NEWS ROUND-UP

JUNE 2026

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UK BORROWING COSTS CLIMB

Government borrowing costs have risen sharply as investors react to uncertainty over the future of Prime Minister Sir Keir Starmer.

The effective interest rate on 10-year Government borrowing briefly reached 5.13%, close to levels last seen during the 2008 global financial crisis. Longer-term borrowing also came under pressure, with the 30-year gilt yield hitting 5.81%, its highest level since 1998.

Markets were already unsettled by the Iran war, which has pushed oil prices above $100 a barrel and raised fears of higher inflation. If inflation rises further, investors may expect interest rates to stay higher for longer.

The UK, however, saw borrowing costs rise more sharply than some comparable economies, including France and Germany. Analysts said investors were also concerned that a change in Labour leadership could lead to looser public spending and higher Government borrowing.

Starmer and Chancellor Rachel Reeves have repeatedly committed to strict borrowing rules, describing them as "iron-clad". But some Labour MPs have questioned whether the current fiscal rules are suitable for long-term renewal.

Government borrowing works through bonds, known in the UK as gilts. Investors lend money to the Government in return for interest, but demand higher returns when they see greater risk.

The pressure has also been felt across financial markets, with bank shares and sterling reacting to concerns about possible tax rises under a future administration. However, as market movements can shift quickly, the broader point is less about one day's trading and more about investor sensitivity to fiscal policy uncertainty.

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BRITISH STEEL FACES STATE TAKEOVER

British Steel is set to return to public ownership after Sir Keir Starmer announced plans for new legislation giving the Government powers to take full control of the company.

The Prime Minister said the move would be subject to a public interest test, which will consider issues such as national security, critical infrastructure and economic support.

The decision follows the Government's intervention at British Steel's Scunthorpe steelworks in April last year, when it took control from Chinese owner Jingye to prevent the possible closure of the site's blast furnaces.

Sir Keir said ministers had held talks with Jingye, but a commercial sale had not been possible. He said public ownership was now "in the public interest".

The announcement was welcomed by the steel industry. Gareth Stace, director-general of UK Steel, said it gave "vital certainty" to British Steel's 2,700 workers and its customers. He added that retaining domestic production was important for economic growth, national security and resilience.

However, Stace warned that nationalisation should not be treated as the final answer. He said it must mark the start of a clear long-term plan for British Steel, backed by an investment strategy.

The future of Scunthorpe has been closely watched because its blast furnaces are central to the UK's ability to produce virgin steel. If the furnaces were switched off, restarting them would be difficult and expensive.

The National Audit Office said in March that Government supervision of British Steel had already cost around £377 million. If spending continues at the same rate, it could exceed £1.5 billion by 2028.

No final cost for full nationalisation has been confirmed. An independent valuation is expected to decide whether compensation is owed to Jingye.

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HOUSEHOLDS BRACE FOR FRESH SQUEEZE

A new survey suggests that British households are bracing for renewed financial pressure as conflict in the Middle East dampens economic confidence.

Consumer confidence in the UK has fallen at its fastest quarterly rate since June 2022, when inflation surged after Russia's invasion of Ukraine pushed up global commodity prices.

The survey, which tracks measures such as spending intentions and how financially secure people feel, recorded a score of -13 in April. That marks a sharp drop from -1 in January and the weakest reading since autumn 2023.

Confidence in household finances fell across all age groups. Younger people remained more optimistic than older consumers, but the picture among under-35s also weakened. The proportion who said they felt financially healthy fell by 20%, while the share struggling or in difficulty with bills and finances rose by 9%.

Almost 90% of the 2,068 consumers surveyed said they were concerned about the cost of living. Nearly 80% said they planned to reduce spending over the next three months.

Rising fuel costs are also changing behaviour. The proportion of consumers planning to drive less to save money has doubled since January, rising from 12% to 24%.

The Bank of England said that higher UK inflation would be "unavoidable" because of the Middle East conflict, with fuel, food and energy costs likely to rise. ONS figures show CPI inflation rose to 3.3% in March, up from 3% in February and above the Bank's 2% target.

