County Offices
Newland
Lincoln
LN1 1YL

21 February 2018

Overview and Scrutiny Management Board

A meeting of the Overview and Scrutiny Management Board will be held on **Thursday, 1 March 2018 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

Membership of the Overview and Scrutiny Management Board (11 Members of the Council and 4 Added Members)

Councillors R Wootten (Vice-Chairman), R B Parker (Chairman), T Bridges, Mrs J Brockway, M Brookes, R L Foulkes, C S Macey, C E H Marfleet, Mrs A M Newton, N H Pepper and E W Strengiel

Added Members

Church Representatives: Mr S C Rudman and Reverend P A Johnson

Parent Governor Representatives: Mrs P J Barnett and 1 Parent Governor Vacancy

OVERVIEW AND SCRUTINY MANAGEMENT BOARD AGENDA
THURSDAY, 1 MARCH 2018

11	**Potential Scrutiny Reviews** *(To receive a report by Nigel West (Head of Democratic Services and Statutory Scrutiny Officer) which invites the Board to consider submissions for topics of future Scrutiny Reviews)*	To Follow
12	**Scrutiny Committee Work Programmes** *(To receive a report which sets out the work programmes of the Environment and Economy Scrutiny Committee and the Highways and Transport Scrutiny Committee in accordance with the Board's agreed programme)*	93 - 104
13	**Overview and Scrutiny Management Board Work Programme** *(To receive a report which enables the Board to consider and comment on the content of its work programme for the coming year to ensure that scrutiny activity is focussed where it can be of greatest benefit)*	105 - 118
14	**Information Item**	
	14a Treasury Management Update 2017/18 - Quarter 3 Update Report to 30 December 2017 *(To receive an information report by Karen Tonge (Treasury Manager) which provides the Board with information on the Treasury Management performance for Quarter 3, and compares activity to the Treasury Management Strategy for 2017/18. The report also details any issues arising in treasury management during this period)*	119 - 144

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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

**OVERVIEW AND SCRUTINY MANAGEMENT BOARD
25 JANUARY 2018**

PRESENT: COUNCILLOR R B PARKER (CHAIRMAN)

Councillors R Wootten (Vice-Chairman), M Brookes, R L Foulkes, C S Macey, C E H Marfleet, Mrs A M Newton, N H Pepper, E W Strengiel and B M Dobson

Added Members

Church Representatives: Reverend P A Johnson

Councillor M A Whittington attended the meeting as an observer

Officers in attendance:-

Andrea Brown (Democratic Services Officer), Simon Evans (Health Scrutiny Officer), David Forbes (County Finance Officer), Michelle Grady (Head of Finance (Communities)), Steve Houchin (Head of Finance (Adult Care)), Claire Machej (Head of Finance (Corporate)), Mark Popplewell (Head of Finance (Children's Services)), Jasmine Sodhi (Performance and Equalities Manager), Daniel Steel (Scrutiny Officer) and Nigel West (Head of Democratic Services and Statutory Scrutiny Officer)

72 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies for absence were received from Councillors A Bridges and Mrs J Brockway and Added Members Mrs P J Barnett and Mr S C Rudman.

It was reported that, under the Local Government (Committee and Political Groups) Regulations 1990, Councillor B M Dobson had been appointed as replacement member for Councillor A Bridges, for this meeting only.

The Board was advised that, since the last meeting, Dr E van der Zee had resigned his position as Parent Governor Representative which had resulted in one Added Member vacancy.

The Chairman proposed to write to Dr van der Zee to express the Board's thanks for his contributions during his appointment.

RESOLVED

That a letter of thanks be sent to Dr E van der Zee on behalf of the Overview and Scrutiny Management Board.

73 DECLARATIONS OF MEMBERS' INTERESTS

No declarations of Members' interests were received at this point of the proceedings.

74 MINUTES OF THE MEETING OF THE OVERVIEW AND SCRUTINY MANAGEMENT BOARD HELD ON 21 DECEMBER 2017

The Board noted that the last sentence of page nine of the agenda pack – Minute number 69 (Performance of the Corporate Support Services Contract) – noted that information relating to the delivery of individual IT projects would be considered at this meeting. However, this work had not yet been completed and it was hoped that this would be considered at the meeting of the Overview and Scrutiny Management Board on 1 March 2018.

RESOLVED

That the minutes of the previous meeting held on 21 December 2017 be agreed as a correct record and signed by the Chairman.

75 ANNOUNCEMENTS BY THE CHAIRMAN, EXECUTIVE COUNCILLOR FOR RESOURCES AND COMMUNICATIONS AND CHIEF OFFICERS

Following the agreement last year to give notice to the LGA and to withdraw membership from 1st April 2018, the Chairman advised that there would be an opportunity to reflect on this decision before committing to that withdrawal. The Chairman had been in discussions with the Leader of the Council and it had been agreed to present a joint report to the next meeting of the Board detailing the pros and cons of that decision.

The Executive Support Councillor for Resources and Communications reported that changes outside of the control of the Council had resulted in amendments to the budget. The Council, in conjunction with the Districts and North Lincolnshire Council, had applied to become a Business Rate Pilot Scheme to allow the Pilot Area to retain 100% growth which could result in additional income of £14m. This would be split with 40% retained by LCC and the remaining 60% apportioned between the District Councils. The intention was for the additional income to be ultimately used to draw down less from reserves next year.

The Chairman invited Councillor C S Macey (Chairman of the Health Scrutiny Committee for Lincolnshire) to update the Board following the meeting of the Health Scrutiny Committee for Lincolnshire on Wednesday 17 January 2018.

Councillor Macey advised that the Committee had agreed to make a second referral to the Secretary of State for Health and Social Care, in relation to Grantham and District Hospital A&E department, on the grounds that this was a permanent overnight closure and one which was felt to be a substantial variation. It was reported that a number of changes were underway within United Lincolnshire Hospitals NHS Trust (ULHT) which the Committee had been involved with throughout the process. As a result of these changes, it was expected that the referral would be referred back for local determination.

Councillor Macey reported that the closure of the Lincoln Walk-In Centre, on Monks Road, had been confirmed. The WIC would be open only at the weekends throughout February and would be closed fully by the end of February. Comments from the Health Scrutiny Committee for Lincolnshire to ensure that alternative care provision be put in place to counteract that closure had been considered and actioned. The Committee had been encouraged that their concerns had been noted and acted upon.

There were no announcements by Chief Officers.

76 CONSIDERATION OF CALL-INS

No Call-Ins had been received.

77 CONSIDERATION OF COUNCILLOR CALLS FOR ACTION

No Councillor Calls for Action had been received.

78 REVENUE AND CAPITAL BUDGET MONITORING REPORT 2017/18

Consideration was given to a report by the Executive Director of Finance and Public Protection which provided the second monitoring report for the financial year 2017/18, comparing the projected expenditure with the approved budget, including explanations for any significant over or underspend. The report would be presented to the Executive on 6 February 2018 along with the comments of the Overview and Scrutiny Management Board.

David Forbes (County Finance Officer) presented the report and referred members to Table A on page 17 of the agenda pack which provided detail of the Commissioning Strategies delivered by the Council. The Board was asked to note the following areas in particular:-

- It was proposed to use the draw down from the Public Health Grant reserve to release £1.5m which would be redirected, via the Readiness for Schools commissioning strategy, to cover the reported overspend in Readiness for Adult Life on Supported Accommodation;
- Page 22 of the agenda pack referred to Protecting and Sustaining the Environment and a potential underspend of £0.998m based on the latest waste tonnages, seasonality quantities and associate pricing as at the November contract update. There were savings on reduced costs from mixed dry recycling and a reduced tonnage for composting and other areas of recycling which reflected the volatility of the waste industry;
- Page 24 of the agenda pack referred to the National Living Wage at paragraph 1.48 (Other Budgets). It was reported that the corporate provision for the National Living Wage was currently forecasting an £8.740m underspend which was primarily due to national living wage growth in Adult Care being funded by

the new Better Care Fund (BCF) monies in 2017/18. It was anticipated this would continue to be funded by the BCF for the next two years;

- A dividend of £0.563m was received from Eastern Shires Purchasing Organisation (ESPO). As a member of the ESPO joint committee, Lincolnshire County Council was entitled to receive a share of the dividend generated by the organisation; and
- Overall, it was reported that the Council budget, in terms of Table A, was currently showing a projected underspend of £16.8m with an expected underspend of £20m-£21m by the year end.

Page 27 of the agenda pack referred to the Capital Programme at Table B. It was reported that the Council had set aside £7.5m in a New Development Capital Contingency Fund for 2017/18 for capital schemes which may emerge during the financial year. There had also been an underspend for 2016/17 of £7.718m which had been carried forward for schemes in 2017/18.

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

- In answer to a question about the age group for the provision of accommodation for homeless young people, it was explained that this was provided for 16 to 17 years olds and care leavers up to the age of 25 years old. This issue was being looked at currently as the change in legislation had resulted in increasing numbers which provided a significant issue in the county. A pilot was underway to provide in-house services to assist with reintegration back into family life rather than outsourcing to other agencies. Despite the significant pressure in this area, plans were in place to improve the situation;
- In order to address the demand, intervention strategies were being put in place to ensure that short notice procurement of services was avoided. Pilots were underway to convert former fire houses in Grantham into two bedroom accommodation with intervention support. It was hoped that this would provide step down provision for young adults to move back into family life or give the authority time to provide suitable alternative arrangements. It was intended that this service would also link with youth offending services; and
- An integral part of the universal offer was to provide intervention support. Statistically, CIPFA benchmarking against national trajectories was considered with a view to improve the picture, however the escalation costs were significant and the priority, therefore, remained on early intervention.

RESOLVED

1. That the report be noted; and
2. That the comments noted below be passed to the Executive for consideration prior to its meeting on 6 February 2018:-
    - o The Board fully supported the recommendation to transfer £1.5m from the Readiness for Schools revenue budget to Readiness for Adult Life; and

- The Board was mindful of the potential increase in costs associated with the Council's legal duty to provide supported accommodation for homeless 16-17 year olds and car leavers. Board members supported the idea of controlling demand through more suitable, and cost effective, intervention arrangements.

79 2018/19 BUDGET FOR SUPPORT SERVICE AREAS

Consideration was given to a report by the Executive Director of Finance and Public Protection which provided the budget proposals for the next two financial years based on the four year funding deal announced by Government and updated by the 2018/19 Provisional Local Government Finance Settlement. The report specifically looked at the budget implications for two of the Council's commissioning strategies.

Michelle Grady (Head of Finance – Communities) introduced the report and explained that Table B provided the services within the commissioning strategies and Table A set out the changes to each of those budgets.

The Board noted the following cost pressures:-

- There were proposed cost pressures of £0.309m in 2018/19 and £0.391m in 2018/20 to meet the Council's obligation to pay staff and some contractors the central government set national living wage;
- There were cost pressures relating to increased property rates and utility costs of £0.165m in 2018/19 and an additional £0.181m in 2019/20;
- A one-off cost pressure of £0.321m for the conclusion of the West Deeping minerals site archaeological costs;
- Strategic Communications would have a cost pressure in 2018/19 relating to increased costs of the Lincolnshire Show of £0.015m; the publication and delivery of County News of £0.040m and the development of the Council's digital platform of £0.020m; and
- Cost pressures within Information Management Technology (IMT) in 2018/19 were £4.436m and £0.200m in 2019/20. These related to the licensing costs (£1.388m); a Data Protection Officer to ensure compliance with the General Data Protection Regulation (GDPR) (£0.048m); additional Technical Architect and Business Analyst posts (£0.2m) and the improvement of the technology enablers to improve the IMT supporting the Council's services (£3m).

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

- The Council had taken a decision to cease the graduate programme for new entrants and also the Leadership Management Development Programme. The focus would now be on apprenticeships as the Local Authority had paid an apprenticeship levy which could be clawed back through approved apprenticeship programmes. It was confirmed that these apprenticeships were available at all levels of development and not solely for school leavers; and

- Expenditure of £3m for the improvement of the technology enablers within IMT provided some concern for members. Whilst this was generally accepted, a business case was requested to present the detail in order to justify this proposed budget. Members were reminded that a Scrutiny Panel was reviewing this particular issue and would report back to the Executive later in the year.

RESOLVED

1. That the report be noted; and
2. That the comments noted below be passed to the Executive for consideration prior to its meeting on 6 February 2018:-
   - In answer to concern raised by a member of the Board about the decision to end the graduate programme for new entrants and the Leadership Management Development Programme, the Board was advised that the Council's focus was now on apprenticeships. The Local Authority currently paid an apprenticeship levy and there were opportunities to claw some of the levy back through approved apprenticeship programmes. These apprenticeships were available at all levels of development, not just school leavers; and
   - While it was generally accepted that there was a need to fundamentally review the Council's Information Technology (IT) Strategy, and earmark funds for investment in IT, it was commented by members of the Board that there would be a need in the future to provide a business case and more detail to justify the budget of £3m, highlighted in the report. Members were reminded that a Scrutiny Panel was reviewing the situation and would be reporting back to the Executive later this year.

80 COUNCIL BUDGET 2018/19

Consideration was given to a report by the Executive Director of Finance and Public Protection which provided the budget proposals, agreed by the Executive at its meeting on 19 December 2017, and included the implications of the Provisional Local Government Finance Settlement.

David Forbes (County Finance Officer) introduced the report and referred the Board to the document tabled which replaced Table 2 on pages 48 and 79 of the agenda pack. This table was the definitive version and the one which the Board gave consideration to.

All areas of service expenditure had been reviewed to identify cost pressures which must be funded and savings which could be made, through efficiencies and by reducing the level of service provided. The Council remained aware of its high priority areas but no service had been exempt from helping the Council to deliver its savings target. The Board was reminded of the high priority areas:-

- Safeguarding children and adults;
- Maintaining and developing highways and infrastructure;
- Managing flood risks;

- Supporting communities to support themselves; and
- Fire and rescue services.

The Multi Year Funding Settlement provided the Council with confirmed minimum funding for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant from 2016/17 to 2019/20. This was indicated in Table 1 on page 44 of the agenda pack with the level of funding for 2018/19 and 2019/20 having been built in to the Council's budget proposal. The Government was to honour this agreement with one exception. The Rural Services Delivery Grant had been expected to reduce for 2018/19 to £4.281m but this was now to be maintained at £5.565m.

The Better Care Fund (BCF) had three main funding streams – an element from Lincolnshire Clinical Commissioning Groups (CCGs); the Improved Better Care Fund grant from central government; and the (Supplementary) Improved Better Care Fund grant, also from central government. These funding streams combined would provide the Council with £40.044m in 2018/19 and £46.343m in 2019/20 to fund Adult Care Services. The Board was asked to note that the BCF would cease to exist in March 2020 and, if not replaced, would leave a £46m shortfall in the budget.

To avoid any confusion, the County Finance Officer explained that there had now been three versions of Table 2 (Summary Revenue Budget) circulated to the Board. The version tabled at the meeting was the definitive version and the change from version to version was in relation to the use of reserves and income lines. The Executive had wished to scale down the use of reserves and this was now proposed as £48m over two years as opposed to £77m over two years.

The table also incorporated the following information which was received from the District Councils in Lincolnshire in relation to Council Tax and Business Rates:-

- Growth in the Council Tax base for all seven Lincolnshire Districts of 1.27% (£3.488m);
- A surplus on the Council Tax element of the Collection Fund for all seven Lincolnshire Districts (£2.641m);
- A deficit on the Business Rates element of the Collection Fund for just one of the Lincolnshire Districts (-£0.099m);
- An estimate of the S31 grant linked to Business Rates capping and Rate Relief's offered by central government (£2.293m). As with the Business Rates element of the collection fund, this figure would be revised once the six final returns from Districts had been received;
- An estimate of the additional income expected to be generated by the Council's membership of the Business Rates Pilot (£4.300m); and
- Increase in the General Fund balance to maintain this at 3.5% of the Council's budget requirement (£0.400m).

It was reported that District Councils had been given a deadline of 31 January 2018 to provide this information.

Two bids had been made to government. The first was for a Business Rates Pilot for the 100% retention of business rates schemes. The second was for Business Rates

Pooling in 2018/19. Since the report was published, the Board was advised that the bid for a Business Rates Pilot had been successful.

The intention was to use the reserves in order to balance the budget over the next two years whilst building up further reserves to assist in balancing the budget for the third year.

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

- It was reported that the Highways and Transport Scrutiny Committee had supported an additional 1% on Council Tax;
- A recommendation had been made to the Executive by the Highways and Transport Scrutiny Committee to request that the frequency of weed control be increased to at least two or three times per year. The Chairman of the Highways and Transport Scrutiny Committee was pleased to report that the Executive had agreed to this request and had made provision to put £150k into the budget;
- One member of the Board expressed concern in relation to the reduction in the grant to the Citizens Advice Bureaux (CAB). It was confirmed that it had been agreed to allocate £277k to support the CAB for core services for the next financial year;
- The ability of District Councils to use discretionary powers to waive council tax for care leavers up to the age of 21 had been discussed at the Children and Young People Scrutiny Committee. The Board supported this council tax scheme and asked officers to confirm which District Councils, if any, had implemented this type of scheme for 2018/19. The Board was advised that this information should be available no later than 31 January 2018;
- The Board supported the proposed increase to Council Tax by the maximum amount allowed, without the need to hold a referendum (4.95%), to protect the level of reserves. Members stressed the importance of keeping reserves healthy in order to respond to any future cost pressures; and
- It was reported that the Adults and Community Wellbeing Scrutiny Committee had been reassured by the budget in their area. This had been balanced over the last six years and services delivered within the budgets allocated. Concern was noted, however, that the BCF may cease in 2020 and that this fund currently provided a significant contribution to the funding for the adult care budget.

RESOLVED

1. That the report be noted; and
2. That the comments noted below be passed to the Executive for consideration prior to its meeting on 6 February 2018:-
    - A member commented that it made sense to increase Council Tax by the maximum allowed without holding a referendum (4.95%) to protect the level of reserves;
    - A member supported a request from the Highways and Transport Scrutiny Committee for the Council to fund an increase in the frequency of weed spraying;

- In answer to concern expressed by a member of the Board about guts to the grant to the Citizens Advice Bureaux (CAB), officers confirmed that it had been agreed to allocate £277,000 to support the CAB for their core services;
- A member stressed the importance of keeping reserves healthy to respond to any future cost pressures; and
- The Chairman of the Children and Young People Scrutiny Committee requested that clarification be provided on which District Councils had implemented a council tax scheme, where District Councils could use their discretionary powers to waive council tax for care leavers up to the age of 21. The Board supported this type of scheme and officers were asked to confirm which District Councils, if any, had implemented this type of scheme for the 2018/19 financial year.

81 <u>FINAL DRAFT COUNCIL BUSINESS PLAN 2018-2020</u>

Consideration was given to a report on behalf of the Chief Executive providing the outcomes and measures which made up the final draft Council Business Plan 2018-2020. The Equalities Objectives (Appendix C) had been circulated as an addendum to the report. The full report would be considered by the Executive at its meeting on 6 February 2018 following which it would be presented to Full Council on 23 February 2018 for approval.

The Board was advised that the intention was to have a two-year plan to mirror the two-year budget covering the period 2018 to 2020.

Appendix 1A presented the final Draft Council Business Plan, Appendix 1B presented the Changes from the Council Business Plan 2017/18 to 2018/2020 and Appendix 1C (circulated as an addendum) presented the Equalities Objectives.

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

- Page 109 of the agenda pack noted that the Lincoln East West Link Road (Ref No. 80) had been removed from the Council Business Plan as the scheme was completed in January 2017. It was confirmed that there had been no concerns with this scheme raised by the Board or the Highways and Transport Scrutiny Committee;
- Adult Safeguarding had been removed and replaced with a range of more appropriate proposals;
- Carers – despite this area not performing as well as expected, it was reflecting the actual strategy and had, therefore, been removed;
- Protecting the Public (Youth Offending Victim Engagement) – this was being removed as it was no longer a priority measure, however this area would still be considered by the relevant scrutiny committee. It was expected that the Youth Offending Manager would present a report on this issue to the Children and Young People Scrutiny Committee in March 2018;
- The Board was content with the proposed additions to the measures; and

- Nothwithstanding the requirement for all Council Members to be registered with the Information Commissioner's Office, it was agreed to recommend the inclusion of Councillors in the measure on page 115 relating to the information governance responsibilities of staff.

RESOLVED

1. That the report be noted; and
2. That the comment noted below be passed to the Executive for consideration prior to its meeting on 6 February 2018:-
    - In relation to changes to the wording of outcomes, the Board felt that elected members, as well as staff, should also be made aware of their information governance responsibilities. The outcome in relation to measures 96 and 97 should therefore read: "Staff and elected members are made aware of their information governance responsibilities".

82 THE SCRUTINY REVIEW PROCESS

Consideration was given to a report by the Executive Director responsible for Democratic Services which invited the Board to determine the process by which topics for scrutiny reviews should be decided.

Nigel West (Head of Democratic Services and Statutory Scrutiny Officer) introduced the report and recommended that the number of reviews be limited to two at any one time due member and officer capacity.

It was recommended that the final decision on whether a review was to take place should rest with the Overview and Scrutiny Management Board, following consultation with officers, as suggested within the report on page 118 of the agenda pack.

During discussion, the following points were noted:-

- The Highways and Transport Scrutiny Committee had agreed a suggestion of 'Sponsorship of Roundabouts' as a scrutiny review topic and referred this to the Board for consideration. The topic had caused some debate and it was suggested that this area may cross over with other committees such as the Environment and Economy Scrutiny Committee and the Public Protection and Communities Scrutiny Committee;
- A review to look at a potential gap in the transition for children in care moving into adulthood was suggested;
- Members were encouraged to submit a form with any suggestions which could then be considered. In order to enable a discussion at the Overview and Scrutiny Management Board, all questions on the form should be answered 'yes'; and
- It was confirmed that Scrutiny Panels replaced Task and Finish Groups, although scrutiny committees could still have Working Groups to look at specific issues.

