Item: 4

Investments Sub-committee: 17 September 2026.

Treasury Management – Monitoring.

Report by Head of Finance.

1. Overview

1.1. This report presents performance of treasury management functions for the period up to 30 June 2026, for scrutiny.

1.2. Regulation 21 of the Council's Financial Regulations confirms that the Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in the Public Services (the Code).

1.3. The Code defines treasury management as including investment activities.

1.4. The Council's investment priorities can be summarised as maintaining:

- The security of capital.
- The liquidity of its investments.

1.5. The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Strategic Reserve Fund, which is to provide for the benefit of Orkney and its inhabitants, whilst having regard to the Fund's long-term obligations in terms of the decommissioning of the Flotta Oil Terminal in the future.

1.6. The Financial Regulations refer to maintenance of the Treasury Management Policy Statement and Treasury Management Practices as the cornerstone for effective treasury management and the requirement to report annually on the Treasury Management function.

1.7. The CIPFA Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report ensures that the Council is implementing best practice in accordance with the Code of Practice.

1.8. An analysis of the Treasury Management Performance as at 30 June 2026, attached as Appendix 1 to this report, covers the following elements:

- Borrowing activity.
- Temporary loans.
- Strategic Reserve Fund.

1.9. The conclusion of the analysis of performance is that existing treasury management practices have operated effectively over the first quarter of the current financial year.

2. Recommendations

2.1. It is recommended that members of the Sub-committee:

i. Scrutinise the quarterly report, attached as Appendix 1 to this report, prepared by Link Treasury Services, the Council's Treasury Adviser, which covers the following elements of treasury management:
   - An economic update for the quarter ended 30 June 2026.
   - Interest rate forecasts.
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
   - A review of prudential and treasury indicators for 2026/27, as at 30 June 2026.

ii. Scrutinise the status of the temporary loans portfolio as at 30 June 2026, as detailed in section 3 of this report.

3. Treasury Management Performance

3.1. As at 30 June 2026, the Council's debt portfolio stood at £45,000,000, with loan maturities ranging from 2 months to 44 years. Overall, this represents an average cost of borrowing of 3.09% per annum, with an average weighted duration of 25.9 years.

3.2. The cost of this debt is managed as part of the loan charges associated with the capital programme and has been offset in the short term with surplus funds placed on deposit for periods of up to one year.

3.3. The temporary loan portfolio as at 30 June 2026 totalled £16,144,348.13. Further details are provided in the Monthly Investment Analysis Review prepared by Link Asset Services, attached as Appendix 2 to this report.

3.4. For the period 1 April to 30 June 2026, the temporary loans returned an average interest rate of 4.11%, which equates to a return of £215,133.24.

3.5. By comparison, the equivalent 30-day backward looking Sterling Overnight Index Average rate of 3.74% is considered to be the target.

3.6. With inflation quoted at 2.6% for June 2026 based on Consumer Price Index (3% Retail Price Index), the return on temporary loans equates to a relative gain in value of 1.51% in real terms.

4. Benchmark Liability

4.1. CIPFA introduced the liability benchmark as a new Prudential Indicator to provide a measure of how well the existing loans portfolio matches planned borrowing needs:

- It is a projection of the amount of loan debt outstanding, that the Council needs each year into the future to fund its existing debt liabilities, planned prudential borrowings and other cash flows.
- The liability benchmark advocates a net book approach to treasury management, where borrowings and investments are netted down while maintaining appropriate investments for liquidity purposes, thereby reducing the treasury risks associated with running debt and investment portfolios at the same time.

4.2. The Liability Benchmark, attached as Appendix 3 to this report shows that the Council's liabilities are sitting below the benchmark.

For Further Information please contact:

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Implications of Report

1. **Financial:** The financial implications are contained within the body of the report.
2. **Legal:** Treasury Management arrangements help the Council meet its statutory obligation to secure best value.
Section 40 of the Local Government in Scotland Act 2003 provides local authorities with the power to invest money. This power may be exercised in accordance with regulations made by Scottish Ministers under this section.
Section 95 of the Local Government (Scotland) Act 1973 states that every local authority shall make arrangements for the proper administration of their financial

affairs and shall secure that the proper officer has responsibility for the administration of those affairs.

3. **Corporate Governance:** At its meeting held on 20 February 2024, the Policy and Resources Committee noted that, from 2024/25 onwards, the Investments Sub-committee would be responsible for ongoing monitoring and scrutiny of the approved Treasury Management Strategy Statement, including a mid-year review and annual review.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** An Equality Impact Assessment is not required for financial monitoring.
6. **Island Communities Impact:** An Island Communities Impact Assessment is not required for financial monitoring.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:

   ☐Growing our economy.

   ☐Strengthening our Communities.

   ☐Developing our Infrastructure.

   ☐Transforming our Council.
8. **Links to Local Outcomes Improvement Plan**: The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

   ☐ Cost of Living.

   ☐ Sustainable Development.

   ☐ Local Equality.

   ☐Improving Population Health.
9. **Environmental and Climate Risk:** Environmental, Social and Governance factors are recognised as having the potential to impact the Fund.
10. **Risk:** Reviewing the performance quarterly ensures that the treasury management processes are being adhered to and provides assurance that associated risks are being managed effectively.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Policy and Resources Committee: 17 February 2026 - Treasury Management Strategy Statement 2026/27.

