Classification: Confidential

Treasury Management Update

Quarterly Report

30TH JUNE 2026

MUFG Corporate Markets
A division of MUFG Pension & Market Services

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Treasury Management Update

Quarter Ended 30th June 2026

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Economics update

- The first quarter of 2026/27 (April to June) saw:
  - The first sign that the economy is starting to falter with a 0.1% m/m fall in real GDP in April
  - The 3myy rate of average earnings growth excluding bonuses stagnate at 3.4% in April
  - CPI inflation stuck at 2.8% in May, with a rise in core CPI inflation from 2.5% to 2.6%
  - The Bank of England leave interest rates unchanged at 3.75% as the economy remains weak
  - The 10-year gilt yield fluctuate between 5.18% and 4.69%, ending the quarter at 4.76%
- The economy performed well in the early stages of the energy shock, with GDP rising by a strong 0.6% q/q between January and March. But that will likely be the high point of the year. Indeed, the 0.1% m/m fall in real GDP in April was the first decline since August 2025 and brought the first signs that the economy is starting to crack.
- Services output contracted by 0.2% m/m in April and activity fell in eight of the 14 services sub-sectors, suggesting the sector is bearing the brunt of the Iran war fallout. Consumer-facing services recorded the biggest monthly fall in output since May 2025, causing the %3m/3m growth rate to ease from 0.9% in March to 0.6% in April, as households cut back on non-energy spending.
- Despite a weak headline number, digging deeper there were some signs of strength. Manufacturing output rose by 0.4% m/m but that was probably in part due to a temporary prop from precautionary stock building. Looking ahead, despite the announced ceasefire of the conflict in the Middle East, Capital Economics expect elevated prices to erode the real spending power of households and businesses, leaving growth to stagnate in Q2 and Q3 this year.
- The fall in the composite Purchasing Manager Index (PMI) from 49.7 in May to a 14-month low of 49.4 in June was entirely driven by services activity. Indeed, the services activity PMI fell from 49.3 to a 41-month low of 48.7 due to rising costs and political uncertainty weighing on consumer confidence. That weakness was partly offset by a rise in the manufacturing output for a third consecutive month but that was due to fears of shortages causing businesses to build stocks. Overall, the composite PMI suggests the strong start to the year will be followed by tepid growth at best. Various prices balances have edged lower more recently as falling oil prices feed through to an easing in cost pressures. While these prices remain too high for the Bank of England, it is clear the upward pressure on prices is easing.,
- With most of the 1.2% m/m rise in retail sales volumes in May driven by promotions and unusually warm weather, this surprisingly strong month is unlikely to be the start of a sustained upturn. Admittedly, the recent fall in oil prices should boost fuel sales as drivers become less cost sensitive, but the GfK measure of consumer confidence in June still points to total sales volumes falling by about 2.0% m/m in June. Moreover, while the war could be over, the expected further rises in inflation and unemployment yet to come through seem consistent with the annual growth rate of retail sales volumes easing from +3.2% in May to about -1.0 this year.
- Public sector net borrowing of £23.3bn in May was above the OBR's forecast of £17.7bn and £5.4bn above May's figure last year. The weak performance in May was mainly due to the strength of government spending, as the rise in Retail Prices Index inflation in March meant debt interest payments were £4.1bn higher than in May 2025, £3.3bn higher than the OBR anticipated in March and the highest in any May on record. Tax receipts of £85.5bn were also below OBR predictions.