RESOLVED

1. That the limit of no more than two reviews at any one time be agreed; and
2. That the Overview and Scrutiny Management Board make the final decision on whether a review takes place be agreed.

83 SCRUTINY COMMITTEE WORK PROGRAMMES

The Board considered the work programmes of two scrutiny committees where the following points were noted:-

Children and Young People Scrutiny Committee

Councillor R L Foulkes, Chairman of the Children and Young People Scrutiny Committee, introduced the Work Programme and confirmed that a change had been made to the work programme since it was published. Children's Services Annual Complaints report had been added to the meeting on 9 March 2018.

Two meetings had taken place since the last update to the Board in September 2017, and the key issues considered included:-

- Proposed Changes to Enhanced Resource Provision Units Supporting Children with Hearing Impairments;
- Building Communities of Specialist Provision for Children and Young People with Special Educational Needs and Disabilities;
- Alternative Education Provision for Key Stage Four Pupils;
- National Funding Formula for Mainstream Schools; and
- Inclusive Lincolnshire Strategy.

Councillor Foulkes also asked the Board to note the following:-

- Consideration of Supported Accommodation for Looked After Children would take place on 20 April 2018. A scrutiny review into that area had taken place over two years ago;
- The committee was keen to encourage consultations with young people and was in discussions with the Lincolnshire Youth Council. There was a proposal to include a section on future scrutiny reports to ask if the Youth Council had been consulted, as it was felt important to include the views of young people on issues which may affect them;
- A member of the Youth Council was expected to attend the meeting on 9 March 2018 to give their views on the Restorative Panels Pilot report. The Youth Council was a good organisation but, at present, did not appear to link with other organisations to have their views heard;
- Prevent and the Implications for Children and Young People was listed on the Work Programme for 20 April 2018. A presentation on Prevent was to be given to the Youth Council and their comments on this presentation would be presented to the Committee at that meeting; and
- Councillor Foulkes gave thanks to both Simon Evans (Health Scrutiny Officer) and Daniel Steel (Scrutiny Officer) for their recent, and continued, support with the Children and Young People Scrutiny Committee.

During discussion, the following points were noted:-

- Although the Youth Council was an excellent way of engaging with young people, it was suggested that the young people who really needed engagement were not part of these types of organisations. The difficulty was finding a way to reach all young people;
- Post Adoption Support was listed under 'items to be programmed' and one member stressed the importance of this issue. It was suggested that support to the adoptive parents ceased when a child was placed which may have been partially responsible for the failure of some adoptions;

At 12.15pm, Councillor M Brookes, left the meeting and did not return.

- Members were invited to attend the next meeting of the Children and Young People Scrutiny Committee to give their views in person should they wish to do so; and
- It was noted that there were a number of items on the list to be programmed. The meetings scheduled for June and July would be populated with some of those items following discussion with the relevant officers.

<u>Public Protection and Communities Scrutiny Committee</u>

Councillor N H Pepper, Chairman of the Public Protection and Communities Scrutiny Committee, updated the Board on the work of the Committee.

The scope of the Public Protection and Communities Scrutiny Committee was extremely varied and was within the portfolio of three Executive Councillors with whom Councillor Pepper, as Chairman of the Committee, met regularly.

Three meetings had taken place since the last update to the Board in September 2017 and the key issues considered included:-

- Future Structure for the Heritage Service;
- Road Safety Partnership Annual Report;
- Fire and Rescue – Fire Peer Challenge Report;
- Engagement Strategy; and
- Adult Offending and Assisting Rehabilitation through Collaboration (sitting as the Crime and Disorder Scrutiny Committee).

Councillor Pepper reported that he had also attended Lincolnshire's first Road Safety seminar which had been very successful.

During discussion, the following points were noted:-

- Although not listed on the work programme, the Board noted that items regarding the fire service, particularly Co-Responders and the Lincolnshire Joint Ambulance Conveyance Programme (JACP) would be considered at future meetings;

- A session had been arranged of the "2fast2soon" play, run by the Road Safety Partnership. It had been disappointing that very few councillors attended this session, which had been tailored especially for members. A number of councillors had attended the Road Safety Summit where "2fast2soon" had also been presented and therefore those members may have thought that would be sufficient;
- 2018 marks the 100th anniversary of the RAF (RAF100) and it was asked how the Future Model of Heritage Services would collaborate with aviation companies to promote this. Councillor Wootten had received a list of planned events for RAF100 at a recent district council meeting and agreed to provide a copy of this for the Public Protection and Communities Scrutiny Committee to consider;

At 12.30pm, Councillors R Wootten and B M Dobson left the meeting and did not return.

- Following the tragedy of the Grenfell Tower fire, it was reported that 200 high-visibility jackets had been purchased for LCC staff to wear in the event of a major incident. The committee had suggested that all councillors would benefit from high-visibility jackets also when in the community, for example inspecting potholes in the road with local residents.

The Chairman thanked Councillors Foulkes and Pepper for the updates. Members were asked to have discussions with the relevant officer for each of their respective scrutiny committees to consider potential content for the Annual Scrutiny Report which was due to be published in May 2018.

RESOLVED

That the work programmes be noted.

84 OVERVIEW AND SCRUTINY MANAGEMENT BOARD WORK PROGRAMME

The Board was provided with an opportunity to consider its own work programme.

The Board was advised that the Property Company item for pre-decision scrutiny would be presented to the meeting on 1 March 2018.

It was also suggested to move the Board's meeting on 26 July 2018 to 30 August 2018 to allow the Quarter 1 2018/19 Performance Report to be considered prior to the meeting of the Executive on 4 September 2018. It was proposed and agreed to discuss this at the next meeting, giving members an opportunity to check their diaries.

The Chairman requested that Appendix A to the report be amended to remove Councillor L A Cawrey and add Councillor R Wootten as Vice-Chairman.

RESOLVED

That the Overview and Scrutiny Management Board Work Programme, including the amendment noted above, be agreed.

The meeting closed at 12.33 pm

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:	**Overview and Scrutiny Management Board**
Date:	**1st March 2018**
Subject:	**Establishment of a Holding Company**

Summary:

This item invites the Overview and Scrutiny Management Board to consider a report entitled 'Establishment of a Holding Company' which is due to be considered by the Executive on 6th March 2018. The views of the Management Board will be reported to the Executive as part of its consideration of this item.

Actions Required:

(1) To consider the attached report and to determine whether the Management Board supports the recommendations to the Executive as set out in the report.

(2) To agree any additional comments to be passed to the Executive for Services in relation to this item.

1. **Background**

The Executive is due to consider a report entitled 'Establishment of a Holding' Company' on 6th March 2018. The full report to the Executive is attached at Appendix 1 to this report.

2. **Conclusion**

Following consideration of the attached report, the Management Board is requested to consider whether it supports the recommendations in the report and whether it wishes to make any additional comments to the Executive.

3. Consultation

The Overview and Scrutiny Management Board is being consulted on a proposed decision by the Executive. The comments of the Management Board will be reported to the Executive

4. Appendices

These are listed below and attached at the back of the report	
Appendix 1	Executive Report : Establishment of a Holding Company

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 Kevin Kendall who can be contacted on 01522 553726 or kevin.kendall@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Executive

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

Report to:	**Executive**
Date:	**06 March 2018**
Subject:	**Establishment of a Holding Company**
Decision Reference:	**I014970**
Key decision?	**Yes**

Summary:

It is proposed that the County Council establish a Holding Company limited by shares, and 100% owned by the County Council. The Holding Company (HoldCo) will provide a mechanism and an overarching governance arrangement for the future establishment of further subsidiary Companies to be established for specific purposes e.g. property, investment, waste, commercial trading; joint ventures.

It is proposed that a business case is developed for the first subsidiary company to be established to deliver specialist housing for alleviating budgetary pressures in respect of the provision of adult care.

Recommendation(s):

That the Executive:

1) Approves the establishment of a Holding Company limited by shares and 100% owned by the County Council;

2) Approves the name of the company from the available names listed in the Report;

3) Delegates authority to the Executive Director for Finance & Public Protection in consultation with the Leader of the Council Executive Councillor for Resources and Communications to complete all legal matters to enable the company to be established including approval of the final form of all necessary legal documentation and the appointment of Directors and the Council's member representative;

4) Approves the development of a detailed business case to establish the first company beneath the Holding Company for the development of specialist housing in Lincolnshire to support adult care.

Alternatives Considered:	
1.	Not to establish a Holding Company. Instead individual companies would be established for particular purposes as and when determined. This model would create various companies without any overarching governance arrangement. Each company would require its own direct governance arrangement with the Council leading to duplication and inefficiencies in operation. There may be a loss of tax efficiency.

Reasons for Recommendation:

The establishment of a Holding Company by the Council will create a flexible framework for the establishment of subsidiary companies to enable the Council to create a set of different companies depending on the need and purpose which will support the Council in taking up opportunities to act more commercially.

The benefit of this approach is that there will be a consistency in governance across all the companies which will be established through the adoption of the Holding Company's Articles of Association and a common Shareholder's Agreement in most instances although there may be some differences depending on the nature and purpose of the company. This will streamline the establishment of future companies.

Future subsidiary companies to the Holding Company will be controlled by the Holding Company which will in turn be controlled by the Council. In this way the Council need only exercise its powers as a member in relation to the Holding Company thereby reducing the bureaucracy that would be involved in directly managing a number of separate companies.

This approach will also enable the Council to derive benefits from group tax efficiencies.

1. Background

1.1 The Council's Corporate Property Service has identified a need to establish a corporate vehicle(s) to assist the Council to act flexibly and responsively to opportunities to act more commercially. The Council is by law required to utilise a corporate vehicle if it wishes to act for a commercial purpose. Activities currently being considered are property development, investment, waste, commercial trading and joint ventures with other local bodies or third sector partners. Some or all of these activities may require or benefit from being provided through a company.

2. Core Drivers

2.1 There is no commercial model in place to allow the Council to develop certain business areas, including property development, commercial and residential development, and establishing joint ventures with other bodies or third sector partners.

3. Options Analysis

3.1 The first main option open to the Council in establishing companies is to establish a Holding Company structure in advance of which future companies would be subsidiaries. In this way the Holding Company documents can form a suite of established governance documents (Articles of Association and Shareholder's Agreement) which can be maintained as consistent as possible across the company group subject only to changes necessary to reflect the nature and purpose of the subsidiary company. This prevents the need to develop fresh documentation each time a company is created.

3.2 The Council is also able to exercise its rights in respect of the subsidiary companies through the Holding Company rather than direct with each of the subsidiaries. This reduces duplication of member representatives.

3.3 Furthermore the Holding Company represents an efficient means for the Council to realise its returns from its commercially operated companies in the form of dividends on shares. These dividends can be routed through the Holding Company so the Council has only one relationship to manage in terms of the finances.

3.4 The alternative option is the creation of individual subsidiary companies without following a Holding Company approach. However, the creation of companies on an ad hoc basis leads to unnecessary duplication of effort and potential inconsistency in approach across the Council's companies. This was not considered to be an efficient approach and not an approach which would enable to Council to benefit from group tax efficiencies.

4. Company Formation

4.1 In consultation with specialist legal advisors (Bevan Brittan), the Council has established that the best model to adopt would be that of the formation of a Holding Company which sets the framework for the formation of any other companies the Council may wish to establish depending on the need and objectives to be achieved.

4.2 The Council will be the sole shareholder of the Holding Company. The company will have Articles of Association and the Council will control the operation of the Holding Company through a Shareholders' Agreement. The Shareholders' Agreement will contain a Schedule of Reserved Matters which are matters which cannot be decided by the board of directors but only by the Shareholders which means the Council.

4.3 One of the Reserved Matters listed in the Shareholders' Agreement will be the creation of any subsidiary companies. This means that the Council will always be in control of the creation of any new company. If a new company were considered necessary or desirable to achieve a certain objective, a full business case will have to be developed and submitted to the Executive for approval in accordance with the Council's constitution before any such new company could be established.

4.4 When a new company is created it will adopt the Articles of Association and Shareholder's Agreement of the Holding Company subject only to such amendments as are necessary to reflect the nature and purpose of the particular company. The Holding Company will be the owner of each subsidiary. However, each subsidiary company's Shareholder's Agreement will contain its own list of reserved matters that can only be decided by the Holding Company as the owner of the subsidiary. Each such reserved matter will itself be a reserved matter within the Council's Shareholder's Agreement with the Holding Company. By this means the Council is able to exert control over the subsidiary company through its control of the Holding Company.

4.5 Another reserved matter that the Council will control through the Holding Company is the declaration of dividends and therefore the distribution of profit back to the Council. The Holding Company will in essence be a conduit for the flow of the Council's returns in the form of dividends on shares through the structure of companies.

4.6 A "Heads of Terms" document has been prepared by Bevan Brittan in consultation with client officers and Legal Services Lincolnshire with regards the formation of the Holding Company and any subsidiaries and is appended at Appendix A to this report.

4.7 The Holding Company does not require any capital investment or revenue support. This means that there are no State Aid implications for the creation of the Holding Company. It is anticipated that any borrowing requirements of any subsidiary company will be identified in the detailed business case for each company. The State Aid implications of this will also be considered on a case by case basis.

4.8 Taxation will be looked at in each business case. This will allow proper consideration of individual areas to include capital allowances, stamp duty, corporation tax, options to elect to tax for VAT purposes and lease arrangements. In principle, however, the establishment of a Holding Company and subsidiary approach should enable the Council to take advantage of more tax efficient group company arrangements in appropriate circumstances.

4.9 It is anticipated that the Holding Company will influence its subsidiary companies in terms of overarching policies, Data Protection, Health and Safety and Insurance. Each entity will require a separate set of accounts, auditing and banking facilities coupled with governance requirements.

4.10 Initially at least one Director will need to be appointed to the holding company to enable registration.

4.11 There is a requirement to name the Holding Company and the following names are currently available at Companies House:

(a) Lincolnshire Grow Limited,
(b) The New Lincolnshire Company Limited,
(c) Lincolnshire Future Limited; and
(d) Lincolnshire First Limited.

4.12 There are no immediate staffing requirements for the Holding Company and they will always be relatively minor compared with potential subsidiary companies. However, there will be a need for the Holding Company to administer its own internal administration and compliance with company requirements and in the longer term will need to administer the establishment and ongoing management of the subsidiary companies it creates. It is envisaged that this will be managed in the first instance at least through secondment or the provision of services by the Council to the Holding Company.

4.13 As the Holding Company would be 100% owned by the County Council it would be a local authority controlled company for the purposes of the Local Authority (Companies) Order 1995. This places a number of administrative obligations on companies that are controlled by a local authority including the obligation to make it known on the company's letter head that it is controlled by the County Council. These requirements will be met in establishing the Holding Company of approval is given to proceed.

5. Legal Issues:

5.1 Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

* Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act
* Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
* Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

* Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic
* Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it
* Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding

Compliance with the duties in section 149 may involve treating some persons more favourably than others

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process

There are not considered to be any equality impacts of the establishment of a holding company as an overarching governance structure for the creation of County Council companies. Impact Assessments will be completed alongside each business case for the formation of a subsidiary company by the Council.

5.2 Joint Strategic Needs Analysis (JSNA) and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision.

There are not considered to be any JSNA or JHWS impacts of the establishment of a holding company as an overarching governance structure for the creation of County Council companies. Further consideration will be given to these issues alongside each business case for the formation of a subsidiary company by the Council.

5.3 Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area

There are no implications in relation to Crime and Disorder with regards the formation of a Holding Company by the Council.

6. Conclusion

The establishment of a Holding Company limited by shares and 100% owned by the County Council will create a vehicle to enable the County Council to establish subsidiary companies within an efficient governance structure to support the delivery of business needs identified by individual business cases and support the Council in taking up opportunities to act more commercially.

7. Legal Comments:

The Council has the power to form a Holding Company as proposed.

The legal implications and the other matters to which the Executive must have regard are dealt with in detail in the Report.

The decision is consistent with the Policy Framework and within the remit of the Executive**.**

8. Resource Comments:

There are no financial resources implications in the establishment of a County Council wholly owned company. Future subsidiary companies will developed with detailed business cases and these will identify financial resources implications and be reported to the Executive.

9. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

The decision will be considered by the Overview and Scrutiny Management Board at its meeting on 1 March 2018 and the comments of the Committee will be reported to the Executive.

d) Have Risks and Impact Analysis been carried out

No

e) Risks and Impact Analysis

See the body of the Report

10. Appendices

These are listed below and attached at the back of the report	
Appendix A	DRAFT Schedule1 - Proposed Corporate Structure (Bevan Brittan)

11. Background Papers

No Background Papers within the meaning of section 100D of the Local Government Act 1972 were used in the preparation of this Report.

This report was written by Kevin Kendall, who can be contacted on 01522 553726 or kevin.kendall@lincolnshire.gov.uk .

SCHEDULE 1 – PROPOSED CORPORATE STRUCTURE

ISSUE	COMMENT
SHAREHOLDERS' AGREEMENT AND ARTICLES OF ASSOCIATION	
Principal documents	The Council and each Company will enter into the Shareholders' Agreement. New Companies created after the Agreement is initially executed will enter into the Shareholders' Agreement and be bound by its terms by executing a deed of adherence. Each Company will have Articles of Association. As far as possible these should be identical, although there may be some differences between (a) Teckal Cos and Trade Cos, or (b) Companies established for specific purposes which require slightly different governance provisions.
Nature of Teckal Co business	A given Teckal Co will provide: a. services to the Council and other legal persons controlled by the Council (within the meaning of regulation 12 of the Public Contracts Regulations 2015) in accordance with any business plan then in force and on terms agreed between the Teckal Co and the Council b. services to any person not otherwise covered by (a) above in accordance with any business plan then in force and on terms agreed between the Teckal Co and that person c. such other services as the Council may from time to time determine and on terms agreed between the Teckal Co and the relevant counterparty/ies [1]
Nature of Trade Co business	A given Trade Co will provide: a. services to the Council in accordance with any business plan then in force and on terms agreed between the Trade Co and the Council b. services to any person not otherwise covered by (a) above in accordance with any business plan then in force and on terms agreed between the Trade Co and that person c. such other services as the Council may from time to time determine and on terms agreed between the Trade Co and the relevant counterparty/ies
Business plans and information flows	Each Teckal Co and Trade Co will prepare a business plan for approval by the Council, to include: • an annual operating revenue plan and capital expenditure requirements (including funding source) • a balance sheet forecast • a minimum [5] year term financial strategy plan to include (amongst other items) all proposed investments, borrowings and new business of the respective company and a list of key risks of the respective company's business • a plan for the use of any surpluses made in each Financial Year including the making of any distribution of profit subject to the provisions of Companies Act 2006 • an annual profit and loss account

[1] As part of the compliance requirements with the Teckal exemption, a Teckal Co will need to be governed and its business pursued in a manner which ensures that it (a) is and remains controlled (both by way of ultimate membership of the Teckal Co and decisive influence over both its strategic objectives and significant decisions) by the Council; (b) carries out the essential part of its activities for the Council and other legal persons controlled by the Council; (c) carries out those activities in furtherance of the Council's public service tasks; and (d) is not market orientated.

