QUARTERLY MEETING

20 February, 2013

BOOKLET ONE

Council Plan – Appendix 1A & 1B
Revision of Prudential Indicators – Appendix 3
Treasury Management Strategy – Appendix 4A & 4B
Changes to Constitution – Appendix 7

Council Plan
2013 - 2016

Foreword

In December 2012 the Chancellor of the Exchequer offered his views on the state of the economy. Few would have been surprised with his conclusion that the economy was growing slower than anticipated and that the period of austerity would need to extend to 2018, and possibly longer. It is, of course, tempting to dwell on the negatives but we at the County Council need to rise to the challenge and do the best we can.

We know that many households are struggling financially themselves. That is why we are pleased to be able to say that, including 2013, we will have frozen the Council Tax for four years in succession, saving the average household over £100. That is why we are also proud to have a plan for a further £10m of investment in road repairs – something that business and the wider public tell us is essential in keeping people and the economy moving.

The County Council has made some difficult decisions as it has clearly had to cut its coat accordingly to its cloth. Having made those difficult decisions however, we are pleased to report that £52m of savings have been secured and plans are in place to deliver another £40m over the next two years. Saving money and sound financial management are qualities which we are sure a great majority of North Yorkshire people will value.

There is still much to look forward to. In December 2012 we saw the first village connected to Superfast Broadband and many more are set to follow, thanks to the County Council securing Government funding. We also look forward to working with businesses and the Local Enterprise Partnership as the Grand Depart for the Tour de France comes to North Yorkshire in 2014. Such an event provides us with the opportunity to showcase the very best of North Yorkshire.

Many challenges undoubtedly remain ahead of us. We need your views and your help in order to make sure that we continue to look after the most vulnerable in society whilst providing the means and opportunities for those better able to look after themselves and their communities. Please let us know what you think.

John Weighell – Leader of the County Council
Richard Flinton – Chief executive

Delivering services for North Yorkshire

North Yorkshire is a very beautiful and mostly rural county which, in general, offers good quality of life to those living and working here. As a County Council we aim to provide excellent services for residents of, and visitors to, North Yorkshire. However, there are challenges to delivering these services in such a large and sparsely populated county.

North Yorkshire is England's largest county and covers 3,103 square miles, stretching from Scarborough on the North Sea coast to Bentham in the West, and from the edge of Teesside to south of the M62.

In addition, as previously mentioned, with a population of 601,200, it is sparsely populated, and in general this population is increasing and getting older. By 2025 the number of people who are 65 and over will increase from about 129,900 to an estimated 171,400. This group will then represent around 27% of the total population. By contrast, young people under 19 will account for only 21% of the population. These changes mean that demands and pressures on our services are increasing, particularly in relation to services for older people, caring for the most vulnerable children and young people and dealing with the County's waste. This is particularly challenging at a time when our resources are reducing.

Despite these challenges and the difficulties of the current economic climate we remain committed to providing the best and most efficient level of service possible for our communities. We are also committed to playing our part in improving North Yorkshire's economy to benefit everyone who lives or works here.

North Yorkshire has a varied and diverse economy characterised by significantly high levels of self employment and very small businesses. There is a growing manufacturing sector especially in food and drink, a strong tourism, cultural and creative sector, a significant financial and business services sector, and an emerging green energy sector.

Although the County's economy has suffered recently its businesses have been resilient so it has sustained itself relatively well. However there are significant challenges including:

• coping with the reduction in public sector jobs, particularly in areas where 30% of all jobs are in this sector;

• addressing connectivity, including broadband, to remove barriers for growing rural businesses; and

• further developing the economy of North Yorkshire, particularly in areas of high unemployment and deprivation.

More information and statistics about North Yorkshire can be accessed here.

We recognise that all the different sections of our community have different needs and aspirations, which is reflected in how we provide services for them. The wide range of council services we provide includes:

• schools – more than 370 schools serving around 73,000 children and young people
• children's centres;
• children's social care including adoption and fostering;
• adult social care services – including services for 6,500 older people and 4,000 adults with disabilities to help them to live at home;
• youth services;
• adult education;
• libraries;
• roads and public rights of way – responsibility for approximately 5,600 miles of roads, 1,600 bridges which we own and maintain and over 6,200 miles of public rights of way;
• heritage and countryside management;
• public transport;
• street lighting;
• trading standards and consumer advice;
• registration of births, deaths and marriages;
• disposal and recycling of household waste; and
• emergency planning.

More information about the services we provide can be found here

We serve our residents 24 hours a day, seven days a week, 365 days a year, and our 72 councillors, elected by the people of North Yorkshire, are active in their local communities responding to the needs of the public and addressing important local issues.

Providing these services is our contribution to the vision we and our partner organisations share of the future for North Yorkshire.

Our joint vision

We want North Yorkshire to be an even better place for everyone to live, work or visit.

We do not work in isolation and the North Yorkshire Community Plan sets out the priorities on which all partners must work together to achieve our joint vision.

To achieve our contribution to this vision we must:

• ensure good access for all;
• help people to live in safe communities;
• help all children and young people to develop their full potential;
• promote a flourishing economy;
• maintain and enhance our environment and heritage; and
• improve health and wellbeing and give people effective support when they need it.

Our values

In achieving these objectives we will:

• treat everyone fairly and value diversity;
• deliver excellent and effective services which are value for money;
• be honest and open in all that we do;
• strengthen effective local democracy;
• inform, listen and involve;
• respond to local needs and circumstances;
• work in partnership and provide leadership where required;
• value and develop our staff; and
• meet today's needs, without compromising future generations.

How are we working to achieve our vision?

Based on what you have told us, in our 2012-15 Council Plan we agreed the following priority areas within these objectives:

• Protecting and supporting vulnerable people
• Supporting economic growth and employment
• Improving accessibility for all and supporting active communities
• Managing our environment and promoting environmental sustainability

Achievements we have made towards these priorities in 2012 include the following examples:

- **Public health** – the County Council has new public health responsibilities from 1 April 2013 and we have appointed a new Director of Public Health, Dr Lincoln Sargeant, who will lead the integration of public health responsibilities within the Council.
- **Health and wellbeing** - we established the Health and Wellbeing Board and has been actively engaged in shaping the Joint Strategic Needs Assessment and the Health and Wellbeing Strategy.
- **Innovation Fund** – our voluntary sector Innovation Fund is becoming established. This is the £1.5 million fund dedicated to supporting the voluntary sector to identify new local approaches to transform the way adult social care services are delivered. To date we have awarded £920k to fund 20 local projects throughout the county.
- **Modernisation of learning disability day services** - we are redeveloping the Elder Street learning disability unit and helped to support one hundred people to live independently in the community through personal budgets and other initiatives.
- **Extra Care** - we are further reducing our reliance on residential care through the development of a new extra care scheme. Limestone View is being developed in Settle which will provide 50 residential units. We are also working effectively with partners to develop an additional five

schemes which are in the planning stage and are awaiting approval. This will make a total of 22 extra care schemes in the county.

- **Safeguarding** - we improved the reporting of adult safeguarding concerns, through an effective awareness and training campaign, and worked with individuals and partners to ensure that vulnerable people are kept safe.
- **School examinations** – performance improved compared to the previous year in all key stages, in some cases very significantly, for example Key Stage 2.
- **Young people with disabilities** - In partnership with the health service, we improved the co-ordination of transition services for young people with a disability moving into adulthood.
- **Looked after children** - Improved commissioning and placement arrangements have been put in place for looked after children and placement stability for looked after children is good.
- **Children leaving care** – Improvements to education, training and employment opportunities mean that we now have twice the national average of care leavers going on to university and up to 75% of 19 year old care leavers are expected to be engaged in education, training or employment.
- **Broadband** - A major contract for provision of superfast broadband to North Yorkshire was awarded to BT and a framework of community internet service providers for community schemes has also been agreed. The roll out across the County began in December 2012.
- **Small businesses** - We have worked with the North Yorkshire, York and East Riding Local Enterprise Partnership to develop a package of support to small businesses. We are also working to ensure that local businesses benefit from the roll out of high speed broadband.
- **Economic development** - Through the Local Enterprise Partnership, medium/long term economic development opportunities are also being developed focused on the potential for agri-innovation and biomass and to maximise the local benefit delivered by the potash mining project in Whitby.
- **Highways** - A new contractor was appointed for the highways maintenance contract. We are on course to deliver one of the largest ever maintenance capital programmes. Despite the funding constraints and the impact of two exceptional winters the highway condition in North Yorkshire is being maintained.
- **Libraries** - Seven community libraries, three outlets and 16 local collections have opened and volunteers are working in a range of enhanced roles across all libraries; in a number of libraries staffing by volunteers has resulted in increased opening hours.
- **Waste** - Planning permission was agreed by the Planning Committee for the Allerton waste recovery park. This is subject to approval by the Secretary of State.

In common with other local authorities, we are also making significant savings – in our case £93 million over the next four years. We have a good track record of improving outcomes and delivering good value for money for local people. However we need to be even more certain that we are using our resources as effectively and efficiently as we can.

To help us do this we are challenging existing ways of working. We are improving how we:

- Put the customer at the heart of what we do.
- Simplify, standardise and share processes and services across the Council.
- Foster a culture of performance, continuous innovation and customer excellence.
- Identify and maximise opportunities for further savings.

Even given our track record, increased efficiency alone is not sufficient to make the savings required. We have had to make changes to front line services, and will need to do so in future, but, while this is challenging, we are determined to see this as an opportunity not only to find new ways of doing things, but also to change our relationship with local communities. There are areas where we need to step back from service provision in order to allow communities to take on a more active role, making it easier for local people to volunteer, to take community ownership of council buildings and to support each other. A recent example has been the work to prepare for the transfer of some smaller libraries into community hands.

A recent survey of our Citizens' Panel showed that increased use of volunteers, increased use of the internet and fewer access points were the most popular areas for general savings. We will continue to consult with the public on specific proposals for changes to services in line with our engagement promise.

We will also maintain rigorous corporate governance and high ethical standards to ensure sound decision making.

Our priorities for service delivery in 2013

We are continuing to concentrate on the four priority areas previously identified on page X, and we have pinpointed the following key actions we need to take this year.

- **Independent living** – we will support people to help maintain their independence for as long as possible through a range of support services including telecare, extra care and our rehabilitation service, START. We have identified another 30 extra care schemes which we hope to develop.
- **Choice and control** – we will seek to give people more choice and control over their care and support arrangements and make it easier for people to take up direct payments.
- **Dignity and respect** – we will continue to work with providers, service users and local communities to make sure that dignity and respect is at the heart of everything we do.

- **Information and access** – we will help people to understand how care and support works and what they are entitled to by providing excellent information through a range of access points including our customer service centre, libraries, and our care directory.
- **Public health** – we will lead on public health from April 2013 and promote the health and wellbeing of our local communities.
- **Health and Wellbeing Board** – we will build on existing partnerships with NHS colleagues and other stakeholders through the new health and wellbeing board and continue to integrate services to ensure people experience a seamless service.
- **Community initiatives** – we will promote local community initiatives and continue to invest in the voluntary sector, through the innovation fund, to help local communities keep people safe, active and independent.
- **Employment and training** – we will work with vulnerable people to improve their independence through the promotion of employment and training opportunities.
- **Highways** – we will invest in the highways infrastructure and spend that will support economic growth and general financial wellbeing.
- **Broadband** - we will manage the major broadband infrastructure roll out funded by Broadband UK and European Regional Development Fund (ERDF) and support the development of community based schemes.
- **Schools** – we will maintain a strong partnership with schools to maximise their resources and performance
- **Safeguarding** – we will ensure we protect those children and young people most at risk, and that outcomes improve for looked after children and other who receive our care
- **Disabled children and young people** – we will make access to services for disabled children and young people more effective to make sure we support their transition to adult life
- **Supporting families** – we will work at an early stage with children, young people and their families in order to improve outcomes for them. Particular priorities will be teenagers with multiple vulnerabilities and strengthening families which are subject to a number of difficulties.
- **Skills** - we will work with our partners to ensure young people have the necessary skills to improve their life chances
- **Efficient and cost effective support** - we will continue to make the services which support our front line staff as efficient and cost effective as possible
- **Community involvement** – we will increase community involvement and the use of volunteers to help deliver a range of services including libraries and countryside management.

How will we know how well we are performing?

It is very important to us that we monitor how we are doing against our plan, to ensure that we are doing things right, as well as doing the right things.

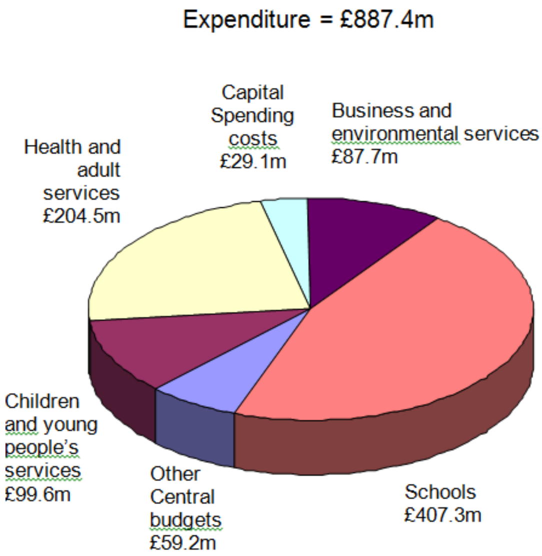
We will:

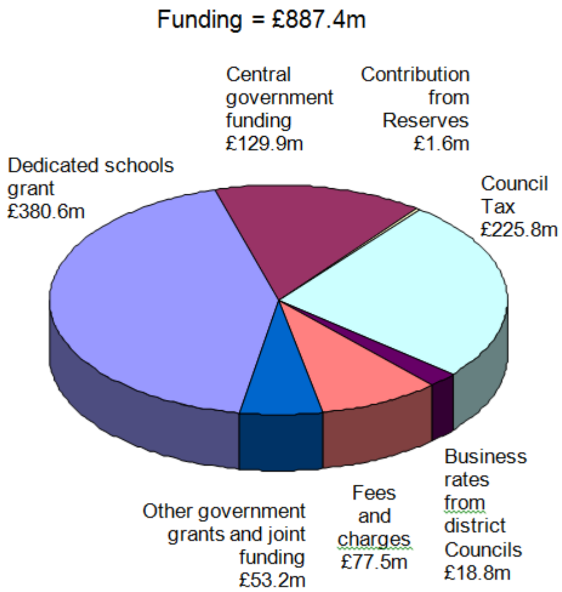
- talk to, and consult with, residents and users of our services, and listen to what they have to say, in line with our engagement promise;
- regularly monitor how well we are delivering services in our priority areas;
- compare our performance to that of other councils or areas, where appropriate, and use that information to help us manage our services;
- use the results of inspections by national bodies like Ofsted (which inspects children's services) and the Care Quality Commission which inspects social care services for adults) to help us improve;
- continue to be actively involved in the national sector-led improvement programme Towards Excellence in Councils' Adult Social Care and participate in a programme of peer reviews
- regularly gather together information about our spend and performance as a whole Council, to be considered by our Executive Members;
- regularly review the performance of services, both internally within the County Council and in partnership with other councils, partners, and the wider community through our scrutiny committees;
- publish information about all the above on our website;
- treat people fairly, ensuring that no section of our community is disproportionately affected by our decisions; and
- tell you in our next year's Council plan about how we have done.

Our funding

Revenue spending

The total cost of services North Yorkshire County Council provides will amount to £887.4m in 2013/14. A breakdown into our services and how it is funded is as follows:





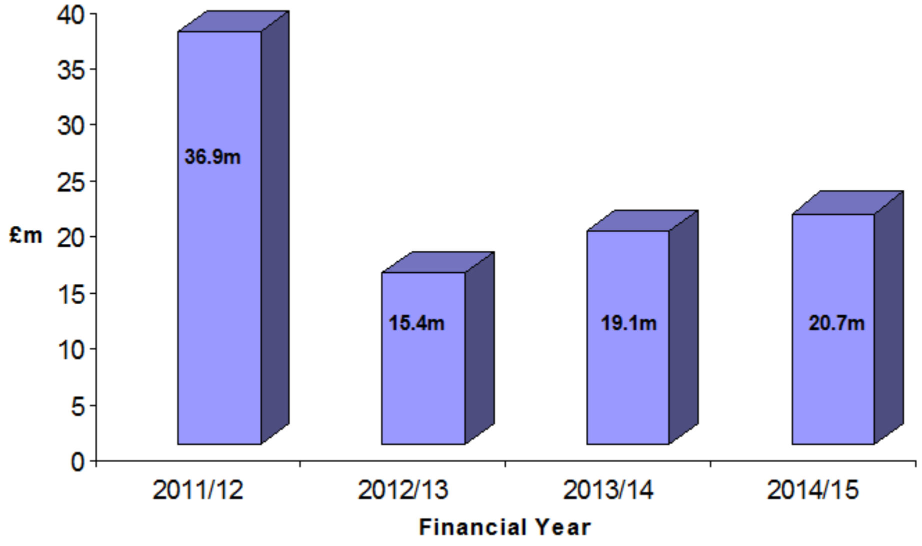
Council tax

£225.8m of the revenue budget is met by council tax payers which results in a charge of £1,057.48 in 2013/14 for a band D property. The actual sum paid however, depends on which valuation band individual properties fall into. There are eight valuation bands, A to H. Following some assistance from Government our council tax rates have now been frozen for a third year in 2013/14.

