



## CABINET REPORT

<b>Report Title</b>	<b>Request for Loan</b>
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**AGENDA STATUS: PUBLIC**

<b>Cabinet Meeting Date:</b>	06 February 2019
<b>Key Decision:</b>	YES
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	YES
<b>Directorate:</b>	Finance
<b>Accountable Cabinet Member:</b>	Cllr B Eldred
<b>Ward(s)</b>	All

### **1 Purpose**

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The purpose of the report is:

- 1.1 To invite Cabinet to consider approving a loan request from Northampton Rugby Football Club Ltd, for a loan of £1.500M to invest in facility improvements at the rugby club grounds, which will enhance the facilities and assist with financial sustainability.

### **2 Recommendations**

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It is recommended that Cabinet :

- 2.1 considers the request for a loan facility from Northampton Rugby Football Club Ltd and how the funds will assist with capital investment improvements to the ground facilities.
- 2.2 approves the request for a £1.500M loan to the Northampton Rugby Football Club Ltd, in doing so to also delegate to the Chief Executive, in conjunction with the Chief Finance Officer authority and powers to recover assets and funds to the appropriate value, should the Northampton Rugby Football Club

Ltd default by more than two payments on either the existing loan or this new loan.

- 2.3 delegates to the Chief Executive, Borough Secretary and Chief Finance Officer in consultation with the Cabinet member for Finance to agree terms and enter into a facility agreement and appropriate security with Northampton Rugby Football Club Ltd (the Club) subject to
- them being satisfied that full due diligence has been conducted and the risk issues identified in the Link Report have been adequately addressed and mitigated
  - Sufficient security has been provided to protect the loan of public funds.
- 2.4 approves the appointment of external legal advisors to assist as necessary

### **3 Issues and Choices**

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#### **3.1 Report Background**

- 3.1.1 The Club has an existing loan from Northampton Borough Council for £5.500M, drawn down in January 2014, which is secured under a first charge on the stadium land and buildings. Capital is repaid twice a year in January and July.
- 3.1.2 The new loan would be for £1.500M over three years at an interest rate of 6%. This loan would also be covered by the first charge on the stadium land and buildings, held by Northampton Borough Council, but for 6 months until July 2019, £0.250M would not be directly protected, this is not considered to be a material risk.
- 3.1.3 The Club has provided a detailed list of capital items it wishes to invest in using these funds which will enhance the ground and facilities so as to assist in the provision of increased income through use of the improved facilities and grounds, a summary of which is contained in the appendix. As such this loan would be to provide economic support to a major community and business within the Borough and funded from capital funds and seen as a commercial income generator for the Council (c£90,000pa).
- 3.1.4 The Club's Business Plans shows a return to a sustainable, profitable footing driven primarily by income growth. The main income drivers include better use of the stadium to deliver events on non-match days, for instance the Madness concert, Tough Mudder sports event and Tyrells' Premiership women's final that are planned for next year.
- 3.1.5 To ensure transparency for this decision, some information has not been included from the two papers referred to as the content is commercially sensitive and remains the property of the Club, the inclusion of which would have prevented this report being 'public', however the Report Author is satisfied sufficient relevant information is contained within this report to make the decision.

## **3.2 Issues**

- 3.2.1 The Council has had a bad experience in respect of a previous loan to a sport club. Lessons have been learned and the delegation will be made to officers to take any foreclosure action to enforce the security without reference back to Cabinet or Councillors. This is normal business practice and accepted by the Club.
- 3.2.2 The latest historic accounts of the Club show they have made a loss, this is primarily due to issues around player salaries, which are now in a four year cap regime. The Club has previously been profitable and has been recognised by peers as being more financially stable than most. The intention is to maximise income from the grounds and facilities themselves so as to alleviate the short term financial challenges.
- 3.2.2 Should the Club fail to make payments on the existing loan or the new loan, the delegation pursuant to paragraph 2.2 enables officer's immediate action to recover the Council's funds. The Club has a very healthy balance sheet with £17M of net assets and has provided a revised land/building valuation by Savills (at September 2018) to demonstrate that should the Council have to recover funds through realising assets, it would not need to sell the stadium itself, other parcels of land assets exist to cover the Club's outstanding loan liability.

## **3.3 Choices**

- 3.3.1 Cabinet have the choice to approve the loan to the Saints Rugby Club of £1.500M for three years at 6%, with associated delegations to the Chief Executive and Chief Finance Officer in respect of risk mitigation, or to decline the request.

## **3.4 Next Steps**

- 3.4.1 If Cabinet approve this loan request, Legal Services and the appointed external legal advisor in conjunction with the Chief Finance Officer will formally engage with the Club to agree the principles of the loan and ensure there is a legally appropriate agreement and security in situ prior to the funds being released.

