Audit and Governance Committee
24 November 2025
Treasury Management Mid-Year Update
For Decision

Cabinet Member:
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s):

Senior Leadership Team:
S Cremer, Corporate Director, Section 151 Officer

Report author: David Wilkes
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Statutory Authority: Dorset Council

Report status: Public (the exemption paragraph is N/A)

Executive summary (maximum of 500 words)

This report summarises the treasury management performance and position information for Dorset Council for the six months to 30 September 2025.

Treasury management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice. In adopting the code, recommended best practice is for members to approve an annual treasury management strategy report, and to then receive a mid-year update on progress against the strategy (this report) and a year-end review of actual performance against the strategy.

All treasury management activity in the year to 30 September 2025 complied with the limits and parameters included in the Treasury Management Strategy for 2025/26 approved by full Council February 2025.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR).

The CFR at 31 March 2026 is forecast to be £465mm, up £31m from £434m at the start of the year but £5m below the budget of £470m when the capital strategy was approved by full Council in February 2025.

The Council's total external borrowing at 30 September 2025 was £276m, compared to £292m at 31 March 2025, and is forecast to increase to £325m by 31 March 2026, compared to the budget of £360m. The total interest paid servicing external debt for the year is forecast to be £13.0m compared to the budget of £13.9m.

The difference between the CFR and external debt is financed by 'internal borrowing' which is the use of reserves, working capital and other balance sheet resources that would otherwise have been invested had they not been uses to 'offset' the Council's borrowing requirement.

At 30 September 2025 the Council held cash and treasury investments of £93m compared to £63m at 31 March 2025 and is forecast to fall to £35m by 31 March 2026, compared to the budget of £65m. The total interest and investment income for the year is forecast to be £4.0m compared to a budget of £4.0m.

Recommendation(s)

That the Committee note and comment upon the report, and to offer any suggestions for improvements in treasury management arrangements for the future.

Reason for the recommendation(s)

To better inform members of treasury management activity, in accordance with the corporate requirement to ensure money and resources are used wisely.

1. Introduction

1.1 The Council's treasury management strategy for 2025/26 was approved by a meeting of Dorset Council on 11 February 2025.

1.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

1.3 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.4 The Council employs professionally qualified and experienced staff with responsibility for making borrowing and investment decisions. Officers are supported by external advisers who are specialists in their fields. The Council currently employs Arlingclose Limited as treasury management advisers.

1.5 This approach ensures that the Council has access to a wide pool of relevant market intelligence, knowledge and skills that would be very difficult and costly to replicate internally. However, whilst advisers provide support to the internal treasury function, final decisions on treasury matters always remain with the Council.

2. External Context

2.1 Treasury management decisions made by the Council must take into consideration external factors, particularly the wider economic backdrop and the outlook for financial markets and interest rates, and the wider regulatory framework.

2.2 Over the course of the financial year to date the Bank of England's Monetary Policy Committee (MPC) reduced Bank Rate from 4.5% to 4.25% in May and to 4.0% in August. One more cut is widely expected before 31 March 2026, taking Bank Rate to 3.75%. The Bank Rate is important for the Council's treasury activities because the returns on cash balances tend to follow this quite closely as do short term borrowing rates. Interest rates on long term borrowing are more closely aligned to interest rates on government borrowing ('gilts') which held up higher than expected due to upward pressure on the level of expected government borrowing.

2.3 A detailed commentary on the external context provided by Arlingclose is included in Appendix 1 together with their most recent economic and interest rate forecast in Appendix 2.

3. Local Context

3.1 The Council's balance sheet is summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31-Mar 2025 Actual £m	30-Sep 2025 Actual £m	31-Mar 2026 Budget £m	31-Mar 2026 Forecast £m
Capital Financing Requirement (CFR)	**434**	**440**	**470**	**465**
Less: PFI and other debt liabilities	34	34	35	35
Loans CFR (underlying borrowing requirement)	**400**	**406**	**435**	**430**
External borrowing	**292**	**276**	**360**	**325**
Internal Borrowing	**108**	**130**	**75**	**105**
Cash and Investments	**63**	**93**	**65**	**35**

3.2 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR).