- The weak performance in May has come before the full impact from the energy price shock hits. The combination of further energy price support, higher inflation and the weakening economy may cause borrowing to rise from 4.2% of GDP in 2025/2026 to 4.4% in 2026/2027, above the OBR's March forecast of 3.6%. If Chancellor Reeves is replaced, there is scope for borrowing to be even higher.
- The first quarter of 2026 saw significant weakening of the labour market. While the latest PAYE employment figure for May saw a 2,000 rise, that barely offset the big 53,000 drop in April and meant employment was still 64,000 (0.2%) lower than before the start of the Iran war and 0.4% lower than a year ago. Moreover, the number of job vacancies on the single-month measure fell for the fourth month in a row in May and the claimant count saw the largest monthly rise since July 2024.
- In addition to some signs of stabilisation in the labour market figures, the recent easing in pay growth appears to have stalled. Despite some further easing in the private sector pay below the 3.25% that the Bank of England considers consistent with CPI inflation falling to target, the 3myy growth rate of average earnings stayed at 4.4% in April. Excluding bonuses, it stayed at 3.4% whilst regular public sector pay growth accelerated from 4.8% 3myy to 5.1% 3myy.
- Like wage growth, CPI inflation held steady in May at 2.8%. There wasn't much support to inflation from energy effects. The 0.3% m/m fall in fuel prices was smaller than the 1.6% m/m drop last May and meant fuel inflation rose only a bit from 23.0% to 24.6%. After rising to 129.6%, heating oil inflation eased to 95.6%. And the 13.5% rise in the Ofgem utility price cap, which will add 0.6 percentage points (ppts) to CPI inflation, doesn't take effect until 1st July. With food & drink inflation easing to its lowest rate since late 2024, higher energy costs do not seem to be boosting other items of the CPI just yet.
- The delayed rise in utility prices and the lagged indirect energy effect will lift CPI inflation over the next nine months, perhaps to around 3.6%. Even so, the weak labour market and soft economic backdrop will prevent second-round effects, allowing inflation to fall to 2.0% next year.
- There were two monetary policy committee (MPC) meetings in Q2 2026 where Bank rate was yet again left unchanged at 3.75%. Even so, the tone in recent meetings has been increasingly hawkish, with two MPC members voting for a rate hike in June compared to just one in April. While energy prices may be falling, the MPC won't want to unwind some of the tightening in financial conditions priced into the markets. And while there is quite a difference between this energy shock and the one following the Russia-Ukraine war in 2022, the Bank of England will want to steer clear of allegations of taking too long to act. Nevertheless, we suspect a weak labour market, and soft activity will keep rates at 3.75% this year, with cuts thereafter leaving Bank rate at 3.5% by the end of next year and 3.25% by the spring of 2028.
- April to June brought more volatility for 10-year Gilt yields. After ending March at 4.92%, the 10-year Gilt shot up to 5.18% in mid-May, its highest level since 2008. While that largely reflects the surge in energy prices, sticky domestic inflation concerns and a rising UK political risk premium also put some upward pressure on the yield at the margin.
- Since, positive developments in the US-Iran conflict has led to a fall in oil and gas prices. The 10-year Gilt yield has generally traced that move, falling back to 4.7% in June. This rally in Gilts has also been supported by the Bank of England keeping rates on hold and some reassurance on the fiscal outlook from the likely replacement of Starmer's leadership with Burnham's. Indeed, while financial markets had been pricing in around four policy rate hikes over the next year or so, they are now pricing in just one rate hike over the coming year. While the full inflationary impact of the war in Iran is yet to be felt, we still think a weaker labour market and subdued growth will prevent second-round effects.
- The FTSE 100 has been slowly gaining back some of the losses of the previous quarter. While the index dropped from an all-time high of around 10,900 in late February to 10,176 by the end of March as the ongoing war weighed on sentiment, the FTSE 100 regained some ground by the end of June. Indeed, the index has increased by around 3.3% over the quarter, rising from 10,176 to 10,516 and volatility has returned to historical norms.
- Nonetheless, with stocks in the energy sector generally providing negative returns amid falling energy prices, the large weighting of the sector in the FTSE 100 has led the index to underperform most peers in common currency terms. But returns from stocks in other sectors, particularly financials, helped to offset some of this weakness. Looking ahead, Capital Economics expect tech sectors to outperform as enthusiasm for AI builds, potentially pushing the FTSE 100 index up above 11,000 before a bursting of the AI bubble causes the index to fall back to 10,500 in 2027.

MPC meetings: 30th April & 18th June 2026

- There were two Monetary Policy Committee (MPC) meetings this quarter. The first, on 30th April, saw Bank Rate stay at 3.75% with an 8-1 split vote in favour of that decision. One member dissented and voted for a 0.25% increase to 4%, citing inflation concerns, something generally noted as a primary concern within the minutes and reflecting heightened caution due to potential energy supply shocks caused by the Middle East conflict.
- By the time the MPC next met on 18th June, the hawkish split widened, with two members voting to raise rates to 4%. However, with headline CPI inflation sticking at 2.8%, the market's sentiment that there may, but only may, be a need for a single rate increase over the next few months seems to be aligned to the way the MPC is thinking and is also similar to our own view of rates staying at 3.75% but with upside risk.

