Audit and Governance Committee
16 November 2026
Treasury Management Mid-Year Update
For Decision

Cabinet Member:
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s):

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

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Statutory Authority: Dorset Council

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

Executive summary (maximum of 500 words)

This report summarises the treasury management performance and position information for Dorset Council for the six months to 30 September 2026, and provides a forecast for the remaining six months of the financial year to 31 March 2027,

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

All treasury management activity in the year to 30 September 2026 complied with the limits and parameters included in the Treasury Management Strategy for 2026/27 approved by full Council February 2026.

The economic and market environment has remained challenging, with continuing conflict in the Middle East contributing to higher energy prices, increased inflationary pressures and uncertainty surrounding future interest rates. The Bank of England maintained Bank Rate at 3.75% throughout the period, although financial markets

have increasingly priced in the possibility of future rate rises. These conditions continue to influence borrowing costs and investment returns.

A significant development during the period has been confirmation that the Council will receive approximately £145 million of government funding towards its cumulative Special Educational Needs and Disabilities (SEND) deficit. This funding improves the Council's balance sheet position, supports internal borrowing capacity, and is expected to generate a favourable treasury budget variance through reduced borrowing requirements and lower financing costs.

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 CFR is forecast to increase from £449 million at the start of the year to £490 million by 31 March 2027, £4 million below budget due to slippage in the capital programme.

External borrowing totalled £303 million at 30 September 2026, a reduction of £12 million since the start of the year, and is forecast to fall to £300 million by 31 March 2027, £60 million less than budget. However, the need for external borrowing is expected to rise again in 2027/28, and this will need to be considered as part of the budget setting process.

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

Internal borrowing is forecast to increase from £107 million at the start of the year to £160 million by 31 March 2027, £60 million more than budget.

The Council held £34 million of cash and treasury investments at 30 September 2026, compared with £25 million at the start of the financial year. Balances are forecast to be broadly unchanged at £35 million at year-end. Proceeds from the final redemption of legacy strategic pooled property funds were received during the period, meaning the Council no longer holds long-term strategic pooled fund investments.

Forecast borrowing costs for 2026/27 are £13.9 million, compared with a budget of £16.5 million and investment income for the year is currently forecast at £2.6 million against a budget of £4.1 million - in total a net favourable variance of £1.4 million.

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Recommendation(s)

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

Reason for the recommendation(s)

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

1. Introduction

1.1 The Council's treasury management strategy for 2026/27 was approved by a meeting of Dorset Council on 10 February 2026.

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

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

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

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

2. External Context

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

2.2 Over the course of the financial year to date the Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at 3.75% throughout the period. However, there is a growing expectation that the MPC will raise the Bank Rate by at least one 0.25% in response to inflationary pressures resulting from the impact of the conflict in the Middle East and its impact on global energy prices.

2.3 The returns on cash balances tend to follow Bank Rate quite closely as do short term borrowing rates. Interest rates on long term borrowing are more closely aligned to interest rates on UK government borrowing ('gilts') which are affected by international issues but also domestic matters such as the market reaction to Chancellor Healey's first budget 28 October 2026.

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

3. Local Context

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

Table 1: Balance Sheet Summary

	31-Mar 2026 Actual £m	30-Sep 2026 Actual £m	31-Mar 2027 Budget £m	31-Mar 2027 Forecast £m
Capital Financing Requirement (CFR)	**449**	**470**	**494**	**490**
Less: PFI and other debt liabilities	27	30	35	30
Loans CFR (underlying borrowing requirement)	**422**	**440**	**459**	**460**
External borrowing	**315**	**303**	**360**	**300**
Internal Borrowing	**107**	**137**	**99**	**160**
Cash and Investments	**25**	**34**	**40**	**35**

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

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

3.4 The CFR is forecast to rise by about £40m over the year to roughly £490m, slightly less than budgeted due to slippage in delivering the capital programme. Despite the increase in CFR, external borrowing is forecast to reduce by about £15m over the year, as the Council is expected to have more reserves available to support 'internal borrowing' than it did at the beginning of the year. This is due to confirmation that the Council will receive £145m

government funding at the end of November to contribute towards meeting the cumulative Special Educational Needs and Disabilities (SEND) deficit.

