

## **CASTLE TOWARD – COMMUNITY BUY OUT PROPOSALS**

---

### **1.0 EXECUTIVE SUMMARY**

- 1.1 This report provides advice to the Council in relation to the proposed community buy out of Castle Toward and associated estate by the South Cowal Community Development Company (SCCDC) following a review of the associated business plan. The report is informed by discussions conducted by the Head of Economic Development & Strategic Transportation and the Economic Development Manager with the SCCDC, including detailed responses submitted by SCCDC representatives to Economic Development further to questions and queries raised at the Policy and Resources Committee on 21<sup>st</sup> August 2014.
- 1.2 The Council's Economic Development Service has reviewed the revised submitted SCCDC Business Plan as discussed with SCCDC at the meeting with the Economic Development Manager on 2<sup>nd</sup> October 2014. The view of Economic Development is that a case has been made, based on the revised business case, that bringing Castle Toward back into productive use has the potential to deliver a significant level of economic and social benefits. The anticipated potential economic, social and community benefits to be realised can be demonstrated to more than outweigh the value of the requested discount. However, the business case is predicated on grant funding that is not certain and not guaranteed and, on that basis, contains serious risk and uncertainty. In addition the viability must also be seen against the considerations of state aid. Advice from the Scottish Government's State Aid Unit is that the level of risk assessed is low to medium (based on information provided). The option of a loan to SCCDC on a commercial basis for the £1m, or a sub commercial loan, would avoid or reduce the risk of the requested discount being deemed to breach state aid legislation.
- 1.3 It is recommended that the Committee:
- a) notes the content of the report;
  - b) notes the key findings arising from the economic impact assessment and the viability/achievability of the revised SCCDC Business Plan;
  - c) notes the State Aid implications as advised by the Scottish Government's State Aid Unit; and
  - d) considers the options outlined in regard to the possible disposal of the Castle Toward Estate and the risks associated with each option as set out in paragraph 7 of this report.



Following intimation by the Council on 7<sup>th</sup> February of its intent to sell Castle Toward, SCCDC were officially notified by the Scottish Ministers and from the date of official notification, 13<sup>th</sup> February, SCCDC had thirty days to confirm to the Scottish Ministers of its intent to proceed with the Community Right to Buy process. SCCDC sent official notification of its intent to proceed with an acquisition on 15<sup>th</sup> March.

Thereafter the Scottish Government appointed a valuer (the District Valuer) to assess the market value of the property. The District Valuer returned a property valuation of £1.75m which was close to the valuation of £1.8m produced by DM Hall Baird Lumsden who were appointed by the Council to market the estate. In representation to the District Valuer within that process, SCCDC did not submit a formal valuation report but provided some comments from their agents, Savills. These comments indicated a lower value but specifically stated that their comments should not be taken as a formal valuation of the property.

Given the relatively close alignment between the Council's valuation and the District Valuer's valuation, the recommendation agreed by the Council's Policy and Resources Committee on 15<sup>th</sup> May 2014 was to not submit an appeal against the valuation. At that meeting, the Committee agreed a delegation to the Executive Directors of Community Services and Customer Services to negotiate the disposal of the property offering a discount of up to 5% of the District Valuer's valuation subject to the submission of a robust and sustainable business case by SCCDC which details the benefits to the community that could justify the requested discount. This level of discount had been intimated to officers in meetings with SCCDC in May 2014 however, subsequently in June 2014, SCCDC indicated that even if successful with a Land Fund application for £0.750m, the Company was unable to meet the District Valuer's valuation of £1.750m. A request for the Council to consider applying a discount of £1m to the valuation provided by the District Valuer was therefore made by SCCDC.

On 21 August 2014, the Committee considered this matter and in particular the request that the purchase price be discounted by £1M, and agreed to:

- a) note the key findings arising from the Council's Economic Development Service review of the SCCDC Business Plan
- b) note the findings of the parallel assessment carried out by Highland and Islands Enterprise (HIE)
- c) note the consideration of alternative acquisition funding sources
- d) note the appeal by SCCDC in relation to the District Valuer's valuation to the Lands Tribunal
- e) note the advice received from the Scottish Government's State Aid Unit contained in the report to the Committee on 21 August 2014 that there is a high risk the proposed discount would breach state aid rules and require state aid cover.
- f) continue a final decision on the request for a discount of £1m from the valuation of £1.75m until:
  - (i) SCCDC provide evidence that the discount along with other public subsidy to support their business plan does not breach state aid rules or that state aid cover is in place

- (ii) SCCDC provide clarity on the outstanding elements of the Business Plan as identified in Appendix 3 to this report (to Committee of 24 August 2014) in order the Economic Development Service can provide a definitive assessment of the proposals in terms of the Disposal of Land by Local Authorities (Scotland) Regulations 2010
- h) extend the Right to Buy deadline for the conclusion of the purchase of the Castle Toward estate until 31<sup>st</sup> December 2014 to allow the above actions to be completed

Following the above decision, SCCDC decided to withdraw their appeal against the Valuation.

4.2 A letter of notice under section 51(5) of the Land Reform (Scotland) Act 2003 (“the Act”) dated 22<sup>nd</sup> October 2014, was received by Argyll and Bute Council from the Scottish Government. The notice was in the following terms: “In terms of section 51 of the Act, the Scottish Ministers have considered the application by South Cowal Community Development Company (SCCDC) to buy land including a “B” listed Mansion House (Castle Toward), two cottages and a gate lodge, surrounded by 142.7 acres of woodland and parkland and two smaller areas (part of two Chinese lakes) containing a private water supply, on the tip of the Cowal Peninsula, Argyll and Bute. The Ministers now give consent for SCCDC to proceed to buy the land.”

#### 4.3 Disposal of Land by Local Authorities (Scotland) Regulations 2010

In relation to the possible disposal to SCCDC at less than best consideration, the Council requires to comply with the requirements of the Disposal of Land by Local Authorities (Scotland) Regulations 2010 and the related Scottish Government Guidance. The regulations require that local authorities, before deciding in favour of a disposal at less than best consideration, appraise and compare the costs and other dis-benefits and benefits of the proposal, taking account of all relevant factors, all available options and all relevant information. The Guidance contains a recommendation that local authorities demonstrate that there has been a rigorous evaluation supported by evidence that makes it clear how they have reached their decision and sets out examples of criteria for consideration when making an assessment of a proposal. The option for the disposal to SCCDC at less than best consideration together with other possible options are considered in **paragraph 7** hereof.

In relation to the specific requirement of the Council’s decision, Regulation 4 of the 2010 Regulations provides as follows:

- 1) the circumstances in which a local authority may dispose of land for a consideration less than the best that can reasonably be obtained are that:
  - a. the local authority is satisfied that the disposal for that consideration is reasonable, and
  - b. the disposal is likely to contribute to any of the purposes set out in paragraph 2), in respect of the whole or part of the area of the local authority or any persons resident or present in its area.
- 2) those purposes are the promotion or improvement of:

- a. economic development or regeneration;
- b. health;
- c. social well-being; or
- d. environmental well-being.

The required evaluation has been undertaken by the Council's Economic Development Services and the conclusions of the evaluation are set out in **Section 4.4** below with more detail on the derivation of the economic impact assessment contained in **Appendix A**.

#### 4.4 Economic Impact

4.4.1 The detailed information on the derivation of the economic impact assessment is contained in **Appendix A**. The economic impact assessment has two key elements:

- 1) the economic impact of the refurbishment of the Mansion House, Castle Toward by an inward investor and its operation as an outdoor activity centre; and
- 2) the economic impact of the Gate House development in the revised Business Plan which will be leased by SCCDC to South Cowal Community Trading Company (SCCTC), the hydro renewable energy proposal to be taken forward by South Cowal Renewable Energy (SCRE)<sup>1</sup> and eco-camping.

#### 4.4.2 Conclusion on Economic Impact:

4.4.2.1 Based on the information provided to them, the Council's Economic Development Services accept that a case has been made that taking the two elements of this development together and bringing Castle Toward back into productive use has the potential to deliver a significant level of economic and social benefits (88 FTE plus jobs and £1.8m GVA per annum). In addition, it has the potential to provide an opportunity to showcase Argyll and Bute to large numbers of young people annually, illustrating the high quality of life and natural environment available in this part of the world and potentially contributing directly to population increase. This view is also shared by HIE as outlined in **Appendix C** hereof.

4.4.2.2 Furthermore, the proposed economic and social benefits to the South Cowal community could help to provide employment opportunities in an area with one of the highest unemployment rates in the Highlands and Islands area. In addition, the development offers a particularly important opportunity for Argyll and Bute as a whole.

4.4.2.3 The anticipated potential economic, social and community benefits to be realised can be demonstrated to more than outweigh the value of the discount. Therefore, it is possible to conclude that the assessment of the economic impact demonstrates that there is an economic benefit in terms of the Disposal of Land by Local Authorities (Scotland) Regulations 2010.

---

<sup>1</sup> SCCTC and SCRE- will both be trading subsidiary companies, limited by shares, with SCCDC holding the entire share capital.

#### 4.5 Viability/Achievability of the Revised Business Plan

4.5.1 Further to the detailed discussions at the Policy and Resources Committee, 21<sup>st</sup> August 2014, a detailed list of questions and queries from Committee members (many on the Business Plan) was provided by the Council's Economic Development Service to the representatives from SCCDC by e-mail on 5<sup>th</sup> September following a face-to-face meeting in Lochgilphead on the same day. SCCDC was given to the end of September to reply. Responses were collated and sent back to Economic Development on the 26<sup>th</sup> and 29<sup>th</sup> September 2014. The Economic Development Manager then met with representatives from SCCDC at Castle Toward on 2<sup>nd</sup> October 2014 to review the information provided. The financial projections and key assumptions within the revised SCCDC Business Plan, including responses by SCCDC to issues raised with regard to the Business Plan at the Policy and Resources Committee on 21<sup>st</sup> August are outlined in detail in **Appendix B**. In addition HIE are in discussion with the potential tenant for the mansion house lease and at this point are awaiting cost information and detailed financial projections which will be fundamental to the potential for HIE investment.

#### 4.5.2 Conclusion on Viability/Achievability of the Revised Business Plan:

4.5.2.1 From the information outlined in **Appendix B**, the viability and deliverability of the revised Business Plan is dependent on being fully funded from the public purse including that Argyll and Bute Council agrees to discount the District Valuer's valuation by £1m. SCCDC has stated clearly to representatives of the Council's Economic Development Service that the acquisition of the land will only be feasible with the £1m discount and if a leisure provider can be secured to take over the Mansion House – the community has no desire to run the Mansion House as an outdoor activity facility.

4.5.2.2 Although supportive of the potential economic impact to be derived from this development, the Council's Economic Development Service is concerned that the financial viability of the revised Business Plan rests solely on public sector grant funding support, particularly for the first three years of the development. In addition, the specific grant schemes cited in the Business Plan, such as the Big Lottery Growing Community Assets Programme are open to competition and grant funding is not guaranteed. Other schemes such as the Argyll and the Islands LEADER programme will not be launched until early 2015. In the medium to longer-term, SCCDC's income stream will be reliant on receipts from the lease of the Mansion House and rental income from the other proposed developments, such as the Gate House. The business case is therefore predicated on grant funding that is not certain and not guaranteed. On that basis the view of Economic Development is that the business case contains serious risk and uncertainty. In addition the viability must also be seen against the considerations of state aid, set out in **paragraph 4.6** hereof, and the risk to the overall viability and deliverability that this poses.

## 4.6 State Aid Considerations

- 4.6.1 Members were previously advised, in the report to the P&R committee of 21 August 2014, that the Council had obtained advice from the Scottish Government's State Aid Unit on the possible State Aid issues and such advice indicated that the four tests appear to be met by the proposal meaning it should be regarded as a High (red) risk that state aid rules would be breached.

Updated advice from the Scottish Government's State Aid Unit has been obtained by the Executive Director of Community Services and is provided at Appendix D hereof. The advice from the Scottish Government's State Aid Unit is that State Aid is now considered to be a low to medium risk based on the information provided to and relied on by them. This information has, it is understood, been provided by SCCDC and their preferred commercial tenant.

The Scottish Government's State Aid Unit advise:

"The measure proposed has a low to medium risk of aid as a case could be made that test 4 has not been met and the risk of distortion to intra community trade is unlikely. Supporting evidence should be held and made available if necessary.

However aid could also be reduced or avoided by offering;

1. a loan at commercial rates to SCCDC for the market value of the property to avoid state aid.
2. Or/ consider a sub commercial loan using de minimis to cover the difference in the market interest rate and the rate offered.
3. Regional aid and Investment aid to SME's can both offer up to 35% for a small enterprise in an 'pre-defined' assisted area."

Subsequent clarification with the State Aid Unit has resulted in them revising their view on Regional Aid and confirming that this is not, in this instance, an avenue for provision of funding that would be exempted as state aid.

Having regard to the matter of State Aid and the level of risk assessed at low to medium (based on information provided) the option of a loan to SCCDC on a commercial basis for the £1m, or a sub commercial loan, would avoid or reduce the risk of state aid and provide what is known as State Aid cover. Any such loan could possibly be structured, on a commercial basis, to allow for softer loan arrangements for a period at the commencement of the loan, increasing the payments in subsequent years so that the correct amount is paid back over an agreed period of time aligned to a market rate of interest.

If such an option for a commercial loan were to be pursued, agreement with SCCDC would be required to ascertain their willingness and ability to agree any such loan with appropriate advice to ensure that the loan could be defended as an appropriate commercial arrangement that would not be seen as state aid. At this stage, SCCDC have advised that their business plan would not support a loan (see **Appendix E**).

Any option for a sub commercial loan would only partially address the risk of a successful challenge in respect of state aid in the sale to SCCDC. The difference in what would be considered the commercial rate and the sub-commercial rate may be considered as state aid.

