

To: Delegated Decision of the Leader of Council

Date: 8 August 2011

Report of: Head of Policy, Culture and Communications

Title of Report: Loan Guarantee to Arts at the Old Fire Station

Summary and Recommendations

Purpose of report: To consider a request for the Council to act as guarantor for a bank loan of up to £115,000 to Arts at the Old Fire Station (the company).

Key decision? No

Single member: Councillor Bob Price

Approved by: Nigel Kennedy and Lindsay Cane

Policy Framework: Corporate priorities:
 Vibrant, sustainable economy.
 Strong, active communities.
 Regeneration Framework
 Cultural Strategy

Recommendation(s): To agree:

1) that Oxford City Council will, in principle act as guarantor for a loan facility of up to £115,000 to be supplied by a social investment bank to Arts at the Old Fire Station.

2) that authority be delegated to the Corporate Director of Finance & Efficiency, to enter into an appropriate arrangement with the lender on terms that comply with the content of this report.

Appendices to report –

Appendix 1 – Revenue Business Plan for Arts at the Old Fire Station

Appendix 2 – Financial projections for Arts at the Old Fire Station

Appendix 3 – Risk Register

Background:

Establishment of Arts at the Old Fire Station.

1. Following CEB's recommendation in March 2010 to pursue the establishment of an Arts Company with charitable status to manage and programme the arts facilities in the OFS, the company was registered in September 2010 and 4 suitable candidates were notified and invited to become trustees of the Arts Company. Another three Trustees have since been appointed and two more are being interviewed this month. An executive Director, Jeremy Spafford was appointed in February 2011. An original revenue Business Plan was written, outlining a model based on mixed economy funding from subsidy, earned income and project funding.
2. The company has been set up as a limited liability company with charitable status. The company is wholly owned by the Council but it is a separate legal entity with independent trustees and a Director who is not an employee of the Council. The company determines its operational and financial decisions independently of the Council.
3. The company will operate alongside Crisis in the newly-refurbished building and will be directly responsible for the auditorium, studio, artist's creative workspaces, an art gallery and shop.

Progress to date on the Old Fire Station Arts Company:

4. Arts at the Old Fire Station is now actively planning for opening in October and in the process of firming up regular contracts, hires and programmed events. The Director, Jeremy Spafford has been working closely on the Business Plan (Appendix 1) and is following up several leads regarding funding and securing financial support through lenders specialising in supporting voluntary and charitable organisations.
5. The company has recruited a part-time General Manager, Becca Vallins to move the company forward in terms of finalising contracts and operational policies. The company has also appointed a shop/gallery Manager, Emily Alexander and is in the process of recruiting an Admin/Comms Assistant. This completes the small core staff team.
6. Negotiations between the Arts Company and CRISIS regarding joint management and fundraising for the project have begun and Jeremy Spafford is working closely with the Head of Crisis Skylight, Oxford, Kate Cocker to identify areas of overlap and opportunities for sharing resources to improve the Business Plan, which, in worse case scenario, is still showing considerable deficit in Years 1-3. Jeremy and Kate are working together to reduce the Arts Company's costs through sharing staff, resources and through creative financial planning.

7. Jeremy Spafford has therefore approached the City Council seeking a guarantee of up to £115,000 against a loan facility he has been discussing with CAF Venturesome and other social investment banks, to enable the company to support the cash flow of the business.
8. In order to continue to aim for the best case, the Company will be pursuing the following:

Confirming contracts with regular hirers and establishing the web based shop as soon as possible.	The company
Increasing potential for cafe/bar income.	Finalise arrangements with CRISIS
Fundraising.	With help from CRISIS – primarily with trust applications and in joint public fundraising
Confirming arrangements around combined resources and service charges.	With CRISIS
Investigating innovative investment options.	The company is still pursuing a social investment model via the internet which aims to sell bonds to friends of OFS. This is based on models used elsewhere but requires considerable research.
Securing business interest in theatre based research and training.	In partnership with Oxford Brookes and expert theatre trainers working with business

Risk

9. The company is seeking to minimise the risk of calling on the guarantee in the following ways:

The company will be working closely with the dedicated fund-raising team at Crisis to maximise income. The head of Crisis fund-raising estimated an income to the Arts at the OFS of between 35K and 55K. The Business Plan has worked to the lowest end of this estimate in order to minimise risk.

Project Fund-raising is likely to be a rich source of funds in the future, and already Arts at the OFS has secured an Arts Council Grant in partnership with Oxford Dance Forum, which will bring in an income of 13K in the first year. But again more project bids will take time to come to fruition.

Hire income from confirmed interest in Year 1 is already at £47K, and that is without any formal marketing of commercial hires taking place, so there is potential for this to increase.

The company's risk log is attached in Appendix 3.

Climate change / environmental impact

10. There are no further climate change / environmental impact implications in this report.

Equalities impact

11. There are no further equalities impact implications to this report.

Financial implications

The company's business plan sets out a significant cash shortfall in the early years of operation. Income from fundraising has been projected on a prudent basis but is subject to significant risk.

The company is seeking a third sector loan facility of up to £115,000. Current indicative terms are that this loan would be provided for a term of five years at a fixed interest rate of 6% and an arrangement fee of 1% of the facility. Drawdown arrangements have not been determined but the facility would not revolve (i.e., early repayments would not be available to be redrawn). Other loan terms and conditions are not yet available but would probably require the provision of regular management information to the bank.

The company has asked the Council to act as guarantor for the loan facility and it is unlikely that it would be able to obtain funding without this. The guarantee would only be exercised in the event of a default by the company and would be limited to the liability of the company under the agreement. This would be likely to include the principal amount outstanding, accrued interest and unpaid fees. No draft wording for the guarantee is yet available and this report's recommendation is that authority to negotiate the terms of a guarantee is delegated to the Director of Finance and Efficiency.

The company's business plan demonstrates financial viability if the underlying assumptions are valid. These have been reviewed by the Council's finance staff and they are reasonable. A loan or overdraft facility is required to support the company through its initial period of operation. The business plan indicates a peak funding requirement of £35k but this may be insufficient if fundraising income is less than expected. The proposed £115k facility is based on a failure to achieve fundraising targets.

The company will provide management accounts to its lender and expects to be required to explain any funding requirement above £35k. It has also agreed to provide management accounts to the Council and to discuss its financial performance on a regular basis.

Legal Implications

12. This report is presented on the basis that Oxford City Council holds the power to act as a guarantor of the loan facility referred to above. This

power would be derived from the Local Government Act 2000 s.2 (the Well-Being power), and all other enabling legislation, so to proceed on this basis the single executive member must be satisfied that by guaranteeing the loan facility to Arts at the Old Fire Station Limited the Council would be promoting the social and economic well-being of the area.. The commencement and operation of the Old Fire Station project has required the creation and recording of a number of legal relationships between the parties. These include a lease with Crisis, a sub-lease from Crisis to the Arts Company and a Management Agreement with Oxford City Council. Appropriate contracts have been drawn up by Oxford City Council's legal team.

13. An agreement would need to be entered into with the lender to give effect to these guarantee proposals. To ensure that the Council's interests are properly protected, the terms of any such agreement are first to be approved by the Corporate Director, Finance and Efficiency.

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