

FINANCE PORTFOLIO DECISION SCHEDULE



Friday 15th September, 2006

at 10am

in Committee Room "A"

Councillor Payne, Cabinet Member responsible for Finance will consider the following items.

1. **KEY DECISIONS**
No items

2. **OTHER ITEMS REQUIRING DECISION**
2.1 Assisted Car Purchase Scheme – *Chief Financial Officer*

3. **ITEMS FOR INFORMATION/DISCUSSION**
No items

4. **REPORTS FROM OVERVIEW OF SCRUTINY FORUMS**
No items

FINANCE PORTFOLIO

Report to Portfolio Holder

15th September, 2006



Report of: Chief Financial Officer

Subject: ASSISTED CAR PURCHASE SCHEME

SUMMARY

1. PURPOSE OF REPORT

- 1.1 To enable the Portfolio Holder to consider proposed changes for determining the interest rate payable on loans granted through the Council's Assisted Car Purchase Scheme.

2. SUMMARY OF CONTENTS

- 2.1 The Council operates an Assisted Car Purchase Scheme for employees. The basis for determining the interest rate applied to the scheme was last reviewed in February, 1999. It is therefore appropriate to review this basis to ensure the scheme remains relevant in light of changing interest rates and the availability of other forms of car financing. The report therefore proposes a new basis for determining interest rates for the Council's scheme.

3. RELEVANCE TO PORTFOLIO MEMBER

- 3.1 Portfolio Holder has responsibility for determining administrative arrangements in relation to the scheme.

4. TYPE OF DECISION

- 4.1 Non Key.

5. DECISION MAKING ROUTE

- 5.1 Portfolio Holder 15th September, 2006.

6. DECISION(S) REQUIRED

6.1 It is recommended that: -

- i) from 1st October, 2006, the interest rate for the Assisted Car Purchase Scheme be based on a 1% pulsage to the PWLB five year interest rate as at 1st September, 2006;
- ii) authority to review the rate on an annual basis, to reflect the PWLB five year rate apply at 1st March each year, be delegated to the Chief Financial Officer.

Report of: Chief Financial Officer

Subject ASSISTED CAR PURCHASE SCHEME

1. PURPOSE OF REPORT

- 1.1 To enable the Portfolio Holder to consider proposed changes for determining the interest rate payable on loans granted through the Council's Assisted Car Purchase Scheme.

2. BACKGROUND

- 2.1 The Council operates an Assisted Car Purchase Scheme for employees. The basis for determining the interest rate applied to the scheme was last reviewed in February, 1999. At that time it determined that the interest rate for the scheme be based on a 1% plusage to the Council's mortgage rate. The rate initially determined was competitive with prevailing market rates and enabled the Authority to achieve a surplus from operating the scheme. This basis is no longer applicable as the Council no longer provides mortgages.
- 2.2 In addition, since the last review of the scheme's rate there have been significant increases in the availability of car loans from banks and alternative financing options. As a result of these changes the number of Council car loans has reduced over the last five years from approximately 150 to 55.
- 2.3 As a result of this reduction the actual surplus earned on car loans is less than the budgeted surplus. It is therefore suggested that the interest rates should be reviewed to encourage employees to use the scheme and therefore address the ongoing shortfall in budgeted income.

3. CONSIDERATION OF ISSUES

- 3.1 In determining a policy the Council needs to address the following issues: -
- i) Interest Rate is objective and independent;
 - ii) Interest Rate is sustainable – will meet needs over a reasonable period, as Interest Rates are fixed for the period of the loan;
 - ii) Meets the Council's budget requirement.
- 3.2 The most appropriate way to meet the above objectives is to continue to apply a 1% plusage to a "fixed interest rate". Based on enquiries

of other Council's the "fixed interest rate" is either a PWLB (Public Works Loan Board) rate or the Bank of England base rate. As car bans tend to be for longer periods, with a maximum loan period of five years, it is suggested that the most appropriate way forward is to apply a plusage of 1% to the five year PWLB apply on 1st March and apply this rate to loans granted in the following financial year. The rate applicable to new loans will then be reviewed on an annual basis, although the rate on individual bans will be fixed.

- 3.3 Owing to the volatility of interest rates earlier in the year it is suggested that the rate for the remainder of this year is set at 1% above the five year PWLB rate applying on 1st September. This will give a new rate of 5.85%, compared to an existing rates of 7.28%.

4. RECOMMENDATIONS

- 4.1 It is recommended that: -

- i) from 1st October, 2006, the interest rate for the Assisted Car Purchase Scheme be based on a 1% plusage to the PWLB five year interest rate as at 1st September, 2006;
- ii) authority to review the rate on an annual basis, to reflect the PWLB five year rate apply at 1st March each year, be delegated to the Chief Financial Officer.