

# The Highland Council

Agenda Item	<b>8</b>
Report No	<b>RES/14/25</b>

**Committee:** Corporate Resources

**Date:** 5 June 2025

**Report Title:** Treasury Management – Summary of Transactions

**Report By:** Chief Officer – Corporate Finance

## **1. Purpose/Executive Summary**

- 1.1 This report on the treasury management transactions undertaken within the period is submitted to Committee for Members' scrutiny and in compliance with CIPFA's Code of Practice on Treasury Management.
- 1.2 This report sets out treasury management transactions during the period (see **Appendix 1**), reflecting activity undertaken to manage the Council's cash flows, and borrowing to fund capital expenditure. It also demonstrates compliance with the Council's prudential indicators (see **Appendix 2**).

## **2. Recommendations**

- 2.1 Members are asked to:
  - i. Consider and **note** the Treasury Management - Summary of Transactions report for the period from 1 January 2025 to 31 March 2025.

## **3. Implications**

- 3.1 **Resource:** While interest rates have risen over the past 2 or so years, Bank base rates are now starting to reduce. In relative terms rates remain high compared to the past decade and UK Government targets. The Council has focused on accessing short-term rather than long-term borrowing on the basis that rates are expected to fall further. The use of short-term borrowing does however have associated risks such as market rates increasing, and/or appropriate borrowing not being available when required. This approach is kept under regular review and may be changed depending on the prevailing short and long-term rates. The use of short-term borrowing does mitigate the risk of locking into long-term borrowing when rates are forecast to fall in the coming months. The impact on our borrowing approach due to the increasing cost and availability of short-term borrowing is considered at paragraph 6.5.
- 3.2 **Legal:** There are no Legal implications with Treasury activity undertaken in accordance with relevant regulations and within Policy as agreed by Council.

3.3 **Risk:** See paragraph 3.1 for information on managing the risks associated with short-term borrowing.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no implications arising as a direct result of this report.

3.5 **Gaelic:** There are no implications arising as a direct result of this report.

## 4. Impacts

4.1 In Highland, all policies, strategies, or service changes are subject to an integrated screening for impact on Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

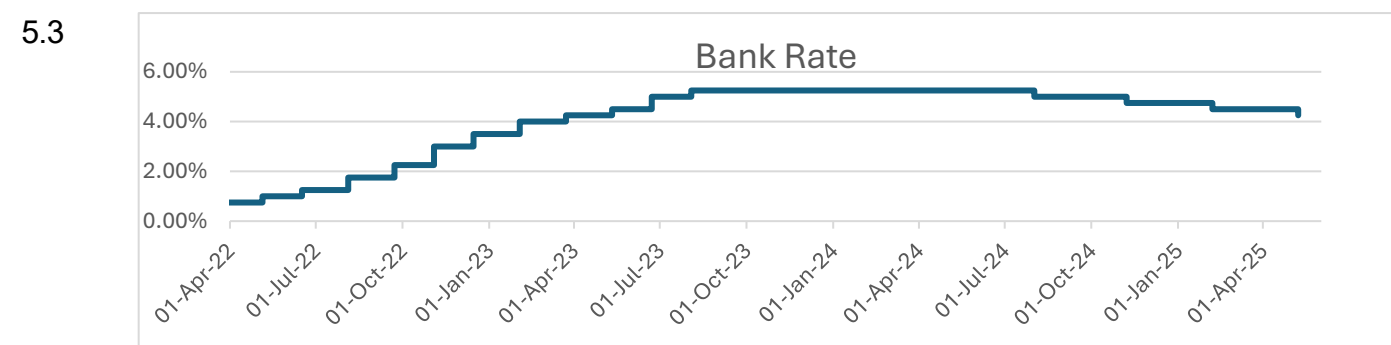
4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is a monitoring and update report and therefore an impact assessment is not required.

## 5. Treasury Management Strategy Statement (TMSS)

5.1 The strategy agreed in March 2024 which applies to financial year 2024/25 is to fund the capital programme by continuing to consider all borrowing options on an ongoing basis, manage liquidity, refinancing and interest rate risks to minimise loan charge interest rates as much as possible.

5.2 The Bank of England Monetary Policy Committee (MPC) sets monetary policy to meet the UK Government 2% inflation target. At its meeting on 08 May 2025, it voted by a majority of 5:4 to reduce bank rate by 0.25% to 4.25% citing at that time the substantial progress on disinflation over the past two years. A rate of 4.50% applied at 31 March 25.

