

**South Ayrshire Council**

**Report by Chief Financial Officer  
to South Ayrshire Council  
of 19 February 2026**

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**Subject: Treasury Management and Investment Strategy Mid-Year Report 2025/26**

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**1. Purpose**

1.1 The purpose of this report is to provide Members with a mid-year treasury management update for the financial year 2025/26.

**2. Recommendation**

**2.1 It is recommended that the Council approves the contents of this report.**

**3. Background**

***Treasury Management***

3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned to meet expenditure commitments but also to invest surplus monies in low-risk counterparties (organisations with which the Council has a financial relationship in terms of borrowings or investments), providing adequate liquidity initially before considering optimising investment return.

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash will involve arranging long or short-term loans or using longer term cash flow surpluses. In addition, in certain interest rate environments debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

3.4 The Audit and Governance Panel of 3 December 2025 considered the Treasury Management and Investment Strategy Mid-Year Report 2025/26 (attached at [Appendix 1](#)) and agreed that it be remitted to the Council for approval.

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## 4. Detail

4.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and provides an update on activity in [Appendix 1](#) and [Appendix 2](#) on the following:

### 4.1.1 [Appendix 1](#) – *Economic Update and Interest rates*

Section	Description
1.	Economics and Interest Rates
2.	Interest Rates Forecast

### 4.1.2 [Appendix 2](#) – *Treasury Activity*

Section	Description
1.1 to 1.2	The Council's Capital Expenditure plans and Capital Financing Requirement (CFR);
2.1	Borrowing Strategy for 2025/26
3.1 to 3.2	Review of Investment Strategy and Performance
4.1	Review of compliance with Treasury and Prudential Limits for 2025/26
5.1	Borrowing in advance; and
6.1	Debt Re-scheduling.
7.1 to 7.3	Other

4.2 The Council is requested to approve the contents of this report in accordance with the requirements of the CIPFA Code.

## 5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

## 6. Financial Implications

### 6.1 *General Services*

6.1.1 **Interest on Revenue Balances** - the Council budgeted for investment income £1.93m in 2025/26, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 4.00% on these balances.

At September 2025 (Qtr2) the full year budgeted income is projected at £1.784m, a shortfall of £0.146m.

6.1.2 **Capital Financing Costs** - the budget for loan charges in 2025/26 is £20.133m comprising £6.408m for loan principal, £13.552m for interest costs and £0.173m for loans fund expenses.

The current projection for loans charges to the General Fund is an underspend of £0.516m in interest and expenses. This offsets the projected shortfall of income of £0.146m bringing an overall underspend of £0.370m.

This underspend will be monitored in conjunction with the capital programme and the projected borrowing.

## 6.2 **Housing Revenue Account (HRA)**

6.2.1 **Interest on Revenue Balances** - the HRA budgeted for investment income of £0.400m in 2025/26, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 4.00% on these balances.

At September 2025 (Qtr2) the full year estimate for investment income earned is £0.324m resulting in a shortfall of £0.076m.

6.2.2 **Capital Financing Costs** - the budget for HRA loan charges in 2025/26 is £9.016m, comprising £3.361m for loan principal, £5.584m for interest costs and £0.071m for loans fund expenses.

The current projection for HRA loan charges is an underspend of £0.058m in interest and expenses. This offsets the projected shortfall of income of £0.076m resulting in an overall overspend of £0.018m.

This overspend has resulted from lower than projected investment income and will be monitored closely, in conjunction with the capital programme.

## 7. **Human Resources Implications**

7.1 Not applicable.

## 8. **Risk**

### 8.1 ***Risk Implications of Adopting the Recommendations***

8.1.1 There are no risks associated with adopting the recommendations.

### 8.2 ***Risk Implications of Rejecting the Recommendations***

8.2.1 If the recommendations are rejected, then the Council will be non-compliant with the requirements contained in both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

## 9. **Integrated Impact Assessment (incorporating Equalities)**

9.1 The proposals in this report do not require to be assessed through an Integrated Impact Assessment.

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**10. Sustainable Development Implications**

10.1 **Considering Strategic Environmental Assessment (SEA)** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

**11. Options Appraisal**

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

**12. Link to Council Plan**

12.1 The matters referred to in this report contribute to Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

**13. Link to Shaping Our Future Council** Yes  No

13.1 Not applicable.

**14. Results of Consultation**

14.1 There has been no public consultation on the contents of this report.

14.2 Consultation has taken place with Councillor Ian Davis, Policy Lead for Finance and Corporate Services, and the contents of this report reflect any feedback provided.

