

Treasury Management Strategy Statement and Investment Strategy 2024/25 to 2026/27

ANNEX A

PRUDENTIAL INDICATORS 2024/25 TO 2026/27

1 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- 1.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on a net interest paid basis (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments).
- 1.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	2023/24 Approved %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100
Upper Limit for Variable Rate Exposure	40	40	40	40

- 1.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

2 Maturity Structure of Fixed Rate borrowing

- 2.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.
- 2.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

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Maturity structure of fixed rate borrowing	Actual %	Lower Limit %	Upper Limit %
under 12 months	4.63	0	40
12 months and within 24 months	4.40	0	40
24 months and within 5 years	12.68	0	40
5 years and within 10 years	18.34	0	40
10 years and above	59.95	30	100

3 Credit Risk

- 3.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.
- 3.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.
- 3.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:
- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
 - Sovereign support mechanisms;
 - Credit default swaps (where quoted);
 - Share prices (where available);
 - Economic fundamentals, such as a country's net debt as a percentage of its GDP;
 - Corporate developments, news, articles, markets sentiment and momentum;
 - Subjective overlay.
- 3.4 The only indicators with prescriptive values are credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

4 Upper Limit for total principal sums invested over 1 year

- 4.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 1 year	2023/24 Approved £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
	10.00	10.00	10.00	10.00

5 Liability Benchmark

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- 5.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Loans CFR	305	364	415	438	461
Less: Balance Sheet Resources	-82	-62	-54	-53	-53
Net Loans Requirement	223	302	361	385	408
Plus: Liquidity Allowance	24	10	10	10	10
Liability Benchmark	247	312	371	395	418

- 5.2 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.
- 5.3 This is shown in the liability benchmark chart in Annex D together with the Council's debt maturity profile in Annex E.