Appendix 2

PRUDENTIAL CODE LIMITS

1 The Prudential Code on borrowing identifies the measures that local authorities should address as a framework for risk management. The proposed parameters for the Council are set out in Tables 7 to 10 below. Within these limits the Council will also consider market circumstances in timing any external borrowing.

2 The CFR, as defined in the Prudential Code, is a key measure of a local authority's underlying need to borrow for capital expenditure or to finance its other long-term liabilities for the General Fund and HRA. The Council can fund this requirement either by borrowing in the market or by using its internal cash balances to finance its long-term capital financing requirements until market conditions are more favourable.

3 The separate report on the Capital Programme for 2024/25 to 2027/28 shows the ongoing effect of increased capital expenditure on the Council's capital programme and estimated CFR for the HRA and General Fund. The forecast total CFR shown in Table 7 below represents the Council's cumulative long-term borrowing requirement (including that brought forward from previous years).

Table 7: Prudential Indicator: Capital Financing Requirement £m

Capital Financing (adjusted for slippage)	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
General Fund	393.3	471.1	472.7	463.4
General Fund: EFS	71.7	69.1	66.3	63.5
HRA	289.4	333.4	378.3	429.3
Total CFR	**754.4**	**873.6**	**917.3**	**956.2**

4 The Treasury Management Code requires the Council to ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes. The Council has complied with this indicator in the current year and will continue to do so in the future considering current commitments, existing plans and the proposals in the budget report.

5 Maximum borrowing limits (known as the Authorised Limit) are proposed in Table 8. This is the highest amount the Council will allow. It considers the potential capital programme financing requirement, the potential maximum requirement for temporary borrowing and the amount that could be needed to refinance maturing debt. It allows for the possibility of borrowing in advance against the needs of the future two years of the capital programme, i.e., to 2027/28 and funding the existing borrowing gap. The borrowing limits are also required to allow for any new credit arrangements (e.g. finance leases) entered into. The limit is set on a rolling basis for three years ahead.

6 In practice the maximum limit is unlikely to be required. The ‘Operational Boundary’ also proposed in Table 8 is the expected normal upper requirement, were the Council to fund the capital programme in this way. Borrowing in practice will also be monitored and reported against this limit.

Table 8: Prudential Indicators: External Debt Authorised Limit and Operational Boundary £m

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Operational Boundary	760.0	880.0	920.0	960.0
Authorised Limit	860.0	980.0	1,020.0	1,060.0

7. Table 9 shows the upper limits which are proposed on the Council’s interest rate exposure. This means the Council intends to hold at least half of its total projected debt requirements (Table 6) at fixed interest rates to give stability to the budget.

Table 9: Proposed Interest Rate Exposure (% of total debt)

Interest Rate Exposure Limits	2024/25	2025/26	2026/27	2027/28
Fixed interest upper limit	100%	100%	100%	100%
Variable rate interest upper limit	50%	50%	50%	50%

8 Maturity structure of borrowing is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 10: Proposed Maturity Structure of Borrowing:

Maturity Structure of Fixed Rate Borrowing during 2025/26	Lower limit	Upper limit
Under 12 months	0%	30%
12 months and within 24 months	0%	30%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	60%
10 years and above	0%	100%
Limit of maturity in any one year	0%	30%