



**NEW ROMNEY TOWN COUNCIL
FULL COUNCIL MEETING 13TH DECEMBER 2023
CAPITAL PROJECTS REPORT – Proposed Community Hall and Sports
Pavilion**

Detailed Financial Update Regarding PWLB Loan

Background:

In November 2022, the Council noted that, subsequent to a previous Town Council resolution to submit an application for a £1 million PWLB loan, interest rates had increased significantly.

By mid-November 2022, the PWLB loan application process had taken some EIGHT months to reach the final review stage. In that time, the global and national cost of living crisis had resulted in significant interest rate rises. Therefore, it was necessary, by resolution (minute ref: 330/2022-23), to revert to a 40 year loan term (having previously resolved to reduce the term due to previous falls in interest rates) and to explore appropriate and sustainable reductions to annual reserve fund contributions to ensure resulting repayments would not have any adverse impact on local taxpayers going forward.

Interest rates current as at March 2022

AMOUNT BORROWED	INTEREST RATE %	TERM OF LOAN	½ YEARLY COST	ANNUAL COST	TOTAL COST OVER FULL TERM OF LOAN
£1,000,000.00	2.81	40 YEARS	£20,893.11	£41,786.22	£1,671,448.80

Interest rates current as at 7th November 2022

AMOUNT BORROWED	INTEREST RATE %	TERM OF LOAN	½ YEARLY COST	ANNUAL COST	TOTAL COST OVER FULL TERM OF LOAN
£1,000,000.00	4.91	40 YEARS	£28,668.65	£57,337.30	£2,293,492.00

During public consultation in 2019 about taking a PWLB loan, it was indicated to the public that if the Council was to borrow £1 million for this project over a 40 year term, then the impact would be an increase of approximately £0.72 per month on the average Band D property Council Tax bill and the outcome of the consultation was positive.

At the November 2022 interest rate, the annual PWLB loan repayments over 40 years required that the annual repayment budget be increased by £12,837.30 to £57,337.30 per annum.

The impact on the average Band D property based on the precept and the Tax Base at that time was that since the 2019 consultation, whilst the anticipated increase on the Council Tax as a result of taking out the PWLB loan over a 40 year term had grown, and due to prudent budgeting, which involved making appropriate and sustainable reductions to annual reserve fund contributions, it remained less than the original estimate of £0.72 per month increase on the average Band D property indicated to local residents when consulting on taking out a PWLB loan.

Current Position:

Regrettably, interest rates have continued to climb during 2023 and are currently at a high of 5.73%.

Interest rates current as at 27th November 2023

AMOUNT BORROWED	INTEREST RATE %	TERM OF LOAN	½ YEARLY COST	ANNUAL COST	TOTAL COST OVER FULL TERM OF LOAN
£1,000,000.00	5.73	40 YEARS	£31,988.78	£63,997.56	£2,559,102.40

Whilst the Town Council has already previously authorised the Clerk to apply to draw down the loan for which consent was granted at the appropriate time, this delegated authority has not been actioned by the Clerk – since due to further delays to the project during 2023, it was not appropriate to do so as it was not possible to determine the future of the project and repayment in full of monies borrowed would incur a significant financial penalty.

Unfortunately, the further increases in interest rates during 2023 will result in a further increase in annual loan repayments in the amount of £6,640.26. In order to adhere to the mandate of limiting any increase in Council Tax to £0.72 per month for the average Band D property, it will,

therefore, be necessary, to once again explore appropriate and sustainable reductions to annual reserve fund contributions to offset this amount.

(NB: If new and additional reserve fund contributions arise going forward due to the creation of new reserve funds for new purposes, such contributions would not negate action taken to limit the impact of PWLB loan repayments on tax payers; they would simply result in potential increase in precept going forward due to entirely separate reasons not linked in any way to the PWLB loan. For instance, if the Council should decide to reduce contributions to the existing Uniforms Reserve Fund going forward to help mitigate the impact of increased PWLB loan repayments and then decide to increase contributions again, that would directly negate any action to reduce the impact of the repayments on tax payers and the resulting increase in precept would then be directly attributable to the loan. However, if the Council reduces contributions to the Uniforms Reserve Fund and maintains the lower contributions going forward but creates a Tree Planting Reserve Fund, for example, the new additional reserve fund contributions would potentially increase the precept but would not have negated any action taken to offset PWLB repayment costs to local tax payers, thus the precept increase would NOT be attributable to the loan.)

If the Council does decide that, in principle, it will aim to mitigate the increased budget requirement for PWLB loan repayments by off-setting this increase with some reduced Reserve Fund contributions, the Finance Clerk has identified a number of Town Council Reserve Funds which could realistically be considered in terms of making appropriate and sustainable reductions to the annual contribution.

