

<b>Report To:</b>	<b>EXECUTIVE CABINET</b>
<b>Date:</b>	13 December 2017
<b>Executive Member /Reporting Officer:</b>	Councillor Jim Fitzpatrick – First Deputy (Performance and Finance) Emma Varnam – Assistant Director, Operations & Neighbourhoods
<b>Subject:</b>	<b>COMMUNITY LOANS POLICY</b>
<b>Report Summary:</b>	The report details the conditions, circumstances and value of community loans that will be available from Council reserves for capital schemes undertaken by Tameside charities, community groups and town councils.
<b>Recommendations:</b>	Cabinet recommends Council approve the community loans policy at <b>appendix 1</b> to this report to be reviewed after 12 months.
<b>Links to Community Strategy:</b>	Supporting small charitable organisations with loans for capital projects will support a number of Community Strategy priorities including supportive communities, a prosperous society and attractive borough.
<b>Policy Implications:</b>	By making loans available to community organisations, town councils and parish councils, the Council will add to the list of actions it is already taking to deliver its objective of providing support for communities.
<b>Financial Implications:</b> <b>(Authorised by the Section 151 Officer)</b>	<p>The Community Loans Scheme, will be underwritten by creating an earmarked reserve of £250k for the purpose of funding successful loans. The reserve will be topped up with the repayments of principle and the associated debt will be held on the Council's balance sheet.</p> <p>There are inherent risks with lending to community groups. This policy is designed to mitigate these risks as far as possible by restricting the capital amounts to a maximum of £50,000 and 20% of the projects total cost. This is to both reduce exposure to loss and improve certainty that the other funding sources are secure and the other backers also have committed to the scheme.</p> <p>The policy and its performance should be kept under review and any losses or defaults will be reported to Executive Cabinet as part of the regular budget monitoring reports to facilitate transparency. Failure of any community group to repay the loan will result in less funding for other causes.</p>
<b>Legal Implications:</b> <b>(Authorised by the Borough Solicitor)</b>	The Council can grant loans under its well being powers provided able to demonstrate that it is in the interest of the borough and represents value for money. Each application will need to be assessed on its merits including robust processes to consider whether the organisation or group is of sound financial standing in that they do not owe money to yhthe Council –

unpaid rent or business rates etc and are able to provide necessary guarantors and/or assurance/security for the Loan.

**Risk Management:**

As detailed in the report

**Access to Information:**

The background papers can be obtained from the author of the report, Emma Varnam by:



Telephone:0161 342 3337



e-mail:[emma.varnam@tameside.gov.uk](mailto:emma.varnam@tameside.gov.uk)

## **1.0 INTRODUCTION**

- 1.1 Community organisations cannot always raise all the funding they require from donations or grants. Most sources of grant funding are heavily over-subscribed and have a maximum amount that can be awarded. Often there lies a good business case behind many community schemes that lever in external funding into the locality and allow community groups to generate income streams, which they can then use to plough back into the community.
- 1.2 It is not unusual for grant giving bodies to require match funding when providing grants and despite community groups having sound and sustainable business plans in place they cannot always raise the match funding. Commercial banks do not tend to lend to the voluntary and community sector, even if a project will generate an on going revenue stream, as it does not fit with their risk profiles.
- 1.3 In order to support community groups to access funding and lever investment into the Tameside community, the Council, in specific circumstances may wish to grant a community loan to facilitate grant investment if it aligns with the Council's own policies.
- 1.4 Currently the Council does not have a policy that allows such advances, which fall outside the Council's treasury management strategy which is focused on managing its cashflows and balances for operational and strategic reasons, rather than wider policy reasons.

## **2.0 BENEFITS OF A COMMUNITY LOANS SCHEME**

- 2.1 Loans allow an organisation to spread the cost of a scheme over a longer period. However the charitable purpose, not for profit principle and voluntary nature of community organisations means that there is an inherent risk in providing loan finance. Many commercial lenders will not provide affordable finance and the council's own treasury management strategy would not allow us to lend to these kind of organisations.

## **3.0 DETAILS OF THE POLICY**

- 3.1 Cabinet is being asked to recommend to Council the establishment of a pilot community loans policy, attached at appendix one to this report. The policy sets the framework within which the scheme will operate.

