REPORT OF THE CABINET

The Cabinet met on 11 December 2012 and 29 January 2013. Attendances:-

Councillor Jones (Chairman) (2)
Councillors Belsey (2), Bennett (2), Bentley (2), Elkin (2), Freebody (2),
Lock (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 draft Council Plan, the Revenue Budget for 2013/14 and the Capital Programme for 2013/14. The draft Council Plan is attached at Appendix 1 of this report. The draft Revenue Budget (attached as Appendix 2 to this report) and Capital Programme (attached as Appendix 3 to this report) have been produced as a result of the work that has been underway since setting the planning assumptions in July 2012.

1.2 The draft three year Council Plan has been prepared to focus on the delivery of Our Promise in terms of the top priorities agreed by Council as:
- Driving economic growth;
- Keeping vulnerable people safe from harm;
- Building resilience for individuals and families to live independently; and
- Making the best use of resources.

1.3 The draft Council Plan does not attempt to include everything that the Council does, but shows how we will work across all services to deliver our top priorities. It is part of a suite of plans including Portfolio, departmental and team plans which ensure that all services and staff have clear objectives and targets and can see how their work fits into the overall delivery of Our Promise. The Plan has been drafted earlier than in previous years so that it can be considered with the budget. It is therefore, work in progress until final budget allocations are made and firm targets can be set. It will be published by 1 April and refreshed in July when final performance outturn figures for 2012/13 are available. Authorisation is sought for the Chief Executive to make final changes pre and post publication in consultation with Lead Members as appropriate.

1.4 The draft revenue budget for 2013/14 and Medium Term Financial Plan (MTFP) at Appendix 2 to this report have been developed using the planning assumptions agreed by Cabinet in July 2012, showing the likely need to make savings of £60m over the next three years. The initial modelling was based on the requirement to make savings of 20% in management and support services and 15% in direct services. This resulted in savings of £70m being identified. In November 2012 Cabinet considered the model which clearly differentiated between the savings needed between service areas. Cabinet agreed the areas for which the £10m difference should be used for mitigation and additional investment. The savings shown in Appendix 2 are those which will be needed once the mitigation and investment have been made. The Annexes show the differential effect across services of making the investment and mitigations, with additional investment in children with SEN and Disability and protection being offered to other priority service areas. The grant for Public Health is ringfenced and expenditure will be planned to match grant.

1.5 Planning has taken place in a period of unprecedented change for Local Government Finance. Formula Grant funding has been replaced with local business rates retention, with a range of core grants being rolled into the scheme. At the same time responsibility for Council Tax support schemes has transferred to local authorities (with only 90% of the previous funding). Although responsibility for the schemes lies with the District and Borough Councils, the County Council is exposed to 70% of the risk. All these changes take place within the context of the Government's deficit reduction plans to curb public spending.

1.6 The Local Government Act 2003 set out a requirement that the Chief Financial Officer report the County Council on the Budget Robustness and Opportunity Cost of reserves. This is set out in Appendix 4 of the report to Cabinet of 29 January, previously circulated to all Members.

1.7 The 2013/14 draft budget would set:
(i) a net revenue budget of £379.7m;
(ii) a Council Tax Requirement of £213.6m; and
(iii) a Band D Council Tax increase of 0%, leaving the Band D Council Tax at £1,158.30.

1.8 Although the 2013/14 provisional settlement has been received (see Appendix 2 Annex 4), there still remains uncertainty about some elements. We are awaiting confirmation of the council tax base from the Borough and District Councils. Authority is sought for the Chief Executive to make presentational adjustments to reflect the final settlement. This will not affect the level of Council Tax or precepts required or the amount available for services. The significant changes to the Government's funding and the forthcoming Comprehensive Spending Review mean that we will need to revisit our plans for 2014/15 onwards later in the year.

