

Agenda Item No: 11
Report To: Cabinet
Date: 12th May 2016



Report Title: **Support for the Ashford International Model Railway Education Centre (AIMREC)**

Report Author: Christina Fuller, Head of Culture

Portfolio Holder: Cllr Clair Bell, Portfolio Holder for Public Interaction and Borough Presentation.

Summary: The Ashford Model Railway Museum company (known as AIMREC) is seeking a long term loan agreement from the Council to purchase land at the former Klondyke railway works in Newtown for the Ashford International Model Railway Education Centre that received planning permission on 16th March 2016 subject to a section 106 Agreement. The purchase of the land, owned by Kier, will enable the company to apply for significant funding from various sources including a capital grant from the Heritage Lottery Fund. The report includes draft heads of terms between the Council and AIMREC. The new centre will showcase to local people and visitors significant railway models, international, national and local rail and other exhibits from the past, present and future. The company's business plan shows that the centre can substantially diversify and boost Ashford's tourism and visitor economy with an anticipated 500,000 visitors per annum.

Key Decision: No

Affected Wards: Aylesford Green

Recommendations: **The Cabinet be asked to:-**

i. Give its support to the Ashford International Model Railway Education Centre (AIMREC);

ii. Recommend to Council that:

(a) A mortgage loan is granted on the broad terms and up to the maximum sum specified in the Exempt Appendix C to the Ashford Model Railway Museum to enable their purchase of land at the former Klondyke railway works; and

(b) Authority be given to the Heads of Culture, Finance, and the Director of Law & Governance in consultation with the appropriate Portfolio Holders to approve the finalised Business Plan and any

amendments or subsequent documents and to agree final terms and conditions and to make variations to terms in Appendix C if they consider it prudent to do so; and

(c) Authority be given to the Director of Law & Governance in consultation with the Heads of Finance and Culture to effect and complete all necessary documentation to action the above.

Policy Overview: AIMREC is a unique economic & tourism investment proposal to build an international visitor attraction, regenerating the former Klondyke railway works and boosting the town centre tourism offer in keeping with priorities 1 & 4 of the corporate plan 2015-2020.

Financial Implications: The Council's loan will be repaid in instalments over 50 years commencing three months after the facility is open to the public (a maximum of three years after site purchase) (with options for early repayment). Interest will be set at the relevant PWLB rate plus 2% (or such higher rate, if any, as required by law) because the loan will be funded by borrowing from the Public Works Loan Board (PWLB).

The mortgage loan is subject to the land purchase deal being agreed and will be granted to AIMREC against the security of the land and an acceptable bond or a guarantee to clear the site of contamination.

The company requires the money on completion of the land purchase deal with repayment starting after the opening of the centre therefore the Council is asked to defer the interest for this period (up to three years) as part of its support for the project. It is anticipated that this will cost in the region £5-10,000 per annum.

The Council's professional and other costs are being covered internally.

Risk Assessment Officers have commissioned a land valuation and a full site contamination survey. AIMREC will clear and decontaminate the site to enable leisure and other uses in the unlikely event that the visitor centre falters and the land reverts to the Council. AIMREC's business risk (i.e. ability to pay mortgage repayments) has been analysed by an independent expert who is supportive and positive.

Equalities Impact Assessment N/A

Exemption Clauses: **Appendix A, B, C - Not For Publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.**

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Report Title: Support for the Ashford International Model Railway Education Centre (AIMREC)

Purpose of the Report

1. To seek the support of members to provide a mortgage loan to the Ashford Model Railway Museum (AIMREC) for the purchase of a site on terms set out in the Exempt Appendix to the report.

Background and Business Plan

2. The Ashford Model Railway Museum is a company limited by guarantee that has applied for and is currently awaiting charity commission registration as a charity with objects including “to educate current and future generations in model form what the invention of the steam engine did for Britain and the world”. Known as AIMREC for the purposes of this report, the company has a strong, skilled and experienced board of directors with significant relevant business skills to promote, build and manage the construction and operation of this proposed visitor attraction. If charity registration is granted, they will become the trustees of the charity.
3. The planning committee approved the planning application for the Ashford International Model Railway Education Centre at its meeting on 16th March 2016 subject to completion of a section106 agreement. The new centre will showcase to local people and visitors significant historic railway model layouts dating in some cases from the 1920s and donated by high profile philanthropists including the Royal Family, international, national and local rail and other exhibits from the past, present and future. It will also include important elements of Ashford’s historic railway heritage. The centre proposes to be fully interactive and appeal to both enthusiasts and non-enthusiasts of all ages and backgrounds.
4. The centre aims to substantially diversify Ashford’s tourism and visitor economy with an anticipated 500,000 visitors pa. Its proposed location is next to the McArthur Glen Designer Shopping Outlet and is close to the station and other key local new attractions planned on Elwick Road. This will help to sustain such visitor figures and presents an excellent opportunity for cross fertilisation of visitors to the town centre, strengthening its footfall and extending the dwell time in the borough.
5. A comprehensive business plan has been produced by AIMREC and together with the Council, the company commissioned a detailed due diligence report from expert tourist attraction consultants, Fourth Street, to assess the business risk and economic impacts of the project. The consultant’s report attached as **Exempt Appendix A** is supportive, positive and makes the following key observations:
 - a. The model village concept is particularly popular in the UK and is proven, tested and timeless. Ashford is a strong location and the proposed site