Savings and cost reductions to be found

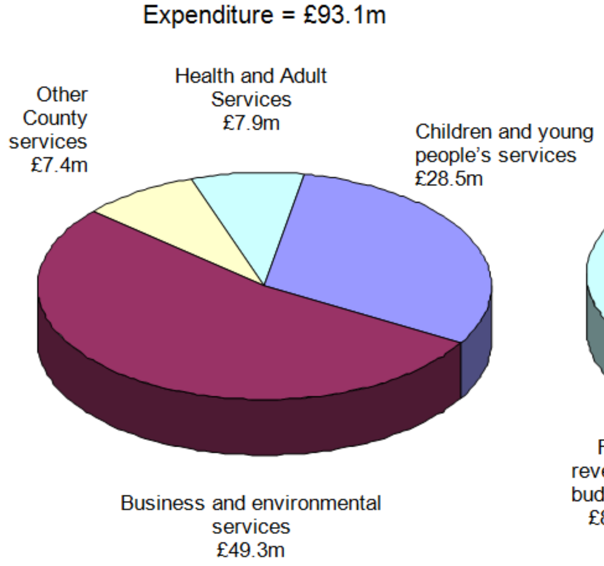
The funding provided to local authorities to deliver their services has been significantly reduced as part of the 2010 government's spending review and subsequent announcements. This presents a considerable challenge and the County Council face difficult decisions on spending and service provision over the coming years.

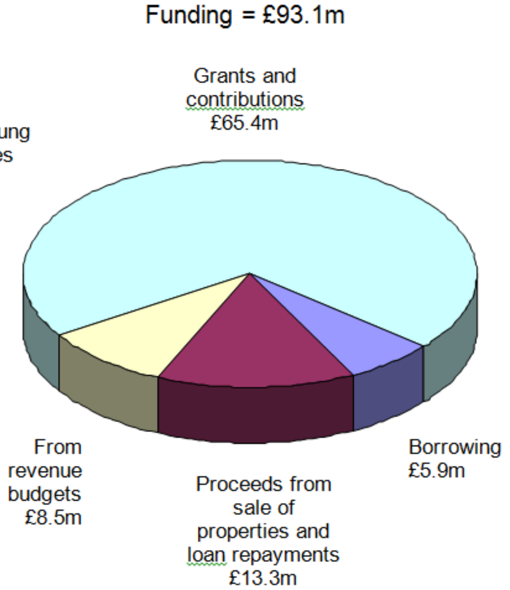
To compensate for these significant reductions in government funding together with managing inflation, tax increases, growth in the demand for our services and other additional spending pressures, a comprehensive package of savings and cost reductions totalling £92.1m over a four year period is being implemented as follows:



Capital spending

In addition to the revenue budget, the County Council also plans to spend £93.1m on capital projects in 2013/14. A breakdown into our services and how it is funded is as follows.





Contact us

North Yorkshire County Council, County Hall, Northallerton, North Yorkshire, DL7 8AD

Our Customer Service Centre is open Monday to Friday 8.00am - 5.30pm (closed weekends and bank holidays).

Tel: **0845 8727374**

Email: **customer.services@northyorks.gov.uk**

Or visit our website at: **www.northyorks.gov.uk**

North Yorkshire County Council

Alternative Template for

Equality Impact Assessment (EIA): evidencing paying due regard to protected characteristics

December 2012

If you would like this information in another language or format such as Braille, large print or audio, please contact the Communications Unit on 01609 53 2013 or email communications@northyorks.gov.uk.

যদি আপনি এই ডকুমেন্ট অন্য ভাষায় বা ফরমেটে চান, তাহলে দয়া করে আমাদেরকে বলুন।

如欲索取以另一語文印製或另一格式製作的資料，請與我們聯絡。

اگر آپ کو معلومات کسی دیگر زبان یا دیگر شکل میں درکار ہوں تو برائے مہربانی ہم سے پوچھئے۔

Name of the Directorate and Service Area	Central Services, Policy and Partnerships	
Brief description of the proposal	Council plan 2013-14	
Is the proposal to	**start a service (or policy, function, process etc)??**	
	change a service?	X
	reduce a service?	
	stop a service?	
Lead Officer and contact details	Deborah Hugill Deborah.hugill@northyorks.gov.uk 01609 532978	
Names and roles of other people involved in conducting the EIA	See below.	
How will you pay due regard? Eg team meetings, working party, project team, individual Officer	Individual EIAs will be carried out on each of the priorities for 2013-14 which are part of the Council Plan and methods will vary. This overall EIA will be carried out by an individual officer with advice and assistance from colleagues.	
Date due regard process started	1.11.12	
Date EIA completed	18.1.13	
Sign off by Assistant Director (or equivalent)	Neil Irving 23.1.13	
Date of Publication of EIA	A copy of the EIA will be included with the reports seeking approval of the Plan to be presented to Management Board on 22 January 2013, the Executive on 5 February 2013 and full Council on 20 February 2013; thereafter it will be published on the NYCC website.	
Monitoring and review process for EIA	Monitoring and review will take place through the Corporate Equalities and Engagement Group	

Equality Impact Assessment	
Section 1 **Brief description of the proposal**	The Council Plan is the County Council's overall high level strategic plan which translates the priorities of the North Yorkshire Community Plan into the contributory actions needed by the County Council. These high level priorities are: 1. Protecting and supporting vulnerable people 2. Supporting economic growth and employment 3. Improving accessibility for all and supporting active communities 4. Managing our environment and promoting environmental sustainability These were identified through consultation with the public and key stakeholders during the process of preparing the Community Plan. Support for these priorities has also been tested during the budget consultations in 2011 and 2012. The Council Plan is also the key strategic document which sets the performance framework for all Council services. As such the plan does not contain detailed information about specific service delivery. Detail at service level has been and/or will be impact assessed by directorate colleagues. The budget and financial elements of the plan are also subject to specific and separate impact assessments as part of the budget decision making process. Members in agreeing the budget will also take into account compounding factors, such as the rural nature of the County.
Section 2 **What will the proposal change?**	The actions for 2013/14 listed in the Council Plan, flowing from the high level priority areas, are intended to benefit all residents in North Yorkshire, although some of these priorities aim to specifically direct resources towards more vulnerable residents,. These have been developed through service planning within directorates which will be subject to separate EIAs and consultation processes. Details of specific changes to services will be available in individual EIAs.
Section 3 **What is the reason for the proposal?**	The purpose of the plan is to provide information to a range of stakeholders including elected members, officers, partners, the public, and the Department of Communities and Local Government (DCLG) about the Council's priorities, performance, plans for the coming year and budget position.
Section 4 **Will the proposal have a financial impact (cost or saving)? What will the impact be?**	The Council Plan will have significant financial implications as it outlines the key programmes of work that will be carried out, all of which have been identified during development of the Medium Term Financial Strategy.

Section 5 **Is the proposal likely to make things better for anyone because of:**	✓	**How will it make things better?**
Age	Yes	A major priority of the plan is to support people to help maintain their independence for as long as possible through a range of support services including telecare, extra care and our rehabilitation service, START. These services are more likely to be used by older people. Other priorities also seek to give people more choice and control over their care and support arrangements and make it easier for people to take up direct payments. Access to these services should also be improved by provision of better information through a range of access points including our customer service centre, libraries, and our care directory. The plan also pledges to prioritise dignity and respect. Priorities in the plan also relate to improved outcomes for children maximising resources and performance of schools, supporting disabled children and young people more effectively, protecting children and young people who are most at risk and supporting vulnerable families.
Disability	Yes	The priorities mentioned above are also likely to have a positive impact on those with a disability. In addition work with vulnerable people to improve their independence through the promotion of employment and training opportunities is also prioritised. As are local community initiatives and continue to invest in the voluntary sector, through the innovation fund, to help local communities keep people safe, active and independent. Both of these priorities are likely to impact more on people with a disability. The priorities which related to disabled children and vulnerable families are likely to have a positive impact on those with a disability.
Section 5 ctd. **Is the proposal likely to make things better for anyone because of:**	✓	**How will it make things better?**
Sex (Gender)	Yes	There is likely to be an indirect benefit to women from activities benefiting people vulnerable due to age and possible resultant disability. This is because women tend to live longer than men.
Race	No	
Gender reassignment	No	
Sexual orientation	No	

Section 5 ctd. **Is the proposal likely to make things better for anyone because of:**	✓	**How will it make things better?**
Religion or belief	No	
Pregnancy or maternity	No	
Marriage or Civil Partnership	No	
Section 6 **Will the proposal make things better for people who:**	✓	**How will it make things better?**
live in a rural area	Yes	The priority to improve broadband performance across the county through a major broadband infrastructure roll out funded by Broadband UK and European Regional Development Fund (ERDF) and the development of community based schemes will give at least 2mpb speeds to the whole county. This will enable those in rural locations, who have previously been unable to attain acceptable broadband speeds, to better access services via the internet.
have a low income	Yes	Priorities within the Council Plan relate to economic development and maximising local benefit from business opportunities and infrastructure improvements. These have the intention of increasing job opportunities and may benefit those who are currently not working.

Section 7 **Is the proposal likely to make things worse for anyone because of:**	✓	**How might it make things worse?**	**How can we reduce or remove this negative impact?**	**Will there still be a negative impact?**
Age	Not known	Until it is clear how budget reductions might impact on individual plans it is not possible to answer this question definitively. The overarching priorities within the Council Plan have not been identified as having potential to make things worse for this group.	Where the potential for adverse impact is identified, services will seek to mitigate this in a number of ways including developing new models of service delivery, partnership working and by helping people to develop a greater degree of independent living.	
Disability	Not known	Until it is clear how budget reductions might impact on individual plans it is not possible to answer this question definitively. The overarching priorities within the Council Plan have not been identified as having potential to make things worse for this group.	Where the potential for adverse impact is identified, services will seek to mitigate this in a number of ways including developing new models of service delivery, partnership working and by helping people to develop a greater degree of independent living.	
Sex (Gender)	Not known	Until it is clear how budget reductions might impact on individual plans it is not possible to answer this question definitively. The overarching priorities within the Council Plan have not been identified as having potential to make things worse for this group.	Where the potential for adverse impact is identified, services will seek to mitigate this in a number of ways including developing new models of service delivery, partnership working and by helping people to develop a greater degree of independent living.	
Race	Not known	Until it is clear how budget reductions might impact on individual plans it is not possible to answer this question	Where the potential for adverse impact is identified, services will seek to mitigate this in a number of ways including	

		definitively. The overarching priorities within the Council Plan have not been identified as having potential to make things worse for this group.	developing new models of service delivery, partnership working and by helping people to develop a greater degree of independent living.	
Gender reassignment	No			

Section 7 ctd **Is the proposal likely to make things worse for anyone because of:**	✓	**How might it make things worse?**	**How can we reduce or remove this negative impact?**	**Will there still be a negative impact?**
Sexual orientation	No			
Religion or belief	No			
Pregnancy or maternity	No			
Marriage or Civil Partnership	No			
Section 8 **Will the proposal make things worse for people because they:**	✓	**How might it make things worse?**	**How can we reduce or remove this negative impact?**	**Will there still be a negative impact?**
live in a rural area	Not known	Until it is clear how budget reductions might impact on individual plans it is not possible to answer this question definitively. The overarching priorities within the Council Plan have not been identified as having potential to make things worse for this group.	Where the potential for adverse impact is identified, services will seek to mitigate this in a number of ways including developing new models of service delivery, partnership working and by helping people to develop a greater degree of independent living.	
are on a low income	Not known	Until it is clear how budget reductions might impact on individual plans it is not possible to answer this question definitively. The overarching priorities within the Council Plan have not been identified as having potential to make things worse for this group.	Where the potential for adverse impact is identified, services will seek to mitigate this in a number of ways including developing new models of service delivery, partnership working and by helping people to develop a greater degree of independent living.	

Section 9 Need for justification Look at the final column in section 7.	✓	
Will the proposal make things worse for a lot of people with protected characteristics or much worse for even a small number of people with protected characteristics?	No	
Can we achieve our aim in another way?		If ✓ how?
If we can't achieve our aim in another way get legal advice on whether the proposal can be justified. We might be able to justify it if what we are doing is the only way to achieve something that we must do or need to do for a very important reason (section 2). If legal advice is taken summarise it here. Decision makers must know what the legal advice is before they take any decision.		

Section 10 If your proposal is implemented how will you monitor it to check how it is working?	The Council Plan is reviewed annually in a process involving relevant officers, Management Board, the Executive and full County Council. A six monthly progress report is taken to Executive. Individual priorities will also be part of regular performance monitoring in the relevant service area.		
Section 11 Action Plan Are there actions you need to take as a result of this EIA process? Please include them in the Action Plan below			
Action	**Lead Officer**	**By when**	**Monitoring**
Ensure that individual plans relating to the specific activities contributing to achieving the broad outcomes of the Council Plan are appropriately assessed to identify any potential equality impacts on people with protected characteristics before implementation.	Will depend on Service: likely to be appropriate AD	As plans are developed and before specific decisions taken	Individual Directorates / Management Board
Ensure that any cumulative impacts on people with protected characteristics are identified by providing an overview of individual plans	Deborah Hugill / Tom Jenkinson	As plans are developed and before specific decisions taken	Management Board

PRUDENTIAL INDICATORS FOR PERIOD 2013/14 to 2015/16
(EXECUTIVE – 5 FEBRUARY 2013)

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS

1 Estimated Ratio of capital financing costs to the net Revenue Budget

(a) *Formally Required Indicator*

This reflects capital financing costs (principal plus interest) on external debt plus PFI and finance leasing charges, less interest earned on the temporary investments of surplus cash balances.

The estimated ratios of financing costs to the net Revenue Budget for the current and future years, and the actual figure for 2011/12 are as follows:

Year	Executive 21 Aug 2012 Basis	Executive 21 Aug 2012 %	Update for 2013/14 Basis	Update for 2013/14 %
2011/12	actual	8.5	actual	8.5
2012/13	estimate	8.2	probable	8.1
2013/14	estimate	8.2	estimate	7.9
2014/15	estimate	8.0	estimate	8.0
2015/16	estimate	n/a	estimate	7.9

Comment

The estimates of financing costs include current Capital Plan commitments based on the latest Capital Plan, and are as reflected in the 2013/14 Revenue Budget and MTFS.

The updated figures up to 2015/16 reflect the net effect of a range of factors, principally

(a) savings being achieved through the policy of financing capital borrowing requirements internally from cash balances

(b) variations in the level of annual borrowing requirements resulting from a range of factors

(c) variations in borrowing costs (interest plus a revenue provision for debt repayment) reflecting latest interest rate forecasts to 2015/16

(d) reduction in interest earned on cash balances resulting from the continuing current historically low interest rates but partially offset by continuing higher levels of surplus cash balances (formal Indicator only)

(e) changes to the ‘net budget’ element of this calculation resulting from the 2013/14 Local Government Finance Settlement.

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS	Comment
(b) *Local Indicator* This Local Indicator reflects a policy decision to cap capital financing costs to 11% of the net annual Revenue Budget. The Indicator is different to the formally required Indicator at (a) above in that it only reflects the cost components of interest on external debt plus lost interest on internally financed capital expenditure, together with a revenue provision for debt repayment. Unlike the formally required PI it does not reflect interest earned on surplus cash balances or PFI / Finance leasing charges	See comments for formal indicator at 1 (a) above.

