North Norfolk District Council - Treasury Management Q1 Report - 2026/27

Contents

Treasury Management Update

Quarter Ended 30th June 2026

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

1. Economics update

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

anticipated in March and the highest in any May on record. Tax receipts of £85.5bn were also below OBR predictions.

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

- The FTSE 100 has been slowly gaining back some of the losses of the previous quarter. While the index dropped from an all-time high of around 10,900 in late February to 10,176 by the end of March as the ongoing war weighed on sentiment, the FTSE 100 regained some ground by the end of June. Indeed, the index has increased by around 3.3% over the quarter, rising from 10,176 to 10,516 and volatility has returned to historical norms.
- Nonetheless, with stocks in the energy sector generally providing negative returns amid falling energy prices, the large weighting of the sector in the FTSE 100 has led the index to underperform most peers in common currency terms. But returns from stocks in other sectors, particularly financials, helped to offset some of this weakness. Looking ahead, Capital Economics expect tech sectors to outperform as enthusiasm for AI builds, potentially pushing the FTSE 100 index up above 11,000 before a bursting of the AI bubble causes the index to fall back to 10,500 in 2027.

MPC meetings: 30th April & 18th June 2026

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

2. Interest rate forecasts

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

The latest forecast was updated on 25th March 2026:

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

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

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

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

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2026/27, which includes the Annual Investment Strategy, was approved by the Council on the 18th of February 2026. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seeking out value available in periods up to 12 months with high credit rated financial institutions, using the MUFG Corporate Markets suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the charts below and the interest rate forecasts in section 2, investment rates have remained elevated during the first quarter of 2026/27 and are only expected to fall back once it is clear that inflation will not take a strong foothold in H2 2026. A peak in CPI inflation of 3.6% is currently forecast by Capital Economics.

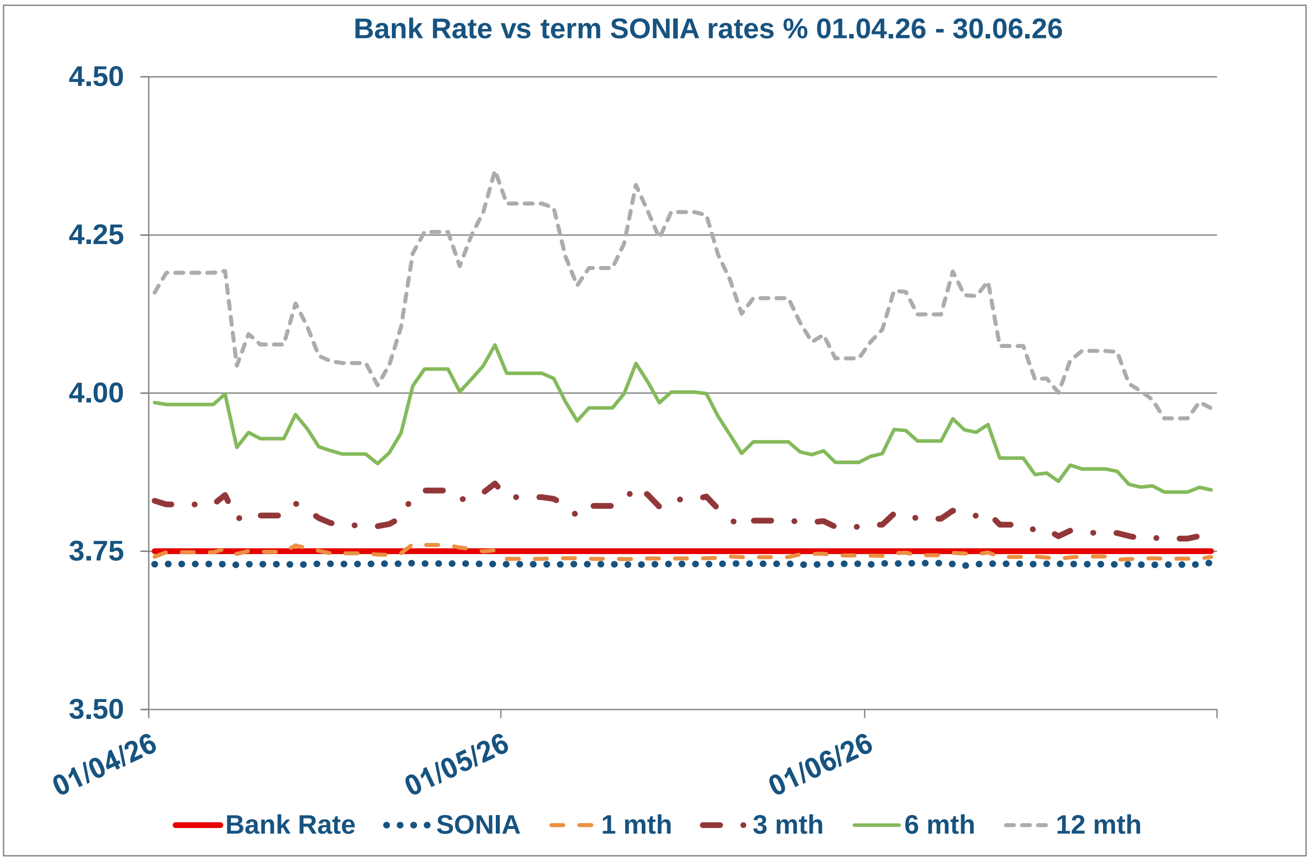
Creditworthiness.
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

