

Information regarding the Loan Application - Changing Places Facility

Public Works Loan Board Application

Before a Council can borrow a sum of money, it must first receive an approval to borrow from the “appropriate person”: in England the Secretary of State by way of the Ministry of Housing, Communities and Local Government (MHCLG).

All applications by Councils for borrowing approval should be sent to the local County Association (DALC) affiliated to the National Association of Local Councils (NALC).

If the Association considers that the application form is complete with no obvious omissions or errors and that the application is made in good faith, the application will be forwarded to MHCLG. Where an Association has concerns it will raise the matter with the Council.

The Government’s localism agenda aims to place more power into people’s hands. For democratic accountability to increase, local peoples need to be able to hold local authorities to account over how they spend public funds and the decisions that are made on their behalf. This principle applies to decisions made by all levels of local government, including Town Councils. Transparency is the foundation of this accountability and, if people are to play a bigger role in society, they need to have the tools and information to enable them to do so.

When considering whether to apply for borrowing approval, Council’s should be fully open and transparent with their residents and taxpayers in all their dealings. Details of the project and plans for borrowing and loan repayment must be available to residents from an early stage. This could include discussion of proposals in open meetings and ensuring that information is available for the public before and after a decision is taken for example on the Council website or published in local newsletters. Evidence of this will be taken into account in considering whether to give approval for borrowing. **When increasing precept to fund borrowing, evidence of public support for increasing the associated precept will be required to support the loan application.**

The making of the application requires approval by resolution of the Full Council.

Information to be provided

In addition to the form must be accompanied by:-

- A copy of the Councils budget for the current and next year (if available), showing the provision made to meet the loan costs;
- Full report to the Council or business case. This should include a breakdown of the proposed works, estimated costs, financial planning to fund the loan repayments and the steps/options the Council/ has in place to mitigate the risk for not being able to afford the loan repayments;
- The full minutes of the Full Council meeting with the resolution to seek the Secretary of State’s approval for the proposed borrowing;
- Evidence that residents have been consulted on the following:
 - The proposed project;
 - The Council’s intention to borrow
 - Proposals to increase the precept to meet borrowing costs
 - Evidence of public support to increase precept because of proposed borrowing (e.g the result of any consultation)

Criteria for borrowing approval

The Secretary of State will generally apply the following criteria in deciding whether to give borrowing approval:

(a) the borrowing should be for a purpose that would be capital expenditure as defined in section 16 of Local Government Act 2003.

(b) the amount to be borrowed should generally not be less than £5 multiplied by the number of local government electors for the area of the Council as counted at the latest register for the electoral roll. However, the Ministry will consider applications for a lower borrowing amount where the total project cost is above the threshold and grants or other resources intended for the project expenditure will be refused or reduced if the borrowing does not go ahead.

(c) any unallocated balances (including, where appropriate, capital receipts), beyond those required for the prudent financial management of the Council, should be used in the project for which the borrowing is required.

(d) the Council should have a realistic budget (this must be affordable, taking into account of its effect on the Council's precept) for the servicing and repayment of the debt. The Secretary of State will expect to see that the affordability of the loan charges and any other revenue costs arising from the project is demonstrated in the written report to the Council recommending the borrowing application. A copy of the report should be submitted with the application form. The report should provide:

- An estimate of the annual costs, and an indication of whether they will be covered by reductions in other expenditure, or by additional income from the precept or other sources
- In cases where an increase in the precept is proposed, an estimate of the amount of the increase in both monetary and percentage terms, and recognition that any proposed increase in precept may be subject to Council tax referendum principles in future years.
- Evidence that any risks and uncertainties affecting the financing of the project have been taken into account in assessing its affordability.
- Details of any significant financial developments that might affect the ability of the Council to finance the costs in future years, so far as can reasonable be foreseen.

(e) The Council should have consulted local residents on the project and associated borrowing. The format of consultation with residents is a matter for the Council to decide, however Councils should note the following:

- Details of the project and plans for borrowing and loan repayment must be accessible to residents from an early stage,
- Decisions on borrowing must be taken in an open and transparent way, following discussion in open meetings,
- Inclusion of the matter on an agenda for a public meeting of the Council will not, in itself, be considered sufficient evidence of consultation
- The Council should ensure that information about the progress of the project continues to be available to residents following approval to borrow,
- In particular, any proposals to increase the precept to meet borrowing costs **must** be backed by evidence of public support.

Where can Council's go for funds?

Councils may not, without consent of HM Treasury, borrow otherwise than in sterling. In practice, most Council's are likely to obtain funds from the Public Works Loan Board or the clearing banks. When Councils apply for funds, the Public Works Loan Board will insist that they have sight of the original borrowing approval. Loans may also be taken out from private or voluntary sector organisations, or from individuals, irrespective of the proposed source of borrowing, Councils must have borrowing approval in place before arranging a loan. Evidence of borrowing approval may be required at audit.

Best Practice

1. Seek appropriate advice and guidance at early stage of the project
2. Programme prudent use of balances as well as borrowing
3. Budgets or revised budgets should be considered before applying for borrowing approval
4. The borrowing term should not exceed the life of the asset
5. Even is the Council secures an interest free loan, it will still require borrowing approval
6. Consult local residents about the proposed project and the intention to borrow
7. Make sure residents have access to as much information as possible about the project and loan, both before and after the decision to borrow
8. If increasing the precept, ensure residents are consulted on the increase and obtain evidence to support loan application