

MRWA TREASURY MANAGEMENT STRATEGY STATEMENT 2026/27
WDA/01/26

Recommendation

That the Audit Committee:

1. considers and comments on, as appropriate, the:
 - i. The current Treasury position as set out in Section 3.
 - ii. Borrowing Strategy for 2026/27 as per section 5 noting in particular the potential advance purchase of ETS allowances;
 - iii. Annual Investment Strategy as per section 6 and Appendix 1; and
 - iv. Treasury Management Prudential Indicators included at Appendix 2
2. commends the report to the Authority.

THIS PAGE INTENTIONALLY BLANK

TREASURY MANAGEMENT STRATEGY STATEMENT 2026-27
WDA/01/26

Report of the Director of Finance

1 Purpose of the Report

- 1.1 The Local Government Act 2003 (the Act) and the framework established by CIPFA through its Prudential Code requires the Authority to set Prudential and Treasury Indicators for each of the next three years to ensure that the Authority's Capital investment plans are affordable, prudent and sustainable.
- 1.2 The Act also requires the Authority to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy that sets out the Authority's policies for managing its investments and the priority given to the security and liquidity of those investments. The strategy for 2026/27 covers:
 - The current treasury position
 - Prospects for interest rates
 - Borrowing requirements and strategy
 - Annual Revenue Provision policy statement
 - The investment strategy
 - Debt rescheduling options; and
 - Treasury management and prudential indicators for the period 2024/25 to 2027/28.
- 1.3 The Audit Committee is requested to review the report and comment as appropriate before it is submitted to the Authority for approval on 6th February 2026.

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 Committee.

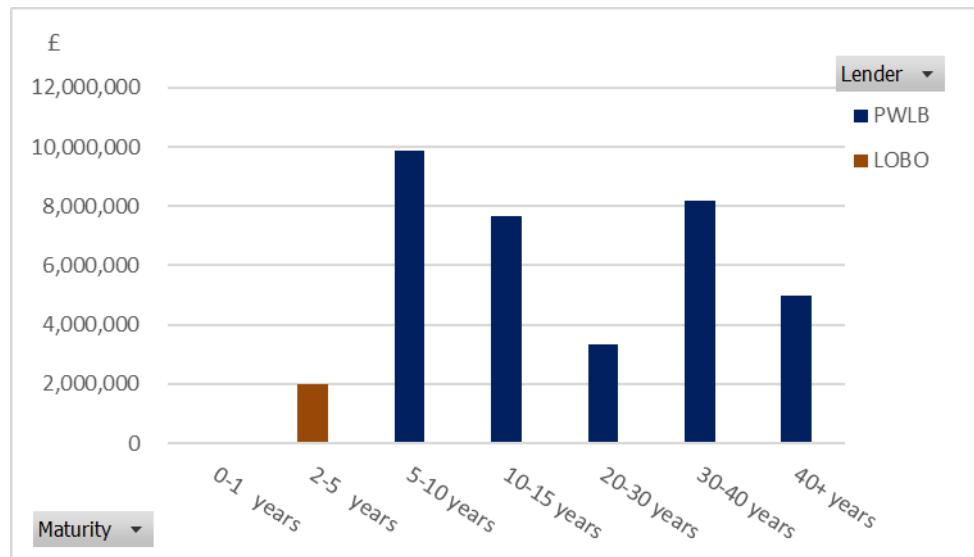
2.2 The Authority's Treasury Management is provided under a Service Level Agreement (SLA) by St Helens Council. The Council uses Link Asset Services as its external treasury management advisors; Link work on behalf of both the Council and MRWA. MRWA recognises that regardless of the delegations via the SLA, responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

2.3 The Authority also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority, together with the Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

3 Current Treasury Position

Borrowing

3.1 As at 31 March 2025, the Authority's debt portfolio comprised PWLB and market debt totaling £37.1m. The forecast average interest paid throughout 2025-26 is 3.44% (2024-25 was 3.57%). The forecast position at 31 March 2026 is £36.0m with the maturity profile of the debt outstanding highlighted in the chart below.



3.2 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 five years. If never called in, then the LOBO loan would not be repayable until June 2065.

Capital Financing Requirement (CFR)

- 3.3 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.
- 3.4 The comparison of the Authority's actual debt compared against its capital financing requirement is as follows:

	31-Mar-25 Actual £'000	31-Mar-26 Original Forecast £'000	31 Mar -26 Revised Forecast £'000
Long Term Borrowing	37,130	41,822	36,047
PPP Liabilities	123,249	232,064	115,649
Total Gross Debt	160,379	273,886	151,696
Capital Financing Requirement	190,010	297,591	188,568
(Under) / Over Borrowed	(29,631)	(23,705)	(36,872)

