

# TONBRIDGE & MALLING BOROUGH COUNCIL

## CABINET

2 February 2010

### Supplementary Report of the Director of Finance

#### Part 1- Public

#### Matters for Information

#### 1 INTEREST FREE LOAN SCHEME FOR CAPITAL PROJECTS

**A report highlighting, for Members' information only, an issue regarding parish council borrowing approvals from the Secretary of State.**

##### 1.1 Introduction

1.1.1 Cabinet will be considering a recommendation from the Finance & Property Advisory Board, which met on 5 January, regarding a scheme whereby parish councils will be able to seek interest free loans from the Borough Council in respect of capital projects that merit special consideration.

1.1.2 As Members of the Cabinet will see, the F&P Advisory Board recommends that loans should be capped at £25,000 with repayment terms normally no longer than five years, but that terms would be considered, by F&P Advisory Board, on a case by case basis.

1.1.3 The reason for presenting this supplementary report is that, whilst doing some research into parish council financing following a query from a Member, my staff discovered some information regarding parish council borrowing that I felt the Cabinet might like to be aware of in the context of this recommendation.

1.1.4 This report is for information only, and does not seek to alter the recommendation made by the Advisory Board, nor influence the decision.

##### 1.2 Parish Council borrowing

1.2.1 Many Members will probably be aware that parish councils must obtain borrowing approval from the Secretary of State for any borrowing other than that which is deemed to be temporary (e.g. an overdraft facility). The borrowing is arranged, by the parish councils, via the relevant county association representing parish councils.

1.2.2 The Secretary of State considers a number of things when he/she is determining a borrowing application. Most are unsurprising - e.g. the Secretary of State must

be satisfied that the expenditure is for capital purposes and that there is a realistic budget for the repayment of the debt.

- 1.2.3 In doing this research, however, we learned that the Secretary of State will only approve a request for borrowing from a parish council if the amount to be borrowed is greater than a certain threshold. This threshold varies by parish and is dependent upon the number of electors in the parish area. I was unaware of this provision, although Members who are also members of parish councils may well be familiar with this. My calculations indicate that our four “larger” parish councils, based on their electorate, have a minimum threshold (as determined by the Secretary of State) for borrowing purposes in excess of £25,000.
- 1.2.4 This means, from my reading of this provision, that a capital scheme of say £20,000 from one of our larger parish councils (which Members might have decided to support through the offer of an interest free loan) would not qualify for borrowing approval in isolation because it is below the minimum threshold. No doubt, such a parish council could “package” together a number of schemes in order to achieve the borrowing approval threshold for the Secretary of State’s purposes.
- 1.2.5 This is, of course, something that is totally outside of our control, and is, as far as the recommendation from F&P Advisory Board is concerned, an “aside”. However, I felt that Members of the Cabinet might at least like to be aware of this “nuance” when considering the recommendation from the F&P Advisory Board should this be raised by a parish council in due course.

### **1.3 Legal Implications**

- 1.3.1 The issues raised here relate to legal considerations for parish councils, and this is my own interpretation of the regulations. Parish Councils need to consider how these regulations affect their own organisations.

### **1.4 Financial and Value for Money Considerations**

- 1.4.1 As set out in the report giving rise to the recommendation from Finance & Property Advisory Board.

### **1.5 Risk Assessment**

- 1.5.1 The calculations undertaken are based on my interpretation. Parish Councils need to undertake their own assessments if they decide to apply to the Secretary of State for Borrowing approval.

Background papers:

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Nil

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