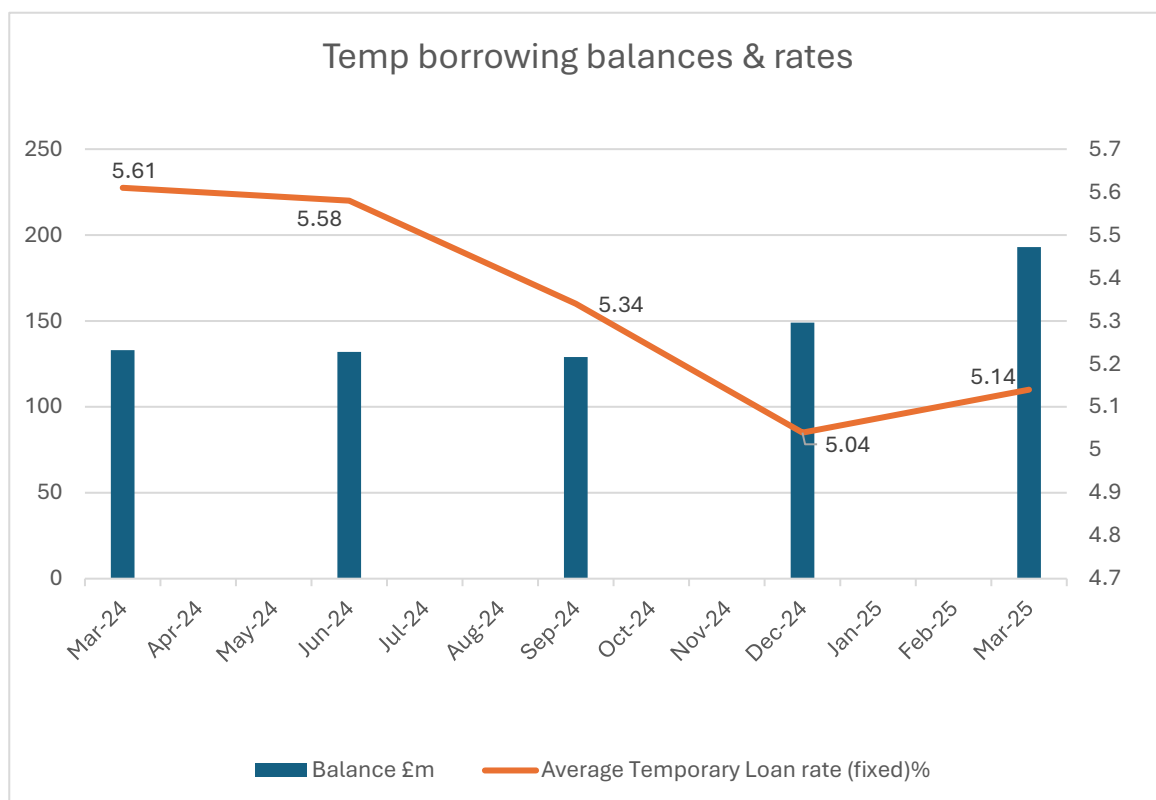


## 6. Borrowing Undertaken and Repayments Made

6.1 There is continuing market uncertainty influenced by both domestic and geopolitical factors. Bank Rate was reduced to 4.50% in February 2025 and by a further 0.25% to 4.25% in May 2025. The Council's Treasury Management advisor, MUFG (formerly Link), currently predicts it will reduce to 4.00% by December 2025.

6.2 On 31 March 2025, the total of temporary loans was £193.0m (£149.0m at 31 December 2024) with £79.0m of temporary borrowing undertaken and £35.0m of temporary loans repaid during the quarter. As a comparison, the previous quarter's balances and average rates are shown below. Inter-local authority rates are driven largely by supply and demand, as we move towards the end of a financial year temporary borrowing traditionally becomes more difficult to source and the slight rise in the average rate is reflective of the rates that have to be paid to secure funds.

### 6.2.1 Temporary Borrowing:



6.3 On 31 March 2025, the total of Public Works Loan Board (PWLB) loans was £986.3m (£957.2m at 31 December 2024) and long-term Market loans totaled £114.8m (£119.8m at 31 December 2024).

