County Council – 24 February 2016

Item 5 - Executive Report to Council

Booklet 1

North Yorkshire County Council
Executive
2 February 2016

Council Plan 2016 - 2020
Report of Assistant Director (Policy and Partnerships)

1.0 Purpose of report

1.1 To seek agreement of the Executive to submit to the County Council, for adoption, the refreshed Council Plan.

2.0 Background

2.1 The Council Plan is a key component of the County Council's policy framework, setting out the Council's objectives and how its resources are to be used to deliver those objectives. Ensuring the Plan is developed in a timely and robust manner is essential in order to drive forward the business of the Council and improve performance, including the County Council's contribution to the delivery of the North Yorkshire Community Plan.

2.2 The process is closely allied to the budget setting process as this clearly demonstrates the golden thread running through the Council's objectives, priorities and allocation of resources. For this reason the Council Plan will be submitted to the County Council on 17 February 2016 in tandem with the budget report.

2.3 The Council Plan is intended to be the public expression of the County Council's vision and a longer-term strategic document designed to plot the Council's course to the end of the decade.

2.4 The annual delivery plan section highlights the most important issues and pressures upon the County Council for the year ahead, explains what its income will be and gives details of spending and savings plans, as well as specific actions to be carried out in the coming year. The funding section will be finalised once the County Council's budget is agreed. The delivery plan is refreshed annually, together with a summary of progress against the previous year's delivery plan.

3.0 Development of the Council Plan

3.1 The Council Plan has been developed using the agreed process for key cross-cutting strategies with input from all directorates and under the sponsorship of Management Board. The draft has been reviewed by Management Board.

3.2 Development of the Council Plan has been carried out in tandem with work to refresh the council's 2020 vision. It is intended that the Council Plan is the external facing summary corporate strategy, with more detail provided in an internal facing 2020 document.

3.3 The Council Plan has a number of audiences including elected members, officers, partners, the public, and the Department of Communities and Local

Government (DCLG). Efforts have been made to ensure that, as far as possible, the Council Plan is accessible, and of use, to all these audiences.

3.4 A document the size of the Council Plan cannot detail all that the County Council does. Further information about the County Council's detailed strategies and plans is published in other documents available on the County Council website. The view has been taken that there is little merit in merely replicating elements of these strategies and plans.

4.0 Structure and content of the Council Plan

4.1 The Council Plan aims to be a public focussed, easy to read, concise document. In addition to being the public expression of the County Council's vision, it also details the achievements in the last year, sets priorities for the period up to 2020 and, as previously mentioned, includes an annual delivery plan, explaining the most important issues and pressures upon the County Council for the year ahead.

4.2 The Council Plan will be published on the internet and publicised to the public through a range of media, including press releases and North Yorkshire Now (the County Council's email newsletter).

4.3 On publication the Council Plan will be strongly promoted internally, in particular in relation to its central place in the service planning process.

4.4 The Council Plan will also include details on how resources will be allocated through the Medium Term Financial Strategy (MTFS), revenue budget, and capital plan. These details will be included once they have been agreed by the County Council.

5.0 The draft Council Plan

5.1 The draft Council Plan 2016 - 2020, as at 21 January 2016, is attached at Appendix 1.

6.0 Performance commentary

As a result of austerity, the County Council has seen unprecedented budget pressures, and this is set to continue for the coming years. The Council Plan is based upon making best use of reduced funding and, wherever possible, limiting the impact on frontline services.

Given this, performance is no longer a question of what *gold standard* looks like, but instead what is appropriate for the cost. The Performance Management Framework is therefore key to ensuring the County Council delivers value for money (VfM). The main areas of activity are:

- consistent and robust service planning to make sure services are aligned to the priorities laid out in the Council Plan
- continually challenging services to prove they are achieving value for money
- facilitating an Local Government Association Corporate Peer Challenge in March 2016 to test how the County Council compares against its peers.

In the 2014/15 version of the Council Plan the County Council identified five priorities to which it would contribute through leadership, through enabling individuals, families and communities to do the best for themselves, and through the delivery of services to the most vulnerable people and high priority services that enable a thriving county. These priorities were opportunities for young people, loneliness and social isolation, transport links, economic opportunity for all parts of the county and broadband connectivity.

The following sections highlight selected elements of performance under these priority headings.

6.1 Opportunities for young people

The positive direction of travel indicated in pupil attainment results has been confirmed with the release of the Department for Education's (DfE) validated data.

- At Key Stage 1 there has been an increase in the percentage of pupils achieving a good level of development in reading, writing and maths.
- At Key Stage 2 there has also been an increase in the percentage of pupils achieving level 4 in reading, writing and maths. However, this is still below the rate for the country as a whole and for other comparable areas, with Maths continuing to be a priority.
- At Key Stage 4 both the percentage of pupils achieving five or more GCSEs (including English and Maths) at grades A* to C, and the percentage of pupils achieving the expected level of development in English and Maths have increased.

Our children's social care services have been named by the Prime Minister as one of the DfE's six nationally recognised Partner in Practice services, which is a great acknowledgement that, despite the challenges faced, our work and workforce has great strengths. Whilst Partner in Practice status has a clear focus on social care it must also be recognised that great social care services benefit from a whole system approach – great schools, great prevention, great support services and a culture of collaborative and ambitious leadership.

6.2 Loneliness and social isolation

Performance in this area is set in the context of an increasing elderly population with complex needs. Initiatives such as the Living Well Team and our continuing use of Extra Care enable us to meet this demand and also reduce our reliance on more intensive services such as home care and residential care.

The Living Well team offer a preventative service supporting adults on the cusp of social care. Phase one of the service launched in October 2015, with initial priority areas for the service being loneliness and isolation, loss of confidence and loss of a support network, including bereavement. Evidence suggests that as people increase their confidence, develop links into their local community and have access to good quality advice and information, this will prevent, reduce and delay their need for long-term health and social care support. Performance in this area will be closely monitored.

Our Short Term Assessment and Rehabilitation Teams continue to work with and support people requiring support to regain their skills following a stay in hospital or a period of recuperation following illness. The teams also continue to work within a number of Extra Care schemes to support people to live independently with support in their own homes.

The Extra Care Procurement Framework is now in place and will enable the delivery of up to 30 new Extra Care developments across North Yorkshire.

6.3 Transport links

As part of the core aim of managing, maintaining and improving, our Highways and Transportation staff continue to implement ways to deliver a more efficient service and achieve the strategic priorities, including:

- Engagement with local communities to help them deliver their own local services such as grass cutting.
- Working with our maintenance partners to ensure that we deliver an excellent service providing value for money across the whole highways network, for example the provision of a new fleet of gritting vehicles.
- Collaboration with other regional local highway authorities as part of the Yorkshire Alliance with a view to improving the availability of highways services through the setting up of frameworks.

Adverse weather saw hundreds of roads closed in December and early January. Over 300 homes and businesses were affected by flood waters across the county with every district affected, the districts of Harrogate and Selby being hardest hit. Particular impacts included the partial collapse of Tadcaster bridge and the closure of the A59 as a consequence of a major movement in the hillside above the road at Kex Gill. Many County Council staff, including highways, communications and adult social care staff, worked through the Christmas and New Year period, with the emergency planning team co-ordinating efforts across the Council and with partner organisations to effectively protect vulnerable people, re-open transport links and support affected individuals.

6.4 Economic opportunity for all parts of the county

The inaugural Tour de Yorkshire cycle race, part of the legacy of the Tour de France Grand Depart, was held in May 2015. The County Council, utilising highways and event planning expertise gained during the Grand Depart, supported Welcome to Yorkshire and partner authorities (who acted as event managers) playing a key role in the planning and delivery of the event. The race was deemed to be a success, with independent estimates suggesting a £50million boost to the region’s economy. The County Council is currently involved in the planning for the 2016 race.

Progress is well underway at the Allerton Waste Recovery Park where the contractor, Amey, is 12 months into the three year construction programme and on track to deliver on time. On 18 September 2015, the services contract was signed between the County Council and Yorwaste to ensure legal compliance. The County Council are working with Yorwaste to optimise waste tonnages to be delivered into Allerton Waste Recovery Park and maximise value for money from the waste project.

Through working with our partners in the York, North Yorkshire and East Riding Local Enterprise Partnership (LEP) we have enabled 15 business pop up cafes across the area and established a business growth hub that provides access to high quality business advice and support to small and medium businesses. This has engaged with over 13,000 businesses through networks, the ‘How’s Business website’ and conversations at pop ups.

The LEP have worked with local authority partners to improve infrastructure to enable growth. A total £122m has been successfully approved by Government and a further £9m through the LEP's Growing Places Fund is supporting capital investment across the LEP area. This will support around 30 capital projects delivering improvements to further education college provision, supporting the growth of the key sectors of agri-tech, food manufacturing and bio-renewables, helping to unlock strategic housing and employment sites in our main towns and improving our highways and rail infrastructure to enable growth. This is a five year programme of Investment, and during this first year £30m has so far been invested. This will all help towards achieving the ambitions of doubling the year on year house building rate, creating 20,000 extra jobs and £3billion of local growth.

6.5 Broadband connectivity

Superfast North Yorkshire (SFNY) continues to bring broadband improvements across North Yorkshire, despite the challenges of funding, technology and State Aid. SFNY achieved superfast broadband coverage of 86% by April 2015 during Phase 1 and is on track under Phase 2 to deliver 89% by the end of 2016 and 90% by the middle of 2017.

Proposed Phase 3 plans could see this lifted to 95% by the end of 2019.

An option for a Phase 4 to provide improved broadband for the final 5% is being considered for inclusion once Phase 3 outcomes are known, probably in 2016.

7.0 Financial implications

7.1 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 set out in the budget report.

8.0 Equality implications

8.1 The County Council must demonstrate that it pays due regard in developing its budget and policies and in its decision-making process to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people when carrying out their activities with regard to the protected characteristics of age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex (gender) and sexual orientation. This includes compounding factors such as the rural nature of the county and the cumulative impact of proposals on groups with protected characteristics across the range of services. The impact of decisions on the County Council's activities as a service provider and an employer must be considered.

8.2 At the earliest possible opportunity, significant proposed changes in service provision and budget are screened to identify if there are likely to be any equality implications.

8.3 If equality implications are identified, the County Council uses an equality impact assessment (EIA) process to support the collection of data and analysis of impacts and to provide a way of demonstrating due regard. EIAs are developed alongside savings proposals, with equalities considerations worked into the proposals from the beginning.

8.4 If a draft EIA suggests that the proposed changes are likely to result in adverse impacts, further detailed investigation and consultations are undertaken as the detailed proposals are developed. Proposed changes will only be implemented after due regard to the implications has been paid in both the development process and the formal decision-making process.

8.5 Where the potential for adverse impact is identified in an EIA, 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.

8.6 An EIA has been carried out of the overall Council Plan 2016 - 2020 and this is attached at Appendix 2. The specific implications for individual services in relation to refocusing the approach of the County Council are not part of this impact assessment and will be assessed as part of the change process in each directorate. An overall EIA for the 2016/17 budget has also been carried out and is included within the budget report.

8.7 Given the nature of the changes, i.e. cuts to some services, it is inevitable that there will be adverse impacts particularly for those on a low income and/or living in a rural setting, although mitigating actions may also be identified as part of the process.

8.8 The objective in the Council Plan which prioritises protection for vulnerable people aims to safeguard and improve outcomes for adults receiving social care who tend to be older, and/or people with disabilities, and for young people with vulnerabilities, including those arising from disabilities.

9.0 Legal implications

9.1 The Council Plan reflects the legal requirement on local authorities under Section 3 of the Local Government Act 1999 to secure continuous improvement in the way in which it exercises its functions.

10.0 Recommendations

10.1 That the Executive approves the draft Council Plan and recommends it to the County Council for approval at its meeting on 17 February 2016, and

10.2 That the Executive recommends that the County Council authorise the Chief Executive to make any necessary changes to the text, including reflecting decisions made by the County Council on the budget, Medium Term Financial Strategy and updated performance data.

10.3 That the Executive notes the performance position of the County Council and the performance challenges outlined in this report.

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Assistant Director (Policy and Partnerships)
County Hall
Northallerton
21 January 2016
Author of report – Deborah Hugill, Corporate Development Officer
Presenter of report – Neil Irving, Assistant Director (Policy and Partnerships)

Appendix 1 – Draft Council Plan 2020 North Yorkshire Council Plan (attached)
Appendix 2 – Equality impact assessment – Council Plan (attached)

Background papers – None

North Yorkshire County Council Council Plan 2016 - 2020

A continuing challenge

Despite some better news for the economy in general, these are still challenging times for local government. The government's introduction of a four-year, rather than a one year, financial settlement is welcomed, as is the increase in grant for councils who face higher costs in delivery due to rurality. Nevertheless, we now know that central government grant is due to cease entirely in 2019/20 and the scale and pace of funding cuts are greater than previously thought.

However, we are still in a significantly better place than many councils because of our strong financial planning, and because we have reserves at hand that we can use to help us approach the budget in a realistic and sensible way. It also helps that we have a great track record of delivery and a strong and resilient workforce capable of dealing with challenging events. Particular successes in 2015 have included two national awards for our work with the county's young people and becoming a 'Partner in Practice' for the Department for Education which means we will support and work alongside other councils to share best practice and as a result, develop more sustainable high performance across the country.

We are reaching the halfway point in our pioneering 2020 North Yorkshire change programme that will see the County Council become smaller, but more flexible and more agile, as it works more smartly for, and with, North Yorkshire's communities.

We are making every attempt to protect frontline services. Since 2011, we have implemented and made plans for total cuts in our spending of around £170m. A programme of savings totalling more than £116m has been completed so far, ahead of schedule. The majority of these savings have been brought about through changes in the back office although the scale of the challenge is such that some services have inevitably been affected.

Our Stronger Communities team is working with communities to support those who can and want to run services better and more cheaply than the council. We are also working with communities, families and individuals to help older and vulnerable people live independently and well for longer, for example through our Extra Care programme, which provides homes where people can live independently but with care on hand when they need it, and re-ablement service, which provides intensive short-term support.

We are proud of the way we have embraced change and taken a creative, problem-solving approach to service delivery but continuing austerity does severely reduce our room for manoeuvre to protect the front line.

This year we have also been involved in discussions relating to regional devolution, although the different political visions across the region make it difficult to reach a consensus position. Discussions and negotiations with Government are still underway, and we are continuing to work with partner authorities to prepare and progress a deal for devolution on geography yet to be determined.

The purpose of this document then is to set out our vision for the changes needed to address the challenges we face, and our approach to achieve it, taking us through to the year 2020. We have included a delivery plan to let you know what our most important actions are for the current year, and we have set out our progress against last year's delivery plan.

Your views and help 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, are vital. Please let us know what you think using the contact details on the last page of this document.

Carl Les, Leader,
North Yorkshire County Council.

Richard Flinton, Chief Executive,
North Yorkshire County Council.

Delivering services for North Yorkshire

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 such a large and sparsely populated county there are challenges to delivering services, and demands and pressures on these services are increasing.

Currently we provide a wide range of services, including:

- More than 370 schools serving around 80,000 children and young people of compulsory school age;
- Children's centres;
- Children's social care, including adoption and fostering;
- Adult social care services, including services for 4,500 older people and 2,900 adults with disabilities to help them to live at home;
- Public Health, working to improve people's health and wellbeing;
- Youth services;
- Adult education;
- Libraries;
- Responsibility for approximately 5,600 miles of roads, 1,610 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;
- Planning authority for minerals and waste issues; and
- Emergency planning

More details of services we currently provide can be found here.

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

Vision, approach and values

Our vision

We have developed a shared vision with our partners which is detailed in the North Yorkshire Community Plan 2014 – 17:

'We want North Yorkshire to be a thriving county which adapts to a changing world and remains a special place for everyone to live, work and visit.'

In order to achieve this vision we have developed the following approach.

Our approach

- To lead on achieving the vision:
  - making sure that we identify and understand the key issues for people and places in North Yorkshire;
  - making sure that we have strategies, developed with communities and partners, in place to tackle these; and
  - making the case for North Yorkshire.

- To enable individuals, families and communities to do the best for themselves:
  - supporting empowered communities to provide a range of services for local people that fully utilise all local assets, prevent loneliness and support troubled families, and contribute to healthier lifestyles; and
  - providing self service facilities and ready access to relevant information – enabling customers to access information, check eligibility, carry out a self-assessment, make appointments, make online payments, and request simple services themselves.

- To ensure cost effective and efficient delivery, or commissioning from those who are best placed to deliver, of:
  - services to the most vulnerable people; and
  - high priority services that enable a thriving county.

- To measure our performance, use the measurements to become better at what we do, and tell you how we are doing.

In order to achieve our vision and objectives we will need to continue to fundamentally change our way of working and ensure that we have honest and open discussions with communities so that there is a shared understanding of what realistically can and cannot be provided directly or funded by the council. We will also need to carry out effective media and communication campaigns to ensure that the council is seen as relevant by local people and is demonstrating how working differently can deliver key outcomes.

Our Values

Customer focus – putting the customer at the heart of everything we do.

Care and respect – treating people as individuals and with courtesy, seeking to understand how others see things, and valuing their contribution.

Innovative and can-do attitude – seizing opportunities to do things better and taking responsibility to see things through.

Honesty – being clear about what we are able to deliver and that we must live within our means.

One team – one council working with partners and communities.

Valuing our staff – supporting and enabling them to perform at their best.

Valuing local democracy – strengthening community leadership and delivering what has been agreed.

A council for the future

Looking forward to 2020 we can see that many of the services we currently deliver will continue to be vital for North Yorkshire. In addition, the Council will need to provide leadership and to help tackle some of the on-going issues that affect the lives of people within the county. So, how can we deal with all of these expectations at a time when the available resources are reducing by a third from 2010 levels?

Focussing on clear priorities

There will be a range of services that the Council has traditionally provided that we will no longer be able to provide. Some services will be significantly reduced. We know we need to be absolutely clear on our intention and the level of support that we are able to provide. For example, we have already transferred a number of libraries from being run by the Council to being run by communities. More of this will happen and we will need to be clear with our community partners how we will work with them to help community services to thrive.

Our priorities must focus on where we can provide leadership and where intervention is needed to overcome some of the on-going issues that affect the lives of people within the county. With our partners, such as district and borough councils, police, fire and voluntary sector colleagues, we have identified in the North Yorkshire Community Plan 2014 - 17 three key areas which we can progress in partnership, as follows:

- Facilitate the development of key housing and employment sites across North Yorkshire by delivering necessary infrastructure investments through partnership
- Supporting and enabling North Yorkshire communities to have greater capacity to shape and deliver the services they need and to enhance their resilience in a changing world
- Reduce health inequalities across North Yorkshire – by targeting specific communities

We have also identified some important ambitions which we will work towards, through leadership, through enabling individuals, families and communities to do the best for themselves, and through the delivery of services to the most vulnerable people and high priority services that enable a thriving county:

Ambitions for 2020

Children and young people

- Children and young people have a great education in schools that are good or outstanding and that they go on to make good career choices and access relevant skills or higher education programmes.
- Children and young people live safely and happily with their natural or extended family, and where that is not possible, they grow up in stable and secure arrangements and are well supported to leave the care system
- Children and young people lead healthy lives, no matter what their age or where they live

Health and well-being

- People in North Yorkshire live longer, healthier, independent lives
- Support is centred on the needs of people and their carers, enabling them to take control of their health and independence – we want people to have more choice and control over the support to meet their social care needs
- Good public health services and social care are available across our different communities
- Vulnerable people are safe, with individuals, organisations and communities all playing a part in preventing, identifying and reporting neglect or abuse

Growth

- North Yorkshire is a place with a strong economy and a commitment to sustainable growth that enables our citizens to fulfil their ambitions and aspirations.
- Critical to achieving this ambition is delivering the right housing and transport infrastructure, alongside high speed broadband and mobile phone connectivity, whilst protecting the outstanding environment and heritage.

Modern Council

- We will be a modern council which puts our customers at the heart of what we do
- We will increase efficiency and productivity and reduce our carbon footprint by modernising the way we work so that we use technology smartly and reduce our office space requirements

To achieve these ambitions, we also need to be clear about exactly what we want to accomplish, focusing on targeted outcomes and identifying the best way of delivering them.

Progress against annual delivery plan 2015 – 2016

What have we achieved in the last year?

Achievements we have made towards the priorities in last year's Council Plan include the following examples:

Stronger Communities – We have established a team of Delivery Managers, one for each of the district areas in North Yorkshire, who work with local groups interested in taking on a greater role in the delivery of services; helping them to access the range of support available to communities to enable them to take a greater role in the development and delivery of local services. 80 groups and organisations have been supported across the county, with investment in the region of £500k, for a range of grass roots projects including: youth clubs and locality based youth provider networks; community shops and cafes; care and advice services; community transport projects; and activities and services for adults which help to reduce loneliness and social isolation and support people to stay living independently for longer.

We have commissioned Rural Action Yorkshire to deliver seven Good Neighbour schemes across the county and North Yorkshire Sport to deliver a county wide social inclusion project – the 'Club as the Hub' programme will offer training and support to voluntary sports clubs across the county to develop social activities and support for people with additional support needs. We have developed, with partners, a universal community led pre-school support package which is being rolled out in Selby and Scarborough. The team has worked alongside the county library service this year to progress the development of 21 community libraries and September saw the first of these opening in Pateley Bridge. We were successful in being selected as a partner in the national 'Community Ownership and Management of Assets' programme which has enabled the authority to develop its property asset transfer to communities policy and procedure. Work has progressed well on the development of a Community Directory, a project that involves over 30 public and voluntary sector partners in the development of a county wide comprehensive database of services and assets.

Highway Maintenance – The 2015/16 Highway capital programme contains 481 separate road maintenance schemes. Delivery of the 15/16 programme is significantly ahead of previous years, which illustrates the benefit of managing the programme of work on a 2 year rolling basis. We have reduced reactive maintenance spending to just over 0.5% of all highway maintenance spending. So over 99% of spending is either planned capital maintenance work or on-going planned maintenance work. Being able to plan work means we can use our limited spending more efficiently and get more repair work done for the same amount of money. The reduction in the level of reactive spending reflects an improvement in how we plan our repair work, but is also down to the impact of the additional capital spending to improve road conditions and to reduce the number of emergency repairs that we need to do. We monitor road conditions through the year and are confident that the extra spending and more efficient planning of works will maintain the proportion of our network in need of repair at a steady level for a third year running.

Devolution – We supported two Expressions of Interest submitted to government in September 2015. These were for a devolution agreement based on a 'Greater Yorkshire', and a 'York, North Yorkshire and the East Riding' geographical basis. Discussions and negotiations with Government are still underway, albeit with no firm timetable for decisions to be made. The Government has made it clear that it will not force decisions on the geography of devolved arrangements. Local authorities need to agree. Therefore we are continuing to work with partner authorities to prepare and progress a deal for devolution on geography yet to be determined. However the different political visions across the region are making it difficult to reach a consensus position and to develop a single proposal that all can agree with across the region.

Adult social care prevention services - We have begun to introduce a new approach to prevention, promoting independence, developing more ways for people to take control of their lives.

The new Living Well team has begun to positively impact on people, who they are working with, often reducing the need for formal interventions by Health and Adult Services. To help people take more control and be independent we have introduced a new Care and Support team into the Customer Service Centre, in order to give professional advice and signposting at an early stage which often reduces the need for long term services.

Better integrated working with Health – We have been continuing, with our NHS partners to move care out of hospital and into the community and to join up health and social care. We have developed a North Yorkshire plan with our health colleagues to provide a prevention service aimed at keeping people fit and healthy in their own homes and reducing loneliness and social isolation. This includes work with Harrogate Foundation Trust on the Vanguard project. Joint working with Vale of York CCG and Scarborough Ryedale CCG to develop Health and Social Care Hubs based on GP practices in Malton and Selby.

Implementing the Care Act – We successfully implemented phase one of the Care Act in partnership with carers resource groups around the county. The Act gave the council revised duties in relation to assessment and the provision of support to all carers in North Yorkshire. Phase two of the Act in relation to self-funders and capping the cost of care was paused by Central Government until 2020. However, work continues to develop key parts of the act.

Developing care and support services locally - During 2015/16 phase two of Meadowfields Extra Care housing scheme in Thirsk was completed and was officially opened in December 2015. Building work has commenced to deliver two new extra care schemes, firstly in Leyburn which will deliver 53 units of accommodation with 20 of those units providing a complex needs specialism. The second development is in Sowerby and will deliver 90 units of accommodation on a mixed tenure basis. Both schemes are expected to be operational by June 2016.

Public Health - We have jointly agreed and begun to implement an alcohol strategy, which aims to reduce the avoidable health and social harms caused by alcohol and turn the tide on excessive drinking. A new substance misuse service has been implemented across the county. This service is simpler for people to use and access, and is focused on helping and supporting people to recover from substance misuse and dependence.

We are developing our approach to prevention, both through the Stronger Communities programme and targeted prevention in adult social care and public health. Prevention Officers will help with this work, as will a range of initiatives around issues such as falls prevention and bereavement and the income maximisation team launch.

During 2015/16 we have developed winter health, mental health and tobacco control strategies and commissioned new stop smoking and sexual health services for North Yorkshire.

We continue to work with District and Borough Councils to provide lifestyle and weight management support.

Education – We have continued to improve educational achievements including those for vulnerable groups of children and are consistently narrowing the gap between them and other children. We have high and increasing numbers of children and young people attending good or outstanding schools: 84% at primary level and 81% at secondary outperforming national comparators. Through the work of the Schools Commission we have transformed our approach to school improvement, with a sector led model supported by a reconfigured local authority support service.

Children with additional needs – We have undertaken an analysis of the need for and supply of services around young people's emotional and mental health, as part of the government's "Future in Mind" programme and developed proposals to address that, in partnership with colleagues from the various clinical commissioning groups covering the county.

We have seen falling rates of teenage pregnancy, alcohol, drug and tobacco use.
We still have areas of concern, particularly around rates of childhood obesity, childhood injuries, smoking in pregnancy and inequalities in health across the county.

Support for families – We have transformed early help and social care services, achieving significantly improved performance in a time of austerity and supporting even more vulnerable children and families at the earliest opportunity to minimise numbers who need more acute services.

We have been recognised by the Department for Education as one of only six national "Partners in Practice" to share ambition and innovative practice nationally and as an authority that will be asked to assist other authorities who have been inspected as "Requiring Improvement" or "Inadequate".

Our pioneering "No Wrong Door" programme for young people on the edge of care has received national and international acclaim.

We have continued safely to reduce the number of children in care, which is now at the lowest for six years; against a nationally rising trend.

With the responsibility for Public Health coming into the Council in 2015 we have re-commissioned the Healthy Child Programme for 5-19 year olds, and associated targeted services on an innovative basis, alongside our area based prevention service teams.

Annual delivery plan 2016 – 2017

We have pinpointed the following key actions we need to take this year:

Stronger Communities - Support the development of community run services across the county, focussing on libraries, community transport, services for children, young people and families and services which improve the health and wellbeing of older people, vulnerable adults and carers.

Highway Maintenance - Maintaining the highway network is one of the County Council's top transport priorities and supports our ambition for growth. We expect to spend £37m on highway maintenance in 2016/17, through supplementing the annual highway maintenance capital spending allocation with County Council funding and funding from other sources. The County Council will continue to lobby Government for additional maintenance funding, will continue to seek innovative alternative sources for maintenance funding as they become available, and will continue to work with our highways contactors to ensure that highways maintenance funding is spent as effectively as possible.

Ambition for Growth - We will take advantage of opportunities to actively promote growth and work more closely with partners who share this mind-set. We will develop stronger partnerships with the district councils. We will work towards an appropriate devolution deal. We will support businesses to locate, develop and become established in the area and use our statutory functions and responsibilities to help enable and support sustainable growth. We will work with partners to co-ordinate the planning and funding of infrastructure required to unlock key development sites.

Working closely with the district councils, businesses and our adjacent local authorities in line with our joint visions, and through our role on the Transport for the North boards, we will play a significant part in the development of the Northern Powerhouse and the delivery of growth for our citizens and their growing economic prosperity.

Strategic Transport - We will work with Transport for the North to seek to implement the County Council's Strategic Transport Prospectus. This outlines how improved strategic transport connections over the next 30 years will enable England's largest county to both contribute to and share in the economic benefits of the Northern Powerhouse. Key activities for 2016/17 will be to engage and seek to influence Transport for the North and progress a programme of major scheme development.

Response to severe flooding - We will continue to work closely with communities and businesses that have been impacted to ensure a swift recovery and to minimise the distress and losses associated with the winter floods of 2015/16. We will adopt a proactive approach to the assessment and repair of damaged infrastructure. We will carry out a thorough review of every aspect of preparedness and response in each service area.

Allerton Waste Recovery Park - We will explore opportunities with Yorwaste and Amey to optimise future waste inputs to Allerton Waste Recovery Park once operational so as to maximise benefits for the County Council. We will also look to work with other public sector bodies where appropriate through the Teckal arrangements to deliver best value.

Extra Care – a procurement framework is in place following a successful procurement exercise with six framework providers. This will enable the Health and Adult Services to deliver between nine and up to 30 new extra care developments across North Yorkshire

Better integrated working with Health – working together with our NHS colleagues on the Health and Wellbeing Board, we are taking opportunities to align our services around the county and also to invest in new NHS community services. The Vanguard project in Harrogate and the Better Care fund will form a key aspect to this development.

Public health – we will work with colleagues across the county and in the NHS to improve health by supporting prevention, lifestyle and recovery services. Our aim is for a distinctive public health programme for North Yorkshire which tackles those issues which are particularly relevant to the county such as obesity, loneliness and winter warmth.

New Care Pathway – we will develop and implement a new care pathway for assessing care needs and delivering services across North Yorkshire. This new pathway will aim to improve the lives of the people of North Yorkshire by supporting them to live longer, healthy and more independent lives, offering them more choice and control over how they receive the support they require.

Re-commissioning a joint equipment service – We have entered in to a joint venture with the City of York and all the North Yorkshire Clinical Commissioning Groups to develop a joint equipment service. The service will improve how people access equipment and will also ensure that equipment is effectively recycled. Access to a good equipment service is seen as one of the main enablers of the new care pathway and a more preventative approach to maintaining people's independence.

Education - We will:

- support and embed sector led school support through school and sector improvement partnerships, supported and challenged through reduced but more focused support from the Council.
- continue targeted support on areas of underperformance and localities that are challenged, including the implementation of localised as well as countywide skills strategies, and to improve careers advice and options.
- continue to promote inclusivity in schools and improve the "local offer" for pupils who have special educational needs and/or disabilities, for those who are in care, and those for whom English is not their first language.
- take forward work to ensure the sustainability of high quality education in areas where numbers are challenging, either because of reducing numbers of children or in areas where more places are needed.

Support for children, young people and families - We will:

- continue to develop our targeted prevention services, and those around the edge of care, aiming to reduce by a quarter the numbers of children and young people in care.
- strengthen integrated planning to ensure that the needs of all children, but particularly those with the most complex needs, are met.
- seize the opportunity, freedoms and flexibilities of partnering with the Department for Education and utilise well the additional resources and capacity that brings.
- re-configure our Disabled Children's Service to ensure that children and their families receive appropriate support and in particular that young people are supported in their transition to adulthood.
- review the Youth Justice Service, with the aim of ensuring that intervention and support are better aligned with other services that young people use.

Improving the health of children and young people - We will:

- re-commission the 0-5 Healthy Child Programme, which includes the Health Visiting Service.
- implement improved services around young people's emotional and mental health, in conjunction with partners from the health service.
- improve the transition of disabled children to adulthood.
- address the stubborn issue of widening inequalities in health by identifying how on a partnership basis we can tackle child poverty, which is often associated with poor health outcomes.

Our funding

Revenue spending

The total cost of services North Yorkshire County Council provides will amount to £Xm in 2016/17. A breakdown into our services and how they are funded is as follows:-

PIE CHART

Council Tax

The council tax charge for 2016/17 for a band D property is X. This is an increase of XX per cent over 2015/16. The actual sum paid however, depends on which valuation band individual properties fall into. There are eight valuation bands, A to H.

Savings to be found

TEXT

The £Xm savings programme is being implemented as follows:

CHART

Capital spending

In addition to the revenue budget, the County Council also plans to spend £Xm on capital projects in 2016/17. A breakdown into our services and how it is funded is as follows:-

PIE CHART

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: 01609 780780

email: customer.services@northyorks.gov.uk

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

If you would like this information in another language or format such as Braille or audio, please ask us.

You can also contact us using Facebook or Twitter.

North Yorkshire County Council

Booklet 1 – Item 5 Council Plan Appendix 2

Equality impact assessment (EIA) form: evidencing paying due regard to protected characteristics

(Form updated May 2015)

Council Plan 2016 - 2020

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۔

Equality Impact Assessments (EIAs) are public documents. EIAs accompanying reports going to County Councillors for decisions are published with the committee papers on our website and are available in hard copy at the relevant meeting. To help people to find completed EIAs we also publish them in the Equality and Diversity section of our website. This will help people to see for themselves how we have paid due regard in order to meet statutory requirements.

Name of Directorate and Service Area	Central Services, Policy and Partnerships
Lead Officer and contact details	Deborah Hugill, Corporate Development Officer, 01609 532978 deborah.hugill@northyorks.gov.uk
Names and roles of other people involved in carrying out the EIA	
How will you pay due regard? e.g. working group, individual officer	This overarching EIA has been carried out by an individual officer with advice and assistance from colleagues in the corporate equality group. Individual EIAs have or will be carried out on each of specific service changes in the Council Plan delivery plan for 2016/17 and the methods used will vary appropriately.

When did the due regard process start?	September 2015

Section 1. Please describe briefly what this EIA is about. (e.g. are you starting a new service, changing how you do something, stopping doing something?)

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. It is the public facing document expressing the Council's 2020 vision for modernising and refocusing the organisation to enable it to achieve the major budget savings which will be required.

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.

Individual 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. Why is this being proposed? What are the aims? What does the authority hope to achieve by it? (e.g. to save money, meet increased demand, do things in a better way.)

The purpose of the plan is inform stakeholders including elected members, officers, partners, the public, and the Department of Communities and Local Government about the Council's 2020 vision, how the Council sees its role going forward and the priorities for this smaller, more focussed organisation. This vision has been developed in response to cuts to local government funding so saving money is clearly a vital outcome but the County Council's 2020 transformation programme also grasps the opportunity to achieve efficiencies and improve the customer experience, where this is possible. The delivery plan gives performance information, plans for the coming year and the budget position.

Section 3. What will change? What will be different for customers and/or staff?

Our approach in the North Yorkshire 2020 Council Plan focuses on providing leadership on the key issues for people and places in North Yorkshire, enabling people to do more for themselves, and ensuring the delivery of infrastructure services to enable a thriving county and services to the most vulnerable people.

General changes will include:

- The council will no longer be able to provide some services that it has traditionally provided
- Some services will be significantly reduced
- Some services will be community run or delivered by organisations other than the council
- Some eligibility thresholds for support will be higher

- There will be more need for customers to self-serve using digital technology
- The council will employ less staff

Specific changes to services are being developed as part of the Council's 2020 transformation programme and for each project within this programme due regard will be paid to equalities. This will include separate equality impact assessments where screening suggests this is necessary, and where relevant, consultation. Work to assess cumulative impacts of the programme through aggregation of information from these individual assessments is on-going. A summary of equality impacts for projects with savings in 2016/17 is provided with the budget papers and documentation evidencing due regard is provided, through a web link, for all projects.

Budget cuts will need to be made in future years as detailed in the Medium Term Financial Strategy. Current information suggests that we will need to deliver approximately £57m of savings over the next four years. The 2020 programme is predicated on these figures but some savings proposals are not scheduled to take effect until the later years.

Section 4. Involvement and consultation (What involvement and consultation has been done regarding the proposal and what are the results? What consultation will be needed and how will it be done?)

Our vision, approach and values were subject to consultation in 2014 and were changed to reflect responses received. Individual consultations are undertaken on specific proposals, where appropriate, and the responses from these consultations are incorporated into individual EIAs.

Section 5. What impact will this proposal have on council budgets? Will it be cost neutral, have increased cost or reduce costs?

Please explain briefly why this will be the result.

The 2020 North Yorkshire 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. These aim to be cost neutral or to reduce costs.

Section 6. How will this proposal affect people with protected characteristics?	**No impact**	**Make things better**	**Make things worse**	**Why will it have this effect? Provide evidence from engagement, consultation and/or service user data or demographic information etc.**
The ambitions expressed in the Council Plan aim for better outcomes for everyone in North Yorkshire.				
Age		**X**		North Yorkshire has a lower proportion of young people than the national average - 28.4% under 25 compared to 32%

				nationally.[1] In 2013 4.3% of 16 – 18 year olds were identified as NEET (Not in Employment, Education or Training). The percentage of all young people in the UK who were NEET was 11.7%[2]. Nationally the unemployment rate for 16-24 year olds is high. The unemployment rate for people aged 16 and over for the UK was 5.3%, for the period July to September 2015.[2] Our ambitions for children and young people include better attainment at school, improved careers advice and options, and a happier and healthier life. Detailed EIAs will be undertaken on specific projects implemented to realise these ambitions. 20.6% of the county's adult population is over the age of 65.[1] This is higher than the national percentage (14.4%) and every year the population of older people increases, and with it the demand for the care and support which the council provides. By 2020 25% of our total population will be aged 65+ and 4% aged 85+. Our ambitions for older people are that they will be safe, live longer, healthier, independent lives and that we ensure that people have more choice and control over support to meet their social care needs. Detailed EIAs will be undertaken on specific projects implemented to realise these ambitions.
Disability		**X**		North Yorkshire has the same proportion of people with a disability or long term limiting illness (17.5%) as the national average.[3] Our ambitions for disabled and other vulnerable people are that

[1] 2011 Census
[2] Office of National Statistics July – Sept 2015
[3] 2011 Census

				they will be safe, live longer, healthier, independent lives and that we ensure that people have more choice and control over support to meet their social care needs. Detailed EIAs will be undertaken on specific projects implemented to realise these ambitions.
Sex (Gender)	**X**			At county level the proportion of females is slightly higher (50.7%) than that of males (49.3%)[4]. This pattern is reflected across all districts, with the exception of Richmondshire where the large number of predominantly male military personnel have the effect of reversing the proportions. Our ambitions will not have any anticipated impacts on people specifically due to them sharing this particular protected characteristic.
Race	**X**			North Yorkshire has a much lower proportion (2.65%) of Black or Minority Ethnic (BME) citizens than the national average (14.57%)[5] according to the 2011 census. Our ambitions will not have any anticipated impacts on people specifically due to them sharing this particular protected characteristic.
Gender reassignment	**X**			The Gender Identity Research and Education Society (GIRES) suggests that across the UK: 1% of employees and service users may be experiencing some degree of gender variance. At some point, about 0.2% may undergo transition (i.e. gender reassignment). Around 0.025% have so far sought medical help and about 0.015% have probably undergone transition. In any year 0.003% may start transition. We have no evidence to suggest that this is not the case in North Yorkshire. Our ambitions will not have any anticipated impacts on people

[4] Office of National Statistics Mid-2014 population estimates
[5] 2011 census

				specifically due to them sharing this particular protected characteristic.
Sexual orientation	**X**			The government estimates that 5 – 7% of the population are gay, lesbian or bisexual. We have no evidence to suggest that this is not the case in North Yorkshire. Our ambitions will not have any anticipated impacts on people specifically due to them sharing this particular protected characteristic.
Religion or belief	**X**			North Yorkshire has higher levels of Christians (69%) than the national average (59%), and lower levels of all other religions than the national average. Percentages of those with no religion or not stating their religion are broadly similar to the national average. (2011 census). Our ambitions will not have any anticipated impacts on people specifically due to them sharing this particular protected characteristic.
Pregnancy or maternity	**X**			2013 statistics for North Yorkshire - There were 5521 live births. Conception rate per 1000 for 15 – 17 year olds was 13.8 at Quarter 3 2013. This is below the rate for England (22.2) and Yorkshire and Humberside (24.2). 4866 live births (88.1%) were to mothers born in the UK. 655 live births (11.9%) were to mothers born outside the UK. In 2013 58 live births (1.1%) were to mothers under 18. Our ambitions will not have any anticipated impacts on people specifically due to them sharing this particular protected characteristic.
Marriage or civil partnership	**X**			A higher percentage of North Yorkshire's population is married or in a civil partnership (53.7%) than the national average (46.8%).[6] (2011 census)

[6] 2011 census

				Our ambitions will not have any anticipated impacts on people specifically due to them sharing this particular protected characteristic.