The policy states;

- Who we will provide loans to
- What we will provide loans for
- The minimum and maximum amounts we will lend
- The interest rate chargeable and the loan term

- 3.2 The Community Loan Scheme will only fund capital expenditure (the purchase of land and buildings, new build or building refurbishments) and will not support revenue expenditure or the purchase of vehicles.
- 3.3 All loans must result in a community benefit to the area and residents of Tameside, with a demonstrable level of community use of any facility or asset supported. The organisation must be able to demonstrate its ability to service the debt. Should the demand for loans be high we may introduce specific selection criteria. Loans will not available for bridging or forward funding organisations that are awaiting payment of a grant claim.

- 3.4 The loan must represent no more than 20% of total project/purchase costs and all other funding must be confirmed before the loan is advanced, along with evidence that all other sources of funding have been investigated.
- 3.5 The total amount available for lending will initially be £250k in total. As loans are repaid the principal element will be made available for further lending. The recycling of the principal in this way will mean the scheme has long term sustainability.
- 3.6 Loans of between £20,000 and £50,000 will be made available to qualifying organisations.
- 3.7 The maximum repayment period for loans is 5 years and interest is charged on all loans. There will be no penalty for early repayment.
- 3.8 Loans will be lent at the Public Works Loan Board (PWLB) five year equal instalment payment (EIP) fixed rate plus a premium of (2.5%). (N.B. The PWLB five year EIP fixed rate on 17 November 2017 was 1.56%). In this example the rate charged would be 4.06%. Cumulative interest will be charged therefore late repayments will result in additional interest becoming due.
- 3.9 Application for loans will be made through by way of application form and will only be progressed when accompanied with copies of constitution, accounts, indemnity insurance policy, three quotations of work and medium term financial plan.
- 3.10 The decision on loan awards will be made by the Executive Cabinet and decisions will be noted and recorded at Cabinet
- 3.11 Once the Council has approved the policy, officers will consider how the awarding and monitoring of loan repayments will be administered.

## **4 FINANCE**

- 4.1 As part of the Council's day to day operations, there are a number of cashflows and investments held, which are invested in accordance with the council's treasury management strategy. The establishment of a Community Loans scheme could be funded by reallocating £250k of the Council's existing reserves.
- 4.2 The interest rate charged will be at a market level and so this should not have a detrimental impact on the council's income from investments.

## **5 RISKS**

- 5.1 There are a variety of legal powers under which the council can advance loans under this scheme, currently main one being section two of the Local Government Act 2000, more commonly known as the power of wellbeing.
- 5.2 Loans to some charitable organisations will carry greater risk of default than loans to institutions with high credit ratings. The policy confirms that the council will pursue any non-payment in accordance with the council's corporate debt recovery policy
- 5.3 Advances to charitable organisations will only be made where a charge can be made against the charity's assets.
- 5.4 There is a risk of loan repayment default but the council will insist on a charge against a charity's asset in order to mitigate this risk.

- 5.5 The council will assess the financial robustness of any organisation and its ability to service a loan. The council will reserve the right to refuse an application if it considers the risk of financial default to be too great. Furthermore, the council will reserve the right to refuse an application if it considers the community benefit is insufficient to justify the loan.

## **6 CONCLUSION**

- 6.1 In order to support the Council objective of providing support for communities it is proposed Council introduces a community loans scheme. To do this Council must first approve a community loans policy.

**DRAFT**  
**Tameside Community Loan Application**  
**Guidance notes for applicants**

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## **Section 1 – General Information**

### **1. Why do we offer community loans?**

Community organisations cannot always raise all the funding they require from donations or grants. Most sources of grant funding are heavily oversubscribed and have a maximum amount that can be awarded. Loans allow an organisation to spread the cost of a scheme over a longer period. However the charitable purpose, not for profit principle and voluntary nature of community organisations means that there is an inherent risk in providing loan finance. Many commercial lenders will not provide affordable finance and the council's own treasury management strategy would not allow us to lend to these kind of organisations.

This policy allows the council to offer loans to these organisations.

### **2. How to apply for a loan?**

From 2 January 2018 you can apply for a community

### **3. Who do we provide loans to?**

The council provide loans to registered charities and town and parish councils. The applicant needs to show that a regular source of income is available to repay the loan. Loans are not provided to individuals on behalf of an organisation and trustees that act prudently are not personally liable for the loan. However a condition of any loan to a registered charity or mutual is that the organisation maintains trustee indemnity<sup>1</sup> insurance throughout the loan period.

### **4. What do we provide loans for?**

We only make loans to fund capital expenditure (the purchase of land and buildings, new build or building refurbishments). We do not provide loans to support revenue expenditure or the purchase of vehicles

Loans must result in a community benefit to the area of Tameside. An organisation must demonstrate its ability to service the debt. Should the demand for loans be high we may introduce specific selection criteria. Loans are not available for bridging or forward funding organisations that are awaiting payment of a grant claim.