1.9 A full review of the Council's Capital Programme has been undertaken, resulting in the revised programme set out in Appendix 3 to this report, which supports the Council's Promise. Since the draft programme was last considered in November, it has been revised to include £19m released from the Waste Reserve for highways work. The Government made two additional capital allocations in the settlement and confirmed other funding. The programme now assumes these will be used to meet the funding gap assuming that any conditions can still be met. Given that projects' estimated costs and savings still need refining, they will be subject to robustness assessments as they progress, through the Capital Board and the gateway level approval process.

1.10 In addition there may be a need, in the coming year, for the Council to underwrite some economic development projects in order for money to be released from other sources, for Hastings Pier or Sovereign Harbour for example (Appendix 3, para 7.5). Consideration is also being given to the Council participating in a mortgage partnership, which may require the allocation of some capital resource. A report will be brought to Cabinet if such a scheme is considered feasible. In both these cases, there will be no change to the overall cost of the Capital Programme and officers will manage any required changes to the programme in line with normal delegations.

1.11 An assessment of the potential impact, from an equalities perspective, of the proposals in the Council's overall budget is set out in Appendix 2 Annex 8 (revenue) and Appendix 3 Annex 7 (capital), completed EQIAs where available are in the Members' Room. The Council's duties in relation to equalities must be taken into account when Members consider the recommendations to County Council on the Revenue Budget and Capital Programme. EQIAs, including appropriate consultation, will be carried out before service changes are agreed consequent to the proposed budget. Whilst County Council are being asked to agree the Revenue Budget and Capital Programme, there remains scope for reconsideration of individual proposals in the light of new information and changing circumstances during the year (for example the outcome of Equality Impact Assessments). When specific executive decisions come to be taken the full equalities implications of doing one thing rather than another can be considered in appropriate detail. If it is considered necessary, in light of equalities or other considerations, it is open to those taking the decision to spend more on one activity and less on another within the overall resources available to it. Consideration could also be given to the use of reserves. The progress against agreed budgets is now reported, together with the Council Plan monitoring on a quarterly basis including the 'savings tracker'.

1.12 Following discussion at Cabinet on 13 November 2012 a wide ranging engagement exercise about the proposals was carried out with Members, the public, stakeholders, Trade Unions and partners. Attached as Appendix 5 to the Cabinet report of 29 January was a summary of the views from all these exercises. The full feedback from members of the public is in the Members' Room.

1.13 The Cabinet recommends the County Council:

✡ (1) approve the draft Council Plan 2013/14 and authorise the Chief Executive to finalise the Plan in consultation with the relevant Lead Members;

(2) approve the net Revenue Budget estimates for 2013/14 set out in Annex 1 of the commentary on the revenue budget circulated to all Members (Appendix 2);

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

(i) the net budget requirement is £379.7m and the amount calculated by East Sussex County Council as its requirements for the year 2013/14 is £213.6m;
(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 2013/14 is £1158.30 and represents a 0% increase on the previous year;

(4) 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 (Annex 1b of Appendix 2);

(5) authorise the Chief Executive, in consultation with the Chief Finance Officer, Leader and Deputy Leader to make adjustments to the budget to reflect the final settlement;

(6) note the fees and charges set out in Annex 6 of Appendix 2;

(7) note the views on the RPPR proposals from engagement feedback at Appendix 5 of the report to Cabinet of 29 January, previously circulated;

(8) approve the Capital Programme in relation to schemes in progress or about to start and those to start in 2013/14 and 2014/15 and to note the schemes provisionally included in the Capital Programme in future years, as set out in Appendix 3; and

(9) adopt the Prudential Indicators in relation to the Capital Programme set out in Annex 6 of Appendix 3.

2. Council Monitoring Report – Quarter 2 2012/13

2.1 The Cabinet has considered a report on performance against the Council Plan, Revenue Budget, Capital Programme, Savings Targets and Risk Register for the second quarter of 2012/13.

