



County Offices  
Newland  
Lincoln  
LN1 1YL

20 February 2019

**Overview and Scrutiny Management Board**

A meeting of the Overview and Scrutiny Management Board will be held on **Thursday, 28 February 2019 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

A handwritten signature in black ink that reads 'Debbie Barnes'.

Debbie Barnes OBE  
Head of Paid Service

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

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

**Added Members**

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

Parent Governor Representatives: Mrs P J Barnett and Miss A E I Sayer



**OVERVIEW AND SCRUTINY MANAGEMENT BOARD AGENDA  
THURSDAY, 28 FEBRUARY 2019**

<b>Item</b>	<b>Title</b>	<b>Pages</b>
<b>1</b>	<b>Apologies for Absence/Replacement Members</b>	
<b>2</b>	<b>Declarations of Interest</b>	
<b>3</b>	<b>Minutes of the meeting held on 31 January 2019</b>	5 - 14
<b>4</b>	<b>Announcements by the Chairman, Executive Councillor for Resources and Communications and Chief Officers</b>	
<b>5</b>	<b>Consideration of Call-Ins</b>	
<b>6</b>	<b>Consideration of Councillor Calls for Action</b>	
<b>7</b>	<b>Membership of the Local Government Association</b> <i>(To receive a report from Nigel West (Head of Democratic Services and Statutory Scrutiny Officer), which invites the Board to consider the background to the decision to serve notice of termination of the Council's membership of the Local Government Association)</i>	15 - 18
<b>8</b>	<b>Northamptonshire County Council Best Value Inspection - Lessons Learned</b> <i>(To receive a report from Lucy Pledge (Audit and Risk Manager), which provides an update on the 'Lessons Learned' exercise which was completed by the Audit Committee and the Overview and Scrutiny Management Board following the publication of the Northamptonshire County Council Best Value Inspection Report)</i>	19 - 68
<b>9</b>	<b>2018/19 Council Business Plan Quarter 3</b> <i>(To receive a report from Jasmine Sodhi (Performance and Equalities Manager), which invites the Board to consider a report on the 2018/19 Council Business Plan Quarter 3 which will be presented to the Executive on 5 March 2019. The views of the Board will be reported to the Executive as part of its consideration of this item).</i>	69 - 90
<b>10</b>	<b>Treasury Management - Quarter 3 Update Report 2018/19 to 31 December 2018</b> <i>(To receive a report from Karen Tonge (Treasury Manager), which presents the treasury management activities to Quarter 3 of 2018/19 31 December 2018)</i>	91 - 116

- 11 Treasury Management Strategy Statement and Annual Investment Strategy 2019/20** 117 - 168  
*(To receive a report from Karen Tonge (Treasury Manager), which invites the Board to consider a report on the Treasury Management Strategy Statement and Annual Investment Strategy 2019/20, which is due to be considered by the Executive Councillor for Resources and Communications on 22 March 2019. The views of the Board will be reported to the Executive as part of its consideration of this item)*
- 12 Scrutiny Committee Work Programmes** 169 - 180  
*(To receive a report which sets out the work programmes of the Children and Young People Scrutiny Committee; and the Public Protection and Communities Scrutiny Committee, in accordance with the Board's agreed programme)*
- 13 Overview and Scrutiny Management Board Work Programme** 181 - 196  
*(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)*

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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.

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## OVERVIEW AND SCRUTINY MANAGEMENT BOARD 31 JANUARY 2019

### **PRESENT: COUNCILLOR R B PARKER (CHAIRMAN)**

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

### **Added Members**

Church Representative: Mr S C Rudman

Councillors: T Bridges, M J Hill OBE, M A Whittington and B Young attended the meeting as observers.

Officers in attendance:-

Dave Simpson (Technical and Development Finance Manager), David Forbes (County Finance Officer), Michelle Grady (Head of Finance (Communities)), Steve Houchin (Head of Finance, Adult Care and Community Wellbeing), Tracy Johnson (Senior Scrutiny Officer), Kevin Kendall (County Property Officer), Sue Maycock (Head of Finance (Corporate)), Mark Popplewell (Head of Finance (Children's Services)), Jasmine Sodhi (Performance and Equalities Manager), Nigel West (Head of Democratic Services and Statutory Scrutiny Officer) and Emily Wilcox (Democratic Services Officer).

### 1 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies for absence were received from Patricia Barnett (Parent Governor Representative) and Alex Sayer (Parent Governor Representative).

### 2 DECLARATIONS OF INTEREST

The following interests were declared:

- In relation to items 8, 9 and 12 - Councillor Mrs K Cook declared a non-pecuniary interest as a governor for the Lincolnshire Partnership NHS Foundation Trust.
- In relation to item 7 – Councillor Mrs K Cook declared a non-pecuniary interest as a District Councillor for North Kesteven District Council, who owned the private property company 'Lafford Homes LTD'.
- In relation to item 9 – Councillor Mrs K Cook declared a non-pecuniary interest as the director of a business which had previously been a supplier to MID UK Recycling, mentioned in the report.

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## **OVERVIEW AND SCRUTINY MANAGEMENT BOARD**

**31 JANUARY 2019**

- In relation to item 12 – Councillor Mrs K Cook declared a pecuniary interest as a business rate payer, and would therefore not participate in any discussion and would abstain from voting on this item.

### 3 MINUTES OF THE MEETING HELD ON 19 DECEMBER 2018

RESOLVED:

That minutes of the meeting held on 19 December 2018 be approved as a correct record and signed by the Chairman.

### 4 ANNOUNCEMENTS BY THE CHAIRMAN, EXECUTIVE COUNCILLOR FOR RESOURCES AND COMMUNICATIONS, CHIEF OFFICERS AND CHAIRMAN OF THE BREXIT WORKING GROUP

The Chairman reminded members that there would be a Treasury Management Training session at 2pm following the meeting.

The Chairman announced that the Audit Committee had received a report on the Lessons that could be learned from Northamptonshire County Council, which would also be reported to the Board in the future. The Chairman emphasised the value of joint working between the Board and the Audit Committee. Going forward, any relevant Audit Committee reports would also be presented to OSMB for scrutiny, before being reported to the Executive. The Chairman felt that it was important that the Executive be provided with assurance on financial resilience from both the Audit Committee and the Overview and Scrutiny Management Board (OSMB).

*10:08am – Councillor C Macey entered the meeting.*

Councillor A Bridges gave a brief update on the progress of the Brexit Working Group. The Chairman suggested that any questions on this matter be discussed under the Work Programme item.

### 5 CONSIDERATION OF CALL-INS

None were received.

### 6 CONSIDERATION OF COUNCILLOR CALLS FOR ACTION

None were received.

### 7 ESTABLISHMENT OF A PROPERTY COMPANY

Consideration was given to a report from the County Property Officer, which invited the Board to consider the Establishment of a Property Company (PropCo). The report was due to be considered by the Executive on 5 February 2019, and the views of the Board would be reported to the Executive as part of its consideration of this item.

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It was proposed that the County Council would establish a property company which would be a subsidiary company of the Council's Holding Company, Lincolnshire Future Ltd. The property company activities could include delivering supported housing for adults, using surplus LCC buildings for residential accommodation and potential income opportunities. It could also be used to contribute to housing development and contribute to the numbers of houses required in Lincolnshire.

The Overview and Scrutiny Management Board supported the recommendations included in the report and received clarification and explanations on the following points:

- The Board sought clarity on the staffing requirements for the PropCo and whether this could impact County Council Services through the use of secondments. Officers confirmed there would be no immediate staffing requirements and future staffing requirements would be identified through individual business cases.
- The Board welcomed clarification that staffing requirements for the PropCo would not impact on front line Council Services.
- The Board considered the company names put forward for consideration, and highlighted a preference for 'Lincolnshire County Property Ltd'.
- The Board clarified where the start-up investment and resourcing to establish the PropCo would come from. Officers confirmed that the resources required to establish the PropCo were low and that borrowing requirements would be identified through detailed business cases when opportunities were identified.
- The Board received assurance that the PropCo would look to work with District Councils to develop opportunities collaboratively across the County. Officers confirmed that the County Council was involved with the District Housing Group and would look to build good relations and work together with District Councils where appropriate.

RESOLVED:

- 1) That the Board supported the recommendations to the Executive, as set out in the report.
- 2) That the comments made, as stated above, be passed on to the Executive as part of its consideration of this item.

8 REVENUE AND CAPITAL BUDGET MONITORING REPORT 2018/19

Consideration was given to a report by Dave Simpson (Technical and Development Finance Manager), which invited the Board to consider the Revenue and Capital Monitoring report which would be presented to the Executive on 5 February 2019.

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The Technical Development Finance Manager set out the Council's Revenue and Capital Programme positions as at 30 November 2018, drawing attention to the major variances.

The Board supported the recommendations included in the report and received clarification on the following points:

- The Board queried the reported underspend on concessionary fares. Officers confirmed that this was a volatile budget area and reported that the underspend was due to the movement to a new model which reflected demand as opposed to fixed payments to contractors. The Board highlighted concern on the potential impact on local bus services. It was confirmed that this change in payment had been voluntary with the involvement of local bus operators. The Board supported smarter budgeting for demand-led budgets as an area for future consideration.
- The Board highlighted the reported underspend of £3.163m identified under 'Enablers and Support to the Council Outcomes' and queried the reported £3.081m underspend on IMT Strategy and Support. Officers highlighted that there had been some delay in the work on the IMT Strategy, but confirmed that an IMT Board was to be established to consider the on-going revenue budget implications of capital investment in IT Services. The Board supported receiving Business Cases for future budget requirements in this area going forward.
- The Board highlighted the £1.338m overspend on the Historic Lincoln project and sought clarification that work was being undertaken to ensure external funding was received. Officers confirmed that the final claim for Heritage Lottery Fund would be submitted shortly and that the budget position would be known once all grant income was received.
- The Board highlighted the capital funding for Children are Safe and Healthy strategy which was underspending. Officers responded that the underspend related to the foster carer capital fund. This budget was utilised when situations arose to provide solutions for current foster carers to accommodate siblings or an increased complexity of a child. It ensured local solutions were achieved and delivered a cost effective revenue approach.
- The Board endorsed a suggestion that the Highways and Transport Scrutiny Committee would receive regular capital programme budget monitoring reports from June 2019.
- The Board supported cost recovery activities as a method of offsetting overspends and highlighted the successful prosecution for the fire at Barkston Heath and the award of £0.226m to the Council.

### **RESOLVED:**

1. That the Board supported the recommendations to the Executive, as set out in the report.

2. That the comments made, as set out above, be passed on to the Executive as part of its consideration of this item.

9 FINAL DRAFT COUNCIL BUSINESS PLAN 2019 - 2020

Consideration was given to a report by Jasmine Sodhi (Performance and Equalities Manager), which invited the Board to consider and comment on the outcomes and measures within the final draft Council Business Plan 2019 – 2020. The Business Plan was due to be considered by the Executive on 5 February 2019, prior to the approval by Council on 22 February 2019. Comments from the Board would be put forward to the Executive as part of its consideration of this item.

Members were informed that the reported data was recorded in December 2018, therefore the final outcomes could change, dependent on whether there were changes in the financial economy. It was noted that the plan was a live document which could be changed throughout the year.

*11:03am – Councillor Mrs J Brockway left the meeting due to a personal emergency and did not return.*

Following discussion, the Overview and Scrutiny Management Board agreed to support the two recommendations set out in the report to the Executive.

Prior to reaching the above conclusions, the Board received clarification and explanations on several points and the following were highlighted:

- Measure 107: Antisocial Behaviour - Enquiries would be made as to whether the Police data incorporated information from District Councils as well.
- Measure 63: Adults who receive a direct payment - It was highlighted that this measure had stabilised, but was difficult to achieve as not everyone would necessarily want a direct payment depending on their circumstances.
- Measure 119: Percentage of adults aged 18-64 with a mental health need in receipt of long term support for 12 months or more who have been reviewed in the period - Concern was raised that this target was not being met as people with mental health needs could decline quickly, and so should be reviewed regularly. It was confirmed, however, that those who were assessed as high risk would already be in the system and be receiving regular reviews. In addition, the NHS Long Term Plan was due to come out shortly which should include improvements for mental health.
- Measure 76: Recycling at County Council owned Household Waste Recycling Centres (HWRC) – given the Actual was only 0.8% below Target, it was felt to be harsh to rate this measure as not achieving. It was highlighted that the Lincolnshire Waste Partnership would be investigating the issues around what could be recycled and the different recycling arrangements at each district council.

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## RESOLVED:

1. That the Board supported the recommendations to the Executive, as set out in the Executive report.
2. That the comments, as listed above, be passed on to the Executive as part of its consideration of this item.

10 SERVICE BUDGET PROPOSALS 2019-20

Consideration was given to a report by Michelle Grady (Head of Finance – Communities), which presented the budget proposals for the financial year 2019/20, which were now open for consultation. The Board was asked to consider and comment on the report ahead of it being considered by the Executive on the 5 February 2019.

The report set out the following:

- The total proposed revenue budget for the commissioning strategy 'How We Do Our Business';
- The proposed revenue budget and net capital programme for the commissioning strategy 'Enablers and Support to the Council's Outcomes';

It was noted that the budget proposals reflected the level of government funding available to the Council and the proposal to increase Council Tax in 2019/20 by 2.95%. There had been a proposal to increase the Adult Social Care 'Precept' by 2% in 2019/20, giving a total Council Tax increase of 4.95%.

The Board was invited to comment on the report, in which the following points were noted:

- The Board highlighted that across both commissioning strategies, the biggest budget was in relation to ICT Strategy and Support, which amounted to £15.648M. The Board requested a breakdown of this budget in a report to a future meeting.
- In relation to the Capital Programme, concern was raised about the additional budget for 'Development of Cloud Navigator and support ICT innovation' and what exactly it would be used for. The Board questioned the leap from £5M in 2019/20 to £9M in future years and what the justification was for such a large leap in one year.
- The Board heard that the IMT Strategy had been delayed which made it difficult to ascertain the costs to fix and transform IT services, and as a result the additional budget was based on estimates.

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- The Board sought assurances on the accuracy of the figures in light of the £3m underspend in revenue budget in the current year. The Board was told that once the IMT Strategy was developed, the Board would receive further information on the breakdown of the figures. The Board heard that the IT Board was due to meet shortly and that the arrival of the new Executive Director for Commercial should help.
- The Board was told that there would be detailed business cases brought forward once the IMT Strategy was in place, and these would be brought to the Board for scrutiny prior to any Executive decisions.

RESOLVED:

That the comments from the Board, as set out above, be passed on the Executive as part of its consideration of this item.

11      CAPITAL STRATEGY 2019/20

Consideration was given to a report by Sue Maycock (Head of Finance – Communities), which provided the Board with the opportunity to consider and comment on the Capital Strategy for 2019/20 ahead of it being presented to the Executive on the 5 February 2019.

The Board supported the Capital Strategy 2019/20 and the recommendations to the Executive and agreed to pass on the following comments as part of the future consideration of this item.

- The Board welcomed proposals included in the Capital Strategy for the Council to consider and approve a joint Capital Programme and Revenue Budget in February of each year, and for performance against the Capital Programme to be reported to the Overview and Scrutiny Management Board twice per year.
- The Board questioned officers on the biggest risks and challenges facing the Capital Strategy going forward.
  - Officers highlighted that the majority of key risks were in relation to individual projects and the purpose of the capital strategy was to give a high level overview of how capital expenditure and its financing contribute to the provision of services, along with an overview of how associated risk were managed and the implications for future financial sustainability.
  - Officers highlighted Annex E (*Estimated Proportion of Revenue Budget to be Spent on Capital Financing Charges*) as a potential challenge should the level of capital financing charges on revenue increase. Officers also highlighted unfunded borrowing as a risk as the proportion of revenue budget spent on capital financing increases closer to the voluntary 10% target.

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- The Board recommended that Scrutiny Committees have the opportunity to consider Capital Programme information to ensure greater oversight and scrutiny of the capital programme. The Overview and Scrutiny Management Board felt there would be benefits of regular scrutiny and monitoring of the capital programme.

### RESOLVED:

- 1) That the Board supported the recommendations to the Executive, as set out in the report.
- 2) That the comments made, as stated above, be passed onto the Executive as part of its consideration of this item.

## 12 COUNCIL BUDGET 2019-20

*12:05pm – Councillor K Cook left the meeting prior to the discussion and did not partake in the vote for this item.*

Consideration was given to a report from the County Finance Officer, which invited the Board to consider and comment on the Executive's Budget Proposals as agreed at its meeting on 18 December 2018.

The Executive had agreed the following two amendments to the budget:

- To allocate a budget of £1,018,571 to Heritage Services in order to maintain the budget at its existing level;
- To propose a Council Tax increase of 4.95% (instead of 3.95%).

Members were referred to the following additional information which had been tabled at the meeting:

- A further update to the Council Budget 2019/20, originally found at Appendix B of the report.
- Budget consultation feedback that had been received after the publication of the report.

The Board was provided with the opportunity to comment on the report, in which the following points were raised:

- The Board supported the Budget proposals put forward by the Executive for 2019/20.
- The Board also supported the proposal to set up a Business Rate Volatility Reserve with the £6M received back from the Business Rates Collection Fund due to the surplus arising from monies set aside for appeals.

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- The Board acknowledged that due to the Final Local Government Finance Settlement not being published until 29 January 2019 and the deadline of 31 January 2019 for receiving information regarding Business Rates from District Councils it was difficult to receive all the information that affected the Budget in one report. The Board was assured that all the information would be presented to the Executive on 5 February 2019 and this would all be contained in one report to the Council at its meeting on 22 February 2019.
- Concerns were raised about the impact on the Council's budget in future with the loss of the Better Care Fund after 2019/20 which would have a huge impact on Adult Social Care.
- The Board questioned whether the proposed budget would have been different if the additional £19M income received since the 18 December 2018 Executive report was prepared, had been known to the Executive when it proposed the Budget in December 2018. The Board was assured by the Leader of the Council that the proposed budget would not have changed. The Leader of the Council highlighted that there were a number of uncertainties next year, including the loss of the Better Care Fund, and as a result the Council had to be prudent this year. The Council was still using £3M of reserves to balance the Budget for 2019/20.

RESOLVED:

That the comments made, as stated above, be put forward to the Executive as part of its consideration of this item.

13 OVERVIEW AND SCRUTINY MANAGEMENT BOARD WORK PROGRAMME

*12:20 – Councillor K Cook re-entered the meeting.*

*12:23pm – Councillor R Wootten and Councillor B M Dobson left the meeting and did not return.*

The Head of Democratic Services and Statutory Scrutiny Officer presented the Board's work programme for the coming year.

As part of the joint working between the Board and the Audit Committee, it was noted that there would be a report scheduled to look at the lessons that could be learnt from Northamptonshire County Council, specifically in relation to scrutiny.

The Board discussed the report from the Chairman of the Brexit Working Group and some councillors that there would not be any catastrophic impact on Lincolnshire as a result of Brexit.

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Some Members felt that it was essential that local councils lobbied the UK Government to develop a policy or guidance which could be issued to Local Government in the case of a no deal Brexit.

The Board requested that a communication strategy be created to ensure that the people of Lincolnshire were kept adequately informed about Brexit and notified as to any development with the Brexit Negotiations. It was felt it would be beneficial for Members to have easy access to this information so that they could maintain sufficient knowledge and adequately advise their constituents of any developments with the Brexit negotiations. Officers agreed that they would discuss the best way to move forward with a communications strategy for Brexit.

RESOLVED:

1. That the Work Programme be noted.
2. That the Board requested that a communications strategy be created to ensure that individuals were kept informed during the Brexit negotiations.

The meeting closed at 12.55 pm

**Open Report on behalf of Debbie Barnes OBE, Head of Paid Service**

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>28 February 2019</b>
Subject:	<b>Membership of the Local Government Association</b>

**Summary:**

In March 2018 the Leader of the Council served 12 months' notice of termination of the Council's membership of the Local Government Association. This report sets out the background to that decision and invites the Overview and Scrutiny Management Board to comment on how it feels this matter should be progressed.

**Actions required:**

- 1) That the Overview and Scrutiny Management Board considers the background to the decision to serve notice of termination of the Council's membership of the Local Government Association and
- 2) Comments on how it feels the Leader of the Council should progress this matter.

**1. Background**

- 1.1 In March 2018 the Leader of the Council gave notice of the Council's intention to leave the Local Government Association (LGA).
- 1.2 If nothing intervenes to alter this course of action, it will take effect on 1<sup>st</sup> April 2019.
- 1.3 Before considering the options available to him, the Leader of the Council has invited the Overview and Scrutiny Management Board to comment on the Council's membership of the LGA.
- 1.4 The Council has been a Member of the LGA since its formation in 1996. The Association exists to promote the interests of the sector as a whole and to do so on behalf of all of its Members, which include County Councils, Metropolitan Unitary Authorities, London Boroughs and District Councils.

- 1.5 The decision to serve notice was taken on the basis of concerns that the Council was not receiving full value for its £77,757 annual subscription. Faced with having to find savings of £30m, it was felt that continued membership of the organisation could not be justified.
- 1.6 Since the serving of the notice the LGA has recognised the Council's concerns and has made efforts to engage with us to ensure that we have the fullest opportunity to participate in the development of policies and programmes on relevant matters.
- 1.7 The LGA say it has frozen subscriptions for the seventh consecutive year. It also claims that through its work, including lobbying, it has helped to secure a number of benefits for councils in the following areas:
- Removal of the Housing Borrowing Cap, which will allow councils to invest in the homes that people need and help solve the national housing crisis.
  - Additional powers to increase the Council Tax premium on empty homes - up to 200 per cent on homes that have been empty for five to ten years and up to 300 per cent on those empty for ten years or more.
  - £13,747,000 in 2018/19 to tackle potholes, repair damaged roads and invest in bridges, along with £3,457,324 for winter weather repairs.
  - Additional new burdens funding to extend personal adviser support to looked-after children aged 21-25. The County Council will now receive an extra £20,978 per annum.
  - An additional £3,065,722 over 2018/19 and 2019/20 for schools' high needs funding.
  - An additional £1,076,388 capital funding in 2019/20 for special educational needs provision.
  - New powers to fine householders who dump rubbish illegally up to £400 and access to a £10 million fund to support innovation in waste and recycling.
  - £175,000 for Brexit preparations, including £87,500 upfront in 2018/19 and again in 2019/20.
  - Lincolnshire County Council is also involved in the Blue Badge & Local Land Charges Register Transfer collective action with the LGA.
- 1.8 The LGA also provides other services and benefits including:-
- Support, training and advice to councillors
  - News and briefings
  - Discounts on selected services including improvement support and leadership programmes
  - Free or discounted events
  - Legal advice and representation on complex issues
  - Opportunities to join special interest groups such as the County Council's Network
  - Free and discounted research and strategy consultancy services

- 1.9 However, on the most important and pressing matter, fairer funding of local government, there has been limited progress. It is potentially very important to the Council that the LGA take a principled and robust line on this. While there have been positive tones from the LGA in relation to their response on fairer funding, it remains to be seen whether the organisation will satisfy the Council's wishes in this respect.
- 1.10 Historically there has been an imbalance in outcomes achieved in respect of the funding of counties. Therefore the LGA's response to this document will be crucial if it is to illustrate that it can ensure that the needs of the different types of council within its membership are properly met.
- 1.11 There are three options to be considered by the Leader in deciding how to progress this matter.
- A) The Leader could take no further action, which will mean the Council will leave the LGA with effect from 1<sup>st</sup> April 2019
  - B) The Leader could withdraw the notice, which will mean the Council will continue its membership of the LGA.
  - C) The Leader could withdraw the notice and replace it with a further 12 months' notice to terminate membership of the LGA, which would mean the Council could leave the LGA on 1<sup>st</sup> April 2020.
- 1.12 Options B and C will require the payment of the annual subscription to the LGA.

## **2. Conclusion**

It has been 11 months since the Council last served notice to terminate its membership of the Local Government Association. In determining the next steps the Leader of the Council is inviting comments from the Overview and Scrutiny Management Board.

## **3. Consultation**

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

No

### **b) Risks and Impact Analysis**

Not Applicable

#### 4. Background papers

Title	Where available
Executive Councillor Report: Membership of the Local Government Association 16 <sup>th</sup> March 2017	Democratic Services

This report was written by Nigel West, who can be contacted on 01522 552840 or [nigel.west@lincolnshire.gov.uk](mailto:nigel.west@lincolnshire.gov.uk) .

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

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>28 February 2019</b>
Subject:	<b>Northamptonshire County Council Best Value Inspection - Lessons Learned</b>

**Summary:**

The purpose of this report is to provide Members of the Board with a summary from the Lessons Learned exercise completed so far, following the publication of the Northamptonshire County Council (NCC) Best Value inspection report.

Our focus was:

- Financial Resilience
- Culture and Accountability

We did not examine any associated service failures at Northamptonshire CC.

The Council has set a balanced budget and has a proven track record for delivery of savings targets. Careful consideration is given on the level of its reserves to support the budget. Members have quite rightly, on occasion, challenged whether - given the level of Council reserves - the Council could use these to reduce the immediate impact of potential funding reductions. A volatility reserve is in place to help smooth transition and delivery of transformation projects - minimising the impact on communities.

Officers do not underestimate the complexity of the budget challenges ahead but are satisfied that the appropriate structures, scrutiny and financial management processes are in place to protect the Council from similar issues at Northamptonshire CC.

However, the Council cannot afford to be complacent and the report highlights opportunities for improvement identified at a joint workshop between the Overview and Scrutiny Management Board (OSMB) and the Audit Committee, namely:

- Capital programme reporting
- Reporting the benefits realised from flexible use of capital receipts
- Updating financial procedures
- Better reporting and transparency on delivery of savings targets
- Better clarity in committee reports (to support good decision making, better scrutiny and challenge)
- Capital strategy (to support good decision making)

- Forward financial planning & budget setting for April 2020 onwards
- Enhanced Member training
- More robust scrutiny over reserves by the OSMB
- Robust scrutiny over financial risks and risk register by the OSMB

Many of these actions are already being implemented.