## **4 Implications (including financial implications)**

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### **4.1 Policy**

- 4.1.1 There are no policy implications arising from this report.

## **4.2 Resources and Risk**

4.2.1 There is risk with any loan or investment. Prior to investigating the feasibility of this request, informal discussions were had with KPMG who have been advising the Council on a historic loan issue, to understand what lessons have been learnt.

4.2.2 Additional independent advice was also sought from Link Asset Services in respect of reviewing the financial position of the Club, use of the funds, legal powers available to the Council and the scale of risk to the Council. The level of risk is considered to be appropriate to the organisation and with due regard to the validity of the security available.

4.2.3 The Governance and Risk Manager was invited to review the request and initial information provided, without access to the background or initial discussions. This enabled her to form an independent view based on core facts, it was her opinion that this should be seen as a risk for the Council. Subsequent information and further background information has moderated that view to an extent. But it is important for Cabinet to acknowledge that the Governance and Risk Manager considers this, along with Link Asset Services to be a risk investment, albeit mitigated through the security of assets. The risks identified are:

- Failure of the Council to manage the loan drawdown – no lessons learned from previous loans
- Failure of the Club to maintain payment based on the information submitted for consideration by the Council (poor liquidity)
- Poor perception of the Council by the public should the Club default and the Council is forced to recover monies through realising the security assets.

4.2.4 Cabinet are asked to consider this request as two part, partly to support a local stable rugby club in the premier league, that actively promotes the town and Borough, provides facilities for young people as well as core teams and provides employment within the Borough which will expand with this investment. Secondly as a commercial investment (with risk) at 6% interest, which will provide an additional income stream of c£90,000 per annum.

4.2.5 The Club has demonstrated and explained these funds will be used for capital enhancements and investments to provide additional income, other funds will be utilised to support the revenue requirements of the Club.

4.2.6 The Club has agreed to an arrangement fee of £1,500.00 as a contribution to the legal and due diligence costs.

## **4.3 Legal**

4.3.1 Local authorities have powers under Section 1 of the Localism Act 2011 to act in the same manner as any legal person, save where those powers are specifically limited or prohibited by statute.

- 4.3.2 Advice on the risk of State Aid in respect of the commercial terms of the proposed loan have been provided by Link Asset Services who have considered the EU reference rate, the term of the loan and the credit worthiness of the Club. The interest rate of 6% exceeds the minimum interest rate advised although it is not understood whether the administration, monitoring and any other risk factors have been assessed in the margin. Link had said *“based on the current financial position the interest rate that would need to be charged on lending to a third party that has a weak credit rating could result in an interest rate greater than the 6% suggested by the Club”* If the loan is on market terms this is not likely to be considered as state aid. The Council has undertaken its own due diligence prior to considering the loan and will need to demonstrate that the loan is a prudent use of the Council’s resources and that the terms are equivalent as any other provider and meet State Aid obligations.
- 4.3.3 The Link report identified a number of risk issues in relation to the Loan facility. Before any loan facility is granted the Council will need to be satisfied, that these risks are adequately mitigated. Security will need to be further considered and addressed to ensure there are in place suitable assets to meet the loan liability and the facility agreement negotiated and formally executed, using specialist external legal advisors.
- 4.3.4 Whilst the intention is that any formal action to enforce security arising from this proposed loan facility agreement will be undertaken in a way that allows the Club’s operation to continue, there is a risk that the areas of the charged property may not be sufficiently disaggregated from the club use to enable effective enforcement, without recourse or risk to the Club

#### **4.4 Equality and Health**

- 4.4.1 There are no specific equality and health issues. Although supporting this application will improve facilities and support the increase in female participation in both rugby itself, as well as supporting the sport. It will also support increased youth/young people participation in sport.

#### **4.5 Consultees (Internal and External)**

- 4.5.1 Cabinet Members, Corporate Management Board, Link Asset Services and Governance and Risk Manager.

#### **4.6 How the Proposals deliver Priority Outcomes**

- 4.6.1 This supports the Council’s Corporate Plan objective of supporting the development and sustainability of the economy and sports community within the Borough. In addition it will provide a material source of income of c£90,000pa supporting the drive to derive new funding streams.

#### **4.7 Other Implications**

- 4.7.1 None

## **5 Background Papers**

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### Confidential Background Papers

- a) Link Asset Services – Due Diligence Review – October 2018 [Commercial in Confidence] held by Chief Finance Officer
- b) Supporting Information – Saints Rugby Club [Commercial in Confidence] held by the Chief Finance Officer

**Stuart McGregor**  
**Chief Finance Officer**  
**Ext. 8347**

**SUPPORTING INFORMATION – PROVIDED BY SAINTS RUGBY CLUB**

**Background**

Formed in 1880, Northampton Rugby Football Club Limited (Saints) is recognised as a key pillar of the Northamptonshire and East Midlands community and is one of Europe’s leading professional rugby clubs.

