

Explanation of prudential indicators

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 2019/20 original capital estimates with the actual outturn. Actual 2018/19 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 14.91% of rental income. Interest on reserves and balances still make a small positive contribution to General Fund finances.

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

In year capital financing requirement – this shows that in 2019/20 there was a net repayment of borrowing (internal or external) of £1.454m because Minimum Revenue Provision and Voluntary Revenue Provision of £2.107m exceeded capital expenditure of £0.653m financed by borrowing. Capital spend during the year was financed by the Council's capital resources such as grants, capital receipts and revenue contributions. The comparative figure for 2018/2019 was a net repayment of borrowing of £0.896m.

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 £110.014m provides the Council with the opportunity to borrow if appropriate. The Council has £103.717m in long term borrowing. This indicates Council is internally borrowing £6.297m .

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 £135m in February 2019.

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 £127m in February 2019.

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 365 days – the amount of £10m is what it is considered can be prudently invested for a period in excess of a year. In 2019/20 £9m was invested in property and multi-asset funds (2018/19 £nil).