

TITLE: 2025/26 TREASURY OPERATIONS ANNUAL PERFORMANCE REVIEW

Committee: Finance and Assets Committee

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1.0 Issue

To report on the Council's treasury operations during the 2025/26 financial year.

This report reviews the Treasury Management activity during the financial year 2025/26 and reports on the prudential indicators as required by CIPFA's Treasury Management Code of Practice.

2.0 Recommendation

Members are asked to recommend to Full Council that they approve this report detailing the Council's treasury operations during 2025/26, including the prudential and treasury indicators, as set out in the Annual Treasury Management Review (Appendix 1).

3.0 Background / Options

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators each year; this is the report for 2025/26. This report meets the requirements of 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).

During 2025/26, the minimum reporting requirements were that

Full Council received the following reports:

- an annual treasury strategy in advance of the year (approved by Full Council on 25 February 2025);
- a mid-year treasury update report (this was reviewed by Finance and Assets Committee on 27 November 2025 and approved by Full Council on 25 February 2026);
- an annual review following the end of the year, describing the activity compared to the strategy (this report).

A further Committee received

- reports at the end of quarters one and three (these were incorporated into the Finance Reports presented to Finance and Assets Committee on the 25 September 2025 and 29 January 2026).

4.0 Results

Cash investments totalled £30.131 million as of 31 March 2026, a decrease of £2.157 million on the previous year. The Council's cash investments were all for periods of less than one year.

The overall reduction in balances from £32.3 million on 31 March 2025 to £30.1 million at 31 March 2026 is primarily driven by planned use of earmarked reserves and S106/CIL balances during the year.

The Council's loan to ECTC increased from £5.825 million on 31 March 2025 to £5.850 million on 31 March 2026.

Interest received during the financial year was £1,838,370, which was £707,210 above the budget of £1,131,160. This figure comprised £1,585,630 from investments in money markets and short, fixed-term investments, and £252,740 from the loan to ECTC.

There are two main reasons for this overachievement in interest receipts:

- While interest rates reduced during the year, they reduced at a slower rate than the prudent estimate built into the budget, which has resulted in greater interest receipts and
- Higher investment balances were maintained during the year as a result of the reprofiling of capital expenditure and some delays in the delivery of capital schemes. Consequently, cash resources remained available for investment for longer than originally forecast, generating additional investment income.

The weighted-average rate of return on cash investments held during the year (excluding the loan to ECTC) was 3.75%.

5.0 Conclusions

The size of the Council's investment portfolio has historically been relatively small, meaning that investment decisions have had to be made primarily to meet cash flow requirements rather than to optimise investment returns. While the portfolio's value is now higher than in previous years, these disciplines have been retained. However, opportunities for proactive investment decisions were taken during the year, with funds moved to longer-term investments (three-month) and away from overnight accounts.

During the financial year, the Council operated within its approved treasury limits and prudential indicators.

6.0 Additional Implications Assessment

In the table below, please put Yes or No in each box:

Financial Implications Yes	Legal Implications No	Human Resources (HR) Implications No
Equality Impact Assessment (EIA) No	Carbon Impact Assessment (CIA) No	Data Protection Impact Assessment (DPIA) No

Financial Implications

The additional income gained from interest receipts has contributed to the Council's net underspend in 2025/26, as detailed in the Year-end Finance Report also on this meeting's agenda.

7.0 Appendices

Annual Treasury Management Review 2025/26

8.0 Background Documents:

Treasury Management Strategy as approved by Full Council on 25 February 2025.

Quarterly and half-year update reports as detailed in 3 above.

Classification: Public

Annual Treasury Management Review 2025/26

East Cambridgeshire District Council

DATE 31 MARCH 2026

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ABBREVIATIONS USED IN THIS REPORT

This is an optional area which clients may wish to include in their report if they feel that members would appreciate having this list of abbreviations and definitions.

CE: Capital Economics - is the economics consultancy that provides MUFG Corporate Markets Treasury Limited, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the Council's annual underlying borrowing need to finance capital expenditure and a measure of the Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local Council finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by the UK and countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

MHCLG: the Ministry for Housing, Communities and Local Government - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone - those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing/tightening policy. It is composed of 12 members - the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing/tightening.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local Council).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local Council.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the Full Council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

Annual Treasury Management Review 2025/26

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025/26. This report meets the requirements of 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).

During 2025/26 the minimum reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 25th February 2025)
- a mid-year, (minimum), treasury update report (Council 24th February 2026)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, this Finance and Assets Committee has also received quarterly treasury management update reports on the following dates 25th September 2026 and 29th January 2026.

