

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE - 14 JUNE 2001

TREASURY MANAGEMENT – ANNUAL REPORT 2000/2001

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 2000/01.

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 2000/2001 on 28 March 2000.
- 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 2000/01.
- Compliance with the 2000/01 Annual Treasury Strategy Limits.
- Debt Rescheduling during 2000/01.

3 CONSOLIDATED LOANS FUND PERFORMANCE 2000/01

3.1 Capital Expenditure 2000/01

This Committee approved capital allocations to Service Departments at its meeting on 25 January 2000. The Housing Capital Sub-Committee approved the HRA capital programme at its meeting on 22 February 2000. The following table summarises the borrowing requirement in respect of capital expenditure during 2000/01

	HRA -£'M	General Fund -£'M	Total - £'M
Gross Capital Expenditure	9.414	7.613	17.027
Financed By			
Useable Capital Receipts	1.842	0.520	2.362
C.F.C.R	3.947	0.000	3.947
Specific Grant	0.074	0.740	0.814
Total Available Funding	5.863	1.260	7.123
Balance - Borrowing Required	3.551	6.353	9.904
Approved Section 94 Capital Consents	3.505	6.225	9.730
Over/(Under) Consent –(£'M)	0.046	0.128	0.174
Over/(Under) Consent –(%)	+1.31%	+2.06%	+1.79%

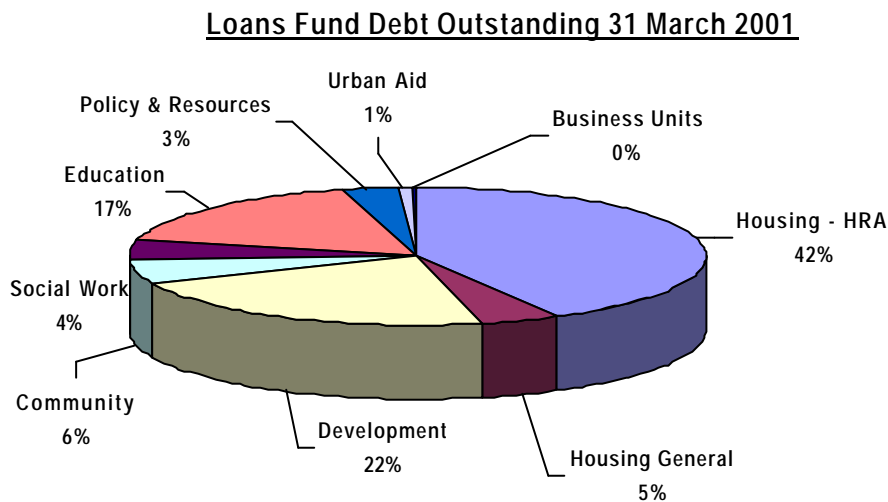
To comply with Central Government accounting convention capital expenditure is reported on a cash rather than accruals basis. To provide an element of flexibility within the overall programme however, Councils are permitted to spend within a 5% tolerance of the available consent. Both programmes were contained within this level during 2000/2001.

3.2 Departmental Capital Advances Summary 2000/01

Capital advances made to Departments are repaid to the Consolidated Loans Fund over the expected lifespan of the asset created. The movement in the borrowing accounts of Departments during the year is summarised in the following table:-

Service	Advances at 1 April 2000 £'M	Advances During the Year £'M	Repaid During the Year £'M	Debt Repaid from Receipts £'M	Advances at 31 March 2001 £'M	% of CLF Debt
HRA – Capital	79.923	3.551	(0.195)	(5.276)	78.003	41.174%
General Fund	107.909	6.353	(3.213)	(0.000)	111.049	58.618%
Business Units	0.454	0.000	(0.061)	(0.000)	0.393	0.208%
Total	188.286	9.904	(3.469)	(5.276)	189.445	100.00%

The distribution of the total departmental debt of £189.445M due to the loan fund is shown in the following graph.



3.3 Consolidated Loans Fund Performance 2000/01

3.3.1 Debt Charges

The following table summarises the out-turn position in respect of debt charges for the year. There are 3 elements within this charge; i) principal repaid to the C.L.F; ii) Interest on external borrowing; iii) Expenses – bank and other charges.

Service	Estimate £'M	Out-turn at 31 March 2001 - £'M	Variance	Variance as % of Estimate
HRA	6.300	5.784	(0.516)	8.19%
General Fund	13.044	12.672	(0.372)	2.85%
Business Units	0.100	0.093	(0.007)	7.00%
Total	19.444	18.549	(0.895)	4.60%

Savings were recognised during the year as a result of:

- Conversion of market debt to Public Works Loans Board (PWLB) debt, at a lower fixed interest rate. The associated premium is written off over the life of the new borrowing.
- New long-term borrowing during the year was at rates between 4.625% and 4.875%, as opposed to the original estimate of 5.5%.
- Full year effect of debt rescheduling carried out during the final quarter of 1999/2000.
- Improved cash-flow during the year from a number of sources including increased income from council house sales, reduced the requirement to borrow short term monies to fund operational expenditure.
- Additional bank interest received during the year, on short term cash balances invested by the Council, arising from improved cash flow.

3.3.2 Performance Indicators

A key performance indicator used to measure the relative performance of the Consolidated Loans Fund during the year is the "pool" interest and expenses rate. This expresses the total cost of borrowing as a percentage of the outstanding external borrowing of the loan fund. The following table summaries the performance.