- next to the Designer Outlet will encourage extended dwell time and higher levels of spend.
- b. Baseline visitor projections are ambitious but not unreasonable or imprudent. The business plan shows that international visitors from western Europe would be attracted to AIMREC as demonstrated by the huge international success of the Hamburg based 'Miniatur Wunderland.'
 - c. The financial model shows the business would remain viable and capable of meeting repayments to the Council even with substantially fewer visits than projected.
6. Given the strength of the current draft business plan and the predicted benefits to local tourism and indeed supporting regeneration in the area, Members are asked to consider supporting AIMREC at this early stage of the project. The Head of Culture will continue to work with AIMREC on their business plan and the consultant's observations. The business plan will be finalised before draw down of the mortgage loan and will include a funding statement to demonstrate how the whole capital costs of the project (including the building and highway works) will be funded and also include key milestones for the project.
 7. The company is seeking funding support from the Council, in the form of a mortgage loan to help purchase their chosen site – the former Klondyke railway works (refer Appendix C for draft terms).
 8. They will be applying for further capital investment including from the Heritage Lottery Fund (HLF) once the site is secured. The company has discussed the project with a case officer and are hopeful for a contribution given the historic importance of the collections to be conserved and housed within the centre. AIMREC has stated that any shortfall in funding could be bridged by various eminent patrons/trusts who are keen to support this new venture.

Site Appraisal

9. The former Klondyke railway works site is a suitable location for such a visitor attraction. The historic location played a significant role in the development of the UK's railways and is within walking distance of the International station.
10. Due to the sensitive nature of the negotiations between the Council, AIMREC and the land owner summary details of the Council's Valuation and Contamination reports are included in **Exempt Appendix B**.
11. The reports indicate that the total level of mortgage loan being requested is no more than the value of the decontaminated site. This is important as it protects the Council's interest on the assumption that the decontamination works are carried out in any event, within a period to be agreed. This will be backed by an appropriate bond or third party guarantee.

Draft Heads of Terms

12. Officers have produced a draft Heads of Terms in consultation with AIMREC and these are attached to this report at **Exempt Appendix C**.

13. The Council's loan will be repaid over 50 years commencing three months after opening to the public (a maximum of three years after site purchase) with options for early repayment. Interest set at the relevant PWLB rate plus 2% or such other interest rate to ensure no illegal State Aid is being provided. The loan is subject to the land purchase deal being agreed and will be granted to AIMREC against the security of the land and an acceptable bond or guarantee to clear the site of contamination.
14. The level of loan has been supported by the independent site valuation suggesting that the site offers suitable levels of security subject to the matters explained in Exempt Appendix B. The 2% premium charged on the interest rate will provide cover for the risks and provide a small return to the Council.
15. AIMREC requires the money on completion of the land purchase deal with repayment starting after the opening of the centre therefore the Council is being asked to defer the interest and cap repayments for this period (up to three years) as part of its support for the project. It is anticipated that this will cost in the region £5-10,000 per annum.

Risk Assessment

16. There are five key risks that need to be highlighted for this agreement;
 - a. The land owner decides not to sell - this is not in the Council's control but if the land deal does not progress, then the mortgage agreement falls away as it is conditional on the land being purchased.
 - b. If the land owner requests a higher price – AIMREC would need to firstly consider this additional impact and find the additional funds from their backers. Ashford Borough Council's exposure would be capped at the level of the Council's valuation of land value.
 - c. Decontamination is not undertaken or partly completed - the mortgage deal is to be agreed on the basis that AIMREC provide a third party guarantee which ensures the contamination works will be completed.
 - d. The project falters and is abandoned (e.g. because AIMREC fail to achieve charitable status and / or fail to secure adequate funding). In this event the Council will be able to foreclose the mortgage and take possession of the site together with such other assets as are available. Options available to the Council would then include selling such assets and/ or using the site for another purpose.
 - e. Repayments are not forthcoming – whilst an external consultant has reviewed AIMREC's business plan, the company may default during the period of the mortgage (50 years). In the event of default, the Council will be able to foreclose the mortgage as above.

Equalities Impact Assessment

17. This is a financial transaction and therefore an EIA is not necessary.

Other Options Considered

18. The Newtown Railway Sheds were also considered for the project particularly given their location and railway heritage. The buildings are in a poor state of repair and as a Grade II Listed building would require renovation to English

Heritage requirements. It was understood that much of the funding raised would need to be spent on the renovation, leaving little left to convert the building to one with an environment suitable for storing and displaying vulnerable works of art required for the models that are intended to be displayed. Other concerns included the shape of the building (long and narrow) giving problems for display and circulation and limited area for car parking or external leisure such as picnic facilities and the live steam mini railway track.

19. Whilst the Newtown Sheds are of historical interest, the new build, that has already been given a resolution to grant planning permission, provides a state of the art landmark building with the necessary internal environment for exhibitions and exceptional visitor experience that aims to maximise the resources to be secured. In addition, a new modern build will provide sustainable utility management thus supporting the business plan to reinvest surpluses in the business and enable repayment to the Council.

Consultation

20. The land owner has been consulted on the planning application and received the contamination report.
21. The application for planning permission was consulted on and this generated publicity widely on the project and the centre's presence on the chosen site.

Handling

22. The Heads of Terms will require final agreement with AIMREC. Members are asked to authorise the Heads of Finance, Culture, and the Director of Law & Governance in consultation with the appropriate Portfolio Holders to:
 - a. approve the finalised business plan and any amendments or subsequent documents; and
 - b. agree final terms and conditions and to make variations to the terms at Appendix C if they consider it prudent to do so.

Conclusion

23. Officers have investigated and commissioned external consultants to support this request and ensure that the Council's investment is secure and repayments likely to be made.

Portfolio Holder's Views

24. Cabinet is requested to welcome this proposal and give its support to AIMREC to develop this new major international visitor attraction. I firmly support that the Council approves this investment arrangement based on the expert information received and the commitment of AIMREC. They are striving to deliver a significant project for Ashford that will help diversify and boost tourism and promote Ashford's illustrious heritage to a wider international audience and indeed local people which the Council should support.

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