3.5 The treasury management position at 30 September 2026 and the forecast position for 31 March 2027 are shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.26 Actual £m	30.09.26 Actual £m	31.03.27 Forecast £m
Long-term borrowing	259.7	243.4	240.0
Short-term borrowing	55.0	60.0	60.0
Total External Borrowing	**314.7**	**303.4**	**300.0**
Long-term investments	1.3	0.0	0.0
Cash and cash equivalents	24.0	33.9	35.0
Total Investments	**25.3**	**33.9**	**35.0**
Net External Borrowing	**289.4**	**269.5**	**265.0**

4. Borrowing

4.1 At 30 September 2026 the Council held £303m of loans, a net decrease of £12m from 31 March 2026, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans as at 30 September 2026 are summarised in Table 3 below.

Table 3: External Borrowing

	31.03.26 Balance £m	Net Movement £m	30.09.26 Balance £m	30.09.26 Average Rate %	30.09.26 Average Maturity (years)
Public Works Loan Board	163.1	-16.3	146.8	4.6%	10.4
Banks (fixed-term)	25.6	0.0	25.6	4.7%	51.1
Banks (LOBO*)	11.0	0.0	11.0	4.6%	50.6
Local authorities (long-term)	15.0	0.0	15.0	4.4%	33.7
Local authorities (short-term)	55.0	5.0	60.0	4.7%	1.0
Other lenders (fixed-term)	45.0	0.0	45.0	3.3%	40.5
Total Borrowing	**314.7**	**-11.3**	**303.4**	**4.4%**	**19.1**

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

4.3 *Lender's Option Borrower's Option (LOBO) loans are loans where the lender has the option to propose an increase in the interest rate at set dates (the 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 (the borrower's option). At 30 September 2026, the Council held one such loan.

4.4 Capital finance may also be raised by the following methods that are not borrowing but are classed as other debt liabilities: leasing, hire purchase, Private Finance Initiative (PFI) and sale and leaseback. Total debt other than borrowing at 30 September 2026 was estimated at £30m.

4.5 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. The Council has no new plans to borrow to invest primarily for financial return.

5. Cash and Treasury Investments

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

5.2 Cash, cash equivalents and treasury investments held on 30 September 2026 are summarised in Table 4 below.

Table 4: Cash and Investments Summary

	31.03.26 Balance £m	Net Movement £m	30.09.26 Balance £m
Cash and Cash Equivalents:			
Cash Held at Bank	1.1	0.0	1.1
Money Market Liquidity Funds	32.5	0.4	32.8
Cash and Cash Equivalents	**33.6**	**0.4**	**33.9**
Investments:			
Property funds	1.3	-1.3	0.0
Total Investments	**1.3**	**-1.3**	**0.0**
Total Cash and Investments	**34.8**	**-0.9**	**33.9**

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

5.4 The majority of the Council's cash balances are held in money market liquidity funds. These are 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. Returns net of fees are typically significantly above short notice bank deposit accounts at higher levels of security.

5.5 Proceeds from the final redemption of the Council's holdings in property funds 'inherited' from a number of the predecessor councils were received in September 2026. The Council no longer has any holdings in long term 'strategic' pooled investment funds preferring instead to use 'balance sheet resources' to reduce the need for external borrowing.

6. Treasury Performance

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

Table 5: Treasury Performance

	Budget £m	**Forecast £m**	**Variance £m**	
Interest Payable	16.5	13.9	2.6	F
Interest and Investment Income	-4.1	-2.9	-1.2	A
Net Payable / (Receivable)	**12.4**	**11.0**	**1.4**	**F**

6.2 The forecast net favourable variance is primarily due to the expected receipt of SEND deficit funding.

7. Compliance

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

7.2 The Council is legally obliged to set an affordable borrowing limit (the 'authorised limit') for external debt each year and a lower 'operational boundary' is also set as a warning level should debt approach the authorised

limit. Compliance with the both the authorised limit and operational boundary for external debt is shown in Table 6 below.

Table 6: Debt Limits

	Maximum 2026-27 £m	30.09.26 Actual £m	Operational Boundary £m	Authorised Limit £m	Complied Yes/No
Borrowing	315	303			
PFI & Finance Leases	30	30			
Total External Debt	**345**	**333**	**510**	**535**	Yes

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

8. Treasury Management Prudential Indicators

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

8.2 **Liability Benchmark:** This indicator compares the Council's actual existing borrowing against a 'liability benchmark' calculated to show the lowest possible level of external borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at a minimum 'liquidity allowance' to manage day-to-day cash flows.

