

Loan to Queen Camel Community Land Trust for the purchase of the Old School site, Queen Camel

Executive Portfolio Holder: Peter Seib, Finance and Legal Services
Area Chairman Nick Weeks
Director: Netta Meadows, Strategy and Support Services
Lead Officer: Paul Fitzgerald, S151 Officer
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Purpose of the Report

1. That District Executive request that full Council approves the principle of a loan of up to £250,000 to Queen Camel Community Land Trust (QCCLT) for the acquisition of the Old School site at Queen Camel.

Recommendation

2. That District Executive recommend full Council approve in principle to provide a loan of up to £250,000 to Queen Camel Community Land Trust (QCCLT), funded from the Capital Receipts Reserve to be repaid in full within 1 year, and under the terms of SSDC's loans policy, subject to due diligence.
3. The Council delegates authority to the S151 Officer in consultation with the Portfolio Holder and Area East Chair to agree final terms of conditions and approve a loan following satisfactory completion of necessary due diligence.

Forward Plan

4. This report was not previously included on the Forward Plan.

Public Interest

5. SSDC has received a request for a short-term bridging loan from QCCLT to enable them to acquire the Old School site at Queen Camel. The Council has a Loans Policy which supports loans at affordable rates to local community groups.

Background

6. After extensive flooding in the village in 2008, the Queen Camel School moved to new premises in June 2016, leaving the old site empty. Somerset County Council (SCC) then declared the site as surplus to requirements and began marketing the site (excluding the playing field) at a value of £400,000.
7. Following a nomination, the premises were placed on the register of Assets of Community Value held by SSDC and in response to this SCC took the property off the market for the six month moratorium period. During this period, QCCLT submitted an Expression of Interest to SCC (early 2017), under SCC's own community asset transfer policy. The six-month moratorium period ended in February 2017.

8. SCC and QCCLT have continued to discuss the potential acquisition and SCC are seeking to obtain an acceptable value in receipt, which is currently less than the initial marketing price. There is a time restriction for QCCLT to progress with their planned acquisition of the site. Our understanding is that SCC have requested a formalised offer from QCCLT by the end of 2018 otherwise the site will be auctioned in March 2019. This is why the request is being brought forward at this relatively early stage, to provide a safety net to help the project move forward.
9. QCCLT have obtained their own independent valuation of the site, which has been shared as commercially confidential to officers within SSDC. The valuation obtained takes into account a covenant for education use and advice from Planners, Conservation and the Environment Agency on the Zone 3 flood plain location.
10. In spring 2018 SCC requested that a formal offer be made. They indicated their intention to recommence marketing in May 2018. Due to the difficulties in securing external funding exceeding the valuation which QCCLT held, they were unable to present SCC with an acceptable offer. A second six week moratorium was triggered at 4 May at the end of which SCC were free to market. The site was placed on an auction listing for June 2018 but was subsequently withdrawn. A meeting between QCCLT and SCC in June re-affirmed SCC's position that an offer should be formalised by the end of 2018 otherwise the site would be auctioned in March 2019.
11. QCCLT wishes to acquire these premises and to develop them into a 'Community Enterprise & Education Centre' with a primary focus on a mix of micro artisan-type or similar business enterprises with training opportunities, health & well-being services (clinic/therapy and activity rooms) and potentially incorporating a café. The challenge is to balance social enterprise objectives with a non-loss business.
12. Prudent occupancy and rental income assumptions are being considered in the CLT's draft business planning for the site. An 'enterprise management committee' supported by paid staff will be tasked with actively seeking tenants, managing fundraising, and developing PR and social media opportunities to promote the enterprise.
13. QCCLT is committed to achieving this project. In the last few months QCCLT has secured small scale funding to enable some of the professional advice and guidance elements which are vital to the project progressing including legal advice, building surveys, demand assessment and business planning. This work is live and in progress. A condition report is due at the end of October which will inform more detailed service specific surveys.
14. A number of QCCLT's funding applications are currently pending, see below, and other funding sources are being actively pursued:
 - Lottery Power to Change Community Business Fund - submitted for £187,500 - In the week beginning 19 November QCCLT will be informed if this has got through stage 1, and by mid-December QCCLT will be notified if awarded the grant or not.
 - Heritage Lottery Fund £62,500 (specifically towards the Grade II building) will be submitted for their next round of bids.
 - Viridor - £50,858 for refurbishment. This is in the process of being submitted. Closing date is 31 October 2018. QCCLT are also preparing to launch a Share Option Scheme in January, the proceeds from which will go towards refurbishment.

Proposed Loan Arrangement

15. SSDC's Loans Policy was set up to provide affordable loans to local community groups at affordable rates linked to the Public Works Loans Board (i.e. the rate at which SSDC could borrow funds from

central Government). This policy is aimed at providing small loans to outside bodies where alternative forms of borrowing are not available or at prohibitive costs. The Group has approached SSDC to request a loan of up to £250,000 over no more than 1 year. This value is outside of the loans policy that has been delegated to District Executive which limits the delegation to a maximum loan of £150,000 and loan duration to 10 years and therefore the loan needs full Council approval.

