

Name of meeting: Cabinet
Date: 9th February 2016

Title of report: Provision of loan facility to a hotel development at the John Smith's Stadium site Huddersfield

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Is it in the Council's Forward Plan ?	Yes
Is it eligible for "call in" by Scrutiny ?	Yes
Date signed off by <u>Director</u> & name	Jacqui Gedman - 27.01.16
Is it signed off by the Director of Resources?	David Smith - 01.02.16
Is it signed off by the Assistant Director - Legal, Governance & Monitoring?	Julie Muscroft - 01.02.16
Cabinet member portfolio	Councillor Graham Turner - Resources and Community Safety

Electoral [wards](#) affected: N/A

Ward councillors consulted: N/A

Public or private: Public Report - Private Appendices

Public Report with Private Appendices

The Appendices to this report are recommended to be taken in Private because the information contained in them is considered to be exempt information under Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006. The Appendices contain commercially sensitive financial information about a third party. The Appendices are recommended for consideration in private because they contain information relating to an individual, in that it contains commercially sensitive information about a third party who has an interest in investing in commercial development at the John Smith's Stadium site, Huddersfield. The public interest in maintaining confidentiality on the information, which, if made public would contravene data protection legislation and outweighs the public interest in disclosing the information for reasons of open governance.

1. Purpose of report

To consider a proposal to provide a secured loan facility to a scheme, to develop a business class hotel at the John Smith's Stadium (JSS) Huddersfield.

2. Key points

- 2.1** The HD One development is a major scheme with a capital value of around £100m, to develop the land around the JSS, to create a leisure destination of regional significance, of which the central attraction will be an outdoor snow sports facility utilising Kilner Bank. The work to progress the prelets and the commercial structure to implement the existing valid Planning Permission for the scheme continues and Kirklees Stadium Development Ltd (KSDL) remain confident that the scheme will "go live" during 2016.
- 2.2** A hotel offer forms part of the existing Planning Permission. The potential to create a business class hotel which would serve both the Stadium site and Huddersfield town centre was seen as significant part of the overall scheme. Although the area in the vicinity of the Stadium and Huddersfield town centre is served by budget hotels, there is a lack of a 3/4 star hotel offer at present. This is seen as a reasonably significant disadvantage to the Stadium in terms of hosting major sporting events and the conferencing offer at the Stadium, as some potential customers require overnight accommodation. Huddersfield University also experiences problems in identifying suitable hotel accommodation in close proximity to the University campus, to support conferencing and visiting academics. The availability of a business class hotel serving Huddersfield town centre, would also support local businesses and the potential to attract leisure visitors to the town.
- 2.3** KSDL have engaged the services of a specialist hotel developer and development consultant, Hotel Land Development Ltd (HLD), to engage with the market re the hotel proposal. HLD have identified a strong immediate demand to take forward the hotel opportunity. The hotel site as part of the totality of the HD One development, was on the periphery of the development site to the south of the site, adjacent to the St Andrews Rd bridge entrance to the Stadium. Therefore the hotel development could be brought forward early, without compromising the subsequent larger development area, although the development of a hotel as a discrete scheme in advance of the main works, does mean a new Planning Permission would be required for the hotel development.
- 2.4** KSDL are proposing to create a Joint Venture Special Purpose Vehicle (SPV) with HLD to carry out the development on the back of a Management Agreement, with an international hotel group to manage the facility post completion. The SPV would take a sublease of the hotel site for which a ground rent would be payable to KSDL. The plan would be for the SPV to carry out the development and on completion, dispose of the asset to an

institutional investor. Another institutional investor would provide development finance for the construction phase of the project. The finance model would be underpinned by a guaranteed trading surplus from the operator.