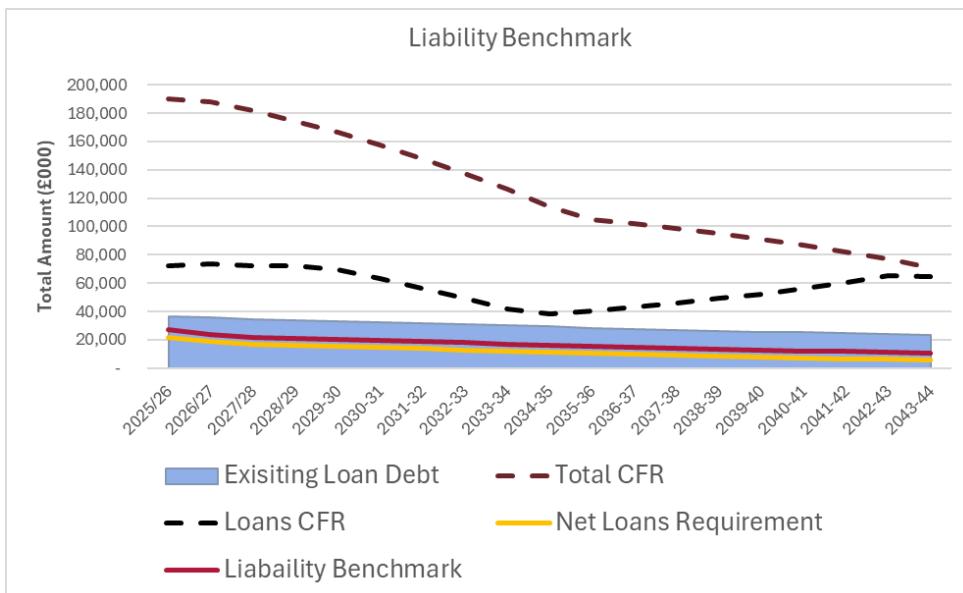
- 3.5 The table above shows a significant forecast reduction in the level of gross debt from that presented to members in February 2025. This is a result of the review of the Authority's PPP arrangements and the application of IFRS 16 as outlined in the Outturn report. One of the main reasons for the 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.
- 3.6 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.
- 3.7 The net effect is that the Authority maintains an under-borrowed position. This position reflects that the Authority has used its cash-backed reserves to finance capital expenditure rather than undertake new borrowing.

Liability Benchmark

3.8 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.

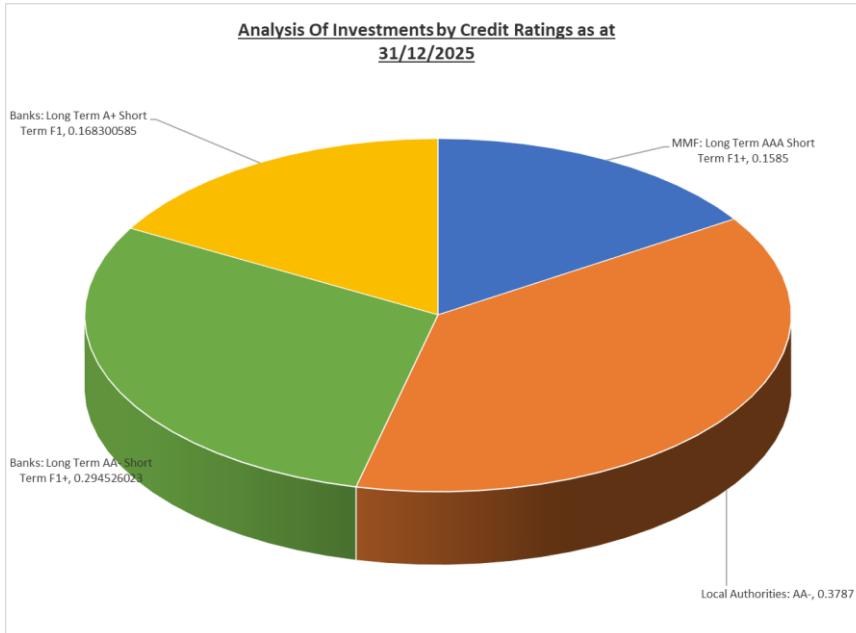
3.9 There are four components to the Liability Benchmark:

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).



Investments

3.10 The Authority share of investments held by St Helens was £11.1m at 31 December 2025 (£11.9m at 31 March 2024). 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.



4 Interest Rate Forecasts

4.1 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.

4.2 To date 2025/26 saw:

- Interest rates fall by 0.75% taking Bank Rate from 4.5% to 3.75%;
- CPI inflation increased in the first half of 2025/26 to 3.8% but fell back to 3.2% in November.

4.3 Link Asset Services is forecasting the base rate to decrease again to 3.25% by December 2026 and remain stable for some time thereafter, as shown in the table below.

