TONBRIDGE & MALLING BOROUGH COUNCIL

FINANCE and PROPERTY ADVISORY BOARD

05 January 2010

Report of the Management Team

Part 1- Public

Matters for Recommendation to Cabinet - Non-Key Decision

1 INTEREST FREE LOAN SCHEME FOR CAPITAL PROJECTS

As a result of the significant financial pressures facing the Council, we no longer offers grants to parish councils or voluntary organisations for capital projects. This report proposes an alternative scheme for supporting capital projects from parish councils with an interest free loan.

1.1 Introduction

1.1.1 Funding for capital grants was withdrawn from the 2009/10 budget due to the unprecedented financial pressures the Council was facing. However, members awarded a small number of grants to projects whose 'special circumstances' exceptionally justified it.

1.1.2 Due to the deepening financial crisis that the Council (and indeed the entire public sector) is facing, members resolved (F&PAB 30 September 2009) that it was not practical to reinstate the capital grants scheme, and parish councils were advised of this decision.

1.1.3 The Council has recently received applications from two parish councils who both believe that their project deserves to be treated as an exceptional case (see separate report on the agenda).

1.1.4 Bearing in mind the council's own financial difficulties, rather than awarding grants, we suggest it might be more appropriate to support the parish councils by way of an interest free loan. Offering an interest free loan would provide the Council with a way of supporting capital projects while replacing the significant cost of grants with the lesser cost of foregone interest on investments.

1.2 Interest Free Loan Scheme

1.2.1 In order to ensure that there is equity as well as some certainty for the parish councils we wish to support, it is important that we set down some parameters for a scheme that could run for the foreseeable future.

1.2.2 We suggest that the scheme should only be available to parish councils. Surety of loan repayments is a principal concern, and parish councils offer a very high level of surety as their existence is long term and their finances assured. Furthermore, the financial relationship with this Council provides a potentially simple way of administering loan repayments; they could simply be deducted from financial arrangement or precept payments.

1.2.3 Loans should only be made to help finance capital projects that merit special consideration. In addition, parish councils would be eligible for only one loan at a time.

1.2.4 Management Team should undertake the initial evaluation of applications for loans from the parish councils and make recommendations to Members, giving details of the projects to which the proposed loans will relate, and the term of repayment. The decision to refuse or accept the loan would be with members based on this advice.

1.2.5 The Director of Finance would administer the loan and agree a suitable amount and repayment term. Loans would be capped at £25,000 and repayment terms would normally be no longer than five years. As mentioned above, when entering into a loan agreement, the parish council would automatically agree to having deductions made from their precept payments (or financial arrangements payments) to cut down on administration.

1.3 Legal Implications

1.3.1 It would be appropriate for legal services to prepare a loan agreement that allows this Council to deduct the value of loan repayments from The Financial Arrangements or precept payments. This would ease administration and significantly reduce the risk of default.

1.4 Financial and Value for Money Considerations

1.4.1 The cost to the Council of offering a loan scheme would be the amount of interest that could have been earned had the loan amount been invested. At 2.5% (our current average investments rate) a £25,000 loan would cost the Council £625 per year. If each of the 27 Parishes had a £25,000 loan the scheme would cost the Council £16,875 (as interest rates rise, this cost will increases).

1.4.2 If all 27 parish council's had a loan for £25,000 the total amount redirected from investments would be £675,000. A loan scheme would only function while the Council had an investment portfolio in excess of this sum.

1.5 Risk Assessment

1.5.1 There is a risk of repayment default. However this risk is limited due to the nature and status of parish councils. The risk can be further mitigated by the preparation of a legally binding loan agreement that allows this Council to deduct loan repayments from precept payments or financial arrangement payments.

1.5.2 Exposure to default risk would be reduced by limiting the total amount that an individual parish council could be loaned to £25,000. And ensuring that loans are fully paid before considering new loans.

1.5.3 Under the grant schemes, the Council was able to exert control over the usage of funds, by only paying the grant on presentation of evidence of expenditure on the project. This degree of control will not be practical for a loan scheme because, in order to be useful, loans will need to be paid in advance of project expenditure. This needs to be recognised as a limitation of the scheme.

1.6 Recommendations

1.6.1 Members are invited to consider this proposed scheme and to **RECOMMEND** to Cabinet that the scheme as outlined is approved.

Background papers: contact: Francis Gahan

Nil

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