Agenda Item	**8.a**
Report No	**RES/33/26**

HIGHLAND COUNCIL

Committee: **Corporate Resources Committee**

Date: **27 August 2026**

Report Title: **Annual Treasury Management Report – 2025/26**

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

1. Purpose/Executive Summary

1.1 This report on treasury management for the financial year 2025/26 is prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice on Treasury Management in Local Authorities.

1.2 The report highlights the Council's treasury management activities undertaken, provides a commentary on the year and compares activity to the expected activities contained in the annual 2025/26 Treasury Strategy Statement and Investment Statement which was approved by Highland Council in March 2025.

1.3 The Prudential Code also requires the Council to report the actual prudential indicators after the financial year end, and these are shown in **Appendix 1.**

1.4 This annual report reflects continued gradual decreases in the Bank of England interest rates over the report period, and in the final quarter of the year implications arising from Middle East conflict and its resulting impact on interest rates. The report also provides context on how wider economic factors have impacted treasury activity during the year.

1.5 In relation to key performance information, the report includes the following key indicators which reflect that the Council continues to operate within its agreed prudential indicators and for 2025/26, largely due to capital expenditure slippage, the key actual indicators for the year were below forecast levels.

Ratio of financing costs to net revenue stream	**2025/26 Indicator £m**	**2025/26 Actual £m**
General Fund including PPP/NPD/IFRS16	11.8%	11.0%
General Fund excluding PPP/NPD/IFRS16 (local indicator for HIP with a 10% cap)	8.4%	8.3%
Housing Revenue Account	41.5%	40.5%

2. Recommendations

2.1 Members are asked to:

i. Consider and note the Annual Treasury Management report for 2025/26.

3. Implications

3.1 Resource implications are set out within the report and reflect the cost of borrowing to fund the capital programme and are covered in **Section 7** and Risk implications are covered in **Section 8**. The report reflects the resource implications of decisions previously made regarding capital investment, and treasury activity to support that. While by its nature, this annual report is backwards looking, the context and prudential indicators are also of relevance to the Council looking forward, given the long-term implications that arise from borrowing and investment.

3.2 There are no specific Legal implications arising from this report. All treasury activity is undertaken in line with relevant legislation, regulation, and polices/strategies. **Section 5** provides further information on relevant context.

3.3 Risk implications are described in further detail in **Section 8** of this report. Risk management is of particular importance regarding treasury management, and the Council's Treasury Management Strategy Statement and Investment Statement, is comprehensive in the description of risk and how these are mitigated/managed through that Strategy.

3.4 There are no Health and Safety (risks arising from changes to plant, equipment, or people) or Gaelic 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 for 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. Background

5.1 The Local Government in Scotland Act 2003 (the Act) and supporting regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The CIPFA Code of Practice on Treasury Management (November 2009) was adopted by the Council on 4 March 2010.

The Code was further updated in December 2017 and then in December 2021. The Council fully complies with the Code requirements.

5.2 The primary requirements of the Treasury Management Code are the:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the way in which the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an Annual Strategy Report for the year ahead, a mid–year report and an Annual Review Report of the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management policies to a specific named body, which in this Council is the Corporate Resources Committee.

5.3 Treasury Management is defined as: "*The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

5.4 This report sets out:

- An overview of the strategy agreed for 2025/26 considering the economy and interest rates position for the year and incorporating the professional views of the Council's external treasury management advisors **(Section 6)**;
- Performance measurement for the year including the Council's treasury position as at 31 March 2026 compared to the previous financial year **(Section 7)**;
- A summary of treasury decisions taken and effects on the revenue budget **(Section 8)**;
- A commentary on performance and risk **(Section 9)**;
- A review of compliance with the Council's procedures and Prudential Indicators **(Sections 10 and 11)**.

6. The strategy agreed for 2025/26

6.1 The 2025/26 TMSS was agreed in March 2025, and interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2025/26. Bank Rate did reduce from 4.50% to 3.75% as anticipated over 2025/26 however further reductions forecast for 2026/27 have been delayed, primarily because inflation concerns remained elevated and the ongoing geo-political situation in the Middle East which had led to an increase in borrowing rates and volatility in rates.

At the start of April 2026, the market expects Bank Rate to remain at 3.75% until September 2027, with the rate reducing gradually after that.

6.2 The treasury strategy was to continue to remain flexible in the Councils approach to borrowing to fund the capital programme and replace maturities, continuing to consider all borrowing options on an ongoing basis, manage liquidity, refinancing and interest rate risks in order to minimise loan charge interest costs as far as was possible.

6.3 The narrative in **sections 6.3** to **6.7** of this report reflects the view of MUFG, the Council's treasury advisor at April 2026.

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years.

6.4 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. More recently, the Middle East conflict is likely to see inflation spike higher from late spring 2026 through to early 2027.

6.5 Gilt yields have been volatile through 2025/26. The low point for long-term rates of 25 and 50 years' duration was reached early in April 2025 whilst the low points for short and medium dated rates were reached in early 2026, prior to the outbreak of the Middle East conflict.

At the close of 31 March 2026, the 1-year PWLB Certainty rate was 5.04% whilst the 5, 10, 25 and 50 year rates were 5.28%, 5.72%, 6.29% and 6.08% respectively.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

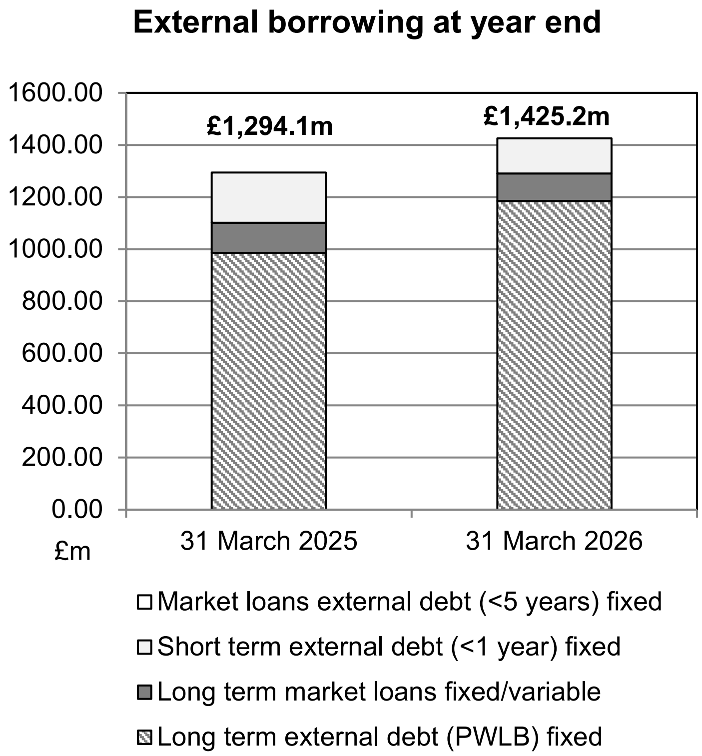
- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- HRA Borrowing rate is gilt plus 40 40bps (G+40bps)

