

## REPORT TO FULL COUNCIL



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<b>Date</b>	<b>19<sup>th</sup> March 2024</b>
<b>Subject</b>	<b>Rental Property – Capital Funding Requirements</b>

### PURPOSE:

1. To confirm to Members, the details of the loan that will be requested from the PWLB once the planning permission has been approved for the renovation work required at No 2 Albert Road.
2. To provide the opportunity for the Full Council to formerly resolve to seek approval from the DLUHC and to provide the required evidence for loan approval.

### BACKGROUND:

3. In spring 2023, the Town Clerk was given notice that the tenant occupying No. 2 Albert Road, was wanting to terminate their rental agreement with the Town Council due to having to relocate the business.
4. The tenant vacated the property on 12<sup>th</sup> June, and on inspection of the property, it was found that there were several issues that would need to be addressed, if the property was to be re-let.
5. The property would require a new shop front, door, and casing, and all the windows would need to be replaced. Giving that the rental property is in a Conservation Area, all the window frames and the shop front would have to be made from wood. The property also had poor kitchen facilities, an outdoor toilet, and no adequate heating.
6. Three different companies came to view the property to provide a quote for the works, and at the Finance, Employment & Services (FES) Committee meeting on 3<sup>rd</sup> October, it was decided to recommend the quotation labelled 'Company One' at the next Full Council meeting. As the FES Committee were also discussing future budgets at the same meeting, due to the Town Council's increased use of both general and earmarked reserves in the last couple of years, it was also decided that it would be preferable to apply for a loan to cover the cost of the renovations, to prevent further depletion of these funds.
7. The recommendations proposed by the FES Committee, were approved by the Full Council at the meeting held on 17<sup>th</sup> October, although it was decided that the details for the loan, i.e. the amount, type, and term, could be decided at the next FES Committee meeting.

8. The total costs for the original project to renovate the ground floor shop were estimated at £60,000, based on quotations received. Two options were presented at the FES Committee meeting held on 31<sup>st</sup> October 2023, one to borrow the whole amount from the PWLB, and the other to part fund the project from reserves. Both options were using the predicted rental income payments for the property, to service the required loan repayments. Following a short discussion, to allow for the loan to be paid off more quickly and to reduce the total amount of interest payable, the FES Committee decided that the Council would fund 50% of the project from the Town Hall Earmarked Reserve and would apply for a loan of £30,000 from the PWLB, to be paid over a six-year period.
9. Following the discussion held at the Full Council meeting on 20<sup>th</sup> February regarding the use of alternative materials for the project and making changes to the currently submitted planning application, the Town Clerk and Deputy Clerk have made preliminary investigations into developing the first-floor offices into living accommodation.
10. The actual conversion into a first-floor flat would be classed as permitted development under the Town and Country Planning (General Permitted Development) (England) (Amendment) (No. 2) Order 2020, due to the flat being located above a shop. However, we would still need to apply for permission to do any external work such as replacing the windows.
11. Given that the Town Council have agreed to amend the submitted planning application, we may as well add in the first-floor windows so that everything is covered. I have had confirmation from Pendle that the amendments will not be chargeable, however, this will delay the final decision.
12. It is thought that it would be better to start a full renovation now, whilst the property is empty, in case we have any issues with the installation of services etc and require access to the shop below.
13. It was estimated that the addition of a first-floor flat conversion would increase the project cost by circa £40,000. A total project cost of £100,000 was taken to the last FES Committee and the decision was made to recommend part funding the project with £30,000 of reserves, and to apply for a loan from the PWLB to fund the remaining cost of £70,000.
14. As the decision has been made to use the rental income received to service the loan, this would mean that the Town Council would not receive any benefit from the income until approximately five and a half years later, after which there will be a surplus of income over the required loan repayments. The loan would be fully paid off after a period of seven years.

#### **ADDITIONAL INFORMATION:**

15. The changes to the planning application which were discussed at the last meeting, have increased the original quotation for the ground floor shop by £14,968. This is based on using a sustainably sourced treated soft wood for the shop front, and the front and rear windows, and using a natural stone for the rear extension. This would bring the total cost for the ground floor shop to £72,126. (See appendix 1 for details)

16. The introduction of Sash windows to the property has meant that the first-floor windows, in a treated soft wood, would come to a cost of £14,400 + vat, which added to the quote for the shop, comes to a total of £89,406.
17. If the total project cost of £100,000 was taken forward, this would only leave £10,594 for the flat conversion. It is expected that the use of Accoya Wood, which was specified by a Councillor at the last Full Council meeting, would increase the cost of the project quite substantially, however at the time of writing this report, prices have yet to be obtained from the contractor.
18. It is the Town Clerk's intention to make use of the Town Council Lengthsmen, where possible, in order to minimise the cost of the conversion. Having said that, the bulk of the expenditure will lie in the provision of isolated services, and the supply and installation of the new windows.
19. Based on known costs, it is estimated that a total project cost of £130,000 is more realistic. The decision to stick with the investment of £30,000 from reserves made at the last FES meeting, would mean the Town Council applying for a loan for £100,000.
20. It is worth noting that the Town Council cannot apply for the loan, until the planning permission has been granted.
21. It is common practice for Local Authorities, including Town & Parish Councils to borrow to fund expenditure of a capital nature.
22. Borrowing approval must be sought from the Department for Levelling Up, Housing & Communities, before the HM Treasury will decide to lend.
23. Members should however note that the decision to grant PWLB Loans is not an automatic one, there are multiple criteria to satisfy, and applications may be refused.

