

Taunton Deane Borough Council

Full Council – 11 April 2017

Proposed Loan to the Hestercombe Gardens Trust

This matter is the responsibility of Councillor Williams, Executive Councillor and Leader of the Council

Report of the Assistant Director - Business Development

1 Executive Summary / Purpose of the Report

- 1.1 The purpose of this report is to seek approval for Taunton Deane Borough Council to provide a capital loan to Hestercombe Gardens Trust (HGT) of up to £80,000. The loan will provide leverage to enable Hestercombe Gardens to take the next steps in delivering an £8 million investment in the site.
- 1.2 The loan will enable an exciting evolution of the Hestercombe house and Gardens through the creation of the Hestercombe Centre for Arts and Landscape. This will enable Hestercombe to build on their existing visitor base enhancing the £4 million spend which they deliver to the local economy. This will move the House and Gardens forward consolidating it as a major regional and national visitor attraction
- 1.3 As with any investment this is not risk free, however risks are considered to be acceptable. There are financial benefits for the Council, particularly through increased investment income. This will be augmented by the leverage with other organisations that the loan creates. The proposed scheme will if successful increase visitors to the area creating wider economic benefit for Taunton Deane and the surrounding area.

2 Recommendations

- 2.1 Full Council is recommended to:
 - (a) Agree the principle of a 10-year fixed rate unsecured investment loan to Hestercombe Gardens Trust of up to £80,000 at beneficial terms to the Council. The loan terms are outlined in section 6.4 of this report.
 - (b) Approve a £80,000 Supplementary Budget in the Council's 2017/2018 Capital Programme in respect of the loan which is to be treated as capital expenditure, to be financed by revenue resources utilising uncommitted funds within the Business Incentive earmarked reserve.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
As with any loan agreement there is a risk that the borrower fails to make repayments on a timely basis	3	4	12
<i>Mitigated by – The loan is supported by an appropriate agreement and the terms include a clear repayment schedule. Whilst the proposal is for an unsecured loan the HGT estate holds significant asset value which the Council can pursue in the case of default by the borrower.</i>	2	4	8

Risk Scoring Matrix

Likelihood	5	Very Likely	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Feasible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Slight	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Very Unlikely	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)

	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
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5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background Information

- 4.1 Hestercombe Gardens operates as a charitable trust which is funded from a range of sources, notably the Heritage Lottery Fund, local subscribers and through grant funding from Taunton Deane Borough Council. In total, since 1995, over £7 million has been spent on the restoration of the landscape and gardens. The gardens attract 80,000 visitors a year and it is largely due to the resulting turnover that the site continues to be restored and maintained. The trust acquired the house in 2013 which has created an opportunity to return the Grade 2* listed building into use. This will be able to host a prominent centre for the study and creation of art and landscape.
- 4.2 The Trust has created a business plan to take Hestercombe forward which aims to make best use of the house and surrounding estate as an asset. This is an ambitious but realistic plan to create a new “centre for the arts and landscape”. This is in essence a three year project which is broken down into one year of planning and two of building. This will ensure that Hestercombe increases its status as a major attraction.
- 4.3 The development will be funded from a range of sources which should include the Heritage Lottery Fund, Arts Council for England, Membership subscribers, match funding to an endowment and subject to this report being agreed, Taunton Deane Borough Council. The overall investment is significant, with spend in the region of £8 million, and will create additional income streams for the Trust.

4.4 The project aims to create an exciting new centre which will enhance the garden's offer and widen its appeal. This is broken into the following elements:

- Creation of 12 Artists' Studios in an underutilised wing of Hestercombe House
- Creation of a new associated retail outlet
- Linked Exhibitions which showcase this new output in addition to general access to the public to see artists at work.
- Conversion of the former head gardener's house known as Combe Lodge to create 12 units of accommodation to be used by visitors and artists.
- Creation of a new garden for the 21st century.

4.5 The development is aimed at further enhancing the offer of Hestercombe to create a range of economic benefits for the house itself but also through wider spending in the area. These are:

- Income stream to be derived from 12 Studio/Workshop lettings plus accommodation
- Attraction of increased audience (from 80,000 per annum) of greater diversity and demographic range
- Enhanced tourist attraction to encourage visitors from outside the region thus increasing spend in local economy from current £4million
- £1.63million build project contribution to local trades and businesses through creation of Artist studio.
- Creation and operation of arts centre will lead to increased local employment in roles related to the centre which include operational management, an education officer, marketing team members, catering suppliers and cleaners.
- Improved sustainability of important country house and gardens.

4.6 Hestercombe have requested a loan of £80,000 to fund the upfront development costs. The Council had already agreed a grant of £40,000 in the summer of 2016 which was aimed at supporting work by the Architectural Heritage fund which is a precursor to the main development design work and is essential to finalise the detailed business case for the site. This request for an £80,000 loan will replace this agreed grant and does represent a better approach for the Council as funding will be recovered over the ten year period.

4.7 The Trust has applied to a range of organisations for funding to deliver the project. These organisations have already invested significant sums in the previous phases of development and have given strong indicative support for the development. Capital Funding is also being raised through creation of an endowment fund which is being supported by the Heritage Lottery Fund. The organisation also has improving revenue streams which will aid in funding the project.

- 4.8 It should be noted that the investment of money in this way creates leverage with other organisations such as Arts Council for England when funding applications are being made.
- 4.9 Scrutiny comments are included in this report. Executive have taken note of the recommendation with regards to the review of the interest rate and fully considered the scrutiny debate. The proposed offer has been subject to financial modelling and sensitivity testing. The Executive are of the view that the rate is proportionate to the development and therefore the proposed offer remains as stated in this report.

