

Audit and Governance Committee

12 October 2026

Treasury Management Annual Report 2025/26

For Decision

Cabinet Member: Click or tap to enter a date.
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s): All

Senior Leadership Team: S Cremer - Director, Resources

Report author and job title: David Wilkes - Service Manager (Treasury and Investments)

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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 year ended 31 March 2026.

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 and a year-end review of actual performance against the strategy (this report).

All treasury management activity in the year 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 Council's Capital Financing Requirement (CFR) at 31 March 2026 was £449m, up £15m from £434m at the start of the year but £21m below the budget of £470m when the capital strategy was approved by full Council in February 2025.

As at 31 March 2026, the Council had outstanding external borrowing of £315m plus other capital financing liabilities of £27m equalling £342m total external debt, with £11.9m total interest paid servicing this external debt for the year.

The difference between the CFR and external debt was £107m, 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 used to 'offset' the Council's borrowing requirement.

As at 31 March 2026 the Council held cash and cash equivalents of £24m and treasury investments valued at £1m, in total £25m, down £33m from £58m at 31 March 2025. The total interest receivable and investment income for the Council for the year was approximately £4.9m.

Recommendation(s)

That the Committee note and comment upon the report.

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 13 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 the Bank of England's Monetary Policy Committee (MPC) reduced Bank Rate from 4.50% to 3.75%, with three cuts of 0.25% in May 2025, August 2025 and December 2025.
- 2.3 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.

- 2.4 A detailed commentary on the external context provided by Arlingclose is included in Appendix 1.

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	31-Mar 2026 Budget £m	31-Mar 2026 Forecast £m	31-Mar 2026 Actual £m	2025/26 Annual Change £m
Capital Financing Requirement (CFR)	434	470	465	449	15
Less PFI and other debt liabilities	34	35	35	27	-7
Borrowing CFR (underlying borrowing requirement)	400	435	430	422	22
External borrowing	292	360	325	315	23
Internal borrowing	107	75	105	107	0
Cash and investments	58	65	35	25	-33

- 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 has risen by £15m over the year to £449m, which is £21m less than budgeted due to slippage in delivering the capital programme. External borrowing has increased by £23m over the year, which is £10m less than budgeted.
- 3.5 The treasury management position at 31 March 2026 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.25 Balance £m	2025/26 Movement £m	31.03.26 Balance £m
Long-term borrowing			
PWLB*	145.6	17.5	163.1
LOBO loans**	11.0	0.0	11.0
Other	85.6	0.0	85.6
Short-term borrowing	50.0	5.0	55.0
Total borrowing	292.2	22.5	314.7
Long-term investments	19.3	-18.0	1.3
Short-term investments	8.4	-8.4	0.0
Cash and cash equivalents	30.3	-6.3	24.0
Total investments	58.0	-32.7	25.3
Net borrowing	234.2	55.2	289.4

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

**Lender Option Borrower Option loans.

4. External Borrowing

- 4.1 At 31 March 2026 the Council had external borrowing of £315m, a net increase of £23m from 31 March 2025 summarised in Table 3 below:

Table 3: External Borrowing

	31.03.25 Balance £m	Net Change £m	31.03.26 Balance £m	31.03.26 Weighted Average Rate %	31.03.26 Weighted Average Maturity (years)
Public Works Loan Board	145.6	17.5	163.1	4.6%	9.9
Banks (LOBO)	11.0	0.0	11.0	4.6%	50.6
Banks (fixed-term)	25.6	0.0	25.6	4.7%	51.0
Local authorities (long-term)	15.0	0.0	15.0	4.4%	33.7
Local authorities (short-term)	50.0	5.0	55.0	4.6%	0.3
Other lenders (fixed-term)	45.0	0.0	45.0	3.3%	40.7
Total borrowing	292.2	22.5	314.7	4.4%	26.6

- 4.2 The chief objective of Dorset Council and its predecessors when borrowing has been to strike an appropriate 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.

- 4.3 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 was maintained.
- 4.4 The Council held £111m of Lender's Option Borrower's Option (LOBO) at 31 March 2026, unchanged from 31 March 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).
- 4.5 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 31 March 2026 was £27m.
- 4.6 CIPFA's 2021 Prudential Code is 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 Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.
- 4.7 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council.

5. Cash and Treasury Investments

- 5.1 The CIPFA Treasury Management Code defines treasury management investments as those investments which arise from an authority'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 31 March 2026 are summarised in Table 4 below.