**Background Papers** CIPFA Code of Practice for Treasury Management in the Public Services

Report to South Ayrshire Council of 6 March 2025 – [Treasury and Investment Strategy 2025/26](#)

Report to Audit and Governance Panel of 3 December 2025 – [Treasury Management and Investment Strategy Mid-Year Report 2025/26](#)

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**Date:** 19 January 2026

## Economic Update and Interest Rates

### 1. Economic update

- The first half of 2025/26 saw:

A 0.3% pick up in Gross Domestic Product (GDP) for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.

The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.

Consumer Price Index (CPI) inflation has fluctuated but finished September at 3.8%, whilst core inflation eased to 3.6%.

The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August. At the Monetary Policy Commission meeting on 6<sup>th</sup> November, they voted to hold the base rate at 4.0%.

The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

- From a GDP perspective, the financial year got off to an uneven start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will continue to affect GDP growth for a while. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.
- The composite Purchasing Manager Index (PMI) for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.
- Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.

- Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the Office of Budget Responsibility (OBR) forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).
- CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although there was no increase in CPI inflation in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, the first half of the financial year finishes in a similar position to where it started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about higher inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets

increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, higher than forecast inflation, resilient activity data and an uncompromising Bank of England have kept yields elevated over 4.70%.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has seen a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and conciliatory signals from Federal Reserve Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

#### **MPC meetings: 8 May, 19 June, 7 August, 18 September 2025, 6<sup>th</sup> November 2025**

- There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for signs of weak demand and higher inflation expectations, mainly from rising food prices. By repeating the well-used phrase gradual and careful, the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% demonstrated the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- In November, the Monetary Policy Committee voted by a majority 5-4 to maintain the bank base rate at 4.0%.
- The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting

saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).

- In November, the Monetary Policy Committee voted by a majority 5-4 to maintain the bank base rate at 4.0%.
- The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that “a gradual and careful” approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

## 2. Interest Rates Forecast

The Authority has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

MUFG Corporate Markets’ latest forecast on 11 August sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the continued higher of inflation and a continuing tight labour market, as well as the size of gilt issuance.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
<b>BANK RATE</b>	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

## Treasury Activity

### 1.1 The Council's Capital Expenditure Plans and Capital Financing Requirement (CFR)

- (1) The following section provides the information relating to the 2025/26 capital position and prudential indicators.
- The Council's capital expenditure plans.
  - How these plans are being financed.
  - The impact of the capital expenditure plans on the prudential indicators and the underlying need to borrow.
  - Compliance with the limits in place for borrowing activity.
- (2) The tables below draw together the main movement in terms of the capital expenditure plans compared to the original plan, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements for capital expenditure. The borrowing element of Table 1 for both General Services and HRA below revises the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR).

**Table 1 – Prudential Indicators**

	<i>2025/26 Original Estimate £'000</i>	<i>2025/26 Latest Estimate £'000</i>
<b>Prudential Indicator – General Services</b>		
Capital Expenditure	<b>86,237</b>	<b>71,225</b>
<b>General Services - Financed By</b>		
General and Specific Grant	10,535	11,193
Capital Receipts/Other	12,215	18,822
Borrowing	63,487	41,210
	<b>86,237</b>	<b>71,225</b>
<b>Prudential Indicator – HRA</b>		
Capital Expenditure	<b>58,057</b>	<b>43,153</b>
<b>HRA - Financed By</b>		
Borrowing	39,005	38,086
CFCR, Draw on surplus	3,226	3,226
Other Receipts/ Grants	15,826	1,841
	<b>58,057</b>	<b>43,153</b>

## 1.2 Capital Financing Requirement, Debt Position and Operational Boundary Indicators

- (1) Table 2 shows the CFR, which is the underlying need to incur borrowing for a capital purpose.