Appendices

Appendix 1 – Treasury Management Update – Quarterly Report 2026/27.

Appendix 2 – Link Asset Services Monthly Investment Analysis Review for June 2026.

Appendix 3 – Liability Benchmark Chart.

Appendix 1

Treasury Management Update

Quarterly Report

30TH JUNE 2026

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% as the economy remains weak
  - 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 and brought the first signs that the economy is starting to crack.
- 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, digging deeper there were some signs of strength. Manufacturing output rose by 0.4% m/m but that was probably in part due to a temporary prop from precautionary stock building. Looking ahead, despite the announced ceasefire of the conflict in the Middle East, 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 and some reassurance on the fiscal outlook from the likely replacement of Starmer's leadership with Burnham's. 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 17 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.

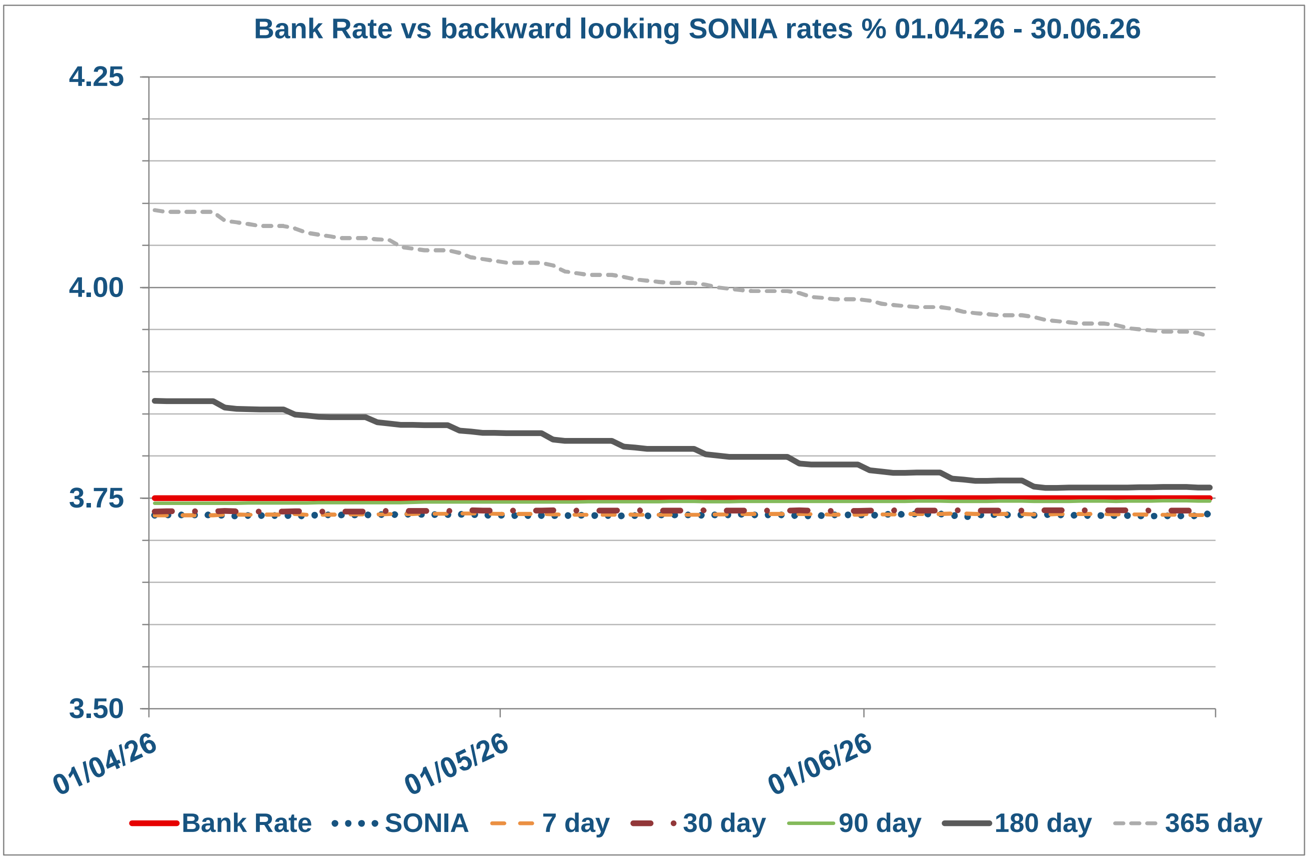
Creditworthiness.
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

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 £19.909m. 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.

Investment performance year to date as of end-June 2026



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

The Council's internally managed investments outperformed the benchmark (30-day backward looking SONIA) shown above by **37 bps**.

Fund investments – as at 30 June 2026

Treasury Investments – Managed In House	Principle (£m)	Interest Rate	Maturity Date
Bank of Scotland	0.500	4.040	07/07/2026
Bank of Scotland	4.000	4.080	15/07/2026
BlackRock ICS Heritage Shares MMF	3.600	3.883	Call
Aberdeen Standard Investments Money Market Fund	3.900	3.881	Call
Insight Liquidity Funds PLC	3.900	3.937	Call
Royal Bank of Scotland	0.244	1.750	Call
Total Investment – In House	**16.144**		

The Strategic Reserve Fund has slightly underperformed the benchmark over the quarter to 30 June 2026, returning a gain 5.7% over the period, against a target of 5.8%.

