

MRWA HALF YEAR TREASURY MANAGEMENT REPORT 2025/26
WDA/28/25

Recommendation

That the Audit Committee:

1. considers and comments upon the Treasury Management Half Year Review report;
2. commends the report to the Authority.

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MRWA HALF YEAR TREASURY MANAGEMENT REPORT 2025/26
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Report of the Director of Finance

1 Purpose of the Report

- 1.1 To update the committee as to the Authority's Treasury Management position. It presents for approval the Treasury Management position, known as the semi-annual review at the end of September 2025. The treasury and prudential indicators are also incorporated at Appendix 1 to this report.

2 Background

- 2.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025/26.

The primary requirements of the Code are as follows:

- creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities,
 - creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives,
 - consideration of an Annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (outturn report) covering activities during the previous year,
 - delegation by the Authority of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions, and
 - delegation by the Authority for the role of scrutiny of the Treasury Management Strategy and Policies to a specific named body. For this Authority, the delegated body is the Audit and Governance Committee.
- 2.2 This half-year report has been prepared in compliance with CIPFA's Code, and covers the following:
- an update on Interest Rates and prospects for future Interest Rates,
 - a review of the Annual Investment Strategy and an update on the current investment and borrowing portfolios,
 - a review of any debt rescheduling undertaken and any possible opportunities during 2025/26,
 - an update on other issues affecting Treasury Management,

- an update on the latest Treasury Management Budget position and
- a review of compliance with Treasury Limits and Prudential Indicators for 2025/26 and forward Treasury Limits and Prudential Indicators for future years.

3 Interest Rate Forecasts

3.1 St Helens has appointed Link Group as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates.

3.2 The latest forecast as at October sets out a view that short, medium and long-dated interest rates will reduce incrementally over the period to September 2026. Link's Bank Rate and PWLB rate forecasts are shown below:

3.3 At the time of drafting the initial Treasury Management Strategy, Link Asset Services had envisaged that the Bank of England would seek to gradually reduce the bank rate from 4.5%, before falling to 3.75% by the end of the financial year and plateauing at 3.50% by December 2026. Link Asset Services have updated their forecasts with the only change being that the bank rate is now expected to fall to 3.50% by September 2026 and decrease again around one year further on.

Bank Rate	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
11.08.25	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25
10.02.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Change	-0.25	0.00	0.00	0.00	-0.25	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25

3.4 The first half of 2025/26 saw:

- Interest rates fall by 0.50% taking Bank Rate from 4.5% to 4.00%;
- CPI inflation increased in the first quarter of 2025/26 to 3.8% and the Bank of England expects it to peak at 4% by the end of the calendar year.

3.5 Long-term borrowing rates have increased over the first part of the financial year. This does not immediately affect MRWA as no borrowing is planned for this financial year. However, the Future Waste Strategy will necessitate significant capital expenditure from 2028 onwards; the Authority will need to bear this in mind when considering likely interest rate movements. It can be seen from the table below that Link expects PWLB rates to reduce over the coming months.

Interest Rate Forecasts								
Bank Rate	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
MUFG CM	4.00%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.25%
Cap Econ	4.00%	3.75%	3.50%	3.25%	3.00%	3.00%	3.00%	3.00%
5Y PWLB RATE								
MUFG CM	4.70%	4.50%	4.40%	4.30%	4.30%	4.30%	4.20%	4.20%
Cap Econ	5.00%	4.80%	4.70%	4.60%	4.50%	4.50%	4.50%	4.60%
10Y PWLB RATE								
MUFG CM	5.20%	5.00%	4.90%	4.80%	4.80%	4.80%	4.70%	4.70%
Cap Econ	5.60%	5.40%	5.30%	5.20%	5.10%	5.10%	5.20%	5.30%
25Y PWLB RATE								
MUFG CM	5.90%	5.70%	5.70%	5.50%	5.50%	5.50%	5.40%	5.40%
Cap Econ	6.20%	6.00%	5.90%	5.70%	5.50%	5.60%	5.60%	5.70%