Table 7: Liability Benchmark (medium term forecast)

	31.03.26 Actual £m	31.03.27 Forecast £m	31.03.28 Forecast £m	31.03.29 Forecast £m
Loans CFR (underlying borrowing requirement)	**422**	**460**	**490**	**495**
Less: Balance sheet resources	132	195	115	35
Net loans/borrowing requirement	**290**	**265**	**375**	**460**
Plus: Liquidity allowance	30	30	30	30
Liability Benchmark	**320**	**295**	**405**	**490**
External Borrowing	**315**	**300**	**405**	**490**

8.3 External borrowing is forecast to be about £5m above the Liability Benchmark at 31 March 2027 i.e. £5m above the minimum level borrowing needed to meet the Capital Financing Requirement and maintain liquid cash and investments of £30m.

8.4 In subsequent years, reductions in balance sheet resources (primarily driven by continuing annual SEND deficits) available to meet an increasing loans CFR (driven by the unfunded element of the capital programme), are forecast to result in a need for further substantial external borrowing. This will need to be considered as part of budget setting for 2027/28.

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

Table 8: Security

	2026/27 Target	30.09.26 Actual	Complied Yes/No
Portfolio average credit score	< 6	4.9	Yes

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

Table 9: Liquidity

	2026/27 Target £m	2026/27 Min £m	30.09.26 Actual £m	Complied Yes/No
Total cash available within 1 day	> 10	30	34	Yes
Total cash available within 3 months	> 30	30	34	Yes

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

Table 10 Interest Rate Exposure

	2026/27 Target £000s	30.09.26 Actual £000s	Complied Yes/No
Upper limit on one-year revenue impact of a 1% rise in interest rates	< 1,000	321	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	< 1,000	-321	Yes

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

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

Table 11: Investments longer than one year

	2026/27 £m	2027/28 £m	2028/29 £m	No fixed date £m
Limit on principal invested beyond one year	20.0	10.0	10.0	100.0
Actual principal invested beyond one year	0.0	0.0	0.0	0.0
Complied (Yes/No)	Yes	Yes	Yes	Yes

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

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

Table 12: Maturity Structure of Borrowing

	30.09.26 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	60.0	19.8%	30%	0%	Yes
1 to 2 years	48.8	16.1%	30%	0%	Yes
2 to 5 years	45.0	14.8%	30%	0%	Yes
5 to 10 years	11.3	3.7%	35%	0%	Yes
10 to 20 years	0.0	0.0%	35%	0%	Yes
20 to 30 years	41.8	13.8%	45%	0%	Yes
30 to 40 years	40.0	13.2%	45%	0%	Yes
40 to 50 years	41.0	13.5%	45%	0%	Yes
50 years and above	15.6	5.1%	50%	0%	Yes
Total	**303.4**	**100.0%**			

9. Alternative options considered

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

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

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

10. Legal considerations

10.1 None identified.

11. Financial implications

11.1 This report summarises the performance of the Council's treasury management activity in the six months to 30 September 2026. There are no other financial implications arising from this report.

12. Natural environment, climate & ecology implications

12.1 None identified.

13. Well-being and health implications

13.1 None identified.

14. Other implications

14.1 None identified.

15. Risk implications

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

Current Risk: HIGH
Residual Risk: Medium

16. Equalities

16.1 There are no equalities implications arising from this report.

17. Appendices

Appendix 1: External Context (Arlingclose 7 October 2026)
Appendix 2: Economic and Interest Rate Forecast (Arlingclose 21 September 2026)
Appendix 3: Compliance with Investment Limits
Appendix 4: Balance Sheet Analysis 31 March 2026

Appendix 5: Glossary of Treasury Management Terms

18. Background papers

Budget Report Feb-26 Appendix 7: Capital Strategy 2026-29

Budget Report Feb-26 Appendix 8: Treasury Management Strategy 2026-27

19. Report sign-off

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

Appendix 1: External Context (Arlingclose 7 October 2026)

Economic background: The key story remained the conflict in the Middle East and its impact on global energy prices and inflation, while on the UK politics side, Andy Burham became the new Prime Minister. Although energy prices had shown signs of moderating towards the end of (calendar) Q2, the continuing conflict pushed oil and gas up sharply once again in Q3. Around mid-September, Brent oil and UK gas prices were over 30% and 70% higher respectively compared to the period preceding the Bank of England's (BoE) July Monetary Policy Report (MPR).