Year	Executive 21 Aug 2012 Basis	Executive 21 Aug 2012 %	Update for 2013/14 Basis	Update for 2013/14 %
2011/12	actual	9.1	actual	9.1
2012/13	estimate	8.8	probable	8.8
2013/14	estimate	8.6	estimate	8.3
2014/15	estimate	8.6	estimate	8.4
2015/16	estimate	n/a	estimate	8.5

Prudential Indicator	Comment
2 Estimates of the incremental impact of capital investment decisions on the Council Tax	
In considering its programme for future capital investment, the County Council is required within the Prudential Code to have regard to: ➔ affordability (eg implications for Council Tax) ➔ prudence and sustainability (eg implications for external borrowing) ➔ value for money (eg option appraisal) ➔ stewardship of assets (eg asset management planning) ➔ service objectives (eg strategic planning for the authority) ➔ practicality (eg achievability of the Capital Plan) A key measure of affordability is the incremental impact on Council Tax. The County Council can consider different options for its capital investment programme based on their differential impact on the Council Tax. The estimate of the incremental impact on Council Tax (at Band D) of past capital investment decisions which are reflected in the latest Capital Plan and also in the Revenue Budget for 2013/14, compared with the 2012/13 Council Tax are:	This Indicator shows the incremental impact on Band D Council Tax of the capital financing costs resulting from unsupported prudential borrowing required to fund the forecast Capital Plan. This borrowing includes the funding shortfall of Capital Bids approved by Executive on 3 February 2004, as part of the 10 year Capital Forecast projection, together with a number of subsequent funding approvals. The 10 year Capital Forecast is due to be reviewed shortly using a new capital prioritisation methodology. Debt charges resulting from Invest to Save schemes and certain other capital provisions are, however, excluded as these are deemed to be self financed from within Directorate revenue budgets and thus do not impact on Council Tax levels. As indicated above, all debt charges resulting from borrowing approvals issued by the Government in the years prior to 2011/12 are also excluded from this calculation. The updated figures differ from those previously reported as a result of (a) capital financing cost variations as a result of new Prudential Borrowing approvals, capital expenditure slippage between years and variations in the cost of borrowing (b) the 2013/14 figures are compared with the 2012/13 Council Tax whereas the previous ones are compared with 2011/12 Council Tax levels

Year	Executive 21 Aug 2012 Basis	£ - p	Update for 2013/14 Basis	£ - p
2013/14	estimate	+ 2.41	estimate	1.24
2014/15	estimate	+ 4.85	estimate	2.59
2015/16	estimate	n/a	estimate	3.96

Prudential Indicator	Comment

3 Capital Expenditure - Actual and Forecasts

The actual capital expenditure that was incurred in 2011/12 and the estimates of capital expenditure to be incurred for the current and future years are:

Year	Executive 21 Aug 2012 Basis	Executive 21 Aug 2012 £m	Update for 2013/14 Basis	Update for 2013/14 £m
2011/12	actual	99.2	actual	99.2
2012/13	estimate	89.5	probable	71.1
2013/14	estimate	83.0	estimate	87.6
2014/15	estimate	77.7	estimate	85.8
2015/16	estimate	n/a	estimate	85.0

The above estimates and those for certain other Prudential Indicators incorporate a number of figures that are based on:-

(a) the latest Capital Plan approved by Executive on 20 November 2012

(b) expenditure on fixed assets funded directly from the Revenue Budget and not included in the Capital Plan

(c) other known self funded variations

(d) forecast expenditure slippage between years

(e) various other refinements

Comment

The updated figures for 2012/13 to 2015/16 reflect the following variations compared with the figures submitted to Executive on 21 August 2012.

(a) the Government's Capital allocations announced as part of the 2013/14 Provisional Local Government Settlement, although those for Education are still awaited from the DfE

(b) a number of additional provisions and variations to existing provisions which are self funded from capital grants and contributions and revenue contributions (including the Pending Issues Provision)

(c) capital expenditure rephasing between years, including a significant element of rephasing from 2012/13 to later years

(d) the addition of a further year 2015/16 which includes bids approved in 2004 as part of the 10 year capital forecast

(e) various other approvals and refinements to the Capital Plan.

Prudential Indicator	Comment

4 Capital Financing Requirement

Actuals and estimates of the Capital Financing Requirement (CFR) at the defined year ends are as follows:

Date	Executive 21 Aug 2012 Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total	Update for 2013/14 Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total
		£m	£m	£m		£m	£m	£m
31 Mar 12	actual	399.4	6.3	405.7	actual	399.4	6.3	405.7
31 Mar 13	estimate	389.2	6.0	395.2	probable	385.9	6.0	391.9
31 Mar 14	estimate	386.1	5.8	391.9	estimate	381.4	5.8	387.2
31 Mar 15	estimate	377.6	5.8	383.4	estimate	373.7	5.8	379.5
31 Mar 16	estimate	n/a	n/a	n/a	estimate	364.0	5.5	369.5

The CFR measures the underlying need for the County Council to borrow for capital purposes. In accordance with best professional practice, the County Council does not earmark borrowing to specific items or types of expenditure. The County Council has an integrated treasury management approach and has adopted the CIPFA Code of Practice for Treasury Management. The County Council has, at any point in time, a number of cashflows, both positive and negative, and manages its treasury position in terms of its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy. In day to day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the County Council as a whole and not simply those arising from capital spending. In contrast, the CFR Indicator reflects the County Council's underlying need to borrow for capital purposes only.

Comment:

The updated figures recommended for approval as part of the 2013/14 Budget process reflect the following main variations compared with the previous figures approved by the Executive on 21 August 2012.

(a) capital expenditure re-phasing between years that is funded from borrowing

(b) capital receipts re-phasing between years (including Company Loan repayments) that affects year on year borrowing requirements

(c) addition of 2015/16 including forecast new Prudential borrowing for bids previously agreed

(d) variations in the level of the Corporate Capital pot which is used in lieu of new borrowing until the pot is required

(e) variations in the annual Minimum Revenue Provision (MRP) for debt repayment which arise from the above

(f) various other approvals and refinements that impact on annual capital borrowing requirements.

Prudential Indicator	Comment
5 Gross Debt and the Capital Financing Requirement The Prudential Code emphasises that in order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the previous year (2012/13), plus the estimate of any additional capital financing requirement for the current (2013/14) and next two financial years (2014/15 and 2015/16). If, in any of these years, there is a reduction in the capital financing requirement, this reduction should be ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This Prudential Indicator is referred to as gross debt and the comparison with the capital financing requirement (**Indicator 4**) and is a key indicator of prudence. The Corporate Director – Strategic Resources has previously reported that the County Council had no difficulty in meeting this requirement up to 2011/12 nor are any difficulties envisaged for the current or future years of the Medium Term Financial Strategy up to 2014/15. For subsequent years, however, the County Council may not be able to comply with the new requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely. This opinion takes into account spending commitments, existing and proposed Capital Plans and the proposals in the separate Revenue Budget 2013/14 and Medium Term Financial Strategy report.	This Prudential Indicator has been changed from 2013/14 to reflect the comparison of gross debt (external debt plus other long term liabilities less debt administered on behalf of the Police Authority) with the Capital Financing Requirement (CFR). The comparator debt figure had previously been net debt which was gross debt less investments. The Prudential Code requires that where there is a significant difference between the gross debt and the gross borrowing requirement, as demonstrated by the CFR, then the risks and benefits associated with this strategy should be clearly stated in the annual Treasury Management Strategy. This is covered in **paragraphs 8.4 to 8.12** of the Annual Treasury Management and Investment Strategy. The County Council's gross debt figure is currently significantly below the CFR figures shown in **Indicator 4** because of annual capital borrowing requirements being funded internally from cash balances (ie running down investments) rather than taking out new external debt. This situation, however, could be reversed in future as a result of two key factors: (i) externalising some or all of the internally financed CFR together with (ii) the potential for the annual Minimum Revenue Provision (MRP) for debt repayment reducing the CFR below gross debt because the debt cannot readily be prematurely repaid without incurring significant penalties (premiums). This potential situation will be monitored carefully by the Corporate Director – Strategic Resources.

Prudential Indicator	Comment

6 Authorised Limit for External Debt

In respect of external debt, it is recommended that the County Council specifically approves the following Authorised Limits for its total external debt for the next three financial years.

The Prudential Code requires external borrowing and other long term liabilities to be identified separately.

The authorised limit for 2013/14 (£422.1m) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Year	Executive 21 Aug 2012			Update for 2013/14		
	External Borrowing	Other Long Term Liabilities	Total Borrowing Limit	External Borrowing	Other Long Term Liabilities	Total Borrowing Limit
	£m	£m	£m	£m	£m	£m
2012/13	447.0	6.0	453.0	442.2	6.0	448.2
2013/14	424.9	5.8	430.7	416.3	5.8	422.1
2014/15	454.4	5.8	460.2	442.3	5.8	448.1
2015/16	n/a	n/a	n/a	405.3	5.5	410.8

Comment:

The Corporate Director – Strategic Resources confirms that these authorised limits are consistent with the County Council's current commitments, existing Capital Plan and the financing thereof, the proposals in the respective 2013/14 Revenue Budget and Medium Term Financial Strategy, and with its approved Treasury Management Policy Statement.

The Corporate Director – Strategic Resources also confirms that the limits are based on the estimate of the most likely, prudent, but not worst case, scenario with sufficient headroom over and above this to allow for operational issues (eg unusual cash movements). To derive these limits a risk analysis has been applied to the Capital Plan, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

The updated figures reflect a number of refinements which are common to the Capital Financing Requirement (see **Indicator 4** above) and Operational Boundary for External Debt (see **Indicator 7**). Explanations for these changes are provided under **Indicators 4 and 7** respectively.

Prudential Indicator	Comment

7 Operational Boundary for External Debt

It is recommended that the County Council approves the following Operational Boundary for external debt for the same period.

The proposed operational boundary for external debt is based on the same estimates as the Authorised Limit (ie **Indicator 6** above) but reflects an estimate of the most likely prudent, but not worst case, scenario without the additional headroom included within the Authorised Limit (to allow for eg unusual cash flows).

Year	Executive 21 Aug 2012 External Borrowing	Executive 21 Aug 2012 Other Long Term Liabilities	Executive 21 Aug 2012 Total Borrowing	Update for 2013/14 External Borrowing	Update for 2013/14 Other Long Term Liabilities	Update for 2013/14 Total Borrowing Limit
	£m	£m	£m	£m	£m	£m
2012/13	427.0	6.0	433.0	422.2	6.0	428.2
2013/14	404.9	5.8	410.7	396.3	5.8	402.1
2014/15	434.4	5.8	440.2	422.3	5.8	428.1
2015/16	n/a	n/a	n/a	385.3	5.5	390.8

Comment

The Operational Boundary represents a key management tool for the in year monitoring of external debt by the Corporate Director – Strategic Resources.

The updated figures reflect refinements which are common to the Capital Financing Requirement (**see Indicator 4 above**) together with

(a) relative levels of capital expenditure funded from surplus internal cash balances rather than taking external debt

(b) loan repayment cover arrangements and the timing of such arrangements

These two financing transactions affect external debt levels at any one point of time during the financial year but do not impact on the Capital Financing requirement.

Prudential Indicator	Comment
8 Actual External Debt	
The County Council's actual external debt is set out below and consists of external borrowing plus other long term liabilities such as PFI and finance leases which are classified as external debt for this purpose.	The updated estimates reflect refinements which are common to the Capital Financing Requirement (**see Indicator 4 above**), together with the relative levels of capital expenditure internally funded from cash balances rather than taking external debt.

Year	Executive 21 Aug 2012 Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total	Update for 2013/14 Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total
		£m	£m	£m		£m	£m	£m
31 March 2012	actual	376.8	6.3	383.1	actual	376.8	6.3	383.1
31 March 2013	estimate	380.3	6.0	386.3	probable	375.5	6.0	381.5
31 March 2014	estimate	379.4	5.8	385.2	estimate	370.8	5.8	376.6
31 March 2015	estimate	374.6	5.8	380.4	estimate	362.5	5.8	368.3
31 March 2016	estimate	n/a	n/a	n/a	estimate	357.1	5.5	362.6

It should be noted that actual external debt is not directly comparable to the Authorised Limit (**Indicator 6 above**) and operational boundary (**Indicator 7 above**) since the actual external debt reflects a position at one point in time (ie at the end of each financial year).

Prudential Indicator	Comment
9 Limit of Money Market Loans (Local Indicator)	
Borrowing from the money market for capital purposes is to be limited to 30% of the County Council's total external debt outstanding at any one point in time. The actual position at 31 March 2012 was 5% (£20m out of a total of £376.8m) against the upper limit of 30%.	This limit was introduced as a new Local Prudential Indicator in 2009/10, although the 30% limit has featured as part of the Borrowing Policy section of the Annual Treasury Management and Investment Strategy for several years.

Prudential Indicator	Comment
TREASURY MANAGEMENT INDICATORS	
10 Adoption of CIPFA Code of Practice for Treasury Management	The County Council formally adopted the 2011 revised CIPFA Code of Practice for Treasury Management in the Public Service at its meeting on 15 February 2012.
11 Interest Rate Exposures In accordance with the Code of Practice the County Council sets upper and lower limits on its fixed and variable interest rate exposures as a percentage of outstanding principals sums for 2012/13, 2013/14 and 2014/15 as set out below: (see table below)	No changes are being proposed to the borrowing and investments limits for 2013/14. This means that the Corporate Director – Strategic Resources will for **borrowing** manage fixed interest rate exposure within the range 60% to 100% of outstanding principal and variable interest rate exposure within the range 0% to 40% of outstanding principal for **investments** will manage fixed interest rate exposure within the range 0% to 30% of outstanding principal and variable rate exposure within the range 70% to 100% of outstanding principal. The split of investments between fixed and variable rates is based on the market convention that investments up to 365 days are regarded as being at variable rates. The **combined net borrowing and investment** position represents the formal Prudential Indicator for Interest Rate Exposures. On its own however it does not show clearly how borrowing and investments will be managed, hence the two separate 'local indicators' shown above. The upper limits have been changed for 2013/14 to reflect the continuing high level of investments at short term variable interest rates, together with a reducing level of external debt at fixed interest rates.

	Lower %	**Upper %**
Borrowing		
• Fixed	60	100
• Variable	0	40
Investments		
• Fixed	0	30
• Variable	70	100
Combined Net Borrowing and Investments		
• Fixed	130 #	180 *
• Variable	- 30 #	- 80 *

previously 110 and – 10

* previously 160 and - 60

Prudential Indicator	Comment
12 Maturity Structure of Borrowing In accordance with the Code of Practice, the County Council sets upper and lower limits for the maturity structure of County Council borrowings as follows. The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate:	No changes to these limits approved by Executive on 31 January 2012 and reconfirmed on 21 August 2012 are proposed. The lower limits of 10% for the periods 10 to 25 years and 25 to 50 years is designed to ensure that the County Council does not have the risk of having to repay all debt within a ten year period.

Period	Lower Limit %	Upper Limit %	Memo item - actual at 1 April 11 %	1 April 12 %
under 12 months	0	50	6	7
12 months & within 24 months	0	15	7	1
24 months & within 5 years	0	45	11	15
5 years & within 10 years	0	75	21	23
10 years & within 25 years	10	100	16	13
25 years & within 50 years	10	100	39	41
			100	100

Prudential Indicator	Comment
13 Total Principal Sums Invested for periods longer than 364 days The 2012/13 aggregate limit of £12m for 'non specified' investments longer than 364 days is based on a maximum of 20% of 'core cash funds' being made available for such investments. As a result of forecast reductions in core cash funds (reserves, provisions and balances etc) over the next three years, however, the current £12m limit is likely to exceed the 20% maximum level previously agreed. However, given the forecasts for overall cash balances over the next three years, the need for liquidity and day to day cash flow requirements, it is still forecast that £12m can be prudently committed to longer term investments over 364 days. The purpose of this prudential limit for principal sums invested for longer than 364 days is for the County Council to contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.	The maximum sum of £12m proposed for investments longer than 364 days is the same as for 2012/13. The County Council currently has no such investments that fall into this category. Prior to 1 April 2004, regulations generally prevented local authorities from investing for longer than 364 days. As a result of the new Prudential Regime however, these prescriptive regulations were abolished and replaced with Government Guidance from April 2004. This Guidance, which was updated from 1 April 2010, gives authorities more freedom in their choice of investments (including investing for periods longer than 364 days) and recognises that a potentially higher return can be achieved by taking a higher (ie longer term) risk. This flexibility requires authorities to produce an Annual Investment Strategy that classifies investments as either **Specified** (liquid, secure, high credit rating & less than 365 days) or **Non Specified** (other investments of a higher risk). Non Specified investments are perfectly allowable but the criteria and risks involved must be vigorously assessed, including professional advice, where appropriate. Therefore investments for 364 days+ are now allowable as a Non Specified investment under Government Guidance. The use of such investments is therefore now incorporated into the County Council's Annual Treasury Management and Investment Strategy.

NORTH YORKSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1.0 BACKGROUND

1.1 The County Council has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2011. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

1.2 The CIPFA Code of Practice on Treasury Management requires the County Council to adopt the following four clauses of intent:

(a) the County Council will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of the County Council to its treasury management activities

(ii) a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs

(b) the County Council (full Council and/or Executive) will receive reports on its Treasury Management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in the TMPs

(c) the County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources who will act in accordance with the Council's TMPS, TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management

(d) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.

