate (Corporate + Schools) (Correct as of 02/02/2017)	**95.47%**	**90.74%**	**79.43%**	**65.32%**	**60.00%**	**48.42%**

The number of Corporate Payroll Contacts in December and then January was at the lowest levels since service commencement. This is a strong indication, that whilst there is still significant work to do, Payroll is becoming more stable month on month and moving out of rectification and into business as usual.

A key project continues to be the production of Employee Pay Statements for 2015/16. Following a constructive meeting with the Fire Brigade Union, the scope of the Fire Payroll review has been expanded, and Serco are now finalising dates by when letters can be sent to Corporate, Schools and Fire employees.

5. Information Management Technology (IMT)

Table 4 below shows the summary KPI performance for the Information Management Technology (IMT) service.

Table 4: IMT KPI Summary Performance

Information Management and Technology (IMT) Performance	September 2016 (no of KPIs)	October 2016 (no of KPIs)	November 2016 (no of KPIs)	December 2016 (no of KPIs)
Target Service Level (TSL) achieved	5	5	6	9
Minimum Service Level (MSL) achieved	5	2	3	2
Below Minimum Service Level (MSL)	2	5	3	0
Mitigation Agreed	0	0	0	1
TOTAL	12	12	12	12

Largely unaffected by the KPI changes, performance in the IMT service area saw a significant improvement compared to previous months with 9 of 12 KPIs meeting or exceeding TSL. It is noted that December is a generally quieter month than normal and it is recognised that some of this improvement may be the result of this but it may also be in part a reflection of the improvement programme that is being implemented specifically to ensure that the KPIs are achieved.

Of particular note, there were no Priority 1 or Priority 2 incidents reported in the month and the availability of platinum applications (the most critical LCC systems) was 100%.

6. Customer Service Centre (CSC)

Table 5 below shows the summary KPI performance for the Customer Service Centre (CSC).

Table 5: CSC KPI Summary Performance

Customer Service Centre (CSC) Performance	September 2016 (no of KPIs)	October 2016 (no of KPIs)	November 2016 (no of KPIs)	December 2016 (no of KPIs)
Target Service Level (TSL) achieved	6	6	6	5
Minimum Service Level (MSL) achieved	0	0	0	0
Below Minimum Service Level (MSL)	0	1	1	0
Mitigation Agreed	3	2	2	2
TOTAL	9	9	9	7

There were no KPI failures within the CSC service area in December albeit LCC granted mitigation against 2 KPIs please refer to Table 9, both are Mosaic related. A review of Mosaic processes and impact is underway and will continue over the next month or so, to understand where improvements are required, and where the CSC has benefited from the change in system.

The current abandoned levels and wait times remain a concern. Individual services differ considerably with some key services seeing high abandoned rates. LCC recognises that the bulk cause of this is caused by the implementation of Mosaic, and thus was largely out of the CSC's control, but having targeted areas for improvement remains a priority and LCC will continue to work with the CSC to help improve performance. It is noted that the CSC is already actively working on such improvements. Customer satisfaction remains high, but 1 in 4 customers surveyed say that despite the excellent service the wait time was 'unacceptable' or 'completely unacceptable', which is some distance from the Summer scores where around 95% of customers were happy with the wait time. Serco is in the process of recruiting to the CSC and the expectation is that this will help reduce waiting times.

7. Adult Care Finance (ACF)

Table 6 below shows the summary KPI performance for the Adult Care Finance (ACF) service.

Table 6: ACF KPI Summary Performance

Adult Care Finance (ACF) Performance	September 2016 (no of KPIs)	October 2016 (no of KPIs)	November 2016 (no of KPIs)	December 2016 (no of KPIs)
Target Service Level (TSL) achieved	8	9	8	6
Minimum Service Level (MSL) achieved	1	0	1	0
Below Minimum Service Level (MSL)	0	0	0	0
Mitigation Agreed	0	0	0	3
TOTAL	9	9	9	9

There were no KPI failures within the ACF service area in December albeit LCC granted mitigation against 3 KPIs, please refer to table 9, all are Mosaic related. December saw the introduction of the Mosaic social care case management system. The transition to Mosaic went well albeit with some relatively minor teething problems. With the introduction of a major new system there was an inevitable effect on performance and it may take a few months for the full benefits to be realised whilst the CSC advisors and Finance staff get fully used to the new system and processes.

8. Financial Administration

Table 7 below shows the summary KPI performance for the Finance Service.

Table 7: Finance KPI Summary Performance

Finance (F) Performance	September 2016 (no of KPIs)	October 2016 (no of KPIs)	November 2016 (no of KPIs)	December 2016 (no of KPIs)
Target Service Level (TSL) achieved	2	1	2	2
Minimum Service Level (MSL) achieved	0	0	0	1
Below Minimum Service Level (MSL)	1	2	1	0
Mitigation Agreed	0	0	0	0
TOTAL	3	3	3	3

There were no KPI failures within the Finance service area in December. This is the first time this has been achieved although this is in part due to the new method of measuring F_KPI_01 (% of Undisputed invoices paid in accordance with vendor terms). Invoices with zero-day payment terms now have a grace period of 3 or 7 days depending upon their criticality.

9. KPI Performance failure - Effect on LCC Services

The table below tabulates the effect on LCC Service provision for the KPIs where TSL was not achieved in December 2016.

Table 8: Effect on LCC Services where performance measured against a KPI has failed to meet MSL

Failed KPI (December 2016)	Short Description	Effect of performance failure on LCC	Estimated date for resolution
PM_KPI_03	% of Payment Deductions paid within Third Party Payment Date per month	The Service Provider is unable to provide full assurance to the Council that it is providing an accurate, timely and comprehensive Payroll service for the staff of the Council and leads to the Council not fulfilling all of the payroll statutory obligations in connection to the employment and payments of its workforce.	April 2017 Serco have encountered some errors when submitting RTI. Improvement plans are in place and we expect to achieve this by April 2017. Please Note: Serco complete 33 payovers each month to different organisations with several thousand transactions included in the transfer. All payovers have been made on-time every month however the KPI also measures that the detail within the listing is posted to the organisation on-time. The KPI failed due to one submission which had 8 late transactions submitted. The service improvement will ensure that the data within the system causing these errors will be rectified.

Failed KPI (December 2016)	Short Description	Effect of performance failure on LCC	Estimated date for resolution
PM_KPI_05	% People Management First Contact Resolution Rate per month	The effect this has on the Council is that its staff are not receiving the full benefit of an efficient and effective interface between the Council's managers and staff and the Service Provider.	April 2017 Reporting against this KPI commenced in December. Performance Improvement Plans are now initiated to deliver the Target Service Level by April 2017
PM_KPI_11	% of People Management transaction activity completed within the relevant required timescale / target service level as detailed in the 'PM_KPI_11 Service Level Agreement'	This is a new KPI and a very comprehensive SLA dashboard that is made up of a number of key services to be delivered by the Service Provider. The underperformance of some of these key services highlights those services that are not currently delivering to the agreed targets. However the Council has noted that the Service Provider is committed to ongoing improvements as well as bringing on board more measures to feed into this SLA that will provide the Council with a large amount of data to help manage the performance and outputs	April 2017 Performance Improvement Plans have been initiated to deliver the Target Service Level by April 2017

10. KPIs granted Mitigation Relief

The table below details the background/reasoning for the grant of mitigation relief against seven KPIs in December 2016. The effect of the mitigation is to relieve Serco of Abatement Points, and thus Service Credits, that would otherwise have been due for these specific KPIs. Abatement Points and Service Credits were applied as per normal contract arrangements to all other KPIs.

Table 9: Details of KPI Mitigation Relief

KPI Ref No	KPI Short Description	Reason for the granting of Mitigation Relief
PM_KPI_12	% of users in any month who score the PM My Helpdesk as 'good' or 'very good' in response to the way a People Management My Helpdesk has been managed on a range of measures	Although over 300 invites to take part in customer satisfaction surveys were issued by Serco, there were no responses thus mitigation was granted. Serco and LCC are now working together to promote the surveys to ensure more responses are received.
IMT_KPI_09	% Achievement of Service Request Fulfilment within Service Request Fulfilment Time	**Mosaic Implementation -** Due to the implementation of Mosaic during the month, performance against this KPI was effected. As Mosaic is an LCC initiative and major system change it was reasonable to grant mitigation to Serco.

KPI Ref No	KPI Short Description	Reason for the granting of Mitigation Relief
CSC_KPI_04	% of total Calls that are Abandoned Calls	**Mosaic Implementation -** Due to the implementation of Mosaic during the month, the abandoned rate was directly impacted by the resulting extended call handling times. Prior to the work in the lead up to the implementation of Mosaic, the CSC had shown a consistent high performance against KPI_04. As Mosaic is an LCC initiative and major system change it was reasonable to grant mitigation to Serco for the effects of switching over to a new Adult Care system thus mitigation relief was granted.
CSC_KPI_09	% of carers assessments (reviews and new), as completed by the CSC, completed accurately and within 20 Business Days	**Mosaic Implementation -** During the start of December an issue persisted which meant that Advisers were unable to utilise Mosaic to progress assessments, and the manual process was reverted to. Additionally, assessment and administration handling times increased, with the Advisors allocated additional time for completion of assessments, reducing the number of slots available to offer to carers for their appointments. As Mosaic is an LCC initiative and major system change it was reasonable to grant mitigation to Serco for the effects of switching over to a new Adult Care system thus mitigation relief was granted.
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/	**Mosaic Implementation -** Mosaic was implemented on 12th December 2016 across adult care, children's services and Serco, in the run up to go-live there was a period of manual inputting which extended the time necessary to carry out the assessments. Mitigation has been agreed to reflect the additional time taken and to allow time for the new system to be embedded. There remain a number of process issues to be resolved which are being worked onwith the Mosaic implementation team to ensure that this activity can be delivered effectively.
ACF_KPI_04	% of new, and change of circumstance, financial assessments for residential care completed within 15 Business Days of referral from the Council	**Mosaic Implementation -** Mosaic was implemented on 12th December 2016 across adult care, children's services and Serco, in the run up to go-live there was a period of manual inputting. Mitigation has been agreed to allow time for the new system to be embedded. There remain a number of process issues to be resolved with the Mosaic implementation team to ensure that this activity can be delivered effectively.
ACF_KPI_10	% of the total Adult Care Service Users in any month in receipt of a chargeable service who have an up to date and accurate financial assessment in place which is being used to collect their Adult Care Service User Contribution	**Mosaic Implementation –** This is a new KPI that cannot be measured until the full finance module of Mosaic is implemented later in 2017.

11. KPI Performance Overview

December 2016 saw the first use of the new KPI suite agreed between LCC and Serco. The new suite has 40 KPIs which is slightly fewer that the original suite of 43 KPIs. As such, a direct comparison of Serco's performance in December to previous months is difficult. It is welcome though that the number of failed KPIs has fallen.

In December, Mosaic went live and is being used by Serco to deliver a number of adult care functions. This effected Serco's performance against 6 KPIs in IMT, the CSC and Adult Care Finance. As Mosaic was a delayed LCC initiative which should have gone live prior to Serco commencing service delivery, it was reasonable to grant mitigation to Serco against the effected KPIs.

12. Current Serco Projects

Programme and Project Delivery tracking has been improved to now enable the reporting of IMT_KPI_11, however many projects require re-baselining to enable accurate completion dates to be forecast. Technical Design and Commercial issues are still evident in a number of Projects which are hampering delivery progress. Issues are being addressed, albeit this is taking longer than the Council would reasonably expect.

13. Consultation

a) Have Risks and Impact Analysis been carried out?

Not Applicable

b) Risks and Impact Analysis

Not Applicable

14. Appendices

These are listed below and attached at the back of the report	
Appendix A	CSS Contract Performance Dashboard (rolling 12 month period)
Appendix B	Projects in progress with Serco
Appendix C	Payroll Contacts Received by Serco (April 2016 – January 2017)

15. 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 Ciaran Gaughan and Sophie Reeve who can be contacted on 01522 55 4872 or 01522 55 2578 respectively. Alternatively, they can be contacted via email at Ciaran.Gaughan@lincolnshire.gov.uk or Sophie.Reeve@lincolnshire.gov.uk.

The appendices to the report were written by Serco any queries should be raised with Ema Lee in the first instance who can be contacted via e-mail at Emaclaire.Lee@Serco.com

Appendix A – CSS Contract Performance Tables by Service Area (rolling 12 month period)

The tables below provide the detailed performance results for each KPI by Service Area as follows:

- Part 1 - People Management (PM) Service
- Part 2 - Information, Management &Technology (IMT) Service
- Part 3 - Customer Service Centre (CSC) Service
- Part 4 - Adult Care Finance (ACF) Service
- Part 5 - Finance Service

Notes:

1. Data not available (with red status) – Where Serco provide insufficient or inaccurate performance data to establish that the required service levels have been met those KPIs affected are allocated a red status i.e. MSL has not been achieved. These KPIs are recorded as "data not available" in the tables below and in these instances, the KPI attracts the full amount of abatement points and thus the maximum service credit is applied to the Monthly Payment to Serco.
2. Not measured / Mitigation Agreed (with blue status) – The blue colour indicates mitigation, or in initial contract months a "glide" period; this means that because of a dependency outside of Serco's control e.g. implementation of Mosaic; it is not appropriate to expect the agreed targets to be fully met. In some instances, performance was still recorded but abatement points were not applied. Abatement points effect the level of service credits applied to the Monthly Payment to Serco.

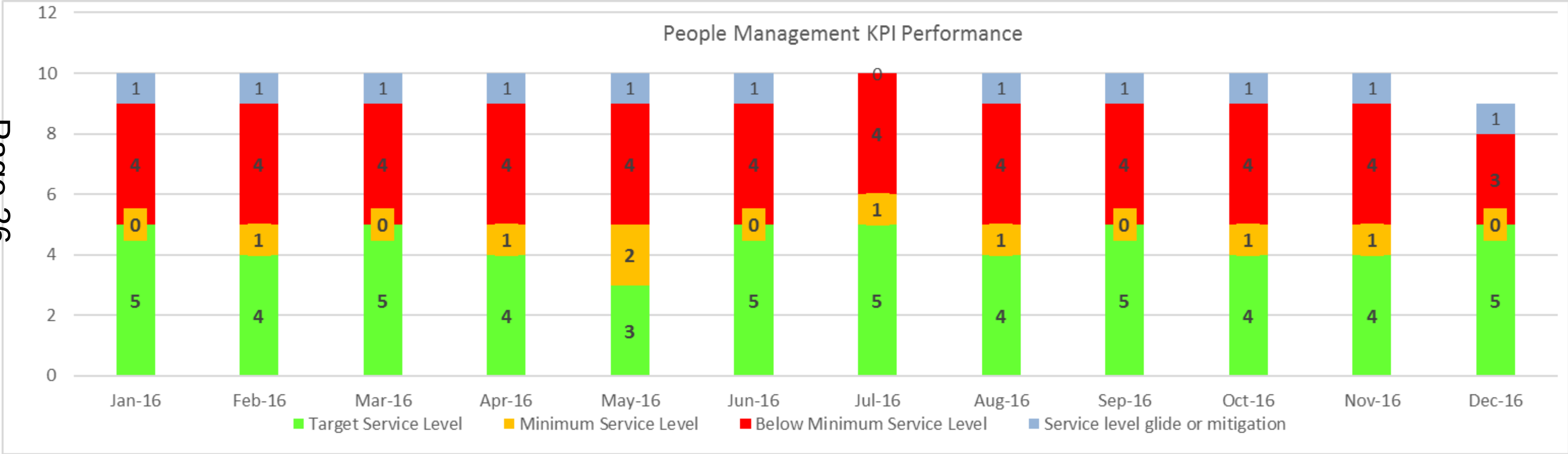
Part 1 - People Management (PM) Service

PM KPIs - Detailed Performance Results

KPI	KPI Short Description	TSL	MSL	Original KPI Suite											New KPIs
				Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sept-16	Oct-16	Nov-16	Dec-16
PM_KPI_01	% of Payroll Recipients paid on the Payment Date per month	99.9	99	99.95	100.00	99.95	99.98	99.76	100.00	99.97	99.98	99.90	99.93	99.97	99.97
PM_KPI_02	% of errors in Payments (caused by Service Provider) identified and resolved per month	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	Data not available	Data not available	100.00
PM_KPI_03	% of Payment Deductions paid within Third Party Payment Date per month	100	100	Data not available	Data not available	Data not available	96.88	96.88	96.88	93.33	96.77	93.33	96.77	96.87	96.88
PM_KPI_04	% Avoidable People Mgt Contact Rate per month	15	20	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	Data not available	Data not available	KPI No Longer in Use
PM_KPI_05	People Management First Contact Resolution Rate of Tier 1 Contacts in each month	85	80	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	Data not available	Data not available	72.09
PM_KPI_06	Number of People Mgt. Records assessed in Spot Checks to contain errors, omissions or inaccuracies	1	3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	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	99	96	100.00	100.00	100.00	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	95	90	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	95.24	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	100.00
PM_KPI_09	% of Employees rating their experience of L & D as "Good" or better per month	95	90	97.88	91.79	96.48	90.00	94.23	97.00	94.53	91.28	95.73	90.55	93.97	KPI No Longer in Use
PM_KPI_10	% of projects/interventions that reduce sickness absence levels delivered on time and in accordance to agreed requirements	90	80	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	KPI No Longer in Use
PM_KPI_11	% of People Management transaction activity completed within the relevant required timescale / target service level as detailed in the 'PM_KPI_11 Service Level Agreement'.	80	75	New KPI -Not part of original KPI suite											71.42
PM_KPI_12	% of users in any month who score the PM My Helpdesk as 'good' or 'very good' in response to the way a People Management My Helpdesk has been managed on a range of measures	80	75	New KPI -Not part of original KPI suite											Mitigation Agreed

