

BRECKLAND COUNCILPROFORMA FOR APPROVAL OF THE RELEASE OF RESOURCES
(CAPITAL AND REVENUE BUDGETS)

FROM: Mandy Ashton (Senior Accountant)

THIS PROFORMA PROVIDES THE FINANCIAL IMPLICATIONS
IN RESPECT OF THE ATTACHEDREPORT: Assisted Car Purchase Scheme
REPORT DATE: 04th March 2013

£ Year 1	£ Year 2	£ Year 3	£ Year 4	£ Year 5
2013/14	2014/15	2015/16	2016/17	2017/18

**Revenue See separate
tables below**

Total Revenue	Unknown	Unknown	Unknown	Unknown	Unknown
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Funding required:		Considered by:	Date:
Revenue Cost	Unknown	CMT	28/01/13
		LJCC	14/02/13
		GP	27/02/13
		GP	13/03/13

Financial Services Comments

This report proposes to introduce a revised assisted car purchase scheme as a staff benefit and this Proforma b will be updated once the final policy is approved.

As the take up of the scheme is unknown it is not possible to detail the exact costs associated with this scheme. At a similar sized authority the take up has been 16 loans taken out over 4 years at an average loan cost of £4,000, totalling £64,000.

Cash flow is not considered a risk as take up is not expected to be high based on the experience of other local authorities who run a similar scheme. However, if take up was high this could become a cash-flow issue. Similarly, if interest rates rise, the margin of subsidy would increase. The extent of subsidy depends on the difference between the market rate and the fixed loan rate (linked to base rate) at the start of the loan. If interest rates rise throughout the term of the loan the level of subsidy will grow. Interest rates are currently at the lowest rate and can only increase.

Financial Risk

As detailed in the policy document, there is no risk whilst the employee is paid by the council as the loan repayments are collected through the payroll which will minimise the risk of bad debts. However, should redundancies/staff turnover occur debt repayment may become a risk and recovery arrangements will need to be put in place.

Should members approve a below market rates interest rate (currently around 6% APR) compared with the rate suggested in the report of base +1% divided by 2 (currently 0.75%) the loans will be deemed "soft loans", to be transparent soft loans and the employee benefit will be declared in the Financial Statement. In effect the Council will be subsidising the loans by the difference in the market rate* interest rate and the fixed rate

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12/03/2013	Page 1 of 3	D:\moderngov\data\published\Intranet\C00000130\M00003228\AI00017609\%\$fntsl3zf.doc

for the period of the loan. The interest receivable forecast for 13/14 is based on an average interest rate of 2.04%.

* Decision required for which bank to use to determine market rate

Introduction of this scheme would create additional processes in Payroll to administer loans and deal with any employee tax implications at year end, and in Finance to implement the change in accounting treatment if the level of soft loans is deemed to be material.

Lost Interest Calculation based on:

- *Lost interest rate used 2.04% is the budgeted rate of return on average cash balances 2013/14*
- *Interest earned rate used is loan rate of base rate +1 divided by 2 (currently 0.75%)*
- *Maximum take up based on budgeted essential users plus budgeted lease car holders*

Estimated take up	16	Maximum take up	100
Average loan value	£4,000	Average loan value	£4,000
Value of loans issued	£64,000	Value of loan issued	£400,000
Lost interest on value of loan	£1,306	Lost interest on value of loan	£8,160.
Interest earned	(£480)	Interest earned	(£3,000)
Lost interest	£826	Lost interest	£5,160

Estimated take up	16	Maximum take up	100
Maximum loan value	£10,000	Maximum loan value	£10,000
Value of loans issued	£160,000	Value of loan issued	£1,000,000
Lost interest on value of loan	£3,264	Lost interest on value of loan	£20,400
Interest earned	(£1,200)	Interest earned	(£7,500)
Lost interest	£2,064	Lost interest	£12,900

Sensitivity Analysis

The sensitivity analysis tables below assume all loans are taken out on day one, however at any one time the number of loans will vary. The difference in budgeted interest rate and loan rate offered will change each year. The range of sensitivity will increase over time as interest rates rise.

- *Base Case = 16 people taking up a £4,000 loan with an interest rate of base rate +1 divided by 2 (currently 0.75%)*
- *Assumed all loans taken out on day one*
- *Budgeted interest rate 2.04%*
- *Difference in interest rates is 2.04% minus 0.75% = 1.29%*

	1.29%	1.79%	2.29%	2.79%	3.29%
16	£826	£1,146	£1,466	£1,786	£2,106
25	£1,290	£1,790	£2,290	£2,790	£3,290
50	£2,580	£3,580	£4,580	£5,580	£6,580
75	£3,870	£5,370	£6,870	£8,370	£9,870
100	£5,160	£7,160	£9,160	£11,160	£13,160

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12/03/2013	Page 2 of 3	D:\moderngov\data\published\Intranet\C00000130\M00003228\AI00017609\%fntsl3zf.doc

PROFORMA B

- Base Case = 16 people taking up a £10,000 loan with an interest rate of base rate +1 divided by 2 (currently 0.75%)
- Assumed all loans taken out on day one
- Budgeted interest rate 2.04%
- Difference in interest rates is 2.04% minus 0.75% = 1.29%

	1.29%	1.79%	2.29%	2.79%	3.29%
16	£2,064	£2,864	£3,664	£4,464	£5,264
25	£3,225	£4,475	£5,725	£6,975	£8,225
50	£6,450	£8,950	£11,450	£13,950	£16,450
75	£9,675	£13,425	£17,175	£20,925	£24,675
100	£12,900	£17,900	£22,900	£27,900	£32,900

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12/03/2013	Page 3 of 3	D:\moderngov\data\published\Intranet\C00000130\M00003228\AI00017609\%fntsl3zf.doc