2.2 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 were those that were to be completed by the end of September 2012. The Cabinet has welcomed the following successes and achievements:

Strategic Management and Economic Development

The Government has confirmed the Compulsory Purchase Orders following the Public Inquiry into the Bexhill to Hastings Link Road. The decision by the Secretaries of State in September means that the Council can acquire the land needed for the road and for new environmental habitats. In August, the application from anti-link road campaigners for a judicial review of the scheme was dismissed; a subsequent appeal by the group in October was also dismissed. The Council's Economic Intervention Fund was set up to support local employment and regeneration projects in East Sussex. A range of funds are available including: £2.5 million for projects to create jobs and enterprise in rural areas; £750,000 in financial incentives to encourage companies to relocate within or to East Sussex to create jobs; £1 million to support small and medium sized business growth, and a £500,000 contribution to the proposed public realm works complementing the redevelopment of the Arndale Centre in Eastbourne to support the economic regeneration of the town.

Community and Resources

We have entered into a partnership with Surrey County Council to drive harder bargains with suppliers and develop best practice procurement. We aim to save £15 million over the next three years through this new approach. A lease agreement was finalised in August this year enabling community groups and organisations in Lewes to use and enjoy the grounds of the old St Anne's School site in Rotten Row. We, together with the community-led St Anne's Steering Group, have agreed to let the grounds to the voluntary organisation 3VA for an initial one-year period. Our independent external auditors PKF gave an unqualified opinion on the Council's 2011/12 accounts and our arrangements for ensuring we achieve value for money with the public funds entrusted to us.

Community Services

Another major step in the construction of The Keep, a new £19 million historical resource centre for East Sussex and Brighton & Hove was completed. Partners officially marked completion of the roof at a 'topping out' ceremony at the site in October. We have been running an autumn celebration of children's literature with visits to libraries from children's authors. Julia Donaldson, author of The Gruffalo, chose to visit East Sussex as part of her national Children's Laureate tour because of the County Council's multi million pound investment in libraries. As part of a major project to make efficiencies by co-locating services and sharing space, staff from Bibliographic Services (formerly in Lewes), the Records Management Service (formerly in Newhaven) and the Schools Library and Museum Service (formerly in Eastbourne) have all moved into a modern building in Hailsham which offers better working conditions as well as economies of scale. We have produced a helpful new guide 'When a loved one dies' to make arrangements such as registering a death and organising a funeral a little easier. The guide has been warmly welcomed by local organisations including hospitals, hospices and GPs.

Transport and Environment

We plan to use a new road recycling method to reconstruct several roads badly in need of repair. The process uses a large recycling vehicle which churns up the road, adds new binding material, then re-lays and compacts it to create new foundations. The added benefits include reduced trips to remove waste and less waste altogether. The Department for Transport has announced that the County Council has been successful in securing funding following the submission of two bids earlier this year: £1,571,000 to improve Travel Choices for Lewes (bid with South Downs National Park Authority), and, £2,206,000 to improve travel to work and education in East Sussex coastal towns . It has also announced that a partnership project to help visitors to the South Downs and New Forest has been successful and is to receive £3.8 million.

Community Safety

The overall aim of the Independent Domestic Violence Advisor Service is to safeguard those most at risk from domestic violence or abuse. During quarter 2, 100% of those clients who completed user evaluations stated they have benefitted from the service. Joint planning was undertaken with West Sussex and Brighton & Hove in relation to presentations to the Police and Crime Commissioner candidates and the content of briefing packs, planning to align Community Engagement and Strategic Needs Assessments, and identification of commissioning areas which would benefit from a more pan-Sussex approach.

Children and Families

The rate of referrals to social care continues to fall and at a greater rate than seen in quarter 1. If the fall continues at this rate, the final outturn will be significantly better than the target. The number of assessments carried out also continues to fall and if this continues, the final outturn will be significantly better than the target. This good performance is due to improved consistency across the county, the implementation of the screening hub in the West to get help to families more quickly and free up capacity in Duty Teams by screening all initial contacts to decide on the most appropriate agency before assessment, and Duty & Assessment Practice Managers being clearer about what they accept for assessment. It is expected that performance will improve further following the introduction of a screening hub in the East (planned for November).

