MRWA HALF YEAR TREASURY MANAGEMENT REPORT 2026/27
WDA38/26

Recommendation

That the Audit Committee:

1. considers and comments upon the Treasury Management Half Year Review report; and

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 2026. 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 2026/27.

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 2026/27,
- 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 2026/27 and forward Treasury Limits and Prudential Indicators for future years.

3 Interest Rate Forecasts

3.1 At its September meeting, the Bank of England held the Base Rate at 3.75%. The decision reflected continuing uncertainty over the economic outlook, particularly the impact of higher energy prices resulting from the conflict in the Middle East. Whilst inflation is expected to moderate over the medium term, the Bank has indicated that it may need to increase interest rates if inflationary pressures prove more persistent than currently anticipated, to return inflation to its 2% target.

3.2 As a result, expectations of gradual reductions to the Base Rate have become less certain, with the balance of risks now weighted towards interest rates remaining higher for longer.

3.3 The Authority's treasury advisers, MUFG Corporate Markets, currently forecast a further increase in Bank Rate to 4.0% during November 2026 before rates begin to fall during the second half of 2027. An updated forecast from MUFG is shown in the table below.

Comparison of forecasts for Bank Rate today v. previous forecast

Bank Rate	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29	Jun-29	Sep-29
21.09.26	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
03.08.26	3.75	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Change	0.25	0.25	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

3.4 MUFG have also revised their PWLB forecasts upwards, reflecting continuing inflationary pressures, market uncertainty and elevated gilt yields. Consequently, borrowing costs are expected to remain relatively expensive in the short to medium term.

3.5 The outlook remains subject to a high degree of uncertainty, particularly in relation to inflation, energy prices and wider geopolitical developments. As such, actual interest rates, investment returns and borrowing costs may differ from current forecasts.

4 Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement for 2026/27 was approved by the Authority on 06 February 2026.

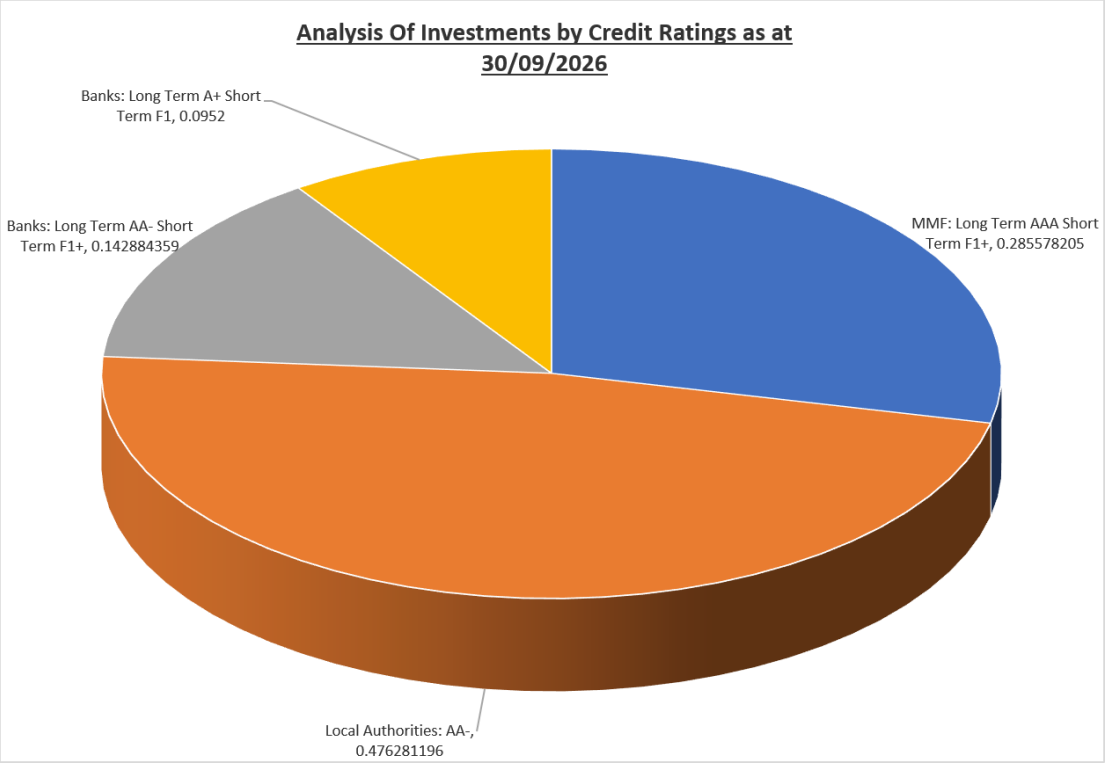
4.2 The Authority's cash balances currently form part of St Helens' investment portfolio and are managed according to St Helens' approved Investment Strategy. A copy of this is included within St Helens approved Treasury Management Strategy Statement included at Appendix 2 (the Investment Strategy is detailed on page 47). This states that the St Helens 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.

