

## REPORT OF THE CABINET

---

The Cabinet met on 15 December 2009 and 26 January 2010. Attendances:-

Councillor Jones (Chairman) (2)  
Councillors Bentley (2), Elkin (2), Glazier (2), Lock (2), Maynard (2),  
Reid (2), Mrs Stroude (2) and B Tidy (2).

### **1. Reconciling Policy and Resources**

1.1 The Cabinet has considered a report on reconciling policy and resources including the capital programme 2010/11 to 2014/15, the Revenue Budget 2010/11 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 2009 on Reconciling Policy and Resources.

1.2 The Scrutiny Committees, and their Reconciling Policy and Resources boards, have discussed the emerging portfolio plans and the Cabinet considered the views of the Scrutiny Committees (Appendix 4 of the report to the Cabinet previously circulated to all councillors) prior to making its recommendations. The draft portfolio plans (Appendix 3 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 December 2009 and have taken into account the strategic risks that were reported to the Cabinet in November 2009.

1.4 Consultations have been carried out with the Trade Unions and the views of business ratepayers have been sought on 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.

1.5 The Cabinet considered and agreed proposals by the Lead Member for Corporate Resources in relation to the use of flexibility within the budget. These have been included in Appendices 1 and 2 to this report.

1.6 The Cabinet has reviewed fees and charges for 2010/11 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 2010/11 and 2011/12 and to note the schemes provisionally included in the capital Programme in future years as set out in Annex D of Appendix 1;
  - (2) note the prudential indicators as set out in Annex E of Appendix 1;
  - (3) approve the revenue budget estimates for 2010/11 as set out in Annex C of the commentary on the Revenue Budget circulated to all members (Appendix 2), which includes the use of budget flexibility set out in paragraph 29 of Appendix 2;
  - (4) in accordance with the Local Government Finance Act 1992 to agree that:
    - (i) the amount calculated by East Sussex County Council as its net budget requirement for the year 2010/11 is 337.208m;
    - (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 2010/11 is £1158.30 and represents a 2.7% 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 (as set out in Annex C1 of Appendix 2).

## **2. Hastings Academies**

2.1 Following Cabinet approval on 24 November, statutory notices containing specified information in respect of the proposals to close Hillcrest School, Filsham Valley School and The Grove were published in the Hastings Ad News on Wednesday 2 December and The Hastings Observer on Friday 4 December, posted at the main entrances to the schools, and in various conspicuous locations in the area served by the schools. A copy of the proposals were set out in full at Annex 2 of the report to the Cabinet (Hillcrest) and at Annex 3 (Filsham Valley and the Grove). Annex 4 of the report to the Cabinet set out the locations and dates on which the notices were posted, and the circulation list for the notices and full proposals. A copy of the Cabinet report and all its annexes has previously been circulated to all members.

2.2 The publication of the statutory notices marked the start of a six week period during which objections or comments could be made. The notices set out how people could submit their comments either in writing to the Director of Children's Services or by emailing [academisteam@eastsussex.gov.uk](mailto:academisteam@eastsussex.gov.uk). The notices and complete proposals were made available on the Council's website. By 13 January 2010, the deadline for receipt of comments, the page had been viewed 661 times.

2.3 The deadline for receipt of all comments was 13 January 2010, but comments received prior to the Cabinet meeting were taken into account. By 13 January, a total of 268 responses had been received, of which 40 were opposed to the closure of all three schools; 225 to the closure of Filsham Valley and The Grove; one to the closure of Hillcrest School; one in support of the proposal to close Filsham Valley and The Grove, and one in support of both proposals. A folder containing copies of the responses received has been placed in the Members' room for inspection and was available at the Cabinet meeting. The Cabinet considered a further 21 responses that were received between 13 January and 25 January.

