

Appendix 8: Treasury Management Strategy 2026-27

1. Introduction

- 1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. 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 financial risk are therefore central to the Council's prudent financial management.
- 1.2. 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. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. This report also covers the requirements of statutory guidance last issued in 2018 by the then Ministry of Housing, Communities and Local Government (MHCLG) regarding both Minimum Revenue Provision (MRP) and local government investment.

2. Treasury Management Advisers

- 2.1. 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.
- 2.2. 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.

3. External Context (Economic Background and Outlook)

- 3.1. 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.
- 3.2. Arlingclose currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. The Bank Rate is very important for the Council's treasury activities because

the returns on cash balances tend to follow this quite closely as do interest rates on short term borrowing. Arlingclose expects long-term gilt yields, and therefore interest rates payable on long-term borrowing, to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. The interest rates the Council pays on long term borrowing are closely aligned to or, for PWLB loans, directly linked to gilt yields. A detailed economic commentary and interest rate forecast produced by Arlingclose is included in Appendix 1.

4. Local Context

4.1. Each of Dorset Council's six predecessor councils had different balance sheets and different capital programmes, and each had therefore developed different treasury management strategies to suit their individual circumstances. Dorset Council's strategy continues to evolve to meet the needs of its combined balance sheet and capital programme. Existing borrowing and investment positions will continue to be reviewed to achieve an appropriate balance between cost and risk.

4.2. The Council's balance sheet summary and forecast are shown in table 1 below.

Table 1: Balance Sheet summary in £ millions

	31-Mar 2025 Actual	31-Mar 2026 Forecast	31-Mar 2027 Budget	31-Mar 2028 Budget	31-Mar 2029 Budget
Capital Financing Requirement (CFR)	434	460	494	509	494
Less: PFI and other debt liabilities	34	35	35	35	35
Loans CFR (underlying borrowing requirement)	400	425	459	474	459
Less: External borrowing	292	330	360	380	370
Internal Borrowing	108	95	99	94	89
Less: Balance sheet resources	170	140	139	129	124
Cash and Investments	62	45	40	35	35

4.3. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Council has an increasing CFR due to the capital programme.

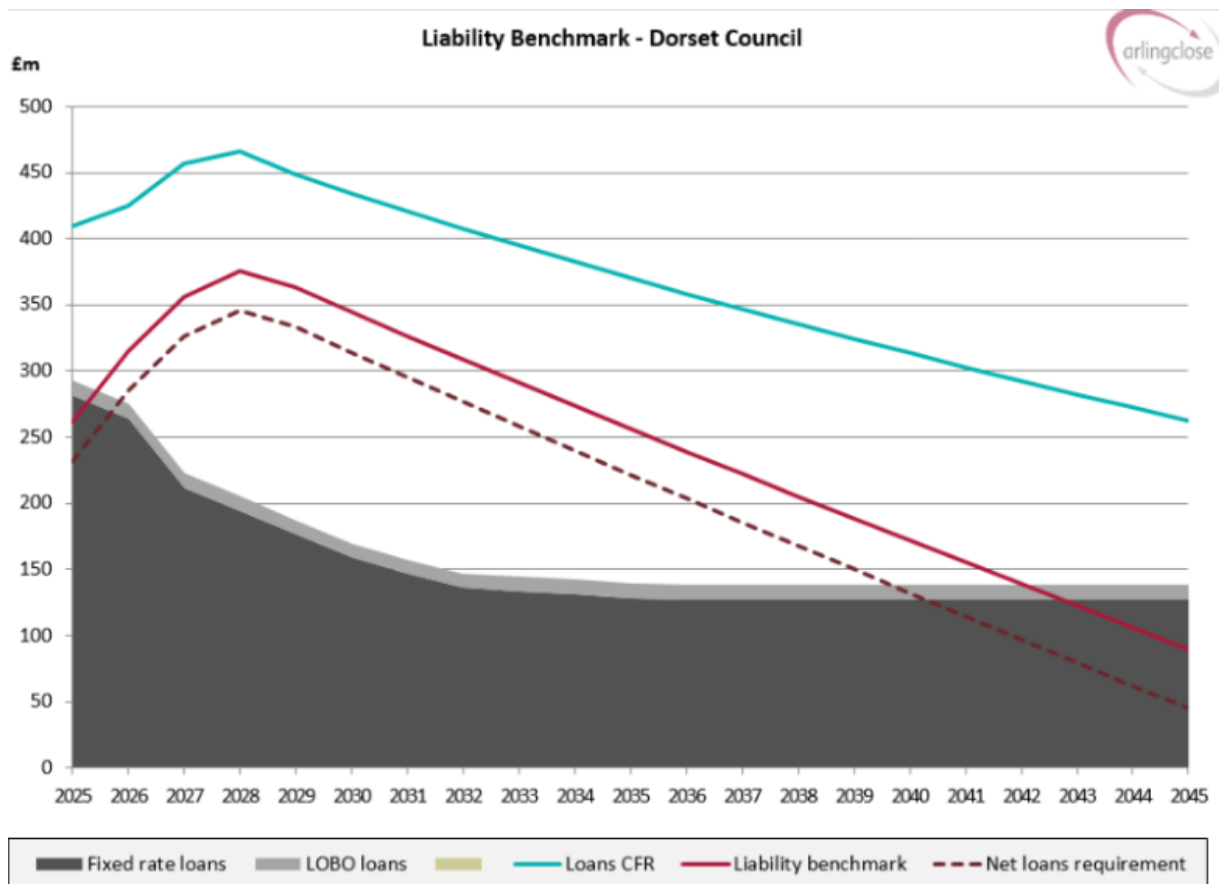
4.4. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation over the medium term.

