

Southend-on-Sea Borough Council

Report of Corporate Director of Support Services
to
Cabinet
on
15 March 2011

Report prepared by:
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Agenda
Item No.

Mortgage Interest Rate – April 2011 to September 2011
Economic and Environmental Scrutiny – Executive Councillor: Councillor AJ Moring
A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 Under Section 438 of the Housing Act 1985 the Council is required to declare the Local Average Rate of Interest on its mortgages at six monthly intervals.

2. Recommendations

2.1 That the Cabinet recommend to Council that it:

- 2.1.1 Notes that the current Local Average Rate of Interest has changed to 3.80% from the previous declared rate of 4.35% for the period up to April 2011**
- 2.1.2 Declares the Local Average Rate of Interest at 4.49% for the period from April 2011 to September 2011.**
- 2.1.3 Increase the Council's mortgage interest rate from 3.80% to 4.49% for the period from April 2011 to September 2011.**

3. Background

- 3.1 Local Authority mortgages are charged interest in accordance with Section 438 of the Housing Act 1985. This must be the higher of:
- The Standard National Rate of interest as set by the Secretary of State after taking into account rates charged by building societies in the United Kingdom and any movement in those rates.
 - The applicable local average rate, based on the Authority's own borrowing costs.

- 3.2 The Secretary of State took into account decreases in mortgage interest rates announced by the building societies and decreased the Standard National Rate from 3.93% to 3.13% with effect from 1 April 2009.
- 3.3 Local authorities are required to review and declare the Local Average Rate of Interest on its mortgages every six months. The local average rate is based on the Authority's own estimated borrowing costs for the period April 2011 to September 2011.
- 3.4 Under the Local Authority Mortgage Interest Rates Determination 1993, Local authorities are authorised to add 0.25% to the local average rate for administrative costs. The Secretary of State made the 1993 determination under powers conferred by paragraph 4 of Schedule 16 of the 1985 Housing Act.
- 3.5 The applicable Local Average Rate of Interest has been calculated as 4.49% (inclusive of 0.25% administrative costs) and therefore regulation requires the Council's mortgage interest rate to be set at 4.49%.
- 3.6 Although Local Authorities are required to review and declare the Local Average Rate of Interest every six months, they are also required to recalculate the Local Average Rate of Interest when there are changes to their borrowing costs. This could occur due to debt restructuring, debt repayment or when new loans are taken out. During the current six month period there have been changes to the debt portfolio and this prompted the Local Average Rate of Interest to be recalculated as 3.97% for November to December 2010 and as 3.80% for January to March 2011. These were applied to the mortgage portfolio from the relevant date and the mortgagees will have their account adjusted accordingly to reflect these changes in rates.
- 3.7 The Council currently has a portfolio of 4 mortgages. The total amount outstanding for all 4 mortgages is £16,451 as at February 2011. The average monthly payment of principal is £69.

4. Other Options

- 4.1 This is the only option as the interest rate has to be set in accordance with Section 438 of the Housing Act 1985.

5. Reasons for Recommendations

- 5.1 To comply with the statutory requirements of the Housing Act 1985.

6. Corporate Implications

Contribution to the Council's Vision and Critical Priorities

- 6.1 The calculation and declaration of the mortgage interest rate is a statutory determination and does not have any direct bearing on the Council's Vision and Critical Priorities.

Financial Implications

- 6.2 The Council's mortgage interest rate together with the amounts outstanding affect the average monthly payments.

Legal Implications

- 6.3 Local authorities are required to review their mortgage rate and make a declaration of the rate every six months.

People Implications

- 6.4 There are no people implications arising from this report.

Property Implications

- 6.5 There are no property implications arising from this report.

Consultation

- 6.6 No consultation was undertaken as this is a statutory determination.

Equalities and Diversity Implications

- 6.7 There are no equalities and diversity implications arising from this report.

Risk Assessment

- 6.8 Assuming this report is approved, there is no risk that the Council will not meet its statutory duty to declare the Local Average Rate of Interest on its mortgages for the period from April 2011 to September 2011.

Value for Money

- 6.9 The table below shows our applicable Local Average Rate of Interest and the Standard National Rates since October 2007. It shows that the Standard National Rate was higher than our applicable Local Average Rate until December 2008. This was due to our own borrowing costs being less than rates charged by building societies in the United Kingdom. Our applicable Local Average Rate has only become higher than the Standard National Rate since the rates charged by building societies have fallen in response to the bank base rate falling to an unprecedented low level.

Period of time	Standard National Rate (%)	Applicable Local Average Rate (%)
October 2007 – March 2008	6.89	5.78
April 2008 – September 2008	6.89	5.77
October 2008 – November 2008	6.89	5.80
December 2008 – January 2009	5.07	5.80
February 2009 – March 2009	3.93	5.80
April 2009 – October 2009	3.13	5.52
November 2009 – March 2010	3.13	4.95
April 2010 – September 2010	3.13	4.71
October 2010	3.13	4.35
November 2010 – December 2010	3.13	3.97
January 2011 – March 2011	3.13	3.80

Community Safety Implications

- 6.10 There are no community safety implications arising from this report.

Environmental Impact

- 6.11 There are no environmental impacts arising from this report.

7. Background Papers

- 7.1 Working papers retained by Accountancy Services.

8. Appendices

- 8.1 None