

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE - 16 JUNE 2000

TREASURY MANAGEMENT – ANNUAL REPORT 1999/2000

Report by Director of Finance

1 PURPOSE OF REPORT

- 1.1** To inform Members of the out-turn performance of the Treasury Management Function for the financial year 1999/2000.

2 BACKGROUND INFORMATION

- 2.1** The Council's Treasury Policy Statement requires the Director of Finance to present to Members:

- I) An Annual Treasury Strategy Report, setting out the proposed policies to be adopted for the financial year. This Committee approved the Report for 1999/2000 on 4 February 1999.
- II) An Annual Treasury Management Report, detailing the actual performance of the Treasury Management function during the year.

- 2.2** This Annual Treasury Management Report includes:

- Consolidated Loans Fund performance during 1999/2000.
- Compliance with the 1999/2000 Annual Treasury Strategy Limits.
- Debt Rescheduling during 1999/2000.

3 CONSOLIDATED LOANS FUND PERFORMANCE 1999/2000

3.1 Outstanding Departmental Advances

Net borrowing during 1999/2000 by Service Departments from the Consolidated Loans Fund (CLF) to finance approved capital expenditure totalled £3.364m.

It is a requirement that 75% of capital receipts from Council House sales, and 50% of other Housing Revenue Account (HRA) asset disposals are used to redeem debt, instead of being available to enhance the capital programme. In 1999/2000 total net receipts were £6.912m (of which the "set aside" amounted to £5.124m). Expenditure after capital funded from current revenue (CFCR) was £5.342m, which resulted in a net repayment from HRA to the CLF of £1.571m

Advances made to Service Departments require to be repaid to the CLF over the estimated useful life of the asset created or acquired, based upon an annuity method of calculation. The total amount of scheduled debt repaid to the CLF during 1999/2000 amounted to £3.030m.

The overall movement in Service Department balances, together with the performance of the Loans Fund is detailed in the following tables.

Departmental Capital Advances Summary 1999/2000

	CLF Advances O/S At 31 March 1999 £M	Advances to Dept's During the Year £M	Repaid by Dept's During the Year £M	CLF Advances O/S At 31 March 2000 £M	% of CLF Debt
Housing Revenue Account	81.740	(1.571)	(0.246)	79.923	42.45%
General Fund Services					
Housing	8.338	0.301	(0.254)	8.386	4.45%
Development Services	42.666	1.463	(1.119)	43.010	22.84%
Community Services	10.832	0.337	(0.462)	10.708	5.69%
Social Work	7.526	0.380	(0.170)	7.736	4.11%
Education	28.193	2.882	(0.209)	30.866	16.39%
Policy and Resources	6.354	(0.532)	(0.475)	5.348	2.84%
Urban Aid	1.794	0.103	(0.040)	1.857	0.99%
Total General Fund	105.703	4.935	(2.728)	107.909	57.31%
Trading Services	0.509	0.000	(0.055)	0.454	0.24%
Total	187.952	3.364	(3.030)	188.286	100%

Consolidated Loans Fund Performance 1999/2000

	£M 1998/99	£M 1999/2000
Opening Loans Fund Advances	182.984	187.952
Closing Loans Fund Advances	187.952	188.286
Average Advances For Financial Year	185.468	188.119
Loans Fund Interest paid during year	15.439	14.148
Loans Fund Expenses paid during year	0.266	0.294
CLF Interest Rate (%)	8.32%	7.52%
CLF Expenses Rate (%)	0.12%	0.16%

The loans fund interest rate of 7.52% compares favourably with the original estimate of 8.15% for the financial year, and the actual rate for 1998/99 of 8.32%. This is due primarily to a reduction in the overall interest paid during the year because of a debt rescheduling exercise, which was carried out during the financial year. The detail of this process was reported to the September 1999 meeting of this Committee.

3.2 Outstanding External Loans Portfolio.

The Consolidated Loans Fund finances the capital advances made to Service Departments, together with the short term cash flow requirements of the Council by borrowing monies from external approved lenders. The movement in the Council's loan portfolio during 1999/2000 is shown in the following table.