6.4 The following PWLB **borrowing** was undertaken between 1 January 2025 to 31 March 2025.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
10.0	Maturity	23/01/2025	01/07/2026	4.74
10.0	Maturity	25/02/2025	07/02/2029	4.94
10.0	Maturity	04/03/2025	04/03/2026	4.81
10.0	Maturity	05/03/2025	21/02/2029	4.86
10.0	Maturity	11/03/2025	01/06/2026	4.82
10.0	Maturity	19/03/2025	01/11/2028	4.91
10.0	Maturity	21/03/2025	01/08/2026	4.82
10.0	Maturity	21/03/2025	01/04/2026	4.82

- 6.5 The following PWLB borrowing were **repaid** between 1 January 2025 to 31 March 2025.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
5.0	Maturity	22/01/2024	22/01/2025	4.84
5.0	Maturity	31/01/2024	31/01/2025	4.96
5.0	Maturity	02/02/2024	03/02/2025	4.96
5.0	Maturity	05/02/2024	05/02/2025	4.92
10.0	Maturity	04/03/2024	04/03/2025	5.38
10.0	Maturity	19/03/2024	19/03/2025	5.33
10.0	Maturity	27/03/2024	27/03/2025	5.36

- 6.6 During the quarter, a mix of temporary borrowing from the inter-local authority market and new PWLB loans was undertaken. PWLB loans were taken for periods of less than 5 years with a variety of maturity dates to avoid refinancing risk and taking advantage of falling PWLB rates in these periods.

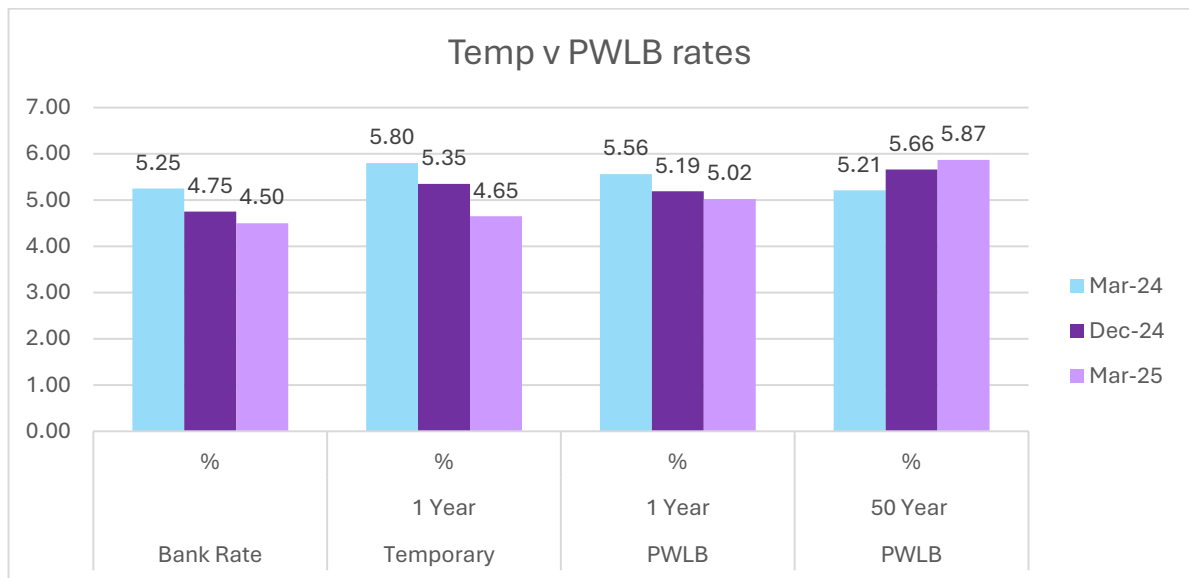
- 6.7 There was one long-term market loan repayment, and no long-term market borrowing was undertaken.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
5.0	Maturity	10/03/2023	10/03/2025	4.20

