

CABINET MEETING: 19 MARCH 2015

**GLAMORGAN COUNTY CRICKET CLUB LOAN WRITE-OFF AND
RESTRUCTURING**

**REPORT OF CORPORATE DIRECTOR RESOURCES
AGENDA ITEM:9**

**PORTFOLIO: CORPORATE SERVICES AND PERFORMANCE
(COUNCILLOR GRAHAM HINCHEY)**

***Appendix 1 and 2 to this Report are not for publication as they contain
exempt information of the Description in Paragraphs 14 and 21 of
Schedule 12a to the Local Government Act 1972***

Reason for this Report

1. The purpose of the report is to consider a proposal from Glamorgan County Cricket Club (GCCC) for a write-off and restructuring of sums due to the Council in respect of loans provided to improve the Club's ground infrastructure and to meet standards required for the staging of test matches.

Background

2. GCCC was formed in 1888 and has been the sole Welsh first class cricket club since 1921. It is one of Cardiff's longest established professional sports teams and has historically been the focal point for cricket in Wales as a whole.
3. Similar to other cricket clubs, an opportunity to attract international matches led to significant investment in the facilities of the GCCC. Following its award of test match status GCCC successfully hosted the Ashes test with Australia in 2009, has hosted a number of other successful matches since and will host a further Ashes Test this year.
4. At its meeting on the 14 November 2006 the Executive resolved to provide a £4 million loan towards the stadium development, taking full account of the economic wellbeing benefits associated with the GCCC's proposal to extend its ground infrastructure and enable the staging of test matches. Changes to criteria set by the England and Wales Cricket Board (ECB) for test match grounds resulted in the cost of the stadium infrastructure being higher, costs which were met by the club Chairman at the time, a bank overdraft and use of accelerated naming rights. This resulted in cash flow issues for the Club and in response it requested the Council to defer existing loan payments. At its meeting on 17 February

2011 the Executive agreed to defer existing loan repayments as well as provide an additional loan of £1.056 million towards the cost of the additional works required.

5. The implications to both these Council reports stressed that there was no conventional security for the requested funding. The Council had a second mortgage behind the bank and recognised that the Club's ability to repay that facility was based on its projected cash flow arising from the estimated costs of the necessary ground improvements and projected income taking account of the reasonable chances of the ground being nominated for future test and other international matches.
6. At 31 December 2014, the Club owed circa £16 million principal and interest accrued in relation to funding secured to redevelop the ground which is broken down as follows:

	£m
Allied Irish Bank (AIB)	7.2
Cardiff Council	6.4
Mr Russell (Clubs Chairman at the time)	2.4
Total due to main creditors	16.0

7. The loans to Allied Irish Bank (AIB) are secured by way of a first ranking debenture, so that in the event of any insolvency, it is entitled to be repaid in full before the Council and Mr Russell. The Council has a second charge and Mr Russell the third charge.
8. The debt has proven difficult to service both as a result of the changing economic climate from that which was in place when the infrastructure was built and also the Club's performance against its business plan projections. A capital and interest holiday was agreed in 2012 and is shortly due to expire. GCCC have proposed to all creditors a further restructuring of debt. This requires each of the lenders to write-off circa 70% of sums due, which including interest totals £11.2 million and results in a remaining debt of circa 30% which amounts to £4.8 million. A further deferral of any remaining sums payable and the early release of Mr Russell for a discounted payment has also been requested by GCCC.
9. Both the Bank and Mr Russell have agreed to the proposal. The Bank has advised that their approved write down is a maximum of £5 million and/or 70% of the debt, including accrued interest. However this is subject to the same decision also being reached by the Council. The proposed Heads of Terms of the revised loan agreement are included at Appendix 1 and Deloitte's have been engaged to provide independent financial advice to the Council on the proposal. This advice is attached at Appendix 2.

Financial Position of the Club

10. In accordance with the terms of the Council loan, the Council periodically receives and interprets financial performance and financial forecast

information received from the Club. Discussions also take place with the Club and the AIB on such issues.

11. For some time it has been clear that the Club's ability to service the extent of debt held is limited. In accordance with accounting requirements, a view was taken in preparing the 2013/14 Statement of Accounts for the Council that there was little likelihood that the loan principal shown as outstanding on the balance sheet was recoverable. The loan was impaired to nil and a similar approach taken by the Bank. The impairment was shown as an exceptional item in the Council's audited statement of accounts for 2013/14 which were taken to Council in September 2014 post audit. Evidence for impairment included:-

