

The Highland Council

Agenda Item	6
Report No	RES/03/26

Committee: Corporate Resources

Date: 19 March 2026

Report Title: Treasury Management – Summary of Transactions to 31 December 25

Report By: Chief Officer – Corporate Finance

1. Purpose/Executive Summary

- 1.1 This report on the treasury management transactions undertaken from 1 October 25 to 31 December 25 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 October 2025 to 31 December 2025.

3. Implications

- 3.1 **Resource:** While interest rates have risen over the past two 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.

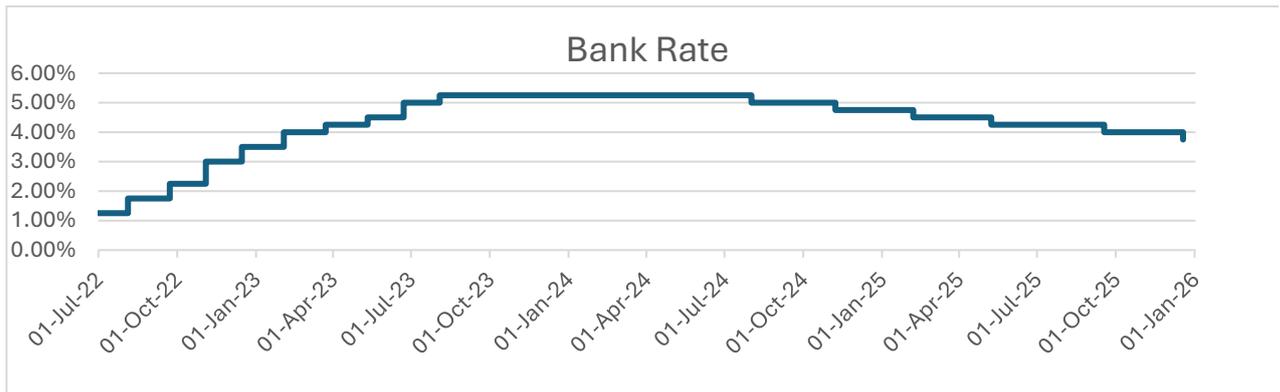
4. Impacts

- 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 making 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 2025 which applies to financial year 2025/26 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, in a way that helps to sustain growth and employment and working to keep inflation low and stable. At its meeting on 05 February 2026, the MPC voted by a majority of 5-4 to hold Bank Rate at 3.75%. (four members voted to reduce Bank Rate by 0.25% to 3.50%) citing inflation has fallen a long way from its peak of over 10% three years ago, and they now expect it to be back to their 2% target this spring.

