

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 2020/2021 original capital estimates with the actual outturn. Actual 2019/2020 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 15.80% 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 2020/2021 there was a net additional borrowing (internal or external) of £1.316m because Minimum Revenue Provision and Voluntary Revenue Provision of £1.530m was less than capital expenditure of £2.846m 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 2019/2020 was a net repayment of borrowing of £1.453m.

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 £111.330m provides the Council with the opportunity to borrow if appropriate. The Council has £102.717m in long term borrowing. This indicates Council is internally borrowing £8.613m.

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 £137m in February 2020.

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 £129m in February 2020.

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 £15m is what it is considered can be prudently invested for a period in excess of a year. In 2020/2021 £10m was invested in property and multi-asset funds as well as a £1m loan to another Council (2019/2020 £9m).