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| PART 1 (OPEN TO THE PUBLIC) | ITEM NO. |
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REPORT OF  
THE CHIEF FINANCE OFFICER

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TO CABINET  
28 JANUARY 2020

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TITLE: **City of Salford Community Stadium Ltd**

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RECOMMENDATIONS:

It is recommended that the City Mayor:

1. Approves the council's provision of financial resources in the form of a repayable interest-bearing loan of up to £0.660m to City of Salford Community Stadium Ltd (CoSCoS). This is to be on a 50:50 basis with Peel Holdings for the financial period to 31 March 2020, the sum being the council's 50% share.
2. Delegates to the Deputy Monitoring Officer the completion of all the necessary legal and ancillary documentation identified as necessary to give effect to recommendation 1 above.

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EXECUTIVE SUMMARY:

The stadium opened in December 2011. It was constructed under a joint venture arrangement between Salford City Council and Peel Holdings. The stadium hosts top flight sport and is a catalyst for the regeneration of the area.

The CoSCoS agreements allow the shareholders/JV partners, Salford City Council and Peel Holdings, to provide working capital loans. Such facilities have been set up in previous years.

The stadium is broadly at a break even position on a trading basis. However, until such time as all of the land around the stadium is sold, allowing the repayment of existing development and working capital loans, there will continue to be a requirement for further working capital funding.

There is a working capital funding requirement of £1.320m, or £0.660m per JV partner, in 2019/20.

From the council's perspective only, the new loan is more than offset by forecast principal repayments in 2019/20, so the debt outstanding from CoSCoS to the council is forecast to fall.

The council maintains an earmarked reserve to offset risks to its loan principal investment.

Loan interest received each year is used to increase the level of reserve.

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BACKGROUND DOCUMENTS:

- Shareholders' Agreement and Funding Agreement 2010
  - Various financial monitoring reports and working papers
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ASSESSMENT OF RISK:

Without further funding provided by the shareholders, CoSCOS will be unable to continue trading. The consequences will include a default on the existing development and working capital loans.

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SOURCE OF FUNDING:

Borrowing

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LEGAL ADVICE OBTAINED:

Legal advice secured in 2017/18 confirmed:

- The appropriateness of the facility agreement as a mechanism for funding
  - The requirement for State Aid compliance
  - The power of the City Mayor personally to exercise this executive function and to make the decision
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FINANCIAL ADVICE OBTAINED: See body of report

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CLIMATE CHANGE IMPLICATIONS: Not applicable

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WARD(S) TO WHICH REPORT RELATE(S): The stadium is in the Barton ward but users are likely to reside in all wards of the city.

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KEY COUNCIL POLICIES:

- Connecting Salford
  - Visit Salford
  - Salford Economic Development Plan
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## REPORT DETAIL

### 1 Background

- 1.1 The stadium opened in December 2011, constructed under a joint venture arrangement between Salford City Council and Peel Holdings. The stadium hosts top flight sport and is a catalyst for the regeneration of the area and benefit to the community. This year the Salford Red Devils were successful in reaching the final of the Superleague Challenge Cup for the first time. In terms of the stadium itself:
- It is a significant employer both in the local and regional area
  - Non-match day income continues to develop with conferences and events driving visitor numbers. The stadium has plans to hold further concerts and has held a number of new events including comedy nights, boxing matches and drive-in cinema nights to complement and expand its business plan.
  - Income from the rental of space within the stadium has continued to grow as new tenants have been secured providing further support to the stadium's business plan. Pitch facilities are used by both professional and amateur teams from a wide range of sports.
- 1.2 The stadium is surrounded by prime development land belonging to the stadium company Salford Community Stadium Ltd (CoSCoS). The first plot of land, sold to Greene King, generated approximately 90 jobs. Sale of a second plot to Aldi has been completed during 2019/20 and work is ongoing to progress further sales. In addition to the benefits of job creation there is a financial benefit to the council as capital receipts from the sale of the land are used to reduce the level of indebtedness to the council.
- 1.3 On 26 May 2010, Cabinet approved the council entering into the Shareholders and Loan agreements for CoSCoS.
- 1.4 Under the terms of the Shareholders Agreement 2010, it was agreed that the funding for CoSCoS would initially be limited to the Development Loan (supporting the building of the stadium) and a Working Capital Loan (supporting day to day cash flow requirements of CoSCoS), provided by the council.
- 1.5 The Agreement also included a discretionary facility for the Shareholders to provide further working capital loans. The Shareholders have previously provided such loans to CoSCoS.
- 1.6 In previous years the council has provided a working capital loan exactly matched by Peel Holdings.
- 1.7 Despite an expected break even position at a trading level, until such time as land around the stadium is sold, allowing the repayment of existing development and working capital loans, there is still likely to be a funding requirement in order to meet the costs of maintaining the loans.
- 1.8 This report concerns the forecast funding requirement for 2019/20.

