

DORSET
POLICE & CRIME
COMMISSIONER
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**POLICE AND CRIME COMMISSIONER
FOR DORSET**

**TREASURY MANAGEMENT STRATEGY
2026/27 to 2029/30**

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Introduction

- 1.1 This is the Treasury Management Strategy Statement for the Police and Crime Commissioner (PCC) for Dorset.
- 1.2 The PCC has adopted 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 PCC to approve a Treasury Management Strategy before the start of each financial year.
- 1.3 In addition, this strategy also complies with elements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance and MHCLG Investment Guidance.
- 1.4 This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.
- 1.5 Treasury Management is the management of the PCC's cash flows, borrowing and investments, and the associated risks. **The PCC funds are exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates as well as ensuring that revenue cash flow is adequately planned, and funding is available to meet capital expenditure plans.** The successful identification, monitoring and control of financial risk are therefore central to the PCC's prudent financial management.
- 1.6 In accordance with the MHCLG Guidance, the PCC will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change: in interest rates; in the PCC's capital programme; or in the level of its investment balances.
- 1.7 The Treasury Management Strategy is integral to the Medium Term Financial Plan (MTFP) and this document should be read in conjunction with the report on the MTFP for 2026/27 to 2029/30.
- 1.8 This Strategy includes the Borrowing Strategy, the Investment Strategy and Prudential Indicators.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

2.0 Treasury Management Strategy

- 2.1 On 31 March 2025 the PCC held treasury investments totalling £21.118mn and £67.721mn external debt.
- 2.2 This is set out in further detail in Appendix 1 Table 1. Forecast changes in these sums are shown in the balance sheet analysis in Appendix 1 Table 2.
- 2.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The PCC's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 2.4 Over the forecast period CFR will decrease by the amounts reflecting the reduction in the existing liabilities (e.g. minimum revenue provision) and will increase by any new unfinanced capital expenditure.
- 2.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the total debt should be lower than its highest forecast CFR over the next three years. Appendix 2 Table 9 shows that the PCC expects to comply with this recommendation during 2026/27.
- 2.6 The economic background, credit outlook and interest rate forecasts, provided by Arlingclose, is shown at Appendix 5.
- 2.7 Arlingclose Limited forecast the bank rate to reach 3.50% by March 2026. Taking into account this forecast and the time lag between bank base rate and money market rates, an interest income budget of £414,000 has been set for 2026/27. For new borrowing the rate range (November 2025) is 4.55% to 6.25% depending on the term and source of the loan.
- 2.8 **Liability benchmark:** To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This benchmark is the minimum amount of debt that the PCC would hold if internal borrowing was used up to the maximum level possible (i.e. using all reserves and cashflow surpluses). The PCC's liability benchmark is shown at Appendix 1 Table 3. This assumes the same forecasts as Appendix 1 Table 2, but that cash and investment balances are kept to a minimum level of £10mn at each year-end to maintain sufficient liquidity but minimise credit risk.
- 2.9 The liability benchmark is an important tool to help establish whether the PCC is likely to be a long-term borrower or long-term investor in the future and so shape the strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the PCC must hold to

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

- 2.10 Following on from the medium-term forecasts in Appendix 1 Table 3, the long-term liability benchmark assumes capital expenditure funded by external and internal borrowing; and minimum revenue provision on new capital expenditure based on various years depending on the type of asset.
- 2.11 In Appendix 1 Table 4, forecasts for CFR, net loans requirement and liability benchmark are shown against actual borrowing for 10 years.
- 2.12 The liability benchmark shows that there is a borrowing requirement from 2026/27 over the MTFP.

3.0 Borrowing Strategy

- 3.1 As at the 31 March 2025, the PCC held PFI loans totalling £33.761mn, £382,000 of other long term loans, £17.500mn short term borrowing with Local Authorities, £500,000 short term borrowing with PWLB, £14.500mn long term borrowing with PWLB and finance leases of £1.078mn. The balance sheet forecast in Appendix 1 Table 2 shows that the PCC expects to borrow up to £65.210mn in 2026/27. This estimate includes an allowance for building leases and for the remeasurement of PFI liabilities introduced to meet the new requirements of IFRS 16. The PCC may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing which is shown in Appendix 2 Table 11.
- 3.2 **Objectives:** The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the PCC's long-term plans change is a secondary objective.
- 3.3 **Strategy:** Given the significant cuts in funding, the PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the PCC's interest rate exposure within the limit set in the treasury management prudential indicators.