3.3 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The CFR increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

3.4 The CFR is forecast to rise by about £30m over the year to roughly £465m, less than budgeted due to slippage in delivering the capital programme. External borrowing is forecast to increase by about £33m over the year, higher than the increase in CFR as the Council is expected to have less reserves available to support 'internal borrowing' than it did at the beginning of the year.

3.5 CIPFA's 2021 Prudential Code makes clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no plans to borrow to invest primarily for financial return

3.6 The treasury management position at 30 September 2025 and the forecast position for 31 March 2026 are shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.25 Actual £m	30.09.25 Actual £m	31.03.26 Forecast £m
Long-term borrowing			
PWLB*	145.6	144.3	178
LOBO loans**	11.0	11.0	11
Other	85.6	85.6	86
Short-term borrowing	50.0	35.0	50
Total Borrowing	**292.2**	**275.9**	**325**
Long-term investments	19.3	19.0	5
Short-term investments	8.4	8.5	0
Cash and cash equivalents	35.5	65.9	30
Total Investments	**63.2**	**93.4**	**35**
Net Borrowing	**229.0**	**182.5**	**290**

*Public Works Loan Board loans from the UK Debt Management Office.
**Lender Option Borrower Option loans.

4. Borrowing

4.1 At 30 September 2025 the Council held £276m of loans, a net decrease of £16m from 31 March 2025, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans as at 30 September 2025 are summarised in Table 3 below.

Table 3: External Borrowing

	31.03.25 Balance £m	Net Movement £m	30.09.25 Balance £m	30.09.25 Average Rate %	30.09.25 Average Maturity (years)
Public Works Loan Board	145.6	-1.3	144.3	4.6%	11.5
Banks (fixed-term)	11.0	14.6	25.6	4.7%	52.1
Banks (LOBO*)	25.6	-14.6	11.0	4.6%	51.6
Local authorities (long-term)	15.0	0.0	15.0	4.4%	34.7
Local authorities (short-term)	50.0	-15.0	35.0	4.6%	1.0
Other lenders (fixed-term)	45.0	0.0	45.0	3.3%	41.5
Total Borrowing	**292.2**	**-16.3**	**275.9**	**4.4%**	**21.7**

4.2 The chief objective of Dorset Council and its predecessors when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should long-term plans change being a secondary objective. The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing has been maintained.

4.3 The Council held £11m of Lender's Option Borrower's Option (LOBO) loans at 30 September 2025. These are loans where the lender has the option to propose an increase in the interest rate at set dates (lender's option), following which the Council has the option to either accept the new rate or to repay the loan at no additional cost (borrower's option).

4.4 In addition, capital finance may be raised by the following methods that are not borrowing but are classed as other debt liabilities: leasing, hire purchase, Private Finance Initiative (PFI) and sale and leaseback. Total debt other than borrowing at 30 September 2025 was estimated at £34m.

5. Cash and Treasury Investments

5.1 The CIPFA Treasury Management Code defines treasury investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

5.2 Cash, cash equivalents and treasury investments held on 30 September 2025 are summarised in Table 4 below.

Table 4: Cash and Investments Summary

	31.03.25 Balance £m	Net Movement £m	30.09.25 Balance £m
Cash and Cash Equivalents	**35.5**	**30.4**	**65.9**
Investments:			
Short-dated bond funds	2.9	0.0	2.9
Strategic bond funds	5.6	0.1	5.6
Property funds	19.3	-0.3	19.0
Total Investments	**27.7**	**-0.2**	**27.5**
Total Cash and Investments	**63.2**	**30.2**	**93.4**

5.3 Both the CIPFA Code and government guidance require local authorities to invest funds prudently, and to have regard to the security and liquidity of treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.4 The Council holds investments in bond and property funds which were 'inherited' from a number of the predecessor councils. These investments are held for the longer term with the acceptance that capital values will fluctuate over the short term but with the expectation that over a three to five-year period total returns will exceed cash interest rates. These 'strategic investments' were valued at £27.5m in total as at 30 September 2025.

6. Treasury Performance

6.1 The Council measures the financial performance of its treasury management in terms of its impact on the revenue budget as shown in Table 5 below.

