

TREASURY MANAGEMENT UPDATE – QUARTER ENDED 31 DECEMBER 2025

1.0 EXECUTIVE SUMMARY

1.1 The Local Government in Scotland Act 2003 requires the council to have regard to the CIPFA Code of Practice in Treasury Management (revised 2021), 'the Code'. The Code recommends that members be updated on treasury management activities at least quarterly. This report demonstrates best practice in accordance with the Code.

1.2 This report provides an update on the Council's treasury management activity during Quarter 3 2025-26, 1 October to 31 December 2025 and the overall position as at 31 December 2025. This covers information on:

- Economic background
- Interest rate forecasts
- Borrowing
- Investments
- Compliance with Treasury and Prudential Limits.

1.3 The report concludes that:

- a) All borrowing and investment activity during the quarter ended 31 December 2025 has been undertaken in accordance with the approved 2025-26 Treasury Management Strategy and Annual Investment Strategy (the Strategy), and the authority has operated within the revised treasury and prudential limits approved by Council on 16 December 2025;
- b) Short-term borrowing and investment activity has been undertaken to manage day to day cashflow requirements. No new long-term borrowing has been undertaken during the period. Whilst there is an underlying requirement to borrow for capital purposes, the level of internal reserve fund balances has continued to allow this to be deferred. This borrowing strategy will require to be regularly reviewed to achieve optimum value and minimise risk exposure in the longer term; and
- c) An opportunity for the early repayment of £10m PWLB loan debt has been undertaken during the quarter, with a discount of £0.485m

secured. The General Fund will benefit from the amortisation of this discount across future years.

- 1.4 The Audit and Scrutiny Committee is asked to consider and note the contents of the report and the treasury activity during the quarter ended 31 December 2025.

TREASURY MANAGEMENT UPDATE – QUARTER ENDED 31 DECEMBER 2025

2.0 INTRODUCTION

2.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021, ‘the Code’ recommends that members be updated on treasury management activities at least quarterly. This report demonstrates best practice in accordance with the Code.

2.2 The report provides an update on the Council’s treasury management activity during Quarter 3 2025-26, 1 October to 31 December 2025 and the overall position as at 31 December 2025. This covers information on:

- Economic Background
- Interest rate forecasts
- Borrowing
- Investments
- Compliance with Treasury and Prudential Limits

3.0 RECOMMENDATIONS

3.1 The Audit and Scrutiny Committee is requested to consider and note the contents of the report and the treasury activity during the quarter ended 31 December 2025.

4.0 DETAIL

4.1 Economic Background

4.1.1 During the quarter, real GDP declined 0.1% in October, leaving the economic output broadly unchanged since April; wage pressures eased; and CPI inflation fell sharply from 3.6% in October to 3.2% in November. In response to signs of slowing economic activity, the Bank of England reduced Bank Rate to 3.75% in December, following a hold in November; while 10-year gilt yields (underpinning PWLB borrowing rates) ended the quarter at 4.5%, after fluctuating between 4.4% and 4.7%. A more detailed economic update, as prepared by the Council’s treasury advisors, is reported in Appendix 1.

4.2 Interest Rate Forecasts

4.2.1 The interest rate forecasts, provided by the Council's treasury advisors, have been revised as at 22 December 2025. The previous interest rate forecasts were provided as at 11 August 2025 and there is now an expectation that economic activity will provide an opportunity for Bank Rate to be further reduced. This December forecast has been revised to reflect a rate cut during quarter 1 2026-27, in response to Capital Economics' forecast of a significant fall in CPI inflation from 3% in March to 2% in April.

4.2.2 Current forecast interest rates are set out in the table below. The revised forecast remains robust for Bank Rate and the 5-year PWLB Certainty Rate, with a slight acceleration in the expected timing of rate cuts. The longer-term rates, 10-50 years, depend on the level and timing of gilt issuance, alongside inflation trends and political developments in the UK and US. Greater clarity is expected by June in the UK, noting that the US mid-term elections are scheduled for November.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

Note: The PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012. Rate forecasts for 3, 6, 12 month investments are averages - rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any point in time.

