23 July, 2008

The Report of the Executive

The Executive met on Tuesday, 27 May 2008. Present:- County Councillor John Weighell in the Chair. County Councillors John Fort BEM, Carl Les, Caroline Patmore, Helen Swiers, John Watson OBE and Clare Wood.

Also in attendance: County Councillor Philip Barrett.

The Executive met on Tuesday, 17 June 2008. Present:- County Councillor John Weighell in the Chair. County Councillors John Fort BEM, Carl Les, Chris Metcalfe, Caroline Patmore, Helen Swiers, John Watson OBE and Clare Wood.

Also in attendance: County Councillors John Blackburn, Eric Broadbent, Gareth Dadd, Ron Haigh, Michael Knaggs, Paul Richardson and John Savage

The Executive met on Tuesday, 24 June 2008. Present:- County Councillor John Weighell in the Chair. County Councillors John Fort BEM, Carl Les, Chris Metcalfe, Caroline Patmore, John Watson OBE and Clare Wood.

Also in attendance: County Councillors Paul Richardson.

The Executive met on Tuesday, 8 July 2008. Present:- County Councillor John Weighell in the Chair. County Councillors John Fort BEM, Carl Les, Chris Metcalfe, Caroline Patmore, John Watson OBE, Greg White and Clare Wood.

Also in attendance: County Councillors Eric Broadbent, Geoffrey Cullern, Michael Heseltine, Michael Knaggs, Martin Smith and Tim Swales.

1. **Revenue Outturn 2007/08:** The accounts of the County Council for 2007/08 have now been closed and are being finalised for external audit. The figures are therefore still provisional at this stage and it is possible that some amendments may have to be made before the accounts are signed off by the External Auditor. However, it is not envisaged that any required amendments will be significant.

The overall revenue outturn position of the County Council for 2007/08 is:

	Item	£000
Original Budget approved by County Council in February 2007		295,796
+	net underspending in 2006/07 approved for carry forward to 2007/08 by Executive in June 2007	6,569
=	**Revised Budget for 2007/08**	302,365
-	**Net expenditure outturn 2007/08**	294,064
=	**Total Underspend**	8,301

An analysis of the revised 2007/08 Revenue Budget by Directorate is attached as **Appendix 1A**. This statement starts with the original Budget approved by the County Council in February 2007 and shows movements in terms of carry forwards from 2006/07 and other agreed budget transfers and adjustments made during the 2007/08 financial year, particularly in relation to job evaluation.

The summarised outturn position can be analysed over Directorates as follows:-

Directorate	See Appendix for further details	Final revised budget 2007/08	2007/08 actual outturn	Variation
		£000	£000	£000
Adult and Community Services	**B**	120,037	119,110	-927
Business and Environmental Services	**C**	58,230	56,880	-1,350
Chief Executive's Group	**D**	11,034	11,436	+402
Children and Young People's Services	**E**	74,623	73,166	-1,457
Finance & Central Services	**F**	12,394	10,946	-1,448
Corporate Miscellaneous	**G**	26,047	22,526	-3,521
Total		**302,365**	**294,064**	**-8,301**

There is a total net underspend of £8.3m, but this includes technical underspends and associated carry forwards that were not included in earlier forecast outturn figures reported during the year. These are explained in more detail below.

Attached as Appendices 1B to 1G are statements prepared by each Corporate Director setting out the final outturn position for their Directorate compared with the final revised budgets for 2007/08. Appendix 1H shows, at Directorate level, the various components making up the total underspend of £8,301k. A brief commentary for each Directorate follows:-

Adult and Community Services

The year end underspend is £927k (0.8% of the budget) which compares with a projected underspend of £1,231k at Q3. The major driver of the difference from Q3 was the decision to make a one-off enhanced investment in facilities for people with disabilities. The major causes of variation against the Budget are:-

- application of the 'critical' threshold under the Fair Access to Care Services in 2006/07 meant lower than budgeted numbers of clients, particularly for older people's services, in the first months of this financial year
- a one-off contingency created to protect against any special demand pressures was not fully required
- review of current services to ensure continuing cost effectiveness of care packages
- holding of vacancies in advance of the restructuring of the Directorate. This

ensured that redundancies were minimised and enabled a less disruptive allocation of staff resources to the revised area-based structure

- the achievement of better than budgeted income levels
- some developmental projects were delayed or reviewed
- offsetting the above was a continuing overspend on services for people with learning disabilities

In the light of the confirmed trend of net underspending, a decision was taken to maintain an underspend to carry-forward to support key early priorities in 2008-09 particularly around maintenance of the preventative schemes programme, the re-instatement of the special support grants to carers and service users and staff training for the newly restructured department. The remaining resources are targeted at high priority areas, in particular:-

- improving performance in key aspects of the Directorate's work, particularly helping people to live at home and assistance to carers
- investment in developing preventative services to support individuals in the community
- increasing investment in aids and equipment for people with disabilities
- improving the care home environment for residential clients and investing in the infrastructure to maximise the advantages of assistive technology ('telecare')
- for libraries, an acceleration of the refurbishment programme and investment in IT and in the home library service

Business and Environmental Services

The outturn position is an underspend of £1,350k compared to a forecast underspend of £1,080k at Quarter 3.

The floods experienced in June/July and again in January caused significant damage to the highway. The total cost of repairs undertaken in 2007/08 was £920k. There will be further expenditure in 2008/09 of approximately £110k, to complete all works required. All costs have been funded, fortuitously, from the 2007/08 underspend in the Waste Management Service. These savings do not recur in 2008/09, therefore the BES budget will not have the capacity to fund costs that result from any further flooding in the future. Additional income from Streetwork defects has been achieved in 2007/08 amounting to £200k.

There was an underspend of £670k on waste disposal contracts given volumes and diversion of waste. Further savings in the Waste Management budget relate to the extension of HWRC contracts (£100k) and a delay in agreeing recycling incentives to District Councils (£172k). Additional income and grant amounting to £200k was received in relation to the operation of HWRC sites. The majority of savings realised on the Waste Management service have been incorporated into the Budget projections for 2008/09, thereby suppressing the Budget growth requirement for BES.

The Development and Countryside Service has experienced a significant staff vacancy level during the financial year. The net underspend (after accounting for the use of agency staff) was £160k.
Various improvement projects, initiatives and training that were expected to take place in 2007/08 will now be undertaken in 2008/09. This is reflected by slippage

against the 2007/08 Budget of £560k in Performance & Finance and Support Services. Staff vacancies in these services led to an underspend of £120k.

Total expenditure on the Winter Service in 2007/08 was £5,210k against a budget of £6,770k. The full budget and risk associated with the Winter Service transferred to the BES Directorate from 1 April 2007. This included transferring the £2m provision from the Corporate Miscellaneous base budget to BES. As part of the risk management strategy for this Service, a reserve has been set up to help fund the effects of a severe winter. The table below illustrates how this Reserve has been built up over the last two financial years.

Item	**£000**	**£000**
Reserve as at 31 March 2007		239
2007/08 expenditure	5,210	
2007/08 budget	6,770	
Net budget transfer to reserve		1,560
Reserve as at 31 March 2008		**1,799**

The risk associated with the service will continue to be assessed and the level of funding held in reserve reviewed and amended accordingly.

Chief Executive's Group

The net overspend on the Chief Executive's Group is £402k. This compares to a projected overspend of £595k at Quarter 3. Within this sum underspends totalling £245k are being requested for carry forward to 2008/09 for specific purposes. Any other underspends against individual budgets are being utilised to offset overspends, leaving a total of £647k overspend being requested for write-off in 2007/08. The main items making up these sums are as follows:

- overspend on the Youth Offending Team of £20k due to agency and sessional worker costs required in relation to Court Order volumes in Scarborough and the east of the county. This sum is requested for write-off in 2007/08.
- an overspend of £274k on HR services which mainly relates to the slippage of the efficiency programme in HR into 2008/09. This issue was previously reported through the quarterly monitoring reports. Of the overspend £9k will be offset against underspends in other areas of the CEG budget and £265k is requested for write-off in 2007/08.
- an overspend of £237k on Employment Training Services due to a reduction in expected income on the wind-up of the service. This issue was previously reported through the quarterly monitoring reports. Of the overspend £45k will be offset against underspends in other areas of the CEG budget and £192k is requested for write-off in 2007/08.
- an overspend of £170k on legal expenses - as in previous years this is a volatile demand led budget and the overspend is requested for write-off in 2007/08.
- an underspend of £144k on the Elections budget, which includes a carry forward from previous years of £73k. This budget is requested for carry forward into 2008/09 since it will be required to fund future County Council elections.

Children and Young People's Service

Although the overall bottom line net underspending on the Local Authority Block (ie LEA and Social Care) is £1,457k, this includes a £417k technical underspend relating to the allowance for extra days in 2008/09 on Home to School Transport. The real underspending is therefore £1,040k which compares with a figure of £1,340k at Q3 – a decrease in the underspending of £300k. There are further planned, earmarked carry forwards totalling £463k including: Quality & Improvement (£160k); 4Youth Service (£115k), Integrated Children's Processes (£28k), the Aspire programme (£30k), Transfer of 14-19 from the LSC (£120k) and Safeguarding Training (£10k) which reduces the unearmarked underspend to £577k.

Significant variations include:	Outturn £000	Q3 £000
Children's Social Care	-68	+148
4Youth Service	-115	0
Education Social Work	-100	0
Home to School Transport	-1,268	-1,244
Access & Inclusion Support Services	-172	-92
Severance & Redundancy	+171	+219
Quality & Improvement	-198	-160
Children's Services General	-170	-150
Revenue Contributions to Capital/Reserve	+898	0
Other net minor variations	-18	-61
TOTAL	**-1,040**	**-1,340**

As part of the funding strategy for meeting the costs associated with the gas ventilation programme in both kitchens and boiler rooms, significant non-recurring resources have been committed from both Local Authority and Schools Block Budgets. However, significant further resources remain to be identified.

Within Children's Social Care, there is an overall underspending of £68k. Contextually, this includes an overspending on Child Placements of £327k which compares with a figure of £293k at Q3. This is against a background where the B udget reflected a savings target of £850k to be achieved by reducing the number of external placements having already secured savings of £1,310k in 2006/07 which was built into the base Budget. This is offset by underspends relating to continuing vacancies within Children's Services and delays in the recruitment of the new Locality Family Support Workers and NEET (Not in Education, Employment or Training) Personal Advisors.

The County Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families (DCSF) through the Dedicated Schools Grant (DSG). This is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school under the LMS arrangements. The grant is entirely committed – in fact it is slightly over committed (see below) but some of the spending, for a range of reasons, will not be incurred until 2008/09. The net amount involved (£3,449k) has been allocated to a Reserve. This figure needs to be considered in the context of the total DSG for 2007/08 of £299.9m. Excluding the earmarked resources, there are net minor variations of £47k in excess of the 2007/08 DSG allocation. The year end position does include a significant overspend on capital maintenance, which is funded from revenue, arising from unavoidable spending on asbestos and encapsulation schemes (£596k) and other 'emergency' maintenance spending (£199k).

Finance and Central Services

The bottom line net underspend on Finance & Central Services is £1,448k. This compares to a projected underspend of £1,421k at Quarter 3. Of this sum £121k is being requested for write-off in 2007/08 and the remaining underspend of £1,569k is being requested for carry forward into 2008/09. The main items making up these sums are:

- a net underspend of £131k on Financial Services. Within this sum is an accumulated net deficit of £121k on Criminal Records Bureau (CRB) due to the commitment to freeze charges to Directorates and Schools for an initial 2 year period - this is being requested for write-off in 2007/08. The remaining sum is being requested for carry forward and includes £114k in relation to corporate risk management initiatives which although commenced in 2007/08 will not be finalised until 2008/09.
- an underspend of £472k on Corporate Property Landlord Unit (CPLU), substantially on budgets against which expenditure does not fall evenly across financial years (eg farm compensation; non operational and transitional properties) and on items that have slipped into 2008/09 (eg farm improvement programme, Corporate Asset Register upgrade). This underspend is requested to be carried forward to meet these commitments in 2008/09.
- an underspend of £387k on County Hall substantially due to projects which, although initiated in 2007/08 by the County Hall Members Group will not be completed until 2008/09. This underspend is requested to be carried forward to meet these commitments in 2008/09.
- overspend of £191k on the TITAN (telephone) project relating to the funding of capital investment. This overspend will be carried forward into 2008/09 to be recovered over future years from planned savings on line rental and call charges.
- an underspend of £146k on ICT Services mainly on managed service payments to external contractors. This underspend is requested for carry forward into 2008/09 to support generic ICT infrastructure developments.

Corporate Miscellaneous

The bottom line underspend is £3,521k and this compares with figures reported at Q3 as follows:

Item	£000
Net underspend reported at Q3	-2,699
+ additional provisions – see below	+1,500
- net underspend on budgets rolled forward to 2008/09 not reported as part of the Q statements	-1,923
- other variations principally relating to additional Treasury Management savings	-399
Total year end underspend	**-3,521**

Additional provisions totalling £1,500k have been made in relation to gas ventilation works in Boilers/Kitchens (£400k), the Electronic Data Record Management System (EDRMS) (£600k) and ICT Infrastructure (£500k). These provisions which were reflected in the Q3 performance and monitoring report arose from the Revenue Budget/MTFS proposals for 2008/09. These proposals utilise some of the Corporate Miscellaneous underspend in 2007/08 to offset a number of issues that otherwise would require funding from budgets in 2008/09. The three items referred to are either legislative based or linked to developments underpinning the transformation component of the 3 year Efficiency programme.