1.3 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2011) and the terms of the **Local Government Act 2003**, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely

(a) the approval, on an annual basis, of a set of **Prudential Indicators**

(b) the approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, and an annual **Minimum Revenue Provision (MRP)** policy statement with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end

1.4 This current Treasury Management Policy Statement (TMPS) was approved by County Council on 20 February 2013.

2.0 TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

2.1 Based on the requirements detailed in **paragraph 1.2 (a) (i)** above a TMPS stating the policies and objectives of the treasury management activities of the County Council is set out below.

2.2 The County Council defines the policies and objectives of the treasury management activities of the County Council as follows:

(a) the management of the County Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks

(b) the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the County Council and any financial instrument entered into to manage these risks

(c) effective treasury management will provide support towards the achievement of the business and service objectives of the County Council as expressed in the Council Plan. The County Council is committed to the principles of achieving value for many in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management

2.3 As emphasised in the Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the County Council and all officers involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 As referred to in **paragraph 1.2 (a) (ii)** above the CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

(a) set out the manner in which the County Council will seek to achieve the policies and objectives set out in **paragraph 2.2** above; and

(b) prescribe how the County Council will manage and control those activities

3.2 The CIPFA Code of Practice recommends 12 TMPs. These were originally approved by Members in March 2004 and have recently been updated in the light of the new Codes from CIPFA and Statutory Guidance from the Government. These updated documents were approved by the Audit Committee on 6 December 2012.

3.3 A list of the 12 TMPs is as follows:

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision-making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money Laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the County Council to "have regard to" the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in November 2011, requires the County Council to set a range of Prudential Indicators for the next three years

(a) as part of the annual Budget process, and

(b) before the start of the financial year

to ensure that capital spending plans are affordable, prudent and sustainable.

4.2 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set.

4.3 The required Prudential Indicators are as follows

- Estimated ratio of capital financing costs to the Net Revenue Budget
- Estimates of the incremental impact of capital investment decisions on the Council Tax
- Capital Expenditure - Actual and Forecasts
- Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt
- Actual External Debt
- Adoption of the CIPFA Code of Practice for Treasury Management
- Interest Rate Exposures
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 364 days

4.4 The County Council will approve the Prudential Indicators for a three year period alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year. The Indicators will be monitored during the year and necessary revisions submitted as necessary via the Quarterly Performance and Budget Monitoring reports.

4.5 In addition to the above formally required Prudential Indicators, the County Council has also set two local ones as follows:

(a) to cap Capital Financing costs to 11% of the net annual revenue budget; and

(b) a 30% limit on money market borrowing as opposed to borrowing from the Public Works Loan Board.

5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

5.1 A further implication of the Local Government Act 2003 is the requirement for the County Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments).

5.2 The Government's guidance on the Annual Investment Strategy, updated in 2009, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The County Council has adopted this combined approach.

5.3 Further statutory Government guidance, last updated with effect from April 2012, is in relation to an authority's charge to its Revenue Budget each year for debt repayment. A Minimum Revenue Provision (MRP) policy statement must be prepared each year and submitted to the full Council for approval before the start of the financial year.

5.4 The County Council's Annual Treasury Management and Investment Strategy will therefore cover the following matters:

- treasury limits in force which will limit the treasury risk and activities of the County Council
- Prudential and Treasury Indicators
- the current treasury position
- the Borrowing Requirement and Borrowing Limits
- Borrowing Policy
- prospects for interest rates
- Borrowing Strategy
- capping of capital financing costs
- review of long term debt and debt rescheduling
- Minimum Revenue Provision Policy
- Annual Investment Strategy
- other treasury management issues
- arrangements for monitoring / reporting to Members

5.5 The County Council will approve this combined Annual Strategy alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year.

6.0 REVIEW OF THIS POLICY STATEMENT

6.1 Under Financial Procedure Rule 15, the Corporate Director – Strategic Resources is required to periodically review this Policy Statement and all associated documentation. A review of this Statement, together with the associated annual strategies, will therefore be undertaken annually as part of the Revenue Budget process, together with a mid year review as part of the Quarterly Treasury Management reporting process and at such other times during the financial year as considered necessary by the Corporate Director – Strategic Resources.

Approved by County Council 20 February 2013

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2013/14

1.0 INTRODUCTION

1.1 Treasury Management is defined as

> "The management of the County Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".

1.2 The Local Government Act 2003, and supporting regulations, require the County Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators for the next three years to ensure that the County Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Act also requires the County Council to set out its **Annual Treasury Management Strategy** for borrowing and to prepare an **Annual Investment Strategy** (as required by Investment Guidance issued subsequent to the Act) which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. For practical purposes these two strategies are combined in this document.

1.4 This Strategy document for 2013/14 therefore covers the following

- Treasury Limits in force which will limit the treasury risk and activities of the County Council (**Section 2**)
- Prudential Indicators (**Section 3**)
- current treasury position (**Section 4**)
- Borrowing Requirement and Borrowing Limits (**Section 5**)
- Borrowing Policy (**Section 6**)
- prospects for interest rates (**Section 7**)
- Borrowing Strategy (**Section 8**)
- capping of capital financing costs (**Section 9**)
- review of long term debt and debt rescheduling (**Section 10**)
- Minimum Revenue Provision Policy (**Section 11**)
- Annual Investment Strategy (**Section 12**)
- other treasury management issues (**Section 13**)
- arrangements for monitoring/reporting to Members (**Section 14**)

- summary of key elements of this Strategy (**Section 15**)
- Specified Investments (**Schedule A**)
- Non-Specified Investments (**Schedule B**)
- Approved Lending List (**Schedule C**)
- Approved Countries for Investments (**Schedule D**)

1.5 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the County Council to produce a balanced Annual Revenue Budget. In particular, Section 32 requires a local authority to calculate its Budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby additional charges to the Revenue Budget arising from:-

(a) increases in interest and principal charges caused by increased borrowing to finance additional capital expenditure, and/or

(b) any increases in running costs from new capital projects

are affordable within the projected revenue income of the County Council for the foreseeable future.

1.6 These issues are addressed and the necessary assurances provided by the Section 151 officer (the Corporate Director – Strategic Resources) in the 2013/14 Revenue Budget and Medium Term Financial Strategy report considered separately by the Executive on 5 February 2013 and approved by the County Council on 20 February 2013.

1.7 This Strategy document was approved by the County Council on 20 February 2013.

2.0 TREASURY LIMITS FOR 2013/14 TO 2015/16

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the County Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the **Affordable Borrowing Limit**.

2.2 The County Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future Council Tax levels is acceptable. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (therefore see **Section 3** below).

2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.0 PRUDENTIAL INDICATORS FOR 2013/14 TO 2015/16

3.1 A separate Report incorporating an updated set of Prudential Indicators for the three year period to 31 March 2016, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities, was also approved by the County Council on 20 February 2013.

3.2 These Prudential Indicators include a number relating to external debt and treasury management that are appropriately incorporated into this Annual Treasury Management Strategy for 2013/14.

3.3 Full details of the Prudential Indicators listed below are contained in the separate **Revision of Prudential Indicators** report referred to in **paragraph 3.1** above.

3.4 The following Prudential Indicators are relevant for the purposes of setting an integrated Annual Treasury Management Strategy.

(a) **Estimated ratio of capital financing costs to the Net Revenue Budget**

(i) formally required indicator net of interest earned

2011/12 actual	8.5%
2012/13 probable	8.1%
2013/14 estimate	7.9%
2014/15 estimate	8.0%
2015/16 estimate	7.9%

(ii) Local Indicator capping capital financing costs to 11% of the annual Net Revenue Budget

2011/12 actual	9.1%
2012/13 probable	8.8%
2013/14 estimate	8.3%
2014/15 estimate	8.4%
2015/16 estimate	8.5%

(b) **Estimates of the incremental impact of capital investment decisions on the Council Tax requirement**

For a Band D Council Tax	
	£ p
2013/14 estimate	1.24
2014/15 estimate	2.59
2015/16 estimate	3.96

(c) **Capital Expenditure - Actual and Forecasts**

	£m
2011/12 actual	99.2
2012/13 probable	71.1
2013/14 estimate	87.6
2014/15 estimate	85.8
2015/16 estimate	85.0

(d) **Capital Financing Requirement (as at 31 March)**

	Borrowing £m	Other Long Term Liabilities £m	Total £m
31 March 2012 actual	399.4	6.3	405.7
31 March 2013 probable	385.9	6.0	391.9
31 March 2014 estimate	381.4	5.8	387.2
31 March 2015 estimate	373.7	5.8	379.5
31 March 2016 estimate	364.0	5.5	369.5

(e) **Gross Debt and the Capital Financing Requirement**

In order to ensure that over the medium term debt will only be for Capital purposes, the County Council should ensure that debt does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year, plus the estimate of any additional capital financing requirement for 2013/14 and the next two financial years.

The Corporate Director – Strategic Resources confirms that the County Council had no difficulty in meeting this requirement up to 2011/12 nor are any difficulties envisaged for the current or future financial years of the MTFS up to 2014/15. For subsequent years, however, the County Council may not be able to comply with this requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely.

(f) **Authorised Limit for external debt**

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing Limit £m
2012/13	442.2	6.0	448.2
2013/14	416.3	5.8	422.1
2014/15	442.3	5.8	448.1
2015/16	405.3	5.5	410.8

(g) **Operational Boundary for external debt**

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing £m
2012/13	422.2	6.0	428.2
2013/14	396.3	5.8	402.1
2014/15	422.3	5.8	428.1
2015/16	385.3	5.5	390.8

(h) **Actual External Debt**

	Borrowing £m	Other Long Term Liabilities £m	Total £m
at 31 March 2012 actual	376.8	6.3	383.1
at 31 March 2013 probable	375.5	6.0	381.5
at 31 March 2014 estimate	370.8	5.8	376.6
at 31 March 2015 estimate	362.5	5.8	368.3
at 31 March 2016 estimate	357.1	5.5	362.6

(i) **Limit of Money Market Loans** (Local Indicator)

Borrowing from the money market for capital purposes is to be limited to 30% of the County Council's total external debt outstanding at any one point in time.

(j) **Adoption of CIPFA Code of Practice for Treasury Management in the Public Services**

The County Council agreed to adopt the latest updated Code issued in November 2011 on 15 February 2012.

(k) **Interest Rate exposures**

Borrowing	**%age of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100
Combined net borrowing/investment position	
Limits on fixed interest rate exposures	130 to 180
Limits on variable interest rate exposures	- 30 to - 80

(l) **Maturity Structure of borrowing**

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

	Lower Limit %	Upper Limit %
under 12 months	0	50
12 months and within 24 months	0	15
24 months and within 5 years	0	45
5 years and within 10 years	0	75
10 years and within 25 years	10	100
25 years and within 50 years	10	100

(m) **Total principal sums invested for periods longer than 364 days**

Based on estimated levels of funds and balances over the next three years, the need for liquidity and day-to-day cash flow requirements, it is forecast that a maximum of £12m of 'core cash funds' available for investment can be held in aggregate in Non-Specified Investments over 364 days.

4.0 CURRENT TREASURY POSITION

4.1 The County Council's treasury portfolio position at 31 March 2012 consisted of:

Item	Principal £m	Average Rate at 31 March 2012 %
Debt Outstanding		
Fixed Rate funding		
PWLB	356.8	4.55
Variable Rate funding		
Market LOBO's	20.0	3.95
Total Debt Outstanding	376.8	4.52
Investments		
Managed in house	169.5	1.22
Net Borrowing	**207.3**	

5.0 BORROWING REQUIREMENT AND BORROWING LIMITS

5.1 The County Council's annual borrowing requirement consists of the capital financing requirement generated by capital expenditure in the year plus replacement borrowing for debt repaid less a prudent Minimum Revenue Provision charged to revenue for debt payment. These borrowing requirements are set out below.

Year	Basis	£m	Comment
2011/12	actual	0	No actual external borrowing was undertaken in 2011/12. The total requirement was £12.4m which was all financed internally from cash balances.
2012/13	requirement	25.4	Includes £12.4m capital borrowing requirement rolled over from 2011/12
2013/14	estimate	0.8	See **paragraphs 5.8 and 5.9**. The much higher figure for 2014/15 is a result of 'refinancing' significant PWLB and money market (LOBO) loan repayments in that year
2014/15	estimate	31.5	
2015/16	estimate	2.8	

5.2 The Prudential Indicators set out in **paragraph 3.4** above include an Authorised Limit and Operational Boundary for external debt for each of the three years to 2015/16. These figures are referenced at **paragraphs 3.4(f) and 3.4(g)** respectively of this Strategy.

5.3 The **Operational Boundary** reflects an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year. The **Authorised Limit** is based on the same estimate as the **Operational Boundary** but allows sufficient headroom (£20m) over this figure to allow for unusual cash movements.

5.4 The **Authorised Limit** therefore represents the maximum amount of external debt which the County Council approves can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the County Council will have to borrow up to the Limit agreed.

5.5 The agreed **Operational Boundary** and **Authorised Limits** for external debt up to 2015/16 are derived as follows:

Item	2012/13 probable £m	2013/14 estimate £m	2014/15 estimate £m	2015/16 estimate £m
Debt outstanding at start of year				
PWLB	356.8	375.5	370.8	362.5
Other Institutions	20.0			
Sub-total	376.8	375.5	370.8	362.5
+ **External borrowing requirements**				
Capital borrowing requirement	2.0	10.7	7.5	5.0
Replacement borrowing	26.7	5.4	39.8	8.2
MRP charged to Revenue etc	-15.8	-15.4	-15.3	-14.8
Borrowing rolled over from 2011/12	12.4	0	0	0
Internally funded variations	0.1	0.1	-0.5	4.4
Sub-total	25.4	0.8	31.5	2.8
- **External debt repayment**	-26.7	-5.5	-39.8	-8.2
= **Forecast debt outstanding at end of year**	**375.5**	**370.8**	**362.5**	**357.1**
+ **Other 'IFRS' long term liabilities which are regarded as debt outstanding for PIs**				
PFI	4.9	4.7	4.7	4.4
Leases	1.1	1.1	1.1	1.1
= **Total debt outstanding including 'other long term liabilities' (PI8)**	**381.5**	**376.6**	**368.3**	**362.6**
+ **Provision for**				
Debt rescheduling	15.0	15.0	15.0	15.0
Potential capital receipts slippage	5.0	5.0	5.0	5.0
New borrowing taking place before principal repayments made	26.7	5.5	39.8	8.2
= **Operational Boundary for year (PI8)**	**428.2**	**402.1**	**428.1**	**390.8**
+ **Provision to cover unusual cash movements**	20.0	20.0	20.0	20.0
= **Authorised Limit for year (PI6)**	**448.2**	**422.1**	**448.1**	**410.8**

5.6 **Therefore the 2013/14 Limits are as follows:**

	£m
Operational Boundary for external debt	402.1
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2013/14	422.1

5.7 All the debt outstanding estimates referred to in **paragraph 5.5** and the Prudential Indicators relating to external debt referred to in **paragraph 3.4** are based on annual capital borrowing requirements being taken externally and therefore increasing debt outstanding levels. As explained in **paragraphs 6.9 and 8.4 to 8.12**, consideration will be given however to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (ie running down investments). This likely outcome has the potential for achieving short term revenue savings and also has the benefit of reducing investment exposure to credit risk.

5.8 The annual borrowing requirements reported in the tables in **paragraphs 5.1 and 5.5** above (£25.4m in 2012/13, £0.8m in 2013/14, £31.5m in 2014/15 and £2.8m in 2015/16) are much lower than about £50m per annum up to 2010/11. This is because the 2011/12 Local Government Finance Settlement reflected all Government Capital approvals from 2011/12 being funded from Capital Grants rather than the previous mix of grants and borrowing approvals.

5.9 This change has had significant implications on the County Council's future Treasury Management operations and consequential Prudential Indicators in terms of

- reduced annual borrowing requirement and consequential debt levels from 2011/12 by about £33m per annum, which was the approximate total of such borrowing approvals in recent years
- the potential for the annual Minimum Revenue Provision (MRP) for debt repayment in the year resulting in a net debt repayment required with potential early repayments penalties (premiums)
- reduced capital financing costs (interest + MRP) from 2011/12
- significant impact on many Prudential Indicators (see **paragraph 3.4** above).

6.0 BORROWING POLICY

6.1 The policy of the County Council for the financing of capital expenditure is set out in Treasury Management Practice Note 3 which supports the Treasury Management Policy Statement.

6.2 In practical terms the policy is to finance capital expenditure by borrowing from the Public Works Loan Board (for periods up to 50 years) or the money markets (for periods up to 70 years) whichever reflects the best possible value to the County Council. Individual loans are taken out over varying periods depending on the perceived relative value of interest rates at the time of borrowing need and the need to avoid a distorted loan repayment profile. Individual loans are not linked to the cost of specific capital assets or their useful life span. Decisions to borrow are made in consultation with the County Council's Treasury Management Advisor (Sector).

