Cabinet
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Public

Treasury Management Update Quarter 1 2026/27

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Service Area:	Finance
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Electoral Divisions Affected	All
Key Decision?	Key
Cabinet Forward Plan	Yes – 25th March 2026
Report considered by	*List any Committees the report has been to* ***prior*** *to the final committee* *INSERT COMMITTEE AND DATE (don't list any* ***future*** *committee dates here)*

1. Purpose of Report

1.1. The report outlines the treasury management activities of the Council in the first quarter of 2026/27. 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. Recommendations

Cabinet is asked to

2.1. Note the summary of the wider economic environment and the Council's borrowings and investments set out in Appendix A

2.2. Note the performance within prudential indicators for quarter 1, 2026/27 (Appendix B)

3. Background

3.1. 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 April 2026 and 30 June 2026.

3.2. Under the CIPFA Treasury Management Code, it is best practice to provide quarterly Treasury Management updates. This report demonstrates compliance with that best practice.

4. Summary of Main Proposals

4.1. The Council receives its treasury advice from MUFG. Their latest interest rate forecasts to 31 March 2029 are shown below. The Bank Rate remained at 3.75% during quarter 1, and it is not anticipated that there will be further amendments until 2027/28.

Table 1: Interest Rate Forecasts

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 earnings	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 earnings	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 earnings	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

4.2. An overview of the general economic position is included as Appendix A, and with further detail in Appendix D. Decisions on Council investment activity are influenced by this wider context.

4.3. 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 MUFG's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by MUFG.

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

4.4. In the first quarter of 2026/27 the internal finance team's return achieved was marginally lower than its benchmark by 0.07%. The gross investment return was 3.722% compared to the benchmark of 3.730%. As cash balances held are lower than in previous years, the Council need to ensure cash balances are highly liquid, resulting in lower interest rates on short term deals.

4.5. 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. With this in mind, this will often mean that we cannot secure the higher rate investments as these are offered to longer term deals.

4.6. The net investment income achieved during the first quarter was £0.508m which is included in the Council's outturn position in the financial outturn position.

4.7. The council had £22.7m invested at the end of the period. A full list of investments held as at 30 June 2026, compared to MUFG's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown within MUFG's Monthly Investment Analysis Review at Appendix 1. None of the approved limits within the Annual Investment Strategy were breached during the first quarter of 2026/27. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

4.8. 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 first quarter of 2026/27 was £54.6million.

4.9. 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.

4.10. During 2026/27, the Council will have a need to borrow, specifically in relation to the Exceptional Financial Support of £121m approved in principle for 2026/27 to support the revenue budget, but also for capital expenditure plans as set out in the capital programme. However, as set out in the quarter 1 budget monitoring report, the revised reserves strategy to increase general fund balances over more than one year will reduce the amount of EFS required in 2026/27.

4.11. Taking the need to borrow before the end of the calendar year and current expectations of future Bank Rates, the Council will profile borrowing decisions in a way which secures the best value, in line with specialist advice, while still ensuring sufficient cashflow liquidity to manage day-to-day operations.

4.12. Given the PWLB rates, and the likelihood as indicated in Table 1 that these rates will reduce over the course of the financial year, the Council has secured temporary borrowing from other local authorities during Quarter 1 rather than long term PWLB borrowing. As at 30th June, the Council has secured £35m which are anticipated to mature before the end of the 2026/27 financial year.

4.13. The Treasury Management strategy includes a level of previously expected borrowing for Cornovii Developments Limited (CDL) a wholly owned Council company. This is in line with loan agreements agreed by the Council for CDL led developments. Alongside this report, Cabinet a reviewing recommendation on the future of that company. Subject to Cabinet's approval to the recommendations in that report, future borrowing forecasts will be amended accordingly.

4.14. All borrowing undertaken is in line with the Authorised and Operational Boundary for external debt as demonstrated in Appendix B.

5. Key risks and Opportunities

5.1. 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.

5.2. The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.

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.
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	Inability to contain overall committed expenditure within the current available resources within this financial year.

	updated to ensure appropriate liquidity to match this profile.	
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.

6. Council Priorities

6.1. The requirement to manage the Council's cashflow position, treasury investments and borrowing efficiently and effectively is a key requirement in helping to deliver a financially sustainable council. By ensuring that any surplus monies are invested, this will generate essential additional income for the Council. Also by carefully managing the timescale and need to borrow funds, this can keep associated borrowing costs to a minimum for the Council.

7. Financial Implications

7.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing because 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.

7.2. The Quarter 1 performance is slightly below the benchmark and has delivered net income of £0.508m. Further details on the performance against benchmark are detailed in paragraph 4.4.

7.3. As at 30 June 2026 the Council held £22.7m in investments as detailed in Appendix A and borrowing of £455m at fixed interest rates. There has been no significant change in the level of investments, and temporary borrowing of £35m has been secured during the quarter to minimise the exposure of the Council to increased borrowing costs in the future. Further borrowing will be required during the remainder of the financial year.

8. Legal and HR implications

8.1. The Local Government Act 2003 and supporting regulations require the Council to determine and keep under review the Prudential and Treasury Indicators as set out in the CIPFA Prudential Code and CIPFA Treasury management Code of Practice. This report provides an update of treasury management activity in the first quarter of the year and tracks performance against the indicators as set out in Appendix B.

9. Electoral Division Implications

9.1. Not applicable

10. Health, Social (including “Child Friendly Shropshire”) and Economic Implications

11. Equality and Diversity Implications

11.1. Not applicable

12. Climate Change, Biodiversity and Environmental Implications

12.1. 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.

13. Background Papers

1. Treasury Strategy 2026/27 – Council, 26 February 2026

14. Appendices

Appendix A - Shropshire Council Monthly Investment Analysis Review as at 30 June 2026 (provided by MUFG)
Appendix B - Prudential Indicators for Quarter 1 2026/27
Appendix C – Prudential Borrowing Approvals
Appendix D – Economic Background and Borrowing Update