### 2 CoSCoS debt position

- 2.1 The position on CoSCoS loans is set out in table A below.

| <b>Table A. Loan balances</b>         | Originally advanced | Current repayment scheme   | Balance outstanding at 31 March 2019 | Balance comprises               |
|---------------------------------------|---------------------|----------------------------|--------------------------------------|---------------------------------|
|                                       | £000                |                            | £000                                 |                                 |
| Initial development loan              | 18,780              | Principal plus interest    | 15,856                               | Principal                       |
| Initial working capital loan          | 3,220               | Interest                   | 3,248                                | Principal plus o/s interest     |
| Subsequent working capital loans SCC  | 5,307               | None - deferred until 2022 | 6,037                                | Principal plus accrued interest |
| <b>Total SCC</b>                      | <b>27,307</b>       |                            | <b>25,141</b>                        |                                 |
| Subsequent working capital loans Peel | 5,307               | None - deferred until 2022 | 6,037                                | Principal plus accrued interest |
| <b>Total SCC + Peel</b>               | <b>32,614</b>       |                            | <b>31,178</b>                        |                                 |

2.2 The CoSCoS business model relies on the sale of land to repay the loans. It is not possible to accurately predict the sale value as it will depend on the intended use, abnormal costs, infrastructure costs, market conditions etc.

2.3 The council maintains a reserve to provide against the possibility of sale values falling short of the amount required to repay debt, see section 2.6 and table D below.

2.4 Interest on loans is charged to CoSCoS at a State Aid-compliant rate of 5.16%. The council therefore generates income as illustrated in table B below.

| <b>Table B. Loan interest (SCC)</b>  | Principal repaid 2018/19 | Interest received 2018/19 |                 |
|--------------------------------------|--------------------------|---------------------------|-----------------|
|                                      |                          | £000                      |                 |
| Initial development loan             | 469                      | 831                       | (cash received) |
| Initial working capital loan         | 0                        | 167                       | (cash received) |
| Interest received in year            | 469                      | 998                       |                 |
| Subsequent working capital loans SCC | 0                        | 281                       | (accrued)       |
| Interest accrued in year             | 469                      | 1,279                     |                 |

2.5 The funds lent by the council to CoSCoS have been borrowed through the council's day-to-day treasury management activities. The council's treasury management policy is to borrow short term and continue to "roll over" debt on a short term basis to take advantage of low interest rates, although at some point, if market interest rates rise, it will need to "lock in" to long term debt at a higher rate. In effect, this means that the council is currently making an in-year "profit" on its borrowing compared to its lending in relation to CoSCoS, although as rates rise and the council refinances, this will reduce. Table C below illustrates the current and some potential future positions.

**Table C. Cost of financing CoSCoS loan balance of £25,141,000**

|   | Rate  | Cost   | Surplus/<br>deficit |
|---|-------|--------|---------------------|
|   | %     | £000   | £000                |
| Balance due to SCC                              |       | 25,141 |                     |
| at 2019/20 short term borrowing rates           | 0.80% | 201    | 1,096               |
| at 2019/20 short term rates +1%                 | 1.80% | 453    | 845                 |
| at illustrative long term rate a (current PWLB) | 3.00% | 754    | 543                 |
| at illustrative long term rate b                | 4.00% | 1,006  | 292                 |
| at illustrative long term rate c                | 5.16% | 1,297  | -                   |
| at 2018/19 consolidated rate of interest        | 3.68% | 925    | 372                 |

*Figures for illustration only - they assume no principal repayments or further advances*

2.6 It is important to note that the “surplus” made by the interest rate differential serves to compensate the council for the risk of default. The interest is therefore held in a reserve until such time as the risk position crystallises, rather than being released into the general fund. The reserve covers the possibility of sale values falling short of the amount required to repay the debt. Table D below illustrates the level of the reserve held compared with the debt over time.

**Table D. Reserve cf. debt outstanding**

| Date      | Debt   | Reserve/<br>provision | Balance of<br>risk |
|-----------|--------|-----------------------|--------------------|
|           | £000   | £000                  | £000               |
| 31-Mar-19 | 25,141 | 9,368                 | 15,773             |
| 31-Mar-18 | 24,495 | 8,089                 | 16,406             |
| 31-Mar-17 | 24,044 | 6,769                 | 17,275             |
| 31-Mar-16 | 23,460 | 5,546                 | 17,914             |
| 31-Mar-15 | 22,910 | 4,345                 | 18,565             |
| 31-Mar-14 | 23,028 | 3,140                 | 19,888             |
| 31-Mar-13 | 22,222 | 1,967                 | 20,255             |

2.7 In the event of default or land sale shortfall, the balance of risk not covered by the reserve would be offset by any liquidated value of CoSCoS net assets.

