

COLN ST DENNIS PARISH

Proposal to raise a Public Works Loan.

Coln St Dennis Parish Council is not permitted to borrow money on a long term basis unless it has Approval to Borrow from the Secretary of State. Public Works loans are available to Parish Councils to fund community and other capital investment projects.

It is proposed that Coln St Dennis Parish Council apply for Approval to Borrow for a public works loan to contribute to the funding of the rebuilding of the Coln Valley Village Hall. The loan would be serviced and repaid by an increase in the parish precept. The loan moneys would be passed to the Coln Valley Village Hall Trust as a grant towards the rebuilding of the village hall.

Public Works Loans are available for amounts up to £500,000 and can be repaid over periods up to 50 years. The period of repayment should relate to the life of the asset to be funded. Interest can be fixed or variable. There are three possible methods of interest/repayment:

- (i) **Annuity** half-yearly payments where each payment is of a constant amount, inclusive of principal and interest,
- (ii) **EIP** (equal instalments of principal) half-yearly payments where each payment consists of a constant instalment of principal plus a diminishing amount of interest calculated on the balance of principal then outstanding,
- (iii) **Maturity** half-yearly payments where each payment is of interest only with a single repayment of principal at the maturity of the loan

All methods can be used for fixed rates but only EIP or Maturity with variable rates. In either case the rate is set 48 hours before the loan is drawn down.

It is recommended that the parish council consider a fixed interest annuity. While this will give a slightly higher interest rate today it will mean that the annual payment is constant and predictable.

As an illustration were the Parish Council to take out a fixed interest annuity Public Works Loan today for £25,000 repayable over 25 years the fixed interest rate would be 3.33% and the annual cost would be £1482 giving a total cost over the life of the loan of £37,030. This is equivalent to a increasing the Band D council tax by 11.80 p.a.

Raising a public works loan is in two stages:

- 1) Applying to the Secretary of State via the Department for Communities and Local Government approval to borrow.
- 2) With the approval to apply to the Public Loan Board for a loan consistent with the terms of the approval to borrow.

Applying for Approval to Borrow should only be done when the parish is fully ready to take up the loan e.g. we have planning permission for the hall; the application to the public loan board can follow at any time within 12 months. Given that planning permission has now been granted to rebuild the village hall and that construction may start in the second half of this year it is appropriate to consider whether to increase the

precept for 2013/14 in anticipation of raising a public works loan and to apply to the Secretary of State for permission to borrow.

The risks for the Parish Council associated with a public works loan to fund the village hall rebuild arise from possible failures of the project resulting in the Coln Valley Village Hall Trust being short of funds and turning to the Parish Council for financial support. The Parish Council is under no legal or other obligation to the village hall trust and the repayment of a public works loan is secured by the parish precept not the income of the village hall. Nevertheless the risks which should be considered are:

- failure of the project to raise sufficient funds. It is the responsibility of the Coln Valley Village Hall Trust to raise funds for the hall. The grant from the Parish Council would only amount to a modest proportion of the total cost. The Parish Council will not apply for a public works loan until it is clear that the trust has secured the rest of the funding required.
- The cost of the rebuild exceeds the estimates and further funding is required. Again it is the trust's responsibility to either alter the specification for the hall or to raise additional funds from local sources. The parish council will assure itself that the trust's estimates are soundly based.
- The long term use of the hall is insufficient to cover its operating and maintenance costs. The parish council understand that the trust is taking a very conservative view of use of the hall given the very strong support there has been from residents for the rebuilding project. Failure to cover operating costs is seen as low risk. The hall is small with low operating costs the majority of which are variable with use. If therefore usage is lower than anticipated it is likely that the operating cost deficit will be a few hundred pounds a year. Experience has shown that this amount can be raised from the local community through fund raising events such as the summer barbeque. There is therefore a very low risk that the Trust will look to the parish council to make up any operating cost deficit. Nevertheless the Parish Council will assure itself that the estimates for use of the hall contained in the trust's business plan are realistic before advancing the loan.
- The village hall is damaged due for instance to fire. The hall will be insured by the Trust and the Parish Council will assure itself that the insurance is adequate and in place each year.

By opting for a fixed interest loan the Parish Council avoid the risk of increasing interest rates over the term of the loan.

The amount of the loan will be no greater than £25,000 but the exact amount to be applied for will be determined as the balancing item after all other funding possibilities have been fully explored by the Coln Valley Village Hall Trust.

Veronica Dean,
Clerk to Coln St Dennis Parish Council
18th February 2013