Agenda Item	6.a
Report No	RES/45/26

The Highland Council

Committee: **Corporate Resources**

Date: **19 November 2026**

Report Title: **Treasury Management – Summary of Transactions to 30 September 2026**

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

1. Purpose/Executive Summary

1.1 This report on the treasury management transactions undertaken from 01 July 2026 to 30 September 2026 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 July 2026 to 30 September 2026.

3. Implications

3.1 **Resource:** Bank base rates have remained unchanged to date in 2026/27 (see table at **paragraph 5.2**) however it is likely bank base rates will increase during the remainder of 2026/27. Actual borrowing rates are not directly linked to base rates, and vary depending on broader economic factors (gilt yields and supply/demand). Borrowing costs In relative terms rates have increased over the quarter, and remain high compared forecasts, rates over 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 had been expected to fall further, albeit more slowly than had previously been anticipated. The quarter covered by this report has been impacted by the current geopolitical situation in the Middle East, which has led to volatility in rates across the quarter. 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.

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. This report includes particular reference to current events in the Middle East and risks and implications.

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.

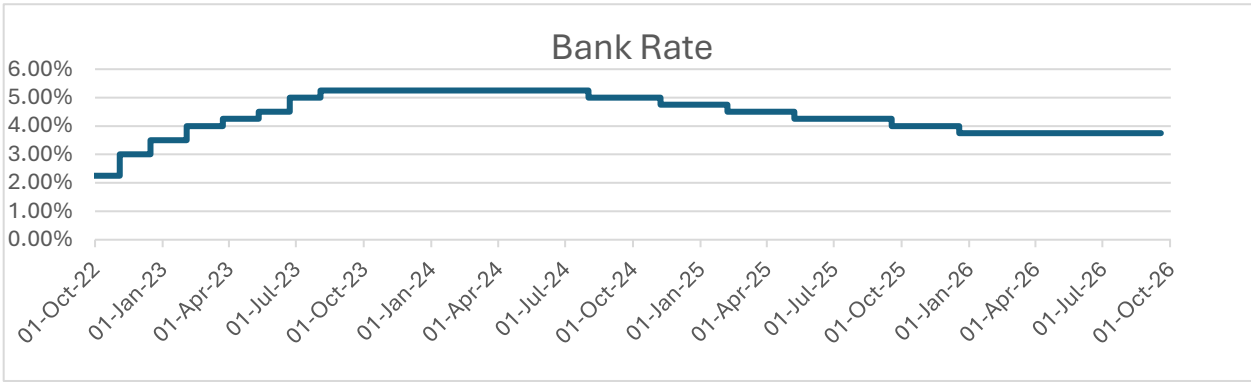
4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When making any decision, Members must give due regard to the findings of any assessment.

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 2026 which applies to financial year 2026/27 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 17 September 2026, the MPC voted by a majority of 6-3 to hold Bank Rate at 3.75% citing global energy prices remaining higher than before the middle east conflict and inflation having risen to 3.1%.



6. Financial and Economic Update

6.1 Treasury Management has been impacted since the start of events in the Middle East resulting in high volatility, and spikes in borrowing rates where they had originally been predicted to decrease. The Geopolitical situation, along with the impact of domestic factors has meant that bank rate is now forecast to increase to 4.00% by Dec 2026 and be held at that rate until September 2027 when it is forecast to reduce to 3.75%.

Borrowing rates have remained high in comparison to bank rate as can be seen in the further table at **paragraph 7.7.2** highlighting the ongoing volatility in PWLB rates since the start of the conflict**.**

MUFG Corporate Markets' latest interest rate forecast on 21 September sets out a view that short, medium and long-dated interest rates will eventually fall back over the next year or two, although in the near-term there is an anticipated increase in Bank Rate to 4% given the upward influences on inflation primarily emanating from energy price shocks driven by events in the Middle East. Given economic and budget forecasts had initially been predicting a decrease in borrowing rates for 2026/27, the current rates and ongoing volatility do represent a financial risk. The current approach of borrowing for shorter-term durations does seek to mitigate risks by not locking into long-term borrowing while rates are high. Future reports to Members will reflect further updates and should a more sustained period of increased interest rates arise, they will highlight implications for the Council and any mitigations that could be considered.