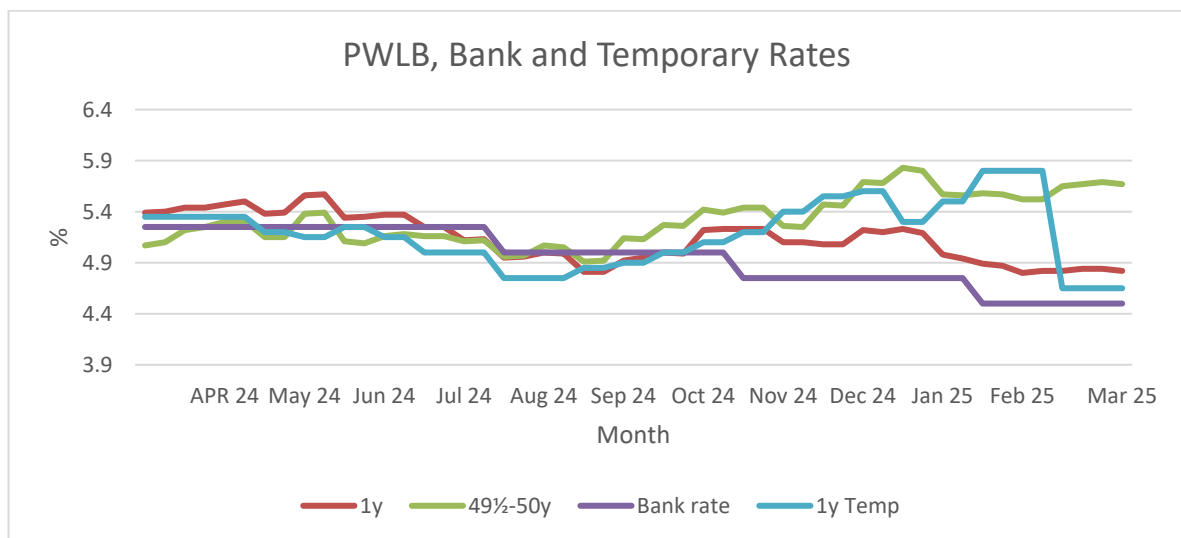
- 6.8 The Council's approach has been to use short-term borrowing to avoid locking into longer-term borrowing at high interest rates. This approach is regularly reviewed. As we moved through the quarter prevailing short and long-term borrowing rates did not fall as expected (at the time of writing this report, MUFG's forecast is for Bank Rate to be at 4.25% until December 2025 when it is forecast to drop to 3.75%). A lack of liquidity in the short-term Market towards the end of the quarter meant a mix of temporary borrowing and short-dated PWLB borrowing was the most prudent one.

- 6.9 The first chart below shows the cost of borrowing (interest rates payable) compared to the previous year and quarter. The second chart compares PWLB, bank and temporary market rates over the financial year to date. The third chart highlights the relationship between PWLB and Temporary borrowing rates, highlighting (using 1-year terms) where PWLB or market borrowing has been the most attractive at a point in time. Supply and demand remain a key issue in relation to market borrowing such that while rates may at times be more attractive, there is often a limited supply of funds.

