

Report of the Deputy Chief Executive

Report to Executive Board

Date: 15th July 2015

Subject: Repayment of the Council's Loan by the Yorkshire County Cricket Club

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4(3) Appendix number: B	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. The Council provided a £9m loan to the Yorkshire County Cricket Club (the Club) in December 2005 to enable them to purchase the freehold of the Headingley Cricket Ground which was a condition of the Club's staging agreement with the ECB which provides for test match cricket to be played at Headingley up to 2019.
2. Since 2005 at the request of the Club, the Council has agreed on a number of occasions to reschedule the loan.
3. The Club has made an offer of payment in full settlement of the outstanding loan from the Council as part of the Club's wider financial restructuring.
4. Taking account of the offer from the Club, it can be demonstrated that the cost to the Council of providing the loan to the Club has been recovered, and as such there has been no cost to the Council. Accepting the offer would also remove the risk of the loan not being repaid in the future. Moreover, in supporting the Club's wider financial restructuring, the Council will be assisting the Club to move forward on a basis that is more financially sustainable, which will be crucial if the Club and indeed the City is to retain test and international cricket beyond 2019.

Recommendation

Executive Board is requested to agree to the acceptance of a payment of £6,500,000 from the Yorkshire County Cricket Club in full settlement of its loan to the Club.

1. Purpose of this report

- 1.1. The report deals with an offer from the Yorkshire County Cricket Club (the Club) to repay the outstanding loan that the Council provided in 2005 to enable them to purchase the Headingley cricket ground. The report explains the offer to the Council as being part of the Club's proposed wider financial restructuring, and sets out the matters which the Council needs to consider in deciding whether to accept the offer from the Club.

2. Background information

- 2.1 A £9m loan was provided to the Yorkshire County Cricket Club in December 2005 to enable them to purchase the freehold of the Headingley Cricket Ground from the Leeds Cricket Football and Athletic Company Ltd (LCFA). Through the loan and purchase of the ground, the Club was able to meet the requirements of their staging agreement with the ECB which provides for test match cricket to be played at Headingley up to and including 2019. The original loan agreement provided for the loan to be repaid by April 2020 in accordance with an agreed repayment schedule. A fixed rate of interest of 4.5% was charged to the Club for the loan. The loan agreement provides the Council with various forms of security, including a first charge over the cricket ground, a second charge over the cricket school and an unconditional shortfall personal guarantee from the then chairman of the club. The loan agreement places a number of restrictions upon the Club and requires them to seek the consent of the Council to a number of matters. The amount of the loan currently outstanding is £7,407,000.
- 2.2 Over the years, at the request of the Club the loan agreement has been subject to a number of revisions. A number of the requests have been necessitated by cash flow difficulties being experienced by the Club. In order to assist the Club the Council in March 2010 agreed to a 2 year deferment of capital repayments. In July 2012 once again responding to the Club's continuing cash flow difficulties the Council agreed to reschedule the loan by extending the end date of the loan from April 2020 to December 2025, with £6.2m of the outstanding loan not being repaid until after 2019. The current repayment profile is detailed in Appendix A. Further details of the revisions to and consents under the agreement are detailed in the confidential Appendix B.

3 Main issues

- 3.1 It is clear from the various requests and consents that have been granted by the Council under the loan agreement, that the Club's finances are not strong. The Club's accounts for 2014 although an improvement upon the previous year still show a deficit after tax of £326,758 (2013 deficit £557,710). However, this bottom line does to some degree hide an improved trading performance of the Club as earnings before interest, tax, depreciation and amortisation (EBITDA) showed a surplus of £483,946 (2013 surplus of £150,275). This is detailed further in the summary below:

	2014	2013
	£	£
Income	7,307,198	6,774,007
Cost of Sales	(1,746,323)	(1,398,970)
Cricket Expenses	(2,765,460)	(2,937,763)
Overheads	(2,311,469)	(2,286,999)
EBITDA	483,946	150,275
Loan interest/Depreciation/Capital grants	(1,310,704)	(1,316,259)
	<u>(826,758)</u>	<u>(1,165,984)</u>
Exceptional items & Tax	500,000	608,274
Deficit after tax	(326,758)	(557,710)

