NOT FOR PUBLICATION

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

Hoylake Golf Resort

Review of the NJVG development proposals

May 2019

Strictly Confidential

Final Report

Basis of information

It is not possible to guarantee the fulfilment of any estimates or forecasts contained within this report, although they have been conscientiously prepared on the basis of our research and information made available to us at the time of the study.

Neither IPW…, nor the authors, will be held liable to any party for any direct or indirect losses, financial or otherwise, associated with any contents of this report. We have relied on a number of areas on information provided by the client (and other organisations) and have not undertaken additional independent verification of this data in all cases.

Contents

1. Introduction

Funding and Phasing Plan

1.1 Following a public procurement process in 2015, a Development Agreement was signed in 2016 between Wirral Metropolitan Borough Council (the Council) and the Nicklaus Joint Venture Group (NJVG) to deliver a world-class golf resort in the Wirral.

1.2 The Development Agreement identifies the key commercial terms and conditions of the arrangement between the two parties. The delivery of a Funding and Phasing Plan is the first requirement of the Development Agreement and requests a series of details from the NJVG including:

- phasing plan detailing the proposed phases of the development which will take account of the terms of the R&A agreement
- details of the intended number of residential units and the intended draw down dates of the land required for residential development
- a construction programme with target dates and long stop dates for the delivery of the works
- details of the extent of the core requirements land required for the wider development and the applicable premium to be paid to the Council
- details of the proposed construction packages (including the identity of contractors and professional teams) and key terms proposed details of the proposed quantum and source(s) of funding to be provided for the Wider Development (by reference to the Financial Appraisal) including any request for prudential borrowing from the Council
- details of the proposed quantum and source(s) of funding to be provided for the Wider Development (by reference to the Financial Appraisal) including any request for prudential borrowing from the Council
- the proposed interest rate(s) for the funding
- full details of the security package being offered in respect of any funding
- the identity of any proposed funder(s) and term sheet of the proposed funding
- full details of the overage arrangements
- revised scheme layout
- detailed capital costs of the Development
- details of any estimated costs relating to the Ground Works and Electricity Pylon Works
- details of the proposed operation and mechanics of the Development Account to be set up by the Developer in connection with the project and which is to be documented in the Funding Agreement
- any other relevant information in relation to the proposed funding strategy.

1.3 Over the past three years, the Council and its advisors have been working with the NJVG to develop their proposal and a submission was originally received on 20 November 2017. This submission has subsequently been amended following the withdrawal of the original residential partner in early 2018. As a result, it has taken some time to identify a new housebuilder and develop an amended submission.

The R&A requirements

1.4 It is a condition of the Development Agreement that the NJVG must deliver the requirements of the Royal & Ancient Golf Club (R&A) in relation to delivery of The Open, and if necessary, may be required to enter into a tri-partite agreement with the Council and the R&A.

1.5 Following recent discussions between the Council and the R&A, it has emerged that there is a desire to increase the frequency of hosting The Open in Hoylake at the Royal Liverpool Golf Club. The event returns to Hoylake on a cyclical basis and a shorter timeframe between events is extremely positive for all parties.

1.6 The R&A have made it very clear that in order to achieve this they must have:

- appropriate car parking provision
- control of the proposed Academy facilities for the period of The Open event.

1.7 In order to deliver certainty regarding the Academy facilities availability, the R&A have indicated they wish to have ownership of them. This would require them to purchase the land from the Council and provide capital funding for delivery – both of which they are very comfortable with. It will also require a commercial deal to be negotiated with the NJVG and Celtic Manor for them to operate the Academy at all times outside of The Open event.

1.8 Whilst the NJVG are aware of discussions and are comfortable with the principles, this has not been incorporated into their latest submission however the impact is likely to be positive for the funding and phasing plan in particular:

- reduced land cost (17 acres)
- reduced capital cost (£1m+)

1.9 It is yet to be explored whether this will have any impact on reducing the request for Prudential Borrowing.

Submission Documents

1.10 In January 2019, the Council and its advisors received a new amended submission. The submission responds to most of the items identified in paragraph 1.2 above, however some remain to be addressed at a later stage of the project.

1.11 The January amended submission included the following detailed documents:

- detailed project cashflow including details of the proposed Council loan
- scheme masterplan
- detailed scheme programme
- Heads of Terms from Redrow Homes and McCarthy and Stone – residential partners
- Heads of Terms from Celtic Manor – Hotel and golf operators
- detailed overage proposals
- Stage 1 Report from Wilmot Dixon – Building contractor for the hotel and golf facilities
- proposal from Sol Golf – Golf course construction partner
- planning team appointments
- design team appointment letters
- letters of intent from prospective equity partners.

Scope of work

1.12 The Council appointed IPW… to support the development of the project, provide commercial advice, negotiate commercial terms, and undertake a detailed analysis of the funding proposals received from the NJVG.

1.13 This report summarises the analysis of the NJVG submitted proposals and is structured as follows:

- Section 2 - The NJVG proposal
- Section 3 – Prudential Borrowing request
- Section 4 – Loan security
- Section 5 – Commercial terms and benefits to the Council
- Section 6 – Project risks and mitigation
- Section 7 – Development Agreement
- Section 8 – Summary and next steps.

2. The NJVG proposal

The Nicklaus Joint Venture Group

2.1 The NJVG is a Special Purpose Vehicle (SPV) formed with the sole purpose to deliver the Hoylake Golf Resort development and is made up of the following shareholders:

• Mr James Anderson	82.5%
• Branded Hotel Management	10%
• Nicklaus Design LLC	5%
• Mr Iwan Rees	2.5%

2.2 It should be noted that, in finalising the funding portfolio, additional equity investors will be introduced into the SPV and it is anticipated a percentage of the shares currently held by Mr James Anderson will be transferred to them, reducing his shareholding.

2.3 The current directors of the NJVG are:

- Mr James Anderson
- Mr James Gordon (representing Branded Hotel Management)
- Mr Paul Stringer (representing Nicklaus Design LLC)
- Mr Iwan Rees.

2.4 The Nicklaus Joint Venture Group (NJVG) as an SPV originally passed the Council's thresholds for a development partner during the PQQ stage of the development competition.

2.5 The SPV structure is a commonly used vehicle for developing projects, but the actual value of the SPV company itself may be minimal as it is the equity partners or contracting partners that have significant value. As a result, it is these partners that safeguard the monies invested and manage the construction risks. The critical issue relates to the management of the risks and the allocation of those risks amongst the development partners themselves. This can be by way of shareholding or contracting partner relationships.

2.6 The NJVG has formulated a construction and risk allocation whereby the early development risk of bringing partners together, and progressing the planning application, is undertaken by the partners themselves. Thereafter, the direct construction and delivery risks are taken by contracts entered into and are secured by Redrow Homes and McCarthy and Stone and the equity injected into the SPV by its shareholders. This would also include the proposed new equity investors. The subsequent operating risk is managed through Celtic Manor.

2.7 It is not unusual at this stage of a development for an SPV to be a shell company, and dormant in terms of previous activities. The roles, risks and sweat equity placed into the vehicle by its relevant partners are where the value at an early stage of a project is created but this value is not reflected in the SPV itself.

2.8 The NJVG have brought together a strong team to deliver the project, bringing considerable knowledge and expertise in the golf, hotel and residential sectors. Key partners include:

- Nicklaus Design – will design the signature golf course, academy and the new municipal course. The Jack Nicklaus Group are shareholders in the NJVG
- 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.

  On behalf of the Council, in November 2018, IPW… undertook due diligence on the information Redrow Homes provided, including a full analysis of their audited financial accounts. They have undergone significant expansion over the last 5 years from selling 3000 houses in 2013, to over 5000 in 2017, and are forecasting to continue with this expansion over the next few years. They also invested and continue to invest in increasing their land bank. Their 2017 accounts show a turnover of £1.6bn and net assets of £1.2bn. The company has an agreed banking facility of over £360m. At the time of analysis, they had circa £230m unused loan facilities together with £62m of cash. Redrow Homes are a strong partner company with excellent credentials.
- Celtic Manor – 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.
- McCarthy and Stone –apartment partner. They are the country's leading retirement home property developer specialising in providing retirement properties to the over 55's and creating retirement communities They are a large company and have numerous developments throughout the UK selling over 2,000 properties a year.

  On behalf of the Council, in January 2019, IPW… carried out due diligence on the information provided by McCarthy and Stone including a full analysis of their audited financial accounts The Company is a UK quoted PLC with a 2018 turnover of £672m generating profits of £63m. They have net assets of £760m, cash reserves of £57m and a land bank worth £92m. Additionally they have agreed available credit facilities of £200m.
- 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.
- AECOM (Wales) will provide program, cost and consultancy services to the NJVG. They will also act as engineering advisors (structural, mechanical and electrical).
- Other members of the design team include Powell Dobson – Architects, Hydrock – environmental and ecology and Urbanists – planning consultants.

