

REPORT OF THE CABINET

The Cabinet met on 14 December 2010 and 25 January 2011.

Present: Councillor Jones (Chairman) (2) Councillors Bentley (2), Elkin (2), Glazier (2), Lock (2), Maynard (2), Reid (2) and Mrs Stroude (2)

1. Reconciling Policy and Resources

1.1 The Cabinet has considered a report on reconciling policy and resources including the capital programme 2011/12 to 2015/16, the Revenue Budget 2011/12 and the draft three year portfolio plans. The draft capital programme (attached as Appendix 1 to this report) and Revenue Budget (attached as Appendix 2 to this report) have been produced as a result of the work that has been underway since summer 2010 on Reconciling Policy and Resources.

1.2 The Scrutiny Committees, and their Reconciling Policy and Resources boards, have discussed the emerging portfolio plans and the Cabinet considered the views of the Scrutiny Committees (Appendix 6 of the report to the Cabinet previously circulated to all councillors) together with additional comments from the Children's Services Scrutiny Committee prior to making its recommendations. The draft portfolio plans (Appendix 4 of the report to the Cabinet previously circulated to all councillors) have been approved by the Cabinet and Chief Officers have been authorised to finalise the plans in consultation with the relevant lead member. The draft plans will be used as the basis for the preparation of the Council Plan, a draft of which will be submitted to the Cabinet in March.

1.3 The draft Capital Programme and Revenue Budget documents reflect the Policy Steers agreed by the County Council in October 2010 and have taken into account the strategic risks that were reported to the Cabinet in December 2010.

1.4 Consultations have been carried out with a number of partners as part of the Reconciling Policy and Resources process including Trade Unions and business ratepayers in relation to the budget proposals. The detailed views expressed during the consultation process have been considered by the Cabinet and have previously been circulated to all members (Appendix 7 of the report to the Cabinet).

1.5 The Cabinet considered and agreed proposals by the Lead Member for Corporate Resources in relation to the use of flexibility within the budget. These have been included in Appendix 2 to this report.

1.6 The Cabinet has reviewed fees and charges for 2011/12 in accordance with agreed policy. The list of approved fees and charges has previously been circulated to all members.

1.7 The Cabinet recommends the County Council:

- ☆ (1) approve the Capital Programme in relation to schemes in progress or about to start and those to start in 2011/12 and 2012/13 and to note the schemes provisionally included in the capital Programme in future years as set out in Annex A of Appendix 1;
- (2) note the prudential indicators as set out in Annex D of Appendix 1;
- (3) approve the revenue budget estimates for 2011/12 as set out in Annex E of the commentary on the Revenue Budget circulated to all members (Appendix 2) which includes the use of budget flexibility set out in paragraph 37 of Appendix 2;
- (4) in accordance with the Local Government Finance Act 1992 to agree that:
 - (i) the amount calculated by East Sussex County Council as its net budget requirement for the year 2011/12 is £358.147m;
 - (ii) the amount calculated by East Sussex County Council as the basic amount of its council tax (ie for a band D property) for the year 2011/12 is £1158.30 and represents a 0% increase on the previous year;
- (5) The borough and district councils be advised of the relevant amounts payable and council tax in other bands in line with the Regulations and to issue precepts accordingly in accordance with the Agreed schedule of instalments.

2. Attainment in Mathematics at Key Stage 2

2.1 The Cabinet has considered a report of the Children's Services Scrutiny Committee on its review of attainment in mathematics at Key Stage 2. The report is included elsewhere on the agenda (see agenda item 6). The scrutiny report has previously been circulated to all members.

2.2 The Review Board focussed on attainment in mathematics at Key Stage 2 as this had been identified by both the former Department for Children, Schools and Families and the Children's Services Department as the area that required the greatest level of improvement at Key Stage 2.

2.3 Existing consultancy activities and support for schools have been reengineered to release capacity to implement the action plan. In prioritising mathematics over other subject areas teaching and learning support has been reduced in those other areas. To mitigate this potential loss, all teaching and learning consultants have adopted a cross curricular approach to promoting generic teaching and learning skills that secure high quality teaching.