People Management KPI Performance Overview

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Target Service Level	5	4	5	4	3	5	5	4	5	4	4	5
Minimum Service Level	0	1	0	1	2	0	1	1	0	1	1	0
Below Minimum Service Level	4	4	4	4	4	4	4	4	4	4	4	3
Service level glide or mitigation	1	1	1	1	1	1	0	1	1	1	1	1
Total	10	10	10	10	10	10	10	10	10	10	10	9



Part 2 - Information, Management &Technology (IMT) Service

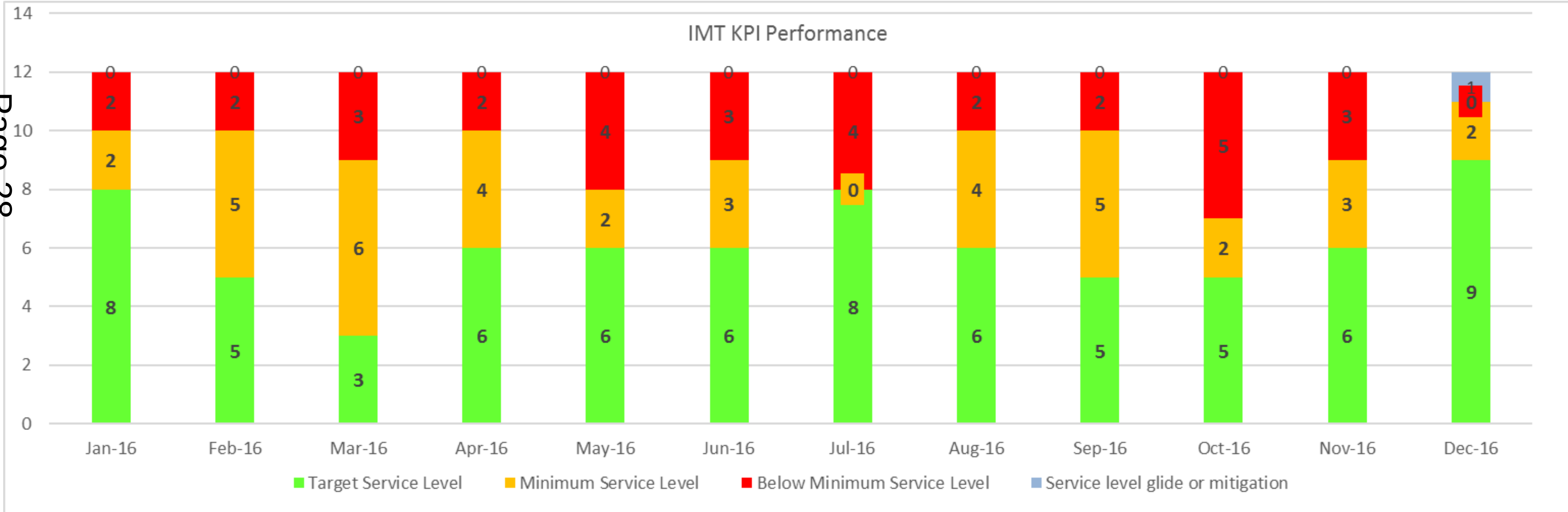
IMT KPIs - Detailed Performance Results

KPI	KPI Short Description	TSL	MSL	Original KPI Suite											New KPIs
				Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sept-16	Oct-16	Nov-16	Dec-16
IMT_KPI_01	% Users are able to raise Incidents and make Service Requests (Service Availability?) during Service Desk Hours	100	97.5	100.00	99.69	99.97	100.00	100.00	100.00	100.00	99.07	99.80	100.00	100.00	100.00
IMT_KPI_02	Priority 1 Incidents not Resolved within Resolution Time	1	5	2.00	3.00	5.00	2.00	6.00	3.00	1.00	4.00	5.00	4.00	5.00	0.00
IMT_KPI_03	Priority 2 Incidents not Resolved within Resolution Time	3	5	0.00	0.00	3.00	1.00	0.00	1.00	1.00	1.00	1.00	1.00	1.00	0.00
IMT_KPI_04	Priority 1 VIP Incidents not Resolved within Resolution Time	1	5	0.00	3.00	3.00	1.00	1.00	0.00	0.00	3.00	3.00	2.00	3.00	0.00
IMT_KPI_05	Number of Priority 1 Incidents reported to Service Desk	1	5	4.00	4.00	8.00	5.00	11.00	6.00	1.00	9.00	7.00	10.00	8.00	0.00
IMT_KPI_06	Number of Priority 2 Incidents reported to Service Desk	3	5	1.00	1.00	5.00	5.00	0.00	4.00	8.00	1.00	2.00	2.00	3.00	0.00
IMT_KPI_07	% Availability of Platinum Applications & Specified Services	99.8	99.3	99.99	99.94	99.70	99.99	99.73	99.98	100.00	99.95	100.00	98.93	99.99	100.00
IMT_KPI_08	% Availability of Gold Applications & Specified Services	97.5	95	100.00	100.00	99.54	99.83	99.36	100.00	99.64	100.00	100.00	98.92	100.00	KPI No Longer in Use
IMT_KPI_09	% Achievement of Service Request Fulfilment within Service Request Fulfilment Time	95	85	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available	Data not available	95.74	85.00	82.39	77.46	Mitigation Agreed
IMT_KPI_10	% of CMDB Changes applied within 14 Core Support Hours of the move or change	100	90	100.00	90.30	98.32	90.82	95.57	90.00	83.52	96.41	97.27	88.59	97.71	92.20
IMT_KPI_11	% of project milestones achieved each month	85	70	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	Data not available	Data not available	77.00
IMT_KPI_12	% of users who score the IT Service as "Good" or above for IT Incident handling	70	50	86.30	90.00	84.00	91.40	90.20	89.30	91.50	89.00	78.90	88.70	89.00	87.90
IMT_KPI_13	% of user activities within monitored applications that meet the required response timescales set out in the Performance Standards Measurement Plan for that user activity each month	95	85	New KPI -Not part of original KPI suite											96.30

IMT KPI Performance (RAG Status)

IMT KPI Performance Overview

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Target Service Level	8	5	3	6	6	6	8	6	5	5	6	9
Minimum Service Level	2	5	6	4	2	3	0	4	5	2	3	2
Below Minimum Service Level	2	2	3	2	4	3	4	2	2	5	3	0
Service level glide or mitigation	0	0	0	0	0	0	0	0	0	0	0	1
Total	12	12	12	12	12	12	12	12	12	12	12	12



Part 3 - Customer Service Centre (CSC) Service

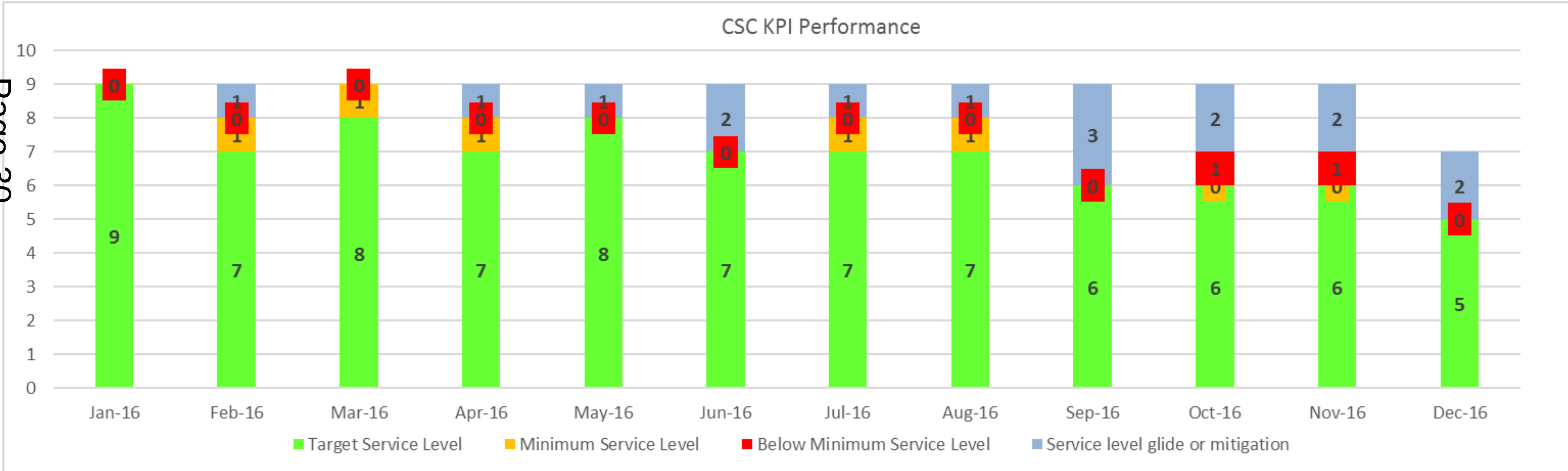
CSC KPIs - Detailed Performance Results

KPI	KPI Short Description	TSL	MSL	Original KPI Suite											New KPIs
				Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sept-16	Oct-16	Nov-16	Dec-16
CSC_KPI_01	% of all Contacts received through Digital Access Channels per month	20[2]	17[2]	37.13	34.53	37.13	38.08	41.02	37.56	41.55	39.79	38.21	46.62	48.53	24.56
CSC_KPI_02	% of Contacts received and Resolved via Digital Access Channel per month	90	85	98.70	95.44	99.34	99.56	99.47	96.85	97.23	99.79	97.95	98.99	97.00	KPI No Longer in Use
CSC_KPI_03	% avoidable Contact Rate per month - consolidated...	15	20	7.59	5.64	6.19	7.16	7.58	6.61	4.69	6.01	9.14	7.93	8.36	8.74
CSC_KPI_04	% of total Calls that are Abandoned Calls	7	10	6.27	7.50	9.94	7.69	6.12	Mitigation Agreed	8.77	9.85	Mitigation Agreed	18.89	18.76	Mitigation Agreed
CSC_KPI_05	% of Contacts referred to in CSC_PI_01, _02 & _03 responded to within timescale per month	95	90	99.99	99.84	100.00	100.00	100.00	100.00	99.97	99.11	100.00	100.00	100.00	100.00
CSC_KPI_06	% First Contact Resolution Rate	85	80	94.78	94.47	95.42	94.97	95.30	94.12	93.78	94.42	94.50	94.20	95.10	93.49
CSC_KPI_07	% of Customers rating their experience of contact as "Good" or better per month	90	85	97.67	97.65	97.03	96.50	96.56	96.77	96.87	95.62	92.76	92.51	94.19	94.69
CSC_KPI_08	% of Council Service Teams rating the quality of service received as "Good" or better per month	85	80	88.08	Mitigation Agreed	90.24	Mitigation Agreed	Mitigation Agreed	100.00	100.00	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	KPI No Longer in Use
CSC_KPI_09	% of carers assessments (reviews and new), as completed by the CSC, completed accurately and within 20 Business Days	100	100	100.00	100.00	100.00	100.00	99.24[1]	99.35[1]	100.00[1]	100.00	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed	Mitigation Agreed

1. For the months of May, June and July 2016 agreement has been made to lower the TSL and MSL of CSC_KPI_09 due to the impact of the change to service provider for carer's assessment. Revised change is TSL 95% and MSL 90%
2. The TSL/MSL for CSC_KPI_01 rises over time. For current Contract Year (2016/17), it is 20% TSL and 17% MSL.

CSC KPI Performance

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Target Service Level	9	7	8	7	8	7	7	7	6	6	6	5
Minimum Service Level	0	1	1	1	0	0	1	1	0	0	0	0
Below Minimum Service Level	0	0	0	0	0	0	0	0	0	1	1	0
Service level glide or mitigation	0	1	0	1	1	2	1	1	3	2	2	2
Total	9	9	9	9	9	9	9	9	9	9	9	7



Part 4 - Adult Care Finance (ACF) Service

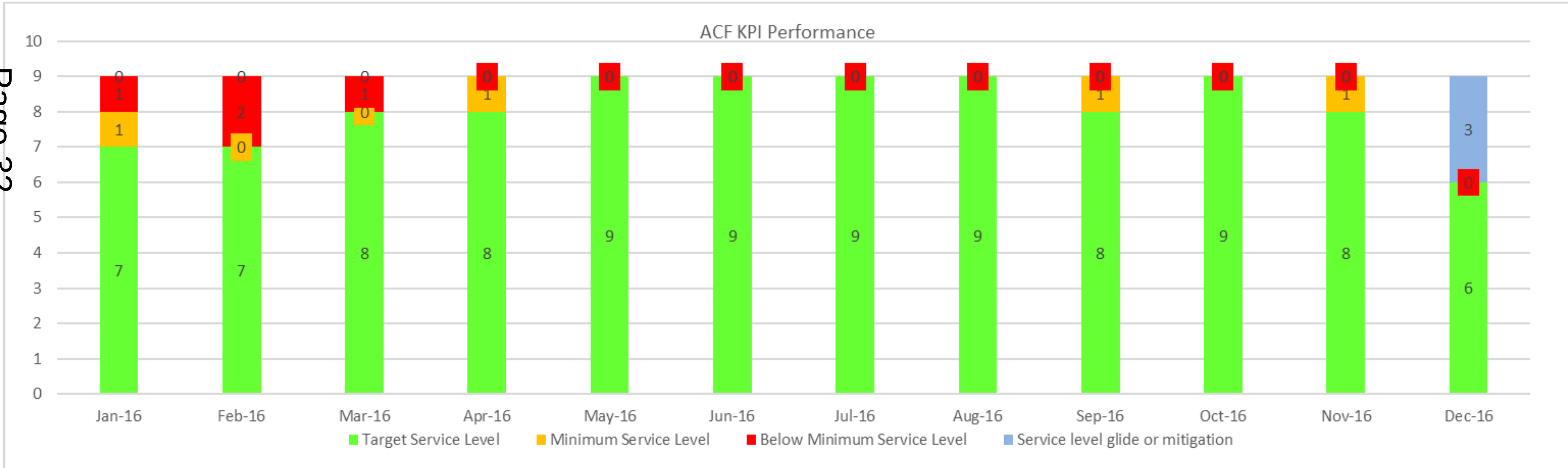
ACF KPIs - Detailed Performance Results

KPI	KPI Short Description	TSL	MSL	Original KPI Suite											New KPIs
				Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sept-16	Oct-16	Nov-16	Dec-16
ACF_KPI_01	% of ACF First Contact Resolution Rate per month	85	75	97.16	98.07	98.48	96.05	92.65	98.97	99.42	98.26	98.79	98.82	98.95	97.73
ACF_KPI_02	% of Adult Care service users within checking sample, requiring financial assessment, where Adult Care Services Contribution is accurately identified	99	90	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	KPI No Longer in Use
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/	75*	60	73.55	85.01	82.74[1]	82.86[1]	68.39[1]	91.46	87.98	84.82	71.35	78.01	60.10	Mitigation Agreed
ACF_KPI_04	% of new, and change of circumstance, financial assessments for residential care completed within 15 Business Days of referral from the Council	75*	60	79.50	77.71	87.08[1]	86.60[1]	83.82[1]	84.83	85.65	89.09	83.79	88.33	81.65	Mitigation Agreed
ACF_KPI_05	% of Adult Care Service Users who receive their first Direct Payment within 10 Business Days of referral from the Council	95	80	100.00	77.78	95.50	94.50	100.00	100.00	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	5	10	Data not available	91.49	89.85	1.63	1.06	1.17	1.56	3.01	2.02	1.34	1.14	1.24
ACF_KPI_07	% of cases where necessary paperwork to enable Council's legal services to secure charges are submitted within time	100	90	100.00	100.00	100.00	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 appointeeship cases that have been actioned correctly and commenced within 5 Business Days of referral	90	85	100.00	100.00	100.00	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	95	90	98.95	97.53	98.40	98.69	97.89	98.84	98.32	97.00	97.98	97.72	98.76	98.67
ACF_KPI_10	% of the total Adult Care Service Users in any month in receipt of a chargeable service who have an up to date and accurate financial assessment in place which is being used to collect their Adult Care Service User Contribution	95	90	New KPI -Not part of original KPI suite											Mitigation Agreed

1. For the months March 16 – May 16 agreement was made to lower the TSL to 65% (from 75%) of ACF_KPI_03 and ACF_KPI_04 as a result of additional work being undertaken by Serco on the contribution policy change introduced by LCC

ACF KPI Performance

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Target Service Level	**7**	**7**	**8**	**8**	**9**	**9**	**9**	**9**	**8**	**9**	**8**	**6**
Minimum Service Level	**1**	**0**	**0**	**1**	**0**	**0**	**0**	**0**	**1**	**0**	**1**	**0**
Below Minimum Service Level	**1**	**2**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Service level glide or mitigation	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3**
Total	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**