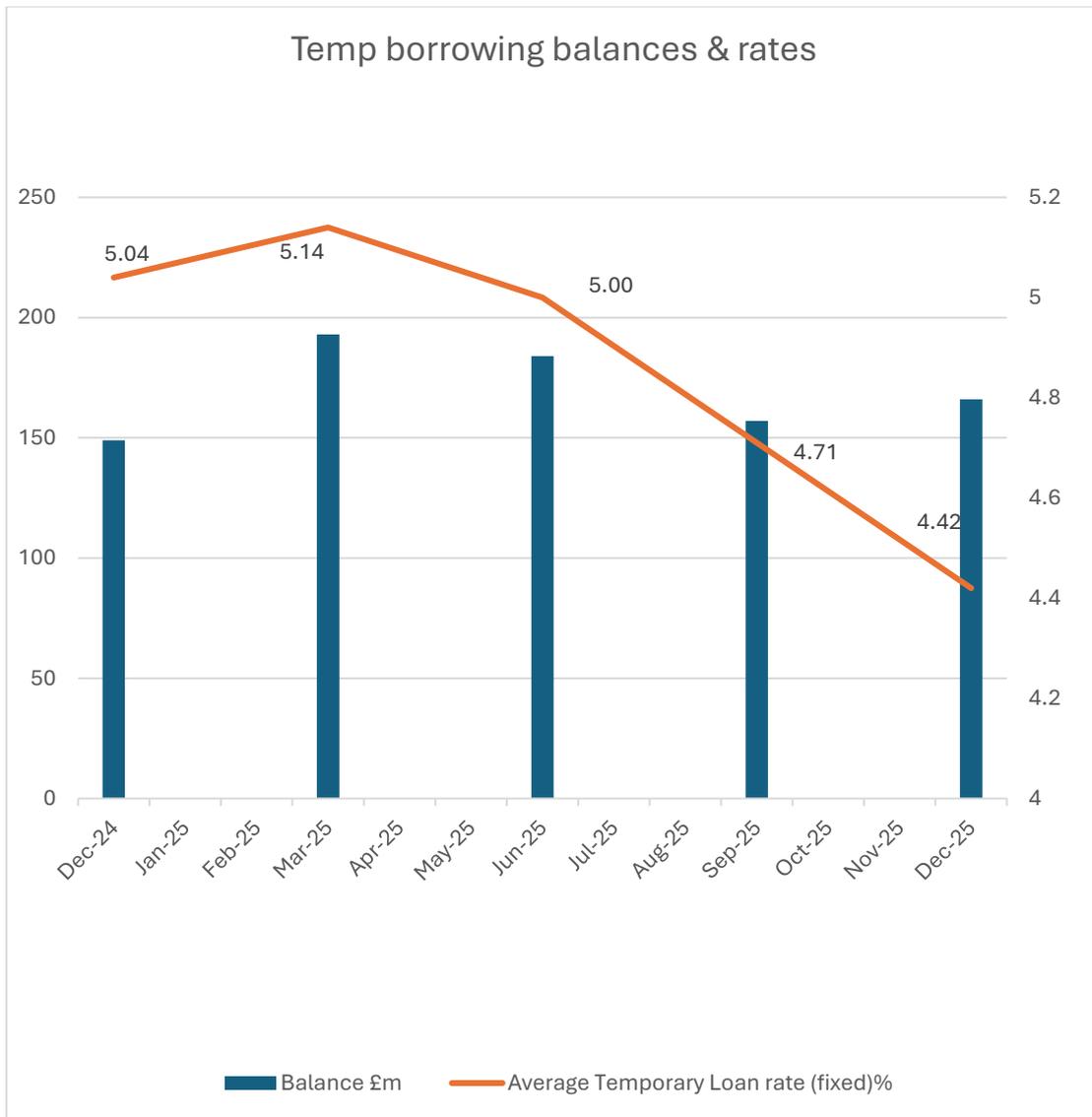
5.3



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 3.75% in December 2025. The Council's Treasury Management advisor, MUFG, forecasts it will reduce to 3.50% by June 2026.
- 6.2 On 31 Dec 2025, the total of temporary loans was £165.5m (£157.0m at 30 Sept 2025) with £87.5m of temporary borrowing undertaken and £79.0m 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.

6.2.1 Temporary Borrowing:



6.3 On 31 Dec 2025, the total of Public Works Loan Board (PWLB) loans was £1,115.5m (£1,055.5m at 30 September 2025) and long-term Market loans totaled £106.1m (£114.8m at 30 September 2025).

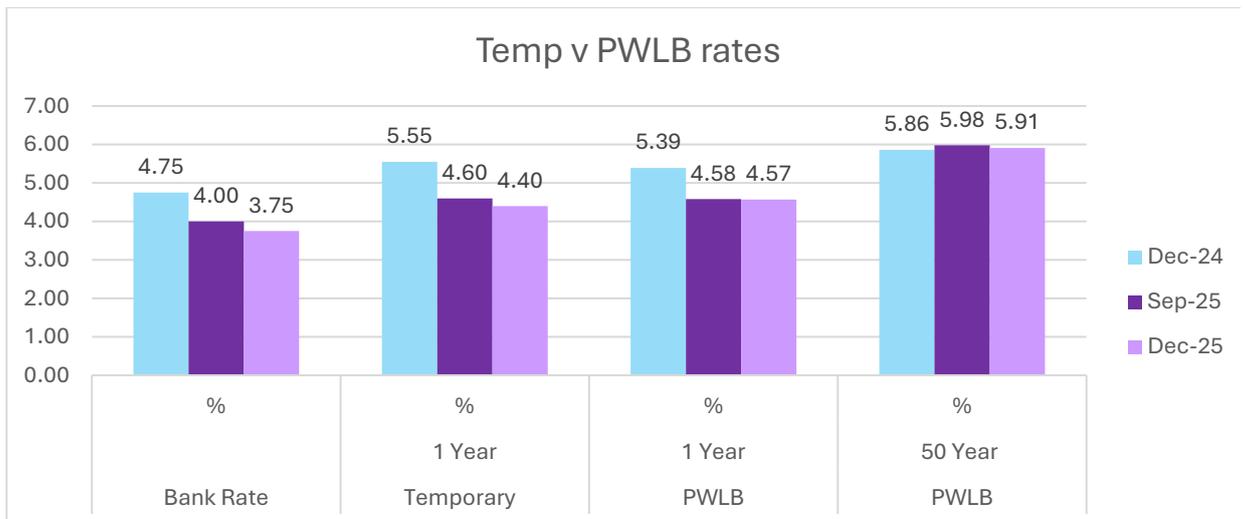
6.4 The following PWLB **borrowing** was undertaken between 1 October 2025 to 31 December 2025.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
10.0	Maturity	15/10/2025	09/06/2027	4.67
10.0	Maturity	22/10/2025	07/06/2028	4.63
10.0	Maturity	22/10/2025	19/07/2028	4.62
10.0	Maturity	29/10/2025	05/01/2027	4.40
10.0	Maturity	18/12/2025	01/09/2027	4.51

