

Cheltenham Borough Council

Council – 12 December 2016

Agreement to loan to support the construction of an annex at St. Margaret's Hall

Accountable member	Cllr. Rowena Hay; Cabinet Member Finance
Accountable officer	Richard Gibson, Strategy and Engagement Manager
Ward(s) affected	St. Margaret's Hall lies in Warden Hill ward, but serves a much wider geography.
Key/Significant Decision	No
Executive summary	<p>Council on 18th July 2016 agreed that an in-principle loan be made to The Trustees of St. Margaret's Hall Users Group for the purposes of enabling further fund-raising to take place in connection with the construction of the proposed annex. The offer was made subject to the following conditions:</p> <ol style="list-style-type: none">1. The offer of the loan in-principle was to remain open for 12 months.2. The offer of the loan in-principle is only to be used in connection with the proposed Annex and to help the User Group secure the additional funds necessary to enable the build contract to be entered into.3. Subject to the User Group securing all the necessary funds to cover the proposed total cost of the whole scheme, a further report would be considered by full council to agree whether the "in-principle" loan be turned into an agreed loan. <p>St. Margaret's Hall Users Group have now confirmed that all the necessary funds are in place to meet condition 3 and as a result have requested that the "in-principle" loan be turned into an agreed loan.</p>
Recommendations	Full council is asked to authorise an unsecured loan of £50,000 to St. Margaret's Hall Users Group for the purposes of enabling the construction of the proposed annex upon terms and conditions as the Director of Resources considers reasonable, and to authorise the Borough Solicitor to conclude such documents as she considers necessary or desirable to protect the Council's position.
Financial implications	<p>The St Margaret's Hall user group have secured funds to cover the estimated £150k total cost of the annex. The details of the funding and terms of the proposed loan is included in section 4 of this report.</p> <p>Contact officer: Sarah Didcote GO Business Partner Manager (West) Sarah.Didcote@cheltenham.gov.uk 01242 264125</p>

Legal implications	<p>The Council has broad powers (including under Section 19 of the Local Government (Miscellaneous Provisions) Act 1976) to support the provision of recreational facilities, including by way of giving grants or loans to third parties.</p> <p>As the property is leased by the Council to the Users' Group (and a new lease is proposed), it will be important to ensure that the lease and the loan agreement are co-ordinated and that the works are monitored.</p> <p>Whilst the taking of a charge over property is usually considered when making a loan of this amount, as in this instance the Council is the landlord, a charge over the lease would be of negligible benefit.</p> <p>It would be usual, in this instance where the borrower is an unincorporated charity, to limit the liability of the trustees under the loan agreement to the assets of the charity.</p> <p>Contact officer: Rose Gemmell rose.gemmell@tewkesbury.gov.uk 01684 272014</p>
HR implications (including learning and organisational development)	No HR implications identified with this report
Property/Asset Implications	<p>As set out in the report.</p> <p>Contact officer: David Roberts Head of Property Services David.roberts@cheltenham.gov.uk 01242 264151</p>
Key risks	<p>Inability of the St. Margaret's Hall Users Group to re-pay the loan in accordance with terms and conditions</p> <p>If the St. Margaret's Hall Users Group go bankrupt during the construction and of part of the loan has been paid to them, there is a risk that the council will not recoup the loan maximum exposure of £50,000</p> <p>Construction costs of the annex increase meaning that St. Margaret's Hall Users Group have insufficient funds to complete the annex.</p>
Corporate and community plan Implications	<p>Successful delivery of the project by the St. Margaret's Hall User Group will help the council deliver its corporate strategy outcome:</p> <ul style="list-style-type: none"> • People live in strong, safe and healthy communities
Environmental and climate change implications	The new annex will be built in accordance with the environmental specifications set out in the latest building regulations.

1. Background

- 1.1** St Margaret's Hall was originally built as a Mission Centre for the Roman Catholic Church in 1977, which later evolved into a general purpose community hall. Following closure in 1997, Cheltenham Borough Council purchased the hall and it was re-opened by a consortium of users known as the St Margaret's Hall Users' Group.
- 1.2** The Users Group have subsequently managed the building and have undertaken a range of projects to improve the fabric of the building such as installing new toilets, new flooring, new kitchen equipment and a new central heating system.
- 1.3** The hall is a popular community building serving the immediate Warden Hill and Hatherley communities as well as the wider community of Cheltenham. The Hall is let on a regular basis to 11 charitable organisations and seven commercial organisations who provide a number of activities including those aimed at parents and children, health and fitness activities and a wide range of social activities. Demand for the existing hall is high, with the bookings diary being regularly full, leaving little space for other users to hire the hall. Rental income brings in around £22k per annum.