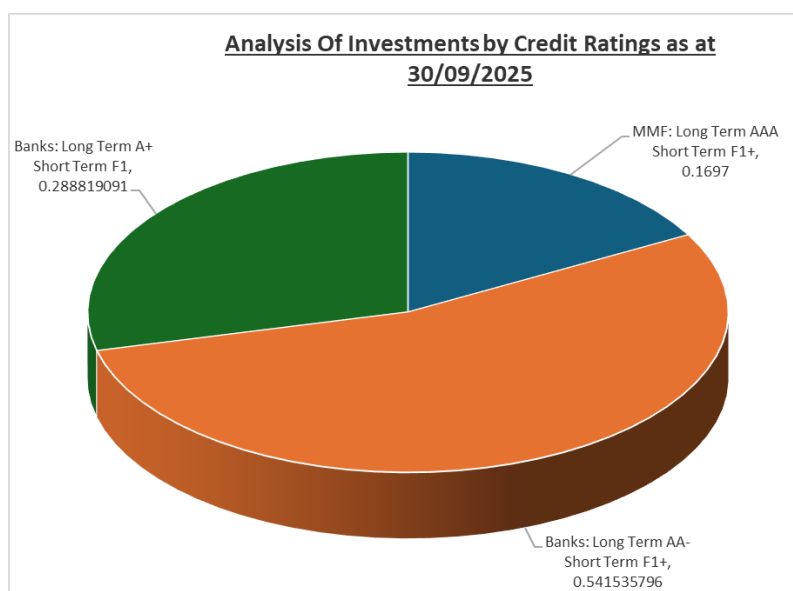
Note: rates inclusive of 0.2% reductions due to the Certainty Rate

4 Annual Investment Strategy Update

- 4.1 The Treasury Management Strategy Statement for 2025/26 was approved by the Authority on 07 February 2025. The Authority's cash balances currently form part of St Helens' investment portfolio and are managed according to St Helens' approved Treasury Management Strategy. This states that the Authority aims to achieve the optimum return (yield) on its investments, commensurate with the proper levels of security and liquidity, and having properly assessed all inherent risks, as detailed in its Treasury Management Practices.
- 4.2 The Authority share of investments held by St Helens was £5.7m at 30 September 2025 (£11.9m at 31 March 2024) and the following table provides details of the investment returns achieved thus far during 2025/26.

2025/26	Returns Achieved			Benchmark Returns		Benchmark Returns	Performance relative to Benchmarks
Month	Fixed Term Investments	Call Accounts	Combined Return	3 Month SONIA**	Overnight SONIA	Backward Looking 90 Day SONIA	Overall +/- return
April	4.675%	4.403%	4.573%	3.919%	4.180%	4.541%	0.032%
May	4.580%	4.274%	4.477%	4.116%	4.350%	4.458%	0.020%
June	4.559%	4.242%	4.457%			4.376%	0.081%
July	4.512%	4.168%	4.392%			4.294%	0.098%
August	4.484%	3.996%	4.325%			4.213%	0.112%
September	4.452%	3.957%	4.294%			4.129%	0.165%
Average Rate Of Return to Date	4.544%	4.173%	4.420%	4.018%	4.265%	4.335%	0.085%

- 4.3 The following chart details the split of the Authority's investment by type and the credit rating assigned to the different groups of Counterparties. The investment strategy approved in St Helens' Treasury Management Strategy Statement is currently being adhered to.