The Hoylake Golf Resort

2.9 The NJVG propose to deliver the Hoylake Golf Resort in the heart of Wirral, on land adjacent to the existing Royal Liverpool Golf Club, building on the existing golf history and heritage of the area increasing the opportunity to regularly attract major golf competitions and leading corporate events into the region. The NJVG intend to create a landmark destination for golf in Hoylake that supports the development of England's Golf Coast.

2.10 The development will include:

- world class Jack Nicklaus Signature Championship Golf Course (18-hole, par 72, 7,300yd)
- unique Nicklaus Design designed municipal 18-hole golf course to replace the existing Hoylake municipal golf course
- golf academy including driving range (to support The Open at Royal Liverpool)
- 90-bedroom Celtic Manor hotel including spa facilities
- clubhouse with associated restaurant and conference facilities
- bespoke quality enabling development of houses (160 units) and apartments (40 units)
- a new relief road to service the golf and hotel facilities and provide access to the residential development. This relief road will also serve as a secondary access road to the town of Hoylake.

Delivery

2.11 The NJVG will be responsible for delivering all aspects of the golf resort, including:

- obtaining a successful planning consent
- detailed design and master planning
- site assembly
- procurement of the build contractors
- infrastructure delivery
- construction of the facilities
- maintenance of the facilities
- operation of the Golf Resort to be provided by the Celtic Manor organisation contracted to the NJVG.

Capital costs

2.12 The capital costs to deliver the scheme are estimated to be £48.3 million. A summary is included in Table 2.1.

Table 2.1 Summary of capital costs

Item	Cost £
Design and project management fees	5,722,386
Construction of signature course	5,000,000
Construction of municipal course	2,000,000
Golf support facilities	1,690,000
Removal of power lines	5,000,000
Construction of new Road	4,275,000
Construction of golf clubhouse	5,000,000
Construction of the hotel	10,718,000
Infrastructure	720,000
Land acquisition costs including SDLT	5,797,968
Council fees	450,000
Contingency @6.5%	1,882,674
Total	48,256,028

2.13 In the original NJVG tender as part of the procurement process, the capital costs were analysed in detail and are not considered to have varied significantly since then.

2.14 The submitted costs have been prepared by AECOM, and over the course of the project have been tested with various contractors by the NJVG to confirm or refine:

- quotes have been received from contractors in relation to delivery of the golf elements of the scheme and Scottish Power for the undergrounding of the cables
- delivery of the hotel and clubhouse has been informed by BHM (in consultation with Celtic Manor) who have significant experience in this area and have indicated they are satisfied with the estimated cost per room
- no central government grant is received in respect of the construction of the new road
- option agreements have been signed with landowners and extended where necessary
- land acquisition strategy confirmed to provide further clarity regarding SDLT liability
- a specific contingency of 6.5% has been included as a separate line item in the overall construction budget. Additional contingency amounts have been built into other specific line items for example the hotel. AECOM, the NJVG cost consultants have claimed that the total overall contingency of is 10.1%. but this is yet to be confirmed. This represents a risk as highlighted in section 6 below. The satisfaction of the risk can form part of the conditions to any loan agreement.

2.15 If successful in receiving Council approval to the Funding and Phasing Plan, the NJVG will be progressing the costs in further detail at the next stage of the development, including detailed design and site investigations which will provide further cost certainty. There is provision in the Development Agreement for a full detailed analysis of the NJVG cost projections by the Council at further stages of the project.

Programme

2.16 Contained in the NJVG submission is an indicative programme which outlines the following key milestones, assuming consideration at March 2019 Cabinet

• January 2019	Detailed design and preparation of the planning application
• March 2019	12-month EIA studies commence
• March 2020	Final planning application submitted
• June 2020	Planning permission is obtained
• July 2020	Pylon removal and site infrastructure commences
• January 2021	Construction of road commences
• January 2021	Sale of apartment land & construction commences
• April 2021	New municipal golf course construction commences
• June 2021	Holes 10-18 signature course construction commences
• December 2021	Completion pylon removal and completion haul road
• January 2022	First residential land parcel sold & construction commences
• May 2022	New municipal opens (18 holes)
• June 2022	Completion of new access road
• June 2022	New signature golf course opens (Holes 10-18)
• July 2022	The Open Championship
• August 2022	Holes 1 – 9 signature course construction commences
• January 2024	New signature golf course opens (18 holes)
• September 2024	Hotel and Clubhouse opens.

Operation

2.17 Celtic Manor will manage the whole golf resort on behalf of the NJVG, in return for a management fee. The level of management fee varies depending on the activity managed but overall it is expected that fixed management fees would be circa £400,000 per year. In addition to the fixed fees, Celtic Manor would receive an additional incentive fee based on performance against a pre-determined budget.

2.18 Whilst the facilities will be managed by Celtic Manor, the financial risks and rewards remain with the NJVG. As a result, the income and expenditure for all the facilities flow to and from the NJVG. From the projections included in the proposal the Golf and Hotel facilities are forecast to produce annual profits after tax of c.£2.3m in a mature year.

Funding strategy

2.19 The costs for delivery of the scheme are estimated to be £48m as outlined above. Initially, the NJVG intended for the scheme to be entirely funded by the private sector through a combination of enabling development (residential and apartments) and private equity investment. In the first submission Grant Thornton UK LLP, were engaged by the NJVG and undertook detailed preparation of the project income, expenditure and cash flow to identify the exact quantum and timing of funding required for the project. In the current amended January 2019 submission, this work has been undertaken by the NJVG to reflect the change in housebuilder, incorporating the project delays and any amendments to the cashflow

2.20 One of the key features of the funding strategy for the scheme is to obtain planning permission for 160 new executive homes together with permission for 40 residential apartments. Once planning permission has been achieved there will be a significant uplift in the value of the land. The increase in land value is intended to be captured by the NJVG, through the sale of land parcels for residential housing and apartment housing to Redrow Homes and McCarthy and Stone in return for an agreed sum. The residential land for houses is to be sold to Redrow Homes for £32.5m in a phased manor over 5 years, with land parcels purchased annually. The land for the apartments is to be sold to McCarthy and Stone for £4.1m payable in 2 instalments.

2.21 The deal with Redrow Homes and McCarthy and Stone provides the majority of the funds needed to complete the development (£36.6m), with other funds coming from equity partners (£4.5m), including sweat equity, the Council's recycled land receipt (£3m) and ultimately from the profits generated by the development (£4.2m).

2.22 It should be noted that whilst the sale of the residential land ultimately provides the overall income to deliver the scheme, Grant Thornton's analysis identified the need for additional funding to support the project cash flow (explored in further detail in Section 3) and the NJVG have requested the Council facilitate this through the provision of a short-term loan facility, using Prudential Borrowing. The capacity for the Council to offer lending for regeneration projects on investment-based rates through the Public Works Loan Board facilitates the delivery of the project for the NJVG. A summary of the project funding is in Table 2.2 below.

2.23 **Table 2.2 Summary of project funding**

Source	Income £
Equity investors	4,500,000
Sale of apartments land	4,100,000
Sale of residential land	32,500,000
Council recycled land receipt	3,000,000
Trading cash flow	4,200,000
Total	**48,300,000**

2.23 The delivery of the Hoylake Golf Resort is a key project due to the regeneration benefits for the Wirral and the wider City Region. In addition, the deal negotiated with the NJVG has the potential to offer significant financial benefit to the Council on an ongoing basis. The scale of these benefits is circa £14m and detailed in Section 5.

2.24 The request for Prudential Borrowing is explored further in Section 3.

3. Prudential Borrowing request

Introduction

3.1 As outlined previously, an integral part of the NJVG proposal is to use the Council's access to prudential borrowing funds to provide the cash flow necessary during the construction phase to enable the development to be delivered.

3.2 This section provides an analysis of the loan request from the NJVG, together with the proposed terms of any loan, and the security to be offered by the NJVG, which is critical for the Council in engaging with the deal.

Parameters for consideration of the loan request

3.3 Since the initial request for the use of prudential borrowing from the NJVG, the Council has identified several conditions that must be met for the request to be considered, as outlined below:

- the Council must be the funder of last resort – the NJVG must have explored all other potential sources of funding
- there must be minimal risk to the Council
- the loan must be 100% secured
- the maximum level of any loan exposure will not exceed £26,000,000
- there must be a commercial gain for the Council
- the loan must be repaid in the shortest possible time by the NJVG.

