

# Taunton Deane Borough Council

**Executive – 14 November 2012**

## **Proposed loan to Somerset County Cricket Club to enable development**

**Report of Strategic Director Joy Wislade**

(This matter is the responsibility of Executive Councillor Cavill)

### **1. Executive Summary**

The Somerset County Cricket Club would like to become a ground which can stage one-day and twenty over international cricket. In order to do this they need to develop the area of the Old Pavilion to incorporate a media centre facilities for up to 100 journalists and to increase the seating capacity. The English Cricket Board have committed to loan SCCC some of the required funding, some will be available from bank/private sources but the Club have requested the Council to use its borrowing powers to provide them with a loan to cover the shortfall. Any loan from the Council would need to cover its own costs, be secured and be at nil cost to the local tax payer. Hosting international cricket will provide significant benefits for the Club and importantly, for the local economy.

### **2. Background**

The full business plan produced by SCCC is attached at Appendix A. This is a confidential appendix. The Vision, Proposal and Rationale are copied here for ease of reference.

- 2.1 **“Our Vision:** By 2016 SCCC will have enjoyed the most successful period in its history by consistently winning trophies and contributing players to the England team. This will be achieved by maintaining investment in quality players, accompanied with an improvement in facilities to achieve One day International Ground status. Critically, staff, members, visitors and spectators will enjoy being at Somerset and the Club will be regarded with the greatest respect by all those in the cricketing community both at home and abroad.

The vision seeks to maintain success on the pitch but crucially in the context of the business plan, to bring the ground up to the standard required to host international cricket. This project is the 4<sup>th</sup> and final phase of ground development with Phases 1-3 completed successfully, all to the required specifications. This proposal will fulfil the two remaining requirements: the provision of media facilities for up to 100 journalists and the insertion of additional seating capacity.

2.2 The proposal: The proposal seeks to remove the Old Pavilion on the south east side of the ground and replace it with a development which incorporates a media centre, a retail outlet, boxes and corporate facilities, covered tiered seating and a roof top viewing area.

2.3 The rationale: The benefits are two fold. A structural survey has confirmed that the Old Pavilion is at the end of its life and needs to be replaced. This proposal therefore provides members and spectators with new facilities which will increase their enjoyment of the ground long into the future. Hosting international cricket provides significant benefits for the club, the local economy and cricket more broadly because:

- ❖ There is a compelling need for a high quality, smaller ground capable of staffing less popular international matches which can deliver an outstanding experience to the players, spectators and broadcast media. Superb transport links also add to this experience.
- ❖ The scale and interest in cricket throughout the west country is enormous and international matches would be immensely popular for both members and the wider community
- ❖ SCCC has low fixed costs and in house catering enabling significant profit to be generated from international fixtures with high levels of associated visitor spend driven into the local economy
- ❖ SCC is at the heart of the community in Somerset. International cricket would catalyse the wider regeneration of Taunton as well as inspiring the next generation of young cricketers.”

2.4 The rationale for a loan from TDBC

Somerset County Cricket Club have made this request to the Council for a number of reasons. Firstly, because the proposed terms of the loan are much more attractive than can be achieved through bank funding; this is crucial in creating a viable business plan for the Club which is not achievable without Council intervention. Secondly, the England and Wales Cricket Board have now approved the move of the County Ground to international status, but this must be achieved within a three year period or the approval will be withdrawn. This creates a time imperative for completing the development, hence this request to the Council. Thirdly, the benefits of staging international cricket are considerable in contributing to the economic regeneration of Taunton and the Club believe that Council loan support will enable the Club to stage international matches within a 5 year period, contributing to the economic vibrancy and image of Taunton.

2.5 It is within the power of the Council to offer this type of loan. The Council therefore has a decision about whether it supports the request from SCCC or declines it.

### **3. Finance Comments**

3.1 Somerset County Cricket Club has requested the Council considers becoming a funding partner for the proposed further Ground improvements by providing loan finance of £1 million towards the development described above. Finance officers have considered this request on the understanding that there should be no cost to the local taxpayer.

3.2 Legal Powers and Approvals:

The Council is permitted under capital finance regulations to make loans to external organisations (*SI 2003 No 3146 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003*). In addition the General Power of Competence set down in the Localism Act 2012 would also give the Council the power to make this loan.

3.3 Making such a loan for capital purposes is to be treated as capital expenditure. The SCCC proposal to use the funding towards a new Pavilion falls into this category. This legislation also determines that the repayment of the loan principal shall be treated as capital receipts, which means it can only be used to finance capital expenditure or repay capital borrowing.

3.4 Under the TDBC Financial Regulations, Full Council approval would be needed to enter into the loan agreement, as this would need to be part of the Capital Programme.

3.5 Type of Loan:

The type of loan could take several variations, but the three common types used would be:

Type	Features
Equal Instalments of Principal (EIP)	Repayments will be the same amount of principal each year plus interest on the reducing balance. Annual repayments will be higher in the earlier years.
Annuity	Repayments will be the same amount each year, with a higher proportion of the repayment relating to interest in the earlier years. Repayment of principal is therefore lower in earlier years.
Maturity	Repayments are for interest only, and would be fixed amounts for a fixed interest loan based on the total amount of the loan advance. The principal amount would be repaid in one lump at the end of the loan period.

3.6 The advice from Finance Advisory, which is consistent with advice from Arlingclose, is that **EIP is the recommended loan type**. This means that TDBC would prudently receive the same amount of loan principal repayments each year.