Table 5: Treasury Performance

	Budget £m	Forecast £m	Variance £m	
Interest Payable	13.9	13.0	0.9	F
Interest and Investment Income	-4.0	-4.0	0.0	F
Net Payable / (Receivable)	**9.9**	**9.0**	**0.9**	**F**

7. Compliance

7.1 All treasury management activities undertaken during the year to date complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

7.2 The Council is legally obliged to set an affordable borrowing limit (the 'authorised limit') for external debt each year and a lower 'operational boundary' is also set as a warning level should debt approach the authorised limit. Compliance with the both the authorised limit and operational boundary for external debt is shown in Table 6 below.

Table 6: Debt Limits

	Maximum 2025-26 £m	30.09.25 Actual £m	Operational Boundary £m	Authorised Limit £m
Total Capital Financing	**326**	**310**	**495**	**520**

7.3 Compliance with the limits on cash and treasury investments is demonstrated in Appendix 3.

8. Treasury Management Prudential Indicators

8.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

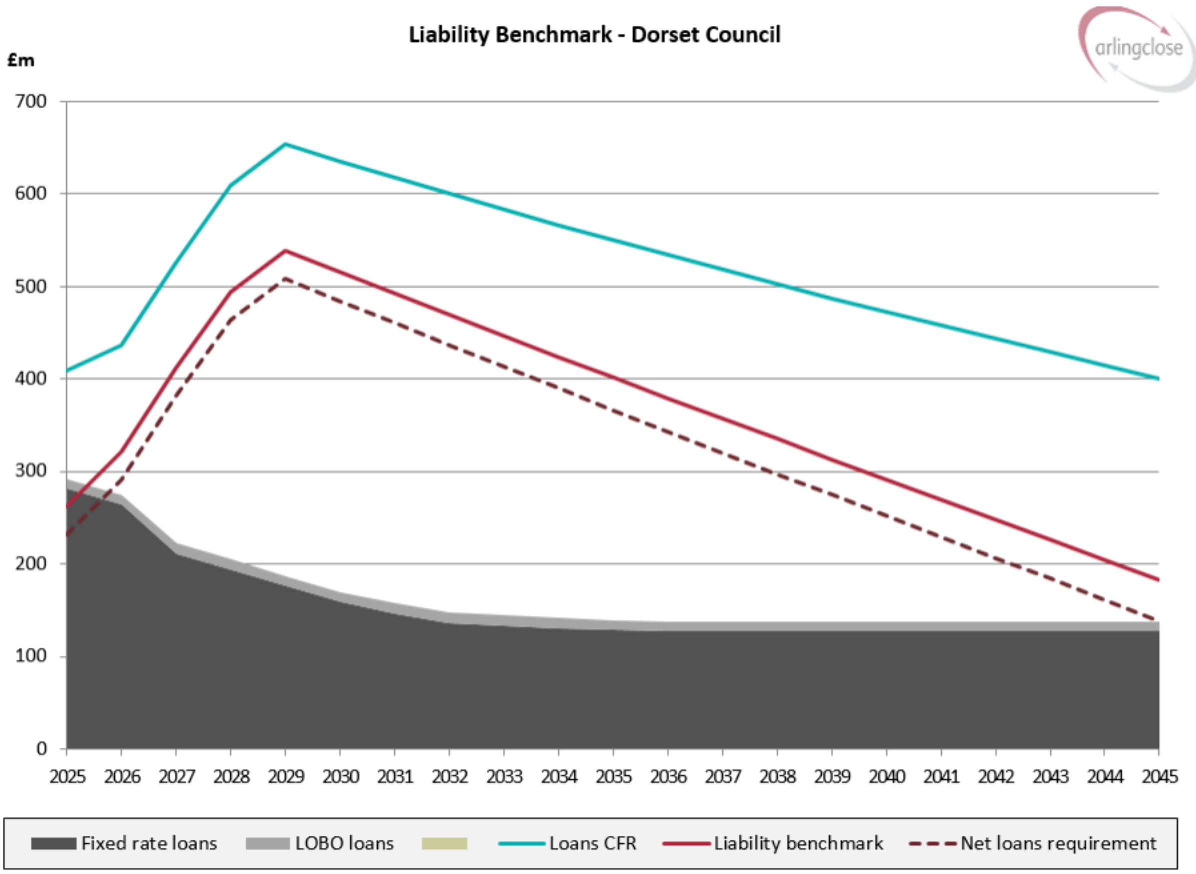
8.2 **Liability Benchmark:** This indicator compares the Council's actual existing borrowing against a 'liability benchmark' calculated to show the lowest possible level of external borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor and so shape its strategic focus and decision making. It 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 a minimum 'liquidity allowance' to manage day-to-day cash flows.

