

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

EXEMPT REPORT

Business Overview and Scrutiny Committee
Thursday, 27 June 2019

REPORT TITLE:	Celtic Manor Resort
REPORT OF:	Director of Finance & Investment (S151)

REPORT SUMMARY

Council at its Extraordinary meeting of 25th February 2019 resolved that the Celtic Manor Resort proposal be brought to a special meeting of the relevant Scrutiny Committee to allow the Committee to “consider all aspects of the scheme once negotiations had reached a point where a clear proposition can be placed before Members” enabling the relevant Scrutiny Committee to make informed representations to Cabinet.

The Council minutes specifically cite the funding proposal and the details of the various feasibility studies and these are assumed as being the aspects of the scheme that Council referred to a special Scrutiny meeting. The minute from the Council meeting is included at Appendix A.

As part of the Development Agreement entered into with the Council’s preferred developer, Nicklaus Joint Venture Group (NJVG), certain conditions have to be met by the Developer before any works can commence. The first condition is the Funding and Phasing plan. This plan has been received and reviewed and details the scheme financial structure and proposals for taking the project forward. This report considers the element of the proposal on funding, as requested by Council on 25 February 2019.

The Council has undertaken external due diligence of the NJVG funding and phasing agreement and this is included in Appendix B. This report and Appendix B are exempt from publication due to commercial sensitivity considerations under Schedule 12A of the Local Government Act 1972.

Under the conditions of the Development Agreement, once the funding and phasing plan is received, the Cabinet then has the opportunity to consider the NJVG’s request for access to a Prudential Borrowing loan of £26m to allow the project to proceed to the next stage.

A further condition of the Development Agreement is for NJVG to complete a range of technical studies as part of their proposed planning application for the resort. These studies can only commence once the developer had submitted the funding and phasing plan to the Council for consideration and agreement.

As this report considers the requirement of the first condition in the Development Agreement - the Funding and Phasing Plan - the technical studies required from the developer following submission of this plan have therefore not yet been undertaken. Consequently, the request

from Council for Scrutiny to consider the details of the various feasibility studies is not part of this report as those studies are not yet available under the sequencing of the conditions of the Development Agreement. Once completed, these studies will be the subject of a further Scrutiny report.

The Celtic Manor Resort project supports the business category of the 2020 pledges and in particular the pledge to create a vibrant tourism economy, increase inward investment and greater job opportunities. Furthermore, the project positively contributes towards the Council's medium and long term financial strategy.

RECOMMENDATION/S

1. That Members consider the NJVG's Funding and Phasing Plan and convey their recommendations to Cabinet regarding the requirement for a prudential borrowing loan of £26m to NJVG to allow the project to progress to the next stage.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 To enable Business Overview and Scrutiny Committee to make a recommendation to Cabinet regarding the Funding and Phasing plan and the request for a £26m loan.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 NJVG was selected from a range of development proposals as part of a competitive dialogue procurement process.

3.0 BACKGROUND INFORMATION

- 3.1 Members will recall a report to Cabinet 20th July 2015 (minute 34 refers) appointing the Nicklaus Joint Venture Group (NJVG) as the Council's preferred development partner. A further report was presented to Cabinet 7th November 2016 (minute 55 refers) seeking the authorisation to enter into a Framework Development Agreement with the NJVG. The agreement was subsequently agreed.
- 3.2 Cabinet 18th December 2017 (minute 72 refers) gave approval to the principle of prudential borrowing subject to planning permission and the satisfaction of detailed loan conditions. Members also agreed to recycle land receipts into a contribution to the construction of a road and to enter into an investment agreement with the NJVG. This enabled the NJVG to commission Grant Thornton UK LLP to prepare the Funding and Phasing plan for the project.
- 3.4 The development agreement following the Cabinet Meeting approval in November 2016 includes the following conditions (where "D" means Developer):

Condition	Summary
Funding and Viability	D to submit Funding Strategy and Financial Appraisal.
Site Assembly	D to enter conditional contracts to acquire 3 parcels of land from third parties.
Pylon Works	D to agree with Scottish Power undergrounding of pylon cables.
Environmental Report	D to appoint consultant to procure report and the D carry out these environmental works.
Planning, Footpath and Highways	D obtain satisfactory planning permission for the Development and negotiate highways agreement and footpath diversion order.
R&A	D to agree replacement R&A agreement with RLGC and R&A, to be completed after all other CP's.
Environmental Insurance	D to place insurance to cover WBC's liability for historic contamination after completion of the environmental works.