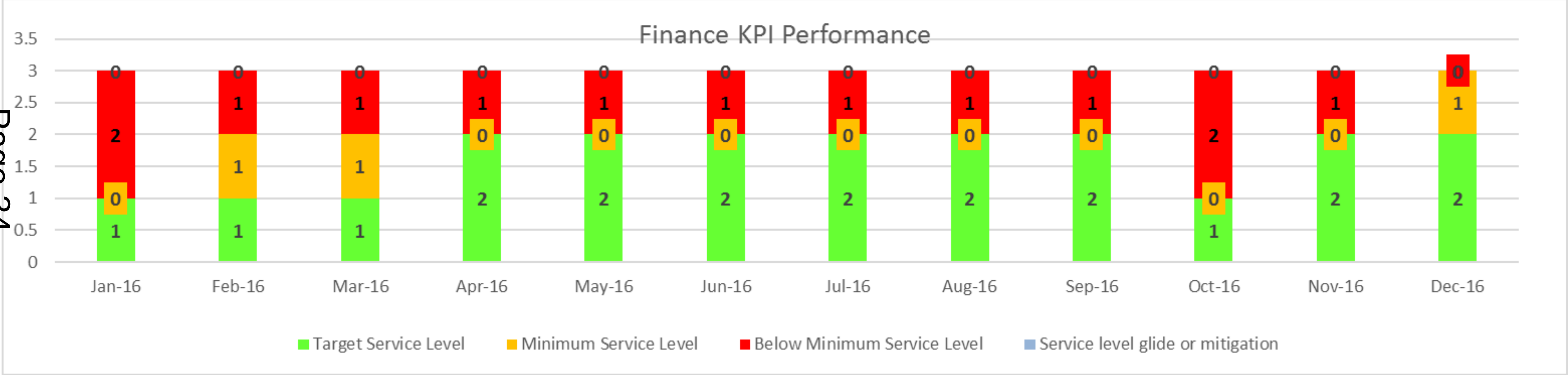
Part 5 - Finance Service

Finance KPIs - Detailed Performance Results

KPI	KPI Short Description	TSL	MSL	Original KPI Suite											New KPIs
				Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sept-16	Oct-16	Nov-16	Dec-16
F_KPI_01	% of Undisputed invoices paid in accordance with vendor terms	95	80	Data not available	39.11	48.80	55.71	55.73	63.05	68.83	68.82	55.80	60.67	56.37	88.53
F_KPI_02	% of payment runs executed to agreed schedule (as agreed one Business Day in advance)	100	95	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	90.48	100.00	100.00
F_KPI_03	OLD KPI (Apr 2015 – Nov 2016) % of debt (exc. Adult Care Income and Health Auth. Debt) collected and paid in to relevant Council Account(s) within 30 days of invoice being issued NEW KPI (From December 2016) % of debt due to the Council (excluding Adult Care Financial Assessment Income not set-up as an exchequer reference and health authority debt) which is more than 30 days old.	OLD 90 NEW 5	OLD 70 NEW 10	Data not available	78.24	71.51	100.00	90.02	100.00	94.46	100.00	100.00	100.00	100.00	1.33

Finance KPI Performance Overview

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Target Service Level	1	1	1	2	2	2	2	2	2	1	2	2
Minimum Service Level	0	1	1	0	0	0	0	0	0	0	0	1
Below Minimum Service Level	2	1	1	1	1	1	1	1	1	2	1	0
Service level glide or mitigation	0	0	0	0	0	0	0	0	0	0	0	0
Total	3	3	3	3	3	3	3	3	3	3	3	3



Appendix B - Projects in progress with Serco

The table below shows the outcomes being delivered for the Council; each outcome may require the delivery one more than one project. The individual projects (shown previously) are managed through the technical and project delivery boards. This view is intended to show the impact on the Council's services.

Service Area	Outcomes to be delivered	Expected date for delivery of outcome	Update
External customers / citizens of Lincolnshire	Online booking of driver training courses – reducing need to call the CSC.	08/03/17	The enhanced online fault reporting system for Highways went live on schedule and is operating well. The team are now working to progress the remaining Channel Shift initiatives throughout Q1 2017. Some delays have been incurred through the revised requirements for look and feel of both Registrars and LRSP as we prepare to handover into User Acceptance testing.
	Online fault reporting for Highways issues – improvements to current service. **COMPLETED**	16/12/16	
	Online booking of appointments for Registrars services and online ordering of certificates.	13/03/17	
	Online purchase of Highways licences.	31/03/2017	
	Online application for Blue Badges	TBC – pending agreement with LCC on approach	
	New website – improve ability to present and search for information	Q1 2017	The project delivering the new website has resolved the issues impacting the deployment and use of the development environment and the team are focused on speeding up the remainder of the project. LCC are currently working on the style sheets and these will be reviewed and

			finalised by the end of January.
	Replacement of Children's Services system Edica – used by parents for schools admissions	Q3 2017	LCC have selected a preferred option from the 3rd party options paper and the project team are proceeding on that basis to provide a costed proposal for solution delivery and ongoing service costs.
Financial and HR Services / internal efficiency and ease of use for staff	Upgrade of the Agresso system to improve efficiency and accuracy of the finance and HR services. **COMPLETED**	30 Nov 2016	The Agresso upgrade completed successfully on schedule, and is fully operational on v4.7.
	Process improvements in financial services	Q1 2017	A review of the current Accounts Payable processes will be initiated this month to assess if any further improvements need to be delivered as part of the transformation programme.
	Process improvements in HR and Payroll	31 Mar 2017	The People Management optimisation workstream has been progressed well according to the portfolio governance approach, and additional focus has been given to corporate priorities, in particularly: Recruitment Redesign Significant joint collaborative work has taken place to develop the design for a new Recruitment and Resourcing service which will transform existing service delivery, and provide multiple efficiencies and value-

			adding services to hiring managers, and will assist in driving down both on and off contract agency spend through advanced self-service, moderate business process re-engineering, and restructure of Serco resources in order to best meet customer demand. Employee Lifecycle Redesign As part of an employee's journey from starting their careers with Lincolnshire County Council, this project is now at an advanced stage of design in order to make best use of the Agresso ERP implementation to reduce the amount of failure demand relating to starters, movers, leavers, and other employee changes. Electronic Personnel Files As part of Serco's commitment to contract delivery, the Electronic Personnel File project cuts across all business areas to rationalise the storage of employee documentation for better ease of access, clear alignment of manager involvement, and significantly personnel file management. A detailed solution design is currently in the final stages of

			development. Variable Payments and Deductions A final piece in the end-to-end puzzle, this project has now had its outline brief agreed with the LCC People Management team, and looks to streamline the process of 'variable payments' (e.g. payments paid to officers outside of regular pay, such as mileage claims, expenses, etc). Other projects Some other projects as previously reported have had outline scopes developed and have been moved into Serco's operational delivery teams after better understanding the complexity and a more appropriate governance model to manage these changes. A key example of this is where the 'Incremental Progression' piece within Pay and Reward has been moved out of the portfolio (with a seamless handover and with the portfolio manager keeping a watching brief) with a milestone plan being mutually developed through to 2019 for the final stage of the plan.

	Automatic integration of e-training with Agresso training record – better ability to monitor staff training	Q1 2017	As previously planned, with the Agresso upgrade now complete, the Agresso project team will now be able to invest some time in progressing this action, and help complete the project.
Adults and Children's Services	Improved efficiency for staff – Mosaic **COMPLETED**	12 Dec 2016	The Mosaic system go-live was successfully achieved, and the Serco team are now working with the CMPP team through the project early life support arrangements. The focus of attention will now fall on the secondary go live of Financial processes. A date for this is awaiting advise from CMPP.
Highways	Introduce Permits for Highways use and mobile staff devices **COMPLETED**	5 Oct 2016	This Project has completed successfully and is closed.
Technology improvements	Provision of replacement mobile phones for staff	First Trance rollout expected to complete 20 Jan 2017	The mobile phone replacement rollout was delayed due to technical issues caused by Airwatch system compatibility issues with the latest Microsoft software update. The fix has now been tested and the pilot was recommenced. A further Microsoft SYNC issue has been identified and a workaround provided to enable the deployment to continue. Microsoft has now issued a fix which is undergoing testing. The LCC Project sponsor wanted to continue reviewing the stability

			before making a decision to continue the deployment. Decision made at the project board on the 15th December to was to recommence the deployments 1st/2nd week January. We now have 44 x Windows 10 devices and 38 x IOS/Android devices.
	Provision of improved access to the internet **COMPLETED**	14 Oct 2016	The Web Access Modernisation completed on schedule and is in closure.
	Provision of Windows tablets for mobile staff	31 Mar 2017	Initial pilot for Mosaic field users confirmed at 47 (reduced from 200). Deployment forecast to complete end March due to Direct Access implementation dependency.
	Delivery of network improvements	TBC	The development and enhancement of the LCC network and infrastructure is at the core of current operations and Serco is working very closely with LCC's Chief Architect to deliver his long-term goal of an up-to-date, flexible, fast and efficient network. To that end a number of initiatives have already been delivered around removing redundant processes or paths within the network that have been slowing down traffic. Network flow is being targeted by the improved and extended use of monitoring tools to more speedily identify and resolve issues. Further work is being done to strengthen the network's resilience by removing single points of

			failure.
	Delivery of security improvements and ISO27001 **COMPLETED**	26 Oct 2016	The project to deliver the Information Security Management System, which involves accreditation through independent audit, has completed successfully on schedule and is closed
	Provision of replacement desktops for staff	30/05/2017	The PC Refresh project is due to complete the rollout of the first tranche of 650 desktop and laptops by 30/05/2017 subject to PID & SOW approval by LCC and Direct Access implementation dependency.
	Upgrade of telephony – for security purposes	Q1 2017	LCC and Serco are currently finalising the approach for this project
	Preparation of Lancaster House for staff use	Awaiting LCC guidance	Technical design documentation has been issued for review by LCC. The detailed planning for the proof of concept implementation is in development.
	Support to provision of new printers/photocopiers/scanners – cost saving	TBC	Project scope for Phase 1 commissioned (infrastructure & County offices deployment and onboarding). Now at early planning stage.
	Close down of SAP – securing historic data – removes risk	Q1 2017	A detailed analysis and review of legacy SAP data access and usage by operational users has been completed. A review of the appropriate technical solutions to meet these business requirements is now expected to be deployed in Q1 of 2017,

			enabling the SAP system to be fully decommissioned.
	Enterprise data warehouse – increasing ease and efficiency of reporting across Council data	Q1 2017	The Enterprise Data Warehouse (EDW) project will complete the delivery of the core Master Data Management system in January which will then enables the project team to focus on delivering specific EDW reporting for planned business requirements. This is scheduled to complete the core deliverables in Q1.
	Data centre relocation – improving resilience in the event of system failure/disaster	Q1 2017	The Data Centre migration project has continued to progress according to the agreed plan. Each tranche of system migrations are carefully planned and agreed with LCC stakeholders. The project is scheduled to complete in Q1 of 2017.
	Identity management – including management of starters, movers and leavers – security and efficiency improvements	Q2 2017	Scope and approach for the Microsoft Identity Management project has been agreed between LCC and Serco. The Project Initiation Document has been submitted and approved. The project is now proceeding within standard governance and the HLD production has commenced.
	Improved system for reporting HR and IT issues – easier for staff to use and more efficient to manage **COMPLETED** – MyIT/MyMosaic	31 Dec 2016 (MyIT and MyMosaic) Q1 2017 (MyHR)	The delivery of MyPortal will provide enhancements to users reporting IT and HR issues. Online reporting capability will provide an easier user experience and enable a more effective response to be provided. This is scheduled for completion

			by the end of Dec. Internal development and system testing is complete for the reporting of systems issues for general IT. MyIT achieved go-live successfully as scheduled in Oct 2016. MyMosaic successfully went live on 12/12/16. The MyHR aspects will be delivered in conjunction with the other project deliverables managed within People management

Appendix C – Payroll Contacts Received by Serco (April 2016 – January 2017)

Notes:
1. The table below details the contacts made by corporate staff and schools staff separately and then provides a total of the two categories of contact.
2. Additionally the table provides detail of how many of the contacts received have been resolved and what number remains outstanding.
3. The final row of the table provides an overall resolution rate for contacts received for both schools and corporate staff.
4. The numbers in the table were correct as of 02 February 2017. Serco continuously work to resolve the outstanding payroll contacts and it is a natural course of events that more recent contacts have a lower resolution rate, as Serco have had less time to resolve them, when compared to older contacts.
5. All Payroll Contacts prior to April 2016 have been resolved.

Payroll Contacts Received by Serco	**April 2016**	**May 2016**	**June 2016**	**July 2016**	**Aug 2016**	**Sept 2016**	**Oct 2016**	**Nov 2016**	**Dec 2016**	**Jan 2017**
Corporate Contacts (of which Resolved / Outstanding)	**532** (532/0)	**466** (466/0)	**308** (306/2)	**185** (184/1)	**221** (219/2)	**213** (212/1)	**220** (220/0)	**163** (154/9)	**143** (125/18)	**98** (79/19)
School Contacts (of which Resolved / Outstanding)	**853** (852/1)	**461** (460/1)	**260** (258/2)	**164** (159/5)	**309** (287/22)	**446** (386/60)	**412** (282/130)	**431** (234/197)	**237** (103/134)	**123** (28/95)
Total Contacts (of which Resolved / Outstanding)	**1385** (1384/1)	**927** (926/1)	**568** (564/4)	**349** (343/6)	**530** (506/24)	**659** (598/61)	**632** (502/130)	**594** (388/206)	**380** (228/152)	**221** (107/114)
Overall Resolution Rate (%)	**99.93**	**99.89**	**99.30**	**98.28**	**95.47**	**90.74**	**79.43**	**65.32**	**60.00**	**48.42**

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

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

Report to:	**Value for Money Scrutiny Committee**
Date:	**28 February 2017**
Subject:	**Treasury Management Update 2016/17 - Quarter 3 to 31 December 2016**

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 2016/17 to 31 December 2016, comparing this activity to the Treasury Management Strategy for 2016/17, approved by the Executive Councillor for Finance on 21st March 2016. It will also detail any issues arising in treasury management during this period.

Actions Required:

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

1. Background

1. Introduction and Background

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

1.2. This Treasury Report will cover the following positions to 31st December 2016:

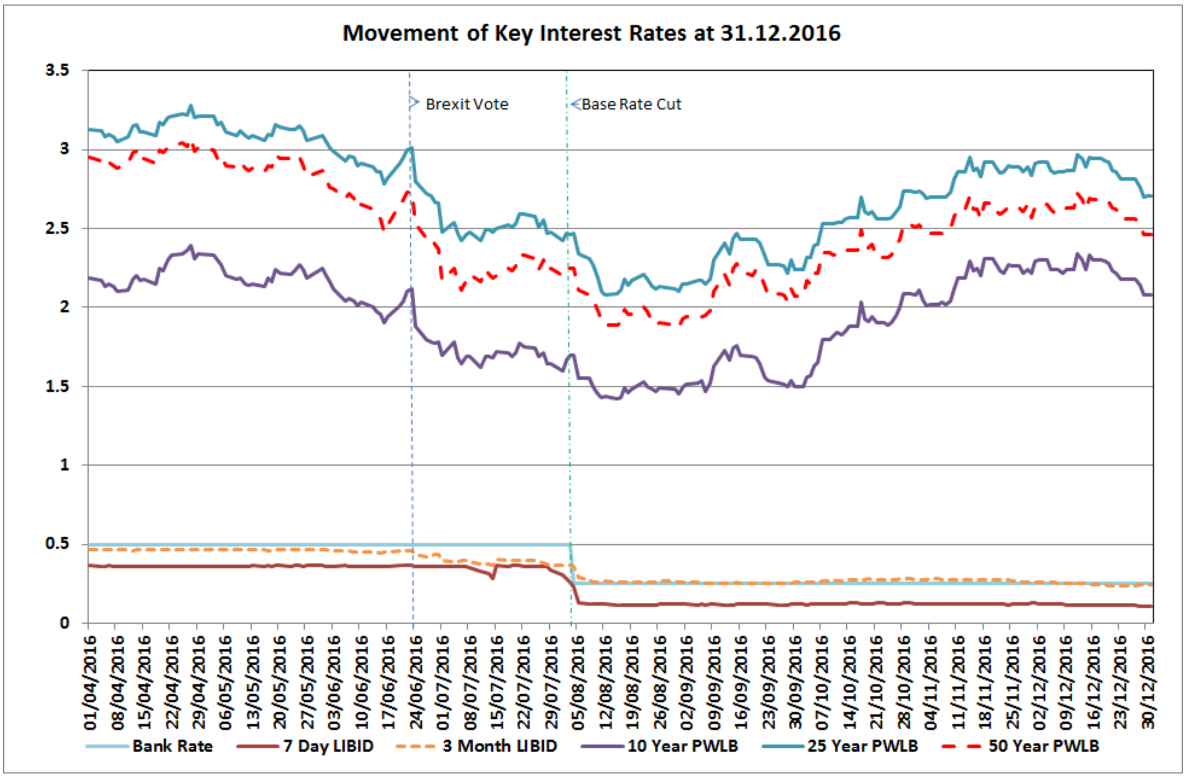
- Interest rate review, economic overview and revised interest rate forecast.
- Annual investment strategy/ authorised lending list changes during the quarter.
- Investment position and comparison with strategy.
- Borrowing & debt rescheduling position and comparison with strategy.
- Other Treasury Management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

2. <u>Interest Rate Review, Economic Overview and Revised Interest Rate Forecast to 31st December 2016</u>

2.1. At the time of setting the Strategy in February 2016, the markets were forecasting short-term Bank Rate to increase to 0.75% from 0.50% by December 2016 for the first time since 2008 in response to the low inflation strong growth environment in the UK. This first increase was pushed further into the future following the Bank of England Inflation Report in May 2016, which pegged back its growth forecast and factored in concerns over a Brexit vote to leave.

2.2. Long term rates were forecast to rise moderately over 2016/17 by around 0.30%, 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 2016/17 to 31st December 2016.



2.4. The UK voted to leave the European Union in the 24th June 2016 Referendum. Shocks to the markets subsequent to this result and fears for Economic Growth led to the Bank of England to cut Base Rate on 4th August 2016 to 0.25% from 0.50% for the first time since 2009 and increase Quantitative Easing by £60bn to £435bn. The graph shows the impact on interest rates due to these events. Short term rates dropped to 0.25% levels following the Base Cut and have remained flat since. Long term rates fell significantly after the Brexit vote but have rallied since September 2016, as news on Economic Growth was not as bad as feared and Consumer confidence remains robust.

