<u>Explanation of prudential indicators</u>

Central Government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Capital expenditure – compares the 2016/17 original capital estimates with the actual outturn. Actual 2015/16 outturn is shown for comparison.

Ratio of financing costs to net revenue stream – this indicator shows the effect of HRA self-financing debt, with the cost of servicing debt accounting for 16.03% of rental income. Interest on reserves and balances still makes marginal, but positive contribution to General Fund finances.

Net borrowing requirement – this demonstrates borrowing need to fund capital spending.

In year capital financing requirement – this shows that in 2016/2017 capital spend was financed by borrowing (internal or external) of £10.252m, and the remainder was financed by the Council's capital resources such as grants, capital receipts and revenue contributions. The comparative 2015/2016 figure shows the capital spend financed by borrowing for that year was £5.656m.

Capital financing requirement (CFR) as at 31 March – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £111.457m provides the Council with the opportunity to borrow if appropriate. The Council has £106.717m in long term borrowing. This indicates Council is internally borrowing £4.740m .

Incremental impact of capital investment decisions – increase in Council Tax (Band D) per annum – this indicator shows that the funding of the Non-HRA capital programme compared with the original estimate for 2016/2017 of £2.84. The reduced actual for 2016/2017 of £1.09 per annum on band D council tax arose mainly through interest savings from internal borrowing.

Incremental impact of capital investment decisions – increase in average housing rent per week – The lower than estimated spending on the HRA capital programme cost an estimated 19p per week of the average housing rent in increased investment interest, rather than the expected 57p per week. This was due to a reduced planned programme and some internal borrowing.

Authorised limit for external debt - this is the "affordable borrowing limit" for external temporary borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows. The Council does not have the power to borrow above this level. The Authorised Limit was set at £130m in January 2016.

Operational boundary for external debt – this is set as the more likely amount required for day to day cash flow purposes. It is acceptable to be above or below this level as long as the Authorised Limit is not breached. The Operational Boundary was set at £125m in January 2016.

Upper limit for fixed and variable interest rate exposure – these limits allow the Council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can prudently be invested for a period in excess of a year. Although the Council can invest for longer than a year no such investments were made in 2016/2017 in accordance with Capita Asset Services' advice.