

Report No.2

Report to Policy & Resources Committee 13th August 2013

Repayment of Loan for Town Hall.

1. Purpose of the report

- 1.1 To advise the committee of the premium to be incurred for early repayment of the two loans taken with the Public Work Loans Board (PWLB) for refurbishment of the Town Hall.

2. Background

- 2.1 At the last meeting of the Policy and Resources Committee an enquiry was made about the likely cost of any premium if the loan or loans were repaid earlier than the scheduled timescale.
- 2.2 The loans were entered into when interest rates were much higher than those of the present day at a fixed rate of 4.55% and 4.59%
- 2.3 At the time of making the decision the Town Council considered the option of fixed rate and variable and determined that the fixed rate was the preferred option.
- 2.4 The PWLB operate on the basis that if the interest rate of a current loan is higher than that of a new loan a financial premium is added for early repayment.
- 2.5 The PWLB has been approached by the Town Clerk to establish what premium would be imposed for early repayment.

3. Information

- 3.1 The figures obtained from the PWLB are only indicative of the scale of premium as the figures change on a daily basis.
- 3.2 Repayment of part of a loan is calculated on a pro-rata to the cost of repaying the whole loan. The remaining part of the loan would continue on its existing terms but the scheduled repayments would also be reduced on a pro-rata basis.
- 3.3 The interest rates offered by the Board on new loans include an additional margin to cover market fluctuations during the day.
- 3.4 When an existing loan is settled early a calculation is made to compare current interest rates (without a margin) at which the Board might re-lend the amount repaid over the remainder of the original period of the loan and the rate of interest that it would have received had original loan continued to maturity.
- 3.5 Where the comparing Interest rate is higher a discount is calculated and where the rate is lower a premium is calculated.
- 3.6 The current loans taken by the Town Council would both attract a premium for early or part repayment.

4. Financial Implications and risks

- 4.1 The premium for early repayment for the current loans would be in the region of £131,554 for total repayment and prorate for partial.
- 4.2 The first loan was for a sum of £500,00 and is scheduled to be repaid on 10th October 2036 and the second for £150,000, scheduled for repayment on 10th October 2032
- 4.3 The total figure required to be repaid changes on a daily basis but the anticipated amount for full early repayment plus premium will be in the region of £707,562.00

5 Recommendation

- 5.1 The committee is requested to note the information and advise the Town Clerk of any action to be taken.

Jeff Penfold
Town Clerk
27.07.2013