2. Current lease arrangements

- 2.1** The current lease was agreed with the Users Group in August 2011 and this runs to 2026 with a rent review in 2017. The current rent is £13,500 and is supported by a third sector matching grant of £13,500 so no rent is collected by the council.
- 2.2** To support fund-raising activities associated with the annex project, the Users Group have approached the council requesting surrender of the current lease and entering into a new lease for a further term of 35 years and subject to similar conditions as the existing lease. In addition the User Group will also be obliged to enter into an Agreement for Lease and Building Agreement which, upon successful completion of these first two elements, a new lease will be granted.

3. Details of the proposal

- 3.1** To meet increasing demand for space at the Hall, the Users Group have drawn up plans for an annex which will be able to accommodate 75 people, in a space that can be divided in two, and will have its own services so it can be hired independently of the main hall.
- 3.2** The Users Group have also considered the impacts on other local halls. Their research indicates that other hall providers in the areas of Hatherley, Warden Hill and The Reddings are also at or near to capacity. Other halls in the area provide either a main hall of 130-220 capacity, or a minor hall of up to say 50-60 capacity, or both.
- 3.3** Plans for the Annex have received both planning permission and building regulations permission.
- 3.4** Preliminary costings indicate a capital cost of c.£150k (inc VAT), but that the new annex will generate anticipated additional income building up to £12,000 per year, less relevant running costs, estimated at £5,000 per annum.
- 3.5** The Users Group approached the council for a loan of £50,000 which they will re-pay over a period of 15 years at an estimated interest rate of 3%, based on current market rates. It should be noted that the actual rate applicable will be based on current market rates at the date of the loan agreement, should this recommendation be approved by Council.

4. Proposed funding package for the annex.

4.1 The funding package details are as follows:

Proposed Costs	£
Construction costs	132,800
Construction contingency	13,300
Quantity Surveyor fees	3,600
	149,700
Funding	
Gloucestershire County Council - Active Together grant	10,800
St Margarets Hall User Group Building Society savings account including £5,000 received from The Summerfield Trust	35,000
Gloucestershire Environmental Trust	35,000
St Margarets Hall User Group bank current accounts including £1,000 received from Charles Irving Trust Grant	4,900
Cheltenham Borough Council loan	50,000
Contingency covered by personal guarantors	14,000
	149,700

4.2 The proposed loan from the council will be for an annuity loan for a term of 15 years, at an interest rate of 3% per annum. Capital and interest repayments will be repayable every 6 months in accordance with a repayment schedule to be drawn up as part of the loan agreement. The annual payments will be payable by St Margarets Hall user group from the net profit generated from the use of the new annex.

5. Reasons for recommendations

- 5.1 The proposed annex will meet an identified need for community space in the south of Cheltenham. It will support the ongoing viability of the St. Margaret's hall and will also relieve pressure on other halls.
- 5.2 The proposals will support the delivery of the Council's priorities and the works will be managed by the Users Group.
- 5.3 The proposals will also see investment of c.£150k into one of the Council's assets that will help secure its longer-term future.
- 5.4 The User Group have now secured all the necessary funds to cover the proposed total cost of the whole scheme.

6. Alternative options considered

- 6.1 No other alternatives have been considered.

7. Consultation and feedback

- 7.1 There has been ongoing consultation on the recommendations set out in this paper with the St Margaret's Hall Users' Group.

8. Performance management –monitoring and review

8.1 If a loan is entered into, this will be managed via the agreed terms and conditions.

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Appendices	1. Risk Assessment
Background information	Council report 18 th July 2016 -Proposed financing arrangements for the construction of an annex at St Margaret's Hall.

Risk Assessment

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If the St. Margaret's Hall Users Group are unable to fulfil the repayment terms of the loan, there is a financial risk to the council that will not recoup the loan – maximum exposure of £50,000.	Sarah Didcote	25.11.16	2	3	6	Accept	?	31.12.17	Sarah Didcote	
	If the St. Margaret's Hall Users Group go bankrupt during the construction and of part of the loan has been paid to them, there is a risk that the council will not recoup the loan maximum exposure of £50,000.	Sarah Didcote	25.11.16	2	3	6	Accept	?	31.12.17	Sarah Didcote	
	If construction costs of the annex increase meaning that there is insufficient funds to complete the annex, or if the St. Margaret's Hall Users Group go bankrupt, there is a risk that one of our properties could be left in an unfit state meaning that the council may have to undertake the works itself.	David Roberts	25.11.16	2	3	6	Accept	?	31.12.17	David Roberts	
Explanatory notes Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical) Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability) Control - Either: Reduce / Accept / Transfer to 3rd party / Close											