- 2.5** A total development cost for the scheme to provide a hotel of 149 rooms of circa £12.5m has been calculated. In addition there would be a requirement for a working capital facility of circa £250k for the development period and capitalised interest of £250k would be incurred, giving a gross development cost of £13m.
- 2.6** The Board of KSDL has requested, the Council to give consideration to providing a senior debt facility to the development to a maximum of £9m over a 25 year term. The balance of the development funding would be provided by an institutional investor as set out in 2.4. A floating interest rate linked to market interest rates is proposed.
- 2.7** To allow a view to be formed, officers have been provided with information derived by KSDL from appropriate consultants and the proposed hotel operator and cashflow forecasts for the term of the loan. An external valuation of the hotel asset, post completion has also been provided which demonstrates that the SPV would be in a position to service the loan facilities proposed and if the cashflow forecasts are realised, provide a significant dividend payment to KSDL, which will contribute to the overall financial position of the company.
- 2.8** The advantages to both the Stadium site and Huddersfield town centre of a business class hotel offer, are summarised at 2.2 above. In addition an early commitment to a major element of the overall HD One development, can only increase investor confidence in the overall scheme. The proposal to provide the senior debt facility to the hotel development, would allow the Council to demonstrate its commitment to both the hotel development and the wider scheme at no overall cost to the Council, given that the costs of servicing the loan would be met by the SPV. A small surplus over the costs of funds would be generated by the Council, which would contribute to reducing the overall cost of the Treasury management budget.
- 2.9** Clearly the risk to the Council of providing the loan facility, is that the projected cashflow forecasts are not realised. The cashflow provided, demonstrates that significant buffers are available in terms of the projected income flows to the scheme promoters, before the SPVs ability to service the senior debt facility would be compromised. In addition the involvement of an institutional investor, both during the development phase and ongoing, gives a degree of comfort that appropriate commercial disciplines will be applied to the promoters to provide a viable scheme. An external valuation report on the hotel as an asset, post completion has been provided which demonstrates that even if the wider HD One development did not proceed, there would be sufficient security value in the asset to cover the full value of the senior debt facility. The Council as senior debt provider would have primacy in terms of security over the SPVs assets. The private appendices to this report, provide

further detail on the proposition received from KSDL and the financial projections for the hotel scheme.

- 2.10** On balance, given the advantages that the hotel scheme would bring to both the Huddersfield area, the Stadium and the investment potential of the wider HD One development, officers suggest that Cabinet give authority to enter into detailed negotiations with KSDL and HLD as to the potential terms for a loan facility of up to £9m secured by a first charge over all the assets of the SPV. As part of this process appropriate due diligence will be carried out on the Business Case and supporting financial projections supplied by KSDL/HLD relating to the hotel proposal. Any loan would be subject to the completion of a suitable Loan Agreement. The agreement of the detailed terms of the Loan Agreement terms to be delegated to the Director of Resources and the Assistant Director Legal, Governance & Monitoring.

3. Implications

Financial

Provision is made in the approved Capital Plan for investment of up to £9m in commercial opportunities at the JSS site. The terms of the Loan Agreement will be such, that the costs of the Council borrowing and an appropriate margin will be met by the SPV.

Legal

The Council has the powers to provide a loan facility to the SPV, using the General Power of Competence, under Section 1 of the Localism Act 2011.

4. Officer recommendations and reasons

It is recommended that Cabinet:

- a) Agree to authorise officers (Assistant Director Place supported by Finance and Legal colleagues as appropriate) to enter into detailed negotiations on a Loan Agreement to provide up to £9m of secured senior debt funding, to the proposed hotel development at the John Smith's Stadium site Huddersfield.
- b) Delegate authority to the Director of Resources to agree the terms of the Loan Agreement and the Assistant Director (Legal, Governance & Monitoring), to enter into any documentation required to secure this. The agreement of the loan to be subject to appropriate due diligence on the Business Case and financial projections provided by KSDL/HLD in respect of the hotel proposal.

5. Portfolio Holders Recommendation

The Portfolio Holder, Cllr Graham Turner, is in agreement for the report to proceed to Cabinet and is in full support of the officer recommendations.

6. Contact Officer

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8. Private Appendices

Appendix 1 - KSDL/HLD Business Proposition
Appendix 2 - Financial Projections Construction Phase
Appendix 3 - Financial Projections Operating Phase
Appendix 4 - Financial Projections Assumptions