Treasury Strategic Reserve Fund – Managed Externally	Actual (£m)	Performance Quarter Ending 30/06/26	Benchmark
Equity Portfolio	69.594	7.3%	9.8%
Global Equity Portfolio	64.449	14.1%	14.3%
Diversified Growth Fund	10.445	4.4%	1.1%
High Yield Credit Strategies Fund	26.800	2.3%	1.2%
Private Loan Fund	4.878	2.0%	1.5%
UK Property Fund	25.131	-0.1%	0.5%
Secured Income Fund	29.637	n/a%	n/a
Corporate Bonds Fund	28.179	2.6%	2.4%
Buy and Maintain Fund	17.216	2.5%	2.5%
Total Investment – External	**276.329**	**5.7%**	**5.8%**

*No performance figures are provided where full drawdown of the Council's commitment has not been concluded.

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

No borrowing was undertaken during the quarter ended 30th June 2026.

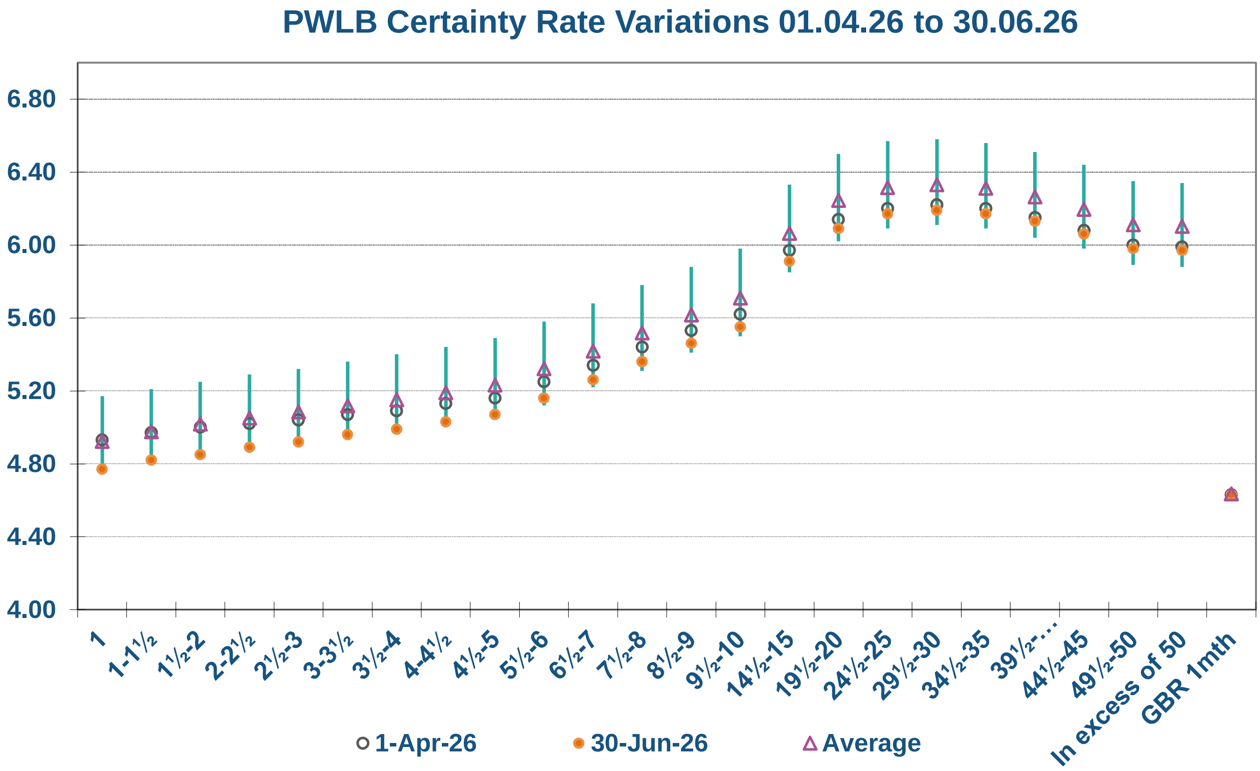
PWLB maturity Certainty Rates 1st April to 30th June 2026
Heading into the second quarter of 2026/27, markets seem to have settled down to a view that Bank Rate may increase by 25 basis points to 4% later in 2026, or early in 2027, if the Bank of England's Monetary Policy Committee deems it prudent to 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.