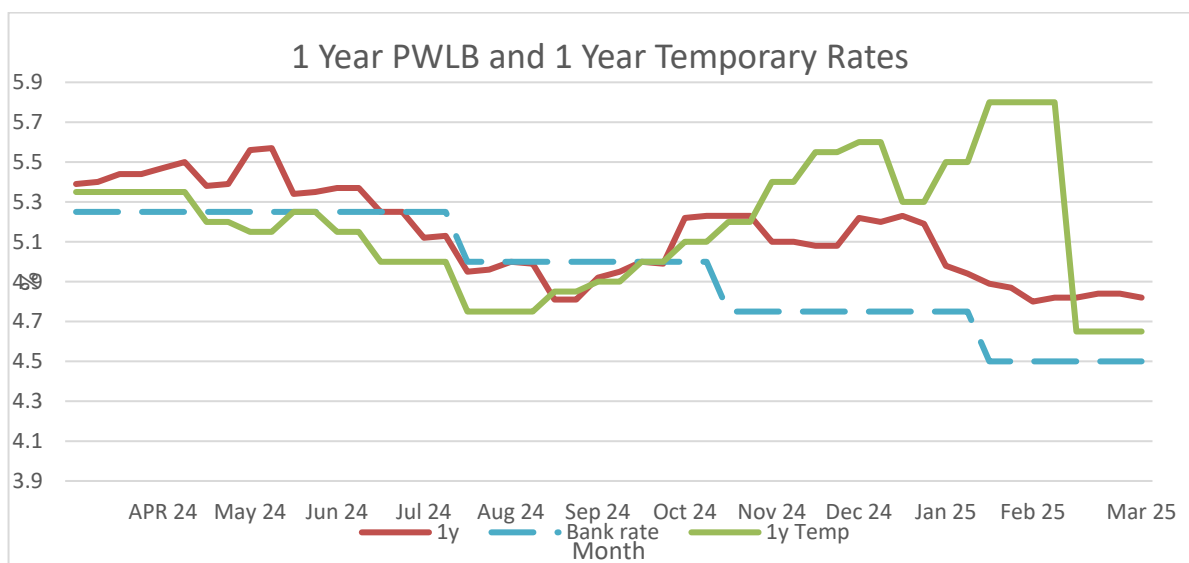
### 6.9.1



### 6.9.2



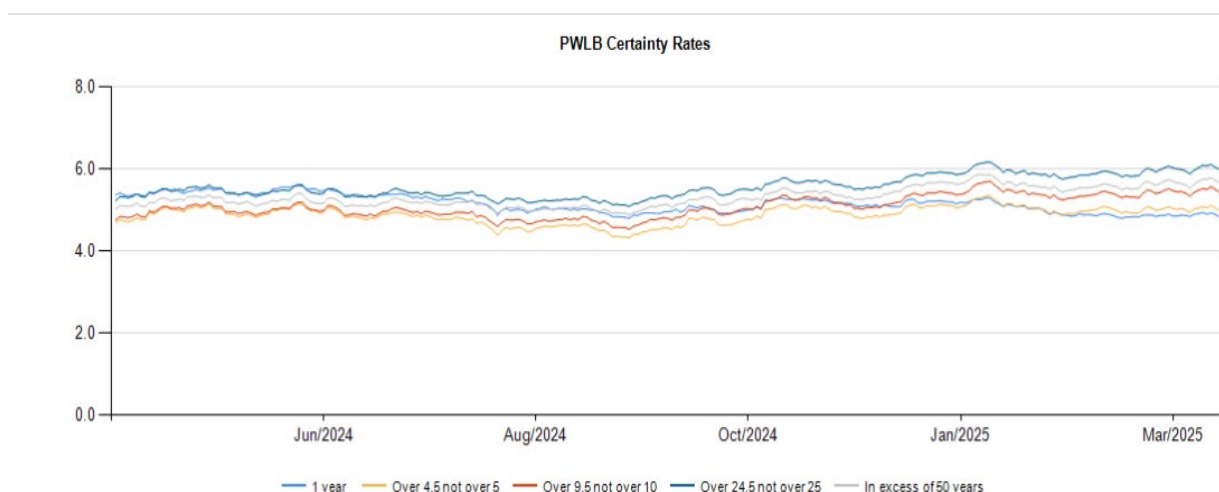
### 6.9.3



### 6.9.4

The PWLB rates for the financial year 2024/25 to date are shown in the graph below. Local authorities cannot borrow from the PWLB for investment purposes. Margins over gilt yields are as follows:

- PWLB Standard Rate is gilt plus 100 basis points (1.0%) (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (0.8%) (G+80bps)
- HRA Certainty Rate is gilt plus 40bps (0.4%) (G+60bps) until end June 2025.
- Local Infrastructure Rate is gilt plus 60bps (0.6%) (G+60bps)



## 7. Deposits

7.1 Cash flow, uncertainty, and the need to maintain liquidity, has meant the Council has held most of its cash balances in Money Market Funds (MMFs) similar to the approach being taken by other Local Authorities. Bank Rate decreased to 4.50% in February 25 and the rate of return on Money Market Fund (MMF) investments reduced during the quarter.

7.2 All investment decisions are taken with reference to CIPFA's Code of Practice on Treasury Management where **Security** of funds is the overriding consideration, then **Liquidity** and finally **Yield**.

7.3 A full list of all counterparties at 31 March 2025 is at **Appendix 3**.

7.4 When placing temporary deposits, the Council uses a weekly credit rating list provided by the MUFG, to assess the risks involved in lending to individual counterparties.

The Council's lending policy is continually monitored against these credit ratings. This provides a balance of operational flexibility and risk awareness in managing the Council's temporary investments.

7.5 The transactions reported here have been undertaken in line with the Council's Treasury Management Strategy Statement and Investment Statement (TMSS) for 2024/25 which was approved by Council on 14 March 2024.

