

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE - 22 FEBRUARY 2001

TREASURY MANAGEMENT – DEBT RESCHEDULING

Report by Director of Finance

1 PURPOSE OF REPORT

- 1.1** To advise Members of the background to and the result of the debt rescheduling exercise recently completed.

2 BACKGROUND INFORMATION

- 2.1** In terms of the Financial Regulations and Treasury Policy Statement all executive decisions on borrowing, investment or financing are delegated to the Director of Finance.
- 2.2** The Treasury Management Annual Strategy Report for 2000/01 set out the parameters that any rescheduling would be considered against. These were: -
- The ability to derive cash savings without increasing the overall risk profile.
 - The achievement of the overall Treasury Strategy.
 - The continued proactive management of the maturity pattern and interest rate exposure.
- 2.3** The Annual Strategy also requires the Director of Finance to report the outcome of any debt restructuring exercise carried out during the financial year to the earliest appropriate meeting of this Committee

3 DEBT RESCHEDULING UNDERTAKEN

- 3.1** The debt portfolio was reviewed at the start of the financial year in conjunction with the Councils appointed Treasury Advisors. In consideration of the estimated movement in longer term interest rates downwards an application was made to the Public Works Loan Board (PWLB) on 12 April 2000 for additional consent. This was to allow for the rescheduling of 4 market loans with a value of £9.750M, one of which had matured in early April and was replaced by short-term borrowing.

- 3.2** The request was agreed by the PWLB at its meeting of 26 April 2000. Once the consent had been granted it was possible to approach the lenders to discuss redemption terms. Terms were agreed in mid November in respect of a loan valued at £7.250M and the loan was subsequently replaced on 30 November. Acceptable terms remain to be agreed in respect of 2 small loans totalling £0.500M. The additional consent is however available until 31 March 2001 and will be utilised if appropriate.
- 3.3** A further review of the portfolio was undertaken in October following which a second application was made to the PWLB on 25 November for additional consent to allow four long term PWLB loans totalling £2.403m to be rescheduled in order to take full advantage of the historically low interest rates available. This consent was granted on 6 December and the loans were subsequently replaced on the 13 December, with a single loan at an annual interest rate of 4 5/8%.
- 3.4** The following table summarises the projected financial benefits arising from the 2 rescheduling exercises carried out.

Loan Reference Number	Existing Loans – Interest £m	Replacement Loans – Interest £m	Estimated Annual Savings £m	Estimated Whole-Life Savings £m
Market Loan 597	0.449	0.351	0.098	1.044
Market Loan 588	0.154	0.098	0.056	0.533
PWLB 475256	0.050	0.041	0.009	0.080
PWLB 474959	0.049	0.041	0.008	0.076
PWLB 473859	0.043	0.036	0.007	0.062
PWLB 459421	0.064	0.056	0.008	0.082
Total	0.809	0.623	0.186	1.877

- 3.5** The rescheduling of the debt portfolio is expected to reduce the annual interest charge by £0.186M to £0.623M, this includes the annual cost of premiums incurred. The projected total reduction in interest over the life of the loans is £1.877m. These revised figures will be included within the loan charges element of the annual estimates for 2001/02 and future years. The current distribution of outstanding debt will allocate this saving approximately 40:60 between the Housing Revenue Account and the General Fund respectively.
- 3.6** Premiums of £0.797M have been paid in relation to the loans rescheduled. These will be accounted for in line with the 1999 Code of Practice on Local Authority Accounting in Great Britain, and written off over the life of the replacement loans.

- 3.6** The rescheduling exercise carried out has generated estimated annual savings whilst at the same time not increasing the exposure to interest rate movements by locking into PWLB interest rates at their lowest level for 40 years. The annual debt maturity and interest rate exposure remain within the targets set by the Treasury Annual Strategy.

4 FINANCIAL IMPLICATIONS

- 4.1** The projected annual savings of £0.186M will be incorporated into the General Services and HRA estimates for subsequent financial years.

5 LEGAL IMPLICATIONS – Nil

6 POLICY IMPLICATIONS - Nil

7 RECOMMENDATIONS

- 7.1** It is recommended that Members note the contents in this report.

Alex McPhee
Director of Finance

RB
28 December 2000

LIST OF BACKGROUND PAPERS

- 1** Code of Practice on Local Authority Accounting in Great Britain 1999.
- 2** Treasury Management – Annual Strategy Report 2000/01 – Report by the Director of Finance to Policy & Resources Committee 28 March 2000.
- 3** Application letters to PWLB dated 12 April and 25 November 2000.
- 4** PWLB consent to additional quota dated 2 May and 8 December 2000.

Any person who wishes to inspect the background papers or wishing any further information on this report should contact Robin Baker, Treasury Services Manager, Tel (01563) 576331.

AGENDA