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 by the Finance and Assets Committee before they were reported to the Full Council.

Member training on treasury management issues was last undertaken on 5th October 2023 as part of the training for all members following the District Council elections earlier in that year.

Executive Summary

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	31.3.25	2025/26	31.3.26
	Actual £0	Original £0	Actual £0
Capital expenditure	3,200	13,216	12,519
Capital Financing Requirement:	988	3,350	4,059
Gross borrowing	10,197	11,041	10,820
External debt	0	0	0
Investments (all under 1 year)	32,288	0	30,131
Net borrowing	32,288	0	30,131

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance also confirms that no external borrowing was undertaken and the statutory borrowing limit, (the authorised limit), was not breached.

Introduction and Background

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.

1. The Council's 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 financed.

£000 General Fund	31.3.25 Actual	2025/26 Budget	31.3.26 Actual
Capital expenditure	3,654	13,216	12,519
Financed in year	2,666	9,866	8,460
Unfinanced capital expenditure	988	3,350	4,059

Capital expenditure in year was lower than the published budget due to a number of schemes progressing slower than originally anticipated, with expenditure reprofiled into future years in line with revised delivery timelines. The main variances were:

Bereavement Centre expenditure was lower than budget as works and associated costs have been reprofiled into 2026/27 in line with the updated project timetable.

Refuse and Cleansing Vehicles expenditure was lower than budget due to delays in vehicle deliveries, with costs now expected in the 2026/27 financial year.

Waste Wheelie Bins and Food Waste Caddies expenditure was lower than budget due to delayed procurement and implementation, with expenditure slipping into 2026/27.

Mandatory Disabled Facilities Grants expenditure was higher than budget following additional grant approvals and slippage from 2024/25.

Vehicle replacement expenditure was higher than budget as replacement works were brought forward during the year.

2. 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 non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). 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 25th February 2025.

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

CFR (£000): General Fund	31.3.25 Actual	2025/26 Budget	31.3.25 Actual
Opening balance	10,652	10,277	10,197
Add unfinanced capital expenditure (as above)	988	3,350	4,059
Less MRP	-593	-686	-585
Less ECTC Loan Repayments	-850	-1,900	-2,850
Closing balance	10,197	11,041	10,821

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 should ensure 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.

£'000	31.3.25 Actual	2025/26 Budget	31.3.26 Actual
Gross external borrowing position	0	0	0
Capital Financing Requirement	10,197	11,041	10,821
Under Funding of CFR	10,197	11,041	10,821

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.

£'000	2025/26
Authorised limit	10,000
Maximum gross borrowing position during the year	0
Operational boundary	0
Average gross borrowing position	0
Financing costs as a proportion of net revenue stream	N/A

3. Treasury Position as of 31st March 2026

The Council's treasury management debt and investment position is organised by the treasury management service 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 position, was as follows:-

The Council had no external debt.

The Council's Investment portfolio was as per the table below

All Money Market investments and the amount held in the Council's main bank account with the NatWest are in cash and as such, can be recalled immediately.

The amounts held in fixed deposit accounts have different maturity dates, with the last date being 05th June 2026.

