

EAST AYRSHIRE COUNCIL

CABINET MEETING – 17 AUGUST 2011

CATRINE ENVIRONMENTAL HERITAGE PROJECT REQUEST FOR A CONTINGENCY AND BRIDGING LOAN FACILITY

Report by the Depute Chief Executive/ Executive Director of Neighbourhood Services

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to commit the Council to provide additional financial support to Catrine Community Trust, in the form of a 10% contingency loan facility where this is required to secure confirmed external funding and also the provision of bridging loan finance to cover cash flow delays in payment of approved Scottish Rural Development Programme (SRDP) grants.

2. BACKGROUND

- 2.1 The Catrine Environmental Heritage Partnership (CEHP) is an unincorporated Association governed by a constitution whose partners are East Ayrshire Council (EAC) and Catrine Community Trust (CCT). CEHPs main objective is to establish and implement a range of proposals that enhance and promote the historic importance of Catrine and the surrounding area. Key elements of the project include restoration of the Scheduled River Ayr weir, re-use of redundant hydro turbines and the development of an Education and Visitor Interpretation Centre.
- 2.2 In relation to the hydro turbine element of the project funding has been secured for their restoration from BIG Lottery and an application by the Trust to SEPA for a technical variation to the existing Water Abstraction Licence from the River Ayr has also been approved. Whilst written notice of the determination has not been received at the time of writing this report, the Trust has been verbally informed that CCT can abstract 4m³/s to power the turbines but that the approval is subject to various conditions. It should be noted that objectors to the application can, within 21 days of the written determination, notify Scottish Ministers that they object to SEPA's determination.
- 2.3. In addition to securing funds from other sources Catrine Community Trust (CCT) has been successful in securing an in principle grant of £2.044M from the Scottish Rural Development Programme (SRDP) for the other elements of the project. However this is subject to CCT being able to demonstrate that appropriate arrangements are in place to provide contingency funding of 10% of the grant amount (£0.205m).
- 2.4 As a result of the expected timing delay between submitting grant claims and the drawdown of funds under SRDP, CCT have requested that the Council

consider agreeing to provide a bridging loan facility to meet temporary cash flow deficits during the contract period. Based on current cash flow forecasts provided by CCT (and which has been scrutinised by officers of the Council) it is projected that the maximum short-term balance required would be £0.466M with a total interest cost of £0.024M over the contract period.

- 2.5 On 15 September 2010, Cabinet agreed to give consideration to providing Council contingency funding of up to 10% of the value of any application for external funding in relation to the CEHP project, where this is required to secure that funding.
- 2.6 In relation to project implementation Cabinet members are reminded that an EAC grant of £0.170m was awarded to the project to part fund the purchase 14 Ballochmyle Street, Catrine, for the development of a Community Education and Visitor Interpretation Centre, at the Council's Cabinet meeting on 9th March 2011 and that this was in addition to the £0.060m agreed at Cabinet on the 15 September 2010. In total the Council has contributed £0.230m towards implementation of the approved project.

3.0 CONTINGENCY LOAN FACILITY

- 3.1 SRDP has informed CCT that their funding rules require applicants to demonstrate that they have adequate funds at their disposal to cover contingencies. The contingency specified is 10% of eligible costs, which in this case will be £0.205M. It should be stressed that every effort will be made by CCT to ensure that this project is delivered on time and within budget. The objective will be to complete the project without having to draw down the contingency funds; however the funder requires that the facility is in place before the Scottish Government will issue the final grant contract.
- 3.2 It is recommended that Cabinet agree to provide a contingency loan facility to Catrine Community Trust up to a maximum value of £0.205m to meet SRDP requirements subject to written confirmation of the amended Water Abstraction Licence from SEPA. This would also be subject to suitable monitoring being provided by a Project Management Group of officers and members of CCT. Security and detailed loan terms and conditions (including repayment terms and default arrangements) will be required. It is proposed that the Head of Finance be authorised to agree appropriate financial controls, a commercial rate of interest and appropriate monitoring arrangements with CCT and that these are incorporated within the terms and conditions of the contingency loan facility agreement.

