

Item No: **14.8**

Subject: **GLENELG FOOTBALL CLUB – BUSINESS STRATEGY**

Date: 27 August 2013

Written By: General Manager Corporate Services

General Manager: Corporate Services, Mr I Walker

SUMMARY

Glenelg Football Club and Glenelg Footballers Club have approached Council to increase its borrowing in order to implement strategies to restore the clubs to long term financial viability.

RECOMMENDATION

- 1. Council notes the strategies being developed by Glenelg Football Club to improve its financial viability.**
 - 2. Council approves advancing new loans up to \$500,000 to the Club repayable over a term to be negotiated.**
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COMMUNITY PLAN

A Place for Every Generation
A Place to do Business
A Place that Welcomes Visitors
A Place that Provides Value for Money

COUNCIL POLICY

Borrowing Guidelines for Community Organisations

STATUTORY PROVISIONS

Not applicable

TRIM Reference: B343

BACKGROUND

The Glenelg Football Club is a cornerstone sporting and community centre in Holdfast Bay. It occupies a site leased from Council for a term expiring on 30 June 2022 with current rent around \$69,000 pa.

In 2001 Council entered into a loan agreement with the Club under which the Club borrowed \$2.5 million from Council to fund its building redevelopment and upgrade program. The loan was drawn down in 8 tranches reflecting its progress payments during the building work. Council funded the loan by borrowing from the Local Government Finance Authority (LGFA) and on-lending to the Club on identical terms (ie. a 'back-to-back' loan).

In 2010, Council successfully negotiated some amendments to the loan agreement such that Council's security interest was further improved by joining the Glenelg Footballers Club as borrower and registering a security interest. The loan is secured by a deed of charge over the assets of the two related clubs (ie. Glenelg Football Club and Glenelg Footballers Club). The clubs are unable to dispose of charged assets without Council's consent.

More recently, at its meeting on 11 December 2013, Council resolved as follows:

'That Council consents to restructuring its loans to Glenelg Football Club and Glenelg Footballers Club to provide a 24 month interest-only term and consolidated into a single facility provided that there is no financial loss to Council and that the clubs meet Council's costs incurred in restructuring and documenting the new facility.'

The loans were not consolidated because of the significant 'break costs' involved (charged by a lender when prematurely terminating a loan at higher fixed interest rates), but the loans to the clubs have been amended to provide a 24 month interest only period.

As at 19 August 2013, the aggregate loan outstanding was \$1,804,854.

REPORT

Like other SANFL clubs, the Glenelg Football Club is facing challenging business conditions. It is experiencing a downturn in patronage at games and its function centre, placing a strain on its financial position. In more recent times, its chief executive officer has recently resigned and the Club's board is working hard to develop and implement strategies to return the Club to a more viable financial position.

In recent weeks, Council staff has met with officers from the Club, including board members, to discuss the Club's situation and explore options to improve its cashflow. Arising from these discussions, the Club has submitted a formal request to Council for it to make a 're-draw' on its loan from Council. The Club has approached traditional bank lenders however because the Club is not the owner of the land and buildings, it is unable to provide any security to support a loan.

Refer Attachment 1

As previously noted, the original loans have been progressively repaid such that the balance outstanding is now \$1.8 million. The Club is seeking to increase the loans by up to \$500,000 on similar terms and conditions. Council's policy provides that it borrows from the LGFA and on-lends to community organisations on identical terms other than an additional administrative credit margin of 0.5%. Enquiries with the LGFA indicate that Council could borrow up to for a term of 10 years at a rate of 5.75% pa.

The additional loan to the Club will provide it the working capital necessary to re-invest in its business activities to increase patronage and improve its longer term financial viability. The Club's strategies are more fully detailed in its letter.

An increase in the loan to the Club will have minimal impact on Council's key financial targets. Council's operating result, net financial liabilities and interest cover ratio will not be adversely affected. Council will be assuming counterparty risk (ie. the risk that the Club will not be able to service its loans but Council will still need to service its loans from the LGFA) however Council retains security over the land and buildings leased to the Club.

The alternative option, of not advancing a loan, will put the Club into a precarious position whereby it may become financially unviable, putting the existing loans at greater risk. For the year ended 31 October 2012, the Glenelg Football Club reported a net deficit of \$70,797 and the Glenelg Footballers Club a net surplus of \$328,759 (as per the clubs' audited accounts). This included an abnormal item of revenue of \$240,000 by way of a grant. For the 9 months ended 31 July 2013, the two clubs have reported an unaudited net deficit of \$184,763.

BUDGET

Advancing a further loan to the Club will have minimal impact on Council's 2013/14 budget as Council will borrow from the LGFA and on-lend to the Club at a higher rate.

LIFE CYCLE COSTS

The loan will have minimal impact on Council's financial performance in the future. In the event Council resolves not to advance a loan to the Club, there is a significant risk that the Club could fail financially and place Council's existing loans at risk.