### **5. How much can we apply for?**

Loans of between £20,000 and £50,000 are available. The loan must represent no more than 20% of total project/purchase costs and all other funding must be confirmed before the loan is advanced.

### **6. Can the council refuse a loan application?**

The council will assess the financial robustness of any organisation and its ability to service a loan. The council reserves the right to refuse an application if it considers the risk of financial default to be too great. Furthermore, the council reserves the right to refuse an application if it considers the community benefit is insufficient to justify the loan.

### **7. What is the loan term?**

The maximum repayment period for loans is 5 years.

### **8. Is interest charged?**

Interest is charged on all loans.

### **9. What is the interest rate?**

Loans are lent at the Public Works Loan Board (PWLB) five year equal instalment payment (EIP) fixed rate plus a premium of [ to be agreed (2.5%)]. (N.B. The PWLB five year EIP fixed rate on 17

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<sup>1</sup> The trustees of a charity take unlimited personal liability for their actions in managing the charity's affairs. Trustee Indemnity Insurance protects trustees from losing their personal assets as a result of their duties made whilst acting as trustees. The indemnity is provided for wrongful (but not reckless) acts committed by a trustee.

November 2017 was 1.56%). In this example the rate charged would be 4.06%. Cumulative interest will be charged therefore late repayments will result in additional interest becoming due.

The initial rate charged is the above rate on the day the loan is agreed or the first advance is made

Interest will be calculated from the date of the first advance and will accrue until the date of the first repayment and thereafter calculated on the loan balance outstanding after each monthly repayment.

**10. Are there any penalties for early repayment?**

There are no penalties for early repayment.

**11. Who approves the loan?**

All loans to a value of £50,000 will be approved by the council's cabinet.

**12. How is the money paid out and paid back?**

Loan money is advanced via BACs payment. Repayments of capital and interest must be made monthly by direct debit

**13. What security is required?**

A loan will not be made if the organisation does not have land or buildings on which a charge (of the value of the loan) can be made. The constitution of participating charities must allow the organisation to borrow. Parish and town councils must have authority from the Secretary of State to borrow.

**14. What is the size of the loans budget?**

The maximum budget available (i.e. amounts lent after taking into account principal repayment received) for lending is £50,000. All loans will be for capital spend only and will be funded from reserves.

**15. When can organisations apply for a loan?**

Applications for loans can be made at anytime. The only limiting factors are the availability of funds, an organisations ability to service its debts and the requirement for all advances to be used for capital expenditure purposes only.

**16. What is the non-payment recovery policy?**

All debts will be pursued in accordance with the council's corporate debt recovery policy. The policy is rigorous and results in legal action including debtors being taken to court where all other means to secure payment have failed.

**17. What happens once I have submitted my application?**

Once you have submitted your application form you will receive an email informing you that your application has been received. We will aim to contact you within 28 days of submission of your application to confirm it is being processed and if we have the correct supporting documentation. If you do not hear from us within 28 days please contact us. We aim to provide a decision on your application within 12 weeks from the submission date, depending on the complexity of the application.

**18. If a loan is awarded what happens next?**

If your loan application is successful you will be sent a formal loan offer which must be signed and returned within 28 days. You must complete a form to 'draw down' the loan. The form will be supplied with the formal loan offer.

Loans will be paid no sooner than four weeks before the commencement date of your project/purchase.



## **19. Equalities**

The council is committed to promoting equality and diversity and welcomes applications from all sectors of the community, regardless of race, gender, disability, sexual orientation, age, status, religion or belief.

We encourage applications from minority groups. Should you need advice or assistance to complete an application, please contact us on xxxxxxxxx.

## **20. Contact us**

If you have any queries about the application form or would like further advice on applying for a community loan please contact XXXXX

## **Section 2 – Step-by-Step Guide to making an application**

### **Are you able to apply?**

To enable us to determine if your project/purchase is eligible for a community loan, you will need to complete the following checklist. If you do not meet our criteria you will not be able to proceed with your application. If your project/purchase has met our criteria you will be asked to begin your application.

