APPENDIX A - BORROWING STRATEGY AND OUTTURN 2024/25

Borrowing Strategy for 2024/25

During 2024/25, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. 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 2025 and 2026 in the light of economic growth concerns and the eventual dampening of inflation. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) 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 2024/25 to 2026/27 was self-financing prudential borrowing of £68.7m and the need to borrow externally was considered against the Council's current under borrowed position and the level of cash balances held within the authority.

The Council had not undertaken any new borrowing for a number of years, and has been utilising cash balances to internally "borrow" for prudential borrowing schemes. This has enabled the Council to benefit from saving on interest costs compared to the returns that could be generated on the cash balances. This approach has been effective during a period where the Council has held significant cash balances.

Cash balances have now reduced as a result of reduced levels of reserves being held and loans continuing to reach their maturity dates. Therefore it has been necessary to secure additional borrowing to reduce the under-borrowed position.

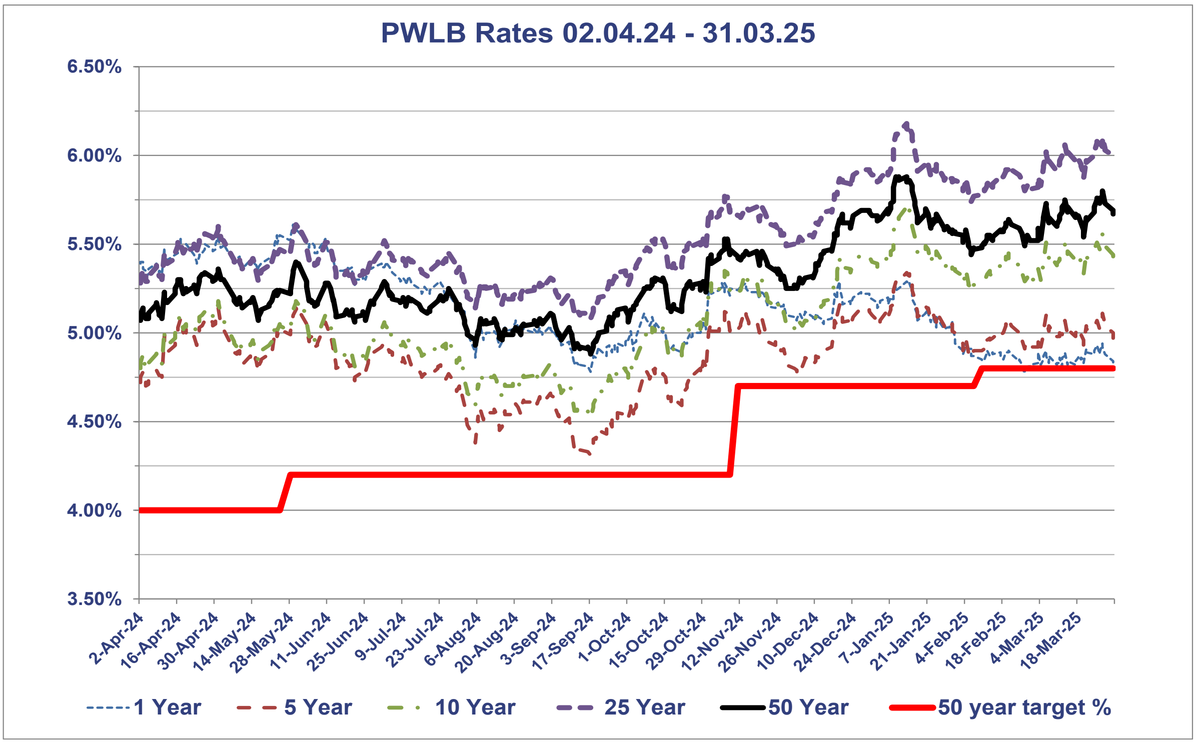
Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

Borrowing Outturn for 2024/25

The Finance Team take advice from its external treasury advisor, MUFG Corporate Markets, on the most opportune time to borrow. Movements in rates during 2024/25 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	4.77%	4.31%	4.52%	5.08%	4.88%
Date	26/02/2025	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.34%	5.71%	6.18%	5.88%
Date	29/05/2024	13/01/2025	13/01/2025	13/01/2025	09/01/2025
Average	5.14%	4.86%	5.07%	5.56%	5.32%
Spread	0.84%	1.03%	1.19%	1.10%	1.00%

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years.

Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 6% with the exception of the slightly cheaper shorter dates.

At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

Loans that have been drawn during 2024/25 are as follows:

General Fund

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£25m	Fixed interest rate	5.24%	18 months
PWLB	£35m	Fixed interest rate	4.89%	12 months
PWLB	£20m	Fixed interest rate	4.83%	12 months
PWLB	£15m	Fixed interest rate	4.85%	22 months
PWLB	£5m	Fixed interest rate	4.87%	26 months
PWLB	£12m	Fixed interest rate	4.90%	25 months
PWLB	£14.9m	Fixed interest rate	4.90%	25 months

Housing Revenue Account

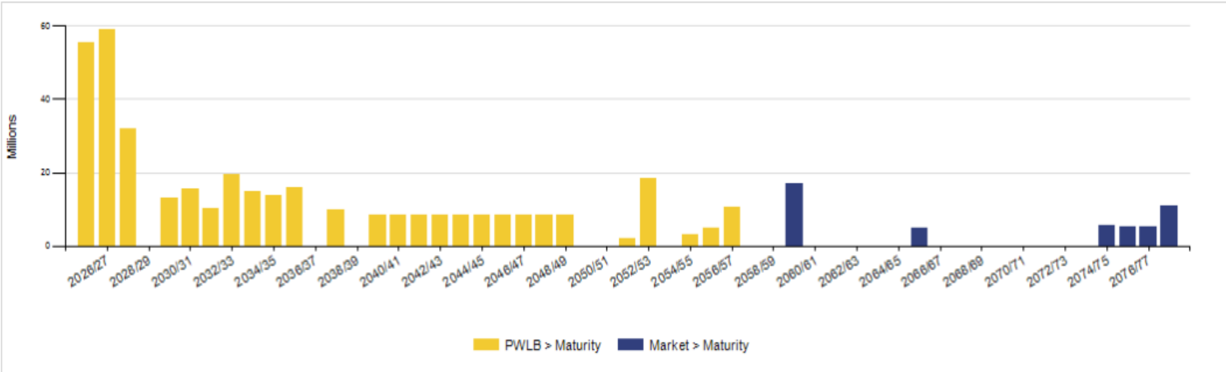
Lender	Principal	Type	Interest Rate	Maturity
PWLB	£19.187m	Fixed interest rate	4.63%	18 months

The Authority has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. As highlighted above, there has been a tendency over the last 12 months to secure short term borrowing as interest rates are anticipated to reduce over the next 2 years. The total debt portfolio has a maturity range from 1 year to 53 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

Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings.

The Council was provided with an opportunity to renegotiate two of the Market Loans held. This involved a reduction in the maturity date of the loans, but also a lower interest rate was negotiated. This has delivered a benefit in 2024/25 of £0.977m.

Debt rescheduling is 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.