



Council

Monday, 29 June 2026

Subject: Recommendation from Thriving Council Committee – 25th June 2026 - Annual Treasury Management Report 2025/26

Report by:

Director of Corporate Services (S151)

Contact Officer:

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Executive Summary:

To report on Annual Treasury Management activities and prudential indicators for 2025/26 in accordance with the Local Government Act 2003.

The Council are required to receive as a minimum the following reports;

- An annual treasury strategy in advance of the year (3 March 2025)
- A mid-year, (minimum), treasury update report (26 January 2026)
- An annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, Thriving Council Committee (Previously Corporate Policy and Resources) has received quarterly management update reports.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports either the Governance and Audit Committee who provide scrutiny of the Treasury Management Strategy and the Thriving Council Committee (Previously Corporate Policy and Resources) who monitor in year performance and mid-year updates. Member training on treasury management issues was undertaken during the year in order to support members' scrutiny role.

Appendices to Report

- Appendix 1: Economy and Interest Rates
- Appendix 2: Approved countries for investments as of 1st April 2026

RECOMMENDATION(S):

That Council accept the recommendation from the Thriving Council Committee and approve the Annual Treasury Management Report and actual Prudential Indicators 2025/26.

1. Introduction

During 2025/26, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2024/25 Actual £000	2025/26 Original £000	2025/26 Actual £000
Capital expenditure	17,398	13,383	7,348*
Capital Financing Requirement:	36,085	35,251	35,250
Of which – Investment Properties	19,099	18,661	18,661
Gross borrowing (External)	24,000	24,000	24,142
Investments			
• Longer than 1 year	2,000	2,000	1,000
• Under 1 year	19,780	11,000	18,645
• Total	21,780	13,000	19,645
Net borrowing	2,220	11,000	4,497

**Includes £142k of new leases*

Other prudential and treasury indicators are to be found in the main body of this report.

The Director of Corporate Services (S151 Officer) also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2. **Capital Expenditure and Financing**

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- 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, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was funded.

Capital and Financing	2024/25 Actual £000's	2025/26 Original Budget* £000's	2025/26 Actual £000's
Capital expenditure	17,398	13,383	7,348
Financed in year by:			
Capital Receipts	119	296	446
Capital grants/contributions	16,827	4,548	4,685
Revenue	18	7,970	1,917
Leases	0	0	142
S106	434	426	158
Prudential Borrowing	0	143	0

*Including 2024/25 Carry Forwards

3. The Council's overall borrowing need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2025/26 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLb], or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2025/26 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2025/26 on 3 March 2025.

The Council has retained a Valuation Volatility Reserve. This Reserve will be utilised to mitigate any loss on the investment upon sale of the assets if the capital receipt does not meet the debt outstanding. The balance on this reserve as at 31 March 2026 is £0.733m. However, now that MRP will be charged annually, thus reducing outstanding borrowing, the Reserve is being reduced over the Medium-Term Financial Plan.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

Capital Financing Requirement (CFR)	31 March 2025 Actual £000's	31 March 2026 Actual £000's
Opening balance	37,022	36,085
Add adjustment for Prudential Borrowing	0	0
Add adjustment for Leases	0	142
Less MRP/Finance Lease Repayments	(937)	(977)
Less VRP	0	0
Closing balance	36,085	35,250
<i>Movement on CFR</i>	<i>(937)</i>	<i>(835)</i>

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2024/25) plus the estimates of any additional capital financing requirement for the current (2025/26) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2025 Actual £000's	2025/26 Budget £000's	31 March 2026 Actual £000's
Gross Borrowing Position	24,000	24,000	24,000
Leases	0	0	142
Total Debt	24,000	24,000	24,142
CFR	36,085	35,251	35,250
(Under)/Over Funding of CFR	(12,085)	(11,251)	(11,108)

The Authorised Limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2025/26 the Council has maintained gross borrowing within its authorised limit.