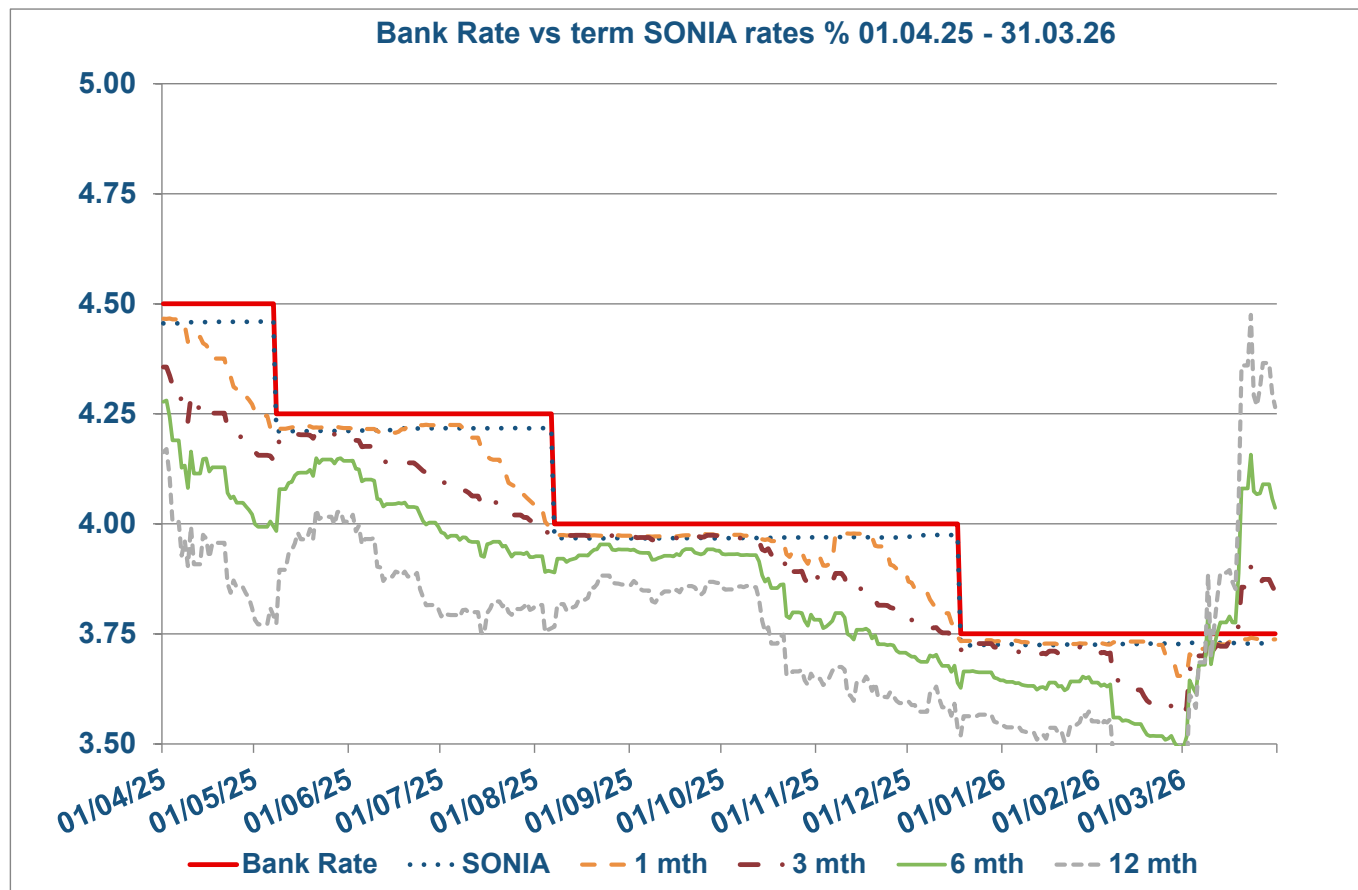
The loan facility to East Cambridgeshire trading Company runs until March 2027. However, the nature of the loan facility allows the Company to borrow and repay funding as their cashflow allows within the maximum facility of £7,500,000.

INVESTMENT PORTFOLIO	31.3.25 Actual £'000	31.3.24 Actual %	31.3.26 Actual £000	31.3.26 Actual %
Treasury investments				
Banks – main bank account	187	0.6%	261	0.9%
Banks – call accounts	22,101	68.4%	23,000	76.3%
Money Market Funds	10,000	31.0%	6,870	22.8%
TOTAL TREASURY INVESTMENTS	32,288	100%	30,131	100%
Non-Treasury investments				
Third party loans - ECTC	5,825	95.5%	5,850	95.5%
Third party loans – EC CLT	277	4.5%	247	4.5%
TOTAL NON-TREASURY INVESTMENTS	6,102	100%	6,097	100%
Treasury investments	32,288	84.1%	30,131	84.10%
Non-Treasury Investments	6,102	15.9%	6,097	15.9%
TOTAL OF ALL INVESTMENTS	38,390	100.00%	36,228	100.00%