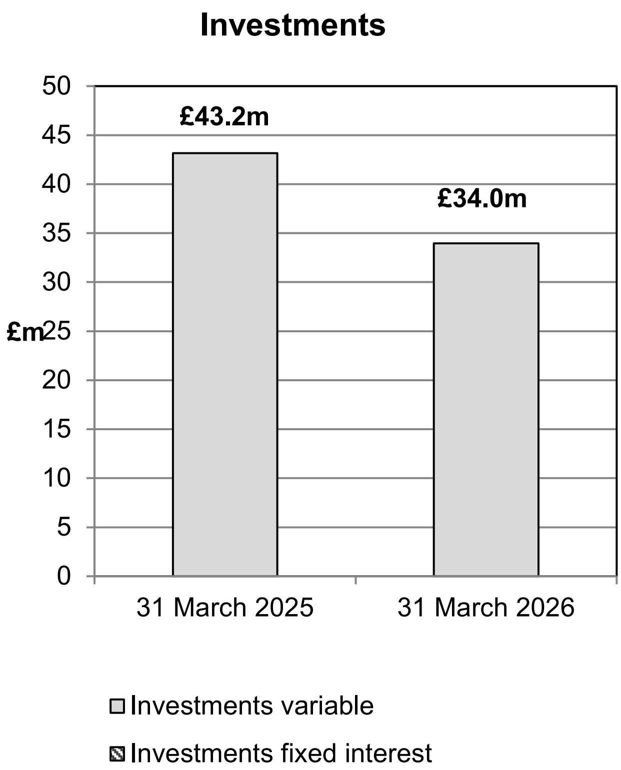
6.6 Generally, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

6.7 Further information on the economy and interest rates during the year can be found at **Appendix 2**.

7. Performance measurement

7.1 The treasury position at the 31 March 2026 compared with the previous year is shown in the graphs below.





Average interest rates comparison	**31/03/2025**	**31/03/2026**
Short term external borrowing (<1 year) fixed	5.14%	4.45%
Market loans fixed/variable	4.68%	4.71%
Long term external borrowing (PWLB) fixed	3.95%	4.02%
Total borrowing	**4.19%**	**4.12%**
Investments variable	4.53%	3.78%
Total investments	**4.53%**	**3.78%**

7.2 The figures show a decrease in the average interest rate on external borrowing from 4.19% at March 2025 to 4.12% at March 2026 which is due to the decrease in the average rate for long-term borrowing over most of the year until the spike in March due to the Middle East conflict as more borrowing has been undertaken at rates which decrease the overall average. The investment return for 2025/26 was lower than the previous year following the bank rate decreases (08 May 25 **4.25%**, 07 Aug 25 **4.00%**, 18 Dec 25 **3.75%**).

7.3 Between April 2025 and March 2026, there was £260.0m of PWLB borrowing undertaken with an average rate of 4.48%. Details of all PWLB long-term borrowing undertaken and repaid, are in **Appendix 3** and all external borrowing is in **Appendix 4.** The average rate for fixed temporary loans at 31 March 2026 was 4.45% (31 March 2025, 5.14%).

8. Treasury decisions taken and revenue effects

Borrowing requirement and borrowing activity

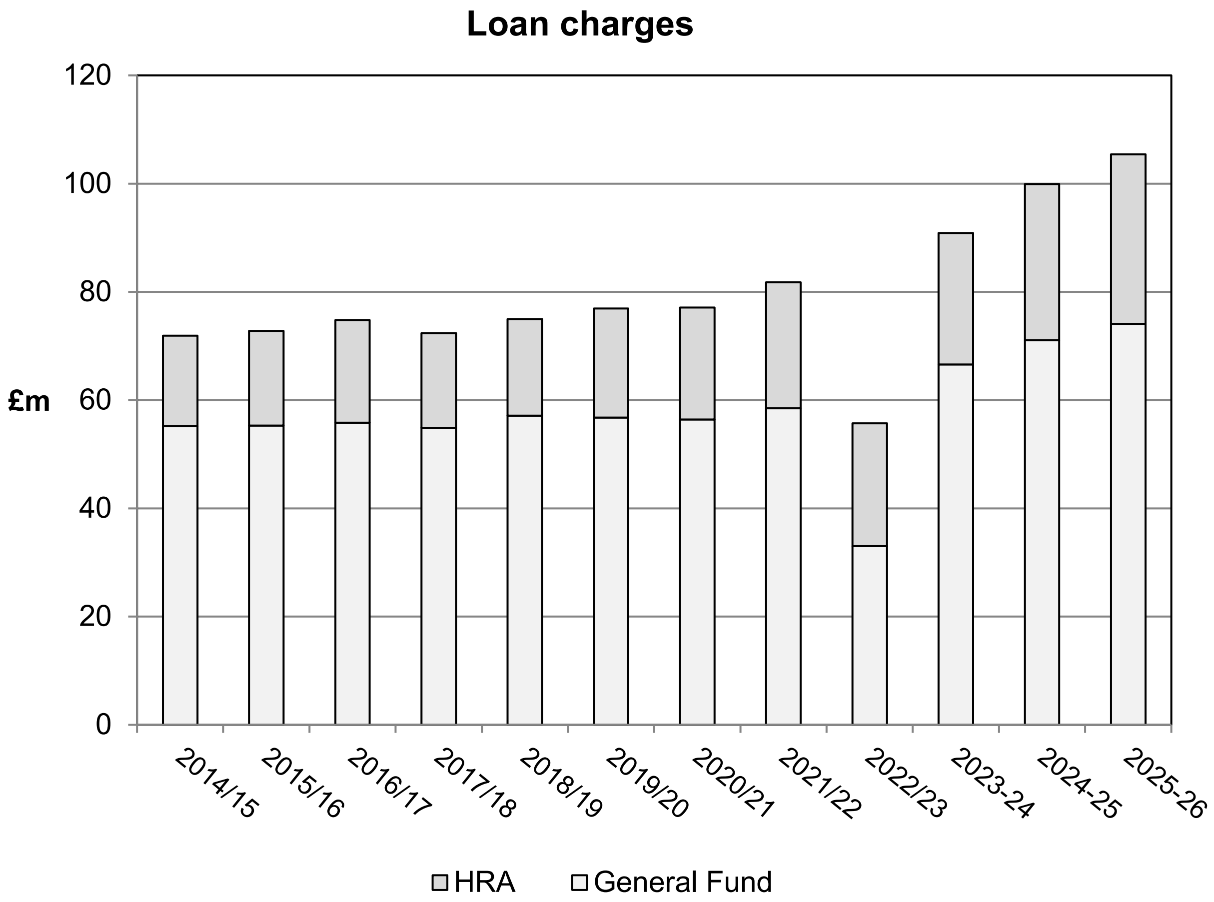
8.1 The Council undertakes capital expenditure on long-term assets which is funded as follows:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, or there is planned borrowing for capital investment, the capital expenditure will give rise to a borrowing requirement.