ISSUE	COMMENT
	• any other content as requested in order to approve such business plan We would recommend the business plan covers more than one financial year and is reviewed and updated at the start of each financial year. Each Company will deliver to the Council: • draft annual accounts in accordance with the timetable as agreed with the Council • final audited annual accounts by 30 June in each financial year • minutes of all Board meetings within 20 business days after the relevant Board meeting to which they relate • all information required to be provided pursuant to other contractual commitments, within the timescales agreed • any other information reasonably required by the Council from time to time The Council (and its authorised representatives) will be able to request and inspect any documents or information during working hours on reasonable notice.
Member/owner	The Council will be the sole member of Hold Co and Hold Co will be the sole member of each of remaining Companies. This is subject to tax advice. The Council will exercise its rights (as ultimate owner or contract counterparty) through one or more authorised representatives. We would not recommend naming the representative in the Shareholders' Agreement, although the Council may wish for a role (or the person who would act as an authorised representative) to be specified.
Board – size and composition	***Number and composition*** – to be discussed. Our preference would be for a number large enough to promote robust debate and small enough to be manageable (e.g. between 4 and 8). The Board could comprise executive directors, non-executive directors (Council nominees or externally sourced NEDs) and/or seconded directors (i.e. Council employees) in the following proportions: • a Board with NEDs only • unbalanced Board with greater proportion of NEDs • unbalanced Board with greater proportion of executive directors • balanced Board with an equal split between executive and non-executive directors What matters is ensuring that the size and composition of the Board promotes the type of business undertaken by the Company and that the persons appointed to the role of director understand the company's obligations. In addition, Teckal Cos must show that the Council exercises sufficient control over Board decision-making processes. ***Council appointment rights*** – the Council will have the right by notice in writing to appoint one or more directors to each Company Board and, depending on the composition, may appoint a majority of directors. Any director appointed by the Council may also be removed by the Council at any time. Company directors have a duty under the Companies Act 2006 to avoid situations where their interests do or may conflict with those of the company. Given the duties of elected members and Council officers in relation to conflicts of interests, careful thought is needed as to who should act as the Council's appointees on any given board. We would recommend in the first instance considering officers (rather than elected members) for directorships. ***Observers*** – senior Council officers (not themselves directors) would also have the right to receive notice of and attend any Company Board and act as observers. ***Company secretary*** – private companies are not required to appoint a company

ISSUE	COMMENT
	secretary but may do so.
Board - decision-making	The Shareholders' Agreement would contain a list of "reserved matters" requiring the prior consent of the Council. A proforma list of reserved matters is contained in this Schedule, for consideration by the Council. This will be one of the ways in which Council control over Teckal Cos will be evidenced for Teckal compliance purposes. Apart from the reserved matters, decisions which the Council (as member) is required to approve under the Companies Act 2006 and any matters which the Council directs a company's board to undertake (or not undertake), the day to day running of each Company will be left to the directors. The quorum at any Board meeting requires at least one non-executive director appointed by the Council to be present. Each director present and entitled to vote on a matter will have one vote. The chairman (who may be a fixed term or ad hoc appointment) will not have a casting vote. If there are more executive directors appointed than (Council-appointed) non-executive directors, then if those non-executive directors vote the same way, the matter becomes a reserved matter which can only proceed if the Council approves it. If the (Council-appointed) non-executive directors notify the Board that a particular matter (which is not otherwise a reserved matter) is sufficiently important to the Council, then the matter becomes a reserved matter which can only proceed if the Council approves it.
Dispute resolution	Disputes would be dealt with by any means permitted by a particular agreement between a Company and the Council or, in the absence of a DRP within an agreement, by escalation to senior representatives and mediation.
Finance / profits	Teckal Cos will be primarily funded through payments received from the Council for delivery of services. Trade Cos will be funded primarily through receipts from third party trading. Debt funding may only be procured with Council approval. Profits (to the extent distributable) will only be distributed in accordance with the business plan and Council approval.
Issues of new shares / transfers of shares	No issue or transfer of shares permitted without Council approval. Any new company will be required to adhere to the terms of the Shareholders' Agreement.
RESOURCING AGREEMENT	
Resources to be supplied to the group companies	The Council will need to consider the resource requirements for each Company which may include: • support services • the use of premises – which would be licenced to each company for the duration of the Resourcing Agreement • equipment, materials and consumables – consumables would be sold to each company. Equipment would be licenced to each company for the duration of the Resourcing Agreement • staff – which could be seconded into a company from the Council • intellectual property – which would be licenced to each company by way of a revocable, non-exclusive, perpetual, royalty free licence for the duration of the Resourcing Agreement

ISSUE	COMMENT
	• the benefit of goods and services provided to the Council by third party suppliers – for example hire purchase assets, which would be licenced to each company for the duration of the Resourcing Agreement • information – which would be provided to each company subject to the company complying with laws relating to data protection and freedom of information When services are required, a specification will need to be drawn up. The Resourcing Agreement would contain a proforma property licence, proforma secondment arrangements and resource request form. Subject to state aid compliance, the parties are free to agree other terms as required. The Council will need to consider whether resources will be supplied to a Trade Co on an exclusive basis or whether the Council wishes to give the Trade Co independence to obtain resources from a third party provider. The ability to call down resources should be subject to review after an initial period. The Council will have various obligations towards its Companies depending on the nature of the resources required (e.g. performance of services, good working order of assets).
Payment of services	Prices for individual services to be agreed and subject to state aid compliance. VAT, where applicable, will also be charged. Method of payment (e.g. monthly, annually, quarterly) to be agreed as well as the ability to set-off amounts due from Council to company.
Contract managers	Each company and the Council should appoint a contract manager to receive and send formal notices and communications. On the Council's side, this may (but does not need to be) the same person as the authorised representative under the Shareholders' Agreement. In particular the contract managers will be responsible for negotiating the provision of further services from the Council to each company and reviewing the standard of services provided. The contract managers will meet on a regular basis to monitor the performance of the Resourcing Agreement.
Subcontracting	The Council may subcontract the supply of any services/ assets without prior written consent of the relevant Company but it shall give the Company notice of that subcontracting.
Dispute resolution	The contract managers are initially responsible for resolving a dispute. If they are unable to resolve that dispute, it will then be passed to a senior member of each party, failing which the parties should follow a process of mediation to resolve any continuing issues. If mediation is not successful, the parties would then be entitled to arbitrate or litigate their dispute.
New companies	Any new group company will need to adhere to the terms of the Resourcing Agreement.
Limitation on Council's liability	There is no limit in relation to liability arising out of any loss or damage which the Council cannot by law exclude or limit. In all other circumstances, the Council's liability is limited to the value of the charges in any given financial year.
Termination	The Council may voluntarily terminate the Agreement at any time on no less than [x] months' notice. The Company may terminate services on [x] months' notice but the underlying Agreement remains in place. Either party may terminate for material breach.
Boilerplate	The Resourcing Agreement will contain "boilerplate" provisions relating to confidentiality, FOI, data protection, bribery and corruption, force majeure and

ISSUE	COMMENT
provisions	insurance).
FUNDING AGREEMENT (DEBT)[2]	
Type of facility	Revolving loan facility. The borrowing company will be able to re-borrow any amount repaid or prepaid, to the extent not previously cancelled by it (i.e. the borrowing company has not confirmed that it no longer needs the full extent of the facility). Drawdown will be subject to a number of conditions precedent
Interest rate and security	Dependant on the nature of the business and strength of the borrower. For state aid purposes, the interest rate needs to take into account the UK reference rate as well as the loan margin which reflects the level of collateralisation (security) and the strength of covenant of the relevant company in terms of its rating category (e.g. strong, good, satisfactory, weak or bad/financial difficulties). Default interest rate will apply if an event of default occurs. (e.g. non-payment).
Repayment, cancellation of facilities and prepayment	All possible, subject to notice and minimum amounts.
Continuing obligations	Each borrowing company will give a number of: • representations • undertakings in relation to financial information, to be provided throughout the life of the loans • financial covenants
Events of default	Usual loan agreement events of default (e.g. non-payment, cross-default, financial difficulties). Remedies available would be: • cancellation of commitments to provide loan funding • all existing loans becoming due and payable • enforcement of security
New companies	Each new company in the group would enter into a separate loan agreement with the Council

[2] We need to discuss with you the means by which you would fund any given Company, with the principal methods being debt or equity, or a combination of the two. For present purposes, we have assumed that debt will be the means of funding. State aid issues will need to be considered in each case, although there may be relevant exemptions depending on the nature of the aid and the business (for example, De Minimis Regulations, General Block Exemption Regulations, Services of General Economic Importance (SGEI) and/or the market economy investor principle) – see **Error! Reference source not found.** for further consideration of state aid issues.

PROFORMA LIST OF RESERVED MATTERS (TO BE WORKED THROUGH)

Number	Reserved Matter
	Constitution of the Company
1	Varying in any respect the articles or the rights attaching to any of the shares or memberships (as applicable) in the Company.
	Officers and shareholders of the Company
2	The appointment and the appointment terms (including any remuneration terms) of any directors other than Council appointed directors.
3	The removal of any directors (including any terms on which such directors are removed from their office as directors) other than Council appointed directors.
4	The admission of further shareholders or members to the Company or agreeing any rights or restrictions attaching to any shares or memberships allocated to such new shareholders or members as applicable).
5	The appointment or removal of the chair of the board (except where the chair is absent in which case the board will appoint an alternate chair).
	Future direction and development of the Company
6	Forming any subsidiary or acquiring shares in any other company or participating in any partnership or incorporated joint venture vehicle
7	Amalgamating or merging with any other company or business undertaking.
8	Selling or disposing of a material part of the business of the Company.
9	Adopting or amending the business plan of each respective company and any in-year changes (where applicable).
10	Undertaking any business or action which is inconsistent with the business plan then in force or omitting to undertake any action which is required by that business plan except with the prior written consent of the Council
11	Passing any resolution for its winding up or presenting any petition for its administration (unless it has become insolvent).
12	Agreeing or approving any other material services the total value of which exceeds £● per annum to be provided by the Company to a third party not approved under the business plan.
13	Appoint any agent (not being a subcontractor) to conduct the whole or any part of the business of the Company, other than the appointment of an agent to conduct an area of the business of a company
14	Apply for the listing or trading of any shares in its issued capital or debt securities on any stock exchange or market (where applicable).
	Management of the business of the Company
15	Changing the Company's registered office.
16	Changing the Company's name.

17	Creating or agreeing to create a charge, security or encumbrance over the Company's assets, shares or income
18	Approving any matter that is reasonably likely to have an adverse effect on the reputation of the Council.
19	Changing the nature of the business or commencing any new business which is not ancillary or incidental to the business of the Company.
20	Agreeing to enter into or entering into any acquisition or disposal of any material assets by the Company the total value of which exceeds £● per annum
21	Giving notice of termination of any arrangements, contracts or transactions the total value of which exceeds £● per annum or materially varying any such arrangements, contracts or transactions and such termination or variation is likely to have an adverse impact on the financial status of a company.
22	Granting rights (by licence or otherwise) in or over any intellectual property owned or used by the Company.
23	Changing the Company's auditors.
24	Agree to make or making any loan (otherwise than by way of a deposit with a bank or other institution, the normal business of which includes the acceptance of deposits or in the ordinary course of business) or granting any credit (other than in the normal course of trading or the granting of trade credit to a Teckal Co or Trade Co which has been approved under the business plan) or giving any guarantee or indemnity (other than in the normal course of trading).
25	Changing the financial year of the Company.
26	Increase or reduce the amount of its issued share capital, grant any option over or in its share capital, redeem or purchase any of its own shares or otherwise alter, or effect any reorganisation of, its share capital (where applicable).
27	Declare or pay any dividend of the Company (where applicable).

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Tony McArdle, Chief Executive

Report to:	**Oveview and Scrutiny Management Board**
Date:	**1 March 2018**
Subject:	**2017/18 Council Business Plan Quarter 3**

Summary:

This report invites the Overview and Scrutiny Management Board (OSMB) to consider a report on the 2017/18 Council Business Plan Quarter 3 which will be presented to the Executive on 6 March 2018.

Actions Required:

The Overview and Scrutiny Management Board is invited to consider the attached report and seek reassurance in relation to the performance for Quarter 3 against the Council Business Plan.

1. Background

The Executive will consider a report on the 2017/18 Council Business Plan Quarter 3 performance at its meeting on 6 March 2018. The full report to the Executive is attached at Appendix 1 to this report.

When considering this report, OSMB may wish to pay particular attention to:-

- The small number of measures that fall within the remit of this Board. All of those measures where it is appropriate to compare with a target achieved the target in Quarter 3. One of the measures relates to capital receipts and has a 3 year cumulative target. All of the measures that fall within the remit of this Board can be viewed here.
- Updates from the Chairman of each scrutiny committee on any points they wish to bring to the attention of OSMB.

It is worth noting that all of the measures detailed that did not achieve the target in Q3 also did not achieve the target in Q1 and Q2. Some of these measures are outside of the direct responsibility of the County Council e.g. reduction in drugs and alcohol misuse, alcohol fuelled violence and anti-social behaviour, domestic abuse, reoffending.

2. Conclusion

The Board is requested to consider and comment on the attached report.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

Any changes to services, policies and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all taken with regard to existing policies.

4. Appendices

These are listed below and attached at the back of the report	
Appendix 1	Report on 2017/18 Council Business Plan Quarter 3 presented to the Executive at its meeting on 6 March 2018

5. Background Papers

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

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

Executive/Executive Councillor

Open Report on behalf of Chief Executive

Report to:	**Executive**
Date:	**6 March 2018**
Subject:	**Council Business Plan 2017 - 2018 Performance Report, Quarter Three**
Decision Reference:	
Key decision?	**No**

Summary: This report presents an overview of performance for Q3 against the Council Business Plan.

Executive can view performance on the web on the Lincolnshire Research Observatory using this link

Recommendation(s):

That Executive:-

1. Note and consider 2017/2018 Quarter 3 performance.
2. Approve the proposed changes to reporting as set out in this report.

Alternatives Considered:

1. No alternatives have been considered to recommendation 1 as it reflects factual information presented for noting and consideration.

2. The alternative to recommendation 2 is not to make any changes in reporting as recommended in this report and instead to continue to report against the measures as published in the Council Business Plan 2017/2018. However, without the recommended changes, these measures are not considered to assist the Executive in obtaining an accurate picture of the organisation's performance.

Reasons for Recommendation:

To provide the Executive with information about Quarter 3 performance against the Council Business Plan 2017/2018 and propose changes to reporting to assist the Executive in monitoring that performance in future.

1. Background

The Council Business Plan 2017/2018 was approved by Council on 24th February 2017. This report provides the Executive with highlights of Q3 performance. The full range of infographics is available to view on this link

Headlines Quarter 3 performance

Of the 14 commissioning strategies reported in Q3:-

9 performed really well (all measures reported in Q3 achieved the target);
2 performed well (all measures except 1 reported in Q3 achieved the target);
3 had mixed performance (some measures achieved and some measures did not achieve the target in Q3).

The following 3 commissioning strategies are reported annually in Q4:-
Readiness for school
Sustaining and developing prosperity through infrastructure
Learn and achieve

The good news
The following 9 commissioning strategies performed really well (all measures reported in Q3 achieved the target):-
Children are safe and healthy
Community resilience and assets
How we effectively target our resources (Combination of 3 commissioning strategies)
Readiness for Adult Life
Safeguarding adults
Specialist adult services
Sustaining and growing business and the economy

The following 2 commissioning strategy performed well (all except 1 measure reported in Q3 achieved the target)
Adult Frailty, long term conditions and physical disability
Carers

Mixed performance (some measures achieved and some measures did not achieve the target)

The following 3 commissioning strategies continue to have mixed performance:-

Protecting the public
Protecting and sustaining the environment
Wellbeing

It is worth noting that performance overall has improved for Carers and Readiness for Adult Life commissioning strategies compared with Q2. Both reported mixed performance in Q2. Carers is now performing well and Readiness for Adult Life is performing very well.

Although the following measures did not meet the target in Q2, performance improved in Q3 as services had forecast and both measures have achieved the target in Q3:- '16-17 year old Looked After Children participating in learning' and 'Health and Social Care staff trained in Making Every Contact Count (MECC)'

Appendix A provides a summary of the measures that did not achieve the target in Q3.

Proposed changes to reporting performance against the Council Business Plan 2017/18

Juvenile re-offending measure
The relevant Executive Councillor has been consulted and recommends that as the Ministry of Justice has changed the methodology for measuring reoffending to a three month cohort rather than a 12 month cohort this is reflected in reporting to the Executive with effect from Q3. The cohort will still be tracked over 12 months. Changing from 12 month cohorts to the 3 month cohorts results in a greater proportion of prolific offenders and hence higher reoffending rates, though both measures show similar trends over time at a national level. (Measure 18)

Data expected in Quarter 3 but not available
The figures are still not available for Quarter 3 for 'Requests for support for new clients, where the outcome was universal services/signposting'. The service is looking to report on this measure in Quarter 4 2017/18. The measure has been removed from the 2018-2020 Council Business Plan and replaced by 'Percentage of requests for support for new clients, aged 65 or over, where the outcome was long term support services.' This measure will more accurately reflect the extent of the preventative work in Adult Care and Community Wellbeing. (Measure 61).

2. Legal Issues:

Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

* Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act

* Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

* Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

* Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic

*	Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it

*	Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.

Compliance with the duties in section 149 may involve treating some persons more favourably than others.

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process.

The Report presents performance against the outcomes and measures that are the Council Business Plan many of which relate to people with a protected characteristic including young people, older people and people with a disability. It is the responsibility of each service when it is considering making a change, stopping, or starting a new service to make sure equality considerations are taken into account and an equality impact analysis completed.

Joint Strategic Needs Analysis (JSNA and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision.

The Report presents performance against the outcomes and measures that are the Council Business Plan many of which relate directly to achievement of health and wellbeing objectives.

Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area.

The Report presents performance against the outcomes and measures that are the Council Business Plan some of which relate to crime and disorder issues.

3. Conclusion

This report presents an overview of performance for Quarter 3 against the Council Business Plan 2017/2018 and proposed changes to reporting to assist the Executive in monitoring that performance in future. Executive is invited to consider performance and consider and approve the proposed changes to reporting.

4. Legal Comments:

The Executive is responsible for ensuring that the Executive functions are discharged in accordance with the Budget and Policy Framework of which the Business Plan is a part. This report will assist the Executive in discharging this function.

The recommendation is lawful and within the remit of the Executive.

5. Resource Comments:

Acceptance of the recommendation in this report has no direct financial consequences for the Council.

6. Consultation

a) Has Local Member Been Consulted?

N/A

b) Has Executive Councillor Been Consulted?

N/A

c) Scrutiny Comments

The Overview and Scrutiny Management Board (OSMB) is scheduled to consider this report at its meeting on 1st March 2018. As the deadline for dispatching this report to Executive is before OSMB have met any specific points raised by OSMB to bring to the attention of the Executive will be provided by way of a verbal update at the Executive meeting on 6th March.

d) Have Risks and Impact Analysis been carried out

No

e) Risks and Impact Analysis

Any changes to services, policies and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all taken with regard to existing policies.

7. Background Papers

None

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

Appendix A Summary of measures where the target was not achieved in Quarter 3

It is worth noting that all of the measures detailed below also did not achieve the target in Q1, and Q2. Some of these measures are outside the direct responsibility of the County Council

The following 3 commissioning strategies had mixed performance:-

Protecting the public

A summary of the 7 measures that did not achieve the target in Q3 for Protecting the Public Commissioning Strategy are detailed as follows. Some of these measures are outside the direct responsibility of the County Council:-

- 'Alcohol related antisocial behaviour incidents' although this continues to show a downward trend quarter on quarter, the target was not achieved. Incidents are down 7.5% in Q3 compared to the same time last year. The targeted reduction was from 2,853 in 2016/17, to a year-end target of 2,710 in 2017/18, a reduction of 5% on 2016/17's year-end outturn. If this trend continues, the targeted reduction in incidents is likely to be met by the end of the year. (Measure 5)

- 'Alcohol related violent crime incidents' Alcohol related violence increased by 37.2% in Q3 compared to the same quarter last year. This continues the upward trend noted in previous quarters. This indicator is influenced by changes in violent crime recording and the flagging of the presence of alcohol in police crime reports. The increase in violent crime recorded by the police in Lincolnshire is part of a national trend that has been noted by the Office for National Statistics. It is thought that the increase is at least partly driven by changed recording practices, and does not necessarily represent an increase in actual levels of violence. (Measure 6)

- 'Reported incidents of domestic abuse' to the police have increased for all districts, apart from Boston and South Holland, compared to the same quarter last year. Overall there has been a 4% increase in reported incidents in Quarter 3 2017-18 compared to Quarter 3 of 2016-17. These figures do not include incidents reported to other agencies and support services such as district councils or housing agencies.(Measure 7)

- 'Juvenile first time reoffenders' the most recent published first time entrants figure for Lincolnshire is 265 actual young people for the period of July 2016 to June 2017; this is higher than the target figure of 203, however, there are no expectations that this figure is likely to rise sharply in the near future. In June 2017 we launched a new diversionary project in Lincolnshire in conjunction with Lincolnshire Police. Although it was previously thought that the impact from this project would be seen in Quarter 3, it is likely that results will be seen in Q4's reporting figures. (Measure 15)

- 'Primary fires' we have seen an increase of 45 primary fires (5.5% - up from 815 cumulative at Q3 last year to 860 cumulative). The increase can be attributed to rises in dwelling fires (up from 292 cumulative to 312 cumulative – 7%) and vehicle fires (up from 198 to 222 – 12%). The increase seen at Q3 is less significant than that at Q2 and Q1, this has had the effect of bringing the measure closer to target. (Measure 19)

- 'Deliberate primary fires' we have seen an increase of 24 deliberate primary fires (14% - up from 175 at Q3 last year to 199). The increase can be attributed to rises in deliberate dwelling fires (up from 19 to 30 – 58%) and deliberate vehicle fires (up from 73 to 92 – 26%). On a more positive note, deliberate fires in prisons have almost halved (down from 25 at Q3 last year to 13 this year). The increase in deliberate primary fires seen at Q3 is also less significant than at both Q2 and Q1, this has had the effect of bringing the measure closer to target. We have also reviewed our arson strategy to ensure that our activities continue to target these areas effectively. (Measure 21)

- 'Deliberate secondary fires' we have seen an increase of 30 deliberate secondary fires (15% up from 199 cumulative at Q3 last year to 229 cumlative). Deliberate fires involving refuse/refuse containers continue to account for the majority of these incidents (153 of the 229 this year – 67%) which have increased in number by 32 from 121 at Q3 last year. However, the increase seen at Q3 is less significant than that at both Q2 and Q1, which has had the effect of bringing the measure closer to target. We have also reviewed our arson strategy to ensure that our activities continue to target these areas effectively. (Measure 22)

Although it is not appropriate to compare the following measures with a target, performance has declined compared with previous quarter:-

- 'Anti-social behaviour incidents reported to the police' is 4.5% higher than the same quarter last year. The increase is largely driven by the increase in begging and vagrancy although the rate of this increase has slowed in this quarter. (Measure 107)

- 'Repeat referrals of domestic abuse to MARAC' the increase is just over 6 percentage points this quarter compared to the same period 2016-17. The continued drop in total number of referrals (new and repeat) to MARAC has continued this quarter and will continue to impact on percentage repeat referral rate. (Measure 9)

- 'People killed or seriously injured (KSI) in road traffic accidents' this figure is higher than the previous two quarters of 2017. Analysis of collision and casualty data does not indicate any clear commonality or patterns. The overall KSI's are mirrored across all user groups such as car drivers, motorcyclists, pedestrians etc. (Measure 11)

Protecting and sustaining the environment

A summary of the 2 measures that did not achieve the target in Q3 for Protecting and Sustaining the environment Commissioning Strategy are:-

- The Household Waste Recycling Centre (HWRC) the percentage of recycling at Household Waste Recycling Centres has decreased slightly in this quarter but is currently above the year-end forecast of 72.0%. It is anticipated that this figure will decrease in Quarter 4 due to the decrease in composting because of weather changes and growing conditions. We are seeing an overall reduction in the HWRCs recycling rate; a contributing factor will be the processing of some materials has been moved down the waste hierarchy from recycling to recovery. The Environment Agency have concerns around some materials being stored which has reduced the available recycling outlets in Lincolnshire. (Measure 76)

- 'Household waste recycled' the Kerbside collected waste recycling rate is 47.5% for quarters 1 to 3 of the 2017/18 reporting year. Figures are normally higher for the first 2 quarters of the year due to increased composting in the summer months. We are forecasting an overall decrease of household waste recycled; our year end forecast is 45.8% for the 2017/18 reporting year. This is compared with 46.7% in 2016/17.