There is an aggregate net underspend of £1,923k on the Community Fund (Second Homes Council Tax), the Area Committee Budgets, the Transformation Fund and the Pay and Reward Fund, which are carried forward to 2008/09 and therefore do not impact on the general working balance (GWB).

In addition, there are £3,035k Treasury Management savings in 2007/08 that arise from a range of factors but principally:

- additional interest earned from higher levels of balances and higher interest rates being achieved
- lower borrowing costs as a result of several factors
- savings from debt rescheduling exercises by exploiting interest rate differentials in the money market.

These are all explained in more detail in the Annual Treasury Management section of the Executive's report.

The Local Authority Business Rates Growth Income (LABGI) of £1,454k has been paid directly into the Equal Pay/Job Evaluation Fund and does not feature as part of the overall net underspend referred to in this report.

Total Directorate overspends / deficits that are requested to be written off in 2007/08 are £768k. Full details are provided in Appendices 1D and 1F.

Item	£000	£000
Chief Executive's Group		
HR	265	
Employment Training Services	192	
Legal Expenses	170	
YOT	20	647
Finance and Central Services		
Criminal Records Bureau		121
= **Total Directorate deficits requested to be written off in 2007/08**		768

Directorate underspends proposed for carry forward total £7,471k and are a combination of:

(i) technical underspends and associated carry forwards

(ii) managed savings to assist the Budget in 2008/09 and subsequent years

(iii) planned / earmarked savings to support developmental initiatives in 2008/09

(iv) spending planned for 2007/08 but deferred/delayed until 2008/09 for a variety of reasons

Full details of the items involved are provided for each Directorate in Appendices 1B to 1G respectively.

The technical underspends and carry forwards have not been reflected in the Quarterly monitoring reports because they do not impact on the “free” General Working Balance. They are however monitored during the year. These technical underspends for 2007/08 are:

Detail	Balance requested for carry forward to 2008/09
	£000
Corporate Miscellaneous – underspends on the Community Fund, Transformation Fund, the Area Committee Budgets and the Pay and Reward Initiative Budget	1,923
Children and Young People’s Service home to school transport allowance for extra school days in 2008/09	417
Total technical underspends	2,340

The total underspend proposed for carry forward at Directorate level is:-

Directorate	£000
Children and Young People’s Service	1,457
Business and Environmental Services	1,350
Adult and Community Services	927
Chief Executive’s Group	245
Finance and Central Services	1,569
Corporate Miscellaneous Budgets (total £1,923k)	
- Area Committee Budgets	57
- Transformation Fund	12
- Community Fund	1,405
- Pay and Reward Initiative Budget	449
Total proposed carry forward	7,471

The County Council is the Accountable Body for the Local Area Agreement (LAA) Funding for 2007/08. This funding is managed through the North Yorkshire Strategic Partnership (NYSP) and is allocated to a number of partners (both internal and external) to support the delivery of agreed LAA outcomes. The allocations consist of:

- LAA Pooled Funding (Revenue) - £4,940k
- LAA Pooled Funding (Capital) - £777k
- Pump Priming Grant (to support stretch targets over the period 2007/08 – 2009/10) - £1,332k

Throughout the financial year, financial monitoring reports have been taken to the NYSP and its Thematic Partnerships, and a final outturn report was considered by the NYSP on 26 June 2008. The tables below give a summary of the position reported to the NYSP, and of recommendations for carry forward of under/overspends:

LAA Pooled Funding (Revenue)				
LAA Theme	**Allocatio n £ 000**	**Outturn £ 000**	**Variance £ 000**	**Comments**
Children & Young People	3,416	2,828	-588	Underspend by NYCC mainly due to funding streams being academic year related – proposed to be carried forward to 2008/09
Safer Communities	635	617	-18	Underspend by Craven District Council proposed to be carried-forward to 2008/09
Stronger Communities	889	765	-124	£37k of underspend offsets overspend on capital (see below *). Remainder (£87k) mainly related to delayed schemes – proposed to be carried forward to 2008/09
Total	**4,940**	**4,210**	**-730**	

LAA Pooled Funding (Capital)				
LAA Theme	**Allocatio n £ 000**	**Outturn £ 000**	**Variance £ 000**	**Comments**
Safer Communities	175	160	-15	Underspend relates to delayed schemes – proposed to be carried-forward to 2008/09
Stronger Communities	602	639	37	£37 overspend offset by underspend on revenue. (see above *)
Total	**777**	**799**	**22**	

Pump Priming Grant					
LAA Theme	**Total Allocation £ 000**	**Allocation 2007/08 £ 000**	**Outturn £ 000**	**Variance £ 000**	**Comments**
Adults & Healthier Communities	475	114	82	-32	Variances due to timing of implementation of projects. All under and overspends proposed to be carried-forward to 2008/09
Children & Young People	300	54	38	-16	
Safer Communities	200	33	33	0	
Stronger Communities	305	58	52	-6	
Surveys	25	0	0	0	
Unallocated	27	0	0	0	
Total	**1,332**	**259**	**205**	**-54**	

The net underspends have been rolled-forward into 2008/09 as "income in advance". This accounting treatment is in accordance with the funds being effectively allocated on a grants basis.

The final outturn position for 2007/08 on Area Committee budgets is:-

Area Committee	**2007/08 Budget**			**Total spent in 2007/08**	**Underspend (-) in 2007/08 to be carried forward to 2008/09**
	Base Budget	**2006/07 Carry Over**	**Total Budget**		
	£000	£000	£000	£000	£000
Craven	38	-	38	32	-6
Hambleton	48	4	52	40	-12
Harrogate	70	11	81	66	-15
Richmondshire	37	12	49	38	-11
Ryedale	37	17	54	39	-15
Yorkshire Coast & Moors	55	1	56	57	+1
Selby	45	2	47	48	+1
Total	**330**	**47**	**377**	**320**	**-57**

The aggregate underspend of £57k is part of the sum proposed for carry forward to 2008/09.

The Central Contingency Fund, which is a provision for unforeseen, unpredicted and/or emergency expenditure is part of the overall Corporate Miscellaneous budget. The total fund for 2007/08 was agreed at £400k and allocations of £291k were made in 2007/08. The year end underspend of £109k is not being proposed for carry forward to 2008/09 and therefore is added to the General Working Balance at 31 March 2008.

The LABGI scheme was introduced by the Government in 2005/06 for a three year period up to 2007/08. The basis of the scheme was to provide an incentive for authorities to maximise local economic growth by allowing them to retain a proportion of the growth in local business rates, rather than being paid into the national business rates pot. Funding reflected in the County Council's accounts and its agreed utilisation has been:

Year	Agreed Utilisation	£000
2005/06	Transferred into the General Working Balance	635
2006/07	Paid into Equal Pay/Job Evaluation Fund	1,413
2007/08	Paid into Equal Pay/Job Evaluation Fund	1,454
	Total	**3,502**

The £1,454k in relation to 2007/08 consists of

(i) a reassessment of 2005/06 and 2006/07 by the Government following successful judicial review proceedings brought against DCLG by certain authorities on the methodology used to calculate LABGI (£425k).

(ii) notification of additional allocations totalling £1,029k in April 2008 that will be paid later in 2008/09 relating to

a further allocation for 2005/06 of £32k

a further allocation for 2006/07 of £115k

an initial allocation for 2007/08 of £882k, but the Government have held back £100m from the National pot as a contingency against further legal challenges and any errors identified in the calculations. Assuming this contingency of £100m is not all used up, the County Council can expect to receive a further allocation in relation to 2007/08. Following CSR 2007 the Government are currently consulting on a new scheme to replace the current LABGI scheme. This new scheme will commence in 2009/10 (there will be no scheme in 2008/09) but the total funding earmarked (£50m nationally in 2009/10 rising to £100m in 2010/11) is much less than the current three year scheme (£1 billion over 3 years). It is intended that the new incentive scheme will become a permanent part of the local government finance system and will work within the context of three year local government finance settlements.

The position in relation to the Equal Pay/Job Evaluation Fund at 31 March 2008 is:

Item	£000
Fund Balance at start of year	
From LPSA reward grant	6,567
From LABGI	1,413
	7,980
2007/08 transactions	
Paid into Fund from LABGI	1,454
Total allocations from the Fund for	
(i) Job Evaluation (ongoing costs and Year One pay protection)	-3,507
(ii) Equal Pay arrears and associated costs	-1,832
= Fund Balance at 31 March 2008	**4,095**

The Fund balance of £4,095k at 31 March 2008 will be fully utilised in 2008/09 as a result of financing the ongoing consequential costs in that year together with the second and final year of pay protection to employees who suffered a reduction in their salary from the job evaluation exercise. The latest estimate of these two components is £4m, although this is speculative until all outstanding Stage 2 reviews have been concluded.

Additional LABGI funding may be received in 2008/09, but this is dependent upon the outcome of some legal challenges and other issues that the Government have promised to take on board. The ongoing costs of Job Evaluation after 2008/09 is an estimated recurring cost of £3m plus an additional £0.4m consequential impact on the employer contribution rate payable to the North Yorkshire Pension Fund. Both of these additional requirements were incorporated into the 2009/10 Budget and MTFS as part of the Corporate Miscellaneous Budget and will be allocated to Directorates in due course.

A key objective of the Medium Term Financial Strategy approved by the County Council on 20 February 2008 is to maintain the General Working Balance (GWB) policy target of 2% of the net Revenue Budget. In cash terms, the target (forecast) for 31 March 2008 was £7.3m, which equates to 2.5% of the net revenue budget. The target was then to maintain this £7.3m level through to 31 March 2011, at which point it would equate to 2% of the revenue budget, due to annual increases in the Budget. The level of the GWB is directly affected by any year end under or overspending on the various Corporate Miscellaneous budgets which are not rolled forward between years, together with any service deficits which it is agreed should be written off in the year. A statement of the GWB at 31 March 2008 reflecting the draft outturn position is attached as Appendix 1I. The year on year movement in balances is as follows:

	Item	£000
	Balance at 31 March 2007	13,449
+	funding income received in year	295,795
–	net expenditure by Directorates in 2007/08	-294,064
=	General Working Balance at 31 March 2008	15,180

This overall balance of £15,180k includes the Directorate underspends in 2007/08, proposed for carry forward to 2008/09. It is assumed that the GWB will be reduced during 2008/09 by the consumption of these carry forwards as they are, in effect, earmarked balances. The overall level of 'free' balances at 31 March 2008 after adjusting for these proposed carry forwards (£7,471) is therefore £7,709k (=2.6% of net revenue expenditure). This level of free balances at 31 March 2008 (£7,709k) represents a £401k increase, compared to the projected figures reported during the Budget process and Quarter 3 Report (£7,308k). The reasons for the improvement are identified in Part 3 of Appendix I with a summary as follows:

Item	Reported during 2008/09 Budget process and Q3 Monitoring Report £000	Draft Outturn £000
Free GWB at 31 March 2007	6,880	6,880
2007/08 variations impacting on the GWB		
➔ Corporate Miscellaneous underspends	+2,699	+3,098
➔ Directorate deficits to be written off	-771	-768
➔ Additional provisions	-1,500	-1,500
➔ Minor funding variation	-	-1
= Free GWB at 31 March 2008	7,308	7,709

The improvement of £401k is primarily attributable to additional Treasury Management savings achieved in the latter part of the financial year. The forecast level of the General Working Balance for the next four years is:

	£000	% of Net Revenue Budget
• actual free balances at 31 March 2008	7,709	2.6
• estimated at 31 March 2009	7,709	2.4
• estimated at 31 March 2010	7,709	2.3
• estimated at 31 March 2011	7,709	2.2

The County Council has adopted a set of 'good practice rules' as part of its MTFS which is to achieve and maintain a policy target of 2% of the net Revenue Budget of the County Council. These good practice rules are:

(i) that any underspending on the Corporate Miscellaneous budget at the year end should be allocated to working balances

(ii) that should there be any call on GWB during a year such that the targets will not be achieved at the respective year ends then:

(a) that shortfall be addressed in the next Budget cycle and/or

(b) that revenue or capital expenditure reductions be effected in either the current or following financial year, in order to offset the shortfall

(iii) that in order to implement (ii) the Executive should review the position of the working balance on a regular basis as part of the quarterly budget monitoring report process.

Following the approval of the 2008/09 MTFS and Revenue Budget by the County Council on 20 February 2008 the cash targets to achieve and maintain the 2% target were revised as follows:-

	£000	% of Net Revenue Budget
31 March 2007 (actual)	6,880	**2.5**
31 March 2008	7,300	**2.5**
31 March 2009	7,300	**2.3**
31 March 2010	7,300	**2.2**
31 March 2011	7,300	**2.0**

the % reduces each year due to the annual increase in the net revenue budget. The actual level of balances at 31 March 2008 of £7,709k exceeds the target by £0.4m. Whilst the improved position is to be welcomed, it should be borne in mind that there are a number of potential spending pressures in the 3 year budget/MTFS period, together with the need to achieve a significant level of efficiency savings.