2. Interest rate forecasts

The Council has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

The latest forecast was updated on 25th March 2026:

MUFG Corporate Markets Interest Rate View 25.03.26												
	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	3.90	3.80	3.80	3.70	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.90	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.60	4.50	4.40	4.20	4.20	4.00	4.00	3.80	3.80	3.80	3.80	3.80
5 yr PWLB	5.00	5.00	4.90	4.80	4.60	4.40	4.20	4.20	4.10	4.10	4.10	4.10
10 yr PWLB	5.50	5.50	5.40	5.30	5.10	4.90	4.70	4.70	4.60	4.60	4.60	4.60
25 yr PWLB	6.00	6.00	5.90	5.80	5.60	5.40	5.20	5.20	5.20	5.20	5.10	5.10
50 yr PWLB	5.80	5.80	5.70	5.50	5.40	5.20	5.00	5.00	5.00	5.00	4.90	4.90

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The MUFG Corporate Markets forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

The forecast has proved robust over the period since the end of March, setting out a central view that short and long-dated interest rates will start to fall once it is evident that the Bank of England will not have to contend with second-round inflationary effects emanating from the conflict in the Middle East. Nonetheless, the longer dated part of the forecast also reflects the poor state of the public finances and the uncertainty pertaining to the likely Prime Ministership of Andy Burnham from 20th July.

Overall, our central view is that monetary policy is sufficiently tight for the likely uptick in CPI inflation through the remainder of 2026 if growth remains tepid. We forecast the next reduction in Bank Rate to be made in H2 2027, with Bank Rate falling to a low of 3.25% by the start of 2028.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2026/27, which includes the Annual Investment Strategy, was approved by the Council on 26/02/26. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seeking out value available in periods up to 24 months.

Creditworthiness.
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices
For UK and international banks, these have remained low, and prices are not misaligned with other creditworthiness indicators, such as credit ratings. **Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return.**

Investment balances
The average level of funds available for investment purposes during the quarter was **£35.5m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

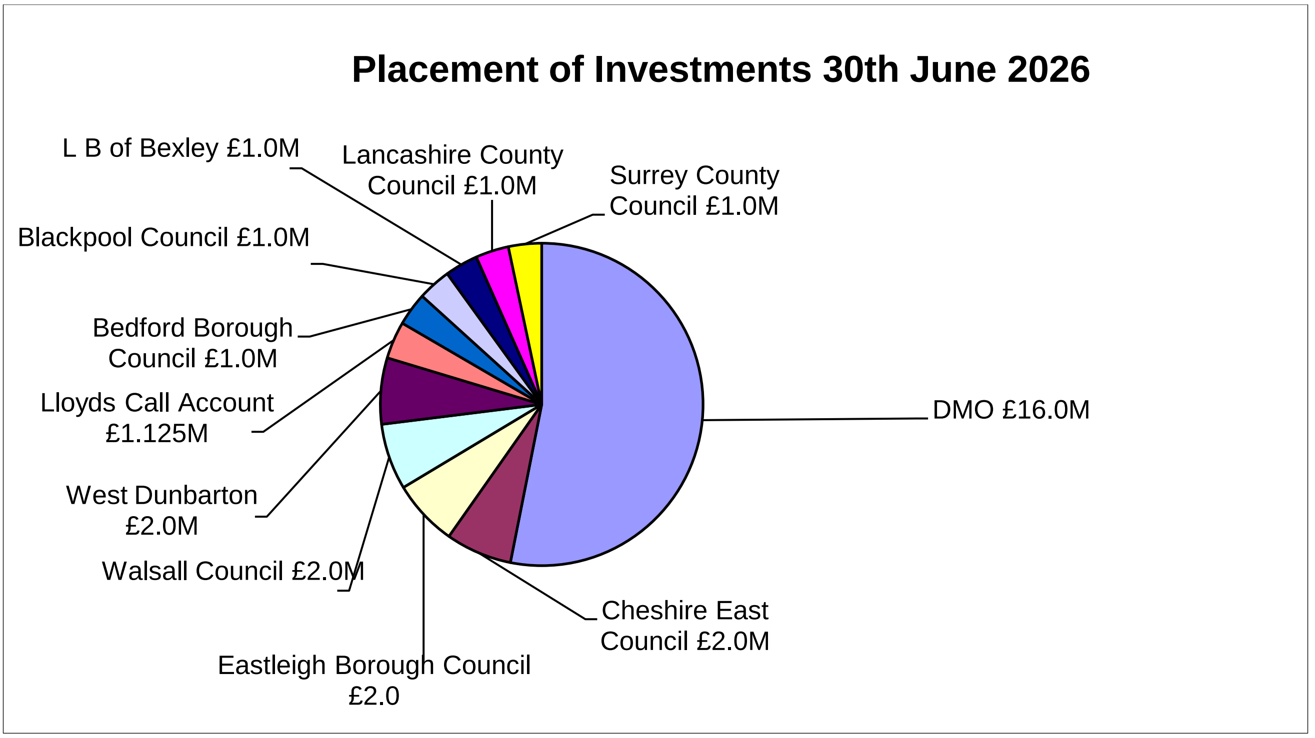
	Amount £	Average Interest Rate %
Managed By NHC		
Banks	1,125,000	3.51
Building Societies	0	0
Local Authorities	13,000,000	4.22
Government	16,000,000	3.76
Total	**30,125,000**	**4.11**