Designation: Chief Officer – Corporate Finance

Date: 9 May 2025

Author: Mairi MacCallum, Treasury Officer

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/83028/item\\_18\\_treasury\\_management\\_strategy\\_statement](https://www.highland.gov.uk/download/meetings/id/83028/item_18_treasury_management_strategy_statement)

[https://www.highland.gov.uk/download/meetings/id/84746/item\\_6\\_treasury\\_management\\_transactions\\_statement](https://www.highland.gov.uk/download/meetings/id/84746/item_6_treasury_management_transactions_statement)

Appendices: Appendix 1 - Treasury Management - Summary of Transactions for the Quarter to 31 March 2025  
Appendix 2 - Treasury Management – Prudential Indicators  
Appendix 3 - List of Counterparties

## Appendix 1 - Treasury Management - Summary of Transactions for the Quarter to 31 March 2025

Type of Borrowing	Outstanding debt at start of quarter	Raised	Repaid	Outstanding debt at end of quarter	Average Interest Rate	
					31 Dec 24	31 Mar 25
	£m	£m	£m	£m	%	%
Public Works Loan Board	957.2	80.0	(50.9)	986.3	3.94	3.95
Market Loans	83.3	0	(5.0)	78.3	4.73	4.76
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Fixed Temporary Loans (term < 1 year)	149.0	79.0	(35.0)	193.0	5.04	5.14
Variable Temporary Loan	0	0	(0)	0	-	-
Bank Balance	0	0	0	0		
<b>GROSS EXTERNAL BORROWING</b>	<b>1,226.0</b>	<b>159.0</b>	<b>(90.9)</b>	<b>1,294.1</b>		
<i>Temporary Deposits</i>	<i>(58.5)</i>	<i>(202.6)</i>	217.9	<i>(43.2)</i>	4.76	4.53
<b>NET EXTERNAL BORROWING</b>	<b>1,167.5</b>	<b>(43.6)</b>	127.0	1,250.9		
Total loan average					4.15	4.19

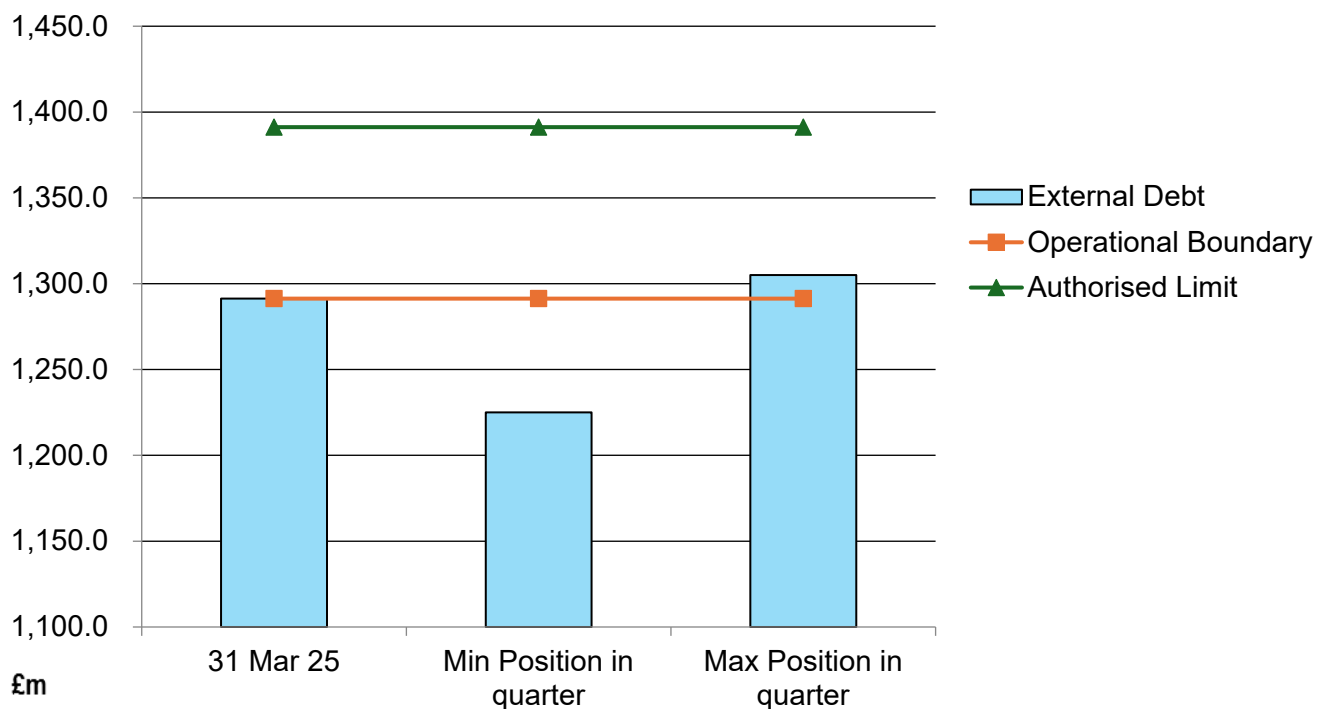
<b><u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u></b>	<b><u>Actual</u></b> <b><u>%</u></b>	<b><u>Approved Max</u></b> <b><u>%</u></b>
Short-term borrowing as % of the Council's total outstanding debt	14.9	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	2.8	35.0