8.2 The total net capital expenditure for 2025/26 was £130.3m (General Fund £104.3m and HRA £26.0m) against planned net capital expenditure of £143.6m (General Fund £109.3m and HRA £34.3m). Reasons for variations in Service and project capital expenditure for the year are reported to Committees as part of the final 2025/26 out-turn capital monitoring process. Details of gross and net capital spend for the year and the borrowing requirement against the estimated position are in **Appendix 1**.

8.3 There has been an increase in external borrowing of £131.1m which is reflective of approved capital investment plans and the associated borrowing requirements (see graph at **section 7 c.1**). The total borrowing is less than the capital financing requirement and more information on this is at **section 11.2**.

8.4 In terms of the impact on revenue budgets, increased capital expenditure generally increases the level of loan charges the Council incurs. In 2025/26 loan charges were higher than 2024/25. This is in line with expectations and reflective of approved capital programmes and the Council's Highland Investment Plan (HIP) and associated revenue budget decisions to provide for expected increases in loan charge costs. Loan charges for both General Fund and the HRA were below budget for the year, based on capital programme slippage and lead times for HIP project delivery. The graph below shows the changes in loans charges over the last 11 years.



*General Fund Loans charges lower in 2022/23 due to loans principal repayment "holiday" flexibility taken

8.5 Due to the level of capital expenditure, financing costs (loan charges) are a significant proportion of the Council's net revenue stream. The ratio of financing costs to net revenue stream for the general fund including PPP/NPD/IFRS16* is 11.0% (estimate 11.8%) and 40.5% for HRA (estimate 41.5%) (**Appendix 1, prudential indicator 4**).

The General Fund ratio is lower than the original estimate due to loans charges being lower than forecast. The HRA ratio is marginally lower than original indicator due to HRA loan charges being lower than forecast.

*For Prudential Indicator reporting, and compliance with the Prudential Code, the relevant ratio consists of capital programme financing costs (borrowing) **plus** the financing costs associated with the Council's Schools PPP and related contracts and IFRS16 Leases. This is a different measurement base than the local prudential indicator agreed by Council in May 2024 which relates only to General Fund HIP financing and excludes PPP/NPD/IFRS16 financing costs. For reference, that agreed local indicator was a 10% cap, and for context the equivalent actual ratio for 2025/26 8.3% (estimate 8.4%).

Ratio of financing costs to net revenue stream	**2025/26 Indicator £m**	**2025/26 Actual £m**
General Fund including PPP/NPD/IFRS16	11.8%	11.0%
General Fund excluding PPP/NPD/IFRS16 (local indicator for HIP with a 10% cap)	8.4%	8.3%
Housing Revenue Account	41.5%	40.5%

8.6 <u>Rescheduling</u>

There was no rescheduling completed during 2025/26. While refinancing rates were closely monitored throughout the year no significant opportunities arose to make savings due to breakage costs.

8.7 A summary of outstanding deferred revenue costs attributable to debt rescheduling exercises undertaken in years to date, is provided in the table below. These represent early debt repayment costs (premiums) and discounts, associated with debt rescheduling. It is accounting practice for these to be written off over the periods of the new loans taken as part of the rescheduling and included as part of the annual loan charges.

	Outstanding 31 Mar 2025	**Incurred 2025/26**	**Written off 2025/26**	**Outstanding 31 Mar 2025**
	£000	**£000**	**£000**	**£000**
Premiums	15,626	-	(1,876)	13,750
Discounts	(6,613)	-	37	(6,576)
Net Deferred Revenue Costs	9,013	-	(1,839)	7,174

8.8 <u>Overall performance</u>

The Council's average borrowing and investment rate (loans fund rate) for the year was 4.25% compared to 4.29% in 2024/25 with capital expenditure and maturities being funded using £260m of PWLB borrowing and £198m short-term borrowing compared to £160m PWLB and £239m short-term in 2024/25.

8.9 Revenue effect: Due to capital expenditure being lower than forecast, the final position shows an underspend for the General Fund loans charges (£5.6m) and an underspend for HRA (£1.2m) compared to budget for the year. Given interest rates remain high in relative terms, income received on revenue balances was higher than budgeted for, and the Council remains committed to ongoing capital investment and borrowing to support that so the underspend against loan charges in 2025/26 is assumed to be short-term in nature.

8.10 <u>Investments held by the Council</u>

The Council's investment policy is governed by the Scottish Government Investment Regulations, which were adopted in the Annual Investment Strategy 2010/11 and approved by the Council on 24 June 2010. This policy sets out the approach for choosing investment categories and counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

8.11 The Council's policy states the maximum investment period is 2 years. However, during 2025/26 deposits were placed for less than 1 year to manage credit risk.

8.12 The Council maintained an average end of month balance of £66.9m of internally managed funds which earned a weighted average rate of return of 4.10% and rate at 31 March 2026 of 3.78%. The comparable performance indicator is the average 7-day SONIA rate (Sterling Overnight Index Average - is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors), which was 4.01% for

2025/26. No institutions in which investments were made showed any difficulty in repaying the investment and interest in full during the year.

9. Performance and risk

9.1 In the Council's borrowing portfolio as at 31 March 2026, 83.1% (£1,184.7m) of the total gross borrowing is at fixed long-term rates with the PWLB compared to 76.2% (£986.3m) as at 31 March 2024.

9.2 All major borrowing and capital financing requirement (CFR) decisions taken by officers were discussed with the Council's external treasury management advisors.

9.3 Returns on the Council's investments are predominantly determined by short-term variable rates. Whilst this can introduce an element of volatility to returns, it is minimal in terms of the total borrowing portfolio. Risk, in relation to the potential loss of principal, is minimised through the Council's restricted lending list (using a diversified list of counterparties and based on credit assessment).

9.4 The Council uses several Money Market brokers to facilitate short-term borrowing and investment deals. This ensures competitive market rates are obtained. All brokers charged the same level of commission per transaction and performed satisfactorily. In addition, the Council's treasury management officers have direct lines to some major banks to facilitate direct investment with suitably rated institutions.

