

LOAN TO ARTHUR RANK HOSPICE

To: **General Purposes Committee**

Date: **4th November 2014**

From: **Chief Finance Officer**

Electoral division(s): **Sawston**

Forward Plan ref: **2014/036** *Key decision:* **Yes**

Purpose: **To consider a loan to the Arthur Rank Hospice and seek the authority from General Purposes Committee to provide such a loan subject to due diligence.**

Recommendation: **The General Purposes Committee is recommended to:**

- a) Approve, in principle, a loan to the Arthur Rank Hospice, subject to satisfactory due diligence and appropriate security being obtained.**
- b) Delegate negotiation of the terms of the loan, the precise amount and the execution of all the necessary contractual arrangements to the Chief Finance Officer and LGSS Director of Law, Property and Governance, in consultation with the Chairman of General Purposes Committee.**

| <i>Officer contact:</i> | |
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1. BACKGROUND

- 1.1 The Arthur Rank Hospice Charity is planning to build a 24 bed hospice on land leased from the County Council in Shelford. The Charity is seeking to raise funds from a number of different sources including loan finance from the Local Enterprise Partnership and the County Council. In addition the Charity is set to transition to independence during the next couple of years, which will give it further opportunity to apply for funding that it is currently prohibited from applying for, due to the fact that the Hospice itself is currently managed by the NHS.
- 1.2 It is noted that the Chief Executive, Mark Lloyd will not partake in the discussion of this report or the loan due to his role with the Charity as a Trustee.
- 1.3 This report explains the purpose of the loan and the issues and risks for the Council and how they will be managed.

2. THE NEW HOSPICE

- 2.1 The new hospice, which should be completed in July 2016, is likely to comprise of 12 beds for specialist palliative care and 12 beds for nurse led palliative care, offering non complex end of life care where clinical care is needed but not necessarily medical (i.e. 24 hour consultant cover). It could also provide respite and/or 'step up – step down' beds. The Charity currently have a very large hospice at home service and the new building would provide patients, with non complex care requirements, with an alternative to this. The hospice has been designed to enable dual levels of care to be provided and will also provide day therapy, lymphoedema support and bereavement counselling.
- 2.2 The Charity has received expressions of interest from prime vendors outlining their intention to sub-contract to the hospice.

3. FUNDRAISING AND LOAN DETAILS

- 3.1 The total cost of the build is estimated to be £11.002m, and financing is expected to be sourced as follows:
 - Local Enterprise Partnership - £0.5m (still only early discussions)
 - Cambridgeshire County Council - £4.0m (maybe higher depending on specific fundraising)
 - Reserves set aside by the Charity- £4.225m
 - Specific fundraising - £2.277m
- 3.2 The £4m loan sought from the County Council is expected to be drawn down in two tranches, in November 2015 and February 2016. A loan term of 25 years is assumed and interest and capital repayments will be made from the outset.
- 3.3 The rate of interest charged will reflect the risks in making such a loan and will meet EU requirements for State Aid if relevant. As a minimum the interest rate charged will be based on the Council's cost of borrowing plus a margin of 1% to cover risks

in loaning the funds. The interest rate will be finalised following further due diligence.

- 3.4 All costs associated with setting up, administering and arranging the loan, such as legal costs and due diligence work undertaken internally or externally, will be fully recovered in a one off arrangement fee charged to the Charity.

4. LOAN SECURITY

- 4.1 When providing loans to organisations the Council should seek to minimise the risk of default and ensure the security of its capital. The land on which the Hospice is to be built is leased from the County Council on a 99 year lease. This somewhat reduces the risk of capital losses to the Council if the Charity or hospice ceased to function, as it could be expected that the land and building would return to the Council, to either let or sell.
- 4.2 To minimise the risk of capital losses the new building has been offered as security for the Council loan. Given the build costs are approximately £11m it would be expected that the asset value would be significantly in excess of a loan provided by the Council, and therefore provide protection in the event of default.

5. BUSINESS CASE

- 5.1 The business case provided by the Arthur Rank Hospice Charity demonstrates that interest and capital repayments can be met from the assumed levels of funding after operational expenses.
- 5.2 A full analysis of the business plan, including assumptions around securing new contracts for end of life care, will be carried out during detailed due diligence. Only if this analysis is satisfactory will the loan be agreed.

6. FUNDING THE LOAN

- 6.1 The loan provided by the Council will be used to fund the construction of a new building. Accounting regulations require that the giving of a loan, grant or other financial assistance to any person, whether for use by that person or a third party, towards expenditure, which would, if incurred by the authority be capital expenditure, shall be treated as capital expenditure. The capital expenditure will be funded from the repayment of the loan, therefore MRP (Minimum Revenue Provision) will not be charged to revenue and this is considered to be suitably prudent.
- 6.2 The Council may finance the loan from existing cash balances or undertake borrowing to on lend, depending on circumstances nearer to the time the loan is drawn down.

7. ALIGNMENT WITH CORPORATE PRIORITIES

7.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

7.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

7.3 Supporting and protecting vulnerable people

The implications for this priority are set out in paragraph 2.

8. SIGNIFICANT IMPLICATIONS

8.1 Resource Implications

The implications are covered in the main body of the report.

8.2 Statutory, Risk and Legal Implications

Power to give financial assistance

Local authorities have powers under the Localism Act 2011 (General Power of Competence provided under Part 1 of the Act) to act in the same manner as any other legal person, save where those powers are specifically limited by statute. The making of loans would be permissible, subject to any statutory financial services or similar regulations that may be relevant. The fiduciary duty of the Council to tax payers would require that there should be sufficiently robust arrangements concerning the repayment of any loans provided and adequate tangible security in place to cover the position in the event of default.

State Aid requirements

The Council will need to comply with EU law in relation to 'State Aid' in the methodology of providing any direct or indirect financial support to the Hospice, to assist in the wider economic and social well-being of the city and wider county. There are certain exemptions from 'State Aid' and the Council will need to ensure that the terms of any support provided are consistent with those.

8.3 Equality and Diversity Implications

There are no significant implications within this category.

8.4 Engagement and Consultation Implications

There are no significant implications within this category.

8.5 Localism and Local Member Involvement

There are no significant implications within this category.

8.6 Public Health Implications

There are no significant implications within this category.

| Source Documents | Location |
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| Request for loan from Arthur Rank Hospice Charity | Box No: Res1211 Room No.301 Shire Hall Castle Hill Cambridge CB3 0AP |