It is intended to hold a further workshop with the OSMB and the Audit Committee to complete this work and consider what assurance and suggested improvement actions should be considered by the Council.

**Actions Required:**

That the Overview and Scrutiny Management Board:

1. Notes the report and improvement areas identified.
2. Agree engagement in a follow up workshop with the Audit Committee to complete this work around culture and accountability - considering the assurance and improvement plan to be presented to the Executive Councillor for Resources and Communication.

**Background**

1. The inspection report highlighted a number of areas of failure in governance and budgetary control which led to an assessment that NCC had 'failed to comply with its duty under the Local Government Act 1999 to provide best value in the delivery of its services'.
2. The problems faced by NCC have resulted in the appointment of independent commissioners to oversee the Council's finance, governance and scrutiny, a capitalisation dispensation allowing £70m capital to be used to reduce its deficit and a recommendation for the creation of two unitary authorities in Northamptonshire.
3. We have reviewed the above report and asked some key questions:

Can it happen here?	<b>May be</b>	Unlikely given our existing tight grip on finances.
Do we need to make improvements?	<b>Yes</b>	Financial resilience is a strategic risk. Effective oversight and review is undertaken by the Corporate Management Board and the Executive.

Do we need to protect the organisation? **Yes**

Our governance arrangements are regularly reviewed. Any significant governance issues are acted upon and reported to the public through our Annual Governance Statement.

A Governance review around culture and ethics is coming to a conclusion – this will provide the Council with a platform to improve.

## **Our Approach**

4. We identified the key areas of weakness from the Best Value report and compared our governance arrangements, processes and control framework (including outcomes of audit work) to assess officers' assurance and identify any gaps or improvements that should be made.
5. A joint workshop of the Audit Committee and the Overview and Scrutiny Management Board (OSMB) was held on 19 December 2018 to gather Member views and feedback (see Appendices A – C for workshop information).
6. Our focus was:
  - Financial Resilience
  - Culture and Accountability

We did not examine any associated service failures at Northamptonshire CC.

## **Financial Resilience**

7. The S151 Officer is fully conversant with the recent high profile work undertaken by CIPFA in developing a resilience index to assess the financial health of English local authorities. The outcome of that work is not yet in the public domain but it is the current belief that the Council is in a sound financial position and has a good track record in both developing and delivering balanced budgets. The OSMB will be made aware of the Council's resilience indicators once it is made available, and consideration will then be given on how financial resilience indicators should be reported to Members in the future.

## **Areas of Good Practice**

### **Financial Strategy & Risk Assessment reviewed annually and approved**

A financial risk assessment and financial risk register in place that informs appropriate target levels for reserves.

Report presented to OSMB for its consideration and recommendation on reserves to the Executive Councillor for Resources and Communications.

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Executive Directors complete robustness statements on risks associated with delivery of their budget – including giving assurance on the budget management arrangements in place. These statements inform an overall corporate statement compiled by the S151 Officer.

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**Well defined process and scrutiny of annual budget setting process**

Budget setting framework in place - reviewed annually for lessons learned and communicated to Finance Team.

Internal Audit Substantial Assurance reported for 2017/18.

Budget timetable in place for preparation, reporting & approval.

Budget consultation undertaken with feedback published in the annual Budget Book.

Budgets are reported and scrutinised by individual Scrutiny Committees, OSMB, the Executive and approved by Full Council.

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**Sound financial management has resulted in a lower than expected impact on Council reserves**

Regular monitoring and forecasting by Budget Holders.

Finance team report financial position regularly to Directorate Management Teams and twice a year to OSMB and the Executive.

Outturn report presented to Full Council.  
Internal Audit Substantial Assurance reported for 2017/18.

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**4-year Medium Term Financial Plan (MTFP) reflecting 'worst case scenario' developed & reported**

This confirmed an up to date MTFP was in place up to 2021/2022, based on a strictly controlled Budget Model, clear and approved assumptions and was aligned with the 4 year funding agreement.

The budgetary shortfall and plans to meet this are discussed throughout the year at Corporate Management Board (CMB) and Informal Executive meetings.

Work on post 2020 savings is scheduled to commence in the Winter / Spring of 2019 with a

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view to going for scrutiny in the coming Autumn.

Internal Audit Substantial Assurance reported for 2017/18.

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**Robust finance team support for Budget Holders**

Finance team members provide support and challenge to Budget Holders based on their need, budget values and level of risk. Budget Holder training in place and Financial Procedures are being updated.

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**Unqualified KPMG Value for Money opinion 16/17 & 17/18**

KPMG's review of specific value for money risk areas for 2017/18 included Financial Standing, medium term financial planning and continuing financial resilience. They determined that 'the risks highlighted in the 2018/19 budget are consistent with those faced by others in the sector, particularly around the demands on adult care services, and the medium term outlook remains challenging.

They were satisfied though that there were adequate arrangements in place at 31 March 2018.

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## **Where we can improve**

**Production of a Capital Strategy**

Work to progress the document is on schedule and the Strategy will be taken through the political process during January and February 2019 before it is adopted by the Council.

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**Capital programme reporting**

Internal Audit assurance over Capital programme in 2017/18 was Limited.

Capital reporting is being reviewed to improve the transparency of a scheme's finances - with a particular emphasis on affordability. This will enhance scrutiny and support project teams in making informed decisions around their spend.

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**Reporting on use and benefits realised from flexible use of capital receipts**

In 2016 Section 15(1) of the Local Government Act 2003 gave councils more flexibility in the use of capital receipts. It allowed these to be used to fund expenditure on projects that are designed to generate ongoing revenue savings or transform services to reduce costs. The recent Internal Audit report identified that better reporting to Full Council is needed to ensure appropriate disclosure and visibility.

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	<p>Improvements to reporting on the flexible use of capital receipts are planned to include additional information on actual savings achieved where these can be calculated. Where savings cannot be calculated the transformational benefits will be described.</p>
<p><b>Forward financial planning &amp; budget setting from April 2020</b></p>	<p>Government spending review from April 2020 is not due until November 2019, but in preparation a thorough and in depth review over budgets and potential savings is being undertaken.</p>
<p><b>Transparency of savings targets</b></p>	<p>CIPFA guidance on building financial resilience highlights the importance of clear savings plans that are separately monitored. No major savings have been defined in recent budgets – savings are merged into budgets and monitored accordingly.</p> <p>Consider how future savings plans are to be monitored and reported.</p>
<p><b>Additional budget reporting to Scrutiny committees</b></p>	<p>Quarterly budget reports are received by OSMB and the Adults &amp; Community Wellbeing Scrutiny Committee. Consider presenting detailed quarterly budget reports to each individual Scrutiny Committee to provide more detailed scrutiny of each element of the budget.</p> <p>This should include financial risk register and understanding the risk appetite – linked to saving targets.</p>
<p><b>Earlier information through informal governance arrangements</b></p>	<p>Assess if it's viable for informal Executive information / papers could be shared with OSMB – informally.</p>
<p><b>Enhanced Member training</b></p>	<p>Financial Strategy provides training to Members but this is not always well attended. Consider the benefits of budget / finance training being mandatory. Investigate the use of on-line training &amp; assessment tools.</p>
<p><b>More clarity and impact report writing</b></p>	<p>Many reports are written from the Officer point of view – a logical sequence of events. They don't always think about the reader eg plain English etc. The clarity and impact of information gets lost and information isn't always easy to understand. Effective report writing training and protocols should be considered.</p>

## Culture & Accountability

8. We ran out of time at the workshop to fully consider this area. We therefore propose to hold a follow up workshop with members of the OSMB and the Audit Committee to complete this work and consider what assurances and suggested improvement actions should be considered by the Council.

### Areas of Good Practice

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**Defined values and behaviours for all who work for the Council**

The Council adopted a set of Values and Culture to support its Vision and Purpose. Our appraisal process includes evidenced review over these core Values and Behaviours.

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**Positive assessment of Governance against CIPFA / SOLACE framework**

Internal Audit completed a review against the 2016 CIPFA / SOLACE 'Delivering Good Governance in Local Government Framework'.

This gave High or Substantial Assurance across the 7 principles. Further work covering Culture & Ethics is currently in progress and will be reported to Audit Committee in March 2019.

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**External review over Scrutiny arrangements**

The East Midlands Councils completed a review over scrutiny arrangements, making a number of recommendations that were implemented by the Council from May 2017.

Work is currently being undertaken to review what difference this has made and if any further improvements could be made.

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**Effective Audit Committee holding officers to account**

Officers are required to attend Audit Committee to report on progress where Internal Audits reports have Limited or low Assurance. Persistent challenge has been demonstrated around regular management reporting on payroll and IMT concerns.

### Where we can improve

**More regular review and update of Financial Procedures.**

Financial Procedures have not been updated since the implementation of Business World (previously known as Agresso) in April 2015. Review and update is currently in progress, defining processes, expectations and making clearer lines of accountability.

**Have a better understanding of reserves when approving accounts**

Acknowledged that more information and challenge on Council reserves may be needed on annual scrutiny of accounts by the Audit Committee.

**Conclusion**

Evidenced based comparison of the Council's governance and financial management arrangements against the issues highlighted in the NCC Best Value Inspection report give officers assurance that the risk of similar issues occurring at LCC is Low. However, areas for improvements have been identified that will further strengthen reporting, scrutiny and transparency.

**Consultation**

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

No

**b) Risks and Impact Analysis**

N/A

**Appendices**

These are listed below and attached at the back of the report	
Appendix A	Audit Committee and OSMB Workshop 19 December 2018 - Pre-workshop briefing paper
Appendix B	Audit Committee and OSMB Workshop 19th December 2018 - Presentation slides
Appendix C	Audit Committee and OSMB workshop 19th December 2018 - Workshop feedback

**Background Papers**

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

This report was written by David Forbes, who can be contacted on 01522 553642 or [david.forbes@lincolnshire.gov.uk](mailto:david.forbes@lincolnshire.gov.uk)

## Appendix A

### Briefing Paper

### OSMB and Audit Committee Workshop

### Lessons learnt from Northamptonshire County Council

19<sup>th</sup> December 2018

10:00 – 11:30

## Summary

The purpose of this briefing paper is to provide you with background information prior to the OSMB and Audit Committee workshop on 19<sup>th</sup> December 2018. The information contained within this document is based upon the findings from the following reports;

- NCC Best Value Inspection
- KPMG External Audit Interim Report 2017/18 NCC
- LGA Financial Peer Review

NCC's performance can be characterised and assessed by looking at three key factors;

### Financial Resilience

Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures and growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

### Culture

Organisational culture is defined as the underlying beliefs, assumptions, values and ways of interacting that contribute to the unique social and psychological environment of an organisation.

### Accountability

The obligation of public sector organisations to be accountable and answerable for their policies, decisions and actions, particularly concerning public finances.

NCC failed to balance its budget and plan effectively. Max Caller, the lead inspector stated that NCC had ignored a growing financial crisis at the authority, which he said had been beset by poor management, lack of scrutiny and unrealistic budget setting. There were major failings from both members and officers. Reports found that senior councillors and officers ignored or evaded criticism and challenge, and budgets were set without regard to need, demand or deliverability. These failings resulted in;

- Section 114 notices being issued
- Commissioners taking control of the authority
- Children's services failing to perform at an adequate standard
- And much more.....

**What lessons can be learnt? – Do we need to do things differently to prevent any of these issues happening here?**

## Financial Resilience

### **Poor decision making at both member and officer level**

Following the issue of the Section 114 notice in February 2018 and the KPMG Advisory Notice on the Budget also in February 2018, the Council still appears to struggle to take the necessary decisions at both member and officer level to control and restrain expenditure to remain within budget constraints.

### **Cannot make informed decisions due to poor organisation processes**

In 2016/17 KPMG identified that the average number of budgets submitted throughout the year was 68%. This meant that information was not available to management or members to make informed decisions based on actual financial performance or in a timely manner.

### **Councillors were unclear and unaware about NCC's use of Capital Receipts**

The main way in which NCC has sought to balance its budget since 2016/17 is to make use of the flexibility allowed by Government to use capital receipts for transformation purposes. Councillors were neither clear nor briefed on the rules and application of this funding source.

### **The scrutiny process was abandoned**

Following an Ofsted inspection report published in August 2013 which resulted in an "inadequate" judgement and the subsequent Statutory Direction, NCC lost tight budgetary control and appeared to abandon strong and effective budget setting scrutiny.

## Culture

### **Criticism was not accepted and no strategies to address issues were implemented**

The council did not respond well, or in many cases react to external and internal criticism. Councillors were also refused information when they sought clarification. Individual Councillors right to know was not understood and Councillors had been refused information when they asked questions. It was also noted that Members were told they were not to be given access to some information.

### **Reports to members were not provided promptly**

Matters that the Audit Committee had wanted reports on had on occasions took many months to compile, and the audit committee needed to be persistent in their requests.

**Major organisation restructures**

Over the past 5 years there has been significant change in the personnel at the top of the officer structure in NCC. All the Executive Directors have been replaced, in some posts more than once.

**Accountability**

**Organisational structure issues with no clear line of sight**

There are a number of areas where the relationship with LGSS (Local Government Shared Services) at best confuses accountability and at worst prevents it.

**No ownership or accountability**

There was a severe lack of accountability for the non-delivery of savings and that non-delivery is manifested with budgets being reinstated without any attempt to explain why the saving was not achieved.

## Appendix

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1. NCC Best Value Inspection:

<https://www.gov.uk/government/publications/northamptonshire-county-council-best-value-inspection>

2. KPMG External Audit Interim Report 2017/18 NCC:

<https://cmis.northamptonshire.gov.uk/cm5live/Document.ashx?czJKcaeAi5tUFL1D TL2UE4zNRBcoShgo=SacwVD14wUqAvF0UMdr1OAozbBxmNsAgUZfxTHHsCm67GYo5AahpRw%3D%3D&rUzwRPf%2BZ3zd4E7lkn8Lyw%3D%3D=pwRE6AGJFLDNIh225F5QMaQWCtPHwdhUfCZ%2FLUQzgA2uL5jNRG4jdQ%3D%3D&mCTlbCubSFfXsDGW9IXnlq%3D%3D=hFfIUdN3100%3D&kCx1AnS9%2FpWZQ40DXFvdEw%3D%3D=hFfIUdN3100%3D&uJovDxwdjMPoYv%2BAJvYtyA%3D%3D=ctNJFf55vVA%3D&FgPIIEJYlotS%2BYGoBi5oIA%3D%3D=NhdURQburHA%3D&d9Qjj0ag1Pd993jsyOJqFvmyB7X0CSQK=ctNJFf55vVA%3D&WGewmoAfeNR9xqBux0r1Q8Za60lavYmz=ctNJFf55vVA%3D&WGewmoAfeNQ16B2MHuCpMRKZMwaG1PaO=ctNJFf55vVA%3D>

3. LGA Financial Peer Review:

<https://www3.northamptonshire.gov.uk/councilservices/council-and-democracy/performance-and-plans/Documents/Northamptonshire%20CC%20-%20FINAL%20Feedback%20Report.pdf>

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# OSMB and Audit Committee Workshop

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Northamptonshire County Council: Could it happen here?

19<sup>th</sup> December 2018

# Welcome and Introductions



# Media Reactions



# Some questions for us?

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Can it happen here?

**No**

Do we need to make improvements?

**Yes**

Do we need to protect the organisation?

**Yes**

# Areas of Focus Today

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**Financial  
Resilience**



**Culture**



**Accountability**



# Financial Resilience

## Definition of “Financial Resilience”

*Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures and growing demand, tightening funding and an increasingly complex and unpredictable financial environment.*

# The CIPFA Financial Resilience Index

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## Themes:

- Reserves
- Spend on high pressure services
- Major funding streams
- Independent judgements

# Workshop

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How can Members gain assurance that this Council is financially resilient?

What do you need to see?

What questions could you be asking?

# Areas for consideration

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- Financial strategies
- Financial planning beyond next year
- Budget setting - process and scrutiny
- Budget performance monitoring
- Record of achieving budget savings
- Financial regulations, policies, procedures
- Financial risk appetite
- Financial risk management.
- Financial leadership and culture
- Good financial decision making

# Improvement Areas

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- Capital programme reporting
- Reporting of benefits realised from flexible use of capital receipts
- Updating financial procedures
- Capital Strategy (to support good decision making)
- Forward financial planning & budget setting for April 2020



# Culture & Accountability

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# NCC's Vision and Strategic Outcomes

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## Vision:

“Making Northamptonshire a great place to live and work”

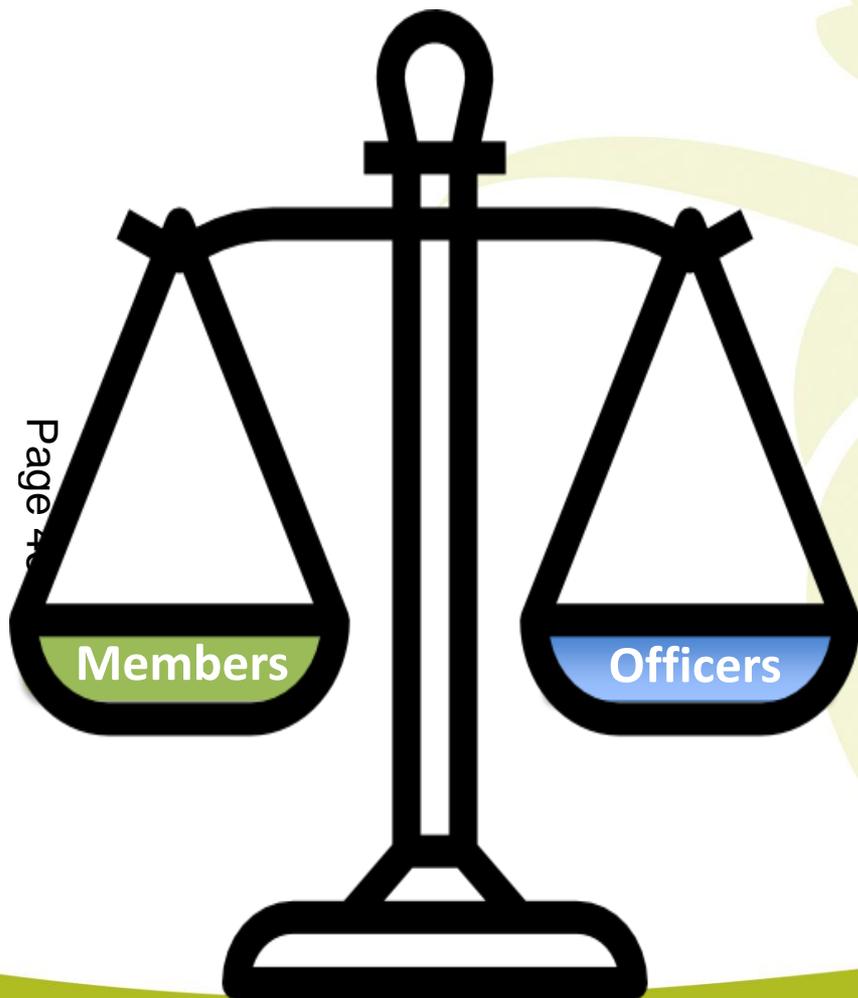
The strategic ambitions for the Council were articulated through the following key outcomes:

- People of all ages are **safe, protected from harm** and able to live happy, healthy and independent lives in our communities  
**People have the information and support they need** to make healthy choices and achieve wellbeing  
People **achieve economic prosperity**, in a healthy low carbon economy which gives access to jobs, training and skills development  
Communities thrive in a pleasant and **resilient environment**, with robust transport and communications infrastructure
- **Resources are utilised effectively and efficiently**, in coordination with partners and providers

**Have they delivered any of their strategic ambitions?**

# No Direction

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- Northamptonshire County Council leaders ignored warnings about a financial crisis **three years ago**, government inspectors have said.
- A letter from 2015 showed that the authority had overspent by £43m just seven months into the financial year.

# 2015 Crisis Warning

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Then Director of Finance (Mr Bowmer) in 2015 wrote “We are experiencing a significant financial crisis but there is **avoidance of the term** and a **lack of action** appropriate for the situation we find ourselves in. At the heart of this is the corrosion of our financial management arrangements over the past 18 months; there has been **a change of culture and behaviour** where overspending is acceptable and there are no sanctions for failure”. Mr Bowmer also warned that the impending crisis could place the council “at great risk in the future”.

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Max Caller stated that “Mr Bowmer’s letter was not treated as a wake up call”. Inspectors believe if the warning would have been heeded, “the council would not have to find £70m of savings this year”.

- Tony McArdle “It is abundantly clear that the warning signs for Northamptonshire were there and were recognised”.

# NCC Independent Auditor's Report

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**13/14**

KPMG: **Satisfied** in all significant respects, Northamptonshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31<sup>st</sup> March 2014

**14/15**

KPMG: **Satisfied** in all significant respects, Northamptonshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31<sup>st</sup> March 2015

**15/16**

KPMG: **Not satisfied** in all significant respects, Northamptonshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31<sup>st</sup> March 2015. The Authority did not have proper arrangements in place to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions in the year ended 31<sup>st</sup> March 2016

# Culture

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A group of moral principles or set of values that define or direct us to the right choice

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'the way we do things around here'



# Definition of Good Governance

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'Doing the right things in the right way – putting the public interest in decision making at all times'

# Definition

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It means:

- **Reflecting the organisations values** – the principles and standards underpinning the way we interact with others to support excellent service delivery
- **Behaviour** – the way we conduct ourselves and act out those values as part of our day to day functions in business operations and service delivery (the 10 principles of public life). How this is perceived by colleagues, members of the public, partners, suppliers and the media
- **Good Governance** – achieving business success by having the good systems and processes in place to run the Council well

# Definition- A Learning Culture

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It means distinguishing between:

- **Simple mistakes or errors** – individuals should not be ‘blamed’ for things going wrong but they should be held accountable for their actions and learn from mistakes
- **Risky behaviour** – having a strong risk and control culture. Clearly understanding your risks and their potential impact. Where risk decisions need to be improved then individuals should be coached and educated to be more careful
- **Reckless behaviour** – systems and processes set up to encourage people to comply but where they deliberately override controls – action is taken

# Definition – Just Culture

Human Error	At-Risk Behavior	Reckless Behavior
Inadvertent action: slip, lapse, mistake	A choice: risk not recognized or believed justified	Conscious disregard of unreasonable risk
Manage through changes in: <ul style="list-style-type: none"> <li>• Processes</li> <li>• Procedures</li> <li>• Training</li> <li>• Design</li> <li>• Environment</li> </ul>	Manage through: <ul style="list-style-type: none"> <li>• Remove incentives for at-risk behaviors</li> <li>• Create incentives for healthy behaviors</li> <li>• Increase situational awareness</li> </ul>	Manage through: <ul style="list-style-type: none"> <li>• Remedial action</li> <li>• Punitive action</li> </ul>
Console	Coach	Discipline/Sanction

# What does good look like?

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INTERNATIONAL FRAMEWORK: GOOD GOVERNANCE IN THE PUBLIC SECTOR



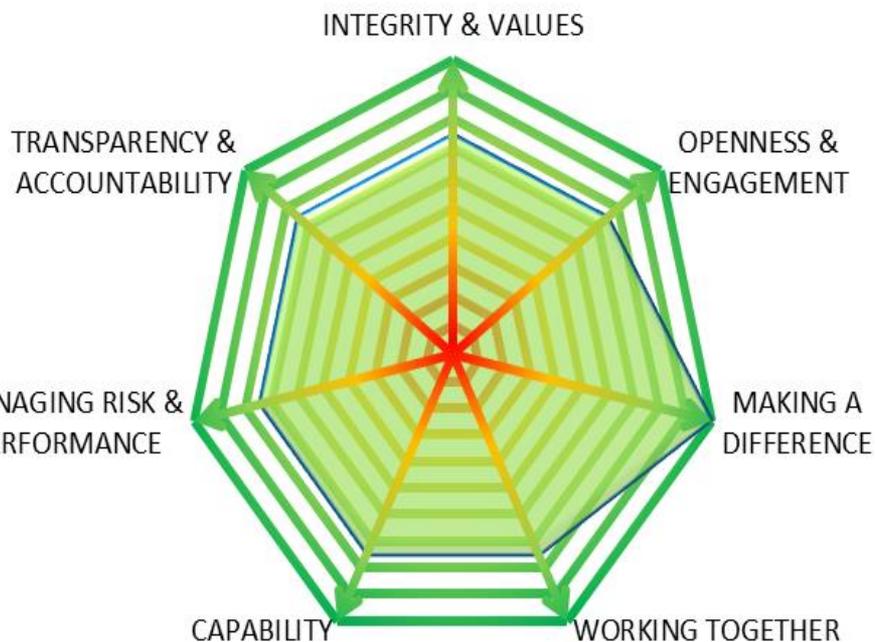
## delivering good governance

in Local Government Framework 2016 Edition



# Evidence demonstrating good governance

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<b>Principle 1 - Integrity &amp; Values</b>	<b>Substantial Assurance</b>
<b>Principle 2 - Openness &amp; Engagement</b>	<b>Substantial Assurance</b>
<b>Principle 3 - Making a difference</b>	<b>High Assurance</b>
<b>Principle 4 - Working together</b>	<b>Substantial Assurance</b>
<b>Principle 5 - Capability</b>	<b>Substantial Assurance</b>
<b>Principle 6 - Managing risk &amp; performance</b>	<b>Substantial Assurance</b>
<b>Principle 7 - Transparency &amp; accountability</b>	<b>Substantial Assurance</b>

# Governance Review – Culture and Ethics - underway

- Will provide insight and assurance on culture and ethical framework – supporting success and good governance going forward
- Review Sponsor to help smooth the way – senior officer (Debbie Barnes) and member (Councillors Barry Young and Jackie Brockway)
- Survey – using results of staff survey and Councillor survey
- Data analytics to provide Corporate Health Indicators
- Discussions with key stakeholders
- Focus Groups
- Measuring Success - Maturity Model

# Culture: Good Practice and Poor Practice

## Good Practice

**Behaving with integrity** - Governing body members should behave with integrity. Each governing body should promote a culture where acting in the public interest at all times is the norm, together with a continuing focus on achieving the entity's objectives.

