REPORT OF THE CABINET

The Cabinet met on 13 December 2011 and 26 January 2012. Attendances:-

Councillor Jones (Chairman) (2)
Councillors Belsey (2), Bennett (2), Bentley (2), Elkin (2), Freebody (2), Glazier (2) and Maynard (2)

1. Reconciling Policy, Performance and Resources

1.1 The Cabinet has considered a report on reconciling policy, performance and resources including the capital programme 2012/13 to 2016/17, the Revenue Budget 2012/13 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 2011 on Reconciling Policy, Performance and Resources.

1.2 The Scrutiny Committees, and their Reconciling Policy, Performance 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) prior to making its recommendations. The draft portfolio plans (Appendix 5 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 2011 and have taken into account the potential impact, from an equalities perspective, of the proposals in the Council's Capital programme and Revenue Budget (Appendix 4 of the report to the Cabinet) and strategic risks that have previously been reported.

1.4 Consultations have been carried out with the a number of partners as part of the Reconciling Policy, Performance 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 has noted that the children’s social care service area is not sustainable and the Cabinet has agreed an outline business case for a Children’s Services Transformation Programme (Appendix 3 of the report to the Cabinet). The Cabinet has agreed to the development of a detailed business plan and a ring-fenced one off fund as set out in that Appendix.

1.6 The Cabinet has reviewed fees and charges for 2012/13 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 2012/13 and 2013/14 and to note the schemes provisionally included in the capital Programme in future years as set out in Annex 5 of Appendix 1;

(2) note the prudential indicators as set out in Annex 4 of Appendix 1;

(3) approve the revenue budget estimates for 2012/13 as set out in Annex 3 (a) of the commentary on the Revenue Budget circulated to all members (Appendix 2);

(4) in accordance with the Local Government Finance Act 1992 to agree that:

(i) the net budget requirement is £356.351m and the amount calculated by East Sussex County Council as its council tax requirement for the year 2012/13 is £240.842m;
(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 2012/13 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 (Appendix 2 Annex 3B)

2 Waste and Minerals Plan

2.1 The Waste and Minerals Plan (WMP) will eventually replace much of the Council's adopted Waste Local Plan and Minerals Local Plan. It will provide spatial planning policy for the management of all wastes and the production of all minerals in East Sussex, the South Downs National Park and Brighton & Hove to 2026.

2.2 As previously reported to the County Council, in October 2011 the Cabinet agreed to publish a draft WMP for a six weeks public consultation period. The revised approach of the draft WMP comprised the following:

- reducing the amount of waste produced;
- making provision for increased treatment (e.g. recycling or recovery) of waste including planning for additional capacity for recycling/recovery facilities equivalent to the likely exports of waste for landfill;
- identifying an area of focus for later searches for suitable locations for waste treatment facilities;
- saving allocations for recycling/recovery facilities until the subsequent

Sites document has been adopted;
- recognising that the declining amounts of waste still requiring land disposal should utilise existing planning permissions outside the Plan area and therefore the Plan would not include any Areas of Search for landraise or landfill reflecting the County Council’s policy steer to “Minimise the amount of the county’s waste sent to landfill or landraise”;
- safeguarding existing landfill capacity at Pebsham;
- resisting the disposal of residual waste from London in the Plan Area;
- meeting the apportionment for aggregates advised by Government.

2.3 87 responses (containing 170 comments) to the draft WMP were received, which is in marked contrast to the nearly 3,000 comments received to an earlier draft ‘Preferred Strategy’ document (most of these were concerned with future land disposal in the Plan Area). The responses generally support the broad thrust of the approaches set out in the draft WMP, with some respondees requesting a strengthening of policy protection in certain areas. Some concerns were raised about the Plan’s approach of relying on other areas for the management of waste by land disposal. A summary of the consultation process and analysis of the comments received was set out in Appendix 1 of the report considered by the Cabinet (previously circulated to all members). All submissions are available on the Council’s website and in the Member’s room.