4. BRIDGING LOAN FACILITY

- 4.1 Catrine Community Trust has further requested that the Council consider the provision of a bridging finance agreement which will be necessary to cover cash flow deficits arising from the anticipated payment profile of SRDP grants subject to written confirmation of the amended Water Abstraction Licence from SEPA. The grant instalments are subject to quarterly claims in arrears with the subsequent payment of approved grant instalments taking a further 3

months to be released. This gives rise to a delay between the monthly payments to contractors and the receipt of grant of up to six months which necessitates a bridging finance facility.

- 4.2 CCT has approached their bankers for such a facility. The bank's requirement for "backstop" security means that the maximum sum available to the Trust will be £0.150m. Other funders, e.g. Heritage Lottery Fund make payments promptly, however the cash flows that have been prepared are currently forecasting a maximum bridging loan requirement of £0.150m on the Visitor and Education Centre project alone. This will fully utilise the CCT bridging loan facility, leaving it unable to meet the SRDP requirement for bridging finance on the weir project.
- 4.3. The weir contract cash flow projection shows a maximum cash deficit in month 22 of the project of £0.466m, which would be in addition to the £0.150m for the building refurbishment projects at Ballochmyle Street. Contractual programmes have yet to be optimised and every effort will be made to adjust the timing of payments to minimise the bridging finance requirement, however it is considered that the current cash flow projections represent a realistic interpretation of the extent of the short term bridging finance that will be necessary.
- 4.4 This gives rise to a need for bridging finance for the weir project of up to £0.466m. The estimated financing cost of the proposed loan (at 4% pa) would be in the region of £0.024m spread over three financial years. CCT will be required to pay the actual cost of the bridging loan at a commercial rate of interest, however this may require to be "rolled up" into the contingency loan facility until CCT is in a position to repay it.
- 4.5 It is recommended that should Cabinet agree to the request to provide bridging finance that appropriate security is sought over the assets and/or future revenue streams of the project to mitigate as far as possible the inherent financial risks and that the Head of Finance put in place additional monitoring and financial controls to reduce the overall exposure of the Council to financial loss. In this respect, consideration will be given to setting up a cash management account in the joint names of East Ayrshire Council and Catrine Community Trust into which all grant monies would be paid together with the Council's short term bridging finance. Funds would only be released from this account to meet contractor and other project costs with the agreement of the Head of Finance and subject to appropriate reconciliations, forecasts and monthly management accounts being approved.

5. FINANCIAL IMPLICATIONS

- 5.1 A maximum of £0.205m would be required as a contingency loan facility in order to meet the grant conditions imposed by SRDP as detailed in 3.1 above subject to written confirmation of the amended Water Abstraction Licence from SEPA.

- 5.2 The interest cost associated with the provision of a bridging loan facility up to a maximum balance of £0.466M to meet cash flow deficits associated with the construction phase of the weir is £0.024M. Catrine Community Trust has asked that the Council consider increasing the contingency fund loan to include this cost, which will effectively increase the contingency loan facility requirement to a maximum of £0.229m subject to written confirmation of the amended Water Abstraction Licence from SEPA.

6. HUMAN RESOURCES IMPLICATIONS

- 6.1 The continuation of this project will require ongoing resources from the Restoring Communities Programme within the Planning and Economic Development Service with additional input from Officers within Corporate Infrastructure, Finance Service and Legal Service to support the proposed Project Management Group (PMG). The PMG will provide effective scrutiny and monitoring of the construction contracts entered into by CCT and will require to approve any proposal to use the bridging loan and contingency loan funds.

7. LEGAL IMPLICATIONS

- 7.1 Legal agreements in respect of both the contingency loan facility and bridging loan facility, plus a standard security over the Trust's assets will also be required as detailed in 3.2 and 4.5 above subject to written confirmation of the amended Water Abstraction Licence from SEPA.