2.4 Strategies to improve mathematics introduced during the lifetime of the Scrutiny Review have shown very positive outcomes. In particular, the Quality Mathematics Programme resulted in the schools taking part showing an average increase of 12.4% at Level 4+ and an average increase of 5.5% at level 5.

2.5 Whilst the boycott of end of Key Stage 2 tests in 2010 by approximately 20% of East Sussex schools and involvement in the Making Good Progress Pilot resulted in an incomplete data set, the collection and moderation of teacher assessment data enabled trend analysis to be conducted. Results in Mathematics in East Sussex for 2010 improved from previous years.

2.6 The percentage of pupils achieving Level 4+ in mathematics increased by 2% to 78% whereas nationally the trend was static. The gap between East Sussex and national results decreased by 2%, outcomes are now 1% below the national average (79%).

2.7 Discussions with parents and governors, to seek increased parental engagement with the mathematics that their primary aged children learn, show high levels of enthusiasm and support for innovative ideas and revised strategies.

2.8 The scrutiny report contains areas for consideration and action for schools and the local authority. These provide valuable insights into improving standards in mathematics through raised expectations and increased teacher confidence. Particularly welcome is the drive to develop a more positive attitude to mathematics at school and at home. This is a countywide drive for the academic years 2010-12.

2.9 The recommendations are helpful will continue to result in improvements, in the attainment of children and in the profile of mathematics across East Sussex more widely.

2.10 In welcoming the findings of the Scrutiny Committee, the Cabinet has considered a report by the Director of Children's Services (as set out in Appendix 3 to this report, circulated separately to all members) on the specific recommendations and endorsed it as its response to the recommendations.

2.11 The Cabinet, in welcoming the report, recommends the County Council to –

- ☆ approve the response of the Director of Children's Services on the implementation of the recommendations in the Scrutiny Committee's report.

3. Road Safety in East Sussex

3.1 The Cabinet has considered a report of the Transport and Environment Scrutiny Committee on its review of road safety in East Sussex. The report is

included elsewhere on the agenda (see agenda item 7). The scrutiny report has previously been circulated to all members.

3.2 The overall level of funding for road safety activities will be determined through the current Reconciling Policy and Resources process. The level of funding for the Sussex Safer Roads Partnership (the Partnership), which is responsible for safety camera operations across Sussex, is currently being reviewed with Partner organisations. All of the funding made available to the Partnership currently by the County Council comes from capital and revenue grant funding from the Department for Transport. Once the future of these 'specific' grants is known the Council and its partners will be able to determine what level of funding can be made to the Partnership and consequently what activities and initiatives can be afforded.

3.3 In submitting its report, the Scrutiny Committee acknowledged that many practical aspects of road safety, such as future funding and partnership arrangements, are still under discussion. The scrutiny report is based on information available up to 24 November 2010. It is possible that, as a clearer picture emerges, some of the report's findings and recommendations will need to be interpreted in a different context to that in which the scrutiny review Board undertook its work.

3.4 The Scrutiny Review has provided a detailed and helpful insight into the delivery of Road Safety in East Sussex.

3.5 In welcoming the findings of the Scrutiny Committee, the Cabinet has considered a report by the Director of Transport and Environment (as set out in Appendix 4, to this report, circulated separately to all members) on the specific recommendations and endorsed it as its response to the recommendations.

3.6 The Cabinet, in welcoming the report, recommends the County Council to –

- ☆ approve the response of the Director of Transport and Environment on the implementation of the recommendations in the Scrutiny Committee's report.