Actions for consideration:

In light of the current position whereby the Council will, at its meeting on Wednesday 13th December 2023, be in possession of preliminary tendering figures and can, therefore, estimate the financial viability of the project in its current format (subject to final, detailed analysis of tenders by the appointed Project Management Team), it must now consider whether it is, in fact, an appropriate time to draw down the PWLB loan, noting that (i) the deadline to do so is 6th January 2024 (after which, it will not be possible to do so) and (ii) revised planning consent is currently outstanding.

If the project planning application has not been determined favourably at the time of considering this matter, then even if preliminary output tendering figures indicate that the project will be financially viable, the decision to draw down the PWLB loan would, by necessity, be a decision that would be made 'at risk'.

It should be noted that the project planning application was, until very recently, being considered by FHDC Planning Officers under delegated authority. However, the application has now been 'called in', so it must now be put before the FHDC Planning Committee. This action undoubtedly put the project at risk of further delay due to the necessity to wait for the application to be put before the Planning Committee, which could take several months.

At the time of writing this report, however, it has now been confirmed that, fortunately, the project planning application will, in fact, be considered at the Folkestone & Hythe District Council Planning Committee meeting which is scheduled to take place on Tuesday 12th December 2023 – so the Council should now be aware of the planning application decision when it comes to consider drawing down the PWLB loan on Wednesday 13th December 2023.

In view of the fact that the deadline for receipt of project tenders is 11th December 2023 and the planning application is due to be determined on 12th December 2023, a supplementary report will be issued to Councillors on Wednesday 13th December, following a Steering Group meeting that has been scheduled to take place on the morning of 13th December 2023. All relevant information will be reviewed by the Steering Group at this meeting before the supplementary report is finalised and issued to all Councillors.

Financial Risk Assessment:

IF the Town Council considers that the preliminary output tendering figures are such that the project is likely to be financially viable (either immediately or following limited value engineering), then it may consider it appropriate to draw down the £1 million PWLB loan for which it has consent.

The Council must also be mindful, however, of the planning application decision. If the application is approved on 12th December 2023, then it will be possible to draw down the loan with a view to awarding a contract (subject to positive financial viability assessment) following detailed review of valid tenders, thereby setting the project costs in order that the

project can move into the build phase. However, there is a chance that this will not be the case and the planning application is refused; the Council could find itself in the position of having to re-submit its planning application. If the Council decides to proceed and draw down the loan in the meantime in readiness for awarding a contract, this could result in there being a financial shortfall due to a delay in the planning application gaining approval and a resulting increase in the contract value as it will not be possible to award a contract until the Council is assured that the planning consent will be granted – the Council may or may not be able to address such financial shortfall going forward, so this would be a risk.

IF the Town Council considers that the preliminary output tendering figures are such that the project is not likely to be financially viable (either immediately or following limited value engineering), then the Council may consider that it is not appropriate to draw down the £1 million PWLB loan for which it has consent. However, in such case, the Council will not then be able to draw down any PWLB loan for any purpose without first commencing the entire process of public consultation and then completing the KALC review process before finally submitting an application to the Department for Levelling Up, Housing and Communities – which, based on previous experience, would likely take in the region of two years to complete the entire process in order to gain a new consent to borrow.

If the Council does not proceed with this project, then it will absolutely forfeit the £872,308.00 of NRTC income from the capital sale currently held by the District Council as s106 monies ring-fenced for this project.

Furthermore, if the project is not, anyway, commenced within the 5 year period from the date when original planning consent was issued, the Town Council will forfeit the £872,308.00 of NRTC income from the capital sale currently held by the District Council as s106 monies ring-fenced for this project.

Currently, with the original planning consent having been granted on 4th March 2022, there remains a time-scale of 3 years and 3 months to commence work on site if the £872,308.00 s106 monies are to be accessed by the Town Council.

Actions:

- To first consider the potential to access additional capital with which to support the financial viability of the project, if required, including examination of existing NRTC Reserve Fund balances (See supplementary report – to follow)

Either

- To formally confirm the affordability of the Community Hall, Sports Pavilion and Nursery Project based on preliminary output tendering results and available project budget
- To formally approve the draw-down of a fixed rate PWLB loan in the amount of £1 million repayable over a term of 40 years
- To authorise the Clerk/RFO, together with the Chairman of the Council, to undertake all actions required to complete the borrowing process, including but not limited to submission of form LC1 application (to be signed by Town Clerk, RFO and Chairman of Council) and supporting documentation, formal acceptance of loan terms and conditions and setting up direct debit to facilitate repayments
- To confirm that appropriate and sustainable reductions to identified annual Reserve Fund Contributions have been made to offset increased loan repayments and thereby mitigate the impact of increased PWLB loan repayments on local tax payers.

OR

- To formally confirm that the Community Hall, Sports Pavilion and Nursery Project is not financially viable based on preliminary output tendering results and will not be progressed any further.
- To formally confirm that the PWLB loan for which the Town Council has consent to borrow shall not be drawn down.
- To authorise the Clerk to notify the relevant bodies that the Town Council no longer requires the loan for which it has consent to borrow.

Town Clerk

06.12.23