2.4 Three petitions have been received. At the County Council meeting on 8 December 2009, Councillor Scott presented a petition of 463 signatures to the Chairman opposing the closure of Filsham Valley school. On 13 January, two more were received: one also opposing the closure of Filsham Valley and the opening of an academy in its place, containing 61 signatures; and one from the Hastings and St Leonards Against Academies group opposing the closing of Filsham Valley, the Grove and Hillcrest schools and replacing them with two academies, containing 103 signatures. As provided in standing orders, a representative of the petitioners whose petition was presented to the Chairman of the Council by Councillor Scott was invited to the Cabinet meeting and addressed the Cabinet in support of the petition.

2.5 A detailed analysis of the results of the consultation together with a consideration of the points raised by respondents and the factors to be taken into account in reaching a decision was set out in Annex 5 of the report to the Cabinet.

2.6 Paragraph 8(6) of Schedule 2 to the Education and Inspections Act 2006 provides that the County Council is required to have regard to guidance issued by the Secretary of State when the County Council take a decision on proposals. Paragraphs 4.16 to 4.62 contain the statutory guidance on considering proposals for school closure. A copy of the guidance was set out at Annex 6 of the report to the Cabinet.

2.7 A detailed analysis of the financial implications has been completed during the feasibility stage. As previously reported, there are significant implications for both capital and revenue and these were set out in detail at Annex 1 of the report to the Cabinet, together with the implications of the procurement process.

2.8 The Cabinet had four options in coming to a decision:

- To reject any of the proposals;
- To approve any of the proposals;
- To approve any of the proposals with a modification as the County Council thinks desirable, after consultation with the governing body of the applicable school ; or
- To approve any of the proposals subject to them meeting a specific condition

2.9 Any decision to close the predecessor schools would be subject to the decision of the Secretary of State to fund the academies, a decision that would not be taken until after the Cabinet's decision on closure.

2.10 The Funding Agreement is the legal agreement on the basis of which the Secretary of State agrees to make payments to the Academy Trust, in effect establishing the Academies. The agreement is made on the basis that the Academy Trust undertakes to establish and maintain an independent school known as the academy (in the case of Hastings two federated academies) in accordance with a series of conditions and requirements set out in the agreement. For the agreement to be made, the sponsors and local authority must submit a series of documents and letters that comply with the Secretary of State's requirements for the academy to be established. A summary of the documents and agreements to be submitted was attached at Annex 7 of the Cabinet report, together with an indication of the main issues and risks involved.

2.11 The Director of Children's Services advised the Cabinet that the original assumption had been that there would be sufficient funding available for both of the proposed academies in Hastings to be new builds. The final funding position would not be known, however, until the funding agreement had been completed. The latest indication from Government together with the proposed funding from the County Council would provide a total of approximately £42m. This would be insufficient for a total new build for Academy West. This level of funding would provide for approximately 30% new build at Academy West with the remainder being substantially re-built and re-modelled. Following a detailed feasibility study into a mix of new build and re-build the Director reported that both he and the sponsors were convinced that the resources available were sufficient for a total transformation of the site which would enable the educational vision to be delivered.

2.12 The Cabinet has approved the proposed closure of the three predecessor schools and submission of proposals to establish the academies principally because the academy proposals:

- Represent a long term strategy for school improvement, building on the Hastings federation
- Provide the only available means of attracting substantial capital investment

- Bring significant external expertise and opportunity through the University of Brighton and BT
- Offer access to improved special educational needs facilities and multiagency family support
- Provide an effective solution to falling secondary school rolls in the town

The Cabinet concluded that no other proposals would offer these significant benefits.

### **3. Comprehensive Area Assessment 2009 (Area Assessment and Organisational Assessment)**

3.1 The Comprehensive Area Assessment (CAA) is the new method that is being used to assess how well people are being served by their local public services. It replaces the Comprehensive Performance Assessment (CPA) and the other inspection regimes that have existed in the past. The Audit Commission published the results of the first set of CAA assessments on the “Oneplace” website on 9 December. The Audit Commission envisages Oneplace as a single source for local people of impartial information about services in their area.

