Appendix 3

TREASURY LIMITS

Treasury Management Limits on Activity

There are two debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair opportunities to reduce costs/improve performance.

The Code requires that for the LOBO maturity date should be considered the most probable maturity date and not the next call date.

The indicators are

Liability benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following three financial years, as a minimum. Graph 1 below shows the LB for the Council; this is broken down into its two component funds in Graph 2: General Fund and Graph 3: HRA.

There are four components to the LB:

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years. This is denoted by the green line that tops the bar chart showing existing debt (all fixed rate interest) gradually maturing over the next 50 years.

2. **Loans Capital Financing Requirement (CFR)**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP) funded from General Fund revenue budget for debt repayment. This is a measure of the Authority's borrowing requirement to finance the Authority's capital programme and is the very top line graph shown in in blue.

3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast. This is represented by the solid tan 29 coloured line graph. The difference between solid tan line and the CFR blue line represents the amount of internal cash from reserves/balances that has already been invested in the Authority's capital programme.

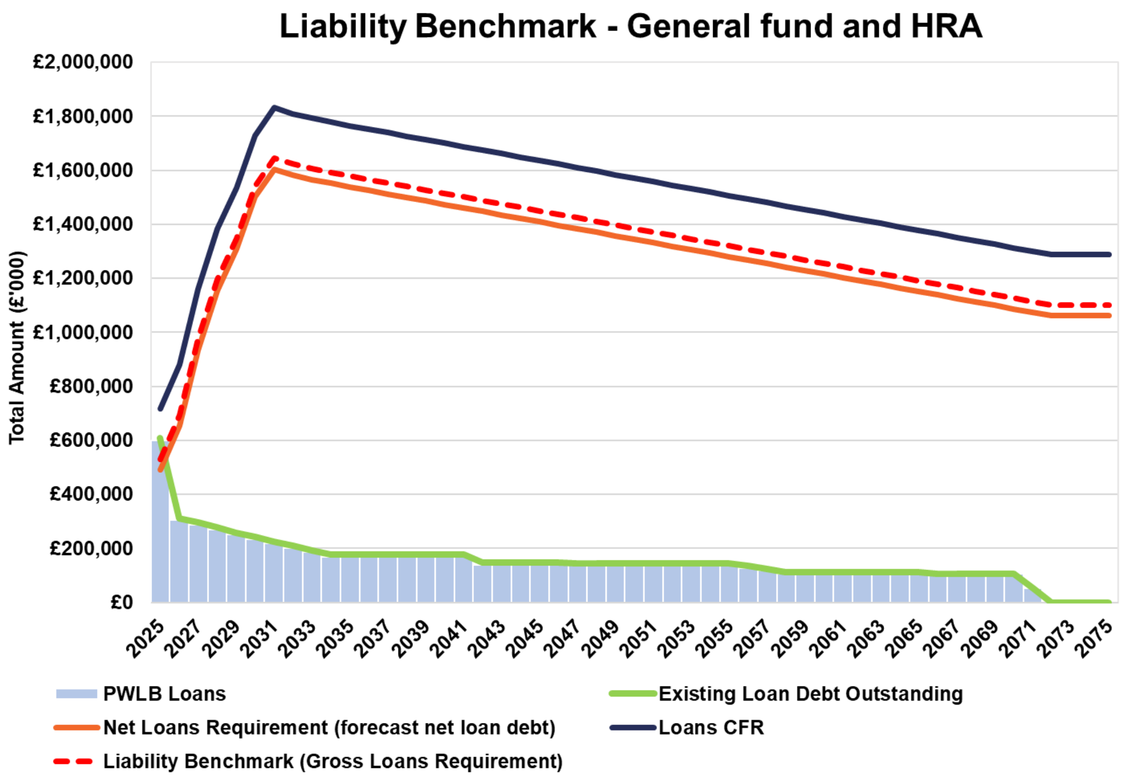
4. **Liability benchmark (or gross loans requirement)**: this equals net loans requirement plus the £40m short-term liquidity allowance that the Authority is holding in external liquid treasury investments to manage the daily variability

in its cash flow. This represents the dotted red line in the graphs below and means the Authority having to externally borrow to maintain the liquidity allowance at £40m.