- The Club had requested that the Council and its other creditors take part in a further restructuring of its obligations with a view to further deferral of sums due to avoid breach of contract.
- The Club's published annual report for 2013, following a management restructure, indicated further discussions on loans outstanding to take place with the Club's creditors.
- The financial environment in which the Club operated was identified as challenging and that this was likely to be the case for the foreseeable future
- The Club has consistently made financial losses in recent years.
- The Club would need a significant turnaround in its financial position in order to be able to generate surplus cash to enable some payment of outstanding loans and interest obligations.
- Following meetings between Council officers and the GCCC, there seems little prospect that the existing loan agreement in its current form can be adhered to for the foreseeable future.
- The Council does not have an enforceable security over the Club's property and the bank has first priority for repayment. Given that AIB has first deed of priority for payment there is little likelihood of the Council receiving value from any organisational restructure at the Club given any potential residual valuation of assets
- Repayments are dependent on success in attracting international matches. With increasing competition amongst grounds to host exclusive matches, performance is totally reliant here on the ECB granting significant future International Matches and the Club hosting them successfully
- The Club has been reliant on short term loans from the ECB, the use of cash from future ticket sales as well as one off windfalls to balance the cash position in the short term.
- The England and Wales cricket sector (18 First Class Counties) has incurred a consolidated loss averaging £10 million per annum for the last 3 years (2011 –2013), against a consolidated debt level of £200 million.
- There has been rapid growth in the costs of funding domestic first class county cricket, with no corresponding increase in related income.

12. Independent analysis of the Club's business plan and financial forecasts by Deloitte as attached at Appendix 2 re-inforce the above evidence and indicate that:-

- The underlying business makes losses each year excluding the impact of assumptions in relation to Welsh Government grant, major matches and bonus payments from the ECB
- Revenues continue to be dependant on major match awards and sponsorship
- The Club has a challenging financial outlook, with potential for significant downside, resulting in significant recoverability risk for the remaining balance.
- The difficulty in making challenging savings assumptions made whilst balancing the need to remain competitive in the County game.
- The Club balance sheet was a net liability and a write off is required to return the clubs balance sheet to a net assets position
- The Club is using income from future received from future matches to sustain current operating activity
- Additional loans from private investors, the England and Wales Cricket Board or other sources may be required in order to secure a major cash injection to meet cash flows
- Whilst there are upside risks, sensitivities are identified that could have a further negative impact on the clubs cash flow forecast and ability to generate income to service debt

Independent Financial Advice

13. Deloitte's independent financial advice having made the above points in determining the Council's proposed course of action is as follows:-

- The Club has significant risk of administration if consensual restructuring is not agreed.
- The analysis indicates that the Club require a debt write down of at least 70%. This is the minimum required, for the Club to have any chance of servicing remaining debt
- AIB's agreement to the proposal that all creditors write down their debt by a maximum of £5 million, circa 70% is a generous deal for Council and Mr Russell. In such situations, lower ranked creditors would be asked to write down in full.
- Further restructuring of debt is likely to be required at a later date
- If there is no risk in derailing the process, the Council may want to seek amendment to the proposal should there be outperformance/windfall.

Position of the Club's other Partners

14. The Club's previous chairman Mr Russell, has accepted the need for a write down and has accepted the offer of an immediate payment to cease involvement in the Club. This payment is a write-down of circa 70% with

a further reduction of circa £100,000 in return for immediate repayment of the remaining sum.

15. AIB have formally ratified and put into effect a circa 70% write down with effect from 31 December 2014, with option to reverse if other creditors do not follow. AIB have also agreed to release Mr Russell from his guarantee to the Bank, should he accept full and final settlement as a creditor of the Club.
16. The ECB have announced the major match awards for 2017 –2019, including a condition that financial stability must be achieved (i.e. a financial restructuring completed) before confirmation of the award. They have also provided various loan and cash flow facilities to help the Club to navigate through until 2017 –2019 (with discussions still ongoing). ECB have agreed to provide loan funding to meet the lump sum payment release for Mr Russell.
17. The Welsh Government is considering a request for grant funding which is also conditional upon securing a financial restructuring. The exact level of this support has not yet been confirmed.
18. A range of private investors have provided an indication of financial support to assist with cash flow until 2018. This support is also conditional upon completion of a financial restructuring with existing creditors.

Heads of terms for revised loan

19. The full proposed heads of terms are attached at Appendix 1 and allow for:-
 - Outstanding debt and interest to be written down by circa 70% based upon cumulative balances at 31 March 2015 to form a revised consolidated loan. Repayment of remaining balance (combined balance - £1,923,584 – 31 March 2015) to be rescheduled as follows:
 - a. Equal 6 monthly instalments of 1/40 of revised loan balance to be paid starting on 1 July 2019.
 - b. Remaining principal balance to be repaid in its entirety on 1 January 2026, subject to securing funding to repay
 - Interest to continue to accrue on revised consolidated loan at 1.5% plus LIBOR (3mth rate), subject to a 3% cap. All interest to be paid quarterly in arrears, commencing 1 July 2015.
 - Payments of capital and interest to rank pari-passu with AIB and ECB, with the exception of ECB's preference on excess ECB payments
 - No event of default apart from insolvency and cross default.