The Operational Boundary – the operational boundary 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.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2025/26 £000's
Authorised limit	40,000
Maximum gross borrowing position during the year	24,142
Operational boundary	35,000
Average gross borrowing position	19,890
Financing costs as a proportion of net revenue stream	8.58%

4. Treasury Position as at 31 March 2026

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2025/26 the Council's treasury, (excluding borrowing and finance leases), position was as follows:

TABLE 1	31 March 2025 Principal £000's	Rate/ Return	Average Life yrs.	31 March 2026 Principal £000's	Average Rate/ Return	Average Life yrs.
Fixed rate funding:						
-PWLB	14,000	2.25%	20	14,000	2.25%	19
-Other LA	10,000	5.25%	0.2	10,000	4.32%	0.6
-Lease	0			142	6.34%	2
Total debt	24,000		20.2	24,142		19.6
CFR	36,085		-	35,250	-	
Over / (under) borrowing	(12,085)	-	-	(11,108)	-	
Investments:						
	21,780		-	19,645		-
Total investments	21,780	4.96%	-	19,645	4.22%	-
Net debt	2,220	-	-	4,355	-	-

Under borrowing reflects Internal Borrowing from the Council's cash balances.

The maturity structure of the debt portfolio was as follows:

	31 March 2025 Actual £000's	31 March 2026 Actual £000's	% Portfolio
Less than 5 years	13,000	13,142	54.4%
5 years and within 10 years	0	0	0
10 years and within 20 years	2,500	2,500	10.4%
20 years and within 30 years	0	0	0
30 years and within 40 years	2,500	2,500	10.4%
40 years and within 60 years	6,000	6,000	24.8%

£14.0m of loans have been undertaken with the Public Works Loans Board at fixed rates on a maturity basis as detailed above.

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

The Council's capital investments and their subsequent financing costs as a % of the Net Revenue Stream is detailed below along with the impact on Council Tax (all other things being equal). The indicators reflect the Borrowing Strategy,

that the Council will only borrow where schemes are able to provide sustained support for the costs of borrowing and reflect new income generated is in excess of the cost of borrowing.

	31 March 2025 Actual	31 March 2026 Actual
Ratio of Financing Costs to Net Revenue Stream	10.12%	8.58%
Increase/(Reduction) in Council Tax	£26.37	-£10.16

Investments

Investment Policy – the Council’s investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 2 March 2025. This policy sets out the approach for choosing investment 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.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources*	31 March 2025 £000’s	31 March 2026 £000’s
General Fund Balance	4,478	4,434
Earmarked reserves	19,558	20,952
Usable capital receipts	1,480	1,109
Capital Grants Unapplied	3,070	3,609
Total	28,586	30,104

*Subject to external audit of the 2025/26 accounts

Investments held by the Council

- The Council maintained an average balance of £18.173m of internally managed funds.
- The internally managed funds earned an average rate of return of 4.221%.
- The comparable performance indicator is the Sterling Overnight Index Average (SONIA) which was a rate of 4.01% as at 31 March 2026.

- Total investment income was £0.767m compared to a budget of £0.519m.

Types of investments	31 March 2025 Actual £000	31 March 2026 Actual £000
Deposits with banks and building societies	500	200
Money Market Funds	19,280	12,445
Other Local Authorities	0	6,000
Property funds	2,000	1,000
TOTAL TREASURY INVESTMENTS	21,780	19,645

Non-Treasury Investments

YEAR OF ACQUISITION	Commercial Property Portfolio	Sector	Total Acquisition Cost £'m
2017/18	Bradford Road, Keighley	Hotel	2.490
2018/19	43 Penistone Road, Sheffield	Leisure	2.700
2018/19	Unit 7 Drake House, Sheffield	Manufacturing	3.175
2018/19	5 Sandars Road, Gainsborough	Manufacturing	6.470
2018/19	Heaton Street, Gainsborough	Retail	1.150
2019/20	Wheatley Road, Doncaster	Commercial Unit	5.681
	TOTAL PORTFOLIO		21.666

The investments are held on the balance sheet at their Fair Value (*the price expected to be received in current market conditions*). The Fair Value as at 31 March 2026 for the Commercial Property Portfolio is £22.127m.

