

Cherwell District Council

Council

16 July 2018

Silverstone Heritage Centre Loan Facility

Report of Interim Executive Director Finance and Governance

This report and appendix 3 are 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 whether or not to provide a £1m loan facility to Silverstone Heritage Limited as part match-funding to their Lottery grant application for the delivery of the Silverstone Heritage Experience. Other Local Authorities (including South Northamptonshire Council) and LEP partners have already signed an agreement to loan up to £8m of funding to the experience. Works have already commenced on site, with a planned launch in Spring 2019.

The loan facility is a partial match fund for a project to develop a visitor experience at Silverstone that focusses on the history and heritage of Silverstone and to understand the context and importance of the internationally renowned racing circuit. The experience will be a dynamic exhibition taking visitors through both the history of Silverstone as well as the current world of motor sport and the future. The work to build the facility has already commenced following a rigorous tender process by the Silverstone Heritage Experience for new building works and refurbishment of a hangar at the Silverstone. This means that costs have now been fixed and there is more certainty about project delivery, with regular updates on project progress received by senior officers at the Council.

Executive, at its meeting held on 2 July 2018 recommended that Council should consider the application for a loan facility of up to £1 million, to the Silverstone Heritage Experience. This is to partially match fund the £9.1m of grant funding secured from Heritage Lottery Fund (HLF) and in addition to £8m of loans granted by Local Council partners and Local Enterprise Partnership.

1.0 Recommendations

The meeting is recommended to:

- 1.1 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).

- 1.2 Give approval to borrow in order to fund the loan, should that be necessary for cashflow purposes.

2.0 Introduction

- 2.1 Silverstone Heritage Experience has secured significant levels of funding to build a brand new facility on site at Silverstone that is intended to attract in excess of 450,000 visitors in its first full year of operation.
- 2.2 The funding for the new facility is a mixture of grant funding from Heritage Lottery Fund (HLF) of £9.1m, current loans from local Councils and Local Enterprise Partnerships (£8m) and anticipated sponsorship and donations from a variety of sources.
- 2.3 This paper requests Council to make budgetary provision to enable Cherwell District Council to provide a £1m loan facility to ensure the project can remain on track ready for a launch in Spring 2019 as agreed by the Executive and subject to Council making funds available. The terms of the loan would be to loan money at a market rate, (due to State Aid considerations and following advice from our financial advisors on a suitable loan rate) and would only be drawn down if required after other funding has been utilised first. The loan from Cherwell would be repaid within 5 years of opening.
- 2.4 More detail on the business plan for the facility and a project update are included as Appendices to this report.

3.0 Report Details

- 3.1 The Silverstone Heritage Experience will open in Spring 2019. 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 dynamic exhibition that will take visitors on an exciting journey through motor racing, past, present and future
 - A Collections and Research Centre, offering museum and archive-accredited storage for the unique BRDC archive and other important motor sport collections.
 - A themed tour stopping off at iconic sites around the circuit
 - A formal education programme that links in with Science, Technology, Engineering and Mathematics (STEM) learning which will support aims to address the region's shortage of engineers by inspiring future generations.
- 3.2 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 over 400,000 in 2019 (9 months of operation) The visitor numbers are expected to grow year on year and more detailed projections are included within the project update report from SHL as an appendix to this report. Once the Centre is open it will be self-funding, generating a healthy annual surplus to service the existing loans of £8million over a maximum ten year period as well as the potential loan from Cherwell of £1m.

- 3.3 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) , on which the Silverstone Heritage Experience will be built.
- 3.4 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 was closely monitored by the HLF and SHL were successful and secured £9.1m of funding and the go ahead to commence works from the HLF in February 2018.
- 3.5 Work has already started on site, and the latest project progress updates show that project delivery remains on track with an official launch by the patron of the experience (HRH Duke of Sussex) in March 2018. All bodies who lend the project money will be kept regularly updated on project progress, including financial information regarding cashflow, any updates on ticket pre-sales during the lead up to the opening of the experience and any significant donations and sponsorship deals throughout the life of the project.
- 3.6 The attached Appendices from SHL provide the latest information on project progress.

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, including Cherwell District Council, 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 the area and the need to promote the venue and enhance its attraction in order to ensure the long term future of Formula 1 motorsports.