#### Area Assessment

3.2 The Area Assessment brings together judgments from Audit Commission, the Care Quality Commission, HM Inspectorates of Constabulary Probation and Prisons and Ofsted and assesses how local services are delivering local and national priorities. The AA takes as its starting point the Sustainable Community Strategy prepared by the East Sussex Strategic Partnership. It then assesses how well the priorities in the Strategy reflect the needs of the area and how well these priorities are being achieved by partners. Red flags can be given to areas where the inspectorates have significant concerns about outcomes and future prospects and green flags denote exceptional and outstanding improvement.

3.3 The Area Assessment for East Sussex has previously been circulated to all members. It does not contain any green or red flags. The Assessment is generally positive and highlights areas where greater clarity is needed in identifying what we, with our partners, are trying to achieve, rather than concerns about any lack of outcomes.

#### Organisational Assessment

3.4 The Council’s Organisational Assessment has previously been circulated to all councillors. Councils and other public bodies receive two scored judgements as part of the assessment. A “Use of Resources” judgement assesses how well the Council uses financial, physical and natural resources in a sustainable way to improve services. The Managing Performance assessment is a scored judgement of how well the Audit

Commission, Ofsted and the Care Quality Commission consider our services are performing.

3.5 The County Council has received a positive report and scores of 3 for both the Use of Resources assessment and the Managing Performance assessment. The two scores combine to give the Council a performance rating of "improving well" in the Organisational Assessment.

#### **4. Annual Audit Letter**

4.1 The Cabinet has considered the Annual Audit Letter for 2008/09 (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 and the Comprehensive Area Assessment.

4.2 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.

#### **5. County Council Procurement with local small and medium sized enterprises**

5.1 The Cabinet has considered a report of the Audit and Best Value Scrutiny Committee on its review of the County Council's procurement with local small and medium sized enterprises (SME). The report is included elsewhere on the agenda (see agenda item 6). The full scrutiny report has previously been circulated to all members.

5.2 The scrutiny review was established to a) consider the extent to which the East Sussex County Council's procurement processes offer 'a level playing field' to local SME who wish to access contract opportunities with the Council; b) test whether the procurement processes designed to increase value for money and the participation of SME in East Sussex are working in practice; and c) make recommendations to enhance processes as appropriate.

5.3 The Committee's interim report was considered by the County Council in June 2009. The findings and recommendations from the Committee's final report have been grouped into the following 2 sections:

- Transparency: ensuring procurement processes are fair and easy to understand by local SME seeking contracts; and
- Simplicity: ensuring procurement processes are as simple as is practicable to benefit both the SME and the Council.

5.4 The Council has a positive record in relation to procurement and the local economy. It has led a project that resulted in all Sussex councils

signing the Government's Small Business Friendly Concordat, has an award-winning Compact with the voluntary sector, which includes procurement, and was assessed by the Federation of Small Businesses to be the 6<sup>th</sup> most small business friendly south-east council in 2007. In the light of the current economic situation it is assessing further ways in which it can support the local economy and deliver the Council's new policy steer in this area. The Council has already moved to ensure its tender information is available to all companies via the South East Business Portal and is assessing changes to its tender thresholds, reductions in payment timescales and opportunities for repackaging of contracts into smaller lots more attractive to smaller companies. The Council has also reviewed its payment arrangements for local SME and has reduced average payment days to 13 days. In addition, it has developed an innovative new SME construction supplier network (building on similar networks established elsewhere in the country), to help local suppliers win work from major regional or national contractors which will be launched on 27 January 2010.

5.5 The Cabinet has welcomed the Scrutiny Committee's report. Implementation of the recommendations, as set out in the Director's report, will result in further improvement in order to meet the aim of achieving excellent procurement in relation to the local economy and build on the Council's strong record in local procurement and the progress that has been made in recent years.

5.6 In welcoming the findings of the Scrutiny Committee, the Cabinet has considered a report by the Deputy Chief Executive and Director of Corporate Resources (as set out in Appendix 3 to this report, circulated separately to all members) on the specific recommendations and endorsed it as its response to the recommendations.

