Agenda Item	6.b
Report No	RES/46/26

The Highland Council

Committee: **Corporate Resources**

Date: **19 November 2026**

Report Title: **Treasury Management - Mid Year Report 2026/27**

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

1. Purpose/Executive Summary

1.1 This report is the mid-year treasury management review for the financial year 2026/27 which is prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in Local Authorities (revised 2021).

1.2 The report highlights the Council's treasury management activities undertaken, provides a commentary on the year to 30 September 2026 and compares activity to the expected activities contained in the annual Treasury Management Strategy Statement and Investment Statement (TMSS) which was approved by Council on 26 March 2026.

1.3 This Treasury Management Mid-Year Review 2026/27 is submitted to the Committee for consideration. The report reflects a period where economic events and volatility have been a factor and with increased interest rates impacting on borrowing costs over the period.

1.4 The Prudential Code also requires the Council to report the actual prudential indicators after the financial year end, and through this report a mid-year forecast position is shown as at 30 September 2026 in **Appendix 1.**

2. Recommendations

2.1 Members are asked to:

i. **Consider** the Treasury Management Mid-Year Review 2026/27.

3. Implications

3.1 **Resource and Risk** – Loan charges continue to be forecast to be slightly underspent from the budget provision. However, this figure depends on the level of capital expenditure undertaken during the rest of the financial year and market interest rates for short- term borrowing and deposits which will continue to be monitored. Interest rates for borrowing in the year to date are higher than had been forecast and assumed in the budget, which does give rise to a pressure, this being mitigated in year largely as a result of capital spend profiles and slippage i.e.

if capital spend in year and prior years had been at budget levels, it is unlikely the level of underspend would have arisen and the impact of rising interest rates would have greater impact in year.

While Bank base rates have remained unchanged so far in 2026/27 it is predicted that they will increase in the latter half of 2026/27. There is not always a direct relationship between these rates and the PWLB or market rates available to the Council and looking at historic PWLB rates we note that current rates are now above the peaks experienced during the period of market volatility that followed the invasion of Ukraine in 2022.

The Council's forecasts for the year have also assumed an expected increase in interest rates so some aspect of increased costs from interest rate increases are already captured within the loan charge budget estimate.

Due to high levels of economic uncertainty, there is a risk that any approach the Council takes to its borrowing may not accurately anticipate future market movements. This is mitigated through regular review of assumptions, and regular engagement with the Councils Treasury advisors and review of economic forecasts.

3.2 **Legal:** There are no Legal implications arising as a direct result of this report.

3.3 **Risk:** See section 3.1.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no Health & Safety implications arising as a direct result of this report.

3.5 **Gaelic:** There are no Gaelic implications arising as a direct result of this report

4 Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

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

4.3 This is a monitoring and update report and therefore an impact assessment is not required.

5. Background

5.1 Treasury Management is defined as: "*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

5.2 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2021). The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an Annual Strategy Report for the year ahead, a mid– year report and an Annual Review Report for the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management policies to a specific named body, which in this Council is the Corporate Resources Committee.

5.3 This Treasury Management Mid-Year Review 2026/27 covers the following:

- An economic update for the first six months of 2026/27, provided by the Council's Treasury Advisers, MUFG (previously Link)
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's capital expenditure (prudential indicators)
- A review of the Council's investment portfolio for 2026/27
- A review of the Council's borrowing strategy for 2026/27
- A review of any debt rescheduling undertaken during 2026/27
- A review of compliance with Treasury and Prudential Limits for 2026/27

6. Economic update (provided by MUFG)

6.1 The Council has appointed MUFG as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. **Appendix 2** provides an economic update from MUFG.

6.2 MUFG provided the following forecasts on 21 September 2026 (PWLB rates are certainty rates: gilt yields plus 80bps)

MUFG Corporate Markets Interest Rate View 21.09.26												
	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29	Jun-29	Sep-29
BANK RATE	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	4.00	3.80	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.80	3.70	3.50	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.70	3.70	3.70	3.70	3.70
5 yr PWLB	5.60	5.60	5.30	5.10	4.70	4.50	4.50	4.40	4.40	4.30	4.30	4.30
10 yr PWLB	6.00	5.90	5.60	5.40	5.00	4.80	4.80	4.70	4.70	4.60	4.60	4.60
25 yr PWLB	6.50	6.40	6.10	5.90	5.60	5.30	5.30	5.30	5.30	5.30	5.20	5.20
50 yr PWLB	6.10	6.10	5.80	5.50	5.30	5.10	5.00	5.00	5.00	5.00	4.90	4.90

6.3 Additional notes by MUFG on the forecast table above are provided below.

6.4 MUFG Corporate Markets' latest forecast on 21 September sets out a view that short, medium and long-dated interest rates will eventually fall back over the next year or two, although in the near-term there is an anticipated increase in Bank Rate to 4% given the upward influences on inflation primarily emanating from energy price shocks driven by events in the Middle East. The challenging UK fiscal backdrop provides some further upside risks to the medium to longer part of the curve, which has also been revised higher in the near-term.