Loan request

3.4 The NJVG submission prepared by Grant Thornton and subsequently amended by the NJVG indicates a loan request from the Council of £26,000,000 (composed of £23,675,175 initial loan and £2,324,825 of delayed interest payments) which would be drawn down monthly, as required, to pay for the construction of the facilities.

3.5 The first drawdown of £7,153,564 is scheduled to be in June 2020, once planning permission has been granted, to provide the majority of the funds required for the land purchases. Subsequent drawdowns take place over the next three and a half years during the construction period with the final drawdown in December 2023. The full details of the drawdown schedule are contained in the NJVG financial submission.

3.6 The NJVG submission also indicates, based on discussions and agreement with the Council, the request to roll up any interest due on the loan during the construction period – essentially, the payment of any interest incurred during this period is accumulated and then repaid using capital at a later date. The interest during the construction period amounts to £2,324,825.

3.7 When added to the actual loan requested, this results in a maximum loan request of £26,000,000, in line with the ceiling specified by the Council. The maximum cash advance made to the NJVG by the Council would however be £23.5 million.

Public Works Loan Board

3.8 Local Authorities and other public bodies can borrow from the Public Works Loan Board (PWLB) at interest rates generally considerably lower than those available from commercial lenders. It is our understanding that the Council intend to fund the £26m loan to the NJVG through a short-term loan.

3.9 The key assumptions for the PWLB loan request are an annuity loan will be utilised on a maximum 10-year term (using the current PWLB 10-year interest rate is 1.99%).

Interest Rate to be charged

3.10 The Council has provided the NJVG with the interest rate for the loan of between 4.5% and 5.5%. This figure is significantly higher than the rate of borrowing from the PWLB (1.99% per annum). The margin being charged on the loan is to ensure:

- the Council is compliant with European Union state aid rules (explained further in paragraph 3.14 below)
- the Council receives a commercial benefit from facilitating the loan to the NJVG.

3.11 Following negotiation with the Council and its advisors, the NJVG submission assumes a rate of 5.25% per annum and includes a buffer of 0.5% intended to cover any interest rate rises between the submission and the loan agreement being signed.

3.12 Table 3.1 below details the interest charged by the Council on an annual basis and the interest paid by the NJVG as outlined in their submission.

Table 3.1 Interest charged

Year	Interest charged to NJVG £	Interest rolled up into the loan £	Interest paid by NJVG £
2020	£157,859	-£157,859	£0
2021	£396,159	-£396,159	£0
2022	£630,846	-£630,846	£0
2023	£1,139,960	-£1,139,960	£0
2024	£1,038,383	£0	£1,038,383
2025	£644,561	£0	£644,561
2026	£231,354	£0	£231,354
2027	£114,365	£0	£114,365
2028	£24,246		£24,246
Total	**£4,377,733**	**-£2,324,824**	**£2,052,909**

3.13 As highlighted in Table 3.1, the total interest charged by the Council is £4.4m of which £2.3m is deferred and transferred to the loan capital, which is paid as part of the capital repayments, as detailed in paragraph 3.24 below. The remaining £2.1m interest incurred is paid from 2024 onwards until the end of the loan in 2028.

State Aid implications

3.14 When a public body such as a Council provides any form of loan or financing initiative to a third-party organisation it needs to ensure that it is compliant with EU rules in respect of State Aid. It is relatively common for public bodies to provide loan financing to commercial projects which are in the public interest, and where for a variety of reasons commercial financing may be less available, for example the project fails to reach a required loan to value threshold.

3.15 Guidance notes issued by the EU (2008/C 14/02) suggest the interest rate charged on loans should be calculated using the national base rate as published by the EU plus a margin. The margin is calculated considering the covenant strength of the borrowing organisation and the level of security offered.

3.16 To ensure the agreed interest rate was state aid compliant, using the EU guidance notes, IPW… reviewed the covenant strength of the organisation and the level of security offered to consider what would be a state aid compliant rate.

3.17 As a new SPV, the NJVG could only be considered as offering a weak covenant. However, as the Council loan is fully secured on freehold residential land and on other assets of the NJVG (see section 4 below on security), under the EU guidance, the NJVG represented a rating of strong for the purposes of assessing collateral. Consequently, the loan would attract a margin of 2.2% which when added to the current 1-year EU published base rate (1.09%) gives a state aid compliant rate of anything above 3.29%.

3.18 The proposed interest rate of 5.25% negotiated with the NJVG is sufficiently above the minimum of 3.29% to comply with state aid requirements to provide the Council comfort at this stage of the project.

Loan term

3.19 In providing loan financing to the NJVG, the Council has expressed clearly its requirement for the loan to be repaid in the shortest possible time. The term is determined by the available income to repay the loan and the NJVG proposal details the loan is to be repaid within eight years.

3.20 The first drawdown of the loan is scheduled to be in July 2020 shortly after planning permission is granted, with the final drawdown three and half years later in December 2023.

3.21 Loan repayments commence in January 2024 following sale of the third land parcel to Redrow Homes with the final loan repayment due to take place in June 2028. The full proposed payment profile of the Redrow Homes monies is provided in Table 3.2 overleaf.

3.22 Most of the loan is repaid using the income from the phased residential land sales to Redrow and the residual amount will be repaid using the trading cashflow i.e. profit generated from the golf course and the hotel once operational. As requested by the Council, the NJVG have utilised 100% of the profit generated each month to repay the loan.

3.23 Although the NJVG have assumed 100% of the trading cash flow is used to repay the loan as quickly as possible, it would be prudent for the Council to incorporate a risk buffer for internal purposes e.g. reduce the assumed percentage of trading profit available to repay the loan from 100% to say 70%. The consequence of this is a longer period will be required to repay the loan (potentially 12 to 24 months increase). It would therefore be prudent to assume the loan repayment period to be a maximum of 10 years. This requirement provides the Council with a strong negotiating position towards the later stages of the loan repayment should the NJVG not be able to meet the full repayment whilst having the comfort of knowing it can extend the term of the loan at that stage with the NJVG.

Loan repayments

3.24 The proposed loan repayment schedule is closely linked to the land receipts received from Redrow Homes, with the residual balance being paid using the profit generated from the golf and hotel operations.

3.25 Table 3.2 below details the proposed NJVG loan repayment schedule, for both the capital borrowed and the interest incurred (as outlined previously in Table 3.1).

Table 3.2 Proposed loan repayment schedule

Year	Land sales receipt £	Receipt retained by NJVG to fund construction£	Receipt used to fund loan repayments £	Repayments from trading cash flow £	Total repaid to the Council £
2019	£200,000	-£200,000	£0	£0	£0
2020	£2,000,000	-£2,000,000	£0	£0	£0
2021	£2,000,000	-£2,000,000	£0	£0	£0
2022	£6,400,000	-£6,400,000	£0	£0	£0
2023	£6,500,000	-£6,500,000	£0	£0	£0
2024	£6,500,000	£0	£6,500,000	£782,637	£7,282,637
2025	£6,500,000		£6,500,000	£1,192,102	£7,692,102
2026	£6,500,000		£6,500,000	£1,587,697	£8,087,697
2027				£1,783,332	£1,783,332
2028				£1,154,232	£1,154,232
Total	**£36,600,000**	**-£17,100,000**	**£19,500,000**	**£6,500,000**	**£26,000,000**

3.26 As outlined in Table 3.2 above, the loan does not start being repaid until the construction of the development is complete (2023). The receipts received from the residential land sales during the construction period of £18.9m are being utilised to part fund the construction costs. Whilst this delays the start of repayments, it reduces the level of Council loan required and facilitates the delivery of the scheme.

3.27 Once construction is complete, the NJVG are predominantly utilising the residential land receipts received from Redrow Homes to repay the loan. It can be seen in the table above that post construction (2024 onwards) land receipts of £19.5m are being used to repay the loan.

3.28 After all residential land receipts are received, £6.5m (25%) of borrowing remains outstanding. As previously outlined, the NJVG propose to repay this using the trading profit of the hotel and golf operations. The risk of this is considered further in Table 6.1.

Loan term sheet

3.29 A detailed term sheet has been developed, and shared with the JV, which fully sets out the terms and conditions of the proposed Council loan. All the terms detailed have been provisionally agreed by the NJVG.

3.30 Once full approval has been received from the Council, a full detailed legal loan agreement will be drafted by the Council's legal team incorporating all the terms from the agreed term sheet.

4. Loan security

Introduction

4.1 This section reviews the security to be offered by the NJVG against the loan. It considers in detail the value of the security offered against the value of the loan.