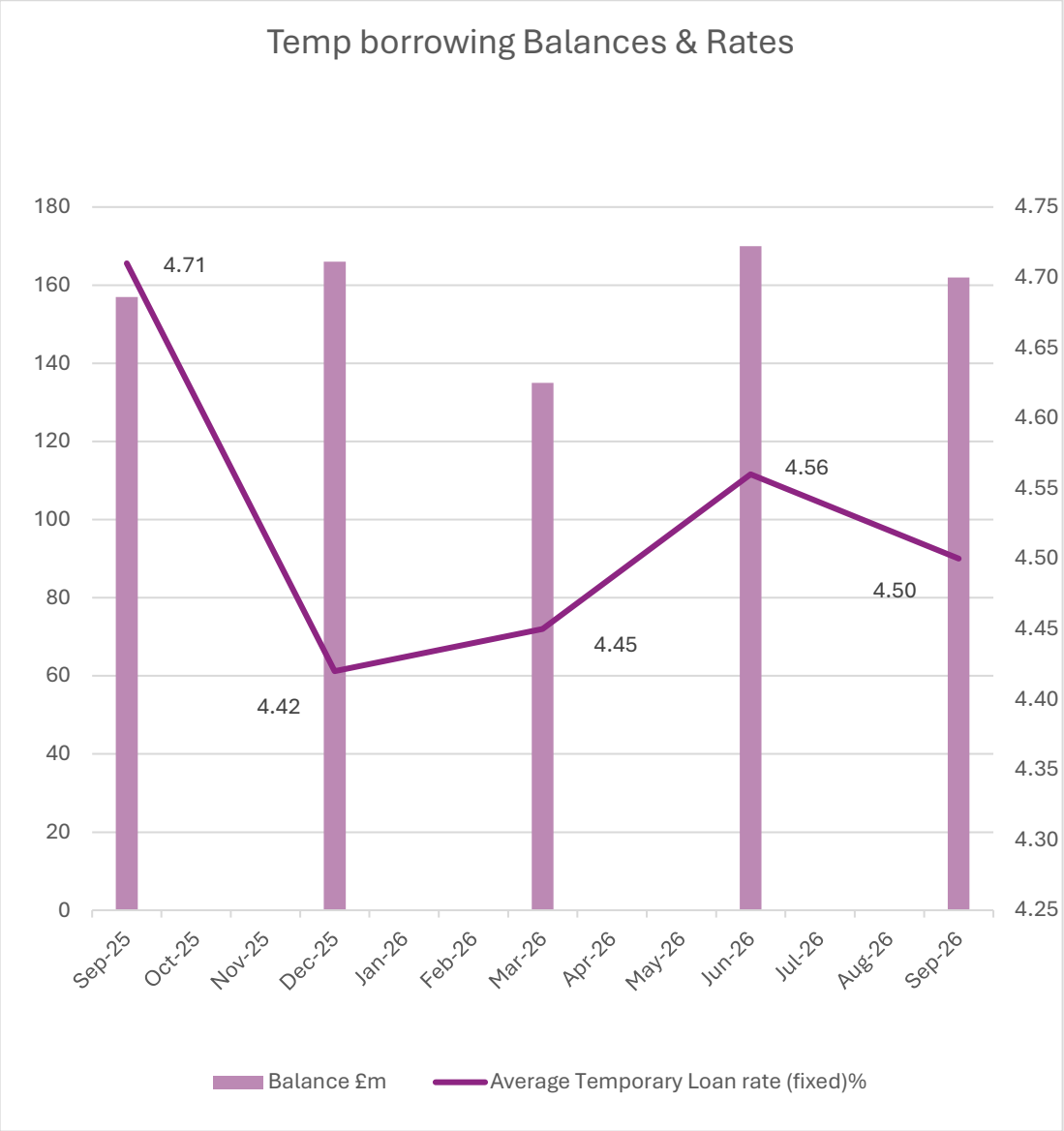
In May 2026 the Scottish Government announced its intention to move to payment of General Revenue Grant from weekly, with the final weekly payment on 30 September 2026, to monthly commencing on 7 October 2026. This will impact on Treasury Management, requiring more cashflow planning and forecasting and will result in a higher balance of short-term investments (cash on deposit) at the start of each month, which will likely taper off as the month progresses. This may well require a review of counterparty limits and counterparties to ensure we have sufficient capacity to deposit and manage liquidity and counterparty risk. Any updates to counterparty limits will be highlighted in a future Treasury Management report.