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

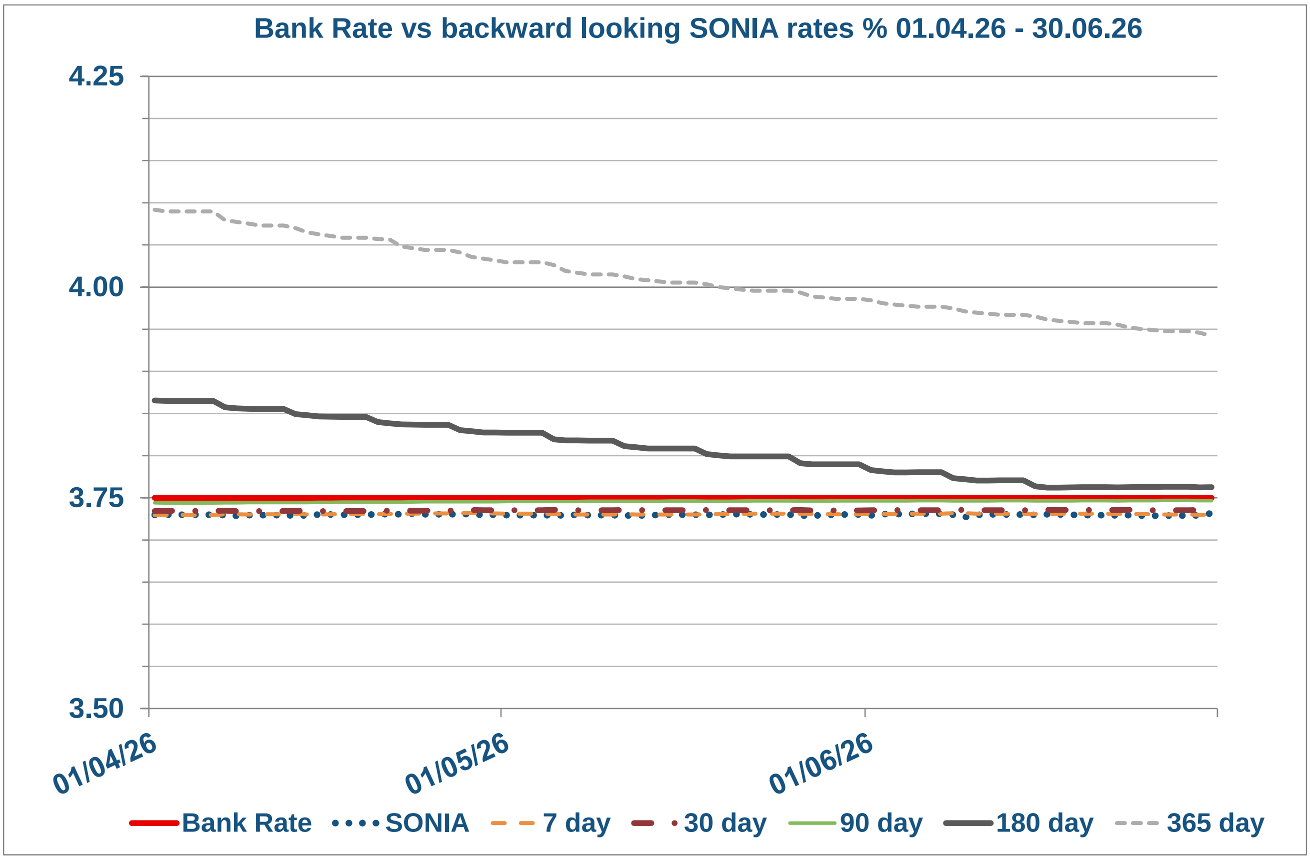
CDS prices
For UK and international banks, these have remained low, and prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return.