4. Council Plan 2010/11 Monitoring Quarter 2

4.1 The Cabinet monitors performance against targets in the Council Plan. As previously agreed, performance measures are scored in the quarter after which delivery is due. The performance measures considered by the Cabinet in December are those that were to be completed by the end of September 2010. The Cabinet has welcomed the following notable achievements:

Strategic Management and Economic Development

The Council's bid to become a Local Enterprise Partnership (LEP) with Kent and Greater Essex has been given a "green light". We can now set up a

shadow board and start securing investment into the new LEP. 9537 transactions, including forms submitted and online payments, took place via the Council's website in quarter 2, making a total of 17764 transactions so far this year. Online transactions are more convenient for residents, and cheaper for the Council than contact by telephone or letter. Ten consultations have been added to the Consultation Management System in Quarter 2. This system allows the organisation to see all the consultation work going on. We have worked with partners in Sea Space to pave the way for the Saga Group to become the largest private sector employer in Hastings, bringing up to 800 new jobs into the area.

Corporate Resources

The Council's external auditor issued an unqualified "true and fair" opinion in the annual audit letter. We have launched a corporate pilot of purchasing cards which will provide a flexible and efficient way of purchasing low value high volume goods and services. We completed the school planned maintenance programme during the summer break, consisting of 60 individual projects with a combined value of about £2.5 million. All schools opened as planned for the September term. The new Bexhill Skill Centre is complete.

Community Services

East Sussex Drug and Alcohol Action Team has achieved a 22% increase in the 'effective treatment' (treatment that lasts for at least 12 weeks, or ends in a planned way before then) of people who use heroin or crack cocaine, compared to the 2007/08 baseline. The new library in Wadhurst opened on 17 July, providing better facilities, extended opening hours and more library stock. The service known as Volunteer Centre East Sussex is fully operational providing coordination of volunteering opportunities across the county.

Adult Social Care

We supported the East Sussex Seniors Association to deliver a "Breaking Down Barriers" workshop, which helped older people to understand equalities and cultural identity issues. Each forum has now developed an action plan to increase membership from under-represented groups. 55.6% of staff from independent sector providers have received safeguarding adults training, an increase of 7.6% on the 2009/10 outturn. As at September 2010 we have supported 723 people aged 18-64 with a learning disability to live at home; 793 people aged 18-64 with mental ill health to live at home; and 8009 people 65 and over to live at home.

Children's Services

55.4% (provisional) of pupils in the county achieved 5+ GCSEs at A*-C including English and Maths; this is 2% above the national average. This figure has very recently been adjusted following validation of test data. Provisional 2009/10 figures show that 53.8% of pupils achieved 5+ GCSEs at A-C including English and Maths in Eastbourne and 43.7% in Hastings. This

compares to 48% in Eastbourne and 42% in Hastings in the previous year and exceeds the targets set. 87% (50/57) cases referred to the Anti-Bullying team reached a positive outcome, in line with the 2010/11 target (>80%). Only 8.9% of looked after children had three or more placements during the year, this is lower than the national average and below the target of 12%. 16 families with children aged 12+ had family group conferences in quarter 2. The total number for the year to date is 29, above the target number of 22 for the half year.

Transport and Environment

The Highways Capital Improvement Project started in April this year. This is a two year programme of major resurfacing works on our main roads valued at over £23m. We have already completed 39 schemes at a value of over £6.5m. Significant efforts have been made to provide advance notification of works, resulting in fewer complaints and increased compliments. The Friends of Lewes presented us with an award to recognise the positive contribution made by the Living Cliffe scheme to revitalise Cliffe High Street in Lewes. The scheme helped to reduce through traffic by 70% to make it a better place to visit and shop.

4.2 Appendix 1 of the report considered by the Cabinet (previously circulated to all members) details the performance measures which will not achieve their target (scored red) and those about which there is some doubt (scored amber). Of the 187 indicators due to be achieved this year, 135 (72.2%) indicator targets have been scored green, 21 (11.2%) are scored amber and 12 (6.4%) are scored red.

4.3 Several National Indicators have been removed from the National Indicator Set (NIS) in line with the Government's proposals to scrap the NIS reference list, although much of the data will still be required, and there will be a single set of data that local authorities will need to collect as of April 2011. Local authorities have been informed that they must continue to report NIS data unless specifically instructed not to. It is currently very difficult to find data as the referencing system has been removed and indicators are being deleted on an ad hoc basis. Where deleted NIs are included in the Council Plan, departments are giving consideration to whether they should be deleted from the Council Plan or whether they should continue as a local priority.