**Demonstrating strong commitment to ethical values** - Ethical values should permeate all aspects of a public sector entity's operation, and these values should underpin the personal behaviour of all governing body members and staff.

**Respecting the rule of law** - Public sector entities at all levels may be involved in creating, interpreting, applying, or enforcing laws. Such activities demand a high standard of conduct to prevent these roles from becoming tainted and losing their credibility.

## Poor Practice (NCC)

Matters that the Audit Committee had wanted reports on had on occasions took many months to compile, and the audit committee needed to be persistent in their requests.

The council did not respond well, or in many cases react to external and internal criticism. Councillors were also refused information when they sought clarification.

The main way in which NCC has sought to balance its budget since 2016/17 is to make use of the flexibility allowed by Government to use capital receipts for transformation purposes. Councillors were neither clear nor briefed on the rules and application of this funding source.

# Accountability: Good Practice and Poor

## Good Practice

**Implement good practices in transparency** - Public sector organisations should be open and accessible to its various stakeholders.

**Implementing good practices in reporting** - Reports should be written and communicated in an open and understandable style appropriate to the intended audience.

**Assurance and effective accountability** -Public sector entities are subject to standards statutes, regulations, governance codes, and statements of best practice—and must have effective arrangements for demonstrating adherence to them.

## Poor Practice (NCC)

There was a severe lack of accountability for the non-delivery of savings and that non-delivery is manifested with budgets being reinstated without any attempt to explain why the saving was not achieved.

Matters that the Audit Committee had wanted reports on had on occasions took many months to compile, and the audit committee needed to be persistent in their requests.

There are a number of areas where the relationship with LGSS (Local Government Shared Services) at best confuses accountability and at worst prevents it. No clear line of sight for accountability

Audit functions needed to be more effective – valued for assurance and improvements

Lack of compliance with financial procedures

CMB not working as a collective group on the financial position

# Workshop

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How can Members gain assurance over the Council's culture and values?

What do you need to see?

What questions could you be asking?

# LCC Culture: Values and Behaviours

The council has adopted a number of important values and behaviours which apply to all who work for the council.

Professional

Respectful

Resourceful

Reflective

Conduct at Meetings

Induction for new members and staff on standard of behaviours

Effective Audit Committee

Effective Audit Functions

Codes of Conduct

Whistleblowing

Effective Scrutiny

Lessons Learnt - complaints acted upon

Legal advice welcomed

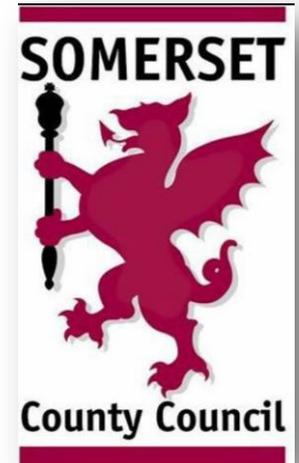
**Do we live and breathe our values and behaviours?**

# Improvement Areas

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- Outcome of Governance Review – Phase 2. Report should be published for the March 2019 Audit Committee
- Has the changes in scrutiny made a difference?
- Financial Procedures – clearer lines of accountability

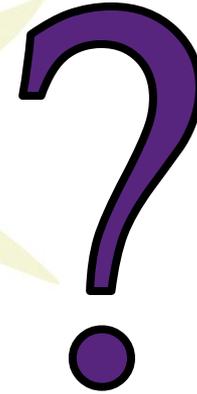
# Councils under financial strain



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Thank you  
Any Questions



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Audit and OSMB Committee Workshop  
Feedback

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19th December 2018

## Context

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The aim of the workshop was to look at Northamptonshire County Council and identify what went wrong to assess if it could happen here!

The 3 areas of focus;



The results of discussions are provided below if the rest of the paper.

## Financial Resilience – feedback from Members

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### **Risk Appetites**

A better understanding of the councils risk appetites and the sharing of reports which are circulated to CMB.

### **Member training**

Training for members in terms of scrutiny and finance as some members feel they don't have the relevant skills to fully understand certain elements such as information contained within the financial reports. Also additional training to better equip members to ask the right questions and challenge effectively and confidence training for new members to enable them to contribute effectively

### **Financial Reporting**

Regular reporting to each of the scrutiny committees to enable a better review process. In addition to the regular reports a simplified committee paper reporting process and expenditure review would provide members with a better understanding of the financial reporting with a regular reporting on the level of reserves.

### **Financial ratios**

Including CIPFA's financial ratios within committee papers to provide members with key indicators concerning the financial stability of the council.

<b>Capital Programming</b>	Capital programming reporting is not as it should be so this is an area finance are currently working on.
<b>Capital Receipts</b>	Improved reporting the use of capital receipts for transformation projects.
<b>Financial Procedures</b>	Finance are currently reviewing and updating financial procedures.
<b>Capital Strategy</b>	Finance are currently developing a capital strategy to aid in the decision making process.
<b>Budget for 2020 onwards</b>	Finance are now focusing on and planning budgets for 2020 onwards

## Culture and Accountability

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### **Good Governance**

The fundamental function of good governance in the public sector is to ensure that organisations' achieve their intended outcomes while acting in the public interest at all times.

Interim chief executive is looking at ways we can improve accountability and ownership – having a clear line of sight.

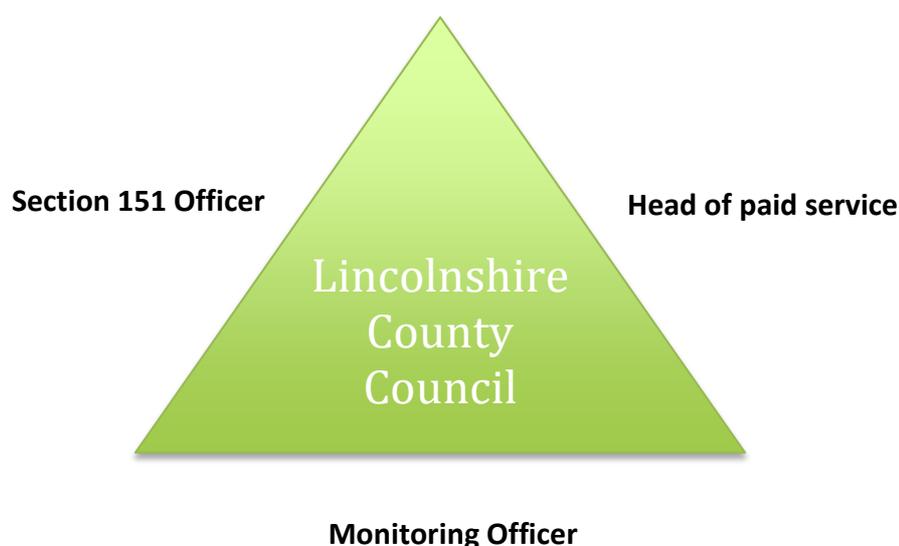
Governance Review – culture and ethics underway.

Ran out of time – so didn't have group work on Governance and Accountability

## The Golden Triangle

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The key to any public sector organisation maintaining good governance is how effective their statutory officers are and how they put the public's interest at the forefront of decision making.



**Open Report on behalf of Debbie Barnes, Head of Paid Service**

Report to:	<b>Oveview and Scrutiny Management Board</b>
Date:	<b>28 February 2019</b>
Subject:	<b>2018/19 Council Business Plan Quarter 3</b>

**Summary:**

This report invites the Overview and Scrutiny Management Board (OSMB) to consider a report on the 2018/19 Council Business Plan Quarter 3 which will be presented to the Executive on 5 March 2019. The views of the Board will be reported to the Executive as part of its consideration of this item.

This report also presents the Council Business Plan performance indicators that fall within the remit of the Board.

**Actions Required:**

The Overview and Scrutiny Management Board is invited to:-

- 1) Consider the attached report and to determine whether the Board supports the recommendation(s) to the Executive as set out in the report.
- 2) Agree any additional comments to be passed to the Executive in relation to this item.
- 3) Comment on the Council Business Plan performance indicators that fall within the remit of the Board.

**1. Background**

The Executive is due to consider a report on the 2018/19 Council Business Plan Quarter 3 (Q3) at its meeting on 5 March 2019. The full report to the Executive is attached at Appendix 1 to this report.

There are a small number of measures that fall within the remit of this Board that can be reported in Q3 and these are attached in Appendix 2 of this report. Employee turnover and Days lost to sickness absence are reported for the first time this quarter.

When considering this report, OSMB may wish to pay particular attention to updates from the Chairman of each scrutiny committee on any points they wish to bring to the attention of OSMB including the following:-

- Plans to amend targets and/or measures which are no longer appropriate;
- The partnership working taking place to improve the outcome for measures which are outside of the responsibility of the County Council e.g. Community Safety.

## **2. Conclusion**

Following consideration of the attached report to the Executive, the Board is requested to consider whether it supports the recommendation(s) in the report and whether it wishes to make any additional comments to the Executive. Comments from the Board will be reported to the Executive.

## **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 2018/19 Council Business Plan Quarter 3 to be presented to the Executive at its meeting on 5 March 2019
Appendix 2	OSMB Council Business Plan Measures

## **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](mailto:jasmine.sodhi@lincolnshire.gov.uk).

**Open Report on behalf of Debbie Barnes OBE, Head of Paid Service**

Report to:	<b>Executive</b>
Date:	<b>05 March 2019</b>
Subject:	<b>Council Business Plan 2018/2019 Performance Report, Quarter Three</b>
Decision Reference:	<b>I016868</b>
Key decision?	<b>No</b>

**Summary:**

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

Executive can view performance on the web using this [link](#).

**Recommendation(s):**

That Executive:-

1. Note and consider 2018/2019 Quarter 3 performance.
2. Approve the proposed change 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 2018/2019. However, without the recommended change, 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 2018/2019 and propose changes to reporting to assist the Executive in monitoring that performance in future.

## 1. Background

The Council Business Plan 2018/2019 was approved by Council on 23rd February 2018. This report provides the Executive with highlights of Q3 performance. The full range of performance is hosted on the Lincolnshire Research Observatory (LRO) available to view on this [link](#)

### Headlines Quarter 3 performance

Of the 14 commissioning strategies reported in Q3, headline performance has improved since Q2:-

8 performed really well (all measures reported in Q3 achieved the target) compared with 7 in Q2; 2 performed well (all but 1 measure reported in Q3 achieved the target); 4 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:-

- [Learn and achieve](#)
- [Readiness for school](#)
- [Sustaining and developing prosperity through infrastructure](#)

### The good news

The following 8 commissioning strategies have performed really well (all measures reported in Q3 achieved the target). The Specialist Adult Services commissioning strategy has seen an improved direction of travel from Q2 and the Carers commissioning strategy has seen an improved direction of travel from mixed performance in Q1.

#### [Carers](#)

#### [Children are safe and healthy](#)

#### [How we effectively target our resources](#) (Combination of 3 commissioning strategies)

#### [Readiness for Adult Life](#)

#### [Specialist adult services](#)

#### [Sustaining and growing business and the economy](#)

Employee turnover and Sickness Absence are reported for the first time in Q3. Employee turnover is reported as a contextual measure and is not compared with a target. Overall turnover (inclusive of dismissals and redundancy) is 11.21% over the 12 months between October 2017 to September 2018. The national average Public Sector overall turnover rates are 15.7%.

Sickness absence for Quarter 3 reports the days lost per FTE for the 12 months between October 2017 to September 2018. We are achieving this measure; the Actual is 6.81 days compared with a Target of 7.5 days. On-going application of our sickness absence policy helps to manage employee sickness rates.

The following 2 commissioning strategies performed well (all but 1 measure reported in Q3 achieved the target). It is worth noting that both also performed well in Q1 and Q2:-

#### [Adult Frailty, long term conditions and physical disability](#)

#### [Safeguarding adults](#)

Performance has improved and exceeded the target for [Percentage of adults aged 18-64 with a mental health need in receipt of long term support who have been reviewed](#) (Measure 119) in Q3. The percentage of clients in receipt of long term support who received an assessment or review of their needs at the end of the month is 73% against a target of 71%. This month end position shows a much improved position compared to the previous months against the trajectory and reflects both the improved data and the work undertaken in the service to ensure the allocated resources matches demand. The service is aware of which clients require their next review and activity is being coordinated to undertake the outstanding reviews before the end of the financial year. It is worth noting that the target in the Council Business Plan 2019-2020, which was presented to Council on 22<sup>nd</sup> February, is 95%.

### **Mixed performance**

The following 4 commissioning strategies had mixed performance (some measures achieved and some measures did not achieve the target).

[Community resilience and assets](#)

[Protecting and sustaining the environment](#)

[Protecting the public](#)

[Wellbeing](#)

We are back within the tolerance range of our target for [Primary fires](#) (Measure 19), having reported being behind target at Quarter 2. We have also seen a 3% reduction in the number of primary fires compared to Quarter 3 last year (down from 860 to 838). The majority of the reduction has been seen in dwelling fires which is down by 15% (down from 312 last year to 264). There have also been small reductions in fires involving outbuildings/sheds and also vehicles. It is particularly pleasing to see a reduction in the number of primary fires in the nine month period as we have previously reported an increase due to the long spell of hot temperatures coupled with very dry weather, this caused the number of farm related fires to almost double compared with previous years.

[Juvenile reoffending](#) (Measure 125) has seen an improved direction of travel from Q2 from 42.4% reported last quarter to 29.1% in this quarter. The actual numbers of re-offenders has continued to fall, with just 30 out of 103 young people re-offending in the reported quarter. As the cohort will be measured over a 3 month period, instead of a 12 month period, it is unclear as to how this will affect future performance figures. For example, seasons can affect re-offending rates; historically re-offending rates have increased during summer months, therefore it remains to be seen how the change in methodology to a 3 month cohort will affect performance and trends moving forward.

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

### **Proposed change to reporting performance against the Council Business Plan 2018/19**

As part of the process for agreeing the Council Business Plan 2019/2020, the Portfolio Holder has agreed to remove the 'Alcohol related anti-social behaviour incidents' (Measure 5) and 'Alcohol related violent crime incidents' (Measure 6) as

data is no longer comparable due to changes in reporting practices within the Police. It would also make sense to cease reporting both measures in Q3 and Q4 this year (2018/2019).

## **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 2018/2019 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 is due to consider this report at its meeting on 28 February 2019. Any comments of the Board will be presented to the Executive.

### 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. Appendices

These are listed below and attached at the back of the report	
Appendix A	Summary of those measures where the target was not achieved in Quarter 3

## 8. 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](mailto:jasmine.sodhi@lincolnshire.gov.uk) .

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

**The following 4 commissioning strategies had mixed performance** (some measures achieved and some measures did not achieve the target)

1. [Community resilience and assets commissioning strategy](#) the following 2 measures have not achieved the target in Q3. Both did not achieve the target in Q1 and Q2.

- [Contact with the heritage service](#) (Measure 35)

In Q3, an actual of 2,836,409 was achieved against a target of 3,800,000. Technical faults with the website and decline in visitor numbers (as reported in Q1 and Q2) continue to impact the out turn for this measure. It is worth noting that the annual target for this measure in the Council Business Plan 2019/2020, which was presented to Council on 22<sup>nd</sup> February, reflects a picture of nationally declining numbers and IT difficulties.

- [Visits to core libraries and mobile library services](#) (Measure 36)

An actual of 1,090,422 was achieved in Q3 against a target of 1,247,157. As reported in Q1 and Q2, the lower number of visits is attributed to not being able to keep a pace with the changing IT requirements and expectations of our customers. It also needs to be recognised that this is against a national picture of declining library visits, as well as there being more options for our customers within their local communities from the independent Community Hub provision; these visits are not counted in this figure.

2. [Protecting the public commissioning strategy](#) – the following 2 measures have not achieved the target in Q3. Both did not meet the target in Q1 and Q2.

- [Unsafe and counterfeit goods removed from the market](#) (Measure 2)

4,852 counterfeit and unsafe items have been removed from the market so far this year. 2,484 items have been removed as they were unsafe and 2,368 items were removed as they were counterfeit. We are behind plan this year due to a decrease in counterfeit goods seized as we are working with premises to bring them into compliance to ensure such goods are not available for sale in the first instance. We have seen an increase in unsafe goods offered for sale over Quarter 3 and this is largely due to attendance at various seasonal events. The annual target 2018/ 2019 is 31,000 and it is worth noting that the measure has been amended in the Council Business Plan 2019/2020, which was presented to Council on 22<sup>nd</sup> February to 'Unsafe goods removed from the market' with an annual target of 3,000 products.

- [Adults Reoffending](#) (Measure 14)

This measure is reported with a one quarter lag, Q2 is the latest performance. Between April 2017 and September 2017 there were 3,088 adult offenders (the cohort). In the 12 months following identification (between April 2017 to September 2018), of those 3,088 adult offenders, 922 re-offended resulting in the 29.9% adult re-offending rate. On average, each reoffender committed 3.5 additional crimes within twelve months of their index offence. The most prolific offenders continue to be adopted by the ARC (Assisting Rehabilitation through Collaboration) scheme.

### 3. [Wellbeing commissioning strategy](#)

- [Percentage of alcohol users left specialist treatment successfully](#) (Measure 31)

This measure is reported with a one quarter lag and so the latest performance is for Q2.

Performance is 33.7% which is 6.3 percentage points below the 40% target. This drop in performance (from 35.2% in Q1) coincides with the service undergoing staffing issues which have now been resolved. It is anticipated performance will start to improve over future reports and will stabilise between 35% and 37%.

Performance is unlikely to return to levels above 40% as the service is running at maximum capacity alongside a trend of increasing levels of both alcohol and drug clients. The volume of clients being seen makes achieving outcomes more challenging. This is currently manageable but is affecting performance, as seen within this indicator, due to the resources available to the provider not keeping pace with increased demand for the service.

This situation is not easily resolved and the provider continues to seek new and innovative ways to get clients to recovery but with very high caseloads it is difficult.

It is worth noting that the annual target for this measure in the Council Business Plan 2019/2020, which was presented to Council on 22<sup>nd</sup> February, is 40%.

- [People successfully supported to quit smoking](#) (Measure 111)

This measure is reported with a one quarter lag, therefore Q2 performance is the latest available data for this measure.

Quit 51 achieved only 64% of the cumulative target for Quarter 2 (Actual 1,024, Target 1,600). The service continues to target the most hardened smokers that need more support to help them to quit. It is worth noting that the annual target for this measure in the Council Business Plan 2019-2020, which was presented to Council on 22<sup>nd</sup> February is 3,200.

### Chlamydia Diagnosis (Measure 34)

The data is published nationally 6 months in arrears so reflects performance in the first quarter of 2018. Actual 1,955, Target 2,045. The performance in this quarter did not meet the target. This was expected due to changes in the provider's delivery model. The Sexual Health Services (LISH) have an action plan in place to improve their performance which includes partnership work and collaboration, including midwifery services, Addaction and school Immunisation services and the situation is being continually monitored. Online self- testing remains very popular and has the highest positivity rate, indicating this service is well targeted.

Lincolnshire is ranked 5th out of 9 Local Authorities in the East Midlands Region. There is only one Local Authority that is meeting the national target. Positive test results remain high at 10.4% (target 8%) suggesting the services remain well targeted. The Public Health England (PHE) Regional Advisor for Sexual Health has advised that the positivity rate should be the main quality indicator. Relationships with sub-contracted General Practitioner's and Pharmacies have developed to improve and promote the chlamydia testing programme and is still ongoing.

It is worth noting that the annual target for this measure in the Council Business Plan 2019-2020, which was presented to Council on 22<sup>nd</sup> February is 2,045 for data relating to April 2019 – March 2020.

### Frontline staff and volunteers trained in Making Every Contact Count (Measure 109)

This measures the number of staff and volunteers working in health and care related services who have received Making Every Contact Count training. This training enables service providers to deliver healthy lifestyle advice and signposting information to clients. By the end of Quarter 3, 662 individuals have been trained against a target of 700. Due to fluctuations in the delivery of MECC the target is annual and is on track to be achieved by end of Quarter 4.

It is worth noting that the measure has been amended in the Council Business Plan 2019-2020, which was presented to Council on 22<sup>nd</sup> February, to 'Number of staff and volunteers trained in Making Every Contact Count' and the target has been lowered to 400 due to funding streams and consequent staffing structures changing during 2019-2020.

#### 4 [Protecting and sustaining the environment commissioning strategy](#)

- [Recycling at County Council owned Household Waste Recycling Centres \(HWRC\)](#) (Measure 76)

The Household Waste Recycling Centre (HWRC) recycling rate for Quarter 3 (74.1%) has remained level with Quarter 2 (74.2%) with composting levels remaining similar but improved recycling and reuse tonnages. Although the target of 75% has not been achieved, the measure is reported as Improving but not achieved as performance in Quarter 1 was 72.8%.

It is worth noting that the target in the Council Business Plan 2019/2020, which was presented to Council on 22<sup>nd</sup> February, is 74% and that through the new Joint Municipal Waste Management Strategy we will be seeking to review our HWRC service in order to overcome the challenges facing us and gradually return to our previous level of performance (75%).

- [Household waste recycled](#) (Measure 78)

The target is 55%. An actual of 44% was achieved in Q3. The growing conditions over this year so far have seen a reduced level of composting. This combined with increased non-recyclables seen in the kerbside collections and the effects of the Mixed Dry Recycling (MDR) operations means we are predicting a lower recycling rate from late this year. This contamination level is being addressed with the Districts Councils as part of the next MDR contract and the new Lincolnshire Waste Strategy. The national recycling rate is also reducing and is down from 45.1% in 2016/-2017 to 44.8% in 2017/2018 with initial estimates for 2018/2019 indicating this downward trend is set to continue.

The Lincolnshire result now includes metals recovered from the Energy from Waste plant (EfW). The recently released national Resource and Waste Strategy includes a commitment to review the current measurements metrics used to report recycling performance.

It is worth noting that the target in the Council Business Plan 2019/2020, which was presented to Council on 22<sup>nd</sup> February, the published target is 48.5% in line with our draft Joint Municipal Waste Management Strategy objective "*To contribute to the UK recycling target of 50% by 2020*", the targets reflect steady progress towards 50%.

**The following 2 commissioning strategies performed well** (all but 1 measure reported in Q3 achieved the target):-

1. Adult Frailty, long term conditions and physical disability

- Adults who receive a direct payment (Measure 63)

The actual performance figure has improved from 31.9% in Quarter 2 to 32.5% in Quarter 3 even though the target of 40% was not achieved. Even though this is an improvement, it is important to note that the denominator is decreasing, in Quarter 1 it was 3,820, Quarter 2 the figure was 3,766 and now is at 3,600. This is also reflected in the numerator (clients receiving a Direct Payment and Part Direct Payment) which was 1,280 in Quarter 1; Quarter 2 it was 1,203 and now is 1,196 in Quarter 3. Due to this, a deep dive is being undertaken to understand why the performance against this measure is not achieving. Currently, more Direct Payments are ceasing than are being taken up by new clients; particular attention will be given to the reasoning behind this when performance is reviewed. It is worth noting that the target in the Council Business Plan 2019-2020, which was presented to Council on 22<sup>nd</sup> February, is 40%.

2 Safeguarding adults commissioning strategy

- Percentage of completed safeguarding referrals where source of risk was a service provider (Measure 114)

This measure remains outside target (Actual 55.1%<sup>1</sup> compared with a Target of 31%) due to an increase in the number of cases entering the numerator as a result of changes in the screening process. These were implemented to enable us to capture data more accurately at different stages of the process.

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 We effectively target our resources

Maximise the organisational strength, capacity, resilience and wellbeing to deliver the Council's strategic objectives through people

### Sickness absence

The number of working days lost to the authority due to sickness absence per Full Time Equivalent (FTE). One FTE is equivalent to a 37 hour week. Two employees that work 18.5 hours per week (0.5FTE each) are the equivalent of 1 FTE.

Numerator = total number of working days lost due to sickness absence.

Denominator = average number of FTE employed for the financial year.

The total number of days lost are calculated by totalling an employee's total number of hours of sickness and dividing this by 7.4 (a standard working day). The report includes all permanent and Temporary (those on Fixed Term Contracts (FTC)) employees. This includes Fire and rescue Whole-time Firefighters. The report includes all days lost through sickness due to disability or long term sickness even if staff are not paid. The report excludes agency staff, contractors, Retained Firefighters and school employees.

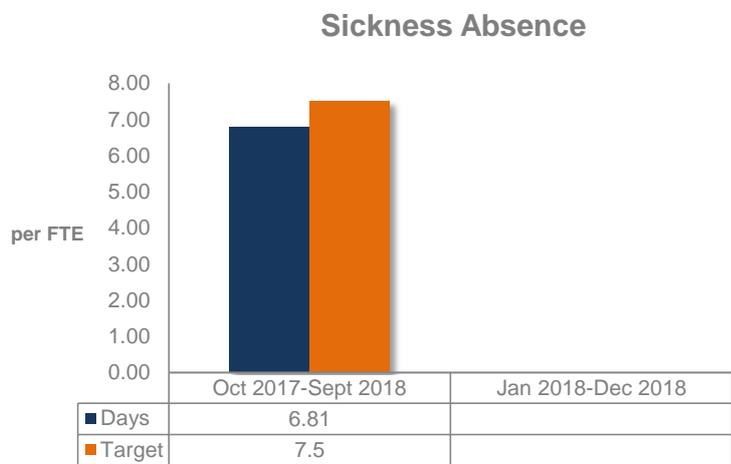
Working days means days scheduled for work excluding holidays and leave. In the instance of an employee reporting sick part way through a working day, authorities should record the information to the nearest half-day shift.