2.5. Economic Background -The quarter ended 31st December 2016 saw the following:

- The economy maintained its momentum, despite Brexit, as economic growth appears to have barely lost pace and was up by 0.6% during the quarter. The Bank of England has recently forecast Growth for 2017 to be back to 2%. (This forecast was cut to 0.8% following the Brexit Vote).
- Consumer spending continues to be the key driver of this growth with retail sales rising by 2.00% from October to November 2016 alone. Although it is unlikely that this will be sustainable going forward as Household incomes fall and inflation starts to rise.
- The labour market showed some signs of weakening as employment actually fell in the three months to October 2016.
- CPI inflation rose above 1% for the first time in two years. Components such as petrol and food that react to exchange rate movements are having an upward effect on CPI. Higher prices on the high street are expected over the course of 2017. CPI is expected to peak at around 3% by Spring 2018. The Bank of England is content with leaving interest rates on hold however, given uncertainty over the economic outlook and Brexit negotiations.
- The US voted for Trump in their election on November 8th 2016. He has promised expansion of infrastructure expenditure in the US at the same time as promising to cut taxes. Stock markets in the US reached record highs since the election. The Fed raised interest rates by 0.25% in December 2016 to 0.75%.
- The ECB announced its commitment to extend QE by another 9 months to December 2017 in an attempt to boost the European economy.
- The UK Government announced its plans to trigger Article 50 to begin Brexit negotiations by the end of March 2017 and has promised to lay out its plans before it does so.

2.6. Capita Asset Services Ltd, the Councils treasury advisors, provided its latest forecast for interest rates on 15 November 2016, as follows:

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

This forecast removes the expected further cut to Base Rate by the Bank of England of 0.10%, as this no longer looks likely given the strong economic data in the UK. The first increase in Base Rate has been pencilled in for June 2019 after the Brexit negotiations have been concluded. Long term rates have been adjusted to reflect existing levels of 2.3% to 2.7% and are forecast to gradually rise by a further 0.50% by March 2020. Capita have also increased their target levels for new borrowing to **1.60% (5 year), 2.30% (10 year), 2.90% (25 year) and 2.70% (50 year)**, compared to 2.00%, 2.60%, 3.40% and 3.20% respectively, as recorded in the Strategy in March.

The usual caveats apply to this forecast as Capita point out the volatility of rates and the difficulty to predict their movement due to all the uncertainties that prevail. Capita predict that the US Fed rate is likely to go up more quickly and more strongly than the UK Base Rate. They view the overall balance of risks to economic recovery in the UK to remain on the downside, particularly with the current uncertainty over the final terms and impact of Brexit.

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3. <u>Annual Investment Strategy/ Authorised Lending List Changes to 31st December 2016</u>

3.1. The Council's Annual Investment Strategy was approved, along with the Treasury Strategy, by the Executive Councillor for Finance on 21st March 2016, 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 limit of A+ Long Term Rating (two out of three agencies) for all its Counterparties, excluding the UK and part-nationalised UK banks and a minimum limit AA- Sovereign Rating, (two out of three agencies) for any Country in which a Counterparty is based. 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. As part of the Annual Investment Strategy for 2016/17, the Sovereign Rating minimum limit was reduced from AAA to AA- as a result of this lowering of emphasis on Sovereign Ratings by the industry.

3.4. The minimum Long Term Rating requirement of A+ was also relaxed to two out of three agencies to allow more flexibility to the Council's lending list for those Counterparties who consistently rated a notch lower by one agency only.

3.5. There have been no significant changes to the Authorised Lending List during the quarter up to 31st December 2016 other than the following name changes, reflecting restructuring of the Counterparties:

Pohjola Bank Finland Changed to OP Corporate Bank Finland
SWIP MMF changed to Aberdeen MMF
IGNIS MMF changed to Standard Life MMF

3.6. At the 31st December 2016 no investments to Counterparties on the list were in breach of limit due to limit changes.

3.7. A full list of the investments held at 31st December 2016, compared to Capita’s creditworthiness list, and changes to credit rating of counterparties during December 2016 are shown in Appendix B.

4. Investment Position to 31st December 2016 – Comparison With Strategy

4.1. The Council's investment position and cumulative annualised return at 31st December 2016 are detailed in the table below:

Investment Position At 31.12.16	Return (Annualised %)	Weighted Benchmark (Annualised %)	Outperformance
£284.882m	**0.68%**	**0.33%**	**0.35%**

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 2 days 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 0.24% to 0.46%. Several 364 day investments have been made during the quarter to take advantage of the enhanced yields offered. Including investments in Bonds and Certificates of Deposit. The investment portfolio weighted average maturity (WAM) has remained constant and stood at 125 days on 31st December 2016 from 123 days on 30th September 2016. (Highlighted in Appendix B). The outperformance of the benchmark is a reflection of this strategy, as the weighted benchmark has dropped as a result of the fall in Base Rate but long dated fixed deals have yet to drop out of the Return at this time.

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

4.5. The investment performance was also benchmarked against the Capita quarterly benchmark analysis, comprising a mixture of 8 other authorities in the East Midlands area and 13 English Counties. The results of this benchmarking for the 3rd quarter are detailed below, which shows that the Council's return was above that of the comparators, achieved by having a longer WAM. The Council's return is also in line with Capita's suggested risk banding achievable for the level of risk being taken on its investments.

Capita Benchmarking – Position at 31/12/2016			
	LCC	**Benchmark Group(8)**	**English Counties (13)**
31 December Return %	0.60%	0.51%	0.54%
Risk Banding	0.54% -0.66%	0.42% - 0.55%	0.45% -0.57%
WAM (days)	125	81	94

5. Borrowing & Debt Rescheduling Position to 31st December 2016 – Comparison with Strategy

5.1. The Strategy for 2016/17 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

5.2. The Council's external borrowing position at 31st December 2016 is detailed in the table below and shows £12m of external borrowing from the PWLB was undertaken to the end of December 2016 bringing the cost of the Council's debt down to 4.068% in line with the Strategy. This was to take advantage of the sharp fall in long term borrowing rates after the Brexit Leave Vote. The borrowing was taken over the 45 to 48 year period at a record average low average rate of 2.39% at the time.

Borrowing Position at 31.12.2016	**Maturing Debt £m**	**Debt To Fund CapEX £m**	**Total £m**	**% Cost**
Balance at 1.4.2016	0.0	480.099	480.099	4.077%
New Borrowing to 31.12.2016	0.0	12.000	12.000	2.393%
Borrowing Repaid to 31.12.2016	(14.000)	(1.354)	(15.354)	
Debt Rescheduling to 31.2.2016				
-Borrowing Repaid	0.0	0.0	0.0	
-Borrowing Replaced	0.0	0.0	0.0	
Balance at 31.12.2016	**(14.000)**	**490.745**	**476.745**	**4.068%**
Projected Further Borrowing Required in 2016/17 (net of internal borrowing CF)	0.0	0.644	0.644	
Projected Further Borrowing Repayments – Actual	(0.000)	(0.000)	(0.000)	
- Voluntary	(0.0)	(0.644)	(0.644)	
Projected Borrowing Position at 31.03.2017	**(14.000)**	**490.745**	**476.745**	**4.068%**
Authorised Limit For External Debt 2016/17			584.851	

5.3. The table below shows the Council's Capital Expenditure plans and Borrowing Requirement at 31st December 2016, from that originally agreed by Full Council at its meeting on 19th February 2016.

	Original Budget at 1/4/2016 £m	Position at 31/12/2016 after Carry Forwards and Target Changes £m
Net Capital Expenditure Programme 2016/17	86.408	55.793
Borrowing Requirement 2016/17	78.794	50.353

5.4. Internal borrowing is using internal balances instead of taking external borrowing to finance the capital programme. This strategy reduces interest rate risk (the risk of unexpected adverse changes in interest rate) and credit risk (the risk of default by counterparties to whom investments are held as investment exposure falls) and also provides a net saving in interest costs in the short term, provided that Council balances are sufficiently available to maintain this strategy. The balance of internal borrowing stood at £66.213m at 31st March 2016. A further £50.092m of internal borrowing will be made in 2016/17 to cover the 2015/16 carry forward of capital expenditure. Scope for further internal borrowing after this will be assessed throughout the year against current levels of cash and any slippage of the capital programme.

5.5. Total LOBO debt the Council has secured is still at £30m, well within the limit set in the strategy of 10% of total external debt (equating to £47.7m). 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%.

5.6. No debt rescheduling activity of existing debt has taken place to 31st December 2016, 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).

5.7. Full Council, at its meeting on 19th February 2016, approved the Council's Prudential Indicators for 2016/17, 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 2016/17 to 31 December 2016.

6. Other Treasury Management Issues

6.1. Possible Discounted PWLB Rate for High Value Infrastructure Projects:

The government announced in the Autumn Statement 2016, that it would consult on lending local authorities up to £1billion at discounted rates to support infrastructure projects that are high value for money. This rate would be based on gilt rates + 0.60%, a reduction of current available PWLB rates by 0.20%. Loans could be taken up to a period of 50 years. This offer would be available for 3 years. The consultation period closed on 27th January 2017.

The details of this proposal are not yet clear, but it will be based on authorities having to undertake some Net Present Value (NPV) calculations in line with Government Guidance. The inference is that borrowing at the low rate will only be available to those with the best NPV's. Schemes delivering or facilitating new housing would be the most welcome. It is not clear whether applications can only be made for brand new schemes or whether those in the pipeline but not started would qualify.

2. Conclusion

Short Term Interest Rates are now set to remain flat until at least June 2019. Long Term rates have rallied back to near start of the year levels as The UK Economy and Consumer Spending remains strong despite expected fears over Brexit. The Council's investment return to 31st December 2016 of 0.68% is still outperforming the benchmark given the lengthy WAM. This lengthy WAM ensured that its return beat that of its benchmarking comparators. £12m PWLB debt was taken in June/July 2016 at an average rate of 2.39%, bringing the cost of the Council's debt down to 4.068% in line with the Strategy. This level was close to the low point of the year at just below 2%, available in August 2016. It is not expected to take any more debt now as the Capital Programme Borrowing Requirement has slipped. There may be a possibility of taking cheaper PWLB borrowing for infrastructure projects next year but details have to be finalised by the Government.

3. Consultation

a) Have Risks and Impact Analysis been carried out??

Yes

b) Risks and Impact Analysis

Risk & Impact Analysis for Treasury Management forms TMP1 of the Treasury Management Practices, as required by the CIPFA Code of Practice 2011. A Risk Register which details the main risks for Treasury Management has been completed and is reviewed annually. Both the TMPs and the Risk Register are held in the Treasury Files held on IMP at County Offices.

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 2016 - Capita Asset Services Ltd.

5. Background Papers

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2016/17 -21/3/2016	Lincolnshire County Council, Finance and Public Protection
Council Budget 2016/17 - 19/2/2016	Lincolnshire County Council, Finance and Public Protection

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

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									
UK		**# LloydsHBOS Group -Part Nationalised**	**15**	**364 Day**					
		Lloyds TSB Bank Plc	15	6 Months		*SB*	A+	AA+	6 Months
		Bank of Scotland - Guaranteed Fixed Deposits	15	6 Months					6 Months
UK		Standard Chartered Bank	15	6 Months	6 Months	*SB*	A+	AA+	3 Months
UK		UBS Ltd	15	6 Months	6 Months	*SB*	A+	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
		# BNP Paribas Group	**15**	**6 Months**					
BEL		BNP Paribas Fortis	15	6 Months	6 Months	*SB*	A+	AA	6 Months
FRA		BNP Paribas	15	6 Months	6 Months	*SB*	A+	AA	6 Months
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		National Bank of Canada	15	6 Months	6 Months	*SB*	A+	AAA	6 Months
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
FRA		Credit Industriel et Commercial	15	6 Months	6 Months	*SB*	A+	AA	6 Months
FIN		OP Corporate 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		Landesbank Hessen-Thueringen Girozentrale (Heleba)	20	364 Day	364 Day	*SB*	A+	AAA	364 Day
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		ING Bank NV	15	6 Months	6 Months	*SB*	A+	AAA	6 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	*SB*	AA-	AAA	364 Day
SWE		Swedbank AB	20	364 Day	364 Day	*SB*	AA-	AAA	364 Day
		# Svenska Group	**20**	**364 Day**					
SWE		Svenska Handelsbanken	20	364 Day	364 Day	*SB*	AA-	AAA	364 Day
		Svenska Handelsbanken - 35 Day Notice 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		Bank of America	15	6 Months	6 Months		A+	AAA	6 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		
		Aberdeen 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		
		Standard Life 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 / C Machej / K Tonge / N Kay.

Revised: 31st December 2016

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 foreseeable events than the case for higher ratings.

"+" 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 a counterparty and generally the movement in the CDS market gives an early warning of the likely changes in credit ratings of a counterparty.

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

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CAPITA
Treasury solutions

Asset Services

Lincolnshire County Council

Monthly Investment Analysis Review

December 2016

Monthly Economic Summary

General Economy

As announced earlier this month, tax cuts, increased government spending and deregulation are a few economic tools that President-elect, Donald Trump, will look to use in order to boost US economic growth. Therefore, the unanimous decision by the Federal Reserve to raise interest rates for the first time since December 2015, to 0.5% - 0.75% was universally expected. This rate hike was just the second since the onset of the Financial Crisis, which saw the Federal Reserve cut rates to almost zero in order to stabilise the economy. The accompanying economic forecasts from the central bank were altered to reflect a faster pace of tightening in the coming year. These now suggest three rate hikes in 2017, up from two previously anticipated. Fed Chair, Janet Yellen, announced that the rate hike was in response to the "expected labour market conditions and inflation", as the unemployment rate fell to a 9-year low in November at 4.6% and non-farm payrolls rose 156,000 from the revised figure of 135,000 in October. Moreover, Q3 GDP was finalised at its best rate in two years, at 3.5% annually, as consumer expenditure continued to perform strongly. Both pieces of data supported the decision to increase interest rates. Meanwhile, the potential impact of "Trumponomics" bolstered the view on a more aggressive rate outlook, despite an uncertain global economic outlook.

Moving on to the UK economy, the Purchasing Managers' Index (PMI) figures released for November all revealed how the slump in Sterling after the Brexit vote has variously affected the Services, Construction and Manufacturing sectors. Unexpectedly, manufacturing activity cooled, with the headline reading falling to 53.4 from 54.2 in October. The survey revealed that higher input prices for factories and a fall in export orders took its toll on the index. In contrast, the construction PMI reading hit an 8-month high of 52.8 from 52.6 in October. The improvement was as a result of stronger productivity in commercial and civil engineering, as well as robust growth in house building. Likewise, the services sector PMI remained upbeat, rising to 55.2 from 54.5 in October, as Britain's dominant sector grew at its fastest pace since January. Despite this strength in current conditions, the continued rise in inflation forecasted over the coming months is likely to raise input prices, which will be fed through to consumers in the form of higher prices. This saw most respondents to the survey having a negative outlook about the year ahead.

Consumer-level inflation figures hit a 2-year high of 1.2% in November, with rising prices for clothing and technology goods being key components of the increase. At the wholesale level, core prices (which exclude volatile elements such as food, drink and petrol) increased by 2.2% on the year, the highest annual increase since February. Looking ahead, the cost of imports will continue to upwardly impact on prices, with the Bank of England (BoE) forecasting consumer level prices to rise to 2.8% by mid-2018. Nevertheless, Mark Carney has previously stated that the Bank will tolerate some overshoot of its inflation target, hence why the MPC stuck to the status quo in its December meeting. In terms of growth, the final reading of Q3 GDP came in higher than the forecasted 0.5%, at 0.6%, while the annual rate was lowered due to revisions to growth figures in the first half of the year. Overall, while growth may have moderated from the first half of the year, it has not been as negatively affected by Brexit as some had feared.

Elsewhere, figures showed that the number of people in the labour force fell for the first time in more than a year. The drop of 6,000 came despite the unemployment rate falling to 4.8% in the three months to October, from 4.9% previously. Average weekly earnings excluding bonuses rose by 2.5% on an annual basis, from 2.4% in the three months to September. This rise was the joint strongest in more than a year. However, as Britain's relationship with the EU creates uncertainty, it is widely expected that the unemployment rate will rise over the coming months as companies hold off from hiring until solid foundations about Britain's future outside the EU have been made.

Discounts on 'Black Friday' saw the majority of consumer expenditure occurring in the last week of November, damaging sales for retailers such as clothing stores who did not take part as much as department stores. Higher fuel prices also impacted last month as the annual rate of retail sales fell to 5.9% in November from 7.2% in October. Nevertheless, the October rate was always seen as unsustainable. Furthermore, the BoE has warned that despite retail sales growth being relatively robust even after the Brexit vote, the depreciation in Sterling will increasingly feed through into the economy in the form of higher prices next year, causing growth to slow.

Public Finances seemed to be on track, when compared with the new deficit reduction goals set out by Chancellor Philip Hammond last month. The deficit for November was the lowest for a month since 2007 coming in at £12.6 billion, 4.4% lower than the deficit for the same month in 2015. The Office for Budget Responsibility (OBR) stated that the recent deterioration in public finances is a reflection of weaker tax revenue for this financial year as tax revenue growth for November of 3.6%, was some way below the average 4.4% seen so far in 2016.