1. Is your organisation a registered charity or a town or parish council? (Only these types of organisation are able to apply). Registered charities will need to supply a copy of their constitution.
2. Do you have authority to take out a loan? Parish and town council's need authority from the Secretary of State to borrow. The registered charity's constitution must allow you to borrow and place a charge on the land or property concerned.
3. Can you provide evidence of ownership of land or property of sufficient value to secure the loan? The organisation must either own or have a lease on the land or property for a minimum of the duration of the loan, against which a charge to the value of the loan can be applied. You will need to supply an independent valuation of the asset.
4. If required, has your project obtained all appropriate planning or listed building consent? Please supply a copy of the planning consent for the project, if required. You should not apply without it.
5. Can you provide your organisations last two years audited accounts? Please supply the last two years audited accounts of the organisation applying for a loan (audited if they are available).
6. Do you have a minimum of three quotes for all work, equipment and fees relating to your project/purchase, unless you are purchasing an existing building? Three up-to-date quotations for all aspects of the project/purchase costs **or** details of a tender process must be supplied. If you are purchasing an existing building a statement detailing why this property has been selected for purchase over any other must be submitted. Your application will not be accepted without this evidence.
7. Do you have a medium term financial plan including profit and loss projections for a minimum of five years? You need to explain how you can afford to pay back the loan based on your profit and loss each year. The onus is on you to clearly demonstrate your ability to repay the loan.
8. Can you confirm that the loan will be used to fund a capital purchase? Capital purchases include but are not limited to:

- purchase of buildings/land
- new build projects
- extensive renovations
- purchase of plant machinery
- Non-capital purchases include but are not limited to:

- building maintenance
- organisation running costs
- staff salaries

This scheme does not allow for the purchase of vehicles.

9. Do you have or will your organisation take out indemnity insurance that will cover the value of the loan? Full details of the insurance cover held by the organisation's trustees or a copy of a formal quotation for cover must be submitted. We will need to examine the original documents at a later stage.

## **A Contact details**

**A1** Name of organisation Give the full name of the body applying for the loan. This name must also be shown on all quotations for the project/purchase.

**A2** Name of project/purchase The project name should be a **brief** description of your project/purchase that you need a loan towards.

**A3** Organisations address Full address details of the organisation applying for the loan.

**A4** Main contact for this application The main contact person for this application must be someone from your organisation that knows about the project/purchase and can be contacted during office hours.

**A5** Address for main contact The full address of the contact person.

**A6** Telephone no. Daytime telephone number for the contact.

**A7** Mobile no. Mobile telephone number for the contact.

**A8** Email address for the contact. If completed, all correspondence will be sent via email.

**A9** Indemnity insurance details Full details of the insurance cover held the organisation's trustees or a valid quotation for such cover should be submitted. We will need to examine the original documents at a later stage.

## **B Project details**

**B1** Give a brief description of the project The 'project' is everything included in the total project/purchase costs. Be very specific and only describe the work that you require to be funded.

**B2** Do you own or lease land or buildings on which a charge (of the value of the loan) can be made?

The organisation applying for the loan must own or lease the land/property for a minimum of the duration of the loan. A copy of the lease or title deed must be provided.

**B4** Which ward does your project/purchase fall within? The geographical area that your project/purchase is situated in.

**B5** What type of organisation is applying? Please specify what type of organisation is applying for a grant.

**B6** Charity number (if applicable) Please specify the organisations charity number (if applicable).

### **C Community Benefit**

How well does your project benefit the local community?

**C1** Who will benefit from the project? Please give details of how the project will benefit people within Tameside area, specifying particular groups where possible.

### **D Financial Details**

**D1** How much would you like to borrow? Loans are available up to £50,000. No more than 20 per cent of the total costs of your project/purchase can be borrowed.

**D2** Over how many years do you wish to repay the loan?  
The maximum repayment period for any loan is 5 years.

**D3** When would you like the loan to be advanced to your organisation?  
Loans will not be paid earlier than four weeks before the commencement date of the project or purchase.

**D4** What is the total cost of your project/purchase? (including VAT if you cannot reclaim it)  
The total project/purchase costs including VAT (only include VAT if you are unable to reclaim it).

**D5** Does your organisation have any outstanding loans? Please list the details any outstanding loans that your organisation has.

**D6** Please detail all costs for your project/purchase using the table below:

Please list all costs that are relevant to your project/purchase, to the nearest pound. It is important this section is completed accurately listing the names of the expected contractors/suppliers. All quotes should be submitted with the application form.

**D7** How will you fund the remaining balance of your project/purchase costs?  
Please list all sources of funding that you already have or will be applying for, including your own.

### **Submission of documents**

You will need to provide the following documents before you can apply for a loan:

- constitution
- accounts
- planning consent (if applicable)
- three quotations for all aspects of work (if not purchasing a building)
- evidence of ownership
- a medium term financial plan (5 years)
- a copy of your organisation's indemnity insurance policy or a formal quotation for such insurance
- additional documents, for example consultation evidence and a business plan