Appendix 3

Summary of General Fund Capital Programme 2009/10 (excludes slippage from 2008/09)
Eastbourne Borough Council
Capital Expenditure and Prudential Indicators

1.0 The actual capital expenditure and sources of finance in 2007/08, and the estimates of capital expenditure and the sources of finance for the current and three future years that are recommended for approval are set out as follows:

	2007/08 Actual £'000	2008/09 Estimate £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Capital Expenditure – General Fund					
Supported expenditure	5,824	4,168	8,670	2,400	1,500
Unsupported expenditure	0	0	0	0	0
Total expenditure	5,824	4,168	8,670	2,400	1,500
Financed by:					
Capital receipts	3,028	2,090	4,168	1,000	700
Capital Grants & Cont	2,796	2,078	4,502	1,400	800
Revenue Contribution	0				
Total financing	5,824	4,168	8,670	2,400	1,500
Net capital requirement	0	0	0	0	0
Capital Expenditure – Housing Revenue Account					
Supported expenditure	12,144	15,688	13,687	12,087	8,228
Unsupported expenditure	0	0			
Total expenditure	12,144	15,688	13,687	12,087	8,228
Financed by:					
Capital Receipts					
Capital Grants & Cont	3,149	3,014	3,014	3,014	3,014
Revenue Contribution	1,475	700	500	500	500
Total financing	12,144	3,714	3,514	3,514	3,514
Net capital requirement	7,520	11,974	10,173	8,573	4,714
Capital Expenditure – Total					
Supported expenditure	17,968	19,856	22,357	14,487	9,728
Unsupported expenditure	0				
Total expenditure	17,968	19,856	22,357	14,487	9,728
Financed by:					
Capital receipts	3,028	2,090	4,168	1,000	700
Capital grants	5,945	5,092	7,516	4,414	3,814
Capital reserves	0				
Revenue	1,475	700	500	500	500
Total financing	17,968	19,856	12,184	5,914	5,014
Net capital requirement	7,520	11,974	10,173	8,573	4,714

2.0 Estimates of the capital financing requirement for the current and future three years and the actual capital financing requirement at 31st March 2008 are as follows:

	2007/08	2008/09	2009/10	2010/11	2011/12

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Summary of General Fund Capital Programme 2009/10 (excludes slippage from 2008/09)

	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
The Capital Financing Requirement – General Fund					
Opening balance	*9,291*	*8,919*	*8,562*	*8,220*	*7,891*
Net capital expenditure			*0*	*0*	*0*
Less MRP and VRP	*(372)*	*(357)*	*(342)*	*(329)*	*(316)*
Less voluntary set aside	*0*	*0*	*0*	*0*	*0*
CFR closing balance	*8,919*	*8,562*	*8,220*	*7,891*	*7,575*
Net movement in CFR	*(372)*	*(357)*	*(342)*	*(329)*	*(316)*
The Capital Financing Requirement – Housing Revenue Account					
Opening balance	*25,798*	*33,318*	*45,292*	*55,465*	*64,038*
Net capital expenditure	*7,520*	*11,974*	*10,173*	*8,573*	*4,714*
Less MRP and VRP	*0*	*0*	*0*	*0*	*0*
Less statutory set aside	*0*	*0*	*0*	*0*	*0*
Less voluntary set aside	*0*	*0*	*0*	*0*	*0*
CFR closing balance	*33,318*	*45,292*	*55,465*	*64,038*	*68,752*
Net movement in CFR	*7,520*	*11,974*	*10,173*	*8,573*	*4,714*
The Capital Financing Requirement – Total					
Opening balance	*35,089*	*42,237*	*53,854*	*63,685*	*71,929*
Net capital expenditure	*7,520*	*11,974*	*10,173*	*8,573*	*4,714*
Less MRP and VRP	*(372)*	*(357)*	*(342)*	*(329)*	*(316)*
Less statutory set aside	*0*	*0*	*0*	*0*	*0*
Less voluntary set aside	*0*	*0*	*0*	*0*	*0*
CFR closing balance	*42,237*	*53,854*	*63,685*	*71,929*	*76,327*
Net movement in CFR	*7,148*	*11,617*	*9,831*	*8,244*	*4,398*

