Financial Strategy Advisory Group
20 November 2026

2026/27 MID-YEAR TREASURY MANAGEMENT

Head of Service:	Cagdas Canbolat, Director of Corporate Services and Section 151 Officer (Chief Finance Officer)
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Wards affected:	(All Wards);
Appendices (attached):	None.

Summary

This report provides an update on treasury management performance for the first six months of 2026/27.

Recommendation (s)

The Group is asked to:

(1) Note the performance on return of investments for the first six months of 2026/27;

(2) Note the current investment decisions being made within the terms set out in the Treasury Management Strategy.

1 Reason for Recommendation

1.1 The 2026/27 Treasury Management Strategy, agreed by Council in February, aims to ensure maximum return on investments for the Council within reasonable risk constraints. The Strategy requires a mid-year treasury management performance report to be brought before the Financial Strategy Advisory Group – the recommendations ensure that this requirement is met.

2 Background

2.1 The Council's Treasury Management Strategy is consistent with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services. It supports the achievement of the council's Medium Term Financial Strategy and is based on a sector template provided by MUFG Corporate Markets. Members can view the current 2026/27 Treasury Management Strategy on the Council's website.

2.2 This report covers the performance of the treasury management function for the period 01 April 2026 to 30 September 2026.

2.3 The treasury function manages cash funds held by the Council, whose level varies during the year. The reported September 2026 figure is around £26.1 million, compared with £25.5 million at September 2025.

2.4 The aim of treasury management is to ensure funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means, for example, not investing in banks/building societies that are offering high investment returns but are at high risk of defaulting.

2.5 Before an investment decision is made, officers will investigate any proposed counterparty to ensure its financial rating makes it eligible for investment. Even if the institution meets the criteria as set out in the financial strategy, independent advice will be sought from our external financial advisors before the investment is made.

3 Security, Liquidity and Yield

3.1 The Council's approved investment strategy and practice is to put security of investment at a higher priority than rate of return/yield. The day-to-day practice continues to be reviewed and refined, within the boundaries of the approved policy, in response to changing market conditions. The cornerstones of current policy/practice are:

3.1.1 to restrict lending to only those institutions which fit the council's policy in terms of financial standing, credit ratings etc;

3.1.2 generally, to restrict lending to the short-term (under one year) or to cover precept dates for the remainder of the year;

3.1.3 to update financial limits to each institution depending on the quality of their financial ratings.

4 Economics and Interest Rates (Update from MUFG Corporate Markets)

4.1 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 3-month year on year 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% quarter-on-quarter (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% month-on-month (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 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 $100 per barrel, 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.

4.2 **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 20bps) which has been accessible to most authorities since 1 November 2012.

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. However, the anticipated increase in Bank Rate has now materialised, with the Bank of England raising the rate to 4% on 5 November. This increase reflects 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.

It is noted that the broader market sentiment has focussed 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.

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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	Dec-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	3.25
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	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	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	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	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	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	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	4.90

MUFG Corporate Markets Interest Rate View 03.08.26													
	Sep-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	3.75	3.75	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.90	3.80	3.80	3.70	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.00	3.90	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.50	4.40	4.20	4.20	4.00	4.00	3.80	3.80	3.80	3.80	3.80	3.80	3.80
5 yr PWLB	5.20	5.00	4.80	4.70	4.50	4.30	4.20	4.10	4.10	4.10	4.20	4.20	4.20
10 yr PWLB	5.70	5.50	5.30	5.20	5.00	4.80	4.70	4.60	4.60	4.60	4.70	4.70	4.70
25 yr PWLB	6.30	6.00	5.80	5.70	5.40	5.30	5.20	5.20	5.20	5.20	5.20	5.20	5.30
50 yr PWLB	6.10	5.80	5.60	5.50	5.20	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.10

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	Jun-29	Sep-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	3.25	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	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	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	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	4.20	4.20
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	4.70	4.70
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	5.20	5.20
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	5.00	5.00

5 Current Performance

5.1 The average return from investments for 2026/27 was originally budgeted at 3.5%. This amounted to total income for the year of £875,000, to be generated on reserves, working balances and cash flow.

5.2 The performance for the first six months of 2026/27 on the council's investments is as follows:

01 April 2026 to 30 September 2026	Average Investment £'000	Net Interest Receivable £'000	Net Average Rate of Return %
Internally Managed Funds			
Money Market Funds	15,021	285	3.79%
Fixed Rate Deposits	10,000	209	4.18%
Interest Bearing Account	226	2	1.75%
Total	**25,248**	**496**	**3.93%**

5.1 During the first half of the year, £495,932 of interest had been earned, overachieving the profiled budgeted target of £437,500 for the same period.