 **Achieved**

**6.81**  
per FTE  
Oct 2017-Sept 2018



**7.5**  
per FTE  
Target for Oct 2017-Sept 2018



About the latest performance

This indicator shows the days lost per FTE for the 12 months between October 2017 to September 2018. We are currently under target and achieving this measure; ongoing application of our sickness absence policy helps to manage employee sickness rates.

#### Further details

This is a new measure being reported in the Council Business Plan therefore historical information is not available.

#### About the target

The target has been set to 7.5 days to encourage continuing downwards trend in sickness.

#### About the target range

A target range is not applicable to this measure.

#### About benchmarking

We anticipate benchmarking for this measure to be available from Quarter 4.



We effectively target our resources

Get better value from our use of land and buildings by assessing performance

Capital receipts

This measure shows the capital receipts generated from the sale of Lincolnshire County Council's surplus assets. Progression through property disposal towards a triennial set capital receipts target. A higher amount of capital receipts indicates a better performance.

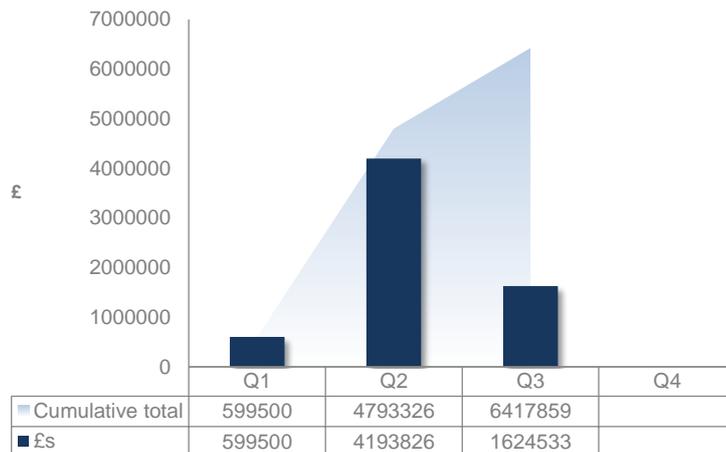
Measured

6,417,859

£

Cumulative Actual as at April 2018-December 2018

Capital receipts

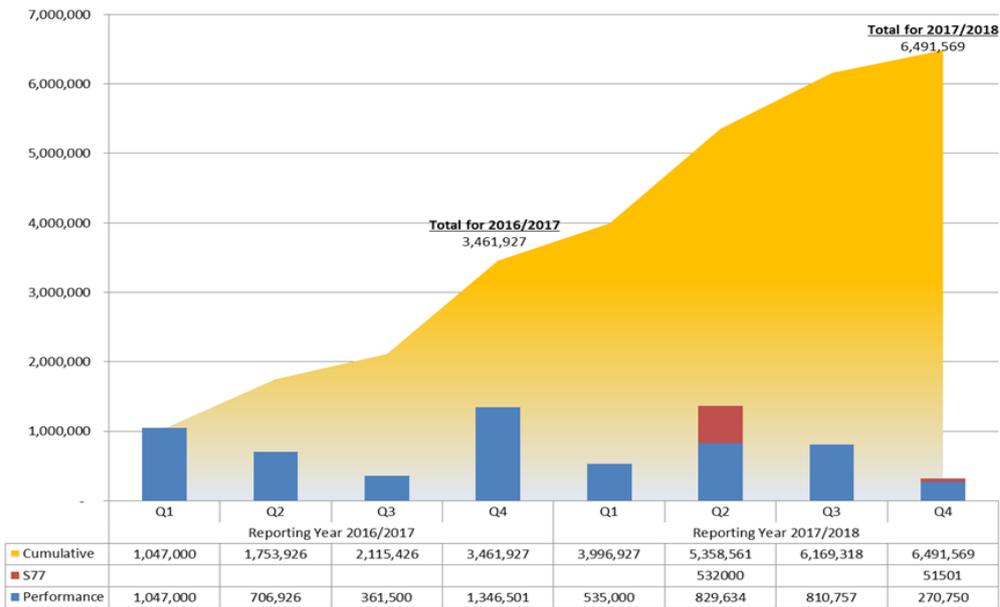


About the latest performance

The £20m disposals target is a three year plan and we are three quarters into the final year. Continuing from last month, the receipt figure has been split between net and gross to account for receipts from the sale of school playing fields, which have to be spent in line with schemes approved by the SoS. The total receipt is presently £11,981,927 (net of s.77), £12,909,428 (gross). The current forecasted total for the end of the target period is £12,913,773 (net of s.77), £13,841,273 (gross). A number of potential capital receipts are now more likely to complete in 2019/20 and have been discounted from the current three year projection on this basis.

Further details

**Capital Receipts**  
**Q1 2016/2017 - Q4 2017/2018**



About the target

The capital receipts target is a triennial target of £20m by 2019, as we cannot predict when properties will sell on the open market or specifically how much we will receive in capital receipts.

About the target range

No target range has been set for this target.

About benchmarking

This measure is local to Lincolnshire and is not benchmarked against other authorities or areas.



We effectively target our resources

New support services partnership contracts perform effectively and efficiently to allow the Council to achieve its commissioning outcomes

### Achievement of KPIs - VINCI Facilities Partnership Limited contract

An overall score of over 75% is required for the contractor to benefit from financial incentives gained by performing lower than their target costs.

At the start of the next year the Employer reviews the targets and weightings for Key Performance Indicators. The Council reserves the right to suspend the application of any gain share which the Contractor may be entitled to in the event of any occurrence of an investigation of Regulatory Body e.g. Health and Safety Executive, Environment Agency, and in the event of a successful prosecution and/or claim disallow the application of the gain share.

Key performance indicators provide percentage scores against baseline performance for the overall service and for each individual service area of the VINCI Facilities Partnership Limited contract. The contractor's performance is incentivised to stimulate continuous improvement in providing the service.

The contractor's score determines their access to any financial gain accrued through performing below their target costs submitted at tender.

Services measured and their percentage weighting are:-

- Project services – 22.5%;
- Managed services – 15%;
- Hard FM Services – 22.5%;
- Soft FM services – 22.5%;
- Other property services – 12.5%; and
- General service – 5%.

A higher percentage of KPIs achieved indicates a better performance.



Achieved

94.2

%

Quarter 3 December 2018

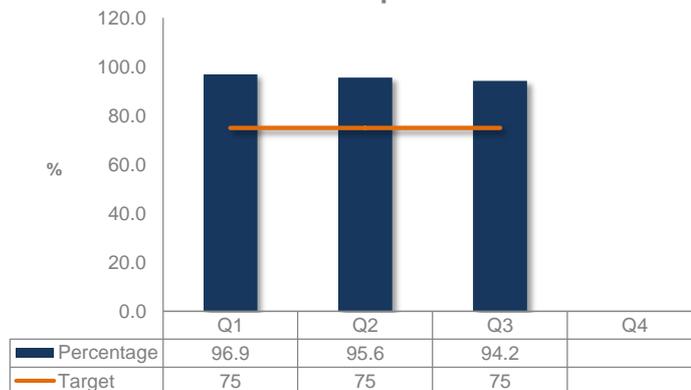


75

%

Target for December 2018

Achievement of KPIs - VINCI Facilities Partnership Limited Contract

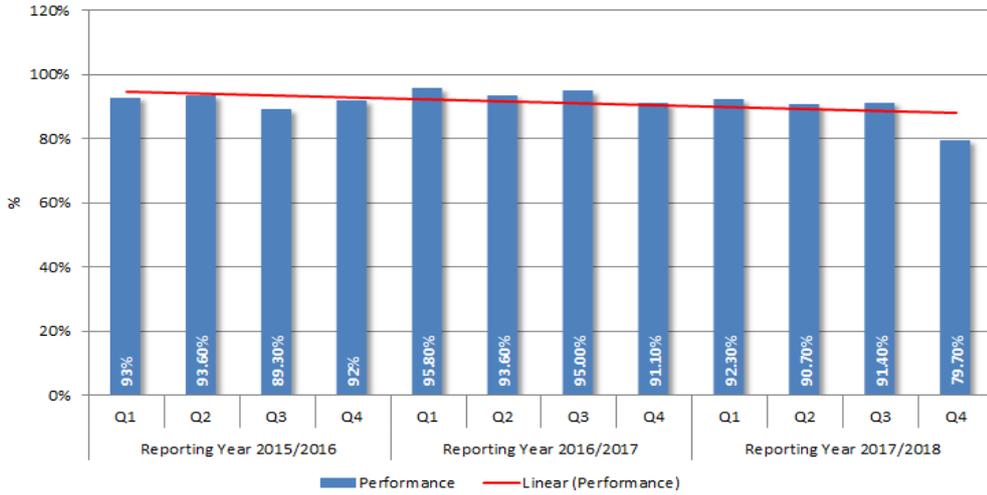


#### About the latest performance

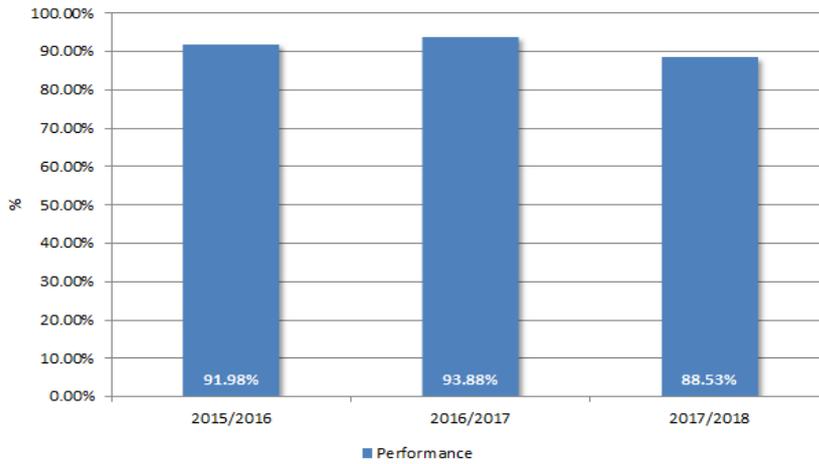
Vinci have maintained a high level of performance. Monitoring of contractors is continuing to provide reassurance of good service delivery. Customer satisfaction results remain high.

Further details

**Achievement of KPIs - VINCI Facilities Partnership**



**Average Annual Achievement of KPI's - VINCI Facilities Partnership**



About the target

A score of 75% was set at tender stage. It is deemed to be commercially appealing whilst still ensuring high standards. In order for the Contractor to be eligible to any gain share they must achieve an overall performance of 75% and 75% for each Service Category. Lincolnshire County Council has set an aspirational internal target of 90% to influence target outcomes based on continuous improvement.

About the target range

The lower range is 75%.

About benchmarking

There is an aspiration to benchmark performance in the future.



We effectively target our resources

Maximise the organisational strength, capacity, resilience and wellbeing to deliver the Council's strategic objectives through people

### Employee turnover

The number of voluntary leavers in a 12 month period as a percentage of the average headcount in the period.

Measured

8.97

%

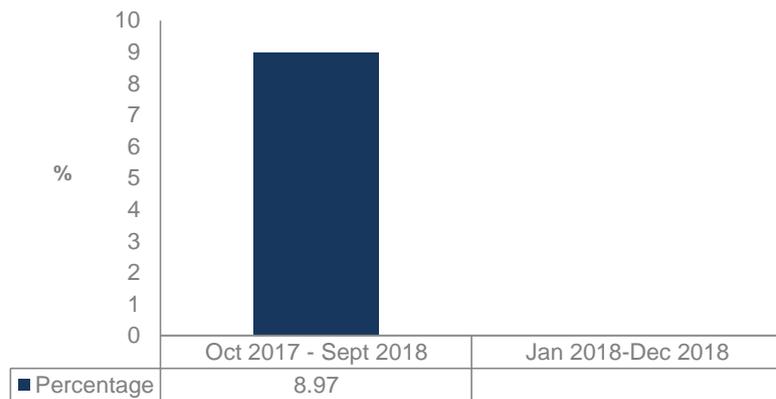
Oct 2017-Sept 2018



Not Reported

Quarter 1 June 2018

#### Employee turnover



#### About the latest performance

This indicator measures the total number of voluntary leavers as a percentage of the average headcount over the 12 months between October 2017 to September 2018. This relates to 422 leavers of an average headcount of 4,702 for the period. Voluntary is classed as those that choose to leave their employment with the Council i.e. resignations or retirements as opposed to those who have been dismissed or made redundant. Overall turnover (inclusive of dismissals and redundancy) is 11.21% for the period. The national average Public Sector turnover rates are: Voluntary 12.9% and overall 15.7%.

#### Further details

This is a new measure being reported in the Council Business Plan therefore historical information is not available.

#### About the target

This measure is included for context and so a target is not applicable.

#### About the target range

A target range is not applicable to this measure.

#### About benchmarking

This measure is included for context and so no benchmarking is available.

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

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>28 February 2019</b>
Subject:	<b>Treasury Management - Quarter 3 Update Report 2018/19 to 31 December 2018</b>

**Summary:**

This report has been prepared in accordance with the reporting recommendations of the CIPFA Code of Practice 2017 and details the Council's treasury management activities to Quarter 3 of 2018/19 31 December 2018, comparing activity to the Treasury Management Strategy for 2018/19 that was approved by the Executive Councillor for Resources and Communications on 20<sup>th</sup> March 2018. It will also highlight any key issues arising in treasury management during this period. Non treasury investments, as defined by recent Government Investment Guidance, are not included in this report and are picked up within the Capital Strategy reporting along with the Council Budget Report for 2019/20.

**Actions Required:**

The Overview and Scrutiny Management Board is invited to

1. Note the contents of the report.
2. Pass on any comments to the Executive Councillor for Resources and Communications.

## **1. 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 quarterly update report will be presented in the form of a **quarterly bulletin** that will cover the main issues arising to 31<sup>st</sup> December 2018 in the following areas:

- 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 and debt rescheduling position and comparison with strategy.
- Other Treasury Management issues arising during the period.

1.3. This quarterly bulletin report can be found at Appendix A.

1.4. For further information, the Council's Authorised Lending List at 31<sup>st</sup> December 2018, together with a key explaining the credit rating scores can be found in Appendix B.

1.5. For further information, a full list of investments held at 31<sup>st</sup> December 2018, combined with the creditworthiness list provided by Link Asset Services is shown in Appendix C.

## 2. Conclusion

### Key Points Summary:

- Short term and long terms rates have moved in line with the Strategy forecast, although long terms rates have fallen recently over Brexit concerns.
- A no deal Brexit poses the most significant risk to treasury management, with potential adverse impact on economic growth and inflation.
- Outperformance on investment return again for the risk level adopted. This is due to longer term investments compared to other authorities, and may reflect differing liquidity needs.
- External borrowing in the quarter of £20m undertaken at average rate of 2.43% leaving total cost of debt portfolio at 4.02%.
- £10 LOBO from RBS restructured into PWLB debt in quarter, saving £1.324m over 42 years.
- Temporary borrowing of £4m outstanding at quarter end taken to cover drops in liquidity when required. The cost of this debt was below current money market rate levels, and hence cost neutral for Council.
- All prudential limits have been adhered to with no breaches
- Regulation changes to Money Market Funds been delayed – no real impact to Council.
- Treasury management training was provided for members on 31/01/19.

### 3. Consultation

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

Yes

#### b) Risks and Impact Analysis

Risk and Impact Analysis for Treasury Management forms TMP1 of the Treasury Management Practices, as required by the CIPFA Code of Practice 2017. 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	Quarter 3 Treasury Management Bulletin Report at 31 December 2018 - Lincolnshire County Council.
Appendix B	Authorised Lending List and Credit Rating Key.
Appendix C	Investment Analysis Review at December 2018 - Link Asset Services Ltd.

### 5. Background Papers

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2018/19 -23/3/2018	Lincolnshire County Council, Finance and Public Protection
Council Budget 2018/19 - 23/2/2018	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](mailto:karen.tonge@lincolnshire.gov.uk).

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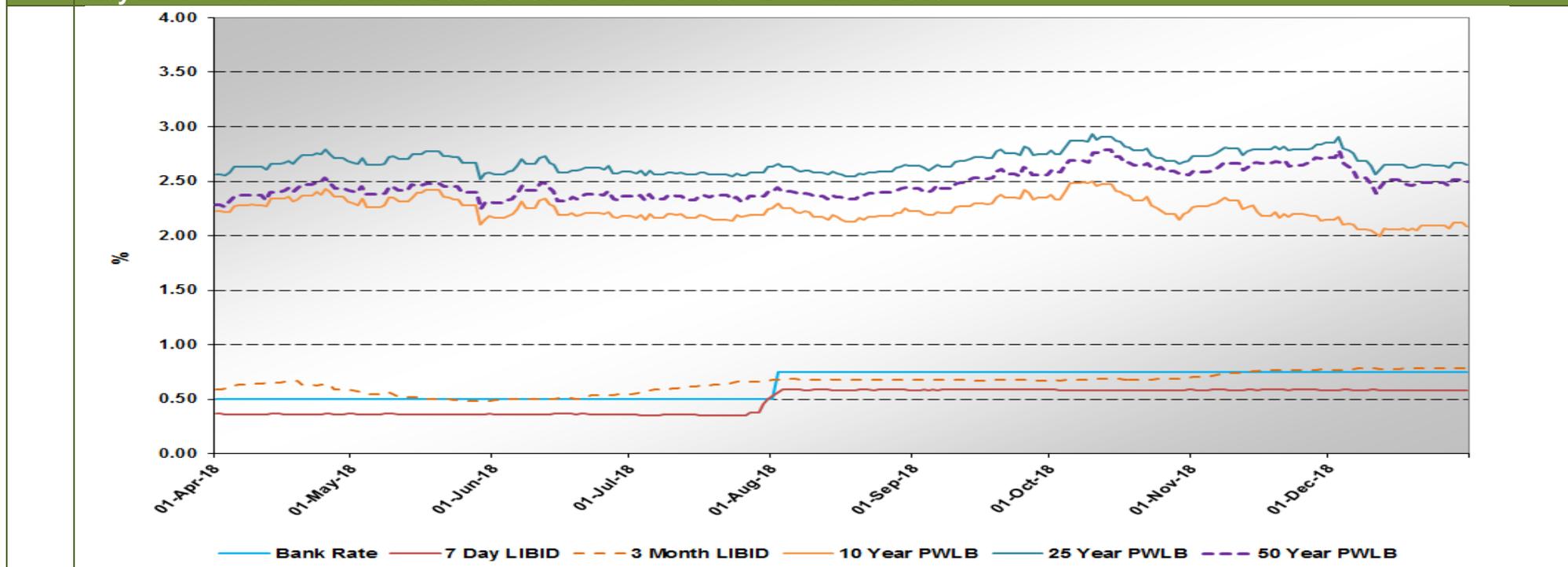
Quarter 3 Treasury Management Bulletin Report at 31<sup>st</sup> December 2018 – Lincolnshire County Council

Interest Rate Forecast at Time of Strategy 2018/19 – March 2018

Short Term Rates: 0.75% by March 2018

Long Term Rates: Up by 0.30% by March 2018

Key Interest Rate Movement 2018/19 Over Period To 31<sup>st</sup> December 2018



Key Economic Data

	Qtr 1	Qtr2	Qtr3	Annual Forecast	Direction of Travel
UK GDP	0.1%	0.4%	0.6%	1.3%	Down
CPI Inflation	2.4%	2.7%	2.1%	2.1%	Stable
Base Rate	0.50%	0.75%	0.75%	0.75%	Up
Unemployment Rate	4.2%	4.1%	4.1%	4.0%	Down

## Threats To Economy

- **Brexit negotiations at an impasse** – possible disruption to growth and rates increasing quicker than expected.
- **Break up of EU** - possible disruption to growth and rates increasing quicker than expected.
- **US tariff increases** – possible threat to world growth.

## Latest Interest Forecast from Link Asset Services – November 2018

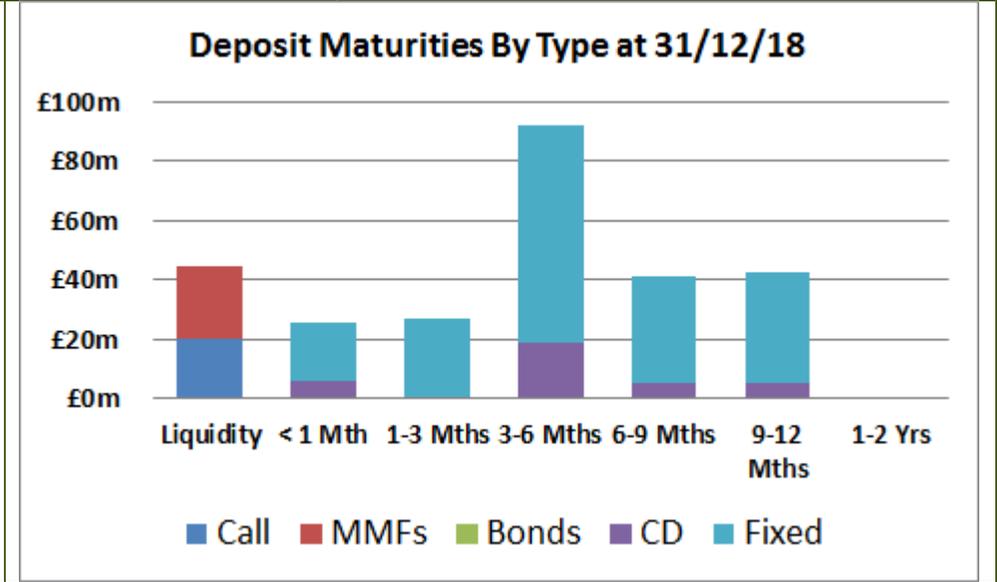
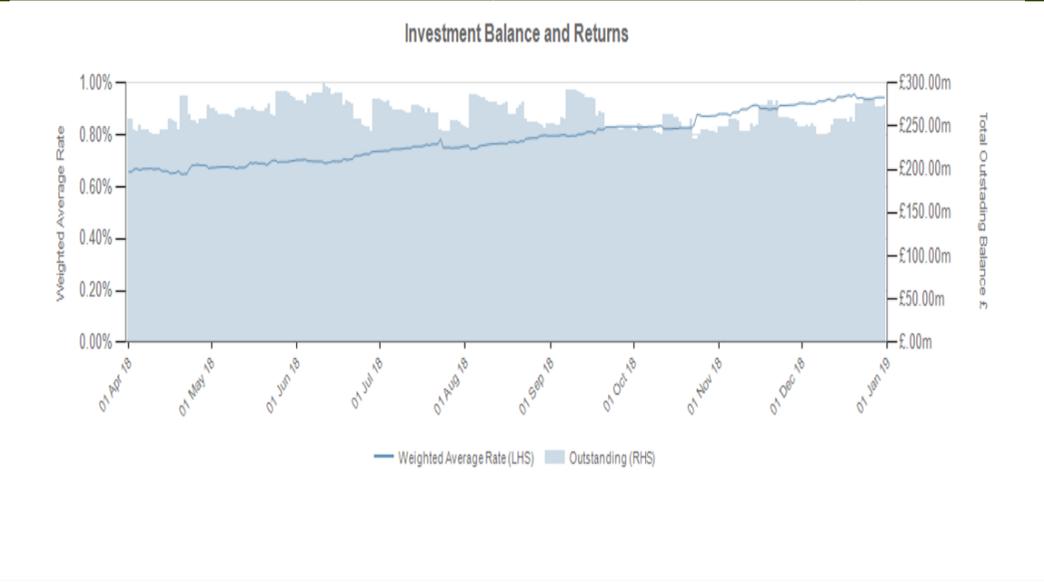
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-21
Bank Base Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
10 yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25 yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50 yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

## Investment Strategy / Authorised Lending List Changes During Quarter 3 to 31.12.2018

Counterparty	Action	Reason
Nordea Bank Abp	Sovereign Rating AA+ from AAA	Restructuring of banking structure in October 2018 created new entity domiciled in Finland from Sweden. No change in credit quality.
Handelsbanken plc	Sovereign Rating AA from AAA	Restructuring of banking structure in 2018 created new entity domiciled in UK from Sweden. No change in credit quality.
Aberdeen Standard MMF	Merger of funds.	Merger of Aberdeen MMF & Standard Life MMF on 5/10/18. MMF limit of £20m applies to new entity.
Departure from Lending List	None	

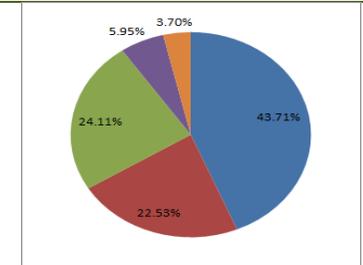
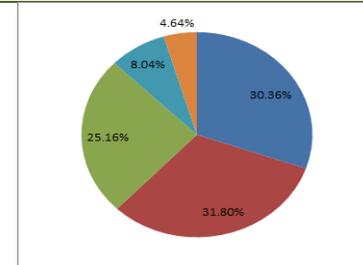
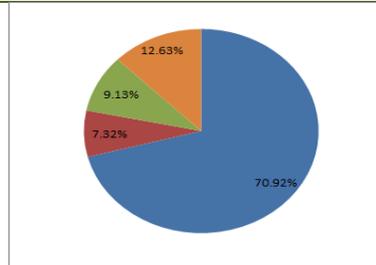
## Investment Position at 31<sup>st</sup> December 2018

Investments Outstanding 31.12.18	Weighted Average Maturity (WAM)	Benchmark Return (7Day/3 Month LIBID) Annualised	Council Performance Annualised
<b>£273.063m</b>	<b>151 Days</b>	<b>0.63%</b>	<b>0.80%</b>