4.3 The Authority's share of investments held by St Helens was £11.7m as of 30th September 2026 (£15.1m at 31st March 2026). The following table provides details of the investment returns achieved during 2026/27 to date and compares performance against the Sterling Overnight Index Average (SONIA), which is commonly used as a benchmark for short-term sterling investment.

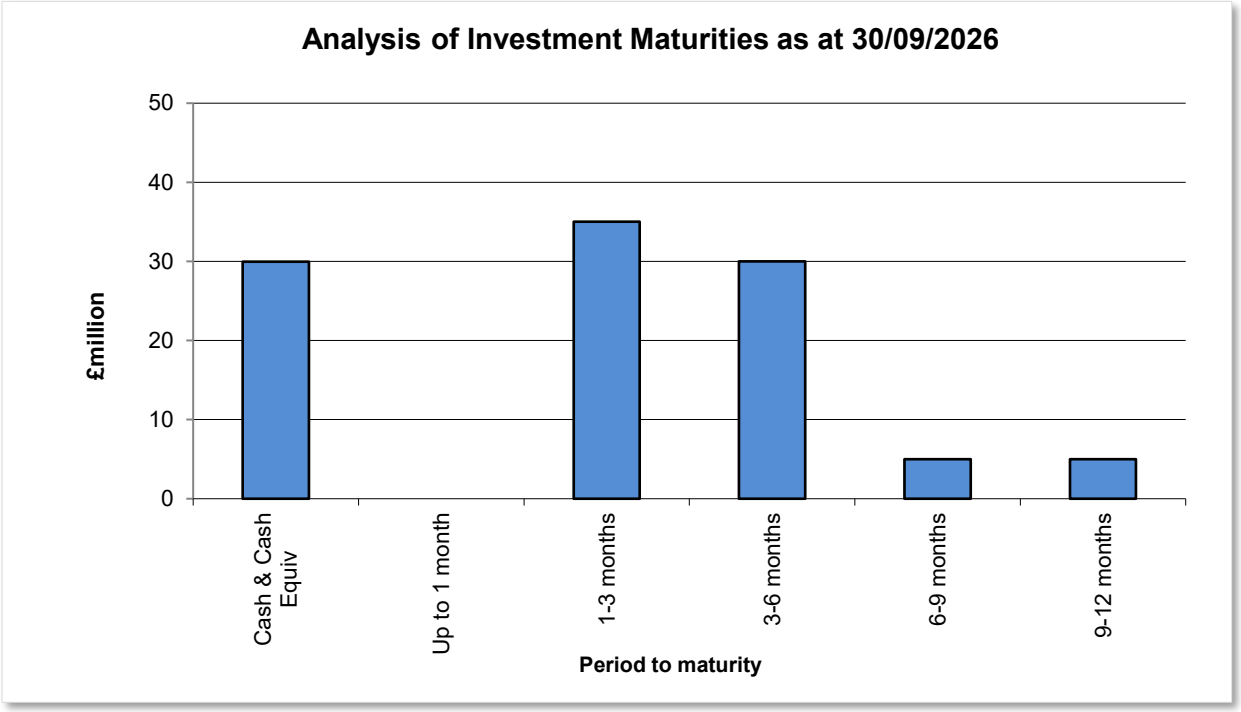
Table 2 - Investment Returns 2026/27					
2026/27	**Returns Achieved**			**Benchmark Returns**	**Performance relative to Benchmarks**
Month	**Fixed Term Investments**	**Call Accounts**	**Combined Return**	**Backward Looking 90 Day SONIA**	**Overall +/- return**
April	4.531%	3.727%	**4.243%**	**3.744%**	**0.499%**
May	4.452%	3.710%	**4.167%**	**3.745%**	**0.422%**
June	4.443%	3.816%	**4.255%**	**3.746%**	**0.509%**
July	4.390%	3.792%	**4.175%**	**3.746%**	**0.429%**
August	4.277%	3.783%	**4.094%**	**3.747%**	**0.347%**
September	4.295%	3.756%	**4.089%**	**3.748%**	**0.341%**
Average rate of return *	4.398%	3.764%	**4.170%**	**3.746%**	**0.424%**