	1999/2000 - £M	2000/2001 - £M
Opening – External Debt at 1 April 2000	187.994	202.661
Closing – External Debt at 31 March 2001	202.661	195.557
Average External Debt for Year	195.328	199.109
Loans Fund Interest paid during year	14.148	13.020
Loans Fund Expenses paid during year	0.294	0.188
CLF Interest Rate (%)	7.24%	6.54%
CLF Expenses Rate (%)	0.15%	0.09%
CLF Pool Rate (%)	7.39%	6.63%
All Scotland Average (%)	7.74%	Not Available

Although comparative national figures are not yet available for 2000/2001 it is anticipated that the relative performance achieved against the national rate in 99/2000 will be continued into 2000/01, due principally to the impact of the restructuring of the debt portfolio carried out in both 1999/00 and 2000/01.

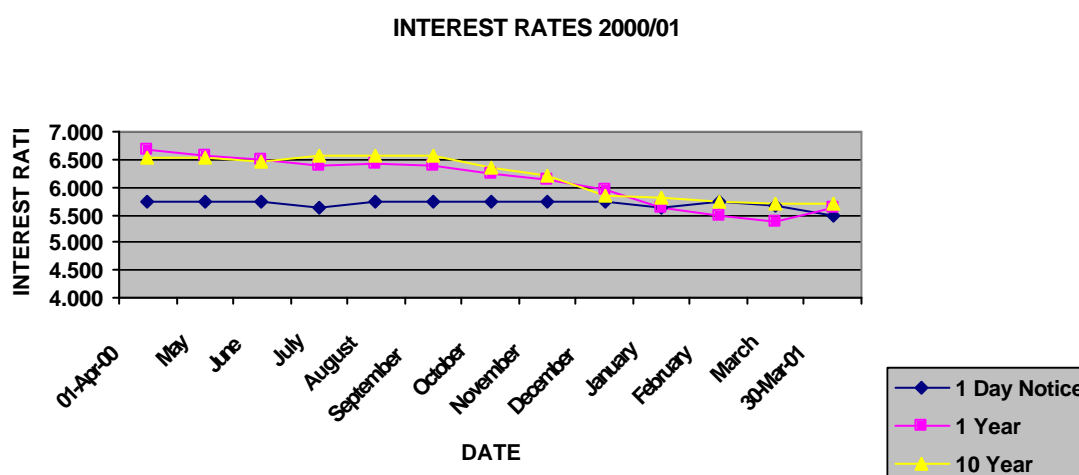
3.4 Outstanding External Loans Portfolio.

The following table illustrates the movement in the external debt portfolio of the Council during the financial year. This is used to finance both the long-term capital investment carried out by the Council, together with the shorter term cash flow requirements. Market debt was significantly reduced during the year because of debt rescheduling, whilst the reduction in temporary debt is indicative of the improved cash flow during the year.

Category	O/S at 1 April 2000 £M	Borrowed During Year £M	Repaid During Year £M	O/S at 31 March 2001 £M	% of Out'ding Debt
Public Works Loan Board	171.106	17.653	(4.538)	184.221	94.205%
Market Loans	14.750	6.000	(14.250)	6.500	3.323%
Temporary	13.566	37.390	(48.896)	2.060	1.053%
European Investment Bank	1.679	0.000	(0.276)	1.403	0.777%
Other Loans	0.007	0.000	(0.004)	0.002	0.001%
Covenant Loan	0.750	0.000	(0.150)	0.600	0.307%
Trusts & Bequests etc.	0.803	0.000	(0.032)	0.771	0.394%
TOTAL	202.661	61.043	(68.147)	195.557	100.00%

3.5 Interest Rate Movement during the Year

Short-term interest rates remained very static during 2000/01, opening at 5.75% and holding at, or close to that mark, for much of the year before falling slightly at the year-end to 5.5%. Longer terms interest rates showed a downward movement, reflective of the markets assessment of longer term yields and the general view of stability in the economy overall. The trend in interest rates is shown in the following graph.



4 COMPLIANCE WITH ANNUAL STRATEGY LIMITS & GUIDANCE

4.1 The approved Annual Treasury Strategy for 2000/01, which was agreed by this Committee on 28 March 2000 contained three essential performance targets for Treasury Management, which are set out below. These were all met during 2000/2001.

- 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.

5 DEBT RESCHEDULING

- 5.1** A limited debt rescheduling exercise was carried out during the year in which market loans of £7.250M and PWLB of £2.403m were replaced by fixed rate PWLB loans. It is expected that this will reduce the annual cost of borrowing by £0.186M and result in a total saving of £1.877M over the life of the new borrowing.

6 FINANCIAL IMPLICATIONS

- 6.1** The anticipated savings generated from the debt rescheduling outlined in 5.1 were taken account of during the estimate cycle and have been incorporated into the relevant budgets for 2001/02.

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 2000/01, as approved by this Committee on 28 March 2000 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
 29 May 2001

LIST OF BACKGROUND PAPERS

1. Policy & Resources Committee Reports

- 25 January 2000 – General Services Capital Programme 2000/01-2002/03
- 28 March 2000 – Treasury Management – Annual Strategy Report 2000/01
- 22 February 2001 – Treasury Management – Debt Rescheduling.

2. Housing Capital Sub-Committee Reports

- 22 February 2000 – Housing Capital Allocation and Capital Programme 2000/01

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

AGENDA