6.5 It is noted that the broader market sentiment has focused on Bank Rate increasing to a peak between 4.5% and 4.75%, but the central view of MUFG Corporate Markets is that a backdrop of a significant increase of 20%+ in the energy price cap likely in January, and with mortgage rates also shifting upwards, households are unlikely to be able to support the economy as strongly as they have done so in the first half of the financial year.

7. Treasury Management Strategy Statement and Annual Investment Strategy update

7.1 The Treasury Management Strategy Statement (TMSS) for 2026/27 was approved by Council on 26 March 2026. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as **security** of capital, **liquidity** and then **yield.** There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position.

7.2 The investment portfolio yield for the first six months of the year was an average rate of 3.83% (2025/26 4.25%) against a benchmark (SONIA - Sterling Overnight Index Average, daily average) of 3.73%.

7.3 The daily average level of funds available for investment purposes in the first six months of 2026/27 was £97.7m (2025/26 £70.1m). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of council tax payments, receipt of grants and progress of the Capital Programme.

7.4 In line with the investment strategy, the Council will only place deposits with counterparties with high creditworthiness.

7.5 The Council continues to hold most of its investments in Money Market Funds (MMF) to meet cashflow requirements and minimise the requirement to borrow. Due to the Bank Rate decreases, rates on Money Market Fund investments have also decreased.

7.6 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs with security and liquidity being the key considerations.

8. New External Borrowing

8.1 The Capital Financing Requirement (CFR) represents the accumulated net capital expenditure for the General Fund and Housing Revenue account which the Council requires to fund by way of long-term debt until the capital projects, comprising the CFR, are fully written off by way of annual loan charges to revenue accounts.

8.2 The balance of external and internal borrowing is generally driven by market conditions, and the need to take a balanced view of savings available from short term and internal borrowing, versus the mitigation of re-financing risk which can be achieved from longer-term borrowing, but at a potentially higher cost.

