

Name of meeting: Cabinet
Date: 25th July 2017
Title of report: Kirklees Stadium Development Ltd (KSDL) - request for short term loan facility

Purpose of report To consider a request from KSDL for the Council to provide a loan facility of £200k for a 12 month period on commercial terms

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	No
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	Not applicable
The Decision - Is it eligible for call in by Scrutiny?	Yes
Date signed off by Strategic <u>Director</u> & name	Naz Parkar - 17.07.17
Is it also signed off by the Service Director for Finance, IT, and Transactional Services?	Debbie Hogg - 17.07.17
Is it also signed off by the Service Director - Legal Governance and Commissioning?	Julie Muscroft - 17.07.17
Cabinet member portfolio	Cllr Graham Turner - Corporate

Electoral wards affected: N/A

Ward councillors consulted: N/A

Public or private: Public

1. **Summary**

Due to a change in position by their bankers, KSDL are requesting, that the Council considers providing a loan, on full commercial terms, of £200k for a twelve month period. This would give KSDL, the ability to manage its cashflows up to the point, when the next payment of funds in respect of the HD One development, is due to be received from the developer of the scheme. The proposed loan will be secured as part of the Council's first ranked charge on the assets of KSDL.

2. **Information required to take a decision**

- 2.1 KSDL is the company which runs the John Smith's Stadium site, Huddersfield. KSDL, is a partnership between Huddersfield Town Football Club, Huddersfield Giants Rugby League Club and the Council. The company is currently promoting the HD One development, which is a scheme to create a regional leisure destination on the land adjacent to the Stadium, the income flows from which, will provide a high level of financial stability to KSDL's future operations, as well as generating a huge increase in footfall for the wider Stadium site, employment opportunities and Business Rate income for the Council.
- 2.2 As part of this development role, KSDL has been incurring costs on professional advice in respect of the scheme although these are now being shared with the organisation with which KSDL has entered into a Joint Venture Agreement to promote the HD One scheme.
- 2.3 To manage the cashflow impact of the above, KSDL had negotiated an increase in its day to day overdraft facility with its bankers from the previous level of £100k to £300k. This extension to the overdraft facility is due to expire at the end of July 2017. The £200k extension to the facility has previously been provided by KSDL's bank without any specific security requirement.
- 2.4 KSDL's bank has recently contacted the company and advised, that in order to extend the £200k additional facility for a further 12 month period, they would require a third party guarantee to be provided for security purposes. The bank has suggested that the Council provides the guarantee as a Council guarantee is already in place for the bank in respect of the residual balance of the long term construction loan relating to the original construction of the facility, the outstanding balance of which is circa £2m with full repayment due by early 2021.
- 2.5 The reasons behind the request from the bank for additional security to extend the £200k facility are not entirely clear given that the financial position of KSDL is broadly the same as it was at the point of the last facility review. However, the bank in question is currently going through a repositioning of its overall approach to its customers as part of a restructure of its UK operations.
- 2.6 The Council could offer a guarantee which could be accommodated within the first charge on the assets of KSDL which the Council holds, which extends to £3m, so would cover both the guarantee on the construction loan and the £200k cashflow facility.
- 2.7 However, from a risk perspective, it would seem more sensible for the Council to offer to provide the £200k facility itself on the same terms as offered by the bank. The risk profile is the same, but offering the facility itself allows the Council

to earn interest on the loan at a fully commercial rate, equivalent to that offered by KSDL's bank. This commercial rate would be substantially in excess of what the Council could generate, from placing cash on short term deposit in the money markets, but would not disadvantage KSDL as it is on equivalent terms to that on offer to them from their bank. The risk of default sits with the Council under either scenario and will be secured in the proposed instance under a new Loan Agreement.

2.8 On balance, officers would recommend that KSDL's request be agreed to and that rather than providing a guarantee to the company's bank to underpin a facility of £200k, the loan should be provided direct from the Council at a commercial rate of interest. The loan would be secured within the Council first ranked charge on the assets of KSDL.

3. Implications for the Council

3.1 Early Intervention and Prevention (EIP)

N/A

3.2 Economic Resilience (ER)

Providing the facility for KSDL, as requested, will give KSDL the cashflow certainty to allow the HD One development to continue to progress. Providing the loan facility direct will mean that the Council will be able to generate a level of interest on the £200k that would not be available if the same amount was placed on short term deposit in the money markets.

3.3 Improving Outcomes for Children

N/A

3.4 Reducing demand of services

N/A

3.5 Legal/Financial or Human Resources

The advance of £200k, can be met from the overall cashflow management of the Council, which is where the interest generated would be credited.

A suitable Legal Agreement in respect of the loan will need to be prepared and agreed with KSDL and amendments made to the existing security arrangements made to incorporate the additional £200k advance proposed.

4. Consultees and their opinions

N/A

5. Next steps

As above, if Cabinet agrees to the officer recommendations, a suitable Loan Agreement will need to be entered into with KSDL and amendments made to the existing security arrangements to include the £200k additional advance.

6. Officer recommendations and reasons

Officers would recommend, that Cabinet agrees to offer a loan facility of £200k to KSDL, for the period up to 31st July 2018 at a commercial rate of interest and that authority be given to the Service Director, Legal, Governance and Commissioning, in consultation with the Strategic Director, Economy and Infrastructure to enter into a suitable Loan Agreement and to amend the existing security arrangements to incorporate the additional £200k advance entering in to all deeds and documents necessary to give effect to the amendments.

The reasons for this recommendation are that the making of the loan will enable the HD One scheme to progress and will also generate a financial return for the Council better than the interest earned if the money were to be deposited in a short term loan facility.

7. Cabinet portfolio holder's recommendations

The Cabinet Portfolio Holder recommends that Cabinet agrees to offer a loan facility of £200k to KSDL, for the period up to 31st July 2018, at a commercial rate of interest and that authority be given to the Service Director, Legal, Governance and Commissioning, in consultation with the Strategic Director, Economy and Infrastructure to enter into a suitable Loan Agreement and amend the existing security arrangements to incorporate the additional £200k advance entering in to all deeds and documents necessary to give effect to the amendments.

8. Contact officer

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9. Background Papers and History of Decisions

N/A

10. Service Director responsible

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