## Appendix 2

### Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2024/25 during the quarter to 31 March 2025.

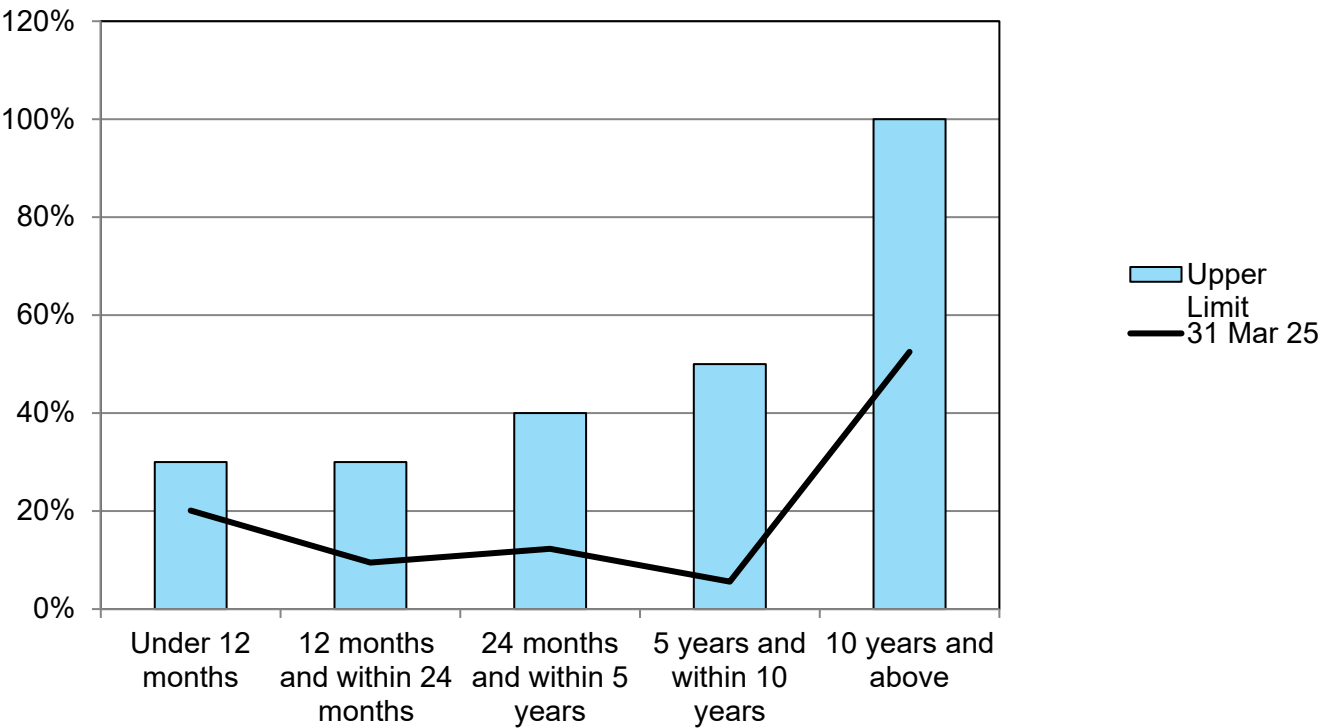
#### External Debt



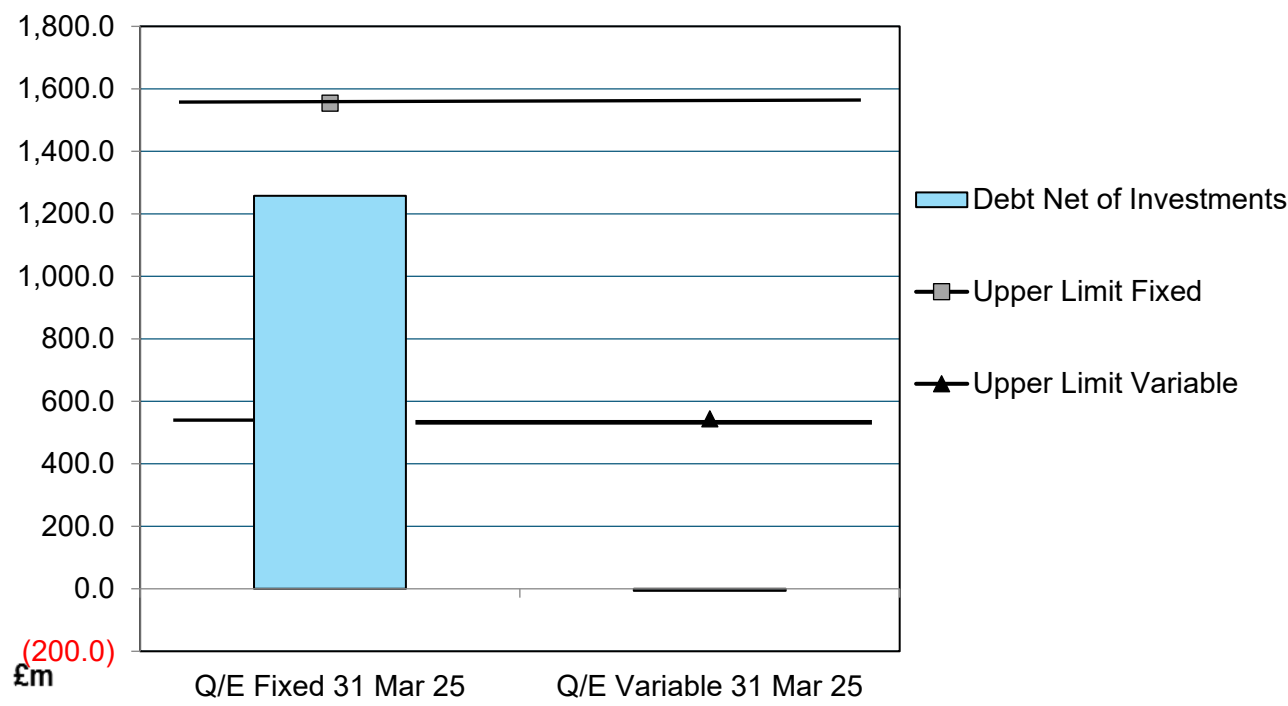
Note: the operational boundary, as set out within the TMSS, is an estimate of the likely and prudent operational level of borrowing on a day-to-day basis. It is an operational planning measure and distinct from the fixed authorised limit. With the level of borrowing undertaken during the quarter, and in particular the latter weeks of March, the borrowing did peak at £1,305m as set out above, compared to the Operational Boundary (as set out within the TMSS at the start of the year) of £1,291.3m. The excess being £13.7m and reflecting cashflow needs and treasury activity during the Quarter. The Council remained well within the authorised limit during the quarter. A new operational boundary was agreed for 2025/26 as part of the TMSS for that year.



Maturity Structure of Fixed Rate Borrowing



Debt Net of Investments



## Appendix 3

### List of Counterparties

The following table is a list of current counterparties used, amount deposited with each counterparty and the MUFG credit rating as at 31 March 2025.

Counterparty	Amount £m	Counter - party limit £m	MUFG credit rating Mar 25	Total Amount £m	Deposit Type	Rate Mar 25 %	FTD Duration
Clydesdale** Bank t/a Virgin Money	10.0	20.0	Red 6 Mths	10.26	Call	4.50	N/A
	0.26				CMA	1.25	
Insight Investments MMF	1.3	20.0	AAA rated	1.3	Call	4.53	N/A
Northern Trust MMF	11.2	20.0	AAA rated	11.2	Call	4.53	N/A
Aberdeen Liquidity MMF	20	20.0	AAA rated	20.0	Call	4.54	N/A
BlackRock ICS MMF	0.4	20.0	AAA rated	0.4	Call	4.49	N/A
<b>Total Deposits</b>	<b>43.2</b>			<b>43.2</b>			

\*\* includes overnight deposit in Clydesdale Cash Management Account which may occasionally result in a small overnight overlimit.