5.0 Consultation

- 5.1 The potential option for a loan facility has been discussed with the Lead Member for Financial Management and Governance and agreed by the Executive.

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.

Option 1: Do not offer a loan facility. If a loan facility is not forthcoming then SHL would have to seek funds from other bodies, but that may jeopardise the completion of the project on time and impact on the potential positive outcomes for the area.

7.0 Implications

Financial and Resource Implications

- 7.1 SHL has secured financial support from the HLF with a grant of £9.1m as well as loans from 5 other public sector bodies up to a total value of £8m.
- 7.2 Cherwell District Council has been approached to consider a loan of up to £1m to ensure that the project can go ahead although it is the intention of SHL to continue to seek donations, sponsorship and other fundraising. If successful at sourcing other external funding then it may not be necessary to draw down the full value of the loan. The loan would only be drawn down if required and after that of the other £8m of loans from public sector bodies.
- 7.3 The loan would be unsecured, so effectively not asset backed. As with any body wanting to secure funding then due diligence should take place to consider whether the money can be paid back. Significant review of the business plan, cashflow and income projections for the project have been undertaken. Given the project has already commenced and due to the positive progress reports on the project, then it is felt that a loan of this size would be appropriate. Given that the loan will only be drawn down once other lenders have loaned their funds, the project will be much further advanced at that stage and so there will be an opportunity to consider progress prior to draw down of funds. Ensuring that regular review of the project and its progress will be an important part of our on-going due diligence and the Chief Finance Officers of all lenders are being regularly updated of project progress.
- 7.4 Due to the requirements of the Heritage Lottery Fund, it is not possible to have a legal first charge across the assets of the scheme, so any facility provided may only be secured by a second legal charge against some of the assets. The HLF required the legal first charge in order to prevent the facility being sold or repurposed without their consent so that the Lottery awarded can be protected.
- 7.5 Depending on the amount of the loan facility actually drawn down, there is no guarantee that there would be sufficient equity in the venture to satisfy the legal charges, should a default occur. Whilst every effort will be made to try to secure some form of legal security, effectively, any loan granted by the councils should be considered as an unsecured loan. The HLF maintain a very close monitoring and mentoring relationship with the project and have stated that if the business model still fails despite their input, then they would work to protect its investment with its security on the site. Effectively they would work to ensure that the project continued and would look to support the project becoming financially sustainable but this may take longer than originally planned.

- 7.6 The £1m loan facility, if drawn down, can be funded from capital receipts, or borrowing, as required and will be part of the Council's treasury management strategy and capital financing requirements. These are regularly reviewed and the Audit, Accounts and Risk committee consider reports on our borrowing and investment levels on a regular basis.
- 7.7 The interest rate charged to SHL will be negotiated and will be agreed following independent advice from financial advisors as to the appropriate interest rate to be charged.

Comments checked by:

Kelly Watson, Assistant Director Finance and Procurement, 0300 003 0206
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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.
- 7.18 Given the lack of security for the intended loan and the fact that three other councils have lent similar sums it is important that members and the section 151 officer undertake a full assessment of the risk of the loan not being repaid 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. This will be achieved through regular reports to the S151 officer from Silverstone Heritage Limited on project progress.
- 7.19 As the proposed loan sum is not currently included in the capital programme it is necessary for a decision to be made by full council.

Comments checked by:

James Doble, Assistant Director Law and Governance, 01295 221587
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Risk management

- 7.20 The risks around management of our financial resources are detailed under the financial implications section of this report. The most significant risk is the potential inability of Silverstone heritage to repay the loan. Senior officers in the council will receive regular reports on project progress, including cash flows and will be able to monitor any financial concerns during the life of the project and the repayment period. This risk will be managed as part of the project and escalated to leadership risk register as and when necessary.

Comments checked by:
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Equality and Diversity

7.21 There are no direct equality and diversity implications arising from this report.

Comments checked by:
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8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

This links closely to our organisational excellence section of our corporate plan, to ensure both sound financial management and income maximisation.

Lead Councillor

Councillor Tony Ilott, Lead Member for Financial Management and Governance

Document Information

Appendix No	Title
Appendix 1	Silverstone Heritage Project Update - EXEMPT
Appendix 2	Silverstone Heritage Construction Phase Cashflow – EXEMPT
Appendix 3	Silverstone Heritage Business Plan at May 2018
Background Papers	
None	
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