5.7 The Cabinet, in welcoming the report, **recommends** the County Council to -

- ☆ approve the response of the Deputy Chief Executive and Director of Corporate Resources on the implementation of the recommendations in the Scrutiny Committee's report.

## **6. Council Plan 2009/10 Monitoring Quarter 2**

6.1 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 2009. The Cabinet has welcomes the following notable achievements:

### Strategic Management and Economic Development

The East Sussex Mediation Service has been shortlisted for a national industry award. The service was introduced by PAT this year, in partnership

with the recognised trade unions and has been shortlisted for the final of the Chartered Institute for Personnel and Development (CIPD) award for the 'best change management programme delivered through HR impact in the workplace'. This initiative was also featured as one of the key note presentations at this year's annual CIPD conference in November.

### Corporate Resources

The Council can now connect to the NHS Network (N3) enabling connection to other NHS applications. It is also connected to the Government Connect Secure Extranet which allows secure interactions between local authorities, central government departments and national bodies. Sussex Police Authority (SPA) Property Information System went live giving SPA access to the Council's property information database as well as their own information. An unqualified audit opinion and a positive Annual Governance Report were achieved. Five major projects were completed, including the reconstruction of Bridie's Tan transit site and internal alterations at Highfield School. 61 maintenance projects to schools were completed.

### Community Services

After an 18 month investigation by Trading Standards and Sussex Police, a rogue trader who preyed on vulnerable older residents in the County was convicted on charges of participating in a fraudulent business and obtaining credit whilst bankrupt and sentenced to four and a half years in prison. Over 8,500 children took part in 'Quest Seekers', the libraries summer reading scheme which was a 32% increase on last year. An application for £47,369 to the Heritage Lottery Fund (Your Heritage), for the project to work (in partnership with Action in Rural Sussex) with groups from Extended Schools in Battle has been successful. The project will involve schools looking at the history of the different buildings in Battle that were used as meeting places.

### Adult Social Care

Downlands Court, a centre for people aged over 60 who need some extra support to continue living independently opened for its first residents on 7 September 2009. An 'Older People's Engagement Day' was held on 25 June 2009 with 150 delegates attending. 42.7% of staff from independent sector providers have received safeguarding adults training, exceeding the 2009/10 target of 38%. Over the past 12 months 8009 older people have been supported to live at home, 1077 people have received a direct payment or personal budget and 2837 carers have received a service following an assessment.

### Children's Services

The number of days lost through fixed term exclusions from secondary schools in the Hastings and St Leonards Excellence Cluster was 1024.5, compared with 2183 days in 2007/8, a reduction of 53.1%. The percentage of pupils gaining 5 or more A\*-C grades at GCSE or equivalent including English and Maths rose by 5% from academic year 2007/08 to 51%. This is the best ever rate of improvement in East Sussex. The percentage of 17 year olds participating in education and training has improved from 79.65% in July 2008 to 83.3% in July 2009.

### Transport and Environment

The Bexhill to Hastings Link Road Major Schemes Business Case has been approved by the Department for Transport. The Public Inquiry in relation to the project started on 10 November 2009. Nine new trial community transport schemes will run in locations in Lewes, Rother and Wealden. These pilot projects will provide an opportunity to try out different ways of providing community transport that are tailored to specific local needs. A result of 18% of Category 1 and 2 footways (pavements) where structural maintenance should be considered against an outturn of 21% in 2008/09 was achieved. Using historical data the Council has been able to challenge the likely duration of utility works and close to 100% of works completed within agreed and appropriate timescales. In the second quarter of 2009/10, 37 Compost Doctor events took place attracting 1,386 people. Community Environmental Action Grants were awarded to ten waste and to two climate change reduction projects.