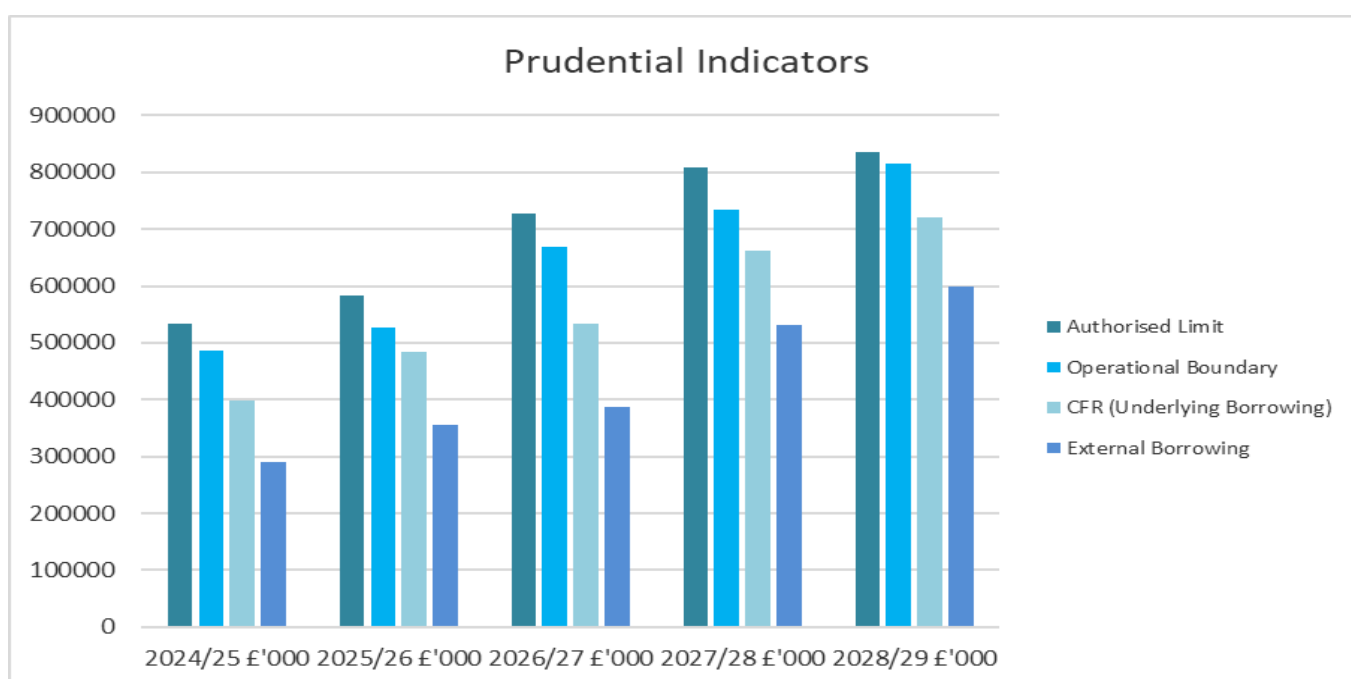
The original estimate as reported in the Treasury Management Strategy excluded 2025/26 IFRS16 adjustment for both Right of Use assets (ROU) and Public Private Partnership (PPP). This has now been reflected in the Updated Estimate below IFRS16 was adopted during the 2024.25 financial year and included in the year end Annual Accounts for that year.

This has resulted in an increase to the estimated Capital Financing Requirement (CFR) despite a drop in borrowing for both General Services and HRA capital.