4.2 The principal condition set out by the Council is that the loan should be fully secured and present none or very minimal risk to the Council. This has been discussed in detail with the NJVG throughout the development of their proposals and there are a number of key items that are critical to delivering the Council the security required:

1. Land transfer and development lease
2. Loan pre-conditions
3. Residential land value
4. Golf, hotel and clubhouse value
5. Step in rights.

Land transfer

4.3 Through discussions between the parties, it is evident that, in order to maximise the Council's security position, the methodology and sequencing of the land acquisition and transfers as set out in the Development Agreement requires review.

4.4 The Development Agreement as drafted suggests the sequence of transactions would be as follows (in order):

- acquisition by the NJVG of the footprint of the New Municipal Golf Course (NMGC) and land required for residential development
- completion of the works
- transfer of the site of the NMGC by the NJVG to the Council
- transfer of the site of the Hoylake Golf Resort from the Council to the NJVG.

4.5 This proposal in the Development Agreement is not optimal as it does not provide the Council with the ability to acquire (or, in part, re-acquire) the site of the NMGC in the event of the NJVG failing to meet its obligations, at least not without significant additional cost and complexity.

4.6 In addition, the Stamp Duty Land Tax (SDLT) incurred for both parties would be significant due to land transfers taking place once the works are complete. This is estimated to be circa £1.5 million for each party which would challenge the deliverability of the project. The structure proposed in the Development Agreement was never intended to result in a large tax bill for either the NJVG or the Council.

4.7 In consultation with all parties, an alternative strategy has been developed which varies the sequencing of the land purchases. This new approach to land acquisition and transfer provides the Council with additional security and significantly reduces the SDLT liability for both parties. The new sequence of transactions is:

1. The NJVG acquires the land from the third-party land owners for £20,000 per acre as per the existing option agreements.
2. The NJVG sub-sells the third-party land required for the NMGC to the Council for £20,000 per acre. At this point, the Council will own all the land required to deliver the golf, hotel and clubhouse components of the Hoylake Golf Resort. The costs incurred by the Council will be repaid as part of the Development Lease (see stage 4 below)
3. The Council sells to Redrow Homes (via subsale through the NJVG) the Council owned land required for the residential development. Essential for the agreement is that the residential land can be sold with freehold on a phased basis.
4. The Council grants a long Development Lease (999 years) to the NJVG on the land required for the golf resort (excluding residential developments).

   Rather than the Council selling the land to the NJVG, a Development Lease ensures the Council retains the freehold of the land during the construction period. The development obligations of this lease are for the NJVG to complete the Hoylake Golf Resort development as per the planning consent, including construction of signature course, municipal course, academy, clubhouse and hotel. Only once the development is complete, and the loan repaid will the freehold be effectively transferred to the NJVG for a nominal fee.

   The Development Lease will also include break provisions exercisable by the Council in the event of non-performance and/or non-payment of the loans by the NJVG. It would also include an additional break-right in respect of the land comprised in the NMGC only which would be exercised by the Council on completion of the Works to the NMGC. This ensures that the Council will own the freehold of the NMGC on its completion.

   The NJVG pay a lease premium equal to the anticipated payment per acre (£20,000 per acre) including any sum referred to in point 2 above.

4.8 The revised land acquisition sequence provides additional security to the Council as well as reducing significantly the SDLT incurred by both parties. The Development Agreement will need to be updated to reflect the new structure in due course (draft in circulation).

Loan pre-conditions

4.9 Whilst the loan agreement between the Council and the NJVG may be signed in advance of the first drawdown, the Council has set out a number of conditions that would need to be satisfied prior to any drawdown of Council funding can be made. These conditions have been outlined in the loan term sheet which has been shared and agreed with the NJVG and summarised in Table 4.1 over the page.

Table 4.1 Loan conditions

Condition	Detail
The planning condition	The NJVG will ensure that the whole development has received the necessary planning consent from the planning authority, including permission for the infrastructure and residential development to enable the development to proceed.
Costed development programme	The NJVG will supply to the Council an updated, detailed and fully costed development programme, prepared by an appropriate professional as agreed with the Council. The programme should include all project costs including those in respect of highways and overhead power lines removal. The programme should specify in detail the construction programme timescales with appropriate milestones, identifying any key milestones in respect of triggering the land sales for the apartments and houses. The programme must be to the satisfaction of the lender.
Land acquisition	Prior to any loan drawdown the NJVG will have completed in full, the third-party land acquisition programme including the residential land from the Council. The land will be acquired freehold and free of any encumbrance and the stamp duty paid. (Whilst at the present time this remains a precondition of any drawdown the submission from the NJVG indicates that part of the first drawdown will be used as part of the funding for the land purchase. This will require further discussion with the NJVG for resolution).
Equity injection	The NJVG will have raised all the equity funds necessary to complete the development. All proposed equity funds should have been received by the NJVG in full prior to any loan drawdown.
Building contracts	All the contracts in respect of construction including the golf course, road and undergrounding of the power lines, will be fully executed or supplied in draft form to the Council by the NJVG. In addition, the proposed building contracts will have been supplied in draft form to the Council for approval before being executed. The building contract will include appropriate provisions for the Council to step into the contract in the event of a default.
Residential land sales contracts	The residential land sales contract (housing and apartments) will be fully executed. In addition, the land sales contract will have been supplied to the Council in draft form for approval. The land sales contract will set out in full the proposed land sales timelines and any conditions which need to be met prior to each of the staged land sale. The land sales contract should include appropriate provisions for the Council to step into the contract in the event of default.

Condition	Detail
Hotel and golf course operating contract with Celtic Manor	The operating contract with Celtic Manor for the hotel and golf courses (signature, municipal and academy facilities) will be fully executed by the NJVG. In addition, the contract will have been supplied to the Council in draft form for approval. The contract should include appropriate provisions for the Council to step into the contract in the event of default.
Step in documents	The NJVG will have completed all agreements and documents necessary to enable the Council to have the step-in rights to take formal control of the NJVG, including stepping into its shoes, in any and all of the agreements entered into by the NJVG in respect of the development.
Trading business plans	The NJVG will submit to the Council for approval a fully robust 10-year business plan (functional model) for the operation of the golf facilities (signature, municipal, and academy) and the hotel and clubhouse.

4.10 As detailed in Table 4.1 above, there are substantial pre-conditions that must be met before any cash is drawn down from the Council. The Council must not only see, but also approve all the major project contracts providing a full and detailed understanding of the development. This provides the Council with significant comfort and confidence that the development will be delivered with all the partners legally committed and signed up before any funds are released.

Residential land sale

4.11 The NJVG proposal offers significant security against the loan through the residential land parcels. The residential land will be purchased by the NJVG from both the third-party landowners and from the Council for the agreed £20,000 per acre (sold to Redrow Homes via sub sale), on receipt of planning consent.

4.12 Once planning consent for residential development is obtained, the value of the land is significant, at c.£1 million per acre, based upon the commercial offer from Redrow Homes. The NJVG has already received a formal offer from Redrow Homes to purchase the residential land (32.5 acres) for £32.5 million. Their offer states that the land will be purchased as 5 individual plots over a period of 5 years, commencing in 2022 and finishing in 2026.

Residential development – housing

4.13 The income generated from the enabling housing development is fundamental to the successful delivery of the project, accounting for c.75% of the project costs, and critical in terms of security of the Council's £26 million loan; in this context it is important to highlight the offer received from Redrow Homes identifies a number of conditions:

- the offer is subject to receiving planning permissions for at least 160 houses with no onerous conditions (as set out in their offer)
- the land would be purchased freehold and free of any charges or encumbrance
- there is no requirement for the housebuilder to enter into a s106 agreement, make a CIL payment or enter into a s278 agreement
- there are is no requirement to provide affordable housing
- there are certain infrastructure works required to be completed prior to the first land purchase being completed:
  - serviced site
  - undergrounding of the electricity pylons
  - completion of the haul road to provide access to the site
- the first land sale is scheduled for January 2022. Once the first purchase is complete, the subsequent sale of the remaining plots will be unconditional and therefore Redrow Homes will be contractually bound to purchase at the agreed land values (on the yearly anniversary of the first sale)
- there must not be any additional conditions on the land sold.

4.14 From discussions with the NJVG they have confirmed that all the works required by Redrow Homes including providing a serviced site, the removal of the pylons and the construction of the haul road will be completed by December 2021. The golf course is scheduled to commence construction in June 2021.

Residential development – apartments

4.15 Similar to the proposed housing development outlined above, the NJVG has received a formal offer from McCarthy and Stone to sell land for the delivery of forty apartments at a value of £4.1 million with similar conditions to the residential housing land. This is a significant income for the project and is subject to several conditions, including:

- planning permission has been granted
- require a fully serviced site.