4.4 Investment performance has consistently exceeded the SONIA benchmark throughout the period. Returns achieved compare favourably against the benchmark and have benefited from the prevailing higher interest rate environment, whilst continuing to prioritise the security and liquidity of the Authority's cash balances.

4.5 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.



4.6 Below is an analysis of maturities of investments held by St Helens, of which £11.7m is held on behalf of the Authority.



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.

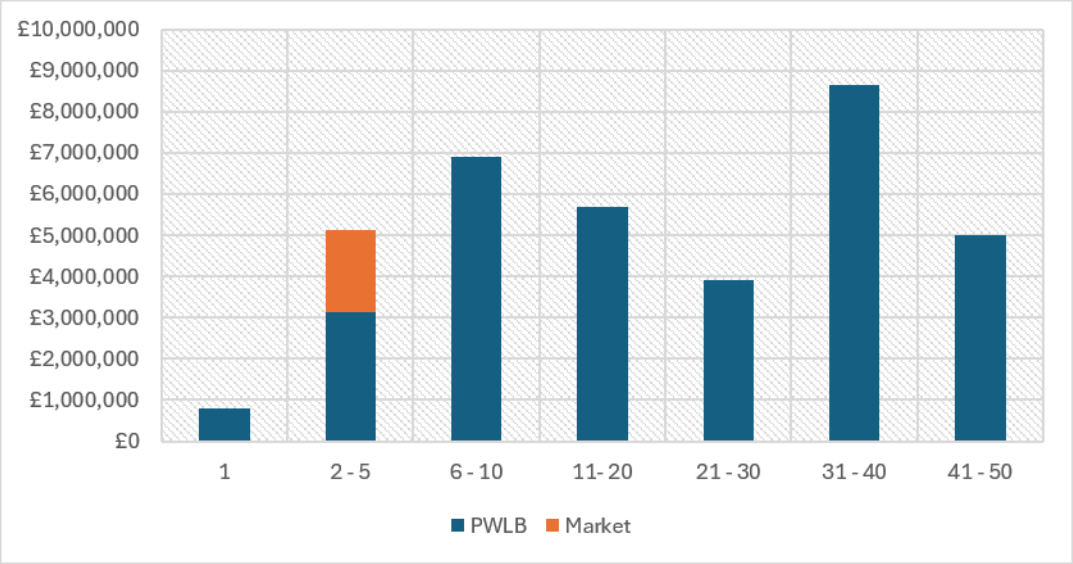
5.2 The comparison of the Authority's actual debt compared against its capital financing requirement is as follows:

	31-Mar-26 Actual	31-Mar-27 Forecast	31-Mar-27 Revised Forecast
	£000	£000	£000
Long Term Borrowing	36,047	35,263	35,263
Lease Liabilities	703	575	840
PPP Liabilities	114,858	106,722	106,991
Total Gross Debt	**151,607**	**142,560**	**143,094**
Capital Financing Requirement	**186,844**	**181,295**	**180,901**
(Under) / Over Borrowed	**- 35,237**	**- 38,735**	**- 37,807**

5.3 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 2026, the Authority's debt portfolio comprised PWLB and market debt totaling £36m. The forecast average interest paid throughout 2026-27 is 4.177% (2025-26 was 4.218%). The maturity profile of the Authority's long-term debt 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 can borrow. As shown in section 3, 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 increase in the coming months, rates are expected to reduce over the medium term. Consequently, the Authority will continue to monitor market conditions before considering any new borrowing, taking account of cash flow requirements and ensuring any future borrowing remains affordable within the assumptions included in the Medium-Term Financial Strategy.

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 borrowing to be undertaken when considered most advantageous, having regard to current and forecast PWLB interest rates. This rationale remains valid and, in that context, the approved Borrowing Strategy is considered to remain fit for purpose.

6.7 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 a future date. 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 2026/27.

6.8 The procurement of Waste Management & Recycling contracts will require significant capital expenditure from 2029 onwards. The Outline Business Case for the Authority's Future Waste Services project projected capital investment funded by the Authority could be in the region of £130million. This is factored into the Authority's approved capital strategy.

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 this capital expenditure.

6.10 Whilst the Authority currently has no requirement for additional borrowing, the future financing implications of the replacement Waste Management and Recycling contracts will continue to be monitored as part of the Medium-Term Financial Strategy and Treasury Management Strategy.

7 Budget Estimates

7.1 The budgeted and projected treasury costs for 2026/27 are detailed in the following Table.

Treasury Management Budget 2026/27	2025/26 Outturn £000	2026/27 Original Budget £000	2026/27 Revised Forecast £000
	(a)	(b)	(c)
Debt Management Cost:			
External Borrowing	£1,249	£1,241	£1,430
Interest in respect of PPP contracts	£14,811	£0	£13,715
Investment Interest	-£542	-£500	-£664
Net Interest	£15,518	£741	£14,481
Minimum Revenue Provision (repayment of principal)	£5,125	£5,835	£5,924
Total Treasury Cost	£20,643	£6,576	£20,405

7.2 Interest payable on external borrowing is forecast to be marginally higher than the original budget. This increase does not reflect additional borrowing or higher interest rates but arises from a one-off correction of interest accruals that had not been recognised in prior years.

7.3 The forecast increase in investment income primarily reflects interest rates remaining

higher than assumed when the 2026/27 budget was prepared. In addition, average cash balances have remained above the levels assumed within the approved budget. As a result, investment income is currently forecast to exceed the original budget estimate.

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 and reviewed as part of the 2026/27 Treasury Management Strategy process. No changes were considered necessary or proposed.

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.