By doing so, the PCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short term borrowing will be monitored regularly against the potential for incurring

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Treasurer with this 'cost of carry' and breakeven analysis. Its output may determine whether the PCC borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The PCC will consider PWLB as a source of borrowing as well as other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The PWLB lending terms have been revised so that loans are no longer available to authorities that plan on buying investment assets primarily for yield. The PCC has no intention of undertaking this type of activity and so the access to PWLB loans is retained.

Alternatively, the PCC may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the PCC may borrow short-term loans to cover temporary cash flow shortages.

3.4 Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments
- any other bank, building society or insurance company authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Dorset Police Pension Fund)
- capital market bond investors
- retail investors via a regulated peer to peer platform
- special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

- similar asset based finance

- 3.5 **Short-term and variable rate loans:** These loans leave the PCC exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.
- 3.6 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

4.0 Investment Strategy

- 4.1 The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The PCC interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the PCC’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.
- 4.2 The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. This activity, plus the timing of borrowing decisions, helps identify cash surplus which is invested in accordance with the CIPFA guidance. In the first 7 months of 2025/26, the PCC’s investment balance has ranged between £3.398mn and £27.893mn. These levels may reduce in the forthcoming year.
- 4.3 **Objectives:** The CIPFA Code requires the PCC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC’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. Where balances are expected to be invested for more than one year, the PCC will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

invested. The PCC aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

- 4.4 **Strategy:** As demonstrated by the liability benchmark, the PCC expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the PCC may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by diversifying.

- 4.5 **Environmental, social and governance (ESG):** considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Commissioner's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Commissioner will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. ESG considerations will be taken into account only where consistent with the Commissioner's primary objectives of security, liquidity and yield, and will not lead to a blanket restriction of the approved counterparty list.
- 4.6 **Business Model:** Under the IFRS 9 Financial Instruments standard, the accounting for certain investments depends on the PCC's approach to managing them. The PCC aims to realise value from its internally managed treasury investments and uses two business models to achieve this. One collects contractual cashflows e.g. a bank notice account and the other covers non-contractual investments such as pooled funds which include money market funds.
- 4.7 **Approved counterparties:** The PCC may invest its surplus funds with any of the counterparty types shown in Appendix 1 Table 5, subject to the cash and time limits. Time limits start on the earlier of dates that the Commissioner is committed to make the investment and the date that cash is transferred to the counterparty. The PCC will invest with those counterparties recommended by Arlingclose and those that meet the required criteria outlined in this strategy.
- 4.8 **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk in Table 5 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

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

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 only where external advice indicates the entity to be of similar credit quality.

- 4.9 **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 4.10 **Local authorities and other government entities:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.
- 4.11 **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.
- 4.12 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments. A higher limit applies for investments fully secured on UK or other government collateral.
- 4.13 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing and 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 of Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 4.14 **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

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

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

4.15 Strategic pooled funds: Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly. Any such investment would require the explicit approval of the PCC.

4.16 Operational bank accounts: The PCC may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, therefore where the credit rating falls below A- balances will be kept below £1.250mn, otherwise the standard counterparty limit will apply.

Where unscheduled income is received after the counterparty investment cut off times, the balance may exceed £1.250mn. The Treasury team will advise the Treasurer accordingly and ensure that the balance is brought back down to below £1.250mn the next working day.

Where scheduled income has not been received, the balance may drop to an overdrawn position. The Treasury team will advise the Treasurer accordingly and ensure that the balance is brought back up to an appropriate level the next working day.

The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the PCC maintaining operational continuity.

4.17 Risk assessment and credit ratings: Credit ratings are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 4.18 **Other information on the security of investments:** The PCC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the PCC’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects: The PCC is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the PCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

- 4.19 **Investment limits:** The PCC’s revenue reserves available to cover investment losses are forecast to be £11.393mn on 31 March 2026. The maximum that will be lent unsecured to any one organisation (other than the UK Government) is set out in Appendix 1 Table 5. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts and foreign countries. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Investment limits are shown in Appendix 1 Table 6.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

4.20 **Liquidity management:** The PCC uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the PCC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the PCC's medium term financial plan and cash flow forecast.

The PCC will spread its liquid cash over at least four providers to ensure that access to cash is maintained in the event of operational difficulties of any one provider.

5.0 2018 MHCLG Investment Guidance

5.1 The contribution that Treasury Management Investments make to the objectives of the PCC is to support effective treasury management activities.