Table 7: Liability Benchmark (medium term forecast)

	31.03.25 Actual £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Loans CFR (underlying borrowing requirement)	**400**	**430**	**520**	**600**
Less: Balance sheet resources	171	145	145	145
Net loans/borrowing requirement	**229**	**285**	**375**	**455**
Plus: Liquidity allowance	30	30	30	30
Liability Benchmark	**259**	**315**	**405**	**485**
External Borrowing	**292**	**325**	**415**	**495**

8.3 The long-term liability benchmark based on the most recent capital programme is shown in the chart below together with the maturity profile of the Council's borrowing as at 30 September 2025.

Chart 1: Liability Benchmark (long term forecast)



8.4 The 'gap' between the solid red line (liability benchmark) and the grey shaded areas (existing borrowing) indicates the minimum amount and duration of additional external borrowing the Council is expected to need to fund the capital programme over the next twenty years.

8.5 **Security**: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA = 1, AA+ = 2 etc.) and taking the average, weighted by the size of each investment. The credit score of money market funds is calculated from the fund's underlying investments and unrated investments are assigned a score based on their perceived risk.

Table 8: Security

	2025/26 Target	30.09.25 Actual	Complied Yes/No
Portfolio average credit score	< 6	4.9	Yes

8.6 **Liquidity**: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period without additional borrowing. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and Money Market Funds.

Table 9: Liquidity

	2025/26 Target £m	2025/26 Min £m	30.09.25 Actual £m	Complied Yes/No
Total cash available within 1 day	> 10	30	66	Yes
Total cash available within 3 months	> 30	39	74	Yes

8.7 **Interest Rate Exposure**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests were:

Table 10 Interest Rate Exposure

	2025/26 Target £000s	30.09.25 Actual £000s	Complied Yes/No
Upper limit on one-year revenue impact of a 1% rise in interest rates	< 1,000	471	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	< 1,000	-471	Yes

8.8 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced.

8.9 **Sums invested for periods longer than a year**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested at the period end were:

Table 11: Investments longer than one year

	2025/26 £m	2026/27 £m	2027/28 £m	No fixed date £m
Limit on principal invested beyond one year	30.0	20.0	10.0	100.0
Actual principal invested beyond one year	0.0	0.0	0.0	27.5
Complied (Yes/No)	Yes	Yes	Yes	Yes

8.10 Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term cash and cash equivalents.

8.11 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing were:

Table 12: Maturity Structure of Borrowing

	30.09.25 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	35.0	12.7%	30%	0%	Yes
1 to 2 years	15.0	5.4%	30%	0%	Yes
2 to 5 years	45.0	16.3%	30%	0%	Yes
5 to 10 years	17.5	6.3%	35%	0%	Yes
10 to 20 years	25.0	9.1%	35%	0%	Yes
20 to 30 years	41.8	15.2%	45%	0%	Yes
30 to 40 years	15.0	5.4%	45%	0%	Yes
40 to 50 years	45.0	16.3%	45%	0%	Yes
50 years and above	36.6	13.3%	50%	0%	Yes
Total	**275.9**	**100.0%**			

9. Alternative options considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium

Alternative	Impact on income and expenditure	Impact on risk management
		term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

10. Legal considerations

10.1 None identified.

11. Financial implications

11.1 This report summarises the performance of the Council's treasury management activity in the six months to 30 September 2025. There are no other financial implications arising from this report.

12. Natural environment, climate & ecology implications

12.1 None identified.

13. Well-being and health implications

13.1 None identified.

14. Other implications

14.1 None identified.

15. Risk implications

15.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: HIGH
Residual Risk: Medium

16. Equalities

16.1 There are no equalities implications arising from this report.

17. Appendices

Appendix 1: External Context (Arlingclose 6 October 2025)
Appendix 2: Economic and Interest Rate Forecast (Arlingclose 24 September 2025)

Appendix 3: Compliance with Investment Limits
Appendix 4: Glossary of Treasury Management Terms

18. Background papers

Budget Report Appendix 3 - Capital Strategy 2025-28 v1 plus cap programme.pdf
Budget Report - Appendix 4 - TM Strategy 2025-26 v2.pdf