## Link Benchmarking Analysis of Investments at 31<sup>st</sup> December 2018

	LCC	Benchmark Group (9)	English Counties(15)
<b>Return at 31.12.18</b>	<b>0.94%</b>	<b>0.82%</b>	<b>0.86%</b>
<b>WAM</b>	<b>151</b>	<b>82</b>	<b>175</b>
<b>Risk Weighted Score (Duration &amp; Credit Quality)</b>	<b>3.11</b>	<b>2.94</b>	<b>2.82</b>
<b>Model Banding- Expected Return for Risk Taken</b>	<b>0.82% - 0.93%</b>	<b>0.75% - 0.85%</b>	<b>0.76% - 0.87%</b>



### Temporary Borrowing for Liquidity Purposes at 31<sup>st</sup> December 2018

£4m temporary borrowing was outstanding at 31<sup>st</sup> December 2018, at an interest rate of 0.70%, held for liquidity purposes

### Long Term Borrowing Position at 31<sup>st</sup> December 2018

#### External Borrowing Position 31/12/2018 and Forecast for 2018/19

<b>Borrowing Position 1/4/2018</b>	£461.391m	4.09%
<b>New Borrowing to 31/12/2018</b>	£20.000m	2.43%
<b>Debt Repaid to 31/12/2018</b>	-£ 25.497m	
<b>Borrowing Position 31/12/2018</b>	<b>£455.894m</b>	<b>4.02%</b>

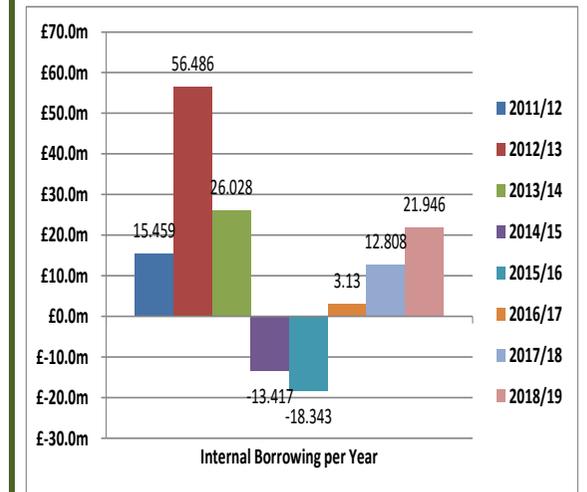
#### Further action required in 2018/19:

<b>Borrowing Requirement 2018/19</b>	£46.321m	
<b>Further Debt Repayments</b>	-£10.000m	
<b>Projected Borrowing at 31/3/19</b>	<b>£492.215m</b>	
<b>Authorised Limit For External Debt</b>	<b>£651.751m</b>	

#### Borrowing Requirement Position at 31/12/2018

Capital Programme After Rephasing.	£89.264m
<b>Funded By:</b>	
Borrowing Requirement Less Internal Borrowing	£70.080m <u>(£21.946m)</u> £48.134m
Plus Maturing Debt in Excess of MRP	<u>£18.187m</u>
Less Borrowing Taken	(£20.000m)
<b>Borrowing Requirement 2018/19</b>	<b>£46.321m</b>

#### Internal Borrowing Position at 31/12/2018 – Total £106.97m



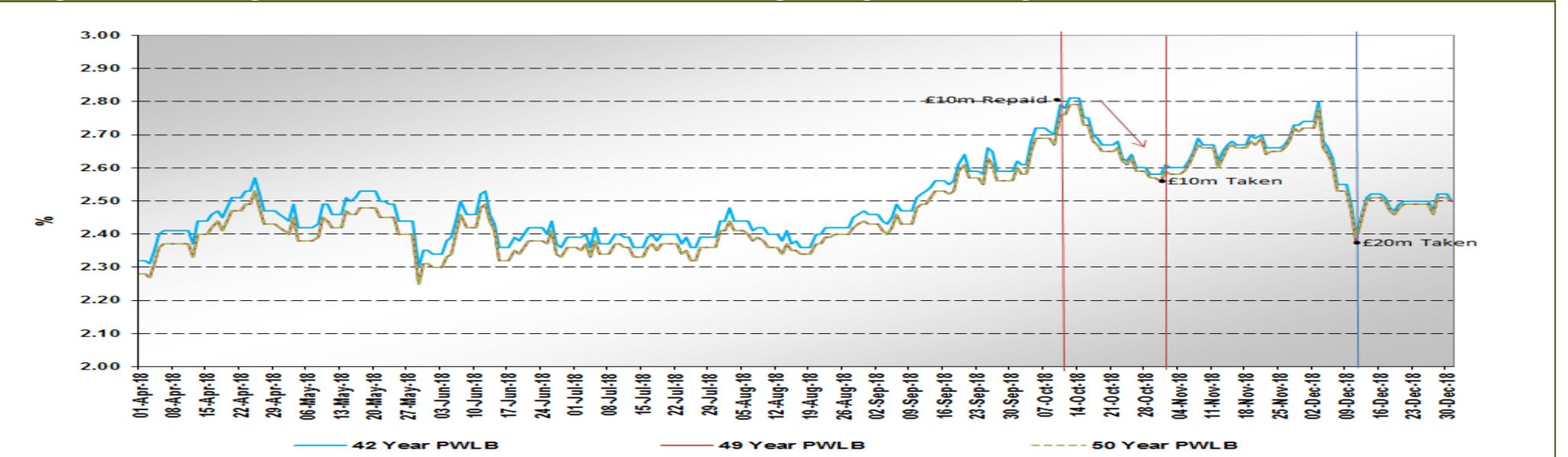
## Long Term External Borrowing Activity To 31<sup>st</sup> December 2018

### New Borrowing :PWLB Maturity Loans

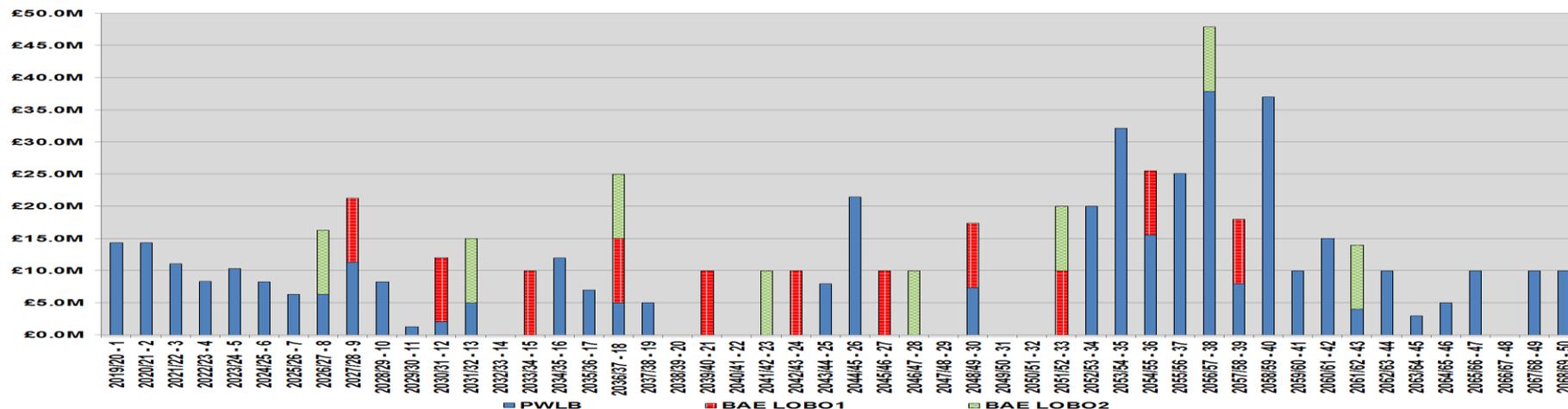
### Debt Rescheduling

Amount	Taken	Length	Rate	Loan Repaid: £10m RBS LOBO, Repaid 12/10/18, 42 Years to Run, at 3.8%	Loan Replaced: £10m PWLB Maturity, Taken 1/11/18, 42 Years, at 2.58%
£10.000m	12/12/18	50 Yrs	2.47%	Saving Over Next 42 Years: Interest Saved: £5.066m Interest Lost on Premium Paid: -£0.753m Premium Paid : <u>-£1.590m</u> Overall Saving: £2.723m <b>NPV (Discounted at 3.5%): £1.324m</b>	Annual Saving next 42 Years: £31.5k  Reduction in Overall Cost of Borrowing: -0.03%
£10.000m	13/12/18	49 Yrs	2.38%		

## Long Term Borrowing PWLB Rates to 31<sup>st</sup> December 2018 Showing Timing of Borrowing Taken



## Long Term Borrowing Maturity Profile At 31<sup>st</sup> December 2018 (External Borrowing)



## Prevailing Treasury Management Issues

Prudential Indicator Limits 2018/19	No Limits have been breached to 31 <sup>st</sup> December 2018
Capital Strategy	A requirement of the new Prudential Code 2017, this will pick up the affordability and risk profile of the non-treasury investment activity of the Council, including new Prudential Indicators for non-treasury investment and borrowing activity. Capital Strategy 2019/20 reported to this Committee in January 2019.
International Financial Reporting Standard (IFRS) 9	Effective from 2018/19, it reclassifies financial assets held by the Council on its Balance Sheet, some of which will have to be held a fair value instead of historic cost, such as Money Market Funds, and introduces an Expected Credit Loss model. The Government have just announced a 5 Year Statutory Override to mitigate the impact of this new reclassification of Financial Assets on Councils accounts.
Treasury Management Member Training	Training was delivered to Members on Treasury Management, including the Capital Strategy, on 31 <sup>st</sup> January 2019 in conjunction with Link Asset Services.
Money Market Fund European Legislation Reform	To comply with European Legislation, money market funds are changing structure from Constant Net Asset Value (CNAV) to Low Volatility Net Asset Value (LVNAV). This transition has been delayed due to issues with the Irish Regulator but it is expected that all funds will have completed the transition by the end of February 2019.

## LINCOLNSHIRE COUNTY COUNCIL LENDING OF TEMPORARY SURPLUSES

Country		Lending Limit £m	Maturity Limit	# Watch/ Outlook Adjusted	FITCH IBCA Credit Rating		For Tre: CDS Overlay	
					Long Term	Sovereign		
	<b>1 Other Local Authorities</b>	20 each	24 Months					
	<b>2 Debt Management Account Deposit Facility</b>	50	6 Month					
	<b>3 UK Banks :</b>							
	<b># HSBC Group</b>	<b>20</b>	<b>365 Day</b>					
UK	HSBC Bank Plc (RFB)	20	365 Day	365 Day	SB	AA-	AA	365 Day
	HSBC Evergreen Notice Account	20	365 Day					
	<b># RBS Group - Part Nationalised</b>	<b>40</b>	<b>365 Day</b>					
UK	National Westminster Bank Plc (RFB)	40	365 Day	365 Day	SB	BBB+	AA	
UK	Royal Bank of Scotland Plc (RFB)	40	365 Day	365 Day	SB	BBB+	AA	
	<b># LloydsHBOS Group</b>	<b>20</b>	<b>365 Day</b>					
UK	Lloyds TSB Bank Plc (RFB)	20	365 Day	365 Day	SB	A+	AA	365 Day
	Bank of Scotland PLC (RFB)	20	365 Day	365 Day	SB	A+	AA	365 Day
UK	Standard Chartered Bank	15	6 Months	6 Months	SB	A+	AA	6 Months
	<b>4 Other Banks</b>							
AUS	Australia & New Zealand Banking Group	20	365 Day	365 Day	SB	AA-	AAA	365 Day
AUS	Commonwealth Bank of Australia	20	365 Day	365 Day	SB	AA-	AAA	365 Day
AUS	National Australia Bank	20	365 Day	365 Day	SB	AA-	AAA	365 Day
AUS	Westpac Banking Corporation	20	365 Day	365 Day	SB	AA-	AAA	365 Day
	<b># BNP Paribas Group</b>	<b>20</b>	<b>365 Day</b>					
BEL	BNP Paribas Fortis	15	6 Months	6 Months	SB	A+	AA-	6 Months
FRA	BNP Paribas	20	6 Months	365 Day	SB	A+	AA	365 Day
CAN	Bank of Montreal	20	365 Day	365 Day	SB	AA-	AAA	365 Day
CAN	Bank of Nova Scotia	20	365 Day	365 Day	SB	AA-	AAA	365 Day
CAN	Canadian Imperial Bank Commerce	20	365 Day	365 Day	SB	AA-	AAA	365 Day
CAN	National Bank of Canada	15	6 Months	6 Months	SB	A+	AAA	6 Months
CAN	Royal Bank of Canada	20	365 Day	365 Day	NO	AA	AAA	365 Day
CAN	Toronto Dominion Bank	20	365 Day	365 Day	SB	AA-	AAA	365 Day
FRA	Credit Industriel et Commercial	15	6 Months	6 Months	SB	A+	AA	6 Months
FIN	Nordea Bank Abp	20	365 Day	365 Day	SB	AA-	AA+	365 Day
	OP Corporate Bank	20	365 Day	365 Day	SB	AA-	AA+	365 Day
GER	DZ Bank AG	20	365 Day	365 Day	SB	AA-	AAA	365 Day
GER	Landesbank Hessen-Thuringen Girozentrale (Heleba)	20	365 Day	365 Day	SB	A+	AAA	365 Day
NETH	Bank Nederlande Gemeenten	25	24 Months	24 Months	SB	AA+	AAA	24 Months
NETH	Cooperative Centrale Raiffeisen Boerenleenbank BA (Rabobank)	20	365 Day	365 Day	SB	AA-	AAA	365 Day
NETH	ING Bank NV	20	365 Day	365 Day	SB	A+	AAA	365 Day
SING	DBS Bank Ltd	20	365 Day	365 Day	SB	AA-	AAA	365 Day
SING	Oversea Chinese Banking Corporation Ltd	20	365 Day	365 Day	SB	AA-	AAA	365 Day
SING	United Overseas Bank	20	365 Day	365 Day	SB	AA-	AAA	365 Day
	<b>#UBS Group</b>	<b>20</b>	<b>365 Day</b>					
SWITZ	UBS AG	20	365 Day	365 Day	SB	AA-	AAA	365 Day
UK	UBS Ltd	20	365 Day	365 Day	SB	AA-	AA	365 Day
SWE	Skandinaviska Enskilda Banken AB	20	365 Day	365 Day	SB	AA-	AAA	365 Day
SWE	Swedbank AB	20	365 Day	365 Day	SB	AA-	AAA	365 Day
	<b># Svenska Group</b>	<b>20</b>	<b>365 Day</b>					
SWE	Svenska Handelsbanken AB	20	365 Day	365 Day	SB	AA	AAA	365 Day
UK	Handelsbanken Plc	20	365 Day	365 Day	SB	AA	AA	365 Day
	Svenska Handelsbanken - 35 Day Notice Account	20	365 Day	365 Day				365 Day
	Svenska Handelsbanken- 10 Day Notice Account	20	365 Day	365 Day				365 Day
	Svenska Handelsbanken- Call Account	20	365 Day	365 Day				365 Day
USA	Bank of New York Mellon	25	24 Months	24 Months	SB	AA	AAA	24 Months
USA	Bank of America NA	20	365 Day	365 Day	SB	AA-	AAA	365 Day
USA	JP Morgan Chase Bank NA	20	365 Day	365 Day	SB	AA	AAA	365 Day
	<b>5 AAA Money Market Funds</b>							
	<b># MMF Group</b>	<b>100</b>	<b>24 Months</b>					
	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		
	Aberdeen Standard Liquidity Fund	20	24 Months			AAA		
	<b># Group Limit of applies where indicated.</b>							
	<b>** A maximum of 20% of total funds to be held in the Building Society Sector.</b>							
	<b>** No more than 20% of total funds to be held in any one institution or group,excluding Govt/MMFs.</b>							
	<b>Any adverse press comments concerning borrowers/potential borrowers should be referred to D Forbes / S Maycock / K Tonge / N Kay.</b>							
	Revised: 31st December 2018							

## 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 (Moody's)

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

## Credit Default Swap (CDS) Spreads

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

Link 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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# Lincolnshire County Council

## Monthly Investment Analysis Review

December 2018

## Monthly Economic Summary

**General Economy**

December began with the Markit/CIPS Manufacturing Purchasing Managers Index (PMI) rising to 53.1 from 51.1, which had been the weakest since the referendum. On a more positive note, the Construction PMI reading rose to a 4 month high of 53.4, spurred by house-building and commercial work. This confounded the consensus forecast of a fall to 52.5. Closing out the set, the UK's dominant service sector's PMI experienced a shock slide and dropped to 50.4, the weakest since the 2016 Brexit vote and below all forecasts. Being the dominant sector, services dragged the Composite PMI figure down to 50.8, meaning overall activity was only just about maintaining growth.

GDP growth was unchanged at 1.5% y/y, with the m/m figure rising slightly to 0.1%, but both were below the forecasted increases. Alongside this, the GDP 3-month average growth to October dropped from 0.6% to 0.4%, emphasising that the impact of the positive Summer, which had been supported by good weather and one-off factors such as the World Cup, was now fading. Elsewhere, data shows that the UK's trade deficit rose above forecasts to £3.3bn in October, with the goods trade deficit also rising to £11.87bn.

Unemployment remained constant at 4.1% in the three months to October. With unemployment close to its lowest level since the 1970s, employers have begun to raise pay for staff more quickly. Average weekly earnings including bonuses rose by 3.3% on the year, the biggest rise since the three months to July 2008. This is the same figure recorded as the total earnings excluding bonuses for the three months to October. This allowed "real wages", which discounts the impact of inflation, to continue to grow, as inflation fell to 2.3% y/y.

British retail sales surged by much more than expected in November, with the m/m figure coming in at 1.2%, up from the previous figure of -0.4%. The y/y figure came in at 3.6%, up from the previous figure of 2.4%. However, the Confederation of British Industry (CBI) data from the month was less bright, with its Distributive Trades survey falling by much more than expected, from 19 to -13. On a brighter note, mortgage approvals improved with the first year-on-year rise since September 2017, despite the fall from the figure reported in November. The GfK consumer confidence reading fell from -13 to -14.

The UK recorded a lower than expected budget deficit in November. It fell to £7.2bn and for the first 8 months of the financial year, it stands at just under £33bn (30% lower than the same point in 2017). This is the lowest November borrowing for 14 years. Tax revenues remained strong but the government spent more than it received in tax and other income. National debt as a percentage of GDP stood at 83.9%, or £1.8 trillion.

Also towards the end of November, the Bank of England's Monetary Policy Committee (MPC) unanimously voted to maintain the

Bank Rate at 0.75%. This was widely expected by market participants, given the uncertainty over the Brexit position.

In the US, the Nonfarm Payroll figure rose by 155,000, below the estimate of 200,000 and the previous downwardly revised 237,000. The final estimate of Q3 GDP was 3.4% trimmed slightly from the previous estimate of 3.5% but still above the economic growth potential of 2%. The Federal Reserve went on to raise the Federal Funds Rate to 2.25-2.5%, continuing the tightening cycle.

In the Eurozone, the European Central Bank (ECB) chose to continue to keep interest rates at 0%, but the meeting spelt the end of its bond-buying programme as first announced in June. PMI figures improved from the previous month, but the final estimate of Q3 GDP came in at 0.2% q/q and 1.6% y/y, both decreases from Q2's figures. Unemployment in the bloc remained at 8.1% in October 2018.

### Housing

According to Nationwide, British house prices rose at their slowest pace in more than 6 years in December as Brexit uncertainty further weighed on the housing market. Prices rose by 0.5% y/y, down from 1.9% in November, and prices fell by 0.7% from November, the biggest monthly fall since July 2012.

Meanwhile, the Halifax index showed a fall of 1.4% m/m, down from 0.7% rise the previous month and lower than analyst expectations of a 0.2% gain. The y/y figure fell to 0.3% from 1.5%, aligning with Nationwide's picture of a slowing housing market.

### Currency

Sterling opened the month at \$1.28 against the US Dollar and closed at \$1.27. Against the Euro, Sterling opened at €1.12 and closed at €1.11.

### Forecast

There was no update to our forecasts in December. To recap, Link Asset Services suggests that the next interest rate rise will be to 1.00% in the second quarter of 2019, with further rises of 25 basis points in Q1 2020 and Q4 2020, eventually reaching 2.00% in March 2022. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q3 2019 and reaching 2.00% in Q2 2020.

Bank Rate										
	Now	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%	-

# Lincolnshire County Council

## Current Investment List

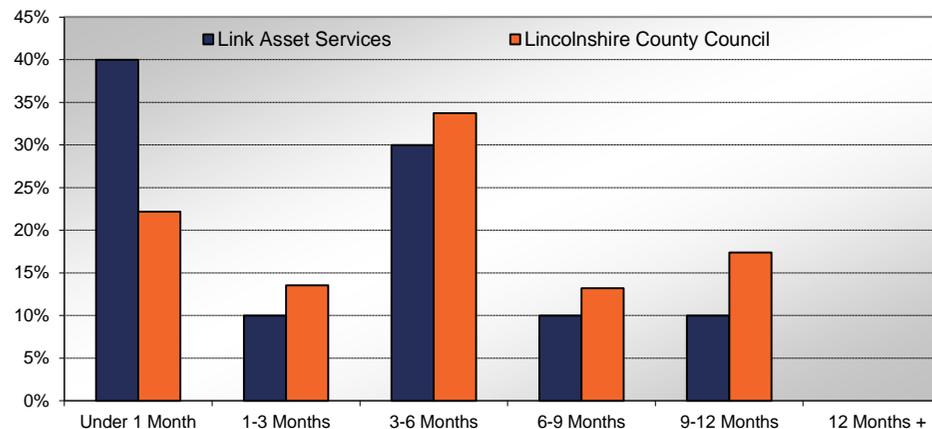
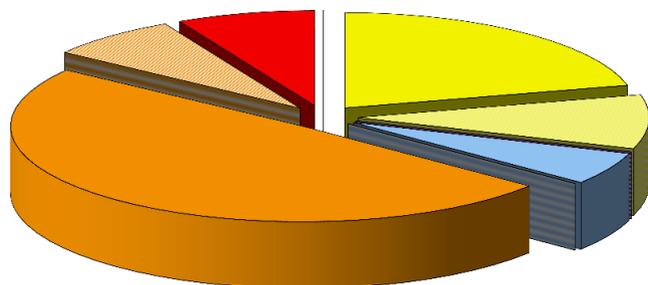
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	5,625,000	0.74%		MMF	AAA	0.000%
MMF Morgan Stanley	17,200,000	0.76%		MMF	AAA	0.000%
MMF Insight	2,093,000	0.73%		MMF	AAA	0.000%
Liverpool City Council	5,000,000	0.70%	13/01/2017	11/01/2019	AA	0.001%
United Overseas Bank Ltd	4,675,000	0.68%	15/01/2018	14/01/2019	AA-	0.001%
National Bank of Canada	5,000,000	0.75%	13/07/2018	14/01/2019	A	0.002%
Commonwealth Bank of Australia	5,000,000	0.70%	26/01/2018	25/01/2019	AA-	0.002%
Standard Chartered Bank	6,000,000	0.90%	27/07/2018	25/01/2019	A	0.004%
HSBC UK Bank Plc (RFB)	10,000,000	0.84%		Call30	AA-	0.002%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,920,000	0.86%	02/03/2018	01/03/2019	A	0.009%
DBS Bank Ltd	5,000,000	0.99%	21/03/2018	20/03/2019	AA-	0.005%
Toronto Dominion Bank	6,000,000	1.03%	27/03/2018	26/03/2019	AA-	0.006%
DBS Bank Ltd	5,000,000	1.00%	28/03/2018	27/03/2019	AA-	0.006%
DBS Bank Ltd	5,000,000	1.00%	29/03/2018	28/03/2019	AA-	0.006%
HSBC UK Bank Plc (RFB)	10,000,000	0.91%		Call90	AA-	0.006%
Doncaster Metropolitan Borough Council	5,000,000	0.77%	20/04/2017	05/04/2019	AA	0.006%
Cheshire East Council	5,000,000	0.85%	20/02/2018	08/04/2019	AA	0.007%
DBS Bank Ltd	5,000,000	0.85%	11/05/2018	10/05/2019	AA-	0.009%
Canadian Imperial Bank of Commerce	3,500,000	0.91%	14/05/2018	13/05/2019	A+	0.020%
Bank of Scotland Plc (RFB)	6,000,000	1.00%	15/05/2018	15/05/2019	A+	0.020%
Standard Chartered Bank	5,000,000	0.98%	16/11/2018	16/05/2019	A	0.020%
London Borough of Haringey	5,000,000	0.95%	11/09/2018	17/05/2019	AA	0.009%
Bank of Scotland Plc (RFB)	6,000,000	1.00%	22/05/2018	22/05/2019	A+	0.021%
Bank of Scotland Plc (RFB)	8,000,000	1.00%	25/05/2018	28/05/2019	A+	0.022%
Cambridgeshire County Council	5,000,000	0.95%	07/09/2018	07/06/2019	AA	0.011%
National Bank of Canada	5,000,000	1.05%	13/12/2018	13/06/2019	A	0.024%
London Borough of Southwark	5,000,000	0.97%	17/12/2018	17/06/2019	AA	0.011%
Plymouth City Council	5,000,000	1.00%	20/12/2018	20/06/2019	AA	0.012%
United Overseas Bank Ltd	3,550,000	0.92%	28/06/2018	27/06/2019	AA-	0.012%
National Westminster Bank Plc (RFB)	10,000,000	0.97%	29/06/2018	28/06/2019	A-	0.026%
Australia and New Zealand Banking Group Ltd	5,000,000	0.92%	29/06/2018	28/06/2019	AA-	0.012%
Commonwealth Bank of Australia	5,000,000	0.90%	29/06/2018	28/06/2019	AA-	0.012%
Australia and New Zealand Banking Group Ltd	5,000,000	0.95%	13/07/2018	12/07/2019	AA-	0.013%
Highland Council	3,000,000	0.95%	28/08/2018	24/07/2019	AA	0.014%
Australia and New Zealand Banking Group Ltd	5,000,000	1.06%	03/08/2018	02/08/2019	AA-	0.014%
Australia and New Zealand Banking Group Ltd	5,000,000	1.04%	21/08/2018	20/08/2019	AA-	0.016%
Birmingham City Council	3,000,000	1.04%	28/08/2018	28/08/2019	AA	0.016%