9.5 Short term borrowing decreased from £193.0m (31/03/25) to £134.5m (31/03/26). Levels of short-term borrowing are held to achieve cost savings on rates. However, to mitigate exposure to interest rate risk, PWLB rates will be monitored, and longer-term borrowing undertaken where rates are favourable to reduce our levels of short-term borrowing.

10. Compliance with the Council's procedures and Prudential Indicators

10.1 The Council complied with its internal procedures and the requirements of the CIPFA Code of Practice on Treasury Management. The Council is bound by best practice requirements, which involve limits to be set and adhered to in relation to short-term borrowing and exposure to variable interest rates and complied with these throughout the year (**Appendix 1, indicator 10**).

11. The Prudential Code – Indicators

11.1 The Council is required by the Prudential Code to report the actual treasury position compared to the prudential indicators at the year-end. **Appendix 1** provides details of all the mandatory, estimated and actual prudential indicators for the year 2025/26.

11.2 <u>Capital Financing Requirement (CFR)</u>

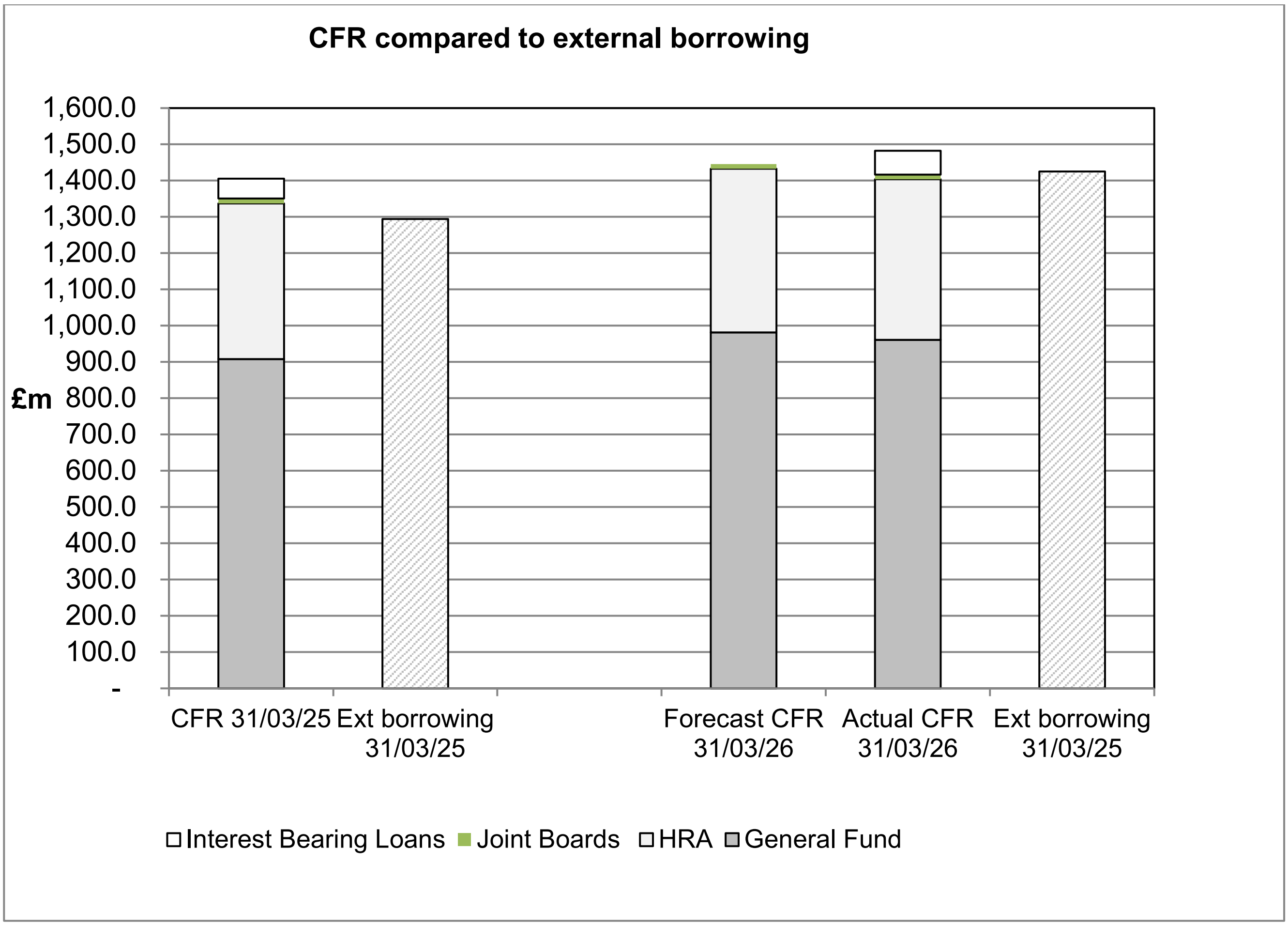
The CFR represents the accumulated net capital expenditure which the Council requires to fund by way of long-term borrowing and other capital financing, until the capital projects, comprising the CFR, are fully written off to revenue (mainly by way of annual loan charges).

11.3 In recent years the Council has been in a position whereby its CFR is greater than its long-term borrowing. This is often referred to as an ‘under-borrowed position’ with the Council’s borrowing below the level it may have been expected to be based on the CFR. This results from the Council using internal cash sources, as well as long-term borrowing to finance the CFR. The use of internal cash sources can represent a more effective and low-cost option for financing, compared to long-term borrowing.

11.4 The Council must keep the CFR and long-term borrowing position under regular review, as the use of internal cash sources can result in increased re-financing risk i.e., if internal cash sources are utilised, and the Council has no choice but to borrow, and not necessarily at a time of its choosing, borrowing costs could be impacted.

11.5 The CFR is kept under regular review, and in recent years part of the annual treasury strategy has been to take steps to manage the CFR versus long-term borrowing position to an acceptable level. As shown in the graph below the difference between CFR and external borrowing stood at £56.8m at 31 March 2026. This position will be kept under regular review as part of the Council’s on-going treasury management.

11.6 In order to ensure that over the medium-term borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short term, exceed the CFR for 2025/26. The graph below shows that the Council has complied with this requirement.



11.7 Borrowing Limits

The Council is required to agree an Authorised Limit for borrowing for the year. This figure provides for estimated contingencies which may require to be funded in the year in addition to planned capital expenditure.

11.8 The Operational Boundary, also approved by the Council in compliance with the Code, is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.

11.9 During 2025/26 the Council complied with both the Authorised Limit and Operational Boundaries and the maximum is reported at **Appendix 1** indicator 5 and 6.

