



CABINET

17th JANUARY 2019

AGENDA ITEM (12)

COMMUNITY ORGANISATION LOAN

Accountable Members	Councillor SG Hirst Cabinet Member for Housing, Health and Leisure Councillor AW Berry Leader and Cabinet Member for Financial Strategy
Accountable Officer	Jenny Poole Chief Finance Officer 01285 623313 jenny.poole@cotswold.gov.uk

Purpose of Report	To provide Members with an opportunity to consider a request from Cirencester Housing for Young People (CHYP) to change the terms of an existing loan.
Recommendation(s)	That Cabinet approves the revised conditions of the loan set out at section 4 of this report.
Reason(s) for Recommendation(s)	The Council will recover the loan principal while enabling Cirencester Housing for Young People to financially plan for the future and to move to the most effective governance arrangements for future service provision.

Ward(s) Affected	Watermoor (location of properties)
Key Decision	No
Recommendation to Council	No

Financial Implications	<p>The loan is currently included in the Council's financial statements at £80,000. The revised loan terms and conditions will ensure that the Council recovers the £80,000 debt.</p> <p>The Legal Charge on the properties defines the "Repayment Sum" as "29% of the Market Value". Since the loan was granted in February 2002, house prices in the Cotswolds have increased by 118%. The value of the loan in current prices is therefore estimated to be around £174,000. There is therefore an opportunity cost to the Council of £94,000.</p>
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Legal and Human Rights Implications	None
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Environmental and Sustainability Implications	None
Human Resource Implications	None
Key Risks	If the Council decides not to change the loan terms, there is a risk that Cirencester Housing for Young People will not be able to repay the loan in February 2027 without selling one of the properties. This will impact upon the services provided to young people in the District.
Equalities Analysis	Not applicable

Related Decisions	Approval of original loan – February 2002
Background Documents	None
Appendices	Appendix A - Letter from CHYP

Performance Management Follow Up	If the Council approves the revised terms of the loan, the legal documentation will be updated accordingly. Loan repayments will be reported in the Council's financial statements each year.
Options for Joint Working	Not applicable - this decision relates to Cotswold District Council only.

Background

1. General

1.1 In February 2002, a loan of £80,000 was granted to Cirencester Housing for Young People (CHYP). The 25-year loan is secured by a legal charge against 29 and 31 Querns Lane, Cirencester. The loan is interest free up to the repayment date in February 2027. The "Repayment Sum" is defined in the Legal Charge as being 29% of the "Market Value".

1.2 The value of the loan in the Council's financial statements as at 31st March 2018 is £80,000. Since February 2002, house prices in the District have increased by 117.8%. Using Land Registry indices, the value of the loan is now estimated to be around £174,000.

1.3 The Council has received a request from the Chairman of the Trustees of CHYP to convert the loan into a grant. A copy of the letter is attached at **Appendix 'A'**. In the letter, the Chairman states that "*The Management Committee of CHYP is conscious that if the loan were to be called in, in 2027, then that would represent a "cliff edge" and would likely mean that CHYP would have to sell one or more of its properties in order to repay it and might even be a threat to its continued*

existence.”

1.4 The letter sets out how CHYP is supporting the Council in fulfilling its statutory responsibilities to prevent homelessness under the Homelessness Reduction Act 2017.

2. Housing Service

2.1 Officers in the Housing Service consider the services provided by CHYP to be a valuable resource that the Council would benefit from keeping and acknowledge that some of the referrals to CHYP would have been referrals to the Council if not accommodated by CHYP. Officers were concerned that a significant number of referrals may have come from Gloucestershire County Council Social Services but were able to confirm that was not the case (just 3 referrals in the past 2 years).

2.2 The properties at Querns Lane provide 11 beds for young people. When the young people are ‘ready’ they move into accommodation in Ashcroft Road for more independent living. Should the loan be called in, or at repayment date in 2027, CHYP are concerned that one or more of the properties owned will have to be sold in order to finance the loan repayment and there will be a knock-on effect to the number of young people that can be supported.

2.3 CHYP have provided the following statistics from the past two years in support of their request:

Question	Response
How many referrals from Social Services?	3
How many referrals from “other” agencies or direct referrals?	47
How long is the average stay?	Depends upon the individual
How many successful move-ons have you had as opposed to unsuccessful (evictions)?	17 on into own home
Is any local connection criteria to the Cotswolds applied?	Yes, only in extreme circumstances are applications considered from outside the Cotswolds.

3. CHYP Financial Statements

3.1 CHYP comprises two entities: a charity which fund-raises and provides grant funding to finance the work of CHYP Ltd. All of the profits from the charity are passed across to CHYP Ltd which is registered under the Co-operative and Community Benefit Societies Act 2014. The Council has been provided the financial statements for both entities for the last three financial years, covering the period 1st October 2014 to 30th September 2017.

3.2 In the last three years, CHYP Ltd has ended the year with a surplus of £10k (2016/17), a surplus of £20k (2015/16), and a deficit of £35k (2014/15). CHYP Ltd has a designated fund of £20,000 for the repayment of the loan to this Council. As at 30th September 2014, the balance on the designated fund was £48,000. The fund was reduced to £15,000 during the 2014/15 financial year.

3.3 The gross value of property assets (before depreciation) is stated in the 2016/17 statements at £642k. The assets are partially financed by borrowing valued at £183k, including this Council's loan to CHYP.

3.4 The General Reserve balance of £335,000 relates to £302,000 of property and equipment assets and £33,000 of "free" reserves to support operational activity. The Trustees aim is to hold sufficient free reserves to fund 3 to 6 months running costs which are estimated at £20,000 per month. The current level of free reserve is therefore far lower than Trustees' target level.

3.5 The audited financial statements support CHYP's concerns regarding the affordability of repaying the loan to this Council in 2027.

4. Recommended Way Forward

4.1 The Cabinet Member for Housing, Health and Leisure and the Council's Chief Finance Officer have discussed options with the Chairman and Honorary Secretary of CHYP. These discussions have resulted in a revised proposal, involving proposed changes to the loan terms rather than conversion to a grant. The suggested changes are set out in paragraph 4.2 below - they have been approved by the CHYP Management Committee and are now presented to the Cabinet for consideration.

4.2 Cabinet is asked to consider the following recommended changes to the current CHYP loan terms:

- the amount repayable to be the original loan value of £80,000;
- the uplift in the original agreement to be removed;
- £80,000 to be repaid interest free over a period of 25 years by monthly instalments (£267 per month/£3,200 per annum); and
- the conversion of CHYP/CHYP Ltd to a Charitable Incorporated Organisation would not trigger the "sale" clause within the current agreement; the loan liability would instead novate to the new Charitable Incorporated Organisation.

(END)