## 5. FURTHER INFORMATION FROM SCCDC

- 5.1 The P&R Committee of 21<sup>st</sup> August 2014 agreed to:
- a) continue a final decision on the request for a discount of £1m from the valuation of £1.75m until:
    - (i) SCCDC provides evidence that the discount along with other public subsidy to support their Business Plan does not breach State Aid rules or that State Aid cover is in place; and
    - (ii) SCCDC provides clarity on the outstanding elements of the Business Plan as identified in **Appendix B** to this report in order the Economic Development Service can provide a definitive assessment of the proposals in terms of the Disposal of Land by Local Authorities (Scotland) Regulations 2010.
- 5.2 The Council has received updated advice from the Scottish Government's State Aid Unit that SCCDC's business plan has a low to medium risk in respect of state aid. The matter of State Aid is addressed in **paragraph 4.6** hereof.
- 5.3 Whilst SCCDC has provided responses to the issues raised as shown in **Appendix B**, these did not provide full clarity on all matters and further questions were put to them and answers received. These subsequent questions and answers are set out in **Appendix E**.  
SCCDC have advised that it is their intention to provide further information and if that is made available by SCCDC prior to the consideration of matters by members at the Policy and Resources Committee, members will be advised of this.

## 6. FURTHER CONSIDERATIONS FOR DISPOSAL

- 6.1 The P&R Committee previously agreed to extend the Right to Buy deadline for the conclusion of the purchase of the Castle Toward estate until 31<sup>st</sup> December 2014 to allow the above actions to be completed.
- 6.2 It is open to the Council at any time during the ongoing process to agree to delay the date of payment beyond 31<sup>st</sup> December 2014 of the purchase price. In the event that the purchase price is not paid by the agreed extended date, or by such later date as both parties may agree, the community right to buy interest will terminate as a result of such failure. In such circumstances it remains open to the Council to negotiate a sale to SCCDC or indeed to any other third party.
- 6.3 The Assessment from the Council's Economic Development Services accepts that a case has been made that bringing Castle Toward back into productive use has

the potential to deliver a significant level of economic and social benefits. However, the business case is predicated on grant funding that is not certain and not guaranteed. On that basis the business case contains serious risk and uncertainty. The Council, in considering whether to grant a discount or provide a commercial loan faces risk in regard to state aid in the case of a discount and commercial risk and uncertainty in the event of a commercial loan. In either event there is risk to the Council. There is additional reputational risk that the Council are providing a loan that may not be free from risk to an outside body at a time when capital is required by the Council for a number of high profile projects. Audit Scotland have indicated in their annual report that they will continue to monitor the sale of Castle Toward and have made direct contact with the Council's S 95 officer in regard of the Council's ongoing consideration of the matter.

- 6.4 In the event that the Council considers that it is in a position to dispose of the subjects to SCCDC at less than best consideration, any such agreement would most likely require to be conditional to protect the Council's short term and long term interests.

The types of conditions which could be considered by Members include:

1. Conditions on agreement on appropriate timescales and time limits (as examples time limits for submitting any planning permissions that may be required, time limits for exhibition of agreement to lease etc.).
2. Conditions on obtaining all necessary planning and other permissions for developments/upgrading of mansion etc.
3. Conditions on exhibition of final Business Plan and securing of grant funding required in early years of the proposal in terms satisfactory to Council.
4. Conditions on satisfactory evidence/legal opinion being provided on behalf of SCCDC to demonstrate that State Aid issues will not impact on viability of SCCDC's Business Plan.
5. Conditions requiring exhibition of a legally binding agreement to lease being entered into between SCCDC and developer in terms deemed satisfactory by the Council and consistent with the final Business Plan.
6. Conditions on satisfactory evidence being provided to Council that the mansion house will be improved to a standard and within a timescale deemed acceptable by the Council.
7. Conditions on title being taken in name of community, satisfactory evidence being provided that all income and benefits will accrue to community.
8. Conditions required continued public access to Toward Castle.
9. Conditions requiring that performance of all of the foregoing in so far as not completed by entry to be secured by a first standard security over the whole property in favour of the Council in respect of the amount of any agreed discount.

The possibility of these conditions has been raised with SCCDC. Reference is made to the responses from SCCDC detailed in **Appendices B and E hereof**.

#### 6.5 Section 95 Officer Comments

The 2010 regulations require the Council to obtain best consideration on disposal of assets. The regulations permit the Council to have regard to any compensating

economic, social and community benefits where it is proposed to dispose of an asset at less than best consideration. Whilst it is a value judgement for members to make in considering the economic, social and community benefits against the DV valuation and any potential discount to that the following points should be considered.

- The report sets out the economic benefits arising from the proposal by SCCDC in terms of jobs and GVA.
- The economic benefits are based on the business plan as submitted by SCCDC and this is predicated on a discount of £1m from the DV valuation.
- There are no state aid issues from the Council's perspective if the asset is disposed to SCCDC at the DV valuation. Advice has been received that awarding a discount of £1m is likely to see the transaction fall into the category of a low to medium risk in terms of state aid. A discount of less than £1m may also impact on state aid depending on its scale.
- The proposed expenditure in the business plan in the early years particularly in relation to the renovation of the gatehouse is predicated on grant funding of £1.1m that is not certain and not guaranteed and on that basis there is serious risk and uncertainty.
- The business plan in later years assumes income from rental of the mansion house based on £40,000 per annum (inflated). This results in a cash surplus of £110,000 by 2025. If the annual rental negotiated was closer to the top of the range of £100,000 then the cash surplus in 2025 would be around £640,000. The business plan does not set out how these cash surpluses would be used which is perhaps not surprising given they are projections 10 years into the future but the Council would want assurance that any cash surplus was properly invested for community benefit.
- The business plan of SCCDC is largely dependent on the receipt of rental income from a potential inward investor. The bullet point above sets out the differing impact the level of this rental has on the cash surplus of SCCDC. These forecasts are based on the Council granting a £1m discount to the purchase price. If the Council were to grant a loan rather than a discount then it is estimated a full commercial loan would require payments of between £80,000 and £90,000 per annum to meet repayments and interest costs. Repayment of a loan on commercial terms is only likely to be affordable to SCCDC if they are able to secure a rental for the mansion house which is at the top end of the range of market estimates they have (£100,000) and in these circumstances there would need to be some form of deferred repayments in the initial years. A sub commercial loan would range from payments of £50,000 (no interest charged) to £75,000 (interest charged at 4%). To afford repayments on a loan that was on sub commercial terms and with initial repayments deferred would still require SCCDC to secure a rental for the mansion house that was between £25,000 (assuming no interest charged) and £50,000 (assuming interest charged at 4%) more than the £40,000 per annum included in the business plan currently.
- A capital receipt of £2.2m from the disposal of Castle Toward was built into the Council's capital plan ring fenced for investment into the education estate in February 2012. A disposal at the DV valuation will see a shortfall on the assumed capital receipt of £0.45m. If a discount of £1m is given to SCCDC then the shortfall is £1.45m. The Council would need to address this at the next review of the capital plan.

- If sale and transfer of Castle Toward does not take place the Council will be faced with ongoing security costs of £14,000 per month as well as exposure to potential maintenance costs.

## 7. OPTIONS

7.1 There are further options that may be open for consideration:

### 7.1.1 Option 1

The Council agrees to dispose of the Castle Toward Estate to SCCDC at the discounted price of £0.75m providing a discount of £1m from the DV's valuation.

The economic impact of this and the viability and deliverability in the context of State Aid have been outlined above.

The Council's Economic Development Service is concerned that the financial viability of the Business Plan rests solely on public sector grant funding support. The business case is therefore predicated on grant funding that is not certain and not guaranteed. In addition the matter of state aid, considered to be a continuing risk, is now assessed as low to medium risk. On that basis the business case contains serious risk and uncertainty.

The guidance from the Scottish Government in regard to the Disposal of Land by Local Authorities (Scotland) Regulations 2010 states amongst others that:

"When disposing of land at less than best consideration that can reasonably be obtained, local authorities are viewed to be providing a subsidy to the owner, developer and/or the occupier of the land and property, depending on the nature of the development. Where this occurs, authorities must ensure that the nature and amount of subsidy complies with the State aid rules, particularly if there is no element of competition in the disposal process. Failure to comply with the rules means that the aid granted is viewed as unlawful and may result in the benefit being recovered with interest from the aid recipient."

In addition, the £1m discount would need to be addressed in the 2016/17 Capital Plan where it was assumed, prior to the District Valuer's value, that the receipt from Castle Toward would be £2.25m. Consideration should also be given to the ongoing costs of £14k per month that the Council is exposed to through continued ownership of Castle Toward.

The view of the Scottish Government's State Aid Unit is that, based on the information provided, there is a low to medium risk the proposed discount of £1m would breach state aid rules and require state aid cover. A breach of State Aid would be unlawful and would clearly run contrary to the guidance from the Scottish Government in regard to the Disposal of Land by Local Authorities (Scotland) Regulations 2010 referred to above.

This would be subject to a range of conditions which require to be negotiated with SCCDC in order to safeguard the council's interest in relation to the discount.

### 7.1.2 Option 2

The Council agrees to dispose of the Castle Toward Estate to SCCDC at the full value of £1.75M with £1M in respect of the purchase price being provided to SCCDC on a commercial loan basis. This would be subject to a range of conditions which require to be negotiated with SCCDC in order to safeguard the council's interest in relation to the loan. At this stage, SCCDC have advised that their business plan would not support a loan (see **Appendix E**).

The economic impact of this and the viability and deliverability in the context of State Aid have been outlined above.

This would address the risk of a successful challenge in respect of state aid in the sale to SCCDC and would make the sale compliant with the Disposal of Land by Local Authorities (Scotland) Regulations 2010 referred to above.

This would address the matter of the Council's capital plan in part. The matter of ongoing costs would remain until disposal.

### 7.1.3 Option 3

The Council agrees to dispose of the Castle Toward Estate to SCCDC at the full value of £1.75M with £1M in respect of the purchase price being provided to SCCDC on a sub commercial loan basis. . At this stage, SCCDC have advised that their business plan would not support a loan (see **Appendix E**). This would be subject to a range of conditions which require to be negotiated with SCCDC in order to safeguard the council's interest in relation to the loan.

The economic impact of this and the viability and deliverability in the context of State Aid have been outlined above.

This would only partially address the risk of a successful challenge in respect of state aid in the sale to SCCDC. The difference in what would be considered the commercial rate and the sub-optimal rate may be considered as state aid.

This would address the matter of the Council's capital plan in part. The matter of ongoing costs would remain until disposal.

### 7.1.4 Option 4

No agreement can be reached and Castle Toward Estate is not sold to SCCDC but is put up for sale or lease on the open market on expiry of the community right to buy.

Under this option the economic and social benefits to be derived from the redevelopment of the Mansion House as an outdoor activity centre could still be realised. However, this consideration would mean the potential loss of the 20 FTE jobs that would be derived from the proposed SCCDC developments for the rest of the estate. SCCDC can only take their developments forward in the medium to

longer-term through receipts from the lease of the Mansion House to a leisure provider.

Argyll and Bute Council Economic Development staff (which includes Business Gateway) could continue to provide support to SCCDC in partnership with HIE and other agencies to look at ways in which their aspirations may be achieved. Council services on offer include business advice, free credit checks on the interested provider, market intelligence information and relevant contact with the Argyll and the Isles Strategic Tourism Partnership with regard to potential target markets and occupancy rates. Furthermore, the Council’s Social Enterprise Team can continue to provide support, specifically around the development and facilitation of future funding packages (including the identification of appropriate funds), funding development plans and providing feedback on funding applications.

Any sale or lease under this option would be at market value. This would directly address the matter of State Aid and would address in part the issue in regard to the Council’s capital plan. The matter of ongoing costs would remain until disposal. Marketing costs would be incurred that would be determined at that point through a tender exercise.

#### 7.1.5 Option 5

The community right to buy expires. The Council is in a position to market the estate for sale or lease at a time advised by the Council’s property consultants. The consultants may recommend delaying the marketing of the property for several months with a view to securing an improved price or rental in more favourable market conditions.

Any sale or lease under this option would be at market value. This would directly address the matter of state aid and would partly address the issue in regard to the Council’s capital plan. However, the risk with this option is that the proposed economic, social and community benefits that could be realised for this local fragile area of Argyll and Bute are further delayed with the risk that they may be lost.

The matter of ongoing costs would remain until disposal. Marketing costs would be incurred that would be determined at that point through a tender exercise.

An overview of the Key risks associated with the options can be seen as follows;

|  | Is the State Aid risk addressed? | Is it likely the option will achieve an economic benefit? | Does the option minimise any shortfall in the Council's capital plan? | Would the option address the matter of ongoing costs within a reasonable time? |
|--|----------------------------------|---|---|--|
| <b>Option 1</b> the Council agree to dispose of the Castle Toward Estate to SCCDC at the discounted price of | x                                | ✓   | x   | ✓  |

|  |   |   |                 |   |
|--|---|---|-----------------|---|
| £0.75m providing a discount of £1m from the DV's valuation   |   |   |                 |   |
| <b>Option 2</b> The Council agrees to dispose of the Castle Toward Estate to SCCDC at the full value of £1.75m with £1m in respect of the purchase price being provided to SCCDC on a commercial loan basis      | ✓ | ✓ | ✓               | ✓ |
| <b>Option 3</b> The Council agrees to dispose of the Castle Toward Estate to SCCDC at the full value of £1.75M with £1M in respect of the purchase price being provided to SCCDC on a sub commercial loan basis. | x | ✓ | ✓<br>See note 1 | ✓ |
| <b>Option 4</b> No Agreement can be reached and Castle Toward Estate is not sold to SCCDC, but is put up for sale or lease on the open market on expiry of the community right to buy.                           | ✓ | ✓ | ✓               | ✓ |
| <b>Option 5</b> The community right to buy expires. The Council is in a position to put the Estate up for sale or lease at a time advised by the Council's property consultants.                                 | ✓ | ✓ | ✓               | x |

Note 1 - Assuming the rate of interest whilst sub commercial covers the Council's borrowing costs

## 8. CONCLUSION

### 8.1

In relation to the requested discount of £1M, the report highlights the following significant matters which require to be taken into account in reaching a decision:

1. SCCDC has registered a right to buy the property and the Council has already agreed to extend the date by which this must be exercised to 31 December 2014.
2. In the event that the sale to SCCDC and the proposed agreement between SCCDC and the Leisure Provider proceed, there is likely to be a significant level of economic and social benefit, as well as offering a potential to showcase Argyll and Bute to large numbers of people and potentially contributing to population increase.
3. The SCCDC Business Case is considered to contain serious risk and uncertainty.
4. There is a medium to low risk that the award of a discount of £1M will breach State Aid rules.
5. The provision of a commercial loan of £1m by the Council to SCCDC is likely to address the State Aid concerns. At this stage, SCCDC have advised that their business plan would not support a loan (see **Appendix E**).
6. The provision of a sub commercial loan of £1m by the Council to SCCDC is likely to only partly address the State Aid concerns. At this stage, SCCDC have advised that their business plan would not support a loan (see **Appendix E**).
7. There remains the possibility that the Council will be able to secure the economic and social benefits to be provided by the Leisure Provider should the Council become able to market the property on the expiry of the Community Right to Buy.
8. A sale at discount or with financial assistance being provided by the Council by way of commercial or sub commercial loan would require further discussions with SCCDC to agree suitable conditions to protect the Council's interests.

