

Council Borrowing and the Public Works Loan Board (PWLB) – Briefing Note

Purpose

Borrowing must be for capital expenditure only

Amount

Not less than £5 x number of local government electors (approx. £37,500).

Maximum £500,000 in a single financial year (more possible by discussion with the Department for Communities and Local Government (DCLG)).

It is possible to borrow less than the amount initially approved (DCLG to be advised), or borrow the total in several tranches.

Any unallocated balances beyond those required for the prudent financial management of the council, should be used in the project for which borrowing is required.

There is no national limit on the total annual amount of borrowing **approvals**.

Maximum Term

50 years – for acquisition of, or works to, land and buildings.

10 years or life span of an asset, in all other cases.

Minimum term is 2 years

Interest Rates

Fixed interest rates are higher the longer the borrowing term. Fixed rates are typically 1.13% for borrowing over 5 years, 1.34% over 10 years, 1.64% over 15 years and 2.18% over 25 years.

Variable rates are available, which may change at one, three or six month intervals, for loans with a maximum term of 10 years.

The actual rate charged will be agreed two working days before the date of advance.

Repayments

Repayments are made half yearly, on dates of our choosing.

Typical annual repayments per £50,000 borrowed based on a fixed rate are:

£10,313 pa over 5 years @ 1.13% – (total interest charge £1,567)

£5,359 pa over 10 years @ 1.34% - (total interest charge £3,592)

£3,774 pa over 15 years @ 1.64% - (total interest charge £6,606)

£2,605 pa over 25 years @ 2.18% - (total interest charge £15,122)

Fees

Fees payable are 35p for every £1,000 on a fixed rate (ie £35 on £100,000) *or*
25p for every £1,000 on a variable rate.

Minimum £25.

Process - Application for Approval to Borrow

Approval to borrow must be sought from the DCLG via NALC/CALC prior to submitting an application to the PWLB.

Councils should only apply for borrowing **approval** when they are fully ready to take up the borrowing i.e. planning obtained.

When considering whether to apply for borrowing **approval**, councils should be fully open and transparent – details of the project and plans for borrowing and loan repayment must be available to residents from an early stage – i.e. discussed at open meeting, details on website, published in local newsletters.

When increasing the precept to fund borrowing, evidence of public support for this will be required for the loan application.

If successful, **approval** should take about 15 working days – this authorises the council to take out a loan within 12 months.

A council cannot mortgage or charge any of its property as security – loans are secured by an automatic charge on the revenues of the council.

Supporting Information Required for Approval

1. Copy of full minute of the Full Council Meeting with the resolution to seek the Secretary of State's **approval** for the proposed borrowing
2. Copy of the Council's budget for the current year, and next year (if available), showing the provision made to meet the loan costs
3. Full report to include a breakdown of the proposed works, estimated costs, financial planning to fund the loan repayments and the steps/options to mitigate the risk of failure to repay
4. Information on how the Council will afford the loan repayments, breakdown of funding resources, amounts to be used from reserves, and any increase of precept to fund the borrowing
5. If the Council precept is to be increased to cover the loan repayment - the amount and percentage of the planned increase related to the loan only (if possible how much increase for house holders at Band D)
6. If applicable, evidence of public support to increase the precept to cover the loan repayment (e.g. the result of any consultation).

7. Details of how local residents were consulted on the project and associated borrowing even if you are not increasing precept to fund the loan (e.g. newsletter/website/in the agenda of public meeting).

Process – Application to PWLB

The decision to borrow must be taken by the full council – this is separate from the decision to apply for borrowing **approval**.

The completed form, with supporting documents, should be sent to PWLB two weeks before the loan is required.