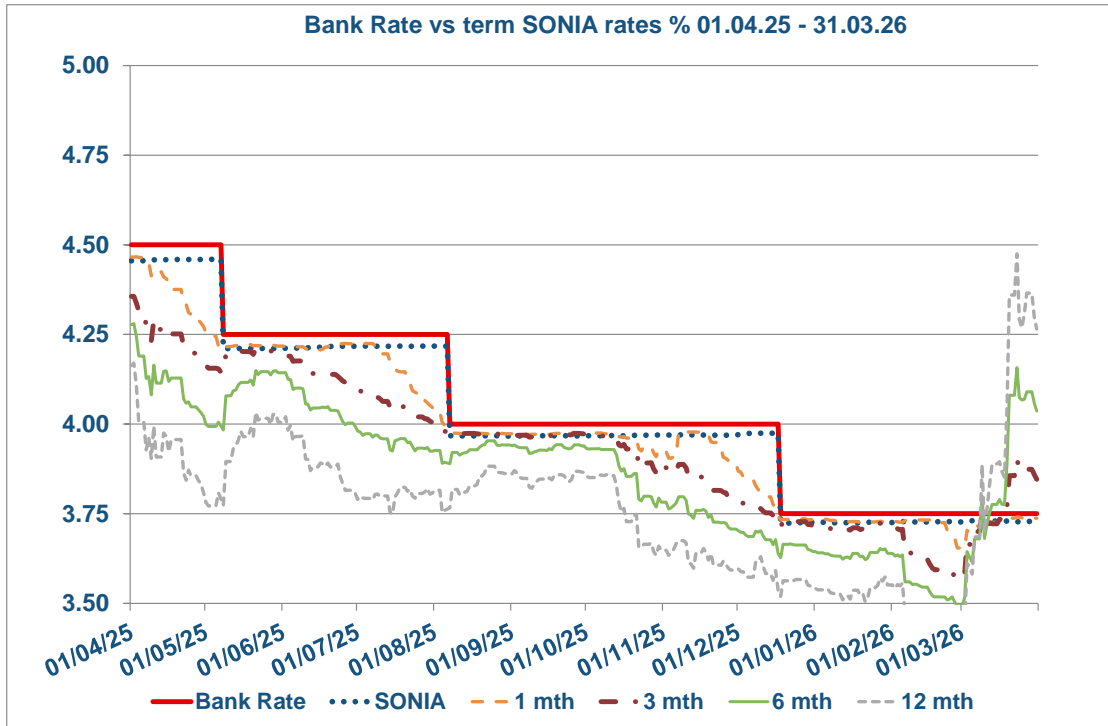
This Commercial Property Portfolio is generating a gross yield of 7.70% and £1.704m in income relevant to the financial year.

The Council mitigates any loss on investment by holding a Valuation Volatility Reserve. The balance on this reserve as at 31 March 2026 is £0.733m. However, now that MRP will be charged annually, thus reducing outstanding borrowing, the Reserve is being reduced over the Medium-Term Financial Plan.