Section 7. How will this proposal affect people who….?	**No impact**	**Make things better**	**Make things worse**	**Why will it have this effect? Provide evidence from engagement, consultation and/or service user data or demographic information etc.**
..live in a rural area?		**X**		The population in North Yorkshire is generally sparser than the national average (0.74 people per hectare as opposed to 4.07 nationally). In some parts of the county this is lower still (Ryedale 0.34, Richmondshire 0.39)[7]. Distance travelled to access services is further than the national average. The Lower Super Output Area (LSOA) which covers the Dales ward in Ryedale is the most deprived in England for Geographical Barriers to Services.[8] One of our ambitions is for North Yorkshire to have stronger communities that are better able to support themselves with modern access to services through ultra-high speed broadband and latest generation mobile connectivity. This is particularly important in rural areas where provision of traditional services is likely to change. Detailed EIAs will be undertaken on specific projects implemented to realise these ambitions.
…have a low income?		**X**		At local authority level North Yorkshire is among the least deprived in England[7]. Figures for long term unemployment in North Yorkshire (1.1%) are slightly lower than the national average (1.7%)[6]. However, North Yorkshire has a number of lower super output areas within the 20% most deprived in England (23 in 2015, rising from 18 in 2010) and three LSOAs in Scarborough town are within the most deprived 1% in England.[7]

[7] 2011 census

[8] Index of Multiple Deprivation, Indices of Deprivation 2015

				One of our ambitions is for sustainable economic growth in North Yorkshire. Improved job opportunities could impact positively on those on a low income. Detailed EIAs will be undertaken on specific projects implemented to realise these ambitions.

Section 8. Will the proposal affect anyone more because of a combination of protected characteristics? (e.g. older women or young gay men) **State what you think the effect may be and why, providing evidence from engagement, consultation and/or service user data or demographic information etc.** No.

Section 9. Next steps to address the anticipated impact. Select one of the following options and explain why this has been chosen. (**Remember:** we have an anticipatory duty to make reasonable adjustments so that disabled people can access services and work for us)	**Tick option chosen**
1. No adverse impact - no major change needed to the proposal. There is no potential for discrimination or adverse impact identified.	**X**
2. **Adverse impact - adjust the proposal -** The EIA identifies potential problems or missed opportunities. We will change our proposal to reduce or remove these adverse impacts, or we will achieve our aim in another way which will not make things worse for people.	
3. Adverse impact - continue the proposal - The EIA identifies potential problems or missed opportunities. We cannot change our proposal to reduce or remove these adverse impacts, nor can we achieve our aim in another way which will not make things worse for people. (There must be compelling reasons for continuing with proposals which will have the most adverse impacts. Get advice from Legal Services)	
4. Actual or potential unlawful discrimination - stop and remove the proposal – The EIA identifies actual or potential unlawful discrimination. It must be stopped.	
Explanation of why option has been chosen. (Include any advice given by Legal Services.) Our ambitions as detailed in the Council Plan are for better outcomes for everyone in North Yorkshire.	

Section 10. If the proposal is to be implemented how will you find out how it is really affecting people? (How will you monitor and review the changes?) The delivery plan will be reviewed annually in a process involving relevant officers, Management Board, and the Executive. A six monthly progress report will be taken to Corporate and Partnerships Overview and Scrutiny Committee. Key actions in the delivery plan will also be part of regular performance monitoring in the relevant service area. Within the 2020 change programme, work to understand the cumulative impacts of service change will continue and be reviewed at Corporate Equalities Group, 2020 Operational Group and 2020 Programme Board.

Section 11. Action plan. List any actions you need to take which have been identified in this EIA, including post implementation review to find out how the outcomes have been achieved in practice and what impacts there have actually been on people with protected characteristics.

Action	Lead	By when	Progress	Monitoring arrangements
Ensure that individual plans relating to the specific service changes contributing to achieving the broad outcomes of the 2020 North Yorkshire Council Plan are appropriately assessed to identify any potential equality impacts on people with protected characteristics before specific decisions are taken.	Will depend on service: likely to be appropriate Assistant Director	As plans are developed and before specific decisions taken		
Ensure that any cumulative impacts on people with protected characteristics are identified by providing an overview of individual plans	Corporate Equalities Group	As plans are developed and before specific decisions taken		

Section 12. Summary Summarise the findings of your EIA, including impacts, recommendation in relation to addressing impacts, including any legal advice, and next steps. This summary should be used as part of the report to the decision maker.

Our ambitions in the Council Plan are for better outcomes for all North Yorkshire residents despite reductions in local government funding. Our 2020 transformation programme aims to save money but also to make sure we are doing things more efficiently and effectively and that the things we are doing are the right ones.

The anticipated impacts of our ambitions are therefore positive ones. Due regard to equalities will be paid when making decisions on actions to realise these ambitions and, where appropriate, these will be subject to full EIAs.

Section 13. Sign off section

This full EIA was completed by:

Name: Deborah Hugill
Job title: Corporate Development Officer
Directorate: Central Services
Signature: Deborah Hugill
Completion date: 19 January 2016

Authorised by relevant Assistant Director (signature): Neil Irving
Date: 19 January 2016

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

16 February 2016

Joint Report of the Chief Executive and the Corporate Director – Strategic Resources

EXECUTIVE SUMMARY

Item 3 a. - MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20 & REVENUE BUDGET FOR 2016/17

Context

1. This report makes recommendations to the County Council regarding
   - Medium Term Financial Strategy (MTFS) for 2016/17 to 2019/20
   - The Revenue Budget 2016/17 and
   - Council Tax for 2016/17.

Medium Term Financial Strategy

2. By the end of 2015/16 the County Council will have delivered £116m of savings. It is estimated, however, that a further £50.3m will be required from 2016/17 to 2019/20. The aggregate savings requirement of £166.3m broadly equates to a 33% reduction in the Councils spending power since 2011. It is therefore essential that the County Council has a sound medium to longer term strategy to address this financial challenge.

3. Whilst savings proposals of £36.3m have been identified from 2016/17 to the end of the MTFS, there remains a projected residual shortfall of £14m by 2019/20 which will, subject to further refinement, need to be addressed in future years (**paragraphs 3.8.4** to **3.8.7**).

4. £0.6m of Reserves is projected to be used in 2016/17 and £7.9m by 2017/18 in order to meet the residual shortfall after savings proposals and investments. This increases to £33.1m over the period up to the end of 2019/20 unless savings proposals are brought forward and delivered in the interim (**paragraphs 3.7.1** to **3.7.4**).

5. The key features of the “2020 North Yorkshire Programme” as set out in the February 2015 MTFS/Budget report remain appropriate. There is no recommendation to consider any new (ie areas that were not part of the February 2014 Budget report) savings proposals at this stage. Given the residual shortfall and impact on Reserves described above, however, there is a need to produce additional savings proposals and to consider them later this year – this may include a further MTFS/Budget report being put to County Council (**paragraph 3.8.6**).

6. The MTFS for the period 2017/18 to 2019/20 as set out in **Section 3** and **Appendix E** is recommended for approval (**paragraph 12.1 j)**).

Reserves & Balances

7. Given the level of risks facing the County Council, it is proposed that the existing policy of maintaining a minimum level equivalent to 2% of the annual net revenue budget supplemented by a cash sum of £20m is maintained (combined total of £27.3m in 2016/17) for all years of the MTFS to provide for risks across the Council – the General Working Balance (**paragraph 12.1p)**).

8. A review of Reserves has been carried out and a new approach to classification has been recommended. This makes it clearer about what available Reserves to provide for corporate risk (General Working Balance); what Reserves are available for investment (Strategic Capacity – Unallocated Reserve); what Reserves are set-aside for operational delivery; and includes a new Reserve (Local Taxation Reserve) to manage volatility and risk on council tax and business rates income (**Section 3.6** and **paragraph 12.1 q)**).

Savings

9. Savings totalling £36.3m between 2016/17 and 2019/20 are proposed. These savings are broadly in line with the existing 2020 North Yorkshire Programme that was approved in last year’s Budget / MTFS but provide for some re-profiling and a reduction in quantum of £0.1m (**paragraphs 3.8.1** to **3.8.2** and **Appendix F**).

10. It is proposed that some high level lines of enquiry are progressed to identify further savings proposals to bridge the residual savings gap and to reduce the need for Reserves over the MTFS period. A subsequent report would be brought to the Executive later in 2016 and taken to full County Council if it constituted a change in the budget policy framework (**paragraphs 3.8.4** to **3.8.7**).

Investments

11. Investments are proposed as part of the 2016/17 Revenue Budget in line with an invest-to-save basis or in line with policy priorities:-
    a. One-off funding of £3.2m is earmarked in 2016/17 for property related work as part of the 2020 North Yorkshire Programme (**paragraphs 3.9.7** and **12.1 f)**)
    b. One-off funding of £3.0m is earmarked for further roll-out of superfast broadband (**paragraphs 3.9.4** and **12.1 g)**)
    c. Recurring funding of £150k is provided to fund the Customer Services Centre to support the 2020 North Yorkshire customer workstream (**paragraphs 3.9.9** and **12.1 h)**)
    d. One-off funding of £1.0m is earmarked in 2016/17 to assist in delivery of the 2020 North Yorkshire Programme to fund potential investments on an invest-to-save basis in line with the proposed delegated authority as set out in **paragraphs 3.9.13** and **12.1 i)**).

Revenue Budget 2016/17

12. A net revenue budget of £360.570m, after use of Reserves, is proposed for 2016/17 (**paragraphs 4.1** and **12.1 d)** and **Appendix E**).

13. The allocation of the net revenue budget be allocated to directorates, net of planned savings (set out in **Appendix F**), in line with **Appendix G** (**paragraph 12.1 d)**).

Council Tax

14. It is recommended that a general council tax increase of 1.99% is agreed in line with the existing MTFS and that this is supplemented with a 2% social care precept (total increase of 3.99%), resulting in a Band D council tax level of £1,143.86 for the Council in 2016/17 (**paragraphs 3.3.3** to **3.3.7, paragraph 12.1** and **Appendix B**).

15. The MTFS also assumes a 1.99% increase in general council tax and a 2% social care precept (total increase of 3.99%) for each year thereafter up to and including 2019/20 (**paragraphs 3.3.4** and **12.1 j)**).

Section 25 Statement

16. The Corporate Director, Strategic Resources is obliged to offer a view of the robustness of estimates used in the Revenue Budget 2015/16 and the associated level of balances/reserves. The Corporate Director, Strategic

Resources is satisfied that the report meets such a requirement but notes the need to formulate a savings plan within 2016 to avoid excessive depletion of Reserves in 2017/18 (**paragraphs 8.17** and **12.1 a)**).

Other

17. The draft pay policy statement 2016/17 is set out for consideration and recommendation to County Council (**Section 7** and **Appendix H**).

18. An assessment of the key financial risks to the County Council has been carried out in **Section 9**.

19. An overview of equality issues associated with the Council's budget proposals has been carried out and summarises the potential equality impacts in line with the Public Sector Equality Duty (**Section 8.2** to **8.6** and **Appendix I**).

Item 3 b. - CAPITAL PLAN

20. The Council's Capital Plan to 2018/19 is put forward for approval (**paragraph 7.1 (a)** and **Appendix E**) – it totals £114.4m in 2015/16, £97.5m in 2016/17, £84.7m in 2017/18, £76.3m in 2018/19 and £87.5m in later years.

21. Since the last update at Q2 there has been an overall re-phasing of expenditure from 2015/16 to later years as a result of slippage within the programme. There is an update on progress of some of the key capital schemes in the current Plan (**Section 4**).

22. Financing of the Plan is set out in (**Section 5 and Appendix F**) with the majority from grants and contributions. Forecasts suggest potentially unallocated capital resources of £13m over the life of the Plan. However there is a recommendation to earmark £7.5m for primary school places on the basis that matched funding is secured from the Department for Education which, if approved, reduces the unallocated capital resources to £5.5m (**paragraphs 5.8** and **6.2** and **7.1 (b)**).

Item 3 c. - TREASURY MANAGEMENT

24. The Treasury Management Policy Statement (TMPS) is put forward for approval in line with Code of Practice requirements (**paragraph 8.1 (a)** and **Appendix A**).

25. The TMPS sets out the Council's approach to managing risk associated with investments, cashflows, banking, money market and capital market transactions.

26. The Annual Treasury Management and Investment Strategy and Minimum Revenue Provision Policy for 2016/17 is put forward for approval in line with Code of Practice requirements as detailed in (**paragraph 8.1 (b)** and **Appendix B).**

27. The key elements of the strategy are set out in **paragraph 4.3** and amongst a number of limits relating to borrowing and investments include:

    (a) an authorised limit (maximum amount that can be borrowed) for external debt of **£373.5m;**

    (b) an operational boundary (the most likely level) for external debt of **£353.5m.**

28. Based on the Council's current capital spending plans, external debt is forecast to reduce from £326m in 2016 to £302m in 2019 **(paragraph 4.5).**

29. The climate for investments remains challenging with the number of suitably rated counter parties reducing due to stringent credit ratings criteria. A number of options **(paragraph 5.16)** could be considered should the need arise.

Item 3 d. - REVISION OF PRUDENTIAL INDICATORS

30. In order to ensure compliance with the Prudential Code and to synchronise with the Council's Capital Plan it is necessary to revise and approve a set of prudential indicators which cover the period 2016/17 to 2018/19 (**paragraph 4.1**). These recommended indicators are set out in Appendix A of the report.

RICHARD FLINTON
Chief Executive
County Hall

GARY FIELDING
Corporate Director, Strategic Resources
County Hall

16 February 2016

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

16 February 2016

MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20 & REVENUE BUDGET FOR 2016/17

Joint Report of the Chief Executive and Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

1.1 For the Executive to make recommendations to the County Council regarding:-

a) the Medium Term Financial Strategy (MTFS) for 2016/17 to 2019/20;
b) the Revenue Budget 2016/17; and
c) the Council Tax for 2016/17

2.0 INTRODUCTION AND CONTEXT

2.1 By the end of the 2015/16 financial year the Council will have made on-going revenue savings of circa £116m since the current period of austerity. During this period the Council has seen an increase in demand for its services and it has taken on additional responsibilities (e.g. Concessionary Fares and Public Health). Against this backdrop it has been necessary to take a transformational approach.

2.2 The Council is facing another 4 years of financial challenge as further cuts to Local Government funding bite hard. The latest projection for the remainder of the decade sees the need for a further £50.4m of savings to be delivered as set out below.

	11/12 - 15/16	16/17	17/18	18/19	19/20	Ongoing
	£m	£m	£m	£m	£m	£m
Savings as at Feb 2015	108.7	15.3	17.0	12.6	12.9	166.5
Loss of Core Funding		2.2	14.3	2.4	-5.2	13.6
Additional Policy Pressures		4.4	3.5	3.5	3.5	14.9
Adult Social Care Precept		-5.0	-5.3	-5.5	-5.7	-21.5
Post-Draft Settlement Savings	**108.7**	**16.9**	**29.5**	**13.0**	**5.5**	**173.5**
Improvements		-10.2	-1.6	-0.6	-0.8	-13.2
Additional Costs		3.7	-0.3	0.5	2.0	5.9
Revised Savings as at Feb 2016	**108.7**	**10.3**	**27.6**	**12.9**	**6.7**	**166.2**
One-off Investments		8.3	-8.3	0.0	0.0	0
Impact of Re-profiling Savings		2.7	-2.0	0.2	-0.9	0.1
Savings as at Feb 2016	**108.7**	**21.3**	**17.3**	**13.1**	**5.8**	**166.3**

Budget Shortfall Increased by £7.0m from £14.2m to £21.2m

Budget Shortfall Decreased by £7.2m from £21.2m to £14.0m

Total Savings	£57.6m
Less: Early Achievement	(£7.2m)
Savings Delivery Required	£50.4m
Less: Savings as at **Appendix F**	£36.3m
Savings Shortfall	£14.0m

The table above outlines the total quantum of savings (£50.4m) to be achieved between 2016/17 and 2019/20. The actual savings delivery programme is outlined in the Medium Term Financial Strategy and the profile is detailed in **Appendix F**. Following this period the Council will have delivered a total savings programme of £166.3m – this is equivalent to a reduction in the Council's spending power of 33% over the decade.

2.3 The Council is high performing and remains committed to delivering its core objectives as articulated in the Council Plan. These objectives require a focus on future activity as well as delivering services and the savings required on a daily basis. As a result, the Council has already invested significantly in a number of areas - highways maintenance; superfast broadband; flooding and coastal erosion schemes; extra care; and, education standards on the coast, amongst others. Some of these areas are services delivered by the Council but increasingly the Council has been investing, as part of its leadership role, in areas which are not its statutory responsibility. Through prudent financial management the Council has been able to use one-off monies to support these priorities and it is likely that there will be further requirements to help position the Council for 2020 so that it remains well placed to service its residents and customers.

2.4 The further period of austerity described in this report represents an enormous challenge for the Council. Many savings projects have already been delivered and the next level of opportunities become harder to find and deliver and carry great risk. The fact that the Council has delivered all that it has needed to do, to date, provides some confidence for the future and underlines the strength that the Council has in prudent financial management at the heart of which is the Council's Medium Term Financial Strategy.

3.0 THE MEDIUM TERM FINANCIAL STRATEGY

3.1 OBJECTIVES

3.1.1 A **Medium Term Financial Strategy** is not a legal requirement, but given the scale of financial challenges and risks / uncertainties, it is important that shorter term decisions are seen in the context of a longer term position and that there is clear line of sight on the financial sustainability of the Council. The MTFS provides the strategic framework for managing the Council's finances and ensures that:

- resources are aligned to achieve corporate objectives over the medium / longer term and
- the Revenue Budget, Capital Plan, Treasury Management Strategy and required Prudential Indicators are appropriately aligned

3.1.2 The objectives of the MTFS, as previously established by the County Council are as follows:

- to support the achievement of the vision and corporate objectives expressed in the Council Plan;
- to meet and respond to the perceived needs and priorities of local people;
- to maintain and improve service quality and the Council's improvement planning priorities so as to secure high performance which is sustainable over the medium term;
- to manage and minimise the risks to local services and customers;
- to achieve effective use of all land and property assets.

3.1.3 The MTFS achieves these objectives by:

- enabling the Council to understand its medium to longer term financial position;
- providing clarity over the revenue and capital resources available;
- informing decision making on the distribution of resources to deliver the Council's objectives;
- ensuring the Council can set a Council Tax that avoids central Government intervention;
- enabling the Council to plan and manage its day to day spending within affordable limits without undue reliance on balances and general reserves;
- identifying future budget 'pressure points' in order to plan accordingly and avoid unnecessary remedial action;
- identifying financial decisions that need to be taken to inform action planning and the development of projects;
- supporting a prudent, affordable and sustainable level of revenue and capital investment;
- creating financial capacity to deal with uncertain, volatile and unforeseen funding and cost pressures.

3.1.4 The following sections consider the key assumptions within the MTFS and their impact on the County Council's financial position over the next four years.

3.2 LOCAL GOVERNMENT FINANCE SETTLEMENT

Four Year Provisional Settlement

3.2.1 The 2016/17 Provisional Local Government Finance Settlement was announced by DCLG on 17 December 2015. It covers the whole period of the Council's MTFS. The key headlines of the announcement for NYCC were as follows:

i) Funding Changes

- Total Settlement Funding Assessment reduction (effectively through reduction in Revenue Support Grant and Business Rates top-up) for the period 2016-20 of £63m or 17% reduction to the 2015/16 net revenue budget over that period;

- The Spending Review announced that for the rest of the current Parliament, local authorities responsible for adult social care ("ASC authorities*") "will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care".* (Para 1.107 of the Spending Review and Autumn Statement 2015). Although the government have declared that they do not want to create bureaucracy around confirming that local authorities have used the social care precept receipts entirely for adult social care, details are not yet clear and the government have made reference to the need for local authorities to create "Efficiency Plans";

- Reform of New Homes Bonus and contribution of funds to the Better Care Fund to assist with the increasing costs of adult social care;

- Reductions in the ring-fenced Public Health Grant and consultation on the removal of the ringfence from 2018-19;

- Consultation on £600m reductions (nationally) in the non-ringfenced Education Services Grant (worth £810m nationally and £7.2m to the County Council);

- Confirmation that by 2020, local authorities will retain 100% of business rates, ending core grants from central government (although the latest settlement sees zero core grant in 2019/20 in any case);

ii) Additional Costs

- Confirmation of the introduction of an ‘Apprenticeship Levy’ equivalent to 1% *of the payroll for all employers with more than £3m payroll costs;*

- Confirmation of the intention to introduce a living wage of £7.20 per hour from April 2016 with the target to increase the Living Wage to 60% of median earnings by 2020;

iii) Overall

- The impact on NYCC’s 2016/17 Budget/ MTFS was an overall deterioration of £7.1m compared with MTFS assumptions from Feb 2015.

- The overall impact of the settlement from central government over the medium-term to 2019/20 was to increase the savings requirement from £14.2m to £21.3m. This has subsequently been reduced to £14m, with

    - reducing assumptions on national pay negotiations for 2016-17 and 2017-18;
    - Incorporating the same level of Better Care Fund as received in 2015/16 (ie net £12m); and
    - improved council taxbase growth figures as supplied by District Councils.

- However, the improvements to the Settlement have also been offset by

    - Reassessment of the cost of living wage to the Authority
    - The Cost of Care for Health and Adult Services following the review alongside independent care providers
    - Reassessment of anticipated Business Rates following notification by district councils

- The Council Tax referendum threshold has been confirmed at 2%, the same as for 2015/16 but the adult social care precept raises this to 4% for social care authorities. There has been no offer of a Council Tax Freeze Grant this year.

- Some other grant allocations have been notified but others are still awaited from relevant Government Departments.

- Figures were provisional with a consultation deadline of 15 January 2016.

iv) Spending Power

- Spending Power is a term defined by Government which takes into account a Council's total funding sources rather than just Government grants that have been reduced and it therefore masks reductions in Government funding. The base used includes Core Revenue Grants but also locally-raised Council Tax and Business Rates. This has the effect of depressing, in percentage terms, the reduction in Government funding.

- The Government's Spending Power calculations for the County Council is a 3.1% increase for North Yorkshire (compared with an overall national picture of a 1.1% increase and 1.6% increase for authorities with social care responsibilities) comparing the position in 2019/20 with 2015/16

- However, this calculation excludes a number of factors which mask the real impact:

    a. not all funding reductions are included in the Settlement Funding assessment, for example, Public Health Grant, Education Services Grant;

    b. the Government have used uniform national increases in anticipated growth rates for council tax and business rates. This has the impact of assuming that North Yorkshire will raise more local income than used in local estimates of those revenue sources;

    c. the impact of government policies, in particular the Living Wage, which were not explicitly announced in the Local Government Finance Settlement, but that erode the spending power of NYCC.

- As a result, NYCC's calculation of spending power indicates a decrease of 5.8% (**Appendix A**) over the same period resulting in a difference with the government's assessment of spending power, in cash-terms, of £83.7m.

- In addition, it does not reflect the front-ended nature of the reductions in grants and the back-ended nature of the increases in funding (i.e. Better Care Fund and Rural Services Delivery Grant).

Final Settlement Announcement

3.2.2 The Final Local Government Finance Settlement for 2016/17 was announced on 8 February 2016. In line with the Provisional Settlement final figures were provided for 2016/17 and indicative figures for the three years thereafter.

3.2.3 Following lobbying from local government and MPs, the government announced some welcome transitional relief for Counties. In addition, the government brought forward the proposed increases in Rural Services Delivery Grant. The net result is that the Council is set to receive an additional £9.2m in 2016/17 and £6m in 2017/18. This is welcome as it removes the cliff-edge effect particularly in 2016/17.

3.2.4 It should be noted, however, that the changes are merely transitional so the size of the overall savings quantum remains unchanged. The transitional relief therefore helps in providing the necessary time to ensure a coherent response to the on-going savings requirement.

3.2.5 The Secretary of State also announced that councils would be given until 14 October to decide on whether to accept the longer term settlement position as indicated in the Settlements. Further detail is expected in order to understand this process and how it fits with the government's intentions to introduce "efficiency plans".

3.3 COUNCIL TAX

Tax Base

3.3.1 The Tax Base figures notified by billing authorities for 2016/17 are itemised at **Appendix B** - the total for NYCC is 224,240.30. This represents a 2.0% increase in the anticipated taxbase compared with 2015/16.

3.3.2 An average 0.5% year on year increase is assumed from 2017/18 through to 2019/20. This planning assumption will be reassessed as part of the work to bridge the County Council's funding challenge over the next four years and will benefit from the greater integrated working and knowledge of staff from the County Council and Selby District Council.

Band D Charge

3.3.3 The MTFS approved in February 2015 assumed a 1.99% increase in Council Tax in each year to 2019/20. The recommendation included within this report is to increase Council Tax in 2016/17 by 1.99% for general expenditure and by a further 2% for the precept for adult social care – a combined effect of 3.99%. This is within the Government's Council Tax referendum limits for 2016/17 as set out as part of the Provisional 2016/17 Local Government Finance Settlement announcement on 17 December 2015.

3.3.4 For the purposes of this MTFS further Council Tax increases of 3.99% in 2017/18, 2018/19 and 2019/20 are also assumed. This is consistent with previously assumed 1.99% increases in Council Tax (as approved by the County Council in February 2015) and utilising the 2% social care precept. The Government has indicated that it expects social care authorities to take up this additional precept as well as increase "general" council tax as set out in the Government's spending power calculations.

3.3.5 The rationale behind this Council Tax strategy is to maximise this particularly significant income stream for the Council recognising the vagaries of central government funding and to ensure the sustainability of core finances to underpin priorities.

3.3.6 A 3.99% increase in 2016/17 would cost the average Band D household an additional £43.88 per annum (£3.66 per month or 84p per week) in relation to the

County Council’s element of the overall bill. The calculation is set out at **Appendix B** and would result in a Band D level of £1,143.86.

3.3.7 Based on the Tax Base assumptions at **paragraph 3.3.1** and applying a 3.99% increase in the Band D charge over the next four years, Council Tax Income is forecast to rise from £241.8m in 2015/16 to £256.5m in 2016/17 (including £4.9m for Adult Social Care) through to £292.8m by 2019/20 (including an assumed £21.5m for Adult Social Care).

Alternatives

3.3.8 The alternatives to the recommended 3.99% increase in Council Tax in 2016/17 would be to:

i) set the Council Tax increase at somewhere between 0% and 3.99% - each 0.1% equates to an additional £246k per annum.

ii) increase Council Tax by more than the 3.99% referendum trigger which would require planning a second budget.

3.4 OTHER KEY FUNDING/INCOME ASUMPTIONS

Schools Funding

3.4.1 As in previous years, the Council will continue to receive a specific ring-fenced grant, the Dedicated Schools Grant (DSG), which funds all school-related responsibilities, included delegated budget shares.

3.4.2 The amount currently allocated for 2016/17 is in line with expectations. Overall there has been an increase in the baseline figure of £2m to £395.2m. This is largely to do with increased pupil numbers in the primary sector. There has been no increase to the 2015/16 funding rate per pupil and therefore schools and other DSG-funded budgets remain under pressure.

3.4.3 The Department for Education has also allocated some additional funding across the country to assist with growing pressures in the High Needs budget. There has also been a deduction for place funding in Non Maintained Special Schools which will no longer be included in the DSG Baseline.

3.4.4 In summary therefore, the change in DSG (before deductions for Academies and other direct funding of High Needs Places by the Education Funding Agency) shows:

	£000
2015/16	393,249
Pupil Numbers increase	1,569
Net High Needs changes	428
2016/17	395,246

3.4.5 The DSG Schools Block supports – with the permission of the North Yorkshire Education Partnership (Schools Forum) – a number of Local Authority budgets and services, amounting to over £7.6m, and there remains a risk that this could change at some point in the future.

3.4.6 As in previous years, the DSG will be recalculated regularly throughout the year to take account of future Academy conversions and changes in Early Years numbers. For this reason, **it is recommended that Executive agrees that the Corporate Director – Children and Young People's Service is authorised to take the final and any subsequent decisions, as result of continuing amendments to the DSG, on the allocation of the Schools Budget, in consultation with Executive Members.**

Health and Social Care Funding

3.4.7 The local government finance settlement set out the government's intention to protect adult social care. This was a welcome area of focus as the Council has, along with other Counties, argued that there has been insufficient funding for social care.

3.4.8 The government announced that they were to allow those councils who provide social care the opportunity to generate an additional "social care precept" of 2% on the local council tax for each year between 2016/17 and 2019/20 inclusive. The government has stated that the additional social care precept should only be used for that purpose. Specific guidance is due but at present it is understood that government will require the Council's Section 151 officer in adult social care authorities to "provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care."

3.4.9 In addition the government announced additional funding for Local Authorities through the Better Care Fund in 2018/19 and 2019/20. This comes after the requirement to publish local plans on how health and social care systems will seek to integrate (by March 2017) with the intention of increased integration of services being in place by 2020. Clearly there will be a lot of further development in this area over the coming years and it may have significant impact upon the Council's budget. At this stage the issue of integration has been assumed to be "revenue-neutral" for the Council with additional costs to date being met from Health sources, e.g. Vanguard in Harrogate, Care Hub schemes in the BCF.

Better Care Fund

3.4.10 The Better Care Fund (BCF) was originally announced in the June 2013 Spending Round as a 'pooled budget' for health and social care services, shared between the NHS and councils to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. One of the key aims of the BCF was to "protect adult social care" in recognition of the inter-relationships in a well-functioning whole system. It has, however, been problematic for the Council (and indeed councils across the country) to secure the levels of funding for social care as had been indicated by the previous government.

3.4.11 The 2015/16 BCF submission was approved by the Health and Wellbeing Board on the 1 April 2014. This agreed submission provided a sum of £17m protection of social care. Following the release of further guidance and targets (primarily around non elective admissions to hospital) during the year a revised BCF was 'approved' on 2 January 2015. Recognising the changes required and financial implications the Council agreed for the revised submission to contribute an additional £5m, thereby receiving a net £12m for 2015/16. This was done on the understanding of a direction of travel to the original total of £17m for protection of Social Care in future years.

3.4.12 Recent discussion with the CCGs have resulted in an expectation on their part that the element for protecting social care will remain at the same level (or perhaps even reduce) as many of the CCGs are reporting financial pressures and the need to make significant efficiency savings. The Council has made it clear that it wishes to see some movement towards the previous direction of travel agreed (an increase up to net £17m given the greater financial pressures felt within local government since 2011/12) but the process for agreeing the BCF for 2016/17 is likely to run in parallel with the Council's own consideration of the revenue budget.

3.4.13 As a result of the above, the revenue budget (and on-going MTFS) has been produced on the basis that the current £17m of existing BCF will continue to be provided to protect adult social care and is without conditions and the Council will continue to contribute £5m (creating net £12m). The situation is relatively fluid and this situation will need to be monitored and pressure will continue to be applied to the North Yorkshire CCGs given their better 5 year funding settlement and the Council's challenging savings requirement.

3.4.14 The government has also indicated that a "second wave" of BCF will be provided to the Council in 2018/19 and 2019/20 (total of £11m estimated). Details on this are awaited but it has been indicated that this is funded from top-slicing of New Homes Bonus and new money from Treasury. It may therefore be that this funding is channelled directly to the Council (rather than via CCGs). The MTFS set out in this report makes that assumption and also assumes that there will be no additional conditions so that this funding is available to support the Council in its provision of adult social care without associated increased responsibilities and additional costs. Given previous experience, these assumptions may well need to be revised in the near future and would create additional savings requirement.

3.5 KEY SPENDING ASSUMPTIONS

Inflation

3.5.1 The Consumer Prices Index (CPI) rose by 0.1% in the year to November 2015, compared with a 0.1% fall in the year to October 2015. Inflation, by this measure, has been at or around 0% for most of the 2015 calendar year. However, this national index does not necessarily reflect the local price pressures experienced in local government, particularly given some of the care market pressures in adult and children's services.

3.5.2 Inflation provision has been broadly maintained in the 2016/17 budget as per the assumptions agreed in the February 2015 MTFS. This includes Highways (2%), Street Lighting (9%), Supporting People (2.5%), Concessionary Fares (3.5%) and Voluntary Associations (3%). However, the inflation provision will be held in a central contingency and provided to services based on an assessment of need, making it easier to identify additional inflation savings which can feed into the council's savings requirement.

Pay and the Living Wage

3.5.3 Pay award assumptions are included within the MTFS at 1.2% for 16-17 and 17-18 reflecting the latest Employer Offer of 1% with some larger increases for bottom scale points. Provision has also been made at 2% for 18-19 and 19-20.

3.5.4 Provision has also been made in the MTFS for the cost of the government's Living Wage policy which increases the minimum wage to £7.20 per hour from April 2016. There is a longer-term Government aim to increase the Living Wage to 60% of median average pay by 2020; this impacts on NYCC in later years but there is a more significant impact on the Council's supply chain and is therefore likely to materialise in additional prices.

3.5.5 At this stage it is unclear what the precise financial impact of the Living Wage will be. This will be a challenge for councils across the country, particularly those who provide social care and it is reckoned to be the single biggest inflationary pressure facing the Council over the decade.

Demography / Adult Social Care Pressures

3.5.6 Provision has been made of an additional £3m per annum (excluding the cost of the Living Wage assessment in 6.3.1) for the increasing costs of meeting demands and demography in adult social care. This has been the practice since 2011/12 and is the only area where the Council has provided for budget growth.

3.5.7 It is proposed to continue with this approach for the MTFS but further review of demand for adult social care and the associated HAS budget position is to be carried out in 2016.

3.5.8 There have been a number of initiatives / developments which have impacted financially upon adult social care. These include the cost of care exercises; introduction of phase 1 of the Care Act; the Deprivation of Liberty Safeguarding judgement etc. it is increasingly difficult to distinguish between "demographic" demand and other pressures. It is therefore proposed that the £3m provision continues to be retained centrally and is drawn down following satisfactory evidence of need. The provision will therefore be renamed as "Adult Social Care Contingency".

3.6 RESERVES AND BALANCES

3.6.1 The County Council uses reserves to manage spending over the longer term. As part of this year's budget process a review of reserves has been undertaken and a reframed strategy is proposed.

3.6.2 Reserves are crucial to sustainable financial management but money set aside must be appropriate to the risks facing the organisation and must support delivery of corporate objectives. To this end the following categories of reserve are proposed:

- General Working Balance – this is the Council's funding of last resort. It provides the contingency to manage risk across the Council and is subject to a policy requirement;

- Operational (Directorate) – these reserves help to manage financial risk, commitments and support improvement within service directorates;
- Strategic – these reserves provide funding to support the corporate objectives and priorities set out in the Council Plan including: resources to support the long term viability of the Council; projects to improve infrastructure such as roads and broadband connectivity; and funding to repay debt and/or generate cash returns.

3.6.3 A schedule of existing and proposed new reserves is set out at **Appendix C** along with their planned movements and supporting notes at **Appendix D.** The column headed 'Presentational Transfers' shows how reserves have been re-categorised – with approved allocations currently held in GWB and Corporate Miscellaneous being categorised as operational or strategic reserves as appropriate. It should be noted that these transfers total a net 'Nil' demonstrating that there is no overall movement in reserve levels as a result of this process.

General Working Balance (GWB)

3.6.4 The current policy for the General Working Balance is:

i) Maintenance of a minimum of 2% of the net revenue budget for the GWB in order to provide for unforeseen emergencies etc (estimated at £7.27m for the whole of this MTFS period); supplemented by
ii) An additional (and reviewable) cash sum of £20m to be held back to support the revenue budget in the event of a slower delivery of savings targets.

3.6.5 **Appendix D** sets out the current policy and also includes a set of "good practice rules". Whilst the savings challenge is more intense over the next 2 years the progress made to date puts the County Council in a strong position and therefore this level of balance is considered appropriate at this time. This will of course be kept under review.

3.6.6 The balance on the GWB was £68,314k as at 1 April 2015. The simplified approach sees the GWB held at "policy" level and any unallocated balance in excess of this level is transferred to "Strategic Capacity – Unallocated". Where sums were earmarked for other specific purposes they have been transferred to specific operational reserves. These transfers are summarised as follows:

General Working Balance	**£000**
Opening Balance 1 April 2015	68,314
Planned movements in 2015/16	11,020
Transfers to Operational Reserves	(3,699)
Transfers to Strategic Reserves	(27,182)
Transfer to Unallocated Strategic Capacity Reserve	(21,183)
Minimum Working Balance + £20m	**27,270**

Operational (Directorate) Reserves

3.6.7 Taking into account planned movements in 2015/16 and the presentational transfers outlined above, the estimated total of Operational (Directorate) Reserves is £113.852m by April 2016. These reserves provide funds for a variety of issues – for example self-insurance, technology replacement. In addition there are specific earmarked reserves for schools reserves and public health grant funding.

3.6.8 These operational reserves have been reviewed as part of this MTFS refresh - a further £4.089m is proposed to be released for alternative use and transferred to the unallocated 'Strategic Capacity' reserve. The rest are considered appropriate although further work to establish longer term spend profiles is required.

Strategic Reserves

Strategic Capacity - Projects

3.6.9 A number of specific projects have already been identified, approved and funding allocated. After planned movements and transfers as outlined above the balance on these reserves is estimated to total £11.477m at 31 March 2016. This balance comprises £8m for highways maintenance, £1.212m for South Cliff Scarborough, £997k for Bedale Bypass, £485k for Local Enterprise Partnership Activities, £470k for SFNY and £313k for Mowthorpe Bridge.

Strategic Capacity - Unallocated

3.6.10 This new reserve provides the financial capacity to invest in projects and initiatives to support the Council Plan (including infrastructure projects across North Yorkshire) as well as cover for any anticipated budget shortfalls.

3.6.11 The unallocated balance at 31 March 2016 is estimated at £36.447m and based on the Local Government Finance settlement and the assumptions within this MTFS, without further savings, the majority of this Reserve will be required to support the revenue budget over the next 4 years. Subject to future funding settlements and delivery of the 2020 savings programme this would leave little capacity for future projects and a potential 'cliff edge' as the Reserve reduces by 2020. Additional on-going revenue savings (as set out in **paragraphs 3.8.4** to **3.8.7**) would reduce the call on this reserve and provide capacity to support the Council's priorities.

Local Taxation Equalisation

3.6.12 As core grant funding reduces over the next 4 years so the importance of Council Tax and Business Rates will grow. Whilst these income streams are certain they are also subject to volatility – namely Council Tax and Business Rates Collection Fund surpluses and deficits. In order to enable stability of funds it is proposed to create a new reserve to receive these surpluses and deficits – providing an internal 'safety net' to smooth these income streams.

3.6.13 The balance of this reserve will be kept under review and resources will be released for alternative use as appropriate – a maximum balance of 2% of the County Council's precept and Business Rates Retention income is proposed - £5.4m for this MTFS.

3.6.14 The reserve will be established with the expected Council Tax Collection Fund surplus to be paid by the billing authorities in 2016/17 (£3.5m) and will be drawn down to cover the County Council's share of the net deficit on the Business Rates Collection Funds – estimated at £1m for 2016/17. Examples of volatility include Drax Power Station, Ministry of Defence facilities and challenges from Hospital Trusts.

Treasury Management/Investment Reserve

3.6.15 £10m has previously been earmarked for debt repayment and/or investment to achieve recurring revenue savings or income generation. This new reserve highlights these funds and a review of treasury management activities will be undertaken as part of the savings work to be undertaken during the first half of 2016/17.

3.7 FINANCIAL OUTLOOK TO 2019/20

3.7.1 **Appendix E** sets out a high level forecast of the County Council's revenue budget for the next four years and shows the residual savings requirement in each financial year. (Please note that this excludes one-off investments). In summary, the position is:

Item	16/17 £m	17/18 £m	18/19 £m	19/20 £m
SFA – RSG	37,370	19,120	7,560	0
SFA – Business Rates Baseline	61,274	63,442	64,936	66,465
Council Tax	256,500	268,067	280,157	292,790
Council Tax Collection Fund Surplus	3,479	0	0	0
Business Rates Collection Fund deficit	-1,045	0	0	0
Business Rates top up adjustment	0	0	0	-3,696
Transitional Grant	2,992	2,962	0	0
Net Revenue Budget	360,570	353,591	352,653	355,559
Budget Shortfall (savings requirement)	**633**	**7,264**	**11,327**	**13,961**
Cumulative use of reserves for budget shortfall	***633***	***7,897***	***19,224***	***33,185***

3.7.2 The forecast clearly shows the impact of the Government's plans for Local Government finance. By 2019/20, the Council' main sources of funding will be council tax and business rates. Cuts in funding had been front-loaded in the provisional settlement but transitional funding has softened the potential impact. However, funds to mitigate financial pressures in Adult Social Care are being pushed into 2018/19 and 2019/20. Together these measures will require the County Council to bring identify savings plans for 2017/18 and 2018/19 which is earlier than originally planned.

