

NORTH YORKSHIRE COUNTY COUNCIL**EXECUTIVE****14 April 2020****Proposed Extension of Loan Facility to Welcome to Yorkshire****1.0 PURPOSE OF THE REPORT**

- 1.1 To consider a request from Welcome to Yorkshire to extend the existing secured loan facility of up to £500k for a further year.

2.0 BACKGROUND

- 2.1 On 16 June 2015 the Executive approved a call-off loan facility for Welcome to Yorkshire of up to £500k (**Appendix A**). This was initially based upon cashflow needs following financial difficulties encountered following the Grand Depart.
- 2.2 The loan was activated by Welcome to Yorkshire in 2019 and is secured on a property owned by Welcome to Yorkshire at Tadcaster Road, York (its previous headquarters) which was valued at £710k with its current sitting tenant (or £875k if vacant possession).

3.0 EXTENSION REQUEST

- 3.1 Welcome to Yorkshire are now approaching the end of the term of the loan under the approval of the Executive in June 2015. Whilst the loan facility was for a 5 year period, the 5 year period was triggered following agreement of the terms of the loan (ie shortly after the Executive decision). Whilst the loan will only have run for a single year there is therefore a need to redeem the loan or grant an extension of the loan facility when the existing loan arrangement expires in November 2020.
- 3.2 Welcome to Yorkshire have requested an extension and following discussions with officers a request for a single year extension has been made by Welcome to Yorkshire.

4.0 TECHNICAL CONSIDERATIONS

- 4.1 The legal and financial considerations with this request are set out in Appendix A and remain pertinent. The loan was provided on commercial terms and it is proposed that the existing arrangements are merely rolled forward by a year to expire on 30 November 2021.
- 4.2 It is not considered appropriate to consider an extension of the loan facility beyond 30 November 2021 as this would require a further formal valuation of the asset upon which the loan is secured and further administrative work would be required by financial, property and legal colleagues which it is believed would be unhelpful in the current Covid19 situation.

5.0 RISKS ASSOCIATED WITH LOAN

- 5.1 The risks relating to the loan remain largely as set out in June 2015. The loan is secured on an asset that is within the ownership of Welcome to Yorkshire and was valued at between £710k and £875k, well in excess of the maximum loan value. Welcome to Yorkshire have revalued the asset and believe it is worth in excess of our highest valuation. So long as the value is above the loan value then the County Council has financial security.
- 5.3 In the event of loan default then the County Council will step in to secure the asset. Whilst this provides financial security, it will have associated reputational issues. It is regarded as an unlikely scenario but it has been made clear to Welcome to Yorkshire that the County Council's priority in such a circumstance would be to protect the principal value of the loan.

6.0 RECOMMENDATION

- 6.1 That the Executive:
- (i) Considers whether to extend the secured loan facility of up to £500k to Welcome to Yorkshire to 30 November 2021 and
 - (ii) If an extension is agreed, to delegate authority to the Corporate Director, Strategic Resources and the Assistant Chief Executive (Legal & Democratic Services) to complete the necessary loan funding arrangements with Welcome to Yorkshire.

Gary Fielding
Corporate Director, Strategic Resources
26 May 2015

Background Documents - none

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

16 June 2015

Loan Facility to Welcome to Yorkshire

1.0 PURPOSE OF THE REPORT

- 1.1 To consider a request from Welcome to Yorkshire to provide a secured loan facility of up to £500k for a 5 year period.

2.0 BACKGROUND

- 2.1 Welcome to Yorkshire has requested a call-off loan facility to assist with its cashflow arrangements. Welcome to Yorkshire seeks to grow the visitor economy and to promote the Yorkshire brand. It has had notable successes recently in bringing the Tour de France Grand Depart to Yorkshire and then with the subsequent Tour de Yorkshire.
- 2.2 Arrangements are currently being finalised to strengthen the future financial position of Welcome to Yorkshire with a five year financial plan which sees additional investments from a range of partners, including local councils (including business rates pools).
- 2.3 The call-off loan facility is to be secured on a property owned by Welcome to Yorkshire at Tadcaster Road, York (its previous headquarters) which has been valued at £710k with its current sitting tenant (or £875k if vacant possession).

3.0 LOAN REQUEST

- 3.1 The request from Welcome to Yorkshire is to provide a loan facility for up to £500k over a five year period. In exchange the County Council will hold a legal charge on the Tadcaster Road property.
- 3.2 The loan arrangement is to be designed to be relatively flexible so that Welcome to Yorkshire only call-off an amount they need to manage their cashflow needs and when they require it. Repayment would also be relatively flexible so that Welcome to Yorkshire can minimise interest payments.

