TRAFFORD BOROUGH COUNCIL

Report to:	**Exective 25 March 2015** **Council 25 March 2015**
Report for:	**Decision**
Report of:	**The Executive Member for Finance and the Director of Finance**

Report Title

OLD TRAFFORD LODGE HOTEL REDEVELOPMENT ASSISTANCE

Summary

Lancashire County Cricket Club (LCCC) has recently made an approach to the Council to request loan finance for a proposed replacement of the existing Lodge facilities with a new purpose built 150 room hotel.

Initial due diligence work has been undertaken including a hotel demand study by GVA which has been positive about the proposal and also a financial assessment by KPMG with further financial due diligence work to be undertaken around the updated financial forecasts.

The redevelopment is estimated to cost £12m and funding has been secured from a retail bond of £3m and approved conditional funding from the GM Combined Authority (GMCA) of £5m. GMCA funding is conditional on further due diligence being completed by KPMG on the updated financial forecasts of LCCC and also the Council agreeing a loan to the club for the balance of the funding of £4m.

Recommendation(s)

The Executive is requested to:-

1. approve a loan of £4m to Lancashire County Cricket Club for its planned redevelopment;
2. delegate authority to the Director of Legal and Democratic Services in conjunction with the Deputy Chief Executive and Director of Finance to agree and complete all documentation;
3. request the Council to approve:

    a. the addition of £4m to the Capital Programme in 2015/17 by way of prudential borrowing;
    b. approve the updated prudential indicators as detailed in Appendix 1.

4. deem the decision as urgent and therefore not subject to call-in.

Contact person for access to background papers and further information:

Name:	Ian Duncan	Helen Jones	Jane Le Fevre
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Relationship to Policy Framework/Corporate Priorities	Economic Growth and development
Financial	The loan advance of £4m would be classed as capital expenditure. This would be financed by borrowing. LCCC would be charged a commercial rate of interest rate on the loan. This would be more than the Council's own borrowing costs and therefore a surplus will accrue to the Council, as detailed in the report. Other revenue streams have been agreed with LCCC as outlined in the report. A one-off arrangement fee of 1% will be charged to LCCC.
Legal Implications:	Agreement of the terms of the loan and conditions will be included in a new legal agreement with LCCC.
Equality/Diversity Implications	N/A
Sustainability Implications	N/A
Risk Management Implications	There are risks associated with the proposal. Mitigation against the risks are set out in the report.
Staffing/E-Government/Asset Management Implications	N/A
Health and Wellbeing Implications	N/A
Health and Safety Implications	N/A

Other Options Considered

Alternative funding sources have been considered by LCCC and these are detailed in the report. The Council could decide not to approve the loan support but this would mean the conditional funding approved by the Combined Authority would be withdrawn, putting the overall development at risk.

Consultation
Not Applicable

Reasons for Recommendation

The new proposals at LCCC would complete the redevelopment at the cricket club and provide significant benefits in terms of economic regeneration and additional local jobs.

Key Decision

This is a key decision currently on the Forward Plan: No

Finance Officer Clearance ……ID……..

Legal Officer Clearance ……JL……

CORPORATE DIRECTOR'S SIGNATURE

Theresa Grant

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.

Background

Proposal

1. LCCC is considering the opportunity to replace its existing 68 room lodge accommodation with a new 150 bed branded franchised hotel to complement the redeveloped ground. The Club has commissioned an external economic impact assessment which concludes that the redeveloped hotel will create 76 new jobs in Trafford and additional GVA impact of £2.3m per annum.

2. The estimated capital cost of the scheme is £12m and the Council has been approached to provide an element of loan support towards the financing of the project. This report details the benefits of the scheme that will be realised both locally and regionally and outlines the financial implications for the Council and how they will be covered by the cricket club. The project benefits include:-

    - Creating new jobs, the skill sets for which are accessible by the wider local community;
    - Enhancing the profile of the cricket ground as a globally renowned sporting arena reflecting positively on the city and local community;
    - Providing dining and retail conveniences lacking in the local area; and
    - Creating the opportunity for attracting both national and international conferences to Manchester by supporting and growing the potential already in place and provided by the existing world class facilities at Emirates Old Trafford.