## 9. IMPLICATIONS

9.1 Policy: If the proposed agreement with the leisure provider proceeds and the business plan of SCCDC is implemented the proposals of SCCDC could in general assist towards achieving the Council's objectives of securing the economic and social outcomes within the Council's Single Outcome Agreement.

9.2 Financial: The anticipated capital receipt based on the District Valuer's valuation is £1.75M which would be ring fenced for investment in the Council's Education estate. The request from SCCDC is for the Council to discount the purchase price by £1m which would reduce the receipt available to invest in the education estate by that value. The Council's capital

programme however has an assumed receipt of £2.25m arising from the sale of Castle Toward.

|                      |  |
|----------------------|--|
| 9.3 Legal:           | The community buy out process is in compliance with the Land Reform Act 2003 and SCCDC has received an approval notice from Scottish Ministers, 22 <sup>nd</sup> October 2014, authorising SCCDC to buy the Castle Toward Estate. Any discount granted must be in accordance with the Disposal of Land by Local Authorities (Scotland) Regulations 2010 and State Aid rules. Detailed advice on these matters is contained within the Report. With particular regard to State Aid, the proposed discount, in the view of the Scottish Government's State Aid Unit carries a low to medium risk that it breaches State Aid rules.   |
| 9.4 HR               | None   |
| 9.5 Equalities       | None   |
| 9.6 Risk             | There are financial, legal and reputational risks associated with these proposals. The Council has significant security costs associated with the property pending decisions on disposal. Failure to support the community buy out may have reputational risks for the council with the community in South Cowal. This must be balanced against the legal requirements of the Disposal of Land by Local Authorities (Scotland) Regulations 2010 and the view of the Scottish Government's State Aid team and the State Aid rules together with the financial risks in regard to state aid and a commercial or sub commercial loan. |
| 9.7 Customer Service | None   |

**Councillor Ellen Morton**  
**Policy Lead for Asset Management**

**Cleland Sneddon**  
**Executive Director of Community Services**

**Douglas Hendry**  
**Executive Director of Customer Services**

**Pippa Milne**  
**Executive Director of Development & Infrastructure**

**25th November 2014**

**For further information contact:**

**Cleland Sneddon, Executive Director of Community Services**  
**Tel 01546 604112**

Appendices:

- A: Assessment and Conclusions: Economic Impact – carried out by Council's Economic Development Service
- B: Assessment and Conclusions: Viability/Achievability of the SCCDC Business Plan – carried out by Council's Economic Development Service
- C: HIE's assessment and conclusions
- D: Advice from Scottish Government's State Aid Unit
- E: Issues raised with SCCDC and their responses to these issues

## Appendix A: Assessment and Conclusions: Economic Impact

### Economic Impact: Inward Investor and SCCDC Business Plan (including all additional supporting information provided by SCCDC)

#### Inward Investor

- A1 Highlands and Islands Enterprise (HIE) has received an initial proposal from an inward investor in the leisure sector with a turnover in excess of £65m and significant number of bases across the UK and Europe. This proposal represents a significant financial commitment by an internationally recognised investor which, together with potential support from HIE, will bring the Mansion House and 25 acres of ground back into productive use, generating jobs and economic outputs.
- A2 This development will re-instate services across the site and create new build accommodation for 350 guests. An assessment of the initial economic impact projections, see **Table A1** below, has been derived on behalf of HIE by an independent consultant. This assessment includes information obtained from the potential inward investor and knowledge of the local economy. The figures presented in **Table A1** below suggest that the inward investment will secure around 68.5 full-time equivalent (FTE) jobs for the local economy (which includes 58.4 net additional direct, indirect and induced jobs and 10.1 construction jobs) and approximately 40,000 bed nights annually in Cowal. Approximately half the posts are likely to be apprentices, providing new training and skills development opportunities for local residents. In addition, total annual income to be realised post the construction phase is estimated to be just over £790,000 and with an estimated Gross Value Added (GVA<sup>2</sup>) per annum of £1.8 million to the local economy.

| <b>Table A1: Summary – Estimated Total Net Additional Impacts</b> |                                  |                                |                 |
|---|----------------------------------|--------------------------------|-----------------|
| <b>Development</b>  | <b>Argyll &amp; the Islands*</b> | <b>Highlands &amp; Islands</b> | <b>Scotland</b> |
| Employment (FTE)  | 58.4                             | 48.1                           | 7.5             |
| Annual Income (£)   | 790,034                          | 650,616                        | 101,966         |
| GVA (£)   | 1,803,544                        | 1,485,272                      | 241,427         |
|   |                                  |                                |                 |
| <b>Construction</b>   | <b>Argyll &amp; the Islands</b>  | <b>Highlands &amp; Islands</b> | <b>Scotland</b> |
| Employment (FTE)  | 10.1                             | 10.1                           | 14.9            |
| <b>Total employment (including construction)</b>                  |                                  | 68.4                           |                 |
| <b>Total annual income after construction</b>                     |                                  | £790,034                       |                 |

Source: HIE Independent Economic Review

\*Note: Argyll and the Islands is referred to here as the assessment covers the HIE part of Argyll and Bute. Referred to in **Table A3** as Argyll and Bute.

- A3 The wider impacts identified for this development would be to:
- Create a significant number of jobs, addressing the unemployment issue facing the area and its young people in particular. This is in a context where both Dunoon and Cowal have a relatively high proportion of population aged 65 years and above.
  - Increase resident and business confidence, through a significant inward investment by an international company.
  - Raise Cowal's profile, by generating over 12,000 visitor trips per annum including a number from overseas.

<sup>2</sup> The calculation of a Gross Value Added (GVA) figure provides a more holistic assessment of the relative value of a proposed public sector intervention with regard to generating wealth for the economy as a whole.

- Greatly assist the development and confidence of SCCDC, acting as a catalyst for it to undertake a number of other projects on the Estate.

### **Revised SCCDC Business Plan, September 2014**

- A4 Representatives from Argyll and Bute Council's Economic Development Service have been working very closely with representatives from SCCDC and key staff in HIE with a specific focus on the potential economic and social benefits to the South Cowal community should the proposed development of the Mansion House be taken forward by an inward investor.
- A5 The revised SCCDC Business Plan focuses on the potential economic impact of the Gate House development (which will be leased by SCCDC to South Cowal Community Trading Company (SCCTC)), the hydro renewable energy proposal to be taken forward by South Cowal Renewable Energy (SCRE)<sup>3</sup> and eco-camping. The Business Plan includes a total job forecast of 20 FTEs to be created by these developments. The detailed jobs are outlined in **Table A2** below.

| <b>Table A2: Total Jobs Forecast</b> |                 |            |                         |
|--------------------------------------|-----------------|------------|-------------------------|
| <b>Job Category</b>                  | <b>Employer</b> | <b>FTE</b> | <b>Estimated Salary</b> |
| Business Development Manager         | SCCDC           | 1          | £28,000                 |
| Administrator                        | SCCDC           | 1          | £16,500                 |
| Artist/Craft/Business Workshops      | Self employed   | 10         |                         |
| Tearoom/Café                         | Self employed   | 5          |                         |
| Bunkhouse/Self Catering              | Self employed   | 1          |                         |
| Eco-camping                          | Self employed   | 1.5        |                         |
| Hydro Renewable Energy               | SCRE            | 0.5        | £15,000 pro rata        |
| <b>Total</b>                         |                 | <b>20</b>  |                         |

Source: SCCDC Business Plan

### **Overall Economic Impact**

- A6 **Table A3** below outlines the economic impact assessment in terms of the estimated jobs and GVA to be realised from the entire development.

| <b>Table A3: Summary – Estimated Economic Impact from Castle Toward Development</b> |                        |
|---|------------------------|
| <b>Development</b>  | <b>Argyll and Bute</b> |
| Employment (FTE) – Mansion House  | 58.4                   |
| Employment (FTE) – Gate House, Eco-camping & Hydro Renewable Energy scheme          | 20.0                   |
| GVA (£)   | 1,803,544              |
| <b>Construction</b>   | <b>Argyll and Bute</b> |
| Employment (FTE)  | 10.1                   |
| <b>Economic Impact</b>  | <b>Argyll and Bute</b> |
| <b>Total employment (including construction)</b>                                    | 88.5                   |
| <b>Total annual income after construction</b>                                       | £790,034               |

Source: HIE Independent Economic Review and SCCDC Revised Business Plan, September 2014.

<sup>3</sup> SCCTC and SCRE- will both be trading subsidiary companies, limited by shares, with SCCDC holding the entire share capital.

## **Conclusions**

- A8 With regard to the above economic impact assessment, it is recognised by the Council's Economic Development Service that this development potentially offers significant economic and social benefits to the South Cowal community which currently has one of the highest unemployment rates in the Highlands and Islands area, yet is highly accessible to the Central Belt of Scotland. In addition, the development provides a particularly important opportunity for Argyll and Bute as a whole.
- A9 The anticipated economic, social and community benefits to be realised is expected to more than outweigh the value of the discount. Therefore, the assessment of the economic impact demonstrates that there is a potential economic benefit in terms of the Disposal of Land by Local Authorities (Scotland) Regulations 2010.

## **Appendix B: Assessment and Conclusions: Viability/Achievability of the SCCDC Business Plan**

### **Section 1: Revised SCCDC Business Plan, September 2014**

- B1 The Scottish Government appointed the District Valuer to assess the market value of the Castle Toward Estate. The District Valuer returned a property valuation of £1.75m. However, the SCCDC Business Plan is predicated on being able to purchase the Mansion House for £750,000 (a discount of £1m) through the Community Right to Buy legislation and then to secure a provider to take on a 50 year lease to the Mansion House.
- B2 The potential of other funders to assist with meeting the acquisition price of £1.750m has been discussed with SCCDC, the Scottish Land Unit and with HIE. SCCDC has secured £0.750m from the Scottish Land Fund. HIE has been approached for additional capital funding but has indicated that their funding, if any, would be targeted to investment following acquisition of the asset.
- B3 Further to the detailed discussions at the Policy and Resources Committee, 21<sup>st</sup> August 2014, a detailed list of questions and queries from Committee members (many on the Business Plan) were provided by the Council's Economic Development Service to the representatives from SCCDC by e-mail on 5<sup>th</sup> September following a face-to-face meeting in Lochgilphead on the same day. SCCDC was given to the end of September to reply. Responses were collated and sent back to Economic Development on the 26<sup>th</sup> and 29<sup>th</sup> September 2014. The Economic Development Manager then met with representatives from SCCDC at Castle Toward on 2<sup>nd</sup> October 2014 to review the information provided. The financial projections and key assumptions within the revised SCCDC Business Plan, including responses by SCCDC to issues raised with regard to the Business Plan at the Policy and Resources Committee on 21<sup>st</sup> August are summarised below and outlined in detailed in the remaining sections of this Appendix.
- B4 SCCDC is a company limited by guarantee (SC388300) and a registered charity (SC044716). A trading subsidiary company will be formed, South Cowal Community Trading Company (SCCTC), which shall be a company limited by shares, with SCCDC holding the entire share capital. SCCDC is not VAT registered, but, SCCTC will be VAT registered.
- B5 Rental income from the Mansion House has been assumed at £40,000 per annum. This is at the lowest end of the negotiation scale, and it is hoped that a rental income of nearer to £100,000 per annum can be obtained. The Gate House will be leased by SCCDC to SCCTC, and the re-development of the building shall be undertaken by SCCTC. Once the re-development is completed, SCCTC will decide whether to rent the constituent parts of the Gate House development, or, alternatively, operate them directly. For simplicity, the financial projections for the years to 31<sup>st</sup> March 2025 outlined below are based on the assumption, that the self-catering units, bunkhouse, tea-room, and craft units shall all be leased direct to tenants, thereby, allowing entrepreneurs in the community to develop individual enterprises within the Castle Toward Estate. If SCCDC decides to operate some aspects of the Gate House development directly the financial projections would require to be altered. (All the assumptions and notes relating to the financial projections are presented below).
- B6 The proposed commercial tenant for the Mansion House requires a 25 acre exclusion zone around the outdoor centre with community access to the estate around the perimeter of the site outwith the exclusion zone. The predominant operational income for SCCDC is from the anticipated annual lease fee from the commercial provider which supports the elements of the project retained by the SCCDC.

- B7 The hydro renewable energy proposal shall be taken forward by South Cowal Renewable Energy (SCRE), a company limited by shares, wholly owned by SCCDC. A separate 'trading' company for this renewable energy development will enable a bank to take security for borrowing by means of a 'step in' agreement with that particular 'trading' company.
- B8 A Stage 1 application for the Big Lottery Growing Community Assets funding of up to £1m grant is currently being prepared in relation to SCCDC's Gate House development. The Gate House shall comprise a café, bunkhouse, three self-catering units, and four workshops/business units. As part of that application, SCCDC is asking for a development grant of £50,000 towards the cost of preparing the detailed Stage 2 application, involving work by an architect, surveyor, and the preparation of a fully costed business plan. This work is scheduled to be undertaken in April/May 2015, and therefore, more detailed financial information will be available at that time.
- B9 Officers discussed the opportunity for SCCDC to take out a loan for the balance of the acquisition costs and meet the loan repayments from their anticipated lease or operational income however the Company's representatives indicated that as their projected lease income of £0.100m was the primary support for their project activities, to redirect it to servicing loan debt linked to the acquisition of the asset would make their overall project non-viable.