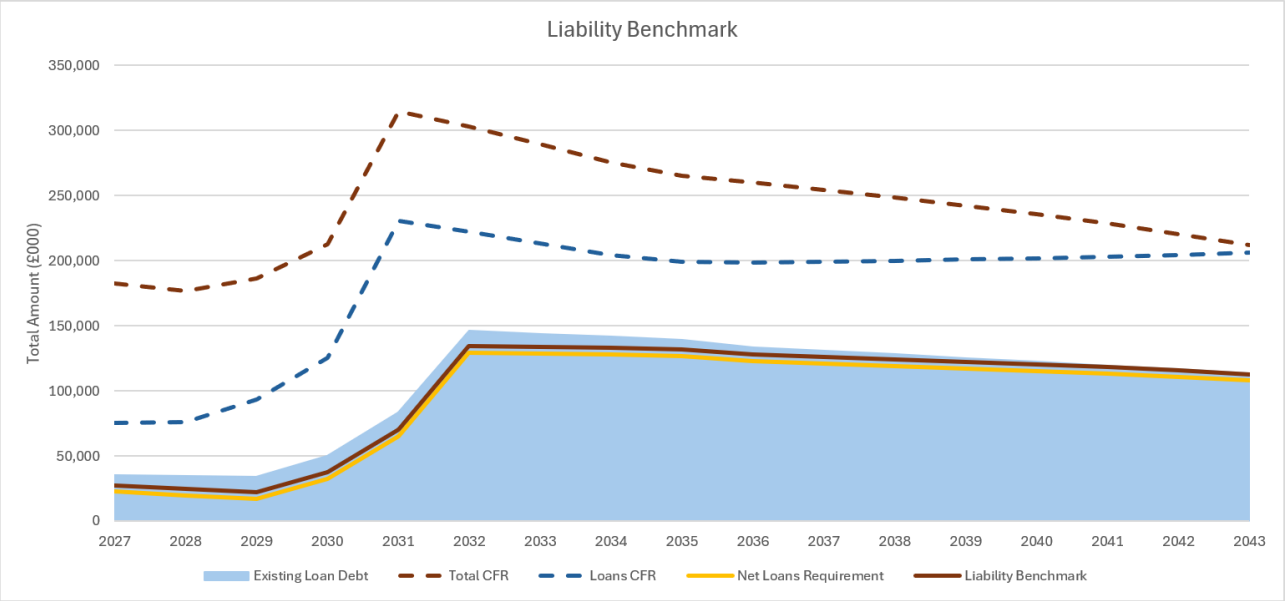
10.2 There are four components to the Liability Benchmark:

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

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.

APPENDIX 1: Treasury Limits and Prudential Indicators 2026/27 to 2028/29

Treasury Limits and Prudential Indicators 2026-27			**2026-27 Budget £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**	**2028-29 Estimate £m**
1(i)	Proposed capital expenditure that the Authority plans to commit to during the forthcoming and subsequent two financial years.	**Capital Expenditure (£m)**	0.870	2.789	3.270	0.250
1(ii)	Additional in-year borrowing requirement for capital expenditure.	**In Year Capital Financing Requirement (CFR) (£m)**	5.835	5.943	6.696	7.151
2	The CFR is an aggregation of historic and cumulative capital	**Capital Financing Requirement as at 31 March (£m)**	182.300	182.348	177.016	186.524
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)	36.047	35.263	34.480	33.697
		Investments Held (£m)	-17.500	-12.833	-14.798	-16.510
		Net Requirement (£m):	18.547	22.431	19.682	17.187
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**	24.40%	20.23%	21.26%	20.36%

5	The Authority's Budget Strategy with regards to unsupported borrowing is such that there is no incremental impact to levy income.	**Incremental impact of capital investment decisions (increase in levy)**	0.00%	0.00%	0.00%	0.00%
6	This represents the Debt held by the authority	**Gross Debt**				
		Borrowing	36.047	35.263	34.480	33.697
		PPP Liabilities	106.853	106.991	101.248	93.330
		Other		0.840	1.860	1.726
		Total	**142.900**	**143.094**	**137.589**	**128.753**
7	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)**	190.000	190.000	153.788	140.215
8	This is the limit beyond which external debt is not normally expected to exceed.	**Operational Limit for External Debt (£m)**	175.000	175.000	143.355	129.864
9	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%	100%
		Upper Limit for Variable Interest Rate Exposure	50%	50%	50%	50%
10	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%	60%

11	This indicator is used to highlight where an authority may be borrowing in advance of need.	**Gross Debt and the CFR (£m)**	N/A	N/A	N/A	N/A