2.1 The capital financing requirement measures the Council's underlying need to borrow for a capital purpose. In accordance with best professional practice, the 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. At any point in time, the Council has a number of cash flows, both positive and negative, and manages its treasury position 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 and capital cash. External borrowing can arise as a consequence of all of the financial transactions of the Council 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.

2.2 CIPFA's Prudential Code for 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

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additional financing requirement for the current and next two financial years."

2.3 The Chief Finance Officer is able to report that the Council had no difficulty meeting this requirement in 2007/2008, nor are any difficulties envisaged for the current or future years. This takes into account current commitments, existing plans, and the proposals in the budget report.

3.0 In respect of its total external debt gross of investments, it is recommended that the Council approves the authorised limit and operational boundary figures set out below:

External Debt and Other Long Term Liabilities

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Total external debt 1st April	31,233	38,720	50,694	60,867	69,440
Maturing debt	(33)	0	0	0	0
Early debt repayment	0	0	0	0	0
Borrowing – maturing debt	0	0	0	0	0
Borrowing – change in CFR	7,520	11,974	10,173	8,573	4,714
Borrowing - temporary	0	0	0	0	0
Total external debt 31st March	38,720	50,694	60,867	69,440	74,154
Net movement in debt	7,487	11,974	10,173	8,573	4,714
Other long term liabilities 1st April	0	0	0	0	0

Authorised Limit and Operational Boundary

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Authorised Limit	60,000	70,000	80,000	85,000
Operational Boundary	55,000	65,000	75,000	80,000

3.1 These limits separately identify borrowing from other long-term liabilities such as deferred purchase arrangements and finance leases. The Council is asked to approve these limits and to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes will be reported to the Council at its next ordinary meeting following the change.

3.2 The Chief Finance Officer is able to report that these authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely scenario, prudent but not worst case, with sufficient headroom over and above this

to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

3.3 The Council is also asked to approve the 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 estimates of the most likely, prudent but not worst 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. Within the operational boundary, figures for borrowing and other long- term liabilities are separately identified. The Council is also asked to delegate authority to the Chief Finance Officer, within the total operational boundary for any individual year, to effect movement between borrowing and other long-term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next ordinary meeting following the change.

3.4 It should be noted that actual external debt is not directly comparable to the authorised limit and the operational boundary, since the actual external debt reflects the position at one point in time.

4.0 Estimates of the ratio of financing costs to net revenue stream for the current and future three years are as follows:

Ratio of financing costs to net revenue stream	2007/08 Actual %	2008/09 Estimate %	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %
Housing Revenue Account	10.67	15.70	17.19	18.51	18.77
General Fund	3.84	4.20	3.25	2.74	2.31

These estimates include current commitments and the proposals in the budget report.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS AND LIMITS

The Council is recommended to approve the following prudential indicators for treasury management:

	2008/2009 Upper	2009/2010 Upper	2010/2011 Upper
Limit on fixed interest rate exposures	100%	100%	100%
Limit on variable interest rate exposures	25%	25%	25%

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This means that fixed interest rate exposures will be managed within a range of 75% and 100% and variable interest rate exposures will be managed within a range of 0% and 25%.

Upper limits for the maturity structure of the Council's borrowings be set as follows:

	2008/2009	2009/2010	2010/2011
Under 12 months	30%	30%	30%
12 months to 2 years	30%	30%	30%
2 years to 5 years	50%	50%	50%
5 years to 10 years	75%	75%	75%
10 years and above	95%	95%	95%

Total principal funds invested

Principal funds will be invested up to but not beyond periods longer than 364 days.

INVESTMENT STRATEGY CRITERIA

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible.