In addition to the GWB, the County Council holds a number of other earmarked reserves and balances. These represent funds that have been set aside for a specific initiative or liability. Appendix 1J shows the overall position of all the County Council Reserves and Balances both at the start and end of the 2007/08 financial year, together with the forecast submitted as part of the 2008/09 Budget and MTFS report. The year end to year end increase in overall Reserves balances (£60.7m at 31/3/07 to £63.2m at 31/03/08) is due to a combination of factors, including the changed accounting treatment of trading surpluses, which are now carried forward as specific reserves rather than part of the year end under/over spends by Directorates; the creation of a number of short-term/ad hoc reserves to carry forward funds earmarked for specific purposes (eg EDRMS, gas ventilation works as well as the +/- variations in the “traditional” Reserves (eg School balances, Schools Block (DSG), Winter Maintenance and the Insurance Fund).

The Local Government Act 2003 and associated Guidance received from CIPFA requires a formal review, and regular report, as part of the budgetary control process, on the level and adequacy of reserves, balances and provisions. These requirements were incorporated into the 2008/09 Budget report. At this stage there are no issues with the items listed in Appendix 1J that cause particular concern.

The Accounts and Audit Regulations 2003 require the approval of a Statement of Final Accounts (SoFA) for 2007/08, by an appropriate Committee of the local authority, before 30 June 2008, together with those accounts being signed off by the External Auditor by 30 September 2008. These Regulations also require the chairman of the relevant Committee to sign and date the SoFA to the complete of the Council’s approval process of the accounts. ResponsibilityforapprovingtheCountyCouncil’saccountsisoneofthe responsibilities of the Audit Committee and the SoFA for 2007/08 was submitted for formal approval to that Committee on 26 June 2008. At this stage, however, the SoFA will be prior to external audit and the Audit Committee’s approval will reflect this position. On completion of the external audit, a report from the Auditor (Annual Governance Report) will be submitted to the Audit Committee on 29 September 2008. Following consideration of this report, the Audit Committee will then be asked to approve a final SoFA, prior to it being formally signed off by the External Auditor, to achieve the statutory 30 September deadline.

The outturn figures contained in this report and particularly those set out in Appendix 1H are based on the County Council's organisational and budget management arrangements. The format and content of the SoFA is, however, laid down in the Code of Practice on Local Authority Accounting in Great Britain. In many areas, the day to day accounting arrangements of the County Council are different to the statutory year end accounting requirements. The introduction of the Best Value Accounting Code of Practice (BVACOP) in 2000/01 significantly increased these differences. Therefore the individual

Service outturn figures will be markedly different to those reported to the Audit Committee as part of the SoFA.

Throughout 2007/08 a number of issues have been identified and reported to Members that could lead to budgetary pressures in 2008/09 and future years. As part of the ongoing performance and budget monitoring process, the risks associated with these issues are identified, with corrective action being taken wherever possible. Issues that could impact on 2008/09 and future years are:

Children and Young People's Service

Children's Social Care

Budgeted savings on external placements of 'looked after children' were partially achieved in 2007/08, but a further shift in the mix of placements and meeting the requirements of the Children in Care Bill will prove challenging.

In addition uncertainty regarding ongoing negotiations relating to significant monies (£850k) owed by the North Yorkshire and York PCT in relation to May Lodge (2005/06 onwards) could place the Children's Services budget under significant pressure.

Efficiency Plan

Implementation and delivery of the VFM programme, including £1.7m required savings on Home to School Transport, against a background of an existing low cost structure and low strategic management costs, where services are provided in parallel to a network of 387 schools in a large and rural county, will prove challenging.

Catering

The breakeven position in 2007/08 was only achieved with support from the Corporate Job Evaluation Fund. Although this support will continue in the 2008/09 spring term, the pressure to increase school meal uptake and ensure recovery of an anticipated deficit in the context of rising costs will be extremely challenging. The Catering Service is undertaking a consultation on the proposed SLA for Primary Schools which will share with schools the responsibility for the promotion of the 'Be Healthy' outcome of the Every Child Matters agenda.

Home to School Transport

Rising costs, particularly the volatility of fuel prices create budget pressures and make it difficult to forecast trends. The Service is required to achieve £1.7m efficiency savings against a context of policy pressures surrounding the 14 – 19 agenda and transport provision for other non statutory routes eg Extended Schools, Early Years and Special Education Needs.

Schools 14 – 19 Agenda

Increasing participation in education and training is a key Government priority and CYPS are required to implement measures set out in the White Paper on 14 – 19, Education and Skills. This will involve potentially significant changes in school and further education funding arrangements and how CYPS support schools and colleges in achieving the required outcomes.

Adult and Community Services

Social Care Operations

Within an overall underspending on care services there was a significant overspending on services for people with learning disabilities. As the offsetting underspend from other client groups reduces, as demand levels continue to rise, there will need to be rigorous management action to reduce the overspend. However the long term nature of client support to people with a learning disability and the availability of service provision etc makes this a challenging target to achieve.

Within the overall financing of the 2008/09 budget there has been an assumption of achieving higher income levels. Because much of this is driven by the means of, or decisions around, individual clients there remains a significant degree of risk and, therefore, performance against these targets will need to be closely monitored. A further factor is the potential for cost pressure on social care budgets arising from the interface issues between services provided by the Directorate and by Health. Although the PCT has made great strides in bringing ongoing activity in line with the revenue budget there remains a significant deficit from previous years which needs to be corrected. This situation carries the risk of costs falling on the Directorate that might previously have been picked up by Health. The Directorate will need to continue to monitor closely any specific impacts on joint contracts with Health, as well as the impact of any behavioural changes that might impact on budgets. With significant cost pressure in the wider economy there is a risk that this will lead to price pressure from service providers particularly around spot-contracts and as services are re-tendered.

Library & Information Services

Following the transfer of responsibility for the Registration Service to the County Council in December 2007 there are likely to be budgetary pressures for the improvement of the structure of the service to accommodate new statutory responsibilities. Work is ongoing to understand this potential financial impact.

Business and Environmental Services

Flooding

Significant flooding has been experienced in North Yorkshire during 2005/06 and now in 2007/08. The cost of clear up and repairing damage caused to the highway from the 2007/08 floods totals over £1m. This cost was contained within the 2007/08 BES Budget due to a non-recurring underspend in Waste Management. However these savings were incorporated into the 2008/09 base Budget thereby reducing the growth requirement for the BES Directorate. As such no future flooding costs could be contained within the BES Budget.

Waste Management

Given the Waste Management savings referred to above, the Waste Management budget remains subject to the volatility of changes in waste volumes. However if recent past trends continue, it is likely that expenditure can be contained within the 2008/09 Budget.

Winter Service

The financial risk of the Winter Service now sits with the BES Directorate. The £2m provision previously held in the Corporate Miscellaneous base budget, was transferred to BES in 2007/08. Whilst expenditure on the Winter Service was well within the Budget for 2007/08, it remains a significant financial risk. A Reserve has been built up over the last two financial years and the balance stands at £1.8m at 31 March 2008. To help put this in context, winters in the last few years have had conditions where expenditure between £0.6m and £1.2m has been incurred in a three week period. It can therefore be seen that a sustained period of poor conditions would lead to a very high level of expenditure in any one winter season. Given this, the BES budget is subject to a high degree of volatility.

Corporate

at a corporate level the principal financial risk is a failure of the organisation as a whole to achieve the 3% cashable efficiency target incorporated into the Budget/MTFS for 2008/09. Whilst utilisation of the Pending Issues Provision will be deferred by the Executive, until confidence in progress on the Efficiency Plan is evidenced, ultimately any shortfall will have a consequential impact on the availability of funds for service improvement in 2009/10 and 2010/11.

As indicated above these issues will continue to be monitored and corrective action taken during the course of 2008/09 where appropriate. These trends will also need to be reassessed when updating the MTFS, later in the year, for 2009/10 and subsequent years.

The Executive RECOMMENDS:

That the proposed write off in 2007/08 of Directorate overspendings totalling £768k, as detailed in this report, be approved.

That the proposed carry forward of underspendings at Directorate level totalling £7,471k, as detailed in this report, be approved.

2. Capital Expenditure Outturn and Financing 2007/08: The movement in the Capital Plan for 2007/08 has been:-

Item	£m	£m
Gross Spend of Capital Plan approved on 20 February 2007		121.6
Variations in schemes self funded from grants, contributions		
CYP Digital Infrastructure Grant	2.8	
CYP School 'self help schemes'	3.0	
Other	5.3	11.1
Variations in schemes funded from Prudential Borrowing		0.1
Rephasing of expenditure between years		
(i) Self funded		
CYP Children's Centres	-5.0	
CYP Richmond BSF Scheme	-9.6	
BES Scarborough Integrated Transport Scheme	-1.9	
Other	-2.9	-19.4
(ii) From Borrowing and Capital receipts		
Depots Rationalisation programme	-2.5	
Loans to Limited Companies	-2.4	
Waste Disposal Service	-1.8	
Other	-8.5	-15.2
Other approvals and variations		1.4
Total variations		-22.0
= latest Capital Plan approved by Executive on 19 February 2008		**99.6**

Capital expenditure in 2007/08 compared to the Capital Plan figures was:-

Item	Capital Plan		Outturn for 2007/08	Year end variation compared with	
	Original (20 Feb 07)	Latest (19 Feb 08)		Original Plan	Latest Plan
	£m	£m	£m	£m	£m
Gross Capital Spending	121.6	99.6	93.9	-27.7	-5.7
Less Capital Grants and Contributions	-66.4	-58.4	-57.4	9.0	1.0
= net Capital Spending	**55.2**	**41.2**	**36.5**	**-18.7**	**-4.7**

The 2007/08 gross capital spending of £93.9m therefore represents an underspend of £5.7m, compared with the last Capital Plan update and a £27.7m underspend compared with the original Capital Plan, approved in February 2007. Although the reasons for this underspend can be analysed down to individual schemes, it is nevertheless disappointing, given the improvement made in 2006/07 (£1.3m underspend relative to latest plan) and the fact that the £5.7m variance has arisen since the February Q3 report. The Capital Project Management process will improve project management for schemes coming into the Capital Plan, but most of the "slippage" relates to schemes that have been underway for some time.

A brief summary of the outturn position is set out below, with a more detailed summary being provided in Appendix 2A and an individual statement for each Directorate at Appendix 2B.

Service	**Original Plan (Feb 07)**	**Latest Plan (Feb 08)**	**Outturn**	**Variation to Latest Plan**
	£m	£m	£m	£m
Children and Young People's Service	47.5	38.4	38.0	-0.4
Business and Environmental Services	57.0	51.7	46.4	-5.3
Adult and Community Services	6.3	2.6	2.6	-
Other County Services	10.8	6.9	6.9	-
Total	**121.6**	**99.6**	**93.9**	**-5.7**

The Directorate statements provided at Appendix 2**B** list individual variations between the last Capital Plan update in February 2008 and the outturn position. The major reasons for the £5.7m underspend however are as follows:-

Item	**£m**
Children and Young People's Service	
Major Capital schemes at schools – slippage into 2008/09 on about 40 projects	-0.9
Minor Works schemes – gas ventilation programme across schools has put other schemes on hold	-0.6
School Capital schemes funded from their own resources and external contributions - more schemes carried out compared to the forecast Capital Plan provision	+3.8
Schools Devolved Capital – progressed with programmed schemes quicker than planned, (fully grant funded)	+1.2

Net underspend on other grant funded schemes where expenditure has slipped into 2008/09 for a variety of reasons, eg Specialist Schools, Richmond BSF and National Digital Infrastructure	-1.9
BES	
Depots Rationalisation programme – expenditure planned on two depots towards the end of the financial year has now slipped into the early part of 2008/09	-0.5
Waste Procurement project – land purchase schedule for late in 2007/08 has now slipped into the early part of 2008/09	-0.5
Scarborough Integrated Transport Scheme – slippage to 2008/09 as a result of several factors including poor weather conditions late in financial year and an over optimistic expenditure plan	-3.0
Local Transport Plan (LTP) – slippage in programme to 2008/09	-1.5
Other County Services	
NYnet took up some of the agreed working capital facility towards the end of 2007/08 that had been slipped into 2008/09 in the last Capital Plan update	+1.0
Underspend on block provisions for Disabled Access and Control of Legionella Bacteria in Water Systems	-0.6
Net Effect of all other variations	-2.2
= Gross Capital underspend in 2007/08 compared with last Capital Plan update	**- 5.7**

The County Council's Financial Procedure Rules incorporate an automatic carry forward facility for under/overspends, both for approved capital expenditure and specific capital income. There was a £5.7m underspend compared with the last Capital Plan for 2007/08 but, after accounting for grants and contributions income, there is a net bottom line underspend of £4.7m. The various components of this net £4.7m underspend and the proposed carry forward to 2008/09 is are:-

Item	£000
Latest Capital Plan update (gross spend)	99,636
2007/08 outturn	93,914
= gross capital underspend	5,722
- reduced grants and contributions (58,428 to 57,454)	-974
= net capital underspend	4,748
➔ underspending against Material Damage Block provision which is not required to be carried forward to 2008/09	-17
➔ CYP financing adjustment relating to capital contributions being replaced by earmarked capital receipts	+400
➔ underspending against Vehicle and Equipment Block provision	-41
➔ other miscellaneous 'Corporate' variations not proposed for carry forwards to 2008/09	+5
= adjusted net underspend proposed for carry forward to 2008/09	**5,095**

The split of the proposed £5,095k carry forward underspend between Directorates is:-

Directorate	£000 (- = underspend)
Children and Young People's Service	-1,657
Business and Environmental Services	-2,907
Adult and Community Services	46
Other County Services	-577
Total net underspend carried forward	**-5,095**

This proposed carry forward will not impact on the long term capital financing arrangements for the Capital Plan as borrowing and use of capital receipts can be used flexibly between years.