6.3 Access to PWLB loans since 1 April 2004 is based on the Prudential Indicators and approved 'borrowing requirements' of individual authorities. Loans from the PWLB used to be very competitive with other forms of borrowing as they reflected prices on the gilt market for Government securities. They became less competitive however after 20 October 2010 following the Chancellor announcing that the PWLB would increase the margin above the Government's cost of borrowing to an average of 1% with immediate effect. Borrowing costs from the PWLB thus rose by about 0.7% across all periods. From November 2012 there is a new 0.2% discount on loans from the PWLB under the prudential regime for local authorities providing improved information and transparency on their locally determined long term borrowing and associated capital spending. The County Council provided this information and has qualified for the discount for any loans taken out up to 31 October 2013. Thereafter annual access to this discounted rate will be dependent on eligible local authorities providing the necessary information each year.

6.4 In addition to the PWLB the County Council can borrow from the money market (principally banks and building societies) and the financial instrument generally used for this purpose is a LOBO (Lender Option, Borrower Option). Such loans feature an initial fixed interest period followed by a specified series of calls when the lender has the option to request an interest rate increase. The borrower then has the option of repaying the loan (at no penalty) or accepting the higher rate.

6.5 The time period for LOBO borrowing by the County Council was increased to a maximum of 70 years (from 50 years) as part of the 2008/09 Strategy. In reality borrowing for 70 years is little different to taking a 50 year loan. The risk of taking such long period loans is that the County Council could potentially be locked into paying current interest rates on a loan for up to 70 years which would be disadvantageous if medium/long term rates subsequently fell below current rates at some point in the future. In practice, however, it is highly unlikely that such loans would ever run the full period because if at some point interest rates rise above the fixed rate agreed, the lender would request an increase and the County Council would have the option of repaying the loan.

6.6 Borrowing from the money market for capital purposes is limited to 30% of the County Council's total external debt outstanding at any one point in time (per **Prudential Indicator 9**).

6.7 The County Council will always look to borrow from the PWLB and money markets at the most advantageous rate. The Corporate Director – Finance and Central Services will monitor this situation closely throughout the year to determine whether at any stage, money market loans are more appropriate and advantageous to the County Council than PWLB loans.

6.8 At present all County Council long term borrowing is from the PWLB or via equally advantageous money market loans. However some short term money market borrowing may take place during the financial year in order to take advantage of low interest rates or to facilitate any debt restructuring exercise (see **paragraph 10** below).

6.9 Depending on the relationship between short term variable interest rates and the fixed term PWLB or LOBO rates for longer periods, some capital expenditure may be financed by short term borrowing from either the County Council's revenue cash balances or outside sources (see **paragraphs 8.4 to 8.12**).

Policy on borrowing in advance of need

6.10 The Prudential Code allows external 'borrowing for capital purposes' in advance of need within the constraints of relevant approved Prudential Indicators. Thus taking estimated capital borrowing requirements up to 31 March 2016 any time after 1 April 2013 is allowable under the Prudential Code. There are risks, however, in such borrowing in advance of need and the County Council has not taken any such borrowing to date and there are no current plans to do so. Furthermore the County Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

6.11 Any decision to borrow in advance of need will only be considered where there is

- a clear business case for doing so for the current Capital Plan
- to finance future debt maturity repayments
- value for money can be demonstrated
- the County Council can ensure the security of such funds which are subsequently invested.

6.12 Thus in any future consideration of whether borrowing will be undertaken in advance of need the County Council will:

- ensure that there is a clear link between the Capital Plan and maturity of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- consider the impact of borrowing in advance (until required to finance capital expenditure) on temporarily increasing investment cash balances and the consequent increase in exposure to counter party risk and other risks, and the level of such risks given the controls in place to minimise them.

7.0 PROSPECTS FOR INTEREST RATES

7.1 Whilst recognising the continuing volatility and turbulence in the financial markets, the following paragraphs present a pragmatic assessment of key economic factors as they are likely to impact on interest rates over the next three years.

7.2 In terms of the key economic background and forecasts, looking ahead the current position is as follows:

(a) **Global Economy**

- the Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which failed to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 1 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 0.9% in quarter 2 is unlikely to prove anything more than a washing out of the dip in the previous quarter before a probable return to negative growth in quarter 3; this would leave overall growth in 2012 close to zero and could then lead into negative growth in quarter 4, which would then mean that the UK was in its first triple dip recession since records began in 1955
- the **Eurozone sovereign debt crisis** abated following the ECB's commitment to a programme of Outright Monetary Transactions i.e. a pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request, (for a national bailout), and so surrendering its national sovereignty to IMF supervision. However, the crisis in Greece has subsided, for the time being, as a result of the Eurozone agreement to provide a further €50bn financial support package in December. Many commentators, though, still view a Greek exit from the Euro as being likely in the longer term as successive rounds of austerity packages could make it more difficult to bring down the annual deficit and total debt as ratios of GDP due to the effect they have on shrinking the economy and reducing employment and tax revenues. However, another possible way out would be a major write down of total Greek debt; this has now been raised by the German Chancellor as a possible course of action, but not until 2014-15, and provided the Greek annual budget is in balance
- sentiment in financial markets has improved considerably since this ECB action and additional financial support for Greece to ensure that the Eurozone remained intact during 2012. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and do not address the huge obstacle of unemployment rates of over 25% in Greece and Spain. It is also possible that the situations in Portugal and Cyprus could deteriorate further in 2013 and, although they are minor economies, such developments could unnerve financial markets. There are also general elections coming up in Italy and Germany which could potentially produce some upsets on the political scene. It is, therefore, quite possible that sentiment in financial markets could turn during 2013 after the initial burst of optimism at the start of the year. While equity prices have enjoyed a strong start to 2013, the foundations for this stock market recovery are shallow given the economic fundamentals in western economies. In addition, QE has to come to an end at some point in time and there is a distinct increase in doubt in the central banks of the US and UK as to the effectiveness of any further QE in stimulating economic growth. An end to central purchases of bonds may lead to a fall in bond prices.

- **the US economy** has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. The fiscal cliff, and raising the total debt ceiling, still await final resolution by the end of February. The housing market, though, does look as if it has, at long last, reached the bottom and house prices are now on the up.
- hopes for a broad based recovery have, therefore, focused on the **emerging markets**. Recent news from China appears to indicate that the economy has returned to a healthier rate of growth. However, there are still concerns around the unbalanced nature of the economy which is heavily dependent on new investment expenditure. The potential for the bubble in the property sector to burst, as it did in Japan in the 1990s, could have a material impact on the economy as a whole.

(b) **The UK Economy**

- the Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended, in the autumn statement, over a longer period than the original four years. Achieving this new extended timeframe will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period
- currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. However, the subsiding of market concerns over the Eurozone has unwound some of the attractiveness of gilts as a safe haven and led to a significant rise in gilt yields. There is little evidence that UK consumer confidence levels are recovering, nor that the manufacturing sector is picking up. The dominant services sector disappointed in December with the PMI survey indicating the first fall in activity in two years. On the positive side, banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact in respect of materially increasing overall borrowing in the economy. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period
- **economic growth.** Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) increased by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE in early 2013 to try to stimulate economic

activity. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) was also effectively a further addition of QE

- **unemployment.** The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years

  inflation and bank rate. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% by the end of 2012, though it is expected to fall back to reach the 2% target level within the two year horizon

- **AAA rating.** The UK continues to enjoy an AAA sovereign rating. However, the three main credit rating agencies have stated that they will be reviewing this rating in early 2013; they will, thereafter, also be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

(c) **A Forward View**

- economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

  ➔ the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself. The same considerations could also apply to Spain

  ➔ inter government agreement on how to deal with the overall Eurozone debt crisis could fragment

  ➔ the impact of the Eurozone crisis on financial markets and the banking sector

  ➔ the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods

  ➔ the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved

  ➔ the risk of the UK's main trading partners, in particular the EU and US, falling into recession

- ➔ stimulus packages failing to stimulate growth
- ➔ elections due in Italy and Germany in 2013
- ➔ potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China
- ➔ the potential for action to curtail the Iranian nuclear programme
- ➔ the situation in Syria deteriorating and impacting other countries in the Middle East

- the focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies
- given the weak outlook for economic growth, the prospects for any changes in Bank Rate before 2015 are seen as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints
- the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- ➔ UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields
- ➔ reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held
- ➔ reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone
- ➔ investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth
- ➔ the possibility of a UK credit rating downgrade.

7.3 The County Council has appointed Sector Treasury Services as its treasury management advisor and part of their service is to assist in formulating a view on interest rates. By drawing together a number of current city forecasts for short term (Bank rate) and longer fixed interest rates a consensus view for bank rate, PWLB borrowing rates and short term investment rates is as follows:-

	Bank Rate	PWLB Borrowing Rates (including 0.2% discount (para 6.3))				Short Term Investment Rates	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	%
Now	0.50	1.84	2.96	4.02	4.15	0.44	0.60
Mar 2013	0.50	1.50	2.50	3.80	4.00	0.50	1.00
June 2013	0.50	1.50	2.50	3.80	4.00	0.50	1.00
Sept 2013	0.50	1.60	2.60	3.80	4.00	0.50	1.00
Dec 2013	0.50	1.60	2.60	3.80	4.00	0.50	1.00
Mar 2014	0.50	1.70	2.70	3.90	4.10	0.50	1.10
June 2014	0.50	1.70	2.70	3.90	4.10	0.60	1.10
Sept 2014	0.50	1.80	2.80	4.00	4.20	0.60	1.20
Dec 2014	0.50	2.00	3.00	4.10	4.30	0.70	1.30
Mar 2015	0.75	2.20	3.20	4.30	4.50	0.80	1.30
June 2015	1.00	2.30	3.30	4.40	4.60	1.10	1.50
Sept 2015	1.25	2.50	3.50	4.60	4.80	1.40	1.80
Dec 2015	1.50	2.70	3.70	4.80	5.00	1.70	2.10
Mar 2016	1.75	2.90	3.90	5.00	5.20	1.90	2.40

7.4 Thus based on **paragraphs 7.2 and 7.3** above

Bank Rate

- the outlook for economic growth in the UK is weak
- bank rate, currently at 0.5%, underpins investment returns and is not expected to start increasing until around March 2015 despite inflation currently being well above the MPC's target
- it is then expected to continue to rise along with economic recovery reaching 1.75% by March 2016
- there is potential for the start of bank rate increases to be delayed even further if economic growth disappoints.

PWLB Rates

- fixed interest borrowing rates are based on UK gilt yields. The longer term trend suggests that gilt yields and PWLB rates will rise due to the higher volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries
- the interest rate forecasts in this report represents a balance of downside and upside risks
- PWLB borrowing rates are forecast to rise gradually throughout the next three years in all the periods as follows:

Period	March 2013	March 2016	Increase
	%	%	%
5 years	1.50	2.90	+ 1.40
10 years	2.50	3.90	+ 1.40
25 years	3.80	5.00	+ 1.20
50 years	4.00	5.20	+ 1.20

Short Term Investment Rates

- short term investment returns are likely to remain relatively low during 2013/14 and beyond
- returns are expected to increase along with bank rate increases but potentially ahead of the first bank rate increase expected around March 2015.

8.0 BORROWING STRATEGY 2013/14

8.1 Based on the interest rate forecast outlined in **Section 7** above, there is a range of potential options available for the Borrowing Strategy for 2013/14. Consideration will therefore be given to the following:

(a) the County Council is currently maintaining an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is currently prudent as investment returns are low and counterparty risk is relatively high.

(b) thus based on the analysis presented in **paragraph 7.3**, the cheapest borrowing will be internal borrowing achieved by running down cash balances and foregoing interest earned at historically low rates (see **paragraphs 8.4 to 8.12**). However in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years.

(c) variable rate borrowing for PWLB loans for up to 10 years is expected to be cheaper than long fixed term borrowing and will therefore be attractive throughout the year compared to simply taking long fixed term rate borrowing.

(d) long term fixed market loans at rates significantly below (0.25% to 0.5%) PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio. The current market availability of such loans is, however, very limited.

(e) PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which would spread debt maturities away from a concentration in longer dated debt. The downside of such shorter term borrowing is the loss of long term stability in interest payments that longer term fixed interest rate borrowing provides.

(f) consideration will be given to PWLB borrowing by annuity and Equal Instalments of Principal (EIP) in addition to maturity loans, which have been preferred in recent years.

(g) rates are expected to start increasing towards the end of the financial year so it would therefore be advantageous to time any new borrowing earlier in the year.

(h) borrowing continues to be attractive and may remain relatively low for some time, thus the timing of any borrowing will need to be monitored carefully. There will also remain a 'cost of borrowing' with any borrowing undertaken that results in an increase in investments incurring a revenue loss between borrowing costs and investment returns.

8.2 Based on the PWLB rates set out in **paragraphs 7.3 and 7.4**, suitable trigger rates for considering new fixed rate PWLB or equivalent money market borrowing will be:

		%
–	5 year period	1.5
–	10 year period	2.5
–	25 year period	3.8
–	50 year period	4.0

The aim however would be to secure loans at rates below these levels if available.

8.3 The forecast rates and trigger points for new borrowing will be continually reviewed in the light of movements in the slope of the yield curve, the spread between PWLB new borrowing and early repayment rates, and any other changes that the PWLB may introduce to their lending policy and operations.

External -v- internal borrowing

8.4 The County Council's net borrowing figures (external borrowing net of investments) are significantly below the authority's capital borrowing need (Capital Financing Requirement – CFR) because of two main reasons

(a) a significant level of investments (cash balances – core cash plus cash flow generated) (**paragraph 8.7**)

(b) internally funded capital expenditure (**paragraph 8.5**).

The relative figures are shown in **paragraphs 3.4 (d) and 3.4 (e)** of this report and covered in more detail in Prudential Indicators 4 and 5 in the separate Prudential Indicators report.

8.5 Such internal borrowing stood at £23.4m at 31 March 2012, principally as a result of funding company loans (see **paragraph 12.6**) from internal, rather than external borrowing, and not taking up any new debt for the 2011/12 borrowing requirement. The level of this internal capital borrowing depends on a range of factors including:

(a) premature repayment of external debt

(b) the timing of any debt rescheduling exercises

(c) the timing of taking out annual borrowing requirements

(d) policy considerations on the relative impact of financing capital expenditure from cash balances compared with taking new external debt with the balance of external and internal borrowing being generally driven by market conditions.

8.6 The County Council continues to examine the potential for undertaking further early repayment of some external debt in order to reduce the difference between the gross and net debt position. However the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007 compounded by a considerable further widening of the difference between new borrowing and repayment rates in October 2010, has meant that large premiums would be incurred by such actions which could not be justified on value for money grounds. This situation will be monitored closely in case the differential is narrowed by the PWLB at some future dates.

8.7 This internal capital borrowing option is possible because of the County Council's cash balance with the daily average being £203.7m in 2011/12. This consisted of cash flow generated (creditors etc), core cash (reserves, balances and provisions etc) and cash managed on behalf of other organisations. Consideration does therefore need to be given to the potential merits of internal borrowing.

8.8 As 2013/14 is expected to continue as a year of historically low bank interest rates, this extends the current opportunity for the County Council to continue with the internal borrowing strategy.

8.9 Over the next three years investment rates are expected to be below long term borrowing rates. A value for money consideration would therefore indicate that value could be obtained by continuing avoiding/delaying some or all new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings but is not risk free.

8.10 The use of such internal borrowing, which runs down investments, also has the benefit of reducing exposure to low interest rates on investments, and the credit risk of counterparties.

8.11 In considering this option however, two significant risks to take into account are

(a) the implications of day to day cash flow constraints, and

(b) short term savings by avoiding/delaying new long external borrowing in 2013/14 must be weighed against the loss of longer term interest rate stability. Thus there is the potential for incurring long term extra costs by delaying unavoidable new external borrowing until later years by which time PWLB long term rates are forecast to be significantly higher.

8.12 **The general strategy for this "Internal Capital Financing" option will therefore be to continue to actively consider and pursue this approach on an ongoing basis in order to reduce the difference between the gross and net debts levels (paragraph 8.4) together with achieving short term savings and mitigating the credit risk incurred by holding investments in the market**.

Overall Approach to Borrowing in 2013/14

8.13 Given the market conditions, economic background and interest rate forecasts set out in **paragraphs 7.1 to 7.4** above, caution will be paramount within the County Council's 2013/14 Treasury Management operations. The Corporate Director – Strategic Resources will monitor the interest rates closely and adopt a pragmatic approach to changing circumstances – any key strategic decision that deviates from the Borrowing Strategy outlined above will be reported to the Executive at the next available opportunity.

Sensitivity of the Strategy

8.14 The main sensitivities of the Strategy are likely to be the two scenarios below. The Corporate Director – Strategic Resources will, in conjunction with the County Council's Treasury Management Advisor, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:

(a) *if it is felt that there was a significant risk of a sharp fall in both long and short term rates,* (eg due to a marked increase of risks around the relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

(b) *if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast* (perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks), then the portfolio position will be re-appraised with the likely action that fixed rate funding will be taken whilst interest rates are still relatively cheap.