4.2.3 A comparison of current updated forecasts to the previous forecast position on Bank Rate and PWLB rates, included within the Mid-year Review report, is outlined in the table below:

Rate Forecast	March 2026		March 2027	
	Previous	Current	Previous	Current
Short term borrowing:				
Bank Rate	3.75%	3.75%	3.50%	3.25%
Long term PWLB borrowing:				
5 Year	4.50%	4.60%	4.30%	4.10%
10 Year	5.00%	5.20%	4.80%	4.80%
25 Year	5.70%	5.80%	5.50%	5.50%
50 Year	5.40%	5.60%	5.30%	5.30%

4.3 Borrowing

4.3.1 PWLB loan principal of £0.840m has been repaid during the quarter ended 31 December 2025. This repayment of principal relates to a 10-year, PWLB loan

(original principal £21m), which was taken on a fixed Equal Instalments of Principal (EIP) basis). All other PWLB loans will be repayable on maturity.

- 4.3.2 No maturity PWLB loans have matured during the quarter. However, there has been an opportunity for debt rescheduling to be undertaken.
- 4.3.3 During November, following advice from the Council's treasury advisors, the Council arranged for the early repayment of £10m PWLB borrowing, due to mature in July 2053. Due to the advantageous differential in the premature repayment rate (5.13%) from the rate being paid on the loan (4.80%), a discount of £0.485m was achieved. In accordance with proper accounting practice, this discount will be amortised over future years, with an annual benefit to the General Fund of £0.048m in 2025-26.
- 4.3.4 The Council has one outstanding market, or LOBO, loan for £5.255m, with an interest rate of 4.75%, maturing 2048, with call dates every 6 months. This loan was not recalled at the 22 December 2025 call date. The next potential for this loan to be recalled is 22 June 2026, in the 2026-27 financial year.
- 4.3.5 No new long-term borrowing has been undertaken during the quarter. Whilst there is an underlying need to borrow in respect of the Capital Financing Requirement, the level of internal reserve fund balances continues to provide an opportunity to defer new external borrowing. Borrowing activity has been limited to short-term borrowing, to manage day to day cashflow requirements.
- 4.3.6 As at 31 December 2025, the Council's debt totalled £138.177m, as summarised in the table below:

Debt	Amount £m	Annual Average Interest Rate	Share of Total Debt
Public Works Loans Board	132.517	4.47%	95.90%
Market Loans (LOBO)	5.255	4.75%	3.80%
Temporary Loans*	0.405	3.50%	0.30%
Total Debt	138.177	4.48%	100.00%

**Note: This represents short-term borrowing from various institutions. Also includes £0.018m local bonds.*

- 4.3.7 It is anticipated that new borrowing will require to be undertaken during the last quarter of the financial year, to meet cashflow requirements. Given interest rate forecasts, with current relatively high longer-term interest rates forecast to fall over future years, it is expected that new borrowing will be taken on a shorter-term basis. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring.
- 4.3.8 The capital plan and our use of reserve balances continues to be kept under regular review. As such, our borrowing strategy will continue to be responsive to updated financial planning assumptions and changing market conditions, to achieve optimum value and minimise risk exposure in the long-term. It is anticipated that forecast future rate reductions will provide an opportunity to secure an element of longer-term budget certainty in addressing the Council's

underlying need to borrow, and to smooth its debt maturity structure, whilst also maintaining or reducing the average cost of borrowing.

4.4 Investments

Investment Strategy

4.4.1 In accordance with the CIPFA Treasury Management Code of Practice, the Council's approved Annual Investment Strategy sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

4.4.2 The Council continues to aim to achieve the optimum return (yield) on its investments, commensurate with proper levels of security and liquidity and within the Council's risk appetite. The risk appetite of the Council is low, prioritising security and liquidity. In the current economic climate, it is considered appropriate to keep investments short-term to cover cash flow needs, but also to seek out value available in longer periods with high credit quality financial institutions, using the MUFG suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

4.4.3 Investment rates have declined more quickly than previous forecasts and are expected to fall further throughout 2026-27, as outlined within paragraph 4.2.2, with further forecast Bank Rate cuts.

Creditworthiness

4.4.4 There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these to ensure that only appropriate counterparties are considered for investment purposes.

Investment counterparty criteria

4.4.5 The current investment counterparty criteria selection, approved within the Strategy, continues to meet the requirement of the treasury management function.

Investment Activity

4.4.6 The Council's Section 95 Officer confirms that the principles of the investment strategy have been adhered to. During the quarter ended 31 December 2025, all investments have been made in line with the approved limits for specific investment instruments, and in accordance with the creditworthiness approach.