4.4 Nineteen adjustments to Council Plan 2010/11 performance measures and targets are highlighted in appendix 5. There are 11 proposals for amendments and eight proposals for deletion.

4.5 Four measures are proposed for amendment or deletion because of errors in target setting (5.10n) or because they were included in the Council Plan in error (1.06a, 1.06b, and 4.02a). Three measures are proposed for deletion because the National Indicators have been deleted and the Government no longer requires the data (2.04b, 4.04b, and 4.06a). Six measures or targets are proposed for amendment to make them more specific, taking into account what has already been achieved this year (1.02b,

3.14c, 4.04f, 4.05d, 4.10d, and 6.03b). Two targets are proposed for amendment because of renewed timescales since the Council Plan was published (2.06b, and 4.07b). Two measures are proposed for deletion because of the decision to monitor using different processes (2.06d and 4.10a). One measure is proposed for amendment because of the decision to count in a different way (3.14a).

4.6 The Cabinet **recommends** the County Council to

- ☆ approve the recommendations made regarding the targets as set out in Appendix 5 to this report.

5. School and College Examination Results

5.1 Results referred to in this report are based on the latest figures available from the Department for Education (DfE). The data for Early Years Foundation Stage (EYFS) and Key Stage 1 have been validated. The data for Key Stages 2 and 4 are still provisional and will not be validated until appeals from schools for re-marks of tests or examinations have been completed. At Key Stage 5 a minority of students study courses in school sixth forms, the majority study in FE colleges; the combined outcome data is not available until later in the year and no substantial analysis can yet be undertaken.

5.2 Outcomes for the end of primary school (Key Stage 2) improved in English and mathematics. Outcomes for the end of compulsory secondary school (Key Stage 4) for 5+ A*-C GCSEs including English & Mathematics improved. Known outcomes for the end of Sixth Form (Key Stage 5) improved and are on track to meet targets for Level 2 at 19 but the pace of improvement is not as strong towards targets for Level 3 at 19.

Early Years Foundation Stage (Appendix 1 of the report to the Cabinet provides more detail)

5.3 Achievement of at least 78 points in the Foundation Stage Profile (Age 5) increased by 1% to 56%, compared to a national rise of 4%. Outcomes, however, are in line with the national average (56%). East Sussex is ranked 6th out of 11 of its statistical neighbours.

5.4 The attainment gap between the average of the lowest 20% and the median performance of the whole cohort increased by 1.5% from the previous year to 31.9% compared to a decrease of 1.2% in the national gap. The gap in East Sussex, however, is 1% narrower than the national gap of 32.7%. East Sussex is ranked 8th out of 11 of its statistical neighbours.

Primary Schools Key Stage 1 Achievement in Reading, Writing and Mathematics at Levels 2+, 2B+ and 3+ (see Appendix 2 of the report to the Cabinet)

5.5 Standards in East Sussex matched national averages in reading and mathematics, but were slightly lower in writing, and generally were lower than

the authority's statistical neighbours. The percentage of pupils attaining Level 2+ in both reading (84%) and writing (79%) remained the same as the previous year as did the national average for writing (81%) while there was a 1% improvement nationally for reading (85%). The percentage of pupils attaining Level 2+ in mathematics (89%) declined by 1% compared with the previous year. There was no increase nationally (89%) for mathematics compared with the previous year. Primary Schools Key Stage 2 Achievement in English and Mathematics at Level 4+ and Level 5+ (Appendix 3 of the report to the Cabinet provides more detail)

5.6 The percentage of pupils achieving Level 4+ in both English and mathematics (71%) increased by the same rate (2%) as the national rate but is below the national average (74%) and East Sussex is ranked 8th out of 11 statistical neighbours. 11 schools are now below the floor target of 55% achieving L4+ in both English and mathematics which is a decrease of 8 schools from the previous year.