3.7.3 Clearly savings of this magnitude will take time to deliver and to avoid knee jerk cuts to front line services it is proposed to use reserves to bridge the funding gap in 2016/17.

Impact on Reserves

3.7.4 The table above illustrates that £33.2m of Reserves would be needed to balance the budget over the MTFS period if no further savings were delivered. This assumes that there are no additional savings identified and is therefore “worst-case scenario”. It does illustrate that the Council would need to use a significant amount of cash reserves which could otherwise be used for investment and other council priorities. In addition, the Council will still have a recurring savings gap of £14m to address. It is therefore essential that consideration is given to filling this residual savings gap rather than simply running down Reserves that could be used to fund investments that deliver direct benefit.

3.8 SAVINGS

Existing Savings Programme

3.8.1 The 2020 North Yorkshire Programme has now been in place for 2 years although it has been refined in the interim and further refinements are proposed to savings profiles. This Programme has effectively been the Council’s Savings & Efficiency Plan for the period 2015/16 to 2019/20. It is underpinned by a set of principles to ensure that there is coherency.

3.8.2 The revisions to savings profiles over the MTFS period are now set out in the table below with explanation for the proposed changes. The schedules in **Appendix F** have been amended on the basis that they are approved and the areas affected have been shaded to help with understanding.

Savings Review		**16/17**	**17/18**	**18/19**	**19/20**	**Total**
		£k	**£k**	**£k**	**£k**	**£k**
Libraries	1	-700	600			-100
Human Resources	2	90	-333	243		0
School Improvement	3	-562	328	234		0
Mainstream Transport	4	350	-150	-200		0
Technology & Change	5	-234	-37	-36	307	0
Business Support Service	6	-140	20	120		0
Chief Executive Office	7	85	-200	-214	329	0
Assessment and Reablement Pathway	8	-813	1,948	-640	230	725
Extra Care Housing and EPHs	9	-257	-70	378	-13	38
Complex Needs Transformation	10	-500	-100	-100		-700
Other HAS Savings	11	-63	0	0	0	-63
Total		**-2,744**	**2,006**	**-215**	**853**	**-100**

Notes:

1 Libraries
The profile presented above reflects a change in some of the support (eg premises) and the timescale of delivery following consultation.

2 HR
The original profile of savings was based upon an assessment of when staffing restructures were to be carried out recognising that HR support would be at its most

intense in that period. The new assessment of restructures is that they will be later and some will be significant in terms of scale resulting in a delay of 12 months.

3 School Improvement
Re-profiling of School Improvement savings as agreed by Programme Board in March 2015 and subsequently by Executive on 17 March 2015

4 Mainstream Transport
New home to school contracts in the Craven and Ryedale Areas have achieved efficiency savings. This means that the current £350k target for this 2020 Project can be achieved without recourse to further savings in policy and can be accelerated into 2016-17 from later years.

However, huge financial pressures have arisen over the past year in the transport of children and young people with SEN. Work is being undertaken to bring these costs back into line with the budget such as investigating procurement options and to ensure a joined-up approach between the cost of particular SEN placements and the resulting transport cost but it is anticipated that these pressures will continue at least into 2016-17.

5 Technology & Change
The function and role of Technology & Change is such that it would hinder delivery of the wider 2020 Programme by carrying out the savings in line with the original profile.

6 Business Support Service
Similar to Technology & Change, Business Support Service help enable the rest of the organisation to make their 2020 savings targets. As such it is felt that a relatively small re-profile of the savings for BSS would allow capacity to support change across the Council.

7 Chief Executive's Office
The services within Chief Executive Office have delivered savings in advance of their initial 2020 targets. This has created 'headroom' to allow the services to consider future savings in a more forward thinking manner, which is reflected in the new profile presented.

8 Assessment and Reablement Pathway
Some of the savings around increase reablement work have been re-profiled to late years reflecting the experience to date and capacity available. The significant increase in 2017/18 relates to the full restructure across the Care and Support Services taking effect from 1 April 2017.

9 Extra Care Housing and EPHs
The savings have been re-profiled taking into account the current permissions in place, build in progress and likely tenders to be undertaken through the framework contract.

10 Complex Needs Transformation
This reflects the approved business case and time needed to undertake the reviews.

11 Other HAS Efficiencies
This reflects the anticipated efficiency savings.

3.8.3 The 2020 NY Programme previously had an estimated savings gap of £14.2m over the MTFS period. Areas of potential savings to address this were being explored but, given the Spending Review expected in autumn 2015, no definitive plans were produced. We now know that the four year local government settlement presents greater and faster challenge than we anticipated which resulted in the increase in quantum of savings requirements to £21.2m. Additional savings (reduced pay assumptions and incorporation of Better Care Fund on recurring basis) have been identified which subsequently reduce this to £14m. There is, therefore, a need to identify an extension to the 2020 NY Programme that generates further potential savings of no less than £14m for the MTFS period.

Filling the Residual Savings Gap

3.8.4 The unexpected nature of the 2016/17 local government finance settlement is such that it has not been possible to bring forward a clear set of additional savings proposals to fill the gap at this stage. The residual gap will therefore be plugged by the use of one-off balances which provides the Council with greater time to bring a set of considered rather than “knee-jerk” proposals; this is precisely why the Council has determined its policy on General Working Balances.

3.8.5 A number of high level lines of enquiry have been identified which will require further refinement (although some may prove to be fruitless ultimately). Those high level lines of enquiry work within the principles of the 2020 NY Programme and include:

1. **Savings and Efficiencies**:
   i) Identifying transformative ways to deliver services
   ii) Challenging budget assumptions
   iii) Reviewing inflation and budget assumptions
   iv) Identifying opportunities in back office, management and admin functions
   v) Reducing service levels

Whilst the emphasis will remain on delivering savings through efficiency and non-frontline services there will inevitably be a need to explore options of varying percentage reductions in directorate budgets. This may include delivering outcomes by changing the ways in which services are delivered and priority will be given to the most vulnerable members of society. However, this may also include options that see the Council providing less, or stopping, certain services. (**Highest Impact** given lesser reliance upon other agencies).

2. **Cross-organisational** – identifying opportunities to shape the organisation in key support areas (e.g. reviewing commissioning, contracting and brokerage, strategic support review) and encouraging ideas from staff and customers through existing Bright Ideas and other idea generation options. (**Medium Impact** given low reliance on other agencies but greater time needed to develop proposals).

3. **Commercial** – exploring opportunities to develop shared efficiencies with other organisations, particularly within the North Yorkshire footprint but also with other organisations. In addition, exploring opportunities to develop and exploit commercial opportunities and contribute to savings e.g. increasing the SmartSolutions “dividend” contribution from trading services in the Council; exploiting the Partner in Practice status in CYPS; extending Better Together. (**Low Impact** as only marginal increases in income and dependent upon buyback from others).

4. **Growth** – ensuring that the council is maximising options for growth through:
   i) the taxbase
   ii) income received through business rates, promoting North Yorkshire as a place to do business
   iii) investment in the economy through the LEP

Increases in the taxbase and business rates represent the greatest sustainable sources of income for the Council and also help to deliver some of the Councils, and partners', objectives. However, this area requires contributions from a range of agencies and timescales tend to be long so this is regarded as **Lowest Impact**.

3.8.6 Each of the areas will be pursued in parallel although some areas will take longer than others to reach fruition. The cash shortfall for the Council in 2017/18 means that it is essential that a plan is in place which can make a significant contribution towards the savings target over and above the existing savings plan. It is not possible to determine, at this stage, whether there will be a need for full public consultation on any proposals but delaying consideration until February 2017 (as part of the normal budget cycle) is likely to be too late in the event of any savings proposals requiring full County Council approval. **It is therefore proposed that the high level lines of enquiry are progressed and a subsequent report(s) is brought to the Executive later in 2016**. Further savings will proceed to full County Council in February 2017 unless earlier consideration is required (ie changes are proposed to the existing budget policy framework).

3.8.7 In the meantime, the existing 2020 NY Programme includes the savings programme which was previously approved by County Council in February 2015 and is revised as set out in **paragraphs 3.8.1 to 3.8.3** in this report. Whilst these savings proposals have previously been approved for the purposes of the MTFS, there is now a requirement to formally approve them as an integral part of the 2016/17 revenue budget and to revise the MTFS accordingly. **Appendix F** sets out the savings that County Council are asked to approve as part of this approach (net of the proposed revisions.

3.9 INVESTMENTS & PROPOSED USE OF EARMARKED RESERVES

3.9.1 Whilst the recurring revenue budget is under severe pressure, the County Council has committed one-off funds in order to maintain and develop essential infrastructure across the County. Such investments include £24m of highways funding; £3.1m for superfast broadband across North Yorkshire communities; and £7m to support the roll-out of extra care facilities as part of the modernisation of adult social care provision.

3.9.2 A number of further areas of investment are proposed:

Superfast North Yorkshire

3.9.3 The County Council has been at the forefront of delivering superfast broadband to rural parts of the County where there is no commercial appetite. It is a clear priority area for the County Council and other partners within North Yorkshire. £4m was provided for in last year's budget report for the next Phase of the Superfast North Yorkshire project (SFNY) and roll-out has continued in that time with an expectation that 89% of North Yorkshire will have access to superfast broadband by the end of 2016.

3.9.4 It looks likely that further market engagement and procurement will be required to increase coverage and this will require resources to initiate; run; and contract manage any supplier relationship over a three year plus period. **A sum of £3.0m is therefore proposed to be earmarked for this purpose on a one-off basis**. It is intended that a more detailed assessment of the next options open to the County Council for SFNY will be brought back to the Executive so this sum should be regarded as earmarked and application of the funding is subject to further Executive approvals should the County Council approve this recommendation.

Property

3.9.5 The 2020 Modern Council Programme sets out the Council's plans for its property estate. The intention is to reduce the estate over a period of time and in doing so reduce on-going revenue costs.

3.9.6 The approach requires changes to how office and meeting spaces are used by staff so that more staff can be accommodated. Investments are already in place for ICT kit and now it is necessary to update elements of the property estate that is intended to be retained.

3.9.7 The initial focus on property rationalisation has been on Scarborough, Northallerton and Selby. More immediate plans are being worked up for Northallerton and **it is therefore proposed that a sum of £3.2m is earmarked for property in Northallerton on a one-off basis**. This is proposed on the basis that the investment saves revenue costs of property in line with the 2020 North Yorkshire Programme and promotes increased productivity of the workforce. Further details will be provided to the Executive should this recommendation be supported with a view to seeking approval to commit the funding on specific schemes.

Customer Services Centre

3.9.8 The Customer Services Centre (CSC) has been increasing in size and workload given the approach to channel shift and moving aspects of frontline contact from directorates to the CSC. This has required some temporary funding in order to ensure that day to day operations can be continued whilst migrating new areas into the CSC and assisting the assessment pathways for both children's and adults' social care – these are integral parts of those service's transformation plans.

3.9.9 It is now clear that it will not be possible to reduce this temporary increase in capacity as further customer related work is required. **A recurring sum of £150k is therefore proposed to be built into the CSC budget to ensure that work can continue for the remaining 2020 North Yorkshire Programme**. A review will be held, however, to ensure that resources are being deployed as effectively as possible and any potential saving may be returned.

Invest to Save

3.9.10 Increasingly the Council has had to identify creative ways to generate savings. In some cases this requires up-front investment to make savings possible and taking greater risks than would otherwise be the case (i.e. some plans will not work as envisaged). The Council has, through its prudent financial management and focus on delivering services and savings, been able to create the strategic investment fund as identified in **paragraph 3.6.10**.

3.9.11 There may be further areas which require investment on the basis that there is return on that investment – through cashable savings and increased staff productivity. Further areas will be reported through the 2020 North Yorkshire Programme and where additional funding is required it will be sought from the Executive and / or full County Council subject to the budget policy framework.

3.9.12 Members agreed in last year's Budget report that a sum of up to £10m was to be earmarked to reduce debt. It was however determined that the actions may ultimately be fully or partially implemented in a subsequent financial year. This sum has not yet been deployed as further discussions are taking place to determine if there is scope for use of the one-off money to help generate recurring revenue savings in line with the review of debt and treasury management as set out in **paragraph 3.8.5**. It is therefore intended that this sum remains earmarked on that basis subject to the review of debt / treasury management.

3.9.13 There are also likely to be further requirements for investment, not least in pump-priming the additional savings required and working up the high level lines of enquiry as set out above in **paragraphs 3.8.4** to **3.8.7**. As a result, it is proposed that **a one-off sum of £1.0m is earmarked for the 2020 North Yorkshire Programme on the basis of invest-to-save**. Proposals would be considered and approved by the 2020 NY Programme Board - effectively through Chief Executive in consultation with Corporate Director, Strategic Resources and the Executive Member for Finance. Subsequent formal reporting would take place to the Executive in quarterly monitoring reports.

3.10 BEYOND 2019/20

3.10.1 The current MTFS period extends to 2020 and is now in line with both the Spending Review, the general election cycle and the local government finance settlement. There are, however, some key risks and planned developments that are likely to impact immediately in 2020, if not towards the end of the current MTFS period.

3.10.2 Whilst the UK economy is performing relatively well there are a number of danger signs in the global economy, not least the slowdown in China. The Chancellor identified an additional £27bn of tax revenues in the Spending Review in November 2015 which helped to reduce the level of austerity. Nevertheless, GDP has been revised downwards and the PSBR upwards since then so future volatility should not be ruled out. The offer of a four year settlement for local government has been made on the basis that there are no future "economic shocks" that gives rise to Treasury revisiting government spending plans.

3.10.3 The government has set out plans for councils to retain 100% of local business rates and to offer discounts to businesses. This has been signalled as a move likely to take place by 2020 but there may be transitional arrangements prior to then. It is clear that the move will be "fiscally neutral" and the additional funding will therefore come with duties. One such duty may be the management and allocation of Attendance Allowance although others are also being considered.

3.10.4 The retention of local business rates will provide some incentive for councils to bring additional business rates into their areas and increasingly it appears that local business rates and local council tax will be the only sustainable sources of core funding. As a result, the Council needs to expand its approach to developing sustainable local housing and economic growth to promote place and council finances.

3.10.5 There remains a real risk that any new duties passed to the Council cost more than the funding that is transferred with them (eg Local Assistance Fund). This may be as a result of a national shortfall or merely a product of how funding is distributed across councils. It will be necessary to review any such proposals carefully and make necessary representations.

3.10.6 Other areas of financial risk include the government's intention to continue with implementation of the Care Act and the policy announcement to introduce the National Living Wage. Such initiatives are likely to bring some benefits to service users and / or providers but there are likely to be significant costs associated.

4.0 REVENUE BUDGET POSITION IN 2016/17

4.1 A summary of the 2016/17 proposed revenue budget is set out below with further detail (including initial forecast MTFS assumptions through to 2019/20 in **Appendix E**)

The table below pulls together various strands including:

i) Increased spending requirements
ii) Savings and cost reductions
iii) Adjustments to funding
iv) Core Funding available
v) The resulting bottom line net surplus / shortfall and how that will be dealt with

	£k	£k
Start with Net Budget Requirement from 2015/16		**363,510**
Add back net budget funded from reserve		1,007
Less one-off spend in 2015/16	-14,177	
Add on-off spend in 2016/17		
- Highways Maintenance	2,000	
- Superfast North Yorkshire	3,470	
- Corporate Property	3,200	
- Corporate Contingency for Domiciliary Care	1,050	
- 2020 North Yorkshire	1,000	
- Universal Youth	100	
- Assessment & Welfare Team	80	-3,277
Add Increased Spend in 2016/17		
Pay Awards and Living Wage	2,481	
NI Contracted Out	2,556	
Other Inflationary Pressures	6,307	
HAS Adult Care	5,700	
Flood - loss of grant	136	
Apprenticeship Levy	700	
Customer Service Centre	150	
Other Corporate Items	-2	
Treasury Management - increased income	-1,231	16,797
Appropriations to Reserve		
Council Tax Surplus Contribution to Equalisation Reserve	3,479	
Business Rates Deficit Contribution from Equalisation Reserve	-1,045	2,434
Savings and Cost Reductions in 2016/17 over and above 2015/16		
2020 Budget Savings Already Approved in MTFS from Prior Years	-13,463	
Subsequent reductions to the above	2,744	
Other Savings Requirements	-600	-11,319
Adjustments to funding in 2016/17		
Education Services Grant reduction	1,300	
New Homes Bonus	-500	
Public Health	500	
Rural Services Delivery Grant	-6,600	-5,300
Total Forecast Spend in 2016/17		**363,852**
Core Funding Available		
Revenue Support Grant	37,370	
Council Tax at 3.99%	256,500	
Social Care Precept		
Business Rates from District Councils	18,331	
Business Rates Top-up From DCLG	42,943	
Council Tax Collection Fund Surpluses	3,479	
Business Rates Collection Fund Deficit	-1,045	
Transitional Grant	2,992	
Total Core Funding Available **(= Budget Requirement)**		360,570
Funding Shortfall proposed to be met from Reserve		3,283
Of which:		
- savings shortfall		633
- one-off investments funded from operational reserve		2,650

4.2 Given the scale of funding reduction, the 2016/17 Revenue Budget is balanced with a contribution of £3,283k from Reserves (£633k to fund the savings shortfall and £2.65m which has already been factored into reserves).

4.3 An analysis of the 2016/17 revenue budget at Directorate level is attached at **Appendix G**.

5.0 COUNCIL TAX 2016/17

5.1 In accordance with the proposed MTFS and 2016/17 Revenue Budget, the following Council Tax Requirement and Band D Council Tax Charge are proposed with more detail, including the other Council Tax Bands A to H, provided in **Appendix B.**

Item	**2016/17**
Council Tax Requirement	£256,499,509.55
District Council Tax Base (equivalent number of band D properties)	224,240.30
Basic Amount of Council Tax per Band D property	£1,143.86
Increase over 2015/16 (£1,099.98)	
£ increase	£43.88
% increase	3.99%
Of which:	
Adult Social Care Precept	£22.00
Council Tax Precept	£21.88

5.2 The increase of £43.88 (including £22.00 for the Adult Social Care precept) equates to £3.66 per month or 84p per week for each Band D.

6.0 CONSULTATION

The Citizens' Panel

6.1 The Council has continued to use the Citizen's Panel as a mechanism for testing public attitudes towards proposals. Previous questions have been about an overall approach in shaping the 2020 NY Programme and this year largely sees a continuation of that programme. Questions have therefore largely been restricted to asking about proposals on council tax levels. The late announcement of the social care precept of 2% has changed the position somewhat and it has only been possible to gauge reactions in a short period of time.

6.2 The Council received 644 responses (approximately 33%) but it should be noted that the period of consultation was brief and over the Christmas period given late developments on the social care precept. The key findings were:

i) 436 supported a 1.99% increase in council tax (73% if no replies are excluded or 68% if included).
ii) 359 supported a 3.99% increase in council tax to incorporate the social care precept (57% if no replies are excluded or 56% if included).

Wider Public

6.3 In parallel with the Citizen's Panel the Council used press releases, the Johnston press (in December and January) and the website to outline the Council's budget position and intended approach. The public were invited to offer any comments via the Council's website. The Leader and Chief Executive also carried out a live web chat on 15 December where they fielded a range of budget related questions.

Members Involvement

6.4 A number of Members Seminars have been carried out during the year to include the Budget and 2020 North Yorkshire in the run up to consideration of the Budget at County Council on 17 February 2016. These include:-

10 February 2016	Briefing on 2016/17 Budget & MTFS Report
6 January 2016	Update on Local Govt Finance Settlement & MTFS
2 December 2015	Budget / MTFS (Post Spending Review)
4 March 2015	Analysis of Savings made to date

6.5 Relevant Overview and Scrutiny Committees continue to hold discussions with Corporate Directors and Portfolio Holders and have also carried out more in-depth reviews to gain a better understanding of strands of the Council's approach to delivering the 2020 North Yorkshire Programme and the savings therein. Overview and Scrutiny Committees will be further involved as the 2020 North Yorkshire Programme progresses and further savings proposals are generated. Related Overview & Scrutiny considerations on the 2020 North Yorkshire Programme include:-

Corporate and Partnerships OSC

1. 2020 North Yorkshire cross-cutting themes
2. 2020 North Yorkshire Organisational Development
3. Reconfiguration of the Library Service
4. Property Rationalisation
5. SmartSolutions/Traded Services
6. Customer Strategy

Transport, Economy and Environment OSC

1. Grass cutting proposals
2. Home to School and College Transport savings proposals

3. BES savings for 2020 programme.
4. Proposed reductions in bus subsidy

Care and Independence OSC

1. Care and Support Where I Live Strategy
2. Out of County Placements (Winterbourne Concordat)
3. 2020 Challenges and Social Care Issues
4. Domiciliary Care Contracts
5. Supporting People - 2020 Savings
6. Care Act Implementation
7. Deprivation of Liberty Safeguards
8. 2020 Savings Assessment and Reablement Pathway
9. Self-Funders
10. Stronger Communities and Living Well
11. Equipment & Telecare 2020 Proposals

Young People OSC

1. Home to School and College Transport
2. Draft Strategy for Meeting The Social Care Needs Of Disabled Children And Young People And Their Families, 2015-2018
3. Prevention Service Implementation
4. Strategy for Meeting the Social Care Needs of Disabled Children, Young People and their Families

6.6 The Executive are regularly briefed on progress on the 2020 North Yorkshire Programme, both collectively and as individual portfolio holders. The financial savings are also an integral part of the revenue budget and will therefore feature within the quarterly performance monitoring reporting regime.

6.7 The impact of the Programme is such that on-going Member dialogue is essential. This is particularly the case in relation to initiatives to secure community support and activity, recognising the role of Member as community leader. Individual Members will therefore be kept informed of local issues and the wider Membership will continue to be communicated with through existing channels and further Members Seminars will be held on the Programme and / or further budget related developments.

7.0 PAY POLICY STATEMENT 2016/17

Introduction

7.1 The first pay policy statement was published in April 2012 in accordance with the Localism Act 2011. It needs to be produced annually and can be amended in year on resolution by full County Council. It does not require schools staff to be included.

7.2 This report sets out the primary changes made to the draft pay policy statement for 2016/17 for agreement by full County Council.

New appointments - Approval of salary packages in excess of £100k

7.3 The pay policy statement details the pay arrangements and salaries for Chief Officers and Senior Management. An appointment will not be made to an alternative or varied pay and remuneration package without a recommendation being submitted by the Chief Officers Appointments and Disciplinary Committee to full County Council and agreed by it. Likewise any severance payments over £100k will not be made without a recommendation from the same committee to full County Council. This is likely to reduce to £95k in year in line with legislative changes covering exit payments.

Amendments to pay policy

7.4 There is no expectation that this policy will need amending during the period it covers (April 2016 to end of March 2017). The policy complies with legislation and so will incorporate any new legal requirements on exit payments which need implementing during 16/17. However if circumstances dictate that a change of policy is necessary and appropriate during the year then a revised draft policy will be presented to full County Council for consideration. National pay settlements for the year 2016/17 apply as and when agreed for relevant staff groups at a national level. There is no agreement for implementation as yet and as has been the case in previous years late settlements will be backdated to the agreed implementation date, usually 1st April. In the absence of a national pay award for 1st April minor changes have been made to the bottom of the pay spine to comply with the new national minimum wage rate as of 1st April.

Transparency

7.5 All the information provided in the attached pay policy statement (**Appendix H**) has been fully disclosed and accessible to the public for a number of years on the Council's website and published data and information as required in the Transparency Code.**8.0**

LEGAL IMPLICATIONS

8.1 The legal duties upon the Council to calculate the budget, consider savings proposals, calculate Council Tax requirement and the amount of Council Tax are set out in the report and in the remainder of this Section.

Equality Implications

8.2 Overview

8.2.1 This section provides an overview of equality issues associated with the Council's budget proposals for 2016/17. It summarises the potential equality impacts identified in relation to the budget, and the steps taken to minimise any potentially adverse impact on protected groups during the development of the budget.

8.2.2 Individual equality impact assessments have been carried out for specific proposals identified as relevant to equality.

8.3 Information used to analyse the effects on equality

8.3.1 This assessment is based on a process of consultation and equality impact assessment built into the Council's overall budget development process. This has included:

- Equality impact assessments (EIAs) for specific budget proposals where a potential equality impact has been identified
- On-going discussions between colleagues, partners and Executive councillors
- Additional consideration of cumulative equality and wider community impact of the proposals
- Web chat 15 December on budget – Leader and Chief Executive.
- Responses to consultation on website

8.3.2 Statistical information and research such as demographic data have been referenced where appropriate. Other information has informed equality impact assessments for specific proposals where appropriate.

8.4 Summary of impact

8.4.1 The county council is half way through a savings-through-change programme to deliver £166m - one third of its budget - by 2020. The autumn spending review also delivered two further, and unexpected, financial challenges to the county council's already squeezed budget.

8.4.2 The apprenticeship levy on employers is estimated to cost the Council £700k. Moreover, the Government's plan to withdraw the education services grant, which covers local authority support for schools, represents a further reduction for the authority of up to £7m.

8.4.3 Such reductions in budgets will inevitably have an impact on some citizens but measures are being taken to manage the changes in a planned way, consider cumulative impact, and seek to minimise any adverse impacts.

8.4.4 Some potential adverse impact may occur as supporting vulnerable adults is a very high cost to the Council and more and more people require the Council's support. More than a quarter of the county's adult population is over the age of 65 and every year the population of older people increases, and with it the demand for the care and support which the council provides.

8.4.5 The rurality and sparsity of population in some parts of the county also present challenges for the council in provision of services.

8.4.6 For these reasons the Council has to do things differently. There is an increasing emphasis on preventative provision and a shift towards self-directed support.

8.4.7 Front line service changes include:

i) Changes to library services, meaning some are now community run
ii) Replacing elderly persons' homes with Extra Care housing
iii) Reducing youth and children's centres but providing targeted support
iv) Reducing transport subsidies
v) Reducing grass-cutting services.

8.4.8 Overall impacts for the protected groups relating to savings proposals are summarised in **Appendix I**.

8.5 Summary of overall action to decrease adverse impact or increase positive impact

8.5.1 Various programmes have been implemented to increase resilience in the communities of North Yorkshire and reduce demand on services. These should help mitigate the effects of service reduction, particularly on those with protected characteristics.

8.5.2 Our Stronger Communities team has been set up specifically to support communities to take on a greater role in the provision of services. This is particularly in the areas of community libraries, community transport, activities for young people, children and families, and support for older and more vulnerable people to remain involved and active within their community.

8.5.3 Also, as part of the wider prevention service, our Living Well Co-ordinators will work with individuals (and their carers) who are on the cusp of becoming regular users of health and social care services by helping them access activities in their local community, reducing loneliness and isolation, and supporting them to find their own solutions to their health and wellbeing goals.

8.5.4 Through our Extra Care programme we are providing homes where people can live independently, but with care on hand when they need it. We also support people with the skills and equipment they need to live independently.

8.5.5 The North Yorkshire Local Assistance Fund has been established to give one-off, practical support for vulnerable people and families under exceptional pressure. Awards are goods in kind, not cash, and do not have to be repaid.

8.5.6 The Council provides core support funding for a number of voluntary and community sector (VCS) organisations which provide infrastructure support to the wider sector, much of which provides support and prevention services for vulnerable members of our communities. We also have an Innovation Fund through which we provide funding to VCS organisations implementing innovative approaches to early intervention and/or prevention projects to transform adult social care services in the county.

8.6 Protected characteristics

8.6.1 **Appendix I** is a summary based on findings of EIAs carried out for specific proposals. It provides background information about the profile of the county and notes other factors likely to affect specific sections of the community. It then highlights any anticipated adverse (6% of total impacts) or mixed impact (3% of total impacts) for each group and notes steps taken to minimise impact. Where proposals are not specifically referenced, impacts are anticipated to be positive (13% of total impacts) or neutral (78% of total impacts). Further work is being carried out to ensure that the relative size and importance of impacts is also taken into account.

8.6.2 Specific details of how individual proposals have been adjusted to minimise impact and promote equality are set out in the EIAs for individual proposals which can be found at www.northyorks.gov.uk/budgeteia Members are required to read the individual EIAs to inform their decision making and ensure legal compliance with the public sector equality duty under the Equality Act 2010.

Other Statutory Requirements Relating to Budget Setting

Local Government Act 2003 - Section 25

8.7 Under the terms of Section 25 of the Local Government Act 2003 the s.151 Officer is required to report to the County Council, at the time when it is making its Precept, on two specific matters:-

the robustness of the estimates included in the Budget, and
the adequacy of the reserves for which the Budget provides

8.8 The County Council then has a statutory duty to have regard to this report from the Section 151 Officer when making its decision about the proposed Budget and Precept (see **paragraph 8.17** below for the Section 25 opinion of the Section 151 Officer).

Robustness of the estimates

8.9 The Corporate Director, Strategic Resources, as Section 151 Officer, has undertaken a full assessment of the County Council's anticipated potential financial risks in 2016/17 (**Appendix J**) and the subsequent period up to 2019/20 as far as that is possible including:

- the realism of the Revenue Budget 2016/17 estimates for
  - price increases
  - fee / charges income
  - loss / tapering of the remaining specific grants and / or changes to their eligibility requirements
  - provision for demand led services
  - the financing costs arising from the Capital Plan. The existing policy decision to establish a cap (proposed to continue in 2016/17 at 10% elsewhere on the Executive's agenda) on the level of capital financing charges as a proportion of the annual Net Revenue Budget provides additional assurance on this aspect of the Budget
  - the impact of current and forecast interest rates on the expected returns from investment of cash balances
  - the probability of achieving the necessary savings targets required to minimise any further likely drawdown on Reserves / Balances

- the realism of the Capital Plan estimates in light of
  - the potential for slippage and underspending of the Capital Plan
  - the possible non-achievement of capital receipts targets and its implications for the funding of the Capital Plan

- financial management arrangements including
  - the history over recent years of financial management performance
  - the impact on current financial management arrangements of the budget savings required on finance and related functions across the Council,

whilst at the same time retaining a capability to help achieve the necessary saving targets across the County Council as a whole

- potential losses including
  - claims against the County Council
  - bad debts or failure to collect income
  - major emergencies or disasters
  - contingent or other potential future liabilities

8.10 An assessment has also been made of the ability of the County Council to offset the costs of such potential risks. The MTFS therefore reflects:

- the provision of a contingency fund in the Corporate Miscellaneous budget
- specific provisions in the accounts and in earmarked reserves
- a commitment to maintain the level of the General Working Balance at its minimum 2% policy target level with an additional (and reviewable) cash sum of £20m to provide additional contingency for delays in delivery of savings targets over the challenging period of 2016/17 to 2019/20 (**paragraphs 3.6.4** to **3.6**.**6**)
- a new Local Taxation Equalisation reserve to smooth surpluses and deficits from billing authorities' Collection Funds.
- comprehensive insurance arrangements using a mixture of self-funding and external top-up cover

8.11 Estimates used in the Budget for 2016/17 are also based on pragmatic assumptions taking into account:

- future pay and price increases across all services
- anticipated further reductions in both specific and general grants
- the impact of the economic situation on future interest rates, the Council Tax taxbase, District Council Collection Fund surpluses and deficits, (including the impact of reduced Council Tax Benefit funding) and the future levels of Business Rates collected in North Yorkshire
- policies and priorities as expressed in the Council Plan and associated Service Plans
- the need to plan for the forecast costs of the Waste Strategy in the years beyond 2016/17
- commitments in terms of demand for services (e.g. adult social care, safeguarding of children, adverse weather on highways)

8.12 Whilst these estimates are based on pragmatic assumptions, some elements are inevitably subject to a degree of potential variance. This variance is likely to increase as the time horizon extends. The assessment for 2016/17 and beyond will continue to be re-assessed and is inevitably subject to many external factors which it is impossible to quantify precisely at this stage. Nevertheless, it is important that the Council is able to plan appropriately and the Medium Term Financial Strategy period 2016/17 to 2019/20 provides a planning framework including savings targets. Many of these savings targets are however still at a high level and require further detailed work in order to fully understand the implications of the proposals and the financial consequences.

8.13 The Council operates on a basis of cash limited budgets for each Directorate. Historically there has been an expectation that each Directorate will ensure that any potential overspends will firstly be offset against elsewhere within the Directorate budget. Whilst this remains the case in principle, the increasing consequences of austerity render such an approach less sustainable. In recent times there has been a deliberate approach to centralise contingencies within the Council and, as a result, there is a heightened risk that budgetary pressures felt in Directorates may not be able to be contained within their cash limited budgets. Where that is the case, it is likely that there will be a need for corporate funding. Such issues will be picked up as a matter of course as part of the usual budget monitoring arrangements.

8.14 These cost pressures and variances are monitored on a regular basis and reported, alongside other key performance information, to the Executive on a quarterly basis. The Budget process also provides an annual opportunity to comprehensively review and recalibrate the future years within the MTFS. These monitoring processes have been, and will continue to be, critical in identifying the progress of the County Council in achieving the savings targets that underpin the proposed MTFS.

Adequacy of Reserves and Balances

8.15 The Council is now just over half way through its savings programme in response to austerity. Whilst the Council has a good track record on delivering planned savings and has managed well within overall budget over recent years, the availability of "one-off" funding from Reserves and Balances is of crucial importance. Changes to the existing 2020 North Yorkshire Savings Programme continue to be inevitable in the future (as per changes in quantum and profile set out in last year's Budget and in profile for this year's Budget).

8.16 The additional and unexpected savings requirements arising from the local government finance settlement reinforce the need to ensure that there is sufficient in Reserves to avoid any cliff-edge whilst also being able to invest so that the Council is well placed for the future. This approach will continue to allow a more successful delivery of the 2020 North Yorkshire Programme and avoid short-termist responses which are likely to have more detrimental impact upon frontline services.

Section 25 opinion of the Corporate Director, Strategic Resources

8.17 Taking all of these factors and considerations into account the Corporate Director, Strategic Resources is satisfied that the:-

i) estimates used in the Revenue Budget 2016/17 are realistic and robust and that the associated level of balances / reserves is adequate within the terms of the proposed revised policy.

ii) associated level of balances / reserves for the MTFS period is adequate within the terms of the proposed revised policy **as long as a savings plan can be formulated within 2016 that will provide the basis for addressing the longer term savings gap in 2017/18 and beyond.**

iii) high level estimates used in the projections for the MTFS beyond 2016/17 are as realistic as can be assessed at this stage **given the uncertain external factors**. It remains important, however, that **decisions taken for 2016/17 and beyond are seen in the context of an on-going decline in funding in order to ensure that decision making is optimised**.

9.0 RISKS

9.1 The Corporate Risk Register is attached as **Appendix K**. It is, however, appropriate to consider a more detailed range of risks at this stage which could adversely impact upon the Council's Budget / MTFS.

9.2 **Appendix J** sets out some of the key financial risks and a ready reckoner to quantify potential financial impact but it should by no means be regarded as exhaustive. The current period is amongst the most volatile periods in decades – witness events in China and the world economy and the scope for a further downturn in growth with all the subsequent impacts upon public spending.

9.3 A brief summary of the key risks is identified below:-

Delivery of existing savings programme – the next 4 years see some of the biggest challenges in terms of savings proposals and failure to deliver will increase the residual savings gap.

Inability to identify further savings – the Council's budget will have to be balanced but failure to deliver an acceptable savings programme will require further cashflowing and may result in sub-optimal final decisions on where savings will fall.

Further government grant reductions – whilst core grant disappears there may be further cuts in business rates top-up.

Unfunded additional responsibilities – the government is likely to transfer new responsibilities to local government. There remains a constant risk that the costs of provision outstrip funding provided. Notable examples may be the introduction of the second stage of the Care Act which remains targeted for 2020 and the second wave of the Better Care Fund.

Funding reviews for local government – the government's proposal to allow councils to retain all business rates will require formula review as part of a re-set. This, and any other formula changes, may well detriment the Council (either nationally or through re-distribution).

Financial assumptions – the MTFS includes assumptions around council tax levels and base; business rates levels; pay; inflation (including cost of care exercise) and the impact of the next triennial pensions actuarial valuation (implemented April 2017).

Demand for services – certain services such as children's social care and adult social care will continue to be pressure points and the profile of such services can also be subject to national news and events (eg Baby P).

Legal challenge – savings proposals may be subject to legal challenge from third parties resulting in delays, expense and potentially ceasing implementation of some proposals.

Health & Social Care Integration (including Better Care Fund) – the greater collaboration of health and social care sees a greater transfer of risk. This is also exemplified in the Better Care Fund where acute health pressures can destabilise funding arrangements between CCGs and the Council when supporting adult social care.

Schools / DSG – a revised formula for school funding is anticipated in the near future. This is likely to lead to changes in national distribution so could adversely impact in North Yorkshire.

Emergencies / incidents – greater incidents such as flooding and severe winters will incur additional costs which it is simply not possible to predict.

9.4 In some cases there is the ability to mitigate the financial impact (e.g. using GWB to fund unexpected expenditure incurred on emergencies) whilst in other areas it is simply necessary to plan and continuously review the Council's assumptions and respond accordingly.

10.0 DELEGATION ARRANGEMENTS

10.1 It is the responsibility of the Executive to ensure the implementation of the Budget once it is agreed by the County Council, and the Officer Delegation Scheme sets out the authority delegated to the Corporate Directors in relation to the implementation of the Budget within their services areas, subject to the Budget and the Policy framework.

11.0 CONCLUSION

11.1 The Local Government Finance Settlement for 2016/17 and the indicative figures for future years bring further challenge to the Council's savings requirement. The reduction in government funding is both greater and faster than had been assumed within the previous MTFS.

11.2 Savings of £36.3m are proposed for the next four years which are broadly in line with the 2020 North Yorkshire Programme as put forward last year. There are refinements in profiling but the nature of the Programme remains a valid response to the Council's financial position. It is, however, subject to risks on deliverability and is subject to numerous external factors so delivery of the Programme will require careful monitoring and agility.

11.3 A savings shortfall of £14.0m remains and the shortfall in 2016/17 is supported by use of one-off Reserves. There is a need to pull together additional savings that can, at least, make significant impact into the 2017/18 budget. High level lines of enquiry have been identified and will require further detailed work so that the Executive / County Council can consider any subsequent proposals well before the start of the year as some of the savings may need to be initiated before February 2017 to deliver the required full year effect in 2017.

11.4 A number of investments are proposed to ensure that priority areas continue to be and invest to save schemes are progressed.