5 Capital Financing Requirement (CFR)

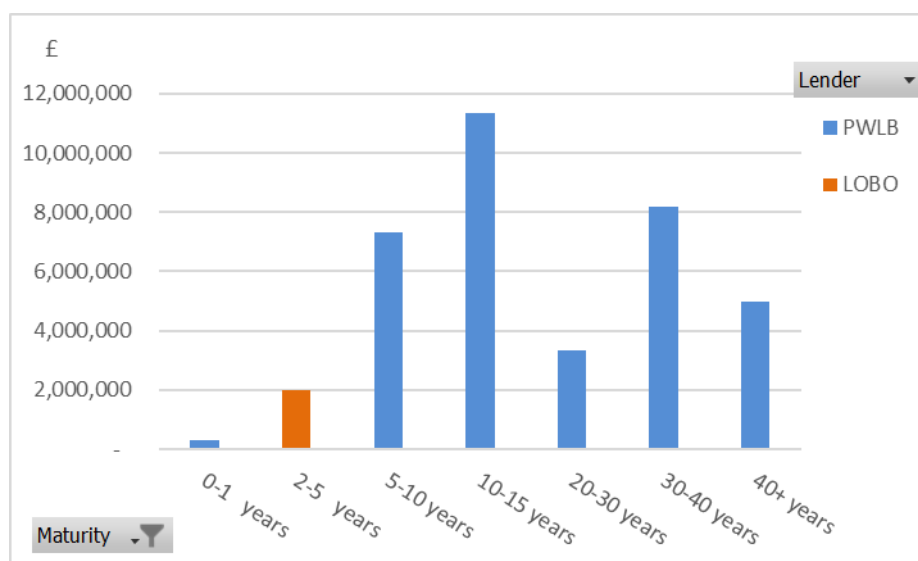
- 5.1 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with Minimum Revenue Provision (MRP) and capital receipts used to replace debt.
- 5.2 The comparison of the Authority's actual debt compared against its capital financing requirement is as follows:

	31 March 2025 Actual	31 March 2026 Forecast	31 March 2026 Revised Forecast
	£'000	£'000	£'000
Long Term Borrowing	37,443	41,822	36,380
PPP Liabilities	123,249	232,064	115,649
Total Gross Debt	160,692	273,886	152,029
Capital Financing Requirement	190,010	297,591	188,018
(Under) / Over Borrowed	(29,598)	(23,705)	(35,989)

- 5.3 The table above shows a significant forecast reduction in the level of gross debt from that presented to members in February. This is a result of the review of the Authority's PPP arrangements and the application of IFRS 16 as outlined in the Outturn report. One of the main reasons for the reduction is it was recognised in the 2024/25 accounts that some £77m of debt held under the RRC contract is financed through 3rd Party income rather than via the annual payments made by the Authority. This is now included in the Authority's balance sheet as deferred income.
- 5.4 There is also a corresponding forecast reduction in the Authority's Capital Financing Requirement of some £108m from that originally forecast, primarily arising from the reduction in PPP liability outlined above. Again, this was recognised in the 2024/25 accounts.
- 5.5 The net effect is that whilst the Authority maintains an under borrowed position, this is forecast to increase over the coming years. This remaining, under borrowed position reflects that the Authority has used its cash-backed reserves to finance capital expenditure rather than undertake new borrowing.

6 Borrowing

- 6.1 As at 31 March 2025, the Authority's debt portfolio comprised PWLB and market debt totaling £37.4m. The forecast average interest paid throughout 2025-26 is 3.43% (2024-25 was 3.57%). The maturity profile of the debt outstanding is highlighted in the chart below.



- 6.2 In accordance with the CIPFA Code, the maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender does have the right to increase the interest rate payable (as is the case with a Market Loan (LOBO – Lender Option Borrower Option loan)), then this should be treated as a right to require payment. Due to this guidance, the maturity dates of the Authority’s LOBO loan has been profiled as the next call date is within the next two years. If never called in, then the LOBO loan would not be repayable until June 2065.
- 6.3 Borrowing should be aligned to the profile of the capital programmes and undertaken at the most opportune time required to fund these schemes/plans, whilst minimising interest rate exposure.
- 6.4 Movements in the financial markets will impact upon the rates at which the Authority would be able to borrow. As shown in section 2.2, PWLB rates have recently increased but are expected to gradually decrease over the next two years.
- 6.5 Whilst forecasts suggest that interest rates may decrease in the coming months, the Authority will defer any decisions on undertaking new borrowing until more attractive rates are available, subject to the cash flow, and making sure any future borrowing is within the rates allowed for within the Medium-Term Financial Strategy assumptions
- 6.6 The strategy of financing capital expenditure by running down cash balances (i.e. in lieu of new borrowing) was formulated predominantly to minimise credit risks associated with holding investments and to protect the Authority’s budgetary position against diminishing investment returns. The strategy also allows for borrowing to be undertaken when it is deemed most opportune, based upon current and forecast PWLB interest rates. That rationale still holds good, and, in that context, it is considered that the Borrowing Strategy approved is still fit for purpose.
- 6.7 Note that this strategy has led to the Authority having an “under-borrowed” position, in that borrowing to fund historic capital spend has been deferred and could need to be secured at some stage in the future. However, current cash flow forecasts indicate no requirement to borrow in the short to medium term and there are no plans to take on additional borrowing or restructure debt within 2025/26.
- 6.8 The procurement of Waste Management & Recycling contracts will require significant capital expenditure from 2029 onwards. No decision has yet been taken whether this would be privately funded (as is the case with the Authorities current PPP contracts) or

