

Report of: Heads of Finance

To: Executive Board

Date: 4th February 2008

Item No:

Title of Report : Guarantee for St Margaret's Institute Lease Repayments



Summary and Recommendations



Purpose of report: To make payment of £30,000 for the St Margaret's lease repayment.

Key decision: No.

Risk: Low.

Portfolio Holder: Cllr. Jim Campbell.

Dutiny Responsibility: Finance.

Ward(s) affected: North.



Report Approved by:

Jim Campbell.

Jeremy Thomas, Legal & Democratic Services.



Policy Framework:



Recommendation(s): The Executive Board is asked to release £30,000 from provision to guarantee the St Margaret's Lease repayment.



The Board is asked to note that there is no counter-indemnity for this loan, so there is a risk of the Council not recovering the loan but this is considered a low risk.



Introduction

1. In November 2004 Executive Board agreed to provide a guarantee to St Margaret's Institute to cover payments due for a lease on the St Margaret's Institute premises. St Margaret's Institute are now calling on the guarantee for a payment of £30,000.

Background Information

2. In 2004 St Margaret's Institute (SMI) had the opportunity to purchase a 999 year lease on its premises and so secure the future of the community centre. The lease cost was £400,000, to be paid instalments with the final payment falling due in April 2008. SMI produced a business plan and embarked on fund raising. Based on the business plan, Executive Board agreed a guarantee of up to £222,000 to ensure that SMI would be able to meet the final payment, so securing the lease and extending the timescale for fundraising and set aside this sum in a specific provision.
3. Over the years, SMI has continued to prosper. Every 6 months the treasurer of SMI has informed the Council of the SMI funding position and the Council has been able to reduce the provision in the accounts. The provision currently stands at £100,000.
4. SMI have asked for a loan of £30,000 to part fund the final lease payment of £133,333 due in April 2008.

Legal implications

5. In the original report to Executive Board in 2004, legal advice was to seek a counter-indemnity from SMI in order that any amounts paid to SMI under this arrangement will be recoverable. The most appropriate way of seeking the indemnity is to secure the loan on the property. SMI have indicated that because of the complex relationship surrounding the ownership of the building (involving SMI, the PCC and the Diocese), the mortgage would need to be agreed by the Diocese and the Diocese are reluctant for this to happen.
6. If the loan is unsecured there is a risk that SMI may not repay the loan.

Financial Implications

7. The Head of Finance has met with the Treasurer of SMI to review the SMI annual accounts. SMI has income from letting activities that the Treasurer has identified will be earmarked to repay the loan from the City Council.
8. The loan will be repayable over 2 years but is likely to be repaid sooner. The Council will make no interest charge in respect of the loan if the loan is repaid within 1 year.

9. Although, it would be desirable for the loan to carry indemnity, the overall view of the Head of Finance is that SMI is financially secure, is robustly managed and given the relative low value of the loan represents a low risk in terms of repayment.
10. Executive Board is recommended to agree a loan of £30,000 to St Margaret's Institute.

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Background papers:

Guarantee for St Margaret's Institute Lease repayments 30th November 2004.