5 Links to Corporate Aims / Priorities

- 5.1 Hestercombe Gardens Trust is a key visitor attraction for the area with a growing international reputation. It aligns directly to key theme 2 (b) of the corporate strategy which is "Further develop the offering of the Deane in terms of the social, leisure and culture in order to make the area an even more attractive proposition for investment". This proposition will strengthen the Hestercombe offer.
- 5.2 The request for loan finance also provides the Council with the opportunity to issue funding on beneficial terms that both covers its costs and provide an acceptable financial return, making a positive contribution to financial performance.

6 Finance / Resource Implications

- 6.1 Providing a loan of £80,000 to Hestercombe Gardens Trust is affordable to the Council, and provides an opportunity for the Council to invest from the unallocated balance of its investment fund. This will provide a favourable return at the same time as supporting an exciting development of this major visitor attraction. The repayment of the loan will serve to replenish cash balances whilst providing interest income to the General Fund Revenue Budget.
- 6.2 The nature of the loan – to help fund the expansion of a property asset – must be accounted for as capital expenditure under applicable regulations. The recommendations therefore include a request to approve a Supplementary Budget within the Council's 2017/18 Capital Programme. The proposal is for the Council to finance this expenditure utilising uncommitted funds within the Business Incentive earmarked reserve (technically, represented as Revenue Contribution to Capital ("RCCO")).
- 6.3 The Council's Finance Service has reviewed the case for support and the management accounts of the organisation as part of our due diligence of the investment, to ensure there is confidence the loan is affordable and can be repaid by Hestercombe Gardens Trust. The Assistant Director Business Development will continue to work with Assistant Director Resources to complete the loan agreement terms in association with SHAPE legal. As with any loan there is risk, which will be minimised through the Loan Agreement.

6.4 Subject to the completion of due diligence and consideration of legal advice, it is proposed to provide the loan at a fixed interest rate of 2.75%. In view of the cash flows associated with this large investment project and the timing of the financial benefits that would subsequently flow, HGT have requested the loan repayments are lower in the early years of the agreement, increasing in the latter part of the loan term to ensure the full amount advanced is repaid. The advice of the Assistant Director Resources is that this is acceptable to the Council as the loan sum is a small percentage of its overall investments profile for the foreseeable future. This does however slightly increase the risk as HGT would need to ensure the higher repayments in later years remain affordable in their business plan. The proposed repayment schedule is:

Repayments	Principal £	Interest £	Total £
Year 1	0	2,200	2,200
Year 2	1,418	2,182	3,600
Year 3	5,103	2,097	7,200
Year 4	7,068	1,932	9,000
Year 5	10,303	1,697	12,000
Year 6	10,590	1,410	12,000
Year 7	10,885	1,115	12,000
Year 8	11,188	812	12,000
Year 9	11,499	501	12,000
Year 10	11,946	180	12,127
Totals	80,000	14,127	94,127

6.5 As the loan advance is treated as capital expenditure, and the loan repayments exceed £10,000 over the term of the loan, the principal repayments will be accounted for as capital receipts and will be credited to the Usable Capital Receipts Reserve each year thus increasing capital resources available to support future capital schemes.

6.6 As the table above shows, the loan would generate interest receipts of £14,127 over the 10 year period which would support annual revenue budgets. This is in addition to the contribution to corporate priorities summarised above.

6.7 Our average investments return is in the region of 0.8% currently, therefore as a guide, keeping the £80,000 in full in the earmarked reserve and incorporating it in our general cash investments over a 10 year period would provide interest income in the region of £6,400. Therefore the return on the loan demonstrates a better return rate than our average investment rates. The annual repayments would also replenish the cash reserves making these available for investment.

7 Legal Implications

- 7.1 The detail of the proposal has been referred to SHAPE Legal partnership for advice who will also assist with drawing up a suitable loan agreement. This agreement will be modelled on previous loan agreements that have been delivered by the authority.

8 Environmental Impact Implications

- 8.1 The environmental and community safety implications have been considered and there are not expected to be any specific implications relating to this report.

9 Safeguarding and/or Community Safety

- 9.1 This report relates to the provision of a loan to enable Hestercombe to expand their existing business. The planning process will address through design any issues that exist with the way the building operates.

10 Equalities and Diversity

- 10.1 This report relates to provision of a loan to enable a wider investment and building programme. The planning and design work will need to take account of any issues around accessibility to address that characteristic.

11 Social Value, Partnership, Health and Wellbeing

- 11.1 In making this loan the council would be supporting a project that has wider value through the provision of artists' studios. These studios will support community artist and the construction project is intended to be delivered through local contractors. This loan will support the existing partnership with Hestercombe and the council.

12 Asset Management and Consultation Implications

- 12.1 There are no asset management issues for the council with regards to this report as those fall to Hestercombe Gardens Trust.

13 Scrutiny Comments / Recommendation(s)

- 13.1 Scrutiny debated the issues and the principle of making the loan. The debate covered a range of issues but main points raised were on the issue of security and the proposed interest rate.
- 13.2 In terms of the security of the loan members heard from the finance director of Hestercombe. He explained that Heritage Lottery Fund and other key funders required first charge and indeed these were in place on the house. There is wider value in the gardens and the whole of the Trust holdings which would become available if Hestercombe failed which is an unlikely eventuality. No recommendations were made on this point.

13.3 In terms of the issue of interest members were advised that this proposal had been made based on financial modelling, the nature of the development and the context of this loan being seed funding for wider development. Members added to the proposed recommendation asking Executive and Full Council to review this rate prior to any decision.

Democratic Path:

- **Corporate Scrutiny – 23 March 2017**
- **Executive – Informal consultation due to timings of Democratic meetings**
- **Full Council – 11 April 2017**

Reporting Frequency: Once

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