Learning and School Effectiveness

The percentage point gap between the median and bottom 20% of learners in the Early Years Foundation Stage Profile (EYFSP) has narrowed from 31.4% to 29.8%. This improvement has been influenced by the improvement in standards in the group of schools and settings that have received direct support from the Standards and Learning Effectiveness Service (SLES). This support was linked to robust moderation of the profile and targeted support to improve practice through The Quality across the Foundation Stage project. This work focused on increased partnership working between schools and pre-schools to build on learning from the data, and creating shared responsibility for outcomes in the early years. The outturn for schools participating in the project showed an average increase of 5.8%; this is significantly higher than the East Sussex average of a 1.3% increase.

The 2011/12 academic year outturn for pupils achieving level 4 or above in both English and maths at Key Stage 2 is 77%, a rise of 5 percentage points on 2010/11 and the highest result to date in East Sussex. Support from the Standards and Learning Effectiveness Service (SLES), including the Quality Mathematics and Writing Programmes has had a positive impact on results.

Adult Social Care

Between September 2011 and August 2012 we have supported 66.4% (11,046) of clients through Self Directed Support, and 75.9% (2,408) of carers through Carers Grants. Between September 2011 and August 2012, 88.55% of older people discharged from hospital to reablement services were at home 91 days after their discharge from hospital. The new STEPS to stay independent service for older people is currently supporting 637 clients.

2.3 Of the 149 performance measures rated at Quarter 2: 121 (81.2%) are rated green, 16 (10.7%) are rated amber and four (2.7%) are rated red. Detailed commentary on the exceptions and improvements, where the Quarter 2 RAG rating has deteriorated or improved since Q1, is contained in Appendix 4 of this report.

2.4 Eight measures (5.4%) are proposed for amendment. Of these: four are proposed for amendment, one is proposed for deletion and three are targets that were scheduled to be set at Quarter 2. The proposed amendments are detailed in Appendix 4 of this report and relate to the following performance measures:

Amendments –

1.02a Work with South East Seven partners to deliver efficiency savings and improve services

1.03b Produce options to improve three service areas with cost/customer benefits analysis and implement improvements

2.01b Final revenue outturn within tolerances of budget allocation

4.05b Maintain the percentage of residents with access to key centres by public transport

Deletion –

2.06c Migration of estate of PCs to managed desktop infrastructure

Target now set –

2.03b	Deliver agreed contribution to the Council's savings target
8.05b	Engage with families, parents and carers of people in Transition and monitor responses against the Parents Charter targets
8.05c	Customer feedback from users of the Transitions service to inform Business Plan targets for 2013/14

Budget monitoring

2.5 The Cabinet also considered the revenue and capital programme position at the end of Quarter 2 and the projected outturn for the financial year which were set out in Appendices 2 and 3 of the report to Cabinet of 11 December 2012, previously circulated to all Members. Variations and risks which could have an impact on the overall position were highlighted with commentaries on the actions taken or planned to manage them.

Revenue Budget

2.6 A net underspend of £3.46 million, excluding treasury management, is forecast (£2.26 million reported at Q1). The Children's Services Department projects an overspend of £4.6 million (previously reported £5.9 million at Q1) relating to service pressures identified in the THRIVE Transformation programme. This will be funded from the resources set aside for this project. Schools Delegated Budget projects an underspend of £0.807 million. The Adult Social Care Department (excluding Supporting People underspend of £0.689 million) is projecting an underspend of £1.34 million (previously reported an overspend of £0.685 million at Q1). The underspend arises from £1.09 million within Independent Sector Care and £0.247 million within Directly Provided Services. The Governance and Community Services Department projects an underspend of £0.661 million. Other departments are either projecting a breakeven position or non-significant variances.

Capital Programme

2.7 The current capital programme was set out in Appendix 3 to the report to Cabinet of 11 December 2012, previously circulated to all Members. The individual schemes listed are those where there are significant variations or those of particularly high profile. The departmental financial analysis includes details of the original and revised programmes, projected outturn and an analysis of the year end variation. To improve monitoring, the whole capital programme was reported (covering both PID and non-PID approved schemes), rather than only PID approved schemes as previously reported.