Comparison of forecasts for Bank Rate today v. previous forecast

Bank Rate	Mar-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
22,12,25	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
11,08,25	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	-
Change	0.00	-0.25	0.00	-0.25	-0.25	-0.25	0.00	0.00	0.00	0.00	0.00	0.00	-

4.4 Long-term borrowing rates have increased over the first part of 2025/26. This does not immediately affect MRWA as no borrowing was planned for this financial year. However, the Future Waste Services Programme 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 medium and long-term PWLB rates to reduce over the coming months.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-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	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

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

5 Borrowing Strategy

- 5.1 The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.
- 5.2 The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board. 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.
- 5.3 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.
- 5.4 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, whilst current cash flow forecasts indicate no requirement to borrow in the short term, there is an expectation that the Authority will be required to undertake significant borrowing in the medium term to fund the investment associated with the Future Waste Services Programme.
- 5.5 The procurement of Waste Management & Recycling contracts will require significant capital expenditure from 2029 onwards. This forms part of the Future Waste Services (FWS) programme and no firm decision has yet been taken whether this would be privately funded (as is the case with the Authority's current PPP contracts) or whether the Authority would fund the capital investment itself. At this stage the expectation is that a significant proportion of the capital expenditure could be funded directly by the Authority, however either option will significantly increase the Authority's CFR.
- 5.6 Forecast capital expenditure over the next 5 years incorporates the following:
 - Minimal expenditure – c. £0.25m per annum – on routine improvements
 - Considerable expenditure of c £129m in years 2029-30 and 2030-31 in respect of the FWS.
- 5.7 This results in the following:

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	£000	£000	£000	£000	£000	£000
Forecast CFR b/f	190,010	188,568	182,148	174,991	167,098	218,506
Minimum Revenue Provision	(5,089)	(5,989)	(6,562)	(7,200)	(7,862)	(8,672)
IFR16 Adj	(703)	(801)	(845)	(943)	(981)	(949)
Forecast Capital Expenditure	4,350	370	250	250	250	250
FWS Capital Expenditure					60,000	69,000
Forecast CFR c/f	188,568	182,148	174,991	167,098	218,506	278,135

5.8 There is also the potential to purchase carbon allowances in advance of the Emissions Trading Scheme (ETS) taking effect in 2028. This would only take place if:

- There was certainty that ETS was coming into effect and therefore certainty that the allowances will be required;
- There were strong grounds to believe that the price of ETS allowances will increase after any purchase is made.

5.9 At this stage it is proposed to allocate £25m in each of 2026/27 and 2027/28 for the purchase of ETS allowances, however any purchase would be subject to the conditions outlined in 5.10 being satisfied and approval by the Authority. The inclusion of ETS allowances would result in the following CFR:

		2026-27	2027-28	2028-29	2029-30	2030-31
		£000	£000	£000	£000	£000
Forecast CFR c/f per above		182,148	174,991	167,098	218,506	278,135
Potential ETS allowances purchased in advance b/f			25,000	50,000	35,000	20,000
Potential ETS allowances purchased/utilised		25,000	25,000	(15,000)	(15,000)	(15,000)
Forecast "CFR" c/f including advance ETS allowances		207,148	224,991	202,098	238,506	283,135

5.10 It can be seen from the tables above that the CFR (should ETS allowances be included) is forecast to increase its current level of £188m by some £90m to c. £280m over the period of the MTFS period. 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. This may involve the Authority undertaking additional borrowing in 2026/27.

6 Annual Investment Strategy Update

6.1 The Authority's Treasury management is carried out under the terms of a service level agreement by St Helens Council. The Council also works alongside Treasury Management advisers, Link Asset Services, to ensure that the portfolio of loans and investments is kept under review to ensure the best economic terms are being obtained. Decisions in respect of Treasury Management investments are considered in terms of security, liquidity and yield; given they represent an investment of public sector monies,

security is given a high priority. Whilst this may provide for a relatively conservative approach to Treasury Management, it ensures that the Authority's monies are secure, available and where possible gain a reasonable return.

- 6.2 Over the longer-term St Helens Treasury Managers have reported results that are ahead of the market across the investment portfolio.
- 6.3 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. The St Helens Investment Strategy for 2025/26 is included at Appendix 1, no major changes are anticipated for 2026/27 and that version – once published by St Helens - will be appended to the report submitted to the Authority on 6th February.
- 6.4 The accounting treatment of any ETS allowances purchased in advance would need to be determined prior to any purchase. It is anticipated that any such purchases would be recorded in the accounts at market value, but this would need to be fully considered prior to any purchase.

7 Minimum Revenue Provision Policy

- 7.1 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.
- 7.2 The current Minimum Revenue Provision Policy was approved by Authority on 27 June 2025 and no changes are proposed for 2026/27.

8 Compliance with Treasury Limits and Prudential Indicators

- 8.1 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.
- 8.2 During 2025/26, the Authority complied with its legislative and regulatory requirements. The revised Treasury Limits and Prudential Indicators are included at Appendix 2.

9 Risk Implications

9.1 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.

9.2 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	<p>Following good Treasury Management Practice.</p> <p>For each key decision, rigorous assessment of impact on Treasury Management.</p>

10 HR Implications

10.1 There are no HR implications

11 Environmental Implications

11.1 There are no environmental implications

12 Financial Implications

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

13 Legal Implications

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

14 Conclusion

14.1 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: Investment Strategy

Appendix 2: Treasury Limits and Prudential Indicators 2025/26 to 2027/28

The contact officer for this report is: Chris Kelsall
7th Floor, Number 1 Mann Island, Liverpool, L3 1BP

Email: chris.kelsall@merseysidewda.gov.uk

Tel: 0151 255 2542

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