2.4 Objections and representations have been submitted by adjoining authorities on the potential strain on existing landfill in their areas. Officer comments from Kent County Council included requesting greater certainty regarding the destination of non-inert and hazardous wastes requiring landfill. Surrey County Council raised a concern that landfill capacity in their area would not last as long as they had forecast if waste was imported and were not convinced that Ashdown Brickworks would not be developed for landfill. West Sussex County Council noted that there was declining land disposal capacity in their area and it was likely that sites further afield would have to be utilised. The adjoining authorities do though recognise that there is declining landfill capacity in the South East and pressure will increase not only from East Sussex. Additionally, it is the case that waste that might be exported to landfill would almost certainly be commercial and industrial, which is not directly managed by the County Council but, instead, responds to market conditions. Furthermore, additional provision is being made for this waste to be treated within the Plan area. It is not, therefore, proposed to make any significant changes to the Plan’s approach to land disposal although additional evidence to further support the position is being gathered.

2.5 Several respondees raised concern with the saving of Waste Local Plan (WLP) policy allocating land at Pebsham and North Quay Newhaven as suitable for waste management activity. No changes to the Plan are proposed in light of these comments as the proposed position reflects that which is already existing and the matter of deciding on specific sites for future waste development will be properly and thoroughly dealt with as part of the development of the Sites document later in the Local Development Framework process. This will involve a call for sites and thorough assessment of all possible opportunities taking into account constraints and consultation responses at that time. It should also be noted that the Proposed Submission

Waste and Minerals Plan (PSWMP) does not propose any extension to landfilling at Pebsham.

Proposed Submission Waste and Minerals Plan

2.6 In light of the comments received on the draft WMP no major changes in approach are proposed although the proposed text of the PSWMP has been strengthened. (Appendix 2 of the report considered by the Cabinet). Based on evidence, assessments and consultation responses it is considered that the PSWMP represents a ‘sound’ document. The South Downs National Park Authority (SDNPA) and Brighton & Hove City Council are to consider the proposed Plan. Recommendation 2 of this report has been included in order to enable the Director of Economy, Transport and Environment to agree any necessary amendments to the PSWMP following consideration by the SDNPA Planning Committee and BHCC. Subject to approval by the 3 Authorities, it is proposed that a statutory six week period seeking representations on soundness takes place between 24 February 2012 and 10 April 2012. Considerations of ‘soundness’ relate to whether the Plan is effective, justifiable and in conformity with national policy.

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

✡ (1) note the analysis of the response to the consultation on the draft Waste and Minerals Plan (WMP);

(2) authorise the Director of Economy, Transport and Environment to agree any further changes to the text of the Proposed Submission Waste and Minerals Plan with the South Downs National Park Authority and Brighton & Hove City Council; and

(3) agree, subject to any amendment being made in accordance with 2 above, the Proposed Submission Waste and Minerals Plan (PSWMP) for publication; consultation on its soundness; and subsequent submission to the Secretary of State in accordance with Regulations 27- 30 of the Town & Country Planning (Local Development) (England) (Amendment) Regulations 2008.

3 Council Plan 2011/12 Monitoring Quarter 2

3.1 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 2011. The Cabinet has welcomed the following achievements:

<u>Strategic Management and Economic Development</u>

The Government has allocated £10.64 million to help secure better broadband across the county; this was amongst the top ten highest allocations in the country. In November, the South East Local Enterprise Partnership (LEP) was granted £32 million government funding for schemes that will help businesses grow and create new jobs across East Sussex, Essex and Kent. We will be consulting on the Economic Development Strategy between December 2011 and February 2012 and this will inform the work of the LEP.

Community and Resources
Around 100 new build, adaptation and maintenance projects with a combined value of £10 million were completed in schools over the summer break. Construction of Hastings Academy has started. £860,000 has been generated by selling surplus Council property so far this year. We installed emergency power supplies in nine secondary schools which will protect their IT equipment if the mains power fails. The Council's mediation mechanisms which aim to reduce levels of workplace conflict have won Personnel Today's Award for Innovation in Dispute Resolution. The process, introduced two years ago, has reduced formal disputes by 47% and the costs of resolving conflict to £2,400, compared with £12,500 for the formal grievance process. Over 150 cases referred to mediation have been successfully resolved without further intervention.