Designation: Chief Officer – Corporate Finance

Date: 31 July 2026

Author: Rachel MacDonald, Principal Accountant

Background Papers: Treasury system and financial ledger reports

https://www.highland.gov.uk/download/meetings/id/84780/Item%25204.%2520Treasury%2520Management%2520Strategy%2520Statement%2520and%2520Investment%2520Statement%2520%25E2%2580%2593%2520202526

Appendix 1

Estimated and Actual Treasury Position and Prudential Indicators

		2025/26 Indicator £m	2025/26 Actual £m
1	**Capital expenditure**		
	Gross capital expenditure		
	General Fund including PPP/NPD	195.4	191.6
	Housing Revenue Account	51.9	51.7
	Total gross capital expenditure	**247.3**	**243.3**
	Income		
	General Fund	(86.1)	(87.3)
	HRA	(17.6)	(25.7)
	Total income	**(103.7)**	**(113.0)**
	Net capital expenditure		
	General Fund	109.3	104.3
	HRA	34.3	26.0
	Total net capital expenditure	**143.6**	**130.3**
	Loan charge instalments		
	General Fund	(34.0)	(32.5)
	HRA	(12.2)	(12.2)
	Total instalments	**(46.2)**	**(44.7)**
	Net borrowing for new capital expenditure		
	General Fund	75.3	71.8
	HRA	22.1	13.8
	Total net borrowing for new capital expenditure	**97.4**	**85.6**
2	**Capital Financing Requirement (CFR) at 31 March**		
	General Fund excluding PPP/NPD	981.2	960.7
	PPP/NPD	210.5	212.9
	IFRS16	17.9	13.1
	Interest Bearing Loans	**See note**	65.2
	Sub-total (as per HC annual accounts)	**1,209.6**	**1,251.9**
	Housing Revenue Account	451.4	443.2
	Sub-total (as per HC annual accounts)	**1,661.0**	**1,695.1**
	Joint Boards	12.9	12.9
	Total (Incl Joint Boards)	**1,673.9**	**1,708.0**

		2025/26 Indicator £m	2025/26 Actual £m
3	**Treasury Position at 31 March**		
	Borrowing – Long term	1,280.1	1,290.7
	Borrowing – Short term	150.0	134.5
	Other Long-Term Liabilities (PPP/IFRS16)	156.4	153.9
	Total Borrowing	**1,586.5**	**1,579.1**
	Investments	(50.0)	(34.0)
	Net Borrowing	**1,536.5**	**1,545.2**
4	**Ratio of financing costs to net revenue stream**		
	General Fund including PPP/NPD/IFRS16	11.8%	11.0%
	General Fund excluding PPP/NPD/IFRS16 (local indicator for HIP with a 10% cap)	8.4%	8.3%
	Housing Revenue Account	41.5%	40.5%
		Limit	**Maximum**
5	**Authorised Limit for Borrowing**	1,596.4	1,428.1 Mar 2026
6	**Operational Boundary for Borrowing**	1,428.8	1,428.1 Mar 2026
7	**Interest rate exposures of borrowing net of investments**		
	Upper Limit (Fixed)	1,708.8	1,397.5 Mar 2026
	Upper Limit (Variable)	598.1	(6.2) Mar 2026
8	**Maturity structure of fixed rate borrowing**		
	Under 12 months	30.0%	21.8% Mar 2026
	12 months to 2 years	30.0%	13.2% Dec 2025
	2 years to 5 years	40.0%	17.1% Sept 2025
	5 years to 10 years	50.0%	5.5% June 2025
	10 years and above	100.0%	51.5% Jun 2025
9	**Upper limit for the maturing of investments made for periods longer than 364 days (against maximum position**)	£20.0m	Nil

10	**Short term borrowing (net of investments) as a % of outstanding long-term borrowing (maximum position)**	25.0%	14.4% Apr 2025
	Variable interest borrowing (net of investments) as a % of outstanding long-term borrowing (maximum position)	35.0%	2.8% Apr 2025

Note re “Interest Bearing Loans”: actual shown based on a change in accounting and presentation, and with no equivalent indicator in the TMSS. Going forward into future years both indicators and actuals will be reported.

Appendix 2

Economic update provided by the Council's Treasury Advisor (MUFG), April 2026

UK

As with 2024/25, UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5% y/y (April), the CPI measure of inflation peaked at 3.8% from July to September, before dipping to 3% in January and February. Core inflation picked up to 3.2% in February, from 3.1%, and the recent upward pressure on energy costs could see CPI inflation breach 4.5% later this year.

Against this backdrop, the continued lack of progress in ending the Russian invasion of Ukraine, and the potentially negative implications for global growth as a consequence of the implementation of US tariff policies, Bank Rate reductions look limited for the remainder of 2026 (as they do in the euro-zone). Bank Rate currently stands at 3.75%.

Moreover, borrowing has becoming more expensive in 2025/26. Gilt yields have risen materially in March 2026, more than reversing the falls earlier in the financial year. Additionally, the public finances have remained under pressure. The higher-than-expected public net sector borrowing of £14.3bn in February was £2.2bn above last February's outturn. But that borrowing overshoot was mainly due to timing effects relating to the £13.0bn government debt interest payment. That came in as the highest payment since June 2025, causing a 12.3% y/y jump in spending. On the flip side, sitting at £8.1bn, tax revenues were also higher than last February, largely on the back of solid growth in self-employment incomes in 2024/25, boosting self-assessment income tax receipts and stronger capital gains tax receipts.

However, the combination of some energy price support and pressures from higher inflation amid the ongoing energy price shock, higher interest rates and a weaker economy will ultimately put borrowing on an upward trend. With the rise in energy prices possibly pushing the Retail Prices Index inflation up to a peak of 5.7%, debt interest repayments will increase by about £10bn. A weaker growth profile, higher inflation, higher interest rates and gilt yields could erode about £11bn of the Chancellor's £23.6bn headroom.

The loosening in the labour market continues to bear down on wage growth. The 3myy growth rate of average earnings including bonuses slowed from 4.2% in December to 3.9% in January. Meanwhile, excluding bonuses, private earnings growth continued to fall from 3.4% to 3.3%.

The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies driven largely by the US administration.

	UK	**Eurozone**	**US**
Bank Rate	3.75%	2.0%	3.5%-3.75%
GDP	0.1%q/q Q4 (1.0%y/y)	+0.2%q/q Q4 (1.2%y/y)	0.7% Q4 Annualised
Inflation	3.0%y/y (Feb)	1.9%y/y (Feb)	2.4%y/y (Feb)
Unemployment Rate	5.2% (Jan)	6.2% (Jan)	4.4% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 3.75% by a vote of 9-0, but suggesting rates may need to rise if inflation picks up markedly. The vote could best be described as moderately hawkish. The MPC stated it “stands ready to act as necessary” and “is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting”. Even so, we suspect the committee is likely to put equal weight on higher inflation and weaker growth, particularly the poor macroeconomic backdrop prior to the energy shock, keeping interest rates at 3.75% this year.