12.0 RECOMMENDATIONS

12.1 That the Executive recommends to the County Council:

a) That the Section 25 assurance statement provided by the Corporate Director, Strategic Resources regarding the robustness of the estimates and the adequacy of the reserves (**paragraph 8.17)** and the risk assessment of the MTFS detailed in **Section 9** are noted.

b) That, in accordance with Section 42A of the Local Government Finance Act 1992 (as amended by Section 75 of The Localism Act 2011), a Council Tax requirement for 2016/17 of £256,500k is approved and that a Council Tax precept of this sum be issued to billing authorities in North Yorkshire (**paragraphs 3.3.3 to 3.3.7** and **Appendix B).**

c) That, in accordance with Section 42B of the Local Government Finance Act 1992 (as amended by Section 75 of The Localism Act 2011) a basic amount (Band D equivalent) of Council Tax of £1,143.86 is approved (**paragraph 3.3.6** and **Appendix B**).

d) That a Net Revenue Budget for 2016/17, after use of reserves of £360.570m (**paragraph 4.1** and **Appendix E**) is approved and that the financial allocations to each Directorate, net of planned savings, be as detailed in **Appendix G.**

e) That the Corporate Director – Children and Young People's Service is authorised, in consultation with the Executive Member for Schools, to take the final decision on the allocation of the Schools Block (**paragraph 3.4.6**).

f) That £3.2m is earmarked for property related work as part of the 2020 North Yorkshire Programme and that drawdown of the funding is subject to further Executive consideration and subsequent approval (**paragraph 3.9.7**).

g) That £3.0m is earmarked for the further roll-out of broadband in line with the Superfast North Yorkshire project and that drawdown of the funding is subject to further Executive consideration and subsequent approval (**paragraph 3.9.4**).

h) That a recurring sum of £150k is provided to fund the Customer Services Centre to support the 2020 Customer workstream (**paragraph 3.9.9**).

i) That £1.0m is earmarked for the 2020 North Yorkshire Programme to support delivery of the Programme on an invest-to-save basis and that the Chief Executive is authorised to approve investments in consultation with the Corporate Director, Strategic Resources and the Executive Member for Finance (**paragraph 3.9.13**).

j) That the Medium Term Financial Strategy for 2017/18 to 2019/20, and its caveats, as laid out in **Section 3** and **Appendix E** is approved.

k) That the Corporate Director – Business & Environmental Services is authorised, in consultation with the Executive Members for BES, to implement the range of savings as set out in **Appendix F** (**BES 1** to **14**).

l) That the Corporate Director – Health and Adult Services is authorised, in consultation with the Executive Members for HAS, to:-

   i) Implement measures in order to deliver the Targeted Prevention activity following evaluation as set out in HAS 1 of **Appendix F.**

   ii) Carry out a consultation with staff and then to implement the necessary changes in order to deliver the Assessment Reablement pathway as set out in HAS 3/4/5 of **Appendix F.**

   iii) Implement changes to the procedures and allocation of resources following a review of Personal Budgets as set out in HAS 3/4/5 of **Appendix F.**

   iv) Carry out a consultation and then implement subsequent changes to deliver savings within the Learning Disability Service as set out in HAS 7 of **Appendix F.**

m) That the Corporate Director – Children and Young People's Services is authorised, in consultation with the Executive Members for CYPS, to:-

   i) In the context of the new model for preventative services, to continue to locally review the nature of existing universal children's services provision (**CYPS 1 – Appendix F**).

   ii) Review and further integrate assessment and support functions for children and families including youth offending (**CYPS 2** – **Appendix F**).

   iii) In the light of changes in the care population, to continue to review the nature of placement provision to meet local needs (**CYPS 7 – Appendix F**).

   iv) In the context of the new strategy for meeting the needs of disabled children to continue to locally review the nature of short term provision (**CYPS 8 – Appendix F**).

n) That any outcomes requiring changes following **Recommendations k), l) and m)** above be brought back to the Executive to consider and, where changes are recommended to the existing major policy framework, then such matters to be considered by full County Council.

o) That the arrangements under which additional funds are allocated each year in respect of Adult Social Care are approved and continue to be reviewed at least annually (**paragraphs 3.5.6** to **3.5.8**).

p) That the existing policy target for the minimum level of the General Working Balance is retained at a minimum of 2% of net revenue budget supplemented with a cash sum of £20m for 2016/17 in line with **paragraphs 3.6.4** to **3.6.6** and **Appendix D**.

q) That the revised approach to classification of Reserves and Balances, presentational transfers and new reserves as set out in **Section 3.6** be approved.

r) That the attached pay policy statement (**Appendix H**) covering the period 1 April 2016 to 31 March 2017 (**Section 7**) be approved.

12.2 That the Executive notes the delegation arrangements referred to in **Section 10** that authorise the Corporate Directors to implement the Budget proposals contained in this report for their respective service areas and for the Chief Executive in those areas where there are cross-Council proposals.

12.3 That the Executive have regard to the Public Sector Equality Duty (identified in **Section 8.2** to **8.6** and **Appendix I**) in approving the Budget proposals contained in this report.

RICHARD FLINTON	GARY FIELDING
Chief Executive	Corporate Director, Strategic Resources

County Hall
16 February 2016

16 FEBRUARY 2016

SCHEDULE OF APPENDICES TO MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20 & REVENUE BUDGET FOR 2016/17

Appendix	Title	Cross Reference in main report	Section Colour
A	Core Spending Power		**Cream**
B	Calculation of Council Tax Requirement		**Lilac**
C	Reserves Schedule		**Mid Green**
D	Reserves & Balances Policy		**Light Blue**
E	Summary of 2016/17 Budget and MTFS to 2019/20		**Buttercup**
F	Savings Schedule		**White**
G	Directorate Spending Analysis		**Pink**
H	Pay Policy Statement		**Dark Blue**
I	Equalities Impact Assessment		**Orange**
J	Risk Assessment		**Mint**
K	Corporate Risk Register		**Ivory**

Appendix	Title	Cross Reference in main report	Section Colour
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K	Corporate Risk Register		**Ivory**

APPENDIX A

CORE SPENDING POWER

"Core Spending Power" - difference in assessment for NYCC compared to CLG

	15-16 £m	16-17 £m	17-18 £m	18-19 £m	19-20 £m
North Yorkshire - Core Spending Power as per CLG (£m)	368.3	358.0	356.4	367.3	381.3
Year-on Year Changes		-2.8%	-0.5%	3.1%	3.8%
Overall Change (2015-20)					3.5%
Cash spending reduction (£m) Year-on-Year		-10.3	-1.6	10.9	14.0
Cumulative Impact (3m)		-10.3	-11.9	-1.0	13.0
Made up of:					
Settlement Funding Assessment	122.6	99.3	82.3	72.6	63.4
Council Tax	241.8	253.8	267.6	282.5	298.5
Better Care Fund	-	-	-	5.3	11.0
New Homes Bonus	2.4	2.9	2.9	1.8	1.7
Rural Services Delivery Grant	1.6	2.0	3.6	5.1	6.6
BUT					
Different Planning Assumptions					
- CLG overstatement of Social Care Precept		0.0	0.0	-0.3	-0.7
- Business Rates		1.0	1.4	1.2	0.7
- Council Tax		-1.0	-3.5	-6.5	-10.0
New Taxes					
- Apprenticeship Levy		-0.7	-0.7	-0.7	-0.7
New Policy					
- Living Wage		-1.0	-4.5	-8.0	-11.5
Loss of grant (not included in CLG figures)					
- Care Act		-2.7	-2.7	-2.7	-2.7
- Lead Local Flood Authority Grant		-0.1	-0.1	-0.1	-0.1
- Public Health		-0.5	-1.1	-1.7	-2.3
- Education Services Grant		-1.0	-6.0	-7.2	-7.2
Revised NYCC "Spending Power"	368.3	352.0	339.2	341.3	346.8
Year-on-year changes		-4.4%	-3.6%	0.6%	1.6%
Overall change (2015-20)					-5.8%
Cash spending reduction (£m) Year-on-Year		-16.3	-12.8	2.1	5.5
Cumulative Impact (£m)		-16.3	-29.1	-27.0	-21.5
Difference between CLG and NYCC		-6.0	-17.2	-26.0	-34.5
Cumulative difference between CLG and NYCC		-6.0	-23.2	-49.2	-83.7

Overall "Spending Power" 2016-20	
- CLG Assessment (£m)	1,463.0
- NYCC Assessment (£m)	1,379.3
Difference	-83.7

Memo:

CLG assume that Council Taxbase increases with CPI - significant difference has cumulative impact

CLG assume that NYCC increase council tax by the full 2% social care precept

ESG - accept that NYCC will lose some statutory responsibilities but consultation has not started

Appendix B

CALCULATION OF COUNCIL TAX REQUIREMENT, PRECEPT AND BASIC AMOUNT OF COUNCIL TAX (BAND D EQUIVALENT) 2016/17

1. The County Council has a statutory duty as a major precepting authority in accordance with Section 42A of the Local Government Finance Act 1992 (as amended by Section 75 of the Localism Act 2011) to calculate its Council Tax requirement each year. Additionally in accordance with Section 42B of the Local Government Finance Act 1992 (as amended by Section 75 of the Localism Act 2011) it must also calculate the basic amount (Band D equivalent) of Council Tax for each financial year.

2. Based on the Government's Final Funding Settlement figures announced on 8 February 2016 and a Council Tax increase of 3.99%, the Council Tax and Precept position is set out below:-

Council Tax Requirement	£k	£k
Net Expenditure Budget		363,852
Contribution from Reserve (net shortfall)		-3,283
Net Budget Requirement		360,570
Funding from Business Rates		
Share (9%) of BR income from District Councils	-18,331	
BR 'Top up' from Government	-42,943	-61,274
Revenue Support Grant from Government		-37,370
Share of Business Rates Collection Fund Deficit		1,045
Share of Council Tax Collection Fund Surpluses		-3,479
Transitional Grant		-2,992
Council Tax Requirement		256,500
District Council Tax Base (equivalent number of Band D properties)		224,240.30
Basic Amount fo Council Tax per Band D property		1,143.86
Increase over 2015/16 (£1,099.98)		
£ increase		43.88
% increase		3.99%
Basic Council Tax Increase (1.99%)		£21.88
Adult Social Care Precept (2.00%)		£22.00
Basic Council Tax (£k)		251,566
Adult Social Care Precept (£k)		4,933

3. To produce a Council Tax per property, the amount required to be levied has to be divided by a figure representing the ‘relevant tax bases’. For the County Council, this figure is the aggregate of the ‘relevant tax bases’ of each of the seven District Councils.

4. Each District Council prepares an estimate of its ‘relevant tax base’ expressed as the yield from a Council Tax levy of £1 as applied to an equivalent number of Band D properties. This calculation takes into account the number of properties eligible for a single person discount, reductions for the disabled, anticipated property changes during the year and the extent to which a 100% recovery rate may not be achieved. The following information has been received from the District Councils:

Billing Authority	Tax Base (Band D Equivalents) 2016/17
Craven	21,824.76
Hambleton	35,088.46
Harrogate	60,196.39
Richmondshire*	19,097.25
Ryedale	20,943.26
Scarborough	36,935.95
Selby	30,154.23
Total	**224,240.30**

5. Using the above information the County Council’s equivalent Council Tax precept for a Band D property would be as follows:

Total Council Tax Requirement Relevant Tax Base	£256,499,509 224,240.30
@ Band D =	£1,143.86

6. Using the appropriate ‘weightings’ for other property bands as determined by statute, the Council Tax precept for each property would be as follows[1]:-

[1] All figures are rounded to the nearest penny

Band	2015/16	2016/17
	£ p	£ p
A	733.32	762.57
B	855.54	889.67
C	977.76	1,016.76
D	1,099.98	1,143.86
E	1,344.42	1,398.05
F	1,588.86	1,652.24
G	1,833.30	1,906.43
H	2,199.96	2,287.72
		= 3.99% increase

SUMMARY OF USABLE RESERVES FROM 2014/15 (ACTUAL) TO 2019/20 (FORECAST)

Appendix C

	2014/15				2015/16			
	Actual 31-Mar-14 £000s	Trans to GWB £000s	Other Movement £000s	**Actual 31-Mar-15 £000s**	Planned Movements £000s	Presentational Transfers £000s	Other Movement £000s	**Estimated 31-Mar-16 £000s**
GENERAL WORKING BALANCES	**53,433**	**6,107**	**8,774**	**68,314**	**11,020**	**(52,064)**	**-**	**27,270**
OPERATIONAL								
Total Corporate	33,221	(13)	2,333	**35,541**	(1,235)	(18,485)	-	**15,821**
Total Central Services	9,109	(1,259)	498	**8,348**	(1,475)	4,392	-	**11,265**
Total CYPS - Other	9,074	(516)	183	**8,741**	(3,626)	1,563	(87)	**6,591**
Total CYPS - Schools/DSG	41,923	-	2,334	**44,257**	(3,000)	-	-	**41,257**
Total BES	13,528	(1,430)	1,070	**13,168**	(165)	-	(2,451)	**10,552**
Total HAS - Other	17,993	(2,889)	(1,379)	**13,725**	(1,627)	4,057	(1,551)	**14,604**
Total HAS - Public Health	4,709	-	4,713	**9,422**	(500)	-	-	**8,922**
Total Smart Solutions	4,260	-	580	**4,840**	-	-	-	**4,840**
Total OPERATIONAL	**133,817**	**(6,107)**	**10,332**	**138,042**	**(11,628)**	**(8,473)**	**(4,089)**	**113,852**
STRATEGIC								
Total Strategic Capacity - Projects	4,388	-	(3,155)	**1,233**	(7,935)	18,179	-	**11,477**
Total Strategic Capacity - Unallocated	-	-	-	**-**	-	32,358	4,089	**36,447**
Total Local Taxation	-	-	-	**-**	-	-	-	**-**
Total Treasury Mgmt / Investments	-	-	-	**-**	-	10,000	-	**10,000**
Total STRATEGIC	**4,388**	**-**	**(3,155)**	**1,233**	**(7,935)**	**60,537**	**4,089**	**57,924**
Total RESERVES	**191,638**	**-**	**15,951**	**207,589**	**(8,543)**	**-**	**-**	**199,046**

	2016/17			2017/18			2018/19			2019/20		
	Planned Movements £000s	Adj to maintain GWB £20m+2% £000s	**Estimated 31-Mar-17 £000s**	Planned Movements £000s	Adj to maintain GWB £20m+2% £000s	**Estimated 31-Mar-18 £000s**	Planned Movements £000s	Adj to maintain GWB £20m+2% £000s	**Estimated 31-Mar-19 £000s**	Planned Movements £000s	Adj to maintain GWB £20m+2% £000s	**Estimated 31-Mar-20 £000s**
GENERAL WORKING BALANCES	**-**	**-**	**27,270**	**-**	**-**	**27,270**	**-**	**-**	**27,270**	**-**	**-**	**27,270**
OPERATIONAL												
Total Corporate	(1,455)	-	**14,366**	(957)	-	**13,409**	-	-	**13,409**	-	-	**13,409**
Total Central Services	(996)	-	**10,269**	(600)	-	**9,669**	(1,100)	-	**8,569**	-	-	**8,569**
Total CYPS - Other	(3,747)	-	**2,844**	(2,086)	-	**758**	(758)	-	**-**	-	-	**-**
Total CYPS - Schools/DSG	(3,000)	-	**38,257**	(2,000)	-	**36,257**	-	-	**36,257**	-	-	**36,257**
Total BES	(280)	-	**10,272**	(194)	-	**10,078**	-	-	**10,078**	-	-	**10,078**
Total HAS - Other	(1,080)	-	**13,524**	(1,000)	-	**12,524**	(1,000)	-	**11,524**	(400)	-	**11,124**
Total HAS - Public Health	-	-	**8,922**	-	-	**8,922**	-	-	**8,922**	-	-	**8,922**
Total Smart Solutions	-	-	**4,840**	-	-	**4,840**	-	-	**4,840**	-	-	**4,840**
Total OPERATIONAL	**(10,558)**	**-**	**103,294**	**(6,837)**	**-**	**96,457**	**(2,858)**	**-**	**93,599**	**(400)**	**-**	**93,199**
STRATEGIC												
Total Strategic Capacity - Projects	(3,467)	-	**8,010**	(2,000)	-	**6,010**	(3,212)	-	**2,798**	(2,000)	-	**798**
Total Strategic Capacity - Unallocated	6,298	-	**42,745**	(3,003)	-	**39,742**	(10,506)	-	**29,236**	(13,961)	-	**15,275**
Total Local Taxation	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**
Total Treasury Mgmt / Investments	(10,000)	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**
Total STRATEGIC	**(7,169)**	**-**	**50,755**	**(5,003)**	**-**	**45,752**	**(13,718)**	**-**	**32,034**	**(15,961)**	**-**	**16,073**
Total RESERVES	**(17,727)**	**-**	**181,319**	**(11,840)**	**-**	**169,479**	**(16,576)**	**-**	**152,903**	**(16,361)**	**-**	**136,542**

MEMO

Reconciliation of Movements in Strategic Capacity - Unallocated	**2016/17 £000s**	**2017/18 £000s**	**2018/19 £000s**	**2019/20 £000s**	**Total £000s**
Use of Reserve to fund MTFS	(633)	(7,264)	(11,327)	(13,961)	(33,185)
Former PIP allocations becoming available	6,931	4,261	821	-	12,013
Net Movement	6,298	(3,003)	(10,506)	(13,961)	(21,172)

APPENDIX D

COUNTY COUNCIL'S RESERVES/BALANCES

1.0 **Introduction**

1.1 As part of the Budget process all balances and reserves have been reviewed as to their adequacy, appropriateness and management arrangements.

1.2 A schedule of the Reserves/Balances held at 31 March 2015 together with forecast movements over the five years 2015/16 to 2019/20 is provided at Appendix C**.**

1.3 All the Reserves/Balances listed are reviewed and monitored on a regular basis by the Corporate Director – Strategic Resources. The level of the General Working Balance (GWB) is specifically reported to the Executive as part of each Quarterly Performance and Budget Monitoring report. Reserves are reviewed to establish:

- The current justification of the need for the reserve together with its intended use and the timing of that use;
- The likely value of any potential liability and whether the Reserve is sufficient;
- Whether the liability is better met as part of a wider Council Reserve (i.e. either as part of GWB or another dedicated Reserve) thus eliminating the need for a specific earmarked reserve.

2.0 **Reserve Reclassification**

2.1 In order to provide greater clarity over the purpose and use of reserves they have been re-categorised into the following types of Balances/Reserves:

- General Working Balance – this is the Council's funding of last resort. It provides the contingency to manage risk across the Council and is subject to a policy requirement;
- Operational (Directorate) – these reserves help to manage financial risk, commitments and support improvement within service directorates;
- Strategic – these reserves provide funding to support the corporate objectives and priorities set out in the Council Plan including: resources to support the long term viability of the Council; projects to improve infrastructure such as roads and broadband connectivity; and funding to repay debt and/or generate cash returns.

2.2 The operation of reserves and balances are subject to the following:

General Working Balance

2.3 The current MTFS policy as agreed in February 2014 is to maintain the minimum level of GWB at:

a) A minimum of 2% of the net revenue budget in order to provide for unforeseen emergencies etc supplemented by;
b) An additional (and reviewable) cash sum of £20m to be held back in the event of a slower delivery of savings targets.

2.4 The above policy is also accompanied by a set of "good practice rules" which were introduced when the original policy was established as part of the 2007/08 Revenue Budget.

2.5 These “rules” are as follows:

(a) that any underspending on the Corporate Miscellaneous budget at the year-end will be allocated to the GWB. From 2017/18 it is proposed that such underspending is allocated to GWB only if the balance drops below the target balance. Any other underspends will be allocated to the Strategic Capacity Reserve;

(b) that should there be any call on the GWB during a year such that the Target level (as defined in the MTFS) will not be achieved at the respective year end then:

(i) that shortfall be addressed in the next Budget cycle; and/or
(ii) that revenue or capital expenditure reductions be effected in either the current or following financial year, in order to offset the shortfall;

(c) that in order to implement (b) the Executive should review the position of the GWB on a regular basis as part of the Quarterly Performance and Budget Monitoring report process.

2.6 The estimated profile of the GWB to 2019/20 is summarised in Appendix C.

Operational (Directorate) Reserves

2.7 These are specific funds for a range of initiatives and projects – current balances have been subject to challenge although further work to establish appropriate spend profiles is required and will be undertaken during 2016/17. Appropriations to and from these reserves will be considered on a case by case basis.

Strategic Reserves

Strategic Capacity – Projects

2.8 These are specific funds for individual initiatives and projects which support the County Plan. Appropriations to and from these reserves will be considered on a case by case basis and funds will be allocated from the Strategic Capacity Reserve.

Strategic Capacity - Unallocated

2.9 This new reserve has been created from available balances within GWB and Corporate Miscellaneous as at 31 March 2016. Appropriations to this reserve will be dependent upon in-year revenue surpluses (beyond those required to top-up GWB) and windfall resources. The first call on this reserve will be to fund any revenue budget shortfalls after planned reserve movements.

2.10 Subject to available resources, appropriations from this reserve to fund specific projects will be subject to approved business cases.

Local Taxation Reserve

2.11 This reserve has been created to receive the surpluses and deficits on the County Council's share of Council Tax and Business Rates Collection Funds administered by the billing authorities (district councils) in North Yorkshire. The purpose of this reserve is to mitigate the risk of a significant Collection Fund deficit impacting on the revenue budget in a single year.

2.12 A maximum balance which is sufficient to provide a reasonable internal 'safety net' is proposed at 2% of these income streams – estimated at £5.4m for 2016/17.

2.13 Should this maximum balance be exceeded then the excess will be released to the Strategic Capacity Reserve for alternative use.

2.14 A minimum balance of £1m is proposed and if this is insufficient to meet an expected net Collection Fund deficit, then the Strategic Capacity (Unallocated) Reserve will be used to fund any shortfall and reinstate the minimum balance.

Investment Reserve

2.15 This reserve has been created from £10m resources earmarked within GWB. A review of treasury management activities will be undertaken in 2016/17 with the intent to apply these resources to achieve on-going revenue savings for the Council.

Summary of 2016/17 Budget and MTFS to 2019/20

Appendix E

NORTH YORKSHIRE COUNTY COUNCIL
MEDIUM TERM FINANCIAL STRATEGY (MTFS)
2015/16 to 2019/20

EXECUTIVE SUMMARY

		2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
A	**Starting Position**	**372,999**	**363,510**	**360,570**	**353,591**	**352,653**
B	**Increased Spending / Growth Requirements**					
	Inflation					
	Pay Awards	1,843	1,446	1,464	2,468	2,518
	Waste Strategy PIP	700	-	-	-	-
	NI Contracted Out Change	-	2,556	-	-	-
	Other Inflationary Costs	4,472	6,307	5,250	5,300	5,300
	Living Wage - Internal Impact	-	35	259	389	1,919
	Living Wage - External Impact	-	1,000	3,500	3,500	3,500
	Additional Spending Requirements / Movement					
	BES					
	Roads	(5,000)	-	-	-	-
	Flood - loss of grant	-	136	-	-	-
	Central					
	Customer Service Centre	-	150	-	-	-
	Appropriation to Reserve - C Tax surplus	-	3,479	(3,479)	-	-
	Appropriation from Reserve - BR deficit	-	(1,045)	1,045	-	-
	Corporate Contingency - Dom Care	-	1,050	(1,050)	-	-
	2020 North Yorkshire	-	1,000	(1,000)	-	-
	Corporate					
	Pension Fund Provisions	(1,665)	-	1,700	-	-
	Treasury Management	(829)	(1,231)	(305)	(1,309)	(350)
	Corporate Property	2,000	(2,000)	-	-	-
	Superfast North Yorkshire (Broadband)	4,000	(1,000)	(3,000)	-	-
	Customer Service Centre	200	-	-	-	-
	Yorwaste Dividend Shortfall	410	-	-	-	-
	County Council Election	(79)	-	750	(750)	-
	Other Corporate Items	13	(2)	(6)	3	-
	Apprenticeship Levy	-	700	-	-	-
	Property	-	3,200	(3,200)	-	-
	HAS					
	Adult Care	3,000	3,000	3,000	3,000	3,000
	Care Act (loss of grant)	-	2,700	-	-	-
	Additional One-Off Spend from GWB					
	BES					
	Highways	7,000	(5,000)	-	-	-
	Major Schemes	210	(210)	-	-	-
	Flooding Schemes	500	(500)	-	-	-
	Corporate					
	SFNY	-	470	(470)	-	-
	CYPS					
	Universal Youth	100	-	(100)	-	-
	HAS					
	Assessment Team & Welfare	367	(287)	(80)	-	-
		17,242	**15,954**	**4,278**	**12,601**	**15,887**
C	**Cost Reduction / Savings Requirements**					
	Corporate					
	2020 Budget Savings	(21,650)	(10,719)	(12,657)	(8,843)	(4,056)
	HAS					
	Savings Package from 13/14	(800)	-	-	-	-
	Budget 2	(1,600)	(80)	-	-	-
	Delayed Savings	520	(520)	-	-	-
	FACS Charging	100	-	-	-	-
		(23,430)	**(11,319)**	**(12,657)**	**(8,843)**	**(4,056)**
D	**Adjustments to Funding**					
	Corporate					
	Education Services Grant	2,100	1,300	5,200	1,400	200
	Local Welfare Reform	947	-	-	-	-
	New Homes Bonus	(407)	(500)	(18)	1,167	109
	Business Rates Relief Compensation	(1,000)	-	-	-	-
	Business Rates 2% cap Grant	(256)	-	-	-	-
	Contribution to GWB 14/15	1,322	-	-	-	-
	Rural Services Delivery Grant	-	(6,600)	1,600	1,500	(1,500)
	HAS					
	Better Care	(5,000)	-	-	(5,300)	(5,700)
	Public Health	-	500	600	600	600
		(2,294)	**(5,300)**	**7,382**	**(633)**	**(6,291)**
E	**Use of General Working Balances (GWB)**					
	MTFS Balance/(Shortfall)	7,170	(7,803)	(6,632)	(4,063)	(2,634)
	Additional One-Off Spend to Directorates (see section B)	(8,177)	5,527	650	-	-
		(1,007)	**(2,276)**	**(5,982)**	**(4,063)**	**(2,634)**
F	**Total Net Budget Requirement**	**363,510**	**360,570**	**353,591**	**352,653**	**355,559**
G	**Funding Sources**					
	Revenue Support Grant	(59,218)	(37,370)	(19,120)	(7,560)	-
	Business Rates Top Up	(42,588)	(42,943)	(44,745)	(45,866)	(47,014)
	Business Rates District Councils 9%	(18,871)	(18,331)	(18,697)	(19,070)	(19,451)
	Business Rates Collection Fund Deficit	1,687	1,045	-	-	-
	Council Tax Dictrict Councils Collection Fund	(2,726)	(3,479)	-	-	-
	Business Rates Top-Up Adjustment	-	-	-	-	3,696
	Transitional Grant	-	(2,992)	(2,962)	-	-
		(121,716)	**(104,070)**	**(85,524)**	**(72,496)**	**(62,769)**
H	**Balance Required from Council Tax**	**241,794**	**256,500**	**268,067**	**280,157**	**292,790**
I	**District Council Tax Base (Band D equivalents)**	219,816.84	224,240.30	225,361.00	226,488.00	227,620.00
J	**Basic Amount of Council Tax (Band D)**	**1,099.98**	**1,143.86**	**1,189.50**	**1,236.96**	**1,286.31**
	Annual % Increase (£1,078.52 in 2014/15)	1.99%	3.99%	3.99%	3.99%	3.99%

	2015/16	2016/17	2017/18	2018/19	2019/20
General Working Balances - one-off spend	(8,177)	(2,650)	(2,000)	(2,000)	(2,000)
General Working Balances - savings	7,170	(633)	(7,264)	(11,327)	(13,961)
Total	(1,007)	(3,283)	(9,264)	(13,327)	(15,961)

Appendix F

Savings Proposals on the 2020 North Yorkshire

Introduction by the Chief Executive

This Appendix provides detail on the area of savings that are proposed as part of the Revenue Budget for 2016/17 and the MTFS period up to 2019/20. The savings proposals are set out within Directorates but, as Councillors are aware, the overall savings programme is part of a coherent package – the 2020 North Yorkshire Programme. This Programme is now approximately 2 years old from inception and is approaching the first full year of delivery (i.e. 2015/16). The Programme acknowledges that the Council faces a big challenge and that requires a big change in ways of working.

More detail is set out in “2020 North Yorkshire – A Vision and Approach for Change for North Yorkshire County Council - http://nyccintranet/content/vision . We will shortly be producing an update to this document to further consolidate how the Programme helps to deliver the Council Plan and how that is underpinned by its Medium Term Financial Strategy.

Looking forward to 2020 we can see that many of our services will continue to be vital for North Yorkshire. In addition, the Council will need to provide leadership and to overcome some of the on-going issues that affect the lives of people within the county. For example:-

- Opportunities for young people;
- Loneliness and social isolation;
- Transport links;
- Economic opportunities for all parts of the county;
- Broadband connectivity

So, how does the Council deal with all of these expectations at a time when the available resources are reducing by a third from 2010 levels?. The answer comes in four parts:-

- By focussing on clear prioritisation;
- By focussing on outcomes;
- By playing to our strengths; and
- By adopting new ways of working.

Much valuable work has been done and is planned to help deliver the Programme. Examples include the Stronger Communities Programme which his helping to deliver savings and community resilience across all Directorates; the launch and development of SmartSolutions to improve the Council’s commercial offer and to provide greater value for its schools; re-configuring and strengthening the Council’s prevention work through the 0 – 19 team within CYPS and Living Well co-ordinators within HAS; using customer information to shape services; and helping to deliver the right environment so we can increase staff productivity and effectiveness as part of being a Modern Council.

The latest Local Government Finance Settlement provides additional unwelcome news and therefore even greater challenge. The 2020 Programme and its underpinning principles (see below) provide a good foundation to build upon as we face these challenges. There are likely to be changes in the future and we will face many risks (as are set out in this report) but I remain confident that we will rise to the challenge by working together as Members, officers, communities and partners.

Savings proposals for Business and Environmental Services (BES) directorate

Introduction

The BES Directorate consists of a number of service areas that complement each other in delivering services that promote strong and sustainable communities with a sustainable economy. There is a need to provide services that meet our statutory duties ie highways, transport, waste and regulatory services. Inevitably, living within our means in delivering services is crucial if we are to continue to provide essential services in the future.

Proposals

The majority of the BES proposals will be delivered by 2016/17, and we will continue to review our service delivery taking into account our statutory duties and minimum standards, with a focus on the appropriate balance of risk. Key proposals that have being delivered in the past 12 months are briefly described below.

In the next 12 months BES will seek to identify and consider further proposals for services which could be funded and/ or delivered by communities, private sector, other public bodies or the voluntary sector. There will not be a single solution for the whole county and in line with the principles of 2020 North Yorkshire we will look at the opportunities for partners to shape and deliver a different approach.

<u>Highways</u>

Savings on Winter Maintenance costs were delivered through applying a consistent standard to the supply of gritting heaps across the County. This is not without risk but working with HAS any areas of particular concern can be reviewed.

Grass cutting changes for 2015/16 have been successfully implemented. However, to achieve the full saving by April 2016/17 the contract for grass cutting is being re-procured; further changes to grass cutting on rural roads are also planned.

Gully emptying proposals will reduce overall gully emptying from all gullies being emptied at least 2 times every 3 years to a more risk-based approach e.g. post 1974 developments have a well-designed drainage infrastructure, are less likely to be at risk of blocking and can therefore be emptied less often. Improvements are also being made to the asset data to help support the risk-based approach.

A review of the Network Strategy service has led to a restructure to maximize the professional support provided for growth opportunities and links funding for the team more closely to the capital development programme.

A “Lean” review of the general highway maintenance process identified changes and efficiencies to support a 10% reduction in revenue budget for road maintenance.

<u>Waste Services</u>

Charging for providing most household waste services is prohibited and as a result of this, our options for reducing costs in this service area have been reduced. But options were still identified to introduce some additional charges to generate an income stream and these will be implemented in 2016/17.

Transport

A further review of subsidized bus services has been undertaken. This presented an opportunity to look at the outcomes for communities, beyond simply the provision of transport and movement of people around the county. Public consultation on bus service changes was completed as planned in August 2015. With a high proportion of older people using buses and the Council's vision of people being supported to live at home, the issue of accessibility to public services and amenities was part of the consultation. Contracts for provision of new bus services across the County were reviewed with the involvement of Parish Councils to maximize local input and perspective.

Access to appropriate transport is a key interest for communities and the Transport service continues to work closely with the Stronger Communities programme to identify where community transport could be provided by combinations of volunteer drivers, the existing council mini bus fleet outside its normal operating hours and even volunteer drivers using county council provided cars.

Trading Standards

As well as targeting services to protect the older population, any reductions in the Trading Standards budget will look to work with public health to protect the young, through targeting the reduction in use of tobacco and alcohol by the young, and through working with the Police and other partners. There had been significant success in 2014/15 in drawing in third party income to deliver shared outcomes, which will lead to a more resilient service in the future. This continues with contracts won to provide services to YCC. The structure of the service will be reviewed in Summer 2016 and consideration will be made as to how the service can continue to bring in extra income to off-set costs.

Changes to managing customer contact mean that customers can call one number to access Trading Standards. The single number approach makes it clearer for customers who to call and the change also means there is someone immediately available to answer calls.

Further Savings

BES is working closely with the 2020 Customer Programme to identify how to make further savings and improve customer experience by providing more online self-service - this includes Public Rights of Way, Trading Standards, County Searches, and Highways.

Business & Environmental Services Appendix F

Project No.	Savings Area	Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Highways							
BES 1	Highways - all services	Review of services and staff to focus on statutory requirements and minimum standards within policy and the delivery of an efficient revenue and capital works programme.	500				**500**
BES 6	Highways - various	Increase in income streams following review.	300				**300**
Waste & Countryside Services (WACS)							
BES 10	WACS - various services	Introduce service reductions in countryside services towards minimum standards necessary to meet statutory duties and corporate policy objectives, including reducing spend on public rights of way and environmental specialisms, and reducing grants and other support for outside bodies.	34				**34**
Trading Standards & Planning Services (TS&PS)							
BES 11	TS&PS - Planning Services	Reduce capacity to deal with planning applications, strategic policy and forward planning, whilst reviewing opportunities for charging.		168			**168**
BES 12	TS&PS - Trading Standards	Reduce, and in some cases curtail, services for business advice, No Cold Call Zones, inspections, investigations, safeguarding and public health. Explore alternative funding and deliver options with LEP/ Public Health/ Police to minimize impact on outcomes.	290	294			**584**
Integrated Passenger Transport (IPT)							
BES 13	IPT - bus subsidy	Remove subsidy to bus services. £1.5m budget retained to address accessibility. Review options through community engagement.	1,805				**1,805**
BES 14	IPT - concessionary fares	Estimated knock-on impact to concessionary fares expenditure associated with bus subsidy removal.	40				**40**
			2,969	**462**	**0**	**0**	**3,431**

Saving proposals for Children and Young Peoples Service (CYPS) directorate

Introduction

A positive cross-council approach has been taken, in keeping with the North Yorkshire 2020 Programme, in developing these budget proposals. This has ensured that key elements of the proposals remain consistent with, and will support, the cross-council strategy and operating models for other services:-

- Building community capacity and providing excellent, wide reaching support will reduce the need for targeted involvement by Local Authority services;
- The Council is not necessarily a direct provider of universal provision;
- Good and outstanding educational provision liberates individuals and can change the nature of both individual trajectories and communities;
- The Council whilst maintaining its overview of educational outcomes recognises the evidenced improvement made through more collaborative, sector led arrangements;
- Families need to have access to high quality information advice and guidance including web-based advice;
- High quality whole family interventions are increasingly provided to those needing more targeted prevention to prevent those problems escalating;
- Progress has be made in further integrating management structures and enhancing partnership working;
- We continue to reduce the services building base and accept opportunities for creative shared use of existing buildings;
- We continue to protect the provision of care and protection for those with higher level needs; and
- We aim for children to live safely with their families within communities but, where care is needed, that high quality provision should ideally be family based and more locally available.

Proposals

These proposals have and will continue to result in major transformation of delivery arrangements for services involving:

- the organisation of teams delivering services;
- the management of those services; and
- the places from where those services are delivered.

The proposals have shifted the focus from direct delivery of universal provision to one which is targeted on those in the greatest levels of need whilst retaining our recognition of the importance of early intervention.

In developing proposals, we have given priority to key statutory responsibilities to those children and young people who are at risk of harm and or in need of care and protection. The proposals do not see any reduction in social work capacity or its management. At the same time, successful national innovation bids during 2014 now see a transformation in delivery arrangements for adolescents with some of the most complex needs.

Children in care

We have set challenging targets for **reducing the numbers of children in care.** In recent years good progress has been and continues to be made against that ambitious challenge. As well as reducing the numbers in care we need to positively and safely reduce the unit cost of care in order to meet the ambitious savings targets set. This should not impact upon either the rigour of our child protection arrangements or the quality of care provided for those that we have assessed as requiring it. A consultation on a new fostering payment framework has been well received and implemented and our DfE funded innovation programme working with adolescents on the edge of care has been successfully established. This enabled a confident revisiting of the numbers of current residential care beds needed by the Council.

During 2015-16 we have successfully implemented a new Prevention Service, centered around **integrated 0-19 area teams**, which has brought together separately managed services to provide more targeted support and intervention. This service is successfully delivering a significant increase in targeted support and reducing numbers going through to children's social care. More families are as a result receiving quicker access to the right service.

School improvement

Our new school improvement service was implemented in September 2015, with some transitional funding over the first two years. This model, the result of our well-regarded **North Yorkshire Commission for School Improvement** operates within a smaller funding envelope, but also ensures that additional resources are released to school-led collaboratives with a greater potential for impact. No doubt the promised policy and funding review due imminently by the DfE will present further challenges for the service, but our aim remains to ensure that every child in North Yorkshire has the chance to be educated in a good or outstanding school. Encouragingly, the rate of improvement toward that target is significantly above the national average.

Children with special educational needs

In September 2014, the **Children and Families Act** introduced new arrangements for assessing and supporting children with special educational needs and disabilities. Whilst the government recognised that the new legislation brings greater expectations on local authority resources, we do anticipate that our reviews of current arrangements of services for these groups will deliver savings. Our 'short breaks' provision demonstrates an above average spend in North Yorkshire. Our Strategy for Supporting Disabled Children, Young People and Their Families, adopted in 2015, seeks to enhance the capacity of family based provision as a positive alternative to residential provision. At the same time, we are committed to improving the experience of disabled young people and their families and to improving their transition to adult provision by trying to achieve greater opportunities for local independent accommodation, employment and training. A restructuring of the LA disabled children's team has been successfully completed and savings delivered.

Home to school transport

We have been successful in negotiating new contracts for school transport which means that no further reviews of discretionary provision are imminent.

Further savings

In addition to all of the above, we will carry out other staffing reviews to achieve further savings which, wherever possible, will be carried out without any significantly negative impact on service delivery. We will also continue to explore, with the North Yorkshire Education Partnership, opportunities for creating headroom in the Dedicated Schools Grant. This could be achieved through reviews of current school organisation arrangements particularly for those funded through the high needs block of that grant. Progress here would enable further discussions with the Partnership on the future balance of joint funding of valued and necessary services.

2015/16 has also seen significant work to develop a more commercial trading approach. SmartSolutions has been launched and creates a vehicle where schools both within and outside of the LA have easier opportunities to trade with LA services. Further expansion and development of this trading model also creates opportunities for LA efficiencies.

Appendix F

CYPS

Project No.	Savings Area	Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
CYPS 2	Assessments and supporting families	Further development of an integrated family support team including evidence-based family interventions, homelessness prevention and resettlement and work on the Developing Stronger Families Initiative. Re-examination of the role of Youth Justice and reconfiguration of Senior Social Workers to locally deploy Senior Practitioners and establish Senior Practice Educators within Workforce Development.	598	220	105	0	923
CYPS 3	Support for school improvement and early years	Implementation of the outcomes of the Commission for School Improvement rolling out new local school led commissioning arrangements for school improvement. LA school improvement team consultation underway. This has been reprofiled following agreement from Executive in March 2015.	146	328	234	0	708
CYPS 4	Other school and LA support services	Review of a range of strategic LA functions including performance management arrangements, IT strategy, school place planning and overheads.	170	220	340	0	730
CYPS 5	Home to School Transport	Savings have been agreed following some changes to discretionary transport. However the bulk of the remaining savings are due to efficiencies in procurement	400	0	0	0	400
CYPS 6	Access and Inclusion support services	A review has been undertaken on the current Educational Psychology Service which will lead to staffing savings and increeased income generation as a traded service	100	100	100	0	300
CYPS 7	Looked After Children (LAC) /Placements	Safe reduction in the number of Looked After children and in the nature of placements used for that reduced figure.Options have been explored to reconfigure the foster carer profile and role types, to review the level of current local residential care provision and to reduce out of authority placements. Partnership working with district councils to develop further the 16/17 accommodation pathway will also contribute to this saving.	1,076	268	1,100	0	2,444
CYPS 8	Services for Disabled Children	Following the adoption of the *Strategy for Supporting Disabled Children, Young People and their Families* in 2015, changes to delivery arrangements for short break provision will contribute to this project. A saving of this magnitude in the overall provision budget, (including Children's Resource Centres) could also result in a reduction in the level of service provided for families.	250	147	0	0	397
CYPS 9	High Needs Services	More effective use of the High Needs and other funding within the Dedicated Schools Grant will create appropriate efficiencies to support relevant and valued services funded through general fund.	1,278	146	0	0	1,424
			4,018	1,429	1,879	0	7,326

Saving proposals for Health and Adults Services (HAS) directorate

Introduction

The Council understands that people want to be supported to live at home and to receive services at home, or as near as possible. They want to remain with their family, in their neighbourhood and community and to contribute to the community and the economy. They also want information and advice, support for their carers and short-term services to get them back on their feet. Importantly, they want choice and control over how they are helped. To this end, a new operating model will be implemented for delivering services; and we will work with the NHS to transform our services.