7. Borrowing Undertaken and Repayments Made

7.1 There continues to be a high degree of market uncertainty, driven by a combination of domestic economic conditions and wider geopolitical developments. The Bank Rate was reduced to 3.75% in December 2025 and remains at this level at the time of writing. The Council's Treasury Management adviser, MUFG, currently forecasts that the Bank Rate will increase to 4.00% by December 2026, remaining unchanged until September 2027, when it is expected to fall to 3.75%. This is a revision to MUFG's previous forecast, which anticipated the Bank Rate remaining at 3.75% before falling to 3.50% in September 2027.

7.2 On 30 September 2026, the total of temporary loans was £161.5m (£169.5m at 30 June 2026) with £50.0m of temporary borrowing undertaken and £58.0m 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.

7.2.1 **Temporary Borrowing:**



7.3 On 30 September 2026, the total of Public Works Loan Board (PWLB) loans was £1,173.8m (£1,154.7m at 30 June 2026). With the repayment of two Lenders Option Borrowers Option (LOBOs) loans totaling £21.7m the long-term Market loans total reduced from £106.0m at 30 June 2026 to £84.3m at 30 September 2026.

7.4 There was £70.0m of PWLB **borrowing** undertaken between 1 July 2026 to 30 September 2026.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
10.0	Maturity	03/09/2026	03/01/2029	4.70
10.0	Maturity	14/09/2026	14/09/2027	5.04
10.0	Maturity	17/09/2026	02/02/2028	4.86
10.0	Maturity	25/09/2026	10/11/2027	4.94
10.0	Maturity	25/09/2026	12/10/2027	5.34
10.0	Maturity	25/09/2026	12/01/2028	4.94
10.0	Maturity	29/09/2026	09/02/2028	4.87
70.0				