### **Conclusions**

- B10 In summary therefore, SCCDC do not appear to be able to identify any clear alternative funding sources that would assist SCCDC to meet the full acquisition costs of the estate other than by the Council agreeing to discount the District Valuer's valuation by £1m. SCCDC has stated clearly to representatives of the Council's Economic Development Service that the acquisition of the land will only be feasible at a heavily discounted price and if a leisure provider can be secured to take over the Mansion House – the community has no desire to run the Mansion House as an outdoor activity facility.
- B11 Although supportive of the economic impact to be derived from this development, the Council's Economic Development Service is concerned that the financial viability of the Business Plan rests solely on public sector grant funding support, particularly for the first three years of the development. In addition, the specific grant schemes cited in the Business Plan, such as the Big Lottery Growing Community Assets Programme are open to competition and grant funding is not guaranteed. Other schemes such as the Argyll and the Islands LEADER programme will not be launched until early 2015. In the medium to longer-term, SCCDC's income stream will be reliant on receipts from the lease of the Mansion House and rental income from the other proposed development, such as the Gate House.

**Section 2: Financial Projections to the Year Ending, 31<sup>st</sup> March 2025 for the Proposed Purchase and Development of Castle Toward Estate.**

Assumptions/Notes Relating to the Financial Projections are as follows:

1. It is anticipated that the Estate will be purchased by the charity SCCDC. Parts of the Estate will then be sublet by SCCDC to trading subsidiary companies. For the purposes of these projections, the income, expenses and cashflow have been treated under the one project. A 3% yearly inflation increase has been applied, where applicable.
2. The Estate, if purchase is approved, will come under the ownership of SCCDC on 31<sup>st</sup> December 2014.
3. The projections have been prepared assuming that the Mansion House will be leased to an outdoor education/adventure operator.
4. The projections have been prepared from 1<sup>st</sup> October 2014 until 31<sup>st</sup> March 2025, a period of over 10 years.
5. An opening bank balance of £1,000 at 1<sup>st</sup> October 2014 is anticipated.
6. The charity is not VAT registered. The trading subsidiaries will be VAT registered and any VAT shown as being payable or reclaimable will be as a result of work/income carried out by the trading subsidiaries. Monthly VAT returns are assumed.
7. The purchase price of the Estate is included as £1,750,000. This comprises of a £750,000 grant awarded by the Scottish Land Fund, and a discount on the valuation of £1m requested from Argyll and Bute Council. In addition, there are £16,200 legal costs associated with the purchase, which have been capitalised in the Balance Sheet.
8. The receipt of the Scottish Land Fund grant is included in the cashflow in December 2014. This grant is likely to be a restricted grant. Accounting policy on restricted grants received by charities, means that the receipt of these grants is immediately recognised in the income and expenditure account.
9. The £1m anticipated discount from Argyll and Bute Council has been treated similar to a grant received by a charity, and recognised in the income and expenditure account in December 2014.
10. In April/May 2015, it is expected that £50,000 will be received as a grant from the Big Lottery Growing Community Assets programme for pre-development work on the Gate House project (architects fees, surveyors fees, detailed costings etc.). SCCDC will apply for Stage 1 approval for the scheme to renovate the Gate House. If that basic application is successful, then Big Lottery can award up to £50,000 to develop a detailed plan for a Stage 2 application. It is assumed that these submissions will be successful and as such both the income and the cost are recognised.
11. There will be no income or expenses shown for the areas referred to in the Phase 1 report as family hub and events hub. These hubs are close to the Mansion House and are expected to be included in any restricted area that an outdoor education/adventure operator will insist upon. The Family Hub was to comprise a children's play area and a tea room. These facilities will now be part of the Gate House project.
12. The Mansion House will be leased to an Outdoor Education/Adventure Operator. Savills has been engaged by SCCDC to negotiate a lease agreement with the prospective operator. The basis of the lease is for a period of 50 years, with a 25 year break clause.

At this stage in the negotiations, the prospective operator has suggested an annual rent of £40,000 per annum, while SCCDC has suggested an annual rental of £100,000. In terms of prudence, for these draft projections, it has been assumed that £40,000 will be achieved per year. The rent shall start to be paid on 1<sup>st</sup> April 2017 once extensive refurbishment works have been undertaken by the operator, including the construction of accommodation blocks for up to 350 guests.

13. The prospective operator is currently in detailed negotiation with Highlands and Islands Enterprise regarding grant support towards their development. The operator shall take rental of the Mansion House and a restricted area (for child protection reasons) on 31<sup>st</sup> December 2014, following purchase of the Estate by SCCDC on a 'back to back' basis. For the purpose of these financial projections, it is assumed that tenant's improvements of £2m (prudent estimate) shall be undertaken by the operator by 31<sup>st</sup> March 2017, the day before rental payments commence. As a result, this value is taken in to the SCCDC balance sheet as at 31<sup>st</sup> March 2017. The lease taken by the operator shall include the cottages, and Nissan huts, so no renovation costs relating to these buildings shall be incurred by SCCDC.
14. Fundraising shall be carried out in the local community. A prudent estimate of £200 raised each month has been included.
15. There is currently a tenant using some fields for grazing of horses at an annual rent of £240. It is assumed that this rent will continue for the period of the projections. After two years, it is assumed that the horses shall be moved to fields of a neighbouring property. SCCDC will pay the rent to the neighbouring landowner and subsequently recharge this to the current tenant. It is assumed that the rental amount payable and, therefore, receivable will initially be £240.
16. The Garden Centre Hub will be leased to a local operator. The local operator, as the tenant, will incur all capital expenditure to develop the land to a suitable standard. The rental income that will be received by SCCDC will initially be £4,800 per year. This income will commence in 1<sup>st</sup> April 2018.
17. A revenue support/start up grant of £100,000 is assumed to be received from Highlands and Islands Enterprise. The grant is expected to be received in four amounts of £25,000 over the period to 31<sup>st</sup> March 2016.
18. An area of two acres will be put aside for allotments. It is assumed that two acres will allow the creation of 10 allotments that will be rented out for £60 per year each. It is assumed that the allotments shall be set out by the volunteer group being set up by SCCDC, and tenants shall cultivate and establish the allotments thereafter. It is assumed that preparatory work will take place in 2015, so that the allotments can be rented from April 2016 onwards, in time for use in summer 2016. It is assumed that the income is received monthly.
19. From 1<sup>st</sup> September 2014 a Board Advisor will be appointed to assist the board. This appointment will last two years at a cost of £5,000 per year. It is expected that this post will be grant funded. The grant is assumed to come 100% from Highland and Islands Enterprise.
20. SCCDC shall arrange insurance cover with NFU Mutual Insurance for the Gate House (re-instatement value) and Estate from 31<sup>st</sup> December 2014. The Outdoor Education/Adventure Operator shall insure the Mansion House and restricted area as from 31<sup>st</sup> December 2014. The SCCDC insurance cost has been assumed at £3,000 per annum initially.

21. There are no security costs incorporated, as it has been assumed that on acquisition of the Estate, the Mansion House shall immediately be fenced off and secured by the Operator ready for the renovation works to start.
22. There will be a Business Development Manager appointed from January 2015. This employee will be recruited to oversee the Estate and co-ordinate the renovation works. This employee will be paid £28,000 per year. Based on 2014/15 tax rates, the Class 1A Employers contribution due on that salary is £2,766. In addition to employee costs, there will also be office costs of £3,500 per annum, travel and subsistence of £2,500 and stationery and telephone costs of £3,500.
23. On purchase of the Estate there will be ongoing costs to consider regarding ground maintenance and estate management. These costs are assumed to be incurred evenly over the year.
24. There is an intention to include nature walks and trails within the Estate grounds. These walks will be developed during the period of the projections but will be funded by voluntary effort. There are, therefore, no costs and related income shown within the projections.
25. No depreciation has been provided for, based on the nature of the asset. It is assumed that this will be subject to valuation once all developments have been completed and any difference to the net book value held on the accounts would be accounted for then.
26. Interest has been accounted for on overdrawn bank balances at 4.0%. It is anticipated that an overdraft facility of £20,000 will be held with the Bank of Scotland.
27. No provision has been made for Corporation Tax.
28. No provision has been made for accruals/prepayments. It is assumed that all liabilities and expenses are settled as and when they are due.
29. Renovation of the Gate House is expected to commence in October 2015. The project is expected to be completed by November 2016, with the building becoming operational in April 2017. The Gate House project will be undertaken by a trading subsidiary. SCCDC are presently working to the budget figures (net of VAT) set out in the **Table B3** below.

| <b>Table B3: Summary of Expenditure on / Funding for the Renovation of the Gate House</b> |                  |
|---|------------------|
| <b>Expenditure</b>  | <b>£</b>         |
| Construction  | 700,000          |
| Furniture and fittings  | 100,000          |
| Professional fees   | 100,000          |
| Contingency   | 100,000          |
| Staffing and Revenue Support Cost   | 87,707           |
| <b>Total</b>  | <b>1,087,707</b> |
| <b>Funding</b>  | <b>£</b>         |
| Big Lottery Growing Community Assets Programme Grant                                      | 987,707          |
| EU LEADER grant, various small grants, and private fund raising                           | 100,000          |
| <b>Total</b>  | <b>1,087,707</b> |

Source: SCCDC, September 2014

No borrowing towards this project is envisaged, as debt funding could jeopardise the project in its early years, and would be a significant risk to the project's future viability. Once detailed architect designs, surveys, and costings have been obtained, then the total project costs shall become clearer. However, SCCDC is keen to work to a capital expenditure budget of £1m, and shall be briefing architects regarding this limit, at the outset of discussions.

30. Once complete, the cleaning and maintenance costs of the Gate House Project are assumed to initially be £400 per month, incurred evenly across the year.
31. Per the babyHydro draft report there is capacity to generate income from a hydro scheme. The work to install the required equipment for this will commence in April 2017 and will take six months to complete. The cost of this is £280,578 plus VAT per **Table B4** below which replicates Table 3 of the babyHydro report. This work will be carried out by a trading subsidiary therefore the VAT will be reclaimed in full. The cost of the Hydro works will be capitalised. It is assumed that the costs will be incurred evenly over the six month period of construction. The £280,578 will be funded by a loan from The Agricultural Mortgage Corporation. The loan will be repaid over 20 years. The loan repayments are as per the AMC calculator. Loan arrangement fees are estimated to be £2,000. Following commissioning, the hydro project will generate £41,069 plus VAT of income per year from October 2017 onwards. The costs will then be £5,245 plus VAT per annum. Both income and expenditure are assumed to be spread evenly over the year.

| <b>Table B4: Financial Analysis of the Proposed Hydro Works</b> |                    |                      |                    |                  |                 |                   |                          |                        |                           |
|---|--------------------|----------------------|--------------------|------------------|-----------------|-------------------|--------------------------|------------------------|---------------------------|
|   | Name               | Installed Power (kW) | Annual Energy (kW) | Initial Cost (£) | Annual Cost (£) | Annual Saving (£) | Annual Gross Revenue (£) | Simple Payback (years) | 20 Year Simple Profit (£) |
| 1   | Intake house A A-P | 52                   | 190,671            | 280,578          | 5,245           | 0                 | 41,069                   | 7.83                   | 435,910                   |
| 2   | Intake house B A-P | 54                   | 201,264            | 297,991          | 5,497           | 0                 | 43,351                   | 7.87                   | 459,092                   |
| 3   | Intake house A B-P | 46                   | 169,871            | 254,683          | 4,840           | 0                 | 36,589                   | 8.02                   | 380,298                   |
| 4   | Intake house B B-P | 49                   | 181,426            | 270,023          | 5,076           | 0                 | 39,078                   | 7.94                   | 410,024                   |
| 5   | A-A-Offsetting 5kW | 52                   | 190,671            | 289,145          | 4,518           | 2,403             | 42,376                   | 7.64                   | 468,009                   |

32. The Heritage Hub will not be developed until April/May 2018. Costs of this are expected to be £100,000 which will be grant funded by Historic Scotland and Heritage Lottery fund. As these are restricted grants they will be recognised in the Income and Expenditure account in full when they are received. The costs have been capitalised in full.
33. It is assumed that the Eco-camping Hub will be leased to an operator that will incur all expenses of bringing the site to the required condition and installing all necessary services. There are therefore no costs in relation to the Eco-camping Hub included in the projections. It is assumed that the operator will lease the land from April 2017.
34. Per Savills, the cost of negotiating and arranging the rental agreement with a tenant for the Mansion House is 10% (minimum £10,000) of the rental charged. The rental is assumed to be no more than £100,000 per year, therefore the fee due to Savills is £10,000 plus £2,000 irrecoverable VAT. This is assumed to be payable in February 2016, and fully grant funded by HIE.

