



**South Downs**  
National Park Authority

**Agenda Item 16**  
**Report NPA20/21-31**

Report to	<b>South Downs National Park Authority</b>
Date	<b>25 March 2021</b>
By	<b>Head of Business Services</b>
Title of Report <b>Decision</b>	<b>South Downs National Park Teckal Company – provision of equity</b>

**Recommendation: The Authority is recommended to Approve an initial investment in the South Downs National Park Authority’s Teckal Company of £100,000.**

## **1. Introduction**

- 1.1 The purpose of this report is to seek approval from the Authority for an investment of £100,000 to be made in the South Downs National Park Teckal Company. The invested funds will form an equity stake in the trading company, which will be wholly owned by SDNPA.
- 1.2 In order to engage in commercial activities, initially at Seven Sisters Country Park, the Authority must operate through a trading company. While being wholly owned and controlled by SDNPA, the company must be financially independent. As is the case with most emerging companies, the company will initially have a negative cash flow and will require some form of financial support during its first months of operating.
- 1.3 The financial support can come in several different forms, of which equity funding is just one. The options are discussed in section 4 below.

## **2. Policy Context.**

- 2.1 Through an operating agreement with the Authority, the remit of the company, initially at Seven Sisters Country Park, will be to improve the landscape, including the conservation of biodiversity, habitats and species, and enhance the visitor attraction and knowledge of the National Park and the wider environment.

## **3. Issues for consideration**

- 3.1 Subsidy (the system replacing State Aid) issues have been considered in respect of the equity investment in the Company and it is considered that no significant issues are raised that cannot be managed within the administrative processes of the Authority
- 3.2 It is also essential that SDNPA is able to demonstrate prudent financial management in any investment that is made, and that the powers the Authority has are not exceeded.
- 3.3 In respect of the powers available to the Authority officers are satisfied that there are sufficient powers under the s7(2) and s43(2) of the Countryside Act 1968 and s65a (1) (b) and (d) of the Environment Act 1995 available to it to undertake the investment, and through the additional benefits in terms of financial stability of the company by not charging commercial rates for financing facilities the company will be better able to perform its

obligations under the operating agreement with the Authority and in doing so will support the delivery of the Authority's purposes.

- 3.4 The proposed investment has been considered in conjunction with the business case for the company, and reviewed in light of the requirements of the Treasury Green Book and the principles set out in the "Managing Public Money" guidance published by the Treasury in 2019 and the surplus that is expected to be generated in return for what is a much larger investment in the site as a whole. The result of this analysis is set out below
- 3.5 The capital investment that SDNPA is making within SSCP will provide a positive and environmentally conscious visitor experience in an improving habitat. Equally important, it will allow the site to be managed in a manner that does not create a drain on the revenue resources of SDNPA and allows a third party organisation to manage SSCP on a commercial basis, while delivering on SDNPA purposes. The investment in equity funding will provide the company with the necessary working capital to allow it to deliver on the business case. The most cautious business case forecast, based on limited activity, is for an operating surplus from year 4.
- 3.6 SDNPA will be able to redeem all, or part of this investment in the future. It is anticipated that the shareholder's funds will grow as the trading company returns annual operating surpluses and decisions will be made on what element to retain as working capital and how much to distribute to SDNPA as the single shareholder.

#### **4. Options & cost implications**

- 4.1 First of all, it is important to recognise that the company will need funding of some sort in the short term. This is partly to provide working capital; to pay for stock and fit out, and for salaries, until the income stream overtakes those costs. Much of the income is likely to be cash or cash equivalent; for car parking, retail, etc. so this shouldn't take too long.
- 4.2 Funding is also needed to cover short term losses and as the company will begin operating on the 1 January, in the middle of the low season, then it will inevitably return a loss in the first quarter.
- 4.3 There are three ways in which the company can obtain sufficient operating capital.

**Option 1;** The first of those is through commercial borrowing. The company won't have any track record or funds of their own. Their only asset will be an operating agreement with the Authority, which will also place additional financial burdens on them in return for the right to operate on the site. With the Authority's backing, they may be able to borrow money from the bank, but interest rates are likely to be higher than normal.

**Option 2;** The Authority can provide a loan to the company, either at commercial rates or free of interest (subject to compliance with the new Subsidy rules).

**Option 3;** The Authority can provide equity investment in the Company.

- 4.4 In terms of day to day trading, there will be very little difference to the Company from either the second or third options above. However, there will be a marked difference in the Company's balance sheet. By investing in the Company, SDNPA is providing the Company with its own asset base. So it will not only be existing on the basis of borrowing. This significantly reduces the risk for anyone trading with the company and the investment demonstrates that SDNPA is taking a stake in its own company rather than completely shielding itself behind limited liability.

#### **5. Next steps**

- 5.1 When the Company is established, SDNPA will transfer £100,000 to the Company. This will be paid from General Reserve and the Estates Management Reserve (£50,000 from each) It is anticipated that SDNPA will be in a position to return funds to reserves following the closure of the 2020/21 accounts and Members may choose to replenish the Estates Management Reserve at this time.

## 6. Other Implications

Implication	Yes*/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any Resource implications?	The proposal would involve £100,000 of cash reserves being used to fund an investment in the Teckal Company. The overall asset levels would be unchanged
How does the proposal represent Value for Money?	The proposal provides the wholly owned Teckal company with equity funding, to enable it to trade, eventually returning funds to SDNPA while acting in pursuit of the Purposes and Duty.
Are there any Social Value implications arising from the proposal?	No
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	Yes, the business case for SDNPA managing the Country Park is based partly on increasing access to the Country Park and improving the visitor experiences, for people of different ethnic origins and those of different physical capabilities and mental health. This investment in the Teckal company will support the delivery of these improvements.
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	No
Are there any Data Protection implications?	No
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy?	No

## 7. Risks Associated with the Proposed Decision

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
The Trading Company continues to operate at a loss and SDNPA is unable to recover this investment	Low	Low	As whole shareholder, SDNPA maintains strict oversight of the Company's performance and takes action to rectify any failings.

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Appendices None  
SDNPA Consultees Chief Executive; Chief Finance Officer; Monitoring Officer;  
External Consultees None  
Background Documents None