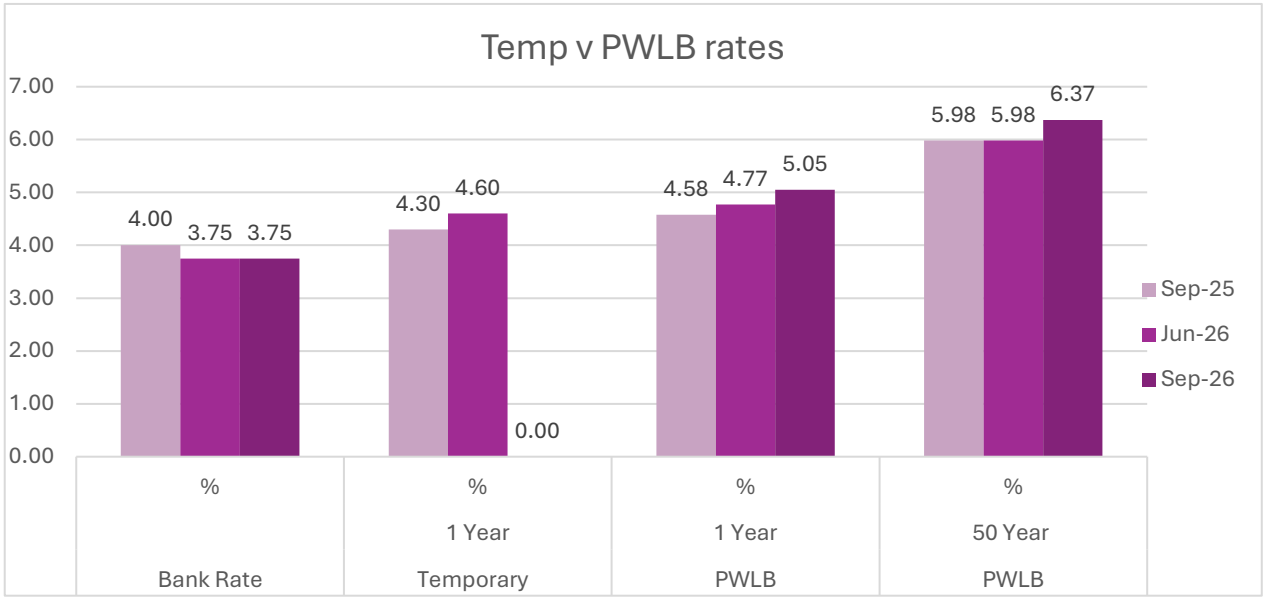
7.5 The following PWLB and Long-Term Market **repayments** were made between 1 July 2026 to 30 September 2026.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
10.0	LOBO	14/03/2003	14/09/2026	4.40
11.7	LOBO	14/03/2003	14/09/2026	4.40
10.0	Maturity	23/01/2025	01/07/2026	4.74
10.0	Maturity	21/03/2025	01/08/2026	4.82
10.0	Maturity	14/04/2025	01/09/2026	4.56
20.0	Maturity	26/09/2022	30/09/2026	3.89
0.8	EIP	28/11/2023	30/09/2026	4.38
72.5				

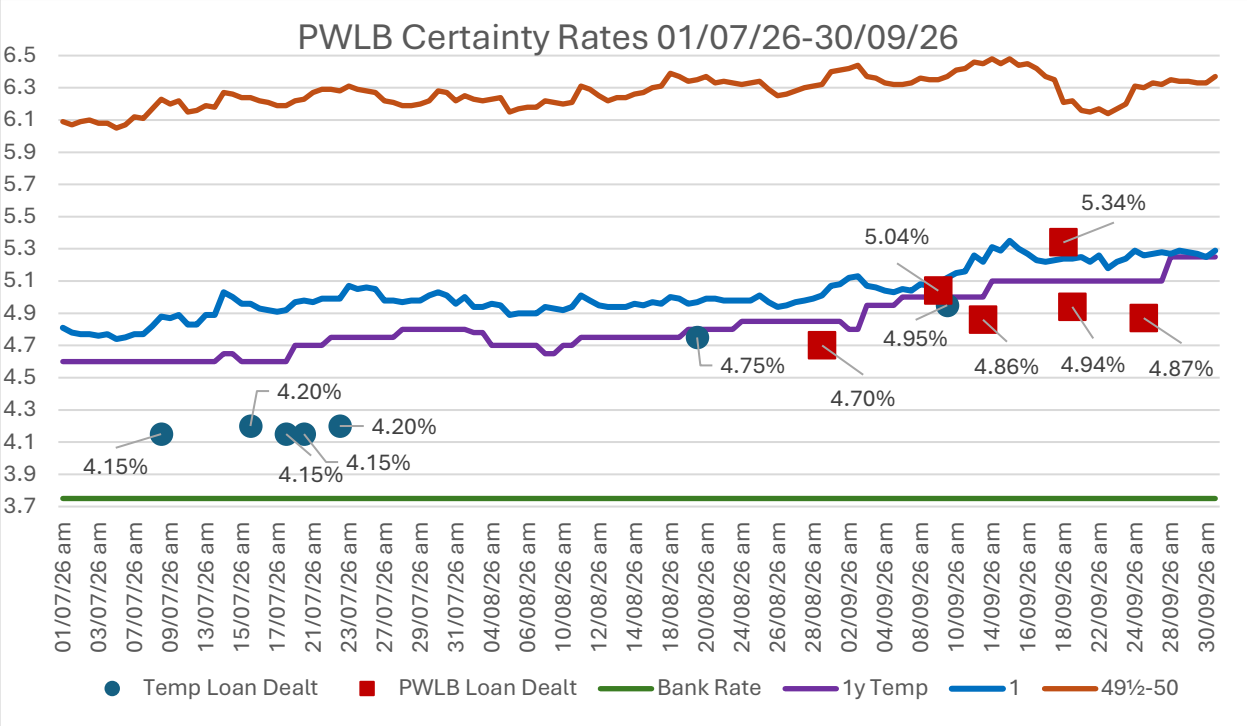
7.6 Short and long-term rates have risen rather than fallen as had previously been expected. During the quarter temporary borrowing from the inter-local authority money market, when available, was considered a prudent approach.