| South Cowal Community Development Company |                |                |                |                |                |                |                |                |                |                |                |  |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--|
| Financial Projections                     |                |                |                |                |                |                |                |                |                |                |                |  |
| Cashflow                                  |                |                |                |                |                |                |                |                |                |                |                |  |
| For the year ended 31 March               |                |                |                |                |                |                |                |                |                |                |                |  |
|   | 2015           | 2016           | 2017           | 2018           | 2019           | 2020           | 2021           | 2022           | 2023           | 2024           | 2025           |  |
|   | £              | £              | £              | £              | £              | £              | £              | £              | £              | £              | £              |  |
| <b>Income</b>                             |                |                |                |                |                |                |                |                |                |                |                |  |
| Grants - HIE                              | 19,800         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Grants - Revenue Support (HIE)            | 25,000         | 75,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Grants - Scottish Land Fund               | 750,000        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Grants - Big Lottery GCA                  | 0              | 399,996        | 499,992        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Grants - Big Lottery Development GCA      | 0              | 50,000         | 42,729         | 44,978         | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Grants - LEADER                           | 0              | 25,000         | 25,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Grants - various (Trust/Foundation)       | 0              | 25,000         | 25,000         | 0              | 100,000        | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Loan for Hydro Renewable Energy project   | 0              | 0              | 0              | 280,578        | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Rental from Mansion House                 | 0              | 0              | 0              | 39,996         | 41,196         | 42,432         | 43,705         | 45,016         | 46,366         | 47,757         | 49,190         |  |
| Gatehouse - Self Catering Accommodation   | 0              | 0              | 0              | 12,000         | 12,360         | 12,731         | 13,113         | 13,506         | 13,911         | 14,329         | 14,758         |  |
| Gatehouse - bunkhouse                     | 0              | 0              | 0              | 2,400          | 2,472          | 2,546          | 2,623          | 2,701          | 2,782          | 2,866          | 2,952          |  |
| Gatehouse - workshops                     | 0              | 0              | 0              | 6,000          | 9,000          | 9,270          | 9,548          | 9,835          | 10,130         | 10,433         | 10,746         |  |
| Gatehouse - tea room                      | 0              | 0              | 0              | 9,996          | 10,296         | 10,605         | 10,923         | 11,251         | 11,588         | 11,936         | 12,294         |  |
| Hydro renewable energy                    | 0              | 0              | 0              | 24,642         | 49,284         | 50,763         | 52,285         | 53,854         | 55,470         | 57,134         | 58,848         |  |
| Garden Centre Hub                         | 0              | 0              | 0              | 4,800          | 4,800          | 4,944          | 5,092          | 5,245          | 5,402          | 5,565          | 5,731          |  |
| Eco camping                               | 0              | 0              | 0              | 1,200          | 1,320          | 1,360          | 1,400          | 1,442          | 1,486          | 1,530          | 1,576          |  |
| Allotments                                | 0              | 0              | 360            | 480            | 600            | 618            | 637            | 656            | 675            | 696            | 716            |  |
| Pony grazing lease                        | 120            | 240            | 240            | 240            | 240            | 247            | 255            | 262            | 270            | 278            | 287            |  |
| Fundraising income                        | 1,200          | 2,400          | 2,400          | 2,400          | 2,400          | 2,472          | 2,546          | 2,623          | 2,701          | 2,782          | 2,866          |  |
|   | <b>796,120</b> | <b>577,636</b> | <b>595,721</b> | <b>424,910</b> | <b>233,968</b> | <b>137,987</b> | <b>142,126</b> | <b>146,390</b> | <b>150,782</b> | <b>155,305</b> | <b>159,965</b> |  |
| <b>Expenditure</b>                        |                |                |                |                |                |                |                |                |                |                |                |  |
| Purchase of Castle Toward Estate          | 750,000        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Gate House renovation                     | 0              | 399,996        | 399,996        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Fixtures & Fittings                       | 0              | 0              | 120,000        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Heritage Hub                              | 0              | 0              | 0              | 0              | 100,000        | 0              | 0              | 0              | 0              | 0              | 0              |  |
| VAT on Gate House renovation              | 0              | 79,998         | 79,998         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Legal fees on purchase                    | 16,200         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Architect & planning fees                 | 0              | 60,000         | 60,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Business Development Manager              | 7,692          | 31,692         | 32,643         | 33,622         | 34,631         | 35,670         | 36,740         | 37,842         | 38,977         | 39,172         | 40,347         |  |
| Administrator post                        | 0              | 0              | 0              | 18,000         | 18,540         | 19,096         | 19,669         | 20,259         | 20,867         | 20,971         | 21,600         |  |
| Travel & subsistence                      | 1,040          | 2,568          | 2,645          | 2,724          | 2,806          | 2,890          | 2,977          | 3,066          | 3,158          | 3,174          | 3,269          |  |
| Office Rental                             | 1,460          | 3,612          | 3,720          | 3,832          | 3,947          | 4,065          | 4,187          | 4,313          | 4,442          | 4,465          | 4,598          |  |
| Stationery & telephone                    | 1,460          | 3,612          | 3,720          | 4,800          | 4,944          | 5,092          | 5,245          | 5,402          | 5,565          | 5,592          | 5,760          |  |
| Computer costs                            | 500            | 0              | 0              | 550            | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Estate management & maintenance           | 3,335          | 8,244          | 8,491          | 8,746          | 9,008          | 9,279          | 9,557          | 9,844          | 10,139         | 10,190         | 10,495         |  |
| Accountancy                               | 2,000          | 2,060          | 2,122          | 2,185          | 2,251          | 2,319          | 2,388          | 2,460          | 2,534          | 2,534          | 2,610          |  |
| Consultancy                               | 3,600          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Legal Fees                                | 0              | 5,000          | 6,000          | 6,000          | 6,500          | 6,695          | 6,896          | 7,103          | 7,316          | 7,316          | 7,535          |  |
| Hydro on-going costs                      | 0              | 0              | 0              | 3,150          | 6,300          | 6,489          | 6,684          | 6,884          | 7,091          | 7,126          | 7,340          |  |
| Cleaning & Maintenance (The Gate House)   | 0              | 0              | 0              | 4,800          | 4,944          | 5,092          | 5,245          | 5,402          | 5,565          | 5,592          | 5,760          |  |
| Loan Arrangement Fee                      | 0              | 0              | 0              | 2,000          | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Insurance                                 | 3,000          | 3,090          | 3,183          | 3,278          | 3,377          | 3,478          | 3,582          | 3,690          | 3,800          | 3,800          | 3,914          |  |
| Rent negotiation fee                      | 12,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Board development & support               | 2,085          | 5,160          | 3,101          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Pre-development costs Gate House          | 0              | 50,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| VAT                                       | 0              | -89,998        | -109,998       | -52,534        | 7,164          | 7,379          | 7,600          | 7,828          | 8,063          | 8,335          | 8,585          |  |
| PAYE/NIC                                  | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Hydro Loan Capital                        | 0              | 0              | 0              | 12,859         | 14,028         | 14,028         | 14,028         | 14,028         | 14,028         | 14,028         | 14,028         |  |
| Hydro Renewable Energy Capital            | 0              | 0              | 0              | 336,696        | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
|   | <b>804,372</b> | <b>565,034</b> | <b>615,621</b> | <b>390,709</b> | <b>218,440</b> | <b>121,572</b> | <b>124,798</b> | <b>128,122</b> | <b>131,544</b> | <b>132,295</b> | <b>135,843</b> |  |
| Surplus/(Deficit)                         | -8,252         | 12,602         | -19,901        | 34,201         | 15,528         | 16,415         | 17,328         | 18,269         | 19,238         | 23,011         | 24,122         |  |
| Opening Bank                              | 1,000          | -7,300         | 5,302          | -14,800        | 14,363         | 24,395         | 35,314         | 47,146         | 59,918         | 73,660         | 91,175         |  |
|   | -7,252         | 5,302          | -14,598        | 19,401         | 29,891         | 40,810         | 52,642         | 65,414         | 79,156         | 96,671         | 115,296        |  |
| Bank Interest                             | 48             | 0              | 202            | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |  |
| Hydro Renewable Energy Loan Interest      | 0              | 0              | 0              | 5,038          | 5,496          | 5,496          | 5,496          | 5,496          | 5,496          | 5,496          | 5,496          |  |
| Closing Bank                              | -7,300         | 5,302          | -14,800        | 14,363         | 24,395         | 35,314         | 47,146         | 59,918         | 73,660         | 91,175         | 109,800        |  |

| <b>South Cowal Community Development Company</b> |                  |                |                |                |                |                |                |                |                |                |                |   |   |
|--|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---|---|
| <b>Financial Projections</b>                     |                  |                |                |                |                |                |                |                |                |                |                |   |   |
| <b>Profit &amp; Loss Account</b>                 |                  |                |                |                |                |                |                |                |                |                |                |   |   |
| <b>For the year ended 31 March</b>               |                  |                |                |                |                |                |                |                |                |                |                |   |   |
|  | 2015             | 2016           | 2017           | 2018           | 2019           | 2020           | 2021           | 2022           | 2023           | 2024           | 2025           |   |   |
|  | £                | £              | £              | £              | £              | £              | £              | £              | £              | £              | £              |   |   |
| <b>Income</b>                                    |                  |                |                |                |                |                |                |                |                |                |                |   |   |
| Grants - HIE                                     | 19,800           | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Grants - Revenue Support (HIE)                   | 25,000           | 75,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Grants - Scottish Land Fund                      | 750,000          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Grants - Big Lottery GCA                         | 0                | 399,996        | 499,992        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Grants - Big Lottery Development GCA             | 0                | 50,000         | 42,729         | 44,978         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Grants - LEADER                                  | 0                | 25,000         | 25,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Grants - various (Trust/Foundation)              | 0                | 25,000         | 25,000         | 0              | 100,000        | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Discount - Argyll & Bute Council                 | 1,000,000        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0 | 0 |
| Rental from Mansion House                        | 0                | 0              | 0              | 39,996         | 41,196         | 42,432         | 43,705         | 45,016         | 46,366         | 47,757         | 49,190         |   |   |
| Gatehouse - Self Catering Accommodation          | 0                | 0              | 0              | 12,000         | 12,360         | 12,731         | 13,113         | 13,506         | 13,911         | 14,329         | 14,758         |   |   |
| Gatehouse - bunkhouse                            | 0                | 0              | 0              | 2,400          | 2,472          | 2,546          | 2,623          | 2,701          | 2,782          | 2,866          | 2,952          |   |   |
| Gatehouse - workshops                            | 0                | 0              | 0              | 6,000          | 9,000          | 9,270          | 9,548          | 9,835          | 10,130         | 10,433         | 10,746         |   |   |
| Gatehouse - tea room                             | 0                | 0              | 0              | 9,996          | 10,296         | 10,605         | 10,923         | 11,251         | 11,588         | 11,936         | 12,294         |   |   |
| Hydro renewable energy                           | 0                | 0              | 0              | 20,535         | 41,070         | 42,302         | 43,571         | 44,878         | 46,225         | 47,611         | 49,040         |   |   |
| Garden Centre Hub                                | 0                | 0              | 0              | 0              | 4,800          | 4,944          | 5,092          | 5,245          | 5,402          | 5,565          | 5,731          |   |   |
| Eco camping                                      | 0                | 0              | 0              | 1,200          | 1,320          | 1,360          | 1,400          | 1,442          | 1,486          | 1,530          | 1,576          |   |   |
| Allotments                                       | 0                | 0              | 360            | 480            | 600            | 618            | 637            | 656            | 675            | 696            | 716            |   |   |
| Pony grazing lease                               | 120              | 240            | 240            | 240            | 240            | 247            | 255            | 262            | 270            | 278            | 287            |   |   |
| Fundraising income                               | 1,200            | 2,400          | 2,400          | 2,400          | 2,400          | 2,472          | 2,546          | 2,623          | 2,701          | 2,782          | 2,866          |   |   |
|  | <b>1,796,120</b> | <b>577,636</b> | <b>595,721</b> | <b>140,225</b> | <b>225,754</b> | <b>129,526</b> | <b>133,412</b> | <b>137,415</b> | <b>141,537</b> | <b>145,783</b> | <b>150,157</b> |   |   |
| <b>Expenditure</b>                               |                  |                |                |                |                |                |                |                |                |                |                |   |   |
| Business Development Manager                     | 7,692            | 31,692         | 32,643         | 33,622         | 34,631         | 35,670         | 36,740         | 37,842         | 38,977         | 39,172         | 40,347         |   |   |
| Administrator post                               | 0                | 0              | 0              | 18,000         | 18,540         | 19,096         | 19,669         | 20,259         | 20,867         | 20,971         | 21,600         |   |   |
| Travel & subsistence                             | 1,040            | 2,568          | 2,645          | 2,724          | 2,806          | 2,890          | 2,977          | 3,066          | 3,158          | 3,174          | 3,269          |   |   |
| Office Rental                                    | 1,460            | 3,612          | 3,720          | 3,832          | 3,947          | 4,065          | 4,187          | 4,313          | 4,442          | 4,465          | 4,598          |   |   |
| Stationery & telephone                           | 1,460            | 3,612          | 3,720          | 4,800          | 4,944          | 5,092          | 5,245          | 5,402          | 5,565          | 5,592          | 5,760          |   |   |
| Computer costs                                   | 500              | 0              | 0              | 550            | 0              | 0              | 0              | 0              | 0              | 0              | 0              |   |   |
| Estate management & maintenance                  | 3,335            | 8,244          | 8,491          | 8,746          | 9,008          | 9,279          | 9,557          | 9,844          | 10,139         | 10,190         | 10,495         |   |   |
| Accountancy                                      | 2,000            | 2,060          | 2,122          | 2,185          | 2,251          | 2,319          | 2,388          | 2,460          | 2,534          | 2,534          | 2,610          |   |   |
| Consultancy                                      | 3,600            | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |   |   |
| Legal Fees                                       | 0                | 5,000          | 6,000          | 6,000          | 6,500          | 6,695          | 6,896          | 7,103          | 7,316          | 7,316          | 7,535          |   |   |
| Hydro on-going costs                             | 0                | 0              | 0              | 2,625          | 5,250          | 5,408          | 5,570          | 5,737          | 5,909          | 5,938          | 6,117          |   |   |
| Cleaning & Maintenance (The Gate House)          | 0                | 0              | 0              | 4,800          | 4,944          | 5,092          | 5,245          | 5,402          | 5,565          | 5,592          | 5,760          |   |   |
| Loan Arrangement Fee                             | 0                | 0              | 0              | 2,000          | 0              | 0              | 0              | 0              | 0              | 0              | 0              |   |   |
| Insurance  | 3,000            | 3,090          | 3,183          | 3,278          | 3,377          | 3,478          | 3,582          | 3,690          | 3,800          | 3,800          | 3,914          |   |   |
| Rent negotiation fee                             | 12,000           | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |   |   |
| Board development & support                      | 2,085            | 5,160          | 3,101          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |   |   |
| Pre-development costs Gate House                 | 0                | 50,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |   |   |
| Bank Interest                                    | 48               | 0              | 202            | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |   |   |
| Hydro Renewable Energy Loan Interest             | 0                | 0              | 0              | 5,038          | 5,496          | 5,496          | 5,496          | 5,496          | 5,496          | 5,496          | 5,496          |   |   |
|  | <b>38,220</b>    | <b>115,038</b> | <b>65,827</b>  | <b>98,201</b>  | <b>101,694</b> | <b>104,580</b> | <b>107,552</b> | <b>110,614</b> | <b>113,767</b> | <b>114,241</b> | <b>117,503</b> |   |   |
| <b>Surplus/Deficit</b>                           | <b>1,757,900</b> | <b>462,598</b> | <b>529,893</b> | <b>42,024</b>  | <b>124,060</b> | <b>24,947</b>  | <b>25,860</b>  | <b>26,801</b>  | <b>27,770</b>  | <b>31,543</b>  | <b>32,654</b>  |   |   |