5.2 The statutory guidance issued by MHCLG in January 2018 requires authorities to report also on their investment strategy with regard to the following purposes:

- To support local public services by lending to or buying shares in other organisations (service investments), and
- To earn investment income (known as commercial investments where this is the main purpose)

5.3 The PCC does not have any current plans for any new service or commercial investments. Should these plans change in the future a full assessment will be made, and an appropriate Investment Strategy Report will be prepared.

5.4 Financial guarantees are not strictly counted as investments, since no money has exchanged hands yet, but they do carry risks. The PCC, along with all other PCCs, provide a financial guarantee to the APCC pension fund held by Merseyside LGPS amounting to £21,000 and another to Bluelight Commercial Limited amounting to £55,000. If realised, the amounts would be covered by the General Fund Balance reserve.

6.0 Prudential Code Indicators

6.1 The Local Government Act 2003 requires the PCC to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the PCC are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

(i) **Estimates of Capital Expenditure:** The PCC’s planned capital expenditure and financing is shown in Table 7 in Appendix 2 as well as the **estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) (Table 8 in Appendix 2) measures the PCC’s underlying need to borrow for a capital purpose.

(ii) **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence which is shown in Appendix 2 Table 9.

(iii) **Operational Boundary for External Debt:** The operational boundary shown in Appendix 2 Table 10 is based on the PCC’s estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC’s estimates of capital expenditure, the capital financing requirement, finance leases, Private Finance Initiative, other liabilities and cash flow requirements, and is a key management tool for in-year monitoring.

(iv) **Authorised Limit for External Debt:** The authorised limit shown in Appendix 2 Table 11 is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the PCC can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

(v) **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. This is shown in Appendix 2 Table 12.

7.0 Treasury Management Code Indicators

7.1 The PCC measures and manages its exposures to treasury management risks using the following indicators.

7.2 **Security:** The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A+

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

7.3 **Liquidity:** Minimum limits are set for short term cash in order that sufficient liquidity is available to meet unexpected variation in the cash flow:

Liquidity risk indicator	Target
Minimum limit at less than 31 days duration	£3mn

7.4 **Interest rate exposures:** This indicator is set to control the PCC's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£275k)
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£275k

The impact of a change to the variable interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

It should be noted that all loan arrangements in place and those forecasted have fixed interest rates and have been excluded from the calculations.

7.5 **Maturity structure of borrowing:** This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	55%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

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

7.6 **Long-term treasury management investments:** The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term principal sum invested to final maturities beyond the period end will be:

Long term treasury management investments indicator	2026/27	2027/28	2028/29	No Fixed Date
Counterparty Limit on principal invested beyond year end	£3mn	£2.5mn	£2mn	£3mn

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

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

8.0 Other Items

8.1 The CIPFA Code requires the PCC to include the following in its Treasury Management Strategy.

8.2 **Financial derivatives:** In the absence of any explicit legal power to do so, the PCC will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment training:** The needs of the PCC's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff attend internal training courses and/or training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment advisers:** The PCC has appointed Arlingclose Limited as treasury management advisers and receive specific advice on investment, debt and capital finance issues.

8.5 **Investment of money borrowed in advance of need:** The PCC may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the PCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCCs overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be three years, although the PCC is not required to link particular loans with particular items of expenditure.

8.6 The Minimum Revenue Provision (MRP) Policy Statement is shown in Appendix 4. MRP is an amount charged to the revenue budget for the repayment of debt. The Local Government Act 2003 requires the PCC to have regard to the MHCLG Guidance on Minimum Revenue Provision issued in 2018.

8.7 **Markets in Financial Instruments Directive:** The PCC has opted up to professional client status with its providers of financial services, allowing it access to a greater range of services but without the greater regulatory protections afforded

**POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT**

to individuals and small companies. Given the size and range of the PCC’s treasury management activities, the Treasurer believes this to be the most appropriate status.

9.0 Financial Implications

9.1 The budget for investment income in 2026/27 is £414,000, based on an average investment portfolio of £12mn at an average interest rate of 3.50%. The budget for debt interest payable in 2026/27 is £726,000 based on interest rates ranging from 4.55% to 6.25%. If actual levels of investments and borrowing, and actual interest rates differ from those forecasted, performance against budget will be correspondingly different.