4.0 FUNDING AND PHASING PLAN

- 4.1 External due diligence has been undertaken on the Funding and Phasing Plan and the report of the Council's external advisors (IPW) is attached as an exempt appendix. The due diligence gives due consideration to the security offered by the proposal and concludes that the project partners and proposed resort delivers the objectives of the Council as set out in the original opportunity issued to the market in 2015. In headline terms the proposal has the following key features:
- An improved housebuilder offer from Redrow plc of £32.5m which represents an increase of £500k payable over a shorter period of 5 fixed annual tranches. There would be a 5% deposit payable on exchange of contracts, 15% due on completion,
 - £150k of the Redrow deposit will be held in a stakeholder account and £100k is non-refundable,
 - An offer from McCarthy and Stone Ltd of £4.1m including £200k which is held against possible abnormal ground conditions,
 - Details of the Equity Investors and the amounts proposed,
 - Fixed construction cost quotations from suppliers appraised by leading construction company Wilmott Dixon.
- 4.2 The offers of investment have been the subject of signed Heads of Terms between the NJVG and its partners indicating their intention to proceed with the scheme. The drawdown of the loan from the Council (if agreed) will be subject to the legal agreements with the investors having been finalised.
- 4.3 The Funding and Phasing Plan builds in the assumption that the Council will make available access to a maximum loan of £26m, to be drawn down in tranches subject to a number of conditions including the grant of planning permission. This, in principle, was agreed by Cabinet 18th December 2017 subject to conditions including the submission of a robust funding proposal.
- 4.4 IPW have carried out an assessment of the risk mitigation and security arrangements of the Funding and Phasing Plan and have analysed the cashflow model to ensure the delivery milestones align with the key income triggers.
- 4.5 The Funding and Phasing Plan envisages all operational responsibility to be taken forward by Celtic Manor ensuring a strong, coherent and comprehensive approach to delivery will be in place. Access to this important resort brand will drive operational performance and ensure all aspects of the business will pull together and can be marketed to a national and international audience. This will be particularly apparent during the period leading up to and after the return of The Open championship to Wirral.
- 4.6 The existing Celtic Manor facility is based close to Newport in South Wales and is a major attraction spearheading the marketing of the regional tourism offer in conjunction with many Welsh Assembly inward investment campaigns and international promotional events to support the wider economy. The replication of this success at Hoylake lifts this project to a higher level in terms of the potential positive impacts.
- 4.7 A further significant development that potentially greatly enhances the project's attractiveness and profile are the discussions held between the Council and the R&A regarding the return of The Open to Hoylake.

4.8 Grant Thornton acting on behalf of the NJVG prepared the initial commercial Funding and Phasing Plan and at the time they concluded that the business plan is built up around a clear and understandable financial model. The structure as appraised by Grant Thornton has evolved resulting in an increased offer and the replacement of a more financially sound housebuilder. Prior to this development the assessment concluded that the proposal demonstrated;

- A fully funded development phase;
- Reliable cost estimates for the development;
- A funding model forecast to repay the senior lender in full; and,
- A robust trading model based on reasonable assumptions.

5.0 DUE DILIGENCE

5.1 As previously reported to Cabinet the delivery method proposed is a Special Purpose Vehicle (SPV) structure headed and co-ordinated by the NJVG. The actual value of the NJVG company itself is in relative scale minimal but the value and security lies with the contractual relationship with the partner companies and in particular the housebuilders.

5.2 The Council's consultants, IPW, have revisited the question of due diligence in light of the changes in the partnership mix and conclude that the inclusion of Redrow and McCarthy and Stone in particular have given the partnership team greater financial strength, experience and operational expertise.

5.3 Key partners can now be confirmed to include:

- Celtic Manor - branding and operational expertise. Celtic Manor are a leading hotel and golf management company owning and operating the high profile and internationally recognised Celtic Manor resort in Newport, South Wales. The 2016 audited accounts indicate a turnover of over £50m, a profit before tax of £5m and net assets of £56m. Celtic Manor is ultimately owned by Sir Terry Matthews worth an estimated £1.2bn and number 114 of the Sunday Times Rich List.
- Redrow Homes - based in North Wales, one of the largest house builders in the UK and Redrow PLC the parent company is a UK FTSE 250 company. They have 14 geographic divisions operating throughout the UK. They are a highly profitable and stable company with revenues of over £1.6bn and profits of £317m (2017). In 2017 they sold over 5,000 new homes and have a current land bank of over 26,000 plots, representing about 5 years or £8bn of future sales.
- Nicklaus Design – will design the signature golf course and academy and the new municipal course. The Jack Nicklaus group are shareholders in the NJVG
- Branded Hotel Management –a specialist hotel management company who also provide consultancy services in respect of hotel development. They will provide commercial hotel advice and lead on the negotiation and management of the Celtic Manor partnership.

