

APPENDIX A - BORROWING STRATEGY AND OUTTURN 2023/24

Borrowing Strategy for 2023/24

During 2023/24, the Council continued to maintain an under-borrowed position consistent with the position in previous years. This meant that the capital borrowing need or Capital Financing Requirement (CFR), was not fully funded with loan debt as cash supporting the Council's reserves, balances and surplus cash flow was available to be used instead, thereby deferring external borrowing and the associated financing costs. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

The Council's borrowing requirement identified within the capital programme 2023/24 to 2025/26 was self-financing prudential borrowing of £81.3m and the need to borrow externally was considered against the Council's current under/over borrowed position and the level of cash balances held within the authority.

The Council has not taken out any new borrowing during the last 14 years, as cash balances held within the Council have been sufficient and so the treasury policy has been to repay borrowing as loans mature, and instead use internal cash balances to fund any borrowing need within the capital programme. This has had the benefit of reducing the interest expenditure relating to borrowing over the last 14 years.

Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

By January it had become clear that inflation was moving down significantly from its 40-year, double-digit high point, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the situation in the Middle East and the Russian invasion of Ukraine and the subsequent conflict.

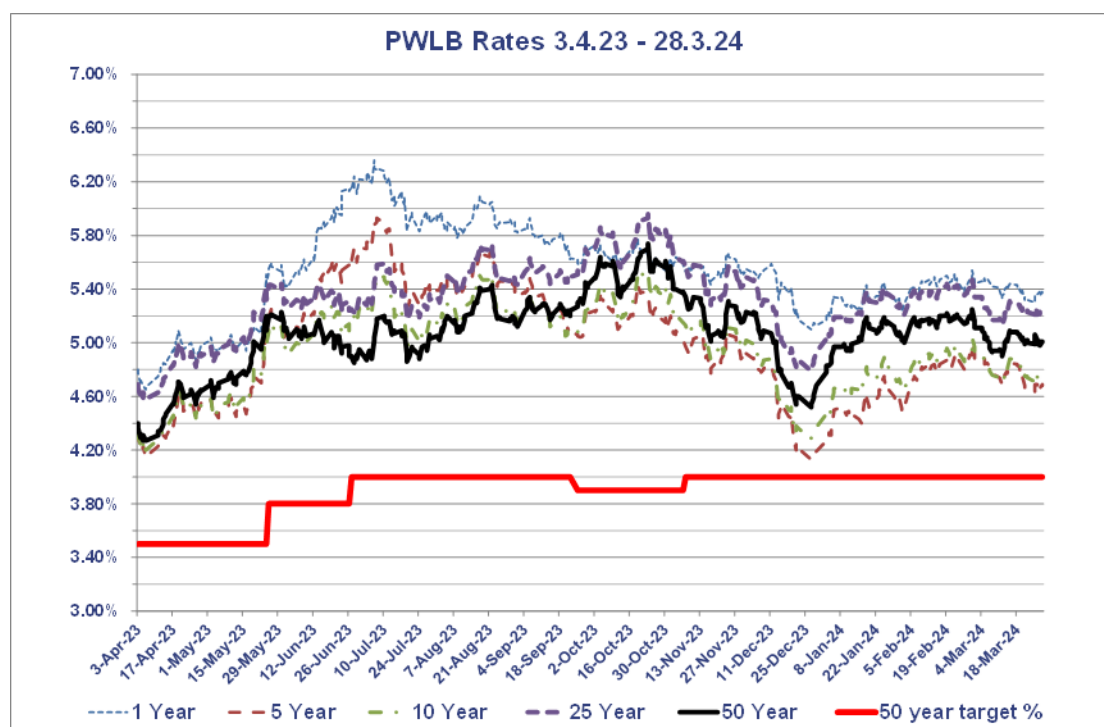
An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk. Whilst this would normally be a strategy that could be pursued if the Council holds significant cash balances, if cash balances have reduced then this may not be a strategy that could be pursued, given the liquidity risk arising.