7.7 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 and 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. Included within the second chart is a note of any loans dealt over the quarter (this reflects deal dates not dates borrowing was taken). 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.

7.7.1



7.7.2

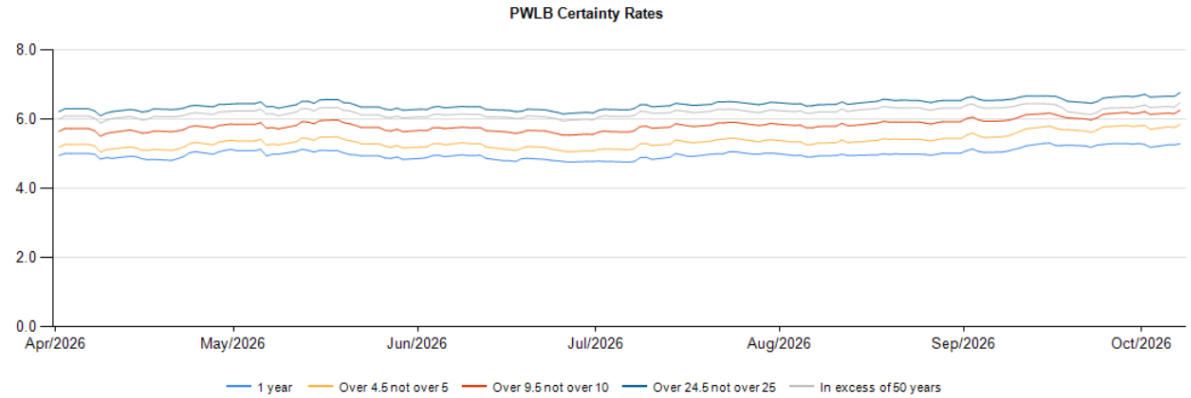


Key for borrowing undertaken: Rate (%)

7.7.3 The PWLB rates for the financial year 2026/27 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 2027.
- Local Infrastructure Rate is gilt plus 60bps (0.6%) (G+60bps)

7.7.4



8. Deposits

8.1 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 remained at 3.75% at 30 September 2026 and the rate of return on Money Market Fund (MMF) investments increased during the quarter.

8.2 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**.

8.3 A full list of all counterparties at 30 September 2026 is at **Appendix 3.**

8.4 When placing temporary deposits, the Council uses a weekly credit rating list provided by 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.

8.5 As noted earlier in the report, the change in payment frequency of Scottish Government (SG) Grant funding may require the Council to review some of its counter-party, limits and associated arrangements. As the move to monthly payment (from weekly) may at points in the month result in higher cash balances held than under the current weekly payment arrangement. This change by the Scottish Government came into effect on 07 October 2026, any implications can be considered in future reports.

8.6 The transactions reported here have been undertaken in line with the Council's Treasury Management Strategy Statement and Investment Statement (TMSS) for 2026/27 which was approved by Council on 26 March 2026.