Total capital expenditure of £93.9m in 2007/08 has been financed as follows:-

Item	£000	£000
New borrowing for Capital purposes		
• external sources as adjusted for debt repayment and statutory charges to revenue	42,119	
• internal capital borrowing	-13,927	28,192
Capital Grants and Contributions		
• Directorate grants and contributions	47,086	
• Scarborough Integrated Transport Grant relating to capital spending in earlier years (written off in 2005/06)	532	47,618
Schemes financed from Revenue		
• Directorate and School Revenue contributions	11,172	
• ICT financing adjustment	-803	
• BES revenue contribution earmarked against potential future risks on major capital schemes	432	10,801
Capital Receipts		
• all receipts received in 2007/08		7,303
= total capital spending to be financed in 2007/08		93,914

The balancing figure in the above table is effectively the reduced level of borrowing for capital purposes from internal sources of £13,927k. This reflects a number of factors which are considered in more detail in the Annual Treasury Management and Prudential Indicators section of this report.

A more detailed comparison of the above funding package with that underlying the original Capital Plan approved by Members on 20 February 2007 and the last update approved on 19 February 2008 is provided at Appendix C.

New borrowing of £28.2m was needed to finance capital spending in 2007/08. This consisted of £42.1m from external sources, as adjusted for debt repayment and statutory charges to revenue, less a reduction of £13.9m of capital borrowing from internal sources. In considering this figure the following points should be noted:

(i) a breakdown of the total capital borrowing requirement of £28.2m into constituent elements and compared with the original and latest Capital Plan is:-

Item	Original Estimate (Feb 2007)	Latest Estimate (Feb 2008)	2007/08 Outturn
	£m	£m	£m
Government Supported Borrowing approvals for 2007/08			
• Single Capital Pot			
Education	7.9	7.9	7.9
Highways LTP	21.6	21.6	21.6
Social Services	0.4	0.4	0.4
• Separate scheme specific approvals	0.2	0.2	0.2
Unsupported Prudential Borrowing required to finance other schemes approved by the County Council	10.8	10.5	10.8
Slippage of net capital expenditure and capital receipts between years	0.7	1.9	-2.6
Temporary use of surplus capital resources (mainly capital receipts) and other financing arrangements	0.5	-9.3	-10.1
Total Capital Borrowing requirement	**42.1**	**33.2**	**28.2**

(ii) actual new external borrowing taken up in the year as reported in the separate Annual Treasury Management Report for 2007/08 was £40m and this reconciles to the £28.2m used to finance new capital spending in 2007/08:

Item	£m
New borrowing required to finance Capital Spending in 2007/08	28.2
+ reduced internal borrowing from surplus revenue cash balances	13.9
= new external borrowing for capital purposes	42.1
+ new external borrowing to replace loan repayments in 2007/08	10.8
- 4% MRP charged to Revenue which reduces borrowing need	-12.7
- other items reducing borrowing need in year	-0.2
= total external borrowing in 2007/08	**40.0**

The financing table above includes a £803k 'Financing adjustment' being offset against Directorate Revenue Contributions to capital spending in 2007/08 in relation to the Wide Area Network (WAN). This financing adjustment is no longer needed for the Standard Desk Top (SDT). The principle of this adjustment was approved in June 2003, as part of a package of proposals agreed for the County Council's E-Government Strategy. Members had earlier approved capital funding of £6m for the WAN (and £6m for the SDT) over a period of years, but it subsequently became clear that a significant element of the costs were not of a capital nature. As it was not realistic to replace the capital allocations with revenue funding, Members agreed a mechanism to achieve a revenue/capital funding 'switch'. This mechanism switches part of Directorate revenue contributions to finance capital spending in a given year into a 'revenue reserve', which is used to fund the actual revenue spend of up to £1m on the WAN for that year. The resulting shortfall in revenue contributions to fund capital spending is made good by using a matching part of the annual WAN capital provision. The significance of 'up to £1m per annum is that this is the maximum estimated amount of any revenue funding shortfall in any of the project years. The last year of this financing adjustment will be in 2009/10.

Two other year end capital financing transactions are:

(i) a grant shortfall of £1.4m was written off in 2005/06 and funded from County Council capital resources (principally capital receipts) in relation to preparatory costs on the Highways Scarborough Integrated Transport Scheme (SITS). It had earlier been assumed that these costs would be fully covered by Government grant, but it became doubtful that this would be the case. Ultimately a grant claim for £657k was successful in 2006/07 and this was used to finance capital spending during that year, thus reducing the level of borrowing required. The released funding was, however, earmarked as a contingency against risks associated with the SITS scheme, which have previously been reported to Members, and will not be made available to the Corporate Capital Pot for other schemes and initiatives until the final position on the SITS scheme is established. A further grant claim for £432k towards these earlier year costs has been successful in 2007/08 and this sum has therefore been accounted for the same way. The total sum earmarked as a contingency against risks associated with the SITS scheme at 31 March 2008 is therefore £1,089k.

(ii) an additional contribution of £532k from the BES revenue budget has also reduced borrowing in 2007/08. This contribution is being earmarked within the Corporate Capital Pot as a further contingency against risks associated with other major capital schemes.

The County Council's policy on capital receipts is that all such receipts, excluding those relating to County Farms, shall be used to finance capital expenditure in the year in which the receipts are generated. The outturn position on Capital Receipts is:

Item	£000
Receipts achieved in 2007/08	
➔ sale of County Farms	3,304
➔ earmarked for Depots rationalisation programme	2,839
➔ sale of other land and buildings	1,160
	7,303
Used to fund capital expenditure in 2007/08	-7,303
Capital Receipts carried forward to 2008/09	0

Total capital receipts achieved in 2006/07 of £7.3m compare with an estimate of £8m used for the last updated Capital Plan. The shortfall of £0.7m relates mainly to the slippage into 2008/09 of some receipts expected in 2007/08. All available Capital Receipts at 31 March 2008 have been used to fund capital spending in the year. This approach is advantageous in terms of treasury management activities and reducing capital financing costs in 2008/09.

In terms of County Farms capital receipts, the County Council agreed, on 15 May 2002, a flexible policy on the utilisation of capital receipts, to use receipts as appropriate to finance the Capital Plan, to reduce debt or for other purposes, in accordance with the financial demands on the Council. The Capital Plan utilises all expected County Farms receipts achieved in the financial years 2007/08 to 2010/11 to fund capital spending rather than for debt repayment or other purposes. Therefore all such receipts in 2007/08, totalling £3,304k, have been used for the funding of capital spending.

The Q3 Capital Plan update report submitted to Executive on 19 February 2008 identified a potential £7.7m of unallocated capital funding that might become available in the four year period to 2010/11. This sum arose mainly from additional capital receipts that had been identified. As a result of the 2007/08 outturn position and a recent updated forecast of capital receipts up to 2010/11, this surplus capital resources forecast has now increased to £8.8m. The increase results from a combination of additional forecast capital receipts, increased values from some existing sales in the pipeline and underspends on some corporate capital provisions in 2007/08, which are not required to be carried forward to 2008/09. Assuming it materialises, this £8.8m could be made available for:

(i) new capital investment (i.e. additional schemes,) or

(ii) reducing prudential (unsupported) borrowing in 2008/09, 2009/10 or 2010/11 and therefore achieving debt financing cost savings in the Revenue Budget and MFTS or

(iii) holding for the time being with no immediate decision to either spend or reduce borrowing. This course of action would result in additional short-term interest being earned within Corporate Miscellaneous.

The Executive has agreed to retain any surplus capital funding for the time being. A factor that influenced this decision was that the forecast funding levels include a capital receipts risk in terms of both forecast receipts slipping into a future year and/or not achieving their assumed estimate. The Executive has, however, considered a number of reports with capital expenditure / funding implications since the last Capital Plan update on 19 February 2008. These include

(i) £6m additional funding for CYPS – over two years (ie £2m in 2009/10 and £4m in 2010/11), to be funded from the non-recurring Pending Issues Provision (ie revenue) and therefore will not impact on the level of available resources referred to above

(ii) Bedale Bypass – agreed feasibility costs of £333k (£135k funded by BES and £198k from Corporate Miscellaneous). Although this has no immediate impact on the Capital Plan, if the scheme is to eventually proceed, the report identified a potential cost contribution from NYCC of between £4.8m and £12.8m. Clearly, at the time the final business case for the project is considered, funding will have to be allocated from the "unallocated pot", depending on its size at the time, or by approving additional Prudential Borrowing. That may breach the local policy cap of 11% of net Revenue Budget established by Members as part of the 2008/09 MTFS / Treasury Management package.

(iii) improvement works to County Farms as the policy review identified the need for a programme of improvement works, the cost of which exceeded current resource levels in the Revenue Budget. A report will be submitted via Corporate Asset Group (CAG) as soon as possible seeking to fund such a programme of works over 3-5 years

(v) replacement of the Carbon Trust Grant (of up to £250k). To enable a programme of investment in energy efficiency and associated matters to continue, focussed on NYCC priorities, the grant facility will need to be replaced by a capital funded provision which will be repaid (and therefore can recycle itself) as projects realise their agreed financial savings targets. A report will be submitted via CAG in due course.

In addition to the additional schemes there is a need to consider further bids from Directorates for capital funding. In recent years the Capital Plan has been led by a combination of schemes identified as part of the Capital Forecast process, a 10 year plan established in 2004, and on a “needs” basis. The consideration of such bids will need to be set against a combination of funds available (either from forecast capital receipts or by additional Prudential Borrowing); schemes in the Capital Forecast but not yet started; and their contribution to policy objectives. This process will require a prioritisation process that will be developed by CAG for consideration by Management Board and then the Executive. It is planned to establish this process in the Autumn of 2008.

The County Council has developed a corporate Capital Project Management Process which sets out the approach to be used for the identification, planning, delivery and review of capital projects which cost over £50k. The process was launched at the start of this calendar year and includes the concept of gateways. These reflect key points in the life of a project at which the project is reviewed to determine whether it has reached the necessary standard to be approved for the next stage; if not then it is returned to an earlier stage for further work. An approach to project review, the final part of the process, has yet to be finalised, but it is anticipated that this will be completed by 31 March 2009. The process has been developed in conjunction with Directorates and with Jacobs UK, the Council’s property consultant. It uses Jacobs’ electronic systems. Extensive training has been undertaken with staff across all Directorates to ensure that there is common understanding of the process and the roles and responsibilities of the main participants. The development work has been linked to a wider review of capital management and will come into use fully as the new arrangements around capital are introduced. In the meantime, existing projects are being fitted into the process at appropriate points.

The Executive RECOMMENDS:

That the proposed carry forward to 2008/09 of the net underspend totalling £5,095k, as set out in this report, be approved.

3. Annual Treasury Management and Prudential Indicators Reports 2007/08: The Treasury Management function is concerned with the lending and borrowing of short term funds, and the long term funding of the County Council's Capital Plan. In this context is defined as "the management of the County Council's 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". The process of Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management. The primary requirement of the Code is the formulation and agreement by the County Council of a Treasury Management Policy Statement which sets out the parameters for the lending and borrowing of money as well as the respective responsibilities of the County Council, the Executive and the Corporate Director – Finance and Central Services.

A revision of the Code of Practice was adopted by the County Council on 15 May 2002. The primary requirements of the Code are the:

(a) creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of a Council's treasury management activities

(b) creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives

(c) receipt by the Executive/Council of an Annual Treasury Management Strategy report for the year ahead and an Annual Treasury Management Report of the previous year

(d) delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions

In addition from 1 April 2004 the County Council must also comply with the CIPFA Prudential Code for Capital Finance in Local Authorities which impacts heavily on treasury management matters. The Local Government Act 2003 requires the County Council to "have regard" to the Prudential Code and set Prudential Indicators to ensure that capital investment plans are affordable, prudent and sustainable.

This Annual Treasury Management Report for 2007/08 addresses the following:-

♦ the Council's overall treasury (debt and cash) position
♦ performance measurement
♦ Treasury Management Strategy for 2007/08
♦ debt management outturn for 2007/08
♦ investment strategy for 2007/08
♦ investment outturn for 2007/08
♦ compliance with Treasury limits and Prudential Indicators
♦ debt rescheduling

and the report also asks Members to approve an increase in the maximum sums that can be invested with any one organisation at one time.

The key statistics and/or performance indicators explained in this report can be summarised as follows:

- ➔ long term external debt increased from £299.0m (at 31 March 2007) to £328.2m (at 31 March 2008)
- ➔ the average rate of interest on this debt reduced by 0.37% (from 5.7% to 5.33%); which is below the national average for all PWLB debt of 5.72%
- ➔ for cash invested the average rate of interest achieved was 5.87% which outperformed the average 7-day market rate of 5.64% and the average bank rate during the year of 5.54%
- ➔ none of the approved Treasury Management Prudential Indicators and limits were exceeded during the year
- ➔ debt rescheduling exercises were undertaken during 2007/08 resulting in on-going annual revenue savings of £0.6m.

All of the above are explained in more detail in the following paragraphs.