5.7 The percentage of pupils achieving Level 4+ in English (79.5%) increased by 0.1% and is now the same as the national average. The percentage of pupils achieving Level 4+ in mathematics (78%) increased by 2% and is now 1% below the national average (79%). The proportion of higher attainers achieving Level 5+ in English (30%) was higher than the national average (29%) but in mathematics the proportion achieving Level 5+ (30%) was lower than the national average (35%).

Secondary Schools Key Stage 4 (see Appendix 4 of the report to the Cabinet)

5.8 The percentage of pupils achieving 5+ A*-C GCSE grades including English and mathematics increased by 3.9%, to 54.7%, compared to the national increase of 4.1%. This is the highest performance ever for East Sussex and is in line with the national figure (54.9%). East Sussex is ranked 7th of 11 of its statistical neighbours.

5.9 The number of schools where less than 30% of pupils achieved 5+ A*-C GCSEs including English and mathematics remained at zero for the second year running.

5.10 The percentage of pupils achieving 5 or more A*-C grades at GCSE or equivalent increased by 4.0% to 75.8% which was below the national rate of increase (5.7%) but is in line with the national average (75.7%). This is the highest performance ever in East Sussex. East Sussex is ranked 3rd of 11 of its statistical neighbours.

School Sixth Forms and Colleges Key Stage 5 (see Appendix 5 of the report to the Cabinet)

5.11 The percentage of students achieving Level 2 (5+ GCSEs at A*-C or equivalent) by the age of 19 is projected to have increased by 3.5% to 80.1%. National data is not yet available. We are on track for achieving the national targets for Level 2 by 19 (82% for academic year 2010/2011).

5.12 The percentage of students achieving Level 3 (2.5 A Levels or equivalent) by the age of 19 is projected to have increased by 1.6% to 49.8%. National data is not yet available. The national target for achieving Level 3 by 19 is 54% in the academic year 2010/2011. In order to meet this target the East Sussex will need to see a 5.2% increase in achievement at the end of this academic year.

Narrowing the Gap for pupils entitled to Free School Meals (see Appendix 6 of the report to the Cabinet)

5.13 The Cabinet has considered the outcomes for those pupils known to be eligible for free school meals (FSM) for Key stage 1 and 2 as outlined below. National data and statistical data is not yet available.

Key Stage 1

5.14 The percentage of pupils entitled to FSM achieving Level 2b+ in reading increased by 1.9% to 51.7%, thereby narrowing the gap between FSM/non FSM pupils by 1.9% to 22.8%

5.15 The percentage of pupils entitled to FSM achieving Level 2b+ in writing increased by 0.7% to 37.1%, although the gap between FSM/non FSM pupils widened by 2.9% to 25.5%.

5.16 The percentage of pupils entitled to FSM achieving Level 2b+ in maths decreased by 2.2% to 53.1%, resulting in the gap between FSM/non FSM pupils widening by 2.6% to 23.3%

Key Stage 2 (The 2010 vulnerable group data is based on Teacher Assessment data, whereas the 2009 data was based on Test results).

5.17 The percentage of pupils entitled to FSM achieving Level 4+ in English and mathematics for pupils (NI 102a) is 50.4%, this is an increase from 46% in 2009; thereby marginally narrowing the gap by 0.4% to 26.4%.

5.18 The percentage of pupils eligible for FSM achieving Level 4+ in English decreased from 1.3% to 58.3%, thereby widening the gap between FSM/non FSM pupils by 2.1% to 24.7%.

5.19 The percentage of pupils eligible for FSM achieving Level 4+ in maths increased by 1% to 58.5%, however the gap widened by 2.4% to 23.7%.

5.20 The Cabinet has noted the summary data in relation to educational achievement in the Foundation Stage and Key Stages 1 – 5, a commentary on outcomes and strategies to secure improvement.

