

Report of Director of City Development

Report to Executive Board

Date: 19th April 2017

Subject: The Development of the Headingley Stadium

Are specific electoral wards affected? If yes, name(s) of ward(s): Headingley	<input checked="" type="checkbox"/> Yes <input 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 type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: 10.4(3) Appendix numbers: 1 and 2	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Summary of main issues

1. As identified at the Executive Board meeting in July 2016, Leeds has long had a well-earned reputation for hosting world class sporting events. From the Tour de France, Rugby League and Rugby Union World Cups to the recent World Triathlon as well as Ashes Tests at Headingley Stadium, where test cricket has been played since 1899. The visitor economy is very important to the City and hosting major events is part of the Council's strategy to position the City and the City Region on a global stage. The Leeds City Region's Strategic Economic Plan highlights the scope to improve major cultural visitor attractions such as Headingley Stadium, which will contribute towards the City's bid to be submitted for the 2023 European Capital of Culture.
2. Currently Yorkshire has more cricket clubs (778) and players (circa 131,000) than any other county and has more cricket clubs than the whole of Australia. At a County level it is exceptionally strong with both the women's and the men's sides County Champions in 2015, meaning Yorkshire is the first county to win the men's and women's County Championship in the same year.
3. Accordingly, Leeds Cricket Football and Athletic Company Limited (LCFA), in partnership with Yorkshire County Cricket Club (YCCC), has developed a holistic scheme to improve both the North-South stand (which sits and is shared between the cricket ground and the rugby ground) and the south stand of the rugby ground. In total the scheme cost is £40m. At the meeting held in July 2016, Leeds City Council agreed in principle to the award of grant funding of £4m to YCCC, as a financial contribution

towards the redevelopment of the North-South stand at Headingley Stadium to secure four Cricket World Cup Matches in 2019 and ensure the retention of Test and International Cricket in Yorkshire from 2020 onwards. However, subsequent to that decision the total funding package for the £40m development has not been realised and therefore consideration has been given to the Council facilitating the delivery of £35m of funding by a third party to enable the scheme to go ahead, by acting as head lessee for the North/South Stand and sub-leasing the new stands to the clubs.

4. If the proposals are implemented this will realise economic benefits of circa £5.75m of additional visitor spend in Leeds and circa £5.3m additional visitor spend in Yorkshire per annum from 2020 onwards as well as 8 new apprenticeships, 30 new FTE's and the award of 80% of SME contracts to local suppliers as well as the £20.5m economic benefits from the 2019 World Cup.

Recommendations

Executive Board is asked to approve:

1. the principle of the Council facilitating the redevelopment of Headingley Stadium by acting as tenant for the redevelopment of the North/South Stand and entering into lease arrangements with Yorkshire County Cricket Club and Leeds Cricket Football and Athletic Company either individually or through a New joint company owned by the clubs;
2. the draft Heads of Terms outlined in confidential Appendix 1;
3. based on the draft Heads of Terms outlined, that agreement of the final terms of the arrangements and the relevant documentation be delegated to the Director of City Development in conjunction with the Chief Officer – Financial Services and in consultation with the Leader of the Council and the Executive Board Member for Transport, Regeneration and Planning;
4. that the above decisions should be exempt from call-in for the reasons set out in paragraph 4.5.2 of this report;
5. the underwriting arrangements referred to in paragraph 3.12; and
6. note that the Director of City Development and the Chief Officer – Financial Services will be responsible for implementing the above recommendations.

1. Purpose of this report

- 1.1 This report seeks approval in principle to the arrangements outlined to enable the Council to facilitate third party investment in the proposed development of the Headingley Stadium.
- 1.2 Given that enabling work needs to start in June 2017 to ensure that completion takes place in time for the 2019 Cricket World Cup, it is proposed that the agreement of the final terms of the arrangements be delegated to the Director of City Development in conjunction with the Chief Officer – Financial Services and in consultation with the Leader of the Council and the Executive Board Member for Transport, Regeneration and Planning.