The County Council's debt/cash position at the beginning and end of the 2007/08 financial year was:-

Item	@ 31 March 2007		@ 31 March 2008	
	Principal	Weighted Average Rate	Principal	Weighted Average Rate
	£m	%	£m	%
EXTERNAL DEBT OUTSTANDING				
Fixed Rate				
- PWLB	284.0	5.80	318.2	5.38
- Money Market LOBOs	15.0	3.80	10.0	3.76
	299.0	5.70	328.2	5.33
CASH AVAILABLE				
Temporarily invested				
- in house	91.7	4.94	131.4	5.87
- with Fund Manager	0	3.61*	0	0
	91.7	4.87	131.4	5.87

* Net of fees

The weighted average rate for 'cash available' is expressed on an annualised average basis. Whilst investment performance criteria are well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. The County Council is a member of CIPFA's Treasury Management 'Benchmarking Club' which compares our performance on treasury management activities with other Local Authority club members. Although no information on this is yet available for 2007/08, the data for previous years has proved useful in identifying best practice. For the purposes of this report a number of comparisons are used that are considered valid in the context of the County Council's Treasury Management arrangements.

The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2007/08 was based on officers' views, prepared with assistance from the Council's treasury advisers and supported by a selection of City forecasts. The consensus view for UK shorter term interest rates was:

- after a surprise 0.25 % increase in the bank rate to 5.25% in January 2007, it was expected to increase again by March 2007 to 5.5% and then remain at that level until the last quarter of 2007 when it would fall to 5.25%
- further reductions to 5% in the first quarter of 2008, 4.75% in the second quarter of 2008 and 4.5% in the first quarter of 2009 were then expected before rising back to 4.75% in the third quarter of 2009.

The consensus view for longer term PWLB interest rates was:

- the 50 year rate was expected to remain flat at 4.25%
- 25-30 year rates were expected to remain flat at 4.5% for the foreseeable future
- 10 year rates were expected to remain at 5% until the third quarter of 2007, then falling gradually to 4.50% and remaining at that rate for the foreseeable future
- 5 year rates were expected to remain at 5.25% until the third quarter of 2007 and then fall to 5%. A further fall to 4.75% was expected in the last quarter of 2007 followed by a reduction to 4.5% in the first quarter of 2008 with that rate remaining for the foreseeable future.

Based on the above, the Strategy adopted by the County Council for 2007/08 was as follows:-

(i) To finance its capital expenditure by borrowing as permitted (from the Public Works Loan Board or the money markets) over periods up to 50 years which reflect the best possible value to the County Council and for the life of the physical assets. Individual loans would be chosen over varying periods depending on the perceived value of interest rates at the time of borrowing. Depending on the relationship between short-term variable rates and the fixed term PWLB/money market rate for longer periods, some capital expenditure might be financed by short-term borrowing from either the County Council's revenue balance or outside sources. The Borrowing Strategy for 2007/08 was to take very long dated fixed interest rate borrowing from the PWLB or competitive money market loans, at any time of the financial year. Variable rate and short period borrowing (of 5/10 year duration) was expected to be more expensive than long term borrowing and would therefore be unattractive throughout the financial year. PWLB 50 year rates were expected to be around 4.25% throughout 2007/08 although small movements around this level were likely. This rate was expected to be lower than for shorter periods and therefore borrowing was suggested in this area of the market, or equally attractive money market loans at any time of the financial year. A target rate for considering taking new fixed rate, long term borrowing was therefore 4.25% although the aim was to secure loans at rates below this level (actual loans ultimately taken were in the range 4.2% to 4.55% with an overall average of 4.46%. Therefore during 2007/08 long-term finance was to be drawn down at the time in the year when such finance was available at what were judged to be low rates of interest. Until such opportunities presented themselves the aim was to use short-term funds or balances to fund long-term expenditure.

(ii) The County Council can usually earn a higher rate of interest on its surplus cash balances by lending on the money market than is available from the authority's bankers. The strategy therefore was to maximise interest receipts by investing all surplus monies until required for varying periods on the money market, commensurate with proper levels of security and liquidity. Investments would only be made within the constraints of the approved Annual Investment Strategy (AIS). A sum of £12m was identified as a maximum that could be prudently committed to longer-term investments (between one and three years). The interest rate outlook was for a 0.25% increase in bank rate to 5.5% in February 2007, followed by a falling trend from the fourth quarter of 2007, reaching 4.5% by the first quarter of 2009. The aim therefore was to lock in longer term investments at higher rates for part of the County Council's investment portfolio (which represents its core cash balances) before the fall started. A rate in excess of 5.5% was therefore determined as an attractive trigger rate for one, two and three year deposits given the expectation that bank base rate would peak at 5.5%. The average interest return ultimately achieved in 2007/08 was 5.87%. For its cash flow generated balances, the aim was to use "business reserve accounts" (deposits with certain banks and building societies) and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

The actual interest rate outturn position was that Bank rate started 2007/08 at 5.25% with expectations that there would be further increases in rates. A further increase to 5.5% duly occurred in May 2007 following inflation remaining 1% above the 2% target. Following further inflation fears the rate rose again to 5.75% in July 2007 with the market expecting further increases. August inflation reports showed bank rate needed to rise to 6% to keep inflation at target in two years time but, as it turned out, rates had peaked, as what has become known as the 'credit crunch' hit the markets and the global economy. The credit crunch originated in the US through the sub prime housing market where investors, particularly banks, had invested in packages of sub prime loans, attracted by the higher yields offered. Fears arose that many of these investments would turn out to be worthless, which would lead to bankruptcies in the banking sector. Banks became reluctant to lend to each other causing liquidity problems. To try to overcome this, the US and European Central bank injected liquidity into the markets but the Bank of England (BoE) stood on the sidelines. On 17 August the US cut interest rates by 0.5% to 5.25%. The dislocation in the markets continued throughout the summer and on 14 September the BoE announced a considerable level of support for Northern Rock, who had been affected by the drying up of the wholesale money markets, which provided 80% of its funding. On 18 September the US cut rates by a further 0.5% to 4.75%. The MPC however declined to cut bank rate at its October meeting, still being concerned about the inflation outlook. On 31 October US rates were cut again to 4.5% with significant levels of Federal reserves being released in an attempt to free up the markets. UK rates were eventually cut by 0.25% to 5.5% in December 2007 as concerns about the economy and credit crunch mounted. On 11 December the US cut rates again, this time by 0.25% to 4.25%. 2008 started with major fears about the global economy. Stock markets fell sharply and government bond yields fell. On 22 January US rates were cut by 0.75% to 3.5% and then again on 30 January to 3%. The MPC followed suit in February cutting bank rate by 0.25% to 5.25%. On 18 February it was announced that the Government would nationalise Northern Rock and in late February and March the markets seized up again, forcing concerted liquidity intervention by the world's central banks. The year ended with the money markets being anxious and nervous with short term interest rates being 0.75% above the bank rate.

The PWLB 45-50 year rate started the year at 4.45% and fell to a low of 4.38% in March 2008. The high point, of which there were several, was 4.90%, before finishing the year at 4.42%. The volatility was a direct reflection of the massive turnaround in interest rate expectations brought about by the sub-prime crisis in the US. A radical change to the PWLB rate structure was introduced on 1 November 2007 when they moved to single basis point moves in their rates and introduced a separate repayment rate at the same time, at a level significantly below the rate at which they would lend new money.

The actual movement in relevant UK market interest rates for the year was therefore:

Bank rate	
From 1 April 2007 to 9 May 2007	5.25%
From 10 May 2007 to 4 July 2007	5.50%
From 5 July 2007 to 5 December 2007	5.75%
From 6 December 2007 to 6 February 2008	5.50%
From 7 February 2008 to 31 March 2008	5.25%
Weighted Average for year	**5.54%**

Item	**range during year %**	**Start of year %**	**End of year %**	**Average during year %**
PUBLIC WORKS LOAN BOARD (PWLB) RATES				
Fixed Interest Maturity				
5 years	4.05 – 5.95	5.40	4.21	5.11
10 years	4.44 – 5.75	5.15	4.56	5.07
15 years	4.55 – 5.70	5.10	4.75	5.06
20 years	4.51 – 5.50	4.95	4.74	4.95
25 years	4.45 – 5.30	4.80	4.64	4.83
30 years	4.41 – 5.15	4.65	4.54	4.73
35 years	4.39 – 5.05	4.60	4.49	4.68
40 years	4.40 – 5.00	4.55	4.47	4.65
45 years	4.39 – 4.95	4.50	4.44	4.62
50 years	4.38 – 4.90	4.45	4.42	4.59
Variable Interest rates				
1 month rate changes	5.30 – 6.10	5.50	5.30	5.71
3 month rate changes	5.15 – 6.10	5.60	5.15	5.71

Long term borrowing for capital purposes taken out by the County Council in 2007/08 was £40m and consisted of

Item	Amount	Years	Repayable	Interest rate	Interest Terms
	£m			%	
From the PWLB					
August 2007	15.0	45.5	Maturity	4.55	Fixed
August 2007	5.0	45.5	Maturity	4.45	Fixed
August 2007	5.0	40.5	Maturity	4.50	Fixed
November 2007	5.0	30.0	Maturity	4.48	Fixed
January 2008	5.0	35.0	Maturity	4.39	Fixed
March 2008	5.0	3.5	Maturity	4.20	Fixed
From the Money Market					
none taken in 2007/08					
	40.0			4.46	weighted average

The above borrowing was based on advice from the County Council's Treasury Management Advisers in terms of timing, repayment terms and interest terms.

This £40m of new borrowing is made up of:

	Total Borrowing Requirement	**Financed Internally via temporary Capital Borrowing from the County Fund (paragraph 10.29)**	**Balance from External Borrowing in 2007/08**
	£m	£m	£m
Financing of Capital Expenditure	28.2	-13.9	42.1
Other transactions impacting on borrowing			
• replacement borrowing for loan repayments in 2007/08	10.8	-	10.8
• 4% MRP charged to Revenue reduces borrowing need	-12.7	-	-12.7
• other items reducing borrowing in year	-0.2	-	-0.2

= total borrowing in 2007/08	**26.1**	**-13.9**	**40.0**

The year on year movement in the external debt position of the County Council is:-

Item	£m	£m
Debt outstanding at 1 April 2007 PWLB Other Institutions	 294.0 5.0	 299.0
New borrowing in the year from the PWLB from the Money Market	 40.0 0	 40.0
Debt repayments in year PWLB Money Market	 -5.8 -5.0	 -10.8
= external debt outstanding at 31 March 2008		**328.2**

The average rate of new borrowing in 2007/08 was 4.46% which compares with:

- ➔ 4.55% average for all PWLB loans made in the 2007/08 financial year
- ➔ 5.70% average NYCC interest rate on existing debt at the start of the financial year
- ➔ average PWLB maturity loan interest rates for 2007/08 of

5.11% for 5 year loans
5.07% for 10 year loans
5.06% for 15 year loans
4.73% for 30 year loans
4.65% for 40 year loans
4.59% for 50 year loans

The County Council's new borrowing in 2007/08, which averaged 4.46%, is below the overall PWLB average of 4.55% because of the timing of borrowing taken in the year and most borrowing being taken for lower interest, longer period loans.

The distribution of the County Council's long term debt as at 31 March 2008 was.

Item		Debt	Weighted average interest rate
PWLB		£m	%
Maturing within	1 year	6.4	9.33
	1-2 years	7.0	9.35
	2-3 years	7.5	9.39
	3-4 years	12.1	7.24
	4-5 years	6.1	9.27
	5-6 years	5.5	9.20
	6-10 years	14.5	8.57
	10-15 years	21.5	6.94

15+ years	237.6	4.41
	318.2	5.38
Money Market Loans Eurohypo Bank 50 years but fixed for 4 years 50 years but fixed for 3 years	 5.0 5.0	 3.78 3.73
	10.0	3.76
= total as at 31 March 2008	328.2	5.33
= total as at 31 March 2007	299.0	5.70

The average debt portfolio interest rate has fallen during the year by 0.37% (from 5.70% to 5.33%) as a result of new borrowing at lower interest rates, scheduled debt repayments of higher interest debt during the course of the year and debt rescheduling exercises undertaken in 2007/08. Following the Borrowing Strategy, the approach in 2007/08 was to draw longer fixed term debt to take advantage of low long term rates and reduce exposure to fluctuations in short term rates. Given the original predictions made and the subsequent movement in rates, it was determined that rates would be lower for longer term loans and that the County Council would look to borrow in these areas. The County Council took £40m of new external borrowing in 2007/08, all from PWLB. Consideration was given to taking money market loans (LOBO's), but none were ultimately taken because the best value loans on offer were for the 70 year period and the County Council's Treasury Management Strategy did not allow such borrowing (maximum was 50 years) until March 2008. The timing and make up of this borrowing was determined by movements in interest rates, forecast future movements, trigger rates set in the borrowing strategy and the advice of the County Council's Treasury Management Adviser. In general the County Council borrowed at timely points to take advantage of prevailing interest rates.

Loans taken up to January 2008 were in the 30-45 year period, reflecting prevailing interest rates and to help manage the maturity profile of the County Council's overall debt portfolio. Volatility in the money market towards the end of the financial year caused by the 'credit crunch' resulted in the County Council taking a £5m PWLB loan for a shorter 3.5 year period at a low 4.2% interest rate.