whether the Authority would fund the capital investment itself. Either option will significantly increase the Authority's CFR.

- 6.9 The Authority will need to be mindful of projected interest rate movements – particularly in respect of longer-term debt – to determine when the optimum time to undertake borrowing to finance any investment that it decides to undertake itself.

7 Budget Estimates

- 7.1 The budgeted and projected treasury costs for 2025/26 are detailed in the following Table.

Treasury Management Budget 2025/26	2024/25 Outturn (£000)	2025/26 Original Budget (£000)	2025/26 Revised Forecast (£000)
	(a)	(c)	(c)
Debt Management Costs:			
External Borrowing	1,412	1,400	1,332
Interest in respect of PPP contracts	15,771	- ¹	14,799
Investment Interest	(542)	-	(515)
Net Interest	16,641	1,400	15,616
Minimum Revenue Provision (repayment of principal)	4,602	14,113	5,089
Total Treasury Cost	21,243	15,813	20,686

- 7.2 Investment Interest achieved in the year exceeds the budget as a consequence of higher cash holdings than was anticipated at the time of the development of the Medium Term Financial Strategy 2025-2028.

8 Minimum Revenue Provision Policy

- 8.1 The Authority is statutorily required to determine its Policy in relation to the method by which it makes charges to the revenue account in respect of capital expenditure financed by borrowing or credit arrangements.
- 8.2 The current Minimum Revenue Provision Policy was approved by Authority on 27 June 2025.

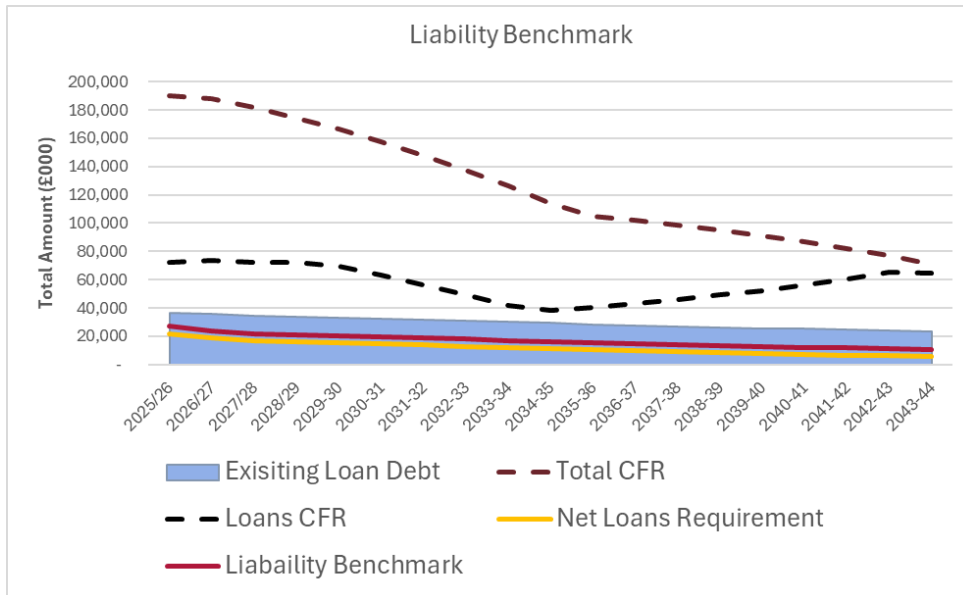
¹ This was not analysed separately within the Treasury Management Strategy presented to members in February 2025

9 Compliance with Treasury Limits and Prudential Indicators

- 9.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting Regulations for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". The Authority's approved Treasury Limits and Prudential Indicators (affordability limits) were outlined in the approved Treasury Management Strategy Statement.
- 9.2 During 2025/26, the Authority complied with its legislative and regulatory requirements. The revised Treasury Limits and Prudential Indicators are included at Appendix 1:

10 Liability Benchmark

- 10.1 The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.
- 10.2 There are four components to the Liability Benchmark:
1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
 2. **Loans Capital Financing Requirement (CFR):** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP). Due to only approved prudential borrowing being included in the calculation a peak will appear after four years as no further borrowing is approved at this point.
 3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
 4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance (currently assumed to be £5.0m).