10.0 Other Options Considered

10.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer, having consulted the PCC, 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 considered 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

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

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
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11.0 Governance Arrangements

11.1 The Treasury Management governance arrangements are set out in Appendix 6.

Appendices

Appendix 1: Investment Strategy

Appendix 2: Prudential Indicators

Appendix 3: Interest Estimates

Appendix 4: Minimum Revenue Provision Statement

Appendix 5: Economic Context

Appendix 6: Governance

Appendix 7: Glossary

**POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT**

INVESTMENT STRATEGY

Appendix 1

Table 1: Existing Investment and Debt Portfolio Position

Actual Portfolio as at 31/03/2025	
	£'000
External Borrowing for:	
Cashflow	(17,500)
Capital - Short Term	(500)
Capital - Long Term	(14,500)
Total External Borrowing	(32,500)
Other Long-Term Liabilities:	
Private Finance Initiative	(33,761)
Other Long Term Liabilities	(382)
Total Other Long-Term Liabilities	(34,143)
Finance Leases	
Finance Lease Liabilities	(1,078)
Total Finance Leases	(1,078)
Total Gross External Debt	(67,721)
Treasury Investments:	
Short Term Investments	0
Cash and Cash Equivalents	21,118
Total Treasury Investments	21,118
Net Debt	(46,603)

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

INVESTMENT STRATEGY

Appendix 1

Table 2: Balance Sheet Summary and Forecast

	31/03/2025	31/03/2026	31/03/2027	31/03/2028	31/03/2029	31/03/2030
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	62,744	62,869	65,210	66,121	66,712	70,814
Less: PFI	(33,758)	(31,161)	(28,282)	(24,518)	(20,700)	(16,798)
Less: Other Long Term Liabilities	(382)	(275)	(167)	(60)	0	0
Less: External Borrowing	(15,000)	(14,500)	(18,500)	(16,000)	(19,500)	(21,000)
Less: Finance Leases - Equipment	(39)	(13)	(65)	(39)	(13)	0
Less: Finance Leases - Buildings	(1,042)	(967)	(889)	(819)	(759)	(696)
Internal Borrowing	12,523	15,953	17,308	24,684	25,741	32,319
Adjust for: Balance Sheet Resources						
Usable Reserves	(14,153)	(14,372)	(12,498)	(12,346)	(12,611)	(12,871)
Short Term Borrowing	(17,500)	0	0	0	0	0
Working Capital	(1,988)	(1,766)	(1,766)	(1,766)	(1,766)	(2,184)
Total Funds	(33,641)	(16,138)	(14,264)	(14,112)	(14,377)	(15,055)
New borrowing or (Treasury investments)	(21,118)	(185)	3,044	10,572	11,364	17,264

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

INVESTMENT STRATEGY

Appendix 1

Table 3: Liability Benchmark

	31/03/2025	31/03/2026	31/03/2027	31/03/2028	31/03/2029	31/03/2030
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	62,744	62,869	65,210	66,121	66,712	70,814
Less: PFI	(33,758)	(31,161)	(28,282)	(24,518)	(20,700)	(16,798)
Less: Other Long Term Liabilities	(382)	(275)	(167)	(60)	0	0
Less: External Borrowing	(15,000)	(14,500)	(14,000)	(9,000)	(9,000)	(4,000)
Less: Finance Leases - Equipment	(39)	(13)	(65)	(39)	(13)	0
Less: Finance Leases - Buildings	(1,042)	(967)	(889)	(819)	(759)	(696)
Less: Short Term Borrowing	(17,500)	0	0	0	0	0
Borrowing	(4,977)	15,953	21,807	31,685	36,240	49,320
Less: Balance Sheet Resources	(16,141)	(16,138)	(14,264)	(14,112)	(14,377)	(15,055)
(Investments)/Borrowing	(21,118)	(185)	7,543	17,573	21,863	34,265
(Investments)/Borrowing	(21,118)	(185)	7,543	17,573	21,863	34,265
Plus: Liquidity Allowance	21,118	10,000	10,000	10,000	10,000	10,000
Total Borrowing Requirement	0	9,815	17,543	27,573	31,863	44,265
Net Loans Requirement (Investment less External Borrowing)	11,382	14,315	21,543	26,573	30,863	38,265
Plus: Liquidity Allowance	10,000	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	21,382	24,315	31,543	36,573	40,863	48,265

