

URGENT BUSINESS AND SUPPLEMENTARY INFORMATION

Council

8 November 2016

| Agenda Item Number | Page | Title | Officer Responsible | Reason Not Included with Original Agenda |
|--------------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------|
| 8. | Pages 1 - 8 | <p>Silverstone Heritage Centre – Cover Report</p> <p>Please note it was anticipated this item would be restricted, however in the course of drafting, the Chief Finance Officer has advised that the cover report should be public but the appendices are exempt</p> | Chief Finance Officer / Section 151 Officer | Report being reviewed and finalised at time of agenda publication |

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Cherwell District Council

Council

8 November 2016

Silverstone Heritage Centre Loan Facility

Report of Chief Finance Officer

This report is public.

Appendices 1 and 2 are exempt from publication by virtue of paragraph 3 and 5 of Schedule 12A of Local Government Act 1972

Purpose of report

To consider the provision of a £1m loan facility to Silverstone Heritage Limited as part match-funding for their Lottery grant application to deliver the Silverstone Heritage Experience project.

1.0 Recommendations

The meeting is recommended:

- 1.1 To consider the application for a loan facility of up to £1 million, as part of a wider facility offered by 6 councils/LEPs covering the Silverstone Circuit of up to £9 million, in order to secure National Lottery Heritage funding for the Silverstone Heritage Experience, and,
- 1.2 Council is further recommended to:
 - Approve the inclusion of up to £1 million within the Capital Programme as a provision to make a loan facility available to Silverstone Heritage Limited (SHL).
 - Give approval to borrow in order to fund the loan, should that be necessary for cashflow purposes; and
 - Give the Chief Finance Officer, in consultation with the Head of Law and Governance and the Lead Member for Financial Management, delegated authority to enter into a loan agreement up to £1m with Silverstone Heritage Limited subject to suitable, state aid compliant terms, satisfaction of the conditions set out below and conditions being agreed by the supporting Councils and the necessary commitment to the scheme being given by each of them.

Conditions:

1. The Council should be recognised formally as a partner and its support acknowledged when marketing and publicising.

2. If the Heritage Experience outperforms its net revenue expectations SHL should repay the loan more quickly.

2.0 Introduction

- 2.1 The Council is being asked to provide loan support along with 6 other local authorities/Local Enterprise Partnerships, which cover the area in and around Silverstone. There is currently commitment approved from South Northamptonshire and Aylesbury Vale District Council totalling £5m. This report seeks authority for the loan facility of up to £1m to be provided to Silverstone Heritage Limited.
- 2.2 The combined facility of £9 million, made up from the 6 authorities/LEPs, is required to secure the provisional Heritage Lottery Funding of £9.23 million and will only be required, in full or in part, if the private sector funding cannot be attracted.
- 2.3 It is anticipated that the project will attract over 400,000 visitors to the area each year bolstering tourism and the economic development of the area.

3.0 Report Details

The Project

- 3.1 The Silverstone Heritage Experience will open in October 2018 on the 70th anniversary of the first Grand Prix being held at Silverstone. The vision is to bring the extensive heritage of Silverstone and British motor racing to life through the creation of a dynamic, interactive and educational visitor experience including:
 - A permanent exhibition, at the entrance to the Circuit that will take visitors on an exciting two hour journey through motor racing at Silverstone set against the wider context of the sport and, in particular, the part that the Circuit, the British Racing Drivers' Club (BRDC), who own the Circuit and the region's motor sport industry have played in its development worldwide.
 - A Collections and Research Centre, offering museum and archive-accredited storage for the unique BRDC archive and other important motor sport collections.
 - An extensive education programme focused on Science, Technology, Engineering and mathematics (STEM) learning which aims to address the region's shortage of engineers by inspiring the engineers of the future through its interactive teaching sessions, engineering teaching bursaries and awards programmes. This will help to ensure the region continues to be a focus of high performance engineering with a readily available qualified workforce.
- 3.2 The Silverstone Heritage Experience will serve as a catalyst, stimulating further development at Silverstone for example, a new hotel and Family Entertainment Centre. Its marketing budget will also ensure that the attraction is promoted to a very large and diverse audience helping to strengthen Silverstone's and the region's standing nationally and internationally.