- 4.5. 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 the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £30m at each year-end to maintain sufficient liquidity but minimise credit risk.
- 4.6. 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.

Table 2: Prudential Indicator: Liability benchmark

	31-Mar 2025 Actual £m	31-Mar 2026 Forecast £m	31-Mar 2027 Budget £m	31-Mar 2028 Budget £m	31-Mar 2029 Budget £m
Loans CFR (underlying borrowing requirement)	400	425	459	474	459
Less: Balance sheet resources	170	140	139	129	124
Net loans/borrowing requirement	230	285	320	345	335
Plus: Liquidity allowance	30	30	30	30	30
Liability Benchmark	260	315	350	375	365

- 4.7. Further to the medium-term forecasts in table 2 above, the long-term liability benchmark based on the proposed capital programme is shown in the chart below together with the maturity profile of the Council's existing borrowing:



4.8. 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 forecast to need to fund the capital programme over the next twenty years.

5. Borrowing Strategy

5.1. As at 31 December 2025, the Council held £286 million of loans as part of its strategy for funding current and previous years' capital programmes. External borrowing as at 31 December 2025 is summarised in Table 3 below.

Table 3: External borrowing (as at 31 December 2025)

	Balance £m	Average Rate %	Average Maturity (years)
Public Works Loan Board	149.3	4.6	10.3
Banks (fixed-term)	25.6	4.7	51.1
Banks (LOBO)	11.0	4.6	50.6
Local authorities (long-term)	15.0	4.4	33.7
Local authorities (short-term)	40.0	4.3	0.3
Other lenders (fixed-term)	45.0	3.9	40.5
Total External Borrowing	285.9	4.5	20.1

- 5.2. The Council's chief objective when borrowing money has been to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 5.3. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Council's interest rate exposure within the limit set in the treasury management prudential indicators. This strategy has enabled the Council to reduce net borrowing costs (despite foregone investment income) and to reduce overall treasury risk.
- 5.6. The Council may also consider forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.
- 5.7. The Council's approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board) and any successor body
 - National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
 - any institution approved for investments (see below)
 - any other bank, building society or insurance company authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (including the Dorset County Pension Fund)
 - retail investors via a regulated peer-to-peer platform
 - capital market bond investors, and
 - special purpose companies created to enable local authority bond issues.
- 5.8. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
 - hire purchase
 - Private Finance Initiative (PFI)

- sale and leaseback
 - similar asset-based finance
- 5.9. The Council holds one Lender's Option Borrower's Option (LOBO) loan for £11m where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.
- 5.10. Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.
- 5.11. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. With long-term interest rates having risen in recent years this means more favourable debt rescheduling opportunities should arise than in previous years.
- 5.12. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP) and is calculated with regard to statutory guidance. The guidance requires the Council to approve an Annual MRP Statement each year, and this is included as Appendix 2 to this Treasury Management Strategy.

6. Treasury Investment Strategy

- 6.1. The Council holds significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves held. Forecast cash and investments held on 31 March 2026 are summarised in Table 4 below.