Given the inflationary impact of the previous energy shock from the Russia/Ukraine war, central bank policymakers remained alert to higher energy prices feeding into wider price and wage-setting behaviour ('second-round effects'). In the UK, higher fuel and energy prices were evident in headline inflation, but there was limited evidence of material second-round effects. At the same time, underlying wage pressures continued to moderate, and the labour market remained relatively loose.

The BoE's Monetary Policy Committee (MPC) maintained Bank Rate at 3.75% throughout the period. In April the MPC voted by 8-1 to leave rates unchanged, with one member wanting a 0.25% increase. The voting subsequently became more hawkish, moving to 7-2 in June and 6-3 in both July and September, with all dissenters preferring to increase Bank Rate to 4.00%. The change in voting patterns reflected increasing policymaker concern over the persistence of the energy shock and the risk that higher headline inflation could become embedded in domestic prices and wages.

At the September MPC meeting, the Committee judged the inflation risks were further to the upside compared to its July MPR. Energy prices had risen again and borrowing costs were materially higher than before the US/Iran conflict. Despite expecting inflation would rise further in the near-term, most members believed that a soft labour market, spare capacity and restrictive monetary conditions would reduce inflation over time. Moreover, the data showed there was still little evidence of material second-round effects, although the MPC emphasised that the risk of these effects would increase the longer elevated and volatile energy prices persisted.

UK headline consumer price inflation (CPI) initially declined, suggesting the initial energy shock was not spreading into a wider range of goods and services. However, later in the period inflation picked up again, with CPI rising from 2.6% in June to 3.1% in August due largely to higher transport costs. Core CPI was 2.6% in July and August, suggesting the divergence between that and headline inflation was due to energy rather than a broad increase in underlying inflation.

UK economic activity was somewhat stronger than initially anticipated over the period. GDP expanded by 0.6% in the first quarter of the calendar year and 0.5% in the second quarter, slightly stronger than the initial estimate of 0.4%. Monthly activity was more

volatile, with a contraction of -0.1% in April, followed by gains of 0%, 0.3% and 0.4% in May, June and July respectively.

Labour market data continued to show softening employment conditions. The unemployment rate fell to 4.9% in April and remained at that level to July, against expectations it would tick up. Job vacancies also continued to decline, to 702,000 in the three months to July. Earnings growth moderated, with regular earnings at 3.5% in the three months to July and total earnings at 3.9%, suggesting weaker labour demand was continuing to restrain domestic wage pressures.

Arlingclose, the authority's treasury adviser, expects Bank Rate will stay at 3.75%. However, higher energy prices due to the ongoing conflict(s) and uncertainty around the government's upcoming Budget have increased the near-term upside risks. Moreover, stronger inflation projections, which accompanied the September MPC decision, shifted market expectations for Bank Rate higher. In addition, despite little evidence of second-round effects to date, the changing tone of the MPC minutes suggests it may not need something seismic to tip the Committee to increase Bank Rate.

The US Federal Reserve held the Fed Funds target range at 3.50%-3.75% through to July. However, inflation pressures rose during the summer, pushing headline CPI to 3.4% in August, with higher petrol prices accounting for much of the increase. This led the Fed to raise its target range to 3.75%-4.00% in September. The move reflected increased concern over inflation at a time when US economic activity and labour-market conditions were relatively resilient.

Following a 0.25% increase in June, the European Central Bank raised its three key policy rates by a further 0.25% in September, taking the deposit facility rate to 2.50%. Inflation increased from 2.9% in July to 3.2% in August, and an initial estimate suggested a further rise to 3.8% in September, with energy prices the principal driver. The ECB emphasised the uncertainty around the duration of the energy shock and the risk prolonged higher inflation could feed into wider price-setting.

Financial markets: After the sharp deterioration early in the period, financial market sentiment improved somewhat as there were ongoing hopes that the US/Iran war would be resolved. However, towards the end of the period, signs of any potential resolution appeared premature and oil prices rose alongside inflation and bond yields while equity market volatility increased as investors weighed conflict-related as well as AI-related concerns.

Bond yields in both the US and UK increased markedly over the period, with the gap between gilts and US Treasuries tightening towards the end of the period. While term premia are still embedded in gilt yields given the relatively uncertain fiscal outlook, a more hawkish Fed alongside persistent US inflation and fiscal concerns have pushed the yields on US Treasuries to their highest levels in years.