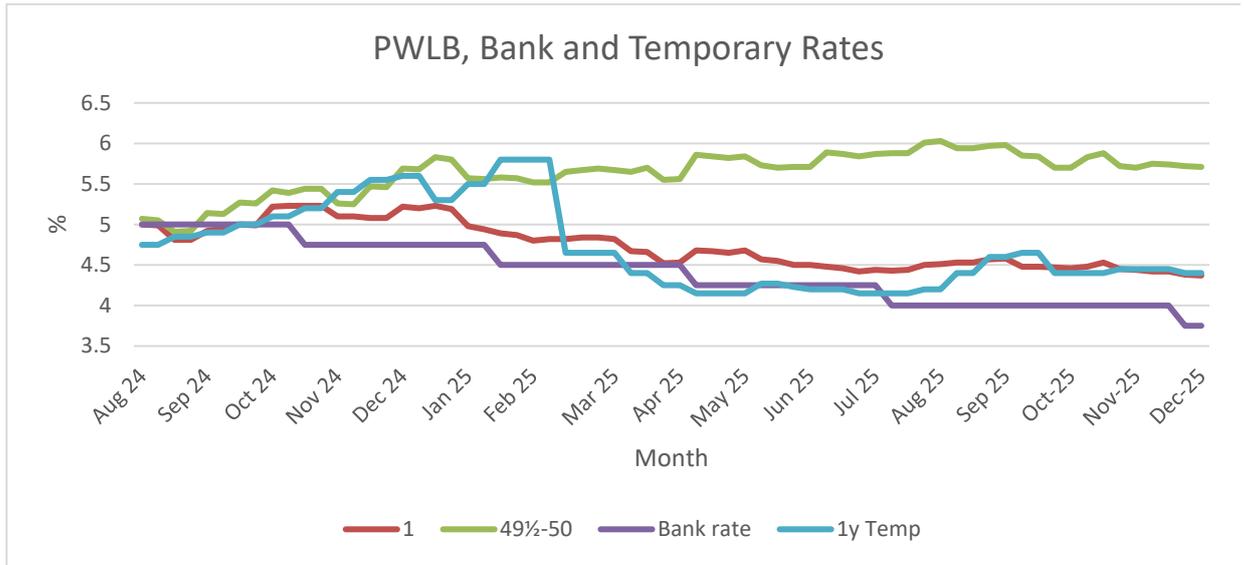
10.0	Maturity	19/12/2025	01/11/2027	4.50
60.0				

- 6.5 There were no PWLB repayments between 1 October 2025 to 31 December 2025.
- 6.6 During the quarter a mix of temporary borrowing from the inter-local authority money market and new PWLB loans were undertaken. PWLB loans were taken for periods of less than 3 years with a variety of maturity dates to limit refinancing risk and targeting optimum PWLB rates.
- 6.7 During the quarter notice was served by Dexia, on a loan taken out on 21 October 2004 in respect of a principal loan amount of £8.750m. In accordance with the interest rate provisions set out in the Loan Offer, the notice was to inform the Council that the interest rate payable from the effective date of 27 October 2025 would increase to 6.38% per annum (previously 4.34%). The decision was taken to prepay the principal amount (original maturity date 26 October 2054).
- 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. Although Bank Rate has fallen, short and long-term borrowing rates have not fallen as quickly as expected (at the time of writing this report, MUFG’s forecast is for Bank Rate to remain at 3.75% by March 2026). A mix of temporary borrowing and short-dated PWLB borrowing was deemed the most prudent approach.
- 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