Table 4: Cash and Treasury Investments

	31.03.25 Balance £m	Net Movement £m	31.03.26 Balance £m
Cash & Cash Equivalents	30.3	-6.3	24.0
Investments:			
Bond funds	8.4	-8.4	0.0
Property funds	19.3	-18.0	1.3
Total Investments	27.7	-26.4	1.3
Total Cash & Investments	58.0	-32.7	25.3

5.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its 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 expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. Over the course of the year, the Council has offset its need for external borrowing by continuing to divest from the portfolio of strategic pooled funds 'inherited' from its predecessor councils.

6. Treasury Performance

6.1 The Council measures the financial performance of its treasury management as shown in table 5 below.

Table 5: Treasury Performance

	Budget 2025/26 £m	Actual 2025/26 £m	Variance £m	
Interest Payable	14.2	11.9	2.3	F
Interest and Investment Income	-6.9	-4.9	-2.0	F
Net Payable / (Receivable)	7.3	7.0	0.3	F
Realised (Gains) / Losses in Fair Value	0.0	-0.2	0.2	F
Unrealised (Gains) / Losses in Fair Value	0.0	0.0	0.0	F
Net (Surplus) / Deficit	7.3	6.9	0.4	F

6.2 The favourable variance of interest payable net of interest receivable and investment income was largely driven by reduced borrowing requirements due to slippage in the capital programme.

- 6.3 Realised gains or losses in fair value result from the sale of units in pooled investment funds at a different price to that which they were purchased at. Total net realised gains in fair value from the sale of units in such funds in the financial year were £170,000.
- 6.4 Unrealised gains or losses in fair value result from the holding of units in pooled investment funds that are valued at a different price to that which they were purchased at. Total net unrealised losses in fair value from holding units in such funds at the financial year end were £30,000.
- 6.5 Unrealised gains or losses in the fair value of pooled investment funds, that otherwise must be recognised in profit or loss under International Financial Reporting Standard (IFRS) 9, are not charged to the revenue account, and must be taken into an unusable reserve account.

7. Compliance

- 7.1 All treasury management activities undertaken during the year complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.
- 7.2 Compliance with the limits on cash and treasury investments is demonstrated in the table below.

Table 6: Cash and Investments Limits

	2025/26 Maximum £m	31.03.26 Actual £m	2025/26 Limit £m	Complied Yes/No
Any single organisation, except the UK Government	10.1	1.1	20	Yes
Any group of organisations under the same ownership	10.1	1.1	20	Yes
Any group of pooled funds under the same management	25.0	8.7	50	Yes
Negotiable instruments held in a broker's nominee account	0.0	0.0	50	Yes
Limit per non-UK country	0.0	0.0	20	Yes
Registered providers and registered social landlords	0.0	0.0	50	Yes
Unsecured investments with banks and building societies	10.1	1.1	20	Yes
Loans to unrated corporates	0.0	0.0	20	Yes
Money Market Funds	132.6	32.5	unlimited	Yes
Strategic pooled funds	27.8	1.3	unlimited	Yes
Real Estate Investment Trusts	0.0	0.0	50	Yes

7.3 The Council is legally obliged to set an affordable “authorised limit” for external debt each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the authorised limit. Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below.

Table 7: Debt Limits

	2024/25 Maximum £m	31.03.26 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied Yes/No
Total External Debt	341	341	495	520	Yes

8. Treasury Management 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' that has been calculated to show the

lowest risk level of borrowing. The liability benchmark is an estimate of the minimum amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping cash and investments at a minimum 'liquidity allowance' to manage day-to-day cash flows.

Table 8: Liability Benchmark

	31.03.25 Actual £m	31.03.26 Actual £m
Loans CFR	401	423
Less balance sheet resources	167	133
Net loans requirement	234	290
Plus liquidity allowance	30	30
Liability benchmark	264	320
Actual borrowing	292	315

- 8.3 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. Unrated investments are assigned a score based on their perceived risk.

Table 9: Security

	2025/26 Target	31.03.26 Actual	Complied? Yes/No
Portfolio average credit rating	< 6	4.89	Yes

- 8.4 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 £30m readily available in same day access bank accounts and Money Market Funds.