5. The Strategy for 2025/26 (Information supplied by MUFG)

Investment strategy and control of interest rate risk

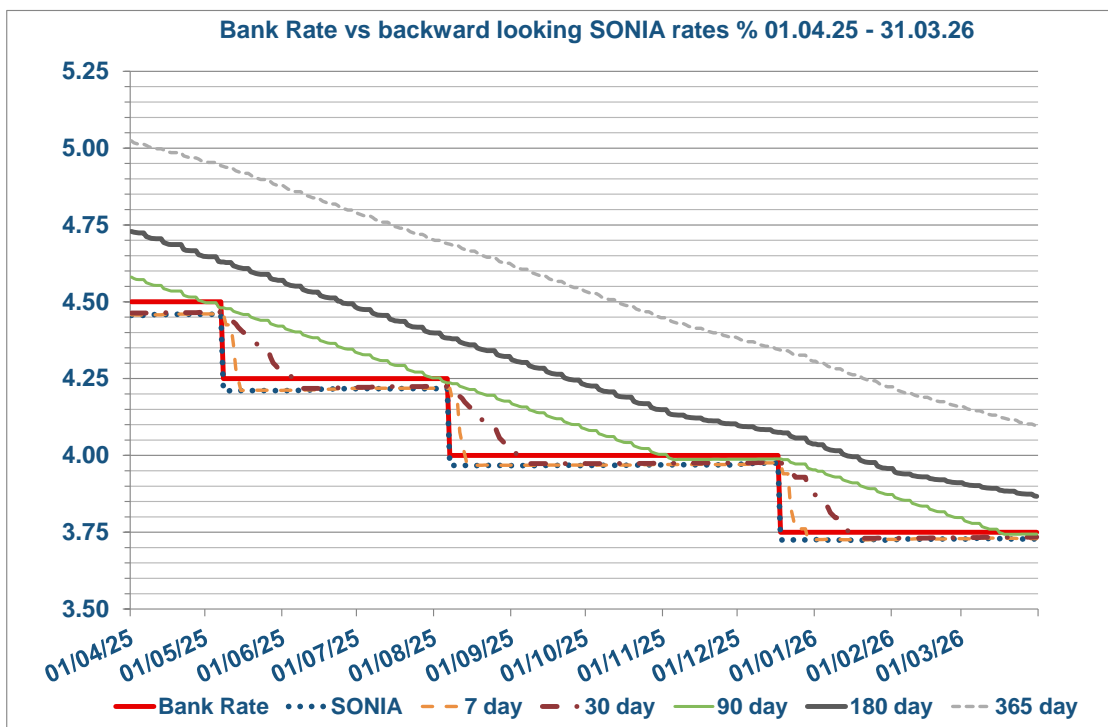
Investment Benchmarking Data – Sterling Overnight Index Averages (Term)
2025/26



FINANCIAL YEAR TO QUARTER ENDED 31/03/2026

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	4.50	4.46	4.47	4.36	4.28	4.47
High Date	01/04/2025	07/05/2025	03/04/2025	02/04/2025	02/04/2025	23/03/2026
Low	3.75	3.72	3.65	3.57	3.49	3.40
Low Date	18/12/2025	22/12/2025	27/02/2026	27/02/2026	27/02/2026	27/02/2026
Average	4.04	4.01	3.98	3.94	3.87	3.77
Spread	0.75	0.74	0.81	0.79	0.79	1.08

Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2025/26



FINANCIAL YEAR TO QUARTER ENDED 31/03/2026							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.50	4.46	4.46	4.47	4.58	4.73	5.02
High Date	01/04/2025	07/05/2025	28/04/2025	06/05/2025	01/04/2025	01/04/2025	01/04/2025
Low	3.75	3.72	3.73	3.73	3.74	3.87	4.09
Low Date	18/12/2025	22/12/2025	22/01/2026	21/01/2026	18/03/2026	31/03/2026	31/03/2026
Average	4.04	4.01	4.02	4.05	4.13	4.26	4.55
Spread	0.75	0.74	0.74	0.74	0.84	0.86	0.93

Investment returns remained robust throughout 2025/26 despite Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and at the end of March the yield curve had turned positive, reflecting inflation concerns emanating from the on-going conflict in the Middle East.