Investment balances
The average level of funds available for investment purposes during the quarter was £14.328m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council has investments totalling £37.153m as at the end of June 2026.

Investment performance year to date as of end-June 2026



FINANCIAL YEAR TO QUARTER ENDED 30/06/2026						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	3.75	3.73	3.76	3.86	4.08	4.35
High Date	01/04/2026	30/06/2026	23/04/2026	30/04/2026	30/04/2026	30/04/2026
Low	3.75	3.73	3.74	3.77	3.84	3.96
Low Date	01/04/2026	09/06/2026	22/06/2026	26/06/2026	26/06/2026	26/06/2026
Average	3.75	3.73	3.74	3.81	3.94	4.14
Spread	0.00	0.00	0.02	0.09	0.23	0.39



FINANCIAL YEAR TO QUARTER ENDED 30/06/2026							
	Bank Rate	**SONIA**	**7 day**	**30 day**	**90 day**	**180 day**	**365 day**
High	3.75	3.73	3.73	3.74	3.75	3.87	4.09
High Date	01/04/2026	30/06/2026	09/06/2026	06/05/2026	26/06/2026	01/04/2026	01/04/2026
Low	3.75	3.73	3.73	3.73	3.74	3.76	3.94
Low Date	01/04/2026	09/06/2026	01/04/2026	01/04/2026	02/04/2026	16/06/2026	30/06/2026
Average	3.75	3.73	3.73	3.74	3.75	3.81	4.01
Spread	0.00	0.00	0.00	0.00	0.00	0.10	0.15

As illustrated, the Council outperformed the average benchmark of **3.75 bps** with an average interest rate achieved across the portfolio of 5.10%. The Council's budgeted investment return for 2026/27 is **£1.645m**, and performance for the year to date is favourable against the budget (£182k favourable variance from Q3 budget).

Fund investments

- Money Market Funds (MMFs)
- Pooled Funds
- Housing Association Loans

As at the end of Q1, the Treasury is forecasting to be on budget for interest receivable at the 2026/27-year end. Currently a small favourable variance of £34k is anticipated (forecasted income of £1.679m against budget of £1.645m.

All Councils are subject to IFRS9, where a treasury reserve must be held equal to the value of any unrealised losses in the capital of Pooled Fund investments (unrealised losses compared to original amount invested). Currently a statutory override is in place, this override is that for any pooled fund investments made before the 1st of April 2024, no reserve balance is required to be made for unrealised losses until 31st of March 2029.

This means that the Council is not required to hold any reserve at the current time, although the Treasury is happy to report that with the current Pooled Fund portfolio, there are no unrealised losses (net gain position).