4.0 TECHNICAL CONSIDERATIONS

Legal Powers to make the Loan

- 4.1 The Local Government Act 2000 introduced general powers for a local authority to do anything which it considers is likely to achieve the promotion or improvement of the economic, social or environmental well-being of its area.
- 4.2 The well-being power enables a local authority to incur expenditure, give financial assistance to any person and to enter into arrangements with any person. A secured loan to Welcome to Yorkshire would therefore be made under these well-being powers.

- 4.3 Section 1 of the Localism Act 2011 gives the Council a general power of competence which gives a statutory power to grant loans to external organisations. Therefore a secured loan to Welcome to Yorkshire would be made under this general power of competence. The loan will be subject to a written contractual loan agreement and the Council will be in the position of a secured lender for the total amount of the loan.
- 4.4 In providing the loan it is also necessary to consider whether there are State Aid implications. Where a loan is provided at a commercial rate of interest the position is generally that there is no Aid. The European Commission provides guidance on how the rate is calculated, having regard to the credit rating and collateral offered by the Company and the Council will calculate the appropriate market rate using this guidance. We will also ask Welcome to Yorkshire to seek their own independent State aid assessment to confirm that any funding provided by the Council is either not State Aid or is covered by an exemption. In addition we would also want them to warrant that their financial status (credit rating/collateral) is such that the interest rate we are offering is appropriate.
- 4.5 In the event of a State Aid complaint and a finding of unlawful aid there could be reputational issues for the Council, but it would be protected financially as it is Welcome to Yorkshire who would have to repay the Aid to the Council or we could exercise our rights in relation to the charge on the property.

Financial Powers

- 4.6 The County Council's general investment powers reflected in the Annual Treasury Management and Investment Strategy derive from the Local Government Act 2003 (Section 12). Under this Act a Local Authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs. Given the primary purpose of the loan to Welcome to Yorkshire it should not be regarded as an investment, so Treasury Management issues do not need to be considered.
- 4.7 Such a loan will however constitute expenditure for capital purposes under the Government's capital controls regime. The loan would therefore have to be classed as capital expenditure by the County Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003 and need to be financed and accounted for accordingly.
- 4.8 In practical terms the loan would be financed internally from cash balances and included in the County Council's Balance Sheet as a Long Term debtor.
- 4.9 It should also be noted that the County Council is currently only receiving an average interest rate of circa 0.65% on cash loans for up to 12 months. This proposed arrangement would therefore be an improved return although the sums involved are not expected to be significant.
- 4.10 It is proposed that the loan interest rate is variable and will be reviewed at least annually. Welcome to Yorkshire will be entitled to redeem any debt outstanding as and when they wish. At the end of the five year period the arrangement will terminate and the value of the loan outstanding will be repayable. Any proposed extension of the loan arrangement beyond the 5 year period will require further approvals.

5.0 RISKS ASSOCIATED WITH LOAN

- 5.1 The loan is to be secured on an asset that is within the ownership of Welcome to Yorkshire and has been valued at between £710k and £875k, well in excess of the maximum loan value. In addition, a review of Welcome to Yorkshire's creditors has been carried out and this totals circa £100k at the time of the loan consideration. As a result, there is high confidence that the County Council has the ability to achieve full security on the loan.
- 5.2 Clearly there is a possibility that the asset will reduce markedly but this is felt extremely unlikely and valuation reports have been carried out. It should also be noted that the loan arrangement has a ceiling of £500k but it is expected to be much lower in reality as the loan will provide flexibility for Welcome to Yorkshire.
- 5.3 In the event of loan default then the County Council will step in to secure the asset. Whilst this provides financial security, it will have associated reputational issues. It is regarded as an unlikely scenario but it has been made clear to Welcome to Yorkshire that the County Council's priority in such a circumstance would be to protect the principal value of the loan.
- 5.4 Welcome to Yorkshire has been in discussion with councils across Yorkshire and has secured additional contributions in 2015/16 from the Leeds City Region Business Rates Pool and from the North Yorkshire Business Rates Pool (circa £850k in total). It has also produced a 4 year business plan which seeks to reduce expenditure and further increase commercial income to ensure that its finances are on a sustainable footing. A credit rating has been carried out on Welcome to Yorkshire and that determines the relevant interest rate premium payable. The credit rating carried out indicates that Welcome to Yorkshire is "below average risk" and, as identified in **paragraph 4.4**, we will be carrying out further checks before completing any loan agreement.

6.0 RECOMMENDATION

- 6.1 That the Executive:
- (i) Considers whether to approve a secured loan of up to £500k for a 5 year period and
 - (ii) If a loan is agreed, to delegate authority to the Corporate Director, Strategic Resources and the Assistant Chief Executive (Legal & Democratic Services) to register the legal charge and finalise suitable funding arrangements with Welcome to Yorkshire.

Gary Fielding
Corporate Director, Strategic Resources
26 May 2015

Background Documents - none