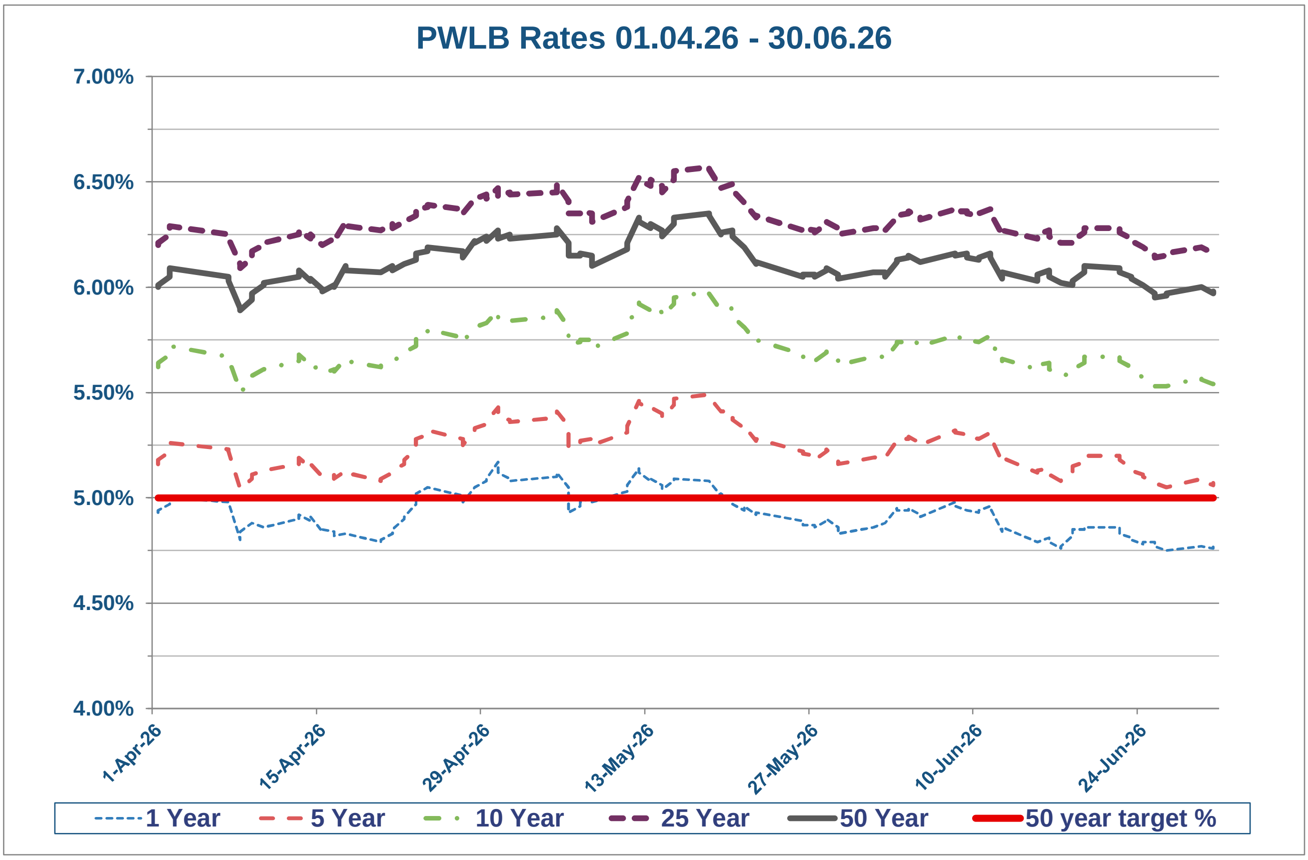
Of course, there have been both international geo-political and domestic factors holding sway over the past three months, sometimes separately and sometimes jointly. Initially, markets focussed on the inflationary threat from a large spike upwards in fuel and energy costs emanating from the conflict 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.

Domestically, Andy Burnham is the Prime Minister in-waiting and could take over the leadership of the country by the end of July. Nonetheless, markets have generally assumed that whatever new policies may move to the fore under his leadership, there would still be fiscal constraints that he would have to adhere to.

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


PWLB Certainty Rate Variations 01.04.26 to 30.06.26
6.80
6.40
6.00
5.60
5.20
4.80
4.40
4.00
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-…
44½-45
49½-50
In excess of 50
GBR 1mth
1-Apr-26
30-Jun-26
Average


PWLB Rates 01.04.26 - 30.06.26
7.00%
6.50%
6.00%
5.50%
5.00%
4.50%
4.00%
1-Apr-26
15-Apr-26
29-Apr-26
13-May-26
27-May-26
10-Jun-26
24-Jun-26
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %

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. Debt rescheduling

Debt rescheduling opportunities have remained a possibility in the current quarter for those authorities with significant surplus cash or can demonstrate that any early loan repayments do not impact Capital Financing Requirement financing in future years. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

6. 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 capital expenditure 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. The Head of Finance reports that 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.

7. Other

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.

