APPENDIX E

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

1. ACTUAL CAPITAL FINANCING REQUIREMENT

This represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts.

The capital financing requirement is increased each year by any new borrowing and reduced by any provision for the repayment of debt. Broadly, the higher the capital financing requirement, the higher the amount that is required to be set aside for the repayment of debt in the following year.

2. AUTHORISED LIMIT

The authorised limit for external debt is the maximum amount of debt which the authority may legally have outstanding at any time. The authorised Limit includes headroom to enable the Council to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year.

3. OPERATIONAL BOUNDARY

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit, but acts as a warning mechanism to prevent the authorised limit (above) being breached.

4. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2017/18

This ratio reflects the annual cost of financing net debt as a proportion of the total revenue financing received. It therefore represents the proportion of the City Council's expenditure that is largely fixed and committed to repaying debt. The higher the ratio, the lower the flexibility there is to shift resources to priority areas and/or reduce expenditure to meet funding shortfalls.

For the General Fund, this is the annual cost of financing debt as a proportion of total income received from General Government Grants, Non Domestic Rates and Council Tax.

The ratio of Housing Revenue Account (HRA) financing costs to net revenue stream is shown below. For the HRA, this is the annual cost of financing capital expenditure, as a proportion of total gross income received including housing rents and charges. The ratio of HRA financing costs to net revenue stream was much lower than the original estimate. This was due to the HRA contributing £2.9m less towards the Council's interest payable due to it having a lower than estimated capital financing requirement, and due to the City Council's decision not to make MRP in respect of the HRA (this had been £3.0m in previous years) in response to financial pressures on the HRA following the Government's policy of reducing council dwelling rents by 1% per annum until 2019/20.

5. INTEREST RATE EXPOSURES

Fixed interest rates avoid the risk of budget variances caused by interest rate movements, but prevent the Council from benefiting from falling interest rates on its borrowing or rising interest rates on its investments.

Variable interest rates expose the Council to the benefits and dis-benefits of interest rate movements and can give rise to budget variances.

6. MATURITY STRUCTURE OF FIXED RATE BORROWING

The Council aims to have a reasonably even debt maturity profile so that it is not unduly exposed to refinancing risk in any particular year when interest rates may be high. The maturity structure of fixed rate borrowing matters less in future years as inflation will reduce the real value of the sums to be repaid.

7. PRINCIPAL SUMS INVESTED FOR OVER 365 DAYS

Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling. However this benefit is significantly reduced at the moment as the interest rates on new investments are low, typically less than 1% which restricts how much further returns can fall. At the current time, investing long term allows higher yields to be obtained, although it would be prudent to maintain opportunities to invest when interest rates are higher.