Table 10: Liquidity

	2025/26 Target	31.03.26 Actual	Complied? Yes/No
Total cash available within 100 days	> 30%	96%	Yes
Total sum borrowed in past 100 days without prior notice	0%	0%	Yes

- 8.5 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 11: Interest Rate Exposure

Interest rate risk indicator	2025/26 Target £000s	31.03.26 Actual £000s	Complied? Yes/No
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	< 1,000	420	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	< 1,000	-420	Yes

- 8.6 The impact of a change in interest rates is calculated on the assumption that maturing borrowing and investments will be replaced.
- 8.7 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 to final maturities beyond the period end were:

Table 12: Investments longer than one year

	2025/26 £m	2026/27 £m	2027/28 £m	No fixed date £m
Limit on principal invested beyond year end	20.0	20.0	20.0	100.0
Actual principal invested beyond year end	0.0	0.0	0.0	1.3
Complied? Yes/No	Yes	Yes	Yes	Yes

- 8.8 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 13: Maturity Structure of Borrowing

	31.03.26 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	70.0	22.2%	30%	0%	Yes
1 to 2 years	45.0	14.3%	30%	0%	Yes
2 to 5 years	30.0	9.5%	30%	0%	Yes
5 to 10 years	31.3	9.9%	35%	0%	Yes
10 to 20 years	0.0	0.0%	35%	0%	Yes
20 to 30 years	41.8	13.3%	45%	0%	Yes
30 to 40 years	15.0	4.8%	45%	0%	Yes
40 to 50 years	45.0	14.3%	45%	0%	Yes
50 years and above	36.6	11.6%	50%	0%	Yes
Total	314.7	100.0%			

9. Financial implications

- 9.1 This report summarises the performance of the Council's treasury management activity in 2025/26. There are no other financial implications arising from this report.

10. Natural environment, climate & ecology implications

- 10.1 There are no direct natural environment, climate and ecology implications arising from this report.

11. Well-being and health implications

- 11.1 There are no well-being and health implications arising from this report.

12. Other implications

- 12.1 There are no other implications arising from this report.

13. Risk implications

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

Current Risk: HIGH

Residual Risk: Medium

Treasury management is an inherently risky area of activity and a number of controls are embedded in its operation. The key treasury management risks are highlighted as part of the treasury management strategy approved by Council as part of the budget setting process. This report highlights any

variances from this strategy and draws out any specific risks which have arisen

14. Equalities

- 14.1 There are no equalities implications arising from this report.

15. Appendices

- 15.1 Appendix 1: External Context (Arlingclose April 2026)

Appendix 2: Glossary of Treasury Management Terms

16. Background papers

- 16.1 [Capital Strategy 2025/26](#)

[Treasury Management Strategy 2025/26](#)

17. Report sign-off

- 17.1 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 Executive Director for Corporate Development (Section 151 Officer) and the appropriate Portfolio Holder(s)

Appendix 1: External Context (Arlingclose April 2026)

Economic background: The financial year was largely dominated by two periods of significant uncertainty and volatility. The first being the US trade tariff 'Liberation Day' in April 2025 and the second was the US/Israel war with Iran at the end of February 2026.

After the initial fallout from US trade tariffs, the following months saw some improvements as equity markets made gains and bond yields eased modestly. However, in the UK this trend in bond yields reversed somewhat as an uncertain economic outlook together with concerns around the government's fiscal position and autumn Budget saw 'term premia' rise as investors demanded a higher return for holding gilts.

The Budget itself was more muted than had been expected. Despite a weak economic outlook, this helped UK markets perform better with gilt yields trending downwards, inflation easing, and expectations for cuts in Bank of England (BoE) Bank Rate increasing.

The end of February 2026 saw the start of the war between US/Israel and Iran. The conflict caused oil and other commodity prices to rise sharply as the shipping lanes in the region became effectively closed, restricting global oil supply. At the end of the period, the economic outlook remained highly uncertain in terms of its impact on inflation as well as countries' fiscal and monetary policy conditions around the globe.

Prior to the start of the war, headline UK consumer price inflation (CPI) inflation had generally been trending downwards, albeit the 3% in February 2026 was unchanged from January. Core CPI also stayed put at 3.1%. Inflation was expected to fall further over the coming months to the BoE's 2% target, but the war changed this. Inflation is now expected to rise again, but how quickly and by how much depends on the duration of the war and how long commodity prices are elevated.

The Office for National Statistics (ONS) reported the UK economy expanded by 0.1% in Q4 2025. This followed previous modest gains of 0.2% in Q2 and by 0.1% in Q3. Of the subsequent monthly figures, the ONS estimated that GDP showed no growth in January 2026. As this is from before the war started the impact on growth will not be seen formally in the data for a couple more months.