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

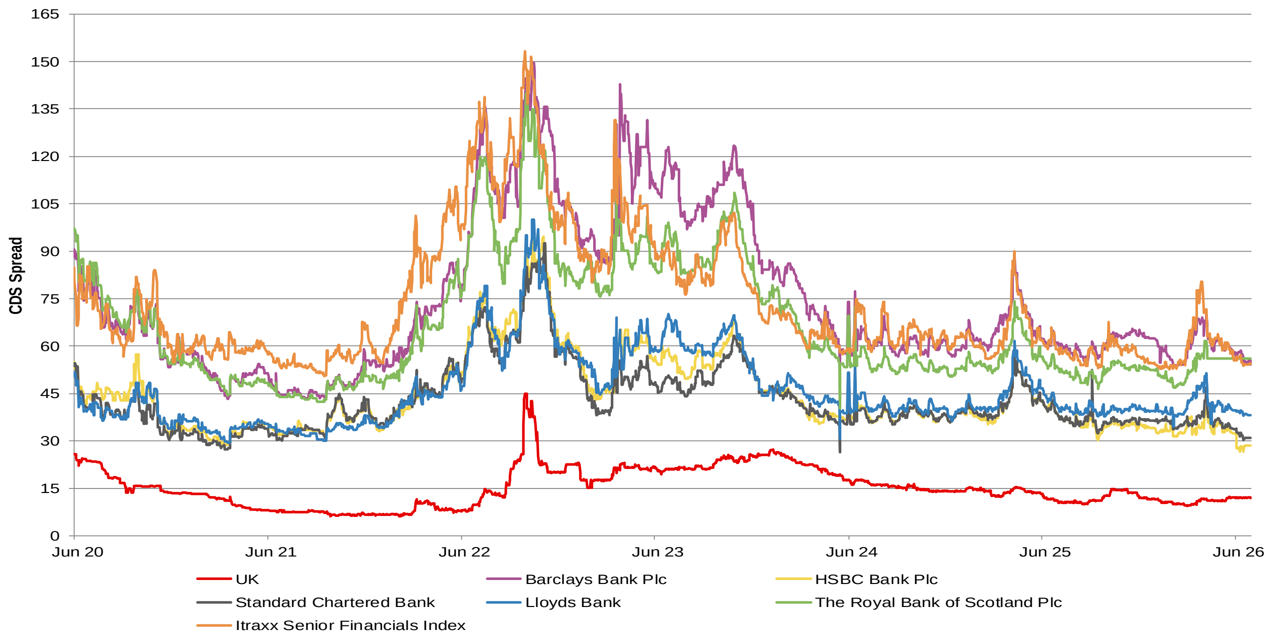
Treasury Indicators	2026/27 Budget £'000	30.06.26 Actual £'000
Authorised limit for external debt	100,000	100,000
Operational boundary for external debt	90,000	90,000
Gross external debt	66,400	45,000
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	40%	33%
12 months to 2 years	30%	0%
2 years to 5 years	30%	0%
5 years to 10 years	30%	0%
10 years to 20 years	50%	0%
20 years and above	100%	67%

APPENDIX 2: Investment Portfolio

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

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
The Royal Bank of Scotland Plc (RFB)	244,348	1.75%		Call	A+	0.000%	0
MMF Aberdeen Standard Investments	3,900,000	3.85%		MMF	AAAm		
MMF BlackRock	3,600,000	3.81%		MMF	AAAm		
MMF Insight	3,900,000	3.87%		MMF	AAAm		
Bank of Scotland Plc (RFB)	500,000	4.04%	04/06/2026	07/07/2026	A+	0.001%	4
Bank of Scotland Plc (RFB)	4,000,000	4.08%	13/05/2026	15/07/2026	A+	0.002%	68
Total Investments	**£16,144,348**	**3.88%**					**£73**

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

Clients may wish to draw the attention of members to any changes to their approved list of countries for investments since their last report.

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

Appendix 2

Orkney Islands Council

Monthly Investment Analysis Review

June 2026

Orkney Islands Council

Monthly Economic Summary

General Economy

The UK economic outlook remains uneven, with the latest data pointing to weak private-sector momentum, still-positive but softer growth, and easing inflation. The composite PMI stayed in contraction in June, as services weakness outweighed resilience in manufacturing, while consumer confidence remained subdued. GDP growth was firmer in Q1 than at the end of 2025, but labour market conditions have softened, and retail sales are only recovering after earlier weakness. Against this backdrop, the Bank of England continues to face a difficult balance between above target inflation and a growth outlook that remains fragile.

The latest PMI readings continue to point to a subdued near-term growth picture. On the flash PMI measure, the UK Composite PMI fell to 49.4 in June from 49.7 in May, marking a second consecutive month of contraction and falling short of expectations for a return to expansion at 50.6. The sector split remained clear: the flash Services PMI slipped to 48.7 from 49.3, while the Manufacturing PMI rose to 52.5, with its output component strengthening to 53.6 from 52.2. It was noted that total private sector sales fell at the sharpest pace since April 2025, as weakness in services outweighed goods-sector growth. Meanwhile, employment continued to fall at a fast pace. On a more positive note, input costs eased for a second month as Middle East-related energy pressures moderated, although cost growth remained above average.

Inflation remained above target but showed no renewed acceleration in the latest release. The UK annual inflation rate remained at 2.8% in May 2026, while monthly CPI slowed to 0.2% from 0.7%. The latest reading suggests that the early year disinflation trend has broadly stabilised rather than reversed, although price pressures are still elevated enough to complicate the policy outlook, especially as household energy costs are set to rise sharply at the next cap reset. The June MPC meeting saw Bank Rate unchanged at 3.75% in June.

GDP data offered a somewhat stronger backward-looking picture. The UK economy expanded 0.6% q/q in Q1 2026, up from a revised 0.1% in the previous quarter, while annual GDP growth held at 0.9%. Trade data also improved at the margin, with the goods and services deficit narrowing to £8.4 billion in April from £9.7 billion previously. Even so, the broader activity mix remains fragile, with the PMI data unsurprisingly suggesting that the momentum seen in Q1 has not carried into Q2.

The labour market has softened but remains mixed. The unemployment rate eased to 4.9% in April from 5.0% in March, but forecasts point to a gradual rise later in the year. The latest CBI measure of UK manufacturing optimism also showed business confidence deteriorating sharply to -65 in June from -19 previously, underlining weaker corporate sentiment. Meanwhile, consumer confidence was unchanged at -23 in June, suggesting households remain cautious despite the easing in inflation.