The new operating model sees a shift towards a service which is fit for a digital age in line with the 2020 North Yorkshire principles. It will promote self-help and independence and focus on targeted prevention, reablement and giving control to our customers. We will expand services such as Extra Care Housing to replace residential care, integrated reablement to replace traditional care at home and digital and self-help solutions to modernise assessment and care management services.

There are very clear links to the principles that underpin, and the work that is being carried out within the 2020 North Yorkshire Programme, particularly the Stronger Communities, Customer and Property themes. Further detail is provided below.

Proposals

Targeted prevention and support

This project builds on the 'Distinctive Public Health for North Yorkshire' programme, by re-investing circa £4m of Public Health efficiencies in preventative and community capacity to meet specific local needs.

It will enable local groups and individuals to support vulnerable people in line with our responsibilities under the Care Act to promote wellbeing. This will help to maximise people's independence and reduce reliance on the need for contact with statutory services. This project will also develop and expand the range of preventative services funded by the Council for people who already have low level health and/or social care needs and their carers.

The Living Well Team, Income Maximisation team and low level prevention contracts are all part of this project.

Assessment Reablement Pathway

A key aspect of the overall project will be to make sure that wherever possible, people's support needs are provided through locally developed community services and local universal services rather than traditional services. This project will focus on the customer journey once a person needs extra support and is based on maximising the person's independence and quality of life by reducing the need for services.

We will have a greater focus on meeting people's support and recovery by using community based assets, such as services run by community groups or voluntary sector partners, to meet their needs. We will also work with Health partners to deliver improvements in service delivery through integrated multi-disciplinary working. This is in line with Better Care Fund priorities and Care Act.

This project builds on existing work and savings generated in reviewing Complex Needs packages and provision.

Equipment

This project will deliver savings through the rationalisation of the current equipment and stores arrangements to improve customer service. A joint procurement exercise involving Health partners will be undertaken in 2016. This will reduce overall costs and ensure that people are helped to remain independent for longer.

Extra Care Housing and Elderly Person's Homes (EPHs)

This project accelerates the current work on replacing its EPH estate with Extra Care Housing to improve accommodation choices for people who need support including those with complex needs. The project will examine EPHs individually in line with wider market development activity and seeks to ensure the provision of over 50 extra care schemes cross county by 2020.

Complex Needs Transformation

This project builds on existing work and savings generated and will develop a new commissioning strategy with NHS partners for complex needs services, in line with Better Care Fund priorities to deliver economy of scale efficiencies. It will examine the current and future market provision for people with complex needs both internally and commissioned services.

Further savings

In addition to all of the above, we will ensure all opportunities to deliver additional efficiency savings are taken.

HAS 2020 Savings Programme

Project Title	Descriptor	Base Budget Savings	16-17 £k	17-18 £k	18-19 £k	19-20 £k	Total £k
HAS 1Targetted Prevention	This project builds on the NY2020 Stronger Communities theme and HAS Distinctive Public Health For North Yorkshire programme by re-investing circa £4m of Public Health efficiencies in preventative and community capacity to meet specific local needs.It will enable local groups and individuals to support vulnerable people in line with our responsibilities under the Care Act to promote wellbeing. This will help to maximise people's independence and reduce reliance on the need for contact with statutory services. Wherever possible, schemes will be jointly commissioned with District/Borough Councils and CCGs, using Public Health budgets and the Innovation Fund. This project will also develop and expand the range of preventative services funded by the Directorate for people who already have low level health and/or social care needs and their carers and will include appointing to new staff roles cross county on targeted prevention. These schemes will also be jointly commissioned wherever possible through the North Yorkshire Delivery Board in line with Better Care Fund priorities and projects. We will continuously evaluate these new schemes and share our learning with partners and others. Our information offer will build on the NYCC Customer blueprint for future services, and will be delivered 'hand-in-glove' with the NY2020 Customer theme. The main focus will be to create a 'strong front door' to enable people to find information, in line with our duties under the Care Act, and to self-serve and self-assess as much as possible. We will make sure that when customers need to speak to us, they have access to qualified people who are able to make sure they receive the right support at the right time to meet their needs. We will work with external partners to develop a single 'front door' wherever practicable. **HAS 1** is the foundation for the rest of this programme and therefore cannot be seen as a stand alone project.		300 0	350 1000	0 1000	0 0	**650** **2000**
HAS 3/4/5 Assessment Reablement pathway	Following on from HAS 1, a key aspect of the overall project will be to make sure that wherever possible, people's support needs are provided through locally developed community services and local universal services rather than traditional services. This project will focus on the customer journey once a person needs extra support and is based on maximising the person's independence and quality of life by reducing the need for services.	Increase in the number of people's needs met from START	800	800	700	670	**2970**
		CHC	-370				
	The first aspect of this project builds on Better Care Fund objectives to develop a county wide Reablement and Intermediate Care service delivered jointly with NHS partners. Savings will be realised by ensuring that more people go through the new service than at present, and as a result their need for long term care is reduced or removed.	Workforce Restructure	-168	0	0	0	**-168**
	For people who need long term support and their carers, we will implement a new model of care management to reduce direct costs. We will establish revised processes for allocating respite care and accessing permanent residential placements as we move towards the increased use of Extra Care Housing as described in HAS 6.		-200	2568	0	0	**2368**
	We will have a greater focus on meeting people's support and recovery by using community based assets, such as services run by community groups or voluntary sector partners, to meet their needs. We will also work with Health partners to deliver improvements in service delivery through integrated multi-disciplinary working. This is in line with Better Care Fund priorities and Care Act.This project builds on existing work and savings generated in reviewing Complex Needs packages and provision.	Review of Personal Budgets	300	540	540	540	**1920**
		Personal Asset Based Assessments	0	500	750	750	**2000**
		Recovery Based Reviews	0	80	80	80	**240**
		Complex Cases and Brokerage (LD Providers)	400	200	100	0	**700**
		Stand-Alone Reviews	0	115	115	115	**345**
		Extra Care Housing	120	240	120	120	**600**

Project Title	Descriptor	Base Budget Savings	16-17 £k	17-18 £k	18-19 £k	19-20 £k	Total £k
HAS 2 Equipment and Telecare	This project will deliver savings through the rationalisation of the current equipment and stores arrangements to improve customer service. A joint procurement exercise involving Health partners will be undertaken in 2016. This will reduce overall costs and ensure that people are helped to remain independent for longer.	Review of Equipment Services provision	458	0	0	0	**458**
		2015/16 One off public Health Funding	-108	0	0	0	**-108**
HAS 6 Extra care housing and EPHs.	This project accelerates the Directorate's current work on its Extra Care Housing programme of replacing its EPH estate with Extra Care Housing to improve accommodation choices for people who need support including those with complex needs. The project will examine EPHs individually in line with wider market development activity.	EPH Savings including Extra Care Housing	85	530	878	645	**2138**
HAS 7	This project builds on existing work and savings generated and will develop a new commissioning strategy with NHS partners for complex needs services, in line with Better Care Fund priorities to deliver economy of scale efficiencies. It will examine the current and future market provision for people with complex needs both internally and commissioned services.	LD Supported Living	50	0	0	0	**50**
		LD Respite	200	0	0	0	**200**
		Co-commission complex needs service (Health)	50	300	0	0	**350**
HAS 9. Other savings	We will aim to deliver additional savings through the exploitation of technology and processes through a LEAN systems approach to our new operating model.	General Efficiencies	50	0	0	0	**50**
			1967	**7223**	**4283**	**2920**	**16393**

Savings proposals for Central Services directorate

Introduction

Central Services is split into two principal categories;

- Library, Customer and Community Services, providing front line services; and
- A range of support services.

The savings proposals for central services are split between these two areas.

Library, Customer and Community Services

The County Council operates a "mixed economy" model of Library services which is delivered through 33 County run libraries, a super mobile with assisted digital, plus on line services, together with nine community-led libraries, 20 outlets/book collections and a Home Library Service.

Proposals

The Council ran a public consultation on the future of the Library Service and the consultation ended in February 2015 and an update report was agreed by Executive in December 2015. The approach advocated is to revise the current model; introduce some "hybrid" libraries; and extend the provision of community-led libraries into other areas across the county.

The Council is working alongside local communities, as part of the Stronger Communities approach, to design, plan and deliver this outcome, learning from experience to date. This approach has the potential to be developed alongside other community initiatives. There will still be a core council network of libraries, to help support hybrids and community-led libraries, but if it is not possible to transform some libraries into those run by communities this may lead to closures.

The Council's new approach to working with customers will focus on a re-design of the customer resolution centre, with a focus on improved self-service, digital access and dealing with customer's issues at the first point of contact if possible. This proposal also involves working closely with other services across the Council to reduce demand in services and to redesign the service to meet their requirements.

Management costs and an increase in income opportunities are being reviewed across services, with a view to making a significant contribution towards the Council's savings target. The bulk of the required savings from the library service will come from staffing and buildings and will be realised in 2017-18 when the transfer of 21 libraries to community management is completed and the staffing re-structure comes into effect.

Support Services

The approach taken as part of 2020 North Yorkshire has been to simplify, standardise and share services across the Council and to rationalise the "back office". The majority of support services have delivered savings in excess of the average to date and many early savings have been achieved (for example in HR services, Business Support Services, Finance etc). However prioritisation of frontline services over support services presents the Council with challenges, as it faces a period of sustained change and demand for support services is at a premium.

Proposals

Property review; there is a focus across the Council to reduce the number of buildings and, whilst a large part of the Council's property budget is within Central Services, it is important that property and operational service plans are aligned.

New systems and ways of working; significant savings are envisaged by adopting more modern systems and associated ways of working. Whilst this will bring other elements of change, this should support a longer term sustainable position.

Reductions in staff numbers; as staff numbers reduce across the Council there should be a proportionate reduction in the need for support across specialisms. This also needs close alignment with operational and service plans as slippage in these areas will impact in the reduction of demand for support services.

Dependency upon service needs; support services will work around the customer's needs and will reflect the changes taking place across the council within the Directorates as they move into new operating models.

Central Services

Appendix F

Project No.	Savings Area	Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
CS1	Library, Customer & Community Services	Short term savings will be generated by a targeted approach across all services to increase income and further rationalise staff and other resources including bookfund. Longer term savings will be made by redesigning current library provision by building upon existing model(s) of community ownership / co-production; involving key stakeholders, communities and staff.	100	1,400			**1,500**
CS2	Corporate Property	Rationalisation of property across Council as part of 2020 North Yorkshire Programme should reduce property related costs including repairs & maintenance.		500	500	500	**1,500**
CS3	HR Services	Reductions in levels of service on risk assessed basis and reflecting anticipated reduction in staffing levels over longer term.	90	0	618		**708**
CS4	Technology & Change Services	Combination of contractual savings and restructuring of elements of service in light of anticipated reductions in number of separate systems and internal customers.	221	523	434	307	**1,485**
CS5	Finance	Reductions and review of service on risk assessed basis and reflecting anticipated reduction in budget over longer term. Updating of systems and ways of working implemented to help with capacity.	250	400	409		**1,059**
CS6	Business Support	Reductions in levels of service on risk assessed basis and reflecting anticipated reduction in staffing levels over longer term. Updating of systems and ways of working also implemented to help with capacity.	760	720	720		**2,200**
CS7	Chief Executive's Unit	Reductions in capacity to deliver strategic support for Council. Issue to be aligned with review of strategic support services across the Council and one-off initiatives may require additional support.	285	0	0	329	**614**
CS8	Legal & Democratic Services	Improvements in systems to help with capacity and review of support arrangements.	59				**59**
			1,765	**3,543**	**2,681**	**1,136**	**9,125**

Summary of Savings Proposals

	2016/17	2017/18	2018/19	2019/20	Total
BES	2,969	462	0	0	3,431
CYPS	4,018	1,429	1,879	0	7,326
HAS	1,967	7,223	4,283	2,920	16,393
Central Services	1,765	3,543	2,681	1,136	9,125
Total Savings Proposals	**10,719**	**12,657**	**8,843**	**4,056**	**36,275**

DIRECTORATE SPENDING ANALYIS 2016/17

	Latest Base Budget £000s	Additional spending needs: Inflation £000s	Adult Social Care £000s	Other Recurring £000s	Funding Adjustments £000s	Other One-off £000s	Savings: Prior MTFS's £000s	2020 £000s	Funding £000s	total budget / MTFS £000s
BUDGET REQUIREMENT										
Directorate Net Budgets										
BES	78,662	1,148		136		-5,710		-2,969		71,267
CYPS	71,337	816						-4,018		68,135
HAS	133,262	5,097	5,700		500	-287	-600	-1,967		141,705
CS	54,422	246		1,350				-1,765		54,253
Directorates sub total	**337,683**	**7,307**	**5,700**	**1,486**	**500**	**-5,997**	**-600**	**-10,719**		**335,360**
Corporate Miscellaneous										
Interest Earned	-1,729			-1,231						-2,960
Capital Financing charges	26,646									26,646
HAS Demographic growth	5,255									5,255
Domiciliary Care	0					1,050				1,050
2020 North Yorkshire	0					1,000				1,000
Education Services Grant	-7,200				1,300					-5,900
Local Welfare Reform prov	947									947
Business rates relief grants	-1,896									-1,896
SFNY	4,000			-1,000		470				3,470
New Homes Bonus	-2,197				-500					-2,697
Rural Services Delivery Grant	0				-6,600					-6,600
Community Fund (affordable	400									400
DSG Contribution to Corp Ov	-750									-750
Pay & NI Inflation	0	4,037								4,037
Council Tax Surplus to reserv	0					3,479				3,479
Business Rates deficit from reserve						-1,045				-1,045
Other	-452			698						246
sub total	**23,024**	**4,037**	**0**	**-1,533**	**-5,800**	**4,954**	**0**	**0**	**0**	**24,683**
PIP	3,810									3,810
Corporate Miscell sub total	**26,834**	**4,037**	**0**	**-1,533**	**-5,800**	**4,954**	**0**	**0**		**28,493**
Net Expenditure	**364,517**	**11,344**	**5,700**	**-47**	**-5,300**	**-1,043**	**-600**	**-10,719**	**0**	**363,852**
General Working Balances										
and / or additional savings										
Budget / MTFS shortfalls										
2014/15 budget	0									
2015/16 budget	7,170									7,171
2016/17 MTFS	0								-7,803	-7,803
sub total	7,170	0	0	0	0	0	0	0	-7,803	-633
2014/15 one offs Q1	-7,677								5,027	-2,650
2014/15 one offs Q2	-500								500	0
	-1,007	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2,276**	**-3,283**
Net Budget Requirement	**363,510**	**11,344**	**5,700**	**-47**	**-5,300**	**-1,043**	**-600**	**-10,719**	**-2,276**	**360,570**
External Corp Funding										
Revenue support grant	-59,218								21,848	-37,370
Business rates										
9% from Districts	-18,871								540	-18,331
collection fund deficits	1,687								-642	1,045
top up from DCLG	-42,588								-355	-42,943
Transitional Grant	0								-2,992	-2,992
Council tax collection fund	-2,726								-753	-3,479
	-121,716	0	0	0		0	0	0	17,646	-104,070
Council Tax Requirement	**241,794**	**11,344**	**5,700**	**-47**		**-1,043**	**-600**	**-10,719**	**15,370**	**256,500**
Tax Base	219,817									224,240
Band D Council Tax	**£1,099.98**									**£1,143.86**
year on year increase										
£	£21.04									£43.88
%	1.99%									3.99%

09-Feb-16

NORTH YORKSHIRE COUNTY COUNCIL
PAY POLICY STATEMENT ON PAY STRUCTURE,
GRADING AND CONDITIONS FOR SENIOR MANAGERS
COVERING THE PERIOD 1ST APRIL 2016 TO 31ST MARCH 2017

1.0 This policy statement covers the following posts:

- **Head of Paid Service**, which is the post of Chief Executive.
- **Statutory Chief Officers;**
  Corporate Director Children and Young Peoples Services
  Corporate Director Health and Adult Services
  Corporate Director Business and Environmental Services
  Corporate Director Strategic Resources
- **Non-statutory Chief Officers** (those who report directly to the Head of Paid Service),:
  Assistant Chief Executive (Business Support)
  Assistant Chief Executive (Legal and Democratic Services)
- **Assistant Directors (All Directorates)**

The pay and grading of all posts are provided at Appendix 1. Pay for management board posts is detailed below and the Assistant Director details are provided at Appendix 2 as at 31st March 2016.

SPC	pay 15/16	BAND				SPC	Salary*
86	170,000	CE1		CE1			
85	165,000			Chief Executive	Richard Flinton	86	168,691
84	160,000						
83	155,000						
82	128,975		DIR3	DIR3			
81	125,563			Corporate Director - CYPS	Peter Dwyer	82	129,007**
80	122,151						
79	118,739	DIR2		DIR2			
78	114,952			Corporate Director - HAS	Richard Webb	79	119,086**
77	111,267			Corporate Director – SR	Gary Fielding	79	117,825
76	107,479			Corporate Director - BES	David Bowe	79	117,825
75	102,747	DIR1		DIR1			
74	98,788			Asst Ch Exec - (Business Support)	Justine Brooksbank	75	101,956
73	94,934			Asst Ch Exec - (Legal and Democratic Services)	Barry Khan	75	101,956
					Total:		**856,346**

***The above figures reflect the 2 days unpaid leave which has applied since April 2012.**
****These figures include market supplements.**

In providing details on the pay and conditions for these senior managers this policy covers the pay structure and terms and conditions for the whole council workforce.
In addition Mary Weastell is employed by Selby District Council in a joint leadership role as their Chief Executive and also has a part time Management Board role for NYCC as Assistant Chief Executive responsible for Customer Services, paid £37,884 for the NYCC role.

2.0 Pay Principles

2.1 The Authority has a clear and transparent pay structure and approach which applies consistently to all (non-teaching) Council staff including Chief Officers and senior managers.

2.2 All pay related decisions are taken in accordance with relevant legislation, notably; Equality Act 2010, Employment Rights Act 1996, Employment Relations Act 1999, Employment Acts 2002 and 2008, Part-Time Workers (Prevention of Less Favourable Treatment) Regs 2000, Fixed Term Employees'

(Prevention of Less Favourable Treatment) Regs 2002, National Minimum Wage all as amended. New legislation is likely to come into force during the term of this pay policy statement covering termination payments and will be complied with from the implementation date(s).

2.3 NYCC operates a pay system based on objective criteria as part of a job evaluation approach implemented in 2007. Job evaluation determines the relative worth of posts in comparison with all posts. The Job evaluation score is then set within a pay structure which determines what posts are paid.

2.4 A review of all local pay arrangements took place in April 2007 and is further reviewed annually to ensure a "one employer" approach. It does not permit varying benefit arrangements for different staff groups such as senior managers. The approach is to have a pay and benefit structure which;

- Is fair and equitable for all staff,
- Addresses the County Council's need as an employer to link pay to performance
- Has the ability to address staffing difficulties where and when they occur.
- Incorporates the application of national and local collective agreements and any authority decisions on pay

2.5 NYCC is part of the national pay framework with annual pay awards determined by the various national bodies (NJC, JNC for Chief Officers, JNC Youth and Community and Soulbury). The November 2014 pay award for Chief Officers was agreed nationally at 2% but only applicable to Chief Officers earning below £100k p.a. (with no increase for Statutory Chief Officers earning £100k pa or more). This means there has been no annual pay award for NYCC Statutory Chief Officers since 2008. A national agreement was reached in November 2014 on the 2014/15 and 15/16 pay arrangements for all staff with the exception of Chief Officers, Soulbury and JNC Youth and Community. The NJC pay award was a variable percentage pay award from January 2015 with staff on lower pay (below £14k) receiving the highest amount 8.56% and staff at the mid-point upwards getting 2.2% with a sliding scale for the grades in between. This meant that with the exception of Chief Officers and CEX, managers covered by this policy received a 2.2% increase in January '15 to cover the 2 year period 14/15 and 15/16. The pay award for 16/17 is currently being discussed at a national level with no agreement currently reached. In the absence of a national pay award, changes have been made to the bottom 3 pay bands from 1st April 16 to account for the new national minimum wage of £7.20 an hour and the differentials to be maintained between spinal points 6-9. This results in an increase of between 2-1% on these points pending the pay award which is expected to provide a higher increase on these bottom bands.

The national pay frameworks determine certain terms and conditions, notably sick pay, maternity pay and provides minimum entitlements for others including, annual leave and paternity leave. Apart from the JNC for Chief Officers, Soulbury and JNC Youth and Community, the bodies also set out the pay spine and points to be used by local authorities in determining their pay arrangements. It is for local authorities to decide how their pay bands fit onto the national pay spine and what jobs and roles are paid based on job evaluation results.

2.6 There has been increasing flexibility in national agreements over recent years resulting in greater discretion for local determination. This resulted in 2007 in the introduction of a formal locally integrated pay and conditions framework contained in a "Collective Agreement" between the County Council and recognised unions (non-teaching). This sets out the local pay framework and all local terms and conditions. It applies to all staff equally including Chief Officers and senior managers and is incorporated into all contracts. It is reviewed annually as part of the local consultation arrangements with trade unions and is available to all staff via the intranet. It was significantly amended in 2011 to implement changes to terms and conditions to save £2m, with no subsequent changes which impact on senior pay.

3.0 Pay Structure

3.1 Staff are paid at monthly intervals at the end of the month worked. Pay is one twelfth of the annual gross salary less NI, tax and pension.

Pay Bands - The pay and grading structures in place set out the number of increments (based on national pay spine) for each pay band. Pay and Conditions for senior managers (who are not Chief Officers) is determined by the Head of Paid Service.

3.2 Pay bandings were determined in 2007 based on job evaluation outcomes taking into account the requirements of the job and the level of induction and development staff will need before becoming fully competent. These are reviewed at the request of management or staff in post, as and when required due to role changes and restructuring.

3.3 In 2007, as part of job evaluation implementation, the pay bands for senior managers were benchmarked externally and set at the median quartile plus 20%. This was considered a reasonable level based on NYCC's size and complexity, the need for salaries to be competitive, and the fact NYCC was a well performing authority which needed to recognise managers' efforts in achieving this. More recently in 2009, 2011 and 2014 senior manager salaries were reviewed and benchmarked. The findings of these reviews was that compared with other County and Unitary Councils salaries in 2009 were 7% lower at AD2 and Chief Officer level and nearly 5% lower at AD1 pay bands. As a result the AD2 pay band was broadened by 2 increments and the AD 1 pay band was broadened by 1 increment. There have been no further changes to the pay band ranges. A further review of posts at AD level was carried out for changed roles early 2014 and jobs evaluated within the two pay bands following restructure of services.

The benchmarking of pay data for posts is carried out as needed using national pay information supplied either by IDS (Income Data Services) or Hay in addition to independent benchmarking of specific local authority pay data for senior staff using the current pay information published on Councils websites and information contained within the e-pay check system administered by Local Government Yorkshire and Humber.

3.4 **Increments -** Staff are usually appointed at the bottom of the pay band and progress one increment a year if they meet the increment criteria. This criterion applies to all staff (non-teaching) as set out in the Increments policy. In summary, the following needs to be satisfactorily met over the previous 12 months, as assessed by the line manager, in order for an annual increment to be received:

- Attendance (no more than 7 days sickness absence in the last 12 months or averaged at 21 days over the previous 3 years)
- Performance/Capability – no performance or capability concerns
- Conduct – no disciplinary process or sanctions
- Appraisal – satisfactory appraisal with all targets achieved.

The Chief Executive's appraisal and assessment against the above criteria in order to receive an increment is undertaken by the Leader in consultation with members of the executive and other group leaders.

For staff already on the top spinal column point in the pay band, the same criterion applied from April 2012 and if not met the top increment is removed resulting in a pay reduction.

On appointment staff can be appointed at the top or midway through a pay band based on their previous experience and salary.

3.5 **Additional Payments -** There is provision for additional payments to be made to staff as detailed below. These provisions apply in the same way to all staff with no separate or additional pay supplements or arrangements for senior managers or chief officers.

- **Recruitment and retention payments** – these additional payments can be made to staff in hard to fill posts. A business case is required and has to be approved by the Corporate Director. These payments are not permanent and are subject to regular review. They are used on a limited basis as needed.
- **Market supplements** – these can be made when the job grade as determined by the job evaluation outcome is less than the median market rate. This is payable as a monthly allowance, rounded to the nearest £100. It is not subject to any uplift resulting from the national pay award and is usually reviewed at least every 2 years. The need for these payments has to be clearly evidenced by market data and approved by Management Board. Use is limited.
- **Incentive payments** – made to staff at the discretion of their manager if merited by excellent performance. Payments are in the form of an accelerated incremental or an honorarium payment (limited to equivalent of 1 or 2 increments or a £100 thank you payment). Use is limited
- **Acting up payments** – made where staff take on additional duties or responsibilities beyond the remit of their substantive role. Such payments are used regularly to cover staff gaps due to vacancies, maternity leave etc.

It should be noted that enhanced payments for overtime was removed in April 2012.

3.6 All other pay entitlements are the same as for all NYCC staff as detailed in the national and local agreements. These include;

- Mileage and limited subsistence expenses
- Annual leave (23 – 33 days based on service) and 2 days unpaid leave (with some exemptions for frontline staff where cover for leave is needed)
- Sick pay (up to 6 months full and half pay)
- Maternity, adoption, paternity and shared parental leave.
- Other leave mostly unpaid (compassionate, time off for dependants, extended and special leave)
- Pay protection for staff moved to a lower graded role on redeployment/restructuring for 1 year at a maximum of £6k.

There are no additional payments or discretions for Chief Officers or Senior Managers.

3.7 **Termination payments** for Chief Officers and senior managers follow the same arrangements and policies for redundancy, redeployment and pension payments as applicable for all other NYCC staff. Staff pension contributions are in accordance with the LGPS and employer contributions as determined through each Triennial Valuation of the North Yorkshire Pension Fund. The Local Government Pension Scheme provides employers with discretion to make monetary awards including additional benefits, payments and shared cost ATC arrangements that can add significant value to members' accrued pension benefits. However, the NYCC Discretion Policies (updated in 2014) state that no such award will be made to any member of staff. NYCC redundancy payments are calculated for all staff as per the Redundancy Modification Order based on one week pay for every years' service (1.5 weeks for years worked over the age of 40) up to a maximum of 30 weeks. New restrictions applying a cap of £95k to termination payments including pension strain costs, and claw back requirements if staff move posts within the public sector, are likely to come into force as part of legislative changes during 16/17 and will be applied from implementation date(s)

4.0 **Remuneration Committee** - The Chief Officers Appointments and Disciplinary Committee is responsible for determining and amending as necessary the terms and conditions of Chief Officers. Remuneration, terms and conditions will comply with the Pay Policy Statement and any proposed amendments will from now on be submitted to Full Council for approval. The Committee determined the Chief Officer pay package in 2007 as part of the Council-wide job evaluation grading process and has only made one amendment since then to reduce the Chief Executive's salary in 2010 from £179k spot salary to a pay band range from £155k - £170k. Severance payments for Chief Officers and senior managers over a cost of £100k will be considered and if deemed necessary recommended by the Chief Officers Appointments and Disciplinary Committee to Full Council for approval. This is likely to reduce to £95k in line with legislative changes during 16/17. The components of any such package will be clearly set out and may include pay in lieu of notice, redundancy payment, pension entitlements and holiday pay.

5.0 Pay Multiples and Wider Pay Structure

The complete pay structure and examples of jobs at each band is detailed at Appendix 1. The lowest paid staff are at spinal column point 6 on a salary of £13,614 from 1st Oct 15. The highest paid salary is £168,691 paid to the Chief Executive. The median average in this authority is £16,970 per annum (equivalent to Band 6). The ratio between the median and the highest i.e. the 'pay multiple' is 10:1, which compares well with the recommendation in the Hutton Report that the multiple should not exceed 20. NYCC does not have a policy on maintaining or reaching a specific pay multiple, but is conscious of the need to ensure that the salaries of the highest paid employees are not excessive and are consistent with the needs of the authority as expressed in this policy statement and its wider pay policy and approach. Negotiations on an NJC pay award for 2016/17 are continuing nationally, with 2% set aside in the budget. The implementation of a new National Minimum Wage of £7.20 from April 2016 will raise the pay rate at the bottom of the pay scale.

6.0 Senior Teaching Staff

The pay and grading of all teachers including Head teachers is determined nationally. There are currently 4 senior teachers in the pay band which exceeds £100k. These are Head teachers of the larger secondary schools in North Yorkshire. The pay band is Head group 8 £74,958 - £107,210. In addition there are 74 teachers in posts with salaries equivalent to Assistant Director pay bands and 6 between Assistant Director salary maximum and £100k. This does not include Academies which set their own pay for Head teachers and all other staff.

Appendix 1

Spinal Point	pay 15/16	JE Scores	Grade Codes (with example posts at each pay band)	
6	13,891	258 – 280	**BAND 1** (Cleaning Assistants, General Kitchen Assistants)	**BAND 2** (Domestic Assistants, Business Support Administrator)
7	13,987	281 – 311	**BAND 3** (Resource Worker entry, Midday Supervisory Assistant, Domestic Assistant)	
8	14,141			
9	14,296			**BAND 4** (Resource Worker level 2, General Teaching Assistant, Driver, Cleaning Supervisor, School Crossing Patrol, Caretaker, Passenger Assistant, Business Support Administrator)
10	14,469	312 – 345		
11	15,207			
12	15,523		**BAND 5** (Advanced Teaching Assistant, Cover Supervisor, Driver/Fitter, Swing Bridge Operator, Resource Worker, Assistant Cook)	
13	15,941	346 - 369		
14	16,231			
15	16,572			**BAND 6** (Customer Services Adviser, Business Support Administrator, Resource Worker senior nights, Cook, Site Supervisor)
16	16,969	370 - 397		
17	17,372			
18	17,714			
19	18,376	398 - 422	**BAND 7** (Clerk to Governors, Senior Resource Worker, Service Development Assistant, Higher Level Teaching Assistant)	
20	19,048			
21	19,742			
22	20,253	423 - 446		**BAND 8** (Trainee Accountant, Cook in large secondary school, Children's Resource Centre Worker, Registrar level 1, Assistant Engineer entry, Site Manager)
23	20,849			
24	21,530			
25	22,212		**BAND 9** (Business Support Team Leader, Legal Officer, Head Cook, Health & Safety Risk Adviser, Family Intervention Worker, Key Worker Mental Health, Specialist Instructor)	
26	22,937	447 - 474		
27	23,698			
28	24,472			**BAND 10** (Social Care Co-ordinator, Senior Resource Centre Worker, Electrical Inspector, Specialist Customer Services Adviser, HR Adviser, Facilities Manager, Training and Events Manager, IT Network Manager)
29	25,440	475 - 509		
30	26,293			
31	27,123	510 - 550	**BAND 11** (Home Care Manager, Education Social Worker, Social Worker entry, Senior Enforcement Officer; Senior Accounting Technician, FMS Support Officer, Planning Policy Officer, Communications Officer, School Business Manager)	
32	27,294			
33	28,746			
34	29,558	551 - 587		**BAND 12** (Social Worker top, Learning Disability Manager, Traffic Management Engineer, Senior Registrar, Business Support Manager, Finance Officer, Risk Management Officer)
35	30,178			
36	30,978			
37	31,846	588 - 624	**BAND 13** (Senior Social Worker, Senior Education Social Worker, Superintendent Registrar, Senior Engineer entry, Principal Server Analyst, Performance and Change Officer, Trading Standards Officer)	
38	32,778			
39	33,857			
40	34,746			**BAND 14** (Business Development Officer, Accountant, Senior Communications Officer, Waste Partnership Manager, Children's Resource/Residential Centre Manager, Senior Trading Standards Officer, Senior Engineer)
41	35,662	625 - 698		
42	36,571			
43	37,483		**BAND 15** (Service Manager Fostering, Principal Children's Residential Manager, Principal Accountant, Grounds Services Manager, Divisional Trading Standards Officer, Commissioning and Development Officer)	
44	38,405	699 - 805		
45	39,267			
46	40,217			**BAND 16** (Care Services Manager, Principal Assessment and Review Manager, Democratic Services
47	41,140	806 - 940		
48	42,053			

49	42,957			Manager, Principal Adviser HR, Bridges and Structures Manager)
50	43,461	941 - 1075	**SM1** (Head of Business Support, Customer Service Manager, Head of Safeguarding, Head of Residential Provision)	
51	45,921			
52	48,483			
53	51,044			
54	51,593	1076-1130		**SM2** (General Manager Adult Social Care Operations, Head of Highway Operations, Head of HR, Legal Manager)
55	53,789			
56	55,984			
57	58,180			
58	60,375			
59	62,571	1131-1352	**AD1** (Assistant Directors)	
60	64,765			
61	66,961			
62	69,156			
63	71,352			
64	72,769			
65	73,547	1353-1834		**AD2** (Assistant Directors)
66	75,743			
67	77,938			
68	80,134			
69	82,329			
70	85,210			
71	88,091			
72	90,974	1757	**DIR1** (Assistant Chief Executives)	
73	94,934			
74	98,788			
75	102,747			
76	107,479	2182	**DIR2** (Corporate Directors)	
77	111,267			
78	114,952			
79	118,739			**DIR3** (Corporate Director - CYPS)
80	122,151	2505		
81	125,563			
82	128,975			
83	155,000	3120	**CE1** (Chief Executive)	
84	160,000			
85	165,000			
86	170,000			

NB the above figures do not reflect the 2 days unpaid leave element which is effectively a reduction in pay. 2 days unpaid leave has been applied since April 2012.

Appendix 2

DIRECTORATE	PAY GRADE AND JOB TITLE	FTE	Spinal Col Pt	FTE Salary at 31.03.16	Notes
	AD2 (scp 65 – 71)				
BES	Assistant Director - Highways & Transportation	1	70	85,210	
BES	Assistant Director - Trading Standards and Regulatory Services	1	71	88,091	
CS	Assistant Director - Strategic Resources - HAS	1	70	84,554	
CS	Assistant Director - Strategic Resources - CYPS	1	71	87,413	
CS	Assistant Director - Strategic Resources - BES	1	65	72,980	
CS	Assistant Director – Strategic Resources - CS	0.5	na	57,327	Employed by Selby District Council, works 2.5 days for NYCC as s151 officer and finance management business partner.
CS	Assistant Director - Technology and Change Management	1	70	84,554	
CYPS	Assistant Director - Strategy and Commissioning	1	71	87,413	
CYPS	Assistant Director – Children and Families	1	71	87,413	Excludes Market Supplement £20k pa
CYPS	Assistant Director – Education and Skills	1	71	87,413	Excludes Market Supplement £4.8k pa
CYPS	Assistant Director - Inclusion	1	65	72,980	
HAS	Director for Public Health	1	71	87,413	Excludes £14,438 Public Health Clinical/On Call supplements.
HAS	Assistant Director – Care and Support	1	71	87,413	
HAS	Assistant Director – Quality and Engagement	0.5	67	77,338	
HAS	Assistant Director – Commissioning	1	65	72,981	.
HAS	Assistant Director - Integration	1	na	86,975	Seconded from Department of Health on a temporary basis.
	AD1 (scp 59-64)				
BES	Assistant Director - Economic Partnership Unit	1	64	72,209	
BES	Assistant Director - Waste and Countryside Services	1	64	72,209	
BES	Assistant Director - Integrated Passenger Transport	1	64	72,209	
CS	Assistant Director - Library, Customer & Community Services	1	64	72,209	
CS	Head of Communications	1	64	72,209	
CS	Assistant Director - Policy and Partnerships	1	64	72,209	
HAS	Consultant in Public Health	0.8	59	62,089	
HAS	Consultant in Public Health	1	64	72,209	
HAS	Consultant in Public Health	0.6	62	68,624	
HAS	Finance Project	0.4	59	62,089	Temporary Project –Finance
Above pay figures reflect the 2 days unpaid leave reduction, as at 31st March 16		**AD sub-total**		**1,861,280**	
		MB sub total		**856,346**	
		Total pay bill		**2,723,358**	

CHANGES FOR POSTS AT AD1 AND ABOVE:

1 FTE AD1 Assistant Director Corporate Accountancy partially replaced by the introduction of 0.5 FTE Assistant Director Strategic Resources in July 15.

2.6 fte Consultants in Public Health reduced to 2.4fte . All Public Health staff now on NYCC NJC terms and conditions.

Introduction of 1 FTE Assistant Director Integration on a temporary basis to complete Health Integration work from July 15.

Introduction of 0.4 FTE Finance Project on a temporary basis to complete Health Finance Integration project work from Jan 16.

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
Age	North Yorkshire has a lower proportion of young people than the national average - 28.4% under 25 compared to 32% nationally.[1] In 2013 4.3% of 16 – 18 year olds were identified as NEET (Not in Employment, Education or Training). The percentage of all young people in the UK who were NEET was 11.7%[2]. Nationally the unemployment rate for 16-24 year olds is high. The unemployment rate for people aged 16 and over for the UK was 5.3%, for the period July to September 2015.[2] 20.6% of the county's adult population is over the age of 65.[1] This is higher than the national percentage (14.4%) and every year the	**Older people** There is a potential for an adverse impact on older people from the reduction in bus subsidies as they are often greater users of public transport than other groups. Action by the Council to mitigate this potential adverse impact includes nurturing and supporting community transport options, including volunteer car schemes, particularly in rural areas where access to services can be particularly difficult. This includes promoting services through local radio campaigns and working with voluntary sector colleagues to develop volunteer recruitment events. Grants to increase the capacity of groups and to kick-start schemes are also available. There are approximately 25 CT operators across North Yorkshire providing a range of social car scheme, dial a ride, wheels to work and group travel services. The Council has committed on-going support to such projects to aid sustainability and will monitor use and effectiveness. To ensure that community transport (CT) operators are able to cope with a potential increase in demand for their services we are proposing some changes to the way in which those services are funded. The funding formula for social car scheme administration will be increased by £1000 per annum. In addition a payment will be introduced for dial a ride operators, which will be in line with the payment local bus operators receive via the concessionary fares budget – this will be £1 per passenger journey, paid to the CT operator and is intended to provide additional stability. We are working with operators to ensure that all residents have access to a social car scheme as this recognised as being the most flexible type of community transport. From April 2016 we are piloting a project with scheme operators which will subsidise long-distance trips for health purposes; it is recognised that the subsidy reductions may mean that some of those trips which were once possible via local bus, may now not be. Therefore a fare cap of £20 return will be implemented, funded by NYCC but administered by the car schemes.

[1] 2011 Census
[2] Office of National Statistics July – Sept 2015

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
Age (continued)	population of older people increases, and with it the demand for the care and support which the council provides. By 2020 25% of our total population will be aged 65+ and 4% aged 85+.	Older people whose height has been reduced by osteoporosis or who are using an unaccompanied wheelchair might be adversely impacted by reduced grass cutting as it might obstruct their view when crossing the road more than other groups. Mitigation for this possible adverse impact will include investigation of reported incidents and, where appropriate, addition of these areas to the grass cutting schedule. We will also work with parish councils to encourage them to take on grass cutting where this is possible. Older people are amongst the most regular users of libraries so reconfiguration of library services could have a potential adverse impact on this group. If communities do not take on their local library this could affect access to library services and other Council services for older people and they would need to travel further to access services, potentially meaning that they are no longer able to visit a library independently. Mitigating actions for this group include working with communities to support them to manage local libraries. Our Stronger Communities programme has working with community libraries as one of its core activities and we currently have 10 community run libraries in the county. In many cases opening hours and range of activities have increased. Robust service agreements, professional support and training (including equalities training) will also help to mitigate potential adverse impacts. The timescale for change will mean that staff will have the opportunity to work with older people to ascertain their needs and where appropriate transfer them to the Home Library Service. Other mitigating actions, where necessary, will include expansion of the online service, re-routing of the Supermobile and support of local collections and outlets. Following the review of operational Learning Disability Services, respite and day care, there is potential for change to the way services are currently configured. In the short term there is potential for negative impact on older individuals and their carers who have been using traditional services for many years as change can be seen as challenging. However, it is anticipated that the benefits afforded by greater choice and improved outcomes will mitigate the impact. Further work to identify specific impacts will be undertaken as the project progresses.