2. Background information

- 2.1 At its meeting on the 27th July 2016, Executive Board received a report on the proposed development of the Headingley Stadium which set out much of the background and the importance of the proposed development.
- 2.2 YCCC plays the majority of its matches at Headingley Stadium, where they share facilities and common infrastructure with Leeds Rhinos Rugby League Club and Yorkshire Carnegie Rugby Union Club. Headingley currently enjoys 'Category A' venue status and has the benefit of a staging agreement with the England and Wales Cricket Board (ECB) which provides for test match cricket to be played at Headingley up to and including 2019. At the end of 2019 the existing staging agreements with all of the current test grounds will expire and the ECB will decide which grounds will be awarded new staging agreements for 2020 – 2022. It is understood that fewer grounds than presently will be awarded staging agreements, with the number reducing potentially from nine to six.
- 2.3 Despite the fact that Yorkshire has more cricket clubs (778) and players (circa 131,000) and provides more international players in both the men's and women's game than any other County, infrastructure is the key factor in determining host venues. Headingley Stadium currently struggles to match other top venues in terms of its infrastructure and without significant investment in the North-South stand, is unlikely to secure a staging agreement beyond 2019.
- 2.4 In addition YCCC have secured four matches at Headingley Stadium for the 2019 Cricket World Cup. However the allocation of these matches is conditional upon significant improvements being carried out to the facilities at Headingley in advance of the 2019 Cricket World Cup, in particular the North-South stand.
- 2.5 It is the case that International cricket at Headingley has a positive economic impact for the City and enhances the profile of Leeds. In addition, YCCC and Leeds Rhinos also make a positive economic contribution.
- 2.6 The visitor economy is very important to the City and hosting major events is part of the Council's strategy to position the City and the City Region on a global stage. The Leeds City Region's recent Strategic Economic Plan

highlights the scope to improve major cultural visitor attractions such as Headingley Stadium, which will contribute towards the City's bid to be submitted for the 2023 City of Culture. Major sporting events deliver significant economic benefit to the City and City Region. Headingley is the only sporting venue in the City Region with a regular international profile.

- 2.7 In 2009, the total number of visiting spectators to the Test Match was 44,018 to Leeds and 28,320 to Yorkshire. The estimated economic benefit assessment from these figures is:-
- £4.8m of additional visitor spend in Leeds;
 - £2.4m of organisation spend;
 - £1.1m ticket revenue for a 5 day test match;
 - £75k retail spend on merchandise;
 - £300k hospitality spend;
 - £900k spent on catering;
 - During a test match the average number of staff working at Headingley is 653.
- 2.8 On the basis of the proposed investment in the North-South stand at Headingley Stadium with an increase in stadium capacity, economic modelling procured by YCCC shows this could increase the economic benefits realised to:-
- £5.75m of additional visitor spend within Leeds by 2020;
 - £5.3m additional visitor spend in Yorkshire by 2020;
 - 175 full time construction jobs nationally during construction;
 - 1.5m ticket revenue for each 5 day test match.
- 2.9 In addition there are other benefits identified as:-
- A commitment for 4 full time apprentices and 4 additional apprenticeship opportunities;
 - The award of 80% of SME contracts to local suppliers;
 - Potential new positions/franchises created within the stadium;
 - 30 new FTE's across services such as administration, events, housekeeping, food service and bar staff as well as stewarding.
- 2.10 In addition, the estimated global TV audience for the 2015 Cricket World Cup of 354m should not be overlooked.
- 2.11 With regards to the 2019 Cricket World Cup, YCCC and Headingley Stadium have provisionally been awarded four matches. Ernst and Young were commissioned by the England and Wales Cricket Board (ECB) to carry out an economic benefit study for the 2019 Cricket World Cup as a whole and have also undertaken assessments of the benefits to potentially be realised by each of the 10 Host Cities.
- 2.12 International cricket has the ability to draw significant crowds, with the potential attendance for the entire tournament estimated at almost 1 million

supporters. According to Ernst and Young, Leeds has the potential to realise approximately £20.5 million in economic benefit through tourism spending, as a result of hosting Cricket World Cup matches at Headingley Stadium.