- James Anderson – chairman of Machynys Peninsula Golf and Country Club. He has successfully completed 3 UK championship golf course developments in collaboration with Nicklaus Design

6.0 PROJECT BENEFITS

- 6.1 The project has broadly speaking similar financial benefits to that previously reported in terms of headings however the following table has been adjusted to reflect the passage of time and the application of current rates. These benefits will be updated to reflect any future changes.

Annual Council Tax income (on completion)	£658,672 pa
Annual Business Rates (on completion)	£347,760 pa
Minimum loan interest return on investment	£2,500,000
Loan arrangement fee	£250,000
Payment for Council consultant fees and site investigation costs	£550,000
Minimum premium sale of land receipt (subject to final design)	£3,000,000
Overage provisions on operational profits	see confidential appendix
175 jobs and 168 construction jobs	
Estimated savings on operation of municipal course	£79,000

- 6.2 The NJVG advises that there will be environmental, ecological and wider economic benefits arising from the project which will be set out in their studies prepared to support their planning application.
- 6.3 Further analysis of the financial benefits including the housebuilder offers are contained within the Funding and Phasing Plan and are discussed in the exempt appendix.

7.0 PROJECT RISKS

- 7.1 The risk profile associated with the project remains as previously reported:

Planning consent is refused	<p>The NJVG carries the entire risk of obtaining planning permission for the development including paying all costs of the application and the associated fees. The NJVG have made provision for these costs as evidenced in their funding plan. The source of this funding has been confirmed and is in place.</p> <p>The drawdown of any Council funds will not occur until planning consent is obtained therefore affording protection to the Council.</p>
NJVG's equity investors withdraw investment	Due Diligence with regard to the equity investor's legal agreements with the NJVG ensure this risk is mitigated and / or eliminated.
Delay in the delivery of the infrastructure works	There is a risk in terms of the timescale for the removal of the overhead electricity pylons as their removal is out of the direct control of the Council or NJVG. There is a dependence on Scottish Power delivering the works in line with the agreed programme.

	In mitigation the funding model has locked in a sum associated with this cost heading which has been reviewed by the NJVG's advisors and includes a contingency provision. Both the Council and the NJVG will continue to engage closely with Scottish Power to monitor progress and flag up any issues arising. The NJVG also have contractual arrangements in place with Scottish Power which will have provisions to cover the issue of slippage.
Ground conditions may prove problematical resulting in delays or increased costs	This is particularly an issue with the former closed municipal landfill site. In mitigation a full site investigation survey will be undertaken to inform the remediation method to be deployed. Initial surveys along the route of the proposed road have already been carried out and can be used to inform the eventual engineering method deployed. Value engineering could be used in mitigation of unforeseen issues arising.
Project cost increases	The NJVG proposal now includes tendered fixed costs from experienced contractors with the added protection of a sum set-aside for contingency purposes. Any additional costs are wholly the responsibility of the NJVG. The Council have been clear to the NJVG that the level of borrowing is capped and there will be no further increase to support any failure on their part.
Possible delays due to legal challenge and objections	There are actions such as the diversion of public footpaths that will go through a legal process the outcome of which may delay or create practical challenges. To mitigate this risk the Council is experienced in dealing with such issues and will seek further specialist legal support if necessary.

8.0 FINANCIAL IMPLICATIONS

8.1 These are set out in the report and in the Appendix.

9.0 LEGAL

9.1 Cabinet approved the signing of a Development Agreement dated 8th December 2016 which sets out all the legal parameters relating to the project including obligations and safeguards. A variation of this Agreement will be required following tax advice to make the deal more tax efficient and pick up some other agreed minor changes.

9.2 A detailed loan term sheet has been developed which sets out fully the terms and conditions of the proposed loan. All the terms detailed have been provisionally agreed by the NJVG and if Members agree to proceed a full detailed legal loan agreement will be drafted for signing.

9.3 In due course land transfer and lease agreements will be required to be drafted and executed.

10.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

10.1 The project will continue to be delivered by the Council's Regeneration Team with external specialist support as outlined in this report. The new link road will be built to adoptable standards and will become a public highway asset in due course. The Council

will retain the freehold of the new municipal golf course site and control the operation via a long lease arrangement however the management of the resort will be undertaken by Celtic Manor. The potential liability of the former landfill site will be mitigated by the remediation strategy and the proposed after use as a golf course.

