NOT FOR PUBLICATION

Agenda Item 5

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

EXEMPT REPORT

WIRRAL

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.

EXEMPT

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. [redacted] In headline terms the proposal has the following key features:

- [redacted]
- [redacted]
- [redacted]
- Details of the Equity Investors and the amounts proposed,
- [redacted] 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.

[redacted]

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.

[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]

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	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. The drawdown of any Council funds will not occur until planning consent is obtained therefore affording protection to the Council.
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

[redacted]

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

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

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-andliving/equality-diversity-cohension/equality-impact-assessments/eias-2010

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Director of Finance and Investment.

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	7th November 2016
Cabinet	18th December 2017

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

ipw...

Contents

EXEMPT

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.

EXEMPT

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 [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

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:

[redacted]

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.

EXEMPT

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.

Capital costs

2.12 The capital costs to deliver the scheme are estimated to be [redacted]. A summary is included in Table 2.1.

Table 2.1 Summary of capital costs

Item	Cost £
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
Total	[redacted]

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 [redacted] 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 [redacted] 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.

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.

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 [redacted]

[redacted]

Funding strategy

2.19 The costs for delivery of the scheme are estimated to be [redacted] 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 [redacted] together with permission for [redacted]. 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 [redacted] The land for the apartments is to be sold to McCarthy and Stone for [redacted].

2.21 The deal with Redrow Homes and McCarthy and Stone provides the majority of the funds needed to complete the development [redacted]), with other funds coming from equity partners [redacted]), including sweat equity, the Council's recycled land receipt [redacted]) and ultimately from the profits generated by the development [redacted]).

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 £
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

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 [redacted] 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:

[redacted]

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 [redacted] initial loan and [redacted] 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 [redacted] is scheduled to be in [redacted]

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 [redacted].

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 [redacted].

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 [redacted]

3.11 [redacted]

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

[redacted]

3.13 [redacted]

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 [redacted]

3.18 The proposed interest rate of [redacted] negotiated with the NJVG is [redacted] 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 [redacted]

[redacted]

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

[redacted]

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 [redacted] 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 o[redacted] are being used to repay the loan.

3.28 [redacted]

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 [redacted] 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:

[redacted]

[redacted]

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.

[redacted]

[redacted]

[redacted]

[redacted]

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

	the necessary planning consent from the planning authority, including permission for the infrastructure and residential development to enable the development to proceed.
Costed development	The NJVG will supply to the Council an updated, detailed and programme 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	The residential land sales contract (housing and apartments) contracts 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 [redacted] (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, [redacted], based upon the commercial offer from Redrow Homes. The NJVG has already received a formal offer from Redrow Homes to purchase the residential land [redacted]. Their offer states that the land will be purchased as [redacted]

Residential development – housing

4.13 [redacted]

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 [redacted] at a value [redacted]. This is a significant income for the project and is subject to several conditions, including:

[redacted]

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 [redacted] (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 [redacted]

[redacted]

Table 4.2 Residential land value as security against the loan

[redacted]

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.

[redacted]

Table 4.3 Security offered compared to the outstanding loan amount

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, [redacted]. 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 [redacted] 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 [redacted]

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 [redacted] on the loan to the NJVG.

[redacted]

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 [redacted] (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 [redacted] 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 [redacted]

5.15 [redacted]

5.16 [redacted]

New municipal golf course

5.17 [redacted]

[redacted]

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

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 [redacted]. 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 [redacted] 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 [redacted]

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 [redacted]. 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 [redacted]

5.28 However, it is important to note:

[redacted]

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 [redacted]

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 [redacted]

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

[redacted]

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 [redacted]. The cumulative income to the Council over the first 10 years of the development is anticipated to be approximately [redacted]

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 [redacted], 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 [redacted]

[redacted]

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.

[redacted]

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.

[redacted]

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 [redacted] 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 [redacted]

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 [redacted] depending on the success of the funding application for the new link road.

5.48 [redacted]

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 [redacted] • Site investigation survey contribution [redacted] • Legal fees [redacted] • Officer resource.
2	The NJVG fails to raise the equity investment	NJVG need to raise [redacted] 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	[redacted] 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: [redacted]

REDACTED PAGE

	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	[redacted]	[redacted]
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 [redacted], 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.

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	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.

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 cos[redacted]nd 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 [redacted] plus rolled up interest of [redacted], 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

[redacted]

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 [redacted]

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.

[redacted]

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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 [redacted] on the loan to the NJVG.

[redacted]

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 [redacted] (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 [redacted] 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 [redacted]

5.15 [redacted]

5.16 [redacted]