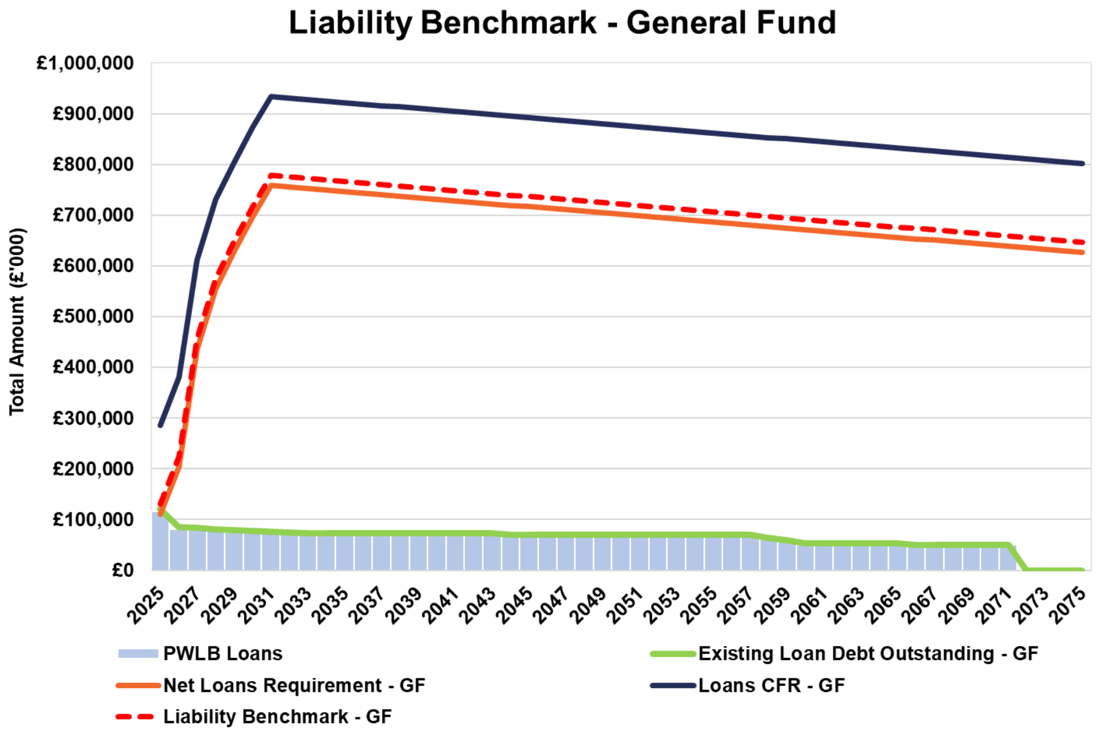
The years where actual loans (Green line) are less than the benchmark (red dotted line) indicate a future borrowing requirement that the Authority will need to fund from external borrowing. Were actual loans outstanding to exceed the benchmark this would represent an over borrowed position, resulting in excess cash requiring investment but as you can see from the graphs below this is not the position faced by this Authority.

However, any currently unknown future borrowing plans will increase the benchmark loan debt requirement.

