

Taunton Deane Borough Council

Full Council – 13 December 2016

Loan to Centre for Outdoor Activities and Community Hub (C.O.A.C.H)

This matter is the responsibility of Councillor Williams, Executive Councillor and Leader of the Council

Report of the Assistant Director Resources

1 Executive Summary / Purpose of the Report

- 1.1 The purpose of this report is to seek approval for Taunton Deane Borough Council to provide a capital loan to COACH of up to £50,000, to enable the enterprise to enhance the facilities under construction in French Weir Park, Taunton.
- 1.2 As with any investment this is not risk free, however risks are considered to be acceptable. There are financial benefits for the Council, particularly through increased investment income, as well as the community benefit for the completion of the overall scheme per final design.
- 1.3 Due to time constraints this report has not been through Scrutiny and Executive, however is brought to Full Council as the request of COACH is to be able to secure the funding approval in December / January i.e. before the next Council meeting in February. The Assistant Director Resources has discussed the proposals with Group Leaders in advance of the Council meeting.

2 Recommendations

- 2.1 Full Council is recommended to:
 - (a) Agree the principle of a 8-year fixed rate loan to COACH of up to £50,000 at beneficial terms to the Council – with detailed terms to be determined through delegated authority by the S151 Officer and Leader of the Council.
 - (b) Approve a £50,000 Supplementary Budget in the Council's Capital Programme in respect of the loan which is to be treated as capital expenditure, with the understanding that the principal payments will be treated as capital receipts and will offset the up-front expenditure.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
As with any loan agreement there is a risk that the borrower fails to make repayments on a timely basis	3	4	12
<i>Mitigated by – The loan is supported by an appropriate agreement and the terms include security of funds provided. The Council, as land owner, maintains entitlement to property in the case of serious default.</i>	1	4	4

Risk Scoring Matrix

Likelihood	5	Very Likely	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Feasible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Slight	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Very Unlikely	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)

	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background Information

- 4.1 The proposed COACH facility is both a building, including a floodable boat store, and a community facility. The intention is to provide a sustainable and functional permanent home for a wide variety of clubs and Community Groups as detailed in the business plan as produced by the COACH the detail of which Members reviewed in August 2014.
- 4.2 The Council has been supporting the COACH project since 2011. In August 2014 Full Council approved the granting of a 125 year lease at peppercorn rent of land at French Weir for the construction of a Centre for Outdoor Activities and Community Hub.
- 4.3 The Trustees received financial support for the construction of the new facility from Sport England and Taunton Deane Borough Council. The original project was established with estimated costs of £850,000. This was funded through a grant of £250,000 from TDBC (funded from the proceeds of sale from the TYCC Trustees share of the ex-TYCC site in Taunton, which is held by the Council and ring-fenced for initiatives that will benefit youths in the Borough), a grant of £484,000 from Sport England and a range of other contributions.
- 4.4 The principal reasons for the rise in the building costs are:
- a) Delays in obtaining permissions from all interested parties impacted on the finances due to a period of high building material inflation.
 - b) Notification by Western Power after full planning permission had been granted of high voltage cables through the site led to the building being redesigned in two parts to provide a gap where those cables lay.
 - c) Subsequently Western Power allowed the two buildings to be joined. A wet/dry classroom was built for £42,000, with £34,000 of the cost coming from the support of Peter Harrison's Foundation.

- d) Some QS costings have proved to be too optimistic. Late in the project it became apparent that the pricing of the access ramps and decking were £50,000 short, effectively leading to the approach to the Council for additional funding (this area is key to the project as it provides the access to COACH).
- 4.5 The final designs and photographs of the build can be seen at <http://coach-taunton.org.uk/building-design/>
- 4.6 The total build cost estimate has increased to £1.05m of which the Trustees have raised £950,000 to date. The Trustees continue to raise funds and currently have bids in for £30,000 and a crowd funding campaign.
- 4.7 The Trust has approached the Council and is seeking a loan to cover half of this funding gap – £50,000 – and have requested the option to repay this over an 8 year period. As explained above, the funding is needed, for example, to complete aspects of the site to improve access to the building and surrounding area both ‘land side’ and ‘water side’. The trust is confident that it can raise the funding needed to fully complete the project, and the intention is for the Council to only advance the loans when it is clear the COACH trustees have raised all the match-funding necessary to complete the project.
- 4.8 Due to time constraints this report has not been through Scrutiny and Executive, however is brought to Full Council as the request of COACH is to be able to secure the funding approval in December / January i.e. before the next Council meeting in February. The Assistant Director Resources has discussed the proposals with Group Leaders in advance of the Council meeting.