3. Specialist advice has been procured from KPMG and GVA to provide due diligence reports to support the viability of the proposal, with a hotel demand study concluding positively about the scheme. The GVA report executive summary includes the following key points and strengths for the location:-

    - The benefit from multiple tourism and business drivers – Trafford Park and Media City;
    - The position proximity to Old Trafford football ground in addition to the cricket ground providing a large base for sports tourism;
    - The market area demonstrates strength and the ability to absorb new hotel supply;
    - Old Trafford Metrolink is very close to the site providing easy access to the site;
    - Accessibility from core transport arteries;
    - A strong brand;
    - A stable growth trend;
    - Historic performance of existing hotel;
    - Strong base of conference and events business at the Club;
    - The area is subject to a number of regeneration schemes which is expected to business tourism, e.g. the Quays.

4. The project is an important part of the Club's strategic approach to improve its financial returns on its off-field activities so that it is much less reliant on the less certain fortunes of success on the playing side of the business.

Financing of the Project

5. The estimated capital cost of the scheme is £12m, including contingencies and the Club has actively explored a number of options in determining what sources of funding are available to support the project. These included additional bank funding but given the existing exposure their existing bankers have with the Club they consider the existing leverage is at a level where they cannot go higher. This also, realistically, rules out any other senior debt from an alternative mainstream Bank. This is not uncommon following the banking crisis. The Greater Manchester Pension Fund has been considered but an indicative offer of a £5million loan was rejected because the fees were significant, the interest rate was excessive at 9% (pension fund is seeking equity returns) and the repayment terms did not suit the needs of the Club's financial model. Therefore because of the lack of appropriate finance LCCC has approached the GM Combined Authority (GMCA) and the Council to seek loan assitance towards the scheme to complement the £3m already secured from a retail bond in October 2014.

6. On 27 February 2015 GMCA approved support toward the scheme of £5m comprising up to £1.5m from Regional Growth Funds (RGF) and the balance from Growing Places funding. RGF is to generate private sector investment to create sustainable growth and Growing Places Fund was established by the government to invest in infrastructure to generate economic growth, build houses and create jobs. Both were established as the market would not have generated this investment quickly enough; banks still appear nervous in their approach to lending. This hotel proposal meets these objectives.

7. These funding sources normally involve an element of support from the respective district, in the form of underwriting, but in order to reduce the exposure to the Council, officers have been successful in negotiating with GMCA who are willing to advance the Growing Places portion of the funding direct to the Club; the funding from the RGF and Growing Places Fund will be a loan made by GMCA. Also any interest payments due to the Council would rank ahead of the CA support.

8. The CA support is conditional on further due diligence work to be undertaken by KPMG on the financial forecasts and also on the Council agreeing loan support of £4m, being the balance of the funding.

9. The assumptions by LCCC for debt repayment include for:-

   - **Retail Bond** - £3m at a 5% interest rate plus 2% retail discount, launched in October 2014 to be repaid after five years.

   - **Growing Places/RGF** - £5m to be drawn between Sept 2015 - Sept 2016, interest to be charged at 4.5% above the European Reference Rate (currently would result in a interest rate to LCCC of 5.52%) and secured as a second charge over the Club assets and ranked similar to any advance from the

Council. Full repayment to be made by December 2021 with a series of bullet repayments from December 2018.

- **Prudential Borrowing -** £4m to be drawn down across 2016/17 and 2017/18, secured as a second charge (see above) and repaid over 10 years. The period of the loan is commented upon below.

LCCC Financial Projections

10. The projections have already been subject to due diligence work undertaken by KPMG with previous projections showing an increase in Events income and Hotel revenues with significant increases in Net Income (EBITDA) projections for the period 2015 – 2019. Since then the English Cricket Board has made announcements on international cricket matches over the next few years and LCCC has been successful in securing a number of lucrative matches, including the Ashes in 2019. This gives more certainty to future years' projections which show a marked increase on previous years. Net revenues from the existing Lodge have been approximately £0.5m a year and these are projected to rise considerably. EBITDA (net income) is forecast to grow over the medium term which should allow debt costs to be afforded.

11. The financial projections include for the repayment of interest on the entirety of the debt and retail bond. At the time the projections were made, no repayments were included in respect of the Council debt until at least 2021 although the projections indicate that resources will be available for debt repayment from 2017.