| South Cowal Community Development Company |           |           |           |           |           |           |           |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Financial Projections                     |           |           |           |           |           |           |           |           |           |           |           |           |
| Balance Sheet                             |           |           |           |           |           |           |           |           |           |           |           |           |
| As at 31 March                            |           |           |           |           |           |           |           |           |           |           |           |           |
|   | 2015      | 2016      | 2017      | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      | 2024      | 2025      |           |
|   | £         | £         | £         | £         | £         | £         | £         | £         | £         | £         | £         |           |
| <b>Fixed Assets</b>                       |           |           |           |           |           |           |           |           |           |           |           |           |
| Castle Toward Estate                      | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 | 1,766,200 |
| Mansion House - Tenants Improvements      | 0         | 0         | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Gate House Renovation                     | 0         | 449,996   | 899,992   | 899,992   | 899,992   | 899,992   | 899,992   | 899,992   | 899,992   | 899,992   | 899,992   | 899,992   |
| Fixtures & Fittings                       | 0         | 0         | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   |
| Heritage Hub                              | 0         | 0         | 0         | 0         | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   | 100,000   |
| Hydro Renewable                           | 0         | 0         | 0         | 280,580   | 280,580   | 280,580   | 280,580   | 280,580   | 280,580   | 280,580   | 280,580   | 280,580   |
|   | 1,766,200 | 2,216,196 | 4,766,192 | 5,046,772 | 5,146,772 | 5,146,772 | 5,146,772 | 5,146,772 | 5,146,772 | 5,146,772 | 5,146,772 | 5,146,772 |
| <b>Current Assets</b>                     |           |           |           |           |           |           |           |           |           |           |           |           |
| Cash at Bank                              | 0         | 5,302     | 0         | 14,363    | 24,395    | 35,314    | 47,146    | 59,918    | 73,660    | 91,175    | 109,800   |           |
|   | 0         | 5,302     | 0         | 14,363    | 24,395    | 35,314    | 47,146    | 59,918    | 73,660    | 91,175    | 109,800   |           |
| <b>Current Liabilities</b>                |           |           |           |           |           |           |           |           |           |           |           |           |
| Bank overdraft                            | 7,300     | 0         | 14,800    | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Hydro Renewable Energy Loan               | 0         | 0         | 0         | 267,719   | 253,691   | 239,663   | 225,635   | 211,607   | 197,579   | 183,551   | 169,523   |           |
|   | 7,300     | 0         | 14,800    | 267,719   | 253,691   | 239,663   | 225,635   | 211,607   | 197,579   | 183,551   | 169,523   |           |
| Net Current Assets                        | -7,300    | 5,302     | -14,800   | -253,356  | -229,296  | -204,349  | -178,489  | -151,689  | -123,919  | -92,376   | -59,723   |           |
|   | 1,758,900 | 2,221,498 | 4,751,392 | 4,793,416 | 4,917,476 | 4,942,423 | 4,968,283 | 4,995,083 | 5,022,853 | 5,054,396 | 5,087,049 |           |
| <b>Reserves</b>                           |           |           |           |           |           |           |           |           |           |           |           |           |
| Reserves                                  | 1,000     | 1,758,900 | 2,221,498 | 4,751,392 | 4,793,416 | 4,917,476 | 4,942,423 | 4,968,283 | 4,995,083 | 5,022,853 | 5,054,396 |           |
| Surplus/Deficit                           | 1,757,900 | 462,598   | 529,893   | 42,024    | 124,060   | 24,947    | 25,860    | 26,801    | 27,770    | 31,543    | 32,654    |           |
|   | 1,758,900 | 2,221,498 | 4,751,392 | 4,793,416 | 4,917,476 | 4,942,423 | 4,968,283 | 4,995,083 | 5,022,853 | 5,054,396 | 5,087,049 |           |

**Section 3: Responses by SCCDC to Issues Raised at the Policy and Resources Committee Council Conditions**

The detailed queries were as follows with the responses detailed in italics below each query:

1. Market research to justify the potential visitor numbers.

*Projected visitor numbers per annum are presented in **Table B5** below*

| <b>Table B5: Projected Visitor Numbers per Annum</b> |   |                        |
|--|---|------------------------|
| <b>Area</b>  | <b>Project</b>                          | <b>Visitor Numbers</b> |
| <i>Gate House</i>                                    | • <i>Artist/craft workshops</i>         | <i>12,000</i>          |
|  | • <i>Café</i>                           | <i>25,000</i>          |
|  | • <i>Bunkhouse/self-catering</i>        | <i>1,500</i>           |
| <i>Toward Castle</i>                                 | • <i>Improved access/interpretation</i> | <i>5,000</i>           |
| <i>Castle Toward Estate</i>                          |   | <i>12,000*</i>         |
| <i>Mansion House</i>                                 | • <i>Redevelopment and new build</i>    | <i>12,000</i>          |

*Source: SCCDC*

*Note: \* general visitors to the Estate*

2. Preparation of a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis.

**SWOT Analysis: Acquisition of Castle Toward Estate by SCCDC**

Strengths/ weaknesses – internal factors such as resources and experience

Opportunities/ threats – external factors such as market and political trends, funding etc.

|  |   |
|--|---|
| <p><b>Strengths</b></p> <p>Community support.<br/>           Political support.<br/>           Agency support.<br/>           Engagement with Argyll and Bute Council and detailed negotiations with the Economic Development Service.<br/>           CRTB support.<br/>           Operator agreed to take lease.<br/>           Operator confirmed they will only proceed if SCCDC acquire.<br/>           Strong leadership and Board of SCCDC.<br/>           Relevant experience of Directors.<br/>           Support of experienced Board Advisor.<br/>           USP – major community buyout creating 100 jobs and £10m investment.<br/>           Location of estate close to Central Belt.<br/>           Location of estate in area of high unemployment thus ensuring pool of potential staff and availability of funding.<br/>           Philosophy and values of SCCDC – community engagement and creation of benefit and retention of investment in local community.<br/>           SCCDC has strong knowledge of needs and desires of local residents and business community.<br/>           Saves important listed building, designated landscape and estate with great emotional value for community.</p> | <p><b>Weaknesses</b></p> <p>Delivery of all aspects of the project will be complex and costly.<br/>           Board inexperienced in delivering major capital projects.<br/>           Possible skills gaps in Board.<br/>           Under current Business Plan estate loss making (without grant support) until 2018.<br/>           Cashflow issues.<br/>           Costs for SCCDC development currently unknown.</p> |
| <p><b>Opportunities</b></p>  | <p><b>Threats</b></p>   |

|   |   |
|---|---|
| <p>Creation of up to 100 jobs (75 FTE).<br/> Many of these jobs will be available for local people.<br/> Up to 20 volunteer positions.<br/> Local training opportunities.<br/> New tourism opportunities including link to other tourism development.<br/> Strengthen Cowal tourism offer.<br/> Strengthen Cowal image.<br/> £10m development into Cowal.<br/> Save historic building and Designated landscape.<br/> Focus for wider development of South Cowal.<br/> Provide opportunities for local businesses to grow.</p> | <p>Time delays in acquisition.<br/> Argyll and Bute Council might not approve discount – project in jeopardy.<br/> Operator withdraws.<br/> Unable to secure HIE investment.<br/> Unable to secure GCA investment on SCCDC works.<br/> Issues over securing planning and listed building consents.<br/> Changes in legislation.<br/> Loss of key staff / Directors within SCCDC.<br/> Potential community frustration at time taken for projects to come to fruition.</p> |
|---|---|

Source: SCCDC, September 2014

*Actions to mitigate risks:*

- 1) *Back to back lease on acquisition with operator.*
- 2) *Ensure SCCDC has sufficient and competent business support.*
- 3) *Appoint Business Development Manager.*
- 4) *Support for funding applications, including technical assistance to work applications up.*
- 5) *Governance training for Directors.*
- 6) *Directors succession planning.*
- 7) *Ensure HIE revenue support and early GCA application to manage estate revenue deficit and cash flow risks.*
- 8) *Preparation of risk register and monitoring of risks on a regular basis.*
- 9) *Emphasis on revenue generating projects in early years.*
- 10) *Good communication and feedback provided to members of the company, and the wider community.*

3. 3 year profit and loss projections (SCCDC advised that 10 year projections were prepared for HIE).

See **above**.

4. 3 year cash flow projections.

See **above**.

5. 3 year balance sheet.

See **above**.

6. Staffing information, numbers and salaries etc.

See **Table 1** in the main report.

7. Justification for the need for volunteers and some arguments to back up why volunteers will be forthcoming.

*A group of volunteers shall be brought together to help with grounds maintenance and upkeep of the Estate. As part of the consultation process for the community buyout, considerable interest had been expressed in volunteering, and this activity shall be co-ordinated following the purchase of the Estate.*

*All board members of SCCDC are volunteers, and the proposed new boards of SCCTC and SCRE shall also comprise of volunteers. Volunteering is seen as a key aspect of the community buyout, encouraging people to become involved, learn new skills, and thereby improve community capacity.*

8. Detail on their relationship with their bankers and confirmation of any facilities they may need dependant on the cash flow forecast.

*SCCDC holds a bank account with the Bank of Scotland. An overdraft facility of up to £20,000 shall be arranged with the Bank of Scotland.*

*In addition, it is possible that a working capital loan might be requested from Social Investment Scotland, a registered Charity and Social Enterprise which provides business loans to Third Sector organisations, [www.socialinvestmentscotland.com](http://www.socialinvestmentscotland.com). At this stage, the financial projections do not include the SIS loan, as further discussions are required with SIS on this.*

9. Personal references for SCCDC Directors.

*References for each of the SCCDC Directors have been sent to the Economic Development Service in hard copy and are available for review as requested. All of a positive nature from referees whom have known the Directors for a number of years.*

10. Is there any agreement on proposed rental? What is basis of proposed rental? Has a surveyor advised on this? Is it based on DV's valuation or possibly discounted price? Is there any documentary evidence on the rental aspect?

*SCCDC is being advised by Savills in their negotiations with the proposed operator for the Development Agreement and Lease of the Mansion House. The final rental payable will be dependent on the overall investment in the estate and Mansion House agreed between the operator and HIE. It is expected that the rental will be in the range of £40,000 to £100,000 per annum with a rent free period at commencement. SCCDC's current projections (see above) assume an annual rental at the base of this range (£40,000 per annum) starting from April 2017.*

11. What is leisure provider's intended date of entry? Is it linked to grant of planning, listed building or any other type of permission? If so how will SCCDC finance security and other costs between their date of entry and leisure provider's entry?

*The Head of Terms provisionally agreed with the operator include:*

- a) A 50 year term with 25 year break.*
- b) A rent review every five years to RPI.*
- c) The lessee being responsible for all repairs, maintenance and insurance to the Mansion House and demised land.*
- d) Use to be for education and leisure purposes, including associated residential accommodation.*
- e) New build in the demised area approved in principle, subject to planning and agreement on location.*

f) *The lease (and Development Agreement) to commence on the date of acquisition of the Estate by SCCDC – 31<sup>st</sup> December 2014 (also date of entry).*

12. How are Land Tax and Land registration dues on Disposition and the legal fees of acquisition to be funded?

*Burness Paull, solicitors for SCCDC, advise that Stamp Duty Land Tax does not apply.*

13. Has consideration been given to the impact of the provisions of Part 1 of the Land Reform (Scotland) Act 2003 with particular reference to the proposed “exclusion zone” and has the leisure provider confirmed that these provisions do not present any difficulties for them?

### **Right to Roam Legislation**

*SCCDC spoke with Helen Jones, Scottish Government, with regard to Part 1 of the Land Reform Act 2003. The following sections of the Act have been cited:*

*Section 6(1) (b)(iii): designates land used as and contiguous to for the purposes of a school as being exempt from the access legislation. In addition, section 135 of the Education (Scotland) Act 1980 designates a school as any building that is used for the provision of education to school age children. Helen advised that this may cover Castle Toward.*

*Section 6(1) (e): also includes any lands used for recreational purposes as being exempt from the access legislation.*

*Helen also suggested that SCCDC contact Jolyon Gritten, Access Officer, Argyll and Bute Council, to confirm if the area of land to be leased by the proposed operator of the Mansion House would be covered by these exemptions and that no further action is required to confirm this exemption. Helen felt that the proposed retention of the estate periphery to enable access, and the purchase being by a community body, would also strengthen any case for an exemption.*

14. Could you confirm that the imposition of conditions of the nature of those set out in paragraph 4.12 of the 21<sup>st</sup> August 2014 report would be acceptable to SCCDC? Officers are to provide details of how they plan to safeguard the Council's possible investment in the project. For ease of reference these conditions were as follows:

- a) Conditions on agreement on appropriate timescales and time limits (as examples time limits for submitting any planning permissions that may be required, time limits for exhibition of agreement to lease etc.)

*See **response 11** above.*

- b) Conditions on obtaining all necessary planning and other permissions for developments/upgrading of mansion etc.

*See **response 11** above and **assumption 13, section 2.***

- c) Conditions on exhibition of final business plan in terms satisfactory to the Council.

*Revised Business Plan submitted which now includes job creation forecasts for up to 20 FTEs along with the proposed job creation of 68.4 FTEs (including construction jobs) from the Mansion House development. This is detailed in **Table 1** within the main report.*

SCCDC provided a breakdown of the 20 FTE jobs is as follows:

- *A Business Development Manager shall be recruited towards the end of 2014, and shall be responsible for taking forward the management of the SCCDC core business, as well as leading on development work.*
  - *The post of Administrator shall be recruited from April 2017, and shall provide administrative, bookkeeping, and membership support services for the company.*
  - *In addition, further support to develop the Gate House project shall be obtained on a consultancy and project basis, with funding of up to £50,000 being requested from Big Lottery's Growing Community Assets programme towards cost of work to be undertaken by an architect, surveyor, engineer, and the preparation of a detailed business plan.*
  - *A Business Advisor shall be appointed to work with the boards of the company for a period of two years following the community buyout, to provide advisory, governance and financial expertise.*
  - *Once the Hydro Renewable Energy project is up and running, a part time post shall be created to oversee the operation of the facility, undertake maintenance, and liaise with the Administrator in ensuring accounting and billing is promptly undertaken.*
  - *It is envisaged that an eco-camping site shall be provided in 2017, involving the lease of ground to a tenant, who shall be responsible for developing infrastructure such as toilets, showers, and other services. It is hoped that camping bods, bothies, and yurts may be developed as part of the proposal. SCCDC might chose to develop the eco-camping.*
- d) Conditions on satisfactory evidence/legal opinion being provided on behalf of SCCDC to demonstrate that State Aid issues will not impact on viability of SCCDC's business plan.