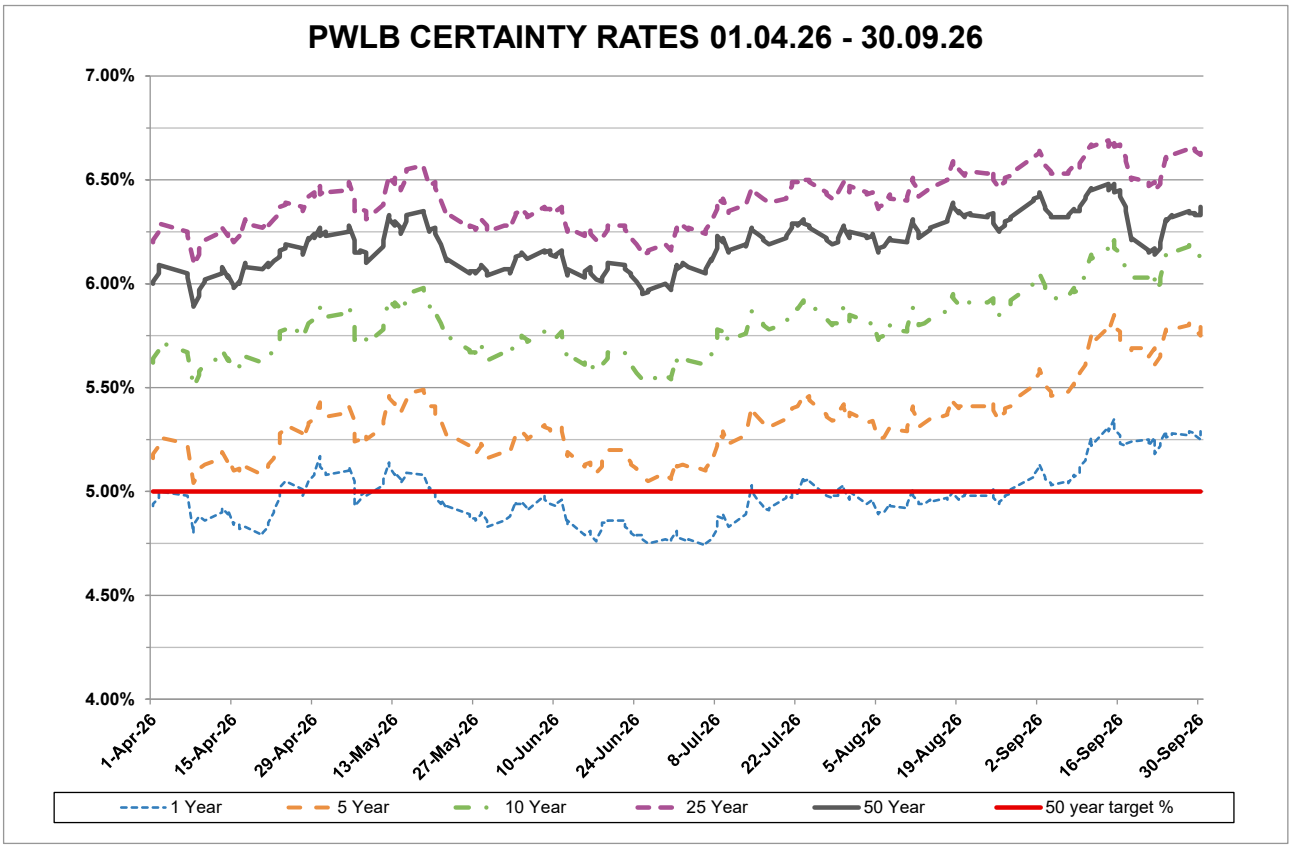
8.3 The table below shows the estimated CFR at 31/03/27 and how it is expected to be funded by short-term borrowing and historic long-term borrowing. The increase in difference between CFR and borrowing compared to the TMSS is a result of cashflow requirements in 26/27.

	£m
Estimated Capital Financing Requirement (CFR) at 31/03/26 See appendix 1 – indicator 2	1,807.3
Less PPP/NPD (school PPP contract liabilities) and IFRS16	-153.9
Estimated CFR 31/03/27	**1,653.4**
Opening Long Term Debt 01/04/26	1,290.7
Long term maturities	-102.6
New PWLB loans	230.9
Estimated Long Term Debt 31/03/27	**1,419.0**
Opening short-term borrowing 01/04/26	134.5
Raised and repaid to 30 Sept 2026	27.0
Add estimated net borrowing for new capital expenditure and replace maturities in 2026/27 (November to March)	-36.5
Estimated Short Term Debt at 31/03/27	**125.0**
Estimated total long term and short-term debt 31/03/27	**1,544.0**
Difference between CFR and borrowing = Funding from internal balances and cash flow	109.4

8.4 The graph and table below show the movement in PWLB rates from 1 April 26 until 30 September 26 incorporating the certainty rate (0.20% discount on rates for local authorities who have applied for it and in June 2023 discount of an additional 0.40% for HRA was re-introduced). Gilt yields and PWLB Certainty Rates have remained volatile throughout the six months under review, but the general trend has been for the whole curve to shift higher on the back of inflation concerns and a pessimistic outlook for fiscal aspects, both domestically and internationally.

8.5 Consequently, the bulk of the low points in the charts below pertain to early April 2026 with the highs congregated around mid-September. The spreads have ranged from 0.59% in the 50-year part of the curve through to 0.81% in the 5-year part of the curve.

8.6 At this juncture, MUFG Corporate Markets forecasts rates to fall back over the next one to three years as inflation dampens, but in the near-term there are upside risks should the second-round effects of inflation, primarily from energy price shocks emanating in the Middle East, become embedded. That scenario could lead to wage increases becoming more challenging from an inflation-management perspective, resulting in monetary policy tightening further than currently forecast (one increase in Bank Rate of 0.25% in either November or December 2026). Conversely, a swift resolution to the conflict in the Middle East could see energy prices fall back swiftly and, therein, an easing in inflation concerns and monetary policy respectively. Currently, the CPI measure of inflation is expected to hit a high of 4.3% in early 2027 before falling back towards the 2% target rate by 2028.