12. The above figures include for repayment of the retail bond and GMCA debt of £3m and £5m respectively; the maximum loan period for GMCA loans is 5 years. The redevelopment could not stand to repay the entire project finance within a five year period and therefore a loan of 10 years is requested from the Council.

13. These updated financial projections will be the subject to further due diligence by KPMG and this is a requirement of the funding from the CA and also the Council.

Negotiations with LCCC

14. Since GMCA made its loan offer, negotiations have taken place between officers of the Council and LCCC. The main heads of terms agreed include:

    a) within two years of the completion of the projects LCCC will secure naming rights of the Cricket School for 10 years in the minimum net sum of £50k per annum. The annual receipt will be paid over to the Council for support youth outreach provision. If naming rights are not secured, LCCC will pay the Council £25k per annum for 10 years. Until such time as the naming rights are sold, the Council can require that the naming rights are assigned to the Council free of charge; the Cricket Centre will be named "Trafford Council Cricket Centre";

b) the Club will be released from its obligation under the Funding Agreement made between the Council and the Club and dated 30 November 2010 as varied by the MOU made between the Council and the Club and dated 19 October 2011 to complete the extension to the Cricket Centre and will instead be obliged to maintain the Cricket Centre in good condition such that will ensure that it is fit for purpose and so that the Club will be able to continue to deliver its S111 obligations in relation to community and educational users;

c) the Club will increase the current provision in the S111 Agreement in relation to the Players and Media Centre for the duration of the loan and will make available free of charge (but otherwise on the same terms and conditions as other users) the Players & Media centre for 50 days per year (an equivalent of 1 day per week (other than Christmas and Easter)) to be used as the Council sees fit for the benefit of the community or for educational purposes. This facility could be used to enhance Gorse Hill Studio offer and other schools. The additional obligations will cease at the termination of the loan and thereafter the Club will comply with the obligations in relation to the Players and Media Centre as set out in the S111 Agreement;

d) the Club will provide or fully fund the provision of an individual to support delivery of projects at Gorse Hill Studios 1 day per week – with a mentoring/support agreement in place similar to Stretford High School. This obligation will apply throughout the term of the loan;

e) the Club will make The Point and the Pavilion available to the Council free of charge (but otherwise on the same terms and conditions as other users) for 3 days each per year (in relation to The Point this will be in addition to the 1 day a year which it will continue to provide free of charge for the Council's annual staff awards ceremony);

f) the Club will provide to the Council free of charge 100 tickets for each cricket match (domestic or international) hosted at the Ground, such tickets to be used by the Council for Community invitations or sold to raise funds for youth outreach work;

g) The Club will provide to the Council free of charge a hospitality table for 10 guests each year at a day of international cricket of the Council's choosing to be used by the Council to support inward investment to the Borough;

h) The Club will pay to the Council all income from advertising generated from a specified high level perimeter board (to be agreed between the Council and the Club) during all domestic and international cricket matches together with 50% of any future revenue from all new commercial advertising opportunities at the Ground;

i) the existing provisions in the S111 Agreement with regard to the payment to the Council of a portion of the net annual receipt from International matches will be varied under the proposed agreement to:-

   a. provide for the payment to the Council of an annual sum equivalent to 5% of the net annual receipt from International matches in each corresponding year up to a maximum of £100k in each year except those years when the Club hosts the Ashes Tests when the maximum payable will be £150k but with a guaranteed minimum payment of £35k in each year when there are no test matches or £75k in each year when the Club hosts any test match; and

   b. to delete the provision in the S111 agreement which requires only 50% of that sum to be paid to the Council such that the whole of the sum realised is paid to the Council.

j) The Legal Charge will be for a term of 10 years and will be a second charge secured against the Ground. The Club will secure a Deed of Priority in order to ensure that the proposed Second Charge in favour of the Council cannot be postponed to further borrowing under the First Charge;

k) that once the GMCA loan has been repaid, the club will use 100% of profits received as a result of the Club overachieving against the operating forecasts which have been agreed by the Council in relation to the business case for these development proposals and the loans to repay the outstanding amounts due to the Council in respect of the loan to secure earlier repayment of the loan.

Financial Impact on the Council

15. If the Council was minded to approve the support towards the scheme it would involve additional borrowing of £4m. The Council is able to borrow from the Public Works Loans Board, part of the UK Debt Management Office and the current borrowing rate is 2.65%. This will result in an annual interest cost of £106k.

