

# Southend-on-Sea Borough Council

Report of Corporate Director of Corporate Services  
to  
**Cabinet**  
on  
**17 March 2015**

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Agenda  
Item No.

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**Mortgage Interest Rate – April 2015 to September 2015**  
**Policy and Resources Scrutiny Committee**  
**Executive Councillor: Councillor Woodley**  
***A Part 1 Public Agenda Item***

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**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 4.72% from the previous declared rate of 5.08% for the period from December 2014 to March 2015.**
- 2.1.2 Declare the Local Average Rate of Interest at 4.67% for the period from April 2015 to September 2015.**
- 2.1.3 Decrease the Council's mortgage interest rate from 4.72% to 4.67% for the period from April 2015 to September 2015.**

**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 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 2015 to September 2015.
- 3.3 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.
- 3.4 The applicable Local Average Rate of Interest has been calculated as 4.67% (inclusive of 0.25% administrative costs) and therefore regulation requires the Council's mortgage interest rate to be set at 4.67%.
- 3.5 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 or estimated borrowings. This could occur due to debt restructuring, debt repayment, when new loans are taken out or when planned new loans were not taken out. Long term borrowings planned for December 2014 were not taken out and planned borrowing for March 2015 will not be taken out as originally forecast, which reduced the interest rate compared to the original forecast.
- 3.6 The Council currently has a portfolio of 1 mortgage. The total principal amount outstanding for the mortgage is £1,971 as at February 2015. The average monthly payment of principal is £98.

#### **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 affects the average monthly payments required to be made by mortgagees.

#### *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 2015 to September 2015.

### *Value for Money*

- 6.9 The table below shows our applicable Local Average Rate of Interest and the Standard National Rates since October 2011. It shows that the Standard National Rate has been lower than our applicable Local Average Rate during this time.

Local Authorities are required to recalculate the Local Average Rate of Interest when there are changes to their borrowing costs or estimated borrowings. These changes are shown in the table below.

| <b>Period of time</b>        | <b>Standard National Rate (%)</b> | <b>Applicable Local Average Rate (%)</b> |
|------------------------------|-----------------------------------|--|
| October 2011 – January 2012  | 3.13                              | 4.30                                     |
| February 2012                | 3.13                              | 4.55                                     |
| March 2012 – July 2012       | 3.13                              | 3.78                                     |
| August 2012                  | 3.13                              | 3.92                                     |
| September 2012               | 3.13                              | 4.04                                     |
| October 2012 – November 2012 | 3.13                              | 4.28                                     |
| December 2013 – March 2013   | 3.13                              | 4.27                                     |
| April 2013 – September 2013  | 3.13                              | 4.39                                     |
| October 2013 – November 2013 | 3.13                              | 4.60                                     |
| December 2013 – March 2014   | 3.13                              | 4.43                                     |
| April 2014 – September 2014  | 3.13                              | 4.71                                     |
| October 2014 – November 2014 | 3.13                              | 5.08                                     |
| December 2014 – March 2015   | 3.13                              | 4.72                                     |

#### *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 None.

### **8. Appendices**

- 8.1 None