- 2.13 To supplement the economic impact work outlined above, Leeds City Council commissioned Amion Consulting to further assess the economic benefits that would accrue from the development. The economic impact assessment undertaken considers the full scheme and is based upon evidence from previous studies undertaken by Amion assessing the economic impacts of a One Day International (ODI) and an Ashes Test at Headingley.
- 2.14 The modelling is based on an income expenditure framework that assesses the additional expenditure at the Leeds and City Regional levels and the associated impact in terms of Gross Value Added (GVA) and employment. The following four types of expenditure have been assessed: on-site spectators and corporate hospitality guests (or visitors); off-site visitor related expenditure; procurement expenditure (supply chain); and further indirect and induced multiplier effects.
- 2.15 Summary results of the modelling undertaken on behalf of Leeds City Council includes the following:
- Almost 900,000 spectators are expected to attend major matches over the period 2017 to 2023 if the new stand is developed, compared with just 240,000 without the new stand;
 - In total, at the Leeds level, the new stand is forecast to generate additional expenditure of £107.3 million over the period between 2017 and 2023;
 - Overall, at the Leeds level, almost 270 net additional jobs would be supported in 2023.
- 2.16 As detailed in the previous report of 27th July 2016, YCCC in partnership with LCFA has developed a holistic scheme to improve both the North-South stand (which sits and is shared between the cricket ground and rugby league ground) and the south stand of the rugby ground. Both stands are owned by LCFA with YCCC currently their tenant of part of the North-South stand. LCFA also has a need to improve its own facilities in that it needs to address ground safety issues in the South Stand of the rugby ground, which currently operates at a reduced capacity due to health and safety requirements. LCFA also needs to modernise its facilities so that the stadium provides facilities that compare favourably with alternative venues. A number of rugby league clubs have moved to new stadiums in recent years including Warrington, St Helens, Salford, Wigan and Huddersfield, which means that the Headingley Stadium is fast becoming a less attractive proposition for international events.
- 2.17 In response to the requirement from YCCC to retain Category A status thereby securing a new staging agreement for 2020-2022 and the 2019 World Cup matches, alongside the need to improve their own facilities, LCFA has developed designs for the reconstruction of the Rugby South Stand and the shared North-South Stand to meet the ECB's minimum standards for model test match grounds. The total cost estimate for the proposed development is £40m. The original financing proposal involved a range of

sources including receipts from the development of two Greenbelt sites owned by LCFA and the raising of a bond by YCCC. Neither of these funding proposals has been realised and the planning application approved by City Plans Panel in January 2017 relates solely to the redevelopment of the stadium. As such the Council's originally proposed grant funding of £4m no longer provides a solution and it is evident that a more substantial funding solution of some £35m is required.

3. Main issues

3.1 Against the background of a £35m funding gap and a pressing timescale to commence the development, the Council has four broad options to consider on how it chooses to move forward as outlined below:

- Do not provide any further support for the scheme.
- Provide grant support.
- Provide a loan.
- Facilitate financial investment by a third party.

3.2 **Do not provide any further support for the scheme** – Members of Executive Board could take the view that the redevelopment of Headingley and the retention of test and international cricket is a private matter for the sports clubs and respective governing bodies involved. The main advantage of this option is that it presents no short-term financial risk to the Council. However, should Members take this view it is very likely that the scheme will not progress as planned and will not be completed in time for the 2019 World Cup. As a consequence it would also be likely that Headingley would be at significant risk of losing its Category A status, which in turn would have a negative economic impact to Leeds, in that some, if not all, of the economic benefits outlined in this report would be lost.

3.3. **Provide Grant Support** – Members have previously agreed in principle to a grant of £4m, however, this was at a time when the sum agreed represented about 10% of the total scheme cost with other funding being pursued. However, now that the funding gap for the scheme is £35m it is clear that the funding requirements of the scheme have fundamentally changed and, in the context of the Council's own budget pressures, a grant of this scale is not tenable or justifiable.

3.4 **Provide a loan** – The Council could offer a loan to the clubs to enable them to finance the funding gap for the scheme. Members will be aware that the Council previously entered into a loan with Yorkshire County Cricket Club in 2005 to enable them to buy the cricket stadium. Notwithstanding the previous loan provided, it is the case that a loan would:

- involve the principal finance for the scheme coming from public money with the possibility of the loan having to be provided at a subsidised interest rate to make it affordable for the clubs;
- require significant security for the Council from the respective clubs;
- result in the Council being at risk of default or rescheduling of payments;
- require significant repayments from the clubs which may be unaffordable;
- and

- result in additional debt for the clubs (YCCC already has long-term debts in the order of £25m).