8.15 As mentioned, however, in **paragraphs 8.4 to 8.12**, the likely outcome will be to delay external borrowing in 2013/14 and fund the year's borrowing requirement from internal sources (ie running down the investment of surplus cash balances). This has the potential for achieving short term revenue savings in 2013/14 and also has the benefit of reducing investment exposure to credit risk.

9.0 CAPPING OF CAPITAL FINANCING COSTS

9.1 During the preparation of the Revenue Budget/Medium Term Financial Strategy 2008/09 concerns were expressed about the possible ongoing impact on the annual Net Revenue Budget of capital expenditure generated either by government borrowing approvals or approved locally under the Prudential Borrowing regime.

9.2 As a result Members approved a local policy to cap capital financing charges as a proportion of the annual Net Revenue Budget. This cap was set at 11% which accommodated existing Capital Plan requirements and will act as a regulator if Members are considering expanding the Capital Plan using Prudential Borrowing. Members do of course have the ability to review the cap at any time but this would have to be done in the light of its explicit impact on the Revenue Budget/Medium Term Financial Strategy.

9.3 The relationship between levels of capital expenditure and the consequential capital financing costs that they generate is demonstrated in the following table.

Year	Forecast Annual Net Budget (ANB) £m	Budgeted Capital Financing Costs £m	Costs as a %age of ANB %	1% of ANB £m	Potential Capital Spend from 1% on ANB £m
	(a)	(b)	(c)	(d)	(e)
2012/13	363.4	31.9	8.8	3.6	42.0
2013/14	374.5	31.0	8.3	3.7	
2014/15	366.7	30.9	8.4	3.6	
2015/16	364.0	30.8	8.5	3.6	
			(b÷a)	(a/100)	

9.4 The above table reflects the following

- the impact of the Local Government Finance Settlement for 2013/14 and 2014/15 in terms of:

  (a) a changed ‘forecast annual net budget’ since 2011/12 reflecting former specific grants being rolled into general formula grant which has the effect of increasing the ‘net budget requirement’ and continuing grant cuts which result in a reduced ‘net revenue budget’.

  (b) significantly reduced borrowing requirements and consequential reduced capital financing costs resulting from all Government capital approvals from 2011/12 being funded from grants rather than the previous mix of grant and supported borrowing approvals.

- budgeted capital financing costs include interest on external debt plus lost interest earned on internally financed capital expenditure, together with a prudent Minimum Revenue Provision for debt repayment

9.5 In addition to showing explicitly the direct link between the level of capital spend and impact on the Revenue Budget to date, the table also includes an estimate of the impact that planned levels of future capital expenditure (based on the current Capital Plan) will have on the proportion of the Annual Revenue Budget that will be required to meet the consequential capital financing costs (see **column (c)**).

9.6 The table also shows, at **column (e)**, how much additional capital spend a 1% increase in the annual Budget **(column (d)**) will support.

9.7 On the basis of the above table, the 11% cap set in 2008/09 is being retained for the 2013/14 Revenue Budget and MTFS.

10.0 REVIEW OF LONG TERM DEBT AND DEBT RESCHEDULING

10.1 The long term debt of the County Council is under continuous review.

10.2 Discussions with the County Council's Treasury Management Advisor about the long term financing strategy are ongoing and any debt rescheduling opportunity will be fully explored.

10.3 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded in October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration has to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing. An issue in relation to such PWLB/LOBO rescheduling however is that only a proportion of the County Council's debt portfolio should consist of money market loans (30% of total debt outstanding – see **paragraph 6.6**) which limits the extent of such rescheduling. Also unlike PWLB loans which can be rescheduled at regular intervals, once a LOBO loan has been taken, future rescheduling opportunities are more limited.

10.4 As short term borrowing rates are expected to be considerably cheaper than longer term rates throughout 2013/14, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of the cost of debt repayment (premiums incurred), their short term nature and the likely costs of refinancing those short term loans once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt will contribute towards a flattening of the debt maturity profile as in recent years there has been a skew towards longer dated PWLB and Money Market LOBO loans.

10.5 Consideration will also be given to indentify if there is any residual potential left for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in light of the debt repayment premiums.

10.6 The reasons for undertaking any rescheduling will include:

(a) the generation of cash savings at minimum risk

(b) in order to help fulfil the Borrowing Strategy outlined in **Section 8** above, and

(c) in order to enhance the balance of the long term portfolio (ie amend the maturity profile and/or the balance of volatility)

10.7 Members will appreciate that with long term debt forecast to be £375m at the end of 2013/14 (see **paragraph 5.5**) and with an annual interest cost (net) to the Revenue Budget of about £15.4m the savings or additional costs, attached to even a small interest rate variation can be significant. To put this into context for every 0.1% that the interest rate can be reduced it saves £0.35m on interest charges in the Revenue Budget. Any proposals to restructure debt or change the policy laid out earlier in this Strategy, therefore demand careful attention. Any debt rescheduling will, however, be in accordance with the Borrowing Strategy position outlined in **Section 8** above.

10.8 No new debt rescheduling activities have been undertaken by the County Council in 2012/13 to date with none being expected during the remainder of the financial year.

10.9 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, respectively, premiums and discounts. These occur where the rate of the loan repaid varies from comparative current rates. Where the interest rate of the loan to be repaid is higher than the 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.

11.0 MINIMUM REVENUE PROVISION (MRP) POLICY 2012/13

11.1 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment was replaced in February 2008 with more flexible statutory guidance which came into effect from 2008/09.

11.2 The new, and simpler, statutory duty (Statutory Instrument 2008) is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Capital Financing Requirement (CFR); the CFR consists of external debt plus capital expenditure financed by borrowing from internal sources (surplus cash balances).

11.3 To support the statutory duty the Government also issued fresh guidance in February 2008 which requires that a Statement on the County Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. The County Council are therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DCLG guidance on Investments.

11.4 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the County Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the asset created by the capital expenditure is estimated to provide benefits (ie estimated useful life of the asset being financed). The previous system of 4% MRP did not necessarily provide that link.

11.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

11.6 The move to International Financial Reporting Standards (IFRS) from 2010/11 involves Private Finance Initiative (PFI) contracts and some leases (being reclassified as finance leases instead of operating leases) coming onto Local Authority Balance Sheets as long term liabilities. This new accounting treatment impacts on the CFR mentioned in **paragraph 11.2** above with the result that an annual MRP provision is required for PFI contracts and certain leases.

To ensure that this change has no overall financial impact on local authority budgets, the Government updated their "Statutory MRP Guidance" with effect from 31 March 2010. This updated Guidance allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments to PFI Operators and the implications of these changes are reflected in the County Council's MRP policy for 2013/14 as set out in **paragraph 11.8** below.

11.7 The 'Statutory MRP Guidance' was again updated from 1 April 2012 but the amendments relate only to those authorities with responsibility for housing. MRP guidance remained the same for all other authorities.

11.8 The County Council's MRP policy is based on the Government's Statutory Guidance and following a review of this policy, no changes are considered necessary and the policy for 2013/14 is therefore as follows:-

(a) for all **capital expenditure incurred before 1 April 2008**, MRP will be based on 4% of the Capital Financing Requirement (CFR) at that date. This will include expenditure supported by Government borrowing approvals and locally agreed Prudential Borrowing up to 31 March 2008. This is in effect a continuation of the old MRP regulations for all capital expenditure up to 31 March 2008 that has been financed from borrowing

(b) for **capital expenditure incurred after 1 April 2008 which is supported by Government Borrowing approvals**, MRP to be based on 4% of such sums as reflected in subsequent CFR updates. This reflects the fact that the Revenue Support Grant formula for supported borrowing approvals will still be calculated on this basis. It should be noted however that as part of the 2011/12 Local Government Finance Settlement, no supported borrowing approvals have been issued for the period after 2010/11

(c) for **locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008**, MRP will be calculated based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken. This method is a simpler alternative to depreciation accounting

In view of the variety of different types of capital expenditure incurred by the County Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure, and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 25 years for buildings, 50 years for land, and 5 to 7 years for vehicles, plant and equipment. To the extent that the expenditure does not create a physical asset (eg capital grants and loans), and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the County Council.

However in the case of long term debtors arising from loans or other types of capital expenditures incurred by the County Council which will be repaid under separate arrangements (eg loans to NYnet and Yorwaste), there will be no MRP made. The County Council is satisfied that a prudent provision will be achieved after exclusion of these capital expenditure items.

This approach also allows the County Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

(d) for **"on balance sheet" PFI schemes**, MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for **finance leases**, MRP will be equivalent to the annual rental payable under the lease agreement.

11.9 Therefore the County Council's total MRP provision from 1 April 2013, will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2013/14 will be about £15.5m (including £0.3m PFI and finance leases).

11.10 An annual review of the County Council's MRP Policy will be undertaken and reported to Members as part of this Annual Treasury Management Strategy.

12.0 **ANNUAL INVESTMENT STRATEGY**

Background

12.1 Under the Local Government Act 2003 the County Council is required to have regard to Government Guidance in respect of the investment of its cash funds. This Guidance was revised in 2009. The Guidance leaves local authorities free to make their own investment decisions, subject to the fundamental requirement of an Annual Investment Strategy being approved by the County Council before the start of the financial year.

12.2 This Annual Investment Strategy must define the investments the County Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non specified investments**.

12.3 This Annual Investment Strategy therefore sets out

- revisions to the Annual Investment Strategy (**paragraph 12.4**)
- the Investment Policy (**paragraph 12.5**)
- the policy regarding loans to companies in which the County Council has an interest (**paragraph 12.6**)
- specified and non specified investments (**paragraph 12.7**)
- Creditworthiness Policy - security of capital and the use of credit ratings (**paragraph 12.8**)
- the Investment Strategy to be followed for 2013/14 (**paragraph 12.9**)
- investment reports to members (**paragraph 12.10**)
- investment of money borrowed in advance of need (**paragraph 12.11**)
- investment (and Treasury Management) training (**paragraph 12.12**)

Revisions to the Annual Investment Strategy

12.4 In addition to this updated **Investment Strategy,** which requires approval before the start of the financial year, a revised Strategy will be submitted to County Council for consideration and approval under the following circumstances:

(a) significant changes in the risk assessment of a significant proportion of the County Council's investments

(b) any other significant development(s) that might impact on the County Council's investments and the existing strategy for managing those investments during 2013/14.

Investment Policy

12.5 The parameters of the Policy are as follows:

(a) the County Council will have regard to the Government's Guidance on Local Government Investments as revised with effect from 1 April 2010, and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

(b) the County Council's investment policy has two fundamental objectives

- the security of capital (protecting the capital sum from loss); and then
- the liquidity of its investments (keeping the money readily available for expenditure when needed)

(c) the County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments

(d) the borrowing of monies purely to invest or lend and make a return is unlawful and the County Council will not engage in such activity

(e) investment instruments for use in the financial year listed under **specified** and **non-specified investment** categories (see **paragraph 12.7**)

(f) counterparty limits will be set through the County Council's Treasury Management Practices Schedules.

Policy regarding loans to companies in which the County Council has an interest

12.6 (a) the County Council's general investment powers under this 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

(b) 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 authority to do anything which it considers likely to achieve the promotion or improvement of the economy, social or environmental well being of its area. This well being 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

(c) any such loans to limited companies by the County Council, will therefore be made under these 'well being powers'. They will not however be classed as investments made by the County Council and will not impact on this Investment Strategy. Instead they will be classed as capital expenditure by the County Council under the Local Authorities (Capital Finance and

Accounting) Regulations 2003, and will be approved, financed and accounted for accordingly

(d) at present the County Council has made loans to two companies in which it has an equity investment (ie Yorwaste and NYnet). In both cases loan limits are set, and reviewed periodically, by the Executive.

Specified and non-specified Investments

12.7 Based on Government Guidance as updated from 1 April 2010.

(a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **specified** and **non-specified** Investment categories

(b) all **specified** Investments (see **Schedule A**) are defined by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, the County Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality

(c) **Non-specified** investments (see **Schedule B**) attract a greater potential of risk. As a result, a maximum local limit of 20% of "core cash" funds available for investment has been set which can be held in aggregate in such investments

(d) for both **specified** and **non-specified** investments, the attached Schedules indicate for each type of investment :-

- the investment category
- minimum credit criteria
- circumstances of use
- why use the investment and associated risks
- maximum % age of total investments
- maximum maturity period

$\left.\begin{array}{l}\text{why use the investment and associated risks}\\ \text{maximum \% age of total investments}\\ \text{maximum maturity period}\end{array}\right\}$ (Non-Specified only)

(e) there are other instruments available as Specified and Non-Specified investments which the County Council will NOT currently use. Examples of such investments are:-

Specified Investments	- Commercial Paper - Gilt funds and other Bond Funds - Treasury Bills
Non-Specified Investments	- Sovereign Bond issues - Corporate Bonds - Floating Rate notes - Equities - Open Ended Investment Companies - Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy. Under existing scrutiny arrangements, the County Council's Audit Committee will also look at any proposals to use the instruments referred to above.

Creditworthiness Policy - Security of Capital and the Use of Credit Ratings

12.8 The financial markets have experienced a period of considerable turmoil since 2008 and as a result attention has been focused on credit standings of counterparties with whom the County Council can invest funds.

It is paramount that the County Council's money is managed in a way that balances risk with return, but with the overriding consideration being given to the security of the invested capital sum followed by the liquidity of the investment. The Approved Lending List will, therefore, reflect a prudent attitude towards organisations with whom funds may be deposited.

The rationale and purpose of distinguishing specified and non-specified investments is detailed in **paragraph 12.7** above. Part of the definition for a Specified investment is that it is an investment made with a body which has been awarded a high credit rating with maturities of no longer than 364 days

It is, therefore, necessary to define what the County Council considers to be a "high" credit rating in order to maintain the security of the invested capital sum.

The methodology and its application in practice will, therefore, be as follows:-

(a) the County Council will rely on credit ratings published by the three credit rating agencies (Fitch, Moody's and Standard & Poor's) to establish the credit quality (ability to meet financial commitments) of counterparties (to whom the County Council lends) and investment schemes. Each agency has its own credit rating components to complete their rating assessments. These are as follows:

Fitch Ratings

Long Term - generally cover maturities of over five years and acts as a measure of the capacity to service and repay debt obligations punctually. Ratings range from AAA (highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)

Short Term - cover obligations which have an original maturity not exceeding one year and place greater emphasis on the liquidity necessary to meet financial commitments. The ratings range from F1+ (the highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)

Viability	- a measure of an institution's intrinsic safety and soundness on a stand-alone basis. This rating is designed to assess an institution's exposure to risk and, as a result, represents Fitch's view on the likelihood that it would run into difficulties which would require support. These ratings are graded from aaa (very strong) to f (an institution that has either defaulted or, in Fitch's opinion, would have defaulted if it had not received external support).
Support	- a view of the likely presence of a lender of last resort, either government or parent, with the willingness and the resources to aid a failing financial institution. The rating is graded from 1 (a bank with an extremely high probability of external support) to 5 (external support cannot be relied on).

Moody's Ratings

Long Term	- an opinion of the relative credit risk of obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Ratings range from Aaa (highest quality, with minimal credit risk) to C (typically in default, with little prospect for recovery of principal or interest)
Short Term	- an opinion of the ability of issuers to honour short-term financial obligations. Ratings range from P-1 (a superior ability to repay short-term debt obligations) to P-3 (an acceptable ability to repay short-term obligations)
Financial Strength	- an opinion of a bank's intrinsic safety and soundness. This rating measures how likely an institution is to need assistance from third parties and range from A (highest level, showing intrinsic financial strength) to E (very modest strength, with a higher likelihood of periodic outside support).

Standard & Poor's Ratings

Long Term	- considers the likelihood of payment. Ratings range from AAA (best quality borrowers, reliable and stable) to D (has defaulted on obligations)
Short Term	- generally assigned to those obligations considered short-term in the relevant market. Ratings range from A-1 (capacity to meet financial commitment is strong) to D (used upon the filing of a bankruptcy petition).

In addition, all three credit rating agencies produce a Sovereign Rating which assesses a country's ability to support a financial institution should it get into difficulty. The ratings are the same as those used to measure long term credit.

(b) the County Council will review the “ratings watch” and “outlook” notices issued by all three credit rating agencies referred to above. An agency will issue a “watch”, (relating to a short term scenario), or “outlook”, (relating to a long term scenario), when it anticipates that a change to a credit rating may occur in the forthcoming 6 to 24 months. The “watch” or “outlook” could reflect either a positive (increase in credit rating), negative (decrease in credit rating) or developing (uncertain whether a rating may go up or down) outcome.