8.5 The 50-year PWLB rate for new long-term borrowing started 2026/27 at 6.00% and was 6.37% at the end of September 2026. Rates were volatile during this period.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2026	4.93%	5.16%	5.62%	6.20%	6.00%
30/09/2026	5.29%	5.80%	6.17%	6.67%	6.37%
Low	4.74%	5.04%	5.50%	6.09%	5.89%
Low date	06/07/2026	08/04/2026	08/04/2026	08/04/2026	08/04/2026
High	5.35%	5.85%	6.21%	6.70%	6.48%
High date	15/09/2026	15/09/2026	15/09/2026	15/09/2026	14/09/2026
Average	4.98%	5.34%	5.81%	6.40%	6.19%
Spread	0.61%	0.81%	0.71%	0.61%	0.59%

8.6 There was £70m of PWLB borrowing to the end of September 2026.

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

8.7 It is anticipated that over the remainder of the financial year there will be additional borrowing to fund the Capital Programme, consideration will be given to the profile of the existing debt portfolio and funding will be undertaken with both long-term or short-term borrowing depending on market rates and availability. Decisions will be made using rates and other available market information to achieve optimum value and risk exposure in the long-term. Markets remain volatile and although short-term borrowing opportunities continue to be available to the Council, there are fewer Offers which means rates payable are unlikely to reduce in the short to medium term. The strategy remains flexible, and consideration will be given to the appropriate mix of long and short-term borrowing based on prevailing market conditions.

8.8 In consultation with MUFG, the market situation is constantly monitored and borrowing strategies reviewed on a regular basis.

9. Debt Rescheduling

9.1 No debt rescheduling was undertaken during the first six months of 2026/27 as there were no cost-effective opportunities and officers continue to monitor and investigate potential debt rescheduling opportunities.

10. Compliance with Treasury and Prudential Limits

10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Capital Expenditure Limits." The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS) agreed on 26 March 2026.

10.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in **Appendix 1**, comparing the initial limits agreed for the year and updated year-end forecasts.

Designation: Chief Officer – Corporate Finance

Date: 21 October 2026

Authors: Rachel MacDonald, Principal Accountant & Mairi MacCallum, Treasury Officer

Background Papers: Treasury Live and CiA financial ledger systems

Appendices:

Appendix 1 - Estimated Treasury Position and Prudential Indicators

Appendix 2 - Economics Update (provided by MUFG 7 October 2026

Appendix 1

Estimated Treasury Position and Prudential Indicators
Figures are for financial year unless otherwise titled in italics

Prudential Indicator		2026/27 Original £m	2026/27 Revised £m
1.	**Capital expenditure**		
	Gross capital expenditure		
	General Fund including PPP	202.9	181.7
	Housing Revenue Account	86.3	70.9
	Total gross capital expenditure	**289.2**	**252.6**
	Income - General Fund	(42.5)	(84.2)
	Income - HRA	(31.0)	(26.1)
	Total income	**(73.5)**	**(110.3)**
	Net capital expenditure		
	General Fund	160.4	97.5
	HRA	55.3	44.8
	Total net capital expenditure	**215.7**	**142.3**
	Loan charge instalments		
	General Fund	(33.8)	(33.5)
	HRA	(12.9)	(13.4)
	Total instalments	**(46.7)**	**(46.9)**
	Net borrowing for new capital expenditure		
	General Fund	126.6	64.0
	HRA	42.4	31.4
	Total net borrowing for new capital expenditure	**169.0**	**95.4**
2.	**Capital Financing Requirement (CFR) at 31 March**		
	General Fund excluding PPP/NPD	1,102.0	1,024.7
	Housing Revenue Account	493.3	474.7
	Joint Boards	12.1	12.1
	PPP	207.9	212.9
	IFRS16 Leases	19.3	13.1
	Interest Bearing Loans	See Note	69.8
	Total	**1,834.6**	**1,807.3**

Note re “Interest Bearing Loans”: actual shown based on a change in accounting and presentation, and with no equivalent indicator in the TMSS. Going forward into future years both indicators and actuals will be reported.