Designation:	Chief Officer – Corporate Finance
Date:	21 October 2026
Author:	Mairi MacCallum and Gemma Ross, Treasury Officers

Background Papers:

View Treasury Management Strategy Statement 2026/27;

https://www.highland.gov.uk/download/meetings/id/86635/3.Treasury%2520Management%2520Strategy%2520Statement

View Treasury Management Summary of Transactions 30 June 2026;

Item 8b - Treasury Management – Summary of Transactions for the Quarter to 30 June 26

Appendices: **Appendix 1** - Treasury Management - Summary of Transactions for the Quarter to 30 September 2026
Appendix 2 - Treasury Management – Prudential Indicators
Appendix 3 - List of Counterparties

Appendix 1 - Treasury Management - Summary of Transactions for the Quarter to 30 September 2026

Type of Borrowing	Outstanding debt at start of quarter £m	Raised £m	Repaid £m	Outstanding debt at end of quarter £m	Average Interest Rate	
					30 Jun 26 %	30 Sep 26 %
Public Works Loan Board	1,154.7	70.0	(50.9)	1,173.8	4.00	4.04
Market Loans	78.3	0	0	78.3	4.76	4.76
LOBO Market Loans	27.7	0	(21.7)	6.0	4.66	5.60
Fixed Temporary Loans (term < 1 year)	169.5	50.0	(58.0)	161.5	4.56	4.50
Variable Temporary Loan	0	0	(0)	0	-	-
Bank Balance	0	0	(0)	0	-	-
GROSS EXTERNAL BORROWING	**1,430.2**	**120.0**	**(130.6)**	**1,419.6**	**-**	**-**
Temporary Deposits	(96.2)	(191.8)	236.2	(51.8)	3.83	3.92
NET EXTERNAL BORROWING	1,334.0	(71.8)	105.6	1,367.8		
				Total loan average	4.12	4.14

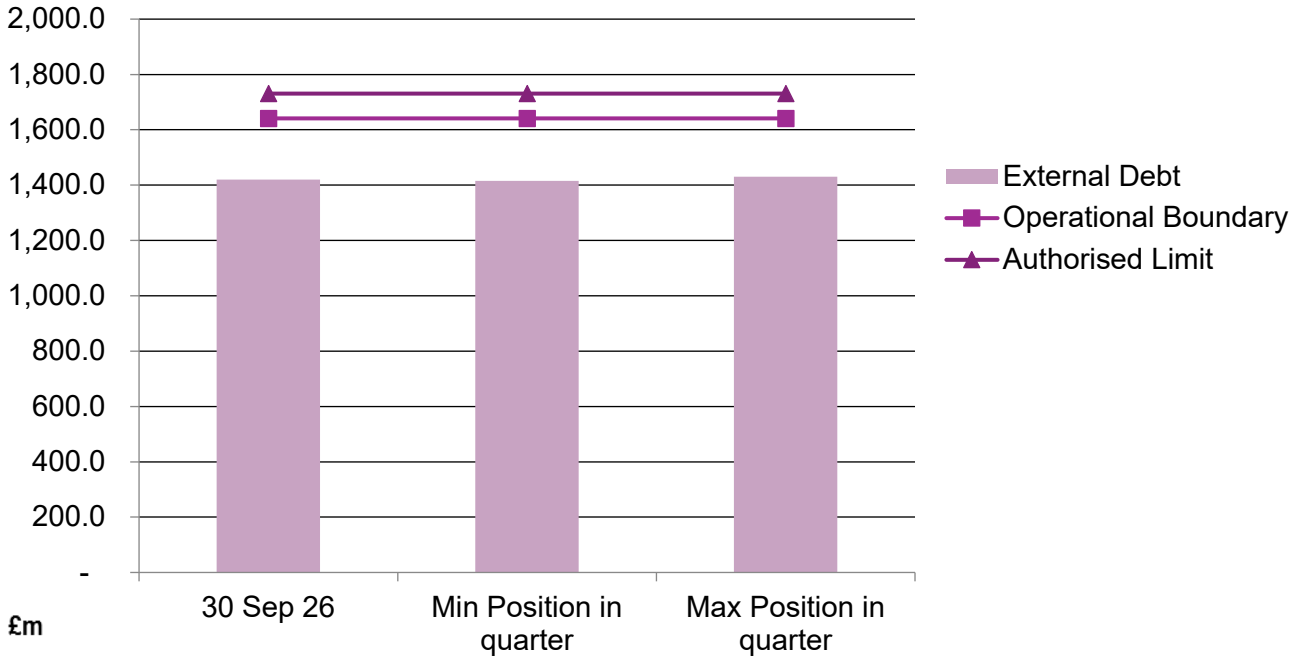
Borrowing / Lending internal parameters as per approved Treasury Management Practices	**Actual %**	**Approved Max %**
Short-term borrowing as % of the Council's total outstanding debt	11.4	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	0.4	35.0