Bank Rate reductions of 0.25% occurred in May, August and December, bringing the headline rate down from 4.50% to 3.75%. Two of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

As of early April 2026, market sentiment has been heavily influenced by the Middle East conflict. Commentators anticipate a growing risk of inflation, meaning interest rates will not be cut for some time, and may increase to counteract inflationary pressures arising from steepening energy costs. Growth will also be impacted in many regions of the world. UK GDP is projected by the Office for Budget Responsibility (3 March 2026) to be 1.1% in 2026 before picking up to 1.6% in 2027 and 2028. But the likelihood is that there is downside risk to this forecast given events in the Middle East through March and still on-going.

Looking back through 2025/26, investors were able to achieve returns generally in a range of 4.5% - 5% for periods ranging from 1 month to 12 months in the spring of 2025. By the end of March 2026 deposit rates were somewhat volatile, regaining some traction as the Middle East conflict suggested energy driven inflation may lead to higher interest rates than would otherwise have been the case. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of "laddered investments" paid off.

Heading into 2026/27, UK inflation is likely to increase to over 4% in the coming months as oil prices, for example, remain close to \$100 per barrel, over 50% higher than before the Middle East conflict started.

Borrowing strategy and control of interest rate risk

During 2025/26, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as near-term investment rates have generally been lower than medium to long-term borrowing costs. The latter are expected to fall a little through 2026 and 2027 in the light of economic growth concerns and the eventual dampening

of inflation. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

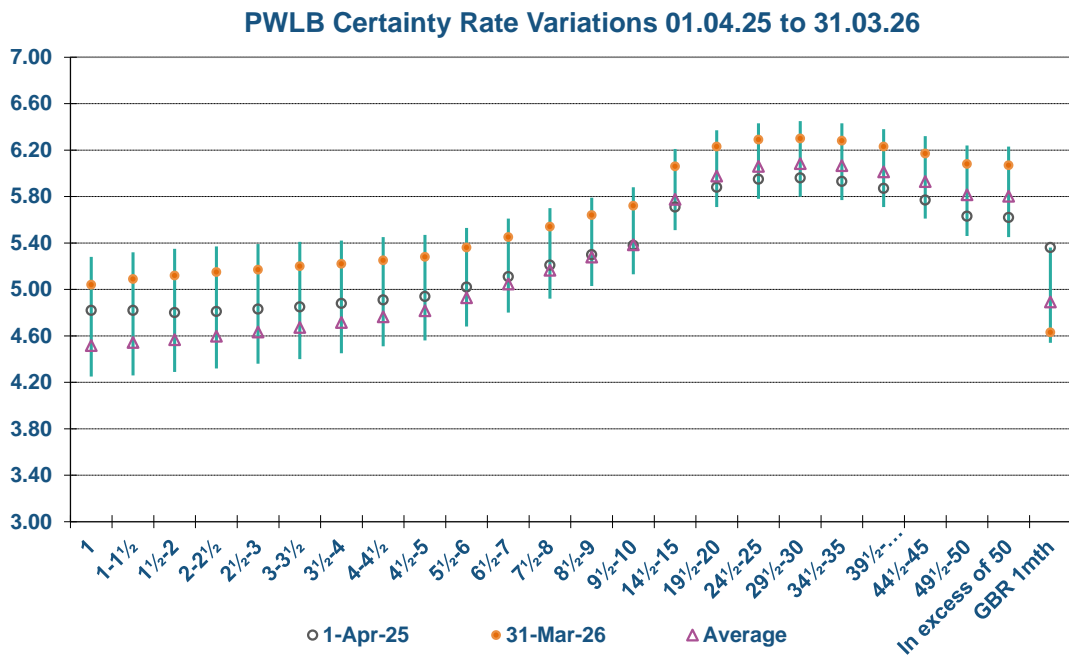
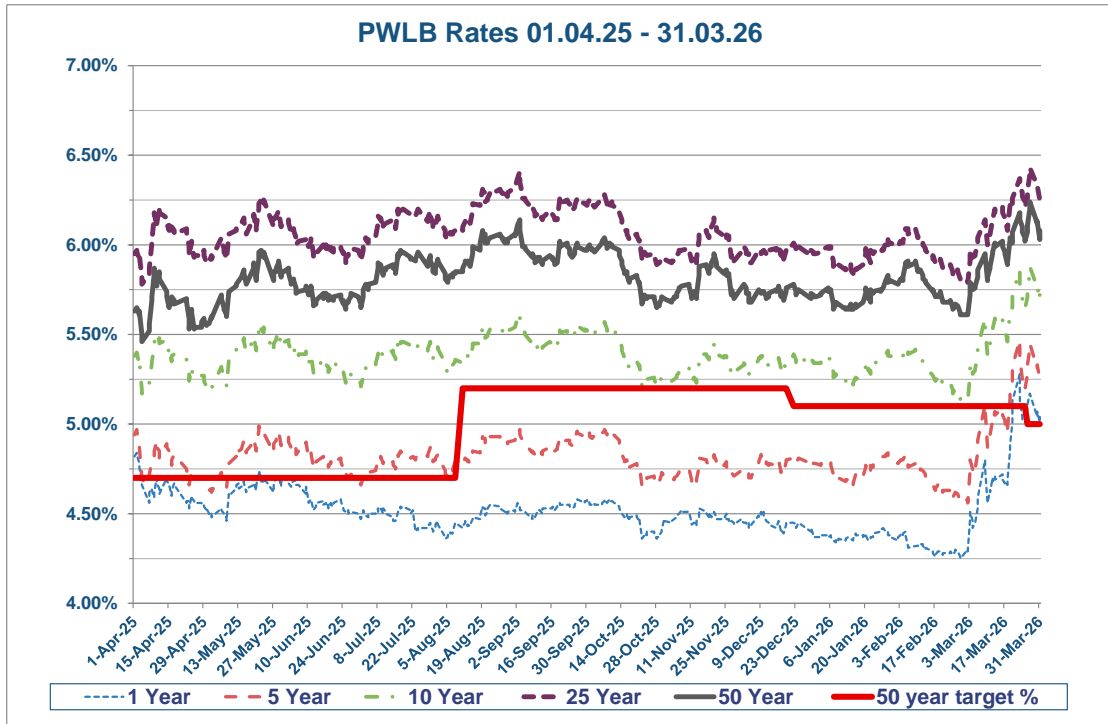
Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2025/26. Bank Rate did reduce to 3.75% as anticipated, but the initial expectation of significant rate reductions across the whole curve did not transpire, primarily because inflation concerns were very elevated in March 2026.