Community Services
Building work is ahead of schedule for the Keep, the new historical resource centre. The Registration service has been moved to the Uckfield library, saving money on the previous lease and providing customers with a convenient ground floor, High Street location. A record number of children (over 10,000) took part in this year's Summer Reading Challenge. In its first year, Volunteer Centre East Sussex has handled nearly 1,700 enquiries and added 774 volunteering opportunities to the 'Do-It' website.

Economy, Transport and Environment
Major road works in Lewes, covering 1.4 km were successfully delivered over the summer. We worked with utility companies to ensure underground repairs were carried out before resurfacing; further utility works, other than in an emergency, are banned for five years. Court action was taken against four grocery shops for selling counterfeit and foreign labelled cigarettes resulting in £8,145 in fines and costs. A new seafront path will be complete by the end of the year linking Bexhill and Hastings promenade creating a 5 km long traffic-free route to encourage walking and cycling.

Community Safety
There was a reduction of 43.6% over quarter one in the number of young people who presented to Accident and Emergency under the influence of alcohol. Multi Agency Risk Conferences review cases of domestic violence, with the aim of reducing repeat victimisation; in the 12 months to September, 15% of cases reviewed were repeats, meeting our target of less than 28%. Latest data (Q1) shows that 60% of adults receiving drug rehabilitation treatment completed their programme, rather than dropping out (national average 47%). In the 12 months to September there has been a 21% reduction in the number of life threatening crimes committed in the county compared to the previous year.

Children and Families
8.4% of looked after children had three or more placements in the 12 months to September, below the latest 2009/10 national average of 10.9%. 62.5% of young people who left care in during quarter 2 are in education, employment or training, compared to 50% in 2010/11. Seventy two 10-17 year olds entered the Youth Justice System for the first time in quarter 2 (a rate of 283 per

100,000 10-17 year olds in the county), a significant reduction from 905 per 100,000 in the second quarter of 2009/10.

Learning and School Effectiveness

Provisional results show that 58% of young people achieved five or more GCSEs at grades A*-C including English and Maths in 2011. There was good improvement in Hastings where 46.2% of young people achieved five or more GCSEs at grade A*-C including English and Maths, an improvement of 2.3% on 2010. 21 schools across the county improved compared to last year and 15 schools returned their best ever results; William Parker increased by 14%, Peacehaven by 11%, and Tideway by 10%. 128 children received one-to-one reading and writing support over the 12 week ‘Every Child a Reader’ programme. 153 children were supported with their basic maths skills in the ‘Every Child Counts’ programme.

Adult Social Care

767 carers are receiving regular home-based respite. In the 12 months to September 16.7% (1,921) of the people we helped to live at home were aged 18-64 with a physical disability, 6.5% (745) were aged 18-64 with a learning disability, and 7.8% (901) were aged 18-64 with mental ill health, and 69.0% (7,938) were aged 65 and over. We supported 45.4% (7,049) of service users through Self Directed Support, and 68.8% (1,798) of carers through Carers Grants. 62 extra care homes in Eastbourne are on track to be completed by January.

3.2 Appendix 3 details the performance measures which will not achieve their target (scored red) and those about which there is some doubt (scored amber). Of the 149 performance measures reported at quarter 2, 124 (83.2%) have been scored green, 12 (8.1%) are scored amber and 5 (3.3%) are scored red.

3.3 Eight measures (5.4%) are proposed for amendment. These eight targets were scored amber in the monitoring report. The proposed amendments are detailed in Appendix 4 and relate to the following targets:

4.04e	Agree with Borough and District Councils a strategic approach to managing waste in the county through to 2020
6.03a	Children aged 0-5 in need who have a Common Assessment Framework
6.03c	Percentage of the 20% most deprived children accessing Early Years Education Entitlement
7.02a	Percentage of 16-18 year olds NEET – measure merge with 7.02b
7.02b	Percentage of 17 year olds NEET – measure merge with 7.02a
8.01c	Older People identified and diagnosed with dementia
8.03j	Develop new services on the original Age Well sites
8.03k	Respite services to carers

3.4 The Cabinet has also considered information in relation to savings monitoring (Appendix 3 of the report to the Cabinet previously circulated to all members). The budgeted savings target for 2011/12 is £27.67 million. The monitoring report forecast a variation of -£1.7 million against the target and a variation of +£0.3 million after mitigating action.