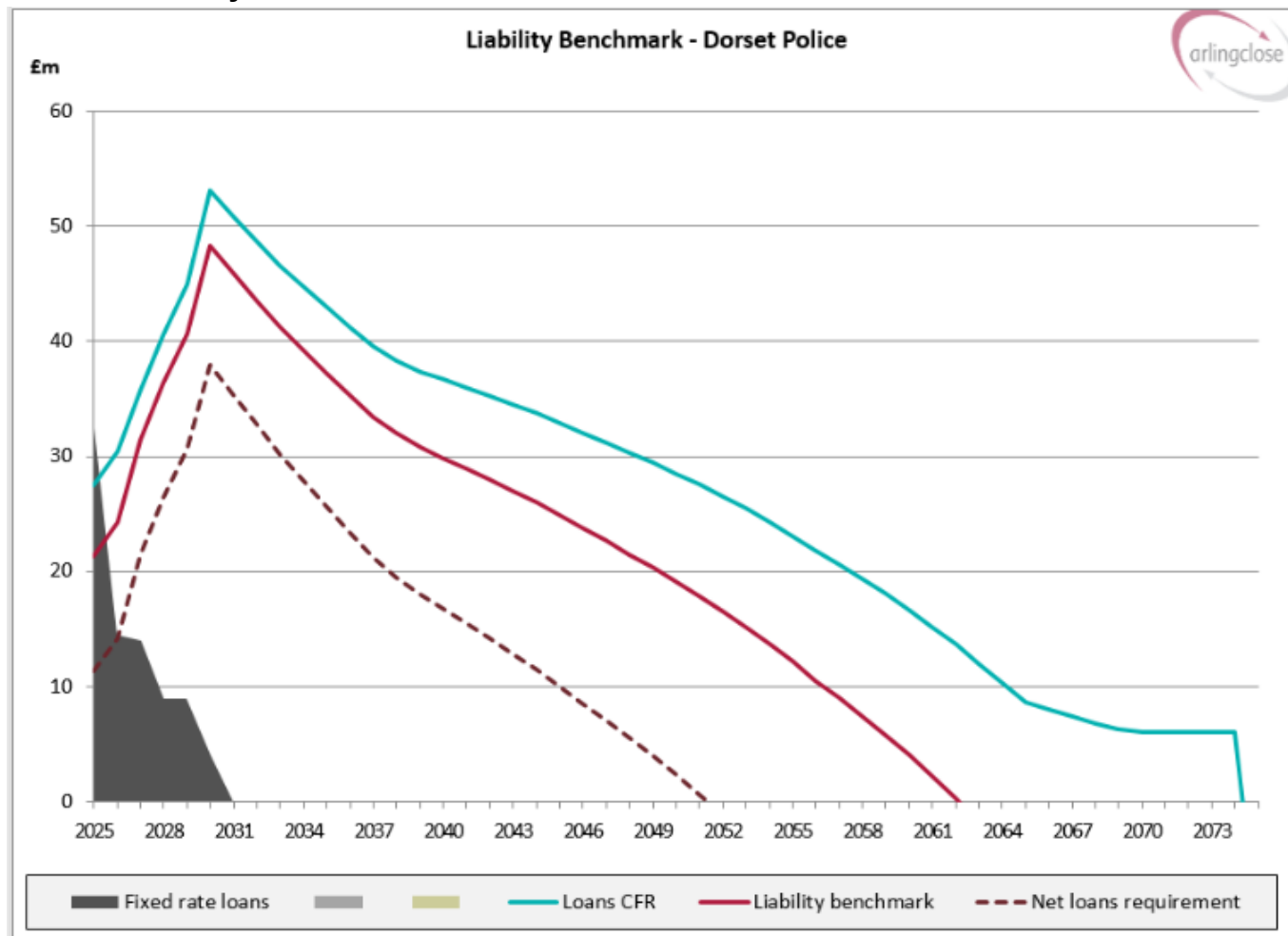
* The forecast borrowing anticipated in years 2026/27, 2027/28, 2028/29 and 2029/30 shown in Table 2 has been removed from the liability benchmark as the requirement is to only include existing borrowing plus forward deals to which the PCC is committed.

**POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT**

INVESTMENT STRATEGY

Appendix 1

Table 4: Liability Benchmark Chart



**POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT**

INVESTMENT STRATEGY

Appendix 1

Table 5: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	50 years	Unlimited	n/a
Local Authorities and Other Government Entities	25 years	£3mn	Unlimited
Secured Investments - Government Collateral	25 years	£6mn	Unlimited
Secured Investments - Other Collateral*	10 years	£3mn	Unlimited
Banks (unsecured)*	13 months	£1.5mn	Unlimited
Building Societies (unsecured)*	13 months	£1.5mn	£3mn
Registered Providers (unsecured)*	5 years	£1.5mn	£3mn
Money Market Funds (including Cash Plus Funds) *	n/a	£3mn	Unlimited
Strategic Pooled Funds**	n/a	£3mn	£5mn

*Please refer to the section on minimum credit rating.

