

Taunton Deane Borough Council

Full Council - 10 July 2018

Capital Loan to Somerset Coast YMCA by Taunton Deane Borough Council

This matter is the responsibility of Executive Councillor Mark Edwards, Taunton Deane's Portfolio Holder for Business Development and Asset Management

Report of the Assistant Director Business Development – Ian Timms

1 Executive Summary

- 1.1 The purpose of this report is to seek endorsement from the Shadow Executive for Taunton Deane Borough Council to invest in the redevelopment of the Great Western Hotel, Taunton. This investment will be delivered through provision of a capital loan to Somerset Coast YMCA (YMCA-SC) of £675,000. The loan will complete the funding package of £1.7 million to enable the redevelopment of the Great Western Hotel, Taunton.
- 1.2 The redevelopment of this key building which is situated in an important gateway to Taunton is part of the overall plans to redevelop the area around the station. This will be in two key elements:
 - Business hub, incubator space, collaboration space and meeting rooms
 - Training and skills partnership utilising 15 bed boutique style hotel accommodation.
- 1.3 These will combine to directly deliver 10 new jobs, 12 apprenticeships, 10 traineeships and a range of volunteering opportunities.
- 1.4 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. In a wider sense the loan creates leverage with other organisations which has enabled a funding package to be created through the use of a number of funding sources. The proposed scheme will therefore have a number of benefits creating wider economic benefit for Taunton Deane. It will support small businesses and enable greater collaborative working. These broader benefits are outlined in the body of this report.
- 1.5 Taunton Deane's (TDBC) Scrutiny Committee has previously considered this proposal and supported its referral for approval to TDBC's Full Council on 10 July 2018.

2 Recommendations

2.1 It is recommended that:-

- (a) The principle of a 25 year, secured capital loan to Somerset Coast YMCA of up to £675,000 at beneficial terms to the Council be agreed – with detailed terms to be determined through delegated authority to the S151 Officer and Leader of the Council.
- (b) A £675,000 Supplementary Budget in the Council’s 2018/2019 Capital Programme in respect of the capital loan which is to be treated as capital expenditure be approved, with the understanding that the principal payments will be treated as capital receipts and will offset the up-front expenditure.
- (c) Delegated authority be granted to the Leader and S151 Officer authority to agree the final detailed terms and conditions of the loan following the principles agreed by Full Council.

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. The Council’s capital is at risk which could include a risk of non-recovery or delayed recovery.	3	4	12
<i>Mitigated by – Due diligence has been undertaken by Council’s senior management and qualified finance professionals, including review and testing of Somerset COAST YMCA’s business plan and financial appraisal of the borrower including credit checks and appraisal of their financial status. The loan is supported by an appropriate agreement and the terms include a clear repayment schedule with terms to deal with default and delay. The loan will be secured against the asset value which the Council can ultimately pursue in the case of default by the borrower.</i>	2	4	8

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%

4 Background Information

- 4.1 As members will be aware the council (All future references to council mean TDBC) has identified a number of areas of focus within it's growth programme. This proposition will contribute to the delivery of the employment sites and innovation theme providing start up or incubation space for businesses, co-working space and collaboration spaces. The hotel element of the proposition provides a live training environment for the development of individuals.
- 4.2 The redevelopment of the building in this visible location is in itself important for the regeneration of Taunton. The revitalisation of this building will also make a major contribution to the redevelopment of the station forecourt. It will assist in the creation of a new gateway welcoming businesses and travellers to the town.
- 4.3 The proposition is based on the experience that Somerset Coast YMCA have in operating similar ventures. They are developing a portfolio of sites to support operation of their business which has some resonance with the Council's own approach. The two flagship projects of comparable undertaking are the Beach Hotel in Minehead (www.thebeachhotel.org) and Barley Wood House in Wrington (www.barleywood.org / www.barleywoodnursery.org). Both of these social enterprises are financially self-sustaining.