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

✡ approve the recommendations made regarding the targets as set out in Appendix 4 to this report.

4 Children's Services Inspection Outcomes 2011

4.1 The Cabinet has considered three reports on the outcome of inspections of Children's Services during 2011 – the Annual Grading of Children's Services, the unannounced Inspection of the Duty and Assessment Teams and the Fostering Service Inspection. Copies of all three reports have previously been circulated to all members. The results place East Sussex among the best performing of its statistical and geographical neighbours (see Appendix D of the report to the Cabinet). Children's Services continue to maintain good outcomes for children and young people.

4.2 In October 2011, Ofsted undertook an inspection of the East Sussex County Council Fostering Service and found that the overall quality of the service is "Outstanding". The report commented that "Young people make excellent progress in all areas of their lives. They are provided with excellent support which helps them to thrive in nurturing and safe environments. Foster Carers feel exceptionally well supported". A copy of the full report was attached as Appendix A of the report considered by the Cabinet.

4.2 An unannounced inspection of the Duty & Assessment Teams within Children's Social Care was also carried out by Ofsted in October 2011 and the full report was attached as Appendix B to the report considered by the Cabinet. The inspectors identified improved recruitment and retention of social workers, together with effective auditing and performance monitoring, as areas of particular strength. There were no areas for Priority Action for the Council which meant that no child was found at risk of harm. The Inspectors identified several areas for development including timeliness and clarity of decision making, the volume of referrals from the police and the quality of recording.

4.3 In November 2011, Ofsted published its Annual Assessment of Children's Services which found that East Sussex "Performs Well". This Assessment is based on consideration of inspection outcomes for all services, schools and settings that have taken place in the last three years, together with performance on attainment indicators in the previous academic year. Several strengths were identified, including improvements in the overall effectiveness of secondary schools and post-16 provision, and the quality of fostering and adoption services. Areas for further development included the rate of improvement at the Early Years Foundation Stage and the number of young people achieving level 2 or equivalent qualifications. The Ofsted grading letter was attached as Appendix C to the Cabinet report.

5 Annual Audit Letter

5.1 The Cabinet has considered the Annual Audit Letter for 2010/11 (previously circulated to all councillors) which is produced as part of the agreed external audit plan by the Council's external auditors, PKF. The Annual Audit Letter summarises the key issues arising from the work carried out by PKF. The report contains no new findings or recommendations but reflects the key issues already reported in the Annual Governance report.

5.2 The Cabinet has welcomed and noted the Annual Audit letter and there are no matters which the Cabinet wishes to draw to the Council's attention.

6 Conservators of Ashdown Forest Budget 2012/13

6.1 The Cabinet has received the Conservators' draft budget for 2012/13 and considered both the overall position and the balance to be made available to the Conservators from the Trust Fund and the Council's own resources.

6.2 While the Council has a statutory obligation to meet any shortfall between expenditure and income, the Conservators must prepare budget estimates for approval by the County Council. The Conservators are only empowered to spend what is provided for in the estimates approved by the County Council. The Conservators have produced revised forecasts for 2011/12 and a draft budget for 2012/13. As presented, the Conservators' draft budget assumes the level of grant from the Trust Fund will continue at £65,100. The Council's own contribution is not yet shown and the resulting shortfall is shown at £75,060.

6.3 The County Council's Reconciling Policy, Performance and Resources process is in progress and it is recommended that the Council's own contribution to the Conservators for 2012/13 is increased by 5.9% for inflation. This results in a grant of £75,800. This matches the provision in the Economy Transport and Environment draft Medium Term Financial Plan which assumes no reduction in the contribution to the Conservators over the plan period to 2014/15. 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 has provided flexibility to maintain the Trust Fund grant at the level paid for the last five years i.e. £65,100. The combination of maintaining the Trust Fund grant at the current level and the recommended grant from the County Council's own resources would give the Conservators a surplus of just £740 in the year.

6.4 The Cabinet has recommended an annual grant of £65,100 from the Trust Fund and a contribution from the Economy, Transport and Environment budget of £75,800. The Conservators' final budget will be amended to reflect these recommendations. The recommendations are reflected in the reconciling policy, performance and resources report in paragraph 1 of this report.

