

Taunton Deane Borough Council

Full Council – 10 April 2012

Proposed Tone Leisure Loan for a High Ropes Project in Vivary Park, Taunton

Report of the Strategic Director

(This matter is the responsibility of the Leader of the Council, Councillor John Williams)

Executive Summary

The Council is recommended to approve a loan of £318,000 to Tone Leisure, for Tone Leisure to acquire a High Ropes facility in Taunton. Tone Leisure will own and operate the facility, and have prepared a detailed business case which has been shared with Council officers.

The Council has been approached to finance the investment, and are proposing to offer a loan that carries a 4% interest rate and is repayable over 66 months. The loan should be treated as capital expenditure, and the repayment of the loan principal will be recorded as capital receipts. These capital receipts will be set aside upon receipt to finance the loan, in line with accounting regulations and the Prudential Code.

1. Purpose and Background

- 1.1 The purpose of this report is to secure the relevant budget and funding approvals to make a loan to Tone Leisure for the purposes of their installation of a High Ropes leisure facility in Vivary Park, Taunton.
- 1.2 High Ropes courses are becoming a growing leisure activity, recommended to be set in natural environments. The Vivary High Ropes course will provide two separate aerial trekking experiences - one at a lower level of 5 metres off ground level and a larger course at 9 metres height. Participants move from point to point via a series of aerial ropes and "stepping stones" in mid air. Participants are secured permanently via a harness to a steel rail/ rope overhead. The Course is certified and ROSPA accredited. The experience lasts 20 to 40 minutes depending on the selected course, and is instructor led.
- 1.3 The High Ropes experience has particular appeal to schools, groups, and corporate team building events, but also passers by in high footfall areas such as public parks and open spaces.
- 1.4 There are no other High Ropes courses within a 40 minute drive of Taunton - the nearest similar site being near to Cheddar. However, we believe the Vivary High Ropes course would be one of the largest in the South West and a real attraction to both Taunton and Vivary Park.

- 1.5 The High Ropes course has been designed, costed and planning has been approved.
- 1.6 Tone Leisure Senior Managers have reviewed various options for a High Ropes course in Taunton and identified the best location to be at Vivary Park, over the top of the mini golf course. Tone have identified a partner organisation with specialist knowledge to support the project who already operate two High Ropes courses and are partnering with other Leisure Trusts for similar developments. They are called "Closer to the Edge" and will work with Tone to develop programmes, operational practices, recruit and train staff.
- 1.7 The design has been completed with Closer to the Edge and JM Adventure, who have built many courses around the country. A business plan has been created based on the results of a recently built course in the Midlands, but taken at 60% lower than their business plan to ensure prudence.

2. Tone Leisure's Project Details

- 2.1 The project investment is set at £318,000, of which £300K is for the High Ropes course, equipment and storage, with the remainder allocated to remodel some areas of the current café/ hut/ pro-shop. Staff costs, maintenance costs and Closer to the Edge support costs are factored into a business plan.
- 2.2 Income is projected at £157,960 in year one, building to £273,350 by year three. The first year profile of visitors is extended to an average of 300 visits per week for 40 weeks of the year. These 12,000 visits in year one grows to 22,000 by year three. The Midlands High Ropes course, which opened in August 2011, is exceeding 1000 visits per week during peak weeks. The expected catchment for such a High Ropes course is 30 to 40 minute drive time, and with the majority of the visitors being aged 5 to 16 years of age, the projected market is 64,000 within this catchment (based on school figures for the region – Yeovil to Minehead).
- 2.3 The full business case has been scrutinized by Southwest One Taunton Deane Finance Advisory and Taunton Deane Legal Services. Risks have been highlighted however the business case will be managed within Tone Leisure and risks will be mitigated through the terms of the loan agreement.

3. Loan Details

- 3.1 The proposal is for the Council to offer a loan to Tone Leisure that provides value to the taxpayer and to Tone Leisure. As such, the loan proposed will be classed as a "soft loan" which essentially means that the Council is offering a loan with an interest rate that is marginally below the rate Tone Leisure can obtain from a financial institution i.e. below the market rate. The margin of 'discount' is small.
- 3.2 The proposed loan is for £318,000, to be repaid over a period of 5½ years (66 months), with a fixed interest rate of 4%. The total interest on the loan will be approximately £40,000.
- 3.3 The loan will be repaid in ten instalments, with the first instalment falling due after 12 months with the remaining nine instalments to be made at six-monthly intervals.

- 3.4 The Council's Legal Services have prepared a loan agreement which has been agreed by officers of the Council and Tone Leisure. This is ready to be signed once the relevant approvals are in place.