3.2 The Club as at 1 January 2015 has debt analysed below:

	£
Leeds City Council	7,407,000
HSBC	3,069,014
Bank overdraft	304,769
C. Graves loan	5,500,000
C and J Graves Trust loans	5,600,000
Total	21,880,780

In addition, as at 1 January 2015, the Club has on its balance sheet debt of £1,466,069 relating to debentures, financial leases and a £450,000 loan from the ECB towards the cost of floodlights which is expected to be repaid by one off payments from the ECB following the first four televised floodlit matches at the ground.

- 3.3 The Club as part of a major financial restructuring which is designed to improve the financial viability of the club has approached the Council offering a payment of £6,500,000 in full settlement of the Council's loan. Further details of the Club's wider financial restructuring are provided in the confidential Appendix B.
- 3.4 The Council in making its loan to the Club in December 2005 did so with the clear objective of enabling the Club to purchase the Headingley Cricket Ground, thus enabling them to meet one of the requirements of their staging agreement with the ECB which provides for test match cricket to be played at Headingley up to and including 2019, but with a clear expectation that the Council's loan would be fully repaid and that there would be no cost to Council Tax payers. The provision of the loan in December 2005 was treated by the Council as capital spending and as such financed as debt. The application of a rate of interest of 4.5% in the context of a 15

year PWLB loan at that time was reasonable, however, in practice no specific loan was taken out and the loan to the Club has been funded as part of the Council's Treasury Management strategy. Over the period of the loan the Council has been able to fund its debt at rates of interest which by historic standards have been exceptionally low, and since 2005, there has been only 1 year in which the Council's marginal rate of interest on its external debt exceeded 4.5%, which was 2007/08, and then it was just 4.58%. In all other years since 2005, the Council's marginal rate of interest has been less than 4.5%, and in many years significantly less than 4.5%, and as low as 0.48%. Whilst the repayment offer from the Club of £6.5m is less than the amount of the principal currently outstanding, given interest rates since 2005, the actual interest cost of the loan to the Council has been significantly less than the amount of interest charged to the Club. As such it can be demonstrated that in overall terms, taking account of both principal and interest there has been no net cost to the Council in providing the loan should the proposed repayment be accepted. This is further explained in the confidential Appendix B.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 There has been no external consultation in respect to the recommendation of this report as it is not considered necessary.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 The recommendation deals with a repayment of a Council loan and does not have any specific implications for equality and diversity, nor for cohesion and integration.

4.3 Council Priorities and Best Council Plan

- 4.3.1 The original decision by the Executive Board in 2005 to provide a loan to YCCC was based upon the desire to retain international test match cricket in Leeds. Whilst this predates the current Vision for Leeds and the Best Council Plan retaining test match cricket is clearly supportive of the Best City ambitions through providing world class sport for people to enjoy and by raising the profile of the City.

4.4 Resources and value for money

- 4.4.1 The resource implications of this report are detailed in sections 3.4 above.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 Appendix B contains information relating to the financial or business affairs of third parties and of the Council, and the release of such information would be likely to prejudice the interests of all parties concerned. Whilst there may be a public interest in disclosure, in all the circumstances of the matter, maintaining the exemption is considered to outweigh the public interest in disclosing this information at this time. It is therefore considered that Appendix B of this report should be treated as exempt under rule 10.4(3) of the Access to Information Procedure Rules.
- 4.5.2 The recommendation of this report is considered to be a key decision. Whilst Council officers have been in discussion with the Club for some time, the details of