**Table 2 – Prudential Indicators - CFR**

	<i>2025/26 Original Estimate £'000</i>	<i>2025/26 Updated Estimate £'000</i>
Capital Financing Requirement – GS	507,453	518,688
Capital Financing Requirement – HRA	168,229	169,253
<b>Total Capital Financing Requirement</b>	<b>675,682</b>	<b>687,941</b>

### (2) Prudential Indicators Chart



The chart shown at (2) above shows estimated key prudential indicators in graph format:

- External Borrowing** – shows significant increase in the next two years as the Council utilises borrowing to fund capital investment

2. **Capital Financing Requirement** – shows increases in CFR in line with external debt. The Council ended 2024/25 in an under borrowed position (CFR compared with external debt) of £63,899m. The current strategy will be to reflect an under-borrowed position in the short/medium term as reflected in the graph.
3. **Operational Boundary** – this indicator is higher than external debt and CFR as it includes provision for other long term financing liabilities such as PPP and Finance leases, and short term cash flow variations.
4. **Authorised Limit** – the limit which cannot be exceeded in terms of the Council’s debt position. This indicator is higher than the operational limit as provision is made for other cash flow variation and potential borrowing in advance.

**Table 3 – Prudential indicators - debt**

	<b>2025/26 Original £'000</b>	<b>2025/26 Updated £'000</b>
Authorised Limit	745,000	734,500
Operational Limit	690,000	660,620
External Debt	537,039	489,039

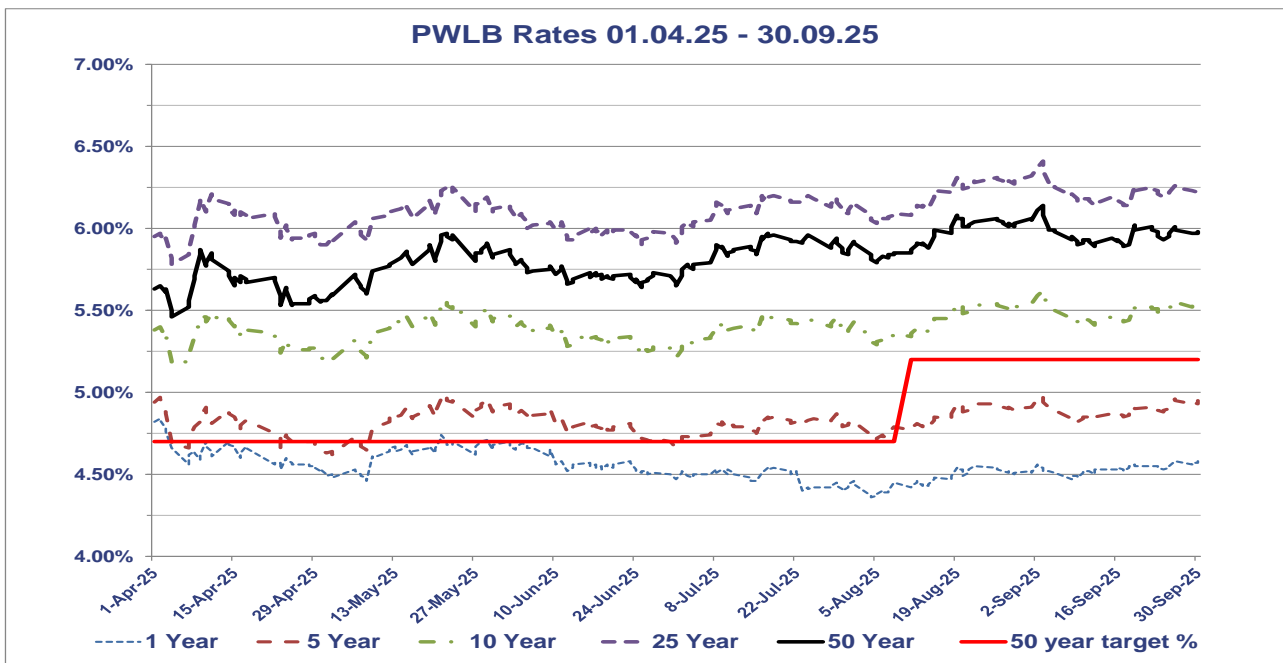
### **2.1 Borrowing Strategy 2025/26 (Update)**