11.0 RELEVANT RISKS

11.1 See Section 8 above and a fuller assessment in confidential report appended.

12.0 PLANNING IMPLICATIONS

- 12.1 The facilities associated with the proposed Golf Resort would be located within the Green Belt (subject to Policy GB2 of the Council's adopted Unitary Development Plan), and within an Area Requiring Landscape Renewal (Policy LAN1, Policy LA1, Policy LA3 and Proposal LA4 refer).
- 12.2 The developers must seek to demonstrate that the benefits of the proposal are of particular significance and importance to merit "very special circumstances" for building on Green Belt land. This is a fundamental planning policy consideration that must be met to the satisfaction of the Local Planning Authority and the Secretary of State in addition to all other planning considerations relating to development of this nature. Any future planning application must be robust and address all material considerations, which will be considered on their merits during the determination process.
- 12.3 The National Planning Policy Framework (NPPF) will be an important material consideration, alongside the UDP, the Hoylake Neighbourhood Development Plan and the emerging Local Plan. The Proposed Submission Draft Core Strategy Local Plan for Wirral was published in December 2012 and seeks to preserve and enhance the openness and rural character of the Rural Area, subject to national Green Belt controls. Following further consultation on housing needs and land supply, the Council consulted on the findings of a wider review of development options in Autumn 2018 before it embarks on the process of deciding on the final sites to be included for development in the Local Plan. The Local Plan timetable is currently under review, but the next major stage of public consultation will take place once a complete version of a new draft Local Plan has been prepared. On 19 December 2016, Wirral Council resolved to legally 'make' (adopt) the Neighbourhood Development Plan for Hoylake (prepared by Hoylake Community Planning Forum (Hoylake Vision)) and as such it now forms part of the adopted Development Plan, and covers part of the area for the proposed golf resort.
- 12.4 The NPPF states that a local planning authority should regard the construction of new buildings as inappropriate in the Green Belt. While appropriate facilities for outdoor sport and recreation could potentially be consistent with Green Belt policy set out in the NPPF and the UDP, the proposed Golf Resort development in its entirety is likely to be classed as 'inappropriate development' which is, by definition, harmful to the Green Belt and should not be approved except in very special circumstances. The NPPF states that when considering any planning application, local planning authorities should ensure that substantial weight is given to any harm to the Green Belt. 'Very special circumstances' will not exist unless the potential harm to the Green Belt by reason of inappropriateness, and any other harm resulting from the proposal, is clearly outweighed by other considerations (NPPF paras 143-145 refer). Following the submission of any formal planning application, the Local Planning Authority is required to consult the Secretary of

State before granting planning permission for the proposed development, as required by the Direction in DCLG Circular 02/2009. Any planning application for the golf resort project would also need to be supported by a range of other assessments including:

- Environmental Impact Assessment (subject to screening)
- Traffic Impact Assessment/Transport Assessment
- Flood Risk Assessment including drainage
- Habitats Regulations Assessment (subject to screening)
- A Design and Access Statement
- A Planning and Regeneration Statement
- Economic Impact Assessment

12.5 All of these studies will be publicly available and consulted on through the planning process.

13.0 ENGAGEMENT / CONSULTATION

13.1 An initial consultation exercise was undertaken in November/December 2015. This was designed to introduce the golf resort concept at a high level and to impart basic information regarding the principal scheme elements, how the resort could work and how it could be accessed and relate to surrounding land uses. The outcome of this was publicised on the Council's web site.

13.2 The NJVG have recently created and launched a new project web site and have embarked on a full multi-media campaign that includes selected press releases, engaging with local businesses and residents with leaflet drops and use of social media channels.

13.3 Further consultation remains to be undertaken and will be organised prior to the formal planning application submission once additional survey work has been undertaken and designs have been formulated for planning purposes. When the planning application is submitted there will be statutory consultation undertaken giving ample opportunity for people to comment further.

14.0 EQUALITY IMPLICATIONS

14.1 Impact review is attached – <http://www.wirral.gov.uk/my-services/community-and-living/equality-diversity-cohesion/equality-impact-assessments/eias-2010>

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APPENDICES:

A – Council Minute of 25 February 2019

**B - Report of IPW: Hoylake Golf Resort. Review of the NJVG’s Development Proposals
May 2019**

BACKGROUND PAPERS

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet	7 th November 2016
Cabinet	18 th December 2017