Appendix 2

Treasury Management - Prudential Indicators

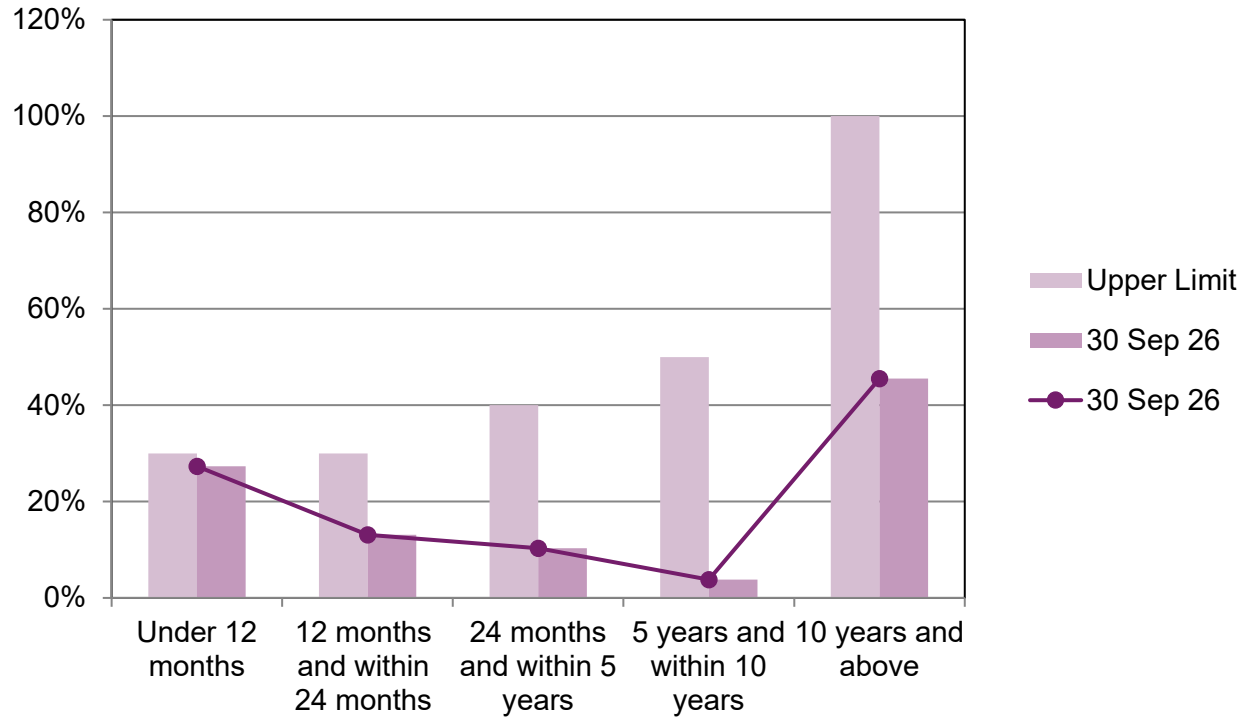
The Council has complied with all the prudential limits set in the TMSS 2026/27 during the quarter to 30 September 26.

