

REPORT TO: COUNCIL

DATE: 28 AUGUST 2001

SUBJECT: GLENELG FOOTBALL CLUB FUNCTION CENTRE PROPOSAL - REQUEST FOR FINANCIAL SUPPORT

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FILE REF:

#### ABSTRACT OF REPORT

*Council provided "in principle" support for the Glenelg Football Club Function Centre proposal in March 2000. In doing so Council advised the GFC that, subject to a number of conditions, Council would be prepared to advance in the order of \$2m for the construction of the Function Centre to be repaid by the Club over a 25 year term.*

*The Glenelg Football Club is now in a position of having met all the conditions necessary to proceed with the Function Centre and has requested that Council support the project through advancing the Club \$2.5m for the Function Centre construction and by providing financial contributions to infrastructure items incorporating capital works to the car park and upgrading of the power supply.*

#### REPORT DETAILS

This item should be read in conjunction with confidential item 12.2.

The purpose of this report is to consider the extent of Council's financial support for the Glenelg Football Club Function Centre proposal and to identify a source of funds for any financial assistance.

#### Background

Financial support for the Glenelg Football Club Function Centre proposal was first considered by Elected Members at the December 1999 meeting of the Finance and Corporate Services Committee where Council gave "in principle support" for advancing funds in the order of \$2,000,000 on the basis that the advance would be repaid in full with interest over a period of not greater than 25 years (FCS99/0088).

This commitment was later confirmed at the March 2000 meeting of the Finance and Corporate Services Committee when the financial viability report for the Function Centre proposal prepared by the GFC was considered. As a consequence of the Club demonstrating the financial viability of the proposal, Council passed the following resolution:

**FCS00/0027** Cr Deakin moved and Cr Wessel seconded that the Committee recommends that:

1. \$60,000 being the balance of loan funds remaining for allocation within the 2000/2001 draft budget be allocated as a maximum towards the preparation of working drawings and specifications and engineering details to secure planning and building consent for the works associated with the Glenelg Football Club Function Centre;
2. Subject to obtaining planning and building consent and funding being available, council advance funds in the order of \$2,000,000 to the Glenelg Football Club on the basis that the advance will be repaid in full with interest at the local government loan borrowing interest rate over a period of not greater than 25 years, and that the loan be secured by a charge over all the available assets of the Glenelg Football Club to a maximum of the loan amount.
3. Subject to public consultation, council enter into a lease agreement with the Glenelg Football Club for a period not greater than 25 years for those areas currently let to the Club and the new Function Centre at a rental consistent with the amount currently paid for the oval rental plus loan repayments on the existing \$150,000 advance and loan repayments for the future loan advance of up to \$2m for the construction of the Glenelg Football Club Function Centre;
4. The Glenelg Oval Complex car park extension and upgrade estimated to cost \$100,000 be considered for inclusion within the 2000/2001 capital works program

Since that time, the Club, with Council's financial assistance of \$60,000, has conducted a "design and construct" tender process for the construction of the Function Centre. The tender process identified that the cost to construct the Function Centre will exceed the original estimate of \$2m and is now estimated to cost \$2.5m (Note: This amount includes approximately \$300,000 for a necessary upgrade of the existing facilities).

In addition, there is an estimated cost of \$191,000 for upgrading the car park and associated infrastructure and fit out costs of approximately \$130,000. This brings the total cost of the project to an estimated \$2.821 million.

#### **Request for Financial Assistance**

GFC Chief Executive, Jeff Zadow, advised then CEO, Doug Ayles of the most recent cost estimates in correspondence dated 4 June (attachment 1) and requested that Council support the project financially as follows;

- Council upgrade of the public infrastructure (incorporating, car park construction and lighting, upgrading power transformer, implementation of stormwater retention system) - \$191,000;
- Council advance a loan of \$2.5m to be repaid by the Club with interest over a 25 year term;
- Council provide a concessional rate of interest "such that annual repayments are kept well within the \$200,000 limit previously determined as prudent".