the offer from the Club and their wider financial restructuring were confirmed such that it has not proved possible to include the notification of the intention to make a decision on this matter on the List of Forthcoming Key Decisions for a clear 28 days. It was however, included on the list on the 29th June 2015. Whilst there is clearly some financial advantage to the Council in taking this decision and receiving payment as quickly as possible, the Club have also asked that the decision be taken as soon as possible. The Club are keen to move forward with their wider financial restructuring which is critical to the financial sustainability of the Club. The other aspects of their wider financial restructuring are not able to progress until a decision is taken on the Council loan, and indeed whilst the Council's loan is in place these other aspects would require the consent of the Council. Given this it is felt that the matter cannot wait until the next meeting of the Board, which would not be until September. In accordance with the General Exception section of the Council's Executive and Decision Making Procedure Rules, the circumstances of this matter together with the need for some of the matters to be dealt with in a confidential Appendix have been explained to the Chair of the Strategy and Resources Scrutiny Board who has agreed that this issue should be considered as a matter of urgency by the Executive Board and that the confidential Appendix should remain confidential.

4.5.3 It is considered that there are no state aid implications arising from this proposal, as the Council's purpose will not be to grant assistance to the Club through state resources if it accepts the repayment offer from the Club. Rather the Council will be taking the opportunity to withdraw from an existing loan arrangement where there is evidence of a significant risk that some or all of the loan may not be repaid at some time in the future. In addition, it is considered that the recommendation in this report is consistent with the Council's fiduciary duty to its Council tax payers. The Council's purpose is the proper management of its financial affairs, and not to make any kind of gift to the Club, and the principle that there should be no cost to Council tax payers will be maintained.

4.5.4 The report is eligible for call in.

4.5.5 There are no other legal implications arising from this report.

4.6 Risk Management

4.6.1 Accepting the payment from YCCC in full settlement of the Council's loan does remove a significant risk to the Council of the loan not been repaid at some time in the future, and there being a cost. Whilst the Council does have in place various forms of security exercising them in the case of the Club defaulting would not be without difficulty.

5 Conclusions

5.1 The Council in making its loan to the Club in December 2005 did so with the clear objective of enabling the Club to purchase the Headingley Cricket Ground, thus enabling them to meet one of the requirements of their staging agreement with the ECB which provides for test match cricket to be played at Headingley up to and including 2019, but also with the aim of ensuring that the loan did not result in a cost to Council tax payers.

- 5.2 The Council in providing the loan in the first place has achieved its objective of securing Headingley as a venue for test match cricket to at least 2019. As part of a wider financial restructuring the Club have asked the Council to accept a payment of £6,500,000 in full settlement of the outstanding loan. The repayment offer from the Club provides an opportunity for the Council to withdraw now from the current arrangement, 10 years earlier than otherwise. Whilst the offer from the Club is less than the current principal outstanding, taking account of the actual cost of interest that the Council has incurred to date in servicing the debt, in accepting the proposed payment it can be shown that the cost to the Council of the loan has been fully met by the Club thereby removing a significant risk of the loan not being repaid at some time in the future.
- 5.3 A further aim of the Council throughout its involvement with the Club has also been to ensure that test and international cricket is played in the city beyond the end of the current staging agreement in 2019. This does require the Club to be financially sustainable going forward. Agreement to accepting the proposed payment in settlement of the Council's loan debt is part of the Club's wider financial restructuring to ensure that it is financially sustainable going forward, and as such is an important first step to ensure the future of international cricket in the city beyond 2019.

6 Recommendations

- 6.1 Executive Board is requested to agree to the acceptance of a payment of £6,500,000 from the Yorkshire County Cricket Club in full settlement of its loan to the Club.

Appendices

A - Repayment Schedule - Current Loan Agreement

B - Loan Agreement with Yorkshire County Cricket Club- Repayment of Debt (Confidential)

Background documents¹

None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix A

Loan Agreement with Yorkshire County Cricket Club Repayment Schedule - Current Loan Agreement

Year	In Year Debt Repayment	Debt Outstanding at year end
	£000	£000
Opening Balance		7,407
2015	200	7,207
2016	200	7,007
2017	200	6,807
2018	300	6,507
2019	307	6,200
2020	350	5,850
2021	900	4,950
2022	900	4,050
2023	850	3,200
2024	1,600	1,600
2025	1,600	0