The County Council's total borrowing requirement in 2007/08 was £26.1m which was funded by taking up £40m new external borrowing offset by a reduction of £13.9m from internal surplus cash balances (temporary borrowing from the County Fund). Thus the element of the County Council's Capital Financing Requirement that has been funded internally stands at £6.7m at 31 March 2008 (£20.6m at 31 March 2008 - £13.9m reduction in 2007/08). The reduction of £13.9m during 2007/08 reflects:

(i) a reduced borrowing requirement at the year end resulting from net capital expenditure slippage compared with the Q3 Capital Plan.

(ii) reversing (by taking additional external debt) some of the significant increase of £11.7m internal capital financing in 2006/07 (from £8.9m to £20.6m), that was reported to Members as part of last year's Annual Treasury Management and Prudential Indicators report.

(iii) surplus Capital Resources at 31 March 2008 being used to finance 2007/08 capital spending. This has the effect of reducing the internally financed element of the capital borrowing requirement and new borrowing (either externally or internally) will ultimately be taken out when a decision is taken to spend these capital resources.

The County Council's total external debt portfolio rate compared to the national average for all PWLB loans is:

Date	NYCC's average debt portfolio rate (PWLB and money market loans)	+/-	Total national weighted average interest rate of all PWLB loans
	%		%
31 March 2007	5.70 (5.80% PWLB only)	-0.27	5.97
31 March 2008	5.33 (5.38% PWLB only)	-0.39	5.72
Year on Year change	**-0.37**	**-0.12**	**-0.25**

Thus the County Council's average debt portfolio interest rate has reduced by 0.37% during 2007/08 and is lower (by 0.39% at 31 March 2008) than the average national rate for all PWLB loans.

The NYCC debt includes money market loans as well as PWLB loans. The reason the County Council's average debt portfolio rate (5.33%) is higher than current interest rates is due to the fact that the County Council's long term borrowing, which first became significant in the late 1980's and early 1990's, was undertaken at the historically high interest rates (up to 11 ½%) prevalent at the time. Loans were taken out at fixed interest rates for periods up to 25 years and cannot be repaid without suffering significant penalty costs.

The external long-term debt position of the County Council is essentially related to the level of capital expenditure undertaken.

Year	Debt Outstanding at Year End	Year on Year Increase
	£m	**£m**
31 March 2001 actual	147.3	
2002 actual	148.9	+ 1.6
2003 actual	180.2	+ 31.3
2004 actual	215.1	+ 34.9
2005 actual	231.7	+ 16.6
2006 actual	274.4	+ 42.7
2007 actual	299.0	+ 24.6
2008 actual	328.2	+ 29.2
2009 forecast	363.9	+ 35.7
2010 forecast	406.7	+ 42.8
2011 forecast	433.6	+ 26.9

The County Council's external debt has increased significantly over the years. Particularly noticeable is the increase in the years since 2002 - this is primarily attributable to the increase in the value of annual LTP allocations and the availability of Prudential Borrowing since 2004 (which has been used by the County Council to boost the size of the Capital Plan not related to Government borrowing approvals). The ratio of borrowing related to Government borrowing approvals, as opposed to being locally determined under the prudential regime, is approximately 80/20. The revenue cost of servicing the debt impacts directly on the County Council's Revenue Budget/Medium Term Financial Strategy and will be about £32m in 2008/09. This consists of interest payments of £18.1m and a revenue provision for debt repayment of £13.9m. Related to this is the fact that the annual capital spending funded by borrowing significantly exceeds the statutory minimum revenue provision for debt repayment that must be made each year. For example in 2008/09 the revenue provision for debt repayment is £13.9m whereas planned capital spending to be funded from borrowing is £50.7m.

The difference of £36.8m (i.e. £50.7m required capital borrowing in 2008/09 less £13.9m debt repayment provision in the Revenue Budget) will increase the outstanding debt position further in 2008/09 and could only be reduced by

(i) significantly curtailing new capital investment and removing Capital Plan provisions that are funded from external borrowing, most of which are supported by borrowing approvals (specifically the Highways LTP and several Education initiatives), and/or

(ii) significantly increasing the revenue budget/MTFS provision for debt repayment above the statutory minimum (4% of debt) that is currently made, and/or

(iii) removing Capital Plan schemes funded by capital receipts and using those receipts together with future additional receipts and the current corporate "capital pot", for debt repayment, rather than new capital investment.

Given the size of the County Council's current Capital Plan, the Revenue Budget/MTFS position and forecast level of Government borrowing approvals for future years, it is unlikely that either of the above three options could realistically be achieved, and therefore external debt levels will continue to increase into the foreseeable future. A new local Prudential Indicator has, however, been agreed from 2008/09, which is to cap capital financing costs at a maximum of 11% of the net annual revenue budget. This growth in debt is not, however, unique to the County Council as the reasons for the growth apply to most county and unitary councils throughout the country. Based on the latest national statistics available, the table below demonstrates this continuing debt growth in relation to other Shire county councils.

Authority	**Debt Outstanding at Year 31 March 2008**
	£m
Lowest (Estimate)	145
NYCC (Actual)	328
Average (Estimate)	380
Highest (Estimate)	1,112

Total borrowing for capital purposes at 31 March 2008 was £333.2m and this sum is equivalent to the 'Capital Financing Requirement' Prudential Indicator. This includes both external borrowing and borrowing from internal sources, but excludes debt transferred to the North Yorkshire Police Authority, for which the County Council is reimbursed for principal repayments and interest. This 'Capital Financing Requirement' of £333.2m at 31 March 2008 is made up of:

Item	£m
External borrowing	
- PWLB	318.2
- Money Market	10.0
	328.2
Temporary Borrowing - County Fund (£20.6m start of year - £13.9m reduction in 2007/08)	6.7
	334.9
Less relating to North Yorkshire Police Authority	- 1.7
= net borrowing (both internal and external) for capital purposes (the Capital Financing Requirement)	333.2

The year on year movement for this Indicator is as follows:-

Item	£000	£m
Capital Financing Requirement at 31 March 2008		317.7
New borrowing in 2007/08 to finance capital spending		
- from external sources	42.1	
- internally from surplus cash balances	-13.9	
		28.2
Deduct charge to revenue in year		
- statutory 4% minimum charge		- 12.7
= Capital Financing Requirement at 31 March 2008		333.2

During the financial year the County Council operated within the Treasury limits and Prudential Indicators set out in the Council's Treasury Management Policy Statement and Annual Treasury Management Strategy. The outturn for the Prudential Indicators is reported later in this report.

The County Council currently manages its cash investments in-house and these are only placed in the market with organisations specified in the Approved Lending List included in the Treasury Management Policy Statement. The County Council invests for a range of periods from overnight to three years, dependent on day to day cash flows, interest rates on offer and interest rate expectations. The Investment Strategy for 2007/08 was:-

(i) a maximum of £12m could be prudently committed to longer term investments between one and three years

(ii) investments would be made with reference to 'core' cash balances, the County

Council's cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months)

(iii) the interest rate outlook was for an increase in bank rate to 5.5% in February 2007 followed by a falling trend from the 4th quarter of 2007, reaching 4.5% by the first quarter of 2009. The aim was therefore to seek to lock into longer period investments at higher rates for some of the investment portfolio (which represents the core balances) before the anticipated fall started. A rate in excess of 5.5% was identified as an attractive trigger rate for one, two and three year deposits given the expectation that bank rate would peak at 5.5%.

(iv) for its cash generated balances the County Council would seek to utilise business reserve accounts (deposits with certain banks and building societies) and short dated deposits (one-three months) in order to benefit from the compounding of interest

It has previously been reported that the County Council terminated the investment mandate with a fund manager in 2006 and recalled all cash (£13.4m) managed by this fund manager since 2000. Ongoing discussions are being held with the County Council's Treasury Management Adviser on whether to appoint alternative fund manager(s) or continue investing in-house or any other appropriate investment opportunities. Based on returns being achieved by fund managers, however, the County Council has been advised, to date that the appointment of a fund manager would not provide any added value and therefore this course of action was not pursued during 2007/08.

Based on the Strategy referred to above, actual interest rate movements and updated forecasts during the year, the investment outturn position was as follows:-

(i) the County Council generally looks to keep most cash invested for short periods for cash flow purposes (to cover specific dates when large amounts of expenditure are expected, such as pay days) and to enable returns to be compounded more frequently. This approach was of particular benefit after the 'credit crunch' in August 2007 which resulted in the money markets being anxious and nervous and short term rates being as much as 0.75% above bank rate

(ii) Given the prediction that rates were expected to reduce the County Council did however seek to lengthen the period of investments when rates were seen to have peaked. This approach allowed the County Council to benefit from attractive rates for one year investments (up to 6.33%) which were well above the bank rate. After the 'credit crunch' in August 2007 (see (i) above) the approach became one of keeping investments at shorter dates whilst still looking to take advantage of any perceived good value investments of up to one year

(iii) two investments for longer than one year are in place at 31 March 2008 and total £6m against a policy limit of £12m. These investments were made to take advantage of a predicted peak in rates, when the trigger rate for longer term deposits was reached and are as follows:

➔ £3m three year deposit with Royal Bank of Scotland on 30 November 2006 (2006/07) at 5.45% with a borrower option to repay at six-monthly intervals (2006/07).

➔ £3m three and a half year deposit with Barclays Bank on 24 January 2008 (2007/08) at 5.50% with a borrower option to repay on 24 January 2009.

(iv) much use was made of business reserve accounts for cash generated balances. These 'call accounts' allow the County Council to maintain liquidity to cover its cash outflows whilst at the same time offering very attractive returns (base rate plus). The County Council continues to explore the possibility of opening similar accounts with other banks and building societies (subject to satisfactory credit rating criteria) because this sector of the investment market is currently highly competitive.

The above investments were made following advice from the Treasury Management adviser.

No changes were made to the Approved Lending List during the year. Following the 'credit crunch', however, a number of changes to the Lending List were approved by County Council on 20 February 2008 as part of the 2008/09 Annual Treasury Management Strategy report. Comprehensive changes to the credit rating criteria for monitoring and assessing organisations (counterparties) to which the County Council may make investments were made which resulted in significant changes to the Lending List. The reason for these changes was to ensure that the County Council's funds are managed in a way that balances risk with return, with the overriding consideration being the security of the authority's investments. The only financial investments made by the County Council were the placing of surplus funds on the term money market for periods up to three years. All these placements were only made to institutions included in the Approved Lending List in the Treasury Management Policy Statement. The results of these placings were as follows:-

	Number of loans made	282
	Balance outstanding 31/3/2007	£91.7m
+	Loaned during 2007/08	£880.2m
-	Repaid during 2007/08	£840.5m
=	Balance outstanding 31/3/2008	£131.4m
	Average daily balance during 2007/08	£130.1m
	Interest Earned	£7.62m
	Average Rate achieved 2007/08	**5.87%**
	Average 7 Day Rate 2007/08	5.64%
	Average Bank Rate 2007/08	5.54%

Therefore the average rate achieved by the County Council of 5.87% exceeded the 7 day benchmark rate of 5.64% by 0.23% and the average bank rate of 5.54% by 0.33%.

The County Council lends its cash to two main sectors, banks and building societies and the relative investment performance of the loans to these two groups which include the loans outstanding at 31 March 2007 is shown below.

Sector	**Loans Made**		**Average Interest Rate**
	£m	**%**	**%**

Banks	717.2	74	5.81
Building Societies	254.7	26	5.95
Total	**971.9**	**100**	**5.87**

No loans were made to local authorities in 2007/08 because the majority of investments are now generally made through bank business reserve (call) accounts or in dealing directly with banks and building societies. The majority of transactions with other Local Authorities are broker led, and tend to offer poorer returns than either call accounts or fixed deposits arranged directly with banks. No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year, including Northern Rock. The average daily balance loaned out during 2007/08 was £130.1m and the top borrowers from the County Council were:-

Borrower	**Average Daily Balance**		**Average Interest Rate %**
	£m	**%**	
HBOS	14.9	11.5	5.98
Yorkshire Bank	14.8	11.4	5.78
Alliance & Leicester	12.1	9.3	5.61
Abbey	9.3	7.1	5.72
Bradford & Bingley	7.8	6.0	6.08
Depfa	7.1	5.5	5.71
Anglo Irish	6.4	4.9	5.94
West Bromwich	5.7	4.4	5.94
Professional & Corporate	5.4	4.2	5.81
(Bank of Ireland)	5.2	4.0	5.78
Northern Rock*	4.6	3.5	5.53
Coventry	4.4	3.4	5.99
Skipton	3.9	3.0	6.01
Chelsea	3.5	2.7	5.94
Principality	3.4	2.6	5.99
Cheshire	3.3	2.5	5.99
Nationwide	18.3	14.0	5.91
Other			
Total	130.1	100.0	5.87

* No further loans were made to the Northern Rock following the 'credit crunch' in August 2007.