Consideration of changing strategy would be taken if it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were lower than they were projected to be in the next few years.

Independent expert advice continues to be taken by the internal treasury team to provide assurance over investment and borrowing decisions, in line with the approach to management of treasury risks set out in the strategy and approved by Council.

Borrowing Outturn for 2023/24

The Finance Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2023/24 are shown in the graph below.



The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| Low | 4.65% | 4.13% | 4.20% | 4.58% | 4.27% |
| Date | 06/04/2023 | 27/12/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| High | 6.36% | 5.93% | 5.53% | 5.96% | 5.74% |
| Date | 06/07/2023 | 07/07/2023 | 23/10/2023 | 23/10/2023 | 23/10/2023 |
| Average | 5.54% | 4.99% | 4.97% | 5.34% | 5.08% |
| Spread | 1.71% | 1.80% | 1.33% | 1.38% | 1.47% |

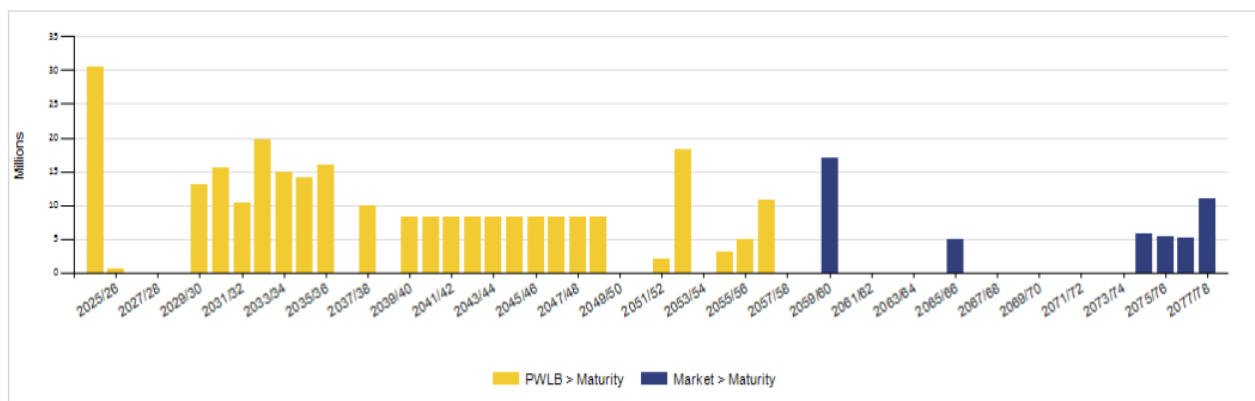
Given that interest rates have been held at a high level in a bid to control inflation in the economy, any new borrowing undertaken would be more expensive. Therefore, it was more advantageous to take out any borrowing through Public Works Loan Board over a shorter time period, to allow interest rates to reduce as widely anticipated in the market, so that longer term borrowing could be taken out at more favourable rates. During 2023/24, one new short term PWLB loan for 12 months of £30m was taken out. The council's total debt portfolio at 31 March 2024 is set out below:-

| Type of Debt | Balance £m | Average Borrowing Rate 2023/24 |
|--------------------------------|---------------|-----------------------------------|
| General Fund Fixed Rate – PWLB | 183.52 | 4.80% |
| HRA Fixed Rate – PWLB | 83.35 | 3.51% |
| Fixed Rate – Market | 43.85 | 4.09% |
| Variable Rate | 0 | N/A |

The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 13 years, market loans have an average debt period of 38 years. The total debt portfolio has a maturity range from 1 year to 54 years.

The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to refinance when interest rates may be high. The actual debt maturity profile is within these limits

Debt Summary for Shropshire Council



Debt Rescheduling

No debt restructuring was undertaken during 2023/24. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 and subsequent changes in 2019 and 2020, as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling.

Debt rescheduling will only be undertaken:

- to generate cash savings at minimum risk.
- to help fulfil the treasury strategy.
- to enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.