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
		Younger people Removal of free transport to school for pupils aged 8-11 who live between 2 and 3 miles from their normal or catchment school could adversely impact some children and families as they will have to fund their own transport. Mitigation will include the facility for families, who decide to purchase a bus pass, to pay in instalments and affected schools will be asked to review their school travel plans. If parents believe that a walked route to school is unsafe for a child, accompanied as necessary, then the council will make an assessment and may provide free travel. Children and young people are amongst the most regular users of libraries so reconfiguration of library services could also have a potential adverse impact on this group, for similar reasons to those noted for older people above. Mitigating actions for this group are broadly similar to those included above.
Disability Disability (continued)	North Yorkshire has the same proportion of people with a disability or long term limiting illness (17.5%) as the national average.[3]	People using an unaccompanied wheelchair or motor scooter might be adversely impacted by reduced grass cutting as it might obstruct their view when crossing the road more than other groups. However, given the average wheelchair user is at least three feet high, the vegetation would need to be very severely overgrown to have an impact. Mitigation for this possible adverse impact is covered under ‘age’. There is a potential for an adverse impact on disabled people from the reduction in bus subsidies as they are often greater users of public transport than other groups and may be less able to make alternative transport arrangements. Action by the Council to mitigate this potential adverse impact is covered under ‘age’. In their responses to the library consultation questionnaire, 49% of disabled people said the proposed changes to the library service would affect them a lot, compared with the overall response of 44%. If

[3] 2011 Census

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
		communities do not take on their local library this could affect access to library services and other Council services for disabled people and they would need to travel further to access services, potentially meaning that they are no longer able to visit a library independently. Volunteers in community run libraries may also have less experience of assisting people with disabilities. The Council provides equalities training for volunteers which considers supporting people with different needs, and can provide access to other specialist training, eg dementia trainng, and access to support from paid staff if needed. The Home Library Service (HLIS) will continue to be offered and promoted to those customers who are unable to visit the library because of temporary or permanent disability. This would help to mitigate the impact of the proposals. In the future, libraries will also offer increasing opportunities for people to volunteer in libraries, whether council run or community managed and this can prove beneficial for people with disabling conditions to increase their confidence. Greater use of the library service on-line is another option for those with computers at home and may mitigate adverse impact for people with a sensory impairment. We will continue to work with disability groups to develop a range of accessible options to meet their needs, building on the existing HLIS, audio and on-line services. The impacts of the review of provision for children with disabilities and their families are anticipated to be mixed, but there is potential for an adverse impact from centralising the remaining Children's Resource Centre provision in the Harrogate area as this could mean longer journeys from home for some children and young people. A reduction of resources for discretionary short break grants may also have a negative impact, as will the ending of the annual grant to the East Barnby outdoor education centre unless a different local charging scheme can be developed. Mitigating actions include supporting the voluntary and community sector to ameliorate some of the potentially negative impacts by providing more local, community based help and support to families. The Council's Stronger Communities programme would support this initiative with individual groups. A

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
		Scarborough and Filey Special Families group is being established. We propose to replicate this in the Selby area which would help to improve local support to disabled children, young people and families. The review of operational Learning Disability Services, respite and day care, is anticipated to have mixed impacts on those with learning disabilities and complex needs. However, it is anticipated that the benefits afforded by greater choice and improved outcomes will mitigate the initial impact of change. Further work to identify specific impacts will be undertaken as the project progresses.
Gender	At county level the proportion of females is slightly higher (50.7%) than that of males (49.3%)[4]. This pattern is reflected across all districts, with the exception of Richmondshire where the large number of predominantly male military personnel have the effect of reversing the proportions.	Women may be more adversely affected by the change to our subsidised bus services than men. 60% of respondents to the consultation were women and women are likely to use buses more often than men. Pregnant women or mothers may be less likely to have access to a car. Mitigating actions to support community transport options are described under 'age'. Whilst the library service is available to all, in general more women than men use libraries. This applies to both younger and older women. Women with young children, in particular, are regular users of libraries, as libraries are a safe, cost-free place for children. Mitigating actions in relation to library provision are covered under 'age'.
Race	North Yorkshire has a much lower proportion (2.65%) of Black or Minority Ethnic (BME) citizens than the national average (14.57%)[5] according to the 2011 census.	There are no anticipated adverse impacts on people with this protected characteristic.
Religion or belief	North Yorkshire has higher levels of Christians (69%)	There are no anticipated adverse impacts on people with this protected characteristic.

[4] Office of National Statistics Mid-2014 population estimates
[5] 2011 census

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
	than the national average (59%), and lower levels of all other religions than the national average. Percentages of those with no religion or not stating their religion are broadly similar to the national average. (2011 census)	
Sexual orientation	The government estimates that 5 – 7% of the population are gay, lesbian or bisexual. We have no evidence to suggest that this is not the case in North Yorkshire.	There are no anticipated adverse impacts on people with this protected characteristic.
Gender reassignment	The Gender Identity Research and Education Society (GIRES) suggests that across the UK: 1% of employees and service users may be experiencing some degree of gender variance. At some point, about 0.2% may undergo transition (i.e. gender reassignment). Around 0.025% have so far sought medical help and about 0.015% have	There are no anticipated adverse impacts on people with this protected characteristic.

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
	probably undergone transition. In any year 0.003% may start transition.	
Pregnancy or maternity	2013 statistics for North Yorkshire There were 5521 live births. Conception rate per 1000 for 15 – 17 year olds was 13.8 at Quarter 3 2013. This is below the rate for England (22.2) and Yorkshire and Humberside (24.2). 4866 live births (88.1%) were to mothers born in the UK. 655 live births (11.9%) were to mothers born outside the UK. In 2013 58 live births (1.1%) were to mothers under 18.	Pregnant women or mothers may be more adversely affected by the change to our subsidised bus services as they may be less likely to have access to a car. Driving may also not be possible during pregnancy or early maternity. Mitigating actions to support community transport options are described under 'age'. If communities do not take on their local library this could affect access to library services and other Council services in terms of increasing the need to travel further. This may be an issue for pregnant women or mothers who may be less likely to have access to a car. Mitigating actions in relation to library provision are covered under 'age'.
Marriage or civil partnerships	A higher percentage of North Yorkshire's population is married or in a civil partnership (53.7%) than the national average (46.8%).[6] (2011 census)	There are no anticipated adverse impacts on people with this protected characteristic.
Rural areas	The population in North Yorkshire is generally	People who live in rural areas will potentially be adversely impacted by a number of the changes to services.

[6] 2011 census

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
Rural areas (continued)	sparser than the national average (0.74 people per hectare as opposed to 4.07 nationally). In some parts of the county this is lower still (Ryedale 0.34, Richmondshire 0.39)[6]. Distance travelled to access services is further than the national average. The Lower Super Output Area (LSOA) which covers the Dales ward in Ryedale is the most deprived in England for Geographical Barriers to Services.[7] Rurality can also mean higher costs for such things as fuel for heating.	If communities do not take on the running of their local library this could affect access to library services and other Council services for people in rural areas as they will have further to travel. A very small number of pupils aged 8-11 will have no school bus on which they would be able to purchase a pass. The centralisation of the Children's Resource Centre provision may cause longer journeys for some families with disabled children. The cost of travel for all ages, particularly young people, is generally higher in rural areas than urban (on average £58.80 per week is spent on transport in urban areas, compared to £77.40 for rural areas)[8] Fewer local bus services will mean less opportunity to travel. The combination of living in a rural area and having one or more of the protected characteristics or low income would be likely to make the impact greater. Our Stronger Communities approach will be pivotal in managing these adverse impacts and helping support communities to take on a greater role in the provision of services. This will be particularly important in rural areas to ensure that people do not become isolated and unable to access services. Community transport and libraries are key priorities for this programme, directly underpinning areas where it is recognised that mitigating actions will be needed. Also targeted are activities for young people, children and families, and support for older and more vulnerable people to remain involved and active within their community. Isolation and loneliness can be an issue for people of all ages, wherever they live. However, people living in rural areas may be more likely to suffer in this regard and local activities which people can easily access are part of the solution. Our Living Well Co-ordinators will also work on an individual basis with people living in rural areas to help them access these activities and support them to find their own solutions to their health and wellbeing goals.

[7] Index of Multiple Deprivation, Indices of Deprivation 2015

[8] Office of National Statistics Feb 2013

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
		The library service is extending the range of its services that are available online. If communities do take on the running of their local library there would be the opportunity for an increase in the range of activities and services provided, to meet the needs of local people, as well as providing opportunities for volunteering. However, if the community group is unable to open the library for the current opening hours, the service could be available for fewer hours. There may be some adverse impact on County Council staff living in rural areas where restructures and consequent changes to work locations take place, in that travel to work time may increase and there is disruption to childcare arrangements, for example. Due consideration will be given to the degree of disruption likely to be caused by a proposed change in location and additional expense and travelling time incurred in circumstances where an alternative offer of employment is made, as per the County Council's redeployment Policy.
People with low income People with low income (continued)	At local authority level North Yorkshire is among the least deprived in England[7]. Figures for long term unemployment in North Yorkshire (1.1%) are slightly lower than the national average (1.7%)[6]. However, North Yorkshire has a number of lower super output areas within the 20% most deprived in England (23 in 2015, rising from 18 in 2010) and three LSOAs in Scarborough town are within the most deprived 1% in England.[7]	People with low incomes will potentially be adversely impacted by a number of the changes to services. They are often also least able to compensate by using other providers or options, in the private sector for example, due to issues of cost. They are more likely to rely on bus services and less likely to have access to private transport and be less able to make alternative arrangements. Travelling further to services such as libraries will also be more difficult and expensive. A consequent impact could be that people are unable to apply for jobs or access other services online as libraries may represent their only opportunity to access the internet. There is currently no reduction in the cost of a child's bus pass for those on low income, other than those post-16. This is therefore likely to impact most on those with low incomes. Mitigating actions are, again, covered in previous sections. In addition, community run libraries would be encouraged to provide the same range of digital support as staffed libraries do, though this will depend on their ability to attract volunteers with the necessary skills and/or willingness to attend training to acquire them Changes in staffing may have an adverse impact on staff on lower incomes due to the possibility of being offered a lower graded post than their current role. In the event of this occurrence, affected staff

Protected characteristic / additional characteristic monitored by NYCC	Local context and related factors	Potential adverse impacts of budget savings proposals and steps taken to minimise impact
		may, dependent on individual circumstance, be eligible for pay protection in line with the County Council's redeployment policy, to mitigate adverse impacts.
Carers	Carers' allowance claimants make up 0.79% of North Yorkshire's population.[9] This is lower than the average for England (1.18%) but there are variations across the county with the highest percentage being in Scarborough (1.27%). It is likely, however, that these figures do not reflect the true number of people carrying out caring roles in the county as many do not claim allowances.	Carers are likely to be impacted in similar ways to older and younger people and disabled people i.e. the people for whom they are caring, although the impacts may be more indirect. Carers may also have lower incomes as in many cases they will be unable to work due to their caring responsibilities. Some carers will, of course, have protected characteristics themselves, such as young carers. Mitigating actions are covered under the headings of age and disability.

[9] Q2 2015 Department of Work and Pensions

APPENDIX J

BUDGET RISK ASSESSMENT

There are always a number of significant risk factors which it is necessary to consider in determining the Budget / MTFS. We are just over half way through the period of austerity and there are significant areas of change and challenge such as devolution; health and social care collaboration / integration; increased academisation; flooding; and keeping up with demand in some key service areas. The following Section attempts to highlight some key risk factors but it should not be considered as exhaustive.

The risks have been broken down into 2 key areas – corporate risks; and more specific service pressures.

Corporate Risks

1 **Delivery of savings programme** – Whilst the Council has done well in delivering the savings to date broadly on time (and in some cases early), the nature of the savings becomes yet more challenging. As witnessed in this report and in last year's Budget report there has been a need to re-profile savings due to unforeseen difficulties and it also needs to be understood that some areas of savings will possible not be deliverable. This is an inevitability in a programme of the nature of 2020 North Yorkshire. The risks continue to be mitigated by having a robust programme approach and by having sufficient Balances to deal with any adverse impacts.

2 **Inability to identify and deliver additional savings** – the ability to deliver further savings becomes more challenging each year. Priority will be given to frontline services but difficult choices will be faced. If it is not possible to identify savings then short term cashflowing may be appropriate from Reserves but this can not be sustained in the longer term.

3 **Further reductions in government grant** – the MTFS projections on government funding are based upon the 4 year draft settlement. Whilst longer term settlements are extremely helpful they are subject to change particularly in the event of an "economic shock" which would cause Treasury to re-visit the Spending Review. Whilst Revenue Support Grant is to be eroded to zero, the government has shown that it is willing to reduce business rates top-up levels and specific grants.

4 **Unfunded responsibilities** – devolution, the Care Act, the Attendance Allowance and the Better Care Fund all potentially involve councils taking on extra responsibilities. Whilst these may represent operational challenges there is also a significant risk that funding is insufficient to meet those responsibilities (witness councils taking on Local Assistance Fund and Public Health). It will be important that local government collectively monitors this position and tries to help shape proposals with government.

5 **Local Government Funding reviews** – the government has announced its intention to change council funding by abolishing Revenue Support Grant and allowing councils to retain local business rates. This is not a simple exercise as it will create headroom for some councils and it is to be “fiscally neutral”. As a result, councils are likely to become responsible for new areas – for example Attendance Allowance. The key risk is that this funding transfer is disadvantageous for all councils and / or is disadvantageous to the Council due to distributional measures. This risk is therefore similar in nature to that of “unfunded responsibilities” as identified above but also exposes the Council to managing the risk of demand thereafter.

6 **Assumptions on council tax yield** – the MTFS assumes a 1.99% increase in general council tax supplemented by the 2% social care precept for each year to 2019/20. Indications are that this will fall below the referendum threshold for the period of the MTFS but clearly County Council will need to approve subsequent increases. Any lower level of council tax will simply increase the residual savings requirement. There is also the risk of changes to policy on exemptions and discounts for council tax over which the Council has little control.

7 **Unplanned incidents / emergencies** – adverse weather conditions, disasters and unforeseen events remain a constant feature as witnessed in recent months with severe flooding. Increases in litigation also remain a real risk.

8 **Inflation and pay levels** – although the Chancellor of the Exchequer has signalled the intention to continue to hold down pay in the public sector there remains a risk that the wider economic outlook makes that difficult to implement over the full MTFS period. There is a risk that future pay awards will exceed the MTFS assumptions. In addition, inflation is currently very low and forecasts assume these levels remain broadly in place for the MTFS period. This feels like a safe assumption at the moment but this will need to be monitored in line with wider economic factors.

9 **Interest rates** – the MTFS is based on interest rates starting to rise in 2016 and then continuing to steadily increase. Any significant deviation to this in either timing (eg as the number of people out of work reduces the prospect of an increase in interest rates rises) or rate of increases will impact on both investment returns and potential new external borrowing costs. Early steady increases in rates may also have an adverse impact upon contract prices as businesses face higher operating costs.

10 **Levels of business rates collected by North Yorkshire District Councils** – 9% of locally collected business rates (circa £19m) is paid to the County Council and the projections up to 2019/20 assume a modest annual growth. Although each 1% increase or decrease is equivalent to only £190k, there is the potential for more significant variations if large business rates payers close, move out of the County or make successful appeals against their rateable values.

Service Specific Issues

11 **Care Act** – whilst phase 1 of the Act was introduced, the second phase relating to the cap on care costs has been delayed until 2020. The government has indicated that it still intends to implement this aspect of the Act so there is the potential of a new responsibility being introduced but without adequate funding.

12 **Better Care Fund (BCF)** - The fund in 2015/16 provided direct funding of £12m to the Council for the protection of adult social care (an increase of £5m on the previous year). The 5 CCGs within North Yorkshire have varying financial positions and some are experiencing financial difficulties and are therefore seeking to minimise contributions into the BCF. There is therefore an on-going risk that CCGs will seek to renegotiate the level of protection for social care. This is important as BCF contributions are made from CCG budget contributions although BCF guidance and governance provides some prescription.

In addition a further wave of BCF has been announced by DCLG and it appears that this funding (totalling £11m from 2018/19 to 2019/20) may be channelled directly to councils. The MTFS has incorporated this sum into funding projections but the greatest risk, based on past experience, is that the funding comes with additional duties that result in cost, resulting in an increase in the savings gap.

13 **Demand level for services** – demand remains of concern for many of the biggest areas of Council spending including Adult Social Care, Children's Social Care, Waste and Highways. The statutory obligations of the Council mean that demand will need to be met in some form and even more cost effective means of service delivery may alone be insufficient to offset the costs of increased demand.

14 **Dedicated Schools Grant (DSG)** - although the majority of the DSG is allocated directly to establishments, a significant proportion funds, or partially funds, a number of Council services. Such funding must be made after consultation with, and in some cases with the agreement of, the North Yorkshire Education Partnership. The total amount of funding available for these services cannot increase, and in the past few years, the trend has been to maximise delegation to schools and establishments. As priorities change, funding can be switched to other budgets (as long as the legal requirements governing the use of DSG are met) and in some cases can assist services to meet budget reductions.

The Partnership agreed to continue to fund services in the Schools Block to the tune of around £7.5m for at least two years (2015-17) and there is also support in the High Needs and Early Years blocks. The services which are funded enable the Council to support schools with resources which can be prioritised to meet need. There remains the risk that the Forum might review this approach at some point in the future and threaten the delivery of some 2020 targets.

15 **Legal Challenge** - the threat of legal challenge is likely to be faced on a more regular basis across the sector as austerity bites further. This impacts across all that the Council does given the statutory nature of almost all of the services provided.

16 **Contract Prices** – in recent years the economic downturn has acted to supress tender prices and the County Council has benefited financially. However, as the economy grows costs are likely to rise, particularly as a result of the national living wage. This is estimated to have greatest impact in the Council's supply chain particularly in social care.

A number of these risks align to the Corporate Risk Register, a copy of which is attached as **Appendix J**. It is clearly not possible to predict the financial impacts of these risks with any degree of certainty. The Table below, however, provides some sensitivity analysis and acts as a broad "ready reckoner":-

Risk	**Quantification**	**Likelihood (H/M/L)**	**Impact (H/M/L)**	**£m**	**Recurring?**
Under achievement of savings 2016/17 to 2019/20	£58m savings programme over next 4 year period – one year average slippage	M	H	14.5	Depends
Further funding cuts from government	10% additional cut on Business Rates top-up on top of existing assumptions	L	H	3.7	Yes
Risk of adverse weather conditions	Extreme spend on adverse weather in excess of budget and / or emergencies	M	L	5.0	No
New unfunded responsibilities (eg attendance allowance following full business rates retention)	Dependent upon individual proposals and element unfunded	M	H	?	Yes
Acceleration of inflation above assumptions on supplies and services within the MTFS	1% increase in inflation (in single year)	L	L	2.0	Yes

Pay awards above assumptions in Budget / MTFS	1% increase in pay awards (in single year)	L	L	1.5	Yes
Potential shortfall on Council Tax yield based upon MTFS assumptions	1% Council Tax variation	L	M	2.4	Yes
Potential increase in Looked After Children (LAC)	10% increase in LAC	M	H	1.0	Yes
Better Care Fund – protection of Social Care	100% of Fund used to underpin adult social care in 2016/17	H	H	12.0	Yes
Potential increase in demand for Adult Social Care	Additional 2% demand	M	H	2.5	Yes
Reduced collection of Business Rates	5% less Business Rates generated	M	H	1.0	Yes
New Homes Bonus (NHB) – government review results in full loss	Maximum loss of NHB over and above assumptions	L	M	1.6	Yes

Corporate Risk Register

Risk Register: **month 0 (Nov 2015) – summary and detailed final draft for Budget report**
Report Date: 18th November 2015 (fs)

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
	20/1 - Funding Challenges	Inadequate funding available to the County Council to discharge its statutory responsibilities and to meet public expectation for the remainder of the decade resulting in legal challenge, unbalanced budget and public dissatisfaction	Chief Exec	CD SR	H	H	H	H	H	**1**	6	29/02/2016	M	H	H	M	M	**2**	Y	All Mgt Board
	20/47 - Partnership and Integration with the NHS - **Further amendments under discussion with Richard Webb**	Failure to develop and implement new models of care that will provide better outcomes for patients and local communities. This failure will have a negative impact on the development of integrated services, delay the transformation of HAS services, give rise to increased costs to HAS and cause the loss of opportunities that joint provision may have.	Chief Exec	CD HAS	H	M	H	M	M	**1**	16	31/05/2015	H	M	M	M	M	**2**	Y	CD HAS
- new -	20/194 - Major Failure due to Quality and/or Economic Issues in the Care Market - **New risk – under discussion with Richard Webb**	Major failure of provider/key providers results in the Directorate being unable to meet service user needs. This could be caused by economic performance or resource capabilities. The impact could include loss of trust in the Care Market, increased budgetary implications and issues of service user safety.	CD HAS	HAS AD Q&E	H	M	M	M	H	**1**	8	31/12/2015	H	M	M	M	M	**2**	Y	HAS AD Q&E
	20/187 - Information Governance	Ineffective information governance arrangements lead to unauthorised disclosure of personal and sensitive data, poor quality or delayed responses to FoI requests, and inability to locate key data upon which the Council relies resulting in loss of reputation, poor decision making, fine, etc	Chief Exec	CD SR	H	M	M	M	H	**1**	5	31/03/2016	M	L	M	L	M	**4**	Y	CD SR
	20/207 - 2020 North Yorkshire Change Programme	Failure to successfully implement the Programme and Modern Council ways of working resulting in inability to meet financial savings requirements, sub-optimal decision making and poorer quality of services.	Chief Exec	CSD SR AD T&C	M	H	H	H	H	**2**	16	31/10/2015	L	H	H	H	H	**3**	Y	All Mgt Board

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North Yorkshire County Council

Corporate Risk Register

Risk Register: **month 0 (Nov 2015) – summary and detailed final draft for Budget report**
Report Date: 18th November 2015 (fs)

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	20/189 - Safeguarding Arrangements	Failure to have a robust Safeguarding service in place results in risk to vulnerable children, adults and families and not protecting them from harm.	Chief Exec	CD HAS CD CYPS	M	H	H	M	H	2	14	31/10/2015	L	H	H	M	H	3	Y	CD CYPS CD HAS
◀▶	20/188 - Educational Outcomes	Failure to ensure positive educational outcomes for children and young people together with appropriate support for schools to be good or outstanding results in lower achievement levels for pupils, and NY children's life chances being determined by geography or family circumstances rather than being in their own hands.	Chief Exec	CD CYPS	M	M	H	L	H	2	7	31/12/2015	L	M	H	L	H	3	Y	CD CYPS
◀▶	20/334 - Opportunities for Devolution in North Yorkshire and Consideration of a Combined Authority	Failure to take advantage of Devolution opportunities in North Yorkshire resulting in reduced investment and impact on the growth and jobs across the whole of North Yorkshire.	Chief Exec	BES AD EPU	M	L	H	L	M	2	5	25/11/2015	M	L	M	L	L	4	Y	CD BES
▼	20/49 - Organisational Performance Management	Failure to align the performance management framework with the Council strategy and/or use the correct metrics to measure performance results in reduction in service performance, efficiency and effectiveness; reduction in value for money; loss of reputation and suboptimal financial savings	Chief Exec	CD SR	M	M	M	H	M	2	7	31/12/2015	L	M	M	M	M	5	Y	CD SR
◀▶	20/389 - Health and Safety	Major Corporate Health and Safety failure resulting in injuries, claims, reputational and service delivery impact and possible prosecution	Chief Exec	CD SR	L	M	M	M	H	3	8	31/03/2016	L	M	M	M	H	3	Y	CSD SR HoHSRM
◀▶	20/8 - Major Emergencies in the Community	Failure to plan, respond and recover effectively to major emergencies in the community resulting in risk to life and limb, impact on statutory responsibilities, impact on financial stability and reputation	Chief Exec	Chief Exec	L	L	H	L	H	3	3	31/12/2014	L	L	H	L	M	3	Y	Chief Exec

Corporate Risk Register

Risk Register: **month 0 (Nov 2015) – summary and detailed final draft for Budget report**
Report Date: 18th November 2015 (fs)

Key	
▲	Risk Ranking has worsened since last review.
▼	Risk Ranking has improved since last review
◀▶	Risk Ranking is same as last review
- new -	New or significantly altered risk

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

16 February 2016

CAPITAL PLAN

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To approve an updated (Quarter 3 2015/16 to 31 December 2015) Capital Plan and recommend its adoption to County Council on 17 February 2016.

2.0 BACKGROUND

2.1 An updated Capital Plan is being submitted to Executive along with the other 2016/17 budget related reports in order to obtain an approved Capital Plan for 2016/17 by the County Council before the start of the financial year.

2.2 The County Council's Financial Procedure rules empower the Executive to modify the Capital Plan during the year and this is achieved through the Capital section of the quarterly monitoring reports or ad hoc reports if urgent changes are needed in between the quarterly reports. The Executive's modification powers however imply that a Capital Plan must be approved by County Council before the start of the financial year.

2.3 Therefore an updated Capital Plan (Quarter 3 2015/16 to 31 December 2015) has been produced for:

(a) approval by Executive at this meeting and

(b) recommendation for adoption by the County Council on 17 February 2016 before the start of the financial year

2.4 This 2015/16 Q3 Capital Plan will therefore form the base Capital Plan for subsequent modifications approved by Executive throughout 2016/17.

2.5 This latest Capital Plan does impact on both the revenue Budget 2016/17 and MTFS outcome and Treasury Management related activities in terms of:

(a) Financing costs (interest and principal) required to finance the Capital Plan being reflected in the 2016/17 Revenue Budget and MTFS within Corporate Miscellaneous and
(b) The Prudential Indicators and
(c) The Treasury management arrangements.

Because of these close links, reports on (a), (b) and (c) are also included on this agenda and need to be reported to the County Council as part of the “Budget set”.

3.0 UPDATED Q3 CAPITAL PLAN TO 31 DECEMBER 2015

3.1 Details of the updated Capital Plan at individual scheme/project level are not attached to this report but are available on request. However summaries for each Directorate analysed into the main areas of capital spending are attached as **Appendices A to D**, with an overall summary being shown in **Appendix E**.

3.2 The updated Capital Plan for Q3 2015/16 is based on the last version (Q2 2015/16) approved by Executive on 17 November 2015 updated to include the following:

- capital approvals announced to date as part of the Local Government Finance Settlement;
- additions or variations to schemes that are self funded (ie through grants contributions, revenue contributions and earmarked capital receipts)
- re-phasing of expenditure between years;
- virements between schemes resulting from variations in scheme costs (eg arising from a tender process) and ongoing reassessments between priorities within a Directorate’s finite control total;
- additional schemes and provision approved by Executive;
- various other miscellaneous refinements.

3.3 A summary of the changes compared with the last version (Q2 2015/16) approved by Executive on 17 November 2015 is attached as part of **Appendix E**.

Latest Position

3.4 A summary of the latest Capital position (gross spend) at Directorate level is as follows:-

Directorate/Component	Appendix	2015/16	2016/17	2017/18	2018/19	Later years
		£m	**£m**	**£m**	**£m**	**£m**
Health and Adult Services	**A**	0.6	2.9	2.7	1.4	10.7
Business and Environmental Service	**B**	80.3	59.7	47.2	54.3	31.1
Children’s and Young People’s Service	**C**	27.7	31.0	30.2	18.7	44.5
Central Services	**D**	5.8	3.9	4.6	1.9	1.2
Overall County Total	**E**	**114.4**	**97.5**	**84.7**	**76.3**	**87.5**

3.5 The table above indicates planned gross capital spend of £114.4m in 2015/16, £97.5m in 2016/17, £84.7m in 2017/18 and £76.3m in 2018/19 but as previously reported these totals do include a limited number of significant individual schemes and provisions as follows:

Directorate / Scheme	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Health and Adult Services				
"Draft Care and Support Where I live Strategy" – Extra Care Scheme	0.3	1.0	1.0	1.0
Business & Environmental Services				
Waste procurement project	0.1	1.3	0.0	3.3
Integrated transport	1.4	1.2	3.0	3.0
Maintenance of roads and bridges	37.3	35.4	30.8	32.8
A174 Sandsend Slope Stabilisation Scheme	7.4	0.4	0.0	0.0
Bedale-Aiskew-Leeming Bar major scheme	13.5	1.5	0.6	0.1
Growing places	3.7	0.0	0.3	1.1
Local Growth Deal	15.3	18.0	12.4	14.0
Children & Young People's Service				
Suitable for purpose	3.0	3.2	0.9	0.0
Other capital funding schemes	1.6	2.7	6.5	12.3
Basic Need Schemes	8.0	14.3	12.2	1.1
Capitalised repairs and maintenance	6.4	4.1	4.3	0.0
Devolved capital (school schemes)	2.0	2.0	2.0	2.0
Self help schemes (school schemes)	3.0	3.0	3.0	3.0
Central Services				
Bright office schemes	0.0	0.0	2.4	0.0
ICT infrastructure	3.9	1.8	1.6	1.3
	106.9	89.9	81.0	75.0
All other schemes and provisions	7.5	7.6	3.7	1.3
Total	**114.4**	**97.5**	**84.7**	**76.3**

It is clear from this analysis that a relatively few individual schemes and provisions make up about 90% of the total planned capital spend in each year; any slippage or delays in these individual schemes will therefore have a significant consequential impact on overall Plan delivery, consequential financing requirements etc.

3.6 Following the table in **paragraph 3.5** above, a summary of the changes reflected in the latest Capital Plan compared with that approved on 17 November 2015 is as follows:

Item	2015/16	2016/17	2017/18	2018/19	Later years
	£m	£m	£m	£m	£m
Capital Plan approved on 17 November 2015	**122.2**	**95.1**	**82.7**	**75.3**	**87.1**
Schemes funded from Prudential Borrowing	0.2	-0.4	0.0	0.0	0.0
Variations in Self funded schemes	0.6	-2.4	0.0	0.0	0.0
Re-phasing between years (para 3.7)					
Self funded from grants etc.	-5.7	5.0	0.6	0.7	-0.6
Funded from borrowing and capital receipts	-2.9 } -8.6	0.2	1.4	0.3	1.0
= updated Capital Plan at Q3 2015/16	**114.4**	**97.5**	**84.7**	**76.3**	**87.5**
Variation since Q2 2015/16	**-7.8**	**2.4**	**2.0**	**1.0**	**0.4**

Appendix E provides a breakdown of the figures in the above table into individual Directorates.

3.7 The table in **paragraph 3.6** above indicates that for the Q3 Capital Plan update there has been an overall of expenditure re-phasing from 2015/16 to later years since the last Q2 update. This £8.6m re-phasing consists of £5.7m slippage from 2015/16 into later years which is self-funded from grants and contributions and £2.9m slippage from 2015/16 to later years funded from a combination of capital receipts and borrowing.

The main areas of this net re-phasing are listed below with explanations provided in **Section 4** where appropriate.

Scheme	Self funded	From borrowing/ capital receipts
	£m	**£m**
BES		
Waste Procurement Project		-0.8
A174 Sandsend Slope Stabilisation		-0.6
Bedale-Aiskew-Leeeming Bar Major Scheme	-2.7	
Structural maintenance of Roads	-1.5	
CYPS		
Other Capital Funding Schemes	-0.5	0.0
Everything Else (Net)	-1.0	-1.5
Total gross re-phasing from 2015/16 to later years between as reported at Q2 and Q3 2015/16	**-5.7**	**-2.9**

-£8.6m

3.8 The capital financing costs (principal and interest) required to finance this updated Capital Plan have been fully reflected in the 2016/17 Revenue Budget within Corporate Miscellaneous as have the costs for the 2017/18 to 2019/20 MTFS.

3.9 Members will be aware that the way in which the borrowing requirements for the Capital Plan of the County Council are managed and financed is directly linked to

- the Prudential Indicators and
- the Treasury Management arrangements

Because of these close links, reports on both the above are also included on this Agenda and need to be recommended to the County Council as part of the 'Budget Set'.

3.10 Because of the direct links between the size of the Capital Plan and the impact of consequential financing costs on the Revenue Budget / MTFS, the Treasury Management report referred to in **paragraph 3.9** above reflects the principle, agreed several years ago, to cap the level of capital financing costs as a proportion of the annual Net Revenue Budget. The current level of 10% (previously 11%) is being recommended for continuation in the 2016/17 Revenue Budget/MTFS period and will accommodate the impact of the Capital Plan but will place a constraint, unless Members consciously reset this limit on the use of locally determined Prudential Borrowing. As indicated in the separate Treasury Management report, the level will automatically be reviewed annually as part of the Budget / MTFS process.

4.0 Comments on significant projects and variations reflected in the updated Capital Plan

4.1 Business and Environmental Services

Waste Transfer Stations

The budget has been reprofiled from 2015/16 (£0.8m) to later years in order to reflect the current programme. Delays on the Northern Electric Distribution Ltd (NEDL) timetable have resulted in Phase 2 of the construction of the Kirby Misperton Waste Transfer scheme slipping to 2016/17.

A site at Norton Grove was purchased in 2008/09 in order to locate a Waste Transfer Station. However, the Norton Grove site is now no longer required as part of the project. BES therefore, are requesting approval to earmark the resultant capital receipt to repay the borrowing costs associated with the original purchase.

Bedale-Aiskew-Leeming Bar Major Project (BALB)

The project forecasts have been reviewed in line with progress on the scheme. The scheme costs have reduced based on a review of the risk register and on the estimated value of unrealised risk for 2015/16 (£1.3m) and a refund from Northern Powergrid (£0.3m) for reduction in scope of diversion works. Construction of the mainline carriageways is progressing and completion is currently forecast for summer 2016 (3 months earlier than programmed). Grant funding from DfT has also been received earlier than scheduled, resulting in a re-profiling of overall funding of the scheme.

Local Transport Plan (LTP)

In order to maximise Local Enterprise grant funding, £2.7m of the £5.0m originally allocated to the LTP programme in 2016/17 has been brought forward to 2015/16. As a result, revenue funding of £2.7m has been re-phased to 2016/17.

Growing Places

The Growing Places scheme is considered as part of the Capital Plan as the County Council is the accountable body. However, the LEP is responsible for which projects are to be awarded loan funding. Successful projects are awarded loans which are repaid over varying periods and a long term cash flow mechanism is in place to ensure that available funds are not over committed. The scheme profile has been updated as per the latest loan investment and repayment profiles.

4.3 Children and Young People's Service

Basic Need Programme and Other Capital Funding Schemes

Various project forecasts have been reviewed across both programmes in line with progress on individual schemes. £500k revenue contributions from the Early Years programme to Basic Need projects have also been added to the programme. This has resulted in re-phasing of expenditure to 2016/17 (£1.0m) from 2015/16 (£0.5m) and 2017/18 (£0.5m).

Government Grant Funding
Central Government have not yet made an announcement regarding future capital grant allocations for the Capital Planned Maintenance, Basic Need and Devolved Capital Grants. As a result, the Q3 Capital Plan includes forecast allocations, based on broad estimates, for these grants. An announcement on the actual allocations is expected in February 2016. Subsequent changes will be reported as part of future quarterly monitoring reports.

4.4 **Central Services**

Material Damage
The Material Damage general provision has been reduced from £500k to £200k. This is a result of the lower than expected number of insurable damage incidents incurred by the County Council at this stage.

Purchase of Vehicles, Plant and Equipment
Further vehicle purchases (£350k) are anticipated in 2015/16 based on current Fleet Management expenditure profiles.

5.0 **IMPACT OF CHANGES ON THE FINANCING OF THE CAPITAL PLAN AND AVAILABILITY OF CAPITAL RESOURCES**

5.1 The financing of the updated Capital Plan is set out in **Appendix F** with a summary being as follows:-

Source	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Later years**
	£m	**£m**	**£m**	**£m**	
Forecast sources of finance					
Borrowing	8.5	1.9	5.3	-3.1	20.3
Grants and contributions	94.6	80.8	69.6	60.8	62.5
Schemes financed from revenue	12.6	11.0	8.4	8.9	2.4
Capital receipts	9.2	5.0	1.8	5.4	7.6
= total forecast capital funding	124.9	98.7	85.1	72.0	92.8
- Updated Capital Plan (**paragraph 3.4**)	114.4	97.6	84.7	76.3	87.5
= potential unallocated capital resources	10.5	1.1	0.4	-4.3	5.3
Total potentially available over full Capital Plan period	**£13.0m**				

5.2 The above table indicates that there is potentially £13.0m of unallocated capital funding that might (depending upon the realisation of forecast capital receipts) become available over the Capital Plan period.

5.3 This sum which arises principally from capital receipts identified is higher than the £12.1m reported at Q2 principally because additional land and properties being identified for sale together with updated higher than expected values in relation to some properties.

5.4 For all capital receipts from the sale of surplus land and property there is a continuing impact on the level and timing of those receipts due to the depressed state of the property market. Thus the forecast value of these receipts continues to vary and be delayed (slippage) which results in additional Prudential Borrowing being required to finance the Capital Plan until the receipts are ultimately realised.

5.5 Some of the forecast receipts making up this ‘Corporate Capital Pot’ are not expected to be realised for some time yet. Thus, following on from **paragraph 5.4** above, their certainty in terms of both timing and amount, is speculative. Against this background any material spending of the ‘pot’ combined with significant reductions in the expected value of potential capital receipts in the pipeline could result in the Corporate Capital Pot being ‘overdrawn’. This scenario would also result in additional Prudential Borrowing being required to finance the existing Capital Plan.

5.6 Assuming the forecasts remain accurate, this £13.0m could be made available for either:

(a) new capital investment (ie additional schemes), or

(b) reducing prudential (unsupported) borrowing and therefore achieving financing cost savings in the Revenue Budget, or

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

5.7 Members have previously agreed to adopt option (c) above and retain any surplus capital funding for the time being. Another factor that influenced this decision was that as mentioned in **paragraphs 5.4 and 5.5**, the forecast funding levels include a capital receipts risk in terms of both forecast receipts slipping into a future year and/or not achieving their assumed estimate. That said, there is a future requirement for additional School Primary Places (see **paragraph 6.2** below) and therefore it is proposed to earmark £7.5m of the available capital funding for this purpose.

5.8 **Given the factors mentioned above and the intention to review the schemes in the Capital Plan (paragraph 6.1) particularly as the Council addresses its future requirements as part of the 2020 North Yorkshire Programme, it is proposed that option (c) be reaffirmed at this stage and that the unallocated funding is held in reserve for the time being, with the exception of £7.5m being proposed for investment in School Primary Places as set out in paragraphs 6.2 and 6.3. Future further investment proposals are likely to include Capital projects and initiatives however and these will be incorporated into a future quarterly Capital report.**

6.0 LOOKING AHEAD

6.1 As part of the 2020 Yorkshire Programme, officers are reviewing a number of distinct areas in order to improve the way in which the County Council works:-

(i) assess the scope for property rationalisation across the County Council in order to reduce existing and future property costs. This work is already in train and, as proposed in the Revenue Budget report, £3m has been earmarked for property in Scarborough, Northallerton and Selby subject to County Council's approval. Further details will be provided to the Executive should this proposal be supported with a view to seeking approval to commit the funding on specific schemes.

(ii) all uncommitted schemes in the Capital Plan together with reviewing the capital plan process as a whole as part of the savings approach towards capital and treasury management identified in the MTFS / Revenue Budget report in an attempt to bridge the savings gap.

(iii) Centralising the management of the delivery of capital and other property projects within the Property Service. This includes the creation of clear process workflows used by the clients in directorates, the Property Service and Mouchel (the County Council's projects consultant with effect from 1 April 2016) which incorporate formal approval points that control the move of a project from stage to stage in the process."

6.2 In addition, a review of the County Council's School Primary Places requirement has been carried out as part of the planning for the future years school capital programme. A gross investment need of £20.6m has been identified over the next 3 years to develop additional primary school places. Basic Need funding of £1.040m has been provided for 2017/18 and the remaining shortfall (on the basis that sufficient s106 contributions are secured) therefore stands at circa £15m. The Council has approached the Department for Education to match fund on a 50:50 basis. It is therefore proposed that £7.5m is provided from unallocated capital funding for this purpose. Further details will be provided following the completion of discussions with the Department for Education.

7.0 RECOMMENDATIONS

7.1 The Executive is recommended to:

(a) approve the updated Capital Plan, summarised at **Appendix E** which incorporates a number of specific refinements reported in **paragraph 4**

(b) to release £7.5m from unallocated capital funding to finance School Primary Places (**paragraphs 5.8** and **6.2**)

(c) with the exception of (b) above, agree that no action be taken at this stage to allocate any further additional capital resources (**paragraph 5.8**)

(d) recommend to the County Council that the Q3 2015/16 Capital Plan, as summarised in **Appendices A to E** be adopted.

