

LOCAL COUNCIL INVESTMENT

Parish Councils are trustees of the public funds which they hold and are governed in their choice of investment by the provisions of the Trustee Investments Act 1961. Under this Act a Council may choose to invest either solely in narrower range investments, or partly in narrower range and partly in wider range investments. Narrower range investments are defined in details in Parts I and II of Schedule 1 of the Trustee Investments Act 1961, and are themselves divided into those in which investment may be made *without advice* (Part 1) and those on which *written advice must be taken* beforehand (Part II). These investments are almost all securities which bear interest at a fixed rate.

All wider range investments *require written advice* and those which are permitted are described in detail in Part III of the Schedule. However, before any money may be laid out in such investments the fund to be invested must be divided into the percentage which is to be invested in wider range investments and the percentage which is to be invested in narrow range investments. The Trustee Investment Act 1961 required an equal division of investment funds (*s2(1) refers*) but this Act has been amended and the maximum split of investments is currently: 75% wider range and 25% narrower range. This division made be made only **once**, and once made, money from one part cannot be transferred to the other save against a compensating transfer, and where new money comes to the fund it must be apportioned so as to increase the value of each part by an equal amount.

The source of the "Advice" required by this Act is detailed in *S 6(4)* and "*is the advice of a person who is reasonably believed by the trustee (Parish/Town Council) to be qualified by his ability in and practical experience of financial matters*"; it will not be invalidated if he is an employee of the Council. In practice, it would be wise, if considering wider range investment of Parish Council funds, for the Council to secure advice from a recognised stockbroker, investment consultant etc.

It is important to note that "*off-shore*" investment of Council funds is not permitted by the Trustee Investment Act 1961.

Local Council Borrowing

Legislation

Local Councils require the approval of the Secretary of State for the Department of the Environment, Transport and the Regions (DETR) to borrow money over any period in excess of 12 months (normally for a borrowing term of no more than 26 years). The Secretary of State has the power under *Schedule 13* of the *Local Government Act, 1972 (L.G.A. 1972)* to approve borrowing by Local Councils for any purpose or class of purpose and subject to conditions.

Current DETR Criteria for Borrowing.

The current DETR criteria which Local Councils must satisfy in full to obtain borrowing approval are:

1. The borrowing purpose should be for the acquisition of land or the carrying out of works on land, including the construction of, or carrying out of other significant works on, buildings or other structures (borrowing for the provision of movable assets such as furniture or equipment will not normally be approved).
2. The amount to be borrowed must not be less than the amount the Council can raise under the *S.137 L.G.A.* "free resource provision; that the product of £3.50 x number of electors on the electoral roll for the parish or Council area.
3. Any unallocated balances must be netted off against borrowing requirements.
4. The applicant Council must have a realistic budget (this must be reasonable affordable in terms of the Council's tax base (for the servicing and repayment of the debt).
5. All Councils must comply with the legal requirement under the *Local Government and Finance Act 1992* to prepare a formal expenditure budget.
6. Because there is a total amount of local council borrowing permitted in a financial year (£6.7m for 1998/99), the maximum amount a Local Council will be permitted to borrow for a single purpose in a single financial year is £500,00.

Application Procedure

Application forms for borrowing approval are available from CALC/PALC. Completed forms, together with the required supporting documentation, should be returned to CALC/PALC for onward transmission to NALC (National Association of Local Councils). Applications are scrutinised by NALC to ensure compliance with the DETR criteria and forwarded with comments to DETR, for decision by the Secretary of State. NALC advises Councils, through CALC/PALC, on any problems that are likely to arise in connection with their application, inviting Councils to modify their proposals in an effort to ensure that they meet all the DETR criteria.

Granting of Approval

Local Councils are notified direct by DETR whether or not approval for borrowing has been granted. If borrowing approval is granted then it has to be used within 6 months of the date of the approval. Councils are required to notify DETR, through CALC/PALC, if they intend to borrow less than the amount that they have been permitted to borrow under the approval or no longer intend to proceed with borrowing within the 6 month time period.

Borrowing Money

Schedule 13, L.G.A. 1972 empowers Local Councils, once authorised by the Secretary of State, to borrow money for the purpose stipulated in the DETR consent letter by way of mortgage, an agreement entered into with the Public Works Loan Board (PWLB) and by any other means approved by the Secretary of State with the consent of the Treasury. Local Councils normally borrow money from the PWLB.