- (1) The Council’s capital financing requirement (CFR) estimate for 2025/26 has been revised to £687.941m based on the revised capital spend projections, as shown at 1.2, Appendix (2) Table 1. The CFR denotes the Council’s underlying need to borrow for capital purposes. To fund the CFR the Council may borrow from the PWLB or the market (external borrowing) or fund from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and availability of internal cash resources.
- (2) The original borrowing requirement for 2025/26 was set at £128.899m but has been revised to £79.296m. This drop is attributed to re-profiling of capital projects and the changes to the programme per the capital review carried out in September 2025. This has resulted in movement in the current year of the capital programme.
- (3) This has resulted in revising the external borrowing requirement from the original £126m to £89m. The external borrowing figure includes a margin for the cost of borrowing for Right of Use assets as well as funding for the CFR.
- (4) The current strategy is to consider medium term external borrowing in Qtr. 3 of £5m and Qtr. 4 of £10m of medium to long borrowing, with further PWLB or medium term at the end of Qtr. 4. To date in Qtr. 1 and 2 long term borrowing has been taken from PWLB of £5m at 4.35%, £4m at 4.32%, £5m at 4.26% and £6m at 4.17%, when it has been possible to secure a lower interest rate.

There has been less borrowing than forecast from the other local authority market, as the rates available in PWLB were more advantageous. South Ayrshire Council has been able to utilise the HRA concessionary rate which allows borrowing at 40 basis points below the PWLB certainty rate. This rate is available for use in HRA and primarily for new Housing delivery.

A pragmatic approach however is being taken in terms of the timing of new long term external borrowing given the current market uncertainties due to a number of factors such as the overall economic climate and interest rate fluctuations along with the pace of the spend in the Council's capital programme.

## 2.2 PWLB Interest Rates – Apr 25 – Sep 25



## 3.1 Investment Strategy

- (1) The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 6 March 2025. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:
  - security of capital:
  - liquidity: and
  - yield
- (2) The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the MUFGE suggested creditworthiness.

## 3.2 Investment Performance 2025/26

- (1) The Council's average level of funds available for investment purposes in the first half of the year 2025/26 was £21.3m. These funds are available on a

temporary basis and are dependent on a number of factors including cash flows, reserve balances, borrowing strategy, etc. As these funds are linked to Council reserves earmarked for specific purposes, they are not available to spend on additional services and represent the current 'cash' position.

- (2) LIBOR and LIBID rates ceased from the end of 2021. LIBOR has been replaced with a rate based on SONIA (Sterling Overnight Index Average). On advice received from the Council's consultants, MUFG, the replacement benchmark to be used is the 90-day backward SONIA compounded rate.

Table 4 below shows the rates for the first half of 2025/26 -

**Table 4 – Benchmark rates**

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	4.50	4.46	4.47	4.36	4.28	4.17
High Date	01/04/2025	07/05/2025	03/04/2025	01/04/2025	02/04/2025	02/04/2025
Low	4.00	3.97	3.97	3.96	3.89	3.75
Low Date	07/08/2025	29/08/2025	16/09/2025	08/09/2025	07/08/2025	04/08/2025
Average	4.23	4.19	4.16	4.10	4.01	3.88
Spread	0.50	0.49	0.50	0.39	0.39	0.42

- (3) The Council's average performance rate for Quarter ended 30<sup>th</sup> September 2025 was 4.05%. This is slightly below the 90 day benchmark return as above. Investments will continue to be monitored in the current climate of changing interest rates.
- (4) The Chief Financial Officer confirms that the approved investment strategy was not breached in the first half of the financial year 2025/26.
- (5) The Council continues to consider lending to other local authorities where appropriate, in order to diversify its investment portfolio and to provide the highest level of security in delivering the objectives of security, liquidity and yield in its investment portfolio. Interest rates after a long period of extremely low rates, rose quite high and have now started to reduce slowly although PWLB borrowing remains fairly high. This makes borrowing more expensive because of this some forward planning has been undertaken to try and secure the best rates available for borrowing and investing. Also, to ensure some form of liquidity, advantage has been taken of good return on investment rates using Money Market Funds (MMF).

Table 5 below summarises the Council's investments as of 30 September 2025.

