

Briefing Paper for Audit Committee meeting 25th June 2013

Council Debt Restructuring

Purpose of Briefing:

To update the Committee on the review to undertake a significant debt restructuring taking advantage of the sustained, low interest rate economic outlook.

Background:

The Council has a current debt portfolio of £120M with an average interest rate of 4.5% with a future need to borrow rising to up to £195M to deliver the capital programme.

Annual Treasury cash balances average around £80M over the course of the year. Average interest earnings continue to fall and now typically average around just 0.5%.

The Approved Budget for 2013/14 requires an annual reduction in debt costs of £1.4M recognising the low level of interest rates. Approximately £900K of this has been achieved through existing cash-flow of the capital programme although restructuring of existing debt will be required to deliver the further planned cost reductions.

Details:

As market expectations for sustained low interest rates have increasingly been accepted as the consensus view, I requested a review of the Council's existing debt portfolio to be undertaken by our treasury management advisors (Arlingclose). The purpose of this review was to identify debt rescheduling opportunities within this low interest rate environment, and this has now been completed.

The review has identified the potential to undertake a significant debt rescheduling amounting to £50M, utilising funds from the Council cashflow's which are earning very low rates of interest. This cash flow will be used to temporarily repay a significant element of Council Debt with higher interest costs. The net effect will be to save revenue of up to £1.7M per annum, whilst reducing the Council's exposure to future interest rate movements. Full details are set out in the attached summary from Arlingclose.

The proposal is in line with the Council's approved Treasury Management Strategy and as the Council's S151 Officer; I will seek to implement the rescheduling proposals during the 2013/2014 financial year as cash flows permit.

Requests:

The Committee notes the debt restructuring proposal.

Attachments to this report:

- Long Term Debt Review Summary

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