4. The Strategy for 2025/26

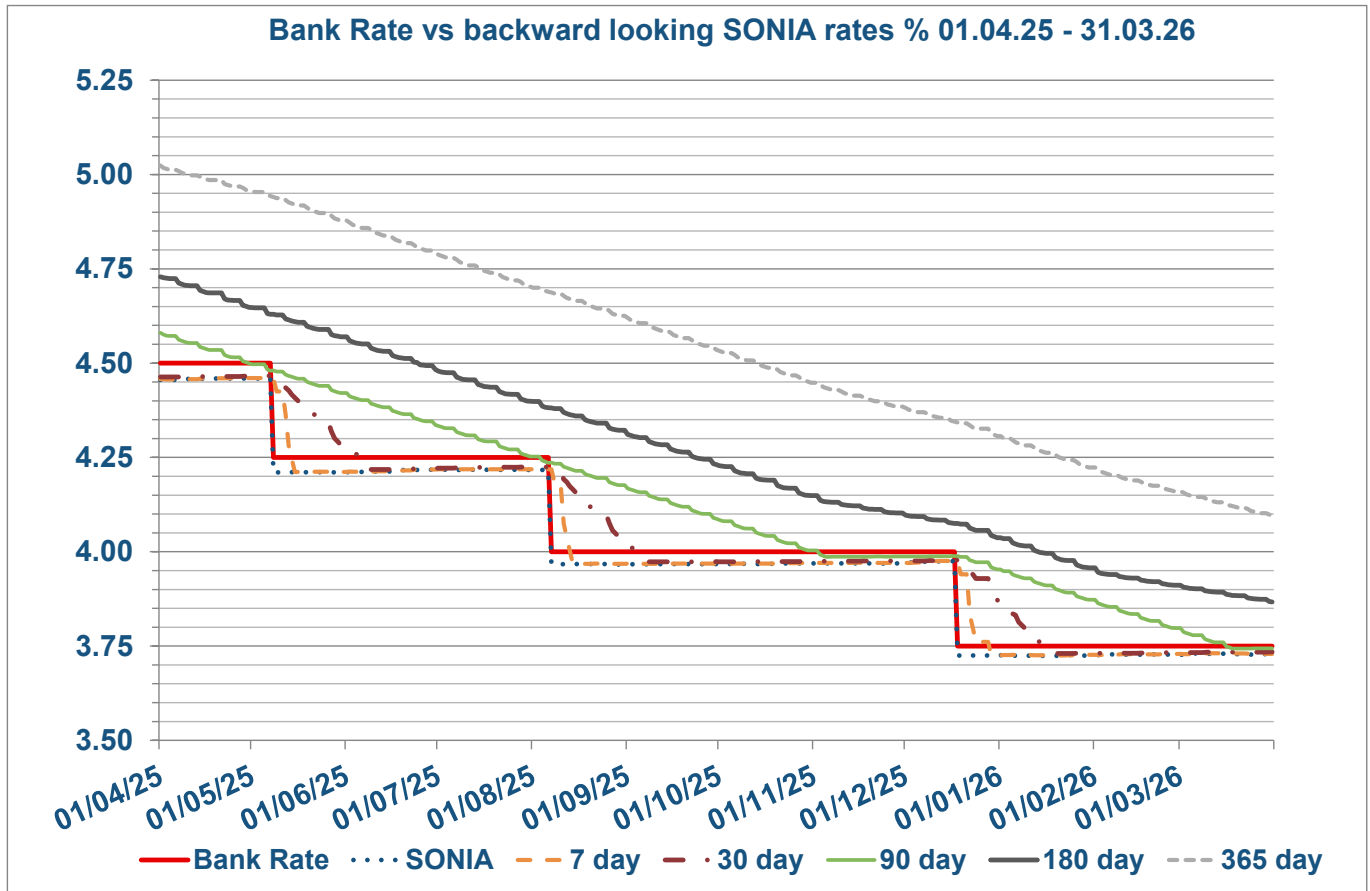
4.1 Investment strategy and control of interest rate risk

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.

4.2 Borrowing strategy and control of interest rate risk

During 2025/26, the Council 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 Council'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 policy of avoiding new borrowing by running down spare cash balances has served well over the past few years. However, this kept under review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure.

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.

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.

5. Investment Outturn

Investment Policy – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 25th February 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 (£000)	31 st March 2025	31 st March 2026
Balances		
Earmarked reserves	17,632	17,975
S106 / CIL	17,669	15,131
Capital Receipts	1,759	1,789
Council Tax / Business Rates	1,425	4,499
cProvisions	1,227	356
Cash (Debtors / Creditors)	2,773	1,202
Internal Borrowing	-10,197	-10,821
Total	32,288	30,131

Investments held by the Council

- The Council maintained an average balance of £35,620 of internally managed funds.
- The internally managed funds earned an average rate of return of 4.8%.
- The comparable performance indicator is the average SONIA rate, which was 3.5%.
- Total investment income (including from ECTC) was £1,838,370 compared to a budget of £1,131,160

There are two main reasons for this over achievement in interest receipts:

- While interest rates reduced during the year, they reduced at a slower rate than the prudent estimate built into the budget, which has resulted in greater interest receipts and
- As a result of underspends on both the revenue and capital budget, cash holdings have been higher than assumed in the budget.

6. The 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.