At the start of April 2026, the market expected Bank Rate to increase over the coming months to 4% or 4.25%, from 3.75%, whilst all parts of the curve have also risen substantially through March. A significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

Forecasts at the time of approval of the treasury management strategy report for 2025/26 were as follows:-

MUFG Corporate Markets Interest Rate View 11.11.24													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

PWLB Rates 2025/26



High/Low/Average PWLB Rates for 2025/26

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.25%	4.56%	5.13%	5.78%	5.46%
Date	27/02/2026	27/02/2026	02/03/2026	04/04/2025	04/04/2025
High	5.28%	5.47%	5.88%	6.43%	6.24%
Date	23/03/2026	23/03/2026	27/03/2026	27/03/2026	27/03/2026
Average	4.52%	4.82%	5.38%	6.06%	5.81%
Spread	1.03%	0.91%	0.75%	0.65%	0.78%

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.

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

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 60 basis points (G+60bps) – available through the National Wealth Fund
- **HRA Borrowing rate** is gilt plus 40 basis points (G+40bps)

As a general rule, 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. Other Issues

Economy and Interest Rates

A detailed review of the Economy and Interest Rates, provided by our Treasury Advisors, MUFG can be found in Appendix 1. Approved Countries for investments as at 01/04/2026 can be found in Appendix 2.

IFRS 9 fair value of investments

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government [MHCLG] on IFRS 9, the Government extended the

mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2029, with the exception of any new pooled investments from 1st April 2024. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. The Council currently has £1m invested in CCLG Property Funds, this was invested prior to 01 April 2024 and is therefore subject to the statutory override. The fair value movement for 2025/26 was £1038.10.