(c) no combination of ratings can be viewed as entirely fail safe and all credit ratings, watches and outlooks are monitored on a daily basis. This is achieved through the use of Sector’s creditworthiness service. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of counterparties are then supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the duration for investments. The County Council will therefore use counterparties within the following durational bands:-

Colour	**Maximum Investment Duration**
Purple	2 Years
Orange	1 Year
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 months
Green	3 months
No colour	No investments to be made

(d) the County Council will also take into account the Sovereign Rating for the country in which an organisation is domiciled. As a result, only an institution which is domiciled in a country with a minimum Sovereign Rating of AA- from Fitch or equivalent, would be considered for inclusion on the County Council’s Approved Lending List (subject to them meeting the criteria above). Organisations which are domiciled in a Country whose Sovereign Rating has fallen below the minimum criteria will be suspended, regardless of their own individual score/colour. The list of countries that currently qualify using this credit criteria are shown in **Schedule D**. This list will be amended should ratings change, in accordance with this policy.

(e) the County Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the County Council with few banks on its Approved Lending List. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue weighting to the rating of just one agency.

(f) in order to reflect current market sentiment regarding the credit worthiness of an institution the County Council will also take into account current trends within the Credit Default Swap (CDS) Market. Since they are a traded instrument they reflect the market's current perception of an institution's credit quality, unlike credit ratings, which often focus on a longer term view. These trends will be monitored through the use of Sector's creditworthiness service which compares the CDS Market position for each institution to the average for the market. Should the deviation be great, then market sentiment suggests that there is a fear that an institution's credit quality will fall. Organisations with such deviations will be monitored and their standing reduced by one colour band (**paragraph 12.8 (c)**) as a precaution. Where the deviation is great, the organisation will be awarded 'no colour' until market sentiment improves.

(g) fully and part nationalised banks within the UK currently have credit ratings which are not as high as other institutions. This is the result of the banks having to have to accept external support from the UK Government and, consequently, being awarded low Viability, Support and Financial Strength ratings. However, due to this Central Government involvement, these institutions now effectively take on the credit worthiness of the Government itself (ie deposits made with them are effectively being made to the Government). This position is expected to take a number of years to unwind and would certainly not be done so without a considerable notice period. As a result, institutions which are significantly or fully owned by the UK Government will be assessed to have a high level of credit worthiness.

(h) all of the above will be monitored on a weekly basis through Sector's creditworthiness service with additional information being received and monitored on a daily basis should credit ratings change and/or watch/outlook notices be issued. Sole reliance will not be placed on the information provided by Sector however. In addition the County Council will also use market data and information available from other sources such as the financial press and other agencies and organisations.

(i) in addition, the County Council will set maximum investment limits for each organisation which also reflect that institution's credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (ie Government ownership or being part of the UK Government guarantee of liquidity). These limits are as follows:-

Maximum Investment Limit	Criteria
£60m	UK "Nationalised" banks / UK banks with UK Central Government involvement
£30m, £40m or £50m	Selected UK "Clearing Banks" and organisations covered by the UK Government's Guarantee of Liquidity
£20m or £40m	High quality foreign banks

(j) should a score/colour awarded to a counterparty or investment scheme be amended during the year due to rating changes, market sentiment etc, the County Council will take the following action:-

- reduce or increase the maximum investment term for an organisation dependent on the revised score / colour awarded (in line with the boundaries and colours set in **paragraph 12.8(c)**)

- temporarily suspend the organisation from the Approved Lending List should their score fall outside boundary limits and not be awarded a colour

- seek to withdraw an investment as soon as possible, within the terms and conditions of the investment made, should an organisation be suspended from the Approved Lending List

- ensure all investments remain as liquid as possible, ie on instant access until sentiment improves.

(k) if a counterparty / investment scheme, not currently included on the Approved Lending List is subsequently upgraded, (resulting in a score which would fulfil the County Council's minimum criteria), the Corporate Director – Strategic Resources has the delegated authority to include it on the County Council's Approved Lending List with immediate effect,

(l) a copy of the current Approved Lending List, showing maximum investment and time limits is attached at **Schedule C**. The Approved Lending List will be monitored on an ongoing daily basis and changes made as appropriate. Given current market conditions, there continues to be a very limited number of organisations which fulfil the criteria for non specified investments. This situation will be monitored on an ongoing basis with additional organisations added as appropriate with the approval of the Corporate Director – Strategic Resources.

The Investment Strategy to be followed for 2013/14

12.9 Recognising the categories of investment available and the rating criteria detailed above

(a) the County Council currently manages all its cash balances internally

(b) ongoing discussions are held with the County Council's Treasury Management Advisor on whether to consider the appointment of a external fund manager(s) or continue investing in-house – any decision to appoint an external fund manager will be subject to Member approval

(c) the County Council’s cash balances consist of two basic elements. The first element is **cash flow derived** (debtors/creditors/timing of income compared to expenditure profile). The second, **core element**, relates to specific funds (reserves, provisions, balances, capital receipts, funds held on behalf of other organisations etc)

(d) having given due consideration to the County Council’s estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £12m of the overall balances can be prudently committed to longer term investments (eg between 1 and 3 years)

(e) investments will accordingly be made with reference to this core element and the County Council’s ongoing cash flow requirements (which may change over time) and the outlook for short term interest rates (ie rates for investments up to 12 months)

(f) the County Council currently has no non-specified investments over 364 days

(g) bank rate has been unchanged at 0.5% since March 2009 and underpins investment returns. It is not expected to start increasing until about March 2015 despite inflation currently being above the Monetary Policy Committee inflation target.

The County Council will, therefore, avoid locking into long term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a ‘low risk’ parameter. Thus no trigger rates will be set for longer term deposits (two or three years) but this position will be kept under constant review and discussed with the Treasury Management Advisor on a regular basis.

Based on current bank rate forecasts, as outlined above, an overall investment return of about 1.25% is likely in 2013/14 which includes the impact of previously locking into some investments during 2012/13 at rates above 2.0%.

(h) for its cash flow generated balances the County Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15 and 30 day accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Reports to Members

12.10 Reporting to Members on investment matters will be as follows:

(a) in-year investment reports will be submitted to the Executive as part of the Quarterly Performance and Budget Monitoring reports

(b) at the end of the financial year a comprehensive report on the County Council's investment activity will be submitted to the Executive as part of the Annual Treasury Management Outturn report

(c) the regular meetings between the Corporate Director – Strategic Resources, the Corporate Affairs Portfolio Holder, the Deputy Leader and the Chairman of the Audit Committee provide an opportunity to consider and discuss issues arising from the day to day management of Treasury Management activities.

(see **Section 14** for full details).

Investment of Money Borrowed in Advance of Need

12.11 The Borrowing Policy covers the County Council's policy on Borrowing in Advance of Spending Needs (**paragraph 6.10**).

Although the County Council has not borrowed in advance of need to date and has no current plans to do so in the immediate future, any such future borrowing would impact on investment levels for the period between borrowing and capital spending.

Any such investments would, therefore, be made within the constraints of the County Council's current Annual Investment Strategy, together with a maximum investment period related to when expenditure was expected to be incurred.

Treasury Management Training

12.12 The training needs of the County Council's staff involved in investment management (within the Corporate Accountancy Service Unit of Central Services) are monitored, reviewed and addressed on an ongoing basis. In practice most training needs are addressed through attendance at courses and seminars provided by CIPFA, the LGA and others on a regular ongoing basis.

The CIPFA Code also requires that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (ie the Audit Committee). An in-house training course for Members has previously been provided by Sector and further training will be arranged as required. The training arrangements for officers mentioned in the paragraph above will also be available to Members.

13.0 OTHER TREASURY MANAGEMENT ISSUES

Policy on the use of External Treasury Management Service Providers

13.1 The County Council uses Sector Treasury Services as its external treasury management adviser. Sector provide a source of contemporary information, advice and assistance over a wide range of Treasury Management areas but particularly in relation to investments and debt administration.

13.2 Whilst the County Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, it fully accepts that responsibility for Treasury Management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon advice of the external service provider.

13.3 Sector were re-appointed in July 2009 for three years, following a full tender exercise with the terms of appointment being documented. Following a review of their advice to date, and under the terms of the contract, this appointment has recently been extended for a further two years to July 2014. The value and quality of the services they provide are monitored and reviewed on an ongoing basis.

The scheme of delegation and role of the section 151 officer in relation to Treasury Management

13.4 The Government's Investment Guidance (**paragraph 12.1**) requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer in the Annual Treasury Management/Investment Strategy.

13.5 The key elements of delegation in relation to Treasury Management are set out in the following Financial Procedure Rules (FPR):-

(a) **15.1** The Council adopts CIPFA's "Treasury Management in the Public Services Code of Practice 2011" (as amended) as described in Section 5 of the Code, and will have regard to the associated guidance notes.

(b) **15.2** The County Council will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic Treasury Management Policy Statement (TMPS) stating the County Council's policies, objectives and approach to risk management of its treasury management activities

(ii) a framework of suitable Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs.

(c) **15.3** The Executive and the full Council will receive reports on its Treasury Management policies, practices and activities including, as a minimum an

Annual Treasury Management and Investment Strategy and associated report on Prudential Indicators in advance of the financial year

(d) **15.4** The County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive, and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources (CD-SR), who will act in accordance with the Council's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management.

(e) **15.5** The Executive will receive from the CD-SR a quarterly report on Treasury Management as part of the Quarterly Performance Monitoring report and an annual report on both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year.

(f) **15.6** The CD-SR will meet periodically with the portfolio holder for financial services, including assets, IT and procurement and such other Member of the Executive as the Executive shall decide to consider issues arising from the day to day Treasury Management activities.

(g) **15.7** The Audit Committee shall be responsible for ensuring effective scrutiny of the Treasury Management process.

(h) **15.8** The CD-SR shall periodically review the Treasury Management Policy Statement and associated documentation and report to the Executive on any necessary changes, and the Executive shall make recommendations accordingly to the County Council.

(i) **15.9** All money in the possession of the Council shall be under the control of the officer designated for the purposes of Section 151 of the Local Government Act 1972 (ie the Corporate Director - Strategic Resources).

13.6 The Treasury Management reporting arrangements in relation to the above are covered in more detail in **section 14**.

13.7 In terms of the Treasury Management role of the Section 151 officer (the Corporate Director – Strategic Resources), the key areas of delegated responsibility are as follows

- recommending clauses, treasury management policies and practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports to Members
- submitting budgets and budget variations to Members
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function

- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function

- ensuring the adequacy of internal audit, and liaising with external audit

- recommending the appointment of external service providers

Operational Leasing

13.8 Up to 2004/05 the County Council used operational leasing to acquire plant and vehicles. The main reason was that such financing did not impact on the level of capital resources (capital receipts and Government borrowing approvals) otherwise available to the County Council. However because this rationale no longer applies under the Prudential Code there is now the option of undertaking additional unsupported borrowing to finance such items.

13.9 The option to finance by operational leasing is, of course, still available and therefore the use of leasing for periods greater than one year is approved within the schedule of Treasury Management Practices which support the County Council's Treasury Management Policy Statement. Furthermore the Financial Procedure Rules of the County Council require that the Corporate Director – Strategic Resources shall undertake the negotiation of all leasing arrangements.

13.10 A detailed option appraisal on whether to operationally lease, finance lease or fund from borrowing is undertaken each year as it may be the case that the best value option will change over time (eg as market conditions fluctuate). Between 2004/05 and 2009/10 this option appraisal resulted in all such plant and vehicle purchases being financed from Prudential borrowing with consequential financing costs being recharged to Directorates in lieu of lease rentals. For 2010/11 and 2011/12, however, acquisitions totalling £1.7m and £0.6m respectively were funded by operational leasing, following a full option appraisal. For 2012/13 the forecast outturn position is £1.3m with £0.6m financed from operational leasing and £0.7m from Prudential Borrowing.

13.11 The capital value of plant, equipment and vehicles to be purchased in 2013/14 is estimated to be approximately £0.5m (£1.3m in 2012/13) and a further option appraisal will be carried out during the year to determine whether financing should be through leasing or Prudential borrowing.

Other Issues

13.12 The County Council continues to monitor potential PFI opportunities and assess other innovative methods of funding.

13.13 The County Council has awarded a Waste Management Contract under the Private Finance Initiative (PFI) to AmeyCespa for the service operation of 25 years with an option to extend for up to 5 years. The contract has yet to settle the final financial terms pending the outcome of the planning application now under consideration, as explained in paragraph 9 of the report to the Executive on 30 November 2010. The project is intended to be debt funded by AmeyCespa, however various funding options may be considered should debt funding ultimately prove not to provide value for money at the point of financial close; the financing costs of the debt will be recovered by the contractor through the unitary charge to the County Council. It is expected that the project will achieve financial close during 2013/14. The Corporate Director – Strategic Resources will monitor the position as it progresses through the year and report as and when necessary to the Executive.

14.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

14.1 Taking into account the matters referred to in this Strategy, the monitoring and reporting arrangements in place relating to Treasury Management activities are now as follows:

(a) an annual report to Executive and County Council as part of the Budget process that sets out the County Council's **Treasury Management Strategy and Policy** for the forthcoming financial year.

(b) an annual report to Executive and County Council as part of the Budget process that sets the various **Prudential Indicators**, together with a mid year update of these indicators as part of the Q1 Performance Monitoring report submitted to the Executive (see **(d)** below).

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year.

(d) a quarterly report on Treasury Matters to Executive as part of the **Quarterly Performance and Budget Monitoring** report.

(e) **regular meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs Portfolio Holder, the Deputy Leader and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities.

(f) copies of the reports mentioned in (a) to (d) above are provided to the **Audit Committee** who are also consulted on any proposed changes to the County Council's Treasury Management activities.

15.0 SUMMARY OF KEY ELEMENTS OF THIS STRATEGY

15.1 For the financial year 2013/14 the County Council approves the following:-

(a) an Authorised Limit for external debt of **£422.1m** in 2013/14

(b) an Operational Boundary for external debt of **£402.1m** in 2013/14

(c) a borrowing limit on fixed interest exposures of between 60% to 100% of outstanding principal sums and a limit on variable interest rate exposures of between 0 to 40% of outstanding principal sums

(d) borrowing from the money market for capital purposes is to be limited to 30% of external debt outstanding at any one point in time

(e) an investment limit on fixed interest exposures of 0 to 30% of outstanding principal sums and a limit on variable interest rate exposure of between 70% to 100% of outstanding principal sums

(f) a limit of £12m of the total 'core' cash sums available for investment (both in house and externally managed) to be invested in Non-Specified investments over 364 days

(g) a 11% cap on capital financing costs as a proportion of the annual Net Revenue Budget

(h) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to Revenue in 2013/14 as set out in **Section 11**

(i) the Corporate Director – Strategic Resources to report to the County Council if and when necessary during the year on any changes to this Strategy arising from the use of operational leasing, PFI or other innovative methods of funding

GARY FIELDING
Corporate Director – Strategic Resources
29 January 2013

SCHEDULE A

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2013/14 - SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (banks & building societies), including callable deposits with maturities less than 1 year	Organisations assessed as having "high credit quality" plus a minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house
Certificates of Deposits issued by credit rated deposit takes (banks & building societies) up to 1 year		Fund Manager or In-house buy & hold after consultation from Treasury Management Advisor
Forward deals with credit rated banks & building societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house via a broker or direct
Money Market Funds i.e. collective investment scheme as defined in SI 2004 No 534 *These funds have no maturity date*	Fund must be AAA rated	In-house limited to £20m but as yet not used
Gilts (with maturities of up to 1 year) *Custodial arrangements prior to purchase*	Government backed	Fund Manager or In-house buy & hold after consultation from Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months *Custodial arrangements required prior to purchase*		After consultation with Treasury Management Advisor

NORTH YORKSHIRE COUNTY COUNCIL
ANNUAL INVESTMENT STRATEGY 2013/14
NON-SPECIFIED INVESTMENTS

Investment	A) Why use it ? B) Associated risks ?	Security / Minimum Credit Rating	Circumstances of use	Max % of overall investments or cash limits in each category	Maximum investment with any one counterparty	Maximum Maturity Period
Term Deposit with credit rated deposit takers (banks & building societies), UK Government and other Local Authorities with maturities greater than 1 year	A) Certainty of return over period invested which would be useful for budget purposes B) i) Not Liquid, cannot be traded or repaid prior to maturity ii) Return will be lower if interest rates rise after making deposit iii) Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality" Plus a minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house via money market broker or direct	100% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£12m based on estimate for 2012/13)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
Certificates of Deposit with credit rated deposit takers (banks & building societies) with maturities greater than 1 year *Custodial arrangement prior to purchase*	A) Attractive rates of return over period invested and in theory tradable B) Market or "interest rate" risk; the yield is subject to movement during life of CD which could negatively impact on its price		Fund Manager or in-house buy & hold after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	£3m	
Callable Deposits with credit rated deposit takers (banks & building societies) with maturities greater than 1 year	A) Enhanced Income - potentially higher return than using a term deposit with a similar maturity B) i) Not Liquid - only borrower has the right to pay back the deposit; the lender does not have a similar call period over which the investment will actually be held is not known at the outset ii) Interest rate risk; borrower will not pay back deposit if interest rates rise after the deposit is made		To be used in-house after consultation with Treasury Management Advisor	50% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£6m)	£5m	