Meanwhile, the European Central Bank (ECB) altered its policy during their monthly meeting. While it left the Asset Purchase Programme at its current monthly pace of €80 billion until the end of March 2017, new policy purchases thereafter will be at €60 billion per month until the end of December 2017, or beyond, if necessary. While ECB President Draghi insisted this was not policy tapering, market participants were not convinced, pushing up bond yields across the currency bloc. Elsewhere, data for the Eurozone showed growth had remained steady in the third quarter at 0.3%, with the year-on-year growth figure being revised to 1.7% from 1.6%. The latter figure matched that recorded in the second quarter. The unemployment rate for October was the lowest rate recorded in the Euro area since July 2009, as it fell to 9.8% from 9.9% in September.

Over the coming months the economic outlook for Britain remains unclear as plans for Brexit have yet to be finalised. While the threat of this and higher prices via Sterling depreciation weighed in, the GfK consumer confidence index registered a modest increase in December. In addition to Brexit progress, the spotlight will focus on the inauguration of Donald Trump on the 20th January as the effect of his administration on the US economy and that of its major trading partners in the coming years will become clearer.

Housing

House price growth sped up in November for the first time since March, according to Halifax. However, looking ahead, it is suggested that price increases may slow. On the month, prices increased by 0.2%, with the three month annual figure increasing by 6.0%, up from the 5.2% growth recorded in the three months to October. Nationwide reported that house prices continued to rise in December with annual house prices growth up 4.5%, from 4.4% in November. However, economic uncertainty is likely to slow the pace of growth in 2017 with Nationwide currently forecasting house prices to rise by just 2% in 2017.

Forecast

Capita Asset Services (CAS) did not alter their forecasts this month with a rate hike to 0.50% forecast in Q3 2019. Capital Economics now expect the bank rate to remain at 0.25% from Q4 2016 to Q2 2019 when it will increase to 0.50% and then increase again to 0.75% in Q4 2019.

Bank Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%

Lincolnshire County Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	15,250,000	0.28%		MMF	AAA	0.000%
MMF Aberdeen	20,000,000	0.30%		MMF	AAA	0.000%
United Overseas Bank Ltd	4,675,000	0.58%	01/07/2016	03/01/2017	AA-	0.000%
Commonwealth Bank of Australia	5,000,000	0.85%	07/01/2016	05/01/2017	AA-	0.000%
Bank of Montreal	5,000,000	0.85%	19/01/2016	17/01/2017	A+	0.003%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	8,400,000	0.90%	22/04/2016	23/01/2017	A	0.004%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	4,800,000	0.93%	25/04/2016	25/01/2017	A	0.005%
HSBC Bank Plc	10,000,000	0.35%		Call30	AA-	0.001%
National Australia Bank Ltd	5,450,000	0.80%	03/02/2016	01/02/2017	AA-	0.001%
Svenska Handelsbanken AB	12,000,000	0.35%		Call35	AA-	0.001%
Nordea Bank AB	5,000,000	0.68%	08/06/2016	08/02/2017	AA-	0.001%
Bank of Montreal	10,000,000	0.80%	12/02/2016	10/02/2017	A+	0.008%
Swedbank AB	5,000,000	0.44%	18/08/2016	17/02/2017	AA-	0.001%
Commonwealth Bank of Australia	10,000,000	0.90%	11/03/2016	10/03/2017	AA-	0.001%
United Overseas Bank Ltd	8,550,000	0.75%	11/05/2016	13/03/2017	AA-	0.001%
Commonwealth Bank of Australia	5,000,000	0.97%	31/03/2016	30/03/2017	AA-	0.002%
HSBC Bank Plc	10,000,000	0.50%		Call90	AA-	0.002%
Cooperatieve Rabobank U.A.	3,925,000	0.55%	05/07/2016	05/04/2017	A+	0.017%
Bank of Scotland Plc	10,000,000	0.65%	05/10/2016	05/04/2017	A	0.017%
Bank of Scotland Plc	5,000,000	0.65%	14/10/2016	13/04/2017	A	0.019%
The Royal Bank of Scotland Plc	3,446,000	0.97%	19/05/2016	17/05/2017	BBB+	0.056%
The Royal Bank of Scotland Plc	1,000,000	1.12%	08/07/2016	17/05/2017	BBB+	0.056%
The Royal Bank of Scotland Plc	499,000	1.12%	08/07/2016	17/05/2017	BBB+	0.056%
The Royal Bank of Scotland Plc	2,037,000	0.78%	22/07/2016	17/05/2017	BBB+	0.056%
The Royal Bank of Scotland Plc	3,150,000	0.82%	27/07/2016	17/05/2017	BBB+	0.056%
Bank of Montreal	5,000,000	0.80%	27/05/2016	26/05/2017	A+	0.027%
DBS Bank Ltd	5,000,000	0.77%	27/05/2016	26/05/2017	AA-	0.003%
Credit Industriel et Commercial	10,000,000	0.51%	05/12/2016	05/06/2017	A	0.029%
DBS Bank Ltd	5,000,000	0.80%	23/06/2016	22/06/2017	AA-	0.003%
Skandinaviska Enskilda Banken AB	5,000,000	0.58%	21/07/2016	20/07/2017	A+	0.037%

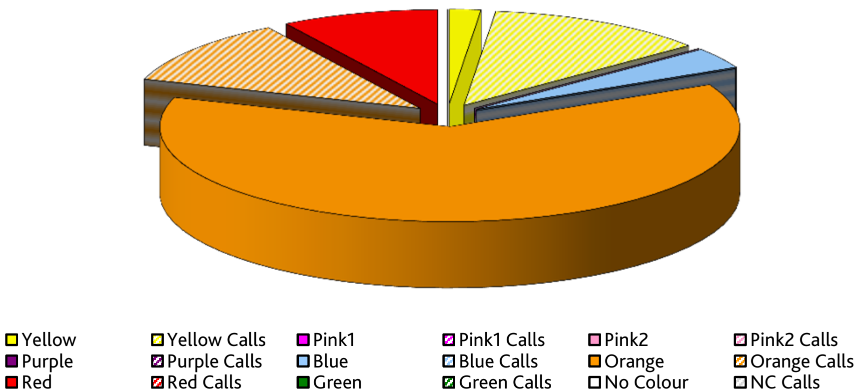
Lincolnshire County Council

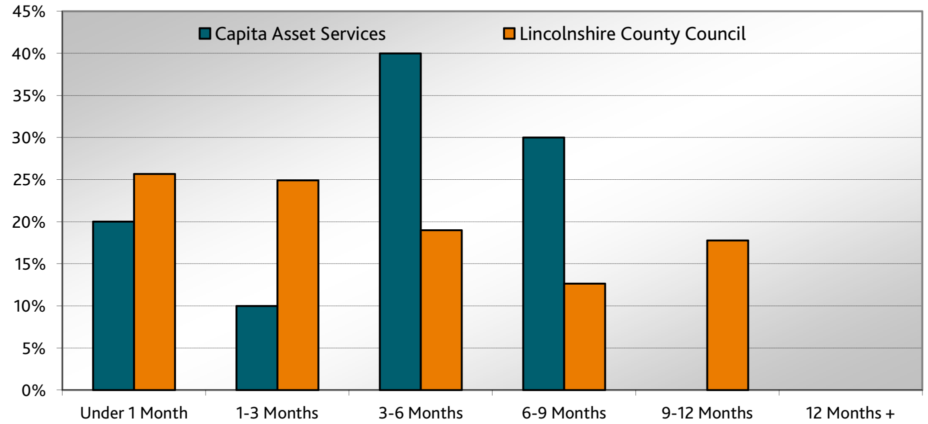
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Skandinaviska Enskilda Banken AB	10,000,000	0.50%	05/08/2016	04/08/2017	A+	0.040%
Cooperatieve Rabobank U.A.	6,075,000	0.50%	08/08/2016	07/08/2017	A+	0.040%
DBS Bank Ltd	5,000,000	0.50%	26/08/2016	25/08/2017	AA-	0.004%
Cooperatieve Rabobank U.A.	10,000,000	0.57%	16/09/2016	15/09/2017	A+	0.047%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	6,800,000	0.68%	13/10/2016	12/10/2017	A	0.052%
Toronto Dominion Bank	10,000,000	0.59%	14/10/2016	13/10/2017	AA-	0.005%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	7,050,000	0.59%	19/10/2016	18/10/2017	AA-	0.005%
Canadian Imperial Bank of Commerce	10,000,000	0.65%	20/10/2016	19/10/2017	A+	0.054%
United Overseas Bank Ltd	6,775,000	0.58%	02/11/2016	01/11/2017	AA-	0.006%
DBS Bank Ltd	5,000,000	0.50%	30/11/2016	29/11/2017	AA-	0.006%
North Tyneside Metropolitan Borough Council	5,000,000	0.50%	21/12/2016	20/12/2017	AA	0.006%
Total Investments	**£284,882,000**	**0.60%**				0.014%

Lincolnshire County Council

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





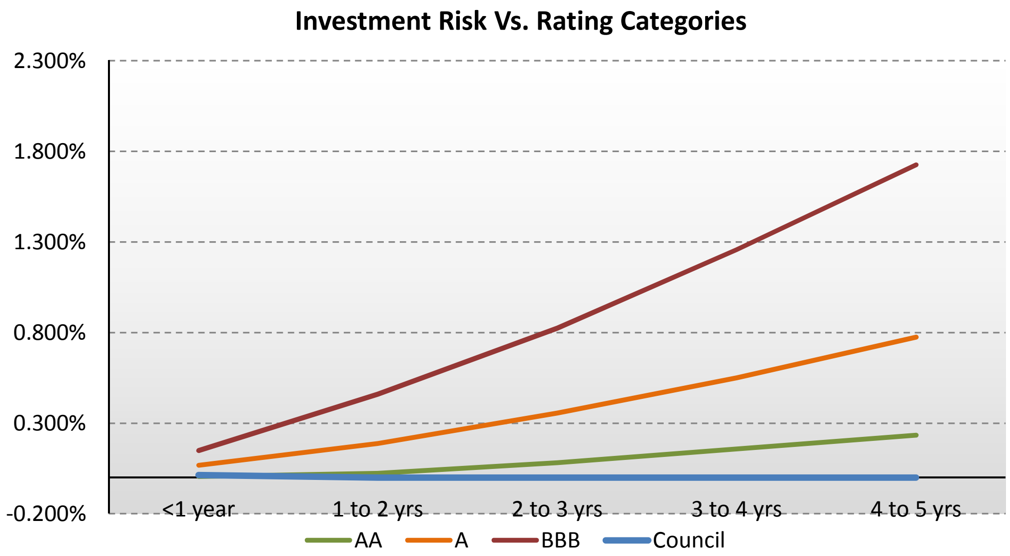
Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

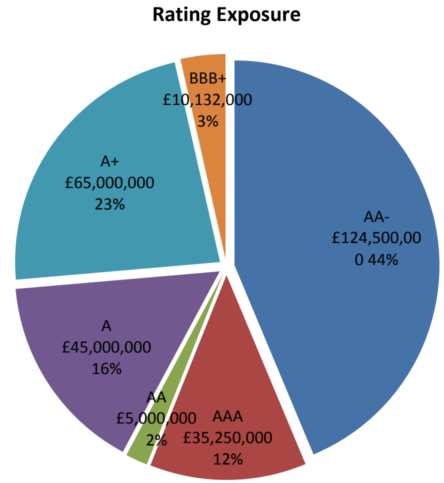
Portfolios weighted average risk number = 3.63

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/ECFs WAM	Excluding Calls/MMFs/ECFs WAM at Execution
Yellow	14.13%	£40,250,000	87.58%	£35,250,000	12.37%	0.32%	44	45	354	364
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	3.56%	£10,132,000	0.00%	£0	0.00%	0.91%	137	321	137	321
Orange	73.54%	£209,500,000	15.27%	£32,000,000	11.23%	0.64%	140	295	156	340
Red	8.78%	£25,000,000	0.00%	£0	0.00%	0.59%	121	182	121	182
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%	**£284,882,000**	**23.61%**	**£67,250,000**	**23.61%**	**0.60%**	**125**	**251**	**156**	**321**

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%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.014%	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.

Lincolnshire County Council

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
14/12/2016	1491	Goldman Sachs International Bank	U.K	Long Term Rating affirmed at 'A', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'F1'.
28/12/2016	1495	Belgium Sovereign Rating	Belgium	Sovereign Rating downgraded to 'AA-' from 'AA', Outlook changed to Stable from Negative.

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
08/12/2016	1489	Italy Sovereign Rating	Italy	Sovereign Rating affirmed at 'Baa2', Outlook changed to Negative from Stable
13/12/2016	1490	Barclays Bank Plc	U.K	Long Term Rating upgraded to 'A1' from 'A2', Negative Outlook. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	DBS Bank Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	Oversea-Chinese Banking Corporation Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	United Overseas Bank Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
16/12/2016	1493	Commerzbank AG	Germany	Long Term Rating affirmed at 'BBB+', removed from Stable Outlook and placed on Positive Watch. Short Term affirmed at 'A-2'.
16/12/2016	1493	Deutsche Bank AG	Germany	Long Term Rating affirmed at 'BBB+', removed from Negative Outlook and placed on Positive Watch. Short Term affirmed at 'A-2'.
19/12/2016	1494	Goldman Sachs International Bank	U.K	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.
19/12/2016	1494	Bank of America, N.A.	U.S.A	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.
19/12/2016	1494	Citibank, N.A.	U.S.A	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

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

Report to:	**Value for Money Scrutiny Committee**
Date:	**28 February 2017**
Subject:	**Treasury Management Strategy Statement and Annual Investment Strategy 2017/18**

Summary:

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2017/18. It is prepared in accordance with the 2011 CIPFA Code of Practice for Treasury Management in the Public Sector, the requirements of which are included as part of Financial Regulations within the Constitution of the Council. These requirements were adopted by the Council in May 2011 as part of agreement to revisions to the Council's Constitution.

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

Actions Required:

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

1. Background

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

1.1. <u>Treasury Management</u>

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

1.2. Relevant Treasury Management Regulation / Legislation

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

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

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

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

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

1.3. Purpose of Report

1.3.1. This report comprises the Treasury Management Strategy Statement for 2017/2018 as Section 2 and the Annual Investment Strategy for 2017/2018 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 2017/2018

  The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2017/2018.

- The Annual Investment Strategy 2017/2018

  The Annual Investment Strategy sets out the Council's policies for investing its surplus cash for the year 2017/2018 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 Overview & Scrutiny Management Board 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 2017/2018

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 2017/2018 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 2016/2017 to 2019/2020;
- Affordable borrowing limit for 2017/18 to 2019/20;
- Prudential indicators 2017/2018 to 2019/2020;
- Prospect for interest rates 2017 to 2020;
- Long term borrowing strategy 2017/2018;
- Debt rescheduling opportunities;
- Investment strategy 2017/2018;
- Short term (cash flow) borrowing strategy 2017/2018;
- 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 31.12.2016 comprised:

		Principal £million	Ave Rate %
Long Term Borrowing			
Opening Balance	31.03.16	480.099	4.077%
New Borrowing to	31.12.16	12.000	2.393%
Borrowing Repaid to	31.12.16	(15.354)	
Rescheduling:			
Borrowing Repaid Early to	31.12.16	0.0	
Borrowing Replaced	31.12.16	0.0	
Total Borrowing at	**31.12.16**	**476.745**	**4.068%**
Investments			
LCC at	31.12.16	276.950	
Pension Fund at	31.12.16	7.932	
Total Investments at	**31.12.16**	**284.882**	**0.605%**
Net Borrowing at	**31.12.16**	**188.740**	

2.3. Long Term Borrowing Requirement 2016/2017 to 2019/2020

2.3.1. The long term borrowing requirement for 2016/2017 to 2019/2020, as detailed in the Council Budget -2017/18 Report, which is to be considered by the County Council at its meeting on the 24th February 2017, is as follows:

Long Term Borrowing Requirement	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
New Borrowing	50.353	48.844	37.641	52.631	**189.469**
Replacement Borrowing	15.354	15.354	35.497	14.354	**80.559**

2.3.2. Some of the 2016/17 borrowing requirement will be met by internal resources, not external borrowing. The balance of internal borrowing at the start of the year was £66.213m. 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 2017/2018 to 2019/2020

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 2017/18 to 2019/20 has been set as follows: -

	2017/18 £million	**2018/19 £million**	**2019/20 £million**
Borrowing	583.007	622.617	622.920
Other Long Term Liabilities	13.701	13.072	12.327
TOTAL	**596.708**	**635.689**	**635.247**

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 2017/2018 to 2019/2020

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 2017/18 Report, which is to be considered at the meeting of the County Council on 24th February 2017.

2.6. Prospect for Interest Rates 2017-2020

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 2017	0.25	0.30	0.70	1.60	2.90	2.70
June 2017	0.25	0.30	0.70	1.60	2.90	2.70
Sept 2017	0.25	0.30	0.70	1.60	2.90	2.70
Dec 2017	0.25	0.30	0.70	1.60	3.00	2.80
Mar 2018	0.25	0.30	0.70	1.70	3.00	2.80
June 2018	0.25	0.30	0.80	1.70	3.00	2.80
Sept 2018	0.25	0.30	0.80	1.70	3.10	2.90
Dec 2018	0.25	0.40	0.90	1.80	3.10	2.90
Mar 2019	0.25	0.50	1.00	1.80	3.20	3.00
Jun 2019	0.50	0.60	1.10	1.90	3.20	3.00
Sept 2019	0.50	0.70	1.20	1.90	3.30	3.10
Dec 2019	0.75	0.80	1.30	2.00	3.30	3.10
Mar 2020	0.75	0.90	1.40	2.00	3.40	3.20

Economic Commentary

2.6.2. UK GDP growth rate in 2013 (2.2%), 2014 (2.9%) and 2015 (1.8%) were some of the strongest rates among the G7 countries. The latest Bank of England forecast for growth in 2016 is 2.2% and for 2017 is back to 2% (having initially been pegged back to 0.8% after Brexit). Despite the Brexit vote in June 2016 and the uncertainty this has caused, this strong growth has been fuelled by consumer demand and confidence. It is unlikely that this will be sustainable going forward as household incomes fall and inflation starts to rise. Weak worldwide economic statistics and volatile financial markets have been flagged as concerns to this forecast.

