



Committee and Date	Item
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Treasury Management Update Quarter 4 - 2025/26

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1. Synopsis

The Council currently holds £54.2m investments and £460m of borrowing which includes new borrowing of £100m for the General Fund. This is aligned with the Council approved Mid-Year Treasury Strategy update and prudential indicators.

2. Executive Summary

- 2.1. The report outlines the treasury management activities of the Council in the fourth quarter of 2025/26. It highlights the economic environment in which treasury management decisions have been made. It also provides an update on the performance of the treasury management function.
- 2.2. During Quarter 4 the internal finance team achieved a return of 3.74% on the Council's cash balances, which was marginally lower than the benchmark by 0.28%. The returns amount to net income of £2.410m for the financial year which is included within the Council's Financial Outturn Report. Further details on this are provided in paragraph 8.3 of the report. The Monetary Policy Committee (MPC) held the Bank Rate at 3.75% during the fourth quarter given the uncertainty arising from the Middle East conflict.
- 2.3. Reducing returns on cash balances is directly attributable to the overall reduction in available balances. As a result, the Council has undertaken new borrowing of £100m for the General Fund during Quarter 4. Further details on the borrowing undertaken is provided in paragraph 8.4, but it should be noted that the new borrowing included £61.8m relating to the capitalisation direction awarded by the Government during 2025/26. The Council also has borrowing to a value of £55.5m that has matured during the period, resulting in a net increase in borrowing of £44.5m.

3. Recommendations

- 3.1. Members are asked to review the position as set out in the report –
- a) Note that new borrowing of £100m for the General Fund has been taken out during quarter 4, in line with the Treasury Management Strategy 2025/26.
 - b) Note that this borrowing includes borrowing undertaken in line with the Council’s approval from government for Exceptional Financial Support for 2025/26.
 - c) Note that the drawdown for Exceptional Financial Support was some £9.6m less than approved, thereby reducing future revenue costs by c £900,000 per annum over original estimates.
 - d) Noting the summary of the wider economic environment and the Council’s borrowings and investments set out in Appendix A.
 - e) Noting the performance within prudential indicators for quarter 4, 2025/26 in Appendix B.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The assessment and management of risk are key considerations for any Treasury Management approach. Compliance with the CIPFA Code of Practice on Treasury Management, the Council’s Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.
- 4.2. The Council’s Audit Committee is the committee responsible for ensuring effective consideration of the Council’s Treasury Management Strategy and policies.
- 4.3. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.4. There are no direct environmental, equalities or climate change consequences arising from this report.

Risk	Mitigation	Link to Strategic Risk
Security of funds	The Council maintains an Annual Investment Strategy which ensures that minimum acceptable credit criteria is applied for all investments to ensure that only highly creditworthy counterparties are used which enables diversification across all investments. The Council uses a treasury advisor, MUFG Corporate Markets/Link Asset Services to provide a creditworthiness service of all potential investment counterparties, which is continuously monitored and updated as needed	Inability to contain overall committed expenditure within the current available resources within this financial year. Failure of Officers and Members to adhere to Governance arrangements.

Risk	Mitigation	Link to Strategic Risk
Managing liquidity	The Council undertakes cash flow monitoring which highlights anticipated cash transactions for the upcoming 18 months. All departments are requested to provide details of large value income and expenditure transactions that may impact on the authority's cash flow position. This is tracked daily and continuously updated to ensure appropriate liquidity to match this profile.	Inability to contain overall committed expenditure within the current available resources within this financial year.
Achievement of investment benchmark	Investments undertaken by the Finance team are benchmarked against the 3 Month Sterling Overnight Index Average (SONIA). The key factors in tracking performance of investments, is the cash balance available to invest and the return that is achieved on investments made. When interest rates are rising in the economy, it may be that previous investments that were fixed have now become less favourable, and so there is a higher risk that the benchmark may not be achieved. The availability of cash for investing has also become a key factor, especially in a period where reserves and hence cash balances have reduced. During the months of February and March the Council does not collect Council Tax and so cash balances reduce during these months. To manage this period, cash is held in call accounts or highly liquid investments rather than being placed into longer term fixed interest investments. The main priority for the Council is always to maintain security and liquidity of funds in preference to investment returns.	Inability to contain overall committed expenditure within the current available resources within this financial year.

