

REPORT TO FULL COUNCIL



Report Author	Gina Langley – Town Clerk/RFO
Tel No	01282 861888
Email	g.langley@colnetowncouncil.org.uk
Date	16th April 2024
Subject	Rental Property – Capital Funding Requirements

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 formally 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 12th 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 3rd 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 17th 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 31st 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 20th 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 anyway, it is proposed that the first-floor windows are also added so that everything is covered. I have had confirmation from Pendle Borough Council 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.

ADDITIONAL INFORMATION:

14. The agreed changes that need to be made to the existing planning application are as follows:
 - A change in materials used for the extension – it was agreed that natural stone be used.
 - A change in the style of windows – it was agreed that Sash Windows be installed.
 - It was agreed that the drawings and plans should be amended as the current ones were not to scale.
 - It was agreed that the Heritage Statement be amended to take into account the Colne Neighbourhood Development Plan and to mention that the property is adjacent to a Grade II listed building.
15. It was also requested by a Councillor that Accoya Wood be used for the windows.

16. At the time of the last meeting, Officers only had one estimate for using Accoya Wood which would lead to a substantial increase in costs. It was therefore agreed that the Town Clerk and Deputy Clerk endeavour to obtain additional quotes in order to compare pricing and to ensure that the Town Council is receiving the best value for money.

17. Additional quotes / estimates have now been received for the windows, and the quotation considered to be the best value has been chosen. Based on this quotation and taking all amendments into account, the project costs can now be broken down as follows:

The cost for the Ground Floor shop will be circa £75,000 inclusive of VAT.

The cost for the First Floor Windows and the Flat Door will be circa £19,500 inclusive of VAT.

(Please note that as this capital expenditure is for commercial gain, i.e. the property will be rented out to provide a source of income, the Town Council will be unable to reclaim any VAT on the combined project.)

18. If the total project cost of £100,000 was taken forward, this would only leave £5,500 for the flat conversion, which is in no way near sufficient.

19. 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.

20. 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.

21. Based on the Town Council using the rental income received to service the loan repayments, this would mean that the Council would not see any income from these rentals until year 6.

22. It is worth noting that the Town Council cannot apply for the loan, until the planning permission has been granted.

23. It is common practice for Local Authorities, including Town & Parish Councils to borrow to fund expenditure of a capital nature.

24. Borrowing approval must be sought from the Department for Levelling Up, Housing & Communities, before the HM Treasury will decide to lend.

25. 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.

26. 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 the borrowing rates on 12th April 2024, a loan analysis has been provided in appendix 1 to this report.
28. Based on the analysis provided, the annual loan repayments plus interest will come to £13,040 on a reducing basis, and the total amount of interest paid on the loan will be £31,362.
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 the loan would be £35.
30. The amount required for both the repayment of principle and the interest for 2024/25 has been provided for in the agreed budget that was approved by Full Council at the meeting held on Tuesday, 23rd 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. Colne Town Council need to formally resolve to take Capital Loans from the PWLB.
36. To comply with the guidance provided by NALC for the evidence required for DLUHC approval.

SUMMARY OF KEY POINTS:

37. At the last Full Council meeting, Members agreed to make several changes to the currently submitted planning application for No. 2 Albert Road.
38. 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.
39. 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.
40. 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 six 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 twelve years.
41. 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.
42. 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.
43. The Town Council need to formally resolve to seek approval for the loan to fulfil the evidence requirements of the DLUHC.

POLICY IMPLICATIONS:

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

DETAILS OF CONSULTATION:

45. 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.
46. Following formal resolution at the Full Council meeting on 16th April, 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 – Loan Analysis
- Appendix 2 – Current PWLB Interest Rates
- Appendix 3 – PWLB Loan Repayments

FURTHER INFORMATION, PLEASE CONTACT: Gina Langley