19. Report sign-off

19.1 This report has been through the internal report clearance process and has been signed off by the Director for Legal and Democratic (Monitoring Officer), the Corporate Director for Corporate Development (Section 151 Officer) and the appropriate Portfolio Holder(s)

Appendix 1: External Context (Arlingclose 6 October 2025)

Economic background: The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down % from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.00%-4.25% in September. Fed policymakers also published their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

Financial markets: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

Credit review: Arlingclose maintained its recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. While Moody's downgraded the long term rating on the United States sovereign to Aa1 in May and also affirmed OP Corporate's rating at Aa3.

Then in the second quarter, Fitch upgraded Clydesdale Bank and also HSBC, downgraded Lancashire CC and Close Brothers while Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

After spiking in early April following the US trade tariff announcements, UK credit default swap prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

European banks' CDS prices has followed a fairly similar pattern to the UK, as have Singaporean and Australian lenders while Canadian bank CDS prices remain modestly elevated compared to earlier in 2025 and in 2024.

Overall, at the end of the period CDS prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Appendix 2: Economic and Interest Rate Forecast (Arlingclose 24 September 2025)

The MPC voted 7-2 to maintain Bank Rate at 4.0% in September, in line with both our and wider market expectations. While continuing to signal the expectation of "gradual and careful" policy easing, the MPC minutes also emphasised some committee members' concerns about second round inflation effects. The shift in MPC focus over the past few months has increased uncertainty over the timing of the next rate cut.

Inflation remained at 3.8% in August, but the expectation is for the CPI rate to peak around 4% this month and remain elevated into next year. The rise is largely the result of higher food and regulated prices, and labour costs. Services inflation remains elevated but has eased recently. Inflation expectations have picked up, but this is likely largely the result of the noticeable rise in food prices.

Spare capacity has opened up in the labour market and wage growth is slowly moderating, which should place further downward pressure on services inflation.

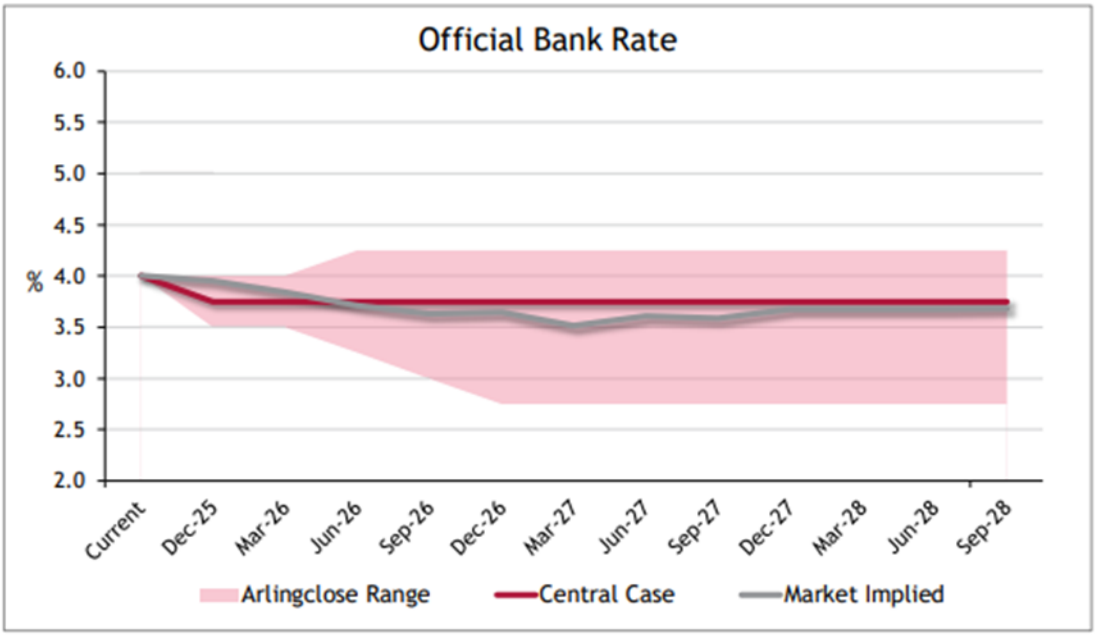
Underlying GDP growth remains subdued. While H1 2025 has been relatively strong, this was partly due to one-off factors. Q3 GDP growth is likely to slow, with July's GDP figures suggesting a lack of momentum. Downside risks persist, most notably the rising probability of fiscal tightening in the Budget.

