
CASH FLOW LOAN SUPPORT FOR VOLUNTARY ORGANISATIONS

1 SUMMARY

- 1.1 The Council receives a number of requests from voluntary and third sector organisations for help in managing the cash flows around project delivery by way of the Council providing a short term loan facility. The approach proposed will allow loans to be processed in a way that recognises the sometimes tight time constraints of either projects or funders. The report sets out criteria that creates a delegated authority for the Head of Strategic Finance to approve such loans. Requests which do not meet the criteria could still be considered by the Council and subject to any exceptional circumstances considered for approval.

2 RECOMMENDATIONS

- 2.1 Approve the criteria contained in this report that require to be satisfied in order for the Head of Strategic Finance to exercise delegated authority to approve and then process any cash flow support loans.
- 2.2. To note that requests which do not meet the criteria could be considered by the Council to determine if there are exceptional circumstances that should be taken into account and a loan approved.

3 DETAIL

Introduction

- 3.1 The Council has been receiving an increasing number of requests from voluntary and third sector organisations for support from the Council to cover the timing difference between paying contractors and the organisation receiving grant income. Currently these requests require to be approved by the Council. The purpose of this report is to set out the criteria which will allow requests to be considered by the Head of Strategic Finance. The approach proposed will allow loans to be processed in a way that recognises the sometimes tight time constraints of either projects or funders.

The Criteria For Proposed Cash Flow Support Loans

- 3.2 The sections below set out the proposed criteria / conditions that require to be met before a cash flow support loan can be approved by the Head of Strategic Finance.
- 3.3 The loan facility must be in respect of a capital project which is being part funded by either the Council or LEADER. Cash flow support loans are not intended to support ongoing operating expenditure and any applications on this basis cannot be approved by the Head of Strategic Finance.

- 3.4 A loan can only be made to a voluntary/third sector organisation and cannot be to an individual or a commercial organisation.
- 3.5 A loan can only be approved where the capital cost of works has been confirmed through a tendering process and agreed costs have been finalised for the capital project. This must be supported by tender returns analysed by a relevant qualified professional. A relevant qualified professional would for example be a quantity surveyor or architect in the case of a building project. Where the proposal involves the purchase of goods these must be confirmed with a copy of the order with the supplier of the goods.
- 3.6 A loan can only be approved where the capital project is fully funded and there is confirmation that the funding package is in place with copies of award letters etc.
- 3.7 Amounts advanced under the loan facility cannot be outstanding for more than three months. A loan can only be approved when the request is accompanied by a detailed cash flow projection, to include:
- When money is due to be paid out.
 - When money is due to be received.
 - When the loan repayments will be made to the Council (within 3 months of the advance).
- 3.8 The interest rate for the loan will be at a market rate of interest which will be determined by the Head of Strategic Finance by reference to market rates at the time of the application for the loan and will be fixed for the period of the loan. Interest will be paid by the organisation receiving the loan.
- 3.9 In order to limit the exposure to borrowers defaulting on the loans, under this proposal, loans cannot be approved where the balance outstanding in respect of any individual loan exceeds £50k and the cumulative balance outstanding on all loans exceeds £250k.
- 3.10 To allow the Council to monitor the loans approved by the Head of Strategic Finance a six monthly report will be submitted to the Council showing the loans which have been approved, the payments made to the organisations, the amounts repaid and the balance outstanding.
- 3.11 The risks to the Council from these loans are:
- Capital costs exceed budget or funding and having been advanced by the Council leave the Council with a cost it would have to try and recover from the borrower.
 - The borrower fails to claim all income resulting in a funding shortfall.
 - The borrower fails to comply with grant conditions leaving a funding shortfall.
 - Any funding shortfall will leave the Council exposed where it has already advanced the capital expenditure with the challenge of recovering the balance from the borrower.
- 3.12 These risks can then be managed or mitigated as follows:
- Requiring a capital cost estimate to be supported by a tender or order.
 - Requiring a full funding package to be in place and a copy of funding award

letters.

- Requiring a cash flow forecast to indicate the likely timing difference between income and expenditure.
- Restricting the scheme to capital projects so there is always an asset created as a result of the project.
- Limiting any timing difference between advance and repayment to 3 months.
- Limiting the maximum amount of the facility to £50k per borrower.
- Limiting the cumulative exposure to £250k.

4 CONCLUSION

- 4.1 This report sets out a proposed scheme for considering applications for cash flow support loans in relation to capital projects that allows a delegation to be made to the Head of Strategic Finance to consider and where relevant approve such loans. Risk measures and controls are also outlined. Requests that fall outwith the terms of the delegation could be considered by the Council to determine if there are exceptional circumstances that should be taken into account in considering the loan request.

5 IMPLICATIONS

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| 5.1 Policy - | The approach proposed sets out criteria that will allow the Head of Strategic Finance to approve requests for short term cash flow support loans. |
| 5.2 Financial – | No budgetary implications if loans are repaid in full. Cash flow interest costs will be covered by a charge to borrowers. |
| 5.3 Legal - | None |
| 5.4 HR - | None |
| 5.5 Equalities - | None |
| 5.6 Risk - | The loans are not repaid resulting in unbudgeted expenditure. |
| 5.7 Customer Service - | None |

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