2.6.3. CPI inflation rose above 1% for the first time in two years. Components such as petrol and food that react to exchange rate movements are having an upward effect on CPI. Higher prices on the high street are expected over the course of 2017. CPI is expected to peak around 3% by spring 2018, above the Bank of England 2% target level. The Bank of England is content with leaving interest rates on hold however, given uncertainty over the economic outlook and Brexit negotiations.

2.6.4. In the US, the Trump government has promised expansion of infrastructure expenditure in the US at the same time as promising to cut interest rates. Stock markets in the US reached record highs since the election. The Fed raised interest rates by 0.25% in December 2016 to 0.75%. The speed of increase in rates in the US is expected to diverge with that of the UK over the coming months.

2.6.5. In the Eurozone, the ECB announced its commitment to extend QE by another 9 months to December 2017 in an attempt to prop up the EU economies. There is potential for the Eurozone debt crisis to resurface, with Greece being a particular problem. Major EU Countries have elections coming up in the next year which could cause uncertainty, particularly with disagreement between EU countries on free movement of people prevailing.

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

2.6.7. 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 continue to remain low during 2017/18 and beyond;

- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically low levels after the Brexit referendum and then even further after the MPC meeting of the 4th August 2016 when a new package of QE purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. They are forecast to rise further by around 0.50% in the next few years and will continue to be very volatile going forward. The policy of avoiding new borrowing by running down spare cash balances (internal borrowing) has served well over the last few years; however, this policy needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will incur a revenue loss between borrowing costs and investment returns.

2.7. Long Term Borrowing Strategy 2017/2018

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 2017/18 by around 0.10% starting from current levels of 1.60% to 2.70%. At the time of writing suggested target rates for borrowing are as follows: 50 yr 2.70%, 25 yr – 2.90%, 10yr – 2.30% and 5 yr – 1.60%.

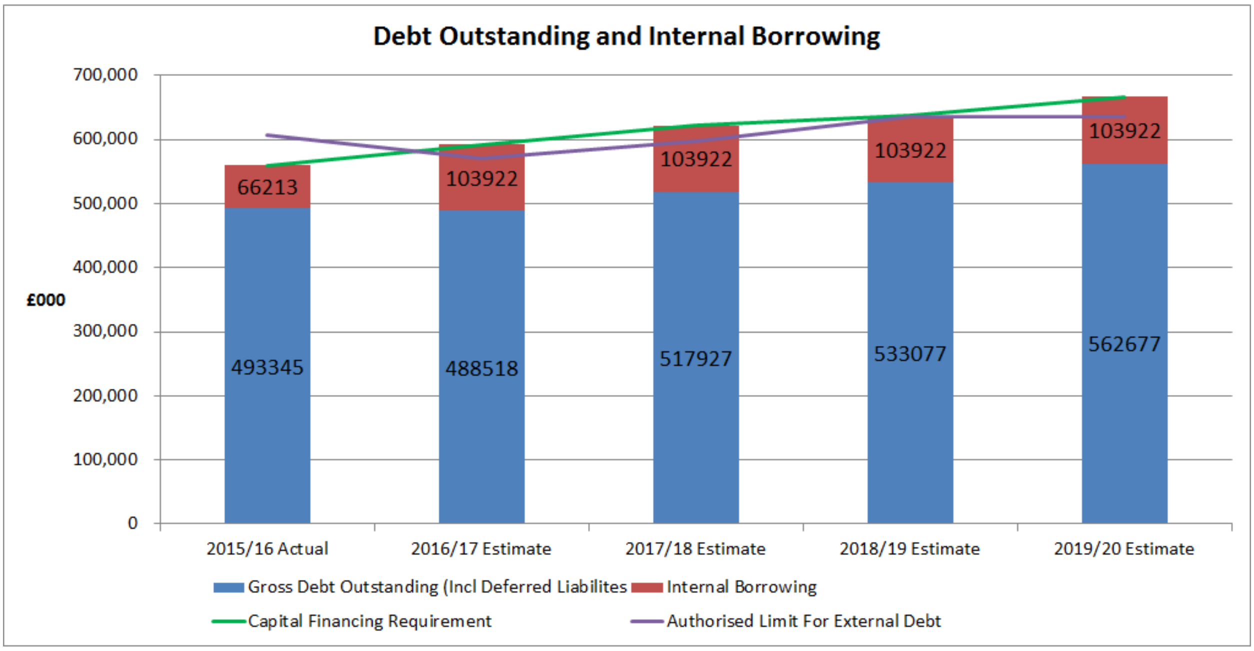
- The Council's Long Term Borrowing Maturity Profile as at 28th February 2017 can be seen as Appendix D. It shows actual maturities and also possible maturities from the LOBO debt taken. Gaps in the maturity profile are between 12 years and 36 years, then after 44 years. Any new borrowing taken should focus on these lengths at prevailing rates of interest.

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

- Short term borrowing (up to 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. The current position is shown in the graph below.



[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.

2.7.3. The table below shows the comparison between the Council's gross and net debt positions at the year end from 2015/16 to 2019/20.

Comparison of gross and net debt at year end	2015/16 Actual £m	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Actual External Debt (Gross)	480.099	476.745	506.792	522.696	553.069
Cash Balances (Investments)	224.873	151.079	133.108	133.608	133.708
Net Debt	255.226	325.666	373.684	399.088	419.361
Net Debt as % of Gross Debt	53.2%	68.3%	73.7%	74.4%	75.8%

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 2016/17, reflecting the internal borrowing strategy taken to a level whereby opportunities for further internal borrowing from 2017/18 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, or in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

2.7.6. The Council at its meeting on 13th February 2009 agreed to apply a **4% reducing balance calculation** for pre 2008 supported debt and 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 this policy was undertaken in 2016 to bring it up to date with current funding circumstances and capital expenditure plans. These revisions effective from 2016/17 are outlined below:

Pre 2008 Debt

Since the business rates reform in 2013/14, there is no component of grant determining an implicit level of support for debt repayment. For pre 2008 debt therefore, it was decided to change the MRP approach to a full repayment method and base this on a standard asset life of 50 years which equates to a flat rate of 2% per year until the debt is fully repaid over 50 years. In 2016/17 this alone reduces the MRP repayment from £8.8m to £4.4m, however as this is a full repayment approach the cost in future years will become more expensive than on the current approach from about year 19 onward.

Average Life Method-Annuity Calculation -2009/10 Debt Forward

As well as applying equal instalments of principal debt repayment over the asset lives of assets financed from borrowing, there is also the opportunity to calculate debt repayment using an annuity calculation for those assets. With an annuity, a fixed repayment consists of primarily all interest in early years and principal repayment increases in later years. This method therefore has the advantage of linking MRP to the flow of benefits from as asset where the benefits of those assets are expected to increase in later years. It was therefore decided to use the annuity method on those assets/projects financed by borrowing where we can make this link, such as Infrastructure Spending (Lincoln Eastern Bypass, East-West Link, Relief Road Projects etc). The cost again in future years will eventually be more expensive than the current approach.

Reviewing the Date of Financing

The guidance allows Councils not to start charging MRP until an asset becomes operational. The Council has four large highway schemes which are due to take a number of years to complete. It is therefore proposed that from 2016/17 these four major schemes will not be financed until they become operational. This represents around £90m of funding by borrowing and in the short term this will reduce the MRP charge by £1m to £2m, but is only a deferral of these costs.

The Council's external Auditors KPMG confirmed that they had no concerns with this revision to MRP strategy.

Over the next four years the reduction to MRP from these revisions would be £15.640m. These revenue budget savings from this revised policy are reflected in the Council Budget 2017/18 which is to be considered by the County Council at its meeting on the 24th February 2017.

2.7.8. 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	25 Revised from 41
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	5
Long Life Specialist Vehicles	15
Equipment	5
IT	4
ERP Finance System	10 New
Mosaic	10 New
Broadband	10 Revised from 15

2.7.9. 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%'.**

<u>Borrowing in Advance of Need</u>

2.7.10. 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).

2.7.11. Given the factors detailed in 2.7 above, the following borrowing strategy will be adopted for 2017/18:

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 2.7.10 above.

2.7.12. 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 31st March 2017 £17.577 million of EIP debt, from the Council's total debt portfolio of £476.745 million, remains to be rescheduled given the opportunity.

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

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

2.8.6. The appropriate timing of any rescheduling will be monitored throughout 2017/18 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

[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.

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. Bank Rate is forecast to remain flat for the whole of 2017/18 and 2018/19, with no increase expected until June 2019. The risk to this forecast is also weighted towards the downside, given the uncertainty over the final terms of Brexit. Expected interest returns are therefore forecast to drop to historically low levels over the next two years.

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 as a way of enhancing investment return.

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 2017/18:

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 2017/18 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 2016 was 0.33%.

Investment in Certificates of Deposit[7], Treasury Bills[8], Dated Bonds held to maturity[9] and Repo[10] 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 institutions identified in the Council's approved counterparty investment list.

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

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

[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).

[10] A Repo is a form of securitised lending based on a Global Master Repo Agreement (GMRA 2000). Collateral is pledged against each loan made under a Repo Agreement, usually consisting of Gilts or Treasury Bills or acceptable Corporate Bonds. This collateral passes to the Lender in the case of a default of the loan with the original Counterparty.

2.10. Short Term (Cash Flow) Borrowing Strategy 2017/2018

2.10.1. During 2017/2018, 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. 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.

2.11.3. 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 2017/2018

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 2017/2018 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 2017/2018 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[11], Certificates of Deposit, Treasury Bills, Dated Bonds and Repo), 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: -

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

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

+For definition of credit ratings see Appendix F.

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

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

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

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

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

- A minimum Sovereign (Country) Rating from a minimum of two rating agencies of 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**
Credit Rating Agencies 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. A minimum Sovereign limit of AA- is in line with Capita's creditworthiness policy and allows greater depth and diversification to the Council's Counterparty list, while still maintaining the tenets of security and liquidity.

**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 includes 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[12] 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.

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

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, dated bonds and Repo 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-

+ 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.

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 2017/18 in light of the anticipated economic environment and movement of interest rates for the year ahead.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

Risk & Impact Analysis for Treasury Management forms TMP1 of the Treasury Management Practices, as required by the CIPFA Code of Practice 2011. A Risk Register which details the main risks for Treasury Management has been completed and is reviewed annually. Both the TMPs and the Risk Register are held in the Treasury Files held on IMP at County Offices.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Prudential and Treasury Indicator Table 2017/18 to 2019/20.
Appendix B	Interest Rate Forecast for 2017-2020.
Appendix C	Economic Background -Capita Asset Services.
Appendix D	Long Term Borrowing Maturity Profile at 28th February 2017.
Appendix E	Minimum Revenue Provision Policy.
Appendix F	Definition of Credit Ratings and Credit Default Swap Spreads

5. Background Papers

Document title	Where the document can be viewed
Council Budget 2017/18 -24th February 2017	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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APPENDIX A

PRUDENTIAL INDICATORS:	***2016/17***	**2017/18**	**2018/19**	**2019/20**
Affordability:				
Increase in council tax levels	*-£17.61*	£14.51	£18.32	£6.86
Ratio of Net Financing Costs to Net Revenue Stream	*5.28%*	5.75%	6.37%	6.38%
Ratio of MRP & Interest Payments to Net Revenue Stream -10% limit (Voluntary Indicator)	*5.35%*	5.76%	6.39%	6.49%
Capital Expenditure:	***£m***	**£m**	**£m**	**£m**
Capital Financing Requirement CFR (as at 31 March)	*592.440*	621.849	636.999	666.599
Gross External Borrowing Forecast	*478.196*	508.057	523.776	553.973
TREASURY INDICATORS (within the Prudential Code):				
Authorised limit for external debt -				
Borrowing	*555.958*	583.007	622.617	622.920
Other long term liabilities	*14.193*	13.701	13.072	12.327
TOTAL	*570.151*	596.708	635.689	635.247
Operational boundary -				
Borrowing	*531.958*	559.007	598.617	598.920
Other long term liabilities	*12.193*	11.701	11.072	10.327
TOTAL	*544.151*	570.708	609.689	609.247
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	*666.599*	666.599	666.599	666.599
Upper limit for variable rate exposure	***£m***	**£m**	**£m**	**£m**
Net principal re variable rate borrowing less investments	*199.980*	199.980	199.980	199.980
	£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	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**

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Interest Rate Forecasts 2017-2020

Capita Asset Services Interest Rate View	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Bank Rate														
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB Rate														
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
Capital Economics	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%	3.20%
10yr PWLB Rate														
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
Capital Economics	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%	3.60%
25yr PWLB Rate														
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
Capital Economics	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%	4.15%
50yr PWLB Rate														
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Capital Economics	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%	4.10%

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APPENDIX C

Economic Background –Capita Asset Services Ltd

UK

GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.6%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either <u>up or down</u> depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in quarter 4 grew reasonably strongly, increasing by 1.2% and added 0.1% to GDP growth. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, by December it had fallen back to -7 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.6% in December. However, prices paid by factories for inputs are rising very strongly although producer output prices are still lagging well behind.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA

The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.5% signalled a rebound to strong growth. The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

Eurozone

In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum.

However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia

Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

<u>Emerging Countries</u>

There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

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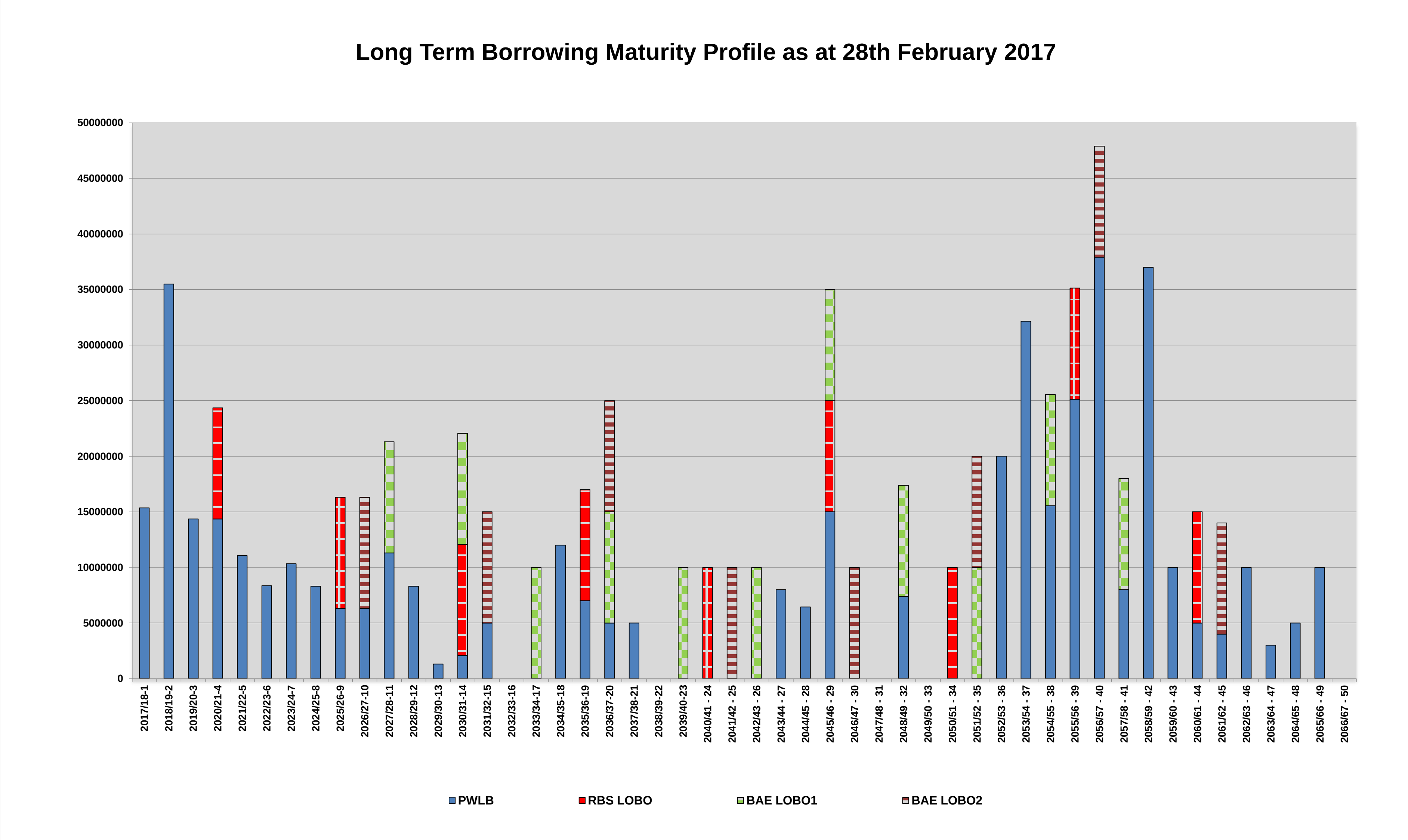
Policy & Scrutiny Report
Value For Money Scrutiny Committee -28th February 2017
Treasury Management Strategy Statement & Annual Investment Strategy 2017/18

Appendix D



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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 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 foreseeable events than the case for higher ratings.

"+" 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 a counterparty and generally the movement in the CDS market gives an early warning of the likely changes in credit ratings of a counterparty.