3.5 Facilitate financial investment by a third party – In the context of the challenges with the options identified above, consideration has been given to the ability of the Council to facilitate financial investment by a third party. Discussions have been continuing with LCFA, YCCC and a third party investor regarding the funding of the proposed £40m redevelopment of the stadium and a proposal has now been arrived at, which, subject to the resolution of a number of issues and to the formal approval of all parties, would appear to offer a way forward which is both financially efficient and agreeable to all parties. At this stage this report deals with the main principles of the proposed agreement, and it is recognised that further work and due diligence is required. Draft Heads of Terms for the Council's lease from the investor are attached at confidential Appendix 1. Discussions are ongoing with both clubs in relation to the heads of terms for their lease from the Council and members will be updated as to progress on both sets of heads of terms during the meeting. Subject to the agreement of Executive Board, it is proposed that the agreement of the final terms and documentation is delegated to the Director of City Development in conjunction with the Chief Officer – Financial Services and in consultation with the Leader and the Executive Board Member for Transport, Planning and Regeneration.

3.6 Under the proposal LCFA would provide funding of £5m towards the scheme. In addition, a request has been submitted to the LEP for funding of £4m, which is yet to be determined. The balance of the funding requirement, £35m (plus transaction costs) without LEP support and £31m (plus transaction costs) with LEP support, would be met by the third party investor. The key principles of the proposal are that:

- the third party investor would acquire a 140 year lease of the North/South stand and put up to £35m into an escrow account to fund the redevelopment of the stand;
- the third party investor would enter into a contract for the redevelopment of the stand - funding would be drawdown from the escrow account to pay for the works against certificates for completion of the works;
- simultaneously, the Council would enter into an agreement with the third party investor to take an underlease of the stand on completion of the redevelopment at a rent which would provide the third party investor with a return on their investment as well as repaying their funding. The rate of return would reflect the covenant strength of the Council and would be less than the rate which would have been charged to the clubs. At the same time, LCFA and YCCC (either separately or via a Newco) would enter into an agreement to take sub-leases of the stand from the Council, but at a higher rent than the Council's lease from the investor. This would reflect both the market rent of the stand and the risk to the Council as set out in paragraph 4.6 of this report and would ensure that the transaction is compliant with both local government law and State aid legislation.

3.7 The terms of the Council's underlease from the third party investor and its sub-leases with LCFA and YCCC are subject to further detailed discussion with the various parties. There are a number of options available but all

would involve the third party investor determining an initial rental, which would be subject to annual increases to reflect inflation. The main variants to be agreed are the length of the leases (probably 40 or 45 years), the inflation index (either RPI or CPI) and the level at which inflation is subject to a cap or a cap and collar arrangement. Draft Heads of Terms for the Council's lease with the third party investor are included in the attached confidential Appendix 1, and an example of how the rental stream might operate is detailed in the attached Annex A of the confidential Appendix 1.

- 3.8 Other important aspects of the proposed sub-lease include the ability of the clubs to make lump sum payments to reduce the rent due, the security provided by the clubs to the Council, the expiry of the underlease by the Council and other measures the Council can take to mitigate its risk.
- 3.9 **Lump sum payments** – It should be noted that whilst the Council would not have any right either to terminate its lease from the third party investor or to reduce the rent by making a lump sum payment to the third party investor, both LCFA and YCCC have indicated that the transaction will only work for them if they are able to reduce the rent under their lease from the Council by making lump sum payment(s) to the Council at some point in the future. They also require certainty from the outset as to what the reduction in their rent would be for say a lump sum payment of £1m at various times throughout the term of the lease. The details of this arrangement are still to be worked through. As part of this arrangement, it is proposed that the Council would invest any lump sum payments made to it to enable the Council to continue to make any lease payments due to the third party investor.
- 3.10 **Security provided by the clubs** – For the Council to take on the underlease for the stand(s), it is important that adequate security is provided by the clubs to cover the risk to the Council in case of default by the clubs. Accordingly, LCFA and YCCC would provide the Council with the following security for rent and performance of their obligations:
- ECB guarantee - YCCC are in discussions with the ECB over an agreement whereby their lease payments to Leeds City Council would be secured against fee income payments due to the Club, from ECB;
 - naming rights agreement – net income from the new naming rights agreement for the stadium, estimated to be worth £850,000 per year for the next ten years;
 - floating charge over certain assets – detail to be agreed with the clubs;
 - a guarantee from LCFA for up to £5m – detail to be agreed; and
 - further risk mitigation detailed in the confidential Appendix 2.
- 3.11 **Expiry of the arrangements** – Subject to the Council having complied with the terms of its underlease from the investor, after 40 years that lease will come to an end. At the same time, provided that the clubs have complied with the terms of the sublease from the Council, the clubs' sublease will also come to an end and the Council and/or the clubs will have the option to acquire the investor's 140 year headlease for £1. These details will be settled when the final terms and documents are agreed.