2.8 There is a net variation to the capital programme of £9.4 million (compared to £12.7 million at Q1) against a net programme of £74.1 million. The Quarter 2 variation of £9.4 million comprises slippage on projects amounting to £8.2 million, offset by an underspend of £2.1 million and £0.9 million spend in advance. The most notable slippages are: £2.7 million on Hastings Library as a result of scheme re-profiling;

£0.9 million net slippage on Warwick House as a result of scheme re-profiling; and £1.3 million underspend on Marley Lane / Sidley Depot, reflecting the revised depot rationalisation plan and decision to develop alternative sites; with £1.2 million being spent in advance on Academies to meet expected early payments, and income in advance of £0.3 million on The Keep to reflect early contributions from external partners.

Balance sheet management

2.9 Appendix 4 of the report to Cabinet of 11 December 2012, previously circulated to all Members, detailed the movement in key items in the balance sheet, such as debtors, payments to creditors, borrowing, investment, and balances. It is important that these items are monitored.

Savings monitoring

2.10 The budgeted savings target for 2012/13 is £19 million. Although current forecasts show that we will miss our planned savings target by £1.08 million, the excess achievement of some savings together with mitigating actions will generate a further £1.05 million resulting in a final position which exceeds the target by £30,000. More details were given in Appendix 5 of the report to Cabinet of 11 December 2012, previously circulated to all Members.

Risk monitoring

2.11 The latest strategic risk monitoring was set out in Appendix 6 of the report to Cabinet of 11 December 2012, previously circulated to all Members. Departmental risks are being monitored on a monthly basis by departmental management teams and the quality of information contained within them is improving. From this quarter, the departmental risk registers will be circulated to the relevant Scrutiny Committee, along with performance monitoring information, to assist in planning their work programmes. The strategic risk register has been updated by CMT and the only material change is the reduction in the overall risk score for Strat – 07 Welfare Reform, from 12 (red) to 8 (amber) to reflect a reassessment of both impact and likelihood. No departmental risks have been escalated to the strategic risk log this quarter. Further work to develop our risk management approach continues.

2.12 The Cabinet recommends the County Council to:

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

3. Waste and Minerals Plan

3.1 The Cabinet has considered a report presenting the East Sussex, South Downs and Brighton & Hove Waste and Minerals Plan, following the Public Examination of the Plan and analysis of responses to the consultation on the Main Modification, together with minor non-material modifications. The draft Plan was attached to the report to Cabinet of 29 January 2013, previously circulated to all Members.

3.2 The Plan will replace much of the Council's current Waste Local Plan and Minerals Local Plan. It will provide the statutory development plan 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.

3.3 The Cabinet recommends the County Council to

✡ (1) note the analysis of responses to the consultation on the Main Modification to the Waste and Minerals Plan (WMP) and endorse the inclusion of the Main Modification into the Plan;

(2) note the contents of the Inspector's Report and her conclusion that with the Main Modification, the WMP meets the criteria for soundness;

(3) note the minor non-material modifications made to the WMP; and

(4) adopt the WMP as a waste & minerals planning authority, incorporating the Main Modification and minor modifications subject to the Director of Economy, Transport and Environment agreeing any further minor modifications to the text of the WMP as required by the adoption by either the South Downs National Park Authority or Brighton & Hove City Council.

4. Conservators of Ashdown Forest Budget 2013/14

4.1 The Cabinet has received the Conservators' draft budget for 2013/14 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. The Trust Fund's resources are legally distinct from the County Council's general resources.

4.2 The draft budget for 2013/14, previously circulated to all members, shows the Trust Fund contribution continuing at £65,100.

4.3 The County Council's Reconciling Policy, Performance and Resources is in progress and it is recommended that the Council's own contribution to the Conservators for 2013/14 is maintained at the 2012/13 level. This results in a grant of £75,800. This matches the provision in the Economy Transport and Environment draft Medium Term Financial Plan. Annual income to the Trust Fund, from a long term lease with the Royal Ashdown Forest Golf Club, amounts to £70,000.