**Table 5 – Investments at 30 September 2025**

Counterparty	Type	Principal £'000	Interest Rate	Maturity	Colour Code (Based on Credit Information)
Bank of Scotland Call A/C	Liquidity	811	1.65%	N/A	Orange
Bank of Scotland Treasury A/C	Liquidity	100	3.77%	N/A	Orange

Counterparty	Type	Principal £'000	Interest Rate	Maturity	Colour Code (Based on Credit Information)
Money Market Fund (MMF)- Federated Prime Rate Class 3	Liquidity	3,650	4.08%	N/A	AAA
Money Market Fund (MMF)- Aberdeen Liquidity Sterling Fund	Liquidity	10,000	4.07%	N/A	AAA
MMF VNAV - Federated Cash Plus	Liquidity	30	4.10%	N/A	AAA
		<b>14,591</b>			

#### 4.1 **Review of Compliance with Treasury and Prudential Limits for 2025/26**

- The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Table 6 below shows that the 2025/26 year-end projected total debt position of £610.618m is below the projected CFR of £687.941m which indicates that external borrowing is only being used for capital purpose.

**Table 6 – Debt position**

	<b>2024/25 Actual £'000</b>	<b>2025/26 Borrowing as @ 30/9/25 £'000</b>	<b>2025/26 Projection £'000</b>
Long Term Borrowing – PWLB	279,235	283,787	360,339
Long Term Borrowing - LOBO	33,200	33,200	33,200
Long Term Borrowing - Market	49,000	44,000	25,000
Short Term Borrowing – Market	71,500	70,500	70,500
<b>External Debt</b>	<b>432,935</b>	<b>431,487</b>	<b>489,039</b>
Other Long-Term Liabilities	126,607	121,579	121,579
<b>Total Debt</b>	<b>559,542</b>	<b>553,066</b>	<b>610,618</b>
<b>Capital Financing Requirement (CFR)</b>	623,441	687,941	687,941
<b>(Under) Over borrowed</b>	<b>(63,899)</b>	<b>(134,875)</b>	<b>(77,323)</b>

- A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing

need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government in Scotland Act 2003.

Table 7 below shows the authorised limit amended from the original 2025/26 indicator.

**Table 7 – authorised limit**

<i><b>Prudential Indicator – Authorised Limit for External Debt</b></i>	<i><b>2025/26 Original Indicator £'000</b></i>	<i><b>2025/26 Revised Indicator £'000</b></i>
Borrowing	570,000	565,000
Other Long-Term Liabilities	175,000	170,000
<b>Authorised Limit</b>	<b>745,000</b>	<b>735,000</b>