4.16 As with the residential housing development, the NJVG have confirmed that all the conditions will have been met to enable the sale of the land for the apartments in July 2020. As stated in section 4.15, a fully detailed programme must be provided and agreed by the Council as a loan pre-condition. This has been identified as a risk in section 6 below and will require further discussion and analysis with the NJVG.

Residential land value – security against the loan

4.17 On drawdown of the loan by the NJVG, the Council would retain ownership over all the residential land which is valued at £32.5m (based on the Redrow Homes offer) and therefore would have the benefit of this land as security against its loan. This means the Council would have full control of the residential land parcels as security. The Council will release its land in a phased manner to coincide with the land purchase obligations by Redrow Homes.

4.18 The NJVG will need to provide further details of the number of acres to be transferred in each of the 5 plots. For the purposes of the loan security assessment, it is assumed that each plot transferred will be of equal size (6 acres).

4.19 Table 4.2 below details the value of the land as security against the loan. It highlights that the value of the residential land forms the majority of the security against the loan – ranging from over 100% in 2022 to zero in 2026.

Table 4.2 Residential land value as security against the loan

	2020 £	2021 £	2022 £	2023 £	2024 £	2025 £	2026 £
Land value under Council ownership	£32,500,000	£32,500,000	£32,500,000	£26,000,000	£19,500,000	£13,000,000	£6,500,000
Land sold to Redrow Homes	£0	£0	-£6,500,000	-£6,500,000	-£6,500,000	-£6,500,000	-£6,500,000
Value of land as security	£32,500,000	£32,500,000	£26,000,000	£19,500,000	£13,000,000	£6,500,000	£0
Loan amount	£7,311,423	£8,042,501	£19,490,781	£26,000,000	£18,719,536	£11,025,582	£2,937,902
% of loan secured on land	**100%**	**100%**	**100%**	**75%**	**69%**	**59%**	**0%**
Loan not secured against land	**£0**	**£0**	**£0**	**£6,500,000**	**£5,719,536**	**£4,525,582**	**£2,937,902**

The hotel, golf course and other buildings

4.20 The Council will, as part of its security, have a fixed and floating charge over all the assets of the NJVG. The assets subject to a fixed charge would include the signature golf course, the clubhouse, the restaurant and spa together with the hotel. There would be a floating charge on all the other assets. These conditions are contained in the loan term sheet.

4.21 In the event of a default by the NJVG (failing to meet loan repayments), the Council will have the authority to take full control of the assets and either complete the construction (engaging a professional team to do so on their behalf) or to sell in the open market for them to complete. This would raise funds to repay any of the outstanding loan at the time of default. Alternatively, the Council could choose to hold onto the asset and take the operational profit from the completed investment.

4.22 Whilst the majority of the loan is secured on the housing land value as detailed above, there would also be significant value in the golf course, hotel and clubhouse. Whist it is relatively easy to assess the potential market value of a completed golf resort, it is more difficult to value a part-built resort (whilst there is some evidence of part-built facilities being sold on the open market, they are few and far between).

4.23 The NJVG proposal assumes a value of 70% of the costs incurred to build the golf course and hotel, as a value for security purposes. AECOM, the Council's advisors have confirmed that at this stage, based on their experience, this is a reasonable assumption.

4.24 The security offered by the golf, hotel and clubhouse assets are in addition to the security offered through the residential land. On this basis, the value ascribed to the part constructed hotel and golf facilities only needs to be a maximum of c.20% of construction costs to cover the amount of the outstanding loan after the residential land.

Full step in rights

4.25 The Council will require full step in rights to the NJVG in the event of a loan default. This is also a requirement in the signed Development Agreement.

4.26 This would mean the Council stepping into the role of the NJVG for all the contracts including the building contracts, the operational contracts and the land sales contracts. In this scenario, the Council will have the authority to take full control of the development and could choose to either complete the development (engaging a professional team to do so on their behalf) or to sell the development to another developer for them to complete – ensuring any sale would result in the Council loan being repaid in full. The Council would also have the choice of holding the asset as an investment receiving the operating profit.

4.27 The advantage of the Council having full step-in rights is that they will have the authority to determine the best option at the time. It should be considered that the development, with full planning permission and partners contract, should be an attractive proposition.

Summary of the value of the loan security

4.28 Table 4.3 below summarises the level of financial security offered by the NJVG through both the residential land and the constructed hotel and golf facilities (as outlined above), and for each year of the loan, compares the security to the outstanding loan amount.

Table 4.3 Security offered compared to the outstanding loan amount

	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 £m
Value of housing land	32.50	32.50	26.00	19.50	13.00	6.50	0.00	0.00	0.00
Value of hotel and golf facilities	2.10	7.00	18.74	26.66	26.66	26.66	26.66	26.66	26.66
Total value of security	**34.60**	**39.50**	**44.74**	**46.16**	**39.66**	**33.16**	**26.66**	**26.66**	**26.66**
Loan amount	7.31	8.04	19.49	26.00	18.72	11.03	2.94	1.15	0.00
% of loan to value	**21.1%**	**20.4%**	**43.6%**	**56.3%**	**47.2%**	**33.2%**	**11.0%**	**4.3%**	**0.0%**

4.29 As highlighted in the table above, the value of the security offered by the NJVG is considerably in excess of the loan amount at all times. The Council is exposed the most at the end of 2023 when the loan to value rate is only 56%. Thereafter, it reduces each year until the loan is fully repaid in 2028. This should provide the Council with additional comfort in offering the loan facility.

5. Commercial terms and benefits to the Council

Introduction

5.1 This section presents the key commercial components of the NJVG proposal and the direct commercial and financial benefits to the Council, as a result of providing a loan facility to the NJVG.

5.2 The £26m loan is recognised as a significant ask of the Council and as per any private financing facility, the Council should receive a commercial gain from its participation in the project. In addition, there are other financial benefits to the Council as a consequence of the development of the golf resort, on a long-term basis and these will be explored further.

Loan interest rate and margin

5.3 As previously outlined, the Council will use its access to prudential borrowing to provide a short-term loan to the NJVG. The Council is in a unique position in that it can access funds from the PWLB at interest rates well below those available to the NJVG from commercial sources.

5.4 Although the total Council contribution is £26m, £2m of this is NJVG interest repayments against the £24m loan. As part of the Council's support for the project, these interest repayments are being delayed until the opening of the resort (and will be funded by trading cashflows).

5.5 In discussion with the Council finance team, IPW… have undertaken indicative modelling of the loan structure. It is anticipated and agreed for modelling purposes that the Council would request a £24 million annuity loan, over a maximum 10-year period.

5.6 Under an annuity loan structure, the interest incurred, and the required loan repayments would be fixed by the PWLB at the date of the loan drawdown (anticipated for June 2020). Based on current interest rates, the interest charged to the Council by the PWLB would be at a rate of 1.99% per annum.

5.7 In partnership with the Council, IPW… has negotiated with the NJVG to provide the loan at a fixed interest rate of 5.25%. This rate takes into consideration the EU guidance regarding State Aid as previously explained and a commercial return to the Council. This arrangement provides the Council with a considerable profit margin equivalent to the difference in the interest changed by PWLB and that charged to the NJVG.

5.8 The loan would be drawn down by the NJVG in instalments, in line with the agreed construction programme. Interest would be paid to the Council on the loan amount outstanding each month. During the construction period, when the project expenditure is at its highest, the Council has agreed for the interest incurred by the NJVG to be rolled up into the capital amount and paid as part of the loan capital repayments. The total remains within the £26 million maximum loan amount agreed with the Council.

5.9 Table 5.1 over the page details the interest paid by the Council under its annuity loan and the interest paid to the Council by the NJVG.

5.10 The table illustrates that, assuming the Council borrow the funds from the PWLB with a 10-year annuity loan, the Council will make a significant profit or commercial gain of circa £1.8m on the loan to the NJVG.

Table 5.1 Interest paid, and margin retained by the Council

Year	Interest paid by the Council @1.99% £	Interest due to the Council from NJVG @5.25% £	Total Council profit £
2020	£238,800	£157,859	-£80,941
2021	£441,941	£396,159	-£45,782
2022	£400,670	£630,846	£230,176
2023	£355,513	£1,139,960	£784,447
2024	£309,454	£1,038,383	£728,929
2025	£262,474	£644,561	£382,087
2026	£214,554	£231,354	£16,800
2027	£165,575	£114,365	-£51,210
2028	£115,819	£24,246	-£91,573
2029	£64,966	£0	-£64,966
2030	£13,096	£0	-£13,096
Total	**£2,582,862**	**£4,377,733**	**£1,794,871**

Council land receipt

5.11 A significant amount of Council land is required by the NJVG to deliver the golf resort. The NJVG will purchase the required land from the Council at a price of £20,000 per acre (as ratified with Council advisors Lambert Smith Hampton).

