

APPENDIX A - BORROWING STRATEGY AND OUTTURN 2025/26

Borrowing Strategy for 2025/26

During 2025/26, 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 near-term investment rates have generally been lower than medium to long-term borrowing costs. The latter are expected to fall a little through 2026 and 2027 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 on a maturity loan structure/ <10 years on an EIP loan structure) as appropriate.

The Council's borrowing requirement identified within the capital programme 2025/26 to 2027/28 was self-financing prudential borrowing of £55.1m 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.

By maintaining an under-borrowed position, the Council 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 previously held significant cash balances.

Cash balances have reduced over the last two years as a result of reduced levels of reserves being held and loans continuing to reach their maturity dates. Therefore new borrowing has been undertaken to maintain an appropriate cash flow position, thereby reducing the under-borrowed position.

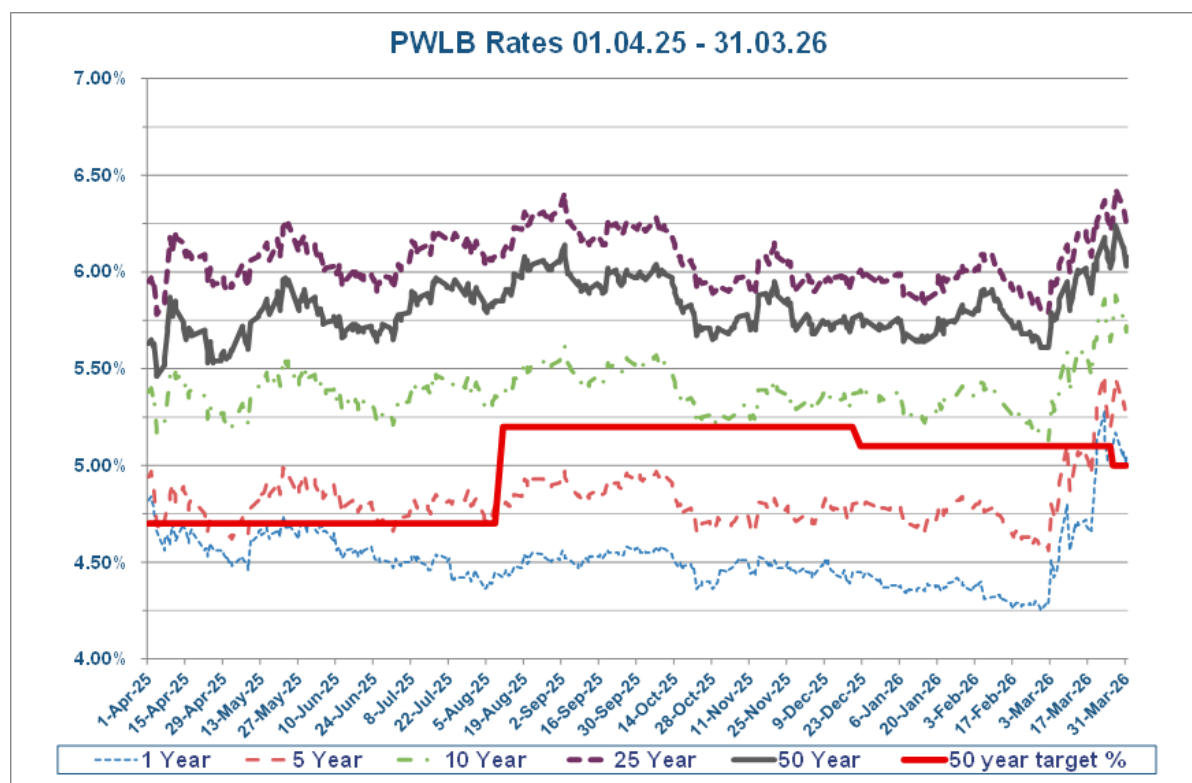
It should be noted that the Council is also managing a deficit position for the Dedicated Schools Grant (DSG), which stood at £45.6m. This is in effect being funded from Shropshire Council cash balances, and so in terms of managing cash flow, borrowing may be undertaken that may not have been necessary if the DSG had been funded fully. The Government has committed to providing a 90% High Needs Stability Grant during 2026/27 to offset the deficits held by local authorities in DSG, and so this will relieve the pressure on cash balances once this is received.

Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2025/26. Bank Rate did reduce to 3.75% as anticipated, but the initial expectation of significant rate reductions across the whole curve did not transpire, primarily because inflation concerns were very elevated in March 2026.

At the start of April 2026, the market expected Bank Rate to increase over the coming months to 4% or 4.25%, from 3.75%, whilst all parts of the curve have also risen substantially through March. A significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

Borrowing Outturn for 2025/26

The Finance Team take advice from its external treasury advisor, MUFG Corporate Markets, on the most opportune time to borrow. Movements in rates during 2025/26 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	4.25%	4.56%	5.13%	5.78%	5.46%
Date	27/02/2026	27/02/2026	02/03/2026	04/04/2025	04/04/2025
High	5.28%	5.47%	5.88%	6.43%	6.24%
Date	23/03/2026	23/03/2026	27/03/2026	27/03/2026	27/03/2026
Average	4.52%	4.82%	5.38%	6.06%	5.81%
Spread	1.03%	0.91%	0.75%	0.65%	0.78%

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.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. More recently, the Middle East conflict is likely to see inflation spike higher from late spring 2026 through to early 2027.

Gilt yields have been volatile through 2025/26. The low point for long-term rates of 25 and 50 years' duration was reached early in April 2025 whilst the low points for short and medium dated rates were reached in early 2026, prior to the outbreak of the Middle East conflict.

At the close of 31 March 2026, the 1-year PWLB Certainty rate was 5.04% whilst the 5, 10, 25 and 50 year rates were 5.28%, 5.72%, 6.29% and 6.08% respectively.

The Council had borrowing of £420.205m as at the 1st April 2025, and loans that have been drawn during 2025/26 are set out in the table below. The closing balance of loans as at 31 March 2026 is £459.705m which includes £61.8m of borrowing for Exceptional Financial Support during 2025/26.

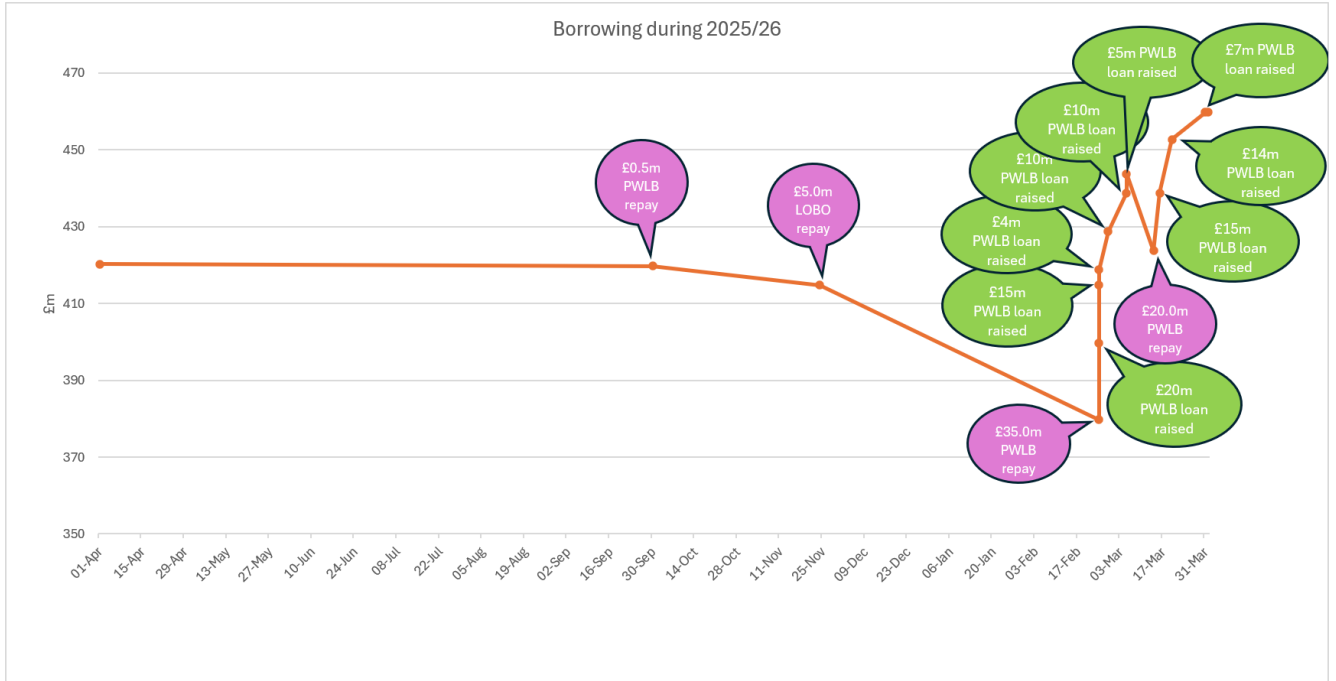
The revenue costs of borrowing for Exceptional Financial Support are £4.964m per annum.