Franklin’s Gardens, home of the Saints, is a leading multi-purpose events venue, not only hosting elite rugby matches, but also major concerts, conferences and other events.

The Saints operates as a Plc, with approximately 2,300 shareholders. The Barwell family, longstanding and ongoing supporters of the Saints, own >60% of the shares. The Saints has achieved significant on pitch success in recent decades, culminating in the Premiership title in 2014.

From 2000 to 2016 Northampton Saints reported 16 consecutive years of profitability, an unprecedented achievement amongst premiership rugby clubs: in 2015/16 only two professional clubs reported a profit (Saints and Exeter). This profitability has been underpinned by consistent revenue growth (28% growth in total income from 2011/12 to 2016/17) and a well-managed cost base.

However, pressure to ensure that English rugby remained competitive in Europe resulted in a series of increases in the salary cap (the maximum aggregate amount a club is allowed to spend on senior squad salaries) as well as the addition of two “marquee” players whose salaries sit outside the cap. This has driven inflation of over 50% in the player wage bill since 2012.

In 2016/17 Saints reported its first loss in 17 years. This resulted from the player cost inflation outstripping growth in commercial profits, as well as substantial one-off restructuring costs. Saints reported a second year of losses in 2017/18, driven again by player salary inflation and the final phase of the restructuring.

## **Current Situation and Outlook**

Mark Darbon joined Saints as CEO in July 2017. Following a review of the Club's situation, a programme of restructuring was instigated which included the following major changes:

- Restructuring the Commercial team to focus on revenue growth, and bringing in additional resource, including a new Commercial Director
- Recruiting a new executive into the role of Marketing and Communications director
- Restructuring the coaching team and appointing a new Director of Rugby, Chris Boyd, starting in the 18/19 season
- Changes to other coaching staff in both Seniors and Academy

As a result of these changes, the Club is now in a much stronger position to pursue its aim of excellence both on and off the pitch.

From 2017/18 the salary cap will remain flat for 4 years by agreement with Premiership Rugby Limited (PRL) and the Rugby Football Union (RFU). The Saints financial projections show a return to profitability driven by continued growth in commercial revenues against a backdrop of a much lower level of player salary inflation. However, this return to profitability will take some time and require investment.

The Club is financed by:

- A loan from Northampton Borough Council (NBC), taken out in 2015 to fund the construction of the Barwell stand; originally £5.5m, the loan balance will be £4.29M at the end of January 2019
- An overdraft facility from Barclays Bank.
- The Club also raised a further £1m from the majority shareholders through a private share placement in April 2017, and a further £3m shareholder loan has been approved with the first £1.95m having been drawn down in July 2018.

Both the NBC loan and the bank overdraft are secured on the Stadium land & buildings, with NBC having the first charge. The shareholder loan is unsecured.

The Club has a strong balance sheet with £17m of net assets as at 31st May 2018.

## Historic financials

	2015	2016	2017	2018
<b>P&amp;L £000</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
<b>Turnover</b>				
Rugby income	4,713	4,250	4,112	4,040
Premiership Rugby and RFU income	4,411	5,091	5,061	5,866
Commercial Income	7,356	7,268	7,568	7,221
<b>Turnover</b>	<b>16,480</b>	<b>16,608</b>	<b>16,741</b>	<b>17,127</b>
Cost of sales	(9,273)	(9,799)	(11,400)	(11,207)
Administrative expenses	(6,311)	(6,547)	(7,202)	(7,978)
Interest	25	(110)	(211)	(199)
<b>Profit / (loss) before exceptionals</b>	<b>921</b>	<b>152</b>	<b>(2,072)</b>	<b>(2,257)</b>
Exceptional income		500	1,490	
Exceptional costs			(648)	(531)
<b>Profit / (loss)</b>	<b>921</b>	<b>652</b>	<b>(1,230)</b>	<b>(2,788)</b>

## **Capital Investment Projects**

The Saints have provided a detailed list, with indicative costs to reflect the loan funds will contribute to the Club's capital/investment programme (which is greater in total value than the value of loan).

The planned capital programme includes:

- Indoor X3 training building with artificial turf
- Upgrade to conferencing and catering facilities
- Resurfacing supporter village / replacement to marque bar
- Changes to Car Park entrance / frontage – Weedon Road
- Pitch & drainage replacements & upgrades (training and main)