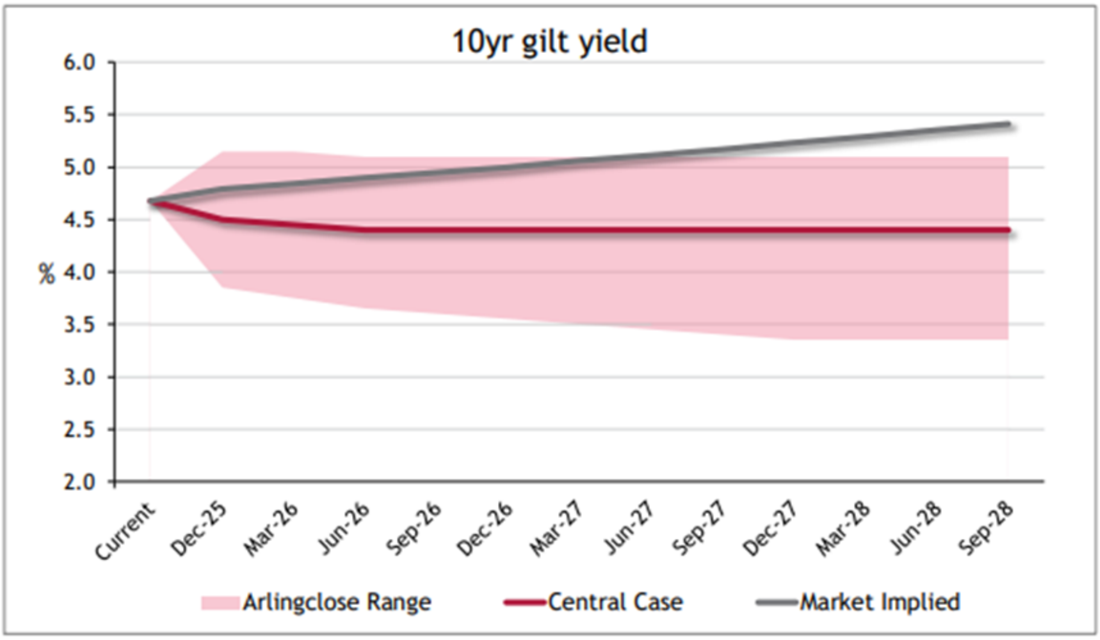
Business investment is lacklustre and private sector output is constrained by weaker domestic demand and spending. Ongoing uncertainty over the global outlook is still discouraging capital investment, particularly in the manufacturing sector.

As the government struggles to meet fiscal rules amid a seeming lack of market confidence, fiscal consolidation is likely in the next Budget. This may place downward pressure on consumption and therefore economic growth.

Our view remains that the risks to growth are weighted to the downside. While upside risks to inflation remain over the short-term, these wane into the second half of 2026. The MPC's stance, however, suggests the chance of a Q4 reduction in Bank Rate has declined.

Gilt yields remain elevated, driven by concerns around UK and US fiscal credibility, general anxiety about bond issuance levels, and uncertainty over the impact of US monetary and trade policy. While the MPC reduced QT, due to these factors, longer term yields continue to include high term premia, the persistence of which is difficult to estimate.


Official Bank Rate
6.0
5.5
5.0
4.5
%
4.0
3.5
3.0
2.5
2.0
Current
Dec-25
Mar-26
Jun-26
Sep-26
Dec-26
Mar-27
Jun-27
Sep-27
Dec-27
Mar-28
Jun-28
Sep-28
Arlingclose Range
Central Case
Market Implied


10yr gilt yield
6.0
5.5
5.0
4.5
%
4.0
3.5
3.0
2.5
2.0
Current
Dec-25
Mar-26
Jun-26
Sep-26
Dec-26
Mar-27
Jun-27
Sep-27
Dec-27
Mar-28
Jun-28
Sep-28
Arlingclose Range
Central Case
Market Implied