3.7 Interest Rate:

The interest rate charged will be based on the PWLB (Public Works Loan Board) rate at which TDBC could borrow, plus a risk premium. PWLB rates will be changeable; therefore the final rate used should reflect the interest rates extant at the time of the loan being issued.

3.8 As an example, based on PWLB rates as at 7 September 2012, plus a fixed risk premium of 2%, the following indicative rates would apply

15 year EIP loan	PWLB rate 2.34% + 2% risk premium = 4.34%
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3.9 It is therefore proposed that the final loan proposal should use the current PWLB borrowing rate, plus a 2% risk premium.

3.10 TDBC Funding Source

It is proposed that the capital expenditure incurred by TDBC in making the loan is funded by “internal” borrowing. The Council would therefore need to make a prudent provision to repay the borrowing. Under the Minimum Revenue Provision (MRP) regulations, the Council is able to use the capital receipts arising from the SCCC Loan Principal repayments to repay the borrowing in lieu of MRP charges to the revenue budget. Should SCCC default on the loan repayments then the Council would need to make prudent provision through a charge to the General Fund (identified in the risks in paragraph 4)

3.11 Loan Availability

The Cricket Club need the assurance that the loan is available before they can move to the next stage of feasibility, design and planning. However, the funding itself will not be required until the construction stage. It is therefore proposed that the draw down of the loan is made available to the Club for a period up until March 2015 on the interest terms proposed within this report and over a pay back period of 15 years. The draw down of the loan would only be available on commencement of the construction works. Thus the Club has the security of knowing the loan is assured for the period of design, planning and feasibility whilst the Council has the security of knowing that the funding will only be drawn down to actually build this new asset.

3.12 Securing the Loan

The loan would be secured by a legal charge over the property owned by the Somerset County Cricket Club. The Club’s bank has confirmed that a straightforward second legal mortgage would be sufficient for the Council, where the bank will continue to rank ahead of the Council, to the level of its indebtedness.

**4. Risk Management**

4.1 There are obviously risks to the Council in proceeding with a loan to SCCC. The table below sets out the risks and the suggested mitigating actions.

<b>Risk</b>	<b>Consequence</b>	<b>Mitigation</b>
SCCC defaulting on loan repayments	Detrimental impact on the Council’s cash flow and TDBC would be required to fund any unrecovered balance of the loan which would affect General Fund interest and MRP costs	A review of the business plan assumptions on income are considered to be prudent. SCCC have a strong asset base and whilst the majority are fundamental to the business and could not be sold as a short term measure to service debt, there are a number of other assets
SCCC goes into administration	Detrimental impact on the Council’s cash flow and TDBC would be required to fund any unrecovered balance of the loan, which	SCCC have identified that are not fundamental to the

	would affect General Fund interest and MRP costs	business and could be sold if required. An EIP loan would mean that the capital amount of the loan would reduce each year. It is unlikely that the Council will rank first in a creditor queue and therefore the loan will need to be secured against the assets of the Club
SCCC late with loan repayments	Detrimental impact on the Council's cash flow, incurring unplanned interest costs	The loan agreement will include terms to deal with late payments, including additional interest charges to SCCC.

4.2 The accounts of Somerset County Cricket Club have been reviewed together with the Business Plan to assess the credit worthiness. The projections in the Business Plan show that they can afford to service the debt repayment. Some questions arose from the initial review of the accounts and Business Plan which were put to the Somerset County Cricket Club and for which the Council has received satisfactory responses. It should be noted that lending to any organisation has an element of risk. Some of the main risks associated with this transaction have been identified in the table above with the ways that these risks can be mitigated.

#### 5. **Legal Comments**

This loan would amount to state aid. However there are a number of General Block Exemptions that can be used and one of those Block Exemptions would apply in this case. The loan will need to be registered with the Department for Business Innovation and Skills.

A legal agreement will be drawn up between the Council and the Club detailing all the terms of the loan and how it is secured including default provisions to protect the Council.

#### 6. **Links to Corporate Aims**

The development of the Somerset County Cricket Club is a key part of the original Project Taunton plans and as such is linked to the Corporate Aim: Regeneration

#### 7. **Environmental and Community Safety Implications**

No implications at this stage

#### 8. **Equalities Impact**

It is considered that this decision has no impact on equalities. The reasons being:-

- It is a financial loan
- The costs of the loan are covered by the Somerset County Cricket Club – not by the Council and therefore it has no impact on anyone other than the Club

- It is not a major decision that will influence subsequent policies either corporately or at service level. Further decisions on loans will be taken on a case by case basis.
- The outcome of the decision does not help the council meet its general equality duties.
- The decision does not relate to functions that previous engagement has identified as important to a particular group
- The decision does not affect different protected groups differently
- It does not relate to an area of known inequality
- It does not relate to an area where equality objectives have been set by the organisation

**10. Partnership Implications**

The County Cricket Club is a key partner in Taunton's regeneration plans.

**11. Community Scrutiny Views**

The report will be considered at Community Scrutiny on November 6<sup>th</sup>. The results of that meeting will be reported verbally at the Executive meeting.

**12. Recommendations**

The decision to make a loan available to the Club will be one taken at Full Council. However, it would be useful to understand whether members are in favour of the principle of granting such a loan, subject to a) and b) below.

The Executive is therefore asked to consider whether to recommend to Full Council approval of the principle of a 15 year £1 million loan, from the Council to the Somerset County Cricket Club subject to:

- a) Final terms of the loan being approved on the lines detailed in this report and by the S151 Officer.
- b) Agreement from SCCC to enter into a legal agreement approved by the S151 and Monitoring Officer that safeguards the Council's financial position.

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