## Lincolnshire County Council

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,000,000	1.02%	05/09/2018	05/09/2019	A	0.037%
National Westminster Bank Plc (RFB)	5,000,000	1.05%	07/09/2018	09/09/2019	A-	0.037%
Bournemouth Borough Council	5,000,000	0.71%	29/09/2017	20/09/2019	AA	0.018%
London Borough of Enfield	5,000,000	1.05%	22/10/2018	21/10/2019	AA	0.020%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	6,700,000	1.12%	01/11/2018	01/11/2019	A	0.045%
Toronto Dominion Bank	7,000,000	1.15%	06/11/2018	06/11/2019	AA-	0.021%
Coöperatieve Rabobank U.A.	5,000,000	1.14%	12/11/2018	11/11/2019	A+	0.046%
Toronto Dominion Bank	7,000,000	1.16%	13/11/2018	12/11/2019	AA-	0.021%
North Tyneside Metropolitan Borough Council	3,800,000	1.15%	10/12/2018	10/12/2019	AA	0.023%
North Tyneside Metropolitan Borough Council	3,000,000	1.15%	11/12/2018	10/12/2019	AA	0.023%
Canadian Imperial Bank of Commerce	10,000,000	1.13%	14/12/2018	13/12/2019	A+	0.051%
<b>Total Investments</b>	<b>£273,063,000</b>	<b>0.94%</b>				<b>0.015%</b>

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.11**

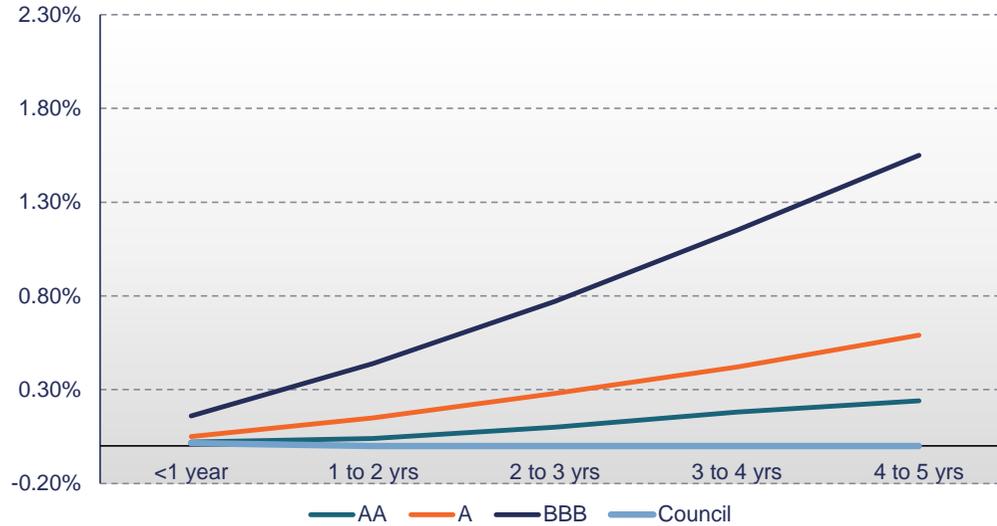
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% 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	WAM at Execution
Yellow	30.29%	£82,718,000	30.12%	£24,918,000	9.13%	0.87%	129	286	184	410
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	5.49%	£15,000,000	0.00%	£0	0.00%	1.00%	203	365	203	365
Orange	56.52%	£154,345,000	12.96%	£20,000,000	7.32%	0.98%	167	325	183	364
Red	7.69%	£21,000,000	0.00%	£0	0.00%	0.92%	82	182	82	182
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£273,063,000</b>	<b>16.45%</b>	<b>£44,918,000</b>	<b>16.45%</b>	<b>0.94%</b>	<b>151</b>	<b>305</b>	<b>175</b>	<b>359</b>

# Lincolnshire County Council

## Investment Risk and Rating Exposure

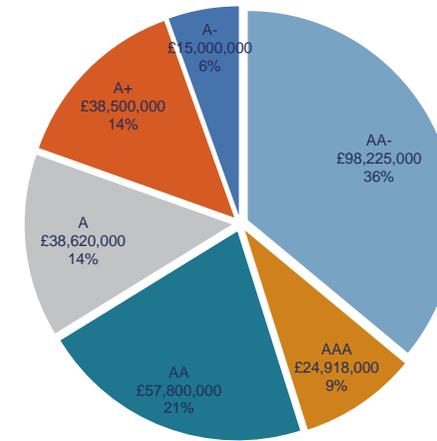
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.015%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



### 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
07/12/2018	1655	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating was removed from Negative Outlook and placed on Negative Watch. At the same time, all other ratings have been placed on Negative Watch.
17/12/2018	1659	NatWest Markets Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A' from 'BBB+', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was withdrawn. Support Rating was upgraded to '1' from '5' and removed from Positive Watch.
17/12/2018	1659	National Westminster Bank Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
17/12/2018	1659	The Royal Bank of Scotland	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
20/12/2018	1662	Barclays Bank Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
20/12/2018	1662	Barclays Bank UK Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.

## Lincolnshire County Council

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/12/2018	1654	Bank of America N.A.	United States	Outlook on the Long Term Rating was removed from Stable and placed on Positive Watch.
17/12/2018	1660	Clydesdale Bank Plc	United Kingdom	The Long Term Rating was removed from Negative Watch and was placed on Positive Outlook.
18/12/2018	1661	Norddeutsche Landesbank Girozentrale	Germany	Outlook on the Long Term Rating was removed from Negative Outlook and placed on Evolving Watch. At the same time the Short Term Rating was placed on Negative Watch

# Lincolnshire County Council

## Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
10/12/2018	1656	Qatar Sovereign Rating	Qatar	Outlook on the Sovereign Rating changed to Stable from Negative
10/12/2018	1657	Qatar National Bank	Qatar	Outlook on the Long Term Rating changed to Stable from Negative
11/12/2018	1658	Macquarie Bank Ltd.	Australia	Outlook on the Long Term Rating changed to Evolving from Negative.

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

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>28 February 2019</b>
Subject:	<b>Treasury Management Strategy Statement and Annual Investment Strategy 2019/20</b>

**Summary:**

This report invites the Overview and Scrutiny Management Board to consider a report on the Treasury Management Strategy Statement and Annual Investment Strategy 2019/20 which is due to be considered by the Executive Councillor for Resources and Communications on 22 March 2019. The views of the Board will be reported to the Executive Councillor as part of his consideration of this item.

**Actions Required:**

The Overview and Scrutiny Management Board is invited to: -

- 1) consider the attached report and to determine whether the Board supports the recommendation(s) to the Executive Councillor for Resources and Communications as set out in the report.
- 2) agree any additional comments to be passed to the Executive Councillor in relation to this item.

## **1. Background**

The Executive Councillor for Resources and Communications is due to consider the Treasury Management Strategy Statement and Annual Investment Strategy 2019/20 on 22 March 2019. The full report to the Executive Councillor is attached at Appendix 1 to this report.

## **2. Conclusion**

Following consideration of the attached report, the Board is requested to consider whether it supports the recommendation(s) in the report and whether it wishes to make any additional comments to the Executive Councillor. The Board's views will be reported to the Executive Councillor.

### 3. Consultation

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

See report to the Executive Councillor attached at Appendix 1.

#### b) Risks and Impact Analysis

See report to the Executive Councillor attached at Appendix 1.

### 4. Appendices

These are listed below and attached at the back of the report	
Appendix 1	Report to the Executive Councillor for Resources and Communications on Treasury Management Strategy Statement and Annual Investment Strategy 2019/20

### 5. Background Papers

Document title	Where the document can be viewed
Council Budget 2019/20 - 22nd February 2019	Lincolnshire County Council, Finance & Public Protection
LCC Treasury Management Policy Statement and Treasury Management Practices	Treasury and Financial Strategy Section, Finance & Public Protection

This report was written by Karen Tonge, who can be contacted on 01522 553639 or [karen.tonge@lincolnshire.gov.uk](mailto:karen.tonge@lincolnshire.gov.uk).

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

Report to:	<b>Councillor M J Hill, OBE - Leader of the Council and Executive Councillor for Resources and Communication</b>
Date:	<b>22 March 2019</b>
Subject:	<b>Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2019/20</b>
Decision Reference:	<b>I017210</b>
Key decision?	<b>No</b>

**Summary:**

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2019/2020. 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 for Treasury Investments 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 and supporting guidance.

**Recommendation(s):**

That the Leader of the Council approves:

(1) The Treasury Management Strategy Statement for 2019/2020, as detailed in Section 2 of this report.

(2) The Annual Investment Strategy Statement for Treasury Investments 2019/2020, as detailed in Section 3 of this report.

**Alternatives Considered:**

- |    |   |
|----|---|
| 1. | Not to approve the strategies or to approve amended strategies. |
|----|---|

### **Reasons for Recommendation:**

The Council's Financial Regulations require the Council to prepare annually a Treasury Management Strategy Statement and an Annual Investment Strategy Statement for Treasury Investments.

The strategies proposed in this Report have been developed with regard to relevant Guidance and in accordance with the Council's financial policies. They are aligned to the Council's Prudential Indicators. The advice of the Council's Treasury Management advisors has been taken during the course of developing the strategy and the proposals in this report are considered to be the most appropriate approach for the Council to adopt.

## **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 1<sup>st</sup> 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 for Treasury Investments 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 also includes loans supporting service outcomes, investments in subsidiaries and investment in 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. The Government also issued revised 'Guidance on Local Government Investments' in February 2018 which extended the meaning of investments to include these non-treasury investments and loans.

1.2.4. Following CIPFA's and the Governments new recommendations and guidance, details of these non-treasury investments and loans 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 types of 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. The Capital Strategy was presented to the Overview and Scrutiny Management Board for scrutiny on 31<sup>st</sup> January 2019 and is being presented to Full Council for approval on 22<sup>nd</sup> February 2019, along with the Council Budget for 2019/2020.

### 1.3. **Purpose of Report**

1.3.1. This report comprises the Treasury Management Strategy Statement for 2019/2020 as Section 2 and the Annual Investment Strategy for Treasury Investments 2019/2020 as Section 3 and has been prepared in accordance with the CIPFA Code of Practice for Treasury Management 2017.

- Treasury Management Strategy Statement 2019/2020

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2019/2020.

- The Annual Investment Strategy 2019/2020

The Annual Investment Strategy for Treasury Investments sets out the Council's policies for investing its surplus cash for the year 2019/2020 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 2019/2020.

#### **1.4. Reporting Arrangements**

1.4.1. In accordance with the requirements of the revised Code, this Treasury Management Strategy and Annual Investment Strategy for Treasury Investments 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.

1.4.2. Quarterly update 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 2019/2020**

### **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 2019/2020 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 2018/2019 to 2021/2022;
- Affordable borrowing limit for 2019/20 to 2021/2022;
- 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 2019 to 2022;
- Long term borrowing strategy 2019/2020;
- Investment strategy 2019/2020;
- Short term (cash flow) borrowing strategy 2019/2020;
- 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 31.12.2019 comprised:

		Principal £million	Ave Rate %
<b>Long Term Borrowing</b>			
Opening Balance	01.04.18	461.391	4.09%
New Borrowing to	31.12.18	20.000	2.43%
Borrowing Repaid to	31.12.18	(25.497)	
<b>Rescheduling:</b>			
Borrowing Repaid Early to	31.12.18	(10.000)	3.80%
Borrowing Replaced	31.12.18	10.000	2.58%
<b>Total Borrowing at</b>	<b>31.12.18</b>	<b>455.894</b>	<b>4.02%</b>
<b>Investments*</b>			
LCC at	31.12.18	266.119	
Pension Fund at	31.12.18	6.944	
<b>Total Investments at</b>	<b>31.12.18</b>	<b>273.063</b>	<b>0.94%</b>
<b>Net Borrowing at</b>	<b>31.12.18</b>	<b>182.831</b>	

\* Note this balance excludes non-treasury investments.

**2.3. Capital Expenditure Plans & Capital Financing (Borrowing)  
Requirement 2018/2019 to 2021/2022**

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. Annex A shows a summary of the actual **Prudential Indicators** for 2017/18 and the estimated prudential indicators for 2018/19 through to 2021/22, which are submitted, as per the requirements of the Prudential Code, with the Council Budget 2019/20 Report, which is to be considered at the meeting of the County Council on 22<sup>nd</sup> February 2019.

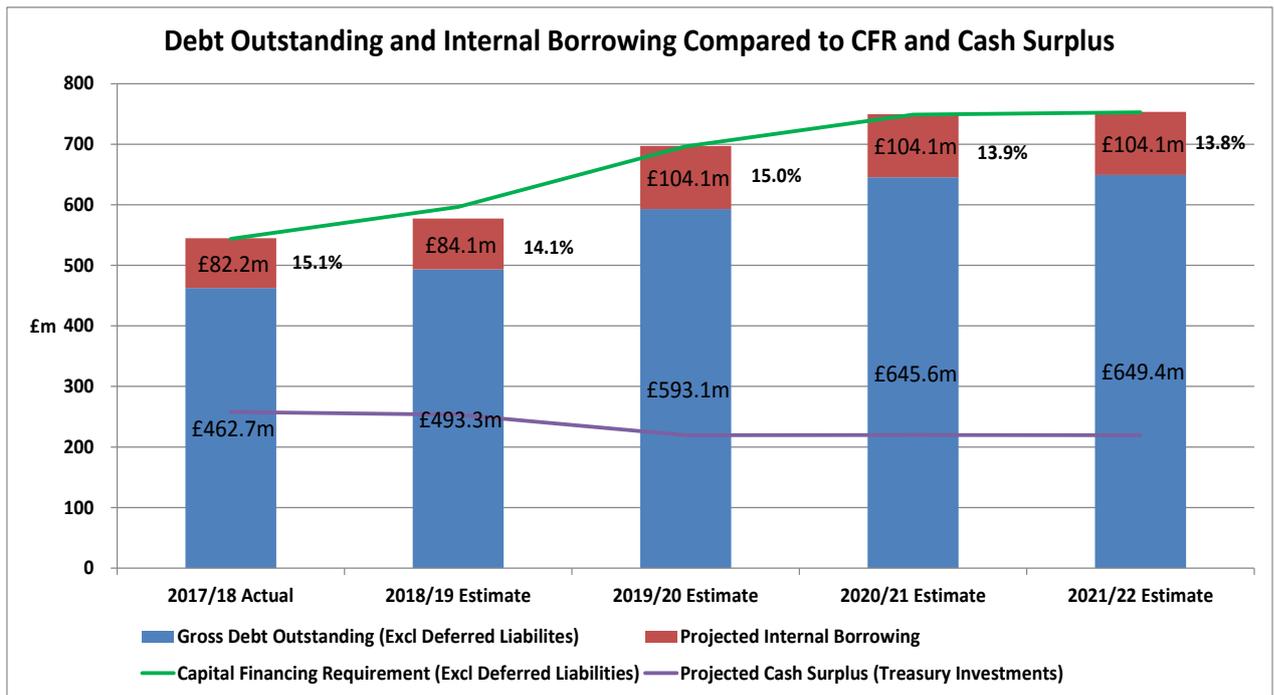
2.3.4. Extracted from these Prudential Indicators, shown in the table below, is the Council's **capital expenditure plans** for the reporting period and the element of this expenditure which is not to be financed straight away from cash resource or grants, hence to be financed at a future date by borrowing (**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 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Total £m
<b>Capital Expenditure Plans</b>	188.308	178.500	127.556	30.056	<b>524.420</b>
<b>New Borrowing Requirement</b>	70.080	118.353	76.794	30.056	<b>295.283</b>
<b>Maturing Borrowing Requirement</b>	35.497	14.354	14.354	11.064	<b>75.269</b>

## Capital Financing Requirement

2.3.5. **The Capital Financing Requirement (CFR)** is another Prudential Indicator (Number 2) shown in Annex 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 arrangement** 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 Annex B and explained later in this report at 2.5.

2.3.6. The graph below shows the actual CFR for 2017/18 and forward projections to 2021/22, 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 is a way of managing risk and has been prudent whilst investment returns are low and counterparty risk is high. The graph shows that this internal borrowing level is forecast to maintain at around 15% of the CFR. The predicted effect on the Council's cash resource by maintaining this level of internal borrowing is indicated by the blue line on the graph below showing cash balances being sustained, falling to just over £200m for the forecasted period, a level the Council deems sustainable. 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 green line in the above graph indicates that the total CFR (or borrowing requirement) is increasing year on year which means new borrowing commitments are outstripping the minimum provision to repay debt (i.e. MRP) each year to 2021/22.

## 2.4. Affordable Borrowing Limit for 2019/2020 to 2021/2022

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**' (Number 4), 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 2019/20 to 2021/22 is shown in the table below and it can be seen that the Council's actual external debt forecast as shown in the graph at 2.3.6 falls within these limits set.

	2019/20 £million	2020/21 £million	2021/22 £million
<b>Borrowing</b>	696.847	737.584	734.829
<b>Other Long Term Liabilities</b>	12.026	11.260	10.495
<b>TOTAL</b>	<b>708.873</b>	<b>748.844</b>	<b>745.324</b>

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 on the MRP**, which the Council must 'have regard' to, accompanies the regulations and provides options for calculating a prudent level of 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. A revision of the Guidance was issued in February 2018, applicable from 1<sup>st</sup> April 2019, which focused on MRP

relating to non-financial asset investments and a number of clarifications on maintaining a prudent level of MRP (e.g. Using realistic asset lives in calculations and no negative MRP).

2.5.3. Annex 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. Changes to the Council's MRP policy in light of the revised Guidance have been made where indicated. The revenue budget provision for MRP charges in 2019/20 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 (Number 5) 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 (Number 8) as shown in Annex 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 relevant **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 (Number 11) as shown in Annex 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<sup>1</sup> loans into PWLB maturity<sup>2</sup> loans. At 31<sup>st</sup> March 2019 £14.869 million of EIP debt, from the Council's total predicted debt portfolio of £493.294 million will remain to be rescheduled given the opportunity. Some existing LOBO debt has also been rescheduled into PWLB debt, at the request of the LOBO holder, to generate savings over the remaining term of the loan.
- 2.9.4. Repaying debt early does incur a premium<sup>3</sup> or discount<sup>4</sup> 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 2.11 below.
- 2.9.6. The appropriate timing of any rescheduling will be monitored throughout 2019/20 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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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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 2019 to 2022

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. Annex 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 2019	0.75	0.90	1.20	2.10	2.90	2.70
June 2019	<b>1.00</b>	1.00	1.30	2.20	3.00	2.80
Sept 2019	1.00	1.10	1.40	2.20	3.10	2.90
Dec 2019	1.00	1.20	1.50	2.30	3.10	2.90
Mar 2020	<b>1.25</b>	1.30	1.60	2.30	3.20	3.00
June 2020	1.25	1.40	1.70	2.40	3.30	3.10
Sept 2020	1.25	1.50	1.80	2.50	3.30	3.10
Dec 2020	<b>1.50</b>	1.50	1.90	2.50	3.40	3.20
Mar 2021	1.50	1.60	2.00	2.60	3.40	3.20
Jun 2021	<b>1.75</b>	1.70	2.10	2.60	3.50	3.30
Sept 2021	1.75	1.80	2.20	2.70	3.50	3.30
Dec 2021	1.75	1.90	2.30	2.80	3.60	3.40
Mar 2022	<b>2.00</b>	2.00	2.40	2.80	3.60	3.40

### Economic Commentary

2.10.2. The following paragraphs set the backdrop to the Council's investment management activity in 2019/20 and subsequent years, by providing commentary on the economic outlook:

- **Global Economy**

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall **world growth is likely to weaken in 2019/20.**

A marked acceleration of wage inflation in the US and UK is **seeing inflation predicted to rise in 2019/20**, with all major economies continuing to **increase base rates in 2019**, albeit the ECB is unlikely to start raising rates until late 2019 at the earliest.

A key risk remains to be the timing of key central banks in reversing the monetary policy measures such as Quantitative Easing, started during the financial crash of 2008. The wrong timing or strength of action has the potential to destabilise financial markets and hence economies going forward.

- **UK Economy**

Economic growth in 2018 started off weak but then rose strongly during the year with 0.4% and 0.6% increases in the last two quarters. However growth in the last quarter is expected to weaken significantly. CPI Inflation fell from 3.1% in November 2017 to 2.1% in December 2018, with the Monetary Policy Committee (MPC) forecasting inflation will still be marginally above its 2% inflation target (at about 2.1%) two years ahead. Wage inflation in excess of 3% is forecast to remain as employers are now having major difficulties filling job vacancies with suitable staff, thus adding to inflationary pressures within the UK.

What will happen to the UK Economy, Inflation and Interest Rates in 2019 **will be driven by Brexit**. The MPC in November 2018 again stated that increases in Base Rate would be gradual and rise to no more than 2.50% in ten years' time. However at the same time indicated there is so much uncertainty around the Brexit outcome that the next move in interest rates could be up or down due to the following scenarios:

- ~ **Down:** To stimulate the Economy, if there is significant fall in Growth as a result of a disorderly Brexit.
- ~ **Up:** To curb rise in inflation from a devaluation of sterling as a result of a disorderly Brexit. (Resulting from an increase in import prices and more expensive UK goods replacing cheap imported goods).

With the recent Brexit deal defeated on 15 January 2019, it is unclear how the situation will move forward. It is highly likely that any revised deal will not obtain full agreement by the UK and the EU before 29 March 2019, in which case the withdrawal date is likely to be pushed back to a new date with the uncertainty this will cause continuing.

In spite of this uncertainty, markets are forecasting rates to **increase during 2019/20 in May 2019 and then again in February 2020, ending the year at 1.25%**. This increase is expected to continue with Base Rates of 2% predicted by February 2022. This forecast is however on the assumption that a Brexit deal is agreed by both the UK and the EU.

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term borrowing rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward.

- **US Economy**

The US continues its policy of massive easing of fiscal policy. This has led to strong growth (over 3%) and an upturn in inflationary pressures. Strong employment and low unemployment led to an upturn in wage inflation of 3.2% in November 2018. The Fed increased interest rates 8 times in 2018 reaching 2.5% with further increases due in 2019 to bring inflation down to its 2% target. There are investor fears however over the speed and level of increase in rates that may cause the US recession as a result. Stock markets around the world have fell as a consequence of these fears and the trade war between the US and China.

- **Eurozone**

Growth in the Eurozone is expected to be nearly 2% for 2018, but the forecast for further growth is unclear. The ECB ended its Quantitative Easing (QE) programme in December 2018 and is only forecasting inflation to be a little below its 2% top limit for the next 3 years, so a predicated increase in rates in late 2019 will be difficult to justify.

2.10.3. A more detailed view of the current economic outlook is contained within **Annex D** to this report, which includes a timetable of the Brexit process.

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 2019/2020 (peaking at 1.25%) but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018/19, rising and falling within the year. Brexit announcements have added to this volatility, with rates dipping to historical lows before Christmas when the Brexit vote was postponed. Internal borrowing strategies need to be reviewed if opportunities to lock into these low rates arise.

- There will remain a cost of carry to any new long-term borrowing taken that causes a temporary increase in cash balances as this position will incur a revenue loss between borrowing costs and investment returns. Although this cost of carry has been at recent lows given the dip in borrowing rates.

## 2.11. Long Term Borrowing Strategy 2019/2020

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 2019/20 by around 0.20% to 0.30% starting from current levels of 1.20% to 2.90%. At the time of writing suggested target rates for taking borrowing are as follows:

Period	Target Rate
50 Years	2.70%
25 Years	2.90%
10 Years	2.50%
5 Years	2.00%

- The Council's Long Term Borrowing Maturity Profile as at 1<sup>st</sup> March 2018 can be seen as **Annex E**. It shows actual maturities and also possible maturities from the LOBO debt taken. Gaps in the maturity profile are between 19 years and 34 years, then after 45 years. Any new borrowing taken should focus on these lengths at prevailing rates of interest.
- Market loans and LOBO<sup>5</sup> 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.

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<sup>5</sup> 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.

2.11.2. Given the factors detailed above, the following **borrowing strategy** will be adopted for 2019/20:

**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.

## 2.12. **Investment Strategy 2019/2020**

2.12.1. Bank Rate is forecast to increase twice to 1.25% from 0.75% by the end of 2019/2020. The risk to this forecast is difficult to predict given the uncertainty over the final terms of Brexit.

2.12.2. The Council's investment priorities for its treasury investments 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 for Treasury Investments, 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 **£210 million** net of Pension Fund cash in 2019/20, 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 2019/20 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 31<sup>st</sup> December 2018 was 0.63%.

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 2019/20:

**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<sup>6</sup> 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<sup>7</sup>, Treasury/LA Bills<sup>8</sup>, Dated Bonds held to maturity<sup>9</sup> and Repo<sup>10</sup> 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.

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<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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.

<sup>9</sup> 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).

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

## 2.13. Short Term (Cash Flow) Borrowing Strategy 2019/2020

2.13.1. During 2019/2020, 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 applied to **new funds** with effect from **21<sup>st</sup> July 2018** and to **existing funds by no later than 21<sup>st</sup> January 2019** which has now been extended to **March 2019** due to some regulatory issues.

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.
- **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 only be used following an appropriate risk assessment being undertaken.