10-year Gilt yields have been exceptionally volatile in the final weeks of 2025/26, troughing at around 4.23% in late February before shooting up to 5.00% (and well through that on an intraday basis). That spike was driven by the outbreak of war in the Middle East, which prompted a dramatic reassessment of investors’ Bank of England policy rate expectations. Having been pricing in rate cuts in late-February, as many as four rate hikes were discounted by late-March. The 10-year yield ended the quarter at 4.92% with around 65bp of rate hikes priced in over the coming year. In addition to more hawkish monetary policy expectations, part of this increase in yields probably reflected an increase in term premia amid concerns that the government may react by loosening the fiscal purse strings.

As for equity markets, the FTSE 100 experienced another volatile quarter, surging to an all-time high of around 10,900 in late February, leaving it up 10% from the start of 2026, before giving back most of those gains in March after the outbreak of the Middle East conflict. That pullback leaves the index at around 10,176 at the end of the quarter. For context it was at 8,582 at the start of April. The £ has stayed relatively resilient also at $1.33, strengthening from $1.29 back in April.

USA

Despite a weak finish to 2025, the US economy has generally been the strongest among the developed economies, but with uncertainties growing surrounding President Trump’s central economic tenet of being able to apply tariffs on an ad-hoc basis and bend the FOMC Fed Funds rate decision-making to his will, there is something of a stalemate in place at present over when, and if, rates will be cut further in 2026.

Inflation is currently stuck at around 2.5%, unemployment is only a little above 4%, and tax refunds are in the process of being facilitated for many households. But will those refunds be – at least partially – offset by higher gasoline prices?

The S&P500 started April 2025 at 5,633 and finished March 2026 at 6,528 having peaked at just over 7,000. The 10-year Treasury yield finished March at 4.30% having been 4.17% back at the start of April, and during the year has been both above 4.50% and below 4.00%.

EU

The Eurozone economy has run pretty much in parallel with that of the UK. A slightly stronger finish to 2025 (GDP of 0.2% q/q) than that of the UK cannot hide the fact that the economy has been negatively impacted by German economic stagnation until late in 2025. France has also struggled against a difficult political backdrop, but managed to post GDP growth of 0.3% q/q for October to December.

With Eurozone headline inflation close to 2%, the ECB has been able to reduce its Deposit Rate to 2%. Whether it rises from that low point will very much be driven by how energy prices trend over the coming months. The Euro has appreciated against the dollar from 1.08 at the start of April 2025 to 1.16 at the end of March.

Appendix 3 – PWLB Borrowing undertaken and borrowing repaid 2025/26

PWLB Borrowing undertaken during 2025/26

Month undertaken	Amount £	Purpose of borrowing	Duration (Y)	Rate %
Apr-25	5.0	Capital Programme	2.6	4.19%
Apr-25	10.0	Capital Programme	4.8	4.30%
Apr-25	10.0	Capital Programme	3.2	4.21%
Apr-25	10.0	Capital Programme	1.4	4.56%
Apr-25	10.0	Capital Programme	3.4	4.23%
Jun-25	5.0	Capital Programme	2.9	4.19%
Jun-25	10.0	Capital Programme	2.5	4.56%
Aug-25	10.0	Capital Programme	1.8	4.53%
Sep-25	10.0	Capital Programme	2.7	4.30%
Sep-25	10.0	Capital Programme	2.9	4.65%
Sep-25	10.0	Capital Programme	1.9	4.64%
Sep-25	20.0	Capital Programme	2.3	4.67%
Oct-25	10.0	Capital Programme	1.6	4.67%
Oct-25	10.0	Capital Programme	2.6	4.63%
Oct-25	10.0	Capital Programme	2.7	4.62%
Oct-25	10.0	Capital Programme	1.2	4.40%
Dec-25	10.0	Capital Programme	1.7	4.51%
Dec-25	10.0	Capital Programme	1.9	4.50%
Jan-26	10.0	Capital Programme	2.9	4.50%
Feb-26	10.0	Capital Programme	1	4.39%
Feb-26	10.0	Capital Programme	1	4.31%
Feb-26	10.0	Capital Programme	1	4.27%
Mar-26	10.0	Capital Programme	1.4	4.29%
Mar-26	10.0	Capital Programme	1.6	4.49%
Mar-26	20.0	Capital Programme	1.1	4.65%
Total	**260.0**			

The following PWLB repayments were made during 2025/26

Month Repaid	Amount £m	Type of borrowing	Duration (Y)	Rate %
Apr-25	10.0	Capital Programme	1	5.34%
Apr-25	10.0	Capital Programme	1	5.32%
Jun-25	10.0	Capital Programme	1.5	5.11%
Sep-25	0.8	Capital Programme	11.8	4.38%
Sep-25	20.0	Capital Programme	14	3.92%
Mar-26	10.0	Capital Programme	1	4.81%
Mar-26	0.8	Capital Programme	11.8	4.38%
Total	**61.6**			