6. Conservators of Ashdown Forest Budget 2011/12

6.1 The Cabinet has received the Conservators' draft budget for 2011/12 and considered the both the overall position and the balance to be made available to the Conservators from the Trust and the Council's own resources.

The Trust Fund's resources are legally distinct from the County Council's general resources.

6.2 The draft budget for 2011/12, previously circulated to all members, shows the Trust Fund contribution continuing at £65,100.

6.3 The County Council's Reconciling Policy and Resources process is in progress and it is recommended that the Council's own contribution to the Conservators for 2011/12 is reduced by 10% in view of the need for the Council to make substantial savings as a result of the Comprehensive Spending Review. This results in a grant of £71,600. This matches the provision in the Transport and Environment's draft budget. Annual income to the Trust Fund, from a long term lease with the Royal Ashdown Forest Golf Club, amounts to £70,000 – an increase of £10,000 from 1 January 2010. The increase in rent provides some flexibility to maintain the Trust Fund grant at the higher level paid for the last four years ie £65,100 – an additional grant of £10,000 for enforcement activity was agreed for a three year period from 2007/08 and it was subsequently agreed that this higher level of grant should continue in 2010/11.

6.4 While the County Council has a statutory obligation to meet the shortfall between expenditure and income of the Conservators, it also has the responsibility for approving the level of expenditure. It is essential, particularly in the current financial climate that every effort is made by the Conservators to achieve savings and efficiencies in the same manner as expected of all other council services.

6.5 The level of shortfall in the Conservators' budget can be funded from the Council's contribution and generates a small surplus to fund other potential costs which might arise in 2011/12.

6.6 The Cabinet has, therefore, recommended an annual grant of £65,100 from the Trust Fund and a contribution from the Transport and Environment budget of £71,600.

6.7 The Conservators' final budget will be amended to reflect these recommendations. The recommendations are reflected in the reconciling policy and resources report in paragraph 1 of this report.

7. Treasury Management Strategy 2011/12

7.1 Under Section 3 (1) of the Local Government Act 2003 and the Prudential Code for Capital Finance 2004, the County Council is required to determine its authorised borrowing limit, to adopt treasury management prudential indicators and limits and to agree its treasury management strategy and policy statement each year.

Proposed Strategy for 2011/12

7.2 In the current economic climate it is essential that a prudent approach is maintained. This will be achieved through investing with selected banks and funds which meet the Council's rating criteria. The emphasis will continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield. The proposed strategy continues with this prudent approach and no changes are proposed to change the period of investment from up to a year, there is no change to the list of counterparties or the limit of the investment which remains at a maximum of £60m.

7.3 It is also important to recognise that movements within the money markets can happen with no notice and the Deputy Chief Executive and Director of Corporate Resources may have to amend this strategy in order to safeguard Council funds. As in the past any such actions will be reported to the next Cabinet meeting.

7.4 It is not expected that any new external borrowing will be undertaken in the next 15 months however the limits set out in paragraphs 7.12 to 7.15 would allow such borrowing. External borrowing will only take place if the rates available are so low that the long term benefits will significantly exceed the short term cost.

7.5 Opportunities for cost effective repayment of existing debt and restructuring opportunities are constantly monitored and will be taken if and when they emerge.

7.6 Our policy gives some flexibility to borrow up to £18m in advance of future need. The detail is set out in the table in paragraph 7.16. However, given the current interest climate, no external borrowing and certainly none in advance, is planned.

7.7 The funds of the Fire Authority will continue to be invested in line with their own specific policy.

7.8 The County Council funds will be invested

Up to a maximum of £60m deposited up to a period of up to one year with any of the following:

Bank / Fund
Barclays
Lloyds/HBOS
Nat West/RBS
Santander UK
HSBC
Nationwide
Individual Treasury Type Money Market Funds (AAA rated)
Individual Cash Type Money Market Funds (AAA rated)

Only banks which are eligible for the Government's Credit Guarantee Scheme and meet the following minimum rating criteria for at least two of the designated agencies to be used.