Retail sales rebounded in May, rising 1.2% m/m after a 1.0% fall in April, pointing to some recovery in household spending from prior weakness. However, the rebound comes against a still-fragile consumer backdrop, given low confidence levels and services activity in contraction. Public finances remain a further constraint, with the latest data showing the government budget deficit at 4.3% of GDP and government debt at 94.3% of GDP.

US Economy

The US economy continued to show resilience, although labour market tightness appears to be moderating. Non-farm payrolls rose by 172k in May 2026, above market expectations of 85k and following an upwardly revised 179k increase in April. Job gains were concentrated in leisure and hospitality, local government, health care and manufacturing, while employment in financial activities declined. GDP growth was revised to an annualised 2.1% in Q1 2026, up from 0.5% in the previous quarter but below expectations of 2.3%. Inflation pressures remain elevated, with the annual CPI rate at 3.8% in April, while recent survey data showed manufacturing still expanding, with ISM Manufacturing PMI at 54.0 in May and S&P Global Manufacturing PMI at 53.9. As in the UK, these ran ahead of service sector activity, where the headline PMI reading was only 51.3. The Fed met under the new leadership of Kevin Warsh but kept policy unchanged, as widely expected, retaining a slight hawkish bias to its “dot plot” outlook.

EU Economy

Eurozone data point to a softer growth backdrop but easing inflation pressure. Annual inflation fell to 2.8% in June 2026 from 3.2% in May, below market expectations of 3.0%, while core inflation eased to 2.4% from 2.6%. Energy inflation also moderated, slowing to 8.7% from 10.8%, helping reverse part of the earlier price pressure linked to higher energy costs. Growth remains weak: Euro Area GDP contracted 0.2% q/q in Q1 2026 after expanding 0.2% in the previous quarter, while annual growth slowed to 0.3% from 1.2%. The unemployment rate held at a record-low 6.2% in May, and the June PMI mix (as elsewhere) remained uneven, with Manufacturing PMI at 51.4 and Services PMI at 48.9. The European Central Bank made no change to policy at its meeting during the month.

Housing

The Halifax House Price Index showed UK house prices fell 0.1% m/m in May, matching April’s decline and contrasting with expectations for a 0.1% rise. On an annual basis, prices rose 0.5%, up slightly from 0.4% in April but below expectations of 1.0%, with the average UK house price at £298,806. Nationwide’s House Price Index showed a more positive annual picture in June, with prices rising 2.2% y/y, up from 1.7% in May but below expectations of 2.4%. On a monthly basis, Nationwide prices were flat in June, in line with forecasts, following a 0.6% rise in May.

Currency

Over the month, Sterling fell against the Dollar and rose against the Euro.

June	Start	End	High	Low
GBP/USD	$1.3438	$1.3273	$1.3473	$1.3147
GBP/EUR	€1.1567	€1.1609	€1.1609	€1.1536

Interest Rate Forecast

MUFG Corporate Markets and Capital Economics did not alter their Bank Rate forecasts during the month.

Bank Rate	Now	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
MUFG Corporate Markets	**3.75%**	3.75%	3.75%	3.75%	3.75%	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%
Capital Economics	**3.75%**	3.75%	3.75%	3.75%	3.75%	3.25%	3.00%	-	-	-	-	-