**This sector limit is in line with the minimum level of reserves.

Table 6: Additional Investment Limits

	Cash Limit
Any group of pooled funds under the same management	£3mn per manager
Investments held in a broker's nominee account	£7.5mn per broker
Foreign countries	£3mn per country

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/2027 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

PRUDENTIAL INDICATORS

Appendix 2

Table 7: Estimates of Capital Expenditure

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Expenditure	9,778	9,644	11,802	11,986	11,993	15,909
Capital Grants	1,235	474	0	0	0	0
Capital Receipts	1,132	0	0	0	0	0
Earmarked Reserves	229	1,044	556	0	0	0
Revenue Contribution to Capital	3,009	4,421	4,835	5,568	5,589	5,563
Borrowing	4,173	3,705	6,411	6,418	6,404	10,346
Total Financing	9,778	9,644	11,802	11,986	11,993	15,909

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/2027 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

PRUDENTIAL INDICATORS

Appendix 2

Table 8: Estimates of Capital Financing Requirement

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Opening CFR	43,016	62,744	62,869	65,210	66,121	66,712
IFRS16 Implementation	20,664	0	0	0	0	0
Revised Opening CFR	63,680	62,744	62,869	65,210	66,121	66,712
Capital expenditure funded by borrowing	4,173	3,705	6,411	6,418	6,404	10,346
Capital expenditure funded by PFI	868	1,394	1,269	559	745	901
Capital expenditure funded by Finance Leases (Equipment)	0	0	100	0	0	0
Lease Remeasurement	0	63	58	49	42	39
Less: Borrowing MRP	(810)	(838)	(1,116)	(1,589)	(1,892)	(2,318)
Less: PFI MRP	(3,646)	(3,991)	(4,148)	(4,323)	(4,562)	(4,803)
Less: Other Long Term MRP	(107)	(107)	(107)	(107)	(60)	0
Less: Equipment Lease MRP	(25)	(26)	(48)	(26)	(26)	0
Less: Building Lease MRP	(1,389)	(75)	(78)	(70)	(60)	(63)
Closing CFR	62,744	62,869	65,210	66,121	66,712	70,814

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/2027 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

PRUDENTIAL INDICATORS

Appendix 2

Table 9: Gross Debt and the Capital Financing Requirement

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
PFI	33,758	31,161	28,282	24,518	20,700	16,798
Other Long Term Liabilities	382	275	167	60	0	0
External Borrowing	15,000	14,500	18,500	16,000	19,500	21,000
Equipment Finance Lease	39	13	65	39	13	0
Building Finance Lease	1,042	967	889	819	759	696
Gross Debt	50,221	46,916	47,903	41,436	40,972	38,494
Internal Borrowing	12,523	15,953	17,307	24,685	25,740	32,320
Capital Financing Requirement	62,744	62,869	65,210	66,121	66,712	70,814

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/2027 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

PRUDENTIAL INDICATORS

Appendix 2

Table 10: Operational Boundary for External Debt

Operational Boundary	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
PFI	33,758	31,161	28,282	24,518	20,700	16,798
Other Long Term Liabilities	382	275	167	60	0	0
External Borrowing	15,000	14,500	18,500	16,000	19,500	21,000
Equipment Finance Lease	39	13	65	39	13	0
Building Finance Lease	1,042	967	889	819	759	696
Maximum forecast cashflow deficit arising from revenue budget operations	36,000	30,000	30,000	30,000	30,000	30,000
Total Operational Boundary	86,221	76,916	77,903	71,436	70,972	68,494

Table 11: Authorised Limit for External Debt

Authorised Limit	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Operational Boundary Debt	86,221	76,916	77,903	71,436	70,972	68,494
Additional margin for unforeseen circumstances/capital receipt	5,000	5,000	5,000	5,000	5,000	5,000
Total Authorised Limit	91,221	81,916	82,903	76,436	75,972	73,494

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/2027 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

PRUDENTIAL INDICATORS

Appendix 2

Table 12: Ratio of Financing Costs to Net Revenue Stream

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Ratio of Financing Costs to Net Revenue Stream	3.32%	2.66%	3.03%	3.31%	3.42%	3.75%

**POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT**

INTEREST ESTIMATES

Appendix 3

Table 13: Interest Estimates

	2026/27
	£'000
Interest Income Estimate	(414)
Interest Payment Estimate	726

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

MINIMUM REVENUE PROVISION STATEMENT

Appendix 4

Annual Minimum Revenue Provision Statement 2026/27

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

The MHCLG Guidance requires the PCC to approve an Annual MRP Statement each year and provides four options for calculating an amount to put aside to revenue over time to cover the CFR i.e. the MRP. The PCC has opted for option 3; the Asset Life Method. The Asset Life Method determines that MRP is calculated on the basis of charging the unfinanced capital expenditure over the expected useful life of the relevant assets based on either an equal instalment method or an annuity method. The method is applied from the year after the asset becomes operational. The PCC has opted for the equal instalment method for short term assets and the annuity method for assets funded over a longer time period. The method chosen will be reviewed to ensure its continued suitability.