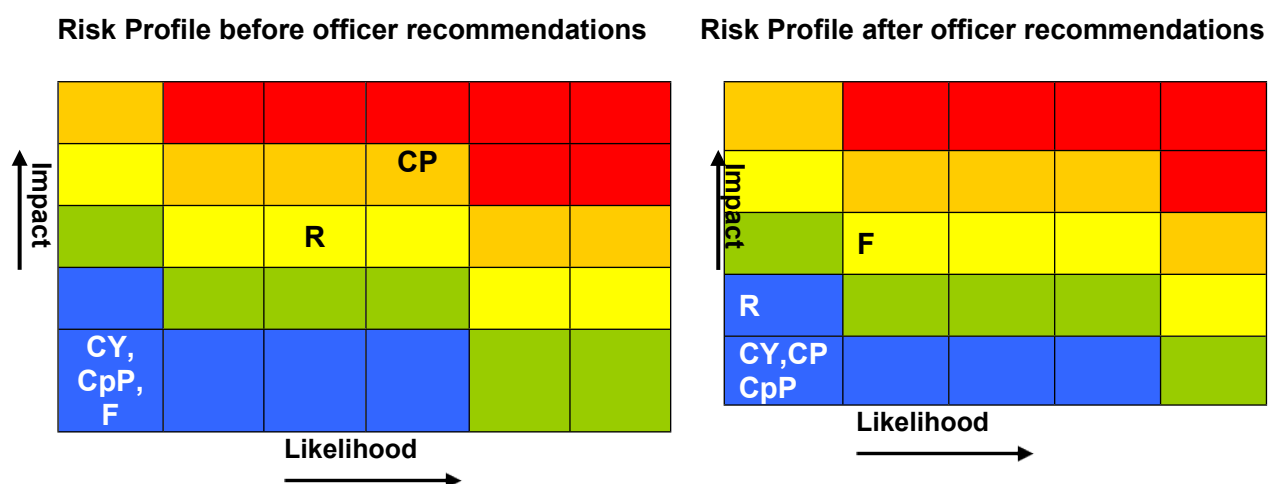
16. The QCCLT is constitutionally and legally set up for just such a social enterprise as the Old School site would provide. The vision the QCCLT has for the site has been endorsed through letters from the County, District and Parish Councils. The QCCLT wish to acquire the Old School site in perpetuity for the local community, and to develop it into a vibrant, self-sustaining, community enterprise.
17. The proposed timescale of the acquisition payments are:
 - By 21 Dec 2018: Exchange contract, 10% payable = £25,000
 - By 31 March 2019: Contract completion, 50% payable = £125,000
 - By 30 September 2019: within 6 months of completion, 40% payable = £100,000
18. It may therefore be in SSDC and QCCLT's best interest to structure the loan in two stages: £25,000 in December 2018, £125,000 in March 2019, together with the balance in the event of unexpected delays in acquiring grant funding. This would affect the interest payments dependent on the length and amount borrowed.
19. It is recommended that Executive and Full Council delegate authority to the S151 officer in consultation with the Portfolio Holder and Area Chairman to agree the detailed terms of the loan agreement in line with the principles set out in this report and the Council's Loan Policy. It is proposed that the loan would be offered as a 'maturity' loan, i.e. the loan is paid back in full at the end of the loan term, rather than by monthly/quarterly instalments, as this aligns with the principle of QCCLT repaying when other grant funding is received (see below). SSDC would also seek to recover its loan arrangement costs, in terms of the legal and administrative costs, costs of securing the loan, and the PWLB loan arrangement fees. This is estimated to be in the region of £500.
20. QCCLT have indicated that the loan repayment would be immediate upon receipt of grants and therefore a flexible loan term is requested. The repayment of the loan upon receipt of grant funding can be included in the loan agreement.

Financial Implications

21. The proposal is to provide short term bridging finance to enable the CLT to obtain the asset, with the loan repaid when requisite grant funding is received. The intent is to seek appropriate security for the loan against the value of the asset ultimately acquired. Any funds provided in advance of completion would need to be returned to the Council in the event the acquisition is not completed by SSDC. The detail of such security will need to be addressed through completion of due diligence.
22. In the event of QCCLT acquiring the asset but not successfully covering the full costs through grants there is a risk to some or all of the loan being repaid on a timely basis. The loan agreement will need to also cover such an eventuality. For example, whilst not the intent of this arrangement, this *could* result in SSDC taking the asset in lieu of loan. This would lead to SSDC incurring an asset, but also the risk and potential liability in respect of subsequent use and costs. Alternatively the Council may wish to consider a longer term loan arrangement if there is sufficient confidence QCCLT could meet the loan obligations. The terms of such an arrangement would need to be considered in that context.

23. Whilst SCC's initial valuation of the site was £400,000, CLT have obtained independent professional valuation, which is lower than the initial marketing price reflecting its use and restrictive covenants. SSDC may wish to get its own independent valuation of the site in case of the grant funding not being awarded, in order to be able to hold the asset at its fair value and not the discounted freehold sale price. This valuation may mean that the asset is held for less than the current valuation.
24. The loan would be advanced in stages, as there is a 3-4 month period between the £25,000 deposit and the contract completion. If the contract were, for whatever reason, not to complete, the grant funding would therefore not be awarded, which would leave QCCLT owing SSDC the deposit. The sum would need to be deposited securely with solicitors in line with normal practice.
25. It is proposed the loan would be funded from the Council's Capital Receipts Reserve. There will be marginal impact on the Council's Revenue Budget as the interest receivable on the loan will mitigate the loss of investment income available on the Council's investment of reserve balances. The loan principal repayments from QCCLT are accounted for as capital receipts and will therefore replenish the Capital Receipts Reserve upon receipt. The interest will be payable from the start of the loan and the interest rate fixed at PWLB rates on that date. The likely interest rate will be approximately 1.8% (the current cost of Public Works Loans Board borrowing for 1 year). Interest due on the loan will vary according to the amount, timing and duration of the loan. It is estimated the interest costs will range from £1,300 to £2,500.

Risk Matrix



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Council Plan Implications

26. No direct implications, however the CLT's plans will enhance local community asset provision.

Other Implications

27. None.