



Northumberland

County Council

CABINET

12 FEBRUARY 2019

Potential Loan to Alnwick Youth Hostel

Report of Barry Scarr, Executive Director of Finance and Deputy Chief Executive

Cabinet Member: Councillor Nicholas Oliver - Cabinet Secretary and Portfolio Holder for Corporate Services

Purpose of report

The report provides details of a potential loan facility to Alnwick Youth Hostel for up to £100,000 for the repair and maintenance of the building.

Recommendations

It is recommended that Cabinet:

1. Note the contents of the report;
2. Note and consider the current risks associated with the loan which are contained within the report;
3. Note the proposed loan terms and conditions, including the requirement for the signed lease agreement;
4. Note there is no loan security;
5. Agree in principle to the loan of £100,000 being granted, subject to 3 above.

Link to Corporate Plan

This report is relevant to the “we want you to love where you live” and “we want to attract more and better jobs” priority included in the Council’s Corporate Plan 2018-2021.

Key Risks

Loan Security

There will be no security provided for the loan. The building is currently owned by Advance Northumberland, but will transfer to Northumberland County Council (NCC) once the new lease agreement between the Council and Alnwick Youth Hostel (AYH) is

finalised. Alnwick Youth Hostel (AYH) has no other assets of a sizeable value to secure a legal charge.

Reduction in activity or increase of costs

Any reduction in activity or increase in costs would have an impact on the financial status of AYH. However, AYH currently has a £52,000 usable reserve which could support a reduction in activity or an increase in costs for a period of time, if not used for other purposes.

Background

AYH is located on Green Batt, on what was once the site of the medieval town wall in the centre of the medieval market town of Alnwick in North Northumberland.

Once the town's Court House built in 1856, today the accommodation offered by AYH is somewhat less austere. Its town centre location makes it ideal for a visit to historic Alnwick Castle, the Medieval home of the Duke of Northumberland which had a starring role in the early Harry Potter films, as well as the neighbouring Alnwick Garden, created by the Duchess of Northumberland.

Opened by HM the Queen in 2011 the hostel operates as part of YHA's Enterprise scheme. This 4 star standard hostel provides quality budget accommodation, suitable for families, independent travellers and groups alike, with 57 beds, spread over 15 rooms, all of which are ensuite. The hostel boasts plenty of social space including a bright and airy modern dining room, cosy lounge and sunny courtyard for guests to use.

The building was formerly the property of NCC before the now defunct Alnwick Community Development Trust purchased it and developed it into its present function, and is now continued by the surviving trading arm - AYH. Arch (now Advance Northumberland) purchased the property from Alnwick Community Development Trust and leased the building back to AYH with a 5 year full repairing lease agreement. This agreement is currently ongoing but Advance Northumberland has agreed to transfer ownership of the building to NCC at nil cost and NCC will simultaneously grant a rent free 99 year full repairing lease to Alnwick Youth Hostel under a Community Asset Transfer agreement, to ensure ongoing provision of the service in Alnwick.

A basic condition survey was carried out on the building by Faithful & Gould on behalf of NCC which identified that work valued at around £243,000 was required. There are works which need immediate attention and urgent repairs are required to the stone window surrounds across the front elevation, where temporary timber props and restraints have been added due to these being on the public footpath.

The estimated cost of the work as assessed by Faithful & Gould is substantially higher than the loan request of £100,000. The £100,000 loan will be used to complete the work that has been identified as urgent and necessary in order for the business to stay operational. This includes pinning of stone work on the curtain wall and repair of stone surrounds on the windows on the front elevation. The remainder of the non urgent works

identified by the Faithful & Gould condition survey will be funded from the AYH reserves and the annual budget for repairs and maintenance.

Business Plan

The table below summarises the forecast financial position of AYH over the period of the loan. The table includes the annual loan repayment plus interest. The figures have been reviewed to ensure they are complete and represent a realistic estimate. Where applicable both expenditure and income has been uprated annually for inflation. The table below demonstrates a forecast profit each year:

| | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-29 | 2029-34 |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Income | 173,465 | 276,934 | 180,473 | 184,082 | 187,764 | 191,519 | 1,016,609 | 1,122,417 |
| Expenditure | (163,080) | (262,772) | (166,027) | (169,348) | (172,735) | (176,189) | (935,234) | (1,032,574) |
| Net Profit | 10,385 | 14,163 | 14,446 | 14,735 | 15,030 | 15,330 | 81,374 | 89,844 |

Financial Analysis

The 2017-18 financial statements of AYH have been reviewed. The following is highlighted:

Liquidity

AYH liquidity is high, with the company's ability to repay short term and long term obligations being met, therefore it seems reasonable to assume there would not be any issues with repaying the potential annual loan repayments.