Some relatively market-friendly announcements were made by Andy Burham in his speech at the Labour Party conference, but it will be the Budget at the end of October that will hopefully provide some clarity on what the UK's fiscal position might look like going forward.

Over the period, the 10-year UK benchmark gilt yield started at 4.86% and ended at a high of 5.43%. The 20-year gilt yield starting at 5.45% and finished at 5.93%, another high for the period. The Sterling Overnight Rate (SONIA) averaged 3.73% over the period to 30th September.

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

During the period, Fitch upgraded numerous banks due to a rating methodology change, as well as the reference obligations used for Issuer Default Ratings and introduced more differentiated notching between deposits, senior preferred, senior unsecured and senior non-preferred debt ratings.

Later in the period, Moody's changed the outlook on HSBC to Positive from Stable, while also affirming its long-term deposit rating. This follows a similar action from S&P on HSBC's outlook a few months prior to this.

After spiking in April following escalation in the Iran war, credit default swap prices on UK banks declined during most of the period but started to pick up again in September. They ended the period well below levels that may give cause for concern but remain under constant monitoring.

European banks' CDS prices followed a similar pattern to the UK, while Canadian bank CDS prices rose early in the period and then remained at similar levels, while Australian and Singaporean banks tended to trend downwards.

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

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

Appendix 2: Economic and Interest Rate Forecast (Arlingclose 21 September 2026)

The resurgent issues around the Middle East conflict is heightening uncertainty for the path for policy rates and bond yields. Changes to our interest rate forecast are possible as this situation evolves.

Since the Bank of England's policy decision at the end of July, wholesale energy prices have surged. The effect on UK inflation is already apparent, and a further jump in the CPI rate from 3.1% will occur in the coming months as the Ofgem price cap is increased.

September's monetary policy decision carried a similar message to July, but was accompanied by a sharp increase in projections for the CPI rate(4%inQ12027) and more forceful rhetoric from some of the 'holding' six MPC members, so the chance of near-term rate hikes has increased.

The key concern remains the prospect of sticky second round inflationary effects arising from persistently high headline measures trickling into wage demands and price setting. While the focus is currently on energy, policy makers are also aware of a possible rise in food inflation coming through supply chains. Whether marginal 'insurance' rate rises will have any effect on second round inflation is debatable, but we believe credibility restoring action (rate hikes) will be taken if whole sale energy prices do not ease.

Set against this are:

1) no signs of secondary effects in inflation or wage data,

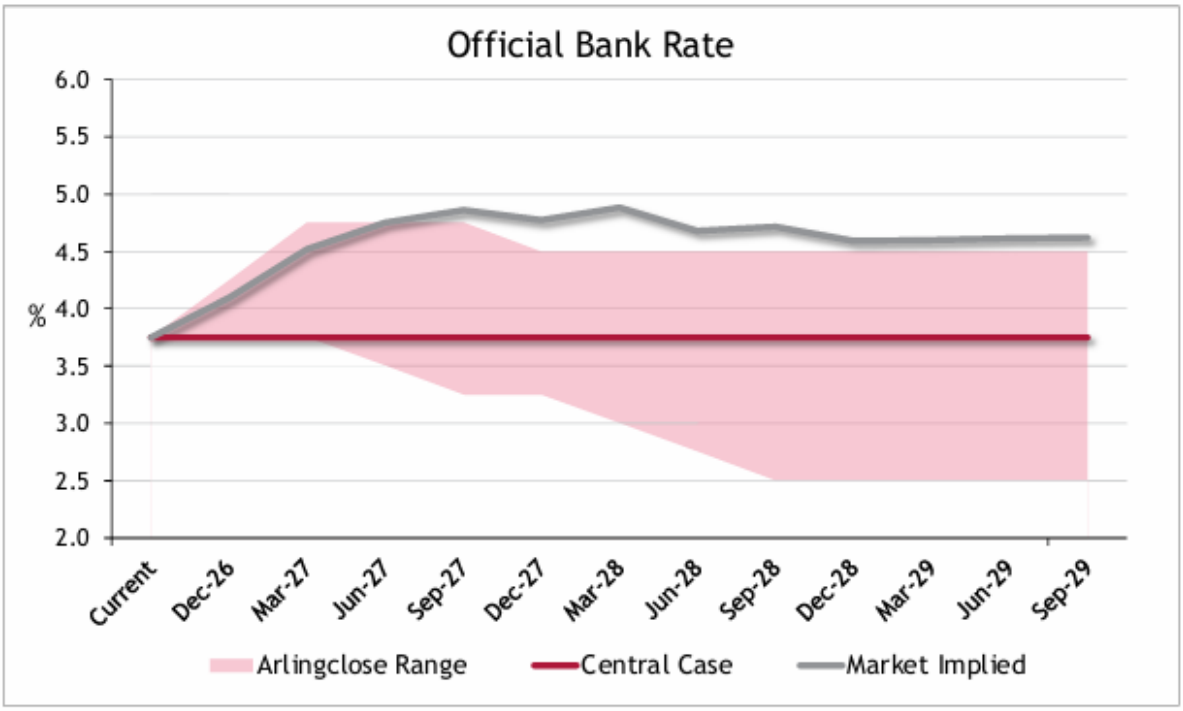
2) loose labour market,

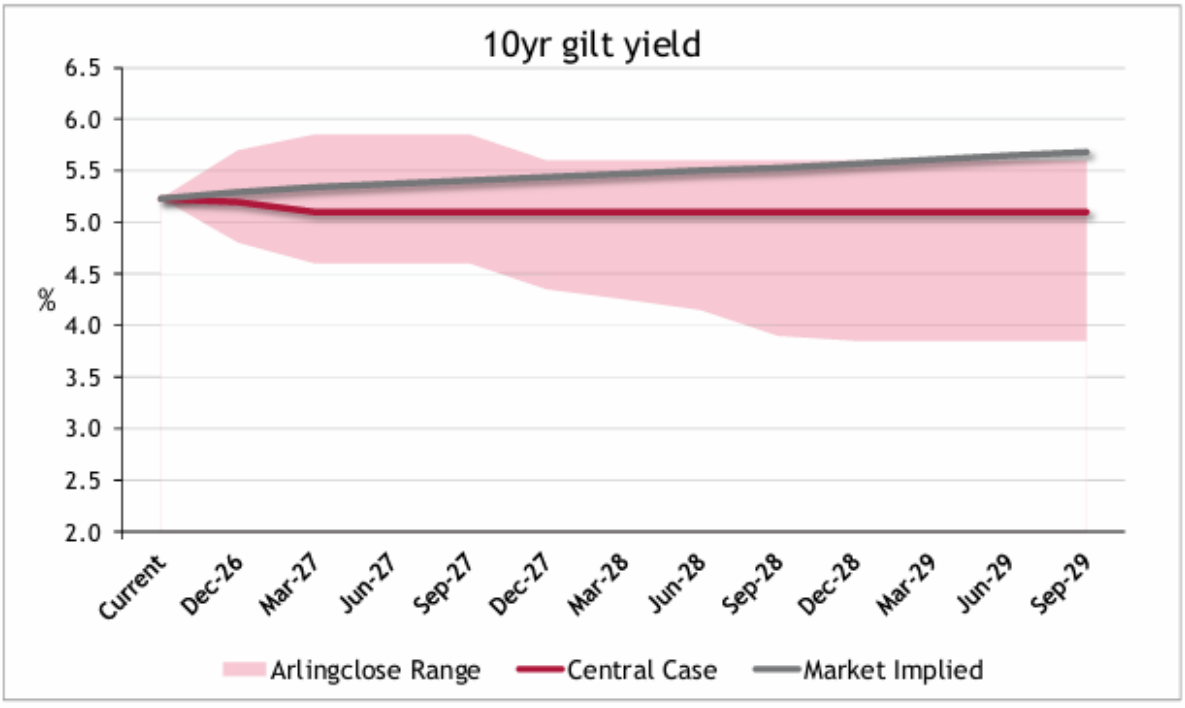
3) weak consumer demand relative to the wider economy and

4) continued tight financial markets, with monetary policy tightening already priced in and affecting businesses and households.

A reduction in wholesale energy prices would provide dovish-leaning policy makers with a further reason not to pull the trigger. Recent history, however, suggests a low chance of are solution to the current on-going wars, although energy prices have eased a little over the past week.

Gilt yields may remain high due to geo-political uncertainty–it's clear that the domestic economy is currently having a relatively limited effect on the market. However, the Budget in October, ahead of the next MPC meeting, could be a key turning point. A fiscally lax or inflationary Budget will dial up chances of rate hikes, whereas government action to reduce inflation could provide some relief.