5.12 Based on the current masterplan presented by the NJVG, approximately 215 acres (excluding the existing municipal) is the maximum required to deliver the project. Assuming all this land is required at the final design stage the Council will receive £4.3m from the NJVG in the form of a lease premium.

Delivering the Hoylake relief road - infrastructure investment and recycling of the Council land receipt

5.13 The Council is progressing a central government application for grant funding contribution towards the delivery of the Hoylake relief road. Whilst this will be integral to the golf resort development, it is also an important (and long standing) requirement for the town.

5.14 If the grant funding application is successful, it will pay for the road in full and the Council will retain all the land receipt from the NJVG up to £4.3m.

5.15 If unsuccessful, the Council has agreed with the NJVG to reinvest a minimum of £3m of the land receipt into the road – the Council retains the remaining £1.3m.

5.16 On current projections the Council should retain between £1.3m and £4.3m of the land receipt depending on the success of the infrastructure grant funding application.

New municipal golf course

5.17 For the Council, an integral feature of the development is the delivery of new municipal golf course to replace the existing Council owned Hoylake course. Under the NJVG proposal the new municipal will be designed by Nicklaus Design and operated by Celtic Manor who will by that time already operating the hotel and signature golf course.

5.18 It has been agreed between the Council and the NJVG that the operation of the new municipal golf course would be at no cost to the Council, with all the income being retained by the NJVG. The maintenance and operational risk will be retained by the NJVG.

5.19 The specific terms of the operation of municipal course are still to be finalised with the NJVG, however the principles of it being retained as a pay and play course and accessible to residents is agreed.

5.20 It is our understanding that the existing municipal course is currently subsidised to the value of £70,000 by the Council on an annual basis, therefore the proposed deal will result in an annual saving of £70,000.

Loan arrangement fee

5.21 The Council have included in the loan arrangement the obligation for the NJVG to pay to the Council a loan arrangement fee of £250,000. This fee will support the Councils costs in providing the loan to the NJVG.

Project advisor fees

5.22 As part of the partnership with the NJVG, the Council have requested the NJVG will pay to the Council £200,000 to cover the professional advisor support required by the Council in delivering their role in the project. This is due to be paid on receipt of successful planning consent and is included in the NJVG financial model.

5.23 It should be noted that, as part of the process, the Council have agreed to contribute 50% of the fees incurred to undertake site investigation surveys. This will result in a £100,000 contribution from the Council.

5.24 Recognising the complexity of the project and the associated risks and potential returns for the Council, they may wish to ensure that there is sufficient budget to support advisor costs during the next phase of the development, albeit it is expected that these possible additional costs would be recovered against the loan arrangement fee to be paid by the NJVG.

Council overage

5.25 As part of the NJVG original tender, and included in the signed Development Agreement, the Council will receive overage in respect of the housing land sales and the trading income generated by the resort.

Residential land sales (housing) overage

5.26 The overage offer from the NJVG is based on any increase in the quantum of approved homes beyond the initial planning application of 160 units. The reality of this is that overage payments will only come to fruition should an additional planning permission be granted, or the permission is varied to increase the size of the residential development.

5.27 The overage will be calculated based the Redrow offer of £32.5m for 160 units which values each unit at £203,125. The NJVG would share any overage with the Council on an equal basis with the result that the Council would receive £101,563 for each additional unit over 160.

5.28 However, it is important to note:

- this is still to be agreed by the NJVG with Redrow Homes. If this cannot be agreed with Redrow Homes, the proposal from the NJVG is that they would pay any overage to the Council as calculated above from Trading Cashflows following completion of the loan repayments.
- due to the location of the site being in designated Greenbelt land and based on discussions with the Council and the planning team, it is extremely unlikely that additional planning permission would be granted over and above the current proposals. Consequently, it is unlikely that any overage will be received and therefore we have not included this overage as a financial benefit in the commercial gain calculations.

Operational performance overage

5.29 The NJVG tender included provision for overage to be paid on operational performance of the golf resort (signature course, academy, hotel and clubhouse) above a threshold, based on a mature year of operation (year 3).

5.30 The threshold is set at £1.4m (year 3) and the Council will receive 20% of any trading profits over and above this. The threshold will increase annually to reflect inflation.

5.31 Profit is defined as profit before interest, depreciation and tax, although it has been agreed that interest on the Council loan would be allowed to be deducted from profits for the purposes of the calculation.

5.32 Based upon the current trading forecasts provided as part of the NJVG funding and phasing plan, overage would be due to the Council in each year from year 3 onwards.

5.33 Table 5.2 over the page identifies the anticipated overage for the first 10 years of operation. These calculations are based on the proposed trading cashflows submitted by the NJVG. It should be noted that whilst we have only been supplied with a trading forecast for the first 4 years and have estimated the years from 2029 and 2030. It should be noted that overage would be payable to the Council in perpetuity.

Table 5.2 Anticipated overage to be received by the Council

Year	NJVG trading profits £	Less interest on Council loan £	NJVG profit after interest £	Overage threshold plus 2% RPI £	Profits subject to overage £	Council overage @ 20% £
2020	£0	-£157,859	-£157,859	£0	£0	£0
2021	£0	-£396,159	-£396,159	£0	£0	£0
2022	-£25,481	-£630,846	-£656,327	£1,400,000	£0	£0
2023	£121,836	-£1,139,960	-£1,018,124	£1,428,000	£0	£0
2024	£1,842,951	-£1,038,383	£804,568	£1,456,560	£0	£0
2025	£2,048,394	-£644,561	£1,403,833	£1,485,691	£0	£0
2026	£2,067,762	-£231,354	£1,836,408	£1,515,405	£321,003	£64,201
2027	£2,149,894	-£114,365	£2,035,529	£1,545,713	£489,815	£97,963
2028	£2,224,452	-£24,246	£2,200,206	£1,576,627	£623,578	£124,716
2029	£2,292,862	£0	£2,292,862	£1,608,160	£684,702	£136,940
2030	£2,363,429	£0	£2,363,429	£1,640,323	£723,106	£144,621
Total	**£15,086,100**	**-£4,377,733**	**£10,708,367**	**£13,656,480**	**£2,842,205**	**£568,441**

5.34 Overage is expected to kick-in from 2026 onwards, when the loan interest payments to the Council, which are to be deducted from trading profits, have reduced considerably. Once repayment of the loan is complete in 2028, overage is more reflective of the expected quantum at circa £140,000 per year. The cumulative income to the Council over the first 10 years of the development is anticipated to be approximately £0.6m.

5.35 If trading profits continue at or around a similar level after 10 years, the Council will continue to receive annual income of over £140,000 per year, in perpetuity.

Business rates

5.36 All the proposed new facilities delivered by the NJVG will be subject to business rates. For the golf, hotel and clubhouse business rates would be paid by the operator, Celtic Manor, on behalf of the NJVG based upon the rateable value at the current rate of 49.3 pence per pound.

5.37 The rateable value will only be known once construction is complete, trading commenced, and the Valuation Office Agency have assessed the new facilities. For the purposes this report the following rateable values have been assumed:

- £545,000 per annum for the 90-bedroom hotel, based on the existing 117-bedroom Village Hotel in the Wirral
- £130,000 per annum for the signature golf course and associated facilities, based on the existing Royal Liverpool Golf Club.

5.38 Using the rateable values above and applying the 2018/2019 business rate in the pound, it is estimated that once the hotel and golf facilities are fully open, the annual income generated to the Council through business rates will be £360,206

Council tax

5.39 The development proposals assume the delivery of 160 house built by Redrow Homes s and 40 apartments built by McCarthy & Stone.

5.40 At this stage, no formal Council tax banding assessment has been undertaken, however following discussions with the Council team several assumptions have been made regarding the likely housing and apartment bands.

5.41 Applying the 2018/2019 Wirral Council Tax Band H for housing and band E for the apartments, the annual income to the Council generated through Council Tax would be:

- £554,790 per year for residential housing (160 units in Band H at £3,467.44 per house)
- £84,759 per year for residential apartments (40 units in band E at £2,118.98 per unit).

5.42 The total income generated would be £603,465 per annum which increase each year in line with any wider council tax increases.

The Open – obligation with the R&A

5.43 The R&A obligation – under the proposal the NJVG would be under an obligation to continue to provide the facilities necessary for the R&A to hold the open championship in Hoylake. The construction programme in the January 2019 submission has been amended to include the specific requirements of the 2022 Open championship to be held in July 2022 including the car parking obligations.