16. The Club will be charged a commercial rate of interest (see para 9). This will result in a payment of approximately £221k, which is £115k per annum more than the Council's cost of borrowing.

17. The Council currently earns an average return on its cash holdings of 0.7%. The Director of Finance will determine, as part of the usual treasury management operations, whether to borrow from the PWLB or call on the Council's cash holdings. Therefore the actual return to the Council could be higher than outlined in para 16.

18. There are risks attached to any lending and therefore it would be prudent to set aside the return on interest to help protect the Council from any default. The need for this provision would be kept under review each year.

19. Whilst the Council would not be required to budget for principal repayments, in accordance with the policy on Minimum Revenue Provision (MRP) included in the Treasury Management Strategy, it must be cognisant of the risk of granting a 10 year loan. So that risks of the two funding bodies are shared it has been agreed with the GM Combined Authority for each body to take an equal share second charge on the assets of the Club behind their current bankers.

20. Para 14 outlines other funding streams to be paid to the Council. In addition an arrangement fee of 1% i.e. £40k has been agreed with the Club.

Prudential Indicators

21. The Council support would be classed as capital expenditure and as such the decision would need to be taken in line with the Prudential Code. These indicators are designed to support and record decisions taken on affordability and sustainability. There is also a requirement to impose *limits* on the Council's treasury management activities to ensure decisions are made in accordance with professional good practice and risks are appropriate (These are included in the Treasury Management Strategy Report). The Director of Finance will monitor these and report on them at appropriate times. Details of the updated indicators are included at Appendix 1.

Conclusion

22. The hotel redevelopment offers an opportunity for first class conference facilities to be available wihin the borough and complement those available in the centre of Manchester. Importantly it also helps LCCC to secure their future by having less reliance on success on the playing field, ensuring that international cricket will feature in the North West region for a long time to come. The importance of such facilities to the sub-region are reflected in the GM Combined Authority offer of a £5m loan to LCCC. If the Council is unable to complete the funding package with a loan of £4m then the redevelopment would not be able to proceed.

23. Due diligence has been carried out by KPMG and GVA on the viability of the proposed development. Greater financial certainty exists than in previous years following the English Cricket Board's (ECB) allocation of future international cricket matches.

24. There are risks attached to the provision of a loan but these are mitigated by: a second charge over the assets of LCCC; a commercial rate of interest being applied to the loan; additional income streams being negotiated with the Club and; due diligence work by KPMG and GVA.

Urgency

25. It is not possible for this decion to be subject to call in because negotiations with LCCC have only recently concluded. The decision cannot reasonably be deferred because the GMCA has agreed to provide a further loan but it is

conditional on Trafford Council agreeing its loan; GMCA must commit its funding by 31 March 2015. If call in was to apply the GMCA will not be able to commit its funding by 31 March 2015.

Appendix 1

Prudential Indicators – Estimates 2015/18

Capital Prudential Indicators	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate**
Capital Expenditure	**42.9**	**41.8**	**25.2**	**16.7**
Capital expenditure - the table above shows the estimated capital expenditure to be incurred for 2013/14 and the following three years. (incs £1.6m in 2016/17 & £2.4m in 2017/18 in respect of Lancashire CCC)				
Capital Financing Requirement as at 31 March	**139.7**	**138.4**	**139.8**	**137.2**
Capital Financing Requirement (CFR) - this reflects the estimated need to borrow for capital investment (i.e. the anticipated level of capital expenditure not financed from capital grants and contributions, revenue or capital receipts).				
Financing Cost to Net Revenue Stream	**7.0%**	**7.3%**	**7.1%**	**7.2%**
Financing costs to net revenue stream - this indicator shows the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Council's net revenue stream.				
Incremental Impact on Band D Council Tax (£)	**0.00**	**0.00**	**0.00**	**0.00**
Incremental impact on band D council tax – reflects the incremental impact on the Council Tax arising from new borrowing undertaken in order to finance the capital investment decisions taken by the Council during the budget cycle. The figures above, reflects the movement away from borrowing to grant funding for future years spend. The advance to LCCC would be classed as a service debt arrangement and would not have an impact on council tax.				

All the prudential indicators are monitored on a regular basis. If the situation arises that any of the prudential indicators appear that they will be breached for a sustained period, then this will be reported to the Council at the earliest opportunity.