- 3.3 Robust feasibility studies and a five year business plan have been drawn up (with the assistance of sector experts) which have shown that the Silverstone Heritage Experience will deliver anticipated visitor numbers of 436,500 in its first full year of operation (2019). Once the Centre is open it will be self-funding, generating a healthy annual surplus so can easily service a loan of £8million paid back over a ten year period. Nearly £11.5m gross visit impact to the local and regional economy is projected for 2019 with an additional 87,000 bed nights generated in the region. The total number of jobs created by the project is 78.
- 3.4 By virtue of the additional visitors the project will attract to Silverstone it will help to secure the future of the Silverstone Circuit and its ability to continue to host the British Grand Prix and other national and international events which are crucially important to the region's visitor economy (and underpin the high performance engineering sector too). Silverstone remains the only Formula One venue in the world to operate without government or third party subsidies.
- 3.5 Silverstone Heritage Limited (SHL), Registered Charity Number 1166279, is the legal entity to take the Silverstone Heritage Experience forward; its sole member is the BRDC. The project is a top priority of the BRDC and in order to provide the project with as much support as it can, the BRDC has gifted the land (and Hangar building) with a value of £2 million, on which the Silverstone Heritage Experience will be built.
- 3.6 The Project's Round 1 application to the Heritage Lottery Fund (HLF) was successful. This gave SHL a grant of £446,000 towards the development of a Round 2 application which was submitted on 5th August 2016. The development of the Round 2 grant application has been closely monitored by the HLF and SHL are confident of success, providing they have sufficient match funding (at least 80%) pledged by the time the bid is considered by the HLF Trustees Board in early November 2016.
- 3.7 Without the support of the local councils/LEPs SHL will not have sufficient funds pledged and will lose the HLF grant and the Project will fail. The total remaining cost of the project is £18.46 million of which a grant of £9.23 million is being sought from the HLF. SHL is seeking support from Aylesbury Vale District Council, South Northamptonshire Council, Buckinghamshire County Council, and the Buckingham Thames and South East Midlands Local Economic Partnerships in the form of a ten year loan totalling £9 million split between the parties. The loan can be made on a contingent basis assuming the application process with the HLF completes successfully.
- Due Diligence**
- 3.8 The Council has undertaken substantial due diligence given that the HLF will have first call on the assets in the event of business failure, this means the Councils loan would be unsecured.
- 3.9 The Councils Treasury Management Strategy has security of capital as its key principle. This is the main risk consideration and the due diligence outcomes must satisfy me that there is sufficient mitigation. The mitigation comes from asking a number of questions, which are set out below:
- 3.10 The first key question is what would happen if the business falters or fails? The question was asked of the HLF and the following responses were received:

HLF will continue to advise and guide SHL to ensure the business is a success. HLF feel that SHL have a good level of expertise in operating a business such as this (CV's of the board of trustees have been provided) and their other key advantage is its proximity to the track which will continue to draw visitors in. SHL will continue to purchase technical expertise where necessary in order to take the project forward. However, if the business model still fails HLF offer grants and advice in order to get the business back on track.

In addition, should the business fail, HLF would work with the British Racing Drivers' Club (BRDC) and/or liquidators, administrators etc. to see if the business can be transferred to another body so that the Approved Purposes (i.e. the Silverstone Heritage Experience attraction) can continue through a new owner or operator.

This outlines the HLF's commitment to retaining the business as a "going concern" which provides the Council with the best chance of getting its money back in the event of business difficulty. The ultimate risk of business failure does remain but this provides some significant mitigation.

- 3.11 The second question is what influence can the Council have over the business? SHL has offered "up to two seats" on the SHL Board of Trustees which also serves as the project's steering committee. The seat on the board enables both input into the project but would also give an "early warning" if the business were to get into difficulty. It undoubtedly provides further mitigation in the scenario at 3.10 where the HLF is looking to maintain the business as a going concern.
- 3.12 There has as yet been no decision regarding board members although SHL have said that they will be looking for Directors with certain skills. South Northamptonshire Council (SNC) has made it a condition of their loan that they have a seat on the board.
- 3.13 What is the likelihood of private sector funding? SHL has set a donations target of the full £9m and SHL and HLF have said that they are confident that the donations target will be achieved. In the event that the target is only partially met an arrangement will need to be in place regarding the reduction in loan facilities across the Councils/LEP's. This has been initially discussed and suggested that the reductions are pro-rata to the initial loan. Phased loan payments would also be pro rata to the overall loan.
- 3.14 There can be some confidence that the loan requirement will ultimately be less than the full £1m. This provides some further mitigation as the level of the Councils exposure would reduce.
- 3.15 Is the project profitable? The Council has interrogated the Business Plan and discussed the content extensively with SHL, their consultants and the HLF. A significant amount of work has gone into calculating costs and income through visitor numbers using similar attractions. The overall numbers have been moderated and the project is still anticipated to generate significant profits.
- 3.16 The proposal would be to repay the Council's loan from year 3 over 7 years giving a long stop date of 10 years. The level of profits projected would allow the loan to be repaid earlier and this should be considered as part of the final loan agreements. SNC have already approved this as a condition.

- 3.17 What would the return be? The total interest payable could be in the region of £900k on the repayment schedule proposed. The council could charge either a facility fee (a one-off charge for arranging credit facilities) or a commitment fee (an annual charge for holding credit) a condition of the loan. SHL have been approached and are open to charges in proportion to the lending.
- 3.18 Bevan Britten have been consulted (Appendix 2) with regards to setting a State Aid compliant interest rate, because SHL has no credit rating and no security can be offered, the compliant rate is higher than the project can bear (10+%). The alternative is to apply for exemption under the General Block Exemption Regulation (GBER) as the business will be 80% culturally oriented.

The final rate of interest has yet to be agreed and would be part of the delegation to the CFO to achieve the best rate possible.