Summary of financial benefits to the Council

5.44 Table 5.3 below details the potential commercial income to be generated by the resort for the Council, over the first 10 years of the project.

Table 5.3 Total financial benefit to the Council per annum over the first 10 years

Year	Loan interest margin £	Trading overage £	Business rates £	Council Tax £	Total Council income £
2020	-£80,941	£0	£0	£0	-£80,941
2021	-£45,782	£0	£0	£43,227	-£2,555
2022	£230,176	£0	£33,340	£88,183	£351,699
2023	£784,447	£0	£34,006	£207,697	£1,026,150
2024	£728,929	£0	£360,206	£331,955	£1,421,091
2025	£382,087	£0	£367,410	£461,101	£1,210,599
2026	£16,800	£64,201	£374,759	£595,280	£1,051,039
2027	-£51,210	£97,963	£382,254	£734,641	£1,163,648
2028	-£91,573	£124,716	£389,899	£749,334	£1,172,376
2029	-£64,966	£136,940	£397,697	£764,321	£1,233,992
2030	-£13,096	£144,621	£405,651	£779,607	£1,316,783
Total	**£1,794,871**	**£568,441**	**£2,745,222**	**£4,755,348**	**£9,863,882**

Note: Business rates based upon the hotel opening in 2024 and the Golf Course in 2022, with annual increases of 2%. Council tax on residential properties are based on houses being occupied in the year after construction commences and with annual increases of 2%.

5.45 As highlighted in table 5.3 above the total commercial gain over the 10-year period is £10m. The considerable commercial benefit of the loan to NJVG falls away after 2026. The annual benefit to the Council of the overage, the business rates and the Council tax continues in perpetuity.

5.46 In addition, there will be annual savings of £79,000 (£9,000 business rates and £70,000 operational costs currently being paid by the Council) from the operational transfer of the existing Hoylake municipal golf course to the NJVG. Over the next 10 years this will result in £790,000 cost savings for the Council.

5.47 In addition to the annual revenue income and savings, there is a capital receipt generated through the Council land receipt which could be between £1.29m and £4.29m depending on the success of the funding application for the new link road.

5.48 The total financial benefit to the Council is thus estimated at between £11.3m and £14.3m over the next 10 years. This estimate excludes any possible benefit from housing overage or any New Homes Bonus.

5.49 The operating overage, business rates and Council tax receipts will continue in perpetuity.

Non-financial benefits to the Council

5.50 In addition to the financial benefits there are several non-financial benefits which although difficult to quantify will undoubtedly benefit not only the Council, but the residents of The Wirral:

- new link road
- increase in visitor numbers
- retention of the Open Championship
- likely improvement in the quality of greenbelt land
- likely improvement in wildlife habitat
- new jobs
- new apprenticeships
- wider economic impact for the region.

5.51 The non-financial benefits are being considered further by the Council internally.

6. Project risks and mitigation

Introduction

6.1 This section provides an overview of the overall potential project risks and any key risks for the Council in respect of the proposed loan to the NJVG. It further identifies the approach already being, or to be, taken by the Council to mitigate and manage the risks.

Key project risks

6.2 Table 6.1 below identifies the key risks and the approach to managing those risks.

Table 6.1 Project risks and mitigation

	Risk	Risk management / mitigation
1	Planning consent is refused	The NJVG carries the entire risk of obtaining planning permission for the development including paying all costs of applying for the permission – the NJVG propose this is funded by the equity investment. The loan term sheet includes a condition that drawdown of any Council funds will not occur until planning consent is obtained therefore the loan funding does not present any risk. Should planning consent be refused, the Council will be at risk for fees already incurred including: • Advisory fees (£200,000) • Site investigation survey contribution (£100,000 to be finalised) • Legal fees (£75,000) • Officer resource.
2	The NJVG fails to raise the equity investment	NJVG need to raise c.£2.5m of equity investment before any loan drawdown occurs. If they fail to do this than the Council will be entitled to cancel the loan agreement before any loan is made. The Council have been very clear to the NJVG that the level of borrowing is capped at £26m and there will be no further increase to support any failure on their part to deliver the equity investment required.
3	Redrow Homes	One of the key elements of the Council loan is that it will be secured against the land with planning permission, and a contract with Redrow homes to purchase the land at an agreed value. There is a very small risk to the Council that despite a binding contract, Redrow Homes do not complete the land purchases as agreed. This risk is further minimised by: 1. Due Diligence on Redrow Homes has been undertaken and they have been found to be a very large company with significant assets £1.2bn. In addition, they have a large amount of headroom (£230m) in their current funding agreements which is more than enough to fund the £32.5m. 2. The land with planning would be an attractive proposition to other house builders if it came on the market.

	Risk	Risk management / mitigation
4	Redrow Homes conditions on residential land sales	The income from enabling development land sales is fundamental to both the project income and to provide the Council security against the loan. There will be a signed land sales contract between the NJVG and Redrow Homes prior to the drawdown of any Council loan – this is a pre-condition of the loan agreement. The Redrow Homes offer identifies several infrastructure requirements including a haul road and the removal of the pylons that must be completed prior to their contract becoming unconditional. Only once the Redrow Homes contract is unconditional does this guarantee the full £32.5m income to the project. To complete the infrastructure works and to purchase the land, the NJVG will require a substantial drawdown of the Council loan. It is estimated that approximately £8m of the Council loan will be required prior to the Redrow Homes contract commencing which presents a risk to the Council. To manage this risk, the NJVG has proposed to: • allowed 18 months on their programme to fully complete the haul road and to underground the pylons and have included the maximum estimated cost of these works in their submission. They have assumed the worst-case scenario. • limit the maximum exposure in this period to £8m in the loan agreement • ensure a clear and full understanding by all parties, including Redrow Homes, as to the exact scope of the works required • seek a very detailed project programme of the infrastructure delivery • have contracts in place with Scottish Power (undergrounding of the cables), the road builder and any other parties to deliver the works, before any loan drawdown. The Council has the opportunity to review all these contracts as set out in the term sheet. • have the opportunity for the Council to utilise the loan step in rights to enforce the Contracts with Redrow Homes, Scottish Power and any other contracting parties and which would result in the development concluding and therefore the recovery of the Council's £8m loan. In the worst-case scenario, which we consider highly unlikely, if the Redrow Homes contract did not become unconditional, the Council would have invested £8m and would have a site: • of significant scale • with planning consent including for residential development • cleared of pylons and ready for development (noting it is designated as Greenbelt) • a part-built Hoylake relief road • £2m allocated land receipt being held for the completion of the relief road.

	Risk	Risk management / mitigation
5	Delay in the delivery of the infrastructure works	There is a risk in terms of the timescale for the removal of the pylons as their removal is out of the control of the Council or the NJVG. It would depend entirely on Scottish Power delivering the works in line with the agreed programme. To mitigate this risk, the Council and the NJVG need to continue to fully engage with Scottish power and get their commitment to the project timetable with a strong contract in place.
6	Ground conditions	Mitigation – A full site investigation survey will be undertaken in the next stage of the project. Initial surveys along the route of the proposed and conditional road have been undertaken. This is a key risk on the drawdown of both the Redrow Homes and McCarthy and Stone monies. The NJVG funding and phasing plan as submitted assumes there will be no abnormals at the site and consequently there will be no reduction in the offers received from Redrow and McCarthy and Stone.
7	Interest rate rises	The NJVG financial projections are based on current interest rates and the UK base rate. The risk of increase is shared between the Council and the NJVG, with a ceiling on the Council's exposure. If the UK base rate, currently at 0.5%, increases up to 1%, the Council will absorb this risk. Anything beyond 1% will result in an increase to the loan interest rate offered to the NJVG. An increase in interest rate up to 1% will be absorbed by the Council. This will reduce the Council's profit margin on the loan which at present is 3.26% (5.25% less 1.99%) resulting in a reduction in income received by the Council. If base rates rise above 1%, any increase will be passed on in full to the NJVG. For example, if rates rise to 2% then the NJVG would pay interest to the Council at a rate of 6.25%. The risk to the project is the repayments become unaffordable to the NJVG and the project becomes unviable.
8	Project cost increases	The NJVG proposal is based on estimated construction costs prepared by AECOM (and based on limited ground condition information). Whilst the costs include a contingency of c10%, this is still subject to final contractor selection. Any additional costs are wholly the responsibility of the NJVG. There is a risk that costs may increase beyond those contained in the NJVG financial model and as a result the project becomes unviable or requires additional funding. To mitigate the risk, the Council has included as a loan pre-condition, the requirement for the NJVG to submit a fully detailed cost proposal to the Council for approval before any loan drawdown. At the next stage of the project the NJVG will also be undertaking detailed design and engaging a wider team to confirm the project assumptions and projections to ensure they are robust and accurate.