External Debt

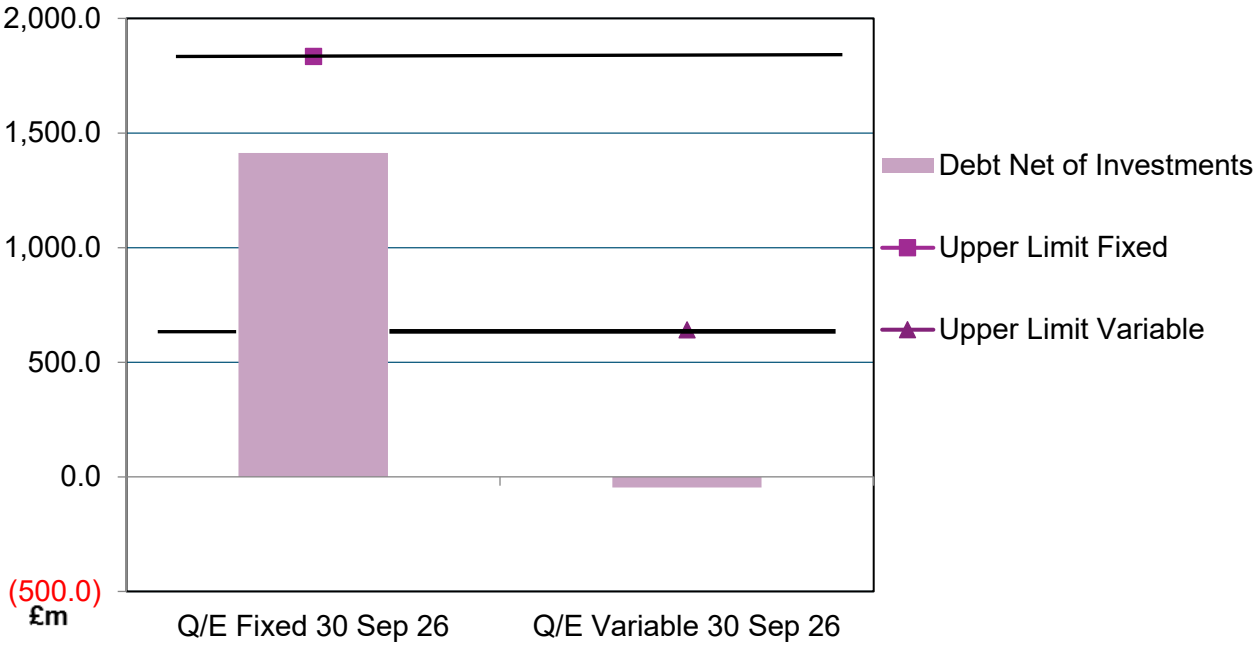


Note: the operational boundary, as set out within the TMSS, is an estimate of the likely and prudent operational level of borrowing on a day-to-day basis. It is an operational planning measure and distinct from the fixed authorised limit.

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 30 September 2026.

Counterparty	Amount £m	Counter-party limit £m	MUFG credit rating Sep 26	Total Amount £m	Deposit Type	Rate Sep 26 %	FTD Duration
Nationwide Building Society** t/a Virgin Money	15.0	20.0	Orange – 12 Mths	15.1	Call	3.75	N/A
	0.1				CMA	1.10	
Insight Investments MMF	20.0	20.0	AAA rated	20.0	Call	3.97	N/A
Northern Trust MMF	0.1	20.0	AAA rated	0.1	Call	3.92	N/A
Aberdeen Liquidity MMF	6.5	20.0	AAA rated	6.5	Call	3.90	N/A
BlackRock ICS MMF	0.1	20.0	AAA rated	0.1	Call	3.93	N/A
Bank of Scotland	10.0	20.0	Orange – 12 Mths	10.0	FTD	4.21	22/12/26
Total Deposits	**51.8**			**51.8**			

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

After the 02 Apr 2026 acquisition of Clydesdale Bank by Nationwide Building Society (NBS), credit ratings for Clydesdale Bank (t/a Virgin Money) were withdrawn and NBS credit ratings should now be used for credit assessment and monitoring purposes. Virgin money has been retained as a trading brand of NBS.

Based on the MUFG approach, the Council will use counterparties within the following durational bands. The colour coding approach is MUFG's methodology:

Yellow	5 years *
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	Not for use

* the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.