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

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability. Where former operating leases have been brought into the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

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

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

MINIMUM REVENUE PROVISION STATEMENT

Appendix 4

- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the PCC's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

The PCC can choose to make more MRP than considered the prudent minimum. The maximum asset life used in MRP calculations is 50 years, unless a longer life is certified by an appropriately qualified professional adviser, or the asset has been acquired on a lease of longer than 50 years. For those assets purchased before 1st April 2018 that have an asset life of more than 50 years, the Code does not require a retrospective adjustment. Based on the PCC's latest estimate of its Capital Financing Requirement on 31 March 2025, the budget for MRP has been set as follows:

	2026/27 Estimated CFR £'000	2026/27 Estimated MRP £'000
Unsupported capital expenditure after 31.03.2008	65,210	5,497

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

ECONOMIC CONTEXT

Appendix 5

Arlingclose Economic Context as of January 2026

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

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

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

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

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

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

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

ECONOMIC CONTEXT

Appendix 5

they were still divided in their assessment of the risks between inflation and unemployment.

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

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

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

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

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

Arlingclose Economic & Interest Rate Forecast – 22nd December 2025

Underlying assumptions:

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

ECONOMIC CONTEXT

Appendix 5

increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.

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

Forecast:

- In line with our long-held forecast, Bank Rate was cut to 3.75% in December.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026. However, near-term upside risks to the forecast have increased.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

ECONOMIC CONTEXT

Appendix 5

- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly and we expect yields to remain higher

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

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

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

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

GOVERNANCE

Appendix 6

Treasury Management Governance Arrangements

The PCC is responsible for:

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Independent Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the PCC.

The Treasurer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

GLOSSARY

Appendix 7

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.
Authorised limit	The maximum amount of <i>debt</i> that a local authority may legally hold, set annually in advance by the authority itself. One of the <i>Prudential Indicators</i> .
Bail-in	A method of rescuing a failing <i>financial institution</i> by cancelling some of its <i>deposits</i> and <i>bonds</i> . Investors may suffer a <i>haircut</i> but may be given <i>shares</i> in the bank as part compensation.
Bank	Regulated firm that provides financial services to customers. But see also <i>Bank of England</i> .
Bank of England	The <i>central bank</i> of the UK, based in London, sometimes just called “the Bank”. See also <i>Monetary Policy Committee</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”.
Bill	A certificate of <i>short-term</i> debt issued by a company, government, or other institution, which is tradable on financial markets
Bond	A certificate of <i>long-term</i> debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed and <i>bonds</i> issued.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of <i>securities</i> (a stockbroker) with each other in order to facilitate transactions.
Building society	A mutual organisation that performs similar functions to a <i>retail bank</i> but is owned by its customers.
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.
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 markets	The markets for long-term finance, including <i>bonds</i> and <i>shares</i> . See also <i>money markets</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.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

GLOSSARY

Appendix 7

Cash plus fund	A <i>pooled fund</i> is similar to a <i>money market fund</i> but with a <i>Weighted Average Maturity (WAM)</i> up to around six months.
Central bank	A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.
CIPFA	The Chartered Institute of Public Finance and Accountancy - the professional body for accountants working in the public sector. CIPFA also sets various standards for local government.
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> .
Covered bond	<i>Bond</i> issued by a <i>financial institution</i> that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from <i>bail-in</i> .
CPI	Consumer Price Index - the measure of inflation targeted by the <i>Monetary Policy Committee</i> , measured on a harmonised basis across the European Union.
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.
Debt	(1) A contract where one party owes money to another party, such as a <i>loan</i> , <i>deposit</i> or <i>bond</i> . Contrast with <i>equity</i> . (2) In the <i>Prudential Code</i> , the total outstanding <i>borrowing</i> plus <i>other long-term liabilities</i> .
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a <i>covenant</i> , usually as a result of being in financial difficulty (rather than an administrative oversight).
Deposit	A regulated placing of cash with a <i>financial institution</i> . Deposits are not tradable on financial markets.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a <i>swap</i> , <i>option</i> or <i>future</i> . Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying.
Discount	(1) The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. (2) To calculate the <i>present value</i> of an investment taking account of the time value of money.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