8. COMMUNITY PLANNING IMPLICATIONS

- 8.1 The implementation of the CEHP will contribute significantly to achieving targets contained in the Delivering Community Regeneration Action Plans of the East Ayrshire Community Plan, approved by Cabinet on 1st April 2009.
- 8.2 The sustainable regeneration of our town centres and villages is a key local outcome of the Delivering Community Regeneration Action Plan. The Catrine project is a unique and exemplar project incorporating heritage led regeneration and the use of renewable energy to provide an income to sustain the revenue implications of the Community Education and Visitor Interpretation Centre, all of which will contribute to the sustainable regeneration of Catrine.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 There is a significant risk to the heritage of Catrine and East Ayrshire if the CEHP does not proceed. In particular the River Ayr Scheduled Ancient Monument could be lost. If the upgrading of the weir is not carried out then there is potential that the weir will be washed away and that this could cause flooding downstream of the weir. It is clear that external grants amounting to almost £3m will not materialise in the absence of the financial package being requested under this report.

- 9.2 The Council's Risk Manager has identified the following specific risk areas that require to be fully considered as the detailed scope of the Catrine Environmental Heritage Project is developed: affordability; contractual issues; Health & Safety (particularly working within the river); pollution/contamination and/or the impact of the works on fish stocks; continuity of power generation; and CCT's insurance position. These matters are being addressed during the development of the project by CEHP and its specialist advisers.
- 9.3 There is a financial risk to the Council arising from any agreement to provide a contingency loan facility and a bridging loan facility. Any failure on the part of CCT that resulted in the withholding or reclamation of grant could expose the Council to financial loss. Consequently it will be necessary to impose additional controls, for example the operation of joint banking arrangements, to reduce this risk. In addition loan facilities (subject to written confirmation of the amended Water Abstraction Licence from SEPA) will require robust terms, conditions and security. Paragraphs 3.2 and 4.5 above provide details.
- 9.4 Project risk assessments have been carried out by the design team as part of the HLF application process and appropriate action to ensure the terms of the submission are followed will be taken to manage all identified risks. Health & Safety risks during the construction phase will be managed by an independent CDM Co-ordinator.

10. RECOMMENDATIONS

10.1 The Cabinet is asked to:

- (i) Confirm the Council's commitment to provide a loan facility of up to 10% of the SRDP Rural Priorities grant, amounting to up to £0.205m for the contingency element and provide a further loan of £0.024m to cover interest on the weir bridging loan facility, as detailed in 4.4 above subject to written confirmation of the Water Abstraction Licence;
- (ii) Agree to provide a secured bridging loan facility up to a maximum of £0.466m to cover delays in the payment of SRDP grants, subject to written confirmation of the Water Abstraction Licence;
- (iii) Authorise the Head of Finance to put in place the appropriate financial and management controls and administer the Project Management Group to reduce the financial risks identified and to monitor the Council's financial exposure;
- (iv) Authorise the Head Of Finance to negotiate loan terms and conditions in respect of (i) and (ii) above;
- (v) Authorise the Solicitor to the Council to prepare associated loan documentation in relation to the contingency loan facility and the bridging loan facility;
- (vi) Otherwise note the contents of this report.

Elizabeth Morton
**Depute Chief Executive/
Executive Director of Neighbourhood Services**

10 August 2011 (IS/CMcK/KDSA)

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LIST OF BACKGROUND PAPERS

1. Report to Cabinet – 15 September 2010 “Catrine Environmental Heritage Project – Extension of Contract with Austin Smith Lord”.
2. Report to Cabinet -9 March 2011, “Catrine Environmental Heritage Project – Community Right To Buy 14 Ballochmyle Street, Catrine”.

Anyone wishing further information should contact Karl Doroszenko, Development Planning & Regeneration Manager, Tel: 01563 576751 or Colin McKee, Heritage Projects Coordinator, on 01563 576769

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Development***