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

4. Borrowing

In 2026/27, the Council has not been required to undertake any external borrowing for capital purposes (the CFR – Capital Financing Requirement). The Council has repaid it's existing £5m PWLB loan in May 2026 as the Council's cashflow anticipated no borrowing need until Winter 2026 at the earliest. The cashflow position is monitored daily by the Council's treasury, and if it is assessed the Council has a future long-term debt, a new PWLB loan will be taken. This will lead to a favourable variance against the Council's borrowing budget at year-end.

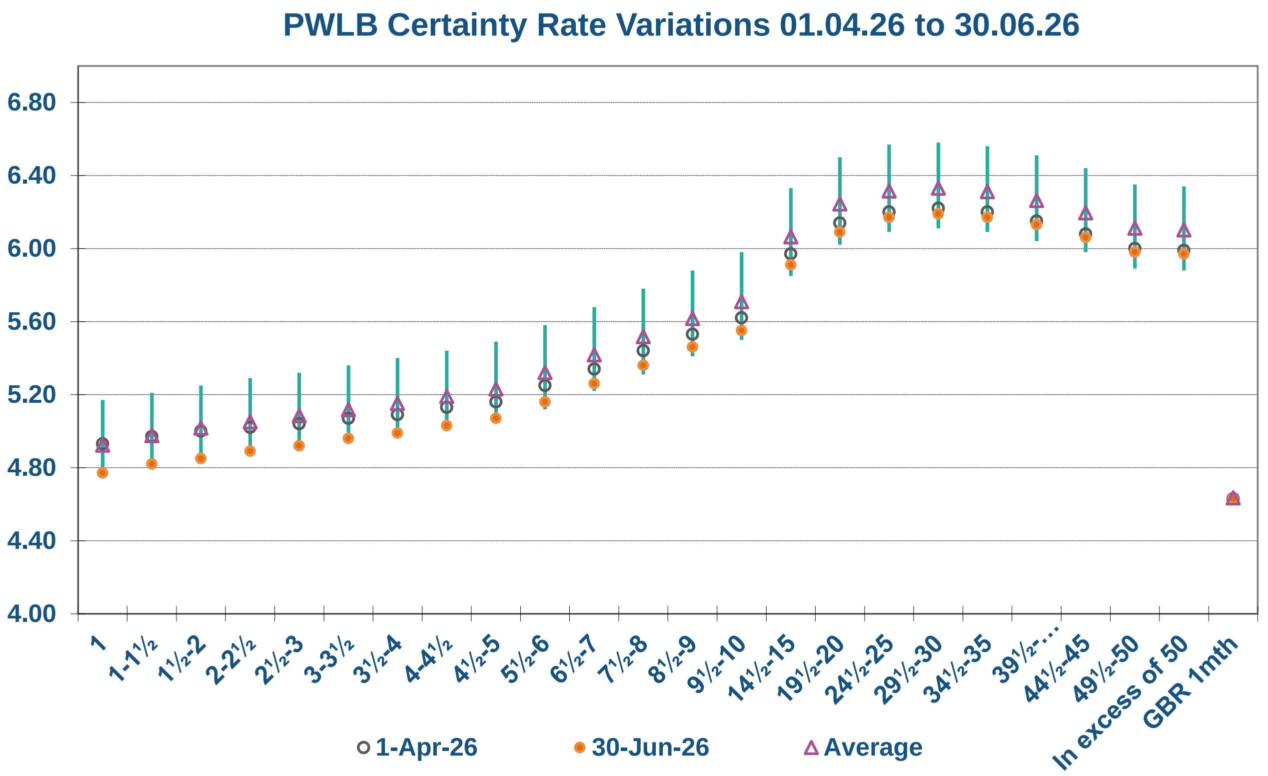
PWLB maturity Certainty Rates 1st April to 30th June 2026

