

EXMOOR NATIONAL PARK AUTHORITY**16 November 2004****FINANCING OF VEHICLE AND EQUIPMENT PURCHASES****Report of the Chief Financial Officer****Purpose of Report:**

To consider the most financially beneficial method of financing the purchase of vehicles and equipment.

Legal Implications including Human Rights Act 1998:

Local Government Act 2003 and the Chartered Institute of Public Finance (CIPFA) Prudential Code.

Financial Implications:

The proposal should prove to be best value

National Park Purposes:

Vehicles and equipment are necessary for the achievement of national park purposes.

RECOMMENDATION:

The Committee is recommended to APPROVE the approach of internal lending from reserves to a Vehicle and Equipment Asset Account and to change budget headings the same time repayment charges as would have occurred through using the Public Works Loans Board (PWLB).

1. INTRODUCTION

- 1.1 The Resources Committee in April 1999 agreed that new/replacement vehicles for Rangers and Environmental Education be provided through liaising with the appropriate Section Head completing an annual review of vehicle condition/mileage and that schedules for the Field Services Team (normally second hand) be acquired on a “best buy” principle (leasing or outright purchase).
- 1.2 The Local Government Act 2003 gives National Park Authorities additional freedoms to borrow balanced by additional responsibilities to ensure they act prudently. Members will recall that a report detailing the implications and requirements of the Prudential Code was presented to and approved by the Authority at its meeting on 3 February 2004 and as the Authority had no plans to borrow no authorised limit was set.

2. FINANCING OPTIONS

- 2.1 Up to now the Authority has secured its vehicles and equipment either outright purchase from the annual budget which has budget implications or through leases over 5 years arranged by Somerset County Council which has the effect of annualising the costs and avoiding the “peaks and troughs” of outright purchase. The power to borrow has introduced a new option

of borrowing for such items and repaying over a period of time. Option appraisal generally favours borrowing as opposed to leasing. To maintain an even annual cost of budgets the Authority would more than likely borrow from the Public Works Loans Board at a fixed interest rate for 5 years which is the life cycle used by the Authority for vehicles.

- 2.2 In considering whether to recommend the approach to borrowing to the Resources Committee which would necessitate the Authority formally agreeing an external borrowing limit, (the authorised limit) a policy of inward investment has been developed. The Authority always has surplus funds on deposit for a variety of reasons and as a general rule the interest rate for borrowing tends to be higher than the rate for lending. For instance the current 5 year PWLB annuity borrowing rate is 4.75% as against our lending rate of 3.8%.
- 2.3 The proposed approach therefore is to in affect “lend” surplus funds to a Vehicle and equipment Asset Account from the reserves held and:
- to charge the service budgets with the same loan repayment charges as would have occurred through using the PWLB; this would replace the lease costs that are currently charged to the service budgets.
 - to carry out an option appraisal for each requirement to determine the most cost efficient method of financing vehicle and equipment purchases in excess of £5,000.
 - to credit the revenue account with the national interest it would have received on the “internal loans”.
 - to credit all receipts for vehicles disposed of to the Vehicle and Equipment Asset Account which over time would reduce the total amount “loaned”
- 2.4 This approach of “internal lending” does mean that the Authority would be carrying the risk for variations in interest rate but given the limited amount of capital involved and the timescale involved (5 years) this is not regarded as significant. To manage the risk it is suggested that a statement on the operation of the Vehicle and Equipment Asset Account be included with the annual Treasury Management Report presented to the Committee.

Charles Burrows
Chief Finance Officer
2 November 2004