

Nottingham City Council

Nottingham Castle Transformation Project – Concession Holder Support

Background

The Nottingham Castle redevelopment project is a key strategic priority for the authority as presented in the City's Council Plan and Growth Plan. Its redevelopment forms a key component in the revitalisation of the Southern Gateway to the City, and in helping drive the visitor and retail competitiveness of the City, increasing jobs and the long term economic prosperity of the City. It will provide the City with an anchor tourist destination. The economic benefits to the City are based on an increase in visitor numbers to the Castle to 315,000 per annum (year one 400,000), providing 420 jobs per annum and an increase in local spend by £22m per annum. The appointment of the Operator for the Castle site post development is part of the overall project plan.

The capital scheme budget is £30.2m of which £20.9m has been funded by a combination of grants from HLF, LEP and through the Castle Trust who has obtained pledges from Trust and Foundations and donations from companies and individuals. The balance rests with the City Council.

The appointment of a Concessionaire to Operate the Castle post development was agreed at Executive Board in July 2015. Approval has now been given to appoint Nottingham Castle Trust as the operator.

Nottingham Castle Trust is a charitable trust limited by guarantee.

Loan Agreement

As part of this appointment of Nottingham Castle Trust the Executive approved a loan facility would be made available to fund the mobilisation costs for the site prior to it re-opening to the public. The operating net cash requirement for this period is forecast at £1.7m.

Pursuant to section 137(3) of the Local Government Act 1972 the Council is empowered to incur expenditure on contributions to the fund of any charitable body, such as Nottingham Castle Trust, in furtherance of its work in the UK and pursuant to section 111 of the 1972 Act and section 1 of the Localism Act 2011 (general power of competence) can make such contributions by way of a loan.

In support of the business case and wider ambitions of the scheme to promote the city of Nottingham (with all of the economic and employment uplift this brings), the rate of interest payable on the loan has been set at 3%. Whilst this is in line with the current rate of interest incurred by the Council it is below the normal commercial rates that would be applied to the Trust given its current financial credit rating.

The reduced rate of interest between the 3% charged and the commercial rate is Operating Aid under Art 53 of State Aid Regulations. The Council is therefore making a declaration stating the aid provided, the maximum value of which is estimated at £1.110m. The aid intensity is estimated at 66%.

To ensure compliance with State Aid rules the loan agreement stipulates the following requirements:

- The Operator must demonstrate to the reasonable satisfaction to the Council of a continuing need for the loan at the point of request of any draw down with a supporting cash flow statement (the loan can only be drawdown in quarterly instalments on a need basis);
- The drawdown is reduced by any income or funds that the Operator has received from other third parties in the previous quarter which can be utilised to fund the operating expenses which otherwise would have been funded by the Loan from the Council;
- The Loan shall be applied exclusively for the Purpose. In this respect the Loan can be used to fund eligible costs only as required for operating aid under Article 53 of GBER;
- The amount of the Loan shall not exceed what is necessary to cover operating losses (that will in this instance be incurred during mobilisation prior to any income being generated) and a reasonable operating surplus over the term of the Loan. If the Operator generates unrestricted cash funds greater than the financial plan that support the repayment plan included in the Loan Agreement, and the Operator has fulfilled the requirements of its reserves policy the Lender will request repayment of the difference between the cash fund generated and that assumed within the financial plan and the Company will make payment of such sum within 28 working days of the request. As a charitable Trust any surpluses generated have to be re-invested in the operation and cannot be distributed to its members.