7 Treasury Management Strategy 2012/13

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 agree its treasury management strategy and policy statement each year.

Proposed Strategy for 2012/13

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 for 2012/13 continues with this prudent approach and no changes are proposed to the revised strategy for 2011/12 agreed by Council in December 2011.

7.3 It is also important to recognise that movements within the money markets can happen with no notice and the 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 7.14 to 7.16 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 £16m in advance of future need. The detail is set out in paragraph 7.15 and in the table at paragraph 7.17. However, given the current interest climate, no external borrowing and certainly none in advance, is planned.

7.7 The County Council funds will be invested as follows (unchanged from the revised Strategy for the current year) :-

(A) UK Investment Without Government Equity Holding

<u>Up to a maximum of £60m deposited up to a period of up to one year</u> with any of the following: -

The current policy stance is overnight but the policy allows changes to reflect market conditions if and when they improve.

Bank / Fund / Local Authority
Barclays
Santander UK
HSBC
Nationwide
Individual Treasury Type Money Market Funds (AAA rated) which invest in Government Securities only
Individual Cash Type Money Market Funds (AAA rated)
Another Local Authority (Equivalent to the low risk of investing with the Government but not formally rated)

Only banks which 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+

(B) UK Investment With Government Equity Holding of minimum of 30%

We are taking 30% as a minimum level of significant associated company influence. In practice it serves as a trigger to formally review our position.

Up to a maximum of £60m deposited up to a period of up to three months with the following: -

The current policy stance is overnight but the policy allows changes to reflect market conditions if and when they improve.

Bank
Lloyds/HBOS Nat West/RBS

Only banks which meet the following minimum rating criteria for at least two of the designated agencies are to be used. The banks will not be used if the UK Sovereign rating falls below AAA.

Ratings Agency	Long Term	Short Term
Fitch	A	F1
Moody	A2	P-1
Standards and Poors	A	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. Other very safe alternative investments will be explored when they become available.

7.8 It continues to be recognised that movements within the money markets can happen with no notice and the Director of Corporate Resources would have to amend this strategy in order to safeguard Council funds. As in the past any such actions would be reported to the next Cabinet meeting.

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 0.4%). The reduction from bank rate plus 0.5% for 2011/12 reflects the lower rates available in the market on the change to more prudent investments.

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 Money Market Funds used will be monitored and chosen by the size of fund, rating agency recommendation, exposure to other Countries (Sovereign debt), weighted average maturity and weighted average life of fund investment and counterparty quality.

7.12 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 2012/13

7.14 The Authorised Limit for borrowing determined for 2012/13 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

7.15 The Prudential Code for Capital Finance allows capital borrowing to be planned over the same timescale as capital spending. The code states:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".

The limits set out later in this report have been based upon the amount of capital spending to be financed through borrowing in 2012/13 and following financial year. Whilst the Prudential Code would allow a higher limit than this (2012/13 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.

7.16 For 2012/13 it is estimated that the Authorised Limit for borrowing is £394m (see table in paragraph 7.17) should be determined as usual although, as stated earlier, additional external borrowing is not expected to be undertaken.

Prudential indicators and Treasury Management indicators

7.17 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

(a) Operational Boundary and Authorised Limit for Borrowing

		Original Estimate 2011/12	Revised Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
		£m	**£m**	**£m**	**£m**	**£m**
	Opening Balance	309	301	313	319	326
P	*** Add PFI schemes** **Opening Balance including PFI schemes**	39 348	39 340	39 352	39 358	39 365
	New borrowing for capital programme	25	25	19	19	21
	Less repayment of debt	-12	-13	-13	-13	-13
A	* **Closing balance (no borrowing in advance)**	361	352	358	365	373
B	**Advance borrowing allowed (£10m plus net borrowing for following year)**	16		16	18	18
A+B	**Operational Boundary**	378		374	383	391
C	**Short Term (£20m)**	20		20	20	20
A+B+C	**Authorised Limit**	398		394	403	411
D	*** Likely Borrowing at 31 March 2012**		264			
D-A-P	*** Remainder of planned borrowing**		**49**			

- **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**

7.18 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.