Prudential Indicator		2026/27 Original £m	2026/27 Revised £m
	Treasury Position at 31 March		
	Borrowing – Long term	1,473.9	1,419.0
	Borrowing – Short term	125.0	125.0
	Other Long-Term Liabilities (PPP/NPD and IFRS16 Leases)	146.1	153.9
	Total Debt	**1,745.0**	**1,697.9**
	Investments	(50.0)	(50.0)
	Net Borrowing	**1,695.0**	**1,647.9**
3.	**Ratio of financing costs to net revenue stream**		
	General Fund including PPP/NPD	12.1%	11.5%
	General Fund excluding PPP/NPD and IFRS 16 (local indicator for HIP with a 10% cap)	8.9%	8.3%
	Housing Revenue Account	41.9%	40.1%

Prudential Indicator		2026/27 Maximum £m	2026/27 Actual £m
4.	**Authorised Limit for Borrowing**	1,730.8	1,470.2 (Apr 2026)
5.	**Operational Boundary for Borrowing**	1,641.2	1,470.2 (Apr 2026)
6.	**Interest rate exposures of debt net of investments**		
	Upper Limit (Fixed)	1,834.7	1,413.4 (Sept 2026)
	Upper Limit (Variable)	642.1	(45.9)* (Sept 2026)
7.	**Maturity structure of fixed rate borrowing (against maximum position)**		
	Under 12 months	30.0%	27.3% (Sept 2026)
	12 months to 2 years	30.0%	13.1% (Sept 2026)
	2 years to 5 years	40.0%	12.8% (June 2026)
	5 years to 10 years	50.0%	4.7% (June 2026)
	10 years and above	100.0%	45.8% (June 2026)
8.	**Upper limit for the maturing of investments made for periods longer than 364 days**	20.0	Nil
9.	**Short term borrowing as a % of outstanding long-term debt (maximum position)**	25.0%	13.0% (July 2026)
10.	**Variable interest debt as a % of outstanding long-term debt (maximum position)**	35.0%	2.0% (Aug 2026)

*Negative as higher level of investments than variable borrowing

Appendix 2

Economics Update (provided by MUFG 7 October 2026)

3.1 Economics Update

- The first half of 2026/27 (April to September) saw:
  - Continued resilience in the face of the ongoing energy shock, with real GDP up 0.4% m/m in July, following on from GDP of 0.5% q/q (1.4% y/y) for the quarter ending 30 June 2026.
  - The 3myy rate of average earnings growth excluding bonuses remained stable throughout the period under review, initially stagnating at 3.4% in April and more latterly holding steady at 3.5% in July.
  - CPI inflation stuck at 2.8% in May, but is now ticking upwards, standing at 3.1% in August and forecast to rise to 4.3% by January 2027.
  - The Bank of England left interest rates unchanged at 3.75% although it intimated in its September meeting that rates will be hiked in November or December if a resolution to the conflict in the Middle East is not forthcoming before then.
  - The 10-year gilt yield fluctuated between 5.43% and 4.69%, ending September at 5.43%.
- The economy has continued to surprise to the upside, with real GDP growth of 0.6% q/q for the period January to March, followed by a resilient 0.5% q/q rise through to the end of June. That has been followed by another strong monthly increase of 0.4% m/m in July. That marked the biggest rise since the Middle East conflict started and suggests the resilience of the economy in the first half of the year continued into the early stages of the second half. That rise in July was broad-based with services output up by 0.4% m/m, industrial production 0.2% m/m higher and construction output rising by 0.1% m/m. The Office for National Statistics also noted that businesses reported stronger activity related to AI and cloud computing.
- If real GDP were flat in both August and September, a further healthy rise of 0.6% q/q is anticipated. However, the economy's prolonged resilience is unlikely to last as the drag from rising energy prices (the January energy cap is projected to increase by c20%) and borrowing costs will be felt before long.
- 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 suggested the strong start to the year would be followed by tepid growth at best.
- By September, the composite PMI stood at 52.0. While this was still indicative of expanding activity, it was weaker than August's 52.5 and the lowest level in three months, suggesting the latest leap in energy prices and the prospect of another tax-raising Autumn Budget are weighing on activity. Within the composite report, employment contracted (i.e., a reading below 50) for the twenty-fourth consecutive month while higher fuel and payroll costs contributed to the sharpest rise in prices charged since May. The services PMI fell from 52.5 to 52.1, reportedly due to subdued domestic economic conditions and ongoing geopolitical uncertainty. Meanwhile, weak consumer demand constrained production, bringing the manufacturing output subcomponent balance down from 52.1 to a six-month low of 51.5. The press release also noted that weaker consumer demand was partly offset by AI investment and greater defence spending.

