

Report of the Director of Resources

Report to Executive Board

Date: 18th July 2012

Subject: Loan Agreement with Yorkshire County Cricket Club. Variation of agreement and granting of consents

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 to F	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Executive Summary

In December 2005, the Council provided a £9m loan to Yorkshire County Cricket Club Limited (YCCC) to enable them to purchase the Headingley Cricket Ground. Under the terms of the loan agreement, the club is required, in a variety of circumstances, to seek the Council's consent or agreement to vary the contract. The club has now approached the Council to ask for a variation to the agreed repayment schedule, which would mean extending the loan term from April 2020 to December 2025. They are also seeking the Council's consent to enable them to enter into a variation on their term loan with their bank, and to accept a loan from their Chairman. The report outlines the background to these requests and sets out a number of issues which need to be considered in deciding whether to grant the requested variation and consents. It is recognised that agreeing to the variation does extend the risk exposure of the Council. However, taking account of the security that the Council has under the agreement, which will be extended to December 2025, and in order to support the continuing delivery of test match cricket at the Headingley Cricket Ground, it is recommended that the requested variation to the Council's loan and the requested consents are agreed.

1 Purpose of this report

1.1 The City Council provided a £9m loan to Yorkshire County Cricket Club Limited (the Club) at the end of December 2005. 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.

- 1.2 The Club has now approached the Council requesting that the current schedule of repayments to the Council is amended and that the repayment period is extended. In addition, the Club are also seeking the Council's consent to amend its term loan with its bank and to enter into a financial liability.
- 1.3 This report provides information as to the Club's request and sets out the issues that the Council needs to consider in deciding whether to grant the requested variation of and consents under the loan agreement.

2 Background information

- 2.1 A £9m loan was provided to the Club in December 2005 to enable them to purchase the freehold of the Headingley Cricket Ground. 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.
- 2.2 The loan agreement provides for the loan to be repaid by April 2020 and with a fixed rate of interest of 4.5%. The loan agreement also 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 chairman of the club. In addition, the agreement also requires the Club to obtain the Council's consent or agreement to undertake a variety of actions. In the context of this report this includes matters relating to the Club's term debt with its bank, HSBC, and entering into any new financial liabilities.
- 2.3 Since 2005, the Council has agreed on a number of occasions to variations to and consents under the agreements. In the context of this report these include:
- January 2009, rescheduling of the loan so as to repay the £1m capital repayments made by them at the time. This was used as part of the financing of the Carnegie Pavilion development at the ground, plus required consents to progress the scheme.
 - March 2010, responding to the Club's cash flow difficulties, agreement to a capital repayment freeze for the two years 2010 and 2011. Consents were also granted to enable the Club to enter into a similar arrangement with their bank. Repayments were rescheduled so as to ensure that the loan would be fully repaid in accordance with the originally agreed term.
- 2.4 The Club's two year repayment freeze in respect to both its loan from the Council and from its bank have now come to an end. In the case of the Council's loan, the capital sum currently outstanding is £8,507,000.

3 Main issues

- 3.1 The Club have approached both the City Council and HSBC with a view that its forecast cash flow is not sufficient to enable a full repayment of both loans in accordance with the current agreements. In respect to the Council's loan, the Club have proposed a revised repayment schedule which is detailed in Appendix A. In comparison to the current agreement, the proposal from the Club would

involve the loan period being extended from April 2020 to December 2025. As now, a rate of interest of 4.5% would be applied throughout the new loan period.

- 3.2 The Club have reached agreement with HSBC as to rescheduling their loan, and details are included in the confidential Appendix B attached. In order to further assist the Club's cash flow position, they have been offered a loan from their Chairman. This is further detailed in the confidential Appendix C. The Club requires the consent of the Council to both these transactions.
- 3.3 The Club have provided information to the Council as to why its cash forecasts have deteriorated from those previously provided to the Council, and these are further discussed in the confidential Appendix D.
- 3.4 The Club have stated that their cash flow forecasts are prudent, and that depending upon a number of events (albeit uncertain ones), there may be the potential for further and earlier repayment to be made to the Council. It is estimated that this could result in repayments of up to £1.5m within the current term. Should these events occur, the Club's proposal is that the term, as now proposed would remain, but that the repayments in latter years would be reduced. This matter is further detailed in the confidential Appendix E.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 There has been no external consultation in respect to this report as it is not considered appropriate.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.2 The recommendations deal with variations to and consents under an existing loan agreement and do not have any specific implications for equality and diversity, nor for cohesion and integration.