Attachment 1



August 20, 2013

Mr Justin Lynch
Chief Executive Officer
City of Holdfast Bay

Dear Justin

Re: Proposal for the Glenelg Football Club to redraw the \$2.5 million loan facility with the City of Holdfast Bay.

Since it's inception in 1920, the Glenelg Football Club has been at the heart of the Glenelg community. The club, the players, and the oval have been central to the lives of generations of local families.

The history of the Glenelg Football Club is also the history of our local community.

Many legendary Tiger players and administrators have been passionate and dedicated 'Glenelg people' – not just club stalwarts, but people who have equally had the best interests of their community at heart.

During the past 93 years, a strong and effective partnership has been forged between the Glenelg Football Club and the local Council. Indeed, it was the then Mayor of Glenelg who called that first meeting in 1920 to inaugurate the club.

For that partnership to remain strong, and for the Glenelg Football Club to remain at the heart of the community for the long term, the club must establish a sound and sustainable financial position.

The Glenelg Football Club, like many organisations and businesses throughout our State and nation, is suffering as a result of the difficult economic conditions.

The Club's cash flow position has been significantly reduced due to the \$300,000 operational loss reported for 2012, after grant adjustments, and a range of current factors including:

- the weather conditions experienced during the 2013 SANFL season, impacting on crowd numbers at Glenelg home games
- the disappointing performance of our league team this season, which has also significantly impacted crowd numbers
- legal expenses exceeding \$135,000 associated with the Glenelg Oval lights development

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Harvey World Travel Glenelg

- the under-performance of the Glenelg Oval Function Centre and Venue due to various factors.

As a result, a further \$300,000 loss is forecast for 2013, which raises real and significant long-term viability concerns for the Glenelg Football Club.

A Glenelg community without the Glenelg Football Club is inconceivable. A strong and viable Glenelg Football Club – in partnership with the City of Holdfast Bay – is essential to underpin a strong and prosperous future for the local community.

It is for this reason the Glenelg Football Club seeks the Council's approval to redraw the existing \$2.5 million finance facility with the City of Holdfast Bay. The current balance of this facility is \$1.7 million due to the Club making considerable repayments.

The security the Council holds over the assets of the Glenelg Football Club prevents the Club from considering other financial options.

The Glenelg Football Club is seeking your approval to redraw \$300,000 initially, with the ability to draw up to \$500,000. The Club would be seeking to have this redraw aligned with the existing loans to the end of December 2014. At this point the Club would look to renegotiate the principal repayments.

This financial support will restore positive trading conditions with a number of creditors, ensuring the Club can conduct more efficient business operations and enhancing our ability to grow future revenues.

Approving the redraw proposal will also allow the Glenelg Football Club to undertake immediate and necessary upgrades to player facilities (to meet Occupational Health and Safety requirements), and the Club's function and bistro facilities.

Together, these upgrades will deliver a much improved asset for the Glenelg community, and a more valuable asset for the City of Holdfast Bay.

We have already engaged a hospitality consultant to review the efficiency of our business and provide recommendations on strategies to increase revenue, with the Council's approval for the redraw proposal, the Glenelg Football Club will immediately institute a number of key measures to support the Council's on-going investment, and the Club's long-term viability including:

- Settle a large number of creditors which will ensure commercially competitive payment arrangements

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Physio Xtra

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Hermann's Office Products

Depot

Acet Coatings

Harvey World Travel Glenelg

- Update existing signage at the venue
- Implement a much needed maintenance program for the facility.
- Conduct staff training to improve service levels for patrons and efficiencies in their specific roles
- Develop and implement a targeted marketing strategy to drive specific areas of the business

Critically, potential savings of approximately \$250,000 across the operations of the Glenelg Football Club have already been identified. These savings will primarily be achieved by reducing wage costs through restructuring various positions within the business and improving operational efficiencies due to improved processes, systems and reporting.

The Club's operational management will be restructured to ensure more robust management tools are in place, and the Club's Football Department will also be restructured to deliver cost savings and ensure more efficient use of resources.

A key aim of restructuring the Football Department will be an increased focus on engaging with the local community, especially local schools and sporting clubs.

Discussions with local schools are already underway to explore ways that they can make greater use of the Glenelg Football Club's facilities. A number of recent meetings have also strengthened the relationship between the Club and the Glenelg Primary School.

To further support the Club's long-term viability, the Glenelg Football Club Board has been restructured. Our Board now has a much stronger accountancy focus, which will help to ensure better financial governance.

The Board is united in its commitment to the long-term viability of the Glenelg Football Club, and looks forward with great enthusiasm to building our partnership with the City of Holdfast Bay for the benefit of the community.

Yours sincerely,


Nick Chigwidden

President

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