- GCCC to be given permission to borrow additional funds from investors as described below.
 - With exception of new security for investors, all security and rankings between creditors to remain as currently in place. Any security linked to further borrowing to rank behind AIB and CCC.
20. It should also be noted that the parties will not proceed with the restructuring until there is confirmation from the HMRC that there are no adverse tax implications.
21. In addition the Council and AIB have requested that the Club update the proposed heads of terms of the revised loan to reflect the position if there should be any windfall/outperformance in relation to the Club's projections. The Club have advised of their willingness to accept such an amendment and have included suggested drafting in the attached appendix which will be considered by the parties prior to completing the revised contractual terms in relation to the loans."

Reasons for Recommendations

22. The implications of not accepting the proposal are the likely insolvency of the Club or a change in legal status which could have significant cost implications for the Club, reputational impact, loss of test or other major match status including impact on existing match awards.
23. Independent financial advice indicates the existing level of debt of the Club is un-servicable and even with a circa 70% write down significant financial and operating risks remain.
24. The first creditor has agreed to the terms of the restructuring, subject to the Council also doing so, which gives assurance the Council is acting in accordance with the Market Investor Principle.
25. The proposal in partnership with AIB is a generous one as in similar situations, lower ranking creditors would normally be required to write-off their outstanding amounts in full. The Council will retain opportunities to recoup some of the loan amount in future years in accordance with revised loan agreements or should there be a reversal in the Club's financial position. The Council also continues to discuss opportunities to access other benefits from the Club for example the use of rooms at the stadium where relevant.

Financial Implications

26. GCCC have requested that the existing sums due to the Council of circa £6.2m are written off by circa 70%, consistent with the approach that AIB and Mr Russell, the Club's other main creditors have agreed. For the remaining balance, the Club have requested a restructuring, spreading the loan balance over a twenty year period starting 1 July 2019.

27. The risks of non recovery of loan amounts were recognised when the loans were given. In 2013/14, based on evidence available, the Council considered that the value recoverable from an accounting perspective was nil i.e the loan was fully impaired in the Council's accounts.
28. The Council subsequently engaged independent financial advice from Deloitte, whose report is attached at Appendix 2. Based on an analysis of the Club's financial forecasts, this has highlighted that the Club could support only 30% of existing debt and concludes there were more potential risks than potential upsides to the Club's financial forecasts. On this basis the Council would continue to recognise impairment at 100%.
29. With the Council having only a second charge, any insolvency scenario would mean the Council would likely receive nil. Accordingly the proposal put forward does offer an opportunity for some return in the future, in line with the first charge holder AIB.
30. It is deemed by the first and second legal charge holders that the early release of Mr Russell for a reduced upfront payment will protect the ongoing viability of the club and the ability of the creditors to realise a return on sums due.
31. The loans provided to the Club of £5.056 million were initially charged as capital expenditure to be ultimately paid for by borrowing. Since 2012/13, the Council has been making an annual prudent provision for the repayment of the sums due as part of its Minimum Revenue Provision for repayment of debt. Given the risks of non repayment, the Council has also been making 100% bad debt provision for any interest due on the loans outstanding. This will mean that there will be no impact of the write off in the Council's revenue budget for 2014/15. This position was also adopted when the Council's Budget for 2015/16 was set. Consideration would need to be given as to whether any future interest due as part of a restructured loan agreement should also be provided for in full.

Legal Implications

32. The body of this report proposes the write off of part of the debt due from GCCC to the Council. In terms of potential State Aid, AIB as a market investor has agreed to the same percentage write off in regard to its own debt. As mentioned in the report, the Council will retain opportunities to recoup some of the loan amount in future years as a consequence of the revised loan agreements. This is an improvement on the position whereby AIB could have called for the Council's debt to be written off in full as a pre-condition to writing off part of its own debt.

RECOMMENDATIONS

The Cabinet is recommended to:

1. In line with the other main creditors, write-off circa 70% of the value of sums outstanding on loans made to Glamorgan County Cricket Club.

2. Agree the heads of terms and revised terms for repayment of amounts outstanding, whilst acknowledging that there can be no absolute guarantee that income generated by the Club will enable it to repay the proposed restructured loan.
3. Delegate authority to the Corporate Director Resources to complete revised contractual terms with the club in consultation with County Solicitor and the Cabinet Member for Corporate Services and Performance..

CHRISTINE SALTER
Corporate Director
13 March 2015

The following Appendices are attached:

- Appendix 1: Draft Loan Restructuring Term Sheet – February 2015
(Confidential)
- Appendix 2: Delloitte report to Cardiff Council - Independent financial review
(confidential)