The CEO of the Glenelg Football Club, in discussions with Administration, has maintained his view that Council should contribute to the project for two reasons:

- a) As lessor, Council is obligated to make available sufficient car parking, power supply etc., to the lessee;
- b) The Holdfast Bay community and community groups will derive some benefit from the construction of the proposed Function Centre and therefore, it is reasonable that Council contribute in part to the overall cost of construction.

In a commercial environment it is true that a lessor may be willing to provide capital infrastructure on behalf of a lessee, however in that situation this capital would normally be recovered through increased lease fees reflecting the improved asset being leased. This is not a valid argument in this case as the Function Centre proposal is purely based on the GFC meeting the loan repayments and consequently there is no scope for Council as lessor to recover the additional capital contribution.

Alternatively, the Glenelg Football Club already provides facilities for community groups and the community at large, and this issue has been a key part of recent lease renewal negotiations, therefore the argument that Council contribute to the proposed facility as there is community benefit is valid.

#### **Upgrading of Public Infrastructure**

The Club has indicated an estimated cost of \$191,000 for the construction of "public infrastructure" based on the tender responses for the Function Centre proposal. This figure incorporates construction of the new car park on the Croquet Club land, car park lighting, a storm water retention system and an upgrade of the facilities power supply. Of these items, the upgrade of the power supply is not considered to be an item of "public infrastructure" and therefore is not recommended for financial support from Council. To assist the GFC in meeting this cost (\$50,000), it is recommended that the cost of the upgrade of the power supply be added to the \$2.5m advance to be repaid to Council.

In addition, it is believed that the ERD Court will require the construction of a 1.8m high fence or masonry wall along the length of the northern boundary of the car park. The construction of this wall is conservatively estimated to cost \$15,000.

#### **Advancing of \$2.5M loan**

The Council will be required to borrow the \$2.5m advance for the Glenelg Football Club, but this should not affect Council's cash flow as it is intended that the Club will repay an amount equal to the loan repayments as the lease fee. Timing of the draw down of the loan will be the key issue so that the opportunity for the Function Centre to be operational, and hence generate revenue, prior to the first loan repayment is maximised. Stamp duty payable on the loan will be in the order of \$8,500.

While advancing the loan to the GFC will not have an impact on cash flow, Council is the party liable to meet the loan obligations and this remains the case even if, for whatever reason, the GFC does not meet its loan repayments. While the March 2000 resolution referred to securing the loan by a charge over the assets of the GFC, the net assets of the GFC were only recorded as \$84,884 as at 31 October 2000 and consequently, Council is exposed to substantial financial risk by underwriting the loan.

In an attempt to minimise this perceived risk, KPMG Assurance and Advisory have been engaged to review the financial viability report prepared by the GFC to increase Council's confidence in the information that has been provided. The KPMG review identified a number of small errors, which have been rectified and commented, where appropriate, on the validity of the key assumptions made in the report. The financial viability report, which did not include a forecast balance sheet, is based on the operation of the Glenelg Footballers' Club, which is the licensed operation of the Glenelg Football Club. The surplus from the operation of the Footballers' Club is donated to the Football Club at the end of each financial year

The KPMG report reviewed two financial viability scenarios for the Function Centre proposal from the GFC referred to as the "medium" scenario and the "low" scenario. The main difference between the two scenarios is the interest rate charged by Council on the proposed loan. The medium scenario incorporates a concessional rate of interest from Council on the \$2.5m loan (calculated at 5%pa) and results in a net surplus after loan/lease payments for both the 2002 and 2003 financial years (refer confidential item).

The Low scenario incorporates the GFC having to pay the full interest expense calculated at 7%pa. This more conservative model also results in a net surplus after loan/lease payments for both the 2002 and 2003 financial years (refer confidential item).

Both scenarios indicate that there is a reasonable surplus after loan repayments, and therefore it can be anticipated that sufficient capacity will exist for the Club to meet the loan repayments as they fall due. It must be recognised though that reductions in the surplus from the Footballers' Club operations will result in smaller donation being available for the Football Club.