	Risk	Risk management / mitigation
9	NJVG Financial Model	In November 2017, the NJVG financial model and plan submitted as part of the funding and phasing plan was prepared and completed by Grant Thornton Accountants. The revised NJVG funding and phasing plan submission has updated the original Grant Thornton financial model by the NJVG internally. To mitigate this risk, we would recommend that the Council as part of its loan requirements insist the NJVG engage suitably qualified specialists when producing financial models and plans.
10	Trading cash flow over ambitious	In the current NJVG proposal, £6.5m of the Council's loan plus £2m of interest from opening of the resort is scheduled to be repaid through use of the profit generated from the trading cash flow of the golf and hotel operations. In the NJVG financial model it is assumed that 100% of the trading cash flow is used to repay the loan – this is to minimise the timing of the loan repayment period. This presents two risks: 1. Utilising 100% may not be beneficial for the operation of the facilities – as it could impact quality of service, it is also in a period when building a business needs some flexibility 2. Operational performance may fluctuate beyond normal parameters – the NJVG wouldn't have sufficient cash available to support the repayments. The impact of this would be it takes longer than expected to repay the loan. The risks associated with the trading cash flow are to be managed by: • the Loan preconditions are clear that before any drawdown the NJVG must present a detailed complete business plan. This will enable the Council to fully test the robustness of both the plan and the assumptions behind it to ensure that the business is capable of generating the trading profits projected. • in the Council's internal calculations and models, it may be prudent to reduce the percentage of the trading cash flow assumed to support the repayments. This would result in an increase in the length of the loan by a year or maybe two, however it would reduce the risk of missed payments. This should be an internal exercise and the NJVG should be working to maximise the repayments. • Should the NJVG miss the proposed repayments then the Council would have step in rights to take over the assets of the NJVG. At that time, the assets are likely to have significant value (and thus in reality allowing for the NJVG to refinance and repay the outstanding loan to the Council). In these circumstances the Council would have a strong hand in any subsequent negotiations. • the NJVG engaged Fourth Street, a specialist advisor to review and analyse their proposals and particularly the trading cashflows. Their review supports many of the headline assumptions in respect of the trading cash flows and provides an additional level of due diligence.

7. Development Agreement

Introduction

7.1 This Section considers the impact of recent discussions and the NJVG submission on the signed Development Agreement, and any amendments that may be required to reflect the agreed positions with the NJVG.

Required to the Development Agreement

7.2 Table 7.1 identifies the areas of the Development Agreement for consideration and review.

Table 7.1 Development Agreement considerations

Land acquisition and transfer	The existing development agreement assumed that the land transfers in respect of the Council land would be transferred to the NJVG after the completion of the development. The Development Agreement needs to be amended to reflect the agreed position as proposed by DWF and subsequently by the Council's in-house legal team, in respect of the strategy to maximise security and minimise SDLT as set out in section 4.7 above.
Council loan	The existing agreement assumed that there would be a third-party funder, whilst it does not specify the funder the agreement assumes it is not the Council. The agreement needs to be amended to reflect the Council as principal funder.
Overage	The agreement does not specify in detail the overage amounts due to the Council which have now been agreed. The agreement needs to reflect both the residential land sales overage and the trading profit overage.
Step in rights	Whilst the agreement has step in rights, it may need to be amended to reflect that the Council is now also the principal funder.
Key project dates	The existing agreement needs to be reviewed in detail to ensure that all the key dates contained within it are still valid and amended accordingly.

7.3 As the table above indicates there are some key aspects of the current Development Agreement that require further consideration. The Council in consultation with their legal advisors DWF have developed a draft addendum to the Development Agreement. Further amendments may be required by the in-house legal team to reflect the Redrow HOTs.

8. Summary and next steps

Summary

8.1 The NJVG have brought together a strong team to deliver a world class golf resort in Hoylake. They have in-principle Heads of Terms or formal offers from key partners and contractors including Nicklaus Design for the golf courses, Redrow Homes for the housing, McCarthy and Stone for the apartments, Scottish Power for the undergrounding of the electricity pylons and Celtic Manor for the long-term operation of the golf facilities, hotel and clubhouse. 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 and presents a significant opportunity to deliver an internationally renowned development in the heart of Wirral.

8.2 The resort is anticipated to cost £48 million and will be funded through a mix of equity investment, land receipts from enabling residential development and use of the trading cashflows once the resort is operational. Due to the phased receipt of land receipts from Redrow Homes, the NJVG has requested a short-term loan from the Council to facilitate the development. Whilst it was never the intention of the Council to have a funding role in the project, the request has been considered in the context of the security offered by the deal with Redrow Homes.

8.3 The request is for the Council to provide £26m loan (cash advance of £24m plus rolled up interest of £2m), using prudential borrowing, which will be repaid over a period of 8 years by the NJVG. The use of Prudential Borrowing from the PWLB provides lending at an interest rate that facilitates the delivery of the development. Critical to the Council is the security of the loan provided; the analysis suggests the level of security offered by the NJVG is at all times significantly above the loan amount.

8.4 The two most significant risks to the project are:

a) obtaining a successful planning permission for the development in land designated as Greenbelt

b) the deal with Redrow Homes is conditional upon the infrastructure works being complete including the undergrounding of the pylons. The NJVG intend to drawdown c£8m of the project loan from the Council prior to the Redrow Homes contract being unconditional.

8.5 The risk for planning sits firmly with the NJVG and it is a condition of the loan drawdown that the NJVG must have obtained planning consent before any drawdown of Prudential Borrowing commences.

8.6 The NJVG have provided an outline programme of the works required to meet the conditions set out by Redrow Homes and in principle it appears this can be achieved. This is supported by initial discussions with Scottish Power regarding the undergrounding of the electricity pylons and the obligation to deliver the road and the option for the Council to review and approve all contracts in the loan term sheet. Site investigation surveys, further detailed programming, cost certainty and contracts in place with the key contractors will be essential to minimise the Council exposure.

8.7 The project has the potential to generate between £11.3m and £14.3m of income for the Council over the next 10 years, including:

- £1.8m income generated through interest paid by the NJVG on the loan
- £250,000 loan arrangement fee
- land receipt of up to £4.29m
- up to £400,000 income per annum in business rates
- up to £750,000 income per annum in Council tax
- circa £140,000 per annum (from 2026) in ongoing revenue stream from the operational overage arrangement. Note this is not guaranteed and depends on the performance of the resort.
- saving of £79,000 per annum from the operational transfer of the existing Hoylake municipal

8.8 This estimate excludes any possible benefit from housing overage or any New Homes Bonus. The operating overage, business rates and Council tax receipts will continue in perpetuity.

8.9 Furthermore, there are the indirect benefits to the Council including:

- new Nicklaus designed municipal course
- delivery of the Hoylake relief road
- increase in visitor numbers
- retention and enhancement of the Open Championship
- likely improvement in the quality of greenbelt land
- likely improvement in wildlife habitat
- potential jobs
- potential apprenticeships
- wider economic impact for the region.

8.10 The project is now at a stage where the in-principle agreement of the Council to provide a £26m loan to the project is critical for the NJVG to move forward. Overall, the project requires support from the Council however the benefits to the authority and residents are significant. Without the Council support, it is likely the project will cease.

8.11 There is significant more work to be undertaken by the NJVG in developing the planning application, developing the detailed project plan and agreeing contracts with key partners that will provide additional certainty and comfort to the Council risk exposure. There are appropriate measures in place in the term sheet to provide the Council will maximum assurances and minimise risk prior to any drawdown of funds from the Council.

8.12 Importantly, if the NJVG request is approved by Cabinet, the Council should update the Development Agreement and formalise the term sheet with its advisors and the legal team as soon as is reasonably possible.

Next steps

8.13 Following approval of the NJVG submitted project funding and phasing plan by the Council as required under the development agreement the next steps would be to:

- complete the amendments to the Development Agreement as set out in Section 7 above
- draft the Loan Agreement on the terms set out in the Term Sheet.

8.14 Once these steps have been completed this will give the necessary security and confidence for the NJVG to progress with their partners the detailed design and contracting to submit a detailed planning application later this year.

8.15 In addition, once these agreements are in place, they will be in a position to secure their final equity injections needed to progress the project.

8.16 As the NJVG progresses the project the Council will need to develop a mechanism to review all contracts, documents and the future design development to ensure that they are comfortable with the risks and that they comply with both the amended development agreement and with the loan agreement including all the loan preconditions.

Contact details

8.17 For further information about any aspect of this report please contact:

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