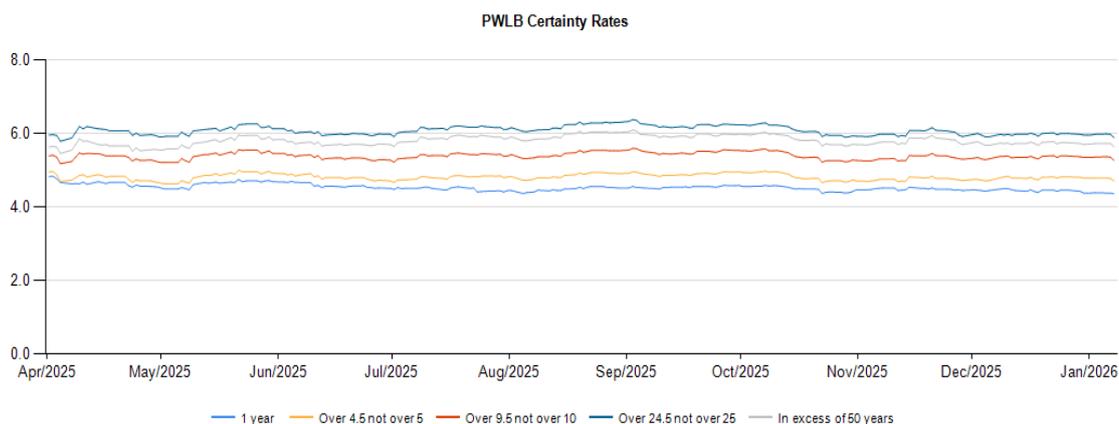


6.9.4

The PWLB rates for the financial year 2025/26 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 March 2026.
- Local Infrastructure Rate is gilt plus 60bps (0.6%) (G+60bps)

6.9.5



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 3.75% in December 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 December 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 2025/26 which was approved by Council on 27 March 2025.

Designation: Chief Officer – Corporate Finance

Date: 06 February 2026

Author: Mairi MacCallum, Treasury Officer

Background Papers:

https://www.highland.gov.uk/download/meetings/id/84780/item_4_treasury_management_strategy_statement_and_investment_statement_%E2%80%93_202526

[https://www.highland.gov.uk/download/meetings/id/85974/7a treasury management summary of transactions](https://www.highland.gov.uk/download/meetings/id/85974/7a_treasury_management_summary_of_transactions)

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

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

Type of Borrowing	Outstanding debt at start of quarter	Raised	Repaid	Outstanding debt at end of quarter	Average Interest Rate	
					30 Sep 25	30 Dec 25
	£m	£m	£m	£m	%	%
Public Works Loan Board	1,055.5	60.0	0	1,115.5	3.97	4.00
Market Loans	78.3	0	0	78.3	4.76	4.76
LOBO Market Loans	36.5	0	(8.8)	27.7	4.58	4.66
Fixed Temporary Loans (term < 1 year)	157.0	87.5	(79.0)	165.5	4.71	4.42
Variable Temporary Loan	0	0	(0)	0	-	-
Bank Balance	0	0	0	0		
GROSS EXTERNAL BORROWING	1,327.3	147.5	(87.8)	1,387.0		
<i>Temporary Deposits</i>	<i>(51.7)</i>	<i>(194.2)</i>	188.0	<i>(57.9)</i>	4.05	3.86
NET EXTERNAL BORROWING	1,275.6	(46.7)	100.2	1,329.1		
Total loan average					4.12	4.11