5 Links to Corporate Aims / Priorities

- 5.1 The COACH project aligns with the Council’s aim to keep Taunton Deane a great place to live, work, learn and enjoy. The COACH facility will provide an inspiring leisure destination that will enhance Taunton and provide access for the community to experience an activity and one of Taunton’s best assets – the river.
- 5.2 The request for loan finance also provides the Council with the opportunity to issue funding on terms that covers its costs and provide an acceptable financial return, making a positive contribution to financial performance.

6 Finance / Resource Implications

- 6.1 Providing a loan of £50,000 to COACH is affordable to the Council, and provides an opportunity for the Council to invest surplus cash resources for a favourable return at the same time as supporting an exciting community facility. The repayment of the loan will serve to replenish cash balances whilst providing interest income to the General Fund Revenue Budget.

- 6.2 The nature of the loan – to help fund the completion of a property asset – must be accounted for as capital expenditure under applicable regulations. The recommendations therefore include a request to approve a Supplementary Budget within the Council's 2016/17 Capital Programme. The loan will add to the Council's "Capital Financing Requirement" initially (which is reported as part of the Treasury Management Strategy each year).
- 6.3 The Council's Finance Service has reviewed the business plans of the organisation as part of our due diligence for such an investment, to ensure there is confidence the loan is affordable and can be repaid by COACH. The Assistant Director Resources is also working with COACH management to ensure appropriate security is available for any loan granted. The preference is to secure a charge against the building, or to seek suitable alternative security as part of final terms. Sport England, which has granted £484,000 towards the project, holds a first charge against the asset and enquiries indicate there are no restrictions or concerns for the Council also placing a charge against the asset. As with any loan there is risk, which will be minimised through the Charge and the Loan Agreement.
- 6.4 Subject to the completion of due diligence, it is proposed to provide the loan on an Equal Instalment of Principal (EIP) basis. The repayment of the principal amount of £6,250 each year will form a capital receipt which will be used to reduce the Capital Financing Requirement over the term of the loan. This means there is no impact on the Council's Revenue Budget for the loan principal amount.
- 6.5 It is recommended final terms are to be agreed by the S151 Officer and the Council Leader. However, using a benchmark of PWLB rates and an appropriate risk premium, it is anticipated a loan could be offered at a fixed rate of PWLB plus 2% risk premium. 3.5% with principal and interest payments made on a quarterly basis. This rate compares with the interest rate offered to Somerset Waste Partnership, and would be reviewed at the time of finalising the agreement to take account of any material changes in market conditions. It is based on a proxy for PWLB plus at least 2% risk premium. For the purposes of the report this is rounded up to 3.5%.
- 6.6 Providing such a loan at this rate would generate interest receipts in the region of £6,500 over the 8 year period which would support revenue budgets and equate to additional average interest income of less than £1,000 for the each of the next 8 years. This is in addition to the contribution to corporate priorities summarised above.
- 6.7 Our average investments return is in the region of 0.8% currently which equates to £3,200 in total on £50,000 over 8 years. The interest improvement over the term of the loan would therefore be in the region of £3,300. The Council would fund the loan from internal cash management and therefore maximise the interest benefit to the Council, and avoiding the need to externalise the debt. Should interest rates move significantly this would be reviewed alongside all other treasury decisions of the Council.

7 Legal Implications

7.1 The legal implications have been considered and there will be a need to draft a formal loan agreement. This will be dealt with “in-house” and costs should be minimal when compared to the size and term of the transaction.

8 Environmental Impact Implications

8.1 The environmental and community safety implications have been considered and there are not expected to be any specific implications relating to this report.

9 Safeguarding and/or Community Safety, Equalities and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, and Consultation Implications

9.1 None for the purpose of this report.

10 Scrutiny Comments / Recommendation(s)

10.1 This report is being presented directly to Full Council and has not been reviewed by a Scrutiny Committee in advance.

Democratic Path:

- **Scrutiny – No**
- **Executive – No**
- **Full Council – 13 December 2016**

Reporting Frequency: Once

Contact Officers

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