KPMG believed that the estimates of expenditure in the financial viability reports were conservative in both the medium and low scenarios. From a revenue perspective, KPMG identified that while the original marketing report by McGregor Tan Research identified a market for a 300-seat venue, it failed to quantify the level of demand for such a facility.

Further, the competitive analysis only reviewed relatively near by facilities and it is possible that the target market would consider competitors in a wider area. In conclusion, it is considered that the potential revenue from the Function Centre operation will be driven by effective marketing of the facility and that no firm conclusions can be made regarding the validity of the revenue estimates in the financial viability reports. The full "Function Centre Viability – Forecast Review" prepared by KPMG Assurance and Advisory has been distributed as a confidential item in Council's agenda.

#### **Concessional rate of Interest**

The GFC has requested that Council provide a concessional rate of interest on the loan "such that annual repayments are kept well within the \$200,000 limit previously determined as prudent". The financial impact on Council of agreeing to this type of arrangement can only be determined when the interest rate payable on the borrowing is determined. For example, in July 2001 Council borrowed at a rate of 6.25%, which on a loan of \$2.5m would represent annual repayments over a 25-year term of \$199,000. Alternatively if interest rates increased by 1 percent, that is 7.25%, prior to borrowing the funds, the annual repayments given the same terms and conditions would be \$218,000 per annum. Under this second scenario, Council would be in a position of subsidising the loan by \$18,000pa if it was to fix the annual repayment amount by the GFC at \$200,000.

As a guide, Council borrowed at an interest rate of 6.9% in June 2001 and 7.25% in October 2000 therefore it is reasonable to expect that a Council's subsidy could realistically be in the order of \$10,000 - \$18,000 depending on when the loan funds were drawn down.

It is recommended that, as a maximum, Council only provide a subsidy to the extent that the loan repayments exceed \$200,000 per annum in the short term while the Function Centre is being established. Long term assistance by Council of this nature would tend to suggest that the Function Centre proposal is not self funding and consequently not financially viable.

#### **Funding the Function Centre Proposal**

Council considered a discretionary allocation in the 2001/2002 Budget of \$300,000 for the Function Centre proposal but this was not included in the adopted budget. The table below presents a funding option for each item that the GFC has requested and Council contribution additional costs that have been identified subsequent to their correspondence.

| ITEM                                    | SOURCE OF FUNDS   | AMOUNT   |
|---|---|----------|
| Construction of Car park (Croquet Club) | Off Street Car Park Reserve   | \$95,000 |
| Car park Lighting                       | Off Street Car Park Reserve   | \$14,000 |
| Landscaping work in Car Park            | Glenelg Oval Complex 2001/2002 budget allocation (\$50,000 available) | \$30,000 |
| Stormwater Retention System             | Glenelg Oval Complex 2001/2002 budget allocation (\$50,000 available) | \$12,000 |

| ITEM   | SOURCE OF FUNDS                   | AMOUNT           |
|--|-----------------------------------|------------------|
| Concessional Interest / Lease fee Subsidy (2001/2002 only) | To be determined if required      | \$9,000          |
| Transformer Upgrade  | GFC expense or add to \$2.5m loan | \$50,000         |
| Stamp Duty on Loan Funds                                   | GFC expense or add to \$2.5m loan | \$8,500          |
| Short Term Finance Costs                                   | GFC expense or add to \$2.5m loan | unknown          |
| <b>TOTAL</b>   |                                   | <b>\$233,500</b> |

An amount of \$9,000 has been included for a concessional interest / lease fee subsidy for the 2001/2002 financial year. This is based upon:

- The GFC contributing a maximum of \$100,000 per half yearly loan repayment (\$200,000 pa); and
- \$2.5m being borrowed at 7.25% and only 1 half-yearly loan repayment of \$109,000 being due during this financial year.

It is recommended that a concessional rate of interest / lease fee subsidy only be provided for the first three loan/lease payments (18 months) to provide some financial relief (if required) during the start up phase of the Function Centre.