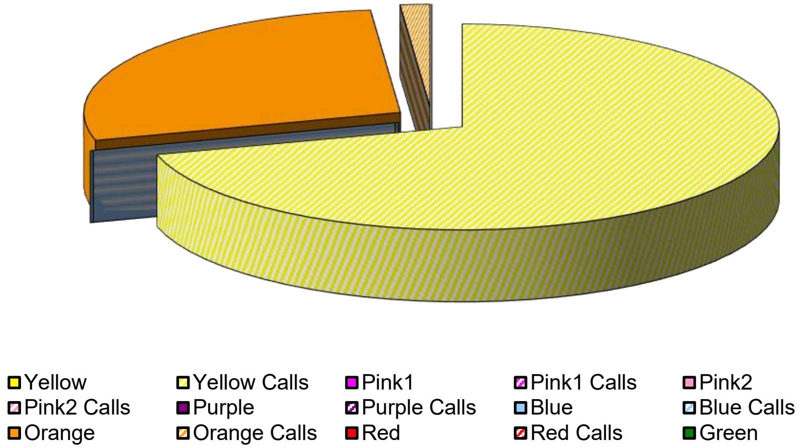
Orkney Islands Council

Current Investment List

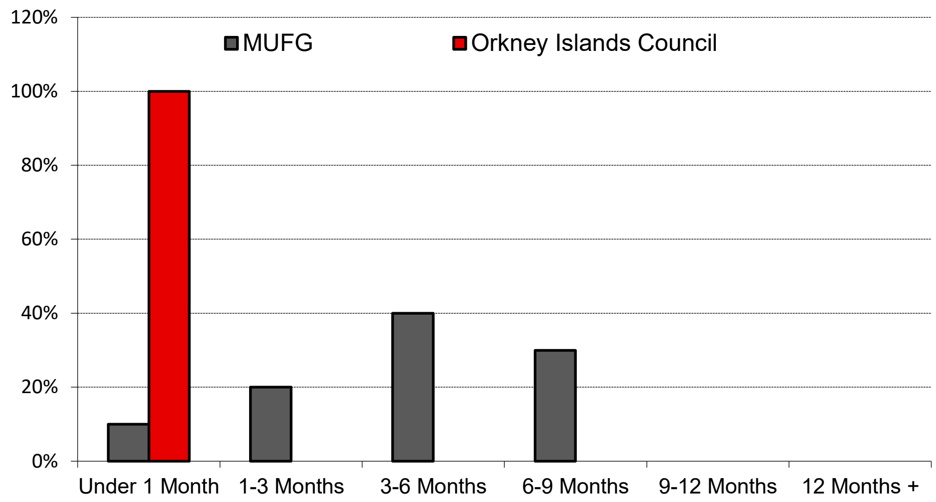
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
The Royal Bank of Scotland Plc (RFB)	244,348	1.75%		Call	A+	0.000%	0
MMF Aberdeen Standard Investments	3,900,000	3.85%		MMF	AAAm		
MMF BlackRock	3,600,000	3.81%		MMF	AAAm		
MMF Insight	3,900,000	3.87%		MMF	AAAm		
Bank of Scotland Plc (RFB)	500,000	4.04%	04/06/2026	07/07/2026	A+	0.001%	4
Bank of Scotland Plc (RFB)	4,000,000	4.08%	13/05/2026	15/07/2026	A+	0.002%	68
Total Investments	**£16,144,348**	**3.88%**					£73

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.
The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2025 for Fitch, 1983-2025 for Moody's and 1981-2025 for S&P.
Where MUFG Corporate Markets have provided a return for a property fund, that return covers the 12 months to March 2026, which are the latest returns currently available.

Portfolio Composition by MUFG's Suggested Lending Criteria



Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour



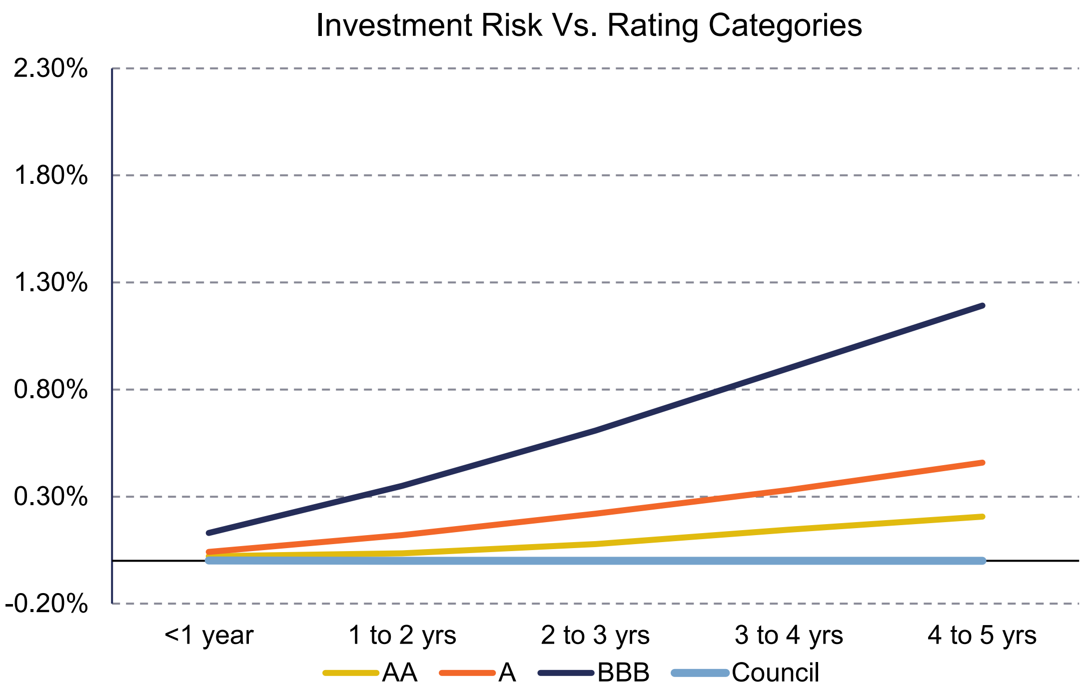
Portfolios weighted average risk number = 1.88

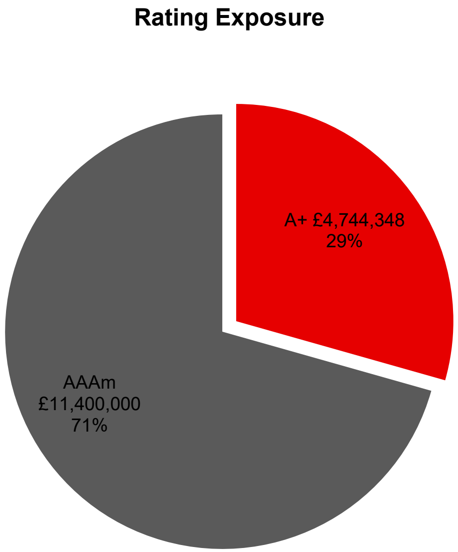
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	70.61%	£11,400,000	100.00%	£11,400,000	70.61%	3.84%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	29.39%	£4,744,348	5.15%	£244,348	1.51%	3.96%	13	57	14	60
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£16,144,348**	**72.13%**	**£11,644,348**	**72.13%**	**3.88%**	**4**	**17**	**14**	**60**