In percentage terms, this equates to:

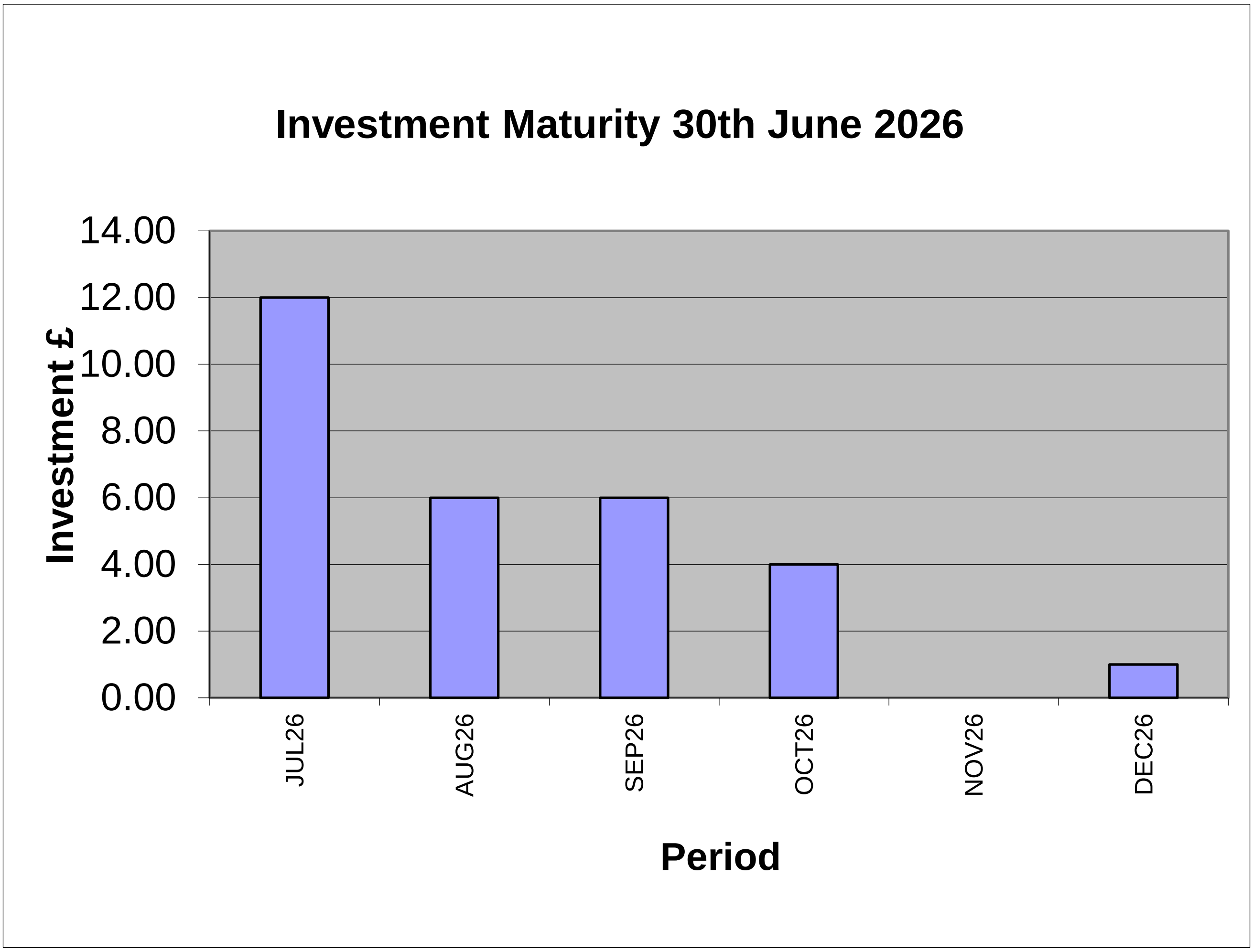
	Percentage
Government	53
Banks	4
Local Authorities	43
Building Societies	0