11 Risk Implications

11.1 There are considerable risks to the security of the Authority’s resources if appropriate treasury management strategies and policies are not adopted and followed. The Authority must therefore establish and follow good practice in relation to treasury management.

11.2 The following risk assessment has been made:

Identified Risk	Likelihood Rating	Consequence Rating	Risk Value	Mitigation
Unaffordability debt servicing costs arise as a result of poor Treasury Management decisions	1	4	4	Following good Treasury Management Practice. For each key decision, rigorous assessment of impact on Treasury Management.

12 HR Implications

12.1 There are no HR implications

13 Environmental Implications

13.1 There are no environmental implications

14 Financial Implications

14.1 The financial implications are set out in the body of the report.

15 Legal Implications

15.1 The legal requirement for reporting to Members on the position of the Authority in respect of its Prudential Indicators is met through this report.

16 Conclusion

16.1 The report identifies the treasury management performance of the Authority in the first half of the financial year. The report confirms the Authority has operated within the boundaries of its approved Prudential Indicators.

Appendices

The appendices to this report are:

Appendix 1: Treasury Limits and Prudential Indicators 2025/26 to 2027/28

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.

APPENDIX 1: Treasury Limits and Prudential Indicators 2025/26 to 2027/28

<u>Treasury Limits and Prudential Indicators</u>			2025/26 Revised	2026/27 Estimate	2027/28 Estimate
1(i)	Authority plans to commit to during the forthcoming and subsequent two	Capital Expenditure (£m)	3.8	0.3	0.2
1(ii)	Additional in-year borrowing requirement for capital expenditure.	In Year Capital Financing Requirement (CFR) (£m)	3.8	0.3	0.2
2	The CFR is an aggregation of historic and cumulative capital expenditure, which has yet been paid for by either revenue or capital resources.	Capital Financing Requirement as at 31 March (£m)	188.0	181.3	174.0
3	The “net borrowing” position represents the net of the Authority’s gross external borrowing and investments sums held.	Net Borrowing Requirement:			
		External Borrowing (£m)	152.0	143.2	136.7
		Investments Held (£m)	(14.5)	(17.0)	(18.0)
		Net Requirement (£m)	(137.5)	(126.2)	(118.7)
4	Identifies the impact and trend of the revenue costs of capital financing decisions will have on the General Fund Budget over time.	Ratio of financing cost to net revenue stream	23.9%	23.1%	22.0%
5	The Authority’s Budget Strategy with regards to unsupported borrowing is such that there is no incremental impact to Authority Tax.	Incremental impact of capital investment decisions (increase in Authority Tax Band D equivalent)	N/A	N/A	N/A

<u>Treasury Limits and Prudential Indicators</u>			2025/26 Revised	2026/27 Estimate	2027/28 Estimate
6	This represents an absolute limit of borrowing at any one point in time. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.	Authorised Limit for External Debt (£m)	220.263	209.204	198.097
7	This is the limit beyond which external debt is not normally expected to exceed	Operational Limit for External Debt (£m)	216.175	205.076	193.909
8	These limits seek to ensure that the authority does not expose itself to an inappropriate level of interest rate risk and has a suitable proportion of debt.	Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%
		Upper Limit for Variable Interest Rate Exposure	50%	50%	50%
9	This limit seeks to ensure liquidity and reduce the likelihood of any inherent or associated risk.	Upper Limit for Sums Invested over 365 Days	60%	60%	60%
10	This indicator is used to highlight where an authority may be borrowing in advance of need	Gross Debt and the CFR (£m)	(36.0)	(38.1)	(37.2)