Job vacancies also fell in April, marking the 30th consecutive monthly decline. However, employers appear to be relying more on temporary staff, with temporary billings rising at their strongest pace in two-and-a-half years.

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CONSTRUCTION SECTOR UNDER PRESSURE

UK construction firms are facing some of the steepest cost increases in almost 30 years, as the war in Iran pushes up fuel, energy and raw material prices.

A closely watched survey of UK construction companies found that input cost inflation rose sharply in April, reaching its highest level since June 2022, when commodity prices spiked after Russia's invasion of Ukraine. April's rise in purchasing prices was also among the steepest recorded since the survey began in 1997.

The construction purchasing managers' index (PMI), a key measure of sector activity, fell to 39.7 in April, down from 45.6 in March. Any reading below 50 indicates contraction, showing that activity across the sector continues to weaken.

The pressure comes at a difficult time for an industry that accounts for around 7% of UK GDP and employs more than two million people. The sector has already been affected by weaker demand, skills shortages and higher operating costs.

Around two-thirds of firms surveyed reported higher cost burdens in April. Many linked this to suppliers passing on higher fuel costs caused by the war, disruption in the Strait of Hormuz, and rising prices for imported materials.

Supply chains are also under strain. Vendor delivery times lengthened at the fastest rate since December 2022, with firms reporting international shipping delays and problems importing materials from the Gulf region.

At the same time, new work is not replacing completed projects quickly enough. Sales decisions are taking longer, and some companies are choosing not to replace staff who leave voluntarily.

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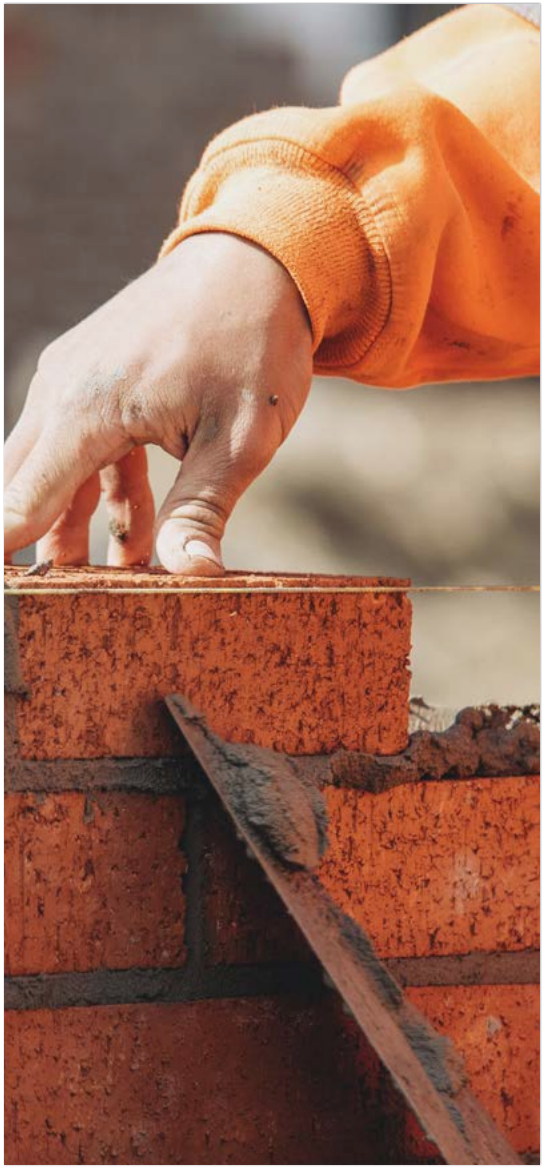

WANT TO TALK TO AN EXPERT?

If you've found the topics covered in this report to be of interest or you would like to delve deeper into any of them, we welcome the opportunity to engage in a more detailed discussion with you. Our team of experts is always keen to share insights, and we're confident that a conversation with us can provide valuable perspective.

We are also well-positioned to update you on the latest trends, opportunities and challenges in the business world. As we all know, staying ahead of the curve is vital in today's fast-paced business landscape, and we're here to help you navigate it successfully.

If you're considering getting extra support, we invite you to explore the comprehensive solutions we offer.

To schedule a meeting or to get more information, please don't hesitate to contact us.

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