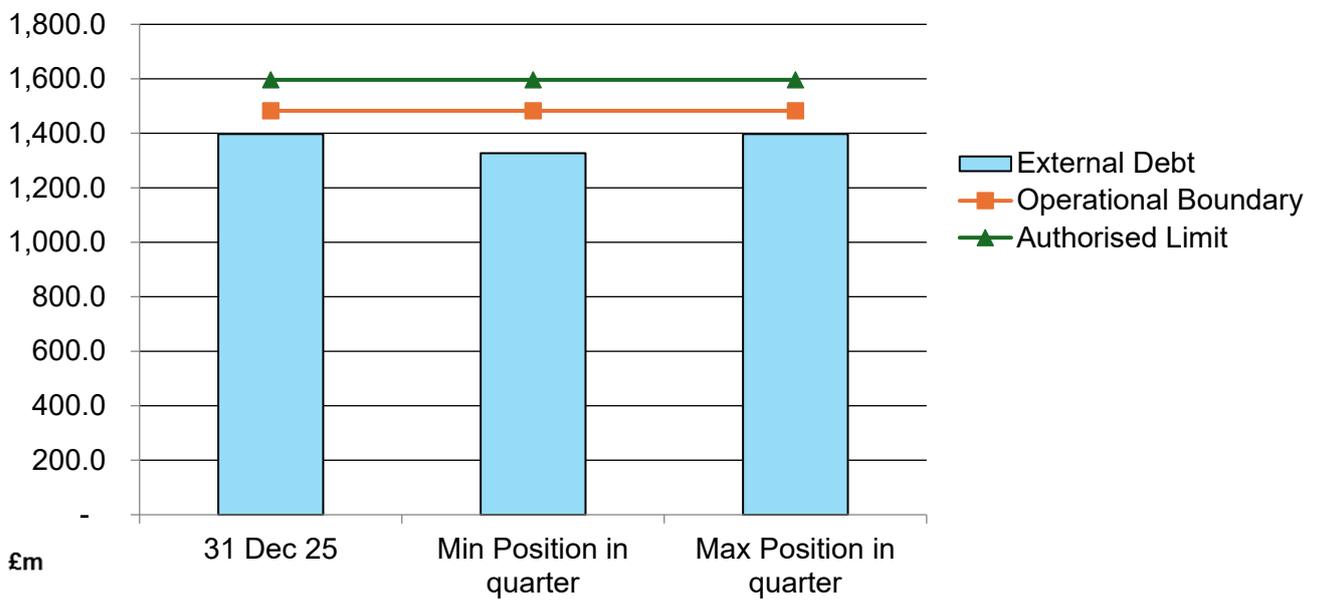
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u>	<u>Approved Max</u>
	<u>%</u>	<u>%</u>
Short-term borrowing as % of the Council's total outstanding debt	11.9	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	2.0	35.0

Appendix 2

Treasury Management - Prudential Indicators

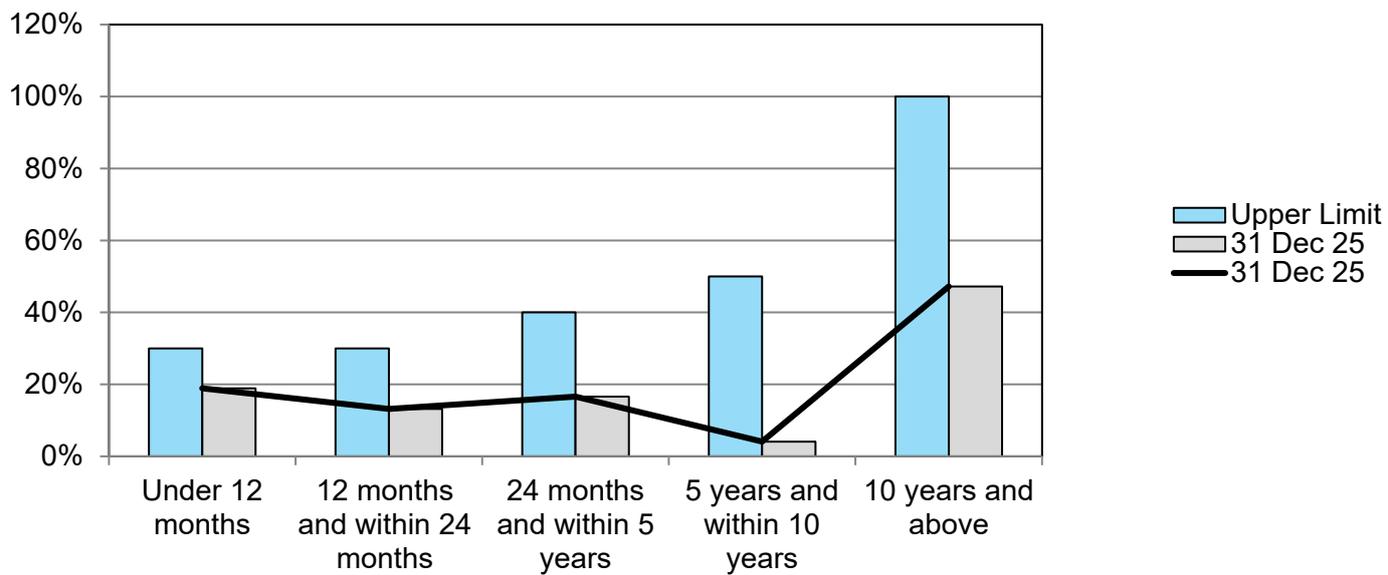
The Council has complied with all the prudential limits set in the TMSS 2025/26 during the quarter to 31 December 25.

