



Llywodraeth Cymru
Welsh Government

GUIDANCE, DOCUMENT

Borrowing approvals: guidance for community and town councils

Advice for community and town councils on how to borrow money to buy capital items.

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Introduction

This guide replaces all previous guidance on borrowing by Community and Town Councils in Wales.

This guide sets out the criteria which the Welsh Ministers generally apply in deciding whether to provide a borrowing approval, and how Community and Town Councils can apply for a borrowing approval.

When considering whether to apply for a borrowing approval, Community and Town Councils should be fully open and transparent with their residents and taxpayers in all their dealings. This could include discussion of proposals in open meetings, and ensuring information is available for the public before and after a decision is taken, for example on the Council's website or published in local newsletters.

What is a Borrowing Approval?

A borrowing approval is a formal consent from the Welsh Ministers using powers under paragraph 2 of schedule 1 to the Local Government Act 2003 to enable a Community or Town Council to borrow money for capital purposes. Without this consent a Community or Town Council cannot borrow money unless it is borrowed and repaid within the same financial year.

The Act states a Community or Town Council may borrow money:

- for any purpose relevant to its functions under any enactment
- for the purposes of the prudent management of its financial affairs

Applicants should therefore be satisfied they have the necessary statutory

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authority to carry out the project for which they are seeking a borrowing approval.

A borrowing approval is issued subject to any conditions imposed by the Welsh Ministers and takes the form of a letter addressed to the Clerk of the Council. The approval letter provides the authority for the Council to borrow money and states:

- the maximum amount which may be borrowed
- the purpose for which the money borrowed must be used
- the period within which the funds must be borrowed
- the maximum loan repayment period

Evidence of the borrowing approval may be required at audit.

The Welsh Government adopts the practice of only issuing an approval in the financial year in which the approval is to be used.

A Council may borrow funds at any time between the issue of the borrowing approval and the end of the financial year to which the borrowing approval refers. Any money borrowed but not incurred by the end of the financial year can be carried forward into the next financial year.

Applying for a borrowing approval

All questions in the [application form](#) should be completed and the form must be signed by the Clerk of the Council. All correspondence from Welsh Government will be addressed and sent to the Clerk of the Council.

All [application forms](#) must be accompanied by a copy of the document or report produced by the Council when the decision was made to apply for a borrowing approval (example: minutes of the Council).

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A full report to the Council of the business case must be submitted. This should include:

- a breakdown of the proposed works
- estimated costs
- financial planning to fund the loan repayments
- the steps or options the Council has in place to mitigate the risk for not being able to afford the loan repayments
- value for money (for example: if purchasing a property, will the Council save money by buying instead of leasing or renting or whether professional advice was engaged when negotiating the purchase price of property, materials, services)
- benefits to the community
- affordability (for example, potential income to the Council following the completion of the project from hire of meeting rooms, residential or commercial premises rental)
- funds borrowed may only be used for the purpose specified in the Borrowing Approval application and Borrowing Approval letter

Where the council intends to provide a grant to another body the references to "project" in this guide and in the application form apply to the assistance being provided by the council, not to the project towards which the assistance is given. For example, if a council wishes to borrow £50,000 to part finance a grant of £100,000 towards the construction by the local authority of a public centre costing £250,000, the application form should show £100,000 as the total cost of the project and £50,000 as the amount to be borrowed, and explain how the remaining £50,000 is to be financed by the council.

If an urgent decision is required, Councils are required to request their application is considered outside the normal timescales and explain why the request is urgent. Once received by Welsh Government, the level of urgency will be dependent upon existing workload pressures and whether all documents have been submitted to a satisfactory standard.

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The **application form** and any supporting documents should be sent electronically to: LGFPmail@gov.wales

Welsh Government officials will assess the borrowing approval application which should generally take approximately 25 working days from the date of receipt by the Welsh Government.

Please be aware that this may be extended, for example when the Welsh Ministers are unavailable during times of recess or elections or if officials require additional information to support the application.

One Voice Wales (OVW) is the representative organisation for Community and Town Councils. The Welsh Government provides OVW with a copy of all borrowing approval applications to obtain their impartial view on whether the project will benefit the local community. The Welsh Government appreciates not all Councils are members of OVW but this is done purely to ensure all applications are judged against a uniform criteria. Although regard is given to the views of OVW, the final decision rests with the Welsh Ministers.

Criteria for assessing a borrowing approval application

When should a Community or Town Council apply?