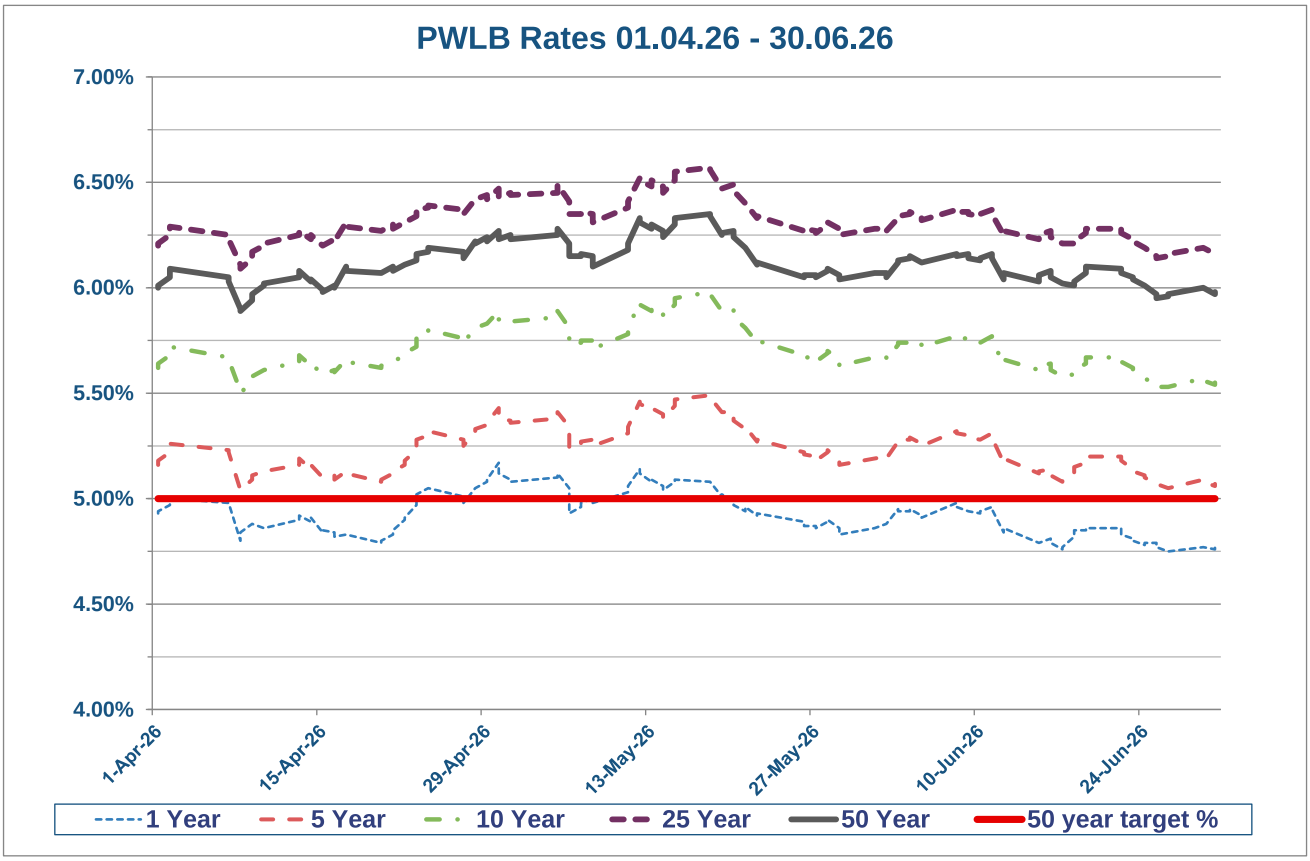
Heading into the second quarter of 2026/27, markets seem to have settled down to a view that Bank Rate may increase by 25 basis points to 4% later in 2026, or early in 2027, if the Bank of England's Monetary Policy Committee deems it prudent to keep any secondary round effects of inflation from flaring up. On balance, however, MUFG Corporate Markets believes that Bank Rate will remain unchanged at 3.75% for the remainder of 2026, and that the next movement will be downwards if the CPI measure of inflation gets no higher than a peak of c3.5% before trending lower towards the 2% inflation target rate. Consequently, where market sentiment has gradually moved towards that view, the chart below has captured the degree to which rates across the whole curve - having risen at the start of the quarter – have finished the quarter at a similar level to which they started.