*SCCDC has been in correspondence with Mike Russell, MSP with regard to the State Aid issue. A detailed response was anticipated before the 30<sup>th</sup> October 2014.*

Conditions requiring exhibition of a legally binding agreement to lease being entered into between SCCDC and developer in terms deemed satisfactory by the Council and consistent with the final business plan.

See **response 11** above.

- e) Conditions on satisfactory evidence being provided to the Council that the Mansion House will be improved to a standard and within a timescale deemed acceptable by the Council.

See **assumption 13, section 2**.

- f) Conditions on title being taken in name of community, satisfactory evidence being provided that all income and benefits will accrue to community.

*See detailed assumptions outlined above .*

- g) Conditions requiring continued public access to Toward Castle.

**See response 13 above and assumption 24, section 2.**

- h) Conditions requiring that performance of all of the foregoing (pts a) to h)) in so far as not completed by entry to be secured by a first standard security over the whole property in favour of the Council in respect of the amount of any agreed discount.

*Burness Paull, solicitors for SCCDC, has contacted Donnie Kelly on this issue. Donnie to provide appropriate detail in response to this point. SCCDC has argued that a first standard security will impede the economic development opportunities to be realised by this development.*

## Appendix C: HIE's assessment and conclusions

### **Summary Review by HIE**

- C1 The following summary review was prepared by HIE who have given agreement for it to be reproduced in this report to assist the Council to consider the request for support from SCCDC.
- C2 In HIE's view the regeneration of Castle Toward represents an exceptional development potential for Argyll and Bute. Bringing the Mansion House and surrounding land back into use will provide significant economic and social activity in one of the most fragile areas of Argyll and Bute. HIE is aware that South Cowal Community Development Company (SCCDC) is working with the Scottish Land Fund (SLF) and Argyll Bute Council (ABC) to purchase Castle Toward Estate and that negotiations are currently underway regarding a final sale price.
- C3 SCCDC has secured a £0.750m grant from the Scottish Land Fund to enable the purchase of Castle Toward from Argyll and Bute Council. Once this sale has been agreed, HIE is keen to support the development of the asset and to that end HIE will work with the future owner and an identified inward investor to realise the significant investment and potential job creation it offers for Argyll.
- C4 Bringing Castle Toward back into productive use will deliver a significant level of economic and social benefits, whilst providing an opportunity to showcase Argyll and Bute to large numbers of young people annually, illustrating the high quality of life and natural environment available in this part of the world and potentially contributing directly to population increase in the future.
- C5 HIE has received an initial proposal from an inward investor in the leisure sector with a turnover in excess of £65m and significant number of bases across the UK and Europe. This proposal represents a significant financial commitment by an internationally recognised investor which, together with potential support from HIE, will bring the Mansion House and 25 acres of ground back into productive use, generating jobs and economic outputs.
- C6 HIE will be making every effort to ensure that the appropriate level of support is provided to both the new owner and the inward investor in order to maximise the considerable potential that the project has to offer Argyll. HIE has carried out an initial State Aid assessment and is satisfied that it should be possible for HIE to contribute the level of funding that may be required to complete the funding package and realise the benefits post acquisition.
- C7 The high priority given to this potential opportunity by HIE is demonstrated by the visit to Castle Toward from both the HIE Chairman and Chief Executive in August 2014. Indeed, if a successful purchase is completed, HIE will provide ongoing support to SCCDC as an account managed social enterprise through the Strengthening Communities Team based in Lochgilphead. Through this long-term interaction SCCDC will be supported to deliver the social and economic outcomes projected and it will be able to access a wide range of products and services including specialist advice, consultancy, Scot Grad placements, strategy workshops and potential grant funding.

## **Conclusions**

- C8 HIE has considered SCCDC's Business Plan and recognises that its viability relies upon securing an inward investor to take the leasehold of the Mansion House and immediate grounds. Overall, the SCCDC Business Plan illustrates strong community engagement and the delivery of a number of desirable social outcomes through small development projects. HIE recognises that such projects will provide an income that will maintain a level of activity in line with other community organisations of this capacity. SCCDC's involvement with this project will not only secure a key inward investor for Argyll and Bute, but also ensure that the business is centred within the community, maintaining community involvement and support into the future, which is important to the investor.

## APPENDIX D

|  |   |
|--|---|
| <b>Project</b>   | Sale of Castle Toward Estate  |
| <b>Organisation</b>  | Argyll and Bute Council   |
| <b>Contact</b>   | Cleland Sneddon   |
| <b>Contact details</b>   | 01546 604112 : <a href="mailto:Cleland.sneddon@argyll-bute.gov.uk">Cleland.sneddon@argyll-bute.gov.uk</a> |
| <b>State Aid Advisor</b>   | Lorraine Lee : <a href="mailto:Lorraine.lee2@scotland.gsi.gov.uk">Lorraine.lee2@scotland.gsi.gov.uk</a>   |
| <b>Contact details</b>   | 0300 244 11188  |
| <b>Date</b>  | 13 November 2014  |
| <b>Situation</b>   |   |
| <p>South Cowal Community Development Company (SCCDC) wish to purchase Castle Toward Estate under the 'Community right to buy' legislation. The estate is currently owned by Argyll &amp; Bute Council (ABC) and has been valued at £1.75m by the District Valuer. SCCDC has successfully secured £0.75k from the Scottish Land Fund and request that ABC sell the estate at a discount of £1m on the purchase price. This advice supplements the previous advice.</p> <p><u>State aid rules</u> exist when public funds are given to organisations (regardless of legal status) who operate on a market for goods and services, which relieves the organisation of costs they would normally have to bear and which has the potential to distort competition and affect trade between EU Member States.</p> <p>State aid can be present when publicly owned land and buildings are sold at less than market rate as the purchaser is receiving an advantage by not having to pay the full purchase price. Local Authorities are also governed by national legislation on the disposal of land by local authorities which requires public land and buildings to be sold at best value and to comply with state aid rules.</p> <p><i>To assess the presence of aid the measure has to firstly, be economic in nature and secondly, meet 4 state aid tests.</i></p> <p><u>Economic activity</u> – Although SCCDC are a community group and any revenue from activity they undertake will be reinvested into the community asset, State aid applies when the activity or service they undertake can be offered by, and therefore potentially distort, a commercial market.</p> <p>SCCDC intention is that the development will be staged in line with 4 'hubs'.</p> <ol style="list-style-type: none"> <li>1) Mansion house – to be leased to an adventure holidays operator,</li> <li>2) Eco-camping – to be leased to private sector company.</li> <li>3) The gatehouse – self-catering accommodation, small café and artist studio,</li> <li>4) Heritage Hub – ancient monuments, public paths.</li> <li>5) SCCDC are also investigating a small hydro scheme that will generate income.</li> </ol> <p>Commercial and rental income generated will be used to fund community hub 4.</p> <p>As there is a functioning commercial market for property development and rental, and this investment may be attractive to a private investor without public funding, SCCDC has to be regarded as an undertaking and a state aid assessment made.</p> |   |
| <b>Tests</b>   |   |
| <ol style="list-style-type: none"> <li>1. State resources? Yes – the asset is owned by ABC. Test met.</li> <li>2. Selective advantage? Yes – discount is only being offered to SCCDC. Test met.</li> <li>3. Distorts competition? Yes – it has the potential within UK. Offering to SCCDC may prevent other developers from investing in or leasing the land and estate.</li> <li>4. Likely to affect intra-community trade? Maybe. Although the market for the sale and lease of land operates across EU the activities proposed for the use of land are unlikely to directly attract visitors from other Member States.</li> </ol>   |   |
| <b>Advice</b>  |   |

State aid may exist at two levels.

1. The sale of land from ABC to SCCDC.
2. Lease and rental of facilities from SCCDC to prospective tenants.

There is a risk of state aid in the proposed measure as SCCDC are being relieved of costs of £1m from the valuation price of £1.75m and land ownership is an activity that is subject to State aid rules. However, the risk of aid can be lowered or removed in following circumstances;

- ABC offer a loan at a commercial rate to SCCDC for £1m which will fit with the market value of the property and avoid state aid. OR/
- ABC offer a sub-commercial loan. State aid will be the difference in the market interest rate and the rate offered by ABC but can be given compatibly if limited to De minimis aid. And/OR/
- The measure does not fulfil all state aid tests especially test 4, in that it does not distort intra community trade.

It is understood that SCCDC have advised that taking a £1m loan is not financially viable in terms of their business plan.

The Commission has in several cases considered that, due to their specific circumstances, certain activities had a purely local impact and consequently did not affect trade between Member States. Common features of such decisions are that:

(a) the aid does not lead to demand or investments being attracted to the region concerned and does not create obstacles to the establishment of undertakings from other Member States;

This position would require evidence, for example, that the Mansion House has been up for sale on the open market for several years and has not sold due to the level of liabilities involved in the maintenance and upkeep of a listed building. If so, it could be argued that SCCDC are not distorting the market for property development given that there has been no interest or commitment from the private market.

The rental income that SCCDC receive from leasing the Mansion House should be at market rates to reduce the risk of aid to the tenant and ensure the best return for the community. But, if evidence supports that the rate reflects the deteriorated state of the building or the level of liabilities involved, it could be argued that the potential returns may be at too low a level to be an attractive investment for private developers. A statement has been provided from the property company that the rental value is negotiated between the owner and tenant and the agreement reached on Castle Toward is indeed on market terms.

OR/

**(b) the goods or services produced by the beneficiary are purely local or have a geographically limited attraction zone;**

With regard to the four 'hubs'.

Mansion House. PGL's activity lifted from the information provided states that PGL's target market and 88% of their activity are schools and uniformed groups. The data shows that there is potential distortion/displacement to the market for adventure holidays in Argyll & the Islands 15%, H&I 30% and Scotland 90% although this is caveated as info is from a web search rather than empirical data. It also states that the risk of distortion may also be lower than these percentages as PGL's activity does not replicate all market offerings as some

providers focus on specialist activities and/or run activity centres for their own customers only (Local Authority owned). Section 4.3 states “There is no reference in PGL’s business plan to attracting schools custom from outside Scotland” which implies that PGL will not be targeting customers from other EU states.

With regard to PGL’s other activity – summer camp (3%) expect all clients to come from UK and overseas visitors (5%). This makes up 8% of their remaining activity and focuses on overseas students. It has been confirmed that PGL’s target English language market for foreign students refers to students who already have places in UK institutions and a similar facility in Scotland attracts only 1% of international students. Distortion if any, appears again to be at the UK level which is not relevant for state aid.

Remaining Hub activity

My previous advice discussed the type of information that you should keep to reduce the risk of aid in the various ‘hubs’ i.e. market data/visitor numbers by place of origin on the self-catering accommodation, eco-camping, small cafe etc. and how the EU market will be ‘un-affected’ by funding these types of activities.

However, as a comparison, statistics were provided on overseas visitor numbers to the Cowal Games which take place in the Dunoon area each year. A visitor survey of the event showed that 13.2% of visitors were from over-seas. However, these figures included the families of games competitors and were not simply spectators so actual ‘visitor’ or ‘tourist’ numbers were lower.

These visitors may also offer some indirect benefit to Castle Toward Estate if using the self-catering accommodation, café etc. but as above, their numbers are minimal and they are essentially in the area for the Cowal games and have not been attracted to the area due to the Castle Toward estate.

Summary

Based on information received since the first advice. The risk of distortion to intra-EU trade appears to be minimal and most displacement if any, will be at a Scottish or at most UK level. The risk of aid in the measure will therefore be low if the evidence held supports there is no effect on intra-community trade.

However, only the Commission has sole competence on whether aid exists in a measure but previous decisions (e.g. Dutch Marina cases mentioned above) would appear to support that the level of distortion is low.

Risk and consequences of illegal state aid.

The Commission have powers to investigate the legality of an aid measure. This can be as a result of a direct complaint by an aggrieved competitor or from their own sources. If the Commission investigate and find the aid illegal, the full aid amount and compound interest is required to be repaid by the recipient (SCCDC) to the funding body (ABC). It is crucial therefore that there is robust evidence to demonstrate the measure does not distort competition and provoke challenge.

However, the Commission may also assess whether the aid would fit under another state aid rule or framework and may deem the aid compatible if the measure leads to substantial regional growth that the market alone could not attain.

| <b>Risk</b>  |  |
|--|--|
| The measure proposed has a low to medium risk of aid as a case could be made that test 4 has not been met and the risk of distortion to intra community trade is unlikely. Supporting evidence should be held and made available if necessary. | <p><b>RED – HIGH RISK.</b><br/><b>Requires state aid cover.</b></p> <p><b>AMBER – MEDIUM RISK</b><br/><b>State aid cover advisable</b><br/><b>but risk based decision.</b></p> |

|   |   |
|---|---|
| <p>However aid could also be reduced or avoided by offering;</p> <ol style="list-style-type: none"><li>1. a loan at commercial rates to SCCDC for the market value of the property to avoid state aid. Reference rate communication <a href="#">here</a>.</li><li>2. Or/ consider a sub commercial loan using de minimis to cover the difference in the market interest rate and the rate offered. De minimis <a href="#">here</a>.</li><li>3. Regional aid and Investment aid to SME's can both offer up to 35% for a small enterprise in an 'pre-defined' assisted area. See GBER <a href="#">here</a>.</li></ol> | <p><b>GREEN – LOW RISK</b><br/><b>All 4 tests do not appear to be met and evidence supports this.</b></p> |
|---|---|

## APPENDIX E

### Responses from SCCDC are highlighted in BOLD and UNDERLINED

1. In the light of EDS comments that the business plan contains serious risk and uncertainty principally because the business case is predicated on grant funding that is not certain and is not guaranteed,

is SCCDC in a position to provide any additional evidence or comment to alleviate such concerns?

SCCDC are a community group. The Council will be aware that SCCDC has no financial resources to bring to the project – they will also be aware this is the case for all asset transfer propositions. All community groups will be dependent on grant funding to take forward projects in their early stages. The great advantage of this project is the ability of SCCDC to begin to generate income fairly early on in ownership which will help fund other community projects going forward. Members and Officers need to remain cognisant throughout of the fact the SCCDC is a non-profit distributing company. None of the Directors are paid. Any profits made will be reinvested into community projects.

Mention has been made to there being further investment of £4.9M by PGL at Castle Toward; is SCCDC able to provide the Council with written confirmation of this commitment and the source of this funding (i.e. does it include further public subsidy?)?