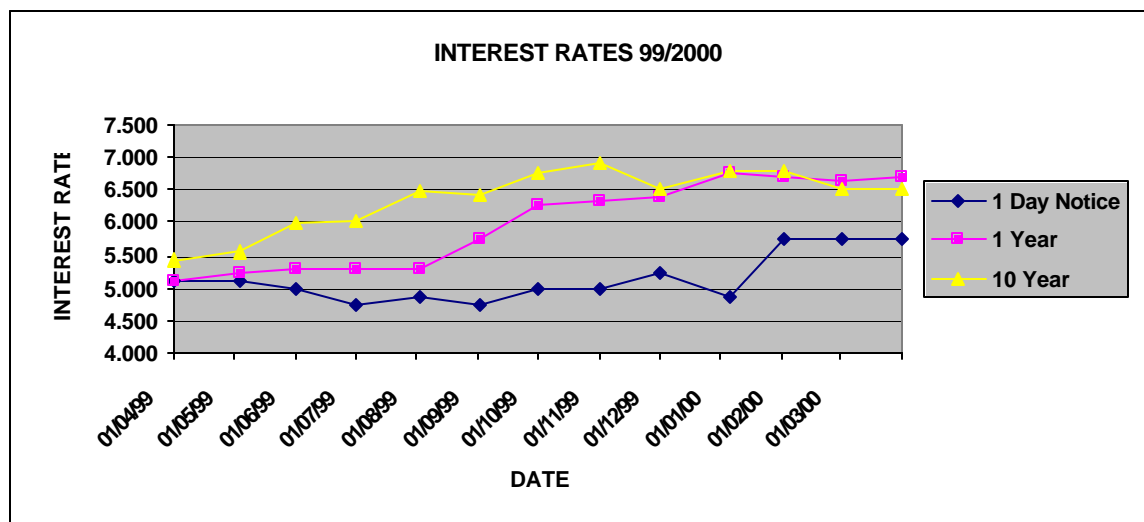
Category	O/S at 31 March 1999 £M	Net Annual Borrowing £M	O/S at 31 March 2000 £M	% of Out'ding Debt
Public Works Loan Board	136.355	34.751	171.106	84.430%
Market Loans	39.300	(24.550)	14.750	7.278%
Temporary	8.592	4.974	13.566	6.694%
European Investment Bank	2.037	(0.358)	1.679	0.828%
Other Loans	0.016	(0.009)	0.007	0.003%
Covenant Loan	0.900	(0.150)	0.750	0.396%
Trusts & Bequests etc.	0.794	0.009	0.803	0.370%
TOTAL	187.994	14.667	202.661	100.00%

In terms of both the Financial Regulations and the Treasury Policy Statement, all executive decisions on borrowing, investment and financing are delegated to the Director of Finance. Following advice from the Councils appointed Treasury Advisors additional PWLB borrowing quota was applied for to allow a programme of debt rescheduling to be carried out. This reduced the overall interest charges to the Council by approximately £1.224m. This involved the replacement of existing PWLB loans (£45.024m) and Market loans (£24.800m) with long term fixed rate PWLB loans, as well as the conversion of variable rate PWLB loans to fixed rate loans of (£6.345m).

The increase in temporary borrowing is principally due to the need to finance movements in the working capital of the Council over the year. Short-term borrowing was also utilised to take advantage of the lower interest rates available in the market.

3.3 Interest Rate Movement

During the first quarter of the year short term interest rates fell to 4.75% reflecting the previous reductions in the base rate. Longer-term interest rates however rose, which indicated the longer-term view of the market of the economy in general. The second half of the year saw the Monetary Policy Committee raise interest rates 4 times with the base rate reaching 6%, with longer term rates showed signs of levelling out at approximately 6.5%. The trend in interest rates is shown in the following graph.



4. COMPLIANCE WITH ANNUAL STRATEGY LIMITS & GUIDANCE

4.1 The Annual Treasury Strategy for 1999/2000, which was agreed by this Committee on 4 February 1999, set the following performance targets for the year, all of which were achieved.

- The ratio of fixed rate to variable rate debt should not exceed 75:25.
- The maximum level of long term debt maturing in any financial year should not exceed 15% of the total debt portfolio
- No single Treasury Market Broker should handle more than 75% of the transactions carried out during the year.

4.2 During the year, the Councils Treasury Advisors provided specific advice in relation to debt management, restructuring, and general Treasury Management issues. They also undertook a review of the operation of the Treasury Management function to ensure compliance with the CIPFA code of practice. Whilst their final report has still to be received no major variances from the Code were identified.

5. DEBT RESCHEDULING

5.1 As outlined in 3.2 above a programme of debt rescheduling was undertaken during July, August & November 1999. The first phase of this was reported to the meeting of this Committee on 9 September 1999. A further £6.435m of variable loans were converted to fixed rate loans in November 1999. This was carried out in order to “lock into” the prevailing long term interest rates available, which were at their lowest levels since the 1950’s, and had reached the lowest point in the cycle in the opinion of our treasury advisers.

6. FINANCIAL IMPLICATIONS

6.1 As a result of a debt rescheduling exercise carried out during the year overall interest charges were reduced by £1.224M, which led to the final CLF pool interest rate being 7.52%, comparing favourably with the original estimate of 8.15%.

7. LEGAL/AUTHORITY IMPLICATIONS

Nil.

8. POLICY IMPLICATIONS

8.1 During the financial year the performance of the Treasury Management Function complied with both the Annual Strategy Report for 1999/2000, as approved by this Committee on 4 February 1999 and the published CIPFA guidance on Treasury Management.

9 RECOMMENDATIONS

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

Alex McPhee
Director of Finance

RB/JP
25 May 2000

LIST OF BACKGROUND PAPERS

1. Policy & Resources Committee Reports

- 4 February 1999 – Treasury Management – Annual Strategy Report
- 9 September 1999 – Treasury Management – Debt Rescheduling.

For further information on the content of this report please contact Robin Baker, Treasury Services Manager, telephone 576331.

AGENDA