3.12 Underwriting of construction costs

- 3.12.1 To ensure that construction work can start in June 2017, and to achieve completion of the work in time for the 2019 Cricket World Cup, the design team which has worked on the project previously needs to be reappointed as soon as possible. Otherwise, start on site will be delayed and it would then be unlikely that the work would be completed in time for the 2019 Cricket World Cup. This would mean that the four matches that YCCC has been awarded would be lost and there would be a significant loss of income to YCCC.
- 3.12.2 Whilst all parties are working hard to progress the documents required to facilitate the arrangements referred to in this report, it is unlikely that they will have been agreed before the design team needs to be reappointed.
- 3.12.3 £2m of costs have already been incurred by the clubs in relation to the project, and it is estimated that a further £1m will be required before a formal contract start on site. In the circumstances, the Council has been asked to underwrite up to £500,000 of the further costs. Executive Board is asked to approve this subject to satisfactory evidence being produced for all future expenditure incurred and to the Council's contribution being limited to a maximum of £500,000. It should be noted that payment will only be required if the funding arrangements referred to in this report are not concluded by the end of June 2017 (or such later date as may be agreed between the parties). There will be no cost to the Council if the funding arrangements proceed.
- 3.12.4 There is a risk that the funding arrangements may never be concluded in which case the Council's contribution will be funded from Council reserves. In approving this proposal, Executive Board must be satisfied that the Council is complying with its fiduciary duties to the council tax and rate payers of Leeds, and is not taking an unacceptable risk. Members of Executive Board will be given an update as to progress on agreeing the detailed terms of the arrangements during the meeting.
- 3.12.5 In so far as this proposal is subject to the State aid rules, it is believed to be compliant with the terms of Article 55 of Commission Regulation (EU) No. 651/2014 of 17 June 2014 (Aid for sport and multifunctional recreational infrastructures).

4 Corporate considerations

4.1 Consultation and engagement

- 4.1.1 In developing the recommendations in the report, dialogue has taken place between Leeds City Council, YCCC, LCFA, the ECB and the third party investor.
- 4.1.2 It should be noted that approval of the final terms will be subject to formal approval by YCCC's members at an EGM, the clubs' funders, LCFA board and the board of the third party investor.

4.2 Equality and diversity / cohesion and integration

4.2.1 An equality screening form has been completed for this proposal and is attached as Appendix 3. There were no specific equality issues raised around the proposed purpose of the report.

4.3 Council policies and best council plan

4.3.1 The Council's Vision 2010-2030

By 2030, Leeds will be internationally recognised as the best city in Britain – a city that is fair, open and welcoming with a prosperous and sustainable economy, a place where everyone can lead safe, healthy and successful lives.

By 2030, Leeds' economy will be prosperous and sustainable. Leeds will be a city that has:

- a strong local economy driving sustainable economic growth; and
- a world-class cultural offer.

By 2030, all Leeds' communities will be successful with:

- local cultural and sporting activities which are available to all;

By 2030, Leeds will be the Best City to live where:

- People enjoy world class culture, sport, leisure and entertainment.

4.3.2 'To make sure all this happens we need to engage beyond our boundaries, Leeds will punch above its weight as the biggest city in the north, raising its profile to match, and making sure that decision makers and opinion formers understand the city and what it offers, its potential and the needs of its communities. We will build on the excellent reputation and international profile of our universities, our cultural offer, our hospitals and health care excellence, our sporting facilities and teams and our businesses and their expertise to create a city that is a world-class destination for all in a global economy.'

4.3.3 Best Council Plan

- This proposal meets Good Growth Objective of the Best Council Plan: Promoting sustainable and inclusive economic growth through:-
- A rich cultural offer that surpasses the aspirations of Leeds' residents and visitors;
- Enhancing the confidence and profile of the city by hosting world class events.