Appendix 4 – External Borrowing at 31 March 2026

Short term external borrowing (< 1 year) fixed and Notice

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)
T503562	02/05/25	24/04/26	West Yorkshire Combined Authority	Maturity	4.25%	5,000,000.00
T503563	02/05/25	27/04/26	West Yorkshire Combined Authority	Maturity	4.25%	5,000,000.00
T503572	03/09/25	02/09/26	Edinburgh City Council	Maturity	4.30%	10,000,000.00
T503578	03/10/25	05/05/26	West Yorkshire Pension Fund	Maturity	4.55%	5,000,000.00
T503577	06/10/25	29/09/26	Oxfordshire County Council Pension Fund	Maturity	4.57%	10,000,000.00
T503583	23/10/25	21/10/26	Breckland District Council	Maturity	4.55%	2,000,000.00
T503579	24/10/25	05/10/26	South Kesteven District Council	Maturity	4.55%	5,000,000.00
T503580	27/10/25	19/08/26	Cornwall Council	Maturity	4.65%	10,000,000.00
T503584	27/10/25	29/04/26	Westmorland & Furness Council	Maturity	4.48%	5,000,000.00
T503585	07/11/25	04/11/26	Police & Crime Commissioners Of Hampshire	Maturity	4.35%	2,500,000.00
T503587	07/11/25	06/11/26	Breckland District Council	Maturity	4.40%	3,000,000.00
T503588	12/11/25	11/11/26	Sheffield City Council	Maturity	4.35%	10,000,000.00
T503581	28/11/25	29/07/26	Rochford District Council	Maturity	4.65%	3,000,000.00
T503582	28/11/25	26/08/26	Crawley Borough Council	Maturity	4.63%	5,000,000.00
T503590	28/11/25	25/11/26	Northern Ireland Housing Executive	Maturity	4.40%	5,000,000.00
T503592	02/12/25	01/12/26	London Treasury - Liquidity Fund	Maturity	4.40%	10,000,000.00
T503591	10/12/25	09/12/26	Mid Sussex District Council	Maturity	4.35%	2,000,000.00
T503593	23/12/25	12/08/26	West Yorkshire Combined Authority	Maturity	4.55%	5,000,000.00
T503586	05/01/26	04/01/27	West of England Combined Authority	Maturity	4.35%	10,000,000.00
T503594	08/01/26	13/05/26	Orkney Islands Council	Maturity	4.30%	5,000,000.00
T503595	26/01/26	25/01/27	Northern Ireland Housing Executive	Maturity	4.35%	5,000,000.00
T503596	26/02/26	20/01/27	East Lindsey District Council	Maturity	4.55%	2,000,000.00
T503597	26/02/26	20/01/27	Northern Ireland Housing Executive	Maturity	4.55%	10,000,000.00
				Average Rate	**4.45%**	**134,500,000.00**

Long term market loans fixed/variable (Lender Option Borrower Option)

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)
M240007	12/12/90	12/12/50	Nortrust Nominees ltd A/c TVT51	Maturity	11.13%	1,000,000.00
M290045	30/09/02	30/09/42	Bank of Scotland plc	Maturity	4.50%	5,000,000.00
M290046	14/03/03	16/03/65	Dexia Public Finance Bank	Maturity	4.40%	10,000,000.00
M290047	14/03/03	16/03/65	Dexia Public Finance Bank	Maturity	4.40%	11,740,000.00
				Average Rate	**4.66%**	**27,740,000.00**

Market loans fixed

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)
M290052	23/09/19	23/03/66	Barclays Bank plc	Maturity	3.80%	16,216,000.00
M290048	02/12/19	02/12/65	Barclays Bank plc	Maturity	5.00%	25,200,000.00

M290049	02/12/19	02/12/65	Barclays Bank plc	Maturity	5.00%	25,000,000.00
M290050	03/02/20	03/02/65	Barclays Bank plc	Maturity	5.05%	11,900,000.00
				Average Rate	**4.76%**	**78,316,000.00**

Long term external borrowing (PWLB) fixed

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)
P454211	30/03/84	30/09/33	PWLB	Maturity	10.25%	700,000.00
P464213	25/03/88	30/09/37	PWLB	Maturity	9.13%	702,319.85
P474785	14/10/94	30/09/54	PWLB	Maturity	8.88%	1,000,000.00
P474807	24/10/94	30/09/51	PWLB	Maturity	8.63%	1,000,000.00
P474808	24/10/94	30/09/52	PWLB	Maturity	8.63%	1,000,000.00
P474817	26/10/94	30/09/53	PWLB	Maturity	8.63%	1,000,000.00
P474818	26/10/94	30/09/54	PWLB	Maturity	8.63%	1,000,000.00
P475052	26/01/95	30/09/48	PWLB	Maturity	8.75%	500,000.00
P475184	16/02/95	30/09/45	PWLB	Maturity	8.63%	500,000.00
P475185	16/02/95	30/09/44	PWLB	Maturity	9.00%	500,000.00
P476150	29/06/95	31/03/45	PWLB	Maturity	8.38%	1,000,000.00
P476656	30/11/95	30/09/55	PWLB	Maturity	8.00%	1,000,000.00
P476790	21/12/95	30/09/55	PWLB	Maturity	7.88%	4,000,000.00
P476823	21/12/95	30/09/55	PWLB	Maturity	7.88%	1,000,000.00
P476824	21/12/95	30/09/55	PWLB	Maturity	7.88%	1,000,000.00
P477578	02/05/96	31/03/56	PWLB	Maturity	8.38%	10,000,000.00
P477622	08/05/96	31/03/56	PWLB	Maturity	8.38%	10,000,000.00
P477985	30/08/96	31/03/56	PWLB	Maturity	8.25%	3,000,000.00
P478594	11/12/96	30/09/31	PWLB	Maturity	7.75%	11,135,901.00
P479272	01/05/97	31/03/27	PWLB	Maturity	7.75%	25,000,000.00
P479704	17/07/97	31/03/27	PWLB	Maturity	7.00%	25,000,000.00
P480402	13/01/98	30/09/27	PWLB	Maturity	6.13%	5,000,000.00
P488282	02/12/03	30/09/33	PWLB	Maturity	5.00%	3,600,000.00
P492695	15/01/07	31/03/52	PWLB	Maturity	4.25%	13,500,000.00
P492696	15/01/07	31/03/53	PWLB	Maturity	4.25%	23,300,000.00
P492697	15/01/07	31/03/54	PWLB	Maturity	4.25%	20,000,000.00
P493070	08/03/07	31/03/54	PWLB	Maturity	4.25%	8,600,000.00
P493071	08/03/07	30/09/53	PWLB	Maturity	4.25%	5,000,000.00
P493425	05/07/07	30/09/56	PWLB	Maturity	4.80%	60,000,000.00
P493626	02/08/07	30/09/54	PWLB	Maturity	4.55%	10,000,000.00
P493835	23/08/07	30/09/54	PWLB	Maturity	4.45%	5,000,000.00
P497853	06/09/10	31/03/60	PWLB	Maturity	4.03%	10,000,000.00
P498092	13/10/10	31/03/59	PWLB	Maturity	4.09%	10,000,000.00
P499165	23/11/11	30/09/30	PWLB	Maturity	3.93%	20,000,000.00
P501784	11/12/12	30/09/27	PWLB	Maturity	3.19%	10,000,000.00
P501895	26/02/13	25/07/32	PWLB	Maturity	3.94%	15,000,000.00
P501996	15/03/13	31/03/30	PWLB	Maturity	3.70%	7,500,000.00
P502022	22/03/13	31/03/30	PWLB	Maturity	3.58%	7,500,000.00
P502832	07/02/14	31/03/34	PWLB	Maturity	4.17%	10,000,000.00
P502887	05/03/14	30/09/57	PWLB	Maturity	4.20%	20,000,000.00
P502921	18/03/14	30/09/63	PWLB	Maturity	4.19%	20,000,000.00
P503301	12/09/14	31/03/64	PWLB	Maturity	3.95%	20,000,000.00
P503717	05/02/15	31/03/63	PWLB	Maturity	2.84%	20,000,000.00
P503806	10/03/15	30/09/34	PWLB	Maturity	3.30%	10,000,000.00
P505126	21/06/16	31/03/64	PWLB	Maturity	2.51%	25,000,000.00