These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. An investment scheme that has been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency, such as a bank or building society. Please see note below regarding Government Support of banks and building societies
6. Nationalised UK Banks

For category 4 this covers a money market fund rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

For category 5 this covers bodies with at least the following **minimum** requirements:

- A short-term rating of F1 (or equivalent) from Fitch, Moody's or Standard & Poor's
- A long-term rating of A (or equivalent) from Fitch, Moody's or Standard & Poor's
- An individual or financial strength rating of C from Fitch or Moody's

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- A support rating of 3 from Fitch

Government support of banks and building societies - The UK Government has underlined its determination to ensure security of the UK banking system by supporting seven named banks and one building society. If one of these institutions becomes reliant on external support to the extent that the UK Government becomes a majority shareholder, its Individual /Financial Strength rating may fall below C/3. If the short and long term ratings meet the minimum requirement and the support rating of the institution is A/1, the Council will continue to use this institution, taking advice from its treasury consultants, Sector. There are currently 4 smaller building societies requesting approval for similar support.

Within these bodies, and in accordance with the Code of Practice, the Council has determined additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is based on a maximum investment of £4 million for up to 364 days for grouped and individual institutions rated at the higher end of the minimum requirements, and a maximum of £1 million and 93 days for grouped and individual institutions rated at the lower end of the minimum requirements.

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Non Specified Investment Category	**Limit (£ and days)**
Supranational Bonds greater than 1 year to maturity **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).	The Council will **not** use these bonds because they have maturity greater than 364 days.
(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	The Council will **not** use these bonds because they have maturity greater than 364 days.
Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of	The Council will **not** use these securities because

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principal on maturity. Similar to category 1 above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	they have maturity greater than 364 days.
Building societies not meeting the basic security requirements under the specified investments. The operation of building societies does not require a credit rating.	The Council will **not** use these.
Any **bank or building society** that has a minimum long term credit rating of A for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	The Council will **not** use these deposits because they have maturity greater than 364 days.
Any **non-rated wholly owned subsidiary** of a credit rated institution included in the specified investment category.	The Council will **not** use these.
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	Investment in share or loan capital will not be undertaken without specific approval from Council.

Appendix 3

Summary of General Fund Capital Programme 2009/10 (excludes slippage from 2008/09)

General Fund Capital Programme Priority Bids	Total Capital Bids	Schemes approved by Cabinet	Financed by: Capital Receipts	Grants & Contributions	Section 106	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Unreleased Bids b/fwd from 2008/09						
Go Fast	6	6	6			6
Xtrax	50	50	50			50
Park and Ride	50	50	50			50
Smartcard	10	10	10			10
Other Capital Reserves						
Contingency (CC)	750	750	750			750
Emergencies/Health and Safety	265	265	265			265
Total of Other Commitments/Unreleased	**1,131**	**1,131**	**1,131**	**0**	**0**	**1,131**
2009-10 Capital Programme						
Decommissioned Playgrounds Landscaping	45	45	45			45
Playground Equipment Replacement	50	50			50	50
Beach Cabins Holywell	54	54	54			54
New Rescue Boat	5	5	5			5
Dev park Changing Rooms alarm	10	10	10			10
Redoubt fire alarm	20	20	20			20
Redoubt upgrade electrical wiring	30	30	30			30
3 Dragons housing viability toolkit (software)	3	3	3			3
Food Hygiene Award Scheme	5	5	5			5
Digitalise Burial Records	10	10	10			10
Seafront Cycling (increased by Cllr Mattock)	36	36	36			36
IT	150	150	150			150
BID software	20	20	20			20
Signage	10	10	10			10
WiFi Network Devonshire Park	12	12	12			12
Public Sector Renewal Grant	1,230	1,230		1,230		1,230
Disabled Facilities Grant	480	480		480		480
Total of released schemes	**2,170**	**2,170**	**410**	**1,710**	**50**	**2,170**