

Part A

Report to: Cabinet
Date of meeting: 3 July 2017
Report of: Manny Lewis, Managing Director
Title: Watford Muslim Youth Centre- Progress Update

1.0 Summary

1.1 This report seeks Cabinet approval for a loan of £150,000 based on terms set out in section 3.2 and subject to the obligations set out in 3.3. Cabinet is also asked to note progress on delivery of the Community Centre (also set out in Section 3).

2.0 Recommendations

2.1 Approval for the Council to loan to the Watford Muslim Youth Centre Charitable Trust £150,000 based on terms set out in section 3.2 and subject to the obligations set out in 3.3.

2.2 To note the objectives of the Trust, the Projects it is likely to undertake and the progress in developing the new Centre.

Contact Officer:

For further information on this report please contact: Manny Lewis, Managing Director

telephone extension: 8185

email: manny.lewis@watford.gov.uk

3.0 **Detailed proposal**

- 3.1 WMYC is constituted as a charitable trust and was registered with the Charity Commission on 25 May 2012 under the charity number 1147460. It is governed by a Deed of Trust dated 16 May 2012. Its objectives are set out in Appendix 1.
- 3.2 An agreement for a lease of the land was granted on 8 March 2013 and the centre was granted planning permission in 2015. The Council made a grant to support the development of the centre of £100k in 2016. The centre has now raised sufficient funds to commence the first stage of construction and a building contractor has been engaged and the first stage is in progress. The estimated cost of the centre is £2.0m. To provide further support to the delivery of the project, it is proposed that the Council provide a loan of £150k on the following terms: a loan repayable over 5 years from the completion of the building at an interest rate of 4%. This loan would enable the completion of phase 1 of the structure which is the shell and core. The trustees anticipate accelerated fund raising once this stage is reached. If the centre is not completed within 5 years of the Agreement for Lease (March 2018), unless the Council agrees to extend the date, the lease will not be completed.
- 3.3 In the Agreement for Lease, the Council built in certain obligations to support WMYC and also to ensure progress review. This requires compliance with project monitoring of key details such as the building contract, project funding & cash flow, public liability insurances, incoming statutory services, subcontractor warranties, building control signoffs etc. A review meeting will need to be held with WMYC to seek assurances on these areas and to assess how well the project is on track. It is proposed that the loan is made subject to these obligations being complied with.
- 3.4 The projects the WMYC will undertake are set out in Appendix 2. Officers have reviewed their 10 year business plan and through grants, fund raising and trading activities described in Appendix 2, they aim to meet their running costs and achieve a surplus of between £200k and £500k pa (with the exception of 2018/19). It is an optimistic plan but there is no reason why the centre should not be self-sustaining providing it keeps its operating costs to a minimum.

4.0 **Implications**

4.1 **Financial**

- 4.1.1 The Shared Director of Finance comments that the loan will help to provide the funding to complete the first phase of the development, there will still be additional funding required to complete the project. It is anticipated that the additional monies will be raised through fundraising and donations to the project.

The Council will be looking to place a charge on the land for the outstanding loan to secure the debt. The Trust currently has an agreement for lease of the land once the building has been completed. This means that during the construction phase the Council cannot secure the debt as it still retains ownership of the land.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 As the business plan indicates that the Charity intends to undertake some economic activities at the centre, namely using it as a wedding venue for large weddings, and operating a coffee shop and book shop the council needs to be mindful of the potential that any money provided not on market terms may constitute State Aid. Having reviewed the State Aid rules in order for the loan to constitute State Aid it must satisfy all 5 tests below.

- a. an advantage;
- b. granted by a Member State or through State resources;
- c. favouring certain undertakings or the production of certain goods (selectivity);
- d. distortion of competition; and
- e. affecting inter-State trade.

4.3 Whilst the loan might be said to meet some of the tests above officers are of the opinion that the loan of this money would not satisfy the test in e) above. Public funding that has a purely local impact will not have an effect on inter-State trade where the services provided by the beneficiary recipient are purely local in nature, are provided to members of the population of a local area and are unlikely to be of interest to consumers in other Member States. From the business case provided by the Charity it seems highly unlikely that the services they intend to provide at the centre will be of interest beyond the local population.

As the £150,000 is a loan it would be prudent to protect the council by seeking to place a charge on the land once the Charity have been granted a full Lease.

Potential Risks

The WMYC business plan is optimistic and there is a risk it will not generate sufficient revenue for it to be self-sustaining. The mitigations will be to minimise its operational costs and advice will be provided by W3RT on its finances and fundraising. The WMYC is also under an obligation to keep the council informed on its finances throughout

the construction phase.

There is a risk that the trustees fail to raise sufficient funds to complete the building. Under the Agreement for Lease the lease will not be complete under these circumstances and the land would be retained by the Council. The Council is able by agreement to extend the 5 year longstop date for the building to be completed should that be necessary.

Appendices

Appendix 1: WMYC Objectives

Appendix 2: WMYC Projects