GARY FIELDING, CORPORATE DIRECTOR – STRATEGIC RESOURCES

Central Services, County Hall, Northallerton

21 January 2016

Report Author – Karen Iveson, 01609 535664 karen.iveson@northyorks.gov.uk

CAPITAL PLAN APPENDICES

Appendix A	Health and Adult Services
Appendix B	Business and Environmental Services
Appendix C	Children and Young People's Service
Appendix D	Central Services
Appendix E	Summary of Capital Plan and changes since last Capital Plan update
Appendix F	Financing of Capital Plan

HEALTH AND ADULT SERVICES

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

ITEM	Total	Expenditure to 31.3.15	2015/16	2016/17	2017/18	2018/19	Later Years
	£000	£000	£000	£000	£000	£000	£000
GROSS EXPENDITURE							
Maintaining Fabric / Facilities of Properties	2,186	-	240	601	655	390	300
"Draft Care and Support Where I Live Strategy" Extra Care Scheme (Invest to Save)	14,042	453	309	1,000	1,000	1,000	10,280
"Draft Care and Support Where I Live Strategy" Older People Resource Centre	2,000	3	-	1,000	997	-	-
"Valuing People" Day Service Provision	1,867	1,522	-	345	-	-	-
IT infrastructure	704	679	24	-	-	-	-
TOTAL GROSS SPEND	**20,799**	**2,657**	**573**	**2,946**	**2,652**	**1,390**	**10,580**
Last Update - Q2 2015/16	20,799	2,657	573	2,946	2,652	1,390	10,580
CAPITAL GRANTS & CONTRIBUTIONS							
Capital Grants							
- Adult Social Care I.T. Infrastructure	393 CR	393 CR	-	-	-	-	-
- Adult Social Care Investment for Transformation	311 CR	287 CR	24 CR	-	-	-	-
- PSS Capital Grant	2,466 CR	-	549 CR	1,917 CR	-	-	-
Revenue Contributions							
- Revenue Contributions - PIP Funding	4,000 CR	-	-	1,000 CR	1,000 CR	1,000 CR	1,000 CR
TOTAL GRANTS AND CONTRIBUTIONS	**7,170 CR**	**679 CR**	**573 CR**	**2,917 CR**	**1,000 CR**	**1,000 CR**	**1,000 CR**
Last Update - Q2 2015/16	7,170 CR	679 CR	573 CR	2,917 CR	1,000 CR	1,000 CR	1,000 CR
TOTAL NET EXPENDITURE	**13,629**	**1,978**	**-**	**29**	**1,652**	**390**	**9,580**
Last Update - Q2 2015/16	13,629	1,978	-	29	1,652	390	9,580

BUSINESS AND ENVIRONMENTAL SERVICES

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

ITEM	Total	Expenditure to 31.3.15	2015/16	2016/17	2017/18	2018/19	Later Years
	£000	£000	£000	£000	£000	£000	£000
GROSS EXPENDITURE							
New and Replacement Road Lighting Columns	1,813	-	1,013	800	-	-	-
Waste Management Service	1,101	254	34	814	-	-	-
Waste Transfer Stations	5,693	1,004	110	1,252	20	3,308	-
Scarborough Integrated Transport System	28	-	-	28	-	-	-
A174 Sandsend Slope Stabilisation	9,334	514	7,400	437	5	8	970
Bedale-Aiskew-Leeming Bar Major Scheme	27,707	11,779	13,512	1,517	633	97	169
Local Transport Plan							
- Integrated Transport	7,010	1,641 CR	1,400	1,205	3,023	3,023	-
- Maintenance	160,387	-	40,013	37,720	35,827	46,827	-
- Regional Funding Allocation	12,717	12,325	165	228	-	-	-
Local Growth Deal	59,600	-	12,600	15,700	7,400	-	23,900
Local Sustainable Transfer Fund	6,881	6,543	338	-	-	-	-
LOCAL ENTERPRISE PARTNERSHIP							
LEP Growing Places Fund (Grant)	10,322	6,600	3,722	-	-	-	-
LEP Growing Places Fund (Grant Reinvested)	7,518	-	-	-	344	1,087	6,087
TOTAL GROSS SPEND	**310,110**	**34,677**	**80,306**	**59,701**	**47,252**	**54,349**	**31,126**
Last Update - Q2 2015/16	310,044	34,677	85,766	58,396	47,144	53,332	30,729

BUSINESS AND ENVIRONMENTAL SERVICES

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

ITEM	Total	Expenditure to 31.3.14	2014/15	2015/16	2016/17	2017/18	Later Years
	£000	£000	£000	£000	£000	£000	£000
CAPITAL GRANTS & CONTRIBUTIONS							
Capital Grants							
- BALB	24,780 CR	10,786 CR	13,512 CR	481 CR	-	-	-
- Local Transport Plan Grant	142,705 CR	12,344 CR	33,770 CR	32,891 CR	31,850 CR	31,850 CR	-
-EA Grant	4,763 CR	514 CR	4,249 CR	-	-	-	-
- Waste Capital Grants	485 CR	24 CR	-	461 CR	-	-	-
- LEP Growing Places Fund	8,811 CR	5,089 CR	3,722 CR	-	-	-	-
- DfT Grant	4,733 CR	4,733 CR	-	-	-	-	-
- Regional Growth Fund	-	-	-	-	-	-	-
- Local Growth Deal	83,600 CR	-	15,300 CR	18,000 CR	12,400 CR	14,000 CR	23,900 CR
Capital Contributions	154 CR	133 CR	21 CR	-	-	-	-
LEP Growing Places Fund Loan Repayments	7,518 CR	-	-	-	344 CR	1,087 CR	6,087 CR
Revenue Contributions							
- Road Lighting Columns	60 CR	-	60 CR	-	-	-	-
- BALB (PIP)	2,817 CR	883 CR	-	1,035 CR	633 CR	97 CR	169 CR
- Structural Maintenance of Roads	16,100 CR	-	5,325 CR	4,775 CR	2,000 CR	4,000 CR	-
- Structural Maintenance of Bridges	383 CR	-	383 CR	-	-	-	-
- Rationalisation of Highways Depots	-	-	-	-	-	-	-
- Other Revenue Contributions	706 CR	341 CR	13 CR	353 CR	-	-	-
TOTAL GRANTS AND CONTRIBUTIONS	**297,614 CR**	**33,657 CR**	**76,355 CR**	**57,997 CR**	**47,227 CR**	**51,034 CR**	**30,156 CR**
Last Update - Q2 2015/16	298,659 CR	33,657 CR	80,369 CR	56,474 CR	47,094 CR	50,335 CR	30,729 CR
TOTAL NET EXPENDITURE	**12,496**	**1,020**	**3,951**	**1,704**	**25**	**3,315**	**970**
Last Update - Q2 2015/16	11,386	1,020	5,397	1,922	50	2,997	-

CHILDREN AND YOUNG PEOPLE'S SERVICE

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

ITEM	Total	Expenditure to 31.3.15	2015/16	2016/17	2017/18	2018/19	Later Years
	£000	£000	£000	£000	£000	£000	£000
GROSS EXPENDITURE							
NYCC MANAGED SCHEMES							
Major Capital Schemes at Schools	41	-	41	-	-	-	-
Suitable for Purpose	7,092	-	2,974	3,193	925	-	-
School Reorganisation	1,709	-	768	500	184	257	-
Special Educational Needs/Behaviour Review	15	-	15	-	-	-	-
Primary Replacement School	1,184	1,149	35	-	-	-	-
Health and Safety	754	-	754	-	-	-	-
Other Capital Funding Schemes	32,696	182	831	2,225	6,357	12,073	11,029
Capital Maintenance Grant Funded Schemes	428	-	272	156	-	-	-
Basic Need Grant Funded Schemes	65,452	-	8,046	14,255	12,216	1,085	29,850
Capitalised Repairs and Maintenance	15,756	-	6,351	4,145	4,260	-	1,000
Schools Access Initiaitive	416	-	411	5	-	-	-
Catering Equipment	960	-	240	240	240	240	-
ICT Hardware Purchases	300	-	75	75	75	75	-
Woodfield Development and Other Projects	2,007	1,888	120	-	-	-	-
Grant-Funded Provisions:							
- Childrens Centre Capital	784	-	365	202	217	-	-
- Aiming High for Disabled Children	2,579	2,285	-	-	294	-	-
- Universal Free School Meals	2,316	585	1,281	450	-	-	-
- Building Schools for the Future- Richmond School	22	-	22	-	-	-	-
- Integrated Childrens System Grant	906	854	52	-	-	-	-
Other Schemes	1,594	-	58	604	405	-	527
SCHOOLS MANAGED SCHEMES							
Devolved Capital	10,191	-	1,995	2,000	2,000	2,000	2,196
Self Help Schemes	12,000	-	3,000	3,000	3,000	3,000	-
TOTAL GROSS SPEND	**159,202**	**6,943**	**27,705**	**31,049**	**30,173**	**18,730**	**44,602**
Last Update - Q2 2015/16	158,702	6,943	27,862	29,903	30,663	18,730	44,602

CHILDREN AND YOUNG PEOPLE'S SERVICE

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

ITEM	Total	Expenditure to 31.3.14	2014/15	2015/16	2016/17	2017/18	Later Years
	£000	£000	£000	£000	£000	£000	£000
CAPITAL GRANTS & CONTRIBUTIONS							
NYCC MANAGED SCHEMES							
Capital Grants							
- Devolved Capital Grant	505 CR	24 CR	331 CR	150 CR	-	-	-
- Capital Maintenance Grant	52,795 CR	-	11,936 CR	10,442 CR	11,567 CR	11,336 CR	7,514 CR
- Basic Need Grant	41,440 CR	-	4,929 CR	9,853 CR	7,974 CR	1,085 CR	17,599 CR
- Other Capital Grants	4,847 CR	2,285 CR	1,452 CR	716 CR	394 CR	-	-
Capital Contributions							
- Section 106 Income	18,687 CR	-	1,961 CR	3,007 CR	2,941 CR	-	10,778 CR
- Other Capital Contributions	526 CR	-	0	0	-	-	527 CR
Revenue Contributions							
- ICT Hardware	300 CR	-	75 CR	75 CR	75 CR	75 CR	-
- Catering Equipment	1,429 CR	469 CR	240 CR	240 CR	240 CR	240 CR	-
- Other Revenue Contributions	1,406 CR	854 CR	552 CR	-	-	-	-
SCHOOL MANAGED SCHEMES							
Devolved Capital Grant	10,191 CR	-	1,995 CR	2,000 CR	2,000 CR	2,000 CR	2,196 CR
Self Help Capital Contributions	2,000 CR	-	500 CR	500 CR	500 CR	500 CR	-
School Budgets Revenue Contributions	10,000 CR	-	2,500 CR	2,500 CR	2,500 CR	2,500 CR	-
TOTAL GRANTS AND CONTRIBUTIONS	**144,126 CR**	**3,633 CR**	**26,471 CR**	**29,482 CR**	**28,191 CR**	**17,736 CR**	**38,613 CR**
Last Update - Q2 2015/16	143,626 CR	3,633 CR	26,627 CR	28,336 CR	28,681 CR	17,736 CR	38,613 CR
TOTAL NET EXPENDITURE	**15,076**	**3,310**	**1,234**	**1,567**	**1,982**	**994**	**5,989**
Last Update - Q2 2015/16	15,076	3,310	1,234	1,567	1,982	994	5,989

APPENDIX C (Page 2 of 2)

CENTRAL SERVICES

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

ITEM	Total	Expenditure to 31.3.15	2015/16	2016/17	2017/18	2018/19	Later Years
	£000	£000	£000	£000	£000	£000	£000
GROSS EXPENDITURE							
Material Damage Provision	1,700	-	200	500	500	500	-
Public Access to Buildings for Disabled	1,250	856	-	395	-	-	-
Affordable Housing Fund	5,379	5,197	182	-	-	-	-
Traveller's Sites	1,520	1,463	-	57	-	-	-
Bright Office Strategy Schemes	9,164	6,806	-	-	2,358	-	-
Revenue Funded Capital Schemes - ICT Infrastructure (FCS)	8,518	-	3,869	1,774	1,617	1,257	-
Super Fast Broadband Scheme	840	147	340	353	-	-	-
South Cliff, Scarborough	1,212	-	-	-	-	-	1,212
Oracle Upgrade	2,313	1,898	415	-	-	-	-
Loans to Limited Companies (NyNet)	8,530	7,930	-	600	-	-	-
Purchase of Vehicles, Plant & Equipment	1,050	-	750	100	100	100	-
Control of Legionella	450	397	-	53	-	-	-
NY Data Observatory	141	122	10	10	-	-	-
Library Schemes	554	525	-	28	-	-	-
TOTAL GROSS SPEND	**42,621**	**25,340**	**5,767**	**3,870**	**4,576**	**1,857**	**1,212**
Last Update - Q2 2015/16	42,436	25,340	7,940	3,870	2,217	1,857	1,212

APPENDIX D (Page 1 of 2)

CENTRAL SERVICES

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

ITEM	Total	Expenditure to 31.3.14	2014/15	2015/16	2016/17	2017/18	Later Years
	£000	£000	£000	£000	£000	£000	£000
CAPITAL GRANTS & CONTRIBUTIONS							
Capital Grants							
- Travellers' Sites	346 CR	346 CR	-	-	-	-	-
- Regional Improvement Grant	141 CR	122 CR	10 CR	10 CR	-	-	-
- Performance Reward Grant	801 CR	118 CR	330 CR	353 CR	-	-	-
Loans to Limited Companies Repayments	8,530 CR	2,777 CR	400 CR	-	1,000 CR	4,353 CR	-
Revenue Contributions							
- from Pending issues Provision for BOS schemes	3,445 CR	2,555 CR	-	-	890 CR	-	-
- Revenue Funded Capital Programme	9,535 CR	1,898 CR	3,428 CR	980 CR	1,071 CR	945 CR	1,212 CR
- Other Revenue Contributions	414 CR	403 CR	11 CR	-	-	-	-
- Library Schemes (from PIP)	525 CR	525 CR	-	-	-	-	-
TOTAL GRANTS AND CONTRIBUTIONS	**25,237 CR**	**10,244 CR**	**4,178 CR**	**1,343 CR**	**2,962 CR**	**5,298 CR**	**1,212 CR**
Last Update - Q2 2015/16	25,202 CR	10,244 CR	5,034 CR	1,343 CR	2,071 CR	5,298 **CR**	1,212 CR
TOTAL NET EXPENDITURE	**17,384**	**15,096**	**1,588**	**2,527**	**1,614**	**3,441 CR**	**-**
Last Update - Q2 2015/16	19,211	17,873	3,239	1,994	146	-	4,041 CR

EXECUTIVE SUMMARY

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

SUMMARY CAPITAL PLAN	2015/16	2016/17	2017/18	2018/19	Later Years
	£m	£m	£m	£m	£m
Gross Expenditure					
Health & Adult Services	0.6	2.9	2.7	1.4	10.7
Business & Environmental Services	80.3	59.7	47.2	54.3	31.1
Children & Young People's Service	27.7	31.0	30.2	18.7	44.5
Central Services	5.8	3.9	4.6	1.9	1.2
	114.4	**97.5**	**84.7**	**76.3**	**87.5**
Grants & Contributions					
Health & Adult Services	0.6 CR	2.9 CR	1.0 CR	1.0 CR	1.0 CR
Business & Environmental Services	76.3 CR	58.0 CR	47.2 CR	51.0 CR	30.1 CR
Children & Young People's Service	26.5 CR	29.5 CR	28.2 CR	17.7 CR	38.6 CR
Central Serrvices	4.2 CR	1.3 CR	3.0 CR	5.3 CR	1.2 CR
	107.6 CR	**91.7 CR**	**79.4 CR**	**75.0 CR**	**70.9 CR**
Net Expenditure					
Health & Adult Services	-	-	1.7	0.4	9.6
Business & Environmental Services	4.0	1.7	-	3.3	1.0
Children & Young People's Service	1.2	1.6	2.0	1.0	6.0
Central Services	1.6	2.5	1.6	3.4 CR	-
	6.8	**5.8**	**5.3**	**1.3**	**16.6**

SUMMARY OF CHANGES SINCE THE LAST CAPITAL PLAN UPDATE	2015/16	2016/17	2017/18	2018/19	Later Years
	£m	£m	£m	£m	£m
Capital Plan approved by Executive February 2015	**122.2**	**95.1**	**82.7**	**75.3**	**87.1**
Schemes Funded from Prudential Borrowing	**0.2**	**0.4 CR**	**-**	**-**	**-**
Variations in Schemes Self Funded Schemes	**0.6**	**2.4 CR**	**-**	**-**	**-**
Rephasing of Expenditure Between Years					
- Self Funded	5.7 CR	5.0	0.6	0.7	0.6 CR
- Net Expenditure	2.9 CR	0.2	1.4	0.3	1.0
Total Rephasing Between Years	**8.6 CR**	**5.2**	**2.0**	**1.0**	**0.4**
Updated Gross Capital Spend	**114.4**	**97.5**	**84.7**	**76.3**	**87.5**
Grants & Contributions	**107.6 CR**	**91.7 CR**	**79.4 CR**	**75.0 CR**	**70.9 CR**
Net Expenditure	**6.8**	**5.8**	**5.3**	**1.3**	**16.6**

EXECUTIVE SUMMARY

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

HEALTH & ADULT SERVICES	2015/16	2016/17	2017/18	2018/19	Later Years
	£m	£m	£m	£m	£m
Capital Plan approved by Executive February 2015	**0.6**	**2.9**	**2.7**	**1.4**	**10.6**
Rephasing of Expenditure Between Years					
- Self Funded	-	-	-	-	0.1
Total Rephasing Between Years	**-**	**-**	**-**	**-**	**0.1**
Updated Gross Capital Spend	**0.6**	**2.9**	**2.7**	**1.4**	**10.7**
Grants & Contributions	**0.6 CR**	**2.9 CR**	**1.0 CR**	**1.0 CR**	**1.0 CR**
Net Expenditure	**-**	**-**	**1.7**	**0.4**	**9.7**

BUSINESS & ENVIRONMENTAL SERVICES	2015/16	2016/17	2017/18	2018/19	Later Years
	£m	£m	£m	£m	£m
Capital Plan approved by Executive February 2015	**85.8**	**58.4**	**47.1**	**53.3**	**30.7**
Variations in Schemes Self Funded Schemes	**0.2**	**2.5 CR**	**-**	**-**	**-**
Rephasing of Expenditure Between Years					
- Self Funded	4.3 CR	4.0	0.2	0.7	0.6 CR
- Net Expenditure	1.4 CR	0.2	0.1 CR	0.3	1.0
Total Rephasing Between Years	**5.7 CR**	**4.2**	**0.1**	**1.0**	**0.4**
Updated Gross Capital Spend	**80.3**	**60.1**	**47.2**	**54.3**	**31.1**
Grants & Contributions	**76.3 CR**	**58.0 CR**	**47.2 CR**	**51.0 CR**	**30.1 CR**
Net Expenditure	**4.0**	**2.1**	**-**	**3.3**	**1.0**

EXECUTIVE SUMMARY

2015/16 CAPITAL BUDGET MONITORING - POSITION TO 31 DECEMBER 2015

CHILDREN & YOUNG PEOPLE'S SERVICE	2015/16	2016/17	2017/18	2018/19	Later Years
	£m	£m	£m	£m	£m
Capital Plan approved by Executive February 2015	**27.9**	**29.9**	**30.7**	**18.7**	**44.6**
Variations in Schemes Self Funded Schemes	**0.3**	**0.1**	**-**	**-**	**-**
Rephasing of Expenditure Between Years					
- Self Funded	0.5 CR	1.0	0.5 CR	-	0.1 CR
- Net Expenditure	-	-	-	-	-
Total Rephasing Between Years	**0.5 CR**	**1.0**	**0.5 CR**	**-**	**0.1 CR**
Updated Gross Capital Spend	**27.7**	**31.0**	**30.2**	**18.7**	**44.5**
Grants & Contributions	**26.5 CR**	**29.5 CR**	**28.2 CR**	**17.7 CR**	**38.6 CR**
Net Expenditure	**1.2**	**1.5**	**2.0**	**1.0**	**5.9**

CENTRAL SERVICES	2015/16	2016/17	2017/18	2018/19	Later Years
	£m	£m	£m	£m	£m
Capital Plan approved by Executive February 2015	**7.9**	**3.9**	**2.2**	**1.9**	**1.2**
Schemes Funded from Prudential Borrowing	**0.2**	**-**	**-**	**-**	**-**
Variations in Schemes Self Funded Schemes	**0.1**	**-**	**-**	**-**	**-**
Rephasing of Expenditure Between Years					
- Self Funded	0.9 CR	-	0.9	-	-
- Net Expenditure	1.5 CR	-	1.5	-	-
Total Rephasing Between Years	**2.4 CR**	**-**	**2.4**	**-**	**-**
Updated Gross Capital Spend	**5.8**	**3.9**	**4.6**	**1.9**	**1.2**
Grants & Contributions	**4.2 CR**	**1.3 CR**	**3.0 CR**	**5.3 CR**	**1.2 CR**
Net Expenditure	**1.6**	**2.6**	**1.6**	**3.4 CR**	**-**

FINANCING OF CAPITAL PLAN Q3 2015/16

		2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	Later Yrs £000s
A	**FORECAST FUNDING AVAILABLE**					
1	**Borrowing**					
	Prudential (Unsupported) Borrowing	-330	-2,510	-10	990	-4,353
	Rephased borrowing (capital expenditure & receipts slippage)	8,826	4,391	5,283	-4,085	24,645
		8,496	1,881	5,273	-3,095	20,292
2	**Capital Grants and Contributions**					
	Health & Adult Services	573	1,917	0	0	0
	Business & Environmental Services	70,574	51,833	44,250	45,850	23,900
	Children & Young People's Service	23,104	26,668	25,376	14,921	38,614
	Central Services	340	363	0	0	0
		94,591	80,781	69,626	60,771	62,514
3	**Schemes financed from Revenue**					
	Health & Adult Services	0	1,000	1,000	1,000	1,000
	Business & Environmental Services	5,780	6,163	2,633	4,097	169
	Children & Young People's Service	3,367	2,815	2,815	2,815	0
	Central Services	3,439	980	1,962	945	1,212
		12,586	10,958	8,410	8,857	2,381
4	**Capital Receipts available to finance Capital Spending**					
	County Farms receipts	4,352	272	0	0	300
	Earmarked for Depots rationalisation programme receipts	777	175	0	0	400
	Other capital receipts from sale of properties	3,664	908	400	0	860
	LEP Growing places loan repayment (classed as capital receipts)	0	0	344	1,087	6,087
	Company Loan repayments (treated as capital receipts)	400	3,700	1,000	4,353	0
		9,193	5,055	1,744	5,440	7,647
	= Total Forecast Funding Available	**124,866**	**98,675**	**85,053**	**71,973**	**92,834**
B	**CAPITAL PLAN** Updated gross spend Q3 2015/16	**-114,351**	**-97,566**	**-84,653**	**-76,326**	**-87,520**
C	**FUNDING REMAINING** as at Q3 2015/16	**10,515**	**1,109**	**400**	**-4,353**	**5,314**
D	**TOTAL FUNDING REMAINING**					**12,985**

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

16 February 2016

TREASURY MANAGEMENT

Report of the Corporate Director – Strategic Resources

1.0 **PURPOSE OF REPORT**

1.1 To recommend to the Council an updated Annual Treasury Management Strategy for the financial year 2016/17 which incorporates:

(a) the Annual Investment Strategy;

(b) a Minimum Revenue Provision Policy;

(c) a policy to cap Capital Financing costs as a proportion of the annual Net Revenue Budget.

2.0 **BACKGROUND**

2.1 The Council is required to adopt certain procedures in relation to Treasury Management which is defined as

> "The management of the local authority'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".

2.2 Primarily the Council is expected to comply with the terms of the **CIPFA Code of Practice on Treasury Management in the Public Services** which was last updated by CIPFA in November 2011 and adopted by the Council on 15 February 2012.

2.3 In addition, the Council must also comply with the **CIPFA Prudential Code for Capital Finance in Local Authorities** which impacts heavily on Treasury Management matters. This Code was also updated in November 2011 alongside the updated Code of Practice on Treasury Management referred to in **paragraph 2.2** above.

2.4 The Local Government Act 2003 requires the Council to have regard to the Prudential Code and set Prudential Indicators for the next three financial years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.5 In addition to the two CIPFA codes referred to in **paragraphs 2.2 and 2.3** above, the Government (Department of Communities and Local Government - CLG) issues statutory guidance on

(a) Local Government Investments - revised with effect from 1 April 2010, and;

(b) Minimum Revenue Provision (for debt repayment) - revised with effect from 1 April 2012

to which the Council must have regard.

2.6 A separate report on the Prudential Indicators for the three years 2016/17 to 2018/19 is also submitted to this Executive on 2 February 2016. That report should be read in conjunction with this report because of the interaction between the Prudential Indicators and the Treasury Management arrangements.

2.7 The combined effect of these Codes and other relevant Regulations is that the Council has to have in place by the start of the new financial year the following:

(a) an up to date **Treasury Management Policy Statement** - see **Section 3** below;

(b) a combined **Annual Treasury Management and Investment Strategy** and **Minimum Revenue Provision Policy** - see **Section 4**.

2.8 In addition to these Statutory Requirements, the Council also agreed an additional local policy to cap Capital Financing costs as a proportion of the annual Net Revenue Budget. This is now incorporated into the Annual Treasury Management and Investment Strategy.

2.9 This report considers the above requirements and then recommends an updated Annual Treasury Management Strategy for the financial year 2016/17 which incorporates the Annual Investment Strategy and required Minimum Revenue Provision Policy.

3.0 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The CIPFA Code of Practice on Treasury Management (as updated in 2011) requires the Council to approve:

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

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

3.2 The TMPS referred to in **paragraph 3.1 (a)** is attached as **Appendix A** and reflects only very minor changes for 2016/17.

3.3 The 12 TMPs recommended by the code referred to in **paragraph 3.1 (b)** which were originally submitted to Members in March 2004 were updated and approved by the Audit Committee on 6 December 2012.

4.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY 2016/17

4.1 One of the key requirements of the CIPFA Code of Practice on Treasury Management continues to be that an Annual Treasury Management Strategy (ATMS), which incorporates a set of Borrowing Limits and Requirements for the year, is considered and approved before the start of each financial year.

4.2 The ATMS must also include reference to external debt levels, the Prudential Indicators as well as the Annual Investment Strategy (AIS) requirements.

4.3 The proposed **Annual Treasury Management Strategy for 2016/17**, incorporating the Annual Investment Strategy, is therefore attached as **Appendix B** to this report. The key elements of the Strategy are as follows:-

(a) an authorised limit for external debt of **£373.5m** in 2016/17;

(b) an operational boundary for external debt of **£353.5m** in 2016/17;

(c) a borrowing limit on fixed interest rate exposure of 60% to 100% of outstanding principal sums and a limit on variable interest rate exposure of 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 rate exposure of 0% to 30% of outstanding principal sums and a limit on variable interest rate exposure of 70% to 100% of outstanding principal sums;

(f) a limit of £20m of the total cash sums available for investment (both in house and externally managed) to be invested in Non Specified Investments over 364 days;

(g) a 10% 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 the Revenue Budget in 2016/17 as set out in **Section 11** of **Appendix B**;

(i) the Corporate Director – Strategic Resources to report to the 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 not previously approved by the Council.

Long Term Debt Position

4.4 In **Section 10 of Appendix B**, reference is made to the long term debt position of the Council and the attempts being made to reduce the consequential interest charge impact on the annual Revenue Budget.

4.5 As previously reported to Members the long term debt position of the Council is essentially related to the level of capital expenditure undertaken. The growth of the Council's long term outstanding debt is demonstrated by the following table:-

@ **Year End**	**Debt Outstanding (A)**	**Year on Year Variation**	
	£m	**£m**	
31 March 2001 actual	147.3		
2002 actual	148.9	+ 1.6	
2003 actual	180.2	+ 31.3	
2004 actual	215.1	+ 34.9	
2005 actual	231.7	+ 16.6	
2006 actual	274.4	+ 42.7	
2007 actual	299.0	+ 24.6	
2008 actual	328.2	+ 29.2	
2009 actual	329.7	+ 1.5 (B)	
2010 actual	323.9	- 5.8 (B)	
2011 actual	390.1	+ 77.6 (B)	
2012 actual	376.8	- 13.3 (C)	
2013 actual	350.0	- 26.8 (C)	
2014 actual	344.6	- 5.4 (C)	
2015 actual	319.8	- 24.8 (C)	
2016 forecast	326.0	+ 6.2	see **paragraphs 4.6 to 4.10**
2017 forecast	320.6	- 5.4	
2018 forecast	311.1	- 9.5	
2019 forecast	302.0	- 9.1	

(A) Excludes other long term liabilities such as PFI contracts and finance leases which are regarded as debt outstanding for Prudential Indicator purposes.

(B) Reflects the impact of premature repayment of external debt in 2008/09 and 2009/10 and its subsequent refinancing in 2009/10 and 2010/11, together with the capital borrowing requirement for 2009/10 being rolled forward into 2010/11.

(C) Reflects the current policy of internally financing capital expenditure from cash balances which, at some stage, will have to be reversed.

4.6 The debt outstanding forecasts for 31 March 2016 and subsequent years in the table at **paragraph 4.5** above and the Prudential Indicators relating to external debt are based on an assumption that the annual capital borrowing requirements for the years 2015/16 to 2018/19 being taken externally each year. As explained in **paragraphs 6.9 and 8.5 to 8.13** of **Appendix B**, consideration will be given however to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (i.e. running down investments). This has the potential for achieving short term revenue savings and also has the benefit of reducing investment exposure to credit risk.

4.7 Furthermore a key point in relation to debt levels is a proposal in the Revenue Budget report on today's agenda to set aside £10m in the revenue budget for debt repayment / capital financing purposes. Because of the timing and the preferred approach within the available options is not yet finalised, the impact of this is not reflected in any of the debt projections in this report and its appendices. This also applies to the various Prudential Indicators covered in **Section 3 of Appendix B** and the separate Prudential Indicators report. If implemented however the expected impact would be to reduce capital debt levels (internal and external) by £10m which would achieve recurring revenue savings in capital financing charges (repayment of principal) in subsequent years.

4.8 The above table shows the Council's external debt increased by 234% between 2001 and 2013. The increase in the years since 2002 to 2011 is particularly noticeable – this is primarily attributable to the increase in the value of annual Highways LTP allocations and the availability of Prudential Borrowing which has been deliberately used by the Council to boost capital spending and thereby invest in its asset infrastructure. The ratio of borrowing related to government borrowing approvals as opposed to being locally determined under the prudential regime has been approximately 80/20 in the period up to 31 March 2011.

4.9 A significant feature of the 2011/12 Local Government Finance Settlement, however, was that all Government capital approvals from 2011/12 were funded from capital grants rather than the previous mix of grants and borrowing approvals. This reduces annual capital borrowing and debt levels by about £33m per annum with a consequential impact on capital financing costs. The impact of this is reflected in the table in **paragraph 4.5** with forecast debt outstanding levels after 31 March 2011 starting to reduce year on year.

4.10 The change referred to in **paragraph 4.9** above has had significant implications on the future Treasury Management operations and consequential Prudential Indicators in terms of

- reduced annual borrowing requirement and consequential debt levels from 2011/12 as indicated in the table in **paragraph 4.5**
- the potential for the annual Minimum Revenue Provision (MRP) for debt repayment exceeding the actual new borrowing requirement in the year resulting in a net debt repayment required with potential early repayment penalties (premiums)
- reduced capital financing costs (interest + MRP) which were built into the 2011/12 Revenue Budget/MTFS
- significant impact on many Prudential Indicators

4.11 After reflecting the factors referred to in **paragraphs 4.9 and 4.10** above, the revenue cost of servicing the debt which impacts directly on the Revenue Budget / Medium Term Financial Strategy will be about £26.6m in 2016/17; this consists of interest payments of £13.7m and a revenue provision for debt repayment of £13.9m.

4.12 As shown in the table at **paragraph 4.5** and explained subsequently in **paragraphs 4.9** and **4.10**, the debt outstanding levels of the Council based on the current Capital Plan, start to reduce each year from 2011/12. This assumes that the Government continues to fund future capital approvals through grants rather than the previous mix of grant and supported borrowing approvals. These debt levels could be reduced further by

(a) curtailing fresh capital investment and removing/reducing Capital Plan provisions that remain funded from external prudential borrowing;

(b) significantly increasing the Revenue Budget/MTFS provision for debt repayment above the agreed Prudential policy (about 4% of debt) that is currently made;

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

(d) funding total annual borrowing requirements from internal cash balances and thus running down investments. This internal capital financing option is referred to in more detail in **paragraph 4.6** above and **paragraphs 6.9 and 8.5 to 8.13** of **Appendix B**;

(e) following (d) above, external debt could also be prematurely repaid from internal cash balances and thus also running down investments.

Age profile of the external debt

4.13 The age profile of the Council's external debt as at 31 March 2015 is as follows:-

Length of Period	£m
up to 1 year	8.2
1 year to 2 years	7.6
2 years to 5 years	60.9
5 years to 10 years	54.6
10 to 25 years	34.7
25 to 40 years	131.3
above 40 years	22.5
Total external debt at 31 March 2015	**319.8**

4.14 Some points to highlight in relation to the above table are as follows

(a) there is no predetermined or model age profile and decisions to borrow have been taken each year in the light of current and forecast future interest rates together with the yield curve;

(b) new borrowing in recent years has focused on longer period fixed term loans due to their historically low interest rates;

(c) a period spread of the age profile is important to avoid having to refinance loans repaid within relatively short periods;

(d) the 2016/17 Borrowing Strategy set out in **Section 8 of Appendix B** will mean that the Council should be able (in current and forecast market conditions) to undertake cost effective borrowing over markedly shorter periods than in previous years and so achieve a more even spread of the debt maturity profile. This is subject, of course, to the potential impact of delaying annual borrowing requirements to later years by utilising cash balances and running down investments. As covered elsewhere in this report, however, future new borrowing levels are significantly lower than in previous years (see **paragraphs 4.9 and 4.10**).

5.0 CREDIT RATING CRITERIA AND APPROVED LENDING LIST

5.1 The criteria for monitoring and assessing organisations (counterparties) to which the Council may make investments (i.e. lend) are incorporated into the detailed Treasury Management Practices (TMPs) that support the Treasury Management Policy Statement (TMPS). Applying these criteria enables the Council to produce an Approved Lending List of organisations in which it can make investments, together with specifying the maximum sum that at any time can be placed with each. The Approved Lending List is prepared, taking into account the advice of the Council's Treasury Management Advisor, Capita Asset Services – Treasury Solutions. **(See paragraph 13 of Appendix B).**

Changes to Credit Methodology

5.2 Since the financial crisis, the main rating agencies (Fitch, Moody's and Standard & Poor's) have included an assumption, when assessing credit worthiness, that an institution would obtain support from Government should the institution fail, (i.e. implied levels of sovereign support).

5.3 Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these implied "uplifts" in credit quality. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed.
It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment; they are merely reflective of a reassessment of rating agency methodologies in light of changes to the regulatory environment.

5.4 As a result of these rating agency changes, the credit element of the creditworthiness methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed and the overlay of CDS (Credit Default Swap) prices will continue to be used.

Lending criteria for 2016/17

5.5 In order to minimise the risk to investments, the Council will continue to apply a minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. This approach has reflected the following:-

(a) a system of scoring each organisation using Capita's enhanced creditworthiness service. This service, revised during 2015/16 to reflect continuing regulatory changes, uses a sophisticated modelling system that includes:

- credit ratings published by the three credit rating agencies (Fitch, Moodys and Standard and Poor) which reflect a combination of components (long term and short term,)
- credit watches and credit outlooks from the rating agencies
- credit Default Swaps (CDS) spreads to give early warnings of likely changes in credit ratings
- other information sources, including, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

(b) sole reliance is not placed on the information provided by Capita. In addition the Council also uses market data and information available from other sources such as the financial press and other agencies and organisations

(c) in addition to the above, the following measures also continue to be actively taken into consideration:

- institutions will be removed or temporarily suspended from the Approved Lending List if there is significant concern about their financial standing or stability
- investment exposure will be concentrated with higher rated institutions wherever possible.

5.6 By collating and reviewing on an ongoing basis the above data, the Council aims to ensure that the most up-to-date information is used to assist in the assessment of credit quality and is seen as a practical response to the continuing money market instability and volatility.

5.7 It is, therefore, proposed that the lending criteria, as summarised in **paragraph 5.2** above, be utilised for 2016/17. These criteria are set out in full in **paragraph 12.8** of the Annual Treasury Management and Investment Strategy 2016/17 (**Appendix B**) attached and will enable the Council to continue to monitor and control its money market risk exposure whilst also ensuring that it can achieve a return that is consistent with market rates.

Debt Management Office Deposit Account

5.8 The Debt Management Office (DMO) Deposit Account is an investment facility introduced several years ago by the Government specifically for public authorities. This facility is AAA rated as it is part of the HM Treasury Operations and can be regarded as lending to the Government. It is, therefore, a 100% safe house lending option. Its standard interest rate however of 0.25% is below what could realistically be achieved elsewhere for similar short term investments.

5.9 This investment option is included in the Council's current approved lending list with a maximum investment limit of £100m. The facility was not utilised in 2014/15 and no investments are anticipated in 2015/16. However, The DMO account will remain on the Council's approved Lending List as a precaution.

Approved Lending List

5.10 The current Approved Lending List is attached to this report as **Schedule C** to the Annual Treasury Management and Investment Strategy 2016/17 (**Appendix B**). The List, however, continues to be monitored on an ongoing basis and changes made as appropriate by the Corporate Director – Strategic Resources to reflect credit rating downgrades/upgrades, mergers or market intelligence and rumours that impact on the credit 'score' and colour coding as described in **paragraph 5.8** below.

5.11 As mentioned in **paragraph 5.2 (a)** the Council evaluates an organisation's credit standing by using Capita's credit worthiness service. This service uses credit ratings and credit watch/outlook notices from all three principal market agencies overlaid by trends within the Credit Default Swap (CDS) market. All this information is then converted into a weighted credit score for each organisation and only those organisations with an appropriate score will fulfil the Council's minimum credit criteria. The score is then converted into the end product of a colour code which is used to determine the maximum investment term for an organisation. Details of this assessment criteria is included in the Annual Treasury Management and Investment Strategy 2016/17 (**paragraphs 12.8 (c) of Appendix B**).

5.12 Utilising the assessment of credit quality, the criteria and investment limits for **specified investments** (a maximum of 364 days) are:

- institutions which are partially owned by the UK Government, (Nationalised Banks), being limited to £85m
- other institutions achieving suitable credit scores and colour banding being limited to a maximum investment limit of between £20m and £75m (actual duration and investment limit dependant on final score/colour)
- all foreign bank transactions are in sterling and are undertaken with UK based offices

5.13 The criteria for **Non Specified Investments** (for periods of more than 364 days) are:

- investments over 1 year to a maximum of 2 years with institutions which have suitable credit score

- the maximum amount for all non-specified investments is £5m with any one institution

5.14 Local Authorities will continue to be included on the Approved Lending List for 2016/17, although suitable investment opportunities with them are limited. Because of the way they are financed and their governance arrangements, Local Authorities are classed as having the highest credit rating.

5.15 The information below details all the changes reflected in the latest Approved Lending List (**Schedule C to Appendix B**) compared with that submitted for 2015/16 in February 2015. Please note that the analysis below is between the version provided last year and the proposed list for 2016/17 – it is a snapshot at a point in time. It is therefore possible that there will be in year changes that are not identified in this snapshot.

(a) organisations included on the Approved Lending List which will NOT be included for 2016/17

Organisation	**Reason**
Ulster Bank Ltd	Due to fall in Credit Ratings

(b) organisations who continue to be included on the 2016/17 Approved Lending List, but whose Maximum Investment Duration will remain as nil until Credit Ratings and market sentiment improve

Organisation	**Reason**
Clydesdale Bank (Trading as the Yorkshire Bank)	Due to fall in Credit Ratings

(c) further changes were made during the year to increase and decrease the maximum investment term for some organisations. This was the result of market movements between the Credit Default Swap and iTraxx benchmark, an early warning of likely changes to credit ratings in the future;

Further Options

5.16 Because of the stringent credit rating criteria being adopted (**paragraph 5.2**), there are relatively few organisations remaining on the Council's Approved Lending List (**Schedule C to Appendix B**). The impact of future downgradings, mergers and other market intelligence could, therefore, reduce the list even further and present operational difficulties in placing investments. Under these circumstances, options that could be considered at some point in the future are as follows:-

(a) continue to run down investments through taking no new borrowing (**paragraphs 8.5 to 8.13 of Appendix B**);

(b) running down investments through repaying existing debt prematurely subject to debt repayment premium constraints (**paragraphs 10.4 and 10.5 of Appendix B**);

(c) considering the addition to the Approved Lending List of further high quality, highly rated foreign banks;

(d) increasing the lending limits again for those high quality UK banks remaining on the Approved Lending List;

(e) using the Government's DMO account (**paragraphs 5.5 to 5.8**),'Triple A' rated Money Market funds or other potentially available mechanisms such as Certificates of Deposit (CD's);

(f) actively looking to invest with other local authorities although demand is very spasmodic and interest rates being offered are relatively poor;

6.0 REVIEW BY AUDIT COMMITTEE

6.1 In its scrutiny role of the Council's Treasury Management policies, strategies and day to day activities, the Audit Committee receives regular Treasury Management reports. These reports provide Audit Committee Members with details of the latest Treasury Management developments, both at a local and national level and enable them to review Treasury Management arrangements and consider whether they wish to make any recommendations to the Executive.