4.4 The County Council has a statutory duty 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.

4.5 The Conservators are keen to improve the visitor centre and resolved to secure external professional advice to explore possible options and the development of a business case to support new investment. A request was made for consideration of a one-off grant of £8,800 towards the cost of consultancy advice.

4.6 The level of shortfall in the Conservators' budget can be funded from the Council's contribution if approved at the recommended level. The Higher Level Stewardship Grant from the Department for Environment, Food and Rural Affairs funds nearly 50% of the total expenditure currently incurred by the Conservators. This is not in the guaranteed income stream and such reliance does pose some level of financial risk in the future for the Conservators.

4.7 The Cabinet has, therefore, recommended an annual grant for 2013/14 of £65 100 from the Trust Fund, an additional one-off grant of £8,800 from the Trust Fund in 2012/13, and a contribution of £75,800 from the Economy, Transport and Environment budget.

4.8 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.

5. Treasury Management Strategy 2013/14

5.1 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 2013/14

5.2 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 strategy for 2013/14 must continue with this prudent approach and only small changes are proposed to the strategy for 2012/13 agreed by Council a year ago. The details of the changes are set out in paragraphs 5.7 and 5.8 below.

5.3 It is also important to recognise that movements within the money markets can happen with no notice and the Section 151 officer 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.

5.4 It is not expected that any new external borrowing will be undertaken in the next 15 months however the limits set out in paragraph 5.16ff 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.

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

5.6 Our policy gives some flexibility to borrow up to £54m in advance of future need. The detail is set out in paragraphs 5.17 and in the table at 5.22. However, given the current interest climate, no external borrowing and certainly none in advance, is planned.

5.7 The UK currently has an AAA sovereign rating but it is possible that the UK could have this rating downgraded by one, or more, rating agencies in the future if our economy struggles to recover. To ensure that the Council can continue to invest with UK institutions in the event of this happening, the reference to the sovereign rating criteria of AAA on our UK Investment with Government Equity Holding of minimum of 30% has been removed.

5.8 The original strategy for 2012/13 continued with the policy of ensuring minimum risk but will also need to deliver secure investment income of at least bank rate (the actual target was bank base rate plus 0.4%) on the Council's cash balances. The revised target of bank base rate for 2013/14 reflects the lower rates available in the market on the change to more prudent investments. There has also been a reduction in interest paid as a direct result of the Bank of England and HM Treasury's Funding for Lending scheme which has given additional deposits to Banks and cut their demand for funds from other sources (such as local authorities). This has been taken into account in formulating the budget.

5.9 The County Council funds will be invested as follows:-

(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.

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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.

Ratings Agency	Long Term	Short Term
Fitch	A	F1
Moody	A2	P-1
Standards and Poors	A	A-1

5.10 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.

5.11 It was continued to be recognised that movements within the money markets can happen with no notice and the Section 151 officer 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.

5.12 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 reduction from bank rate plus 0.4% for 2013/14 reflects the lower rates available in the market on the change to more prudent investments.

5.13 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.

5.14 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.

5.15 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 borrowing limit

5.16 The Authorised Limit for borrowing determined for 2013/14 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

5.17 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.”

5.18 The limits set out later in this report have been based upon the amount of capital spending to be financed through borrowing in 2013/14 and following financial year. Whilst the Prudential Code would allow a higher limit than this (2013/14 and next two financial years) it is considered prudent at this stage to base the limits upon two years. This approach was agreed by the County Council in July 2004 and has worked well.

5.19 For 2013/14 it is estimated that the Authorised Limit for borrowing is £475m (see table 5.22) should be determined as usual although, as stated earlier, additional external borrowing is not expected to be undertaken.

5.20 The revision of the Authorised Limit for 2012/13 from £394m to £435m reflects the move to International Financial Reporting Standards (IFRS) and previously agreed 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 Authorised Limit.