Debtors and Creditors

Trade and other debtors have increased by £3,509 (85%) between 2017 and 2018. Creditors have increased by £2,704 (27%) between 2017 and 2018. Although both of these have increased the level of turnover has also increased by £16,769 (11%), therefore it is reasonable for both Debtors and Creditors to increase.

Reserves

AYH has reserves of around £52,000 which could fund any in-year trading deficit, further repairs or loan repayments. This could also be utilised on a temporary basis to fund any unexpected downturn in business.

Summary

The financial position is assessed as good. AYH is forecast to be able to meet its liabilities and has a £52,000 unrestricted reserve to meet unforeseen financial pressures.

The business plan seems reasonable and an annual surplus is forecast over the period of the loan. However, the key risk to the Council is the lack of security on the loan facility.

Considering these points it is recommended that the interest rate charged by the Council for the loan facility reflects the good financial standing of the organisation, but also reflects

the absence of security provided on the loan for the Council. It is therefore recommended that an annual interest rate of 3.2% is charged.

Loan Terms and Conditions

The AYH has requested financial assistance up to the value of £100,000. 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 Section 151 Officer suggests that a loan of up to £100,000 would be the best option.

The loan will have the following terms and conditions:

1. AYH can commence drawdown of the loan once Northumberland County Council's legal department is in receipt of the signed legal agreement between the Council and AYH.
2. A schedule of the essential works that the loan will fund, prior to commencing any loan drawdown, and following completion of each element of this work a final account statement showing the final cost.
3. Following completion of the work a bi-annual inspection of the building is to be undertaken by NCC Officers in order for basic condition surveys of the building to be carried out.
4. Maximum loan value of up to £100,000.
5. Repayment of principal will be made in equal instalments by AYH for the period of 15 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.
6. AYH 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 produced by the Council and issued to the Borrower.
7. The interest rate charged will be 3.2% fixed rate (Annuity). Interest will be accrued from the date of the loan drawdown.
8. Interest shall be paid quarterly on 31 March, 30 June, 30 September and 31 December in line with the repayment schedule.

Should AYH fail to meet any of the scheduled loan repayments it will be charged a default interest charge of the Bank of England Base Rate plus 4%.

State Aid

There are no state aid implications.

Implications

| | |
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| Policy | The report is consistent with the “we want to attract more and better jobs” priority included in the Council’s Corporate Plan 2018-2021. |
| Finance and value for money | AYH will repay the loan in line with the payment scheduled issued by the Council. Interest on the loan will be charged at 3.2% annuity. |
| Legal | The proposed loan is subject to a signed legal agreement between the Council and AYH. |
| Procurement | None |
| Human Resources | None |
| Property | The property is currently held freehold by Advance Northumberland. Given the condition and the lease obligations Advance Northumberland will transfer the building to NCC at nil cost and NCC will simultaneously grant a rent free 99 year full repairing lease to Alnwick Youth Hostel under a Community Asset Transfer agreement, to ensure ongoing provision of the service in Alnwick. The lease ensures that if the venture fails then the property will revert to NCC. |
| Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> | The loan will allow AYH to continue to provide accommodation of this nature which is not available in the area currently. |
| Risk Assessment | The perceived risks of the project are outlined in the report. The loan will not have any security. |
| Crime & Disorder | None |
| Customer Consideration | None |
| Carbon reduction | None |
| Wards | Alnwick |

Background papers:

There are no background papers.

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

| | Name |
|--|--|
| Monitoring Officer/Legal | Liam Henry |
| Executive Director of Finance & S151 Officer | Alison Elsdon on behalf of Barry Scarr |
| Relevant Executive Director | Alison Elsdon on behalf of Barry Scarr |
| Chief Executive | Daljit Lally |
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