

**Customer and Corporate Services Scrutiny
Management Committee**

7 December 2020

Joint Report of the Chief Operating Officer / Chief Finance Officer

Portfolio of the Executive Member for Finance and Performance

New Stadium Leisure Complex Commercial proposal on restaurant units

Summary

1. The purpose of this report is to update Scrutiny Management Committee on the Commercial Deal that was agreed by Executive (19th October 2017) regarding the financial receipt due to the Council in respect of disposal and development of land adjoining the Community Stadium. That report informed Executive that the final receipt would be dependent on the number of restaurant units let at the time of Practical Completion. As Practical Completion approaches that risk has crystallised in that no units have been let and this report provides options as to the way forward.
2. Given the impact of Covid 19 particularly in relation to demand for retail and restaurant units the council is continuing commercial discussions in order to determine the best options to recommend. At the time of publishing this report the discussions have not concluded and therefore final conclusions and recommendations cannot be made.
3. This paper provides Members with the background of the need for a decision. A further paper for the Committee will be published in advance of the meeting to update Members with the analysis and financial implications of the options.
4. There will be a report going forward to Executive in December asking for a decision as to which option to take.

Recommendations

5. Executive will be asked to approve one of three options considered below.

Background

6. The Community Stadium scheme has been developed over a number of years. Some of the key decisions relating to the scheme are highlighted below.
7. In September 2014, the Cabinet confirmed Greenwich Leisure Ltd (“GLL”) as the preferred bidder from the procurement exercise and GLL have been working with the Council and a wider team of partners since their appointment to finalise the NSLC scheme. This included noting the increase in budget and that the project would be partly funded from a £12m commercial land deal.
8. In 2016 the Executive agreed to a procurement bid from Greenwich Leisure Limited to build a new stadium and leisure facilities at Monks Cross. The funding was approved by Full Council including the £12m assumed capital receipt from the commercial land deal.
9. In July 2017 – Executive noted the lower commercial land deal and the updated financial position and agreed to proceed to financial close.
10. In Oct 2017 Executive noted the new risk regarding the value of the Commercial Units would be subject to a reduced value if not let at practical completion.
11. In order to secure finance for these new facilities agreements for separate land transactions were entered into with Legal & General (L&G). These were: i) the freehold sale to L&G of the cinema site and associated car park land for £4.85m and ii) the granting of a long (250 year) lease to L&G of 3 restaurant units within the East stand of the stadium on practical completion for a Premium of £4.4m. This value would be due if 2 of the 3 units were let by the time of completion of the build. This amount would be reduced by £0.6875m if only one of the units were let and reduced by £1.375m if no units were let at that time. This risk was accepted by Executive (19th October 2017) as a way of progressing the scheme and avoiding significant abortive costs. It should be noted that the developer also offered a contribution of £70k towards the council’s costs should the risk materialise. The agreement obliged L&G to use reasonable endeavours to secure tenants for the 3 units on reasonable commercial terms.
12. At present none of the units have been let by L&G and therefore the council is not due the £1.375m.
13. A proposal has now been presented whereby the Council can take a 25 year lease of the units from L&G under the terms in Confidential Annex 2,

meaning the units are technically let at completion. This would ensure the Council receives in full the additional £1.375m in capital payments.

14. Accepting a lease of these 3 units would also enable the Council to facilitate sublettings for the units to a wider market as the Council could review offers from local and smaller businesses that would not be considered under L&G's corporate benchmark although sublettings are subject to L&G's approval.
15. The Full Council approvals in March 2016 were based upon receiving the full £1.375m toward the new stadium and leisure complex budget, whilst noting this as a significant risk, and as such if these monies are not received the project budget will be in deficit and require further approvals.
16. There has also been a further offer from L&G whereby the council take ownership of the units but receive no financial contribution from L&G.
17. Strategically, this is therefore an opportunity for the council to support the economic prosperity of the city now and in the future albeit with a financial risk.
18. Executive therefore has three options as detailed below:

Option 1:

19. To accept the units are not let and that the £1.375m will not be received from L&G.
20. In accepting option 1 Executive needs to be aware it therefore needs to approve a further £1.375m of capital to cover the shortfall in the project budget.
21. The full costs of the borrowing required to finance this amount over the 25 years of the lease offered by L&G are covered in the business case in appendix 1.

Option 2:

22. To take a 25 year lease from L&G for the 3 units on the terms to be finalised.
23. This secures in full an immediate payment of £1.375m of capital to the project budget and therefore requires no further approvals at this point.
24. The proposed lease would be for a term of 25 years, and the council would be responsible for all void periods and statutory service charges as well as a service charge to the landlord.

25. A base case will be modelled along with two other scenarios a “better case” which assumes higher rents in future years and shorter void periods and a “worse case” which assumes lower rents and longer void periods.
26. The lease terms being offered to the Council would make the Council (as tenant) responsible for ongoing repairs and maintenance of the property. As and when the Council sublets the units these obligations would be passed on to the occupiers (subject to terms of the subleases).

Option 3:

27. To accept full ownership of the units, thereby allowing Legal & General to walk away without further financial contribution.
28. To accept the loss in full of the £4.4m capital agreement with Legal & General.
29. The council will take ownership of the units and earn revenues from the units when let.

Analysis

30. The options will all come with a cost to the council. The borrowing will result in a fixed increased borrowing cost. The financial cost of leasing the units will depend on the rents paid to the landlord, the receipts of letting on and the levels of voids over the period of the agreement.
31. This section will be updated following the conclusion of the lease negotiations.

Council Plan

32. The Stadium project supports a number of themes across the council plan. In particular the proposed New Stadium and Leisure Centre scheme delivers significantly enhanced leisure facilities for residents, including securing the continued operation of Yearsley Swimming Pool (subject to the ongoing Review). The major investment in facilities also creates jobs, significant community use, creates wider economic benefits for the city, and sees a significant uplift in business rates income.

Consultation

33. Scrutiny Management Committee are requested to provide their comments on the proposed commercial offer.

Implications

34. The implications are:

Financial – This section will be included upon the finalisation of the lease negotiations.

Human Resources (HR) – There are no HR implications to this report

One Planet Council / Equalities – There are no specific one planet council or equalities implications arising from the decision set out in the report.

Legal – This section will be included upon finalisation of the lease negotiations.

Information Technology (IT) – There are no IT implications

Crime and Disorder – There are no crime and disorder implications

Property – All property implications are covered in the report.

Risk Management

35. This section will be included upon the finalisation of the lease negotiations.

Contact Details

Author:

Paul Forrest – Community Stadium
project Officer Management Tel No.
551460

Patrick Looker – Finance Manager
Tel No. 551633

**Chief Officer Responsible for
the report:**

Ian Floyd – Chief Operating Officer

Debbie Mitchell – Chief Finance
Officer

Date

26/11/2020

Specialist Implications Officer(s)

Property – Nicholas Collins
Commercial property manager
Tel No. 552167

Wards Affected: All

**For further information please contact the author
of the report**

Background Papers:

Annexes

Appendix 1 - Business Case– To follow
Confidential Appendix 2 - Heads of Terms– To follow

List of Abbreviations

L&G – Legal and General