

## Report to the Executive Board, 30<sup>th</sup> November 2004

### GUARANTEE FOR ST MARGARET'S INSTITUTE LEASE REPAYMENTS

<i>Report of: Chief Executive</i>	<b>WARDS AFFECTED</b> St Margaret's
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<i>Lead Members Responsible: Alex Hollingsworth/Dan Paskin</i>	
<i>Overview &amp; Scrutiny Committees Responsible: Community/Finance</i>	
<i>Key Decision: No</i>	

#### **SUMMARY AND RECOMMENDATIONS**

The purpose of this report is to describe how the Executive Board's "in principle" decision (19<sup>th</sup> July 2004), to underwrite timely payment of the 3 instalments for a 999 year lease for the St Margaret's Institute can be implemented.

Financial implications: These are addressed in the report.

Staffing implications: None

Legal implications: These are addressed in the report.

This project supports the Council's Vision:

- Providing more and improved affordable leisure activities
- Promoting social inclusion and equality
- Working with others to develop and deliver shared goals
- Community sector support e.g. neighbourhood projects, play schemes, youth & community activities.

If Executive Board is mindful to support the provision of such a guarantee to SMI, it is recommended to:

- Recommend to Council a change in the budget framework to set-up a provision in the accounts for the amount of the guarantee
- Subject to the decisions of Council, instruct the Strategic Director for Resources to inspect the relevant documentation (business plan,

agreements with St John's College etc) to evaluate the risk to the City Council and if satisfied, enter into the necessary agreement with St Margaret's Institute in line with the principles described in the report.

## **Background**

St Margaret's Institute (SMI) has the opportunity to purchase a 999-year lease on its premises and so secure the future of the community centre. This is described in detail in the report submitted to North Area Committee on 13<sup>th</sup> May 2004 and Executive Board on 19<sup>th</sup> July 2004 and a subsequent report to North Area Committee on 7<sup>th</sup> October 2004.

On 19<sup>th</sup> July 2004, Executive Board considered a recommendation from North Area Committee and agreed in principle to underwrite (using the Council's well-being powers) timely payment of the three instalments for a 999 year lease for SMI, in order to allow greater certainty and flexibility of time scales for achieving locally raised funding for the project.

This decision was subject to a further report to the Area Committee on the detailed application and evaluation of SMI's request for a capital contribution from the North Area Committee Capital Budget. This report was received and approved by the North Area Committee at its meeting on 7<sup>th</sup> October 2004.

Executive Board also asked the Strategic Director, Finance and Corporate Services, to advise on how this "in principle" decision could be funded and to submit a report to a future meeting of the Board on how to enable Area Committees to deal with similar requests on an area basis in the future. This is dealt with by a separate report at this meeting of the Executive Board.

## **St Margaret's fundraising towards the lease purchase**

SMI has produced a business plan and embarked on a vigorous fund-raising campaign to raise the £400,000.

One issue has emerged very early. Little if any charitable funding is available in the Oxford area for the purchase of community buildings. For this reason, SMI will be largely dependant upon fundraising from non-charitable sources and private individuals. One plank of the fundraising strategy is the establishment of the "400 Club" – recruiting 400 individuals (or local groups) to pledge £1,000 in instalments over the next 3 years or so. The weekly contribution would be less than £5 if gift-aided.

The Institute is a 3-storey building – the lease purchase relates to whole of the building. Private tenants paying a market rent occupy the first and second floors and St John's College has generously made the rental income over to SMI with

immediate effect. This amounts to a conservative estimate of £27,500 annual income.

SMI officially launched its fundraising in October 2004. SMI is committed to raising the necessary funds to meet the instalments as they fall due and to date has already raised £178,000. However there is the possibility that its fundraising efforts may fall short in any one year and it is this possibility that Executive Board is being asked to underwrite. The table below illustrates the maximum that the Council would be required to underwrite should no further fundraising take place and all pledged income were received:

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Lease payment due	133,333	133,333	133,333
Rental income	41,000	27,500	27,500
Cash held @ 9 <sup>th</sup> Nov '04: 400 Club	19,675		
Other	10,394		
Area Committee contribution	25,000		
400 Club pledges	13,000	7,000	7,000
Sub Total	109,069	34,500	34,500
Maximum balance to be underwritten by Council	£24,264	98,833	98,833

### **Legal powers and implications**

The Council generally has the power to underwrite SMI's lease payments under the "well being" powers set out in section 2 of the Local Government Act 2000 if it is considered to the social, economic or environmental well-being of the local community.

The Council is advised to seek a counter-indemnity from SMI in order that any amounts paid to SMI under this arrangement will be recoverable.

### **Financial implications**

The prudent accounting approach is to set aside the amount being guaranteed in the Council's accounts.

The amount that the Council needs to guarantee is the shortfall shown in the table above. Once the Council acts as guarantor, it will be liable for the full £400,000 less any amount that SMI has in the bank.

At the point that the Council acts as guarantor, it will need to set aside provision in the accounts so, based on the table above, £28,000 in 2006/07, £97,000 in 2007/08 and £97,000 in 2008/09.

The guarantee needs to be included in the budget for each of the years. Such amount would not be available for other expenditure during the time of the guarantee. To minimise this disadvantage, SMI should be asked to produce 6 monthly statements of funds so that the Council may monitor its liability and make adjustments to the budget.

### **Recommendation**

If Executive Board is mindful to support the provision of such a guarantee to SMI, it is recommended to:

- recommend to Council a change in the budget framework to set-up a provision in the accounts for the amount of the guarantee  
  
and, subject to the decision of Council,
- instruct the Strategic Director for Resources to inspect the relevant documentation (business plan, agreements with St John's College etc) to evaluate the risk to the City Council and if satisfied, enter into the necessary agreement with SMI along the following principles:
  - A guarantee of up to £133,333 in each year towards the lease instalments falling due in April 2006, April 2007 and April 2008
  - Make the necessary provision in the Council's resources to reflect the estimated shortfall that the Council will be underwriting and adjust accordingly in the light of monitoring reports from SMI
  - Secure a counter-indemnity from SMI in order that any amounts paid by the Council under the arrangement will be recoverable in full as a debt due from SMI
  - Agree the procedure and timetable by which SMI signals the need to call upon the guarantee and ensure timely payment to SMI
  - Should the guarantee have been called upon by SMI, determine a repayment schedule with SMI in April 2008 that is affordable for SMI and recovers all related costs incurred by the Council

<p>This report has been seen and approved by Julie Thomlinson (Legal Services) and Sarah Fogden (Financial Management). It has also been seen by both Portfolio Holders - no comments have been received from them.</p>
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*Background papers: Area Co-ordinator's file.*