*NOTE: A subsidy would not be required at the current interest rate as the repayment amount would be less than the \$200,000 and hence a source of funds has not been identified.*

In summary, the proposed sources of funds for Councils contribution to the Function Centre proposal are:

- Offstreet Car Park Reserve - \$109,000
- 2000/2001 Glenelg Oval Complex budget allocation (\$15,000 available) - \$15,000
- 2001/2002 Glenelg Oval Complex budget allocation (\$50,000 available) - \$42,000
- Additional loan funds advanced to the GFC - \$58,500 plus any short term finance costs

#### DIRECTOR FINANCE'S RECOMMENDATION

THAT:-

1. COUNCIL PROVIDE FINANCIAL SUPPORT FOR THE CONSTRUCTION OF THE PROPOSED FUNCTION CENTRE AT THE GLENELG OVAL COMPLEX AS FOLLOWS:
  - 1.1. COUNCIL WILL ADVANCE AN AMOUNT OF \$2.5M TO THE GLENELG FOOTBALL CLUB FOR THE CONSTRUCTION OF THE PROPOSED FUNCTION CENTRE ON THE BASIS THAT THE ADVANCE WILL BE REPAID IN FULL WITH INTEREST OVER A PERIOD NOT GREATER THAN 25 YEARS;
  - 1.2. THE COST OF THE TRANSFORMER UPGRADE, STAMP DUTY FOR THE LOAN AND ANY SHORT TERM FINANCE COSTS ASSOCIATED WITH FUNDING THE CONSTRUCTION OF THE PROPOSED FUNCTION CENTRE BE PAID BY THE GLENELG FOOTBALL CLUB AS THEY FALL DUE OR ADDED TO THE TOTAL PRINCIPAL AMOUNT OF THE ADVANCE;
  - 1.3. THE LOAN WILL MATURE WITH A "BALLOON" PAYMENT DUE ON THE ON THE THIRTIETH HALF YEARLY LOAN REPAYMENT AT WHICH TIME THE PRINCIPAL OUTSTANDING MAY BE REPAID IN FULL OR RE-FINANCED UNDER NEW TERMS AND CONDITIONS;

1.4. COUNCIL WILL CONTRIBUTE TO THE COST OF SPECIFIC CONSTRUCTION ITEMS AS FOLLOWS:

| ITEM                                    | SOURCE OF FUNDS                                       | AMOUNT           |
|---|---|------------------|
| CONSTRUCTION OF CAR PARK (CROQUET CLUB) | OFF STREET CAR PARK RESERVE                           | \$95,000         |
| CAR PARK LIGHTING                       | OFF STREET CAR PARK RESERVE                           | \$14,000         |
| LANDSCAPING WORK IN CAR PARK            | 2001/2002 BUDGET ALLOCATION GLENELG OVAL COMPLEX      | \$30,000         |
| STORMWATER RETENTION SYSTEM             | 2001/2002 BUDGET ALLOCATION GLENELG OVAL COMPLEX      | \$12,000         |
| MASONRY WALL CONSTRUCTION               | 2000/2001 BUDGET CARRY FORWARD - GLENELG OVAL COMPLEX | \$15,000         |
| <b>TOTAL</b>                            |   | <b>\$166,000</b> |

- 1.5. COUNCIL WILL SUBSIDISE THE FIRST 3 ONLY HALF YEARLY LOAN/ LEASE PAYMENTS TO THE EXTENT THAT THEY EXCEED \$100,000; AND
2. SUBJECT TO WRITTEN CONFIRMATION FROM THE GLENELG FOOTBALL CLUB THAT IT INTENDS TO PROCEED WITH THE FUNCTION CENTRE PROPOSAL BASED ON THE TERMS AND CONDITIONS IDENTIFIED ABOVE:
- 2.1. ADMINISTRATION COMMENCE PREPARATION OF THE NECESSARY VARIATIONS TO THE LEASE DOCUMENT TO INCORPORATE THE REPAYMENT SCHEDULE FOR THE \$2.5M ADVANCE;
- 2.2. COUNCIL'S BUDGET BE AMENDED IN ACCORDANCE WITH THE IDENTIFIED VARIATIONS AT THE NEXT BUDGET REVIEW.



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