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

Agenda Item 8

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Debbie Barnes, Executive Director Responsible for People Management

Report to:	**Value for Money Scrutiny Committee**
Date:	**28 February 2017**
Subject:	**Council Workforce Plan 2016-2017 - Agency Worker Usage Update**

Summary:

The purpose of this report is to update Value for Money Committee on information regarding the use of and management of agency staffing in the Council.

As part of its workforce planning approach, the Council has proactive arrangements through a corporate contract for agency workers which is delivered through Manpower as a Managed Service provider. Agency workers are hired for short time assignments to cover peak workloads or to cover short term vacancies, with especially high usage in areas such as Legal and Social Work roles. We also use Agency Workers on a long term basis particularly in Social Work roles given the challenges of the market for permanent recruitment. There are currently 122 agency workers engaged through Manpower. There is also 'off contract' agency usage. This occurs where the needs of Hiring Managers cannot be met through the Manpower arrangements so they engage agency workers directly through other specialist agencies within timescales required. The expenditure on agency staffing with Manpower in 2016-17 is projected to be in the region of £6.5m with the highest usage being in the areas of Adults and Children's Social Care, and Legal Services.

The Council has historically had a corporate contract in place to provide Temporary Agency Staff as and when required. This covers all service areas of the Council across a range of different skill sets. The Council takes a proactive approach in both managing the demand for workers as well as the management of the contract. One example of this is that Lincolnshire has signed up to a Memorandum of Understanding in the East Midlands region, to agree pay rates for agency social workers for Children's Social Work, following evidence that agency rates were increasing significantly across the region. This type of approach is also being adopted in other regions in the country.

Additionally, there is a co-ordinated approach to workforce planning, so that the People Management Service is in a position to support Senior Managers in areas where they are experiencing specific challenges in engaging the right skills, in the right place to the required capacity. A key strategy to assist in minimsing the use of agency workers has been the introduction of a number of pilot initiatives, aimed at improving attraction, recruitment and retention of key staff, including 'grow our own' approaches, which have been implemented in Children's Services, where there are national challenges in relation to recruiting social workers. These pilots have been reviewed and will continue, and will be expanded as appropriate into other key service areas into 2017 and beyond.

The wider Council Workforce Planning projects for 2017 and beyond are currently being scoped, to not only address the recruitment and retention challenges, but also ensuring the Council remains an attractive place to work both now and in the future, considering areas

such as employee engagement, employee development, job design, career progression/pathways, reviewing people management policies and procedures to ensure they are fit for purpose; addressing IT issues, offices and facilities. The biennial employee survey will be undertaken in Autumn 2017 which will assist in shaping these initiatives.

Actions Required:

Members of the Value for Money Scrutiny Committee are required to consider and comment on the contents of this report.

1. Background

The Council has historically had a corporate contract in place to provide Temporary Agency Staff as and when required. This is a generalist contract that covers all service areas of the Council across a range of different skill sets. The current provider is Manpower and this contract was due to expire on 16/02/2017. A six month extension to the contract has been agreed, to enable the re-procurement process to be conducted and for an effective implementation period. The expenditure on Manpower agency contract was £6.4 million in 2015-16 and anticipated spend £6.5 million in 2016 –17.

It is known that there are some specific problems in hiring temporary workers in the fields of legal staff and social work, both qualified and unqualified, and in some instances within the Business Support function. These hiring Managers have reported that the current 'managed service' arrangement does not suit their requirements. Spend analysis shows that Manpower are rarely able to fulfil requirements for legal staff and social workers from their own staff pool, which then creates a delay in the process as they are allowed 2 days to try to source appropriate staff before they push the requirement out to the 2nd Tier agencies. Due to these issues, hiring managers go direct to specialist agencies and as a result in the agency re-procurement process we have separated the high volume specialist areas.

The 'off contract' spend is currently an estimate, and for this reason is not included in this report. This is due to the risk that that Managers may allocate 'off contract' spend to the incorrect financial code in Agresso, so this information is not fully captured. A new single code has been set up for off contract agency spend and Managers are being reminded to use this for the new financial year. This will assist in ensuring the management information reporting is accurate. This will be further improved by developments to Agresso which will 'force' Manager such that only once single code can be used.

In order to reduce overall spend on temporary workers and address off contract spend, three actions are being taken by the Council. The first is to reduce hiring turnaround times by using specialist providers so that hiring managers can be confident in the suppliers and therefore comply with Council policy by using the corporate contract. The second is to address the use of agency workers to fill otherwise permanent vacancies on a long term basis, and the third is by managing attrition.

2. Strategic Workforce Planning

Workforce planning is managed by service areas reflecting the diversity of the different professions across the Council, with standards determined by both professional and government requirements.

Corporate provision is in place where this is logical and provides best value, e.g. provision of Workforce Data; provision of Agency Worker Procurement Framework; toolkits to support succession planning approaches; co-ordination of Apprenticeships and Early Careers.

The strategic workforce data set is being developed to inform priority actions, and the analysis is assisting us to inform future demand for resources, as well as the set of actions required to develop and build the workforce to meet the required demand. The current defined hard to recruit and/or retain groups are:

- Social Care
- Lawyers
- Procurement
- Engineers
- Planners

These roles have either been difficult for us to recruit in the external market and/or there are wider issues across the UK with these skill sets. Some of the roles also prove problematic from a retention point of view which destabilises teams and can lead to increased agency spend.

A summary of the actions being taken to develop and build the workforce to meet the required demand includes:

Succession Planning Pilot in Children's Services Social Work

As referenced in the Workforce Plan report at the November meeting, work is continuing in Children's Services to develop staff retention approaches through the introduction of succession planning, supported by “Grow Your Own” development programmes like “Bridging the Gap” created in partnership with Serco. The first iteration of the succession planning work in FAST teams saw 14 people identified for this programme to develop staff for Advanced Practitioner vacancies.

In 2017, this approach will be considered by other service areas of the Council, where hard to recruit and/or retain posts have been identified.

Talent Management & Succession Planning/Early Careers Offer

In light of the challenges identified in the recruitment and retention of young people, a renewed emphasis and investment will be in place, ensuring active management and central co-ordination of a more integrated 'early careers offer.' This will ensure career pathways so that opportunities across the Council can be marketed and talent for critical roles in the future be recruited, developed, mentored and retained. This renewed emphasis and investment will formally identify pathways for people to enter employment into the Council through ‘Grow Your Own’ schemes.

It is planned that the opportunities presented by the new government Apprenticeship

Reforms being introduced from April 2017, will be maximised by drawing down funding for training programmes for apprenticeship posts, (including higher level apprenticeships), to develop the critical skills needed by the Council in the hard to recruit and retain areas. Service areas are currently identifying their prioirties for 2017 -18.

The co-ordination of 'early careers' pathways will need to be carefully planned including how care leavers apprenticeships, traineeships, summer placements and internships can feed into higher level apprenticeship programmes and any future graduate schemes.

Business Support and People Management are working in collaboration to explore the opportunities to link existing and new initiatives for Early Careers into co-ordinated career pathways that encourage retention and progression towards higher level qualifications and roles. The current work on Apprenticeship Reforms will inform some of the thinking on this but other areas include:

- Work Experience Placements
- Care Leaver Support – Leaving Care Team
- Internships
- Traineeships
- Summer Placements
- Bring your son/daughter to work day
- Buddy Systems for new starters
- Career Mentoring
- Links to Education Partners & schools
- Internal NVQ and Apprenticeship provider centres

Attraction, Recruitment and Retention
As previously reported, actions are being taken to review, modernise and improve the Serco Recruitment Service. The outcome will be to deliver a more candidate focussed, pro-active, modern recruitment service, including the development and delivery of recruitment strategies and targeted campaigns for critical posts.

Given the culture of the Council and the public sector ethos that unites employees across the public sector, ensuring the right fit of candidates for roles in the Council is key to reducing attrition. The redesign should see the development of robust competency, selection/ assessment materials and the use of testing where applicable and beneficial. Fundamental changes and key enhancements to the recruitment system (U4R) are being planned including the ability to simplify the application process, track candidates going through the application process, enabling better candidate contact and overall experience for applicants. Associated Management Information will also be improved.

The recruitment of key specialist Recruiters to the Serco team is also planned to ensure a Centre of Excellence for the Council as detailed in the contractual schedules and set to launch 3rd April 2017.

Snap surveys are being undertaken in some key hard to recruit and/or retain areas to inform advertising and recruitment process for current vacancies as well as use of LinkedIn and consideration of a staff employee referral scheme.

The greater use of market pay data will be a feature of the new recruitment service provision, so that Managers and HR can determine whether there is a business case for market supplements to be paid, either to recruit or retain to these posts. In advance of the setting up of this service, a review of retention payments has already commenced in relation to Children's Social Workers, in light of similar payments being offered by other

Councils. There is also scope to review the existing Market Supplements Policy to provide greater flexibility to address exceptional challenges.

3. Conclusion

The range of workforce planning initiatives will be co-ordinated by the strategic People Management Team, working with Senior Managers and the Workforce Leads in Service Areas. The initiatives will be evaluated throughout 2017 -18 to determine whether they are assisting Managers to build and develop the workforce required to meet the required demand. This will also include an evaluation of the impact on agency usage. The progress and outcomes of the projects and initiatives in the Council Workforce Plan are reported and reviewed by the Corporate Management Board on a quarterly basis.

4. Consultation

a) Have Risks and Impact Analysis been carried out??

N/A

b) Risks and Impact Analysis

N/A

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 Fiona Thompson, who can be contacted on 01522 552207 or Fiona.thompson@lincolnshire.gov.uk .

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Policy and Scrutiny

Open Report on behalf of Tony McArdle, Chief Executive

Report to:	**Value for Money Scrutiny Committee**
Date:	**28 February 2017**
Subject:	**Options for Unitary Local Government in Lincolnshire**

Summary:

The current two-tier local government structure for Lincolnshire originated in 1974. Reforms in a number of other counties of England have since removed this two-tier structure in favour of unitary authorities.

Where the two-tier structure remains, its inherent tensions, most evident in respect of services such as waste, transport and planning, require complex 'interfaces' to be negotiated which are rarely efficient and are frequently expensive. Other services are simply duplicated – e.g. economic development and tourism. Political differences between authorities have made focused local direction of some services, plans or programmes difficult and occasionally impossible. There has often been friction; there has always been frustration. Finances have been strained, most notably in this decade of austerity.

The Local Government Association (LGA) within their 'Future Funding Outlook for Councils 2019/2020' demonstrated that the overall funding shortfall nationally will be £9.5bn. For Lincolnshire County Council alone the funding gap by the end of this decade could be as much as £75.5m.

In the light of all of these pressures the creation of more unitary authorities is increasingly viewed as a self-evident means of improving the effectiveness of local government and increasing value for money. Unitary proposals in respect of Buckinghamshire, Oxfordshire and Dorset have been put forward in recent months. Others are known to be in preparation.

This report outlines the high-level analysis undertaken on possible unitary models as they would apply to Lincolnshire.

Actions Required:

Members of the Value for Money Scrutiny Committee are invited to consider and comment on the report and highlight any recommendations or further actions for consideration.

1. Background

1.1. The last nationwide structural reform of English local government was delivered through the Local Government Act of 1972. For non-metropolitan areas, the universal solution was the creation of two tiers of Authorities.

1.2. This arrangement is challenging, with the need for operational 'interfaces' to be negotiated and agreed. Some services have been duplicated – economic development and tourism for example. Political differences between the authorities make common direction for some plans and programmes difficult.

1.3. The two-tier system is also often confusing to the public and produces fragmentation with some constituent groups of councils working together but resulting in the creation of non-cohesive services across the county geography. Across England, there is near-universal acceptance that this division of responsibilities does not serve shire areas well.

1.4. A number of attempts have been made to address the issue in different parts of the country. Over time, a number of areas have abandoned the two-tier structure in favour of unitary models notably, Cornwall, Shropshire, Berkshire, Durham, Northumbria, Wiltshire, Cheshire and Bedfordshire. Most of these areas have expressed a high degree of satisfaction with the outcome, with one or two unitaries in each case. Berkshire's six unitaries have proved more problematic.

1.5. Unitary proposals for Buckinghamshire, Dorset and Oxfordshire presently sit on the Secretary of State's desk. Proposals for Northamptonshire are forthcoming.

1.6. It is easy to understand why the drivers for change are causing this new raft of proposals to be brought forward at this point. Common arguments include:-

- Rationalisation and integration of services, such as waste collection and disposal, traffic management and car parks, and public health and environmental health, will lead to better quality outcomes for service users.
- The drive for economic growth requires a scale of coherent local government operation that allows for strategic decision-making across the 'functional economic geographies'.
- The increasing complexity in commissioning public services requires that public sector agencies work much more seamlessly to produce a joined-up 'offer' for an area, and for that to be a common area.
- The financial pressures that local government (and indeed the other public services) increasingly have to manage make the tolerance of diseconomies of scale no longer justifiable.

1.7. All of these arguments hold good for Lincolnshire.

- The Secretary of State for Local Government, Rt. Hon Sajid Javid MP recently indicated that [he saw] any case for unitary authorities needing to reflect a population base of between 300,000 and 800,000. With a population of 736,000, Lincolnshire meets this criterion in respect of either one or two unitaries.

- The co-terminosity of the County Council's operational area with that of the Lincolnshire Police and of the NHS's recently-announced forward planning (Sustainability and Transformation Plan (STP)) area mean that should the present local authority structures be superseded by a unitary model, that authority (or authorities) would be well placed to lead the integration of commissioning and delivering services across the public sector.
- The Greater Lincolnshire Local Enterprise Partnership (LEP) covers the same area, as well as sharing responsibility with the Humberside LEP for the area covered by the two small unitary authorities to our north. This arrangement operates well, with considerable success in attracting support and investment. Any new authority (or authorities) would have a strong base to build on in furthering the economic prospects of the area.

1.8. The bringing together of County and District services would allow for considerable enhancements to be made to service delivery. The opportunity could also be taken to devolve to communities, through town and parish councils, some functions that are likely to be capable of more effective and efficient operation.

1.9. The financial benefits could be considerable. The rationalisation of service operations and the scaling down of the considerable management overhead that the present structure requires play a major part in that.

1.10. It is estimated that between £24-33m p.a. savings would result from operating as a single unitary council in Lincolnshire and between £9-19m p.a. from operating two such unitaries.

1.11. Further savings will result in time from closer integration with the NHS and Police commissioning arrangements as a fully strategic platform for public sector transformation will have been created by such a reorganisation.

1.12. A three unitary option has been considered as part of the analysis but this has proved to incur additional cost rather than generate savings.

2. Conclusion

2.1. The opportunity to expand the considerations of geography, most notably into the Greater Lincolnshire area, has not been addressed here. We would need to understand and respond to any aspirations there before taking up any such opportunity.

2.2. More work will need to be carried out to examine the best disposition for unitary local government for Lincolnshire, although, given the experience elsewhere and the initial examination of costings, it seems likely that this will be around one or two such unitary councils.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

Yes.

b) Risks and Impact Analysis

This report is for information purposes. The data used for the analysis is available in the public domain. Risk and Impact is assessed as very low.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Baseline Analysis of Unitary Options for Lincolnshire

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 George Spiteri, who can be contacted on 01522 552120 or george.spiteri@lincolnshire.gov.uk.

Options Analysis for Unitary Local Government in Lincolnshire

1. Analysis

1.1. Background

The administrative area of Lincolnshire County has a population of 736,665 people with 537,856 voters[1] . Local governance comprises seven district councils and one county council with 290 district councillors and 77 county councillors[2] (Table 3), thirty two councillors are dual hatted (i.e. represent both district and county areas). On average each district councillor represents a population of approximately 2,500 people and each county councillor represent approximately 10,500 people.

Authority	Population MYE 2015	Electorate 2015	Members	Pop'n / Member 2015	Voters / Member 2015
Lincolnshire County Council	736,665	537,856	77	9,567	6,985
Boston Borough Council	66,902	44,705	30	2,230	1,490
East Lindsey District Council	137,887	103,412	55	2,507	1,880
City of Lincoln Council	97,065	60,209	33	2,941	1,825
North Kesteven District Council	111,876	83,805	43	2,602	1,949
South Holland District Council	91,214	68,255	37	2,465	1,845
South Kesteven District Council	138,909	104,620	56	2,481	1,868
West Lindsey District Council	92,812	72,850	36	2,578	2,024
Lincolnshire County Area	***736,665***	***537,856***	***367***	***2,046***	***1,494***

Table 3. Population of Lincolnshire by Authority

The current two-tier local government structure for Lincolnshire originated in 1974. Reforms in a number of other counties of England have since removed this two-tier structure in favour of unitary authorities.

The Local Government Association (LGA) within their 'Future Funding Outlook for Councils 2019/2020' demonstrated that the overall funding shortfall nationally will be £9.5bn. For Lincolnshire County Council alone the funding gap by the end of this decade could be as much as £75.5m.

In the light of all of these pressures, the creation of more unitary authorities is increasingly viewed as a means of improving the effectiveness of local government and increasing value for money. Unitary government offers significant benefits for residents, communities and businesses in Lincolnshire. Other local authorities who have made this transition have identified a variety of opportunities, including cost savings, service improvements and growth.

[1] Population Estimates by single year of age and sex for local authorities in the UK mid-2015, Office for National Statistics, published 23 June 2016.
[2] This will reduce to 70 in the County Council elections in May 2017 reflecting the Boundary Commission review

There have been a number of studies on methodologies for the size of a (unitary) council. The latest thinking suggests a size of between 300,000 and 800,000 population should be considered[3]. Clearly, this results in two possible permutations when considering Unitary Authority options of the Lincolnshire County geography. This paper considers these two permutations and also a third scenario which falls short of that population base: -

Scenario 1. A single unitary authority across the administrative geography of Lincolnshire County Council with a population of 736,665 people

Scenario 2. Two unitary authorities across the administrative geography of Lincolnshire County Council, each of approximately 368,000 people

Scenario 3. Three unitary authorities across the administrative geography of Lincolnshire County Council, each of approximately 245,000 people

For each of the scenarios a high-level options appraisal has been undertaken looking at the benefits that could result, both from organisational and financial perspectives.