Table 4: Cash and Treasury Investments (forecast 31 March 2026)

	Balance £m
Cash and Cash Equivalents	35
Treasury Investments	10
Total Cash and Investments	45

- 6.2. The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest 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. The Council aims to be a responsible investor and will endeavour to consider environmental, social and governance (ESG) issues when making investment decisions.

- 6.3. As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.
- 6.4. The Council has investments in externally managed strategic pooled investment vehicles (bond and property funds) where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.
- 6.5. Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 6.6. The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.
- 6.7. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council does not currently consider ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 6.8. The Council may invest its surplus funds with any of the counterparty types in table 5 below, subject to the limits shown.

Table 5: Treasury investment counterparties and limits

Sector	Time limit †	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£30m	Unlimited
Secured investments – government collateral	25 years	£30m	Unlimited
Secured investments – other collateral*	10 years	£30m	Unlimited
Banks (unsecured) *	13 months	£15m	Unlimited
Building societies (unsecured) *	13 months	£15m	£30m
Registered providers (unsecured) *	5 years	£15m	£30m
Money market funds *	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£20m	£150m
Real estate investment trusts	n/a	£20m	£100m
Other investments *	5 years	£15m	£30m

This table must be read in conjunction with the notes below:

- 6.9. ***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.
- 6.10. **†Time limits:** These start on the earlier of date that the Council is committed to make the investment and the date that cash is transferred to the counterparty.
- 6.11. **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

- 6.11. **Local authorities and other government entities:** Loans to, and bonds and bills issued or guaranteed by other 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.
- 6.12. **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. A higher limit applies for investments fully secured on UK or other government collateral.
- 6.13. **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.
- 6.14. **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.
- 6.15. **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.
- 6.16. **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.

- 6.17. **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.
- 6.18. **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.
- 6.19. **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
- 6.20. **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 6.21. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 6.22. **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 6.23. **Reputational aspects:** The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.
- 6.24. **Market conditions:** When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
- 6.25. **Investment limits:** the maximum that will be lent unsecured to any one organisation (other than the UK Government) will be £30 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £10 million in operational bank accounts count against the relevant investment limits.
- 6.26. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 6: Additional investment limits

Investment	Cash limit
Any group of pooled funds under the same management	£50m per manager

Investment	Cash limit
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£25m per country

- 6.27. **Liquidity management:** The Council monitors its cash flow forecasting on a daily basis to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7. Treasury Management Prudential Indicators

- 7.1. The Council measures and manages its exposures to treasury management risks using the following indicators.
- 7.2. **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. Arlingclose calculate the credit score by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The target for the portfolio average credit score is 6.0.
- 7.3. **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. The target level of cash available within three months is £30m. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and/or Money Market Funds.
- 7.4. **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 will be as set out in the table below:

Table 7: Maturity Structure of Borrowing

	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 Months to 2 Years	30%	0%
2 Years to 5 Years	30%	0%
5 Years to 10 Years	35%	0%
10 Years to 20 Years	35%	0%
20 Years to 30 Years	45%	0%
30 Years to 40 Years	45%	0%
40 Years to 50 Years	45%	0%
50 Years and above	50%	0%

7.5. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.6. **Long-term treasury management investments:** 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 prudential limits on long-term treasury management investments will be:

Table 8: Investments beyond year end

	2026/27	2027/28	2028/29	No fixed date
Limit on principal invested beyond year end	£30m	£20m	£10m	£60m

7.7. Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

8. **Financial derivatives**

8.1. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

8.2. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

- 8.3. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
- 8.4. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

9. Markets in Financial Instruments Directive

- 9.1. The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

10. Alternative options considered

- 10.1. 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

Alternative	Impact on income and expenditure	Impact on risk management
		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 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

Non-treasury Investments

Service Investments

- 11.1 The Council may make investments to assist local public services, including making loans to or investing in local service providers, including its own subsidiaries to support local public services and stimulate local economic growth. Service investments can make a commercial return but obtaining those returns will not be the primary purpose of the investment.
- 11.2 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. The Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments and assesses the risk of loss before entering into and whilst holding service loans.
- 11.3 The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth. One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered and the Council assesses the risk of loss before entering into and whilst holding shares.
- 11.4 The value and risks of service investments must remain proportionate to the size of the Council. As at 31 March 2025, the Council held service loans to town and parish councils, local charities and other organisations totalling £3.0m and shares in subsidiaries valued at £33,000.

