SOUTH KESTEVEN DISTRICT COUNCIL

Governance and Audit Committee

Thursday, 23 July 2026

Report of Councillor Bridget Ley, Cabinet Member for Finance

Treasury Management Report Quarter 1 2026/27

Report Author

David Scott – Assistant Director of Finance and Deputy s151 officer

David.scott@southkesteven.gov.uk

Purpose of Report

Regulations issued under the Local Government Act 2003 require the Council to produce regular reports on treasury and debt management operations. This report meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code).

Recommendations

The Committee is requested to note the contents of the Quarter 1 review of treasury management activity for 2026/27.

Decision Information	
Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Effective council
Which wards are impacted?	All

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Risk

1.1 The financial implications are included within the report.

1.2 The Treasury Management Strategy has been compiled in conjunction with the treasury advisors and is monitored by the Committee on a regular basis.

Completed by: Richard Wyles Deputy Chief Executive and Section 151 Officer.

Legal and Governance

1.3 This report provides details of the Council's performance in respect of treasury management against policy set out as part of the budget and policy framework. Members should note the performance and scrutinise the report as part of the Committee's overall review of the Treasury Management Strategy.

Completed by: James Welbourn, Democratic Services Manager

2. Background to the Report

2.1 Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. In line with the Code, the council has adopted a Treasury Management Policy Statement that requires regular reports on treasury and debt management operations.

2.2 Under part 1 of the Local Government Act 2003, the Council is required to follow the Prudential Code for capital finance including the setting of prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2026/27 approved by Council on 26 February 2026.

2.3 In accordance with these requirements, this report provides a review of treasury management activity for the quarterly period ended 30 June 2026 and reviews current developments. The following elements are covered by the report:

- A review of debt management operations

- A review of investment operations
- An update on the treasury management Prudential Code Indicators

2.4 The CIPFA Treasury Management panel promotes the view that Councils should monitor performance on a quarterly basis. Furthermore, a report by the Audit Commission entitled ‘Risk and Return’ identified the need for local authorities to report regularly to members in addition to the annual review.

3. Key Considerations

Debt Management Operations - Borrowing

3.1 No additional borrowing was required during the first quarter of 2026/27. All current Council borrowing is with the Public Works Loan Board (PWLB) and the average rate of interest paid on the debt portfolio was 2.57**%**. Appendix A shows loans outstanding as at 30 June 2026. Regular reviews are undertaken to consider redemption costs of natural maturity against new borrowing to settle the outstanding debt early.

3.2 Short-term borrowing is defined as borrowing due to be repaid within 365 days. As at 30 June 2026, the Council had short-term borrowing of £3.221m. This will be repaid in instalments of £1.611m on 29 September 2026 and 30 March 2027. The average annual rate of interest on these loan repayments is 3.03%.

Investment Operations

3.3 The average size of the investment portfolio for the 3-month period of Q1 was £51.260m compared to an average portfolio size of £66.479m during the same period in 2025/26.

3.4 The reduction in the portfolio is largely due to use of reserves to fund the capital programme during the 2025/26 financial year alongside internal borrowing for the depot project in order to avoid incurring external borrowing costs.

Investment Activity in the period ended 30 June 2026

3.5 The Council operates a diverse portfolio and methods to invest its reserves which include direct deposits, certificates of deposit, notice accounts and money market funds. As at 30 June 2026 the Council held short term investments of £41.028m (specified investments) and £3m (non-specified investments).

3.6 The Treasury Management Strategy stipulates that the Council should not ordinarily hold more than 35% of investments as non-specified; this policy was adhered to during Q1 of 2026/27. A schedule of investments at 30 June 2026 is set out at Appendix A.

3.7 Short Term Fixed Deposits – In the period ended 30 June 2026, £19.0m of short-term fixed deposits were placed; £28.0m of investments matured within this same period.

3.8 Long Term Fixed Deposits – In the period ended 30 June 2026, no long-term fixed deposits were placed, and no long-term fixed deposits matured.

3.9 Across all short-term investments, the Council is achieving an average rate of return of 4.23% which is higher in comparison to other public bodies within our benchmark group rate who are only achieving 4.08%.

3.10 Overall, the Council is forecasting shortfall on investment income of £415k against its budgeted level of £2.479m. This is due to the average investment balances being lower than anticipated. This follows on from the outturn position where there was a need to draw on the HRA reserves to fund in-year spending pressures, internal borrowing for Depot project and use of reserves to fund capital expenditure.

Treasury Management Prudential Code Indicators

3.11 Prudential Code indicators specific to treasury management are designed to ensure that treasury management is carried out in accordance with professional practice. Indicators for 2026/27, 2027/28 and 2028/29 were approved by Council on 26 February 2026 as part of the Treasury Management Strategy 2026/27.

3.12 The key indicators for 2026/27 and actual figures for the 3 months to 30 June 2026 are set out at Appendix A. All investment activity has been maintained within the indicator limits.

Economic Update

3.13 The key indicator affecting the Council's treasury management is the base rate, which is currently 3.75%, having fallen from 4.00% in December 2025. MUFG, the Council's Treasury Management advisors predict a fall to 3.75% by the end of 2026/27, with a potential for a further cut in September 2027 then ultimately falling to 3.25% by 2027/28.

3.14 Inflation will also impact both the base rate and the Council's budgets. CPI fell from 3.3% in March 2026 to 2.8% in May 2026. The Government target for CPI remains at 2% and MUFG's current forecast is that CPI will fall to meet this by the end of Q4 of 2027.

4. Other Options Considered

4.1 No other options were considered.

5. Reasons for the Recommendations

5.1 The Committee should be kept updated on the Council's financial position.

6. Background Papers

6.1 Treasury Management Strategy 2026/27
Appendix F - Treasury Management Strategy 2026-27.pdf

7. Appendices

7.1 Appendix A – Treasury Management Prudential Indicators.