Ratings Agency	Long Term	Short Term
Fitch	AA-	F1+
Moody	AA3	P-1
Standards and Poors	AA-	A-1+

The policy retains the ability to revert to some, or even extensive use of the Government's Debt Management Account Deposit Facility (DMADF) if market risk conditions tighten.

7.9 The strategy going forward must continue with the policy of ensuring minimum risk but will also need to deliver secure investment income of at least bank rate on the Council's cash balances. (The actual target is bank rate plus 0.5%).

7.10 Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information has been and will continue to be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Sovereign ratings, Credit Default Swaps, equity prices, the Sector security and liquidity model and the CIPFA National treasury risk model as well as media updates etc.) will be assessed when comparing the relative security of differing investment counterparties.

7.11 All of the investments will be classified as Specified Investments. These investments are sterling investments of not more than one-year maturity with institutions we deem to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These are considered low risk assets where the possibility of loss of principal or investment income is small. The County Council does not have any Non Specified Investments which are ones of more than one-year maturity or with institutions which have a lesser credit quality.

Authorised Limit for borrowing in 2010/11 and 2011/12

7.12 The Authorised Limit for borrowing determined for 2011/12 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

7.13 The limits set out later in this report have been based upon the amount of capital spending to be financed through borrowing in 2011/12 and following financial year. Whilst the Prudential Code would allow a higher limit than this (2011/12 and next two financial years) it is considered prudent at this stage to base the limits upon 2 years. This approach was agreed by the County Council in July 2004 and has worked well.

7.14 For 2010/11 it is estimated that the Authorised Limit for borrowing is £391m - an increase from £353m (see table in paragraph 7.16) to take into account the Private Finance Initiative (PFI) schemes.

7.15 For 2011/12 it is estimated that the Authorised Limit for borrowing is £399m (see table in paragraph 7.16) should be determined as usual although additional external borrowing is not expected to be undertaken.

Prudential indicators and Treasury Management indicators

7.16 There are self-imposed prudential and treasury management indicators that are set on an annual basis. The indicators which relate to treasury management are included below:

- Operational Boundary and Authorised Borrowing Limit (which also include short term borrowing)
- Interest rate exposures
- Maturity structure of debt
- Compliance with the treasury management code of practice
- Maturity structure of investments

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(a) Operational Boundary and Authorised Limit for Borrowing

		Original Estimate 2010/11	Revised Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14
		£m	£m	£m	£m	£m
	Opening Balance	295	294	309	322	330
P	* Add PFI schemes	<u>0</u>	<u>39</u>	<u>39</u>	<u>39</u>	<u>39</u>
	Opening Balance including PFI schemes	295	333	348	361	369
	New borrowing for capital programme	27	27	25	21	21
	Less repayment of debt	-12	-12	-12	-13	-13
A	* Closing balance (no borrowing in advance)	310	348	361	369	377
B	Advance borrowing allowed (£10m plus net borrowing for following year)	23	23	18	18	18
A+B	Operational Boundary	333	371	379	387	395
C	Short Term (£20m)	20	20	20	20	20
A+B+C	Authorised Limit	353	391	399	407	415
D	* Borrowing to date		241			
D-A-P	* Remainder of planned borrowing		68			

- **The Closing balance (Capital Financing Requirement) at A less the PFI schemes (P) would equal the Council's external capital debt. Actual external debt (D) is lower as no external borrowing has taken place since 2007/08**

7.17 The proposed Operational Boundary for borrowing is based on the same estimates as the Authorised Limit but without the additional amount for short term borrowing included to allow, for example, for unusual cash movements. The Operational Boundary represents a key management tool for in year monitoring and long term borrowing control.

7.18 The Authorised Limit is consistent with the Council's current commitments, existing plans and the proposals for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the prudent but not worst case scenario plus sufficient headroom (short term borrowing) over and above this to allow for day to day operational management, for example unusual cash movements or late receipt of income.

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(b) Interest rate exposure

7.19 The Council will continue the current practice of seeking to secure competitive fixed interest rate exposure. It is proposed to continue to set limits which would allow variable rate borrowing and lending in case that becomes a more effective approach. The table below shows both borrowing and lending and a combined borrowing and lending table.