The approved 26/27 strategy is that no more than 50% of investments should be placed with Building Societies and Property Funds with a maximum value of £11M. The value at 30 June was zero.

The pie chart below shows the spread of investment balances as at 30 June 2026. This is a snapshot in time that demonstrates the diversification of investments.

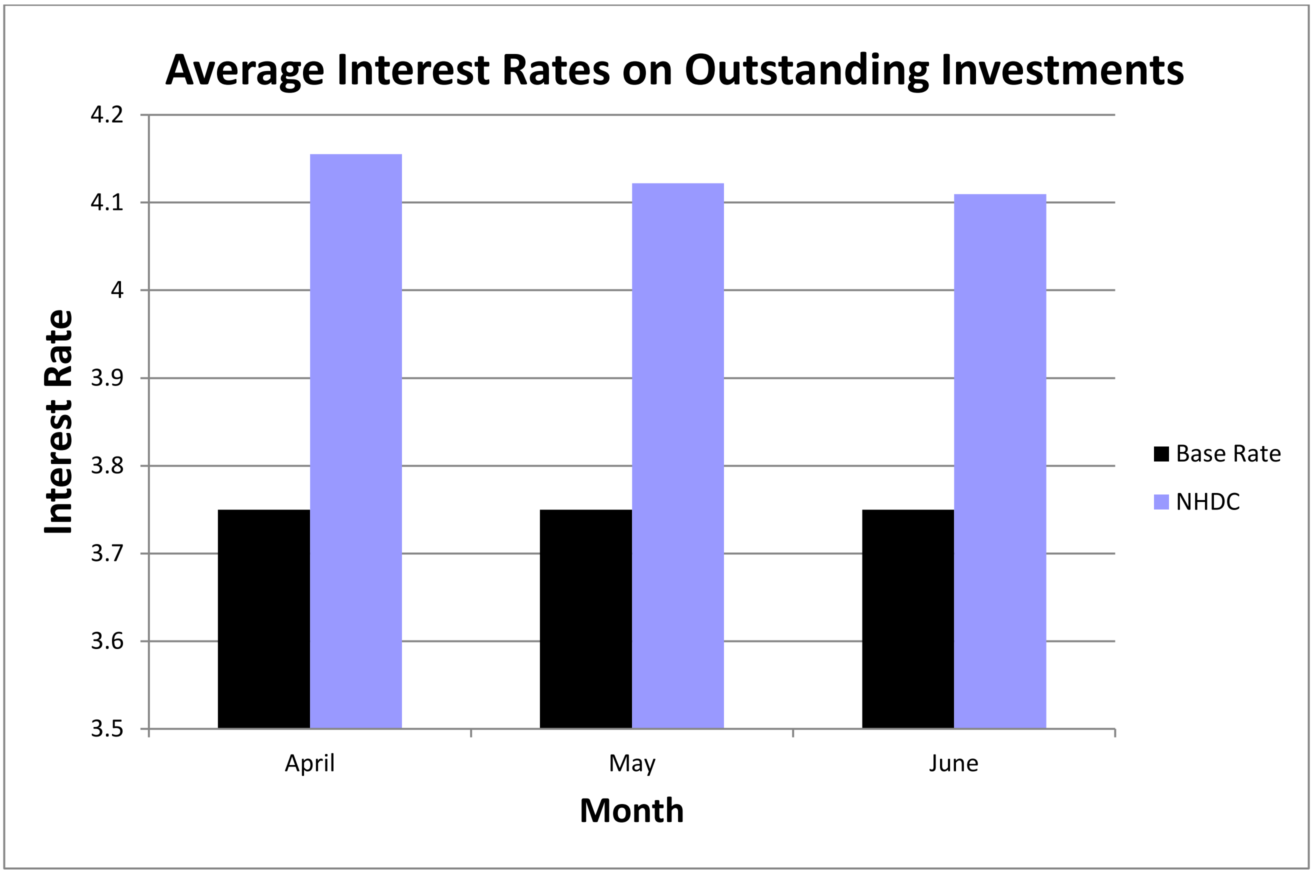


The chart below shows the Council’s investment maturity profile.



£1.125M was held in a Lloyds bank Call Account on 30/06/26.

The graph below shows the average rate of interest on outstanding investments at 30 June.



Approved limits
Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2026.

4. Borrowing

No borrowing was undertaken during the quarter ended 30 June 2026.
It is anticipated that new external borrowing will be undertaken during this financial year but this is dependant on the spend in the Capital Programme.

Loans Outstanding at 30 June 2026:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£305k	10.96

Estimated outstanding debt:

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m *	Less: Internal Borrowing £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
31st March 2026 (Forecast)	15.472	0.282	15.167	0.587	26.0	31.0
31st March 2027 (Forecast)	22.675	0.248	22.385	0.538	29.0	34.0
31st March 2028 (Forecast)	23.736	0.213	23.461	0.488	29.0	34.0
31st March 2029 (Forecast)	27.214	0.178	26.949	0.443	32.0	37.0
31st March 2030 (Forecast)	31.004	0.143	30.747	0.400	35.0	40.0

* Comprises the finance lease relating to Letchworth Multi-storey car park

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing. The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken.

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However, these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators.