Orkney Islands Council

Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.08%	0.15%	0.21%
A	0.04%	0.12%	0.22%	0.33%	0.46%
BBB	0.13%	0.35%	0.61%	0.90%	1.19%
Council	0.00%	0.00%	0.00%	0.00%	0.00%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for “AA”, “A” and “BBB” rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio’s historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Orkney Islands Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
04/06/2026	2139	Toronto-Dominion Bank	Canada	The Outlook on the Long Term Rating was changed to Stable from Negative.
12/06/2026	2140	Clydesdale Bank PLC	United Kingdom	All ratings were withdrawn.

Orkney Islands Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
30/06/2026	2141	Societe Generale	France	The Outlook on the Long Term Rating was changed to Positive from Stable.

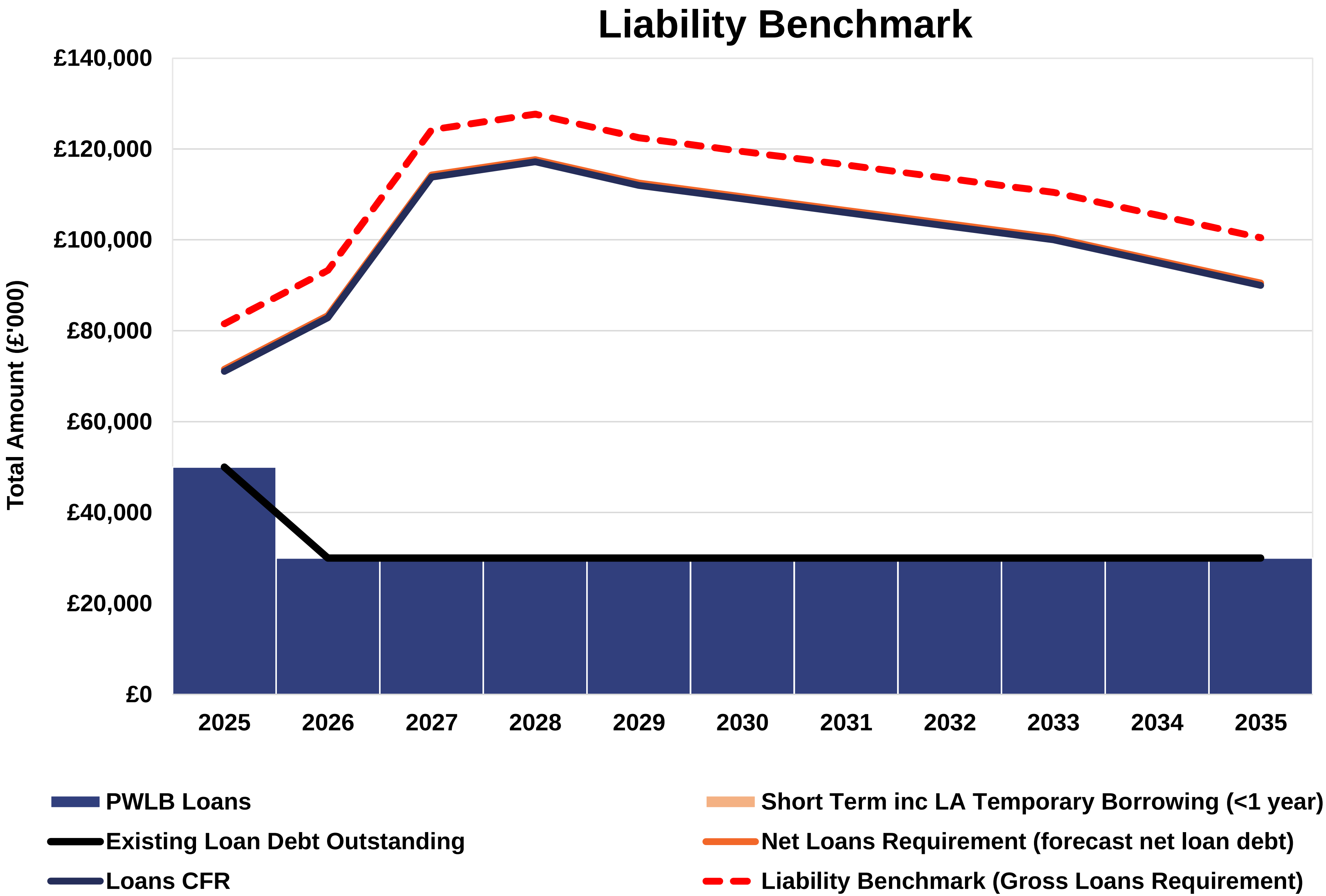
Orkney Islands Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
				No rating actions to report.

MUFG Corporate Markets | 19th Floor | 51 Lime Street | London | EC3M 7DQ.

Appendix 3



Liability Benchmark
£140,000
£120,000
£100,000
£80,000
£60,000
£40,000
£20,000
£0
Total Amount (£'000)
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
PWLB Loans
Short Term inc LA Temporary Borrowing (<1 year)
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)