4.4 Resources and value for money

4.4.1 The resource implications of this report are explained in section 3 of the report.

4.5 Legal implications, access to information, and call-in

- 4.5.1 Both Appendix 1 and Appendix 2 contain 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 both Appendix 1 and Appendix 2 of this report should be treated as exempt information under rule 10.4(3) of the Access to Information Procedure Rules.
- 4.5.2 It has not been possible to bring this matter to Executive Board any sooner so as to have been eligible for Call In as it was not until January 2017 that it became clear that the originally proposed funding package was not capable of being delivered and the proposed alternative option has only emerged in the course of the last few weeks. Timing is now a critical issue and any delay would seriously prejudice the Council's interests as it is understood that work needs to start in June 2017 to enable the stand to be completed in time for the 2019 Cricket World Cup. If this matter is not dealt with at this Executive Board, it will not be possible to progress the various agreements necessary to enable the building work to commence in the required timescale and the public benefits of the stadium redevelopment may be lost. For this reason it is proposed that the decisions within this report should be exempt from the Call In process due to urgency.
- 4.5.3 In accordance with Executive and Decision Making Procedure Rule 2.3.2, where part of a report/appendix is to be exempted from publication and discussed in private at an Executive Board meeting, notice of this needs to be published at least 28 clear days prior to that meeting. Where the date of the meeting makes compliance with rule 2.3.2 impracticable, then rule 2.3.4 provides that the meeting can only consider the 'exempt' information in private with the agreement of the relevant Scrutiny Chair. For the reasons explained in paragraph 4.5.2 above, this matter is urgent and cannot be deferred, and as such it has not been possible to publish the required notice in respect of the exempt appendices to this report. Therefore in accordance with rule 2.3.4 the Scrutiny Board Chair (City Development) has been consulted and has agreed that the matter is urgent and cannot reasonably be deferred.
- 4.5.4 Rule 2.4.1 of the Executive and Decision Making Procedure Rules provides that where a key decision is to be made, details of the matter will be included in the List of Forthcoming Key Decisions not less than 28 clear days before the date of the proposed decision. For the reasons set out in paragraph 4.5.2, it has not been possible to include the proposed decision in the List of Forthcoming Key Decisions for the requisite period of time, however the procedure set out in Rule 2.5 of the Executive and Decision Making Procedure Rules has been followed and therefore the proposed decision may still be taken.
- 4.5.5 The Council can rely on various powers to enter into the proposed arrangements as follows:

- the Local Government Act 1972 allows the Council to enter into land transactions. Section 120 of the Act gives the Council the power to acquire land for any of its functions or for the benefit, improvement or development of its area, whilst Section 123 gives the Council the power to dispose of any land it holds in any manner it wishes, subject to obtaining the best consideration which can reasonably be obtained;
- section 111 of the Local Government Act 1972 allows the Council to do any thing which is calculated to facilitate, or is conducive or incidental to, the discharge of any of the Council's functions; and
- section 19 of the Local Government (Miscellaneous Provisions) Act 1976 gives the Council the power to provide such recreational facilities as it thinks fit, either inside or outside its area. This includes the power to provide buildings, equipment, supplies and assistance of any kind.

4.5.6 Whilst it is believed that the Council will be acting within the above powers in entering into the proposed arrangements, it should be noted that in exercising its powers the Council must have regard to certain regulatory and legislative requirements.

4.5.7 As a public body, the Council is subject to the European Commission's rules as to the provision of State aid. State aid occurs when state resources are used in a way which provides an undertaking which is engaged in commercial activities with an advantage which is likely to distort trade between EU member states.

4.5.8 Whilst cricket is not played professionally in Europe, other than in the UK, both rugby league and rugby union are. In addition, both LCFA and YCCC engage in activities (e.g. advertising and hospitality) which are tradable between EU member states. Legal advice has been taken from both the Council's legal department and from external advisers and the Council will need to ensure that the proposed arrangements are compliant with the State aid rules. In the first instance it will therefore be necessary for the Council to obtain independent advice as to whether this is the case.

4.5.9 The Council also has a duty to the council tax and ratepayers of Leeds to ensure that, in entering into arrangements such as the one now proposed, it makes prudent use of the Council's resources, has due regard to the possible financial consequences of its decision, strikes a fair balance between the interests of the council tax and ratepayers of Leeds on the one hand and the interests of the community on the other, and acts in good faith at all times. It will therefore be necessary for the Council to obtain independent advice as to amount of rent to be properly charged to LCFA and YCCC to reflect the risk to the Council in entering into the proposed arrangements, as well as to the adequacy of the security provided by LCFA and YCCC in respect of default, and for a decision to be made as to whether, on balance, the Council is complying with its duty.