SCHEDULE B

NORTH YORKSHIRE COUNTY COUNCIL
ANNUAL INVESTMENT STRATEGY 2013/14
NON-SPECIFIED INVESTMENTS

Investment	A) Why use it ? B) Associated risks ?	Security / Minimum Credit Rating	Circumstances of use	Max % of overall investments or cash limits in each category	Maximum investment with any one counterparty	Maximum Maturity Period
Forward Deposits with a credit rated bank or building society > 1 year (i.e. negotiated deal period plus period of deposits	A) Known rate of return over the period the monies are invested - aids forward planning B) i) Credit risk is over the whole period not just when monies are invested ii) Cannot renege on making the investment if credit quality falls or interest rates rise in the interim period	Organisations assessed as having "high credit quality" Plus a minimum Sovereign rating of AA- for the country in which an organisation is domiciled	To be used in-house after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	£3m	2 years subject to potential future review with a maximum of no longer than 5 years
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangements required prior to purchase*	A) i) Excellent credit quality ii) Relatively Liquid iii) If held to maturity, yield is known in advance iv) Enhanced rate in comparison to gilts B) Market or "interest rate" risk; yield subject to movement during life off bond which could impact on price	AA or Government backed	In-house on a "buy and hold" basis after consultation with Treasury Management Advisor or use by Fund Managers	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	N/A	
Bonds issued by Multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangements required prior to purchase*	A) i) Excellent credit quality ii) Relatively Liquid iii) If held to maturity, yield is known in advance iv) Enhanced rate in comparison to gilts B) Market or "interest rate" risk; yield subject to movement during life off bond which could negatively impact on price	AA or Government backed	In-house on a "buy and hold" basis after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	£3m	

SCHEDULE B

NORTH YORKSHIRE COUNTY COUNCIL
ANNUAL INVESTMENT STRATEGY 2013/14
NON-SPECIFIED INVESTMENTS

Investment	A) Why use it ? B) Associated risks ?	Security / Minimum Credit Rating	Circumstances of use	Max % of overall investments or cash limits in each category	Maximum investment with any one counterparty	Maximum Maturity Period
UK Government Gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	A) i) Excellent credit quality ii) Liquid iii) If held to maturity, yield is known in advance iv) If traded, potential for capital appreciation B) Market or "interest rate" risk: yield subject to movement during life of the bond which could impact on price	Government backed	Fund Manager	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	N/A	2 years subject to potential future review with a maximum of no longer than 5 years
Collateralised Deposit	A) Excellent credit quality B) i) Not Liquid, cannot be traded or repaid prior to maturity ii) Credit risk as potential for greater deterioration of credit quality over a longer period	Backed by collateral of AAA rated local authority LOBO's	In-house via money market broker or direct	100% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£12m based on estimate for 2013/14)	£5m	

SCHEDULE B

APPROVED LENDING LIST FOR 2013/14

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (over 1 year)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	60.0	364 days	-	-
Natwest Bank	GBR				
Ulster Bank Ltd	GBR				
Bank of Scotland	GBR	60.0	364 days	-	-
Lloyds TSB	GBR				
UK "Clearing Banks" and organisations covered by the UK Government guarantee of liquidity					
Santander UK plc (includes Cater Allen)	GBR	40.0	Temporarily suspended	-	-
Barclays Bank	GBR	50.0	3 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0	Temporarily suspended	-	-
Nationwide Building Society	GBR	30.0	6 months	-	-
Other UK based banks and high quality Foreign Banks					
National Australia Bank	AUS	See Clydesdale above		-	-
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	6 months	-	-
Nordea Bank Finland	FIN	20.0	6 months	-	-
Credit Industriel et Commercial	FRA	20.0	3 months	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as at 18 January 2013

APPROVED COUNTRIES FOR INVESTMENTS

Sovereign Rating	Country
AAA	Australia Canada Denmark Finland Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland U.K.
AA+	France Hong Kong USA
AA	Abu Dhabi Qatar UAE
AA-	Japan Belgium Saudi Arabia

<u>Proposed Amendments to Constitution - February 2013</u>

The items listed in this amendments chart are consequential amendments arising out of legislative changes.

Where amendments are suggested to part of a paragraph, only the relevant part is replicated in the amendment chart below.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Contents page		*Add a reference to '[Shadow] Health and Wellbeing Board" at the end of Schedule 1 to Part 3 (Council Committees, their membership and their powers) and amend page references accordingly.*	To reference the shadow Health and Wellbeing Board in the Constitution and to indicate that it is currently in shadow form until 1 April 2013. Once formally established, the Board will undertake functions and operate as required by the Health and Social Care Act 2012 and related regulations. Further amendments to the Constitution in this regard will be required at a later stage, once the regulations are available.
<u>**Part 1**</u> SUMMARY AND EXPLANATION		*Insert a new paragraph after 'Overview and Scrutiny' and before 'Area Committees' as follows:* The Council has established a Health and Wellbeing Board which will, with effect from 1 April 2013, undertake functions and operate as required in relation to health and wellbeing matters, by the Health and Social Care Act 2012 and related regulations.	To reference the shadow Health and Wellbeing Board in the Constitution and to indicate that it is currently in shadow form until 1 April 2013. Once formally established, the Board will undertake functions and operate as required by the Health and Social Care Act 2012 and related regulations. Further amendments to the Constitution in this regard will be required at a later stage, once the regulations are available.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Article 4 – The Full Council		*Insert the following at the end of the Policy Framework list:* ♦ Joint Health and Wellbeing Strategy	To reflect the statutory requirement for a joint Health and Wellbeing Strategy.
Article 8 – Regulatory and Other Committees		*Insert the following new Article 8.03 in the relevant place:* **8.03 Health and Wellbeing Board** The Council has established a Health and Wellbeing Board which will, with effect from 1 April 2013, undertake functions and operate as required, in relation to health and wellbeing matters, by the Health and Social Care Act 2012 and related regulations	To reference the shadow Health and Wellbeing Board in the Constitution and to indicate that it is currently in shadow form until 1 April 2013. Once formally established, the Board will undertake functions and operate as required by the Health and Social Care Act 2012 and related regulations. Further amendments to the Constitution in this regard will be required at a later stage, once the regulations are available.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Article 11 - Joint Arrangements	**11.01 Arrangements to promote wellbeing** The Council, in order to promote the economic, social or environmental well-being of its area, may: (a) enter into arrangements or agreements with any person or body; (b) co-operate with, or facilitate or co-ordinate the activities of, any person or body; and (c) exercise on behalf of that person or body any functions of that person or body.	**11.01 General Power of Competence** Subject to statutory limitations, the Council has power to do anything that individuals generally may do including: (a) power to do it anywhere in the United Kingdom or elsewhere; (b) power to do it for a commercial purpose or otherwise for a charge, or without charge; and (c) power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area. (d) .	To reflect changes made by the Localism Act 2011: the wellbeing powers in the Local Government Act 2000, as currently referenced in Article 11.01, have been repealed in relation to England by the Localism Act (the wellbeing powers still apply in Wales). The Localism Act introduces a general power of competence.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Article 12 Staff 12.01Terminology	(b) **Chief Officers:** The full Council will engage persons for the following posts, who will be designated Chief Officers: ♦ Chief Executive Officer ♦ Corporate Director – Health and Adult Services ♦ Corporate Director – Business and Environmental Services ♦ Corporate Director – Children and Young People's Service ♦ Corporate Director – Strategic Resources	(b) **Chief Officers:** The full Council will engage persons for the following posts, who will be designated Chief Officers: ♦ Chief Executive Officer ♦ Corporate Director – Health and Adult Services ♦ Corporate Director – Business and Environmental Services ♦ Corporate Director – Children and Young People's Service ♦ Corporate Director – Strategic Resources ♦ **Director of Public Health for North Yorkshire**	To reflect the authority's new responsibilities in relation to health and wellbeing under the Health and Social Care Act 2012, in particular the need to appoint a Director of Public Health, who will be a statutory chief officer.
Part 3 Responsibility for Functions **5.DELEGATION OF FUNCTIONS BY THE COUNCIL**		Insert a new paragraph 5.8 after the existing 5.7 as follows and re-number the following paragraphs: 5.8 Functions of health and wellbeing boards under the Health and Social Care Act 2012 and related regulations are undertaken by the Health and Wellbeing Board as set out in Schedule 1. The Board operates in shadow form until 1 April 2013 when it will be placed on a statutory footing.	To reference the shadow Health and Wellbeing Board in the Constitution and to indicate that it is currently in shadow form until 1 April 2013. Once formally established, the Board will undertake functions and operate as required by the Health and Social Care Act 2012 and related regulations. Further amendments to the Constitution in this regard will be required at a later stage, once the regulations are available.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Part 3 Responsibility for Functions Schedule 1 – Council Committees, their membership and their powers Index	**Schedule 1** Council Committees: their membership and their powers 1. Planning and Regulatory Functions Committee 2. Planning and Regulatory Functions Sub-Committee 3. Standards Committee 4. Standards Committee Hearings Panel 5. Audit Committee 6. Appeals Committee 7. Employment Appeals Committee 8. Chief Officers Appointments and Disciplinary Committee 9. Pension Fund Committee 10. Area Committees 11. Governors Committee *12.* North Yorkshire Police and Crime Panel	**Schedule 1** Council Committees: their membership and their powers 1. Planning and Regulatory Functions Committee 2. Planning and Regulatory Functions Sub-Committee 3. Standards Committee 4. Standards Committee Hearings Panel 5. Audit Committee 6. Appeals Committee 7. Employment Appeals Committee 8. Chief Officers Appointments and Disciplinary Committee 9. Pension Fund Committee 10. Area Committees 11. Governors Committee 12. North Yorkshire Police and Crime Panel 13. [Shadow] Health and Wellbeing Board	To reference the shadow Health and Wellbeing Board in the Constitution and to indicate that it is in shadow form until 1 April 2013. Once formally established, the Board will undertake functions and operate as required by the Health and Social Care Act 2012 and related regulations. Further amendments to the Constitution in this regard will be required at a later stage, once the regulations are available.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Part 3 Responsibility for Functions Schedule 1 – Council Committees, their membership and their powers		*Insert the current Membership chart and Terms of Reference for the shadow Health and Wellbeing Board.*	To reference the shadow Health and Wellbeing Board in the Constitution and to indicate that it is in shadow form until 1 April 2013. Once formally established, the Board will undertake functions and operate as required by the Health and Social Care Act 2012 and related regulations. Further amendments to the Constitution in this regard will be required at a later stage, once the regulations are available.
Part 3 Responsibility for Functions Schedule 4 Officers' Delegation Scheme **1.<u>The Statutory Officers</u>**		*Insert a new paragraph 1.6 after the current paragraph 1.5 as follows (and re-number the subsequent paragraph accordingly):* **1.6 The Director of Public Health – Director of Public Health for North Yorkshire** The statutory functions required to be undertaken by the Director of Public Health in relation to public health as set out in the NHS Act 2006, Health and Social Care Act 2012 and related regulations. The Director of Public Health is also a statutory member on the Health and Wellbeing Board.	To include the statutory Director of Public Health in the list of Statutory Officers in the Council's Officers' Delegation Scheme and to reflect the statutory duties for which s/he is responsible.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Part 3 Responsibility for Functions Schedule 4 Officers' Delegation Scheme **4.0 <u>Specific Delegations</u>** **<u>4.3 To the Corporate Director – Health and Adult Services</u>**	… (b) To exercise the Council's powers relating to public health and the take up of welfare benefits.	… (b) To exercise the Council's powers and responsibilities relating to health and public health (other than those public health functions for which the authority's Director of Public Health for North Yorkshire is directly statutorily responsible under the NHS Act 2006, the Health and Social Care Act 2012 and related regulations); and the take up of welfare benefits.	To clarify roles regarding the Council's powers and duties in relation to public health.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Part 3 Responsibility for Functions Schedule 4 Officers' Delegation Scheme **4.0 <u>Specific Delegations</u>** **<u>4.4 To the Corporate Director – Business and Environmental Services</u>**	… (k) To award work up to the value of £100,000 under the terms and conditions of the existing term maintenance contract in respect of the Minor Works Programme and the Bridge Strengthening Programme.	… (k) To award work, under the terms and conditions of the existing Highways Maintenance Contract, up to the value of £100,000 in respect of the structural maintenance of Bridges and Structures and £150,000 in respect of the approved programme for Highways Maintenance and Integrated Transport .	To increase the threshold in respect of Highway Maintenance and Integrated Transport.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Part 3 Responsibility for Functions Schedule 4 Officers' Delegation Scheme **4.0 <u>Specific Delegations</u>**		*Insert a new specific delegation to the Director of Public Health at the end of this section as follows:* **4.8 To the Director of Public Health for North Yorkshire** The statutory functions of the Director of Public Health in relation to public health as set out in the NHS Act 2006, Health and Social Care Act 2012 and related regulations; including, but not limited to: (a) Council health improvement functions under the Health and Social Care Act 2012; (b) the exercise by the Council of any public health functions of the Secretary of State which he or she requires the local authority to exercise by regulations under section 6C of the NHS Act 2006 (this relates to functions outside England); (c) any public health activity undertaken by the Council in pursuance of arrangements with the Secretary of State;	To reflect the statutory role and responsibilities of the Director of Public Health in the Officers' Delegation Scheme.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
		(d) Council functions that relate to planning for, or responding to, emergencies involving a risk to public health; (e) Council functions under section 325 of the Criminal Justice Act 2003 in relation to co-operating with police, probation and prison services in relation to assessing risks of violent or sexual offenders; (f) such other functions relating to public health as may be prescribed for the Director of Public Health by the Secretary of State (including, but not limited to, making representations about the grant of a licence to use premises for the supply of alcohol); (g) the provision of an annual report.	

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Part 3 Responsibility for Functions Schedule 4 Officers' Delegation Scheme **4.0 <u>Specific Delegations</u>**		*Combine sections 4.5 and 4.8 which each deal with specific delegations to the Corporate Director Strategic Resources and re-number any following paragraphs accordingly.*	To avoid specific delegations to the Corporate Director Strategic Resources being split and to combine them in one section of the Delegation Scheme.
Part 3 Responsibility for Functions Schedule 5 Appointment to Outside Bodies		*Delete the following outside bodies from Schedule 5 of Part 3 of the Constitution:-* • *Citizens Advice Bureau Harrogate* • *Craven Transport Forum* • *Hambleton and Richmondshire Strategic Forum* • *Harrogate and District Deaf Society* *Delete "Safer Craven Community Partnership" from Schedule 5 of Part 3 of the Constitution and retain "Craven Community Safety Partnership".*	To bring the List of Outside Bodies up to date. These four proposed deletions are bodies which either have ceased to exist or no longer require an appointment by the County Council. To have only one reference to this outside body within Schedule 5 rather than the current two.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
		Delete the text "(+1=CY)" from the entry relating to the Yorkshire Regional Flood and Coastal Committee within Schedule 5 of Part 3 of the Constitution. *That the number of County Council seats on Chain Lane Social Enterprise Ltd Knaresborough, as identified within Schedule 5 of Part 3 of the Constitution, be amended by replacing "1" with "2".*	The text recommended for deletion refers to a seat which was shared between the County Council and the City of York Council. That seat no longer exists following changes to the membership of Yorkshire Regional Flood and Coastal Committee. This is to reflect the number of actual seats on the Board to which the County Council currently makes appointments.
Part 4 Rules of Procedure **Staff Employment Procedure Rules** **3. Appointment of Chief Officers**		*Insert a new sub-paragraph (h) as follows:* (h) The Director of Public Health must be appointed jointly by the County Council and the Secretary of State.	To reflect the statutory provision under section 73A NHS Act 2006 as inserted by section 30 Health and Social Care Act 2012.
Staff Employment Procedure Rules **6. Disciplinary Action and Dismissal**		*Insert a new sub-paragraph (g) as follows:* (g) The County Council must consult the Secretary of State before dismissing the Director of Public Health (although the Secretary of State cannot veto the Council's final decision on dismissal).	To reflect the statutory provision under section 73A NHS Act 2006 as inserted by section 30 Health and Social Care Act 2012.

Provision in Constitution	Current Wording	Proposed Amendment	Reason(s)
Part 7 Management Structure		*Amend the Structure chart at the end to show where the DPH fits within the authority management structure.*	For reasons of clarity.