#### 2.14.2. Accounting Arrangement for Financial Instruments –IFRS 9

International Financial Reporting Standard 9 (IFRS9) introduces new accounting arrangements for financial instruments from 1<sup>st</sup> 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 by calculating an Expected Credit Loss for each investment held. 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.

#### 2.14.3. Long Term Borrowing – School Loans Scheme 2019/20

Long Term Borrowing from the PWLB on behalf of schools as part of the schools loan scheme will be undertaken throughout 2019/2020 as and when required and on terms requested by schools.

#### 2.14.4. 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.

#### 2.14.5. Pension Fund Cash

In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which were implemented on 1<sup>st</sup> January 2010, effective from 1<sup>st</sup> 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 FOR TREASURY INVESTMENTS 2019/2020**

- 3.1. In accordance with Section 15(1) of the Local Government Act 2003, 3<sup>rd</sup> Edition, issued 2<sup>nd</sup> February 2018, 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 Treasury Investments for 2019/2020** (the 'Treasury Strategy') detailed below. The Government have extended the meaning of 'investments' in this Guidance to include both **financial (treasury related)** and **non-financial (non-treasury related)** investments. Non-financial investments include the purchase of income yielding assets for the purpose of making a return and also the making of loans to 3<sup>rd</sup> parties for strategic service reasons. This Annual Investment Strategy applies to the Councils **treasury related investments only**. The investment strategy dealing with the Council's non-treasury related investments and loans will be included in the Capital Strategy 2019/2020 which will be considered along with the Council Budget for 2019/2020.
- 3.2. The Council's treasury investment priorities will be **security first, liquidity second, and then return**. The intention of the Treasury Strategy is to provide security of investment and minimisation of risk. The aim of the Treasury 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 2019/20 according to the Secretary of State's definition of **Specified** and **Non-Specified investment** categories as detailed below.

Characteristics/Type	Counterparty Categories
<b>Specified Investments</b>	
<ul style="list-style-type: none"> <li>• Sterling deposits.</li> <li>• Up to and including one year.</li> <li>• Offering high security / high yield.</li> <li>• Fixed, callable or forward term deposits as appropriate<sup>11</sup>, Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.</li> </ul>	<ul style="list-style-type: none"> <li>• UK Government/ Supranational/ Multilateral Development Banks.</li> <li>• Local Authorities.</li> <li>• Bodies or Investment Schemes meeting the Councils <b>minimum acceptable credit rating criteria for Specified Investments</b> (Includes Banks, Building Societies, Corporates, and Money Market Funds CNAV, LVNAV).</li> </ul>
Characteristics/Type	Counterparty Categories
<b>Non-Specified Investments</b>	
<ul style="list-style-type: none"> <li>• Sterling deposits.</li> <li>• Period greater than 12 months up to a maximum of 2 years.</li> <li>• Higher risk than Specified Investments.</li> <li>• Fixed, callable or forward term deposits as appropriate, Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.</li> </ul>	<ul style="list-style-type: none"> <li>• UK Government/ Supranational/ Multilateral Development Banks.</li> <li>• Local Authorities.</li> <li>• Bodies or Investment Schemes meeting the Councils <b>minimum acceptable credit rating criteria for Non-Specified Investments</b> (Includes Banks, Building Societies, Corporates and Enhanced Money Market Funds VNAV).</li> </ul>

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

<sup>11</sup> 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.

approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies.
- 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. **Annex 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 to Match its Risk Appetite for Treasury Investments

3.7. In addition to the Link's 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 allow greater depth and diversification to the Council's Counterparty list, while still maintaining the tenets of security and liquidity.

#### \*\* Long Term Rating

**This minimum Long Term Rating has been reduced to A from A+ for 2019/20 onwards.** The definition of an A rating is 'High Credit quality with low expectation of credit risk, with a strong capacity for timely payment of financial commitments'. Ratings can also be assigned a "+" or "-" to denote the relative status within a rating category, but the category still has the same definition regardless of a "+" or "-". Moving from A+ to A minimum limit allows a greater number of Counterparties on the Council's Authorised Lending List with a 6 Month/£15m limit, in accordance with Council Investment policy. (e.g. Barclays, Santander and Nationwide Building Society). It is felt that the benefits of this move far outweigh the moderately extra risk that would be incurred, including the opportunity to improve investment return. For reference, Link's credit worthiness matrix uses a minimum Long Term Rating level of A-.

#### \*\*\* 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.

#### Barclays Bank plc

Barclays Bank plc is the Councils banker at present and therefore the Council have an intra-day financial exposure to Barclays bank on a daily basis. This intra-day exposure will not be included with limits set for Barclays as part of the Annual Investment Strategy. 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.

3.8. **Annex 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<sup>12</sup> 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.

3.11. In line with the Prudential Code Indicator, the maximum amount of total investment that can be held in treasury investments over 12 months at any one time is £40 million, as shown in Annex 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.

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<sup>12</sup> iTraxx Senior Financials Index that measures the "average" level of the most liquid financial CDS prices in the CDS market.

### Liquidity of Treasury 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. 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

<p>The report details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2019/20. There are no equalities implications that need to be taken into account by the Executive Councillor.</p>
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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 details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2019/20. There are no implications that need to be taken into account by the Executive Councillor.

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 details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2019/20. There are no implications that need to be taken into account by the Executive Councillor.

**3. Conclusion**

The Treasury Management Strategy, determining appropriate borrowing and treasury investment decisions, and the Annual Investment Strategy, outlining the Council's policy for treasury investments, has been set for 2019/20 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, and new MHCLG Guidance on Local Government Investments issued in February 2018. Based on officer recommendation, this report is presented to the Executive Councillor with responsibility for finance for approval in order to comply with Financial Regulation

**4. Legal Comments:**

The Council's Financial Regulations require the Council to annually produce a Treasury Management Strategy setting out expected treasury activities in accordance with the requirements of the CIPFA Code of Practice. The strategy statement must be submitted to the Executive Councillor with responsibility for finance for approval prior to the commencement of each financial year.

The Financial Regulations also require the production of an Annual Investment Strategy to ensure that Section 15 (1) of the Local Government Act 2003 is complied with, that is that all authorities must "have regard to guidance on investment issued by the Secretary of State" when investing their surplus cash.

The strategy must be approved by the Executive Councillor with responsibility for finance.

This report enables the Council to meet its legal obligations in accordance with the Financial Regulations. The recommendations are lawful and within the remit of the Executive Councillor with responsibility for finance.

## **5. Resource Comments:**

This report sets out the Treasury Management Strategy and Investment Strategy for Treasury Investments of the Council for the year ahead. The Council requires a Treasury Management Strategy and Investment Strategy for Treasury Investments for the year ahead in order to comply with Financial Regulations.

## **6. Consultation**

### **a) Has Local Member Been Consulted?**

n/a

### **b) Has Executive Councillor Been Consulted?**

Yes

### **c) Scrutiny Comments**

The Overview and Scrutiny Management Board is responsible for monitoring and scrutiny of the operation of the treasury management policies and practices and as such will consider this report at its meeting on 28 February 2018. Comments from the Board will be passed on to the Executive Councillor for Resources and Communications prior to making a decision.

### **d) Have Risks and Impact Analysis been carried out?**

Yes

### **e) 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 2017. 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.

## **7. Appendices**

These are listed below and attached at the back of the report	
Appendix A	Prudential Indicator Table 2017/18 to 2021/22
Appendix B	Revenue Provision for the Repayment of Debt Policy (Minimum Revenue Provision)

Appendix C	Interest Rate Forecasts 2019-2022
Appendix D	Economic Background - Link Asset Services Ltd
Appendix E	Long Term Borrowing Maturity Profile at 28.02.2019
Appendix F	Definition of Credit Ratings and Credit Default Swap Spreads
Appendix G	Duration, Limits & Minimum Credit Criteria 2019/20

## 8. Background Papers

The following Background Papers within the meaning of section 100D of the Local Government Act 1972 were used in the preparation of this Report.

Document title	Where the document can be viewed
Council Budget 2019/20 - 22nd February 2019	Lincolnshire County Council, Finance & Public Protection
LCC Treasury Management Policy Statement and Treasury Management Practices	Treasury & Financial Strategy Section, Finance & Public Protection

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## PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS		2017-18 Actual	2018-19 Original Estimate	2018-19 Updated Estimate	2019-20 Estimate	2020-21 Forecast	2021-22 Forecast
<b>Prudence Indicators:</b>							
<b>1) Capital Expenditure &amp; Financing</b>							
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	131.218	158.689	188.308	178.500	127.556	30.056
<b>Capital Financing</b>							
Borrowing	£m	14.602	84.076	70.080	118.353	76.794	30.056
Grants & Contributions	£m	113.443	74.012	112.407	59.547	50.762	0.000
Capital Receipts, Reserves & Revenue	£m	3.172	0.600	5.822	0.600	0.000	0.000
<b>Total Capital Financing</b>	£m	131.218	158.689	188.308	178.500	127.556	30.056
<b>2) Capital Financing Requirement</b>							
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	557.773	576.535	554.638	606.586	705.820	757.643
Add Additional Borrowing	£m	14.602	84.076	70.080	118.353	76.794	30.056
Add Additional Credit Liabilities (PFI & Finance Leases)	£m	0.000	0.000	0.000	0.000	0.000	0.000
Less Revenue Provision for Debt Repayment (MRP)	£m	17.737	20.578	18.131	19.119	24.971	27.004
<b>Capital Financing Requirement</b>	£m	554.638	640.034	606.586	705.820	757.643	760.695
<b>3) Gross Borrowing and the Capital Financing Requirement</b>							
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 medium term borrowing will only be for a capital purpose.							
Medium Term Forecast of Capital Financing Requirement	£m	599.388	685.231	757.643	760.695	749.972	733.876
Forecast of Long Term External Borrowing and Credit Arrangements	£m	462.657	526.898	493.294	593.127	645.610	649.430
<b>Headroom</b>	£m	136.731	158.333	264.349	167.568	104.362	84.446
<b>4) External Debt</b>							
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:							
<b>Authorised Limit for External Debt</b>							
Borrowing	£m	583.007	651.751	628.558	696.847	737.584	734.829
Other Long Term Liabilities	£m	13.701	12.984	12.771	12.026	11.260	10.495
<b>Total Authorised Limit</b>	£m	596.708	664.735	641.329	708.873	748.844	745.324
<b>Operational Boundary for External Debt</b>							
Borrowing	£m	559.007	636.751	613.558	681.847	722.584	719.829
Other Long Term Liabilities	£m	11.701	10.984	10.771	10.026	9.260	8.495
<b>Total Operational Boundary</b>	£m	570.708	647.735	624.329	691.873	731.844	728.324
<b>Affordability Indicators:</b>							
<b>5) Financing Costs &amp; Net Revenue Stream</b>							
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 revenue stream (NRS) including dedicated schools grant (DSG).							
Proportion of Financing Costs to NRS (Incl DSG)	%	5.19%	5.62%	5.03%	5.52%	6.70%	6.92%
Proportion of MRP & Interest Costs to NRS (Incl DSG) -Limit 10% (Voluntary Indicator)	%	5.26%	5.72%	5.18%	5.68%	6.94%	7.31%

## PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS		2017-18 Actual	2018-19 Original Estimate	2018-19 Updated Estimate	2019-20 Estimate	2020-21 Forecast	2021-22 Forecast
<b>Proportionality Indicators</b>							
<b>6) Limit for Maximum Usable Reserves at Risk from Potential Loss of Investments</b>							
The Council will set for the forthcoming financial year and the following two years a limit of no more than 10% of General Reserves to be at risk from potential loss of total investments. (Voluntary Indicator).							
General Reserves	£m	15.300		14.400	14.600	14.800	15.000
Sums at Risk (Based on Expected Credit Loss Model)	£m	0.544		0.374	0.298	0.221	0.175
<b>Proportion of Usable Reserves at Risk from Potential Loss of Investments -Limit 10%</b>	%	<b>3.56%</b>		<b>2.60%</b>	<b>2.04%</b>	<b>1.50%</b>	<b>1.16%</b>
<b>7) Income from Non Treasury Investments &amp; Net Service Expenditure</b>							
The Council will set for the forthcoming financial year and the following two years a limit of 3% for income from non-treasury investments as a proportion of Net Service Expenditure. (Voluntary Indicator). This is to manage the risk of over dependency of non-treasury investment income to deliver core services.							
Income from Non-Treasury Investments (Including County Farms)	£m	2.533		2.479	2.364	2.234	2.112
Net Service Expenditure	£m	521.244		459.780	463.960	457.205	463.191
<b>Proportion of Non-Treasury Investment Income to Net Service Expenditure -Limit 3%</b>	%	<b>0.49%</b>		<b>0.54%</b>	<b>0.51%</b>	<b>0.49%</b>	<b>0.46%</b>
<b>Treasury Indicators</b>							
<b>8) Interest Rate Exposures (Variable)</b>							
The Council will set for the forthcoming year and the following two financial years, an upper limit to its exposure to effects of changes in interest rates on variable rate borrowing and investments. (Voluntary Indicator).							
<b>Upper limit for variable interest rate exposures</b>							
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%
<b>9) Total Principal Sums Invested</b>							
The Council will set an upper limit for each forward year period for the maturing of investments (treasury and non-treasury) longer than 365 days.							
<b>Upper limit for total principal sums invested for over 365 days (per maturity date)</b>	£m	<b>15.014</b>	<b>40.000</b>	<b>40.000</b>	<b>40.000</b>	<b>40.000</b>	<b>40.000</b>
<b>10) Maturity Structure of borrowing</b>							
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).							
<b>Upper limit</b>							
Under 12 months	%	7.70%	25.00%	25.00%	25.00%	25.00%	25.00%
12 months and within 24 months	%	3.10%	25.00%	25.00%	25.00%	25.00%	25.00%
24 months and within 5 years	%	9.50%	50.00%	50.00%	50.00%	50.00%	50.00%
5 years and within 10 years	%	13.60%	75.00%	75.00%	75.00%	75.00%	75.00%
10 years and above	%	66.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Lower limit</b>							
All maturity periods	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>11) Borrowing in Advance of Need</b>							
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 expected increase in CFR over 3 year budget period (Voluntary Indicator)	%	0.00%	25.00%	25.00%	25.00%	25.00%	25.00%
	£m	0.000	11.299	37.764	13.719	-1.918	-6.705

**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 1 <sup>st</sup> 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 <b>Asset Life EIP method</b> . 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 <b>Asset Life Annuity method</b> . 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 an 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. (Includes: Loans for capital purposes, investment properties, assets acquired for development/resale).
Capitalised Expenditure Under Regulation 16 (2)(b) & 25(1) of LGA 2003	The <b>Asset Life method</b> is used to calculate MRP on all <b>capitalised expenditure</b> , using maximum asset lives as stated in <b>Statutory Guidance on MRP</b> .

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 (VRP)**, (Make more MRP than is calculated prudent in any given year), or **apply capital receipts** to reduce debt over a shorter period. Any VRP made can be used to offset MRP in following years.

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 asset lives. Changes/additions to these asset lives are also indicated.

Type of Asset	Estimated Asset Life in Years
Land	50
Construction	50 Revised from 70
Matched Funding	25
Repair & Maintenance	20
Infrastructure	120
Road Maintenance	20
Bridges	120
Integrated Transport	20
Waste Transfer Plant	40
Heavy Engineering Equipment	30
Vehicles	4 Revised from 5
Long Life Specialist Vehicles	7 Revised from 15
Equipment	5
IT	4
IT -Broadband	10
ERP Finance System	10
Mosaic	10
Investment Properties held for Commercial Reasons	50 New
Capitalised Expenditure:	
Loans & Grants Made for Capital Purposes to Third Parties	Useful Life of Assets which Third Party Expenditure is incurred. -New
Share Capital	20 New

## Interest Rate Forecasts 2019-2022

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
<b>Bank Rate</b>													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
<b>5yr PWLB Rate</b>													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
<b>10yr PWLB Rate</b>													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
<b>25yr PWLB Rate</b>													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
<b>50yr PWLB Rate</b>													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

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### Economic Background – Link Asset Services Ltd

**GLOBAL OUTLOOK.** World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

**Inflation** has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

#### **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 period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of 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 a 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 also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. 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, conversely, 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.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt (currently about \$50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

**UK.** The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

**Inflation.** The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

As for the **labour market** figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This

meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

**USA.** President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

**Eurozone.** Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit

through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

**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. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

**Japan** - has been struggling to stimulate consistent significant GDP growth and 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. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

**Emerging countries.** Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

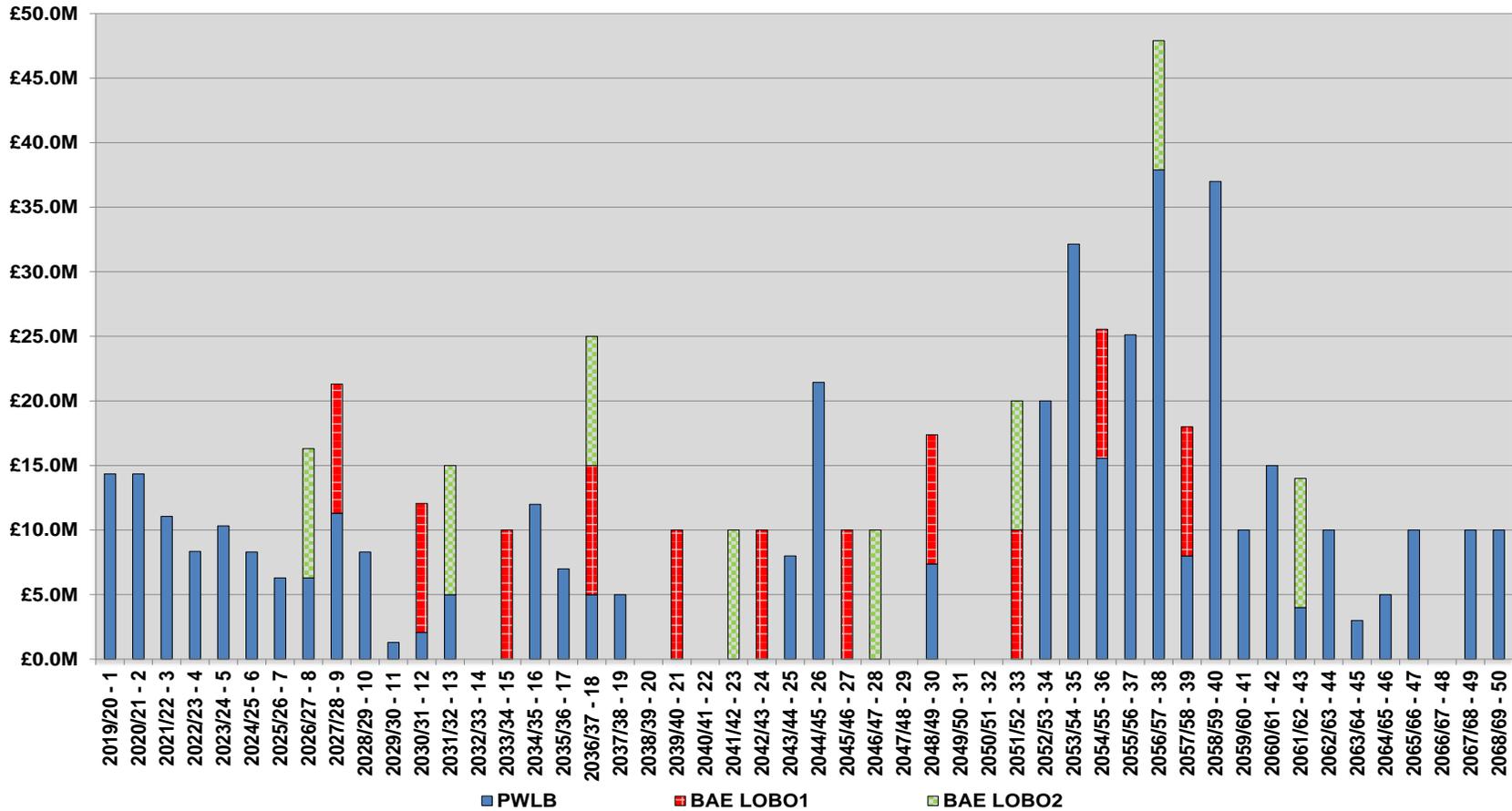
### **Brexit timetable and process**

- **March 2017:** UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- **25.11.18:** EU27 leaders endorsed the withdrawal agreement
- **Dec 2018:** Vote in the UK Parliament on the agreement was postponed
- **21.12.18 – 8.1.19:** UK parliamentary recess
- **15.1.19:** Brexit deal defeated in the Commons vote by a large margin
- **By 29.3.19:** Second vote (?) in UK parliament
- **By 29.3.19:** If the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
- **By 29.3.19:** If the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- **29.3.19:** Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
- **29.3.19:** If an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**

- 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 may leave the single market and tariff free trade at different times during the 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.

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## Long Term Borrowing Maturity Profile As At 28th February 2019



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## 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 (Moody's)

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

## Credit Default Swap (CDS) Spreads

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

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.

**Duration, Limits & Minimum Credit Criteria**

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
<b>Specified Investments</b>				
Blue*	1 Year	£40m	£30m	£25m
Orange	1 Year	£20m	£20m	£15m
Red	6 Months	£15m	£10m	£10m
Green	100 Days	£10m	£5m	£5m
<b>Non Specified Investments</b>				
Purple	2 Years	£25m	£20m	£15m
Yellow**	2 Years	£20m	£20m	£15m
<b>Minimum Credit Rating Criteria</b>				
<b>Any Two of Three</b>		<b>Fitch</b>	<b>Standard &amp; Poors</b>	<b>Moody's</b>
<b>Sovereign</b>		AA-	AA-	Aa3
<b>Long Term</b>		A	A	A2
<b>Money Market Funds</b>		AAA	AAAm	Aaa/MR1

\* Nationalised/Part Nationalised UK Banks

\*\* MMF's/Government/Local Government

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### Open Report on behalf of David Coleman, Chief Legal Officer

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>28 February 2019</b>
Subject:	<b>Scrutiny Committee Work Programmes: -</b> <ul style="list-style-type: none"><li>• <b>Children and Young People Scrutiny Committee</b></li><li>• <b>Public Protection and Communities Scrutiny Committee</b></li></ul>

#### **Summary:**

The Overview and Scrutiny Management Board reviews the work programme of each scrutiny committee on a quarterly basis, with the focus on two or three scrutiny committee work programmes at each meeting.

This report sets out the work programmes of the Children and Young People Scrutiny Committee; and the Public Protection and Communities Scrutiny Committee.

#### **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 **Children and Young People Scrutiny Committee** (Appendix A to this report); and
  - the **Public Protection and Communities Scrutiny Committee** (Appendix B).

## **1. Background**

The Overview and Scrutiny Management Board review the work programmes of each scrutiny committee and each scrutiny committee on a quarterly basis. 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 on which their committee would be focusing.

The table below sets out the reporting timetable for 2018/19:

Scrutiny Committee	First Review	Second Review	Third Review
Adults and Community Wellbeing	29 November 2018	25 April 2019	29 August 2019
Health			
Children and Young People	28 February 2019	30 May 2019	26 September 2019
Public Protection and Communities			
Environment and Economy	28 March 2019	27 June 2019	24 October 2019
Highways and Transport			
Flood and Water Management			

#### Children and Young People Scrutiny Committee

The work programme of the Children and Young People Scrutiny Committee is attached at Appendix A. Councillor Robert Foulkes, the Chairman of the Children and Young People Scrutiny Committee, will be making a statement to provide supporting information on the content of the work programme.

#### Public Protection and Communities Scrutiny Committee

The work programme of the Public Protection and Communities Scrutiny Committee is attached at Appendix B. Councillor Nigel Pepper, the Chairman of the Public Protection and Communities 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 Children and Young Scrutiny Committee, and the Public Protection and Communities 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	Children and Young People Scrutiny Committee Work Programme
Appendix B	Public Protection and Communities Scrutiny Committee Work Programme

## 5. Background Papers

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

This report was written by Tracy Johnson, Senior Scrutiny Officer, who can be contacted on 01522 552164 or by email on [tracy.johnson@lincolnshire.gov.uk](mailto:tracy.johnson@lincolnshire.gov.uk) and Daniel Steel, Scrutiny Officer, who can be contacted on 01522 552102 or by e-mail at [daniel.steel@lincolnshire.gov.uk](mailto:daniel.steel@lincolnshire.gov.uk)

**CHILDREN AND YOUNG PEOPLE SCRUTINY COMMITTEE**

Since the last report of this Committee to the Board on 27 September 2018, three meetings of the Children and Young People Scrutiny Committee have taken place. The key issues that the Committee has considered are:

Building Communities of Specialist Provision Strategy

At its 19 October meeting, the Children and Young People Scrutiny Committee considered a report on "Building Communities of Specialist Provision Strategy" prior to a decision by the Executive on 6 November. The Committee heard from Daran Bland, Executive Headteacher of the Priory School, the Garth School and the John Fielding School, who spoke on behalf of all the special schools in support of the Strategy, and Coralie Cross, Chair of the Lincolnshire Parent Carer Forum which had been invited by the Council to be involved in the process at an early stage.

The proposed changes to the Academies cited in the Strategy had already been approved by the Regional Schools Commissioner, and there was no additional decision-making processes required for the approval of the Strategy beyond the one arising from the report regarding alterations to the three Local Authority maintained schools. The Committee supported the recommendations and emphasised strong support for enabling pupils to attend their local special school and the greater integration in their local communities which the Strategy would bring. The Committee will be monitoring the changes as the Strategy is implemented.

Prevent and Children and Young People

At the meeting on 30 November, the Committee received a presentation on Prevent and the implications for children and young people. The presentation provided an update on Prevent activity in Lincolnshire during 2017/18, as a result of changes to the Counter-Terrorism Bill 2014, and the introduction of the Government Counter-Extremism Strategy 2015 and the updated Contest Strategy 2018, including the new responsibilities placed upon Local Authorities and in particular the implications for Children and Young People.