- 3.19 The business case as set out in the appendix appears to be robust and this is also the view of the HLF. The success of the business is the key factor in mitigating against any potential loss of capital and there is significant contingency in the presented business case.
- 3.20 The risks mitigations as set out above provide significant comfort that the Councils capital would be secure. There are a number of other checks that would be completed before I would sign off the loan agreement. I have discussed the issue with the Councils Treasury Management advisors and the Councils external auditors. I am awaiting their formal responses.
- 3.21 In completing the work it is clear that the Councils Treasury Management strategy does not reference Non-Specified Investments to other bodies at all. It is usual to specify the approach and set out what can and can't be done. The review of the Strategy will be undertaken as normal through December for approval as part of the budget by Council in February.

4.0 Conclusion and Reasons for Recommendations

- 4.1 Silverstone represents a significant hub for leisure, tourism, employment and high tech industry. Its draw and impact in the region extends much beyond the administrative boundaries of the councils surrounding it, with an economic radius estimated to be of up to 50 miles. Further, an estimated 36,000 jobs are dependent on Silverstone as the centre for UK motorsports and the home of Formula 1.
- 4.2 Additionally, the leisure, recreation and employment businesses that depend on the venue generate significant amounts of business rates for the councils in the area, and the changes to the retention of business rates mean that councils now benefit directly from the success of Silverstone.
- 4.3 The support requested for SHL within this report is recognition of the strategic importance of the venue to Buckinghamshire, Northamptonshire and Oxfordshire and the need to promote the venue and enhance its attraction in order to ensure the long term future of Formula 1 motorsports.

- 4.4 SHL require the support to gain HLF approval to move the project to the next stage. The approval requested is a delegation to the CFO as although there is sufficient risk mitigation to support the project to the next stage, I will need to be satisfied that the conditions set out are met and I have had responses around governance before a loan agreement is completed.

5.0 Consultation

Councillor Ken Atack, Lead
Member for Financial
Management

Cllr Atack is content with the report and
supportive of the recommendations contained
within it.

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.
- 6.2 Option 1: Do not offer a loan facility. This option has been rejected because it puts the whole project at risk if the SHL cannot secure match funding at the point of application to the HLF.

7.0 Implications

Financial and Resource Implications

- 7.1 The financial implications are set out in the report.

Comments checked by:

George Hill, Corporate Finance Manager, 01295 221731
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Legal Implications

- 7.16 Pursuant to section 137(3) of the Local Government Act 1972 the Council is empowered to incur expenditure on contributions to the fund of any charitable body (such as SHL) in furtherance of its work in the UK and pursuant to section 111 of the 1972 Act and section 1 of the Localism Act 2011 (general power of competence) can make such contributions by way of a loan. It is important that all participating councils have a consensus view on the legal ability to make the respective loans and liaison is taking place to ensure that this can be achieved.
- 7.17 The financial assistance made to SHL for the intended purpose must be compliant with State Aid rules to be lawful. Appendix 2 contains the advice commissioned from external expert providers on how compliance is achieved in this case.
- 7.18 Given the lack of security for the intended loan and the fact that other councils and LEPs will be lending sums it is important that a full assessment of the risk of the loan not being repaid is undertaken in order to ensure that any loan decision is

rational and consistent with the Council's general fiduciary duty with respect to the use of its funds.

- 7.19 As the proposed loan sum is not currently included in the capital programme it is necessary for full council to approve the provision of the loan funding in this case.

Comments checked by:

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Risk management

- 7.20 The Silverstone Master Plan is a specific risk on South Northamptonshire council's corporate risk register and is monitored on a regular basis by Audit Committee, Cabinet and Joint Management Team. This risk could also be reported to Audit Committee for Cherwell District Council if required. The current risk rating (September 2016) is green (good housekeeping). The definition for this rating in the council's risk strategy is: *"May require some risk mitigation to reduce the likelihood if this can be done cost effectively, but good housekeeping to ensure that the impact remains low should be adequate. Re-assess frequently to ensure conditions remain the same "*
- 7.21 The whole project is put at risk if the SHL cannot secure match funding at the point of application to the HLF. There are no specific objectives in the current Business Plan that are impacted although an objective focussing on the visitor economy is being discussed as part of the 2017/18 refresh of the plan.

Comments checked by:

Ed Bailey, Corporate Performance Manager, 01295 221605

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Equality and Diversity

- 7.22 There are no equality and diversity implications arising directly from any outcome of this report.

Comments checked by:

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8.0 Decision Information

Wards Affected

None

Links to Corporate Plan and Policy Framework

At present there are no specific objectives in the current Business Plan that are impacted although an objective focussing on the visitor economy is being discussed as part of the 2017/18 refresh of the plan.

Lead Councillor

Councillor Ken Atack, Lead Member for Financial Management

Document Information

| Appendix No | Title |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Appendix 1 | SHL Business Case - Exempt |
| Appendix 2 | Bevan Brittan State Aid Advice - Exempt |
| Background Papers | |
| None | |
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