- 4.4 In common with other local authorities the Growth and Development team are developing a framework for future investment opportunities. This would enable decision making in future to be based on an agreed set of parameters. This opportunity for the Council to invest is being developed against the background of that thinking which is built on range of parameters. This development itself works well as a local investment which has regenerative benefit. The Council would be providing a commercially based loan to this premises to deliver on a range of its priorities.
- 4.5 The YMCA has put together a mixed funding package for the purchase and renovation of the premises. The start-up costs will be funded by the YMCA's revenue streams with the aim of achieving a break even position by the end of year one. It is anticipated that the Hotel and Restaurant function will be fully operational by the middle of 2019. The council will be providing a short term enabling loan of £75,000 to enable exchange to occur on the building. This loan is repayable after one year of awarding and has been provided through the use of Growth Reserve (formed with accumulated New Homes Bonus income) at a commercial rate.
- 4.6 The key components of the building and projected outcomes are:
- Creation of a premises hosting a training and skills partnership delivering 10 new jobs, 12 apprenticeships, 10 traineeships and many volunteering opportunities.
 - The Hotel will be transferred from a currently vacant office space to a modern hotel attracting new customers to Taunton and its surrounds, and specifically supporting the business community.
 - Creation of 15 Hotel rooms serving the market at an entry level price point
 - Café/Restaurant, Conference space which can accommodate 125 and broader Meeting Space. This element will be based in the ground floor being branded as the exchange.
 - Business Hub, Co-working spaces and Incubator units situated in the basement and ground floor areas. These spaces will be let flexibly and allow for short term and long term arrangements. The space will offer superfast broadband, a hosted reception and a series of weekly events for those using the spaces be branded as the Platform

This investment will provide a building and operation which complements the station redevelopment. We also expect this proposal will complement the council's recent decision to invest in a mid-market hotel providing entry point rooms in a boutique style setting.

5 Links to Corporate Aims / Priorities

- 5.1 The proposition supports Taunton Deane's Key Theme 2 within the Corporate Strategy – business and enterprise. It supports the goal of enabling employment and innovation sites and assisting growth through innovation that

is embedded into the Council's allocated funding areas for use of the Growth Reserve (New Homes Bonus).

- 5.2 The Great Western Hotel is in a key gateway position at the entrance to Taunton railway station. The new station entrance will open out opposite the building. The Great Western Hotel will therefore be a highly visible presence when entering Taunton. The redevelopment of this building is therefore also linked to the Council's overall Taunton regeneration plans.
- 5.3 The request for a capital loan also provides the Council with the opportunity to issue funding on beneficial terms that both covers its costs and provide an acceptable financial return, making a positive contribution to the Council's own General Fund financial performance.

6 Finance / Resource Implications

- 6.1 Due diligence has been undertaken by senior officers by the Council's qualified finance professional with a focus on the robustness of the business plan for the YMCA's proposition together with the creditworthiness and financial status of the YMCA as a prospective borrower/debtor of the Council. No loan investment is risk free, however the S151 is satisfied that the process provides sufficient confidence to provide the loan advance underpinned with security against the asset. There is sufficient value in the asset to provide the necessary security required for the full value of the loan.
- 6.2 This loan is being offered to YMCA-SC on a commercial basis to ensure that it is not classed as "State Aid". The interest rate chargeable on the loan will ensure that the Council makes a return on its investment, and more than cover the cost of the external borrowing required from the PWLB. It is recommended final terms are to be agreed by the S151 Officer and the Council Leader. However, current planning is based on an assumption of applying a rate based on PWLB rates concurrent at the time of the advance plus a risk premium of approximately 2.4%.
- 6.3 The proposal is to provide the loan at a fixed interest rate for the first five years, after which it would revert to a variable rate loan thus protecting the Council against long term interest rate risk.
- 6.4 The loan to YMCA-SC makes a positive contribution to the Councils' budget position. The eventual gain will be determined by future interest rates but as a guide it is estimated the risk premium will contribute approximately £182,000 in net interest income to the General Fund.
- 6.5 The Council will account for the loan as capital expenditure within its own accounts, and as such the principal repayments received from YMCA when the loan is repaid will be treated as capital receipts. It is proposed utilise these capital receipts to cover the financing of the upfront capital loan investment, thus mitigating the requirement for a Minimum Revenue Provision cost to the General Fund.