An application for a borrowing approval should not be made until a Council has:

- consulted with residents at an early stage to make available details of projects and plans for borrowing and loan repayments via open meetings and council website. When increasing the precept to fund borrowing, evidence of public support for increasing the associated precept will be required to support the loan application

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- completed all negotiations, or is confident of completing any relevant negotiations
- obtained all other necessary consents e.g. planning permission
- fully estimated the cost of the project as part of a formal expenditure budget
- made provision within its formal budget for managing the debt
- confidence that, if approved, the borrowing approval can be used within the financial year for which it is issued

For what type of project can a Community or Town Council borrow?

Any Community or Town Council in Wales may apply for a borrowing approval for the purpose of procuring capital investment as defined in Section 16 of the Local Government Act 2003.

For these purposes ‘capital expenditure’ means expenditure which falls to be capitalised in accordance with proper practices. Currently ‘proper practices’ means the CIPFA CODE.

Examples of applications which have previously been approved include:

- purchase of land
- purchase of a building
- purchase of park equipment
- construction of a footpath
- renovation works, structural work, installation of new heating systems, new kitchens, new toilet, new roof

Borrowing approvals are not issued to cover revenue or current expenditure. For example:

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- general repair costs
- maintenance costs

How much can a Community or Town Council borrow?

Minimum

We will not consider schemes costing less than the figure produced by multiplying £5.00 by the number of people entered in the electoral register for the community, other than in exceptional circumstances. If the scheme you are considering falls below the minimum amount, please email LGFPmail@gov.wales stating your individual circumstances before proceeding further.

Maximum

There is no specified upper limit to the amount a Council may apply to borrow.

Applications to the Salix loan fund

A scheme which qualifies for a loan under the [Salix loan scheme](#) does not need an individual borrowing approval. If you have any questions relating to whether you require a borrowing approval, please email LGFPmail@gov.wales so that we can provide clarification.

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Over what period can the loan be repaid?

The maximum loan repayment period available to Community and Town Councils is 50 years. A Council may opt to repay the loan over any number of years, provided it is not more than the quoted maximum of 50 years. However, for loans over 26 years, additional considerations will apply.

The Welsh Government expects the loan repayment period to reflect the 'shelf life' of the asset provided. For example, land, roads, and substantial buildings may be deemed 'long life assets' and attract an extended repayment period.

Councils should consider carefully whether it is prudent to repay the loan over the maximum period. For those cases where an extended repayment period is intended i.e. over 26 years, applications will be scrutinised to identify whether the extension can be justified.

The Welsh Government expects Councils to have a realistic budget for the servicing and repayment of the debt and will seek confirmation such a budget has been prepared.

From whom may a Community or Town Council borrow?

Community and Town Councils may borrow funds by application to the Public Works Loan Board (PWLB) or any other appropriate institutions. PWLB will require the original borrowing approval before a loan can be approved.

Every effort should be made to borrow the funds at the most favourable terms available and lenders may offer a variety of loan arrangements. We therefore recommend a number of repayment quotations are obtained and considered by

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the Council.

Loans are not available from the Welsh Government.

After the issue of a borrowing approval

All borrowing approvals issued will be valid until the 31st March of the financial year to which the approval letter applies.

Monitoring a borrowing approval

Those Councils in receipt of a borrowing approval will be contacted by Welsh Government officials during the course of the financial year in order to see what progress has been made with the project. Councils will be asked to provide an update and confirm the borrowing approval has been utilised or will be within the required timescale.

Where the amount of borrowing authorised is in excess of £50,000, a short monitoring report must be submitted within two months of the completion of the project.

What if a borrowing approval is no longer required?

If a Community or Town Council decides it no longer wishes, or is no longer able, to borrow the entire amount authorised, the Clerk of the Council must notify Welsh Government of the amount it does intend to borrow. This notification must

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be e-mailed as soon as is reasonably practicable to LGFPmail@gov.wales. The amount of borrowing authorised will then be deemed reduced to the amount notified. However, the minimum amount noted in paragraph 24 still applies.

If no borrowing takes place by 31st March of the financial year to which the approval letter applies, the Clerk must notify Welsh Government.

Useful contacts

One Voice Wales

24 College Street, Ammanford, Carmarthenshire, SA18 3AF

Email: admin@onevoicewales.org.uk

Telephone: 01269 595400

Website

Public Works Loan Board

UK Debt Management Office, Eastcheap Court, 11 Philpot Lane, London, EC3M 8UD

Email: pwlb@dmo.gov.uk

Telephone: 020 7862 6610

Website

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