7.19 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.

(b) Interest rate exposure

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.

Borrowing	2011/12 Projected Outturn	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit *	70%	54%	53%	52%
Variable Rate Exposure				
Upper Limit	30%	46%	47%	48%
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	29%	28%	27%	26%
Variable Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%

(c) Maturity structure of debt

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

	Lower limit	Upper limit	Current
Under 12 months	0%	25%	5%
12 months and within 24 months	0%	40%	1%
24 months and within 5 years	0%	60%	4%
5 years and within 10 years	0%	80%	16%
10 years and within 20 years	0%	80%	15%
20 years and within 30 years	0%	80%	16%
30 years and within 40 years	0%	80%	20%
More than 40 years	0%	80%	23%

(d) Compliance with the treasury management code of practice

7.22 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.

7.23 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)

7.24 The prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

7.25 Following accounting changes the CFR includes other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £39m of such schemes within the CFR.

7.26 The Council is asked to approve the CFR projections below:

	2011/12 Revised	*2012/13 Estimated*	*2013/14 Estimated*	*2014/15 Estimated*
	£m	***£m***	***£m***	***£m***
Total CFR	***352***	***358***	***365***	***373***
Movement in CFR	***12***	***6***	***6***	***8***

Movement in CFR represented by				
Net financing need for the year (above)	*25*	*19*	*19*	*21*
MRP/Voluntary Revenue Provision (VRP) and other financing movements	*-13*	*-13*	*-13*	*-13*
Movement in CFR	***12***	***6***	***6***	***8***

7.27 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Minimum Revenue Provision (MRP) Statement

7.28 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment has been replaced with a more flexible statutory guidance, which came into effect from 2008/09. A variety of options is provided to councils to replace the existing Regulations, so long as there is a prudent provision.

7.29 The new statutory duty 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 Council's Capital Financing Requirement (CFR).

7.30 To support the statutory duty the Government also issued a guidance, 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 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 CLG guidance on Investments.

7.31 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the County Council should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

7.32 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.

7.33 The move to International Financial Reporting Standards (IFRS) involves Private Finance Initiative (PFI) contracts and some leases (being reclassified as finance leases instead of operating leases) coming onto the County Council Balance Sheets as long term liabilities. This new accounting treatment impacts on the Capital Financing Requirement with the result that an annual MRP provision is required.

7.34 To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their “Statutory MRP Guidance” which allows MRP to be equivalent to the existing lease rental payments and “capital repayment element” of annual payments to PFI Operators. The implications of these changes are now being reflected in the Council’s MRP policy for 2012/13.

7.35 The policy recommended for adoption from 1 April 2012 retains the key elements of the policy previously approved but now incorporates the IFRS changes (re PFI and finance leases) and the consequential updated Government Guidance. The policy for 2012/13 is therefore as follows:-

7.36 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.

7.37 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.

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

7.38 In view of the variety of different types of capital expenditure incurred by the County Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

7.39 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. Half-yearly review of the Council's MRP Policy will be undertaken and reported to Members as part of the Half-yearly Treasury Management Strategy review.

Treasury Management Advisers

7.40 The Strategy for 2011/12 explained that the County Council uses Sector as its treasury management consultant on a range of services which include:

- Technical support on treasury matters, capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remained with the Council. This service remains subject to regular review.

7.41 Sector is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market-leading treasury management service provider to their clients.

7.42 The advice will continue to be monitored regularly in 2012/13 to ensure an excellent level of advisory service provided to our authority.

Treasury Management Policy Statement for 2012/13

7.43 It is recommended that the Treasury Management Policy Statement for 2012/13 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.

7.44 The Cabinet recommends the County Council to -

✡ (1) determine that for 2012/13 the Authorised Limit for borrowing shall be £394m;

(2) adopt the prudential indicators and limits set out above;

(3) approve the Minimum Reserve Provision Statement for 2012/13 as set out in paragraphs 7.28 to 7.39 above; and

(4) approve the Treasury Management Strategy and Policy statement for 2011/12 as set out above.

26 January 2012

PETER JONES
Chairman