

## **EXPLANATION OF PRUDENTIAL INDICATORS**

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

**Capital expenditure** – table 1 shows last year's capital expenditure, this year's projected capital expenditure and the approved programme until 2020/21.

**Ratio of financing costs to net revenue stream** – table 5 shows that the General Fund currently receives a small income from the investment of balances which turns into a net expenditure in 2020/21 when the interest payments on General Fund borrowing exceed the interest earned on investments. The HRA borrowing means that interest on net borrowing now accounts for between 16.03% and 17.05% of net revenue.

**Net borrowing need** – table 2 shows borrowing planned to fund the capital programme.

**Capital financing requirement (CFR) as at 31 March** – table 3 shows the CFR which is the council's underlying need to borrow for capital purposes as determined from the balance sheet. Table 6 shows the overall CFR is £111.457m. As the Council has borrowing of £106.717m the balance sheet shows there is currently under borrowing of £4.740m, which is projected to increase to £5.804m by 31 March 2018.

**HRA debt limit** – table 9 shows the absolute limit has been reached for HRA indebtedness which is measured against the HRA CFR of £95.742m. No further HRA borrowing is permitted.

**Authorised limit for external debt** - table 8 shows the maximum limit for external 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 cashflows.

**Operational boundary for external debt** – table 7 shows the more likely limit to the level of external debt that may be required for day to day cashflow.

**Upper limit for total principal sums invested for over 364 days** – table 12 shows the amount it is considered can be prudently invested for period in excess of a year.