PGL are making the entire £4.9m investment from their own internal sources. We would draw member's attention to PGL's latest accounts if they require evidence as to their financial stability. They will see that their balance sheet is in considerably better condition than that of the previous preferred bidder, Seasons Holidays. PGL's investment does not include further public subsidy. This commitment will only be made on the signing of the lease – Officers are aware that this will be concurrent with the acquisition.

2. There may be concerns regarding the State Aid issue where the risk remains low to medium that the regulations would be breached.

SCCDC has previously commented on this as follows:

“SCCDC has been in correspondence with Mike Russell, MSP with regard to the State Aid issue. A detailed response was anticipated before the 30<sup>th</sup> October 2014.”

Is SCCDC in a position to provide any additional evidence or comment to alleviate such concerns?

Has SCCDC obtained any legal advice as to the possibility and effects of the Council's contribution being ruled to be in breach of State Aid rules and if so, can this be shared with the Council?

What contingency arrangements have been established should SCCDC be required to repay the £1.75M of public subsidy in the event that it is decided that such funding breached State Aid rules?

In the unlikely event that SCCDC are required to repay the £1m of subsidy, (£750 would be to SLF who have advised us that there is little risk), we would assess whether it would be viable to borrow the necessary funding, or to close the company and return the estate to the council.

What contingency arrangements does Argyll and Bute Council require other community groups to have in place for asset transfers?

Is SCCDC in a position to provide State Aid cover by taking on the £1M as a commercial loan at say 6% per annum, for which the annual repayments over a 22 year period following a 3 year repayment holiday would be £99,000?

No – the Business Plan does not support this. If SCCDC we were to take any loan the repayments would be unaffordable and would hamper all further investment. SCCDC have always said they would not burden the community with a project that could not stand on its own. We have considered and rejected loan funding for the purchase.

3. There may be concerns regarding the issue of the required exclusion zone.

Previous information supplied was as follows:

“SCCDC spoke with Helen Jones, Scottish Government, with regard to Part 1 of the Land Reform Act 2003. The following sections of the Act have been cited:

Section 6(1) (b)(iii): designates land used as and contiguous to for the purposes of a school as being exempt from the access legislation. In addition, section 135 of the Education (Scotland) Act 1980 designates a school as any building that is used for the provision of education to school age children. Helen advised that this may cover Castle Toward.

Section 6(1) (e): also includes any lands used for recreational purposes as being exempt from the access legislation.

Helen also suggested that SCCDC contact Jolyon Gritten, Access Officer, Argyll and Bute Council, to confirm if the area of land to be leased by the proposed operator of the Mansion House would be covered by these exemptions and that no further action is required to confirm this exemption. Helen felt that the proposed retention of the estate periphery to enable access, and the purchase being by a community body, would also strengthen any case for an exemption.”

The full definition of a school in section 135 of the Education (Scotland) Act 1980 is as follows:

“school” means an institution for the provision of primary or secondary education or both primary and secondary education being a public school, a grant-aided school [F19, a self-governing school] or an independent school, and includes a nursery school and a special school; and the expression “school” where used without qualification includes any such school or all such schools as the context may require

In view of the foregoing definition is it still considered that PGL's intended activities would fall within the definition of a school?

## Yes

To what extent is the exclusion zone an essential requirement of PGL?

### It is an essential requirement for safety reasons

Has SCCDC obtained legal advice as to whether it would be competent for them to agree an exclusion zone given the provisions of the Land Reform (Scotland) Act 2003 in relation to the public right to roam?

We have spoken to the Scottish Government as outlined and are happy that their advice is sound.

PGL are well aware of their obligations under Part 1 of the Land reform Act, having two other sites in Scotland. Their approach at Toward will match that of their other two sites, which comply fully with current legislation.

The word “exclusion” was coined by SCCDC and is perhaps the wrong one to have been used. Safety Area would better describe the area of ground required. PGL intend to have minimal fencing, as they do on their other sites, relying instead on natural screening. The individual activity areas will however need to be secured against unauthorised access.

4. There may be a wish to impose conditions in relation to any discount which may be agreed.

Whilst some comment has been provided by SCCDC to EDS relating to possible conditions, further information/discussion is required in respect of the following possible conditions:

10. Conditions on agreement on appropriate timescales and time limits (as examples time limits for submitting any planning permissions that may be required, time limits for exhibition of agreement to lease etc.).

Previous response on these matters was:

“See **response 11** above.”

Response 11 was as follows:

*“The Head of Terms provisionally agreed with the operator include:*

- g) A 50 year term with 25 year break.*
- h) A rent review every five years to RPI.*
- i) The lessee being responsible for all repairs, maintenance and insurance to the Mansion House and demised land.*
- j) Use to be for education and leisure purposes, including associated residential accommodation.*
- k) New build in the demised area approved in principle, subject to planning and agreement on location.*
- l) The lease (and Development Agreement) to commence on the date of acquisition of the Estate by SCCDC – 31<sup>st</sup> December 2014 (also date of entry).”*

**Is SCCDC able to provide any further information or comment on:**

Are there to be any time limits imposed on PGL for submitting planning applications; would SCCDC accept conditions relating to exhibition of conditional agreement to lease with PGL and if so within what timescale; would SCCDC accept time limits for commencing their own development plans and if so what timescales?

The lease will impose time limits on development and opening.

SCCDC Business Plan imposes timescales for its own development. We could consider accepting timescales for its own development as set out in the Business Plan.

PGL are a commercial operator and will be looking for a rapid return on their investment. They will be taking responsibility for the security and maintenance costs immediately SCCDC take ownership and will be looking to negate these costs, which the council knows are extreme. PGL intend bringing their first guests on site in 2016.

PGL will be paying no rent until 2017, to allow time for the infrastructure to be installed.

SCCDC are applying for grant funding for the restoration of the Gatehouse from the Growing Communities Fund. This will have its own time constraints.

11. Conditions on obtaining all necessary planning and other permissions for developments/upgrading of mansion etc.

Previous response was as follows:

“See response 11 above and assumption 13, section 2.”

Please advise whether conditions of this nature will be imposed on PGL and would be acceptable as discount condition?

Yes the lease will impose time limits of development and opening.

12. Conditions on exhibition of final Business Plan and securing of grant funding required in early years of the proposal in terms satisfactory to Council.

Previous response was:

“Revised Business Plan submitted which now includes job creation forecasts for up to 20 FTEs along with the proposed job creation of 68.4 FTEs (including construction jobs) from the Mansion House development.”

Additional information may be required on whether conditions covering the possibility of no grant funding being applied for within specified period triggering possible repayment or interest charge on loan – Does SCCDC wish to comment on this?

SCCDC need clarification on the loan mentioned above as no loan is being requested.

13. Conditions on satisfactory evidence/legal opinion being provided on behalf of SCCDC to demonstrate that State Aid issues will not impact on viability of SCCDC’s Business Plan.

SCCDC previous response was:

*“SCCDC has been in correspondence with Mike Russell, MSP with regard to the State Aid issue. A detailed response was anticipated before the 30<sup>th</sup> October 2014.”*

**Do SCCDC wish to provide any additional information or comment on this?**

14. Conditions requiring exhibition of a legally binding agreement to lease being entered into between SCCDC and developer in terms deemed satisfactory by the Council and consistent with the final Business Plan.

Your previous response was:

See **response 11** above.

**Could you provide further clarification in particular about whether SCCDC would agree to a condition of the nature described?**

**SCCDC can agree that the lease will be exhibited to the Council prior to completion. Lease terms can be discussed but we would not expect that the Council will have a power of veto over its provisions. SCCDC can accept that the lease will be consistent with the final Business Plan.**

15. Conditions on satisfactory evidence being provided to Council that the mansion house will be improved to a standard and within a timescale deemed acceptable by the Council.

SCCDC previous answer was

See **assumption 13, section 2**.

**Please provide clarity on whether such a condition would be acceptable to SCCDC**

**The timescales for improvements can be agreed. However, as above, SCCDC cannot accept that the Council can have a power of veto over the works. We are sure that Members and Officers recognise the key aim of SCCDC is to retain the Mansion House and ensure its enhancement – as opposed to a potential private sale which could well lead to the Mansion House falling into further disrepair.**

16. Conditions on title being taken in name of community, satisfactory evidence being provided that all income and benefits will accrue to community.

SCCDC previous answer was:

“See detailed assumptions outlined above.”

**Please clarify – does this mean that such conditions would be acceptable?**

**SCCDC are bound by its Memorandum and Articles which require that all benefits accrue to the community. SCCDC cannot legally act in any other manner**

17. Conditions required continued public access to Toward Castle.

SCCDC previous answer was

**See response 13 above and assumption 24, section 2.**

**Please clarify – does this mean that such a condition would be acceptable?**

Continued public access to the historic castle was one of the reasons the community supported this project, and is integral in all SCCDC's plans. The condition is acceptable but totally unnecessary.

18. Conditions requiring that performance of all of the foregoing in so far as not completed by entry to be secured by a first standard security over the whole property in favour of the Council in respect of the amount of any agreed discount.

SCCDC previous answer was

*"Burness Paull, solicitors for SCCDC, has contacted Donnie Kelly on this issue. SCCDC has argued that a first standard security will impede the economic development opportunities to be realised by this development."*

Burness Paul has not made contact on this issue. Please advise whether SCCDC would grant a first standard security over the property to secure implement of conditions imposed by Council in respect of any agreed discount?

Burness Paul have made contact with Donnie Kelly, however until the council agree the sale there is little further to proceed with. They have been given a copy of the title deeds in the interim.

Security would be acceptable, however as discussed with council officers, it would be preferable if any security was held over the mansion house alone. If it is held over the whole estate, then this could hinder any potential funding application for the gatehouse or other parts of the estate should the need arise at some point in the future.

5. There may be concerns about how committed PGL is.

What evidence is there of PGL's commitment?

Are there conditional missives and/or development agreement in place and if so can we see copies?

If not yet in place is it likely that conditional missives and development agreement will be in place before 18 December 2014?

To what extent is any commitment of PGL dependent on HIE finance which remains under consideration?

If the commitment of PGL is dependent on HIE finance, is SCCDC able to provide any information on when and to what extent HIE will be able to provide PGL with a suitable decision?

Generally, is SCCDC able to supply us with any evidence which would convince Members that the arrangement with PGL will go ahead?

Throughout the lengthy process PGL have remained committed to the project and continue to confirm their commitment. Attached is a letter from PGL's director of operations Richard Sanders. Until SCCDC have confirmation that the acquisition is to proceed, PGL cannot (as SCCDC have nothing formal to offer) provide any further commitment. Given the

delays so far both SCCDC and PGL have not been in a position to commit considerable expense to preparing conditional missive and a development agreement. Heads of Terms have been agreed and PGL are currently developing their detailed proposals. It would be unreasonable to expect any of the partners – SCCDC, PGL or HIE to make any formal commitment until the Council have agreed the project can proceed, through the award of the discount.

As all along – SCCDC will not proceed with the acquisition unless there is a simultaneous binding agreement with PGL in place. This will provide Members with sufficient comfort that the sale will not proceed until this is in place.



8 December 2014

Alan Stewart  
Chairman, SCCDC  
Brackley Cottage  
Toward  
Dunoon  
PA23 7UN

Dear Alan

**Re: Castle Toward**

As you are of course aware, we have been in discussions with yourself as Chairman of the South Cowal Community Development Company (SCCDC), both directly and through our respective agents, since April this year.

We are committed to working towards a satisfactory conclusion to lease the Mansion House, associated outbuildings and part of the grounds at Castle Toward from SCCDC should you be successful in your bid to purchase the property.

We have a great deal of experience of working in partnership and we see very clearly the opportunity that the partnership with SCCDC offers, the benefit that it will have for young people and for the local community.

We have been working hard with yourselves and Highlands and Islands Enterprise to realise this potential. We have been patient throughout all the delays to a decision being made and look forward to the local authority finally making their decision to support you in your bid.

Our commitment has also been demonstrated by our agreement to coordinate the project to prepare the detailed costing of the work required to restore the Mansion House and other buildings to a suitable standard in preparation for our occupation of them as a tenant.

Whilst we have agreed Heads of Terms with you as our potential landlord, this project is of course subject to contract, to the necessary consents being received from relevant stakeholders and also to the conditions attached to any funding provided by Highlands and Islands Enterprise being acceptable to us.

Yours sincerely

A handwritten signature in blue ink that reads 'Richard Sanders'.

Richard Sanders  
Operations Director

6. There may be concerns about the extent of commitment of PGL to maintaining the Castle Toward Mansion House.

What provisions are there if any in the agreement with Leisure Providers demonstrating a commitment on the part of Leisure Providers to maintaining the Castle Toward mansion House?

In The Heads of Terms they have agreed to keep the Mansion House in good repair.

7. Members may have concerns about the extent to which there is a requirement on PGL to produce the economic impact benefits within a specified timescale.

What provisions are there in the agreement(s) with PGL or elsewhere which would alleviate any concerns that there may be in this regard?

PGL are a commercial operator and it would not be in their interest not to have a return on their investment as soon as possible. The only possible factors to delay will centre on the council's planning department and as yet unseen structural faults with the building

A timescale for development and opening will be included within the Lease.

8. There may be concerns that the rental agreed or to be agreed between SCCDC and the PGL does not represent full commercial value on the DV's valuation of £1.75M, providing a yield of only around 2.30%, particularly since the figure of £100,000 per annum was mentioned in earlier discussions on this aspect.

Is SCCDC in a position to offer any evidence or comment to alleviate such concerns and demonstrate that a rental of £40,000 represents full commercial value?

We have been taking advice from Savills, leading commercial surveyors on the matter, which Members would expect us to respect.

Assuming that the valuation for the whole estate is £1,750,000, we intend to lease to PGL only the mansion house and approx. 25 acres of land while retaining for SCCDC use the remainder of the estate including the gate lodge complex.

If we assume the approximate value of the land / building that we are leasing is £750,000 and not £1,750,000 as indicated, as it represents only a part of the estate, On this valuation an annual rent of £50,000 per year, as indicated in the latest information from the proposed tenant, the annual return on our investment will be 6.67%. We therefore consider the rent under discussion represents proper current commercial value

The £50,000 also of course does not include any income generated from the Gatehouse development and other opportunities on the estate – which will significantly increase the yield.