This is due to an increase in the reported level of contamination (non-recyclables) in the mixed dry recyclable material collected at the kerbside. (Measure 78)

Wellbeing

A summary of the 2 measures that did not achieve the target in Q3 for Wellbeing Commissioning Strategy are:-

- 'Successful completion of alcohol treatment' Following the new contracts commencing in October 2016 it was anticipated that performance would dip; this has now started to recover with a rise from 34.9% to 35.7% in the latest verified report from Q2 2017/18. Local data shows further performance increases can be expected over the remaining quarters of 2017/18 however verified data is only available for Quarter 2. This verified data is calculated over the previous 12 months and still includes information from the transition period to the new contracts which was problematic and very disruptive to both service delivery and its users. (Measure 31)

- 'Chlamydia diagnosis' As reported in Q2, Service Credits are now in place from June 2017 due to continuing non achievement of the chlamydia target. Quality of postcode recording for patients is also being addressed within the service which may account for some tests not being included correctly in the totals. The data is published nationally 6 months in arrears. Relationships with contracted General Practitioner's and Pharmacies, as well as their sub-contracted outreach provider, to improve and promote the chlamydia testing offer are ongoing. Some success has been achieved using the mobile community clinic. Online testing remains very popular and has the highest positivity rate indicating this electronic media service is well targeted and Lincolnshire Integrated Sexual Health services (LISH) are being encouraged to increase their online offer. Early indications are that performance is improving and is likely to exceed the target in Quarter 4. (Measure 34)

How we effectively target our resources

'Capital receipts' Although it is not appropriate to set an annual target for this measure, the £20m disposals target is a three year plan scheduled to end 2018/19. As at Q3 2017/18 (year 2 of 3) the service has reported £2.7 in capital receipts. A further £1.5m of receipts is currently awaiting final legal documentation and so cannot yet be included within the actual figure. The year-end forecast is currently at £6.2m for the end of 2017/18 (year 2 of 3). The forecasted figure is inclusive of receipts already awarded; this figure is subject to change, dependent on any capital receipts generated earlier or later than anticipated. Capital receipts for 2016/17 were £3.5m. If the forecast of £6.2m is achieved in 2017/2018 this would require £10.3m capital receipts to be achieved in 2018/2019 to achieve the 3 year target of £20m.

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

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

Report to:	**Overview and Scrutiny Management Board**
Date:	**01 March 2018**
Subject:	**Treasury Management Strategy Statement and Annual Investment Strategy 2018/19**

Summary:

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2018/19. It is prepared in accordance with the 2017 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. The decision to include the requirements of the Cipfa Code in the Constitution was adopted by the Council in 2011 as part of agreement to revisions to the Council's Constitution.

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

Actions Required:

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

1. Background

1. INTRODUCTION/BACKGROUND

1.1. Treasury Management

1.1.1. Treasury Management is defined by CIPFA as 'the management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

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

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

1.2.2. 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.

1.2.3. In December 2017 CIPFA published a revision to both the Code of Practice for Treasury Management and the Prudential Code. The prime reason of these revisions being to highlight the increased emergence of non-treasury investments held in other financial assets and property, primarily held for return by Councils. Such activity includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios. CIPFA has emphasised that these investments, although not part of general treasury management activity, are the responsibility of the S151 Officer and should therefore be managed and subject to the same risk / return considerations as for treasury investments.

1.2.4. Following CIPFA's recommendation in the revised codes, details of these non-treasury investments will be included in an annual **Capital Strategy**, which will also set out the Council's risk appetite and specific policies and governance arrangements for these non-treasury investments. The purpose of the Capital Strategy will be to demonstrate that the Council takes capital expenditure and non-treasury investment decisions in line with service objectives and properly takes into account stewardship, value for money, prudence, sustainability and affordability. It will set out the long term context in which capital expenditure and investment decisions are made, the due diligence undertaken for non-treasury investments and will give due consideration to both risk and reward and impact on the achievement of priority outcomes. Reference to the Capital strategy will be made in the Budget 2018/19 report to be presented to Full Council on 23rd February 2018; however, the Capital Strategy itself will be presented to this Committee later in the year for scrutiny. It will then be presented to the Executive Councillor for Finance for approval as is the case with the Treasury Management Strategy Statement and Annual Investment Strategy 2018/19.

1.3. Purpose of Report

1.3.1. This report comprises the Treasury Management Strategy Statement for 2018/2019 as Section 2 and the Annual Investment Strategy for 2018/2019 as Section 3 and has been prepared in accordance with the CIPFA Code of Practice for Treasury Management 2017.

- Treasury Management Strategy Statement 2018/2019

  The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2018/2019.

- The Annual Investment Strategy 2018/2019

  The Annual Investment Strategy sets out the Council's policies for investing its surplus cash for the year 2018/2019 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 treasury investments. It does not relate to the Council's non-treasury investments. The investment strategy followed by the Council for its non-treasury investments will be detailed in the forthcoming Capital Strategy 2018/2019.

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 Overview & Scrutiny Management Board for scrutiny and then submitted to the Executive Councillor with responsibility for finance for approval prior to the start of the financial year. The Capital Strategy will follow a similar path later in the 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 2018/2019

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 Capital & Revenue expenditure plans of the Council and the anticipated movement in interest rates. The strategy for 2018/2019 is therefore based upon the Capital & Revenue expenditure plans of the Council and 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, Link Asset Services Ltd. The strategy covers the following areas:

- The current long term external borrowing & investment position;
- Capital Expenditure Plans & Capital Financing (Borrowing) Requirement 2017/2018 to 2020/2021;
- Affordable borrowing limit for 2018/19 to 2020/2021;
- Revenue Provision for the Repayment of Debt Policy (MRP);
- Interest rate exposure – Borrowing;
- Performance –Borrowing;
- Borrowing in Advance of Need;
- Debt Rescheduling;
- Prospect for interest rates 2018 to 2021;
- Long term borrowing strategy 2018/2019;
- Investment strategy 2018/2019;
- Short term (cash flow) borrowing strategy 2018/2019;
- 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 31.12.2017 comprised:

		Principal £million	Ave Rate %
Long Term Borrowing			
Opening Balance	31.03.17	476.745	4.068%
New Borrowing to	31.12.17	0.000	
Borrowing Repaid to	31.12.17	(15.354)	
Rescheduling:			
Borrowing Repaid Early to	31.12.17	0.0	
Borrowing Replaced	31.12.17	0.0	
Total Borrowing at	**31.12.17**	**461.391**	**4.088%**
Investments*			
LCC at	31.12.17	291.093	
Pension Fund at	31.12.17	15.187	
Total Investments at	**31.12.17**	**306.280**	**0.540%**
Net Borrowing at	**31.12.17**	**155.111**	

* Note this balance excludes non-treasury investments.

2.3. Capital Expenditure Plans & Capital Financing (Borrowing) Requirement 2017/2018 to 2020/2021

2.3.1. The Council's capital expenditure plans are the key driver of treasury management activity as it sets the long term borrowing requirement plans for the Council.

2.3.2. The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. It does this by setting a series of Prudential Indicators that ensure and demonstrate the Council's capital expenditure plans remain affordable, prudent and sustainable.

2.3.3. Appendix A shows a summary of the actual prudential indicators for 2016/17 and the estimated prudential indicators for 2017/18 through to 2020/21, which are submitted, as per the requirements of the Prudential Code, with the Council Budget 2018/19 Report, which is to be considered at the meeting of the County Council on 23rd February 2018.

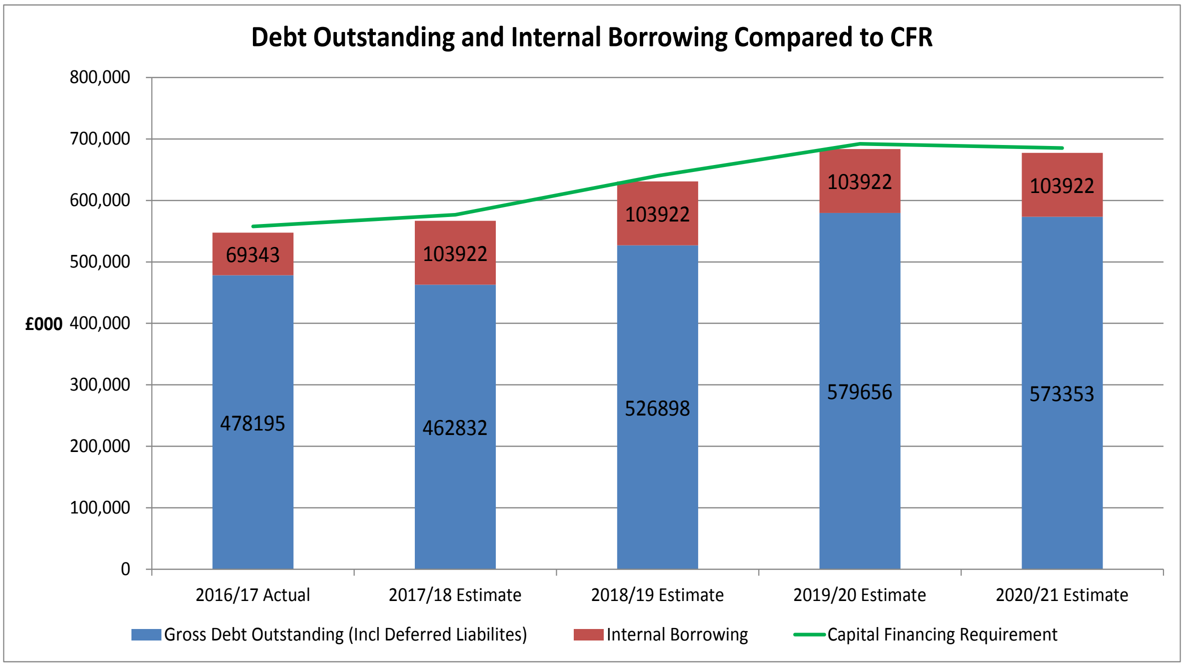
2.3.4. Extracted from these Prudential Indicators, shown in the table below, is the Council's **capital expenditure plans** for the reporting period and the element of this expenditure which is not to be financed straight away from cash resource or grants, hence to be financed at a future date by borrowing (**the borrowing requirement**). The table also shows the amount of external borrowing taken which is due to mature over the reporting period which impacts on the total indebtedness of the Council.

	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m	Total £m
Capital Expenditure Plans	141.870	158.689	106.314	49.162	**456.035**
New Borrowing Requirement	36.548	84.076	76.675	20.124	**217.423**
Maturing Borrowing Requirement	15.354	35.497	14.354	14.354	**79.559**

Capital Financing Requirement

2.3.5. **The Capital Financing Requirement** (CFR) is another Prudential Indicator shown in Appendix A. It is a measure of the amount of capital expenditure that the Council has already spent that has yet to be funded from cash resources i.e. the Council's total indebtedness or need to borrow for capital financing purposes. Credit arrangements (finance leases and private finance initiatives) are also included in the CFR as they have the same practical impact as borrowing. The CFR is increased each year by the **new borrowing / credit arrangements** requirement, as highlighted in the table above, and reduced each year by the **Minimum Revenue Provision (MRP)**, (the Council's policy for the repayment of debt). This policy is outlined in Appendix B and explained later in this report at 2.5.

2.3.6. The graph below shows the actual CFR for 2016/17 and forward projections to 2020/21, compared to the actual level of external debt the Council holds. The difference between the CFR level and the external debt level is known as Internal Borrowing. This represents the amount of borrowing requirement being met by the Council's internal balances and cash flow rather than by taking external borrowing. This internal borrowing or 'under borrowed' strategy has been prudent whilst investment returns are low and counterparty risk is high. A level of £104m of internal borrowing is planned to 2020/2021; a level that the Council thinks is sustainable given projections of cash balances going forward. It should be noted however that the decision to turn internal borrowing into external debt can be made at any time given the right market conditions without affecting the level of the CFR.



2.3.7. The rising CFR shown in the graph above also indicates that borrowing requirement exceeds the minimum debt repayment requirement (MRP) each year until 2020/21, when it then falls below the MRP level and the CFR is forecast to slightly fall at this time.

2.3.8. The table below shows the comparison between the Council's forecasted gross and net debt positions at the year end from 2016/17 to 2020/21.

Comparison of gross and net debt at year end	2016/17 Actual £m	2017/18 Probable Outturn £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Actual External Debt (Gross)	478.195	462.832	526.898	579.656	573.353
Cash Balances (Investments)	237.517	250.214	247.638	213.842	213.842
Net Debt	240.678	212.618	279.260	365.814	359.511
Net Debt as % of Gross Debt	50.3%	45.9%	53.0%	63.1%	62.7%

2.3.9. The table shows that the difference between gross and net debt is the level of investments held by the Council. It shows that the levels of investments are forecasted to fall over the reporting period reflecting the planned use of reserves in the forthcoming years to meet budget shortfalls. The level of investment position is net of the internal borrowing level of £104m held. Given these figures, it is felt that further scope for increased internal borrowing is limited in order to maintain adequate balances for liquidity/cash flow requirements.

2.4. Affordable Borrowing Limit for 2018/2019 to 2020/2021

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 credit arrangements (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 2018/19 to 2020/21 is shown in the table below and it can be seen that the Council's actual external debt forecast in the table at 2.3.8 falls within these limits set.

	2018/19 £million	2019/20 £million	2020/21 £million
Borrowing	651.751	669.217	658.200
Other Long Term Liabilities	12.984	12.238	11.473
TOTAL	**664.735**	**681.455**	**669.673**

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. Revenue Provision for the Repayment of Debt Policy (MRP)

2.5.1. Financing capital expenditure by borrowing allows the Council to incur capital expenditure that it does not immediately fund from cash resources. Instead, the Council sets cash resource aside from the Revenue Budget each year to repay the borrowing. This practice is referred to as making minimum revenue provision (or MRP) for the repayment of debt.

2.5.2. Regulations in 2008 set a duty for the Council to set aside a minimum revenue provision (MRP) for the repayment of debt annually on a prudent basis. 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.

2.5.3. Appendix B outlines the methodology the Council follows to ensure this prudent provision for the repayment of debt using the Average Life of the Assets financed by borrowing method for new borrowing and a straight line repayment method for Pre 2008 debt. The revenue budget provision for MRP charges in 2018/19 has been completed on a basis consistent with this policy.

2.5.4. The Council's policy is to actually 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%'**

2.6. Interest Rate Exposure –Borrowing

2.6.1. Long term loans are usually secured at fixed rates of interest, to provide certainty over the cost of maintaining the loans over their lifetime. However up to **30%** of all borrowing could alternatively be secured at **variable rates of interest**. (This is a voluntary Prudential Indicator as shown in Appendix A). This may be appropriate if, for example, funding is required for a relatively short period, or if the Council wishes to defer locking into fixed rate loans because the interest rate forecast indicated that interest rates will be lower than the prevailing rate in the near term.

2.7. Performance –Borrowing

2.7.1. If long term borrowing is undertaken, performance will be assessed against the PWLB rate for the year for the application loan type and interest rate banding. CIPFA Treasury Management benchmarking will also be considered to compare with other Councils average borrowing rates for the year. Reducing or keeping increases to the average rate of the debt portfolio to a minimum will also be a target indicator.

2.7.2. Short term borrowing will be assessed against the average 7 Day London Interbank Offer Rate (7DLIBOR) for the year or the current yields on Money Market Funds/investments for short term borrowing for cash flow purposes.

2.8. Borrowing in Advance of Need

2.8.1. 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. This is a Voluntary Prudential Indicator as shown in Appendix A.

2.9. Debt Rescheduling

2.9.1. 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.

2.9.2. 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'.

2.9.3. To date interest savings have been made by rescheduling existing PWLB EIP[1] loans into PWLB maturity[2] loans. At 31st March 2018 £16.223 million of EIP debt, from the Council's total debt portfolio of £461.391 million will remain to be rescheduled given the opportunity.

2.9.4. Repaying debt early does incur a premium[3] or discount[4] 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.

2.9.5. 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 2.9 below.

2.9.6. The appropriate timing of any rescheduling will be monitored throughout 2018/19 by the Council and Link Asset Services Ltd. However, PWLB to PWLB debt restructuring is now much less attractive because of the large premiums that would be incurred due to the introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt.

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[1] 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.

[2] 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.

[3] 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.

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

2.10. Prospect for Interest Rates 2018 to 2021

2.10.1. The Council has appointed Link 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 C draws together a number of current City Institution forecasts for short term and longer fixed interest rates. The following table gives the Link central view.

Annual Average %	Bank Rate %	Money Rates %		PWLB Borrowing Rates % (Certainty Rate)		
		3 month	1 year	5 year	25 year	50 year
Mar 2018	0.50	0.40	0.80	1.60	2.90	2.60
June 2018	0.50	0.40	0.80	1.60	3.00	2.70
Sept 2018	0.50	0.40	0.90	1.70	3.00	2.80
Dec 2018	0.75	0.60	1.00	1.80	3.10	2.90
Mar 2019	0.75	0.60	1.00	1.80	3.10	2.90
June 2019	0.75	0.60	1.10	1.90	3.20	3.00
Sept 2019	0.75	0.70	1.10	1.90	3.20	3.00
Dec 2019	1.00	0.90	1.30	2.00	3.30	3.10
Mar 2020	1.00	0.90	1.30	2.10	3.40	3.20
Jun 2020	1.00	1.00	1.40	2.10	3.50	3.30
Sept 2020	1.25	1.20	1.50	2.20	3.50	3.30
Dec 2020	1.25	1.20	1.50	2.30	3.60	3.40
Mar 2021	1.25	1.20	1.60	2.30	3.60	3.40

Economic Commentary

2.10.2. The following paragraphs set the backdrop to the Council's investment management activity in 2018/19 and subsequent years, by providing commentary on the economic outlook:

- **Global Economy**

World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October 2017, the International Monetary Fund upgraded its forecast for world growth from 3.2% to 3.7% in 2018. In addition, inflation prospects are generally muted and wage inflation has been subdued despite unemployment falling to historically low levels in the UK and US.

The central banks' monetary policies of the last ten years of lowering central interest rates and flooding the financial markets with liquidity through quantitative easing is coming towards its close and actions are now required to reverse these measures. It is crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. The potential for the central banks to get this timing, and the strength of action, wrong are now key risks.

- **UK Economy**

After strong economic growth in 2016, growth in 2017 was disappointing, mainly due to a sharp increase in inflation. This resulted in a reduction in consumer disposable income and spending power. However, there are encouraging signs of growth in the manufacturing sector, particularly as a result of increased demand for exports.

The Monetary Policy Committee (MPC) increased the bank rate from 0.25% to 0.50% in November 2017, and gave forward guidance that they expect to increase the Bank Rate only twice more in the next three years to reach 1.0% during 2020. This is consistent with previous statements that Bank Rate would only go up gradually and to a limited extent.

The above forecast will be liable to further amendment depending on how economic data and developments in the financial markets transpire over the next year. Geopolitical developments, especially in the EU, would also have a major impact.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

- **US Economy**

Growth in the American economy remains erratic and volatile. Unemployment in the US has fallen to all-time lows, while wage inflation and inflationary pressures in general have been building. The Fed is already on a programme of interest rate increases with another four expected in 2018. US bond yields are likely to continue to rise as a result of this strategy which may exert upward pressure on UK bond yields going forward.

- **Eurozone**

The ECB cutting its main rate to -0.4% and embarking on a massive programme of QE led to improved growth in 2017. Inflation still remains weak however. It is therefore unlikely it will raise its central rate until 2019.

2.10.3. A more detailed view of the current economic outlook is contained within **Appendix D** to this report.

2.10.4. 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 2018/2019 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply in June 2017 and again in September 2017 in reaction to the election and market expectations of Base Rate increases. Since this time rates have eased back and remained fairly flat since. With higher borrowing costs expected in years to come, internal borrowing strategies need to be monitored carefully to avoid having to take external borrowing when costs are higher.
- 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.

2.11. Long Term Borrowing Strategy 2018/2019

2.11.1. 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 2018/19 by around 0.20% to 0.30% starting from current levels of 1.90% to 2.80%. At the time of writing suggested target rates for taking borrowing show are as follows:

Period	Target Rate
50 Years	2.60%
25 Years	2.90%
10 Years	2.20%
5 Years	1.60%

- The Council's Long Term Borrowing Maturity Profile as at 1st March 2018 can be seen as Appendix E. It shows actual maturities and also possible maturities from the LOBO debt taken. Gaps in the maturity profile are between 12 years and 35 years, then after 43 years. Any new borrowing taken should focus on these lengths at prevailing rates of interest.

- Market loans and LOBO[5] 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.

2.11.2. Given the factors detailed above, the following **borrowing strategy** will be adopted for 2018/19:

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 above.