Appendix 3: Compliance with Investment Limits

Compliance with Counterparty Limits

	2025/26 Maximum £m	30.09.25 Actual £m	2025/26 Limit £m	Complied Yes/No
UK Government	0	0	Unlimited	Yes
Local authorities & other government entities	0	0	30	Yes
Secured investments*	0	0	30	Yes
Banks (unsecured)*	4.3	1.1	15	Yes
Building societies (unsecured)*	0	0.0	15	Yes
Registered providers (unsecured)*	0	0.0	15	Yes
Money Market Funds*	23.8	13.2	30	Yes
Strategic pooled funds	16.8	16.8	20	Yes
Real Estate Investment Trusts	0	0	20	Yes
Other investments*	0	0	15	Yes

Compliance with Sector Limits

	2025/26 Maximum £m	30.09.25 Actual £m	2025/26 Limit £m	Complied Yes/No
Local authorities & other government entities	0	0	Unlimited	Yes
Secured investments*	0	0	Unlimited	Yes
Banks (unsecured)*	4.3	1.1	Unlimited	Yes
Building societies (unsecured)*	0	0.0	30	Yes
Registered providers (unsecured)*	0	0.0	30	Yes
Money Market Funds*	129.0	64.8	Unlimited	Yes
Strategic pooled funds	27.7	27.5	150	Yes
Real Estate Investment Trusts	0	0	100	Yes
Other investments*	0	0	30	Yes

***Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

Appendix 4: Glossary of Treasury Management Terms

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Balance sheet resources	Arlingclose term for the sum of *usable reserves* and *working capital*. Equal to the difference between the *loans CFR* and the *net loans requirement*.
Bank Rate	The official interest rate set by the *Monetary Policy Committee*, and the rate of interest paid by the *Bank of England* on commercial bank deposits. Colloquially termed the "base rate".
Bond	A certificate of *long-term* debt issued by a company, government, or other institution, which is tradable on financial markets.
Bond fund	A *collective investment scheme* that invests mainly in *bonds*.
Call account	A *deposit* account that can be called back, normally on instant access.
Capital	**(1)** Long-term, as in *capital expenditure* and *capital receipt.* **(2)** Principal, as in *capital gain* and capital value. **(3)** Investments in *financial institutions* that will absorb losses before *senior unsecured creditors.*
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments and expenditure directed by the government to be treated as capital.
Capital finance	Arranging and managing the cash required to finance *capital expenditure*, and the associated accounting.
Capital financing requirement (CFR)	A local authority's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with *capital expenditure* and decreases with *capital finance* and *MRP*.
Capital receipt	Cash obtained from the sale of an item whose purchase would be *capital expenditure*. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Capital strategy	An annual report required by the *Prudential Code* that sets out a local authorities' high-level plans for capital expenditure, debt and investments and its *Prudential Indicators* for the forthcoming financial year.
Cash equivalent	Accounting term for short-term investments readily convertible to cash with an insignificant risk of change in value.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').

Commercial investment	An investment whose main purpose is generating income, such as *investment property*.
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a *counterparty*, in order to manage *credit risk*.
Country limit	The maximum amount an investor is willing to lend to all *counterparties* based in a foreign country, in order to manage *credit risk*.
Coupon	The contractual interest rate payable on a *bond*, as a percentage of the *nominal* amount. This normally reflects market conditions when the bond was originally issued.
Credit default swap (CDS)	*Derivative* for swapping *credit risk* on a particular issuer, similar to an insurance policy where the buyer pays a *premium* against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.
Credit rating	Formal opinion by a *credit rating agency* of a *counterparty*'s future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes *credit ratings*. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a *counterparty* will *default* on its financial obligations.
DMADF	Debt Management Account Deposit Facility – a facility offered by the *DMO* enabling local authorities to deposit cash at very low *credit risk*. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
EIP	Equal instalments of principal. A method of repaying a loan where the principal is repaid over the life of the loan, in equal instalments. Interest payments reduce over time as the principal is repaid.
Equity fund	A *collective investment scheme* that mainly invests in company *shares.*
FCA	Financial Conduct Authority – UK agency responsible for regulating financial markets and the conduct of *financial institutions*, *brokers*, *custodians*, *fund managers* and *treasury management advisors*.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	*Yield* on *gilts*. Commonly used as a measure of risk-free long-term interest rates in the UK.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.