6.2 Appendix 4 to this report details the performance measures which will not achieve their target (scored red) and those about which there is some doubt (scored amber). Of the 218 indicators due to be achieved this year, 176 (80.7%) indicator targets have been scored green. Eight indicator targets (3.7%) have been scored red. The exception report at Appendix 4 contains the detailed commentary for those targets scored amber or red as well as those where an amendment to a target is proposed. There are 34 indicator targets scored amber (15.6%) of which seven are proposed amendments as follows:

### Adult Social Care

- 4.02b – County wide advocacy event - Delay until December 09.
- 4.04c – User/ carer representation on all strategic boards – Delay until March 10.
- 4.05e – Promote awareness of Safeguarding Vulnerable Adults Strategy – Amend the performance indicator to reflect more accurately the work that is needed.

Children's Services

- 5.02b – Number of parent/ carers and child interaction groups – Increase the target from 90 to 700 to reflect the change to service being measured.
- 5.02c – Number of families supported by the Family Outreach Service (CYPP) – Increase the target from >300 to 1000 because the service is now available from all of the “reach” areas of our Children's Centres.
- 5.07b – First time entrants to the Youth Justice System – Setting a target now that the baseline has been established.

Transport and Environment

- 6.07e – Develop and promote the integrated waste services contract – Amend the target to broaden the scope of the target.

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

☆ approve the recommendation made regarding the targets as set out in Appendix 4 to this report.

**7. Conservators of Ashdown Forest Budget 2010/11**

7.1 The Cabinet has received the Conservators' draft budget for 2010/11 and considered the both the overall position and the balance to be made available to the Conservators from the Trust and the Council's own resources. The 'Trust Funds' are legally distinct from the County Council's general resources.

7.2 The draft budget for 2010/11, previously circulated to all members, shows the Trust Fund contribution reducing to £55,100. This reflects the end of the additional £10,000 grant for the period 2007/08 to 2009/10 related to enforcement activity as approved by the Cabinet in January 2007.

7.3 The County Council's Reconciling Policy and Resources process is in progress and it is recommended that the Council's own contribution to the Conservators for 2010/11, after allowing for inflation at 1%, is increased by £800 to £79,500. This matches the provision in the Transport and Environment's draft budget. Annual income to the Trust Fund, from a long term lease with the Royal Ashdown Forest Golf Club, amounts to £70,000 – an increase of £10,000 from 1 January 2010. The increase in rent provides some flexibility to maintain the Trust Fund grant at the higher level paid for the last three years ie £65,100.

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

7.5 The level of shortfall that would arise if the Trust Fund grant were reduced, as indicated in paragraph 7.2, to £55,100 would amount to some £19,000. This figure is quite significant for a budget of this size and the flexibility afforded by the increase in income from the golf club rent allows the Trust Fund grant to be maintained at £65,100 without further call on the council's own resources above normal inflation. This reduces the shortfall to a more manageable £9,000.

7.6 The Cabinet has, therefore, recommended an annual grant of £65,100 from the Trust Fund and a contribution from the Transport and Environment budget of £79,500.

7.7 The Conservators' final budget will be amended to reflect these recommendations and the Cabinet has agreed that final approval be delegated to the Deputy Chief Executive and Director of Corporate Resources in consultation with the Lead Member for Corporate Resources. The recommendations are reflected in the reconciling policy and resources report in paragraph 1 of this report.

## **8. Treasury Management Strategy 2010-11**

8.1 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.

### Strategy and amendments to strategy for 2009/10 to date

8.2 The strategy for 2009/10 was set in this background of uncertainty and an extremely prudent approach was taken with nearly all investments on an overnight basis (on call). The changes in the strategy during the current financial year have increased flexibility by increasing the maximum limit to be lent to the counterparties that the County Council already invest with (the highest rated banks) and the period of investment has been increased to three months.

8.3 The current strategy agreed by Cabinet on 26 January 2009 and updated in April, July and November 2009 and approved at subsequent County Council meetings is:-

- In the current economic climate it is essential that a very prudent approach is maintained. This will be primarily achieved through investing for up to a period of three months with selected banks and funds which meet the Council's rating criteria.
- It is also important to recognise that movements within the money markets can happen with no notice and the Deputy Chief

**CABINET**

---

Executive and Director of Corporate Resources may have to amend this strategy in order to safeguard Council funds. As in the past any such actions will be reported to the next Cabinet meeting. An example of that is exercising a judgement to place more weight on UK Government’s moral guarantee to high street banks if there are marginal movements in credit rating for the same high street banks.