The Prevent Duty Guidance for Schools and Educational Providers involved providing guidance and advice to schools, childcare providers, and the Lincolnshire Safeguarding Children Board (LSCB) on Pathways to Extremism and the Prevent Programme; safeguarding British minors returning from the conflict in Syria and Iraq; providing a catalogue of training courses; and educating against Hate. The take up of training by schools in Lincolnshire was high and over 250 'Safeguarding Against Extremists' workshops had been delivered to young people by the Lincolnshire Police Prevent Officers in schools, colleges and other establishments. The Committee was reassured by the level of work being undertaken to protect children and young people from extremism.

## Local Area SEND Inspection by Ofsted and CQC

At its meeting on 18 January, the Committee received a report on the outcomes of the Local Area SEND inspection by Ofsted and CQC which took place in October 2018, and the action plan put in place to address the areas for improvement that were identified.

The joint Ofsted and CQC inspection identified many strengths in Lincolnshire which included accurate evaluation by leaders and managers of how well the local area was providing services; strong arrangements for jointly commissioning services in the local area; and children and young people felt very positive about the support they received from education, health and care professionals. Areas for improvement included completion rates for the health visitor mandatory health assessments at two and a half years, which might impact on the early identification of children's needs; children and young people were waiting too long for a diagnosis of autism because of delays in completing the steps in the autism pathway; and variability in the quality of Education Health and Care (EHC) plans, where, in many cases, the health outcomes were too general and, too often, provision did not meet the specific needs of the child or young person. The Committee will be receiving an update on the action plan at its meeting in September.

### Future Meetings

<b>8 March 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Fostering Allowances	John Harris, Children's Service Manager – Regulated (North and Fostering)	Pre-Decision Scrutiny (Executive Councillor on 29 March 2019)
Therapeutic Services for SEND	Rosemary Akrill Senior Commissioning Officer	Pre-Decision Scrutiny (Executive on 2 April 2019)
Lincolnshire Local Authority School Performance 2017-18	Martin Smith, Interim Assistant Director, Education	Performance Scrutiny
30 Hours 'Free' Childcare Provision Update	Michelle Andrews, Children's Service Manager – Early Years	Update Report
Theme Performance: Quarter 3	Sally Savage, Chief Commissioning Officer – Children's	Performance Scrutiny

<b>26 April 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Post 16 Transport Support Policy Statement 2019/20	Teri Marshall Senior Commissioning Officer	Pre-Decision Scrutiny (Executive Councillor decision on 29 April 2019)

<b>26 April 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
0-19 Health Services Progress Report	Sally Savage, Chief Commissioning Officer – Children's	Policy Review
Restorative Practice - Lincolnshire Joint Diversionary Panels (JDP)	Andrew Cook Youth Offending Manager	Policy Review
Armed Forces Pupil Premium	Sue Williams, Children's Service Manager – Education Strategy	Update Report

<b>7 June 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
SEND Transport	David Robinson, Commissioning Manager - Transport	Policy Review
Theme Performance: Quarter 4	Sally Savage, Chief Commissioning Officer – Children's	Performance Scrutiny

<b>19 July 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Section 117 Policy	Heston Hassett, S 117 Specialist Project Manager	Pre-Decision Scrutiny (Executive Councillor Decision TBC)
0-19 Health Services CQC Inspection Report Outcomes	Sally Savage, Chief Commissioning Officer – Children's	Policy Review

<b>6 September 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Local Area SEND Inspection by Ofsted and CQC – Action Plan Update	Sheridan Dodsworth, Children's Services Manager - SEND	Performance Scrutiny
Theme Performance: Quarter 1	Sally Savage, Chief Commissioning Officer – Children's	Performance Scrutiny

### **Items to be programmed**

- Supporting mainstream schools and satellite provision to enhance support for pupils with special education need/ disability
- LLP Peer Review Outcome
- Children Missing Out of Education Annual Report 2018/19 (January 2020)

**For more information about the work of this Committee please contact Tracy Johnson, Senior Scrutiny Officer, on 01522 552164 or by e-mail at [tracy.johnson@lincolnshire.gov.uk](mailto:tracy.johnson@lincolnshire.gov.uk)**

## PUBLIC PROTECTION AND COMMUNITIES SCRUTINY COMMITTEE

Since the last report of this Committee to the Board on 27 September 2018, three meetings of the Public Protection and Communities Scrutiny Committee have taken place.

### 23 October 2018

- **Review of the Public Protection Commissioning Strategy**  
The Committee reviewed the work being undertaken to develop a revised Commissioning Strategy for Public Protection and considered the general purpose and objectives outlined for each service area. The Committee requested an additional update on the completed Commissioning Strategy which is due to be considered in March 2019.
- **Fire and Rescue Statement of Assurance 2017-18**  
The Committee reviewed the annual Fire and Rescue Statement of Assurance on financial, governance and operational matters. The Committee endorsed the Statement of Assurance for 2017-18.
- **Trading Standards Priorities**  
The Committee was invited to consider and comment on the contents of this report and the delivery of Trading Standards Services for the financial year 2017-2018.
- **Annual Prevent Review Report**  
The Committee considered an update on Prevent activity in Lincolnshire during 2017/18, including the new responsibilities placed upon Local Authorities. The Committee endorsed the work being undertaken to build stronger partnerships and the work undertaken to build a robust framework for governance and leadership.

### 11 December 2018

- **Volunteer Engagement Policy**  
The Committee received a presentation which provided an update on Lincolnshire County Council's revised Volunteer Engagement Policy and its supporting documents. The committee endorsed the revised Volunteer engagement Policy.
- **Road Safety Partnership Annual Report**  
The Committee considered the annual report from the Road Safety Partnership, which provided the latest local and national data on fatal, killed and serious injury casualty figures. The Committee was reassured on the work being undertaken by the Road Safety partnership to reduce the number of people killed and injured on county roads and requested that future annual reports include a clear action plan for the year ahead.
- **Emergency Medical Response co-responding**  
The Committee reviewed the Lincolnshire Fire and Rescue's (LFR) co-responding and Joint Ambulance Conveyance (JAC) capability in regards to its emergency medical response support. As further analysis was being conducted with EMAS to explore how best to optimise the current JAC

capability the Committee requested additional information later in 2019 once this review had been completed.

- **Quarter 2 Performance Report**

The Committee reviewed Quarter 2 Performance for Public Protection, Fire and Rescue and Community Reliance and Assets.

## **22 January 2019**

- **Revenue and Capital Budget Proposals 2019/20**

The Committee endorsed the proposed 2019/20 revenue and capital budget and supported the funding of the known cost pressures identified within the proposals. The Committee welcomed the proposals to re-instate a budget to support the core services of the Citizens Advice Bureaux (CAB) (£0.278m), after the service received support by use of reserves during the last two years.

- **Future Model of the Heritage Service**

The Committee considered a report regarding the future of the Heritage Service. The Committee supported the recommendations to conduct public consultation on proposed changes to the Council's Heritage Service based on a move to a Cultural Enterprise Model. The Committee highlighted that they were keen to ensure the public had the opportunity to comment and input into the proposals to help shape potential future developments.

- **Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services Report**

The Committee reviewed the outcome of the inspection by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services for Lincolnshire Fire and Rescue (LFR). Members were informed that an action plan was currently being finalised to address the areas identified for improvement. The Committee will review the action plan for improved in March and through to July 2019 to monitor progress.

## Future Meetings

<b>12 MARCH 2019 – 10:00am</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
<b>Authority to Procure Replacement Breathing Apparatus Equipment</b>	Dan Quinn, Assistant Chief Fire Officer	<b>PRE-DECISION SCRUTINY</b> Executive 2 April 2019
<b>Fire and Rescue Services Inspection Action Plan</b>	Dan Quinn, Assistant Chief Fire Officer	Initial review of the Fire and Rescue Services Inspection Action Plan.
<b>Review of revised Commissioning Strategy for Public Protection</b>	Chris Davison, County Officer - Public Protection	Consideration of the revised Commissioning Strategy for Public Protection
<b>Quarter 3 Performance Report (1 October to 31 December 2018)</b>	Chief Fire Officer, Chris Davison, County Officer - Public Protection, Nicole Hilton, Chief Community Engagement Officer	Review of the Key Performance and Customer Satisfaction Information.
<b>Sitting as the Crime and Disorder Scrutiny Committee</b>		
<b>Serious and Organised Crime</b>	Sara Barry, Safer Communities Manager	Review of work being undertaken as part of the Safer Lincolnshire Partnership to tackle Serious and Organised Crime - Including Modern Slavery and County Lines.
<b>23 APRIL 2019 – 10:00am</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
<b>Future Model of the Heritage Service</b>	Nicole Hilton, Chief Community Engagement Officer	Verbal Consultation Update
<b>Community Hub Progress and Developments</b>	Louise Egan, Library and Heritage Client Lead	Review of the current position of the Community Hubs
<b>Sitting as the Crime and Disorder Scrutiny Committee</b>		
<b>Safer Lincolnshire Partnership Priorities – Domestic Abuse</b>	Sara Barry, Safer Communities Manager	Review of work being undertaken as part of the Safer Lincolnshire Partnership to tackle Domestic Abuse

<b>11 JUNE 2019 – 10:00am</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
<b>Future Model of the Heritage Service</b>	Nicole Hilton, Chief Community Engagement Officer	<b>PRE DECISION SCRUTINY</b> Executive 9 July 2019  Final Recommendations and Implementation Plan
<b>Lincolnshire Fire and Rescue Performance Annual Report</b>	Chief Fire Officer	Performance Scrutiny
<b>Consultation &amp; Engagement Activity Annual Review</b>	Nicole Hilton, Chief Community Engagement Officer; Bev Finnegan, Programme Manager, Community Engagement	A review of council wide consultation & engagement activity and how it helps the Council to effectively engage people and be better informed to improve service provision.
<b>Quarter 4 Performance Report (1 January to 31 March 2019)</b>	Chief Fire Officer, Chris Davison, County Officer - Public Protection, Nicole Hilton, Chief Community Engagement Officer	Review of the Key Performance and Customer Satisfaction Information.
<b>Sitting as the Crime and Disorder Scrutiny Committee</b>		
<b>Safer Lincolnshire Partnership Priorities – Reducing Offending</b>	Sara Barry, Safer Communities Manager	Review of work being undertaken as part of the Safer Lincolnshire Partnership to tackle Reducing Offending

<b>23 JULY 2019 – 10:00am</b>		
<b>Emergency Planning Centre, South Park Avenue, Lincoln, Lincolnshire, LN5 8EL</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
<b>Performance of the Library Services Contract – Year Three Review Report</b>	Nicole Hilton, Chief Community Engagement Officer	Review of the third year performance and key performance indicators (KPI) for the Library Services Contract.
<b>Fire and Rescue Services Inspection Action Plan</b>	Dan Quinn, Assistant Chief Fire Officer	Final review of the progress made on the LFR Inspection Action Plan outcomes.
<b>Sitting as the Crime and Disorder Scrutiny Committee</b>		
<b>Safer Lincolnshire Partnership Priorities – Anti-social Behaviour</b>	Sara Barry, Safer Communities Manager	Review of work being undertaken as part of the Safer Lincolnshire Partnership to tackle Anti-social Behaviour.
<b>Lincoln Blue Light Hub visit – South Park, Lincoln</b> Tim Joyce, Blue Light Collaboration Programme Change Lead		

<b>17 SEPTEMBER 2019 – 10:00am</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
<b>Quarter 1 Performance Report (1 April to 30 June 2019)</b>	Chief Fire Officer, Chris Davison, County Officer - Public Protection, Nicole Hilton, Chief Community Engagement Officer	Review of the Key Performance and Customer Satisfaction Information
<b>Lincolnshire Registration, Celebratory and Coroners Services Annual Report</b>	Donna Sharp, County Services Manager (Registration & Celebratory Service and Coroners Service)	Annual Report

<b>29 OCTOBER 2019 – 10:00am</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
<b>Annual Prevent Review Report</b>	Nicole Hilton, Chief Community Engagement Officer, Paul Drury, Programme Officer - Prevent	The Lincolnshire Annual report on Prevent related activities in relation to local authority responsibilities.
<b>Fire and Rescue Statement of Assurance 2018-19</b>	Nick Borrill, Chief Fire Officer	

<b>10 DECEMBER 2019 – 10:00am</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
<b>Quarter 2 Performance Report (1 July to 30 September 2019)</b>	Chief Fire Officer, Chris Davison, County Officer - Public Protection, Nicole Hilton, Chief Community Engagement Officer	Review of the Key Performance and Customer Satisfaction Information.
<b>Road Safety Partnership Annual Report</b>	Steven Batchelor, Lincolnshire Road Safety Partnership	Annual update on the Road Safety Partnership including information on fatal, killed and serious injury figures for Lincolnshire and progress Action Plan.

**Future Items for Consideration:**

- Future Archive Service Proposals
- Review of Crime Statistics in relation to the introduction of part night street lighting
- Review of revised Commissioning Strategy for Public Protection
- Blue Light Campus Visit – South Park
- Review the JACP project
- 

For more information about the work of the Public Protection and Communities Scrutiny Committee please contact Daniel Steel, Scrutiny Officer on 01522 552102 or by e-mail at [daniel.steel@lincolnshire.gov.uk](mailto:daniel.steel@lincolnshire.gov.uk)

## Policy and Scrutiny

### Open Report on behalf of David Coleman, Chief Legal Officer

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>28 February 2019</b>
Subject:	<b>Overview and Scrutiny Management Board Work Programme</b>

#### 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.
- 3) Support the future direction of the IT Working Group taking into consideration the update as set out in Appendix C to this report.

## 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 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 Tracy Johnson, Senior Scrutiny Officer, who can be contacted on 01522 552164 or by e-mail at [Tracy.Johnson@lincolnshire.gov.uk](mailto:Tracy.Johnson@lincolnshire.gov.uk)

**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)**

<b>28 February 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Membership of the Local Government Association (LGA)	Nigel West, Head of Democratic Services and Statutory Scrutiny Officer	Consultation
Northamptonshire County Council Best Value Inspection - Lessons Learned	Lucy Pledge, Audit and Risk Manager David Forbes, County Finance Officer	Policy Review
2018/19 Council Business Plan Quarter 3	Jasmine Sodhi Performance and Equalities Manager	Performance Scrutiny / Pre-Decision Scrutiny <i>(Executive decision on 5 March 2019)</i>
Treasury Management Performance Quarter 3 (1 October 2018 to 31 December 2018)	Karen Tonge Treasury Manager	Performance Scrutiny
Treasury Management Strategy Statement and Annual Investment Strategy 2019/20	Karen Tonge Treasury Manager	Pre-Decision Scrutiny <i>(Executive Councillor Decision on 22 March 2019)</i>
Overview and Scrutiny Work Programmes <ul style="list-style-type: none"> <li>• Children and Young People Scrutiny Committee</li> <li>• Public Protection and Communities Scrutiny Committee</li> </ul>	Cllr Robert Foulkes Chairman of Children and Young People Scrutiny Committee  Cllr Nigel Pepper Chairman of Public Protection and Communities Scrutiny Committee	Performance Scrutiny

<b>28 March 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Reconfiguration of the Council's ERP system – Business World	Andrew McLean: Transformation Programme Manager Helen Edwards: Strategic Finance Manager – Agresso	Pre-Decision Scrutiny ( <i>Executive Decision on 2 April 2019</i> )
Scrutiny Panel B – Transitions Review Final Report	Cllr Angela Newton, Chairman of Scrutiny Panel B	Scrutiny Review Activity
Corporate Support Services Contract – IMT Progress Report	John Wickens, Chief Digital Officer	Performance Scrutiny
Overview and Scrutiny Work Programmes <ul style="list-style-type: none"> <li>• Environment and Economy Scrutiny Committee</li> <li>• Highways and Transport Scrutiny Committee</li> <li>• Flood and Water Management Scrutiny Committee</li> </ul>	Cllr Barry Dobson Chairman of Environment and Economy Scrutiny Committee Cllr Mike Brookes Chairman of Highways and Transport Scrutiny Committee Cllr Bob Adams Chairman of the Flood and Water Management Scrutiny Committee	Performance Scrutiny

<b>25 April 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Commissioning Strategies	George Spiteri, Commissioning Performance and Assurance Manager	Pre-Decision Scrutiny ( <i>Executive Decision on 8 May 2019</i> )
Corporate Support Services Contract – Housekeeping Progress Report	Sophie Reeve, Chief Commercial Officer	Performance Scrutiny

<b>25 April 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Overview and Scrutiny Annual Report	Nigel West, Head of Democratic Services and Statutory Scrutiny Officer	Performance Scrutiny
Overview and Scrutiny Work Programmes <ul style="list-style-type: none"> <li>Adults and Community Wellbeing Scrutiny Committee</li> <li>Health Scrutiny Committee</li> </ul>	Cllr Hugo Marfleet, Chairman of Adults and Community Wellbeing Scrutiny Committee Cllr Carl Macey, Chairman of Health Scrutiny Committee	Performance Scrutiny

<b>30 May 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Update on the Council People Management and Workforce Plan	Fiona Thompson, Service Manager – People Management	Performance Scrutiny
Overview and Scrutiny Work Programmes <ul style="list-style-type: none"> <li>Children and Young People Scrutiny Committee</li> <li>Public Protection and Communities Scrutiny Committee</li> </ul>	Cllr Robert Foulkes, Chairman of Children and Young People Scrutiny Committee Cllr Nigel Pepper, Chairman of Public Protection and Communities Scrutiny Committee	Performance Scrutiny

<b>27 June 2019</b>		
<b>Item</b>	<b>Contributor</b>	<b>Purpose</b>
Corporate Support Services Contract – Six Monthly Overview Report	Sophie Reeve, Chief Commercial Officer John Wickens, Chief Digital Officer	Performance Scrutiny

27 June 2019		
Item	Contributor	Purpose
Overview and Scrutiny Work Programmes <ul style="list-style-type: none"> <li>• Environment and Economy Scrutiny Committee</li> <li>• Highways and Transport Scrutiny Committee</li> </ul>	Cllr Barry Dobson Chairman of Environment and Economy Scrutiny Committee  Cllr Mike Brookes Chairman of Highways and Transport Scrutiny Committee	Performance Scrutiny

For more information about the work of the Overview and Scrutiny Management Board please contact Tracy Johnson, Senior Scrutiny Officer, on 01522 552164 or by e-mail at [Tracy.Johnson@lincolnshire.gov.uk](mailto:Tracy.Johnson@lincolnshire.gov.uk)

# Scrutiny Panel Activity

(as at 20 February 2019)

## Current Reviews

<b>Scrutiny Panel A</b>	<b>Membership</b>	<b>Completion Date</b>
Roundabout Sponsorship and Advertising	Councillors L Wootten (Chairman), S R Parkin (Vice Chairman), W J Aron, Mrs A M Austin, Mrs P Cooper, P Coupland, A G Hagues and N Pepper	11 March 2019

<b>Scrutiny Panel B</b>	<b>Membership</b>	<b>Completion Date</b>
Transitions	Councillors Mrs A Newton (Chairman), A H Turner (Vice Chairman), R L Foulkes, A G Hagues, C Matthews, S R Parkin, R H Trollope-Bellew and M A Whittington	28 March 2019

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

# Working Group Activity

(as at 20 February 2019)

Committee	Working Group	Membership
Adults and Community Wellbeing Scrutiny Committee	Government Green Paper – Care and Support for Older People	Councillors C E H Marfleet, R J Kendrick, Mrs J E Killey, A P Maughan, Mrs E J Sneath and M A Whittington
Environment and Economy Scrutiny Committee	High Street Vitality	Councillors B Dobson, B Adams, W Bowkett, Mrs J Brockway, K Clarke, K Cook, G Cullen, Mrs C Lawton and A Spencer
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
Overview and Scrutiny Management Board	IT Provision	Councillors B Adams, M D Boles, C J T H Brewis, T Bridges, Mrs J Brockway, S R Parkin, S P Roe and M A Whittington

## Update on the IT Working Group

### Introduction

On 29 March 2018, the Overview and Scrutiny Management Board established the IT Working Group. Following the confirmation of the membership, the first meeting of the Working Group took place on 18 July 2018, with further meetings held on 10 September 2018, 9 January 2019 and 12 February 2019.

The Overview and Scrutiny Management Board received an update report on behalf of the Working Group on 25 October 2018 and agreed to receive a further report in due course.

### Membership

The IT Working Group comprises the following members: Councillors Jackie Brockway (Chairman), Sarah Parkin (Vice Chairman), Bob Adams, Matt Boles, Chris Brewis, Tony Bridges, Stephen Roe and Mark Whittington. The Working Group has been supported at each meeting by John Wickens, the Chief Digital Officer.

### Development of the Council's IMT Strategy

A key task for the Council is the development of the IMT Strategy. The Working Group has contributed to this development, by reviewing proposed priorities in the strategy and providing feedback on the content. This began in July with consideration of some outline thoughts on the themes in the strategy.

As reported to the Board on 28 October, the Working Group supported an emphasis in the IMT Strategy on a more external focus, taking into account the needs of the citizen. The Working Group also highlighted the importance of all parts of the organisations supporting the IMT Strategy, and working with the IT Department's client team.

Since 28 October, the Working Group has considered a draft *Information Management and Technology – Technical Strategy 2019-2022* and provided feedback on the format and content of this, including the overarching themes for the strategy.

On 12 February 2019, the Working Group met the Executive Councillor for Highways, Transport and IT, who stressed the importance of IT in meeting the Council's corporate business needs, but that IT is not an end in itself. The IMT strategy would act as a means of a general view on the Council's approaches to its IMT challenges. It would not commit to all future IT initiatives and expenditure, as such decisions had to be made on the basis of a business case and available funding.

### Next Steps

The Working Group understood the rationale for the content of the draft strategy and was satisfied with the incorporation of its comments from 9 January, into a revised draft on 12 February.

Subject to further refinements, it is planned the IMT Strategy would be submitted to the Executive for approval, with this Board giving it prior consideration.

### Activity of the Overview and Scrutiny Management Board

On 28 October 2018, the Overview and Scrutiny Management Board was asked to consider a request to align its work on IT with the activity of the Working Group. This Board has continued with IT related items, and since 28 October has scrutinised the performance of the Corporate Services Support Contract, including the Top 20 Priority IMT projects on 29 November 2018. It has since been agreed that the Board will consider separate items on IT performance, and the first of these quarterly reports is planned for 28 March 2019.

### Future Activity of the Working Group

At the Working Group's last meeting on 12 February 2019, there was some consideration of its future role, now that its work contributing to the development of the IMT Strategy has been completed. In light of this, the Board is asked to support the future direction of the IT Working Group.

**FORWARD PLAN OF KEY DECISIONS FROM 1 MARCH 2019**

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
I017038	Community Based Support Service for People with Dementia and their Families	Open	Executive Councillor: Adult Care, Health and Children's Services  Between 28 Feb 2019 and 4 Mar 2019	Commercial Team – People Services; Adults and Community Wellbeing Departmental Management Team; and the Adults and Community Wellbeing Scrutiny Committee	Report	Senior Commercial and Procurement Officer Tel: 01522 553695 Email: karley.beck@lincolnshire.gov.uk	All
I017376 New!	Skegness Business Park	Exempt	Executive Councillor: Economy and Place Between 28 Feb 2019 and 8 Mar 2019	Environment and Economy Scrutiny Committee	Report	Special Projects Officer Tel: 01522 550644 Email: tanya.vaughan@lincolnshire.gov.uk	Skegness North; Skegness

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
I017098	The approval for the publication of The Lincolnshire County Council (A46 Dunholme and Welton Junction) (Classified Road) (Side Roads) Order 2019 and associated Compulsory Purchase Order 2019 for the acquisition of land	Open	Executive 5 Mar 2019	Highways and Transport Scrutiny Committee; impacted landowners and tenants	Report	Senior Project Leader Tel: 01522 782070 Email: charlotte.hughes@lincolnshire.gov.uk	Welton Rural
I017372 New!	A158 Rand PRN	Open	Executive Councillor: Resources and Communications 12 Mar 2019	Highways colleagues and utility companies	Report	Senior Project Leader Tel: 01522 552940 Email: steve.brooks@lincolnshire.gov.uk	Bardney and Cherry Willingham
I017422 New!	Fostering Allowances	Open	Executive Councillor: Adult Care, Health and Children's Services 29 Mar 2019	Children and Young People Scrutiny Committee	Report	Children's Services Manager - Regulated Tel: 01522 554109 Email: john.harris@lincolnshire.gov.uk	All Divisions

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
I017124	Authority to Procure Replacement Breathing Apparatus Equipment	Open	Executive 2 Apr 2019	Public Protection and Communities Scrutiny Committee	Report	Assistant Chief Fire Officer Tel: 01522 582222 Email: dan.quinn@lincolnshire.gov.uk	All
I017371 New!	Reconfiguration of the Council's ERP system - Business World	Open	Executive 2 Apr 2019	Overview and Scrutiny Management Board	Report	Transformation Programme Manager Tel: 01522 554079 Email: andrew.mclean@lincolnshire.gov.uk	
I017423 New!	Short Breaks Provision in Lincolnshire	Open	Executive Councillor: Adult Care, Health and Children's Services Between 27 May 2019 and 29 May 2019	Commercial Team - People Services; Adult and Community Wellbeing Departmental Management Team; Adults and Community Wellbeing Scrutiny Committee	Report	Commercial and Procurement Manager Tel: 01522 553673 Email: carl.miller@lincolnshire.gov.uk	
I013959	Future Model of the Heritage Service	Open	Executive 8 May 2019	Public Protection and Communities Scrutiny Committee	Report	Chief Community Engagement Officer Tel: 01522 553831 Email: nicole.hilton@lincolnshire.gov.uk	All

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