Counterparty Limits

There have been no breaches of Prudential Indicators.

ASSOCIATED IMPLICATIONS

Legal: None from this report

Financial: FIN/20/27/CL/CC

Treasury Investment activities have generated £0.767m of investment interest at an average rate of 4.047%.

Non-Treasury investments (Investment Property Portfolio) have generated £1.704m income which is a gross yield of 7.70%

Financing activities has resulted in a total of £24.142m of external borrowing at a cost in year of £0.591m.

Staffing: None from this report

LGR implications: None from this report

Equality and Diversity including Human Rights: None from this report

Data Protection Implications: None from this report

Climate Related Risks and Opportunities: None from this report

Section 17 Crime and Disorder Considerations: None from this report

Health Implications: None from this report

Risk Assessment:

The Treasury Management Strategy sets out an assessment of treasury risks

Title and Location of any Background Papers used in the preparation of this report:

The Treasury Management Strategy 2025/26

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

X

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

X

Appendix 1

Economy and Interest Rates

UK Economy

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.

US Economy

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?

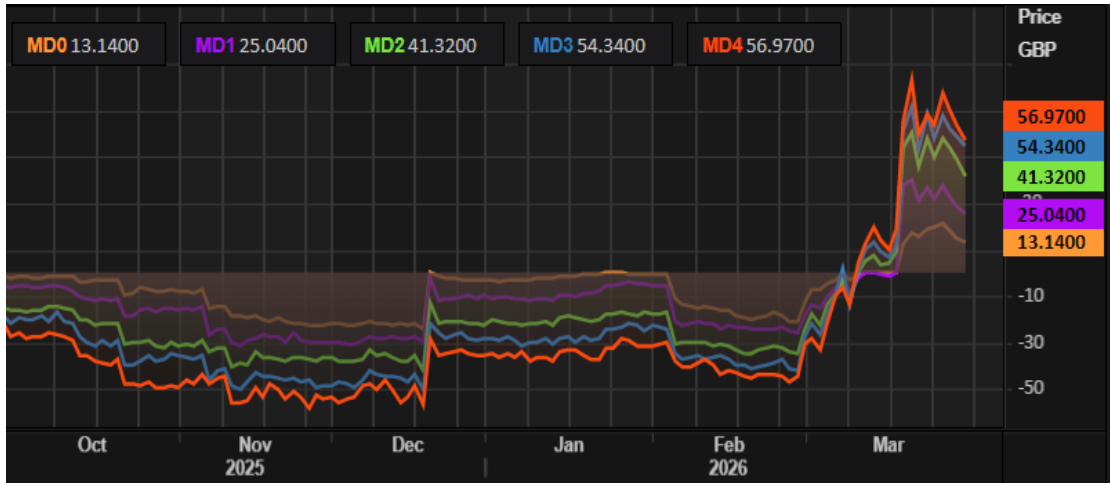
The S&P500 started April 2025 at 5,633 and finished March 2026 at 6,528 having peaked at just over 7,000. The 10-year Treasury yield finished March at 4.30% having been 4.17% back at the start of April, and during the year has been both above 4.50% and below 4.00%.

EZ Economy

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.