5.2 The interest-rate outlook presented in Section 4.2 is based on MUFG Corporate Markets' forecast of 21 September. It anticipates Bank Rate at around 4% until the end of the financial year; this is a forecast rather than a confirmed outcome.

5.3 The average return achieved for the first six months of 3.93% compares slightly favourably with the average benchmark overnight SONIA (Sterling Overnight Index Average) rate of 3.73%.

6 Internally Managed Funds

6.1 Money Market Funds

6.1.1 Money market funds (MMFs) are pooled investments that allow instant access to these monies. The benefit of MMFs is that the risk on the investment is very low as money invested in the fund is spread across a range of counterparties, which limits the exposure of a significant sum being invested with a defaulting counterparty. In addition, cash balances can be called back from MMFs with no notice required, ensuring the council has liquidity to meet its daily cash flow requirements.

6.1.2 The average return made on MMFs was 3.79%. The average return has remained relatively stable throughout the first half of the year.

6.2 Fixed Rate Term Deposits

6.2.1 The Council had two fixed term deposits at 30 September 2026; the average return on these deposits was 4.18%. One of the fixed rate deposits matures in March 2027, and the other in April 2027.

6.3 Interest Bearing Accounts

6.3.1 Interest bearing accounts offer similar instant access as money market funds and deliver a rate of return linked to base rate set by the Bank of England.

6.3.2 The risk on these investments is higher than money market funds as money is deposited with one counterparty. Funds invested in this type of investment tend to be surpluses of daily cash flows which need to be called back at short notice.

6.3.3 The return on the interest-bearing account was 1.75%. Officers use this account when counter party limits with other providers have been fully utilised.

7 Risk Assessment

Legal or other duties

7.1 Equality Impact Assessment

7.1.1 None for the purposes of this report.

7.2 Crime & Disorder

7.2.1 None for the purposes of this report.

7.3 Safeguarding

7.3.1 None for the purposes of this report.

7.4 Dependencies

7.4.1 None for the purposes of this report

7.5 Other

7.5.1 The Treasury Management Strategy sets out that investment decisions must be based first and foremost on security, then liquidity and finally yield, in order to minimise risk.

7.5.2 Investments in money market funds are considered low risk as the money invested in the fund is spread across a range of counterparties, this limits the exposure of a significant sum being invested with a defaulting counterparty.

8 Financial Implications

8.1 The Council's 2026/27 budget anticipates gross interest income of £875,000. After £58,000 is credited to specific provisions, the budgeted net contribution to General Fund services is £817,000. The table below distinguishes gross income from the net contribution and shows the updated forecast.

	Budgeted £	**Updated Forecast £**
Interest earned in year	875,000	975,000
Less interest credited to specific provisions	(58,000)	(58,000)
Interest used to fund General Fund services	**817,000**	**917,000**

8.2 The forecast interest at the end of 2026/27 is now anticipated to overachieve the budgeted income by £100,000.

8.3 In previous financial years, some additional interest generated has been set-aside in an earmarked Interest Equalisation Reserve to help smooth interest returns in future years. The balance of this reserve is currently £433,745.

8.4 **Section 151 Officer's comments**: Financial implications are set out in the body of the report. As part of its medium-term financial strategy, the Council remains reliant on treasury income to support its budget and current forecast is positive.

8.5 **Section 24 considerations:** Treasury management activities such as investments and borrowing are covered by General Consent, as approved by the East Surrey Shadow Executives at their June 2026 meeting.

9 Legal Implications

9.1 There are no particular legal implications directly arising from this report, other than the requirement to act within the Council's powers when undertaking treasury management borrowings and investments.

9.2 **Legal Officer's comments**: None arising from the content of this report.

10 Policies, Plans & Partnerships

10.1 **Council's Key Priorities**: The following Key Priorities are engaged:

- Effective Council

10.2 **Service Plans**: The matter is included within the current Service Delivery Plan.

10.3 **Climate & Environmental Impact of recommendations**: None arising from the contents of this report.

10.4 **Sustainability Policy & Community Safety Implications**: None arising from the contents of this report.

10.5 **Partnerships**: None arising from the contents of this report.

10.6 **Local Government Reorganisation Implications**: Treasury management activities, where they are adhering to existing authorities approved treasury management strategies are covered by General Consent, which allows the Council to continue treasury activities without seeking specific approval.

11 Background papers

11.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2025-26 Treasury Management Year-End Performance – Financial Strategy Advisory Group – September 2026
- Budget Report 2026/27 – Full Council, February 2026

Other papers:

- CIPFA Prudential Code
- Code of Practice for Treasury Management in Local Authorities (CIPFA)