6.2 As the Council is required to approve an up to date Annual Treasury Management and Investment Strategy before the start of the new financial year, it is therefore not realistic for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by Council on 17 February 2016.

6.3 As in recent years it is therefore proposed that the Treasury Management Policy Statement (**Appendix A**) and updated Annual Treasury Management and Investment Strategy for 2016/17 (**Appendix B**) is submitted for review by the Audit Committee on 3 March 2016. Any resulting proposals for change would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the (by then) recently approved Strategy document the Executive would submit a revised document to the Council at its meeting on 18 May 2016.

7.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

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

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

(b) an annual report to Executive and 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 Management matters to Executive as part of the **Quarterly Performance and Budget Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) reports on proposed changes to the Council's Treasury Management activities are submitted as required to the **Audit Committee** for consideration and comment; this is in addition to the arrangements referred to in **Section 6**.

8.0 RECOMMENDATIONS

8.1 That the Executive recommend to the Council that:

(a) the Treasury Management Policy Statement as attached as **Appendix A**;

(b) the Annual Treasury Management and Investment Strategy for 2016/17 as detailed in **Appendix B** and in particular;

(i) an authorised limit for external debt of £373.3m in 2016/17;

(ii) an operational boundary for external debt of £353.3m in 2016/17;

(iii) a borrowing limit on fixed interest rate exposure of 60% to 100% of outstanding principal sums and a limit on variable interest rate exposure of 0% to 40% of outstanding principal sums;

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

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

(vi) a limit of £20m of the total cash sums available for investment (both in house and externally managed) to be invested in Non Specified Investments over 364 days;

(vii) a 10% cap on capital financing costs as a proportion of the annual Net Revenue Budget;

(viii) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to Revenue in 2016/17 as set out in **Section 11** of **Appendix B**;

(ix) the Corporate Director – Strategic Resources to report to the 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 not previously approved by the Council;

(c) that the Audit Committee be invited to review **Appendices A and B** referred to in (a) and (b) above and submit any proposals to the Executive for consideration at the earliest opportunity.

GARY FIELDING
Corporate Director – Strategic Resources

Central Services, County Hall, Northallerton
19 January 2016

Background Documents

CIPFA Code of Practice on Treasury Management in the Public Sector

CIPFA The Prudential Code for Capital Finance in Local Authorities

CLG Guidance on Local Government Investments

CLG Guidance on Minimum Revenue Provision

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APPENDIX A

NORTH YORKSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1.0 BACKGROUND

1.1 The 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 Council.

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

(a) the 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 Council to its treasury management activities;

(ii) a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the 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 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 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 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 Council on 17 February 2016.

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 Council is set out below.

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

(a) the management of the 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 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 Council as expressed in the Council Plan. The 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 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 Council will seek to achieve the policies and objectives set out in **paragraph 2.2** above; and

(b) prescribe how the 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 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 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 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 Council has also set two local ones as follows:

(a) to cap Capital Financing costs to 10% (11% up to 2013/14) 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 Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the 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 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 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 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 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 14, 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 February 2016

APPENDIX B

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2016/17

1.0 INTRODUCTION

1.1 Treasury Management is defined as

> "The management of the 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 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 Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Act also requires the 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 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 2016/17 therefore covers the following

- treasury limits in force which will limit the treasury risk and activities of the 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 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 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 2016/17 Revenue Budget and Medium Term Financial Strategy report considered separately by the Executive on 2 February 2016 and approved by the Council on 17 February 2016.

1.7 This Strategy document was approved by the Council on 17 February 2016.

2.0 TREASURY LIMITS FOR 2016/17 TO 2018/19

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the 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 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 2016/17 TO 2018/19**

3.1 A separate Report incorporating an updated set of Prudential Indicators for the three year period to 31 March 2019, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities, was also approved by the Council on 17 February 2016.

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 2016/17.

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

2014/15 actual	7.5%
2015/16 probable	7.5%
2016/17 estimate	7.1%
2017/18 estimate	6.7%
2018/19 estimate	6.1%

(ii) Local Indicator capping capital financing costs to 10% of the annual Net Revenue Budget

2014/15 actual	7.9%
2015/16 probable	7.8%
2016/17 estimate	7.8%
2017/18 estimate	7.7%
2018/19 estimate	7.4%

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

For a Band D Council Tax	
	£ p
2016/17 estimate	0.80
2017/18 estimate	1.67
2018/19 estimate	2.11

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

	£m
2014/15 actual	106.6
2015/16 probable	112.3
2016/17 estimate	93.6
2017/18 estimate	87.7
2018/19 estimate	79.3

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

	Borrowing £m	Other Long Term Liabilities £m	Total £m
31 March 2015 actual	361.1	5.8	366.9
31 March 2016 probable	346.2	5.5	351.7
31 March 2017 estimate	336.7	5.3	342.0
31 March 2018 estimate	326.8	5.1	331.9
31 March 2019 estimate	316.9	4.7	321.9

(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 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 2016/17 and the next two financial years.

The Corporate Director – Strategic Resources confirms that the Council had no difficulty in meeting this requirement up to 2014/15 nor are any difficulties envisaged for the current or future financial years covered by this PI update to 2018/19. For subsequent years, however, there is the potential that the 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
2015/16	369.2	5.5	374.7
2016/17	368.2	5.3	373.5
2017/18	382.5	5.1	387.6
2018/19	344.5	4.7	349.2

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

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing £m
2015/16	349.2	5.5	354.7
2016/17	348.2	5.3	353.5
2017/18	362.5	5.1	367.6
2018/19	324.5	4.7	329.2

(h) **Actual External Debt**

	Borrowing £m	Other Long Term Liabilities £m	Total £m
at 31 March 2015 actual	319.8	5.8	325.6
at 31 March 2016 probable	326.0	5.5	331.5
at 31 March 2017 estimate	320.6	5.3	325.9
at 31 March 2018 estimate	311.1	5.1	316.2
at 31 March 2019 estimate	302.0	4.7	306.7

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

Borrowing from the money market for capital purposes is to be limited to 30% of the 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 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	160 to 210
Limits on variable interest rate exposures	-60 to -110

(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 £20m 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 Council's treasury portfolio position at 31 March 2015 consisted of:

Item	Principal £m	Average Rate at 31 March 2015 %
Debt Outstanding		
Fixed Rate funding		
PWLB	299.8	4.47
Variable Rate funding		
Market LOBO’s	20.0	3.95
Total Debt Outstanding	319.8	4.44
Investments		
Managed in house	215.2	0.65
Net Borrowing	**104.6**	

5.0 **BORROWING REQUIREMENT AND BORROWING LIMITS**

5.1 The 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
2014/15	actual	0	No actual external borrowing was undertaken in 2014/15. The total requirement was £32.5m (including the rolled forward requirement from previous years) which was all financed internally from cash balances.
2015/16	requirement	9.4	Includes £32.5m capital borrowing requirement rolled over from 2014/15
2016/17	estimate	2.2	See **paragraphs 5.8 and 5.9**. The much higher figures for 2015/16 and 2018/19 include 'refinancing' significant PWLB and money market (LOBO) loan repayments in those years.
2017/18	estimate	21.9	
2018/19	estimate	-6.6	

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 2018/19. 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 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 Council will have to borrow up to the Limit agreed.

5.5 The agreed **Operational Boundary** and **Authorised Limits** for external debt up to 2018/19 are derived as follows:

	Item	2015/16 probable £m	2016/17 estimate £m	2017/18 estimate £m	2018/19 estimate £m
	Debt outstanding at start of year				
	PWLB	299.8	326.0	320.6	311.1
	Other Institutions	20.0			
Sub-total		319.8	326.0	320.6	311.1
+	**External borrowing requirements**				
	Capital borrowing requirement	-0.5	4.4	3.8	3.4
	Replacement borrowing	3.2	7.6	31.4	2.5
	MRP charged to Revenue etc	14.4	-13.9	-13.7	-13.4
	Borrowing rolled over from 2014/15	32.5	-	-	-
	Internally funded variations	-11.4	4.1	0.4	0.9
Sub-total		9.4	2.2	21.9	-6.6
-	**External debt repayment**	-3.2	-7.6	-31.4	-2.5
=	**Forecast debt outstanding at end of year**	**326.0**	**320.6**	**311.1**	**302.0**
+	**Other 'IFRS' long term liabilities which are regarded as debt outstanding for PIs**				
	PFI	4.4	4.2	4.0	3.6
	Leases	1.1	1.1	1.1	1.1
=	**Total debt outstanding including 'other long term liabilities' (PI7)**	**331.5**	**325.9**	**316.2**	**306.7**
+	**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	3.2	7.6	31.4	2.5
=	**Operational Boundary for year (PI7)**	**354.7**	**353.5**	**367.6**	**329.2**
+	**Provision to cover unusual cash movements**	20.0	20.0	20.0	20.0
=	**Authorised Limit for year (PI6)**	**374.7**	**373.5**	**387.6**	**349.2**

5.6 **Therefore the 2016/17 Limits are as follows:**

	£m
Operational Boundary for external debt	353.5
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2016/17	**373.5**

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 8.5 to 8.13**, consideration will be given however to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (i.e. 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 £9.4m in 2015/16, £2.2m in 2016/17, £21.9m in 2017/18 and £6.6m repayment of internal borrowing in 2018/19) 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 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).

5.10 A key point in relation to debt levels is a proposal in the Revenue Budget report on today's agenda to set aside £10m in the revenue budget for debt repayment / capital financing purposes. Because the timing and which of the available options to be pursued have not been finalised the impact of this is not reflected in any of the debt projections in this strategy report. This also applies to the various Prudential Indicators covered in **section 3** of this strategy document and the separate Prudential Indicators report. If implemented in however the expected impact would be to reduce capital debt levels (internal and external) by £10m which would achieve recurring revenue savings in capital financing charges (repayment of principal) in subsequent years.

6.0 BORROWING POLICY

6.1 The policy of the 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 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 Council's Treasury Management Advisor (Capita Asset Services – Treasury Solutions).

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 was however 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 Council has provided this information each year and has qualified for the discount for any loans taken out up to 31 October 2016. 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 Council can borrow from the money market (principally banks and building societies) and this is usually effected via 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 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 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 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 Council's total external debt outstanding at any one point in time (per **Prudential Indicator 9**).

6.7 The 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 Council than PWLB loans.

6.8 At present all 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 Council's revenue cash balances or outside sources (see **paragraphs 8.5 to 8.13**).

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 2019 any time after 1 April 2016 is allowable under the Prudential Code. There are risks, however, in such borrowing in advance of need and the Council has not taken any such borrowing to date and there are no current plans to do so. Furthermore the Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

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 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 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) The UK Economy

- **Economic Growth** UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, the data to quarter 3 2016 has been weak. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

- The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.

- There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and zero inflation was not a significant threat.

- The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q3 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

(b) Global Economy

- **Eurozone (EZ).** The ECB released a massive €1.1 trillion programme of quantitative easing (QE) to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. However, more recent lacklustre progress, combined with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2%. The ECB will also aim to help boost the rate of growth in the EZ.
- **USA.** Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks, but strong employment data in October and November opened the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.
- **Greece.** During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.
- **Portual and Spain.** The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.
- **Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. Japan has been hit

hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero.

- **China.** The Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.
- **Emerging Countries.** There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

(c) Capita Asset Services Forward View

- Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 20 December 2015. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways.

- The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

- The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.
- However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected.

- Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
    - → Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
    - → UK economic growth is weaker than we currently anticipate.
    - → Weak growth or recession in the UK's main trading partners - the EU, US and China.
    - → A resurgence of the Eurozone sovereign debt crisis.
    - → Recapitalisation of European banks requiring more government financial support.
    - → Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens
- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
    - → Uncertainty around the risk of a UK exit from the EU.
    - → The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities
    - → UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

7.3 The Council has appointed Capita Asset 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
	%	%	%	%	%	%	%
Mar 2016	0.50	2.00	2.60	3.40	3.20	0.60	1.00
June 2016	0.50	2.10	2.70	2.40	3.20	0.60	1.00
Sept 2016	0.50	2.20	2.80	3.50	3.30	0.60	1.00
Dec 2016	0.75	2.30	2.90	3.60	3.40	0.80	1.30
Mar 2017	0.75	2.40	3.00	3.70	3.50	0.80	1.30
June 2017	1.00	2.50	3.10	3.70	3. 60	1.00	1.50
Sept 2017	1.00	2.60	3.20	3.80	3.70	1.10	1.60
Dec 2017	1.25	2.70	3.30	3.90	3.80	1.30	1.80
Mar 2018	1.25	2.80	3.40	4.00	3.90	1.50	2.00
June 2018	1.50	2.90	3.50	4.00	3.90	1.50	2.00
Sept 2018	1.50	3.00	3.60	4.10	4.00	1.60	2.10
Dec 2018	1.75	3.10	3.60	4.10	4.00	1.80	2.30
Mar 2019	1.75	3.20	3.70	4.10	4.00	1.90	2.40

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

Bank Rate

- UK growth prospects remain strong looking forward into 2016 and 2017
- thus bank rate currently set at 0.5% underpins investment returns and is not expected to start increasing until late 2016
- it is then expected to continue rising by further 0.25% increases reaching 1.75% by December 2018 (0.75% in March 2017 and 1.25% in March 2018)
- as economic forecasting remains difficult with so many external influences weighing on the UK, bank rate forecasts will be liable to further amendments depending on how economic data transpires in the future
- in addition there are significant potential risks from the Eurozone and from financial flows from emerging market in particular so continuing caution must be exercised in respect of all internet rate forecasts at present

PWLB Rates

- fixed interest PWLB borrowing rates are based on UK gilt yields
- the overall longer run trend for gild yields and PWLB rates is to rise due to the high volume of gilt issuance in the UK and of bond issuance in other major Western countries. Over time, an increase in investors' confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities

- there are however a number of downside and upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates
- PWLB rates are seen to be on a rising trend with a forecast to rise gradually throughout the next three years in all periods as follows:-

Period	March 2016	March 2019	Increase
	%	%	%
5 years	2.00	3.20	+ 1.20
10 years	2.60	3.70	+ 1.10
25 years	3.40	4.10	+ 0.70
50 years	3.20	4.00	+ 0.80

Short Term Investment Rates

- investment returns are likely to remain relatively low during 2016/17 and beyond
- returns are expected to increase along with bank rate increases
- suggested returns on investments placed for periods up to 100 days are 0.90% in 2016/17, 1.50% in 2017/18 and 2.00% in 2018/19

7.5 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

8.0 **BORROWING STRATEGY 2016/17**

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 2016/17. Consideration will therefore be given to the following:

(a) the 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 remains relatively high;

(b) thus based on the analysis presented in **paragraph 7.3**, the cheapest borrowing will be internal borrowing achieved by continuing to run down cash balances and foregoing interest earned at historically low rates (see **paragraphs 8.5 to 8.13**). 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) 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 and is not expected to change in the immediate future;

(d) 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;

(e) 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;

(f) as indicated in the table in **paragraph 7.3** PWLB rates are expected to gradually increase throughout the financial year so it would therefore be advantageous to time any new borrowing earlier in the year;

(g) borrowing rates continue to be relatively 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	2.4
–	10 year period	3.0
–	25 year period	3.7
–	50 year period	3.6

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.

8.4 It is likely that the Municipal Bonds Agency currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the PWLB and the Council intends to make use of this new source of borrowing as and when appropriate.

External -v- internal borrowing

8.5 The 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 8.8**);

(b) internally funded capital expenditure (**paragraph 8.6**).

The relative figures are referred to 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.

8.6 Such internal borrowing stood at £41.4m at 31 March 2015, 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, 2012/13, 2013/14 and 2014/15 borrowing requirements. 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.

8.7 The 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.

8.8 This internal capital borrowing option is possible because of the Council's cash balance with the daily average being £260.9m in2014/15. 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.

8.9 As 2016/17 is expected to continue as a year of historically low bank interest rates, certainly until later in the year, this extends the current opportunity for the Council to continue with the current internal borrowing strategy.

8.10 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.

8.11 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.

8.12 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 2016/17 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.

8.13 Borrowing interest rates are on a rising trend. The policy of avoiding new borrowing by running down cash balances has served the Council well in recent years. However this needs to be carefully reviewed and monitored to avoid incurring even higher borrowing costs which are now looming even closer for authorities who will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt in the near future.

8.14 **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 8.5) together with achieving short term savings and mitigating the credit risk incurred by holding investments in the market. Bearing in mind paragraph 8.12 however this policy will be carefully reviewed and monitored on an on-going basis.**

Overall Approach to Borrowing in 2016/17

8.15 Given the market conditions, economic background and interest rate forecasts set out in **paragraph 7** above, caution will be paramount within the Council's 2016/17 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

8.16 The main sensitivities of the Strategy are likely to be the two scenarios below. The Corporate Director – Strategic Resources will, in conjunction with the 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,* (e.g. 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 lower than they will be in the next few years.

8.17 As mentioned, however, in **paragraphs 8.5 to 8.13**, the likely outcome will be to delay external borrowing in 2016/17 and continue to fund the year's borrowing requirement together with that for 2011/12, 2012/13, 2013/14 and 2014/15 from internal sources (ie running down the investment of cash balances). This has the potential for achieving short term revenue savings in 2016/17 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 an earlier Revenue Budget/Medium Term Financial Strategy 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 10% in 2016/17 (previously 11%) which accommodates 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)
2015/16	364.2	28.6	7.8	3.6	
2016/17	356.9	27.8	7.8	3.6	43.0
2017/18	351.8	27.1	7.7	3.5	
2018/19	353.9	26.3	7.4	3.5	
			(b÷a)	(a/100)	

9.4 The above table reflects the following

- the impact of the Local Government Finance Settlement for 2016/17 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.

10.0 REVIEW OF LONG TERM DEBT AND DEBT RESCHEDULING

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

10.2 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.

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

10.4 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 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.

10.5 As short term borrowing rates are expected to be considerably cheaper than longer term rates throughout 2016/17, 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 current treasury position and 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.

10.6 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.

10.7 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).

10.8 Members will appreciate that with long term debt of £319.8m at 31 March 2015 (see **paragraph 4.5** of accompanying report) and with an annual interest cost to the Revenue Budget of about £14m 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.

10.9 No new debt rescheduling activities have been undertaken by the Council in 2015/16 to date with none being expected during the remainder of the financial year.

11.0 MINIMUM REVENUE PROVISION (MRP) POLICY 2016/17

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 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 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 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 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 this are reflected in the Council's MRP policy for 2016/17 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 Council’s MRP policy is based on the Government’s Statutory Guidance and following a review of this policy, no changes are proposed at this time. However, a further review of the existing assumptions for prudent provision incorporated into the Council’s MRP Policy will be undertaken as part of the 2016/17 budget review and any changes will be reported to Members as part of an in-year update of this Annual Treasury Management Strategy. Until that time, the policy for 2016/17 remains 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 reflected the principle that the Revenue Support Grant (RSG) formula for supported borrowing approvals would 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 and the RSG formula was frozen as part of the 2013/14 introduction of retained local Business Rates;

(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 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 Council.

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

This approach also allows the 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 Council's total MRP provision 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 2016/17 will be about £14.1m (including PFI and finance leases).

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 Under the Local Government Act 2003 the Council is required to have regard to Government Guidance in respect of the investment of its cash funds. This Guidance was revised with effect from 1 April 2010. 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 Council before the start of the financial year.

12.2 This Annual Investment Strategy must define the investments the 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 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 2016/17 (**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 Council for consideration and approval under the following circumstances:

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

(b) any other significant development(s) that might impact on the Council's investments and the existing strategy for managing those investments during 2016/17.

Investment Policy

12.5 The parameters of the Policy are as follows:

(a) the 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 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 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 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 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 Council's Treasury Management Practices Schedules.

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

12.6 (a) the 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 Council has the power to provide loans and financial assistance to Limited Companies under the Localisation Act 2011 (and also formally under the general power of wellbeing in the Local Government Act 2000) which introduced a general power of competence for authorities (to be exercised in accordance with their general public law duties)

(c) any such loans to limited companies by the Council, will therefore be made under these powers. They will not however be classed as investments made by the Council and will not impact on this Investment Strategy. Instead they will be classed as capital expenditure by the Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003, and will be approved, financed and accounted for accordingly

(d) at present the 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 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

(Non-Specified only)

(e) there are other instruments available as Specified and Non-Specified investments which the 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 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 Council can invest funds.

It is paramount that the 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 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 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 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)

Moody's Ratings

Long Term	-	an opinion of the relative credit risk of obligations with an original maturity of one year or more. They reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. 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 likelihood of a default on contractually promised payments with an original maturity of 13 months or less. 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)

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 to select counterparties from only the most creditworthy countries. The ratings are the same as those used to measure long term credit.

(b) the 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", (notification of likely change), or "outlook", (notification of a possible longer term change), 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 Capita Asset Services 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 Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:-

Colour	**Maximum Investment Duration**
Yellow	5 Years
Purple	2 Years
Orange	1
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 months
Green	100 days
No colour	No investments to be made

(d) given that a number of central banks/government have supported or are still supporting their banking industries in some way, the importance of the credit strength of the sovereign has become more important. The Council will therefore 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 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) in order to reflect current market sentiment regarding the credit worthiness of an institution the 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 Capita Asset Services creditworthiness service which compares the CDS Market position for each institution to the benchmark CDS Index. 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. Where entities do not have an actively traded CDS spread, credit ratings are used in isolation;

(f) 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 However, due to this Central Government involvement, these institutions now effectively take on the credit worthiness of the Government itself (i.e. 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;

(g) all of the above will be monitored on a weekly basis through Capita Asset Services 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 Capita Asset Services however. In addition the Council will also use market data and information available from other sources such as the financial press and other agencies and organisations;

(h) in addition, the 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 (i.e. Government ownership or being part of the UK Government guarantee of liquidity). These limits are as follows:-

Maximum Investment Limit	**Criteria**
£85m	UK "Nationalised / Part Nationalised" banks / UK banks with UK Central Government involvement
£20m to £75m	UK "Clearing Banks" and selected UK based Banks and Building Societies
£20m or £40m	High quality foreign banks

(i) should a score/colour awarded to a counterparty or investment scheme be amended during the year due to rating changes, market sentiment etc., the 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, i.e. on instant access until sentiment improves.

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

(k) 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 2016/17

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

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

(b) ongoing discussions are held with the Council's Treasury Management Advisor on whether to consider the appointment of an 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 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 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 £20m of the overall balances can be prudently committed to longer term investments (e.g. between 1 and 3 years);

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

(f) the 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 mid 2016;

The Council will, therefore, avoid locking into long term deals while investment rates continue to be 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 0.75% is likely in 2016/17, 1.25% in 2017/18 and 1.80% in 2018/19.

(h) for its cash flow generated balances the Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15, 30 and 100 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 Council's investment activity will be submitted to the Executive as part of the Annual Treasury Management Outturn report;

(c) periodic meetings between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder 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 Council's policy on Borrowing in Advance of Spending Needs (**paragraph 6.10**).

Although the 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 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 Council's staff involved in investment management are monitored, reviewed and addressed on an on-going basis and are discussed as part of the staff appraisal process. 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 (i.e. the Audit Committee). An in-house training course for Members (which was also attended by officers) was provided by Capita Asset Services – Treasury Solutions on 30 September 2013. 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 Council uses Capita Asset Services – Treasury Solutions as its external treasury management adviser. Capita 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 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 Following a quotation exercise Capita Asset Services were appointed in September 2015 as a single provider of Treasury Management consultancy services for both the County Council and Selby District Council. The appointment is for three years, with the option for a further two year extension. The value and quality of services being provided 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) **14.1** 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) **14.2** The Council will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic Treasury Management Policy Statement (TMPS) stating the 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 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) **14.3** 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) **14.4** The 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) **14.5** 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) **14.6** 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) **14.7** The Audit Committee shall be responsible for ensuring effective scrutiny of the Treasury Management process;

(h) **14.8** 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 Council;

(i) **14.9** 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 (i.e. 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 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 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 Council's Treasury Management Policy Statement. Furthermore the Financial Procedure Rules of the 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 for all plant and vehicle requirements as it may be the case that the best value option will change over time (e.g. as market conditions fluctuate). Since 2004/05, options appraisals have resulted in purchases being financed from Prudential borrowing as well as operational leasing with consequential financing costs of both methods being recharged to Directorates. In 2014/15 acquisitions totalling £0.7m were financed from Prudential borrowing. For 2015/16 the forecast outturn position is £0.3m to be financed from Prudential Borrowing.

13.11 Further option appraisals will be carried out during the year to determine whether financing should be through leasing or Prudential borrowing.

Other Issues

13.12 The Council continues to monitor potential PFI opportunities and assess other innovative methods of funding and the Corporate Director – Strategic Resources will report any developments to Executive at the first opportunity.

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 Council as part of the Budget process that sets out the Council's **Treasury Management Strategy and Policy** for the forthcoming financial year;

(b) an annual report to Executive and 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) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder 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 Council's Treasury Management activities.

15.0 SUMMARY OF KEY ELEMENTS OF THIS STRATEGY

15.1 For the financial year 2016/17 the Council approves the following:-

(a) an Authorised Limit for external debt of £373.5m in 2016/17;

(b) an Operational Boundary for external debt of £353.5m in 2016/17;

(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 £20m 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 10% 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 2016/17 as set out in **Section 11**;

(i) the Corporate Director – Strategic Resources to report to the 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
19 January 2016

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2016/17 – 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 and 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 the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (*These funds have no maturity date*)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with 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 2016/17 – 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 cash 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 could be useful for budget purposes B) Not Liquid, cannot be traded or repaid prior to maturity Return will be lower if interest rates rise after making deposit 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	100% of agreed maximum proportion (20%) of core cash funds that can be invested for more than 1 year (estimated £20m)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year *Custodial arrangements prior to purchase*	A) Attractive rates of return over period invested and in theory tradable B) 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 funds that can be invested for more than 1 year (£5m)	£3m	
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with	A) Enhanced Income – potentially higher return than using a term deposit with a similar maturity		To be used in-house after consultation with Treasury Management	50% of agreed proportion (20%) of core cash balance that can be	£5m	

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
maturities greater than 1 year	B) 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 outset Interest rate risk; borrower will not pay back deposit if interest rates rise after the deposit is made		Advisor	invested for more than 1 year (£12.5m)		
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	A) Known rate of return over the period the monies are invested – aids forward planning B) Credit risk is over the whole period, not just when monies are invested 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 the Treasury Management Advisor	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£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 SI2004 No534) with maturities in	A) Excellent credit quality Relatively Liquid If held to maturity, yield is known in advance	AA or Government backed	In-house on a “buy and hold” basis after consultation with Treasury Management Advisor or use by Fund Managers		n/a	

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
excess of 1 year Custodial arrangements required prior to purchase	Enhanced rate in comparisons to gilts B) Interest rate risk; yield subject to movement during life off bond which could impact on price					
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Relatively Liquid If held to maturity, yield is known in advance Enhanced rate in comparison to gilts B) Interest rate risk; yield subject to movement during life off bond which could negatively impact on price				£3m	
UK Government Gilts with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Liquid If held to maturity, yield is known in advance If traded, potential for capital appreciation	Government backed	Fund Manager	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	n/a	2 years subject to potential future review with a maximum of no longer

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
	B) Interest rate risk; yield subject to movement during life if the bond which could impact on price					than 5 years
Collateralised Deposit	A) Excellent credit quality B) Not liquid, cannot be traded or repaid prior to maturity 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 funds that can be invested for more than 1 year (£20m)	£5m	

APPROVED LENDING LIST 2016/17

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 (> 1 year £20m limit)	
		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	85.0	364 days	-	-
Natwest Bank	GBR				
Bank of Scotland	GBR	85.0	6 months	-	-
Lloyds	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0 (Shared with NAB)	Temporarily suspended	-	-
Goldman Sachs International Bank	GBR	40.0	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	6 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0 (Shared with Clydesdale)	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	Temporarily suspended	-	-
Nordea Bank Finland	FIN	20.0	364 days	-	-
Credit Industriel et Commercial	FRA	20.0	364 days	-	-
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 8 January 2016

APPROVED COUNTRIES FOR INVESTMENTS

Based on the lowest available rating

Sovereign Rating	Country
AAA	Australia Canada Denmark Germany Netherlands Singapore Sweden Switzerland
AA+	FinlandUK USA
AA	Abu Dhabi (UAE) France Qatar
AA-	Belgium

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

16 February 2016

REVISION OF PRUDENTIAL INDICATORS

Report of the Corporate Director – Strategic Resources

1.0 **PURPOSE OF THE REPORT**

1.1 To recommend to the County Council an updated set of Prudential Indicators for the period 2016/17 to 2018/19.

2.0 **BACKGROUND**

2.1 The current Capital Finance system introduced in April 2004 is underpinned by the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in November 2011 requires every local authority to set a range of Prudential Indicators

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

(b) before the start of the financial year

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

2.2 The Prudential Indicators for 2015/16, covering the period up to 2017/18, were initially approved by the County Council on 18 February 2015 following recommendations of the Executive on 3 February 2015.

2.3 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set. A full revision of all Indicators are to be approved by County Council on 17 February 2016, following recommendations from the Executive meeting on 17 November 2015.

2.4 As part of the 2016/17 Budget process, a fresh set of Indicators for the period up to 2018/19 now needs to be considered and approved.

2.5 This Report should be read in conjunction with the separate report on the agenda regarding Treasury Management.

3.0 **PROPOSED PRUDENTIAL INDICATORS FOR 2016/17 TO 2018/19**

3.1 **Appendix A** to this Report sets out the proposed updated Prudential Indicators with the addition of a further year 2018/19. This Appendix sets out every Prudential Indicator in terms of:

(a) the current Indicators (to 2017/18) approved by County Council on 11 November 2015

(b) a revised set of Indicators with the addition of 2018/19

(c) appropriate comments on each Indicator including reasons for any significant variations

3.2 In general, the proposed Indicators reflect a number of common factors including

(a) the latest Capital Plan update to 31 December 2015 (Quarter 3 2015/16)

(b) updated financing of the Capital Plan reflecting (a) above, together with latest forecasts for capital receipts

(c) updated capital financing costs reflecting (a) and (b) above.

3.3 All the Prudential Indicators relating to external debt are based on the assumption that annual capital borrowing requirements for the years 2015/16 to 2018/19 will be taken externally each year. As explained in the separate Treasury Management report (**paragraphs 6.9 and 8.5 to 8.13 of Appendix B**), consideration will be given however to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (i.e. running down investments). This has the potential for achieving short term revenue savings and also has the benefit of reducing investment exposure to credit risk.

3.4 In making its decision on the Revenue Budget, the County Council is asked to note that the Authorised Limit for external debt determined for 2016/17 (£373.5m - see **Item 6** of **Appendix A**) will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003; this statutory requirement means that a local authority shall determine and keep under review how much money it can afford to borrow in a given financial year.

3.5 A key point in relation to many (relating to debt levels and capital financing costs) of the Prudential Indicators contained in the attached **Appendix A** is the intention to use the £10m set aside in reserves for treasury management/investment purposes.. Because the timing and the preferred approach within the available options is not yet finalised, the impact of this is not reflected in any of the Prudential Indicators in this report, or the accompanying Treasury Management report. If implemented in 2016/17 however the expected impact would be to reduce capital debt levels (internal or external) by £10m which would achieve recurring revenue savings in capital financing charges (repayment of principal) in subsequent years.

4.0 **RECOMMENDATIONS**

4.1 That the Executive recommends to the County Council that it

(i) approves the updated Prudential Indicators for 2016/17 to 2018/19 as set out in **Appendix A**

(ii) approves an Authorised Limit for External Debt of £373.5m in 2016/17 under Section 3(1) of the Local Government Act 2003 (**paragraph 3.4)**.

G FIELDING
Corporate Director – Strategic Resources

Background Documents

Prudential Code and related working papers - contact Karen Iveson, (01609) 535664

County Hall
Northallerton

19 January 2016

PRUDENTIAL INDICATORS FOR PERIOD 2016/17 to 2018/19
(EXECUTIVE – 2 FEBRUARY 2016)

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS	Comment
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 2014/15 are as follows:	The estimates of financing costs include current Capital Plan commitments based on the latest Capital Plan, and are as reflected in the 2016/17 Revenue Budget and MTFS. The updated figures up to 2018/19 reflect the net effect of a range of factors, principally (a) savings being achieved through the on-going 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 2018/19 (d) variations in interest earned on cash balances resulting from continuing current historically low interest rates but partially offset by continuing higher levels of cash balances (formal Indicator only) (e) changes to the 'net budget' element of this calculation, particularly as a result of funding reductions and consequential savings requirements.

Year	Executive 17 Nov 2015		Update for 2016/17	
	Basis	**%**	**Basis**	**%**
2014/15	actual	7.5	actual	7.5
2015/16	estimate	7.5	probable	7.5
2016/17	estimate	7.6	estimate	7.1
2017/18	estimate	7.5	estimate	6.7
2018/19	estimate	N/A	estimate	6.1

APPENDIX A

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS	Comment
(b) *Local Indicator* This Local Indicator reflects a policy decision to cap capital financing costs to 10% (previously 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 17 Nov 2015		Update for 2016/17	
	Basis	%	Basis	%
2014/15	actual	7.9	actual	7.9
2015/16	estimate	7.9	probable	7.8
2016/17	estimate	8.0	estimate	7.8
2017/18	estimate	8.2	estimate	7.7
2018/19	estimate	N/A	estimate	7.4

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 2016/17, compared with the 2015/16 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 currently being reviewed. 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 2016/17 figures are compared with the 2015/16 Council Tax whereas the previous ones are compared with 2015/16 Council Tax levels

Year	Executive 17 Nov 2015 Basis	£ - p	Update for 2016/17 Basis	£ - p
2016/17	estimate	+ 0.87	estimate	0.80
2017/18	estimate	+ 1.88	estimate	1.67
2018/19	estimate	N/A	estimate	2.11

Prudential Indicator	Comment
3 Capital Expenditure - Actual and Forecasts	

The actual capital expenditure that was incurred in 2014/15 and the estimates of capital expenditure to be incurred for the current and future years are:

Year	Executive 17 Nov 2015 Basis	Executive 17 Nov 2015 £m	Update for 2016/17 Basis	Update for 2016/17 £m
2014/15	actual	106.6	actual	106.6
2015/16	estimate	116.5	probable	112.3
2016/17	estimate	95.5	estimate	93.6
2017/18	estimate	83.1	estimate	87.7
2018/19	estimate	N/A	estimate	79.3

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

(a) the latest Capital Plan update to 31December 2014 (Quarter 3 2015/16)

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

(c) forecast expenditure slippage between years

(d) various other refinements

Comment

The updated figures for 2015/16 to 2018/19 reflect the following variations compared with the figures submitted to Executive on 17 November 2015.

(a) the Government’s Capital allocations announced to date as part of the 2016/17 Provisional Local Government Settlement.

(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 re-phasing between years

(d) the addition of a further year 2018/19

(e) various other approvals and refinements to the Capital Plan up to 31 December 2015 (Q3 2015/16).

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 17 Nov 2015				Update for 2016/17			
	Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total	Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total
		£m	£m	£m		£m	£m	£m
31 Mar 15	actual	361.1	5.8	366.9	Actual	361.1	5.8	366.9
31 Mar 16	estimate	353.4	5.5	358.9	Probable	346.2	5.5	351.7
31 Mar 17	estimate	341.3	5.3	346.6	Estimate	336.7	5.3	342.0
31 Mar 18	estimate	332.3	5.1	337.4	Estimate	326.8	5.1	331.9
31 Mar 19	estimate	N/A	N/A	N/A	Estimate	316.9	4.7	321.6

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 2016/17 Budget process reflect the following main variations compared with the previous figures approved by the Executive on 17 November 2015.

(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 2018/19 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 refinements.

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 (2015/16), plus the estimate of any additional capital financing requirement for the current (2016/17) and next two financial years (2017/18 and 2018/19). 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 2014/15 nor are any difficulties envisaged for the current or future years covered by this PI update to 2018/19. For subsequent years, however, there is potential that 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 2016/17 and Medium Term Financial Strategy report.	This Prudential Indicator was changed in 2014/15 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 (i.e. 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 2016/17 (£373.5m) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.	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 2016/17 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.

Year	Executive 17 Nov 2015			Update for 2016/17		
	External Borrowing	Other Long Term Liabilities	Total Borrowing Limit	External Borrowing	Other Long Term Liabilities	Total Borrowing Limit
	£m	£m	£m	£m	£m	£m
2015/16	382.3	5.5	387.8	369.2	5.5	374.7
2016/17	398.5	5.3	403.8	368.2	5.3	373.5
2017/18	432.7	5.1	437.8	382.5	5.1	387.6
2018/19	N/A	N/A	N/A	344.5	4.7	349.2

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).	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 internally from 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.

Year	Executive 17 Nov 2015			Update for 2016/17		
	External Borrowing	Other Long Term Liabilities	Total Borrowing	External Borrowing	Other Long Term Liabilities	Total Borrowing Limit
	£m	£m	£m	£m	£m	£m
2015/16	362.3	5.5	367.8	349.2	5.5	354.7
2016/17	378.5	5.3	383.8	348.2	5.3	353.5
2017/18	412.8	5.1	417.9	362.5	5.1	367.6
2018/19	N/A	N/A	N/A	324.5	4.7	329.2

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 17 Nov 2015 Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total	Update for 2016/17 Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total
		£m	£m	£m		£m	£m	£m
31 March 2015	actual	319.8	5.8	325.6	actual	319.8	5.8	325.6
31 March 2016	estimate	339.2	5.5	344.7	probable	326.0	5.5	331.5
31 March 2017	estimate	350.9	5.3	356.2	estimate	320.6	5.3	325.9
31 March 2018	estimate	361.4	5.1	366.5	estimate	311.1	5.1	316.2
31 March 2019	estimate	N/A	N/A	N/A	estimate	302.0	4.7	306.7

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).

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 2015 was 6% (£20m out of a total of £319.8m) 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.

<table>
<tr><th>Prudential Indicator</th><th>Comment</th></tr>
<tr><td colspan="2">TREASURY MANAGEMENT INDICATORS</td></tr>
<tr><td>10 Adoption of CIPFA Code of Practice for Treasury Management</td><td>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.</td></tr>
<tr><td>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 2016/17, 2017/18 and 2018/19 as set out below:

<table>
<tr><th></th><th>Lower %</th><th>Upper %</th></tr>
<tr><td>Borrowing</td><td></td><td></td></tr>
<tr><td>• Fixed</td><td>60</td><td>100</td></tr>
<tr><td>• Variable</td><td>0</td><td>40</td></tr>
<tr><td>Investments</td><td></td><td></td></tr>
<tr><td>• Fixed</td><td>0</td><td>30</td></tr>
<tr><td>• Variable</td><td>70</td><td>100</td></tr>
<tr><td>Combined Net Borrowing and Investments</td><td></td><td></td></tr>
<tr><td>• Fixed</td><td>160</td><td>210</td></tr>
<tr><td>• Variable</td><td>- 60</td><td>- 110</td></tr>
</table>
</td><td>No changes are being proposed to the borrowing and investments limits for 2015/16 compared to those approved by Executive on 17 November 2015.

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.</td></tr>
</table>

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 3 February 2015 and reconfirmed on 17 November 2015 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 15 %	Memo item - actual at 1 April 16 %
under 12 months	0	50	12	2
12 months & within 24 months	0	15	2	10
24 months & within 5 years	0	45	9	19
5 years & within 10 years	0	75	22	12
10 years & within 25 years	10	100	10	8
25 years & within 50 years	10	100	45	49
			100	100

Prudential Indicator	Comment
13 Total Principal Sums Invested for periods longer than 364 days The 2016/17 aggregate limit of £20m 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. 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 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.