Internal borrowing	A local government term for when actual "external" *debt* is below the *capital financing requirement*, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Liability benchmark	Term in CIPFA's *Treasury Management Code* which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare the actual and forecast levels of borrowing.
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed.
Loans CFR	The *capital financing requirement* less the sum met by *other long-term liabilities*; i.e. the underlying need to borrow for capital purposes.
LOBO	Lender's option borrower's option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into *interest rate risk*, *price risk* and *foreign exchange risk*.
Maturity	**(1)** The date when an investment or borrowing is scheduled to be repaid. **(2)** A type of loan where the principal is only repaid on the maturity date.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.
Monetary Policy Committee (MPC)	Committee of the *Bank of England* responsible for implementing *monetary policy* in the UK by changing *Bank Rate* and *quantitative easing* with the aim of keeping *CPI* inflation at around 2%.
Money market fund (MMF)	A *collective investment scheme* which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to *CNAV* and *LVNAV* funds with a *WAM* under 60 days which offer instant access, but the European Union definition extends to include *cash plus funds*.
MRP	Minimum revenue provision **- a**n annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP. Not applicable in Scotland, but see *Loans Fund*.
Municipal bonds agency	Company that issues *bonds* in the *capital market* and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	*Borrowing* minus *treasury investments*.
Net loans requirement	CIPFA term for the forecast amount of borrowing required to generate zero *treasury investments*.
Other long-term liabilities	*Prudential Code* term for *credit arrangements*.
Operational boundary	A *prudential indicator* showing the most likely, prudent, estimated level of external *debt*, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.

Pension Fund	Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of *treasury management*.
Pooled fund	See *collective investment scheme.*
PRA	Prudential Regulation Authority – the part of the *Bank of England* that regulates UK banks.
Principal	The amount of money originally lent on a *debt* instrument.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a *credit arrangement* and *debt.*
Property fund	A *collective investment scheme* that mainly invests in property. Due to the costs of buying and selling property, including *stamp duty land tax*, there is usually a significant fee charged on initial investment, or a significant difference between the *bid* and *offer* price.
Prudential borrowing	Another term for *unsupported borrowing*.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the *Prudential Code* and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.
PWLB	Public Works Loans Board – formerly a statutory body operating within the *DMO* that lent money from the National Loans Fund to local authorities and other prescribed bodies and collected the repayments. The term now refers to the replacement facility operated by the DMO. Not available in Northern Ireland.
Realised gain or loss	Gain or loss that will not be reversed later, e.g. because the instrument has been sold. See also *unrealised gain or loss*.
Redemption	The process of withdrawing cash from a *collective investment scheme* and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the *prospectus*.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth *maturity profile*.
Revenue expenditure	Expenditure to meet the ongoing cost of delivering public services including salaries and the purchase of goods and services, as opposed to *capital expenditure*.
Service investments	Investments made to promote a local authority's public service objectives, for example a *loan* to a local charity or *shares* in a local company.

Strategic funds	*Collective investment schemes* that are designed to be held for the long-term, comprising *strategic bond funds*, *diversified income funds*, *equity funds* and *property funds*.
Temporary borrowing	Borrowing with a term of less than one year.
Term deposit	A *deposit* that is repayable after a fixed period of time.
Treasury investments	Investments made for *treasury management* purposes, as opposed to *commercial investments* and *service investments*.
Treasury management	The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments.
Treasury management advisor	Regulated firm providing advice on *treasury management*, *capital finance* and related issues.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.
Treasury management indicators	Indicators required by the *Treasury Management Code* to assist in the management of *credit risk*, *interest rate risk*, *refinancing risk* and *price risk*.
Treasury management strategy	Annual report required by the *Treasury Management Code* covering the local authority's *treasury management* plans for the forthcoming year.
Unrealised gain or loss	Gain or loss that may be reversed later, e.g. from *marking to market*. Also called a paper gain or loss. See also *realised gain or loss*.
Unsupported borrowing	Borrowing where the cost is self-financed by the local authority. Sometimes called prudential borrowing since it was not permitted until the introduction of the *Prudential Code* in 2004. See also s*upported borrowing*.
Usable reserves	Resources available to finance future *revenue* and/or *capital expenditure.* Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Vanilla	A simple instrument without any additional features such as *embedded derivatives*.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a *bond*. The yield on a fixed rate bond moves inversely with its price.