While the most recent labour market figures were slightly better than expected, the general trend has been one of persistent weakness. In the three months to January 2026, the unemployment rate rose to 5.2% (from 5.1%), while the employment rate held at 75.1%. Despite inflation being expected to rise in the coming months, labour market conditions remain loose and so any upward pressure on wages from general inflation is likely to be tempered by the weaker labour market environment.

After cutting Bank Rate to 3.75% in December 2025, the BoE's Monetary Policy Committee (MPC) voted 5-4 to hold rates in February 2026 and then unanimously to

do so again in March. Until the war started, financial markets were expecting Bank Rate to be cut to 3.5% at the March meeting. However, the conflict in the Middle East quickly changed this. The MPC noted the risks to both inflation and growth and indicated they could move rates either up or down depending on the conditions. Financial markets quickly responded to this by pricing in rate hikes.

Following the March MPC meeting, Arlingclose, the authority's treasury adviser, revised its central interest rate view and now predicts Bank Rate will be held at 3.75%. However, the conflict makes the outlook for rates highly uncertain. In the short-term the risks are to the upside with the chance of higher Bank Rate should the MPC decide it wishes to quickly quash potential second-round effects from higher inflation. Further out, if Bank Rate is hiked quickly, the pace and magnitude of subsequent cuts could take it far lower than was previously anticipated as policymakers add significant stimulus to a much weaker economic growth outlook.

The US Federal Reserve had been cutting rates over the period, reducing Fed Funds Rate target range by 0.25% at its December meeting to 3.50%-3.75%. At the three subsequent meetings, the rate was held at the same range. Policymakers noted that while inflation was elevated, economic activity had been expanding but the war with Iran made the path of monetary policy highly uncertain. Despite this, the Fed still suggested that further rate cuts were likely in 2026 and 2027.

The European Central Bank (ECB) has kept its key interest rates on hold since June 2025, maintaining the deposit rate at 2.0% and main refinancing rate at 2.15%. At its March 2026 meeting, the ECB noted the war in the Middle East had significantly increased uncertainty, creating upside risks for inflation and downside risks for growth, leading it to revise up its forecasts accordingly.

Financial markets: After declining sharply early in the financial year following the announcement of US tariffs, sentiment in financial markets had improved but equity and bond markets remained volatile throughout. However, the latter part of the period was dominated by the US/Israel war with Iran, which saw equity markets fall sharply, and bond yields rise as concerns over the inflationary impact from sharply higher oil and other commodity prices outweighed the flight-to-quality into government bonds often seen in conflicts.

Equity markets had been registering gains after the declines during the April sell-off, but the war reversed this and markets saw another sharp drawdown. Both the FTSE 100 and 250 fell by around 10% over the month from the start of the conflict to the end of the financial year.

The period saw significant volatility in gilt yields. The 10-year UK benchmark gilt yield started the year at 4.65% and ended at 4.86%. However, over this time the 10-year yield hit a low of 4.23% and a high of 4.95% in the space of a month. It was a similar picture for the 20-year gilt which started at 5.18% and ended at 5.45% with a low and

high of 4.92% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.01% over the 12 months to 31st March.

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

Earlier 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. Fitch later upgraded Clydesdale Bank and HSBC, but downgraded Lancashire CC and Close Brothers.

Moody's affirmed OP Corporate's rating at Aa3 In May 2025. Later in the period, Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland, Toronto-Dominion Bank, DZ Bank, Nordea and HSBC and downgraded Close Brothers. In the last quarter of 2025 S&P upgraded Clydesdale Bank, Allied Irish Banks and Bank of Ireland, and assigned Warrington Council a BBB+ rating.

After spiking in April 2025 following the US trade tariff announcements, UK credit default swap (CDS) prices had trended down before picking up modestly in October and November. After declining again in December and into the new calendar year, they rose sharply once again when the war in the Middle East started. They were still elevated at the end of the period, but prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

Overall, European banks' CDS prices have generally been flatter and lower compared to the UK, as have Singaporean and Australian lenders while some Canadian bank CDS prices have remained elevated since the beginning of the period in part due to ongoing trade tensions with the US.

Financial market volatility is expected to remain, and CDS 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: 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, brokers, custodians, 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 on 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, 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 CNAV and LVNAV funds with a WAM 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.