Prudential Indicators

5.21 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) (see paragraphs 5.23 and 5.24 below)
- Interest rate exposures (see paragraph 5.25 below)
- Maturity structure of debt (see paragraph 5.26 below)
- Compliance with the treasury management code of practice (see paragraph 5.29 below)
- Maturity structure of investments (see paragraph 5.30 below)

Operational Boundary and Authorised Limit for Borrowing

5.22

	Original Estimate 2012/13	Revised Estimate 2012/13	Estimate 2013/14	Estimate 2014/15	Estimate 2015/16
	£m	**£m**	**£m**	**£m**	**£m**
Operational Boundary	**374**	**415**	**455**	**441**	**426**
Short Term (£20m)	20	20	20	20	20
Authorised Limit	**394**	**435**	**475**	**461**	**446**
Likely Borrowing at 31 March 2013		**264**			

5.23 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.

5.24 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.

Interest rate exposure

5.25 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	2012/13 Projected Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit *	67%	85%	80%	67%
Variable Rate Exposure				
Upper Limit	33%	15%	20%	33%
Lower Limit *	0%	0%	0%	0%

(* assumes all new borrowing is variable)

Lending	2012/13 Projected Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
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	2012/13 Projected Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	27%	35%	37%	36%
Variable Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%

Maturity structure of debt

5.26 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 5%	0%	25%
12 months and within 24 months 1%	0%	40%
24 months and within 5 years 14%	0%	60%
5 years and within 10 years 8%	0%	80%
10years and within 20 years 14%	0%	80%
20 years and within 30 years 18%	0%	80%
30 years and within 40 years 25%	0%	80%
More than 40 years 15%	0%	80%

In addition, two targets have monitored the maturity structure of our debt. Not more than £20m of debt should mature in any financial year and not more than 15% to mature in any two consecutive financial years. New borrowing has been undertaken giving due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any one year or period when interest rates may be unfavourable.

5.27 There has been a change to the reporting arrangements under the Treasury Management Code of Practice regarding the maturity structure of debt. The next possible call date has replaced the final maturity date to report when the debt expires on our market loans. This has increased the amount in certain earlier years and reduced the amount in later years in our comparisons and in one year (2016/17) has exceeded the maximum of £20m of debt in any one year. It does not exceed the other limit of not more than 15% to mature in any two consecutive financial years. In practice, based on previous experience of market loans both for East Sussex and with other local authorities the loan is unlikely to be called.

5.28 In order to comply with the Treasury Management Code of Practice, the target has been changed to not more than £20m of PWLB debt should mature in any financial year and not more than 15% of total debt to mature in any two consecutive financial years.

Compliance with the treasury management code of practice

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

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

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

Minimum Revenue Provision

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

5.31 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.

5.32 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.

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

	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
	£m	£m	£m	£m
Total CFR	**391**	**396**	**401**	**441**
Movement in CFR	**39**	**5**	**5**	**40**

Movement in CFR represented by				
Net financing need for the year (above)	*52*	*21*	*21*	*56*
MRP/Voluntary Revenue Provision (VRP) and other financing movements	*-13*	*-16*	*-16*	*-16*
Movement in CFR	***39***	***5***	***5***	***40***

5.34 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

5.35 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.

5.36 The 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).

5.37 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.

5.38 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).

5.39 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.

5.40 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.

5.41 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 2013/14.

5.42 The policy recommended for adoption from 1 April 2013 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 2013/14 is therefore as follows:-

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

- 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.

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).

5.44 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.

5.45 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 Advisors

5.46 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.

5.47 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.

5.48 The advice will continue to be monitored regularly in 2013/14 to ensure an excellent level of advisory service provided to our authority.

Treasury management strategy and policy statement 2013/14

5.49 It is recommended that the Treasury Management Policy Statement for 2013/14 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.

5.50 The Cabinet recommends the County Council to

✡ (1) revise the Authorised Limit for 2012/13 for borrowing from £394m to £435m;

(2) determine that for 2013/14 the Authorised Limit for borrowing shall be £475m;

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

(4) approve the Minimum Revenue Provision Statement for 2013/14 as set out in paragraphs 5.35 to 5.45 above; and

(5) approve the treasury management Strategy and Policy statement for 2013/14 as set out above.

29 January 2013

PETER JONES
Chairman