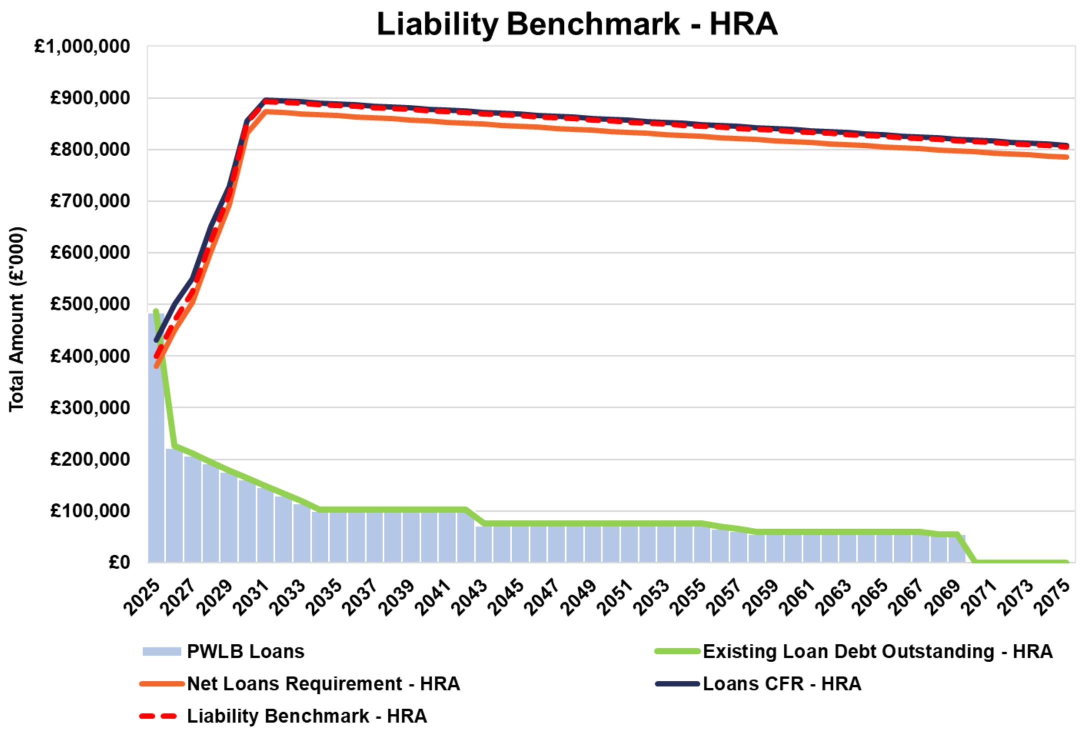
The purpose of the LB is to encourage authorities to use their internal cash reserves to fund growth in their CFR rather than use external debt which is generally more expensive. Moreover, it reduces risk as it reduces the need to externally invest the Authority's excess cash reserves over long periods with counterparties where there could be default risk. The benchmark also avoids the risk of over-borrowing and borrowing ahead of need beyond what is permitted in the short to medium term. Generally, this technique enables the Authority's treasury activity to be more efficient and represents good practice.



This shows currently known future borrowing plans as per Authority's capital strategy which covers the three financial years 2026/27 to 2028/29 on the General Fund and 30 years in the draft HRA Business plan.



As there are no known General Fund borrowing plans beyond the MTFS period this shows the CFR curve being dragged down by successive annual MRP charges to revenue. Ideally LB requires 10 years of known capital plans, but this is difficult given how Local Authority finances operate



Given the long term nature of HRA capital assets there is no statutory requirement to make a MRP charge on HRA revenue and hence why the CFR curve is relatively flat after 5 years. Then, over the next three 5 years the net loan requirement is expected to converge with the CFR curve as the HRA externally borrows to reduce its internal borrowing from the General Fund to finance prior years' capital expenditure.

Maturity Structure of Borrowing

These gross limits are set to reduce the Authority's exposure of large sums falling due for refinancing; these have been kept deliberately wide to provide flexibility for any restructuring that might be carried out to de-risk the debt portfolio.

Maturity structure of fixed interest rate borrowing 2025/26		
	Lower	**Upper**
Under 12 months	0%	60%
12 months to 2 years	0%	70%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The Authority is asked to approve the following treasury indicator and limit

Upper limit for principal sums invested for longer than 365 days			
£m	**2026/27**	**2027/28**	**2028/29**
Principal sums invested for longer than 365 days	£25m	£10m	£10m
Current investments as at 31.12.25 in excess of 1 year maturing in each year	£0m	£0m	£0m