2.11.3. 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.

[5] 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.

2.12. Investment Strategy 2018/2019

2.12.1. Bank Rate is forecast to increase once to 0.75% from 0.50% by the end of 2018/2019. The risk to this forecast is also weighted towards the downside, given the uncertainty over the final terms of Brexit.

2.12.2. The Council's investment priorities are:

- **the security of capital and**
- **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.

2.12.3. 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.

Interest Rate Exposure -Investments

2.12.4. As a general guide, term deposits are usually at a fixed rate of interest, whereas amounts invested on call (to maintain sufficient liquidity in the investment portfolio) are usually at variable rates of interest. Fixed investments of up to 2 years are considered acceptable to good quality counterparties, limits permitting, where above market rates are achievable and sufficient liquidity is available, as a way of enhancing investment return. In a forecast rising interest rate scenario, fixed deposits should be pegged to coincide with the forecast increase periods at market levels. There are no upper limits set to variable rate investments.

Liquidity

2.12.5. Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, at all times, for the achievement of the Council's objectives. In this respect, the Council will seek to maintain liquid short-term deposits of at least **£25m** available within a week's notice.

2.12.6. The Council's investment level is forecast to be around £200 million net of Pension Fund cash in 2018/19, of which around £100 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.

Performance

2.12.7. The target investment return for investments for 2018/19 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 2017 was 0.22%.

2.12.8. The investment performance will also be compared against benchmarking data provided by both CIPFA and Link Asset Services.

Investment Strategy

2.12.9. Given these factors above, the following **investment strategy** will be adopted for 2018/19:

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 and forecast to rise, 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.

Investment in Certificates of Deposit[7], Treasury/LA Bills[8], Dated

[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.

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.

2.12.10. 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.

2.13. Short Term (Cash Flow) Borrowing Strategy 2018/2019

2.13.1. During 2018/2019, 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.

2.14. Other Current Treasury Issues

2.14.1. Money Market Funds (MMFs)

The Money Market Fund Regulation was published in June 2017, proposing reform to the current structure of MMFs in Europe. This reform will apply to **new funds** with effect from **21st July 2018** and to **existing funds by no later than 21st January 2019.**

Two types of MMF will be formed:

- **Short Term MMFs**- Short term funds that follow a maximum Weighted Average Maturity (WAM) of 60 days and a maximum Weighted Average Life (WAL) of 120 days.

[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.

- **Standard MMFs** – Longer dated funds that follow a WAM of 6 months and a maximum WAL of one year.

Three structural options will be formed:

- **Public Debt Constant Net Asset Value (CNAV) MMFs** –must invest 99.5% of assets into government instruments or cash.
- **Low Volatility Net Asset Value (LVNAV) MMFs** – permitted to maintain a constant dealing NAV provided that certain criteria is met.
- **Variable Net Asset Value (VNAV)** – Funds which price their assets using market pricing and therefore offer a fluctuation dealing NAV.

The Council will use **CNAV** and **LVNAV** Short Term MMFs with an **AAA** credit Rating that are denominated in Sterling and regulated within the EU. **VNAV** MMFs will not be used at the current time.

2.14.2. Markets in Financial Instruments Directive (MiFID II)

Under new banking regulations (referred to as MiFID II) which took effect from 3rd January 2018, all Councils are classified as retail counterparties in the market and will have to consider whether to opt up to professional status if meeting various qualitative and quantitative criteria set by the industry. The Council has met these criteria and has opted up to professional status where necessary with all its market participants to enable it to continue to invest in accordance with its Investments Strategy.

2.14.3. Accounting Arrangement for Financial Instruments –IFRS 9

International Financial Reporting Standard 9 (IFRS9) introduces new accounting arrangements for financial instruments from 1st April 2018. Some of the changes have the potential to impact on the Council's General Fund, particularly the requirement to charge movements in the fair value of certain financial instruments to the Revenue account, and to take a more forward looking approach to impairment losses. To ensure that the Council is protected from any adverse revenue impacts which may arise from complying with the new requirements, the accounting implications of new transactions will be carefully assessed before they are undertaken.

2.14.4. Long Term Borrowing – School Loans Scheme 2018/19

Long Term Borrowing from the PWLB on behalf of schools as part of the schools loan scheme will be undertaken throughout 2018/2019 as and when required and on terms requested by schools.

2.14.5. Policy on the Use of External Service Providers

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

The Council recognises that responsibility for treasury management decisions remains with the Council 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.

2.14.6. Pension Fund Cash

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

3. ANNUAL INVESTMENT STRATEGY 2018/2019

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 2018/2019 detailed below. (Note this Annual Investment Strategy applies to the Councils treasury related investments only. The investment strategy dealing with non-treasury related investments will be included in the Capital Strategy 2018/19 which will be considered later in the year).

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.

3.3. The Council's surplus funds will be invested in 2018/19 according to the Secretary of State's definition of **Specified** and **Non-Specified investment** categories as detailed below.

Characteristics/Type	Counterparty Categories
Specified Investments	
Sterling deposits. Up to and including one year. Offering high security / high yield. Fixed, callable or forward term deposits as appropriate[11], Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.	UK Government/ Supranational/ Multilateral Development Banks. Local Authorities. Bodies or Investment Schemes meeting the Councils **minimum acceptable credit rating criteria for Specified Investments** (Includes Banks, Building Societies, Corporates, and Money Market Funds).
Characteristics/Type	**Counterparty Categories**
Non-Specified Investments	
Sterling deposits. Period greater than 12 months up to a maximum of 2 years. Higher risk than Specified Investments. Fixed, callable or forward term deposits as appropriate, Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.	UK Government/ Supranational/ Multilateral Development Banks. Local Authorities. Bodies or Investment Schemes meeting the Councils **minimum acceptable credit rating criteria for Non-Specified Investments** (Includes Banks, Building Societies, and Corporates).

3.4. For assessing its minimum acceptable credit rating criteria for both its specified and non-specified investments it uses the creditworthiness service provided by Link 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

[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.

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.
- Credit default swap (CDS) spreads to give early warning of likely changes in credit ratings.

3.5. 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

3.6. **Appendix F** details the definitions of Sovereign & Long Term Credit Ratings, Credit Default Swaps, Credit Watches and outlooks and MMF ratings.

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

3.7. 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 Link's creditworthiness policy and will allows greater depth and diversification to the Council's Counterparty list, while still maintaining the tenets of security and liquidity.

**Barclays Bank plc
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 Link's recommended Counterparty list.

*** 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 were 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.

3.8. **Appendix G** summarises the duration and amount limits set for both the specified and non-specified investments based on the credit methodology outlined above. 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 derived from this criteria.

3.9. 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 Link 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.

3.10. 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. However sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and other market information, from various sources such as the internet, portals, brokers, government, CIPFA etc.

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

3.11. 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, as shown in Appendix A. This limit reflects a prudent proportion of the Council's estimated level of core cash balances available to invest for longer periods. The Executive Councillor with responsibility for Finance will be informed on any occasion when investments are lent for over 12 months.

Additions to Non-Specified Investment List

3.12. 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, Link 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.

Liquidity of Investments

3.13. 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.

Training Needs for Treasury Management Staff / Members with Responsibility for Treasury Management

3.14. 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 and it is the responsibility of the S151 Officer to implement the necessary arrangements to ensure this takes place.

3.15. The Council seeks to appoint individuals who are both capable and suitably experienced and also will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

3.16. All treasury management staff are encouraged to take any suitable training in treasury management provided by CIPFA, Link 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).

3.17. The Section 151 Officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny have access to training relevant to their needs and those responsibilities.

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 2018/19 in light of the anticipated economic environment and movement of interest rates for the year ahead. These strategies reflect the new requirements of the CIPFA Code recently published in 2017, including making reference to the new Capital Strategy required for 2018/2019.

3. Appendices

These are listed below and attached at the back of the report	
Appendix A	Prudential Indicator Table 2016/17 to 2020/21
Appendix B	Revenue Provision for the Repayment of Debt Policy (Minimum Revenue Provision)
Appendix C	Interest Rate Forecasts 2018-2021
Appendix D	Economic Background -Link Asset Services Ltd
Appendix E	Long Term Borrowing Maturity Profile at 01.03.2018
Appendix F	Definition of Credit Ratings and Credit Default Swap Spreads
Appendix G	Duration, Limits & Minimum Credit Criteria

4. Background Papers

Document title	Where the document can be viewed
Council Budget 2018/19 - 23rd February 2018	Lincolnshire County Council, Finance & Public Protection
LCC Treasury Management Policy Statement and Treasury Management Practices	Treasury and Financial Strategy Section, Finance & Public Protection

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PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS		2016-17 Actual	*2017-18 Original Estimate*	2017-18 Updated Estimate	2018-19 Estimate	2019-20 Forecast	2020-21 Forecast
Prudence Indicators:							
1) Capital Expenditure & Financing							
The Council will set for the forthcoming year and the following two financial years estimates of its capital expenditure plans and financing:							
Capital Expenditure	**£m**	**103.088**	***138.291***	**141.870**	**158.689**	**106.314**	**49.162**
Capital Financing							
Borrowing	**£m**	15.774	*48.844*	36.548	84.076	76.675	20.124
Grants & Contributions	**£m**	84.309	*88.847*	102.031	74.012	29.038	29.038
Capital Receipts, Reserves & Revenue	**£m**	3.005	*0.600*	3.291	0.600	0.600	0.000
Total Capital Financing	**£m**	**103.088**	***138.291***	**141.870**	**158.689**	**106.314**	**49.162**
2) Capital Financing Requirement							
The Council will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years:							
Opening CFR	**£m**	559.558	*592.440*	557.773	576.535	640.034	692.193
Add Additional Borrowing	**£m**	15.774	*48.844*	36.548	84.076	76.675	20.124
Add Additional Credit Liabilities (PFI & Finance Leases)	**£m**	0.000	*0.040*	0.040	0.000	0.000	0.000
Less Revenue Provision for Debt Repayment (MRP)	**£m**	17.560	*19.475*	17.826	20.578	24.516	27.087
Capital Financing Requirement	**£m**	**557.773**	***621.849***	**576.535**	**640.034**	**692.193**	**685.231**
3) Gross Borrowing and the Capital Financing Requirement							
The Council will ensure that gross long term borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financial requirement for the current and next two financial years. This is to ensure that over the meduim term borrowing will only be for a capital purpose.							
Medium Term Forecast of Capital Financing Requirement	**£m**	640.034	*666.599*	692.193	685.231	659.390	637.385
Forecast of Long Term External Borrowing and Credit Arrangements	**£m**	478.195	*508.057*	462.832	526.898	579.656	573.353
Headroom	**£m**	**161.839**	***158.542***	**229.361**	**158.333**	**79.734**	**64.032**
4) External Debt							
The Council will set for the forthcoming year and the following two financial years an authorised limit and operational boundary for its total gross external debt, gross of investments, separately identifying borrowing from other long term liabilities:							
Authorised Limit for External Debt							
Borrowing	**£m**	555.958	*583.007*	569.390	651.751	669.217	658.200
Other Long Term Liabilities	**£m**	14.193	*13.701*	13.613	12.984	12.238	11.473
Total Authorised Limit	**£m**	**570.151**	***596.708***	**583.003**	**664.735**	**681.455**	**669.673**
Operational Boundary for External Debt							
Borrowing	**£m**	531.958	*559.007*	554.390	636.751	654.217	643.200
Other Long Term Liabilities	**£m**	12.193	*11.701*	11.613	10.984	10.238	9.473
Total Operational Boundary	**£m**	**544.151**	***570.708***	**566.003**	**647.735**	**664.455**	**652.673**
Affordability Indicators:							
5) Financing Costs & Net Revenue Stream							
The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream (NRS), including dedicated schools grant (DSG). The Council will also set the following voluntary indicator limit: minimum revenue provision and interest not to exceed 10% of net reveunue stream (NRS) including dedicated schools grant (DSG).							
Proportion of Financing Costs to NRS (Incl DSG)	%	**5.20%**	***5.28%***	**5.33%**	**5.62%**	**6.65%**	**7.00%**
Proportion of MRP & Interest Costs to NRS (Incl DSG) -Limit 10% (Voluntary Indicator)	%	**5.29%**	***5.35%***	**5.34%**	**5.72%**	**6.82%**	**7.26%**

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS		2016-17 Actual	*2017-18 Original Estimate*	2017-18 Updated Estimate	2018-19 Estimate	2019-20 Forecast	2020-21 Forecast
Treasury Indicators							
6) Interest Rate Exposures (Variable)							
The Council will set for the forthcoming year and the following two financial years,an upper limits to its exposure to effects of changes in interest rates on variable rate borrowing and investments. (Voluntary Indicator).							
Upper limit for variable interest rate exposures							
Net principal exposure (Borrowing less Investments)	£m	-45.122	*205.569*	205.569	205.569	205.569	205.569
Borrowing	%	30.00%	*30.00%*	30.00%	30.00%	30.00%	30.00%
Investments	%	100.00%	*100.00%*	100.00%	100.00%	100.00%	100.00%
7) Total Principal Sums Invested							
The Council will set an upper limit for each forward year period for the maturing of investments longer than 365 days.							
Upper limit for total principal sums invested for over 365 days	**£m**	**5.214**	***40.000***	**40.000**	**40.000**	**40.000**	**40.000**
(per maturity date)							
8) Maturity Structure of borrowing							
The Council will set for the forthcoming financial year and the following two years both upper and lower limits with respect to the maturity structure of its borrowing: (Fixed & Variable Rate Borrowing).							
Upper limit							
Under 12 months	%	3.20%	*25.00%*	25.00%	25.00%	25.00%	25.00%
12 months and within 24 months	%	7.50%	*25.00%*	25.00%	25.00%	25.00%	25.00%
24 months and within 5 years	%	10.50%	*50.00%*	50.00%	50.00%	50.00%	50.00%
5 years and within 10 years	%	10.50%	*75.00%*	75.00%	75.00%	75.00%	75.00%
10 years and above	%	68.30%	*100.00%*	100.00%	100.00%	100.00%	100.00%
Lower limit							
All maturity periods	%	0.00%	*0.00%*	0.00%	0.00%	0.00%	0.00%
9) Borrowing in Advance of Need							
The Council will set for the forthcoming financial year and the following two years upper limits to any borrowing undertaken in advance of need.							
Borrowing in advance of need limited to percentage of the	%	**0.00%**	***25.00%***	**25.00%**	**25.00%**	**25.00%**	**25.00%**
expected increase in CFR over 3 year budget period	£m	**0.000**	***11.188***	**28.915**	**11.299**	**-8.201**	**-11.961**
(Voluntary Indicator)							

APPENDIX B

Revenue Provision for the Repayment of Debt Policy (Minimum Revenue Provision)

1. In accordance with the requirement to make a prudent 'revenue provision for the repayment of debt', the Council ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit.

This is achieved by applying the following methodology:

Borrowing	MRP Repayment Basis
Pre 1st April 2008 Debt	This element of the Capital Financing Requirement is being repaid on a full repayment method based 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.
Unsupported Debt- 2008/09 onwards	This element of the Capital Financing Requirement is being repaid using the **Asset Life EIP method**. Whereby equal instalments of principal debt repayment are repaid over the asset lives of the assets financed from borrowing.
Debt used to finance assets whose benefit increases as time passes e.g.Infrastructure Assets	This element of the Capital Financing Requirement is being repaid using the **Asset Life Annuity method**. Whereby a fixed repayment of debt 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.
Credit Arrangements	MRP is met by a charge equal to the element of rent/charge that goes to write down the balance sheet liability.
Assets financed by borrowing when if sold the income is classed as a capital receipt.	For capital expenditure incurred, financed by borrowing that increased the CFR whose subsequent sale resulted in a capital receipt that reduced the CFR, there will be no revenue provision made for the repayment of the debt liability, unless the receipt fails to meet the expenditure incurred. (Loans for capital purposes, investment properties, assets acquired for development/resale).

Revenue provision is chargeable in the first financial year after the relevant capital expenditure is incurred.
The guidance also allows Councils not to start charging MRP until an asset becomes operational.

Where it is practical or appropriate to do so, the Council may make voluntary revenue provision, or apply capital receipts, to reduce debt over s shorter period.

The table below shows the estimates for asset lives per type of asset used under the Asset Life MRP policy detailed above. Professional guidance has been used to ascertain these lives.

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

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Interest Rate Forecasts 2018-2021

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

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APPENDIX D

Economic Background –Link Asset Services Ltd

GLOBAL OUTLOOK. **World growth** looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this. The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak. Inflation fell to 3.0% in December.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in December inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

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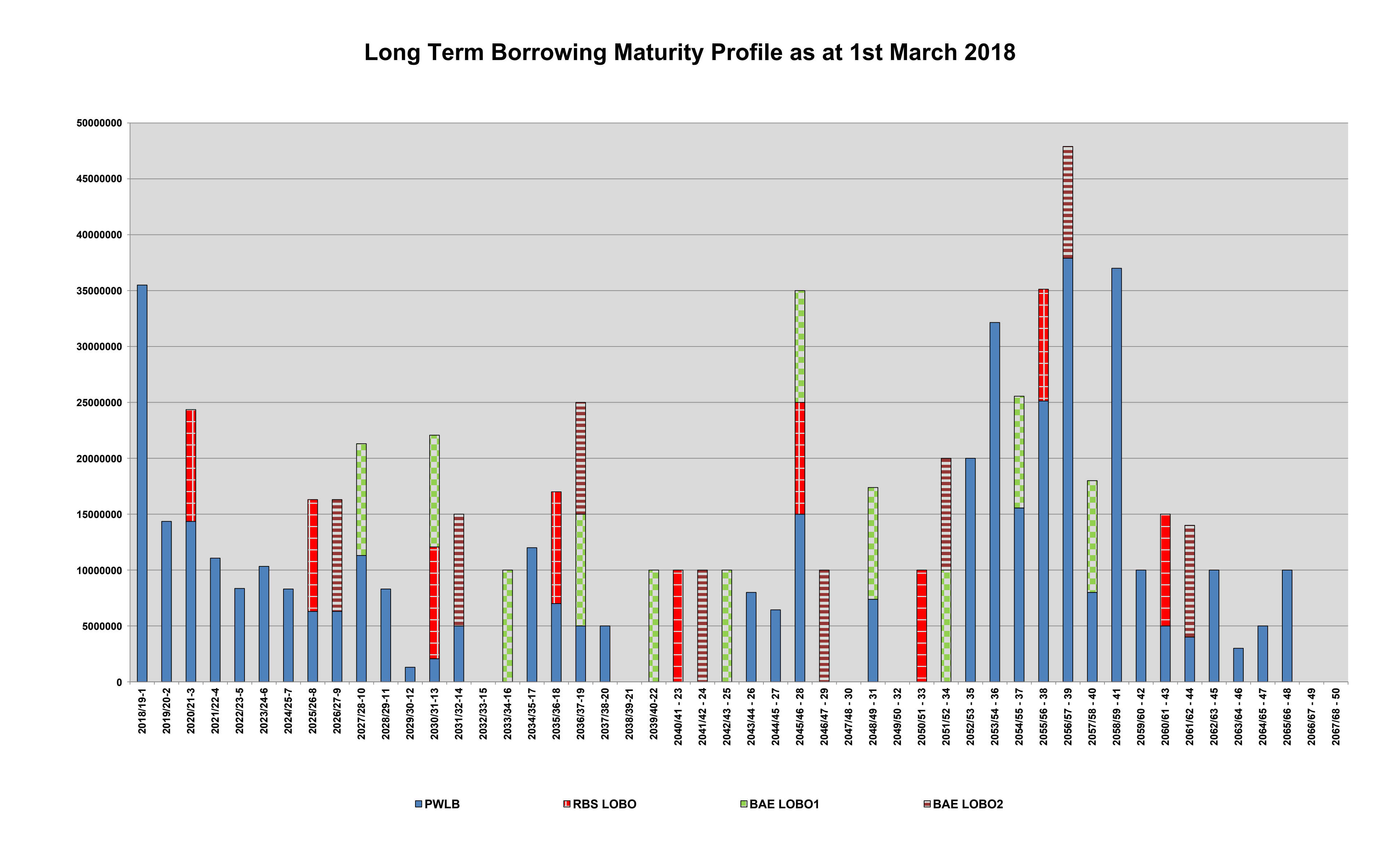
Appendix E



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.

<u>Duration, Limits & Minimum Credit Criteria</u>

Using credit worthiness methodology by Link Asset Services, the following duration and amount limits have been assigned to each colour band for Specified and Non Specified Investments. Maximum amount limits have been assigned to different levels of balances which enable the Council to be more risk sensitive to falling balances going forward.

Link Weighted Colour Band	**Maximum Duration**	**Maximum Amount Based on Average Balance of**		
		£200m	**£150m**	**£100m**
Specified Investments				
Blue*	1 Year	£40m	£30m	£25m
Orange	1 Year	£20m	£20m	£15m
Red	6 Months	£15m	£10m	£10m
Green	3 Months	£10m	£5m	£5m
Non Specified Investments				
Purple	2 Years	£25m	£20m	£15m
Yellow**	2 Years	£20m	£20m	£15m
Minimum Credit Rating Criteria				
Any Two of Three		**Fitch**	**Standard & Poors**	**Moodys**
Sovereign		AA-	AA-	Aa3
Long Term		A+	A+	A1
Money Market Funds		AAA	AAAm	Aaa/MR1

* Nationalised/Part Nationalised UK Banks
** MMF's/Government/Local Government

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:	**Overview and Scrutiny Management Board**
Date:	**01 March 2018**
Subject:	**Scrutiny Committee Work Programmes: -** • **Environment and Economy Scrutiny Committee** • **Highways and Transport Scrutiny Committee**

Summary:

In accordance with the Overview and Scrutiny Management Board's agreed programme, this report sets out the work programmes of the Environment and Economy Scrutiny Committee, Flood and Water Management Scrutiny Committee and Highways and Transport Scrutiny Committee.