General Fund

Lender	Principal	Date	Type	Interest Rate	Maturity
PWLB	£20m	24/02/26	Fixed interest rate	4.41%	36 months
PWLB	£15m	24/02/26	Fixed interest rate	4.36%	30 months
PWLB	£4m*	24/02/26	Fixed interest rate	4.51%	48 months
PWLB	£10m*	27/02/26	Fixed interest rate	4.32%	24 months
PWLB	£10m*	05/03/26	Fixed interest rate	4.67%	64 months
PWLB	£5m*	05/03/26	Fixed interest rate	4.67%	66 months
PWLB	£15m*	16/03/26	Fixed interest rate	4.83%	18 months
PWLB	£14m*	20/03/26	Fixed interest rate	4.76%	18 months

PWLB £7m* 31/03/26 Fixed interest rate 5.09% 24 months

* Highlighted cells represent loans raised for Exceptional Financial Support purposes

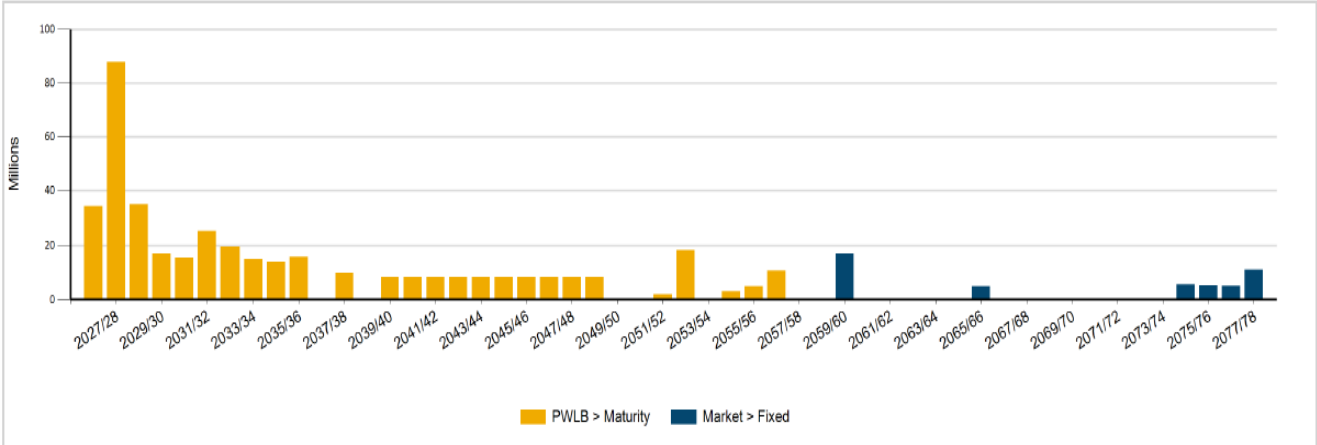


The Authority has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

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 relatively high, so that the Council can take advantage of reductions in interest rates in the next 2-5 years. The total debt portfolio has a maturity range from 1 year to 52 years.

The Treasury Strategy allows up to 25% 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 rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.