### 3. **Liability Benchmark**

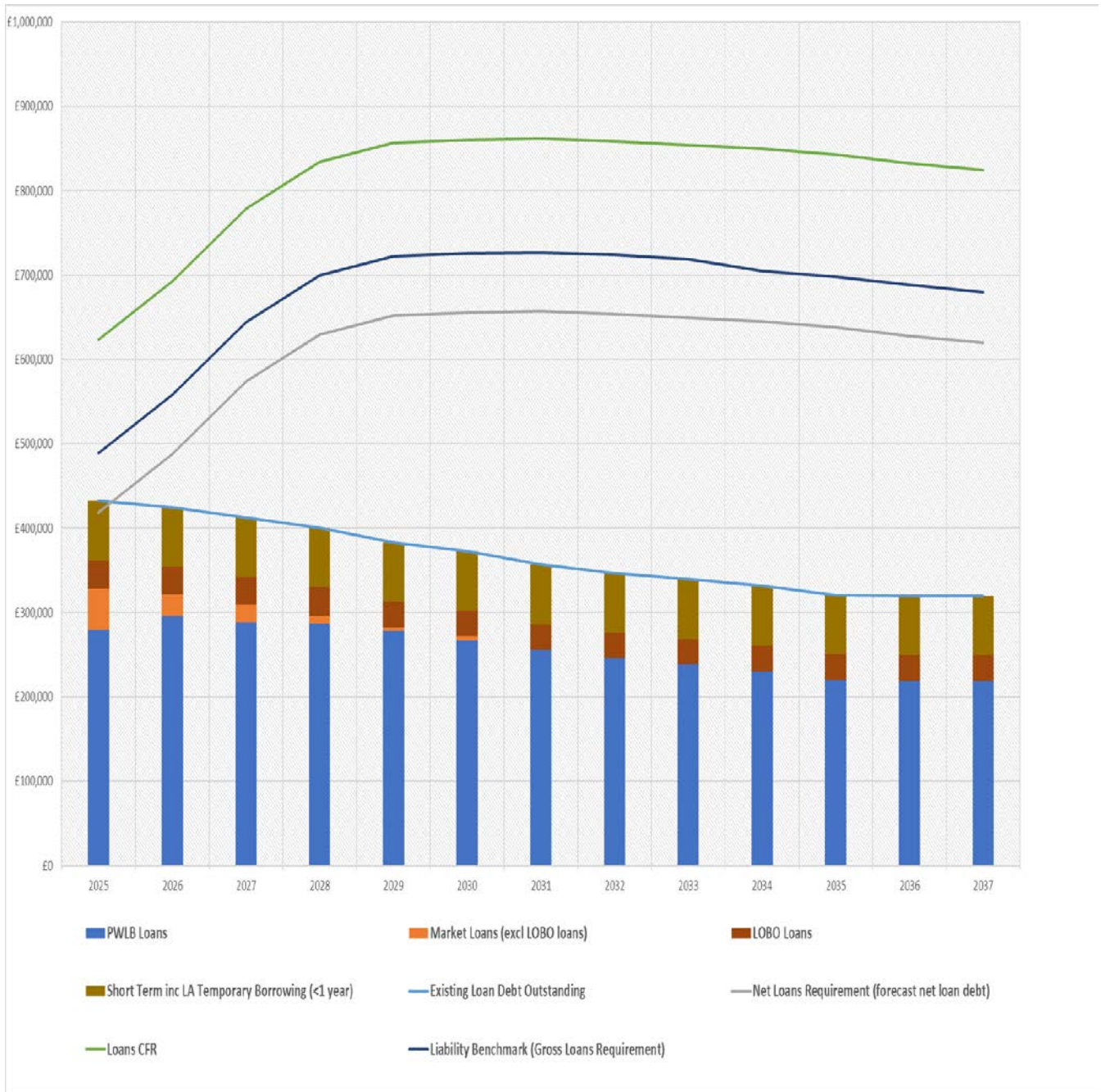
The third prudential indicator for 2025/26 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

*CIPFA notes on page 13 of the 2021 TM Code: “The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). The treasury strategy should explain how the treasury risks inherent in these mismatched positions will be managed.”*

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority’s existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments. (Note only approved prudential borrowing is included).
3. **Net loans requirement:** this will show the Authority’s gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

The graph below shows the projected movement in the liability benchmark.



### 5.1 Borrowing in Advance of Need

The Local Government Investment Regulations (Scotland) 2010 requires the Council to set out its strategy and approach to borrowing in advance of need, which is defined as any borrowing undertaken which will result in the total external debt exceeding the CFR for the following twelve-month period. The Council has not borrowed in advance of need during the six months to 30 September 2025

### 6.1 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better

opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

## **7.1. Other Current Issues**

### **7.1.1 Sources of Borrowing – regarding ESG (Environmental, Social and Governance)**

While the prime considerations when investing surplus funds are security liquidity and yield, it is recognised that consideration must be given to other factors such as climate change, environmental, social, and good governance (ESG), to support a policy of sustainability. For these considerations to work effectively any policy should be derived on a corporate level, at which point the finance team can implement for treasury investing. Most highly rated lenders will have an ESG policy in place, which can be reviewed periodically and form part of the counterparty selection process for treasury investments. We do not currently have investments in Fixed Term ESG deposit accounts as current rates are not favourable. However, rates are checked regularly, and consideration is given to ESG when investment decisions are taken.

### **7.1.2 Changes to Accounting Standards for Leasing Arrangements**

The change to accounting standards to IFRS16 for leasing arrangements requires that all leasing contracts are held on the balance sheet. This is the change from the previous accounting standard IAS17. This means that the Capital Financing Requirement figures (CFR) and the Operational Boundaries have increased to reflect the change in accounting policy and the year end accounts for 2024/25 were prepared on this basis.