5. Financial Implications

- 5.1. Shropshire Council continues to manage unprecedented financial demands and a financial emergency was declared by Cabinet on 10 September 2025. The overall financial position of the Council is set out in the monitoring position presented to Cabinet on a monthly basis. Significant management action has been instigated at all levels of the Council reducing spend to ensure the Council's financial survival. While all reports to Members provide the financial implications of decisions being taken, this may change as officers and/or Portfolio Holders review the overall financial situation and make decisions aligned to financial survivability. All non-essential spend will be stopped and all essential spend challenged. These actions may involve (this is not exhaustive):
- scaling down initiatives,
 - changing the scope of activities,
 - delaying implementation of agreed plans, or
 - extending delivery timescales.
- 5.2. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive

impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

- 5.3. The Quarter 4 performance is slightly below the benchmark however net income of £2.410m has been achieved on investments during 2025/26. Further details on the performance against benchmark are included in paragraph 8.
- 5.4. As at 31 March 2026 the Council held £54.2million in investments as detailed in Appendix A and borrowing of £465million at fixed interest rates. The ability to secure fixed rates helps to manage the uncertainty and risk of changes to interest rates.

6. Climate Change Appraisal

- 6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Finance Team is working with the Council to achieve this. There are no direct climate change impacts arising from this report. Shropshire Council's investment portfolio has no level 1, 2 or 3 emissions. It comprises of straightforward cash deposits with financial institutions and other Local Authorities.

7. Background

- 7.1. The Council defines its treasury management activities as "the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council between 1 January 2026 and 31 March 2026.
- 7.2. For wider context and consideration of the global financial outlook, an economic and borrowing update for the third quarter is considered in Appendix D.

8. Additional Information

- 8.1. The Council receives its treasury advice from MUFG Corporate Markets (previously known as Link Asset Services). Their latest interest rate forecasts to 31 March 2027 are shown below. The Bank Rate remained at 3.75% during the fourth quarter of 2025/26, and it is currently anticipated the Bank rate will be held at this level for the 2026/27 financial year, however this will be influenced by the conflict in the Middle East and the resulting impact on the economy.

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 eamings	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 eamings	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 eamings	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

8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate, it is considered appropriate to:

- Keep investments short term (up to 1 year),
- Only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link.

The Finance Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.

8.3. In the fourth quarter of 2025/26 the internal treasury team achieved a return of 3.74% on the Council's cash balances, which was marginally lower than the benchmark by 0.28%. As cash balances held remained low during the quarter, the Council need to ensure cash balances are highly liquid, resulting in lower interest rates on short term deals. Whilst returns on investment are important, as we strive to achieve the best investment we can, the Council's priority is always to ensure security of funds and ensure we hold sufficient liquid balances. This will often mean that we cannot secure the higher rate investments as these are offered to longer term deals. The Council does receive benchmarking analysis of its investments in relation to its comparative group and throughout the fourth quarter of 2025/26, its performance on investment were considered in line with the other organisations.

8.4. A full list of investments held as at 31 March 2026, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown within Link's Monthly Investment Analysis Review at Appendix 1. None of the approved limits within the Annual Investment Strategy were breached during the fourth quarter of 2025/26. Officers continue to monitor the credit ratings of institutions daily. Delegated authority has been put in place to make any amendments to the approved lending list.

8.5. As illustrated above it is unlikely that investment rates in the market will increase above the current level of 3.75%. The average level of funds available for investment purposes in the fourth quarter of 2025/26 was £45.8million.

8.6. As cash balances and reserves at the Council have reduced over recent years it is now necessary to take out new external borrowing, particularly where capital schemes have been funded through borrowing, or in some cases, to reverse internal borrowing agreed in previous years to save interest costs.

8.7. As planned, during the final quarter of the 2025/26, £100m of new external borrowing has been required including borrowing approved in principle by government for Exceptional Finance Support (EFS).

- 8.8. It should be noted that while the Council had originally made an application in 2025/26 for EFS for up to £71.4m in 2025/26, it is confirmed that only £61.8m is required. Borrowing to this required level is secured. This lower requirement of £9.6m will mean that debt financing costs to the General Fund of around £900,000 per annum will reduce further EFS demands in future years. At all times, EFS funding will be drawn down as late and as little as possible to avoid financing costs of the debt.
- 8.9. The remaining £38.2m related to new borrowing required for the capital programme in 2025/26 and to replace some short term loans that have matured during the year. All borrowing undertaken is in line with the Authorised and Operational Boundary for external debt as demonstrated in Appendix B.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Council, 27 February 2025 – Treasury Strategy 2025/26

Cabinet, 10 September 2025 – Treasury Management Update Quarter 1 2025/26

Cabinet, 3 December 2025 – Treasury Management Update Quarter 2 2025/26

Council, 11 December 2025 – Treasury Strategy 2025/26 Mid-Year Review

Cabinet, 11 February 2026 – Treasury Management Update Quarter 3 2025/26

Local Member: N/A

Appendices

- A. Shropshire Council Monthly Investment Analysis Review as at 31 March 2026 (provided by MUFGE Corporate Markets)
- B. Prudential Indicators for Quarter 4 2025/26
- C. Prudential Borrowing Schedule
- D. Economic Background and Borrowing Update