The non-financial high-level analysis takes into account the many studies that have been carried out on unitary models and the publically available business cases for local government reorganisation in rural shire county areas. The findings are summarised for each scenario in line with their impact on service users; the practicality of the reorganisation; implementation challenges; and financial sustainability.

The evidence base on which the financial assumptions are made has been gathered from publicly available data, using 2015/16 data sources wherever possible. The financial baselines, which exclude Housing Revenue Account funds for District Council with housing stock, can be found in Tables 4 & 5, below.

Gross Service Expenditure by District (£'000)	Corporate and Democratic Core	Central Services to the Public	Housing services	Cultural & Related services	Planning Services	Environmental & Regulatory services	Highways & Transport services	Other Costs	Totals
Boston	1,021	2,680	22,402	3,189	1,761	4,249	606	-	**35,908**
City of Lincoln	1,387	1,681	37,835	6,595	4,514	7,344	2,983	423	**62,762**
East Lindsey	2,747	3,013	49,108	6,882	5,729	9,211	1,724	87	**78,501**
North Kesteven	2,798	1,942	21,075	5,532	4,351	5,391	399	461	**41,949**
South Holland	2,577	1,652	20,832	2,647	3,962	4,868	260	3	**36,801**
South Kesteven	2,608	2,706	32,539	6,473	4,574	8,011	1,205	-	**58,116**
West Lindsey	1,901	1,843	25,523	1,228	3,910	4,964	270	17	**39,656**
Districts total	***15,039***	***15,517***	***209,314***	***32,546***	***28,801***	***44,038***	***7,447***	***991***	***353,693***
Lincolnshire CC	2,736	5,776	12,425	20,365	21,661	35,815	99,636	809,568	**1,007,982**
Lincolnshire Area	***17,775***	***21,293***	***221,739***	***52,911***	***50,462***	***79,853***	***107,083***	***810,559***	**1,361,675**

Table 4: Summary of Gross Expenditure by Service 2015-16

[3] Sajid Javid speech to CCN Conference2016 https://www.youtube.com/watch?v=CcKWK07-XdI

Net Service Expenditure by Council (£'000)	Corporate and Democratic Core	Central Services to the Public	Housing services	Cultural & Related services	Planning Services	Environmental & Regulatory services	Highways & Transport services	Other Costs	Totals
Boston	999	835	1,139	1,633	794	2,745	-413	-	**7,732**
City of Lincoln	1,387	784	1,432	4,787	2,619	5,130	-1,793	113	**14,459**
East Lindsey	2,286	1,570	1,218	4,758	3,255	7,810	-1,409	87	**19,575**
North Kesteven	2,081	1,240	974	4,744	-1,145	3,715	-78	461	**11,992**
South Holland	2,169	784	136	1,804	2,244	4,070	-44	3	**11,166**
South Kesteven	2,161	1,230	779	4,148	2,509	5,553	-244	-	**16,136**
West Lindsey	1,878	1,198	1,034	405	2,054	4,407	-27	-108	**10,841**
Districts total	***12,961***	***7,641***	***6,712***	***22,279***	***12,330***	***33,430***	***-4,008***	***556***	***91,901***
Lincolnshire CC	2,729	4,401	11,725	15,796	17,963	34,592	89,394	363,639	**540,239**
Lincolnshire Area	***15,690***	***12,042***	***18,437***	***38,075***	***30,293***	***68,022***	***85,386***	***364,195***	**632,140**

Table 5: Summary of Net Expenditure by Service 2015-16[4]

Local government reorganisation is not a straightforward process and each of the options considered present both challenges and opportunities.

A recent study by Ernst & Young[5] for the County Council Network suggests that savings are achievable. Solely looking at the financials suggests that creating a single unitary within each county council area in England could result in a net saving of up to £2.9bn over five years across all 27 two-tier county areas. To illustrate the potential saving, that could be achieved by a smaller or larger than average county area, a multiplier was applied to this average figure giving the savings potential for two-tier counties forming a single or two unitary authorities based on size (Figure 2).

Net saving/cost per county by scenario	1	2	3
Small county 0.4mn population £465mn spend	£44-£53mn	£22-£31mn	(£1mn) to £10mn
Average county 0.8mn population £930mn spend	£88-106mn	£42-£63mn	(£1mn) to £19mn
Large county 1.2mn population £1.4bn spend	£132-£159mn	£65-£94mn	(£2mn) to £29mn

Figure 2. Savings for one, two and three unitary councils

[4] County Council Other Costs consists of: Education Services (£83,658k), Children's Social Care (£83,671k), Adult Care(£164,727k), Public Health (£266k) and Fire & Rescue (£31,803k)

[5] EY Report for CCN: Independent Analysis of Governance Scenarios and Public Service Reform in County Areas September 2016

Applying this model to a Lincolnshire County geography would suggest five-year savings in the region of £88m-£106m could be achieved for a single unitary scenario. This reduces to £42m-63m for a two unitary scenario and further to a maximum of £19m for three unitary model with the latter introducing a risk of cost rather than savings over the five years.

Clearly, as stated in the report, this is purely illustrative and further analysis would be required to determine the most accurate savings for a county in a specific model of reorganisation.

A change to existing arrangements could produce a range of potential savings by removing managerial duplication, reducing the costs associated with elections, streamlining services and back office costs while protecting front-line delivery through optimising the considerable sums spent on a wide range of services.

This objective assessment presents a series of initial, high-level insights which will need to be subjected to further detailed analysis as part of any next steps.

1.2. Scenario 1 - A Single Unitary Authority

Impact on Service Users - This option would involve the least service disruption and service users in receipt of social care services should not witness a change in service provision or eligibility.

Service users would benefit from efficiencies and economies of scale that are generated through streamlined services, removal of duplicated roles and service optimisation. The new larger organisation would also maximise the negotiation power of councils with private providers and the wider public sector.

Practicality - For some service areas, already delivered at the county level, there will be limited requirement for service redesign. There is the potential for intuitive restructuring delivering service integration supporting the transfer of skills, capabilities, knowledge and best practice through new, shared, working arrangements.

There is an inherent risk that may result in a reduction in political representation and the barriers to implementation this may cause. However, community and locality governance structures could be implemented to reduce the impact.

Implementation – This will be challenging at scale, however, the creation of a single unitary authority will avoid the issue of fragmentation and would be the least disruptive to large-scale strategic services, such as Adult Care, Children Services, Highways thereby reducing the complexity of implementation. Implementation costs would be the lowest amongst the unitary scenarios considered.

Financial sustainability - This scenario delivers the greatest financial savings and sustainability. It can enable the most sustainable distribution of business rates and the scale provides the ability to reduce costs through collaboration, leverage assets to generate income and borrow funds to save and/or grow. This option also provides the greatest potential to harmonise council tax levels to the lowest level.

Research conducted of unitary councils of a similar size to Lincolnshire – Cornwall, Durham, Shropshire and Wiltshire – shows that all have saved between 3.8 and 5.3 % of their annual net expenditure (Table 6).

	Cornwall	Durham	Shropshire	Wiltshire
Population	532,273	510,000	308,207	470,981
Area (hectares)	356,300	233,000	319,736	325,534
No of DC prior to Unitary	6	7	5	4
Combined budgets prior Unitary	£421m	£486m	£356m	£327m
Savings £ (full year)	£16m	£21m	£15m	£17m
% Savings	3.8%	4.3%	4.2%	5.3%
Transitional; costs	£40.0m	£12.5m	£15.1m	£17.0m
Transitional Costs as % saving	250%	60%	101%	100%

Table 6: Summary of Savings – Other Councils

Simply applying the range of percentage savings achieved in other councils suggests that a single unitary in Lincolnshire alone could initially save in the region of £24m to £33m pa. This is evidenced in the high-level financial analysis undertaken for this report which is summarised below.

Impact on Councils	**Savings derived from**	**Annual Savings Potential**
Creation of a single unitary authority for the Lincolnshire County Council geography resulting in the disaggregation of one county and seven district authorities	**Members:** Assuming that the area can be represented by 99 elected members, an overall reduction of 268 Members. **Senior Management:** Reduction in senior posts (CX's, Executive Directors and Managers) by an estimated 52fte. **Services** Streamlining back offices and the introduction of a digital platform improving the customer experience. Integration and rationalisation of services delivery and optimising front line delivery to improve services for local communities	£24m to £33m

Table 7: Summary of Savings – One Unitary Council

There would be an implementation cost to effect the change. Current evidence suggests that costs of change will be in the region of £12m over 3-4 years, however this could rise depending on the scale integration and redesign. Some councils having already made this change did incur higher costs.

1.3. Scenario 2 – Two Unitary Authorities

Impact on Service Users - This option provides some efficiencies and economies of scale, but less than Scenario 1. This option requires the disaggregating of the current county council's functions into two and the likely merger of district councils, which is likely to cause a significant amount of disruption.

There would be some benefit from efficiencies and economies of scale generated through streamlined services, removal of duplicated roles and service optimisation but not as high as Scenario 1. The disaggregation of county council services into two authorities could potentially lead to inconsistent service provision and increased complexity in migrating service users and renegotiating provider contracts.

Practicality – The split of county functions will require the duplication of a number of statutory officer posts (e.g. Director of Children Services, Director of Public Health, Director of Adult Care etc.) although it may be possible for the two unitaries to share these.

There is the potential for some intuitive restructuring of delivering service integration supporting the transfer of skills, capabilities, knowledge and best practice through new, shared, working arrangements particularly across merging districts.

However, this option will be less aligned to boundaries with other public sector agencies will introduce complexity particularly with current upper tier services. This will impact in the benefits realised.

Implementation – The overall implementation costs are higher than the single unitary option and disaggregating the existing county council structure could introduce additional complications, as well as time and cost pressures. There may also be difficulties in recruiting senior roles in the new organisations. There is evidence suggesting that this option has been implemented successfully in other counties.

There is further complexity and challenge in the need to redraw the boundaries of the new local authorities.

Financial sustainability - Savings are lower than a single unitary due to the reduced efficiencies and economies of scale. However, reducing costs through collaboration could still be achieved and there could be capital receipts that could be reinvested into the reorganisation and frontline services.

The ability for the new organisations to generate income through business rates may be impacted with one authority being more financially viable than the other. This is dependent on the geography of the two unitaries, which is not in the scope of this work and therefore not factored into the summary of savings (Table 7) but would be a factor in any subsequent detailed analysis.

There would be an implementation cost to effect the change. Current evidence suggests that costs of change will be in the region of £16m over 3-4 years, however this could rise depending on the scale of integration and redesign. Some councils having already made this change did incur higher costs.

The high-level financial analysis undertaken for this report is summarised below.

Impact on Councils	Savings derived from	Annual Savings Potential
Creation of two unitary authorities for the Lincolnshire County Council geography resulting in the disaggregation of one county and seven district authorities	**Members:** Assuming that the area can be represented by 130 elected members, an overall reduction of 237 Members. **Senior Management:** Reduction in senior posts (CX's, Executive Directors) by an estimated 8.4fte. However, would require the creation of an estimated 13 Executive Manager posts as a result of the need for duplication of posts in two Unitary Authorities as the result of the disaggregation of the County Council **Services** Limited streamlining of back office services and digital platform. Likely limited benefit to the customer with the disaggregation of current upper tier services. Some integration and rationalisation of services delivery and optimising front line delivery to improve services previously delivered by Districts.	£9m to £19m

Table 7: Summary of Savings – Two Unitary Councils

1.4. Scenario 3 – Three Unitary Authorities

Impact on Service Users - This scenario is likely to be most disruptive of the unitary options analysed in terms of the impact to residents. As with Scenario 2, service users with care needs will most likely fall under the remit of an entirely new organisation.

This option requires the disaggregating of the current county council's functions into three which is likely to cause a significant amount of disruption. There will be increased complexity in migrating service users and renegotiating provider contracts.

There would be minor benefit from efficiencies and economies of scale generated through streamlined services, removal of duplicated roles and service optimisation but this is likely to be offset by the disruption around services provided currently at the current upper tier level.

Practicality – Many of the non-financial benefits around work and knowledge sharing may significantly lessen in this scenario as there will be more organisations and sharing the delivery of services may require more complicated redesign.

The disaggregating of the current county council's functions into three is likely to be complex. The introduction of three new organisations to residents and service users may prove difficult to communicate.

Implementation – The overall implementation costs are considerably higher. This scenario involves disaggregation costs and additional complexity. There are likely to be difficulties in recruiting senior roles in the new smaller organisations.
The complexity and challenge of redrawing local authority boundaries increases under this scenario. Overall costs will be higher to manage, for example, marketing, communications and branding across three new organisations rather than one or two.

Financial sustainability - Similar to scenario 2, this scenario results in a further reduction in potential savings through the additional senior management costs, duplications across the 3 organisations and reductions in service delivery efficiencies due to reduced economies of scale.

This option will also result in fewer potential capital receipts as there is a smaller reduction in overall FTEs.

The ability for the new organisations to generate income through business rates may be impacted with one authority being more financially viable than the others. This is dependent on the geography of the three unitaries, which is not factored into the summary of savings (Table 8).

There would be an implementation cost to effect the change. Current evidence suggests that costs of change will be in the region of £19m over 3-4 years, however this could rise depending on the scale integration and redesign.

The high-level financial analysis undertaken for this report is summarised below.

Impact on Councils	**Savings derived from**	**Annual Savings Potential**
Creation of three unitary authorities for the Lincolnshire County Council geography resulting in the disaggregation of one county and seven district authorities	**Members:** Assuming that the area can be represented by 150 elected members, an overall reduction of 217 Members. **Senior Management:** Reduction in senior posts (CX's, Executive Directors) by an estimated 8.4fte. However, would require the creation of an estimated 13 Executive Manager posts as a result of the need for duplication as the result of the disaggregation of the County Council **Services** Very limited streamlining of back office services and digital platform. The disaggregation of current upper tier services could be costly. Minimal integration and rationalisation of services delivery and optimising front line delivery to improve services previously delivered by Districts.	£-6m to £-1m

Table 8: Summary of Savings – Three Unitary Councils

2. Conclusion

This is an evidenced based approach to inform the debate that is of importance to the future of public services. This discussion is hastened by growing demand for local government services, funding reductions, devolution and structural reform debates, and by future funding arrangements that create uncertainty.

A number of options have been analysed from a financial and public service reform perspective. There is evidence from the last round of reorganisation that successful councils have exceeded targets by redesigning structures and services rather than just reorganising them.

The upper range of savings that could be achieved only go some way in addressing the financial and service delivery pressures facing county and district authorities, as well as other parts of the public sector. Therefore, it is important that local government, and wider stakeholders, consider the practices that can deliver savings, and which governance scenario can provide the best platform for service sustainability and improvement into the future.

Each of the options presents an opportunity to realise a range of benefits, tangible and non-tangible. It is important to recognise that this is a high-level strategic options appraisal and a preferred option will need to be subject to further detailed financial scrutiny and modelling.

2.1. Next steps

This report sets out the potential options which could form the blueprint in Lincolnshire for the future of local government. The next stage will be to build on this strategic options appraisal by deciding the most appropriate option through consultation, and produce a detailed business case for change.

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Lincolnshire
COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

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

Report to:	**Value for Money Scrutiny Committee**
Date:	**28 February 2017**
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 to ensure that scrutiny activity is focused where it can be of greatest benefit. Members are encouraged to highlight items that could be included for consideration in the work programme.

The work programme will be reviewed at each meeting of the Committee to ensure that its contents are still relevant and will add value to the work of the Council and partners.

Actions Required:

Members of the Committee are invited to consider and comment on the work programme as set out in Appendix A to this report and highlight any additional scrutiny activity that could be included for consideration in the work programme.

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.

Members are encouraged to highlight items that could be included for consideration in the work programme which are relevant and will add value to the work of the Council and partners.

2. Conclusion

To consider and comment on the Work Programme and highlight any additional scrutiny activity that could be included for consideration in the work programme.

3. Consultation

a) Have Risks and Impact Analysis been carried out?
Not Applicable

b) Risks and Impact Analysis
Not Applicable

4. Appendices

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

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 Daniel Steel, Scrutiny Officer, who can be contacted on 01522 552102 or by e-mail at daniel.steel@lincolnshire.gov.uk

APPENDIX A

VALUE FOR MONEY SCRUTINY COMMITTEE

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

28 February 2017		
Item	**Contributor**	**Purpose**
Performance of the Corporate Support Services Contract	Judith Hetherington-Smith, Chief Information and Commissioning Officer	Performance Scrutiny
Treasury Management Update 2016/17 - Quarter 3 Report to 31 December 2016	Karen Tonge, Treasury Manager	Performance Scrutiny
Treasury Management Strategy Statement and Annual Investment Strategy 2017/18	Karen Tonge, Treasury Manager	Pre Decision Scrutiny **Executive Councillor: 20 March 2017**
Workforce Plan Update – Hard to Recruit and Retain areas	Fiona Thompson, Service Manager - People	Update Report
Options for Unitary Local Government in Lincolnshire	Strategic Commercial and Performance Manager	Update Report

For more information about the work of the Value of Money Scrutiny Committee please contact Daniel Steel, Scrutiny Officer, on 01522 552102 or by e-mail at daniel.steel@lincolnshire.gov.uk

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