Of course, there have been both international geo-political and domestic factors holding sway over the past three months, sometimes separately and sometimes jointly. Initially, markets focussed on the inflationary threat from a large spike upwards in fuel and energy costs emanating from the conflict in the Middle East and, more precisely, the shutting of the Strait of Hormuz to cargo ships transporting oil. Heading into July, however, there has been an outbreak – albeit tentative – of optimism that the US and Iran can reach an agreement that will either end, or at least restrict, the worst of the hostilities. As oil prices have dropped back, inflation concerns have become more muted, although gilt yields are still historically high and monetary policy tighter than it was before the start of the conflict.

Referencing the charts below, we continue to think that borrowers will achieve the most value by focussing on the shorter part of the curve. Medium and long-dated rates continue to prove expensive.

PWLB RATES 01.04.26 - 30.06.26





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.26 – 30.06.26

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2026	4.93%	5.16%	5.62%	6.20%	6.00%
30/06/2026	4.77%	5.07%	5.55%	6.17%	5.98%
Low	4.75%	5.04%	5.50%	6.09%	5.89%
Low date	26/06/2026	08/04/2026	08/04/2026	08/04/2026	08/04/2026
High	5.17%	5.49%	5.98%	6.57%	6.35%
High date	30/04/2026	18/05/2026	18/05/2026	18/05/2026	18/05/2026
Average	4.92%	5.23%	5.71%	6.31%	6.11%
Spread	0.42%	0.45%	0.48%	0.48%	0.46%

5. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

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

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

1. Changes in risk appetite
The 2021 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

2. Sovereign limits
The Council maintains a minimum sovereign rating of AA- for any investment.

3. Sources of borrowing
The Council will borrow short-term through the local authority brokerage market (borrowing from other government bodies only to prevent default). For any long-term borrowing, the central government PWLB or other local authorities will be used.

Recommendations

***The Scrutiny/Audit Committee* is asked to recommend the following to the full Council:**

- Note the report and approve the treasury activity to date as outlined in this report.

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

Treasury Indicators	2026/27 Budget £m	31.06.26 Actual £m
Authorised limit for external debt	43.000	43.000
Operational boundary for external debt	32.000	32.000
Gross external debt	0.000	0.000
Investments	34.716	37.153
Net borrowing	0.000	0.000

Prudential Indicators	2026/27 Budget £m	31.06.26 Actual £m
Capital expenditure	42.395	2.819
Capital Financing Requirement (CFR)	27.175	17.356
Annual change in CFR	9.978	-0.440

Interest rate exposures for borrowing.

The Council will use its cash flow forecast to determine whether borrowing is short-term (less than one year, i.e. a few months) or long-term (over one year). If borrowing need is assessed to be long-term (even if fluctuating on and off) then the Council will look to secure long-term borrowing from the PWLB/local authorities to limit the chance of adverse interest rate exposure in the longer-term of finding short-term borrowing. If borrowing is assessed to be short-term, then borrowing from another local authority will be the default preference.

APPENDIX 2: Investment Portfolio

Investments held as of 30th June 2026 compared to our counterparty list:

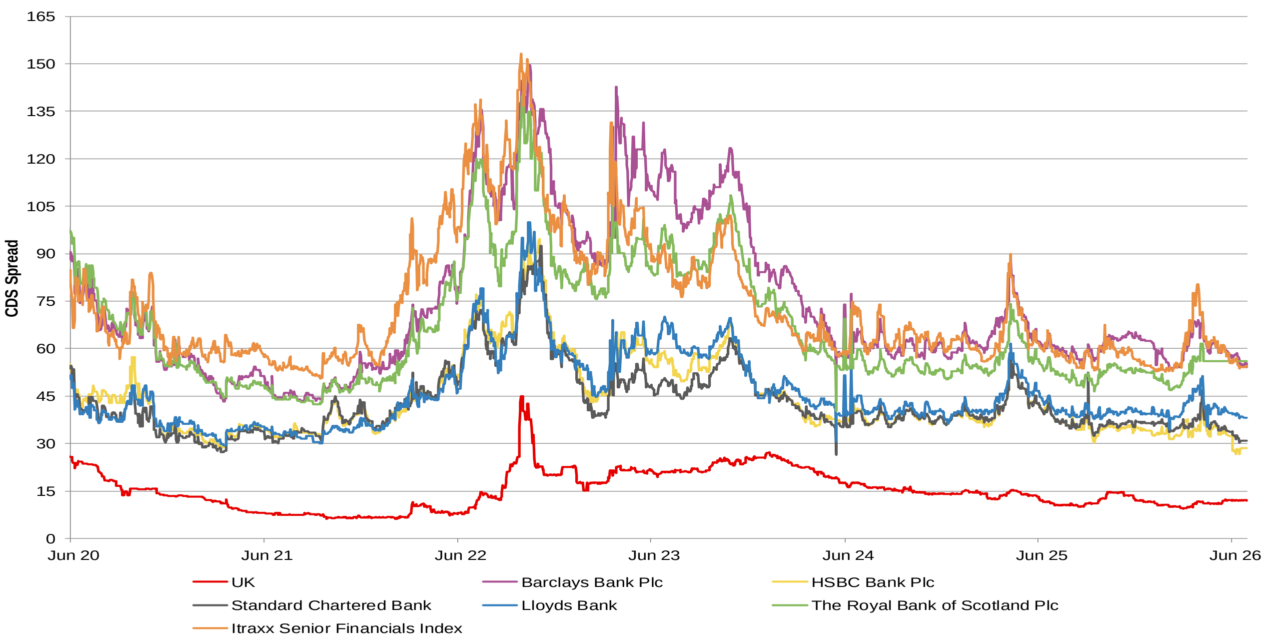
North Norfolk District Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
MMF Aberdeen Standard Investments	3,800,000	3.85%		MMF	AAAm		
MMF BlackRock	3,447,143	3.81%		MMF	AAAm		
MMF Federated Investors (UK)	3,800,000	3.90%		MMF	AAAm		
MMF Goldman Sachs	1,230,000	3.79%		MMF	AAAm		
MMF Invesco	3,800,000	3.84%		MMF	AAAm		
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**			
CCLA -The Local Authorities Property Fund	5,000,000	4.70%	31/03/2013				
M&G Securities - UK Income Distribution Fund (Extra Inc	2,000,000	19.94%	24/02/2017				
Ninety One - Diversified Income Fund (Multi Asset)	3,000,000	6.55%	01/03/2017				
Schroder - Income Maximiser Fund (Equity)	2,000,000	12.58%	27/02/2017				
Threadneedle - Strategic Bond Fund	3,000,000	3.38%	15/03/2017				
M&G Securities - Strategic Corporate Bond Fund	2,000,000	4.34%	10/08/2017				
Aegon Asset Management - Diversified Income Fund	3,000,000	17.27%	30/11/2018				
Total Investments	**£36,077,143**	**6.67%**					
Total Investments - excluding Funds	**£16,077,143**	**3.85%**				-	-
Total Investments - Funds Only	**£20,000,000**	**8.94%**					

UK Banks 5 Year Senior Debt CDS Spreads as of 30th June 2026

This is an optional graph which shows the assessment of creditworthiness risk of key banks. The cost of insuring against default is shown in basis points down the left- hand axis. Credit risk has reduced markedly in recent weeks. The cost of insuring against the prospect of default is still low in historic terms. (The chart below shows the cost in basis points of ensuring against the prospect of default on 5 year "paper" issued by major UK banks v the ITRAXX Senior Financials Index.)



APPENDIX 3: Approved countries for investments as of 30th June 2026

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