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)
PW507215	05/04/18	30/09/67	PWLB	Maturity	2.27%	25,000,000.00
PW507444	31/05/18	31/03/67	PWLB	Maturity	2.25%	10,000,000.00
P508923	25/03/19	30/09/28	PWLB	Maturity	1.90%	7,500,000.00
P509002	28/03/19	30/09/28	PWLB	Maturity	1.82%	7,500,000.00
P509289	30/05/19	31/03/69	PWLB	Maturity	2.19%	5,000,000.00
P509312	04/06/19	30/09/61	PWLB	Maturity	2.18%	5,000,000.00
P509372	18/06/19	31/03/69	PWLB	Maturity	2.11%	5,000,000.00
P509461	04/07/19	31/03/62	PWLB	Maturity	2.10%	10,000,000.00
P509495	08/07/19	31/03/69	PWLB	Maturity	2.01%	5,000,000.00
P509506	09/07/19	30/09/68	PWLB	Maturity	2.03%	5,000,000.00
P509629	08/08/19	31/03/69	PWLB	Maturity	1.94%	20,000,000.00
P509636	09/08/19	31/03/66	PWLB	Maturity	1.84%	10,000,000.00
P509723	19/08/19	31/03/68	PWLB	Maturity	1.74%	10,000,000.00
P509848	05/09/19	31/03/67	PWLB	Maturity	1.58%	10,000,000.00
P169721	11/03/20	30/09/69	PWLB	Maturity	2.07%	5,000,000.00
P175073 HRA	24/03/20	30/09/69	PWLB	Maturity	1.48%	29,800,000.00
P366831	25/06/21	31/03/71	PWLB	Maturity	1.91%	5,000,000.00
P431937	04/11/21	30/09/71	PWLB	Maturity	1.63%	25,000,000.00
P438539	16/11/21	30/09/71	PWLB	Maturity	1.51%	10,000,000.00
P448434	03/12/21	31/03/71	PWLB	Maturity	1.46%	10,000,000.00
P450404	08/12/21	31/03/61	PWLB	Maturity	1.49%	25,000,000.00
P450406	08/12/21	31/03/71	PWLB	Maturity	1.35%	25,000,000.00
P552574	26/09/22	30/09/26	PWLB	Maturity	3.89%	20,000,000.00
P678606 HRA	28/11/23	30/09/35	PWLB	EIP	4.38%	15,833,333.32
P685814 HRA	21/12/23	30/09/29	PWLB	Maturity	3.98%	10,000,000.00
P704297	22/02/24	30/03/30	PWLB	Maturity	4.71%	10,000,000.00
P769506 HRA	23/10/24	30/09/29	PWLB	Maturity	4.23%	20,000,000.00
P771254	30/10/24	01/05/26	PWLB	Maturity	4.86%	10,000,000.00
P777112 HRA	21/11/24	04/05/27	PWLB	Maturity	4.76%	20,000,000.00
P777938 HRA	25/11/24	01/07/27	PWLB	Maturity	4.69%	20,000,000.00
P793585 HRA	23/01/25	01/07/26	PWLB	Maturity	4.74%	10,000,000.00
P802926	25/02/25	07/02/29	PWLB	Maturity	4.94%	10,000,000.00
P805190	05/03/25	21/02/29	PWLB	Maturity	4.86%	10,000,000.00
P806745	11/03/25	01/06/26	PWLB	Maturity	4.82%	10,000,000.00
P809318	19/03/25	01/11/28	PWLB	Maturity	4.91%	10,000,000.00
P810207	21/03/25	01/08/26	PWLB	Maturity	4.82%	10,000,000.00
P810209	21/03/25	01/04/26	PWLB	Maturity	4.82%	10,000,000.00
P816238 HRA	07/04/25	01/11/27	PWLB	Maturity	4.19%	5,000,000.00
P816233 HRA	11/04/25	01/02/30	PWLB	Maturity	4.30%	10,000,000.00
P818236 HRA	11/04/25	03/07/28	PWLB	Maturity	4.21%	10,000,000.00
P816713	14/04/25	01/09/26	PWLB	Maturity	4.56%	10,000,000.00
P819617 HRA	25/04/25	01/09/28	PWLB	Maturity	4.23%	10,000,000.00

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)
P835332 HRA	19/06/25	01/05/28	PWLB	Maturity	4.19%	5,000,000.00
P835330	19/06/25	01/12/27	PWLB	Maturity	4.56%	10,000,000.00
P853701	21/08/25	01/06/27	PWLB	Maturity	4.53%	10,000,000.00
P856954 HRA	04/09/25	01/06/28	PWLB	Maturity	4.30%	10,000,000.00
P860144	15/09/25	01/08/28	PWLB	Maturity	4.65%	10,000,000.00
P863282	25/09/25	02/08/27	PWLB	Maturity	4.64%	10,000,000.00
P864666	30/09/25	04/01/28	PWLB	Maturity	4.67%	20,000,000.00
P869017	15/10/25	09/06/27	PWLB	Maturity	4.67%	10,000,000.00
P870974	22/10/25	07/06/28	PWLB	Maturity	4.63%	10,000,000.00
P871020	22/10/25	19/07/28	PWLB	Maturity	4.62%	10,000,000.00
P872814	29/10/25	05/01/27	PWLB	Maturity	4.40%	10,000,000.00
P888100	18/12/25	01/09/27	PWLB	Maturity	4.51%	10,000,000.00
P888694	19/12/25	01/11/27	PWLB	Maturity	4.50%	10,000,000.00
P898013	23/01/26	01/12/28	PWLB	Maturity	4.50%	10,000,000.00
P903154	10/02/26	10/02/27	PWLB	Maturity	4.39%	10,000,000.00
P904500	13/02/26	13/02/27	PWLB	Maturity	4.31%	10,000,000.00
P907445	24/02/26	24/02/27	PWLB	Maturity	4.27%	10,000,000.00
P910884	09/03/26	11/08/27	PWLB	Maturity	4.29%	10,000,000.00
P912069	12/03/26	06/10/27	PWLB	Maturity	4.49%	10,000,000.00
P913673	18/03/26	07/04/27	PWLB	Maturity	4.65%	20,000,000.00
				Average Rate	**4.02%**	**1,184,671,554.17**
External borrowing average rate and total					**4.12%**	**1,425,227,554.17**