- It is not expected that any new external borrowing will be undertaken in January 2009 to March 2010 however the limits set out in the original strategy 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.
- As well as using internal borrowing to finance new capital investment it is further proposed to repay some £13m of existing PWLB loans. Further cost effective repayment opportunities will be taken if and when they emerge.
- The different elements of the total cash balances to be invested will be dealt with as follows:

Fire Authority – invested in line with own specific policy  
 Specific Council reserves – will not be separate for investment purposes.

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

<b>Bank / Fund</b>
Barclays
Lloyds HBOS
Nat West/RBS
Santander (ex Abbey National)
HSBC
Nationwide
Individual Treasury Type Money Market Funds (AAA rated)
Individual Cash Type Money Market Funds (AAA rated)

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

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

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

Proposed Strategy for the remainder of 2009/10 and for 2010/11

8.4 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 to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than on yield. The proposed strategy continues with this prudent approach and the only change proposed is to increase the period of investment to up to a year but this will only be after the Deputy Chief Executive and Director of Corporate Resources is satisfied that the market conditions are favourable. There is no change to the list of counterparties or the limit of the investment remains at a maximum of £60m.

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

8.6 It is not expected that any new external borrowing will be undertaken in the next 15 months however the limits set out in paragraph 8.15 would allow such borrowing. External borrowing will only take place if the rates available are so low that the long term benefits will significantly exceed the short term cost.

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

8.8 Our policy gives some flexibility to borrow up to £23m in advance of future need. The detail is set out in the table in paragraph 8.16. However, given the current interest climate, no external borrowing and certainly none in advance, is planned.

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

8.10 The County Council funds will be invested

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

<b>Bank / Fund</b>
Barclays
Lloyds HBOS

**CABINET**

---

Nat West/RBS Santander (ex Abbey National) HSBC Nationwide Individual Treasury Type Money Market Funds (AAA rated) Individual Cash Type Money Market Funds (AAA rated)
---

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

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

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

8.11 Additional requirements under the Code of Practice now 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 Credit Default Swaps, equity prices etc.) will be assessed when comparing the relative security of differing investment counterparties.

8.12 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 in 2010/11 – updated for additional capital expenditure proposed by the Cabinet at its meeting on 26 January 2010

8.13 The Authorised Limit for borrowing determined for 2010/11 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

8.14 The limits set out later in this report have been based upon the amount of capital spending to be financed through borrowing in 2010/11 and following financial year. Whilst the Prudential Code would allow a higher limit than this (2010/11 and next two financial years) it is considered prudent at

## CABINET

---

this stage to base the limits upon 2 years. This approach was agreed by the County Council in July 2004 and has worked well.

8.15 For 2010/11 it is estimated that the Authorised Limit for borrowing is £353m (see table in paragraph 8.16) should be determined as usual although, as stated earlier, additional external borrowing is not expected to be undertaken.

### Prudential indicators and Treasury Management indicators

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

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

#### (a) Operational Boundary and Authorised Limit for Borrowing

	<b>Actual 2008/09</b>	<b>Near Actual 2009/10</b>	<b>Estimate 2010/11</b>	<b>Estimate 2011/12</b>	<b>Estimate 2012/13</b>
	£m	£m	£m	£m	£m
<b>Opening Balance</b>	274	284	295	310	323
<b>New borrowing for capital programme</b>	21	22	27	25	21
<b>Less repayment of debt</b>	-11	-11	-12	-12	-13
<b>A * Closing balance (no borrowing in advance)</b>	284	295	310	323	331
<b>B Advance borrowing allowed (£10m plus net borrowing for following year)</b>	21	25	23	18	18
<b>A+ Operational Boundary</b>	305	320	333	341	349
<b>B</b>					
<b>C Short Term (£20m)</b>	20	20	20	20	20
<b>A+ Authorised Limit</b>	325	340	353	361	369
<b>B+</b>					
<b>C</b>					