GLOSSARY

Appendix 7

Diversification	The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of <i>counterparties</i> to limit <i>credit risk</i> or borrowing to a range of <i>maturity</i> dates to limit <i>refinancing risk</i> .
Duration	In relation to a <i>bond</i> or <i>bond fund</i> , the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
Embedded derivative	A <i>derivative</i> that is combined into another financial instrument, such as the <i>options</i> embedded in a <i>LOBO</i> .
Equity	(1) The residual value of an entity's assets after deducting its liabilities. (2) An investment in the residual value of an entity, for example ordinary shares.
Federal Reserve	The <i>central bank</i> of the USA, often just called "the Fed".
Financial instrument	<i>IFRS</i> term for investments, borrowing and other cash payable and receivable.
Financing costs	In the <i>Prudential Code</i> , interest payable on <i>debt</i> less investment income plus <i>premiums</i> less <i>discounts</i> plus <i>MRP</i> .
Fund manager	Regulated firm that manages <i>pooled funds</i> .
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	<i>Yield</i> on <i>gilts</i> . Commonly used as a measure of risk-free long-term interest rates in the UK.
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a <i>loan</i> to the lender if the borrower <i>defaults</i> .
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Interest	Compensation for the use of cash paid by borrowers to lenders on <i>debt</i> instruments.
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.
Investment guidance	Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.
Investment strategy	A document required by <i>investment guidance</i> that sets out a local authority's investment plans and parameters for the coming year. Sometimes forms part of the authority's <i>treasury management strategy</i> .
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of <i>debt</i> .

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

GLOSSARY

Appendix 7

Liability benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
Loan	Contract where the lender provides a sum of money (the <i>principal</i>) to a borrower, who agrees to repay it in the future together with <i>interest</i> . Loans are not normally tradable on financial markets. There are specific definitions in government <i>investment guidance</i> .
Long-term	Usually means longer than one year.
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.
MHCLG	Ministry of Housing, Communities and Local Government – the central government department that oversees local authorities in England.
Monetary policy	Measures taken by <i>central banks</i> to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite.
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>pooled fund</i> which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to <i>Constant Net Asset Value (CNAV)</i> and <i>Low Volatility Net Asset Value (LVNAV)</i> funds with a <i>WAM</i> under 60 days which offer instant access, but the European Union definition extends to include <i>cash plus funds</i> .
Money markets	The markets for short-term finance, including <i>deposits</i> and <i>T-bills</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.
Net borrowing	<i>Borrowing</i> minus <i>treasury investments</i> .
Net revenue stream	In the <i>Prudential Code</i> , income from general government grants, Council Tax and rates.
Notice account	A <i>deposit</i> account where the cash can be called back after a given notice period.
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.
Option	A <i>derivative</i> where the holder pays a <i>premium</i> to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
Outlook	A <i>credit rating agency's</i> expected direction of travel in the <i>long-term rating</i> over the next two years.
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> .

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

GLOSSARY

Appendix 7

Pooled fund	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').
Premium	(1) The amount that the early repayment cost of a loan is above the principal, or the price of a bond is above its nominal value. (2) The initial payment made under a <i>derivative</i> .
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>pooled fund</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 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 - a statutory body operating within the <i>Debt Management Office</i> that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Redemption	The process of withdrawing cash from a <i>pooled fund</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> .
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing association. Also known as a registered social landlord or RSL.
Sector limit	The maximum amount an investor is willing to lend to all <i>counterparties</i> in a particular industry sector, in order to manage <i>credit risk</i> .
Security	(1) A <i>financial instrument</i> that can be traded on a <i>secondary market</i> . (2) The concept of low <i>credit risk</i> . (3) <i>Collateral</i> .
Secured investment	An investment that is backed by <i>collateral</i> and is therefore normally lower <i>credit risk</i> and lower yielding than an equivalent unsecured investment.
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.
Share	An <i>equity</i> investment, which usually also confers ownership and voting rights.
Short-term	Usually means less than one year.

POLICE AND CRIME COMMISSIONER FOR DORSET
2026/27 to 2029/30 TREASURY MANAGEMENT STRATEGY STATEMENT

GLOSSARY

Appendix 7

Swap	A <i>derivative</i> where the <i>counterparties</i> exchange cash flows, for example fixed rate interest and variable rate interest.
Total return	The overall return on an investment, including <i>interest, dividends, rent, fees and capital gains and losses</i> .
Treasury investments	Investments made for <i>treasury management</i> purposes, as opposed to <i>commercial investments</i> and <i>service investments</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.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
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.