### 3 Funding requirement forecast

3.1 In order to forecast the future cash requirements of CoSCoS it has been necessary to extrapolate estimates of all known expenditure and income cash flows and to make certain assumptions as follows:

- All outstanding capital repayments on the development loan are made in accordance with the existing mortgage.
- All interest charged on the Development Loan and the initial working capital loan is paid in the year due.
- Principal and interest repayments on all subsequent loans are repaid in accordance with the terms of the loan notes.
- Funds to finance the stadium company will be advanced on a 50/50 basis by the

council and Peel Holdings.

- Interest on the loan will be payable at a market rate to be agreed therefore rendering the loan State Aid neutral. The interest has been ignored for cash flow forecast purposes, as interest on new loans is expected to accrue but is not expected to be actually paid in the cash flow planning period. Interest repayment will be a number of years hence aligned to Loan Note repayment. Current loan notes are repayable in 2022.

3.2 The forecasts and assumptions are made for planning purposes and will be reviewed to take account of future changes in likely costs and income. It is also currently anticipated that, over the medium term, further loan finance will be required from the two JV partners to support the company. The estimated additional loan finance in future years will depend upon the timing of land receipts and decisions to be taken about which debt takes priority for repayment.

## 4 Debt outstanding forecast

4.1 CoSCoS's debt reduces by the principal repayments it makes, and increases by the amount of further debt advanced plus any interest accrued but not yet repaid.

4.2 As noted in paras 1.7 and 2.2, CoSCoS's sale of development land around the stadium will generate funds which can be used for the repayment of debt to the council. During 2019/20, a 1.77 acre plot was sold. As a result, CoSCoS was able to repay £1.183m of its outstanding debt in addition to "normal" principal repayments. A further 37.47 acres remain for sale.

4.3 Table E below shows that CoSCoS's debt liability to Salford City Council is forecast to fall by an estimated £535k to £24.606 during 2019/20. Its overall loan debt is forecast to increase by an estimated £660k to £31.8m.

**Table E. Forecast debt position 2019/20**

|  | Debt outstanding |                 |                 |
|--|------------------|-----------------|-----------------|
|  | SCC              | Peel            | Total           |
|  | £000<br>(est'd)  | £000<br>(est'd) | £000<br>(est'd) |
| Debt outstanding 1 April 2019            | 25,141           | 6,037           | 31,178          |
| Principal repayments 2019/20:            |                  |                 |                 |
| On initial development loan              | (549)            |                 | (549)           |
| From sale of land                        | (1,183)          |                 | (1,183)         |
| Principal advanced 2019/20:              |                  |                 |                 |
| Further advance re: 2018/19              | 120              | 120             | 240             |
| New working capital advances             | 660              | 660             | 1,320           |
| Accrued interest on loan notes           | 417              | 417             | 834             |
| Debt outstanding 31 March 2020           | 24,606           | 7,234           | 31,840          |
| (Reduction)/increase in debt outstanding | (535)            | 1,197           | 662             |

## **5 Legal mechanism for providing funding**

5.1 It is proposed that the additional loan finance is provided by a legal Facility Agreement between Salford City Council, Peel Land (Red City) Ltd and the borrower, CoSCoS. This is the same mechanism as that employed in previous years.

5.2 The key proposed terms are as follows:

- The Lenders would agree to provide CoSCoS with a term loan facility to be provided by the Lenders on a 50:50 basis.
- CoSCoS shall use all money borrowed under the facility for working capital purposes.
- Instalments would be drawn down by CoSCoS in accordance with need once approved by the CoSCoS Board on a monthly basis
- Interest to be charged at the agreed rate between the shareholders but will only be payable upon redemption.
- The Lenders may elect by notice in writing to CoSCoS (a “Loan Note Notice”) to receive in satisfaction of repayment of the Loan and accrued interest thereon the issue of Loan Notes to the value of the Loan and interest outstanding. The Loan Notes would be future dated to a period when the trading operations of the Stadium will support repayment. It is proposed that this is dated 2022.

5.3 The City Council, CoSCoS and Peel Holdings will need to enter into an agreement to formalise the facility.

## **6 Recommendations**

6.1 It is recommended that the City Mayor:

1. Approves the council’s provision of financial resources in the form of a repayable interest-bearing loan of up to £0.660m to CoSCoS. This is to be on a 50:50 basis with Peel Holdings for the financial period to 31 March 2020, the sum being the council’s 50% share.
2. Delegates to the Deputy Monitoring Officer the completion of all the necessary legal and ancillary documentation identified as necessary to give effect to recommendation 1 above.