Commercial Investments

- 12.1. Investments for commercial purposes (or commercial investments) are taken or held primarily for financial return (or yield) and are not linked to treasury management activity or to delivering services.
- 12.2. Local authorities must not borrow to invest for the primary purpose of financial return and PWLB loans are no longer available to local authorities if they plan to buy investments primarily for yield in the next three years.
- 12.3. The Council has no commercial investments and intends to avoid this activity in order to retain its access to PWLB loans.

Annex 1 – Arlingclose Economic & Interest Rate Forecast – January 2026

Economic background: The most significant impacts on the Authority's treasury management strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

CPI inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.

The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

Credit outlook: Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the authority's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Interest rate forecast (22nd December 2025): Arlingclose, the Authority's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December.

Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

Underlying assumptions:

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.

- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While, the Bank's measure of household expectations ticked lower in December, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

Forecast:

- In line with our long-held forecast, Bank Rate was cut to 3.75% in December.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026. However, near-term upside risks to the forecast have increased.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly and we expect yields to remain higher

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.35	3.35	3.35
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.95	4.95	4.95
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Annex 2 – Annual Minimum Revenue Provision Statement 2026/27

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in April 2024.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

- For capital expenditure incurred before 1 April 2008 MRP will be determined using the straight-line method by charging the expenditure in equal instalments over 40 years (the estimated weighted average expected useful life of the Council's capital assets).
- For capital expenditure incurred after 31 March 2008 but before 1 April 2025, MRP will be determined by charging the expenditure over an estimated weighted average expected useful life of 40 years as the principal repayment on an annuity with an annual interest rate of 5.28% (40-year PWLB annuity certainty rate at 1 April 2024) starting in the year after an asset becomes operational.
- For capital expenditure incurred after 31 March 2025, MRP will be determined by charging the expenditure over an estimated weighted average expected useful life of 40 years as the principal repayment on an annuity with an annual interest rate for the equivalent PWLB annuity loan effective on 1 April in the year in which MRP becomes payable.
- MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

Capital loans

- For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.
- For capital loans made on or after 7 May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.
- For capital loans made before 7 May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

Capital receipts

Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in ten equal instalments starting in the year after receipt is applied.

Annex 3: 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 <i>usable reserves</i> and <i>working capital</i> . Equal to the difference between the <i>loans CFR</i> and the <i>net loans requirement</i> .
Bank Rate	The official interest rate set by the <i>Monetary Policy Committee</i> , and the rate of interest paid by the <i>Bank of England</i> on commercial bank deposits. Colloquially termed the “base rate”.
Bond	A certificate of <i>long-term</i> debt issued by a company, government, or other institution, which is tradable on financial markets.
Bond fund	A <i>collective investment scheme</i> that invests mainly in <i>bonds</i> .
Call account	A <i>deposit</i> account that can be called back, normally on instant access.
Capital	(1) Long-term, as in <i>capital expenditure</i> and <i>capital receipt</i> . (2) Principal, as in <i>capital gain</i> and capital value. (3) Investments in <i>financial institutions</i> that will absorb losses before <i>senior unsecured creditors</i> .
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 <i>capital expenditure</i> , 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 <i>capital expenditure</i> and decreases with <i>capital finance</i> and <i>MRP</i> .
Capital receipt	Cash obtained from the sale of an item whose purchase would be <i>capital expenditure</i> . 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 <i>Prudential Code</i> that sets out a local authorities’ high-level plans for capital expenditure, debt and investments and its <i>Prudential Indicators</i> 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 <i>investment property</i> .