4. Loan Approval and Funding

- 4.1 The project investment is for items which, if the Council undertook the scheme, would be treated as capital expenditure. Under Regulation 25 (1)(b) of Statutory Instrument 2003/3146 *The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003* the advance of the loan will need to be treated as capital expenditure. In addition, the regulations require the Council to treat the loan principal repayment as capital receipts.

- 4.2 As this loan is treated as capital expenditure the Council needs to approve the budget as a Supplementary increase to the General Fund Capital Programme. In doing so the Council needs to also approve the funding of the loan.

- 4.3 The funding options are:-

- a. To finance it through "borrowing" and therefore by levying Minimum Revenue Provision – "MRP" – (capital debt repayment provision) against the General Fund over a number of years; this would impact on General Reserves.
- b. Not to finance the expenditure at inception of the loan, and adopt a policy to apply the capital receipts from the loan repayments to finance the original expenditure. As the loan is to be advanced on an Equal Instalments of Principal (EIP) basis, then the Council can demonstrate that it is making a "prudent provision" each year (as required by the CIPFA "Prudential Code").

- 4.4 The recommended option is 'b'. This means that the loan arrangement does not impact on General Reserve balances. Instead the capital receipts arising from the loan repayment instalments will be used to 'finance' the original loan. In the very unlikely event that Tone Leisure defaulted on the loan, the Council would be required to finance the outstanding balance of un-financed capital expenditure by making either MRP or setting aside other uncommitted capital resources. However, protection against any default has been included within the terms of the loan agreement, and risk of default is considered to be remote.

5. Finance Comments

- 5.1 The financial accounting arrangements for this loan arrangement are quite technical. The key requirements to comply with the capital finance and accounting regulations and the Prudential Code will be met by adopting the recommendations in this report.

6. Legal Comments

- 6.1 The Council has power under the well-being provision in the Local Government Act 2000 to incur expenditure, give financial assistance to any person for the promotion or improvement of the economic, environmental or social well being of an area and this loan. In addition the general power of competence as set out in the Localism Act 2011 would also be applicable.

6.2 The High Ropes course has a life expectancy of 20 years, and the Council will need to be aware that Tone Leisure's lease ends in nine years, therefore, should the lease not continue, an agreed "Book value" to be transferred to the incoming contractor would be required in advance of the final funding and contractual arrangements. Alternatively, the Council could agree to extend the lease to cover this period should it feel that it is in their interests to do so.

7. Links to Corporate Aims

7.1 Whilst this does not have a direct link with a Corporate Aim it does support and encourage visitors to Taunton which can only have benefit for the town community

8. Environmental and Community Safety Implications

8.1 There has been a flood risk assessment and the planning process has ensured environmental concerns have been taken into account.

9. Equalities Impact

9.1 Tone proactively provide services accessible to everyone, irrespective of disability, gender race, sexuality, age, religion or any other condition or group which place individuals at disadvantage. The High Ropes course offers opportunities for the whole community and will be actively promoted as such. There will be special hoist equipment to enable disabled visitors to experience the course

10. Risk Management

10.1 As with any investment, this loan is not "risk free". The key risks are:-

Risk	Mitigation
Interest rate risk	The interest is a fixed rate, and has been set with due reference to the market. Treasury Management policy, supported with advice from Treasury Management Advisors, to ensure the overall debt and investment portfolio provides optimum security and returns.
Payment default by Tone Leisure	The loan agreement will need to contain provisions to cover this eventuality.

10.2 Tone Leisure have completed a risk assessment as part of their decision making process and will continue to manage this through the project implementation

11. Partnership Implications

11.1 This decision supports our partnership relationship with Tone Leisure.

12. Recommendations

12.1 To approve the issuing of a loan of up to £318,000 to Tone Leisure for the purpose of installing a High Ropes facility in Vivary Park, Taunton;

- 12.2 To approve a Supplementary Budget of £318,000 to be added to the Council's 2012/2013 General Fund Capital Programme for the purposes of the loan to Tone Leisure;
- 12.3 To approve a policy to apply the capital receipts arising from the loan principal repayments to finance the original expenditure; and
- 12.4 To note the requirement, in the event of loan repayment default, to finance any outstanding balance of un-financed capital expenditure by making either Minimum Revenue Provision from the General Fund or to set aside other uncommitted capital resources.

Contact Officers

Shirlene Adam, Strategic Director
Tel: 01823 356310
E-mail: s.adam@tauntondeane.gov.uk

Paul Fitzgerald, Financial Services Manager
Tel: (01823) 358680
E-mail: p.fitzgerald@tauntondeane.gov.uk