The levels of surplus funds loaned out and interest earned figures reported above include transactions relating to the various independent bodies for which the County Council provided treasury management services during 2007/08. These bodies were:-

North Yorks Moors National Park Authority
North Yorkshire Fire and Rescue Authority
North Yorkshire Pension Fund
Yorkshire Dales National Park Authority
English National Park Authorities Association (new in 2007/08)

Due to the size of the cash balances of these bodies, the County Council operates a 'sweep' arrangement under which any surplus cash of the organisation(s) are merged with similar funds managed by the County Council to secure better overall returns in the money market. Similarly if any of the organisation(s) had an overnight deficit in its bank account the 'overdraft' rate the County Council can offer is cheaper than that available through the organisation's own banking facility. This arrangement is advantageous to these bodies because on their own the day to day balances in their bank accounts can be volatile and unpredictable and are small in terms of involvement in the money market. Interest is paid out to these organisations at the same overall average rate as earned by the County Council on the total funds loaned out. In terms of levels of balances outstanding the position is:-

Item	**31 March 2007 £m**	**31 March 2008 £m**	**Interest Earned in 2007/2008 £m**
Other bodies listed above	14.0	9.0	1.02
County Council	77.7	121.1	6.60
Total	**91.7**	**130.1**	**7.62**

The County Council's policy on making loans to companies in which the authority has an interest was incorporated into the Annual Treasury Management report submitted in 2007 and is as follows:-

(i) the County Council's general investment powers under the Annual Treasury Management and Investment Strategy come from the Local Government Act 2003 (section 12). Under this Act a local authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs

(ii) in addition to investment, the County Council has the power to provide loans and financial assistance to limited companies under the Local Government Act 2000 which introduced general powers for a local authory to do anything which it considers likely to achieve the promotion or improvement of the economy, social or environmental wellbeing of its area. This wellbeing power includes a power for a local authority to incur expenditure, give financial assistance to any person and to enter into arrangements with any person

(iii) any such loans to limited companies by the County Council would therefore be made under these "wellbeing powers". They would not, however, impact on the authority's Investment Strategy but would be classed as capital expenditure by the County Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003 and would be approved, financed and accounted for accordingly

The position on these loans at 31 March 2008 is:-

	Yorwaste £m	NYnet £m	Total £m
Balance at 1 April 2007	1.70	1.55	3.25

New loans in 2007/08 Repayments in 2007/08	- -	1.00 -	1.00 -
Balance at 31 March 2008	**1.70**	**2.55**	**4.25**

These loans have been treated as Capital Expenditure by the County Council and financed from Prudential Borrowing with the revenue impact (interest cost and a statutory 4% Minimum Revenue Provision for debt repayment) being financed from interest charged to the two companies and subsequent loan repayments.

Since 1 April 2004 the County Council has had to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities which impacts heavily on treasury management matters. The Local Government Act 2003 requires the County Council to ‘have regard’ to the Prudential Code and set Prudential Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. During the financial year the County Council operated within the Treasury Limits and Prudential Indicators as set out in the Council’s Treasury Management Policy Statement and Annual Treasury Management Strategy. The Prudential Indicators covering the period up to 31 March 2010 were approved by the County Council on 20 February 2007. An in year revision was subsequently approved by County Council on 10 October 2007. More recently an updated set of indicators up to 31 March 2011 was approved by County Council on 20 February 2008, as part of the 2008/09 Budget process. Many of these Prudential Indicators relate to external debt and treasury management matters. For the purposes of establishing an integrated treasury management approach, relevant Indicators have therefore been incorporated into the County Council’s Annual Treasury Management and Investment Strategy approved by County Council on 20 February 2007 for 2007/08 and 20 February 2008 for 2008/09. As part of this Annual Treasury Management Report for 2007/08 it is therefore appropriate to report the 2007/08 outturn position on these Prudential Indicators compared with the last updated set of indicators for the year, as approved by County Council on 20 February 2008.

(i) Statutory Affordable Borrowing Limit for 2007/08 required under Section 3 of the Local Government Act 2003

	£m
Initial figure approved February 2007	387.3
Revised October 2007	389.8
Revised February 2008	380.6
Actual limit of external debt reached during 2007/08	328.9

The limit set reflects sufficient headroom to cover a number of eventualities that could have occurred in the course of the financial year. Examples include debt rescheduling, capital receipts slippage, new capital borrowing requirements being taken early in the financial year and unusual cash movements.

(ii) Ratio of capital financing costs to the net revenue budget

Formally Required Indicator

Reported February 2008	%
- 2006/07 actual	8.8
- 2007/08 probable	8.1
Actual 2007/08 outturn	8.1

The capital finance costs figure takes into account loan charges (principal plus interest) on external debt being offset by interest earned on surplus cash invested.

New Local Indicator

In addition to the above required Prudential Indicator (PI), the Executive agreed a new Local PI on 5 February 2008 as part of considering the 2008/09 Annual Treasury Management report. This new indicator reflected a policy decision to cap capital financing costs as a proportion of the net annual Revenue Budget. This cap was agreed at 11% and the calculation is different to the above required indicator in that it only reflects the cost components of interest on external debt plus lost interest on internally financed capital expenditure, together with a minimum revenue provision for debt repayment. Unlike the required formal PI it does not include interest earned on surplus cash balances.

The outturn position on this new Local PI is as follows:

	%
Cap agreed during MTFS period to 31 March 2011	11.0
2007/08 Forecast reported Feb 2008	10.3
2007/08 Actual	10.4

The 2007/08 actual is marginally higher than the earlier reported figure due to the 2007/08 revenue underspend which reduces the 'net revenue budget' base that is used to calculate this percentage.

(iii) Incremental impact of capital investment decisions on the Council Tax for 2007/08

	£ - p
2007/08 estimate	1.21
2007/08 outturn	

The 2007/08 Council Tax set by the County Council does, of course, remain unchanged with the above figure being the incremental impact on Band D Council Tax of the Capital Financing costs resulting from additional unsupported Prudential Borrowing required to fund the Capital Plan.

(iv) Capital expenditure Actual and Forecasts

Reported February 2008	£m
- 2006/07 actual	95.4
- 2007/08 probable	108.3
Actual 2007/08 outturn	94.8

The outturn figure of £94.8m consists of £93.9m charged against the Capital Plan plus £0.9m funded direct from revenue. The decrease compared with the earlier forecast of £108.3m is largely the result of slippage of capital expenditure from 2007/08 to 2008/09 in the latter part of the financial year on a number of significant capital schemes and provisions Richmond Building Schools for the Future project, Scarborough Integrated Transport scheme, Depots rationalisation programme and Loan to Limited Companies being the principal ones.

(v) Capital Financing Requirement (as at 31 March)

Reported February 2008	£m
- 2006/07 actual	317.8
- 2007/08 probable	340.9
Actual 2007/08 outturn	333.2

The outturn position is lower than the previous forecast largely as a result of a net capital underspend in 2007/08, compared with the last Q3 Capital Plan update, together with temporarily using surplus capital resources to fund capital expenditure in 2007/08, thus reducing the in year capital financing requirement.

(vi) External Debt Limits

Reported February 2008	£m
- Authorised limit for 2007/08	380.6
- Operational Boundary for 2007/08	360.6
Actual limit reached during 2007/08	328.9

(vii) Actual External Debt

	£m
At 31 March 2007	299.0
At 31 March 2008	328.2

(viii) Interest Rate Exposure

		Limits agreed February 2008 %	**Actual Position at 31/03/2008 %**
Borrowing			
	Fixed	60 to 100	100
	Variable	0 to 40	0
Investments			
	Fixed	0 to 30	5
	Variable	70 to 100	95
Combined Net Borrowing & Investments			
	Fixed	120 to 170	152
	Variable	- 20 to 70	-52

Most of the authority's external debt of £328.2m is on fixed interest rates.

(ix) Maturity Structure of Borrowing

The amount of borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit (February 2008)	**Upper Limit**	**Actual at 31/03/2008**
	%	%	%
Under 12 months	0	50	2
12 months and within 24 months	0	15	4
24 months and within 5 years	0	45	9
5 years and within 10 years	0	75	6
10 years and above	20	100	79

(x) Total Principal Sums Invested for Periods longer than 364 days

The agreed maximum sum for investment longer than one year was £12m with two such investments totalling £6m being in place at 31 March 2008.

- ➔ a £3m 3 year deposit in 2006/07 (30 November 2006) at 5.45% with a borrower's option to repay at 6 monthly intervals
- ➔ a £3m 3½ year deposit in 2007/08 (24 January 2008) at 5.50% with a borrower's option to repay in January 2009

The Prudential Indicators for 2008/09 to 2010/11 were approved by the County Council on 20 February 2008. An exercise is now underway to assess whether there are any issues arising from the Capital Outturn position for 2007/08 that require these Indicators to be revised at this stage. If so a report will be submitted to the Executive as soon as possible, but an updated position will be reported in August 2008, as part of the Q1 Performance Monitoring Report.

The reasons for undertaking debt rescheduling include the generation of cash savings at minimum risk, to help fulfil the borrowing strategy and to enhance the balance of the long-term debt portfolio by amending the maturity profile and/or the balance of volatility. The rescheduling of debt involves the early repayment of existing debt and its replacement with new borrowing. This can result in one-off costs or benefits called premiums and discounts. These occur where the rate of the loan repaid varies from comparative current rates. Where the rate of the loan to be repaid is higher than current rates, a premium is charged by the PWLB for repayment. Where the interest rate of the loan to be repaid is lower than the current rate, a discount on repayment is paid by the PWLB.

The initial forecast for debt rescheduling was that there would be opportunities during 2007/08 to restructure shorter term debt into long term debt and achieve savings. This was because of the sharp difference between higher short term PWLB rates and cheaper long term rates. This advantage was expected to diminish later in 2007/08 if, as expected, bank rate fell and resulted in short term PWLB rates also starting to fall. On this basis the expectation was that any such debt rescheduling should be carried out before the first fall in bank rate expected in the last quarter of 2007. Although the eventual short and longer term interest rates during 2007/08 turned out differently to the initial forecast, the expected sharp difference between higher short term PWLB rates and cheaper long term rates did continue in the early part of 2007/08. The year saw a great deal of volatility as the markets responded to growing concerns over inflation and general uncertainties. The interest rate yield continued to be inverted with the opening PWLB rates being much higher for shorter term loans than long term loans. The yield curve continued to shift upwards in the early part of the year which presented a number of opportunities for the County Council to repay and restructure a number of loans. Thus debt rescheduling opportunities presented themselves early in the financial year and various packages were considered during this period taking account of the expected movements in interest rates. Following discussions with the Treasury Management Adviser, three rescheduling packages were ultimately effected in July/ August 2007. These packages involved repaying, either fully or partly, 15 PWLB loans totalling £60m and taking up new loans, also totalling £60m, from the PWLB. Repayment discounts achieved were offset against premiums payable, with the overall effect of the rescheduling achieving ongoing annual interest savings of £608k per annum, with a part year saving of £371k in 2007/08. As the exercises involved moving from 'higher rate' shorter period loans to 'lower rate' longer period loans, the average length of the repaid loans was extended by nearly 28 years.

The rescheduling exercises undertaken were of minimal risk and were identified and timed to take advantage of differentials between longer term and shorter term PWLB rates, together with a reasonably certain knowledge of the timing and level of day to day movements in PWLB interest rates. The debt rescheduling packages effected were done slightly ahead of the breaking news of the credit crunch in August 2007. This brought further interest rate volatility and had a marked effect on PWLB rates for the rest of the financial year, with the previous sharp difference between higher short term rates and cheaper long term rates disappearing. This volatility potentially offered further rescheduling opportunities and further packages were in the process of being considered, when the PWLB changed their rules on 1 November 2007. The most significant change was introducing a differential (of between 0.25% to 0.5%) between new borrowing rates and early redemption rates. This early repayment penalty had the impact of completely eroding projected savings and, therefore, no further debt rescheduling exercises were undertaken for the remainder of 2007/08. New accounting rules have been introduced relating to debt rescheduling in 2007/08 about how discounts and premiums arising from debt rescheduling have to be dealt with in local authority accounts. These new rules have been fully taken into account when assessing and effecting the debt rescheduling exercises undertaken.

A number of changes to the County Council's Approved Lending List were approved by County Council in February 2008 as part of the 2008/09 Treasury Management report. These changes which were made as a result of the 'credit crunch' were to:

(i) comprehensively review and refine the credit rating criteria for institutions to be included on the County Council's Approved Lending List. The changes took into account more detailed credit criteria including reference to an institution's overall creditworthiness based on both long and short term rating together with their overall financial strengths

(ii) following (i) two different limits were set to provide greater safeguards with a limit of £15m for periods up to one year for institutions having a higher credit rating and a lower limit of £8m up to three months for institutions that have a slightly lower credit rating.

The reason for these changes was to ensure that the County Council's funds are managed in a way that balances risk with return, with the overriding consideration being the security of the County Council's investments. The effect of the changes was to restrict those institutions the County Council could invest in together with introducing a new three month investment time limit for a number of institutions. As a result of the changes approved in February 2008, together with a continuing high level of surplus cash balances to invest, it has become increasingly difficult to effectively manage and maximise returns on investments up to one year in duration. In particular, attractive returns being offered by some institutions on the County Council's Approved Lending List, have had to be declined, because investments were already at the £8m (3 months) or £15m (1 year) limits. Additionally investments are currently not being made with some organisations on the Approved Lending List because of market intelligence and this makes it more difficult to invest surplus cash and maximise returns. It is therefore recommended that the current £8m/£15m limits which were originally approved by County Council in February 2005 are increased as follows:

(i) where institutions currently have a limit of £8m, this should be increased to £10m and

(ii) where institutions currently have a limit of £15m, this should be increased to £20m.

These new recommended limits are still considered prudent and will not put the authority's investments at greater risk. The overall size of the County Council's investment portfolio (which averaged £130m in 2007/08) means that investments are spread over a number of institutions at any one time, (an average of 20 during 2007/08) thereby spreading the investment risk.

