

Item No: **14.2**

Subject: **GLENELG FOOTBALL CLUB – LOAN REPAYMENT**

Date: 14 October 2014

Written By: Manager Financial Services

General Manager: Corporate Services, Mr I Walker

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### **SUMMARY**

Glenelg Football Club and Glenelg Footballers Club have approached Council to continue interest-only terms on existing loans in order to assist the clubs in on-going strategies to restore their long term financial viability.

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### **RECOMMENDATION**

**That Council consents to the Glenelg Football Club and the Glenelg Footballers Club continuing interest only repayments on existing loans for a further 24 month period.**

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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**

Treasury Policy  
Borrowing Guidelines for Community Organisations

### **STATUTORY PROVISIONS**

Not applicable

## BACKGROUND

The Glenelg Football Club is a significant 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 \$72,000 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). The repayment profile of six of the tranches is such that after 15 years, in 2017, the outstanding principal becomes due and payable. The other two tranches have had shorter maturity dates that have enabled additional principal repayments at maturity.

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) such that the clubs are unable to dispose of charged assets without Council's consent.

At its meeting on 11 December 2012, 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 were amended to provide a 24 month interest only period.

At its meeting on 27 August 2013, Council noted the on-going financial performance strategies to improve the club and resolved as follows:

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

Since then the club has drawn down \$380,000 of the \$500,000 available on a repayment term of ten years. As at 3 October 2014, the aggregate loan outstanding was \$2,184,855.

## **REPORT**

All SANFL clubs including the Glenelg Football Club face challenging business conditions. The Glenelg Football Club continues to experience a downturn in patronage at games and its function centre, placing a strain on its financial position.

The clubs met with elected members on 1 July 2014 to present and discuss strategies to improve financial performance and position. Those strategies have been further developed and are being implemented by the clubs.

In recent weeks, Council staff has met with officers from the Club, to discuss the Club's situation review the current financial performance and explore options to improve its cash flow. Arising from these discussions, the Club has requested a continuance of 24 month interest-only repayment plan on its Council funded loans.

As previously noted, the original loans have been progressively repaid such that the balance outstanding is now \$2.18 million.

Continuing these arrangements 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.

## **BUDGET**

Council's 2014/15 budget includes equal and offsetting provision for repayment of its loans from the LGFA and repayment of the loan to the clubs. Continuing a 24 month interest-only period will impact the principal repaid budget relating to the club loans. However this will not adversely affect Council's main financial indicators.

In the absence of a 24 month interest-only arrangement, the clubs would be expected to repay around \$247,000 in principal repayments and around \$280,000 in interest. Under the interest-only arrangement, the clubs will pay around \$291,000 in interest.

## **LIFE CYCLE COSTS**

The arrangement will have minimal impact on Council's financial performance in the future.