- Retail sales volumes were up in every major category except “other stores” and fuel in August, leaving the headline figure up 0.5% m/m. That fully reversed the 0.5% m/m decline in July and left the level of retail sales 2.4% higher than last August. Even if retail sales volumes were flat in September, volumes for the quarter as a whole would still rise by 0.5% q/q, higher than the 0.2% q/q rise in the previous quarter. August’s figure suggests that other factors are offsetting the drag on real incomes from higher energy prices and borrowing costs, or that households remain able and willing to reduce their saving rate to sustain recent spending growth. That said, with inflation yet to peak, the biggest drag on households’ real income has yet to come.
- The public finances have been challenged for several months now. Public sector net borrowing of £23.3bn in May was above the Office for Budget Responsibility’s (OBR’s) forecast of £17.7bn and £5.4bn above the corresponding 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.
- More recently, public sector net borrowing of £18.3 billion in August was once again higher than the OBR’s forecast of £14.8 billion. It also marked the second highest August borrowing figure since records began in 1993. At £12.4 billion, current borrowing (i.e., excluding investments) which is important for the Chancellor’s fiscal mandate, was also above the OBR’s forecast of £10.4 billion. Higher central government tax receipts were not enough to offset the effect of higher government spending. Central government expenditure overshot the OBR’s forecast by £2.3 billion, partly due to higher inflation pushing up debt interest payments and government spending on public services.
- Regarding employment, the latest PAYE employment figure for August saw a 26,000 fall, leaving employment 95,000 lower than before the start of the Iran War in February and 0.5% lower than a year ago. The number of job vacancies continued to fall, edging down from 706,000 in the three months to July to 702,000 in the three months to August. While alternative measures of employment show a slightly stronger picture, the unemployment rate stayed at 4.9% in July for the fourth consecutive month.
- That recent further weakening of the labour market continues to weigh on pay growth. The 3myy growth rate of average earnings including bonuses eased from 4.2% in June to 3.9% in July entirely off the back of a slowdown in private sector bonus growth. By contrast, a jump in public sector bonus growth meant that total public sector pay growth rose from 6.2% to 6.6%. The timelier HMRC median PAYE measure of pay tells a similar story, with the 3myy growth rate falling from 4.5% in July to a seven-month low of 4.1% in August. That points to a further fall in average earnings growth from 3.9% to around 3.6%.
- The knock-on impact from surging energy prices is now being felt, pushing CPI inflation up from 2.9% in July to 3.1% in August. That increase was entirely due to the 6.9% m/m rise in fuel prices, which lifted annual fuel inflation from 15.3% to 23.0%. Even so, higher energy costs do not yet seem to be boosting other items of the CPI just yet. For example, food and drink inflation stayed at 1.3%. That said, the combination of the current levels of energy prices, with brent crude still around $100pb, and the eventual “first-round” effect of businesses passing on some of their higher energy costs will likely result in CPI inflation rising to around 3.6% in September and to a peak of about 4.3% in January based on forecasts from Capital Economics.

- Regarding Bank Rate, the Bank of England will want to steer clear of allegations of taking too long to act as inflation picks up, and in September intimated that despite a 6-3 vote against increasing Bank Rate to 4%, four of the majority who voted for no change are minded to vote for a rate hike in November or December if the conflict in the Middle East remains unresolved.
- April through to September brought more volatility for the gilt market. For example, after ending March at 4.92%, the 10-year Gilt shot up to 5.18% in mid-May, its highest level since 2008. Its movement since has reflected sentiment in the Middle East, falling back to 4.7% in June but finishing September at 5.43% as US/Iran relations remain sour.
- The FTSE 100 started April below 10,200, below its record high of around 10,900 in late February. Nonetheless, the index surged to just shy of that level in late July. More recently, it has struggled, ending September at 10,606. Moreover, it materially underperformed the broader more domestic-focused FTSE 250 and most other international indices over this period, weighed down by weightings towards energy, mining, financials and pharmaceuticals and lack of exposure to tech stocks which generally outperformed globally.

MPC meetings: 30 April, 18 June, 30 July, 17 September 2026

- There were four Monetary Policy Committee (MPC) meetings held in the first half of the financial year. In April, the Committee voted 8-1 to keep rates at 3.75%, with one dissenter voting for 4%. By June, the split had become 7-2, with concerns that rising energy prices, emanating from the conflict in the Middle East, would lift inflation and potentially give rise to second round inflation effects reflected in higher wages.
- As the year has progressed, the split has grown further. The July and September meetings both recorded a 6-3 split, with Greene, Mann and Pill voting for a hike in rates to 4% at both meetings. As noted, several other members of the committee have intimated that they are likely to vote for an increase in November or December if there is no resolution to the conflict in the Middle East.