4.4.7 The level of investments has reflected the available Council reserve balances, together with provision for managing the Council's day to day cash flow requirements. Details of the Council's investments held as at 31 December 2025, totalling £40.799m, are summarised in the table below:

Counterparty	Maturity	Amount £m	Interest Rate	Rating S&P
Clydesdale Bank	Instant Access	6.399	3.65%	Long A+ Short A-1
Money Market Funds:				
Federated	Instant Access	4.500	3.92%	AAA
Aberdeen Standard	Instant Access	1.400	3.91%	AAA
Legal and General	Instant Access	0.300	3.94%	AAA
Aviva	Instant access	8.200	3.93%	AAA
Ultra short-dated bond fund:				
Federated	T+1	10.000	5.18%	AAA
Fixed Term Deposits:				
London Borough of Barking and Dagenham	16/02/2026	5.000	4.20%	AA
Brighton and Hove City Council	16/01/2026	5.000	4.15%	AA
Total		40.799		

4.4.8 The above provides a snapshot of investments held as at 31 December 2025. However, the weighted average rate of return on investments held during the quarter was 4.01%, with an average investment duration of 12 days. This compares to an average benchmark SONIA rate of 3.93% over the quarter, while Bank Rate was lowered during the period from 4.00% to 3.75% in December.

4.5 Compliance with Prudential and Treasury Limits

4.5.1 It is a statutory duty for the Council to determine and keep under review the affordable capital expenditure limits. The revised Prudential and Treasury Indicators for 2025-26, as approved by full Council on 16 December 2025, are attached as Appendix 2. During the quarter ended 31 December 2025, the Council has operated within the treasury and prudential indicators and limits. The Council's Section 95 Officer confirms that no difficulties are envisaged for the current or future years in complying with these indicators.

5.0 CONCLUSION

5.1 All borrowing and investment activity during the quarter ended 31 December 2025 has been undertaken in accordance with the approved 2025-26 Treasury Management Strategy and Annual Investment Strategy, and the authority has operated within the revised treasury and prudential limits approved by Council on 16 December 2025.

- 5.2 Short-term borrowing and investment activity has been undertaken to manage day to day cashflow requirements. No new long-term borrowing has been undertaken during the quarter. Whilst there is an underlying requirement to borrow for capital purposes, the level of internal reserve fund balances has continued to allow this to be deferred. This borrowing strategy will require to be regularly reviewed to achieve optimum value and minimise risk exposure in the longer term.
- 5.3 An opportunity for the early repayment of £10m PWLB loan debt has been undertaken during the quarter, with a discount of £0.485m secured. The General Fund will benefit from the amortisation of this discount across future years.

6.0 IMPLICATIONS

- 6.1 Policy - None
- 6.2 Financial – Complies with Treasury Management Strategy
- 6.3 Legal - None
- 6.4 HR - None
- 6.5 Customer Service - None
- 6.6 Risk – Provides an overview of treasury management and investment risk
- 6.7 Climate Change - None
- 6.8 Fairer Scotland Duty - None
- 6.9 Equalities - protected characteristics - None
- 6.10 Consumer Duty - None
- 6.11 Island Communities – None
- 6.12 Children’s Rights and Wellbeing - None

Kirsty Flanagan

Executive Director/Section 95 Officer

9 February 2026

Councillor Ross Moreland, Policy Lead for Finance and Commercial Services

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APPENDICES

Appendix 1 – Economics Update

Appendix 2 – Treasury and Prudential Indicators 2025-26

Economics Update

- The third quarter of 2025/26 saw:
 - A -0.1% m/m change in real GDP in October, leaving the economy no bigger than at the start of April.
 - The 3myy rate of average earnings growth excluding bonuses fall to 4.6% in October, having been as high as 5.5% earlier in the financial year.
 - CPI inflation fall sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%.
 - The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November.
 - The 10-year gilt yield fluctuate between 4.4% and 4.7%, ending the quarter at 4.5%.
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern (0.1% q/q). October's disappointing -0.1% m/m change in real GDP suggests that growth slowed to around 1.4% in 2025 as a whole.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK rose from 51.2 in November to 52.1 in December, suggesting the economy may be benefitting somewhat from pre-Budget uncertainty fading. This may also reflect a diminishing drag from weak overseas demand. While the services PMI rose from 51.3 to 52.1, the improvement in the manufacturing output balance from 50.3 to 51.8 was larger. Indeed, the manufacturing sector has been more exposed to the recent weakness of external demand and has lagged the services sector since the end of last year.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. Nonetheless, the 0.1% m/m fall in retail sales volumes in November built on the 0.9% m/m drop in October, suggesting the longer-lasting effects of weak employment and slowing wage growth are impacting. Moreover, the decline in the GfK measure of consumer confidence from -17 in October to -19 in November suggests that consumers are not that optimistic at present.

- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.
- Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.
- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.
- After the Budget, public net sector borrowing of £11.7bn in November was comfortably below last November's figure of £13.6bn and was the lowest November borrowing figure since 2021, mainly due to tax receipts being £5.4bn higher, largely because of the hike in employer NICs in April 2025. Cumulative borrowing in the first eight months of 2025/26 was still £10bn above last year's total. However, lower inflation and a disposal of assets ahead of the Budget should mean borrowing in 2025/26 comes in below last year's total.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, the 38,000 fall in payroll employment in November was the tenth monthly decline in the past 13 months, causing the annual growth rate to slow further, from -0.5% to -0.6%. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022) but the less reliable Labour Force Survey data showed that employment fell by 16,000 in the three months to October, with the unemployment rate rising further, from 5.0% to 5.1%. All this suggests the labour market continues to loosen, albeit at a slow pace.

- A looser labour market is driving softer wage pressures. The 3myy growth rate of average earnings including bonuses eased from 4.9% in September to 4.7% in October. And excluding bonuses, the 3myy rate slowed from 4.7% to 4.6%. Regular private sector pay growth continued to slow from 4.2% to 3.9%. That left it broadly on track to meet the Bank's end of December prediction of 3.5%.
- CPI inflation fell sharply in November, easing from 3.6% in October to 3.2%. This was the third consecutive softer-than-expected inflation outturn and suggests that disinflation is well underway. There was a widespread easing in price pressures with inflation slowing in 10 of the 12 main categories. Core inflation fell from 3.4% to 3.2% and services inflation dipped from 4.5% to 4.4%. However, a great deal will depend on the adjustments to regulated and indexed prices scheduled for next April. Capital Economics forecast CPI inflation to drop from 3.2% in March to 2.0% in April, thereby leaving inflation on track to settle at the 2.0% target, or below, by the end of 2026.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to a high of c4.8%, before ending June at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although, subsequently, gilt yields fell back after the Budget, supported by a tighter fiscal plan, fewer tax hikes required following a smaller-than-expected downgrade to the OBR's fiscal forecast, and a favourable shift in bond issuance away from long-dated debt. Gilt yields hovered around 4.5% at the end of the quarter.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further significant jump in value. The stock market hit new record highs above 9,900 in Mid-November, driven by a global rebound on hopes of a US

government-shutdown resolution, expectations of a December rate-cut, and strong corporate earnings. Despite some jitters around Budget time, the FTSE 100 closed Q4 at 9,931, 5% higher than at the end of September and 22% higher since the start of 2025.

MPC meetings: 6 November and 18 December 2025

- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

2025-26 Prudential and Treasury Indicators

		Revised Estimates £m
Prudential indicators for prudence		
1)	Capital expenditure	
	Gross capital expenditure	76
	Less Financing	31
	Net financing need (in year borrowing requirement)	45
2)	Capital financing requirement (CFR)	
	Total CFR at 1 April	360
	Total CFR 31 March	396
	Movement in CFR	36
	Represented by:	
	Net in year borrowing requirement (above)	45
	Less Principal repayments and other financing movements	9
	Total	36
3)	Authorised limit for borrowing	287
	Authorised limit for long-term liabilities	117
	Authorised limit for external debt	404
4)	Operational boundary for borrowing	282
	Operational boundary for long-term liabilities	114
	Operational boundary for external debt	396
5)	Gross debt and the CFR	
	Gross debt at 31 March	289
	Total CFR at 31 March	396
	Gross debt less the CFR at 31 March	(107)

Prudential indicators for affordability

6)	Ratio of financing costs to net revenue stream	7.4%
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Treasury indicators - borrowing limits

7)	Maturity structure of fixed rate borrowing	Upper	Lower
	a) Under 12 months	30%	0%
	b) 12 months and within 24 months	30%	0%
	c) 24 months and within 5 years	30%	0%
	d) 5 years and within 10 years	40%	0%
	e) 10 years and above	100%	0%
8)	Limits on fixed and variable rate borrowing	Upper	Lower
	a) Fixed rate	100%	0%
	b) Variable rate	60%	0%

Treasury indicator - investment

9)	Upper limit on principal sums invested for over 365 days	£20m
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Notes to Prudential and Treasury Indicators

The authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Prudential Indicators – Prudence

Indicators 1-5 above cover the overall capital and control of borrowing prudential indicators.

Affordability Prudential Indicators

Within the overall framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the authority's overall finances.

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs), against the net revenue stream.

Maturity Structure of Borrowing

These gross limits are set to reduce the authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.