This item allows in-depth consideration of these work programmes; both in terms of the outcomes from the items considered and intended future activity.

Actions Required:

(1) The Overview and Scrutiny Management Board is invited to consider whether it is satisfied with the content of the work programmes of:

- the Environment and Economy Scrutiny Committee (Appendix A to this report);
- the Highways and Transport Scrutiny Committee (Appendix B to this report).

(2) Depending on its decisions in (1) above, the Overview and Scrutiny Management Board is invited to make suggestions on the content of the work programmes of the two committees listed above.

1. Background

One of the roles of the Overview and Scrutiny Management Board is to challenge, review and hold to account the work programmes of each scrutiny committee.

On 29 June 2017, the Board agreed a process whereby the work programme of each scrutiny committee would be considered on a quarterly basis to allow for more in-depth consideration. To facilitate this, the chairman of each scrutiny committee would be invited to provide an update on the work of their committee and any working groups, and highlight future items that their committee will be focussing on.

Scrutiny Committee	First Review	Second Review	Third Review
Adults and Community Wellbeing	27 Jul 2017	30 Nov 2017	29 Mar 2018
Health			
Children and Young People	28 Sept 2017	25 Jan 2018	26 Apr 2018
Public Protection and Communities			
Environment and Economy	26 Oct 2017	22 Feb 2018	24 May 2018
Highways and Transport			
Flood and Water Management			

<u>Environment and Economy Scrutiny Committee</u>

The work programme of the Environment and Economy Scrutiny Committee is attached at Appendix A. Councillor Tony Bridges, the Chairman of the Environment and Economy Scrutiny Committee, will be making a statement to provide supporting information on the content of the work programme.

<u>Highways and Transport Scrutiny Committee</u>

The work programme of the Highways and Transport Scrutiny Committee is attached at Appendix B. Councillor Mike Brookes, the Chairman of the Highways and Transport Scrutiny Committee, will be making a statement to provide supporting information on the content of the work programme.

2. Conclusion

As part of the new reporting arrangements of the work programmes of scrutiny committees, the Overview and Scrutiny Management Board is asked to consider the work programmes of the Environment and Economy Scrutiny Committee and the Highways and Transport Scrutiny Committee.

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	Environment and Economy Scrutiny Committee
Appendix B	Highways and Transport Scrutiny Committee

5. Background Papers

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

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

APPENDIX A

Environment and Economy Scrutiny Committee

October 2017 – January 2018

The Environment and Economy Scrutiny Committee combines two areas of responsibility - Protecting & Sustaining the Environment and Sustaining & Growing Business & the Economy.

GLEP Accountable Body

The Committee has continued to support the role of Lincolnshire County Council as Accountable Body of the Single Local Growth Fund (SLGF) operated on behalf of Greater Lincolnshire LEP. The Committee has reviewed and monitored updates on the SLGF to provide a robust scrutiny and support officers in continuing to work with the LEP to ensure that projects progress agreements in order to support the delivery of strategic priorities.

In November the Committee resolved to support a formal recommendation to the Executive Councillor for Economy and Place as follows. *"In order to maximise the level of funding allocated to Greater Lincolnshire LEP and to avoid funding being lost it is recommended that officers are empowered to move funding between measures in the programme as long as they have taken steps to understand all bids that partners are planning to make; and, they do not move money to a measure which then jeopardises the prospects of an LCC or partner project being able to bid for funding".*

Environment and Economy Performance Measures

The Committee has continued to review and challenge the performance indicators and endorsed officers in reviewing the performance targets to provide measures which better reflect the overall performance of the service area.

The Committee has continued to highlight two performance indicators which are regularly not being met, specifically in connection with the proportion of waste received at Household Waste Recycling Centres that was recycled, and the proportion of waste collected by Lincolnshire's District Councils that was recycled. The Council together with its partners is currently in the process of preparing a new Waste Management Strategy which will be considered by the Committee later in 2018 and will look to address these concerns.

The Third Carbon Management Plan

In November the Committee supported the proposal for the development of the Third Carbon Management Plan to support aims to reduce UK emissions by 34% by 2020 and by 80% by 2050. The Committee endorsed the work of the second Carbon Management Plan as current figures suggested that the Council was on target to meet its targets of reducing carbon emissions by 22% and with an ambition to reduce energy costs by £2m. The current figures demonstrated a 17.5% reduction from the 2011/12 baseline.

Priorities for National Infrastructure - Response to National Infrastructure Assessment

In January 2018 the Committee considered the council's response to the National Infrastructure Assessment which looks to underpin national policy towards economic infrastructure investment for the next thirty years. Members of the Committee were given the opportunity to consider the draft response towards the end of December and provide feedback to officers. Feedback received was included in the final response, however officers have confirmed that there will be further opportunities to respond to the Assessment in the future.

The Committee endorsed a response which seeks to strengthen areas which are of relevance to the county, while evidencing the present and future potential contribution of more rural areas to the national economy.

The Committee will continue to consider the National Infrastructure Assessment as required to promote local interests.

Greater Lincolnshire Local Industrial Strategy

In January 2018 the Committee considered an initial report on work to develop a Greater Lincolnshire Local Industrial Strategy.

The Committee endorsed that LCC takes a strong role in helping the LEP to produce the local industrial strategy. The Committee will continue to take an opportunity to understand and engage with members during the development process which will ensure the strategy responds effectively to local priorities.

The Committee also supported to receive regular reports on the progress of the local industrial strategy development and to offer advice/support to the LEP during the preparation of the local industrial strategy.

Future Work Planned

The Committee continues to actively monitor and have input into the future work programme. In addition, the Committee will consider a number of key items over the coming period, this includes:

- Consideration of the government’s 25 Year ‘Environment Plan' to help the natural world regain and retain good health.
- Implementing the Outcomes of the Utility Study
- Joint Municipal Waste Management Strategy
- Greater focus on rural broadband provision in Lincolnshire following a specific request from the Committee to review the outcomes of the broadband project.

The forward Work Programme for the Committee is shown below:

10 APRIL 2018 – 10:00am		
Item	**Contributor**	**Purpose**
A Green Future: 25 Year Plan to Improve the Environment	David Hickman, Growth & Environment Commissioner	Consideration of the Governments 25 Year Environment Plan to help the natural world regain and retain good health.
Implementing the Outcomes of the Utility Study	Andy Brooks, Commissioning Manager (Regeneration Programme)	
Updating the Joint Flood Risk and Drainage Management Strategy	David Hickman, Growth & Environment Commissioner	To shape the second edition of Lincolnshire Joint Flood Risk Strategy, with particular focus on integrating economic and environmental benefits
Capital Board Business Cases	Jade Elkington, Justin Brown, Commissioner for Economic Growth	
Joint Municipal Waste Management Strategy	Matthew Michell, Senior Commissioning Officer (Waste)	

22 MAY 2018 – 10.00am		
Item	**Contributor**	**Purpose**
Quarter 4 Performance Report (1 January to 31 March 2018)	Justin Brown, Commissioner for Economic Growth; David Hickman, Growth and Environment Commissioner	Review of the Key Performance and Customer Satisfaction Information
Co-commissioning Historic Environment Services	David Hickman, Growth & environment Commissioner	To shape development of a more integrated approach to LCC services relating to the historic environment.
Rural Broadband Provision	Steve Brookes Lincolnshire Broadband Programme Manager	

10 JULY 2018 – 10.00am		
Item	**Contributor**	**Purpose**
Greater Lincolnshire Local Industrial Strategy	Justin Brown, Commissioner for Economic Growth; Ruth Carver, Commissioning Manager (LEP)	Review of the initial work undertaken on the Greater Lincolnshire Local Industrial Strategy

18 SEPTEMBER 2018 – 10.00am		
Item	**Contributor**	**Purpose**
Quarter 1 Performance Report (1 April to 30 June 2018)	Justin Brown, Enterprise Commissioner; David Hickman, Growth and Environment Commissioner	Review of the Key Performance and Customer Satisfaction Information

30 OCTOBER 2018 – 10.00am		
Item	**Contributor**	**Purpose**
Greater Lincolnshire Local Industrial Strategy	Justin Brown, Commissioner for Economic Growth; Ruth Carver, Commissioning Manager (LEP)	Review of the work undertaken on the Greater Lincolnshire Local Industrial Strategy

27 NOVEMBER 2018 – 10.00am		
Item	**Contributor**	**Purpose**
Quarter 2 Performance Report (1 July to 30 September 2018)	Justin Brown, Commissioner for Economic Growth, David Hickman, Growth and Environment Commissioner	Review of the Key Performance and Customer Satisfaction Information.

Items to be programmed

- Third Carbon Management Plan - Vanessa Strange, Accessibility and Growth Manager

APPENDIX B

Highways and Transport Scrutiny Committee

October 2017 – January 2018

Lincolnshire Highways 2020

The Committee has continued to give regular consideration to the work being undertaken as part of Lincolnshire Highways 2020. In November 2017 the Committee considered a pre-decision scrutiny item on the replacement options available and which future option would be best suited to Lincolnshire County Council. The Committee has continued to support the involvement of members in the Highways 2020 working group which has been a very rigorous process. The Committee continues to scrutinise regular updates on the progress Lincolnshire Highways 2020 at alternate meetings, and will consider key milestones in the project as required.

Network Rail

The Committee continues to engage with Network Rail on an annual basis. In October 2017 the Committee considered an update on the strategic direction for the development and delivery of schemes which interact with the railways infrastructure in Lincolnshire. The Committee sought assurance from Network Rail that good future progress would continue on the joint schemes between Network Rail and the County Council. The Committee also welcomed the excellent work undertaken on the 72 hour blockade of the railway line as part of a major engineering operation for the Lincoln Eastern Bypass. This work had been successfully delivered with only one minor problem and was a key milestone.

Major Highways Schemes

The Committee continues to receive regular updates on the Major Highways Schemes as part of the quarterly performance report. This includes the Lincoln Eastern Bypass which is the County Council's largest Highway scheme with a budget of £99.6m and a DfT grant of £49.95m. In January 2018 the Committee received an update on the current status of this project following Carillion going into liquidation on 15 January 2018. The Committee will continue to review the situation with the Lincoln Eastern Bypass going forward.

In addition, the Committee continues to review the progress made towards other major schemes including: the Grantham Southern Relief Road, A17/A151 Peppermint Junction, Holbeach, Spalding Western Relief Road, North Hykeham Relief Road and Lincolnshire Coastal Highway.

The Committee will continue to scrutinise the Major Highways Schemes on a quarterly basis and as and when required.

<u>CCTV Trial Enforcement</u>

In December 2017 the Committee reviewed the progress of the CCTV enforcement trial implemented outside eight schools within the County. The Highways and Transport Scrutiny Committee previously supported and recommended that Lincolnshire County Council implement a trial scheme to monitor motorist's behaviour on school keep clear markings. The scheme was implemented in January 2017 and is currently ongoing.

The Committee endorsed that a decision be taken as to the future operation of the trial scheme, and for the trial be extended for a further 12 months and an additional feasibility study be carried out to examine the benefits from increasing from one vehicle to two or using fixed point CCTV for enforcement outside of schools.

<u>Highways Grass Cutting / Control of Weeds within the Highway</u>

In November 2017 the Committee considered reports on the control of weeds within the public highway and the maintenance of highway grass within the public highway. These items were presented following a request from the Committee to review these areas of policy and to provide detailed information on the delivery aspects of the service.

With regards to the control of weeds within the public highway, The Committee acknowledged current budget limitations but highlighted the relatively small cost (£130k) of the service and the identified budget pressure of £20,000 due to the increased delivery costs associated with the single-spray policy. The Committee recommended that this be considered against the risk of potential higher maintenance costs in the future, owing to the impact increased weed growth could have on structural damage to the Highway. *The Committee resolved to support a formal recommendation to the Executive / Executive Councillor for Highways, Transport and IT that the current Highways weed spraying single-spray policy be reviewed and consideration given to increase the number of treatments as part of the budget setting process for 2018/19.*

<u>Roundabout Sponsorship</u>

The Highways and Transport Scrutiny Committee considered 'Roundabout Sponsorship' at its meeting on 22 January 2018. This item provided the Committee with the opportunity to review the current policy which has been in existence since 1996.

The Committee unanimously recommended support should be sought from the Overview and Scrutiny Management Board for a Scrutiny Review Panel to be established to examine this topic in more detail.

The forward Work Programme for the Committee is shown below:

12 MARCH 2018 – 10:00am		
Item	**Contributor**	**Purpose**
Highways 2020 Update	Paul Rusted, Infrastructure Commissioner	Update on progress towards replacement arrangements for Highways 2020.
Quarter 3 Performance Report (1 October to 31 December 2017)	Paul Rusted, Infrastructure Commissioner	Review of the Key Performance and Customer Satisfaction Information.
Effective Highways Communication	Satish Shah, Network Manager	Review of the work being undertaken to enhance service users' experience with regards to the Highways and Transport services.
Major Route Network Consultation	Ian Kitchen, Transport Policy Manager	Consideration of the DfT consultation on proposals for a Major Road Network (MRN).
East Coast Main Line Route Study Consultation	Ian Kitchen, Transport Policy Manager	Consultation item on the East Coast Main Line Route Study and review of proposed response.
Permit Scheme Annual Report	Mick Phoenix, Network Management Commissioner; Mandi Robinson Network Regulation Compliance Manager	Review of the first year of the Highway Permit Scheme which has been in place since October 2016 to aid minimise the disruption caused by works on Lincolnshire's road network.

23 APRIL 2018 – 10:00am		
Item	**Contributor**	**Purpose**
Winter Maintenance – End of Year Report	Vincent VanDoninck, Policy and Strategic Asset Manager	Review of 2017/18 winter maintenance period.
Review of Sleaford Transport Strategy	Andy Gutherson, County Commissioner Economy and Place	Consideration of the progress made against the Sleaford Transport Strategy objectives and outcomes.

23 APRIL 2018 – 10:00am		
Item	**Contributor**	**Purpose**
Coastal Highway	Andy Gutherson, County Commissioner Economy and Place	Review of the first phase of work and initial report on possible options.
Lincolnshire Connected / Electrification of Vehicles	Vanessa Strange, Accessibility and Growth Manager; Ian Kitchen, Transport Policy Manager	Consideration of future requirements for electric vehicle infrastructure.
Re-consideration of the Speed Management in Lincolnshire Scrutiny Review (20mph Limits and Zones)	TBC	Consideration of the previous Speed Management in Lincolnshire Scrutiny Review (2014) Recommendation 5 (20mph Limits and Zones)

11 JUNE 2018 – 10:00am		
Item	**Contributor**	**Purpose**
Highways 2020 Update	Paul Rusted, Infrastructure Commissioner	Update on progress towards replacement arrangements for Highways 2020.
Quarter 4 Performance Report (1 January to 31 March 2018)	Paul Rusted, Infrastructure Commissioner	Review of the Key Performance and Customer Satisfaction Information.

16 JULY 2018 – 10:00am		
Item	**Contributor**	**Purpose**
CCTV Pilot Scheme for Parking enforcement outside schools	Matt Jones, Parking Services Manager	Review of progress on the CCTV Pilot Scheme.

10 SEPTEMBER 2018 – 10:00am		
Item	**Contributor**	**Purpose**
Highways 2020 Update	Paul Rusted, Infrastructure Commissioner	Update on progress towards replacement arrangements for Highways 2020.
Quarter 1 Performance Report (1 April to 30 June 2018)	Paul Rusted, Infrastructure Commissioner	Review of the Key Performance and Customer Satisfaction Information.

22 OCTOBER 2018 – 10:00am		
Item	**Contributor**	**Purpose**
Provisional Engagement with Network Rail	Network Rail	Annual engagement session with Network Rail which will include details of network performance and discussion of any key issues or concerns in Lincolnshire.

10 DECEMBER 2018 – 10:00am		
Item	**Contributor**	**Purpose**
Quarter 2 Performance Report (1 July to 30 September 2018)	Paul Rusted, Infrastructure Commissioner	Review of the Key Performance and Customer Satisfaction Information.

Items to be programmed

Highways

- New Highways Operating Model VfM Assessment
- Network Management Plan

Transportation

- Total Transport Update and Overview of Bus Subsidy Workings
- Public Transport Strategy
- Changes to the Section 19 and 22 permits: not for profit passenger transport
- PSV (Public Service Vehicle) operator licences Updates

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

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:	**Overview and Scrutiny Management Board**
Date:	**1 March 2018**
Subject:	**Overview and Scrutiny Management Board Work Programme**

Summary:

This item enables the Board 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 Board 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 Board are invited to:

1) Review and agree the Board's work programme as set out in Appendix A to this report.
2) Highlight for discussion any additional scrutiny activity which could be included for consideration in the work programme.

1. Background

Overview and Scrutiny should be positive, constructive, independent, fair and open. The scrutiny process should be challenging, as its aim is to identify areas for improvement. Scrutiny activity should be targeted, focused and timely and include issues of corporate and local importance, where scrutiny activity can influence and add value.

Overview and scrutiny committees should not, as a general rule, involve themselves in relatively minor matters or individual cases, particularly where there are other processes, which can handle these issues more effectively.

All members of overview and scrutiny committees are encouraged to bring forward important items of community interest to the Board whilst recognising that not all items will be taken up depending on available resource and assessment against the prioritisation toolkit.

Purpose of Scrutiny Activity

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

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

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

Policy Review - The Board is reviewing the implementation of policy, to consider the success, impact, outcomes and performance.

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

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

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

Requests for specific items for information should be dealt with by other means, for instance briefing papers to members.

Identifying Topics

Selecting the right topics where scrutiny can add value is essential in order for scrutiny to be a positive influence on the work of the Council. Members may wish to consider the following questions when highlighting potential topics for discussion to the Board:-

- Will Scrutiny input add value?
  Is there a clear objective for scrutinising the topic, what are the identifiable benefits and what is the likelihood of achieving a desired outcome?

- Is the topic a concern to local residents?
  Does the topic have a potential impact for one or more section(s) of the local population?

- Is the topic a Council or partner priority area?
  Does the topic relate to council corporate priority areas and is there a high level of budgetary commitment to the service/policy area?

- Are there relevant external factors relating to the issue?
  Is the topic a central government priority area or is it a result of new government guidance or legislation?

Scrutiny and Executive Protocol

The County Council's Scrutiny and Executive Protocol sets out practical working arrangements which develops a unity of purpose between the Executive, overview and scrutiny committees as well as the Council's senior managers.

The Protocol provides a framework for positive relationships between the Executive and overview and scrutiny committees, but its effectiveness is dependent on all councillors and officers accepting the principles underlying the Protocol.

The Protocol includes the following expectations:

- The Chairman or Vice Chairman of the Overview and Scrutiny Management Board will as far as possible attend each meeting of the Executive.
- The Chairmen or Vice Chairmen of overview and scrutiny committees should attend meetings of the Executive, where an item relevant to their committee's remit is being considered.
- Regular briefing meetings are recommended between the Chairmen and Vice Chairmen of overview and scrutiny committees and the relevant Executive Councillor(s) and Executive Support Councillor(s). These meetings should include the scrutiny officers, and any relevant officers if required.
- It is accepted that Executive Councillors may not be able to attend all meetings of their relevant overview and scrutiny committees. An overview and scrutiny committee may request the attendance of an Executive Councillor for a particular item on the agenda. In such cases if the Executive Councillor is not available he or she should be represented by the Executive Support Councillor.

Scrutiny Panel Activity

Where a topic requires more in-depth consideration, the Board may commission a Scrutiny Panel to undertake a Scrutiny Review, subject to the availability of resources and approval of the Board. Details of Scrutiny Panel activity is set out in Appendix B.

Work Programme items on scrutiny review activity can include discussion on possible scrutiny review items; finalising the scoping for the review; consideration and approval of the final report; the response to the report; and monitoring outcomes of previous reviews.

The Board may also establish a maximum of two working groups at any one time, comprising a group of members from the Board.

Committee Working Group Activity

Scrutiny Committees may establish informal working groups, which can meet a maximum of three times, usually to consider matters in greater detail, and then to put their proposals to Committee. Details of Working Group activity is set out at Appendix C.

Executive Forward Plan

The Executive Forward Plan of key decisions to be taken from 1 November 2017 is set out at Appendix D. This is background information for the Committee's consideration to ensure that all key decisions are scrutinised by the relevant scrutiny committee.

2. Conclusion

The Board's work programme for the coming year is attached at Appendix A to this report.

Members of the Board are invited to review, consider and comment on the work programme as set out in Appendix A and highlight for discussion any additional scrutiny activity which could be included for consideration in the work programme.

Consideration should be given to the items included in the work programme as well as any 'items to be programmed' listed.