#### **FINANCIAL IMPLICATIONS:**

24. Under the provisions of the Public Works Loan Acts of 1965 and 1967, loans from HM Treasury are secured by an automatic charge on the revenues of the Council and not on the Council's property.
24. There are two types of loan available from the PWLB lending facility, Fixed and Variable, and two repayment methods available as follows:
  - a) Annuity – half yearly payments where each payment is of a constant amount inclusive of principal and interest (available on fixed rate loans only) and,
  - b) Equal Instalments of Principal (EIP) – half yearly payments where each payment consists of a constant instalment of principal plus a diminishing amount of interest, calculated on the balance of principal then outstanding.
25. As the budget calculations have been worked out on equal instalments of principal, and this is the method employed for our existing loans, it is proposed that the EIP method of repayment is chosen.

26. Borrowing Rates for PWLB loans frequently change and the actual rate will depend on when formal application is made and approved.
27. Based on known costs and the recommendation from the FES Committee, it is proposed that Option 2 is chosen. (Please see the loan analysis in appendix 2)
28. Going off the PWLB fixed interest rates for 15<sup>th</sup> March 2024, the annual loan repayments plus interest will come to £6,651 on a reducing basis, and the total amount of interest paid on the loan will be £31,042.
29. The PWLB lending facility will charge an arrangement fee for the loan, which is based on 35p for every £1,000 or part of £1,000 on a fixed rate loan, thus the arrangement fee for Option 2 would be £35.
30. The amount required for both the repayment of principle and the interest payable for 2024/25 has been provided for in the agreed budget that was approved by Full Council at the meeting held on Tuesday, 23<sup>rd</sup> January 2024. However, the agreed budgets for 2025/26 and 2026/27 are not sufficient to meet the required payments and will need to be revised accordingly. (As stated previously however, the income gained from the rentals, will be enough to cover the expenditure required).

#### **RECOMMENDATION:**

31. To gain approval from Members to add in the first-floor flat conversion and to allow the amendment work to the current planning application to commence.
32. To resolve to seek the approval of the Secretary of State for Levelling Up, Housing and Communities to apply for a PWLB loan of £100,000 over the borrowing term of 12 years for the purpose of the works required for the refurbishment of the ground floor shop, and the conversion of the first floor into a two bedroomed flat to the property at No. 2 Albert Road in Colne.
33. To confirm that it is not the Town Council's intention to increase the Council tax precept for the purpose of the loan repayments and to agree that the Rental Income received for the renovated property, will be used to service the loan until a time when it has been fully repaid.

#### **REASONS FOR RECOMMENDATION**

34. To allow the amendment work to the current planning application to commence.
35. Option 1 would take far too long to pay off, and the amount of interest the Council would pay, is more than twice the original loan that the Town Council approved to borrow. Option 3 would remove the rental property EMR in its entirety and would leave the Town Hall EMR at a dangerously low level.
36. Colne Town Council need to formerly resolve to take Capital Loans from the PWLB.
37. To comply with the guidance provided by NALC for the evidence required for DLUHC approval.

## **SUMMARY OF KEY POINTS:**

38. At the last Full Council meeting, Members agreed to make several changes to the currently submitted planning application for No. 2 Albert Road.
39. Following consultation with the Chairman of FES, the Town Clerk and Deputy Clerk began investigations into converting the offices above the shop, into first floor living accommodation.
40. It was estimated that the addition of a first-floor flat conversion would increase the project cost by circa £40,000. A total project cost of £100,000 was taken to the last FES Committee and the decision was made to recommend part funding the project with £30,000 of reserves, and to apply for a loan from the PWLB to fund the remaining cost of £70,000.
41. As the decision has been made to use the rental income received to service the loan, this would mean that the Town Council would not receive any benefit from the income until approximately five and a half years later, after which there will be a surplus of income over the required loan repayments. The loan would be fully paid off after a period of seven years.
42. The amendments to the design of the windows and the materials for the rear extension, has increased the project cost substantially. For this reason, and with the added cost of the first-floor conversion, it is now envisaged that a project cost of circa £130,000 is more realistic.
43. It is recommended that the first-floor windows are added to the current planning application, along with the change of materials, amended heritage statement and more detailed plans.
44. As the Town Council has been using its reserves to top up the revenue budget in recent years, any additional cost to the project will require borrowing over a longer term, and a higher amount of interest will be paid.
45. Due to the decision made to service the loan using the rental income received, any additional cost is likely to render the project unviable.
46. The Town Council need to formerly resolve to seek approval for the loan to fulfil the evidence requirements of the DLUHC.

## **POLICY IMPLICATIONS:**

47. This reinforces the decision to take responsibility for the Council's Assets and adopt a proactive approach towards future investment.

## **DETAILS OF CONSULTATION:**

48. Given that it is not the Town Council's intention to increase the tax precept for the purpose of the loan repayments, only a general consultation on the project and the decision to borrow is required.

49. Following formal resolution at the Full Council meeting on 19<sup>th</sup> March, it is intended to add a news item on to our website landing page, and to send out a short survey via social media. (Paper copies of the survey will be made available in the reception area at the Town Hall and in the library.) This will be in addition to the public meeting, documents published on the website and the live stream of the meeting.

**SUPPORTING PAPERS:**

- Appendix 1 – Amended Quotation Received
- Appendix 2 – Loan Analysis
- Appendix 3 – Current PWLB Interest Rates
- Appendix 4 – PWLB Loan Repayments

FURTHER INFORMATION, PLEASE CONTACT: Gina Langley