4.6 Risk management

4.6.1 The proposed transaction is not without risk to the Council. Clearly one risk is that the clubs are not able to meet their rental obligations under their sub leases from the Council, whilst the Council continues to be obligated to meet

its rental payments to the third party investor. The proposed security package will provide some degree of mitigation against this risk, although some elements of the package are dependent upon the clubs continuing operational activity. Clearly the Council will have a strong interest in ensuring the successful operation of both clubs, but the worst case scenario would be for both clubs to cease to exist. Whilst this is considered an unlikely scenario, the proposed security package to include floating charges over assets will provide at least some degree of mitigation. Due diligence (including independent advice) will need to be carried out in relation to both clubs' current financial status and the robustness of their respective business plans.

- 4.6.2 The third party investor has indicated that whilst it would be open to discussions with the Council if the Council ever wanted to buy the stand, it is not prepared to give the Council a contractual right to do so. This means that if the Council is to agree to allow LCFA and YCCC to reduce the rent payable under their lease, this must be linked to LCFA and YCCC making a bullet payment to the Council of an amount that reflects the potential ongoing liability of the Council to the third party investor. This could, for example, result in a scenario where the clubs have made a lump sum payment to the Council and thereby reduced their rent, but the Council remains liable for the full amount of the rent to the third party investor which could be subject to significant variation depending upon RPI or CPI, although with a lump sum payment the council would itself have options to generate future income streams. Discussions about this are ongoing with LCFA and YCCC, and will need to be agreed with them as part of the settlement of the final terms.
- 4.6.3 Members will be aware that the Council has experience of bringing forward large scale developments which are based on a leasehold structure. Examples include the Leeds Arena where the Council acted as the developer for the scheme and entered into a leasehold arrangement with SMG Europe, who operate the facility as part of a 25 year arrangement. In addition, the Council has created a joint venture with Town Centre Securities Plc, acquired 50% of Merrion House and entered into a new lease for 25 years for the occupation of the redeveloped building.
- 4.6.4 In the context of the scale and nature of the transaction outlined, it is important that the Council makes full use of its recent experience in delivering these developments to ensure the risk to the Council is properly managed.

5. Conclusions

- 5.1 Headingley Stadium is a long-standing and world famous spectator venue for both cricket and rugby. It has been a venue for international cricket since 1899. In the context of this long history, it is the case that the continuation of the stadium as an international venue is at risk and that a funding solution to enable the redevelopment of the ground needs to be agreed and resolved quickly to enable the scheme to progress as planned.
- 5.2 The options available to the Council are limited. Ultimately the Council could decide to provide no further support; however, this action would risk the City

losing an important element of its sporting calendar and could have a detrimental impact on economic growth. Accordingly, on the basis that Members of Executive Board support the Council providing assistance to enable the scheme to progress, it is proposed that the most effective way for this to be achieved is for the Council to facilitate investment by a third party, that in turn will result in the scheme being able to progress in full and the future value generated by Headingley Stadium retained for the benefit of Leeds.

6. Recommendations

6.1 Executive Board is asked to approve:

- a) the principle of the Council facilitating the redevelopment of Headingley Stadium by acting as tenant for the redevelopment of the North/South Stand and entering into lease arrangements with Yorkshire County Cricket Club and Leeds Cricket Football and Athletic Company Rugby either individually or through a New joint company owned by the clubs;
- b) the draft Heads of Terms outlined in confidential Appendix 1;
- c) based on the draft Heads of Terms outlined, that agreement of the final terms of the arrangements and the relevant documentation be delegated to the Director of City Development in conjunction with the Chief Officer – Financial Services and in consultation with the Leader of the Council and Executive Board Member for Transport, Regeneration and Planning;
- d) that the above decisions should be exempt from call-in for the reasons outlined in paragraph 4.5.2 of this report;
- e) the underwriting arrangements referred to in paragraph 3.12; and
- f) note that the Director of City Development and the Chief Officer – Financial Services will be responsible for implementing the above recommendations.

7 Background documents¹

Economic Impact Study for Headingley Stadium - Amion Consulting 2017

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.