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	Overview and Scrutiny Management Board – Work Programme
Appendix B	Scrutiny Panel Activity
Appendix C	Working Group Activity
Appendix D	Forward Plan of Decisions

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 Simon Evans, Health Scrutiny Officer, who can be contacted on 01522 552164 or by e-mail at Simon.Evans@lincolnshire.gov.uk

APPENDIX A

OVERVIEW AND SCRUTINY MANAGEMENT BOARD

Chairman: Councillor Robert Parker
Vice Chairman: Councillor Ray Wootten

Each agenda includes the following standard items:

- **Call-in (if required)**
- **Councillor Call for Action (if required)**
- **Future Scrutiny Reviews**

1 March 2018		
Item	**Contributor**	**Purpose**
2017/18 Council Business Plan Quarter 3	Jasmine Sodhi Performance and Equalities Manager	Performance Scrutiny / Pre-Decision Scrutiny (Executive decision on 6 March 2018)
Treasury Management Strategy Statement and Annual Investment Strategy 2018/19	Karen Tonge Treasury Manager	Pre-Decision Scrutiny
Property Company	Kevin Kendall, County Property Officer	Pre-Decision Scrutiny *(Executive Decision on 6 March 2018)*
Membership of the Local Government Association	Nigel West, Head of Democratic Services & Statutory Scrutiny Officer	?Pre-Decision Scrutiny
Future Scrutiny Reviews	Nigel West, Head of Democratic Services & Statutory Scrutiny Officer	Performance Scrutiny
Overview and Scrutiny Work Programmes • Environment and Economy Scrutiny Committee • Highways and Transport Scrutiny Committee	Cllr Tony Bridges Chairman of Environment and Economy Scrutiny Committee Cllr Mike Brookes Chairman of Highways and Transport Scrutiny Committee	Performance Scrutiny
Treasury Management Performance Quarter 3 (1 September 2017 to 31 December 2017)	Karen Tonge Treasury Manager	Performance Scrutiny *(For Information)*

29 March 2018		
Item	**Contributor**	**Purpose**
Performance of the Corporate Support Services Contract	Sophie Reeve, Chief Commercial Officer Arnd Hobohm, Corporate Support Services Contract Manager	Performance Scrutiny
Overview and Scrutiny Work Programmes • Adults and Community Wellbeing Scrutiny Committee • Health Scrutiny Committee	Cllr Hugo Marfleet, Chairman of Adults and Community Wellbeing Scrutiny Committee Cllr Carl Macey, Chairman of Health Scrutiny Committee	Performance Scrutiny

26 April 2018		
Item	**Contributor**	**Purpose**
Overview and Scrutiny Work Programmes • Children and Young People Scrutiny Committee • Public Protection and Communities Scrutiny Committee	Cllr Robert Foulkes Chairman of Children and Young People Scrutiny Committee Cllr Nigel Pepper Chairman of Public Protection and Communities Scrutiny Committee	Performance Scrutiny

24 May 2018		
Item	**Contributor**	**Purpose**
Overview and Scrutiny Work Programmes • Environment and Economy Scrutiny Committee • Highways and Transport Scrutiny Committee • Flood and Water Management Scrutiny Committee	Cllr Tony Bridges Chairman of Environment and Economy Scrutiny Committee Cllr Mike Brookes Chairman of Highways and Transport Scrutiny Committee Cllr Daniel McNally Chairman of the Flood and Water Management Scrutiny Committee	Performance Scrutiny

28 June 2018		
Item	**Contributor**	**Purpose**
Review of Financial Performance 2017/18	County Finance Officer	Budget Scrutiny / Pre-Decision Scrutiny
2017/18 Council Business Plan Quarter 4	Jasmine Sodhi, Performance and Equalities Manager	Performance Scrutiny
Treasury Management Annual Report 2016/17	Karen Tonge, Treasury Manager	Performance Scrutiny
Overview and Scrutiny Work Programmes • Adults and Community Wellbeing Scrutiny Committee • Health Scrutiny Committee	Cllr Hugo Marfleet, Chairman of Adults and Community Wellbeing Scrutiny Committee Cllr Carl Macey, Chairman of Health Scrutiny Committee	Performance Scrutiny

Items to be programme:

- Performance Report Quarter 1 2018/19 – July/August 2018 (To be confirmed);
- Review of Capital Budget Monitoring Report 2018/19 – September 2018;
- Capital Strategy 2018/19 – September 2018;

For more information about the work of the Overview and Scrutiny Management Board please contact Simon Evans, Health Scrutiny Officer, on 01522 552164 or by e-mail at Simon.Evans@lincolnshire.gov.uk

APPENDIX B

Scrutiny Panel Activity
(as at 20 February 2018)

<u>Current Reviews</u>

Scrutiny Panel A	Membership	Completion Date
Development of Future IT Provision to Support Council Working Practices	Councillors Mrs J Brockway (Chairman), S Dodds (Vice Chairman), B Aron, M Boles, Mrs P Cooper, S Roe, H Spratt and M Whittington	Overview and Scrutiny Management Board on 31 May 2018

Scrutiny Panel B	Membership	Completion Date
Impact of the Part Night Street Lighting Policy	Councillors Mrs A Newton (Chairman), S Kirk (Vice Chairman), D McNally, R Renshaw, P Skinner, A Stokes, M Storer and Mrs R Trollope-Bellew	Overview and Scrutiny Management Board on 26 April 2018

All completed review reports to be approved by relevant scrutiny committee before consideration at a meeting of the County Council's Executive.

APPENDIX C

Working Group Activity

(as at 20 February 2018)

Committee	Working Group	Membership
Overview and Scrutiny Management Board	UK's Exit from the European Union	Councillors Mrs A Austin, T Bridges, M Brookes, M T Fido, R L Foulkes, C E H Marfleet, Mrs M J Overton MBE, R B Parker, A M Stokes and Mrs C A Talbot; and added member: Mr S Rudman

PUBLISH DATE 31 JANUARY 2018

Lincolnshire COUNTY COUNCIL
Working for a better future

FORWARD PLAN OF KEY DECISIONS FROM 1 MARCH 2018

DEC REF	MATTERS FOR DECISION	REPORT STATUS	DECISION MAKER AND DATE OF DECISION	PEOPLE/GROUPS CONSULTED PRIOR TO DECISION	DOCUMENTS TO BE CONSIDERED	OFFICER(S) FROM WHOM FURTHER INFORMATION CAN BE OBTAINED AND REPRESENTATIONS MADE (All officers are based at County Offices, Newland, Lincoln LN1 1YL unless otherwise stated)	DIVISIONS AFFECTED
I014740	Proposed Changes to Enhanced Resource Provision Units Supporting Children with Hearing Impairments	Exempt	Executive Councillor: Adult Care, Health and Children's Services 2 Feb 2018	Parents; children; school; health; and other stakeholders with an interest in hearing impairments; Children and Young People Scrutiny Committee	Exempt Report	County Manager Tel: 01522 554031 Email: andrew.hancy@lincolnshire.gov.uk	All
I014928	Council Business Plan 2018 - 2020	Open	Executive 6 Feb 2018	Overview and Scrutiny Management Board	Report	Performance and Equalities Manager Tel: 01522 552124 Email: jasmine.sodhi@lincolnshire.gov.uk	
I014286	Council Budget 2018/19	Open	Executive 6 Feb 2018	Overview and Scrutiny Management Board	Report	County Finance Officer Tel: 01522 553642 Email: david.forbes@lincolnshire.gov.uk	All

DEC REF	MATTERS FOR DECISION	REPORT STATUS	DECISION MAKER AND DATE OF DECISION	PEOPLE/GROUPS CONSULTED PRIOR TO DECISION	DOCUMENTS TO BE CONSIDERED	OFFICER(S) FROM WHOM FURTHER INFORMATION CAN BE OBTAINED AND REPRESENTATIONS MADE (All officers are based at County Offices, Newland, Lincoln LN1 1YL unless otherwise stated)	DIVISIONS AFFECTED
I015178 New!	A16 Louth Bypass	Open	Executive Councillor: Resources and Communications 1 Mar 2018	Highways colleagues, utility companies, town council	Report	Steve Brooks, Senior Project Leader (Major Schemes) Tel: 01522 552940 Email: lcchighwaystsp@lincolnshire.gov.uk	Louth South: Louth Wolds
I015183 New!	Peppermint Park – Delivery of Food Enterprise Zone	Exempt	Executive Councillor: Economy and Place 2 Mar 2018	Environment and Economy Scrutiny Committee	Exempt Report	Simon wright – Principal Officer, Regeneration Tel: 07827 820467 Email: simon.wright@lincolnshire.gov.uk	Holbeach
I014970	Property Company	Open	Executive 6 March 2018	Property Board; Overview and Scrutiny Management Board	Report	County Property Officer Tel: 01522 553726 Email: Kevin.Kendall@lincolnshire.gov.uk	All
I014969	Extra Care Housing – City of Lincoln	Open	Executive 6 March 2018	Extra Care Sponsoring Group; and Property Board	Report	County Property Officer Tel: 01522 553726 Email: Kevin.Kendall@lincolnshire.gov.uk	Birchwood; Boultham; Carholme; Ermine & Cathedral; Hartsholme; Park; St Giles; Swallow Beck and Witham

DEC REF	MATTERS FOR DECISION	REPORT STATUS	DECISION MAKER AND DATE OF DECISION	PEOPLE/GROUPS CONSULTED PRIOR TO DECISION	DOCUMENTS TO BE CONSIDERED	OFFICER(S) FROM WHOM FURTHER INFORMATION CAN BE OBTAINED AND REPRESENTATIONS MADE (All officers are based at County Offices, Newland, Lincoln LN1 1YL unless otherwise stated)	DIVISIONS AFFECTED
I015206 New!	Child and Adolescent Mental Health Services (CAMHS)	Open	Executive Councillor: Adult Care, Health and Children's Services 16 Mar 2018	Children and Young People Scrutiny Committee	Report	Jonas Gibson – Children's Commissioning Manager – Commercial Services Tel: 01522 553258 Email: Jonas.gibson@lincolnshire.gov.uk	All
I015013	Lincolnshire Wolds Area of Outstanding Natural Beauty Management plan 2018-2023 – Public Consultation	Open	Executive 4 April 2018	Environment and Economy Scrutiny Committee; Lincolnshire Wolds Area of Outstanding Natural Beauty Partnership – Joint Advisory Committee and Joint Management Group (including other relevant local authorities and Natural England); relevant Parish and Town Councils; local landowners and community representatives; general public (via Have Your Say); and formal consultation	Report	Team Leader – Countryside Services Email: Chris.Miller@lincolnshire.gov.uk Tel: 01522 553091	Ingoldmells Rural; Louth North; Louth South; Louth Wolds; Market Rasen Wolds; Woodhall Spa and Wragby
I014208	Citizen Engagement Strategy	Open	Executive 4 Apr 2018	Public Protection and Communities Scrutiny Committee	Report	Programme Manager, Community Engagement Tel: 01522 550516 Email: bev.finnegan@lincolnshire.gov.uk	All

DEC REF	MATTERS FOR DECISION	REPORT STATUS	DECISION MAKER AND DATE OF DECISION	PEOPLE/GROUPS CONSULTED PRIOR TO DECISION	DOCUMENTS TO BE CONSIDERED	OFFICER(S) FROM WHOM FURTHER INFORMATION CAN BE OBTAINED AND REPRESENTATIONS MADE (All officers are based at County Offices, Newland, Lincoln LN1 1YL unless otherwise stated)	DIVISIONS AFFECTED
I015180 New!	Shared Lives Service – re-procurement	Open	Executive Councillor: Adult Care, Health and Children's Services 11 Apr 2018	Justin Hackney Alina Hackney	Report	Reena Fehnert Commercial and Procurement Officer – People Services Tel: 01522 553658 Email: reena.fehnert@lincolnshire.gov.uk	All
I013959	Future Model of the Heritage Service	Open	Executive 3 Jul 2018	Public Protection and Communities Scrutiny Committee	Report	Chief Community Engagement Officer Tel: 01522 553831 Email: nicole.hilton@lincolnshire.gov.uk	All
I015182 New!	Review of Financial Performance 2017/18	Open	Executive 3 Jul 2018	Overview and Scrutiny Management Board	Report	David Forbes, County Finance Officer Tel: 01522 553642 Email: david.forbes@lincolnshire.gov.uk	All
I015179 New!	Revenue and Capital Budget Monitoring Report 2018/19	Open	Executive 2 Oct 2018	Overview and Scrutiny Management Board	Report	David Forbes, County Finance Officer Tel: 01522 553642 Email: david.forbes@lincolnshire.gov.uk	All

DEC REF	MATTERS FOR DECISION	REPORT STATUS	DECISION MAKER AND DATE OF DECISION	PEOPLE/GROUPS CONSULTED PRIOR TO DECISION	DOCUMENTS TO BE CONSIDERED	OFFICER(S) FROM WHOM FURTHER INFORMATION CAN BE OBTAINED AND REPRESENTATIONS MADE (All officers are based at County Offices, Newland, Lincoln LN1 1YL unless otherwise stated)	DIVISIONS AFFECTED
I015181 New!	Revenue and Capital Budget Monitoring Report 2018/19	Open	Executive 5 Feb 2019	Overview and Scrutiny Management Board	Report	David Forbes, County Finance Officer Tel: 01522 553642 Email: david.forbes@lincolnshire.gov.uk	

Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

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

Report to:	**Overview and Scrutiny Management Board**
Date:	**01 March 2018**
Subject:	**Treasury Management Update 2017/18 -Quarter 3 Update Report to 30 December 2017**

Summary:

This report has been prepared in accordance with the reporting recommendations of the CIPFA Code of Practice 2011 and details the results of the Council's treasury management activities for 2017/18 to 31 December 2017, comparing this activity to the Treasury Management Strategy for 2017/18, approved by the Executive Councillor for Finance on 20th March 2017. 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.

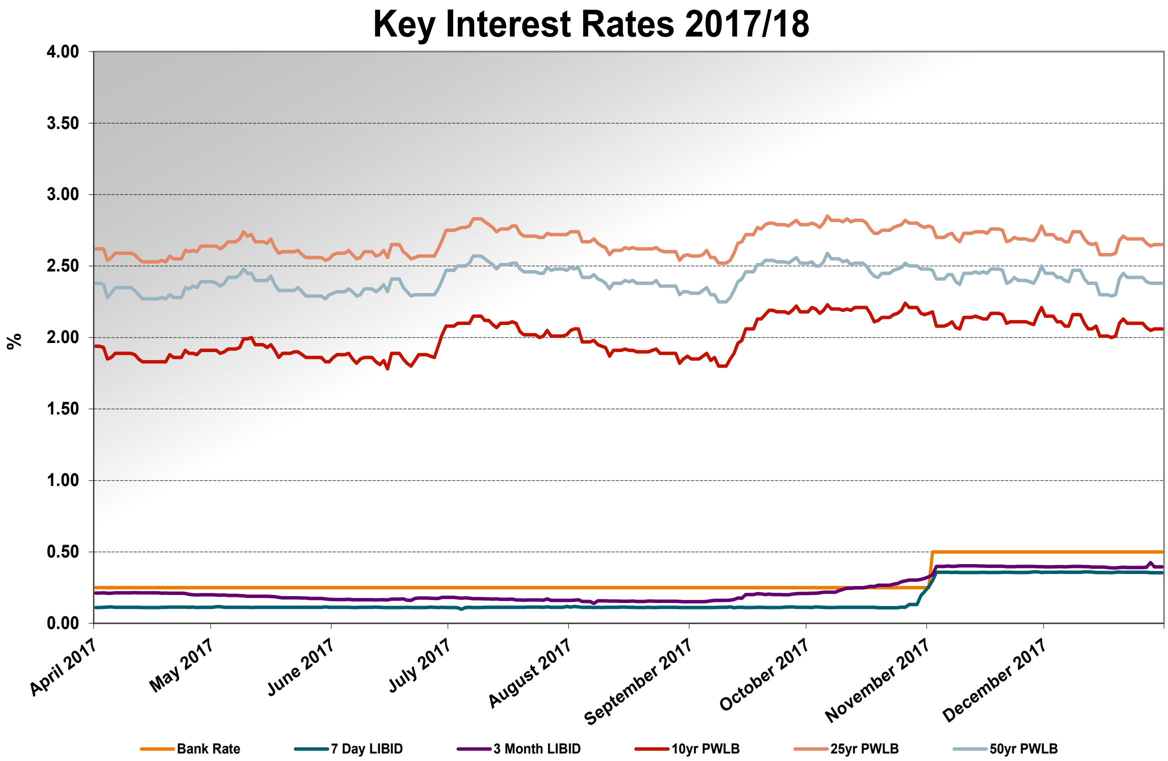
1.2. This Treasury Report will cover the following positions to 31st December 2017:

- 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. Interest Rate Review, Economic Overview and Revised Interest Rate Forecast to 31st December 2017

2.1. At the time of setting the Strategy in March 2017, short term bank rate was expected to remain at 0.25% for the year and long term rates were forecast to rise no more than 0.10% by the end of the year.

2.2. The graph below shows that short term rates have risen gradually since the Base Rate was increased for the first time in a decade on 2nd November 2017 to 0.50%. Long term rates have ended December 2017 at similar levels at which they started the year with fluctuations in between.



2.3. Economic Background -The quarter ended 31st December 2017 saw the following:

- The economy maintained a mediocre pace. Forecasts for growth in 2017 are now around 1.7% -1.8%, not far off the 2016 revised level.
- Headline inflation reached its highest level since March 2012 at 3.1% in November 2017. However signs are showing that this will be the peak and that the rate will start to fall.
- Employment fell, but there were some signs of a pick-up in wage growth, although this is still being outpaced by inflation. Unemployment remained steady at 4.3%.

- The MPC took a more hawkish turn and increased Bank Rate on 2nd November 2017 to 0.50%, hinting however that there would only be a further two increases by 2020.
- The Chancellor provided a bigger-than-expected Budget giveaway.
- The European Commission gave the green light to progress to the second phase of Brexit negotiations.

2.4. The latest interest rate forecast from Link dated 7th November 2017 has not changed since the Quarter 2 update report. The forecast reflected the Base Rate change in November and the BOE November Inflation Report.

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

The BOE increased Base Rate at a time when economic growth in 2017 had been disappointingly weak, but gave forward guidance that they expected to increase Base Rate only twice more in the next three years to reach 1.0% by 2020. Due to the uncertainty of Brexit, Link view the overall balance of risks to economic recovery in the UK to be on the downside; however, given those uncertainties, see a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.

3. <u>Annual Investment Strategy/ Authorised Lending List Changes to 31st December 2017</u>

3.1. The Council's Annual Investment Strategy for 2017/18 was approved, along with the Treasury Strategy, by the Executive Councillor for Finance on 20th March 2017, after being scrutinised by the Value For Money Scrutiny Committee on 28th February 2017. The Strategy 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 Link's suggested creditworthiness approach, including Short and Long Term Ratings, Sovereign Credit Ratings and Credit Default Swap overlay information provided by Link.

3.3. In addition to Link’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 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 Authorised Lending List at 31st December 2017, based on this creditworthiness approach, together with a key explaining the credit rating scores.

3.4. There were no changes to the Authorised Lending List during the third quarter of 2017/18. There were also no breaches of Lending Limit over the quarter to 31st December 2017 due to limit changes or error.

3.5. A full list of the investments held at 31st December 2017, compared to Link's creditworthiness list, and changes to credit rating of counterparties during December 2017 are shown in Appendix B.

4. Investment Position to 31st December 2017- Comparison with Strategy

4.1. The Council’s investment position and cumulative annualised return at 31st December 2017 are detailed in the table below:

Investment Position At 30.12.17	Return (Annualised %)	Weighted Benchmark (Annualised %)	Outperformance
£306.280m	**0.52%**	**0.22%**	**0.30%**

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. All investments have been placed in line with the Strategy, mainly in Money Market Funds. Several one year investments were made during the period. The investment portfolio weighted average maturity (WAM) has fallen slightly from 172 days at 30th September 2017 to 145 days at 31st December 2017.

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 Link quarterly benchmark analysis, comprising a mixture of 9 other authorities in the East Midlands area and 16 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 Link's suggested risk banding achievable for the level of risk being taken on its investments.

Link Benchmarking –Position at 31/12/2017			
	LCC	Benchmark Group (9)	English Counties (12)
31 Dec Return %	0.54%	0.48%	0.53%
Risk Banding	0.51% to 0.61%	0.41% to 0.51%	0.46% to 0.56%
WAM (days)	145	77	93

4.6. Temporary borrowing of £31m was outstanding at 31st December 2017, taken to support identified cashflow shortfalls forecast in 2017/18. This was at an average interest rate of 0.30% and is cash neutral being offset with Investment returns in excess of this amount. All temporary borrowing is due to be repaid by the end of the financial year.

5. <u>Borrowing & Debt Rescheduling Position to 31st December 2017 - Comparison with Strategy</u>

5.1. The Strategy for 2017/18 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. To date, no external debt has been taken or debt rescheduling undertaken and the Council's borrowing position at 31st December 2017 is as follows:

Borrowing Activity 2017/18	Maturing Debt £m	Debt To Fund Capital Expenditure £m	Total £m	% Cost
Opening Balance at 1.4.2017 New Borrowing to 31.12.2017 Borrowing Repaid to 31.12.2017	0.000 0.000 (14.000)	476.745 0.000 (1.354)	476.745 0.000 (15.354)	4.068%
Debt Rescheduling to 31.12.2017 -Borrowing Repaid -Borrowing Replaced	0.000 0.000	0.000 0.000	0.000 0.000	
Balance at 31.12.2017	**(14.000)**	**475.391**	**461.391**	**4.088%**
Projected Further Borrowing Required in 2017/18 (net of internal borrowing CF) Projected Further Borrowing Repayments –Actual -Voluntary	0.000 (0.000) (0.000)	1.969 (0.000) (1.794)	1.969 (0.000) (1.794)	
Projected Borrowing Position at 31.03.2018	**(14.000)**	**475.566**	**461.566**	
Authorised Limit For External Debt			583.007	

5.3. Internal borrowing is using internal balances instead of taking external borrowing to finance the capital programme. This strategy reduces interest rate risk (the risk of unexpected adverse changes in interest rate) and credit risk (the risk of default by counterparties to whom investments are made 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 £69.343m at 31st March 2017. A further £34.579m of internal borrowing will be made in 2017/18 to cover the 2016/17 carry forward of capital expenditure, making the total predicted internal borrowing balance for 2017/18 of £103.922m.