**CABINET**

---

<b>D</b>	<b>* Borrowing to date</b>	264	264
<b>D- A</b>	<b>* Remainder of planned borrowing</b>	<b>20</b>	<b>31</b>

**\* The balance (at A) represents the Council's Capital Financing Requirement (CFR) and with no under or over external borrowing it would equal the Council's external capital debt. Actual external debt (D) is lower as no external borrowing has taken place since 2007/08**

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

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

**(b) Interest rate exposure**

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

<b><u>Borrowing</u></b>	2009/10 Projected <u>Outturn</u>	2010/11 <u>Estimate</u>	2011/12 <u>Estimate</u>	2012/13 <u>Estimate</u>
Fixed Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit *	70%	55%	54%	53%
Variable Rate Exposure				
Upper Limit	30%	45%	46%	47%
Lower Limit *	0%	0%	0%	0%

(\* assumes all new borrowing is variable)

**CABINET**

---

**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	32%	28%	27%	26%
Variable Rate Exposure				
Upper Limit	100%	100%	100%	100%
Lower Limit	0%	0%	0%	0%

(c) Maturity structure of debt

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

	<u>Lower limit</u>	<u>Upper limit</u>	<u>Current</u>
Under 12 months	0%	25%	
0%			
12 months and within 24 months	0%	40%	
0%			
24 months and within 5 years	0%	60%	
2%			
5 years and within 10 years	0%	80%	
8%			
10 years and within 20 years	0%	80%	
18%			
20 years and within 30 years	0%	80%	
18%			
30 years and within 40 years	0%	80%	
22%			
More than 40 years	0%	80%	
32%			

(d) Compliance with the treasury management code of practice

8.21 East Sussex County Council has adopted the *CIPFA Code of Practice for Treasury Management in the Public Services* but the revised *CIPFA Code* requires an additional clause to be adopted for full compliance. This is shown as paragraph 8.27 below.

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

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

Capital Financing Requirement and Minimum Revenue Provision (MRP) Statement

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

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

£m	2009/10 Revised	2010/11 Estimated	2011/12 Estimated	2012/13 Estimated
<b>Total CFR</b>	<b>295</b>	<b>310</b>	<b>323</b>	<b>331</b>
<b>Movement in CFR</b>	<b>11</b>	<b>15</b>	<b>13</b>	<b>8</b>

<b>Movement in CFR represented by</b>				
Net financing need for the year (above)	22	27	25	21
MRP/VRP and other financing movements	-11	-12	-12	-13
<b>Movement in CFR</b>	<b>11</b>	<b>15</b>	<b>13</b>	<b>8</b>

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

8.25 CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

‘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.

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 equal to the amount of principal repayment.’

#### Treasury Management Policy Statement for 2010/11

8.26 It is recommended that the Treasury Management Policy Statement for 2010/11 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.

Clauses to be formally adopted as part of the CIPFA Treasury Management Code of Practice

8.27 The Council's existing approach already covers these areas (with the exception of a formal mid year review report) but the County Council is now recommended to formally adopt them:-

1. East Sussex County Council will create and maintain, as the cornerstones for effective treasury management:
  2.
    - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
    - Suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
  3. The Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.
  4. East Sussex County Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Deputy Chief Executive and Director of Corporate Resources, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
  5. The County Council nominates the Audit and Best Value Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

8.28 The Cabinet **recommends** the County Council to –

- ☆ (1) determine that for 2010/11 the Authorised Limit for borrowing shall be £353m;
- (2) adopt the prudential indicators and limits set out above;

## CABINET

---

(3) approve the Minimum Reserve Provision Statement for 2010/11 as set out in paragraphs 8.23 to 8.25 above; and

(4) approve the Treasury Management Strategy and Policy statement for 2010/11 as set out above and the new clauses of the CIPFA Code of Practice as set out in paragraph 8.27 above

PETER JONES  
Chairman

26 January 2010

