

## **EAST AYRSHIRE COUNCIL**

### **POLICY AND RESOURCES COMMITTEE – 18 APRIL 2002**

#### **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 2001/02 set out the parameters that any rescheduling would be considered against. These were: -

- The ability to demonstrate cash savings without increasing the overall risk profile.
- The achievement of the overall Treasury Strategy.
- The continued operation within the parameters set for the year.

- 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 is reviewed throughout the year in conjunction with the Councils appointed Treasury Advisors. An opportunity was identified to utilise the facility offered by the Public Works Loan Board to repay loans prematurely, in consideration of either a premium or discount being paid accordingly.

- 3.2** A total of 8 loans totalling £11.887M were identified with interest rates ranging between 4.750% and 11.625%. The loans were replaced by a market loan of £11.900M, with an interest rate fixed at 4.5% for the initial 4 years, rising to 4.9% thereafter, subject however to 6 monthly review where the lender has the right to increase the interest rate, and the borrower has the right to repay without any penalty.

The following table summarises the projected financial benefits arising from the rescheduling exercise carried out.

Loan Reference Number	Principal £m	Interest Rate (Coupon)	Annual Interest £m	Cumulative Interest for 4 Years	(Discount) / Premium on Repayment
PWLB 482503	9,500,000	4.7500%	451,250	1,805,000	(634,613)
PWLB 468552	56,545	11.6250%	6,574	26,296	11,214
PWLB 458847	282,725	9.2500%	26,152	104,608	84,064
PWLB 461719	424,087	9.0000%	38,167	152,668	119,071
PWLB 461720	424,087	9.0000%	38,167	152,668	119,071
PWLB 461972	282,725	9.0000%	25,445	101,780	80,250
PWLB 474485	565,450	8.2500%	46,649	186,596	125,915
PWLB 474494	352,008	8.6250%	30,360	121,440	95,023
<b>Total</b>	<b>11,887,627</b>	<b>5.5750%</b>	<b>662,764</b>	<b>2,651,056</b>	<b>0.00</b>
<b>New Market Loan</b>	<b>11,900,000</b>	<b>4.500%</b>	<b>535,500</b>	<b>2,142,000</b>	<b>-</b>
<b>Estimated Savings</b>	<b>-</b>	<b>-</b>	<b>127,264</b>	<b>509,056</b>	<b>-</b>

- 3.3** The annual reduction in interest charges is £0.127M per annum and £0.509M over the next 4 years. After this initial period whilst the annual interest payment will rise to £0.594M, this still represents an annual saving of £0.068M.

## 4 FINANCIAL IMPLICATIONS

- 4.1** The projected annual savings will act as a safeguard over other possible variables during the course of the current financial year and be taken account of in the budget for future years.

**5 LEGAL/POLICY IMPLICATIONS – Nil**

**6 RECOMMENDATIONS**

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

Alex McPhee  
**Director of Finance**

RB  
9 April 2002

**LIST OF BACKGROUND PAPERS**

- 1** Treasury Management – Annual Strategy Report 2001/02 – Report by the Director of Finance to Policy & Resources Committee 28 March 2001.

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**