External Debt

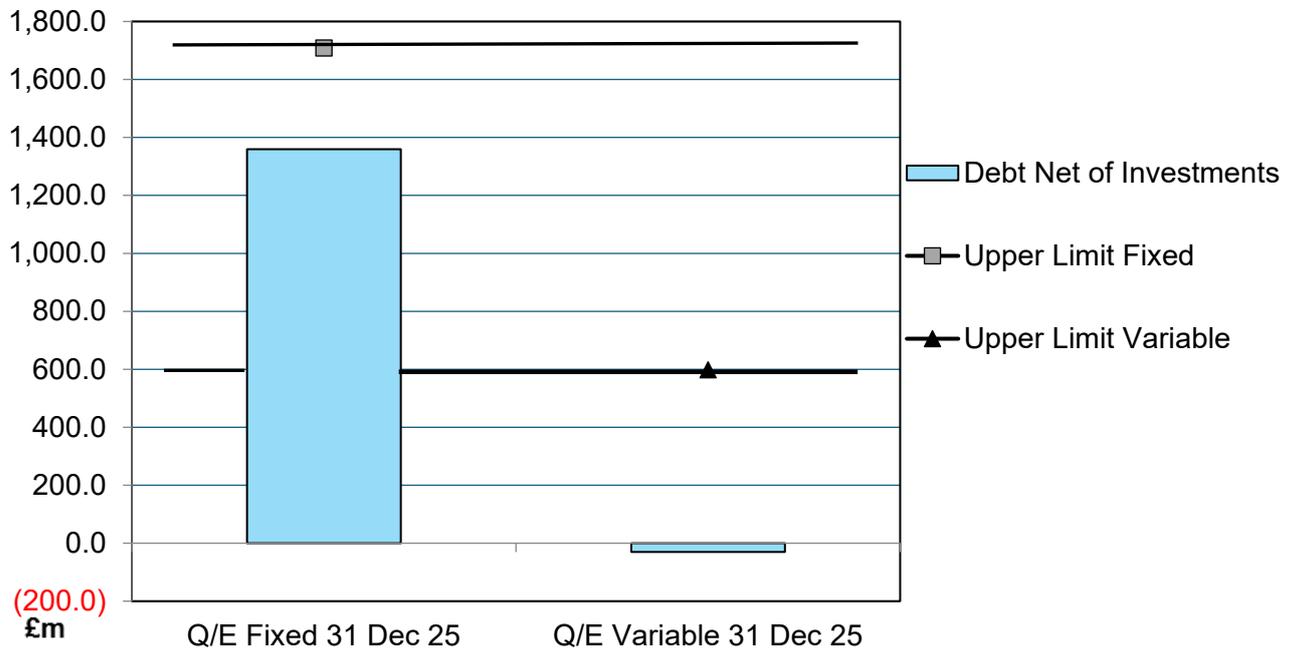


Note: the operational boundary, as set out within the TMSS, is an estimate of the likely and prudent operational level of borrowing on a day-to-day basis. It is an operational planning measure and distinct from the fixed authorised limit.

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 December 2025.

Counterparty	Amount £m	Counter - party limit £m	MUFG credit rating Dec 25	Total Amount £m	Deposit Type	Rate Dec 25 %	FTD Duration
Clydesdale** Bank t/a Virgin Money	15.6	20.0	Red 6 Mths	15.7	Call	3.75	N/A
	0.1				CMA	1.25	
Insight Investments MMF	15.6	20.0	AAA rated	15.6	Call	3.93	N/A
Northern Trust MMF	6.5	20.0	AAA rated	6.5	Call	3.91	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	3.91	N/A
BlackRock ICS MMF	0.1	20.0	AAA rated	0.1	Call	3.90	N/A
Total Deposits	57.9			57.9			

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