- 6.6 Loans of this type are regarded as investments under the new MHCLG guidance on investments and details of which will be included in the new requirement for the Council to produce a Capital Strategy, this will come before Members later in the year.
- 6.7 The loan will be drawn down on completion of the purchase, which is expected to be in the summer 2018.
- 6.8 The loan will be provided on the basis that YMCA-SC cover the arrangement costs and cover all associated financing costs.
- 6.9 The loan will be secured over the building. A valuation by a RICS qualified surveyor dated 28th March 2018 has been provided which values the building currently at £1,000,000.
- 6.10 The total cost of Refurbishment and Conversion has been estimated by YMCA-SC management at £1.684m. This will be done using their own internal Project Management resources, Termed Service contractors that are already in place and in-house decorators. This is the model that was used for the refurbishments of The Beach Hotel in Minehead and Barley Wood in Wrington.
- 6.11 The overall funding package is outlined below for reference

Purchase and initial capital:	£	
TDBC Enabling Loan	75,000	
TDBC Capital Loan	675,000	
Renovation and refurbishment:		
Hinkley CIM fund	500,000	(General renovation costs)
Architectural Heritage Fund	25,000	(Awarded for pre-project development)
Rail Heritage Trust	106,000	(40% of identified heritage elements – funding ring fenced)
Heritage Lottery Fund	135,000	(60% of identified heritage elements – in progress)
Nisbet Trust	25,000	(Awarded – Kitchen Infrastructure)
Torbay Development Trust	25,000	(In progress – Co-working and start-up offices)
(Somerset Enterprise Agency)		
YMCA – SC Reserves	28,000	(ring fenced)
Garfield Weston	90,300	(application in progress)
TOTAL	1,684,300	

- 6.12 The overall total of loan finance provided by TDBC of £750,000 (including both the enabling and capital loans) represents approximately 45% of the total funding package.

7 Legal Implications

- 7.1 The detail of the proposal will be referred to SHAPE Legal partnership for advice who will also assist with drawing up a suitable loan agreement. This agreement will be modelled on previous loan agreements that have been delivered by the authority.
- 7.2 The loan is offered at a commercial rate to ensure compliance with current state aid requirements. The loan would become part of the new authorities lending.

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

- 9.1 This report relates to the provision of a loan to enable Somerset Coast YMCA to redevelop what is currently an empty building. The occupation of the building will increase natural surveillance in the area creating new activity minimising the likelihood of community safety issues.

10 Equalities and Diversity

- 10.1 This report relates to provision of a loan to enable a wider investment and building programme. The planning and design work will need to take account of any issues around accessibility addressing that characteristic, however this will be the responsibility of YMCA-SC. There are no direct equalities and diversity implications in respect of the financing arrangement recommended within this report.

11 Social Value, Partnership, Health and Wellbeing

- 11.1 In making this loan the council would be supporting a project that has wider value through the nature of YMCA as an organisation that works with a range of young people. The YMCA intend to employ a range of young people in the hotel and hospitality element of the building. This will provide employment and training opportunities.

12 Asset Management and Consultation Implications

- 12.1 There are no direct asset management issues for the council with regards to this report as those fall to Somerset Coast YMCA. As mentioned in the report the repair and improvement of this building will have a positive and beneficial effect on the area of the station forecourt.

Democratic Path:

- Corporate Scrutiny – 26 April 2018
- TDBC Executive – No
- Shadow Executive – 5 July 2018
- Full Council – 10 July 2018

Reporting Frequency: Once

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Appendix A – Confidential appendix – TDBC loan summary