5.4. The Council's Capital Expenditure plans and Borrowing Requirement at 31st December 2017, from that originally agreed by full Council at its meeting on 24th February 2017 is shown below:

	Original Budget at 1/4/2017 £m	Position at 31/12/2017 after Carry Forwards/Rephasing
Net Capital Expenditure Programme 2017/18	49.444	45.295
Borrowing Requirement 2017/18	48.844	36.548

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 £46m). A limit is set on this type of borrowing to limit the amount of variability within the debt portfolio of debt repayment. The average cost of the Council's LOBO debt is 3.93%.

5.6. No debt rescheduling activity of existing debt has taken place to 31st December 2017, 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 24th February 2017, approved the Council's Prudential Indicators for 2017/18, set as a requirement of the Prudential Code to ensure the Council's capital financing, in particular its long term borrowing, is prudent, affordable and sustainable. It can be confirmed that no Prudential Indicator limits have been breached in the third quarter to 31st December 2017.

6. Other Treasury Management Issues

6.1. MiFID II (Markets in Financial Instruments Directive)

The Financial Conduct Authority (FCA) has issued the above Directive which comes into force on 3rd January 2018. It relates to the rules governing the relationship between investors and who they invest with and applies to regulated products such as Certificates of Deposit, Bonds and Money Market Funds.

The Council has met certain Qualitative and Quantitative tests to opt up to professional status where necessary with all its market participants to enable it to continue to invest in accordance with its Investments Strategy,

6.2. Proposed Changes to CIPFA Treasury Management Code and Prudential Code

CIPFA issued revised codes that govern Treasury Management in December 2017, following a recent consultation. The Codes were last updated in 2011. The new Codes will apply to and from Council's 2018/19 budgets. The prime reason of these revisions was to highlight the increased emergence of non-treasury investments held in other financial assets and property, primarily held for return by Councils. Such activity includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios. CIPFA has emphasised that these investments, although not part of general treasury management activity, are the responsibility of the S151 Officer and should therefore be managed and subject to the same risk / return considerations as for treasury. Within the Codes, CIPFA recommend that details of these non-treasury investments will be included in an annual **Capital**

Strategy, which will also set out the Council's risk appetite and specific policies and governance arrangements for these non-treasury investments.

6.3. Proposed New DCLG Investment Code and MRP Code -Consultation

DCLG are proposing to update the statutory guidance on Minimum Revenue Provision and Local Authority Investment Activity. As with the CIPFA Codes, these were last updated in 2010/2012 and do not reflect changes to the regulatory environment. The aim is to make sure that the new codes reflect the increasingly complex business models for non-investment related activities being adopted and that risk exposure on all borrowing/investment decisions is being highlighted and understood. The new guidance is expected imminently and will apply from 2018/2019 onwards.

2. Conclusion

Base Rate was increased to 0.50% on 2/11/2017 and hence short term rates have risen gradually from this date. Long term rates end the period to 31st December 2017 at relatively the same level they started the year, with gradual fluctuations in between. The Council continues to outperform the investment benchmark by having a lengthy Weighted Average Maturity of 145 days. No external borrowing has been undertaken to date. The cost of the Councils borrowing at 31st December 2017 was 4.088% The Council's internal borrowing level stood at £69.343m at 31st March 2017 with £34.579m of internal borrowing being carried forward in 2017/18 along with capital expenditure and borrowing requirement underspends. Temporary borrowing of £31m was outstanding at 31st December 2017 taken to cover predicted liquidity shortfalls at a cost neutral level. MiFID II came into force on 3rd January 2018 and in response the Council has opted up to Professional Status to enable it to continue to invest in accordance with its investment strategy. Revisions to the CIPFA Treasury Management Code and Prudential Code were published in 2017. These will be effective from 2018/19 and pick up on the emergence of non-treasury investments undertaken by Councils. Revision of the Statutory Guidance on Minimum Revenue Provision and Local Authority Investments is also imminent by DCLG, to bring these up to date with the current operating environment.

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 2017 - Link Asset Services Ltd.

5. Background Papers

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2017/18 -20/3/2017	Lincolnshire County Council, Finance and Public Protection
Council Budget 2017/18 - 24/2/2017	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 .

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Appendix A

LINCOLNSHIRE COUNTY COUNCIL LENDING OF TEMPORARY SURPLUSES

Country			Lending Limit £m	Maturity Limit	# Watch/ Outlook Adjusted		FITCH IBCA Credit Rating Long Term	Sovereign	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		SB	BBB+	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		SB	BBB+	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		Nationwide Building Society	15	6 Months	6 Months	SB	A+	AA	6 Months
UK		Standard Chartered Bank	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	NO	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	Aa3	AA+	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	Aa3	AA+	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
		#UBS Group	**20**	**364 Day**					
SWITZ		UBS AG	20	364 Day	364 Day	SB	A+	AAA	364 Day
UK		UBS Ltd	15	6 Months	6 Months	SB	A+	AA+	6 Months
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	SB	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		
		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		
		#AberdeenStandard Group	**20**	**24 Months**					
		Aberdeen Global 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: 14th August 2017

<u>Definition of Credit Ratings and Credit Default Swap Spreads</u>

<u>Credit Ratings:</u>

<u>Long Term Rating (Fitch)</u>

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. <u>Only Institutions with Ratings of A+ and above are acceptable on the Councils Lending List as follows:</u>

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.

<u>Sovereign Ratings (Fitch)</u>

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. <u>Only countries with a Sovereign Rating AA- are acceptable on the Councils Lending List.</u>

<u>Credit Rating Watches and Outlooks issued by Credit Rating Agencies</u>

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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LINK Asset Services

Lincolnshire County Council

Monthly Investment Analysis Review

December 2017

General

Compared to November, in which we saw the first rate rise in a decade as well as a Budget, December was relatively tame. Most economic figures continued the trends we have seen throughout the year as markets and geopolitical positions generally remained unchanged.

The first economic release of the month was the Purchasing Manager's Index (PMI) survey for the manufacturing sector, which came in at a four year high of 58.2, exceeding polled expectations of 56.5. This figure suggests that growth in the sector has further accelerated in Q4, with sterling's slide seemingly providing ample support for manufacturers. Construction PMI also exceeded expectations of 51.0; the actual figure coming in at 53.1. Services PMI came in slightly below expectations of 55.0 at 53.8, however for many analysts this was arguably a simple reversal of October's sharp rise. The figure is still a little higher than Q3's average of 53.5. The survey did however suggest that cost pressures have intensified. A rise in input prices reversed some of the decline of previous months as a result of the recent rise in oil prices. Output prices also rose to their highest level since February 2008. However, with inflationary pressures caused by sterling's fall now starting to fade, commentators suggest that it should not be too long before pricing pressures begin to wane. The future activity component of the index also suggested that November's dip in sector activity could just be temporary, and that firms are not overly pessimistic about the near-term outlook. The rise in manufacturing and construction PMIs offset much of the weakening in services PMI, and the composite PMI points to Q4 GDP growth of 0.4-0.5%.

The headline inflation figure, Consumer Price Index (CPI), rose to 3.1%, its highest level in nearly six years, tightening the squeeze on households' spending. CPI was pushed up by the cost of air travel, computer games and chocolate as food costs reflected the impact of sterling's plunge after the 2016 referendum. Additionally, rising global oil prices suggested that factories were facing more price pressures. With inflation more than a percentage point over the Bank of England's (BoE) target of 2%, Bank Governor, Mark Carney, will have to write a letter to the Chancellor of the Exchequer, Philip Hammond, to explain how the Bank intends to respond to the elevated level of inflation.

Unemployment unexpectedly held at its four-decade low of 4.3% for October, against expectations of a further decrease to 4.2% according to a poll of economists. Employment figures dropped, suggesting employers are turning more cautious as the uncertainty over Brexit continued. Pay growth for British workers increased slightly in the three months to October, rising to 2.5% (including bonuses) against the previous month's 2.3%. No improvement had been expected, and while a welcome surprise wage growth is still being outstripped by inflation, meaning households are still feeling the squeeze as "real wages" are still negative.

As expected, the Monetary Policy Committee voted unanimously to keep the base rate at 0.5%, a month after raising them for the first time in more than a decade.

Public finances strengthened in November as tax revenues rose. The budget deficit edged down last month, boosted by robust income tax revenue and keeping finance minister Philip Hammond broadly on track to meet his new fiscal targets. Public sector net borrowing (excluding state owned banks) fell to £8.7 billion in November; 1.9% less than the same month last year and slightly below forecasts of it rising to £8.9 billion. In total, borrowing since the start of April 2017 has totalled £48.1 billion – 6.1% less than in the same period of 2016 and the lowest for this point in the financial year since 2007. Looking ahead, January typically brings a big surplus in public finances as annual income tax bills fall due.

The final estimate for Q3 UK GDP affirmed growth to be at 0.4% q/q, with the annual figure upwardly revised, by 0.2%, to 1.7%. For the first time, the Office for National Statistics (ONS) has used VAT returns from hundreds of thousands of Small / Medium sized Enterprises (SMEs) in order to bolster the data used for estimating GDP. This boosted GDP growth by an average of 0.05% per quarter in 2017. Although this change did not affect the quarterly figure, it did boost the annual rate of growth.

Across the channel, Eurozone Q3 GDP was confirmed to be 0.6% q/q. Meanwhile, the annual figure was revised slightly higher, to 2.6%, an increase from the upwardly revised Q2 figure of 2.4% y/y.

In the USA, Q3 GDP was downwardly revised to 3.2%. However, this is still an increase from the Q2 GDP figure of 3.1% and the fastest rate since Q1 2015. Non-Farm Payrolls rose by 228,000 in November. US Unemployment remained unchanged in 4.1%. Average hourly earnings increased by 0.2% in the month. Meanwhile, President Trump signed his long awaited legislation for an overhaul of the tax system containing

Housing

House prices rose for the fifth month in a row according to Halifax. They rose 0.5% m/m in November, up from 0.3% in October. However, on an annual basis, they rose by 3.9%, down from a 4.5% rise in October.

Forecast

Neither Link Asset Services (LAS) or Capital Economics (CE) changed their bank rate forecasts during December. LAS suggest that the next interest rate rise will be to 0.75% in Q4 2018, with further rises of 25 basis points in Q4 2019 and Q3 2020. CE suggest further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%

Lincolnshire County Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Standard Life	5,265,000	0.35%		MMF	AAA	0.000%
MMF Deutsche	19,475,000	0.29%		MMF	AAA	0.000%
MMF Insight	16,155,000	0.32%		MMF	AAA	0.000%
MMF Aberdeen	14,735,000	0.33%		MMF	AAA	0.000%
United Overseas Bank Ltd	4,675,000	0.51%	16/01/2017	15/01/2018	AA-	0.001%
The Royal Bank of Scotland Plc	10,000,000	0.62%	17/01/2017	17/01/2018	BBB+	0.008%
Commonwealth Bank of Australia	5,000,000	0.50%	27/01/2017	26/01/2018	AA-	0.002%
HSBC Bank Plc	10,000,000	0.59%		Call30	AA-	0.002%
Blackpool Borough Council	5,000,000	0.30%	29/09/2017	02/02/2018	AA	0.002%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,445,000	0.52%	20/02/2017	19/02/2018	A	0.008%
United Overseas Bank Ltd	5,275,000	0.45%	26/05/2017	26/02/2018	AA-	0.004%
United Overseas Bank Ltd	3,275,000	0.53%	13/03/2017	12/03/2018	AA-	0.005%
North Ayrshire Council	5,000,000	0.55%	15/03/2017	14/03/2018	AA	0.005%
Birmingham City Council	5,000,000	0.55%	24/03/2017	23/03/2018	AA	0.005%
Isle of Wight Council	5,000,000	0.55%	27/03/2017	26/03/2018	AA	0.005%
The Royal Bank of Scotland Plc	5,000,000	0.70%	05/04/2017	27/03/2018	BBB+	0.040%
Stockport Metropolitan Borough Council	5,000,000	0.60%	03/04/2017	29/03/2018	AA	0.006%
HSBC Bank plc	10,000,000	0.50%		Call90	AA-	0.006%
The Royal Bank of Scotland Plc	5,000,000	0.70%	11/04/2017	10/04/2018	BBB+	0.046%
The Royal Bank of Scotland Plc	5,000,000	0.68%	21/04/2017	13/04/2018	BBB+	0.048%
The Royal Bank of Scotland Plc	4,000,000	0.68%	08/05/2017	04/05/2018	BBB+	0.058%
The Royal Bank of Scotland Plc	6,000,000	0.64%	17/05/2017	08/05/2018	BBB+	0.059%
DBS Bank Ltd	5,000,000	0.52%	26/05/2017	11/05/2018	AA-	0.008%
Bank of Scotland Plc	5,000,000	0.65%	20/11/2017	21/05/2018	A	0.022%
Commonwealth Bank of Australia	5,000,000	0.52%	26/05/2017	25/05/2018	AA-	0.009%
Bank of Scotland Plc	5,000,000	0.75%		Call175	A	0.027%
The Royal Bank of Scotland Plc	5,000,000	0.66%	28/06/2017	27/06/2018	BBB+	0.083%
Cooperatieve Rabobank U.A.	3,925,000	0.50%	29/06/2017	28/06/2018	A+	0.028%
UBS AG	9,800,000	0.53%	28/07/2017	28/06/2018	A+	0.028%
Commonwealth Bank of Australia	10,000,000	0.52%	30/06/2017	29/06/2018	AA-	0.012%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	30/06/2017	29/06/2018	AA-	0.012%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,000,000	0.54%	05/07/2017	04/07/2018	A	0.029%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	14/07/2017	13/07/2018	AA-	0.012%
Australia and New Zealand Banking Group Ltd	6,650,000	0.50%	20/07/2017	19/07/2018	AA-	0.013%
Australia and New Zealand Banking Group Ltd	3,350,000	0.48%	03/08/2017	02/08/2018	AA-	0.014%

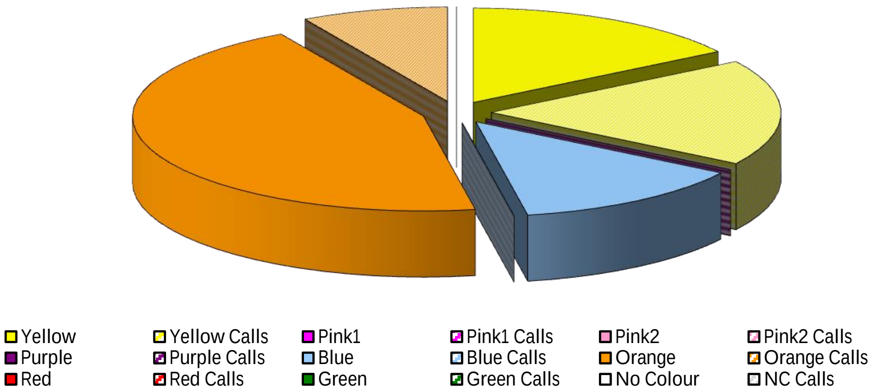
Lincolnshire County Council

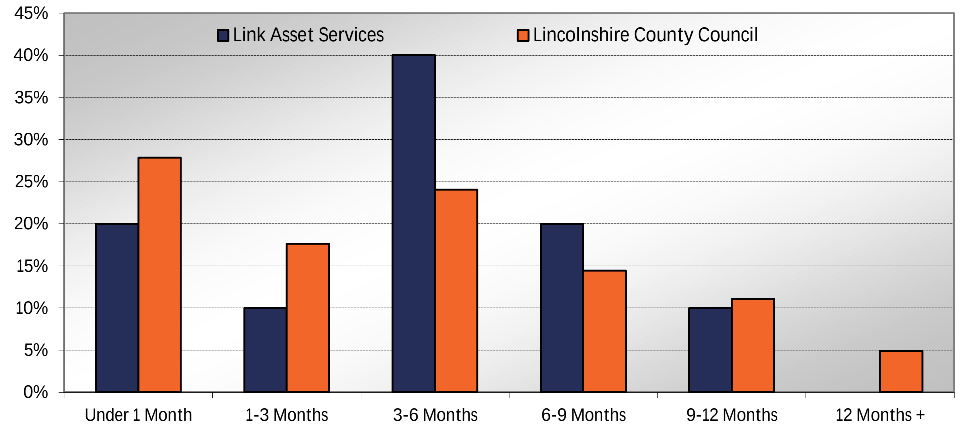
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Cooperatieve Rabobank U.A.	10,000,000	0.55%	15/09/2017	14/09/2018	A+	0.040%
UBS AG	5,000,000	0.52%	19/09/2017	18/09/2018	A+	0.040%
Canadian Imperial Bank of Commerce	6,500,000	0.55%	19/09/2017	18/09/2018	A+	0.040%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	2,755,000	0.59%	19/09/2017	18/09/2018	A	0.040%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	6,325,000	0.70%	30/10/2017	29/10/2018	A	0.047%
Toronto Dominion Bank	6,900,000	0.69%	01/11/2017	31/10/2018	AA-	0.019%
UBS AG	5,200,000	0.74%	20/11/2017	19/11/2018	A+	0.050%
United Overseas Bank Ltd	6,775,000	0.68%	24/11/2017	23/11/2018	AA-	0.021%
North Tyneside Metropolitan Borough Council	3,800,000	0.75%	11/12/2017	10/12/2018	AA	0.022%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	20/12/2017	19/12/2018	AA	0.023%
Liverpool City Council	5,000,000	0.70%	13/01/2017	11/01/2019	AA	0.024%
Doncaster Metropolitan Borough Council	5,000,000	0.77%	20/04/2017	05/04/2019	AA	0.029%
Bournemouth Borough Council	5,000,000	0.71%	29/09/2017	20/09/2019	AA	0.038%
Total Investments	**£306,280,000**	**0.54%**				0.019%

Lincolnshire County Council

Portfolio Composition by Link Asset Services' Suggested Lending Criteria





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

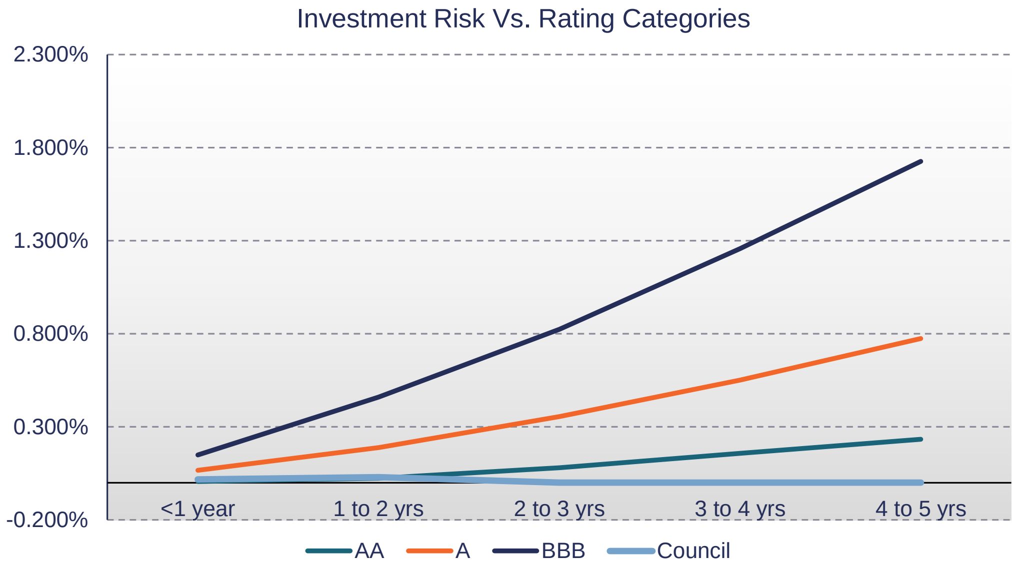
Portfolios weighted average risk number = 2.85

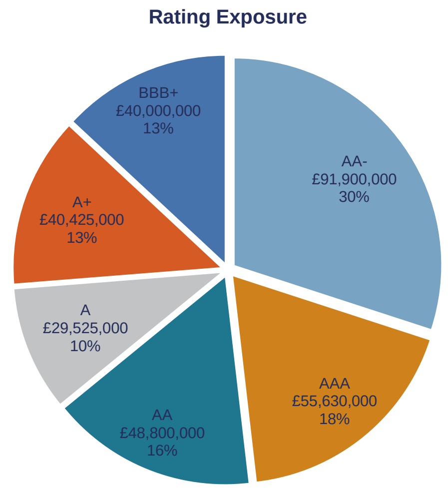
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	34.10%	£104,430,000	53.27%	£55,630,000	18.16%	0.46%	117	210	250	449
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	13.06%	£40,000,000	0.00%	£0	0.00%	0.66%	94	361	94	361
Orange	52.84%	£161,850,000	15.45%	£25,000,000	8.16%	0.56%	176	310	193	351
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
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%	**£306,280,000**	**26.33%**	**£80,630,000**	**26.33%**	**0.54%**	**145**	**282**	**188**	**374**

Lincolnshire County Council

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	0.018%	0.030%	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
08/12/2017	1578	KBC Bank N.V.	Belgium	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.
13/12/2017	1580	Qatar National Bank	Qatar	Viability Rating affirmed and removed from Negative Watch.

Lincolnshire County Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
07/12/2017	1576	Bank of America N.A.	United States	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'. Link Asset Services Colour based on Ratings changed to 'Orange' from 'Red'.
08/12/2017	1577	Clydesdale Bank PLC	United Kingdom	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-2, removed from Positive Watch.
12/12/2017	1579	Commerzbank AG	Germany	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
				There were no rating updates from S&P over the month.