Official Bank Rate
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
%
Current
Dec-26
Mar-27
Jun-27
Sep-27
Dec-27
Mar-28
Jun-28
Sep-28
Dec-28
Mar-29
Jun-29
Sep-29
Arlingclose Range
Central Case
Market Implied


10yr gilt yield
6.5
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
%
Current
Dec-26
Mar-27
Jun-27
Sep-27
Dec-27
Mar-28
Jun-28
Sep-28
Dec-28
Mar-29
Jun-29
Sep-29
Arlingclose Range
Central Case
Market Implied

Appendix 3: Compliance with Investment Limits

Compliance with Counterparty Limits

	2026/27 Maximum £m	30.09.26 Actual £m	2026/27 Limit £m	Complied Yes/No
UK Government	0	0	Unlimited	Yes
Local authorities & other government entities	0	0	30	Yes
Secured investments*	0	0	30	Yes
Banks (unsecured)*	11.3	1.1	15	Yes
Building societies (unsecured)*	0	0.0	15	Yes
Registered providers (unsecured)*	0	0.0	15	Yes
Money Market Funds*	29.0	15.1	30	Yes
Strategic pooled funds	0.0	0.0	20	Yes
Real Estate Investment Trusts	0	0	20	Yes
Other investments*	0	0	15	Yes

Compliance with Sector Limits

	2026/27 Maximum £m	30.09.26 Actual £m	2026/27 Limit £m	Complied Yes/No
Local authorities & other government entities	0	0	Unlimited	Yes
Secured investments*	0	0	Unlimited	Yes
Banks (unsecured)*	11.3	1.1	Unlimited	Yes
Building societies (unsecured)*	0	0.0	30	Yes
Registered providers (unsecured)*	0	0.0	30	Yes
Money Market Funds*	108.9	32.8	Unlimited	Yes
Strategic pooled funds	0.0	0.0	150	Yes
Real Estate Investment Trusts	0	0	100	Yes
Other investments*	0	0	30	Yes

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

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

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

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

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

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

care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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

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

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

Appendix 4: Balance Sheet Analysis 31 March 2026

Dorset Council	31-Mar-26	CFR	Balance Sheet Resources	Cash & Investments	External Borrowing	Other Debt Liabilities
	£000s	£000s	£000s	£000s	£000s	£000s
Property, plant & equipment	1,094,849	1,094,849				
Heritage assets	2,970	2,970				
Investment property		0				
Intangible assets	3,726	3,726				
Assets held for sale		0				
Long-term investments	1,287			1,287		
Long-term debtors	6,788		6,788			
Long-term assets	**1,109,620**					
Short-term investments	0			0		
Assets held for sale	1,910	1,910				
Inventories	2,131		2,131			
Short-term debtors	162,273		162,273			
Cash and cash equivalents	69,488			69,488		
Current assets	**235,802**					
Bank overdraft	-45,451		0	-45,451		
Short-term borrowing	-74,637		-2,137		-72,500	
Short-term creditors	-133,380		-125,118			-8,262
Provisions	-5,002		-5,002			
Donated assets account		0				
Grants receipts in advance	-1,480		-1,480			
Current liabilities	**-259,950**					
Long-term creditors			0			
Provisions			0			
Long-term borrowing	-242,166				-242,166	
Other long-term liabilities	-92,623		-73,730			-18,893
Donated assets account		0				
Grants receipts in advance			0			
Long-term liabilities	**-334,789**					
NET ASSETS	**750,683**					
General Fund	-173,207		-173,207			
not used			0			
not used			0			
not used			0			
Capital receipts reserve	-5,122		-5,122			
Capital grants unapplied	-151,675		-151,675			
Usable reserves	**-330,004**					
Revaluation reserve	-255,007	-255,007				
FI revaluation reserve	-1,587		-1,587			
Capital adjustment account	-399,636	-399,636				
FI adjustment account	11,437		11,437			
Other adjustment accounts	151,524		151,524			
Deferred capital receipts	-1,140		-1,140			
Pensions reserve	73,730		73,730			
Unusable reserves	**-420,679**					
TOTAL RESERVES	**-750,683**					
TOTAL	**0**	**448,812**	**-132,315**	**25,324**	**-314,666**	**-27,155**

Appendix 5: Glossary of Treasury Management Terms

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

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

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

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

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