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 <i>counterparty</i> , in order to manage <i>credit risk</i> .
Country limit	The maximum amount an investor is willing to lend to all <i>counterparties</i> based in a foreign country, in order to manage <i>credit risk</i> .
Coupon	The contractual interest rate payable on a <i>bond</i> , as a percentage of the <i>nominal</i> amount. This normally reflects market conditions when the bond was originally issued.
Credit default swap (CDS)	<i>Derivative</i> for swapping <i>credit risk</i> on a particular issuer, similar to an insurance policy where the buyer pays a <i>premium</i> 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 <i>credit rating agency</i> of a <i>counterparty's</i> 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 <i>credit ratings</i> . The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a <i>counterparty</i> will <i>default</i> on its financial obligations.
DMADF	Debt Management Account Deposit Facility – a facility offered by the <i>DMO</i> enabling local authorities to deposit cash at very low <i>credit risk</i> . 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 <i>collective investment scheme</i> that mainly invests in company <i>shares</i> .
FCA	Financial Conduct Authority – UK agency responsible for regulating financial markets and the conduct of <i>financial institutions</i> , <i>brokers</i> , <i>custodians</i> , <i>fund managers</i> and <i>treasury management advisors</i> .
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	<i>Yield</i> on <i>gilts</i> . 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” <i>debt</i> is below the <i>capital financing requirement</i> , 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 <i>Treasury Management Code</i> 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 <i>capital financing requirement</i> less the sum met by <i>other long-term liabilities</i> ; 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 <i>interest rate risk</i> , <i>price risk</i> and <i>foreign exchange risk</i> .
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 <i>Bank of England</i> responsible for implementing <i>monetary policy</i> in the UK by changing <i>Bank Rate</i> and <i>quantitative easing</i> with the aim of keeping <i>CPI</i> inflation at around 2%.
Money market fund (MMF)	A <i>collective investment scheme</i> which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to <i>CNAV</i> and <i>LVNAV</i> funds with a <i>WAM</i> under 60 days which offer instant access, but the European Union definition extends to include <i>cash plus funds</i> .
MRP	Minimum revenue provision - an 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 <i>Loans Fund</i> .
Municipal bonds agency	Company that issues <i>bonds</i> in the <i>capital market</i> and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	<i>Borrowing</i> minus <i>treasury investments</i> .
Net loans requirement	CIPFA term for the forecast amount of borrowing required to generate zero <i>treasury investments</i> .
Other long-term liabilities	<i>Prudential Code</i> term for <i>credit arrangements</i> .
Operational boundary	A <i>prudential indicator</i> showing the most likely, prudent, estimated level of external <i>debt</i> , 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 <i>treasury management</i> .
Pooled fund	See <i>collective investment scheme</i> .
PRA	Prudential Regulation Authority – the part of the <i>Bank of England</i> that regulates UK banks.
Principal	The amount of money originally lent on a <i>debt</i> 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 <i>credit arrangement</i> and <i>debt</i> .
Property fund	A <i>collective investment scheme</i> that mainly invests in property. Due to the costs of buying and selling property, including <i>stamp duty land tax</i> , there is usually a significant fee charged on initial investment, or a significant difference between the <i>bid</i> and <i>offer</i> price.
Prudential borrowing	Another term for <i>unsupported borrowing</i> .
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 <i>Prudential Code</i> 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 <i>DMO</i> 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 <i>unrealised gain or loss</i> .
Redemption	The process of withdrawing cash from a <i>collective investment scheme</i> and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the <i>prospectus</i> .
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 <i>maturity profile</i> .
Revenue expenditure	Expenditure to meet the ongoing cost of delivering public services including salaries and the purchase of goods and services, as opposed to <i>capital expenditure</i> .
Service investments	Investments made to promote a local authority's public service objectives, for example a <i>loan</i> to a local charity or <i>shares</i> in a local company.

Strategic funds	<i>Collective investment schemes</i> that are designed to be held for the long-term, comprising <i>strategic bond funds</i> , <i>diversified income funds</i> , <i>equity funds</i> and <i>property funds</i> .
Temporary borrowing	Borrowing with a term of less than one year.
Term deposit	A <i>deposit</i> that is repayable after a fixed period of time.
Treasury investments	Investments made for <i>treasury management</i> purposes, as opposed to <i>commercial investments</i> and <i>service investments</i> .
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 <i>treasury management</i> , <i>capital finance</i> 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 <i>Treasury Management Code</i> to assist in the management of <i>credit risk</i> , <i>interest rate risk</i> , <i>refinancing risk</i> and <i>price risk</i> .
Treasury management strategy	Annual report required by the <i>Treasury Management Code</i> covering the local authority's <i>treasury management</i> plans for the forthcoming year.
Unrealised gain or loss	Gain or loss that may be reversed later, e.g. from <i>marking to market</i> . Also called a paper gain or loss. See also <i>realised gain or loss</i> .
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 <i>Prudential Code</i> in 2004. See also <i>supported borrowing</i> .
Usable reserves	Resources available to finance future <i>revenue</i> and/or <i>capital expenditure</i> . 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 <i>embedded derivatives</i> .
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 <i>bond</i> . The yield on a fixed rate bond moves inversely with its price.