Maturity Period	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years to 20 years	0	100
20 years and above	0	100

The Prudential Indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

Year	Estimated cost of borrowing £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2026/27	1.481	27.713	5.344
2027/28	1.572	26.740	5.879
2028/29	1.458	22.073	6.605
2029/30	1.720	22.377	7.686
2030/31	1.889	22.494	8.398

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

Year	Estimated cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing Costs £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2026/27	1.481	0.986	0.495	27.713	1.786
2027/28	1.572	0.322	1.250	26.740	4.675
2028/29	1.458	0.259	1.199	22.073	5.432
2029/30	1.720	0.144	1.576	22.377	7.043
2030/31	1.889	0.144	1.745	22.494	7.758

5. Debt rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2026, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2026/27. The Director of Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

APPENDIX 1: Prudential and Treasury Indicators for 2026-27 as of 30th June 2026

Treasury Indicators	2025/26 Budget £'000	30.06.25 Actual £'000
Authorised limit for external debt	31,000	305
Operational boundary for external debt	26,000	305
Gross external debt	5,782	305
Investments	14,600 Average for year	30,125
Net borrowing	-8,818	-29,820
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	15	15
12 months to 2 years	15	15
2 years to 5 years	25	25
5 years to 10 years	0	0
Over 10 years	250	250
Upper limit for principal sums invested over 365 days	5,000	0

Prudential Indicators	2025/26 Budget £'000	30.06.25 Actual £'000
Capital expenditure	14,093	822 (excluding outstanding accruals)
Capital Financing Requirement (CFR)	21,931	15,908
In year borrowing requirement	3,171	746

Ratio of finacing costs to net revenue stream	3.37%	-0.63%