

**Prudential indicators for 2004/05 to 2006/07**

P1 The actual capital expenditure that was incurred in 2002/03 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

**Capital Expenditure**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
Chief Executives	473	285	213	0	2,000
Corporate Resources	1,587	5,192	6,924	1,540	1,670
Education and Libraries	19,813	26,350	29,701	13,108	2,400
Social Service	745	2,139	1,819	6,520	495
Transport and Environment	15,202	12,964	16,028	13,865	9,101
Future schemes not yet identified				1,011	5,588
<b>Total</b>	<b>37,820</b>	<b>46,930</b>	<b>54,685</b>	<b>36,044</b>	<b>21,254</b>

P2 Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual financing requirement at 31 March 2003 are:

**Capital financing requirement**

<b>31/03/03</b>	<b>31/03/04</b>	<b>31/03/05</b>	<b>31/03/06</b>	<b>31/03/07</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
199,120	216,343	231,423	238,148	242,706

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, East Sussex County Council does not associate borrowing with particular items or types of expenditure. The Council has an integrated treasury management strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury positions in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Council's underlying need to borrow for a capital purpose.

P3 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2002/03 are:

Ratio of financing costs to net revenue stream

<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
4.26%	4.02%	4.07%	4.08%	4.12%

The estimates of financing costs include current commitments and the proposals in this budget report.

P4 The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

For the Band D Council Tax

<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>£2.42</b>	<b>£10.27</b>	<b>£17.31</b>

This represents the cumulative impact of the new starts proposed for 2004/05, 2005/06, and 2006/07.

### **Consideration of options for the capital programme.**

In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:

- Affordability, e.g. implications for Council Tax;
- Prudence and sustainability, e.g. implications for external borrowing;
- Value for money, e.g. option appraisal;
- Stewardship of assets, e.g. asset management planning;
- Service objectives, e.g. strategic planning for the authority;
- Practicality, e.g. achievability of the forward plan.

A key measure of affordability is the incremental impact on the Council Tax, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

**The following indicators are considered in detail within the treasury management strategy considered elsewhere on this agenda.**

P5 CIPFA's *Prudential Code of Capital Finance in Local Authorities* Includes the following as a key indicator of prudence:

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

The Deputy Chief Executive and Director of Corporate Resources reports that the Council envisages no difficulty meeting this requirement for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

#### **Authorised limit for external debt**

	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing	249,212	257,963	264,350
Other long term liabilities			
<b>Total</b>	<b>249,212</b>	<b>257,963</b>	<b>264,350</b>

The Council's treasury management strategy and annual plan for 2003/04 was agreed by the Council at its meeting on 18<sup>th</sup> February 2003. The plan for 2004/05 will be considered on 17<sup>th</sup> February 2004.

- P6 The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Deputy Chief Executive and Director of Corporate Resources's estimate of the most likely, prudent but not worse case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Deputy Chief Executive and Director of Corporate Resources.

#### **Operational boundary for external debt**

	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing	230,637	237,395	241,894
Other long term liabilities			
<b>Total</b>	<b>230,637</b>	<b>237,395</b>	<b>241,894</b>

- P7 It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2004/05, 2005/06 and 2006/07 of 100% of its net outstanding principal sums.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2004/05 and 2005/06 and 2006/07 of 30% of its net outstanding principal sums.

This means that the Deputy Chief Executive and Director of Corporate Resources will manage fixed interest rate exposures within the range 70% to 100% and variable interest rate exposures within the range 0% to 30%. This is a continuation of current practice.

- P8 It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	0%	25%
12 months and within 24 months	0%	25%
24 months and within 5 years	0%	25%
5 years and within 10 years	0%	50%
10 years and above	50%	100%

- P9 East Sussex County Council has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*.