4.3 Council policies and City Priorities

- 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 City Priority Plan priorities, retaining test match cricket is clearly supportive of the Best City ambition 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 Since the provision of the loan in December 2005, several variations have been agreed. The amount of the Council's loan still outstanding is £8,507,000. In accordance with the current loan agreement, the Council's loan to YCCC is meant to be fully repaid by the end of April 2020. Should the Club's request for the loan to be varied be agreed, as at the end of April 2020, the capital sum outstanding would be £6,612,500 and the loan would not be fully repaid until the 15th December 2025. The rate of interest to be applied to the loan will continue to be

4.5%, but because of the proposed extension of the loan period and the deferment of a significant proportion of the loan beyond the current term, the Club will incur additional interest charges on the Council's loan between 2012 and 2025 of £2,167,114, of which £1,131,284 will be incurred by the Club up to April 2020, the original term of the loan.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The attached appendices B to F 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 maybe 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 appendices B to F of this report should be treated as exempt under rule 10.4(3) of the Access to Information Procedure Rules.
- 4.5.2 If the variation to the repayment schedule is agreed, all the terms and conditions of the current loan agreement will be extended to 15th December 2025, the date of the final repayment. In addition, the Council's current security being a first charge over the cricket ground, see confidential Appendix F, a second charge over the cricket school and an unconditional shortfall personal guarantee from the chairman of the club will be extended to the same date.
- 4.5.3 The proposed variation to the schedule of repayments will require the current legal agreement to be amended, the cost of which, together with any costs associated with granting the requested consents, will be met by the club.

4.6 Risk Management

- 4.6.1 By extending the current loan agreement to December 2025, and by deferring £6,612,500 beyond the end date of the current loan, this does extend the period and extent to which the Council is at risk. The Club's finances are highly dependent on hosting international cricket, and as demonstrated by their request to vary the current repayment schedule, the Club's business is clearly not without significant risk. The risk exposure of the Club beyond 2019, will be increased as the Club's staging agreement, which guarantees international test match cricket expires at the end of the 2019. Also, it seems unlikely that the ECB will be providing any further long term staging agreement, which will mean that beyond 2019, the Club will need to compete for international cricket games with other venues on a relatively short term basis. The Club recognises this challenge, but are of the view that they can expect to host international cricket in 2 out of every 3 years. In considering this risk position, it should be recognised that the Council will retain its current security, including the benefit of a shortfall guarantee for the extended term.

5 Conclusions

- 5.1 The Council in making its loan to YCCC 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. As such there was a clear expectation that the Council's loan would be fully repaid by April 2020. All previously agreed variations and consents have been based upon the term of the loan not being extended. It is clearly a concern that the Club's cash flow forecast do not now appear sufficient to repay the Council's loan, nor for that matter their bank loan, within the agreed terms, and that the Club have felt it necessary to approach the Council and its bank requesting that their loans be rescheduled.

- 5.2 The Club have requested agreement to the Council's loan being rescheduled with repayments being extended to December 2025, and also with a significant element of the capital repayments being rescheduled beyond the current term. Given that this is beyond the Club's current test match staging agreement with the ECB, and that beyond 2019, the Club will need to compete with other venues for the right to hold test match cricket, this does expose the Council to further risk associated with the Club's business activity. The absence of regular test match cricket at Headingley would very significantly impact upon the Club's finances and their ability to repay the Council's loan in accordance with the proposed repayment schedule.
- 5.3 The Council is clearly being put into a difficult position, in that to withdraw support now and to seek to recover the Council's loan by say drawing upon its security would not only threaten the possibility of test match cricket beyond 2019, but would also result in the City losing the test matches which are secured up to 2019. Also it should be remembered that throughout the new proposed term the Council will continue to have security in the form of its charges upon the cricket ground and cricket school and also the benefit of a shortfall guarantee. As outlined in the confidential Appendix D, there is some potential for the Council to receive earlier repayment of at least some of its loan, albeit dependent upon a number of uncertain events. Moreover, it might reasonably be argued that the best way of ensuring that the Council's loan is ultimately repaid is by ensuring that the Club finances are sustainable over the longer term and that the Club is able to meet its financial commitments. Given these arguments, it is recommended that the requested variation to the Council's loan is agreed, as are the consents allowing the Club to vary their loan with the HSBC and to accept a loan from their Chairman.

6 Recommendations

- 6.1 Members of the Executive Board are recommended to agree the variation to the Council's loan agreement with YCCC as outlined in the report and to grant the necessary consents to facilitate YCCC entering into a variation in respect to their loan agreement with their bank and to accept the loan from their Chairman.

7 Background documents¹

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

- 7.1 Report of the Director of Corporate Services to the Overview and Scrutiny Committee on the 6th March 2006.
- 7.2 Report of the Director of Resources to the Executive Board 14th May 2008 - Yorkshire County Cricket Club Grants of Consents and Variations.
- 7.3 Report of the Director of Resources to the Executive Board 14th January 2009 - Granting of Consents and Variations and Rescheduling of Loan.
- 7.4 Delegated Decision Notification Director of Resources 30 April 2010 – Grant of Consents and Variation.
- 7.5 Delegated Decision Notification Director of Resources 1st September 2010 – Grant of Consents.