

COUNCIL

Date: 22 February 2017

Potential Loan to Northumbria Calvert Trust.

Report of the Chief Executive

Cabinet Member: Grant Davey, Leader of the County Council

Purpose of Report

The report provides details of a potential loan facility to Northumbria Calvert Trust of up to £300,000 for the purchase of staff accommodation within Kielder Village.

Recommendation

It is recommended that County Council approve a Loan Facility of up to £300,000 to the Northumbria Calvert Trust subject to the following;

- **The Calvert Trust identify to the Council which properties will be purchased and submit a revised financial business plan to the Council.**
- **The Council's Legal Team agree a legal agreement with the Northumbria Calvert trust in advance of any loan draw down by the trust, containing the terms and conditions set out within this report.**
- **The Council's Legal Team place a legal charge on the assets which the trust purchase using the loan facility in advance of any loan draw down by the trust.**
- **State Aid implications are investigated and satisfied.**

Key Issues

1. The Council has been approached for a loan facility of up to £300,000 from the Northumbria Calvert Trust.
2. The proposed loan facility would be subject to the terms and conditions identified within the main body of the report.
3. Any potential State Aid issues will need to be addressed and resolved prior to any loan advance been made to Northumbria Calvert Trust.
4. The loan request was considered by Risk Appraisal Panel on 5 January 2017. The panel were supportive of the loan, which represented minimal risk to the

Council due to the loan terms and conditions and the legal charge over the assets.

Report Author: Steven Mason, Chief Executive
(01670) 622929

Steven.Mason@northumberland.gov.uk

Background

Founded in 1978, Calvert Trust is the inspiration of John Fryer-Spedding, whose vision was to enable people with disabilities to benefit from outdoor activities in the countryside.

The Calvert Trust enables people with disabilities, together with their families and friends, to achieve their potential through the challenge of outdoor adventure in the countryside.

Each year nationally the trust helps transform the lives of over 5,000 people with physical, sensory and learning disabilities.

The Scheme

The proposal is for the Northumbria Calvert Trust to purchase two staff houses in or around the village of Kielder, which will allow the Calvert Trust to free up two chalets for rental on their Calvert Trusts site at Kielder.

The trust is currently looking for suitable staffing properties in Kielder village to purchase. They are in early discussions with one vendor who owns several properties in the area. The properties will be used to accommodate staff who currently occupy two chalets on the Calvert Trust site in Kielder. The two chalets which the staff vacate will then be utilised as additional rentals to further the trusts business and objectives.

Although the scheme costings cannot be finalised until the exact properties to be purchased by the trust are identified an estimate can be made based on market rental values. The scheme is estimated to generate approximately £89,000 additional income through rental from the two vacated chalets. This will rise to £156,000 in 20 years due to inflationary increases on rental prices. Chalet rental values have been estimated using the trusts letting agent; Hoseasons and are based on 30 weeks occupancy per annum.

The estimated capital cost of the project is £450,000. This is for the purchase of two staffing houses in Kielder and the refurbishment of two chalets on the Calvert trust site. This will be funded via the proposed loan from the Council of up to £300,000 and £150,000 of the trusts own resources.

The loan from the Council will be for the purchase of the two staffing properties in Kielder only. The refurbishment of the chalets will be funded from the trusts own resources.

The revenue related costs and income in respect of years 1 and 20 of the project are shown in the table below;

Description	Year 1	Year 20
<u>Expenditure</u>	£	£
NCC loan repayment (Principal and Interest)	18,500	18,500
Maintenance *	2,000	2,914
Utilities	20,880	30,418
Total Expenditure	41,380	51,832
<u>Income</u>		
Rental income from chalets (2 units)	(88,860)	(155,816)
Net benefit	(47,480)	(103,984)

* every five years a budget of £3,500 per property from refurbishment and refits has been provided within the financial business plan.

The table above shows a net profit. This includes the annual cost of borrowing that will be repayable to the Council. The figures in the table may need to be revised once the actual properties have been identified. Approval and drawdown of the loan from the Council would be subject to the final costing also demonstrating a net benefit.

Loan Request

The Northumbria Calvert Trust has requested financial assistance up to the value of £300,000. As this request for financial assistance did not form part of the Council's Medium Term Financial Plan and the Council faces its own financial challenges the Chief Executive suggested that a loan of up to £300,000 would be the best option.

Loan Terms and Conditions

The loan will have the following terms and conditions;

1. Northumbria Calvert Trust can commence drawdown of the loan once the properties in Kielder have been identified and once the legal agreement and asset charge are signed and the other conditions within the loan agreement are met by the trust.

2. Maximum loan value of up to £300,000. The maximum loan value granted will be up to 95% of the value of the staffing properties purchased.
3. Repayment of principal will be made by Northumbria Calvert Trust for the period of 20 years from the date of the loan drawdown. The Council will produce to the Borrower a repayment schedule. The Borrower will pay the Council the sum due on the date specified on the repayment schedule. Principal will be paid quarterly on 31 March, 30 June, 30 September and 31 December in line with the repayment schedule.
4. Northumbria Calvert Trust may repay the Loan in whole or in part at any time prior to the end of the loan term. In doing so they will provide notification in writing to the Council no less than 5 working days' prior to the prepayment. Where necessary a revised payment schedule will be produce by the Council and issued to the Borrower.
5. The interest rate will be the Public Works Loan Board (PWLB) fixed rate prevalent at the time for loans of 20 years (Annuity) for the loan drawdown. Interest will be accrued from the date of the loan drawdown.
6. Interest shall be paid quarterly on 31 March, 30 June, 30 September and 31 December in line with the repayment schedule.
7. The loan is to be secured against the properties purchased with the loan advance to the Calvert Trust. The maximum value of security required is £300,000 plus outstanding interest.

If Northumbria Calvert Trust fails to meet any of the scheduled loan repayments they will be charged a default interest charge of the Bank of England Base Rate plus 4% and the Council would exercise its legal charge over the assets

Other Potential Issues / Risks:

State Aid

It is important to note that there may be State Aid implications in terms of any loan facility that the Council may provide. These would therefore need to be carefully considered before any loan assistance is finally agreed.

IMPLICATIONS

Policy	None
Finance and value for money	Northumbria Calvert Trust will repay the loan in line with the payment scheduled issued by the Council. Interest on the loan(s) will be charged at the rate of interest of the PWLB annuity rate on the day after completion of each drawdown for loans of 20 years.
Legal	The proposal is subject to a signed legal agreement and legal charge on the assets.
Procurement	None

Human Resources	None
Property	None
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	The loan will allow Northumbria Calvert Trust to utilise two existing chalets on their Kielder site to benefit people with disabilities and their families and friends.
Risk Assessment	The perceived risks of the project are outlined above. The loan will be secured by a Legal Charge and a loan agreement will be drafted by the Council's legal department to ensure that the Council's interests are safeguarded.
Carbon reduction	None
Crime & Disorder	None
Customer Considerations	None
Consultation	Leader of the Council
Wards	Bellingham.

Report sign off.

	initials
Finance Officer	AS
Monitoring Officer/Legal	LH
Human Resources	n/a
Procurement	n/a
I.T.	n/a
Chief Executive	SM
Portfolio Holder(s)	GD

Author and Contact Details

Steven Mason, Chief Executive
01670 622929 steven.mason@northumberland.gov.uk