<u>Borrowing</u>	2010/11 Projected <u>Outturn</u>	2011/12 <u>Estimate</u>	2012/13 <u>Estimate</u>	2013/14 <u>Estimate</u>
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit *	67%	53%	54%	55%
Variable Rate Exposure				
Upper Limit	33%	47%	46%	45%
Lower Limit *	0%	0%	0%	0%

(* assumes all new borrowing is variable)

Lending

Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%
Variable Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%

Borrowing and Lending combined

Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	28%	26%	25%	24%
Variable Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%

(c) Maturity structure of debt

7.20 The Council has set upper and lower limits for the maturity structure of its borrowings as follows.

	<u>Lower limit</u>	<u>Upper limit</u>	<u>Current</u>
Under 12 months	0%	25%	0%
12 months and within 24 months	0%	40%	0%
24 months and within 5 years	0%	60%	4%
5 years and within 10 years	0%	80%	10%
10 years and within 20 years	0%	80%	17%
20 years and within 30 years	0%	80%	20%
30 years and within 40 years	0%	80%	21%
More than 40 years	0%	80%	28

(d) Compliance with the treasury management code of practice

7.21 East Sussex County Council has adopted in full the *CIPFA Code of Practice for Treasury Management in the Public Services*.

(e) Maturity structure of investments – Investment of surpluses for a period of more than one year and up to five years.

7.22 Investments will be made in line with the strategy and does not allow investments beyond one year.

Capital Financing Requirement and Minimum Revenue Provision (MRP) Statement

The Council's Borrowing Need (the Capital Financing Requirement)

7.23 The prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The Council is asked to approve the CFR projections below:

£m	2010/11	2011/12	2012/13	2013/14
	Revised	Estimated	Estimated	Estimated
Total CFR	348	361	369	377
Movement in CFR	15	13	8	8
Movement in CFR represented by				
<i>Net financing need for the year (above)</i>	27	25	21	21
<i>MRP/Voluntary Revenue Provision (VRP) and other financing movements</i>	-12	-12	-13	-13
Movement in CFR	15	13	8	8

7.24 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – MRP).

Minimum Revenue Provision (MRP) Statement

7.25 The MRP Statement for 2011/12 is:-

‘For capital expenditure incurred before 1 April 2008 or which in the future will Supported Capital Expenditure, the MRP policy will be:

- Based on based on the non-housing CFR, i.e., The Council currently set aside a Minimum Repayment Provision based on basic MRP of 4% each year to pay for past capital expenditure and to reduce its CFR.

7.26 From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option will be applied for any expenditure capitalised under a Capitalisation Direction).
- Asset Life Method (annuity method) The Council will also be adopting the annuity method, - MRP calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. The policy is being adopted as a result of any PFI’s assets coming on the balance sheet and any related 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 also be equivalent to the “capital repayment (principal) element” of the annual rental payable under the lease agreement.

7.27 Under both methods, the Council has the option to charge more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

Treasury Management Policy Statement for 2011/12

7.28 It is recommended that the Treasury Management Policy Statement for 2011/12 should be unchanged. The Statement is set out below

East Sussex County Council defines its treasury management activities as: “The management of the organisation’s cash flows, its banking, money market and capital market transactions, the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The County Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis

and reporting of treasury management activities will focus on their risk implications for the organisation.

This authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

7.29 The Cabinet recommends the County Council to -

- ☆ (1) determine that for 2010/11 the Authorised Limit for borrowing shall be increased to £391m and for 2011/12 the Authorised Limit for borrowing shall be £399m;
- (2) adopt the prudential indicators and limits set out above;
- (3) approve the Minimum Reserve Provision Statement for 2011/12 as set out in paragraphs 7.25 and 7.26 above; and
- (4) approve the Treasury Management Strategy and Policy statement for 2011/12 as set out above.

PETER JONES
Chairman

25 January 2011