The Executive RECOMMENDS:

That the new maximum limits that can be invested with any organisation at any one time be £10m where institutions currently have a limit of £8m and be £20m where institutions currently have a limit to £15m.

4. Children and Young People's Plan 2008-2011: Under the Children Act 2004 it is a statutory requirement for Children's Services Authorities to have a Children and Young People's Plan in place. The Plan provides the vision and strategic direction for services working with children and young people, and is delivered through the Children and Young People's Strategic Partnership.

The first North Yorkshire Children and Young People's Plan (CYPP) was originally intended to cover the three-year period 2006-2009. The development of a new CYPP has been brought forward by one year, however, so that the second CYPP will now cover the three-year period 2008-11, to align with the Sustainable Community Strategy and the second Local Area Agreement for North Yorkshire.

A copy of the Plan has been circulated as a separate document. It has been developed with substantial multi-agency input, coordinated through six 'outcome groups' comprising senior managers from across the Partnership. The multi-agency groups have considered statutory guidance, national policy and legislation and have paid particular regard to local needs, through analysis of performance information and inspection findings, to identify the core areas of work. These were drawn up into emerging priorities and subsequently refined in April and May, through multi-agency discussion and consideration of consultation information from children and young people.

A period of extensive consultation has taken place on the proposed priorities, and has included the views of over 6000 children and young people, gathered since the inception of the current plan; 1100 parents and carers; 50 Parish Councils and over 250 members of staff from across the partnership. The consultation responses have been analysed and aggregated, with information provided to each outcome group for use in the refinement of priorities within the CYPP. In addition, priorities for local geographic areas have been analysed to support local planning and implementation of the plan. The consultation responses widely endorsed the proposed priorities and have informed the development of the 37 specific improvement priorities within the Plan.

The Plan includes a section on consultation and communications. This sets out the commitment to robust multi-agency communication processes and mechanisms for communication with children, young people, parents and carers. Performance against the Plan will be monitored by each of the contributing agencies on the areas for which they hold principal accountability. The overall Plan will be monitored through the Children and Young People's Strategic Partnership Board, supported by the Performance and Outcome Team within the Children and Young People's Service. The Plan will also be monitored by the County Council, through the mid-year review and annual self evaluation against the plan, to ensure that the leadership responsibilities in respect of the Plan are being discharged.

The Executive RECOMMENDS:

That the Children and Young People's Plan 2008-11 be approved.

5. Constitutional issues: Essential changes to local authority Executive arrangements have been brought about by the Local Government and Public Involvement in Heath Act 2007 Act. By virtue of the Local Government Act 2000 ('the 2000 Act'), the County Council was able to choose one of three specified forms of executive arrangements:-

- a Mayor and Cabinet Executive, or
- a Leader and Cabinet Executive, or
- a Mayor and Council Manager Executive.

After public consultation the County Council decided, in 2001, to adopt the Leader and Cabinet Executive model. The 2000 Act allowed the Executive Members to be appointed by the Leader or the County Council. The County Council's Constitution currently provides for the Executive Members to be appointed by the County Council at its annual meeting. The 2007 Act amends the 2000 Act by narrowing the choices available to the County Council for Executive arrangements which are now limited to:-

- a Mayor and Cabinet Executive, or
- a Leader and Cabinet Executive.

But, under the 2007 Act the Executive Members may only be appointed by the Leader of the Council. The previous discretion is removed. This is a change to the arrangements currently operated by the County Council.

Once elected, under the new arrangements, the Leader will normally hold office for a four year term, although the 2007 Act allows an authority to remove its Leader by resolution. Government guidance states that these changes are aimed at securing strong, visible leadership for local authorities. In drawing up proposals, authorities must consider the extent to which the proposals assist in securing continuous improvement in the way in which the authority's functions are exercised, having regard to the combination of economy, efficiency and effectiveness. Where a Council proposes to make changes to its Executive arrangements, even where the proposal is to move to the "new style" Leader and Cabinet Executive arrangements in accordance with the 2007 Act, it must draw up proposals for change, including a timetable, and, where relevant, transitional arrangements, and take reasonable steps to consult local and other interested people. An Authority may provide for the change in governance arrangements to be subject to approval in a referendum, the result of which would be binding on the Authority. After this process, a Council resolution is ultimately required to change the Executive arrangements. The 2007 Act requires County Councils to pass the resolution before 31 December 2008. The intention is to allow any change to be introduced immediately after the four yearly elections.

Even though the County Council is already operating Executive arrangements, the 2007 Act requires public consultation where the Council proposes to move from the current "old style" Leader and Cabinet Executive to the "new style" Leader and Cabinet Executive as required by the 2007 Act. The other executive model option is the Mayor and Cabinet Executive. Features of this model are that a Mayor is directly elected and cannot be removed by the Council. Also, a two thirds majority required to overturn a Mayor's budget proposals. Members may consider that the Leader and Cabinet Executive is better suited to the circumstances of North Yorkshire. It ensures the Leader has the clear support of the full Council, and the opportunity to ensure Executive roles are undertaken by those who will be most effective. It places strong leadership in the hands of a Leader supported by an Executive he or she considers best able to fulfil their role. The Executive therefore believes that the Council should continue to operate with the Leader and Cabinet Executive and that proposals for a change to new style Leader and Cabinet Executive arrangements be prepared, as required by the 2007 Act, for agreement prior to December 2008, and implementation after the May 2009 elections. The Executive has authorised the Chief Executive, in consultation with the Constitution Working Group, to determine and carry out appropriate consultation, with a view to a report being presented to the Executive and Council prior to 31 December 2008 to bring forward amendments to the Constitution to effect such changes.

The following timetable, subject to consultation with the Constitution Working Group, would enable the County Council to comply with the legislative requirements:-

- Report to County Council - 23 July 2008.
- Consultation period 22 September 2008 - 17 October 2008. Suggested consultation to be by means of the NY Times and the County Council's website.
- Report to Executive on outcome of consultation - 18 November 2008.
- Report to County Council seeking resolution to amend the Constitution to give effect to the proposed changes - 17 December 2008.
- The new form of governance arrangements shall operate on the third day after the local government elections in 2009.

The "new style" Leader and Cabinet Executive arrangements will be automatically imposed, if the County Council does not change governance arrangements in accordance with the requirements of the Act.

On 8 May 2008, the new locally based standards regime came into effect. Local Standards Committees are now responsible for receipt, assessment, investigation and determination of complaints that Members may have breached the Code of Conduct for Members. A report from the Standards Committee on this matter appears elsewhere on this agenda. The Executive was asked, and has agreed, to delegate certain Executive functions to the Standards Committee relating to the publication of independent member vacancies on the Standards Committee and the power to assist in the recruitment of such Members, though not to approve the individual appointments, which is a matter for the Council. The Executive recommends that these powers be included in the terms of reference of the Standards Committee in the Constitution and that, subject to the County Council agreeing the delegation of powers to the Monitoring Officer relating to the temporary appointment of independent members, referred to in the report of the Standards Committee, that delegation be included in paragraph 4.7 of the Scheme of Delegation to Officers in the Constitution.

The County Council is the accountable body for the purposes of administering the Safer and Stronger Communities Area Based Grant and Single Capital Pot Grant. As part of the 2008/09 budget process, it was agreed that Area Based Grant be allocated based on the information regarding constituent funding streams provided by the Government, with the 3 year allocations. This included the £635k Safer and Stronger Communities Fund element of the Area Based Grant being distributed among District Councils and the NYYPCT. The Safer and Stronger Communities Fund Single Capital Pot Grant, £175k in 2008/09, is also received by the County Council, but is managed as if it were Area Based Grant for allocation and monitoring purposes. This funding has been allocated across partners on the basis of recommendations from the York and North Yorkshire Safer Communities Forum. The Executive recently agreed revised bases for the allocation of these grants on the recommendation of the Forum and has delegated authority to approve any such recommendations from external partnerships, in the future, to the Chief Executive, in consultation with the relevant Executive Member. The Executive recommends below that this be added to the Scheme of Delegation to Officers.

When a school requires special measures, the local authority must take fast, decisive action to secure improvements at the school and there are statutory intervention powers which can be used. One of these is the establishment of an Interim Executive Board (IEB) in place of the existing governing body. This power can only be used with the consent of the Secretary of State, to whom application must be made. The aim is to help ensure that plans for rapid improvement are given impetus through the appointment of a small group of governors, balancing experience with new expertise. If the consent of the Secretary of State is received, the appointment of an IEB would need to be undertaken without delay. The delegated authority of the Corporate Director – Children and Young People Service only relates, currently, to the appointment of local authority Governors to school governing bodies and the Executive recommends that the power to appoint Interim Executive Boards to schools also be delegated and the Officer Scheme of Delegation be amended accordingly.

The dates of the meetings of the County Council are set in the Constitution, with the date of the Annual Meeting of the Council being on the third Wednesday in May, each year, or on such other day as the Council shall determine, in an election year. 2009 is an election year and it seems likely that the County Council elections will be scheduled to be held on the same day as the European Parliamentary elections, which will be on 4 June, 2009, in the United Kingdom. The Executive has agreed that it would, therefore, be appropriate for the Annual meeting of the Council to be set for a date later in June.

The Executive RECOMMENDS:

(i) That the Council continues to operate the Leader and Cabinet Executive and that proposals to change to a new style Leader and Cabinet Executive arrangement be prepared,as required by the Local Government and Public Involvement in Health Act 2007, for implementation after the May 2009 elections.

(ii) That the Executive's functions in respect of the publication of Standards Committee Independent Member vacancies and the power to assist in the recruitment of Independent Members to the Standards Committee, but not to approve individual appointments, be added to the terms of reference of the Standards Committee in the Constitution.

(iii) That, subject to the County Council agreeing the delegation of powers to the Monitoring Officer in respect of temporary appointment of other Authorities' Standards Committees' Independent Members to the County Council's Standards Committee, recommended by the Standards Committee in its report later on the agenda, this power be recorded in paragraph 4.7 of the Scheme of Delegation to Officers, in the Constitution.

(iv) That the power to approve recommendations from external partnerships in relation to the distribution of Area Based Grant and Single Capital Pot Grant delegated to the Chief Executive, in consultation with the relevant Executive Member, be added to the Scheme of Delegation to Officers in the Constitution.

(v) That the Corporate Director – Children and Young People Service be authorised to appoint Interim Executive Boards to schools and this power be added to those in the Scheme of Delegation to Officers in the Constitution.

(vi) That the Annual Meeting of the County Council in 2009 be scheduled for 17 June, 2009 but the meeting on 22 July, 2009, remain unchanged.

6. Appointments: Nominations have been received to fill a vacancy for the Church of England representative on the Young Peoples Overview and Scrutiny Committee and for a representative of Craven District Council on the Scrutiny of Health Committee. Recommendations for those appointments are set out below, together with the usual recommendation that any proposals or changes to memberships or substitute memberships of Committees, or other bodies to which the County Council makes appointments, put forward by the relevant political group, at or before the meeting of the Council, be approved. A recommendation is also made for the appointment of a member to the Executive, in place of County Councillor Helen Swiers.

The North Tees Hospitals NHS Trust has now launched a formal consultation on proposals to replace the North Tees Hospital, Stockton and the Hartlepool Hospital with one new hospital, to be built north of the River Tees near the former Samsung factory on the A689. The consultation is entitled "Momentum: Pathways for Healthcare – A new healthcare system for Hartlepool, Stockton, and parts of Easington and Sedgefield". The proposals clearly affect Stockton and Hartlepool residents, but they also impact on residents in parts of south Durham and residents of North Yorkshire (Hambleton & Richmondshire) could also be affected, if certain services are transferred from the South Tees Hospitals NHS Trust (James Cook and the Friarage Hospitals) to the new hospital, as was originally proposed by Lord Darzi 3 years ago. The Scrutiny of Health Committees of all four local authorities have said this is 'substantial' and want to be consulted. The NHS must consult with their local Scrutiny of Health Committee on ‘substantial’ variations and, when proposals cut across more than one Scrutiny of Health authority, those authorities are obliged to set up a Joint Scrutiny of Health Committee to deal with the issue. It is proposed that North Yorkshire County Council has 3 seats on a joint committee with Hartlepool BC, Durham CC and Stockton BC. One representative from each Authority will be required to be present for the Joint Committee to be quorate.

The Executive RECOMMENDS:

(i) That the Rev. Adrian Judd of the Vicarage, Darrington be appointed to the Young People’s Overview and Scrutiny Committee as a representative of the Church of England.

(ii) That Councillor Helen Firth be appointed to the Scrutiny of Health Committee as a representative of Craven District Council, with Councillor Andy Quinn as substitute member.

(iii) That County Councillor Greg White be appointed to the Executive in place of County Councillor Helen Swiers.

(iv) That a Joint Scrutiny of Health Committee of Members of North Yorkshire County Council, Durham County Council, Hartlepool Borough Council and Stockton Borough Council be established and that County Councillors John Blackie, Gareth Dadd and David Heather be appointed to the Joint Committee to represent this Council.

(v) That any proposals for changes to membership or substitute memberships of Committees or other bodies to which the County Council makes appointments put forward by the relevant political group, at or before the meeting of the Council, be approved.

JOHN WEIGHELL
Chairman

County Hall,
NORTHALLERTON.
15 July, 2008