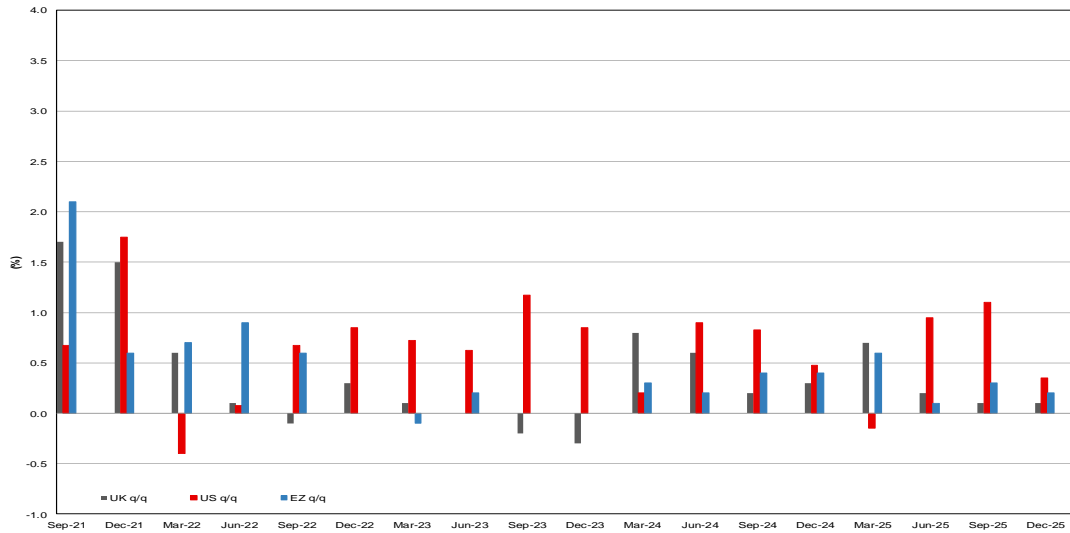
With Eurozone headline inflation close to 2%, the ECB has been able to reduce its Deposit Rate to 2%. Whether it rises from that low point will very much be driven by how energy prices trend over the coming months. The Euro has appreciated against the dollar from 1.08 at the start of April 2025 to 1.16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

Market Expectations for Future Increases in Bank Rate (1st April 2026)

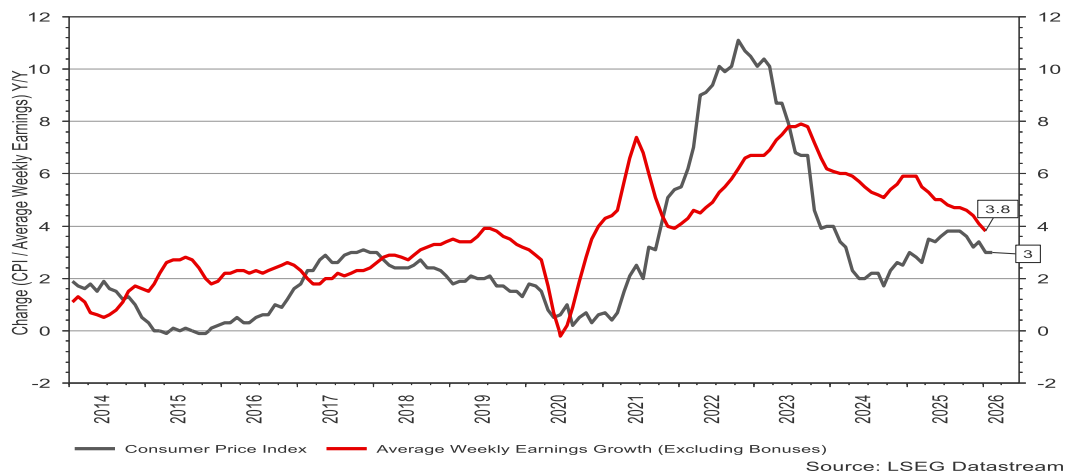


*MD0 = Change in Bank Rate expected at MPC meeting to be held April-26, MD1 = Jun-26, MD2 = Jul-26, MD3 = Sept-26, MD4 = Nov-26.

UK, US and EZ Quarterly GDP



CPI v Average Weekly Earnings Growth



Appendix 2

Approved countries for investments as of 1st April 2026

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG Corporate Markets creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- U.S.A.

AA

- Abu Dhabi (UAE)
- Finland
- Qatar

AA-

- **U.K.**

A+

- Belgium
- France