

RELEASED

15 JUN 2017.

C130617/814

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City of Holdfast Bay

Confidential Report No: 531/12

## ITEM NUMBER: 17.3

### CONFIDENTIAL

### Glenelg Football Club

*Pursuant to Section 83 (5) of the Local Government Act 1999 the Report attached to this agenda and the accompanying documentation is delivered to the Council Members upon the basis that the Council consider the Report and the documents in confidence under Part 3 of the Act, specifically on the basis that Council will receive, discuss or consider:*

**b. Information the disclosure of which –**

- (i) could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and**
- (ii) would, on balance, be contrary to the public interest.**

TRIM Reference: B2102

Item No: 17.3  
Subject: GLENELG FOOTBALL CLUB  
Date: 11 December 2012  
Written By: General Manager Corporate Services  
General Manager: Corporate Services, Mr. I Walker

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**SUMMARY**

Glenelg Football Club and Glenelg Footballers Club have approached Council for its consent to dispose of four gaming entitlements and to restructure its loan facility.

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**RECOMMENDATION**

1. That Council consents to Glenelg Football Club and Glenelg Footballers Club disposing of four of its gaming entitlements in the forthcoming trading round 2/2012.
  2. 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 re-structuring and documenting the new facility.
- 

**COMMUNITY PLAN**

A Place to do Business

**COUNCIL POLICY**

Treasury Policy  
Loans to Community Organisations Policy

**STATUTORY PROVISIONS**

Local Government Act, sections 134 and 139

TRIM Reference: B2102

## BACKGROUND

Glenelg Football Club and Glenelg Footballers Club ('the clubs') have approached Council seeking its consent for a proposed strategy to restore its cash reserves and invest in its business activity to ensure long-term sustainability. The driving factors for this strategy are:

- The outlay of \$132,000 to defend the matter in the ERD Court in relation to the light towers.
- Challenging economic times in the functions and hospitality industry.
- Introduction of pre-commitment technology for gaming machines by 2016.

*Refer Attachment 1*

## REPORT

### Proposal

The clubs seek Council's approval to:

- Offer four of its 40 gaming entitlements for sale in the forthcoming trading round for which applications close on 21 December.
- Restructure its loan from Council to simplify the repayment schedule commensurate with the seasonality of its business cycle, including a 2-year initial interest-only term.

Council's consent is required in relation to the disposal of gaming entitlements because these are club assets provided as security for Council's loan through a deed of charge.

### Disposal of gaming entitlements

The clubs currently hold 40 gaming entitlements valued at \$1.5 million on the balance sheet although market value may be closer to \$2.1 million. The clubs propose to dispose of 4 entitlements with expected proceeds around \$216,000. The proceeds would be applied to re-establish cash reserves and re-invest in the clubs' facilities, including regular gaming machine changeover ahead of the introduction of pre-commitment technology.

The clubs are confident that the disposal of 4 entitlements will not have a material impact on gaming income.

### Existing loan arrangements

In 2001 Council entered into a loan agreement with the clubs under which the clubs 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 LGFA and on-lending to the clubs on identical terms (ie a 'back-to-back' loan). The interest rates under all loans are at fixed rates.

The repayment profile of six tranches are such that after 15 years, in 2017, the outstanding principal becomes due and payable.

The other two tranches have had much shorter maturity dates. Both tranches have already been 'rolled over' on maturity and extended for further periods. One matures in February 2013 and the other in January 2014. At each rollover date, the interest rate is re-set to reflect the prevailing fixed interest borrowing rates from the LGFA plus a credit margin of 0.5% for Council's administrative costs and credit risk.

The loan to the clubs is secured by a deed of charge over the clubs' assets. The clubs are unable to dispose of charged assets (including the gaming entitlements) without Council's consent.

As at 30 November 2012, the aggregate principal amount outstanding under the clubs' loan was \$1.804 million and the weighted average interest rate on the loan was 6.89% (ie. the clubs have repaid \$776,000 in principal since 2001). Each tranche has differing principal and fixed interest rate, reflecting the original drawdown schedule and rollovers.

In addition to the original loan agreement with the clubs, Council entered into a separate agreement in 2009 following the granting of consent to the clubs to enter into a sponsorship and signage agreement with Gliderol. This agreement requires the clubs to make additional principal repayments of \$25,000 pa through to 2018. This has been achieved when the two shorter tranches have matured and rolled over.

#### **Break costs**

When a borrower prepays or re-structures a fixed interest rate loan, it will generally be exposed to 'break costs'. Break costs compensate the lender for its financial loss when its fixed interest rate revenue stream is reduced or lost. Calculating break costs is complicated and depends on a variety of factors but largely reflects the present value of the lost or reduced interest revenue over the life of the loan.

Current fixed interest rates are around 4.9%: significantly lower than the average 6.89% on the existing loan. Break costs on the entire LGFA loan portfolio have not been calculated however the LGFA has provided a figure of \$9,000 in relation to the smallest tranche of \$62,000 maturing in November 2017. Extrapolating this to the entire \$1.8 million loan portfolio would result in a significant break cost.

Council would have to pass the LGFA break costs on to the clubs otherwise Council would suffer a significant financial loss.

### Loan restructuring option

It is assumed the clubs would not wish to bear the LGFA break costs given the projected quantum and, as such, an alternative needs to be explored. One proposal is for Council not to re-structure its LGFA loan but to re-package its loan to the clubs such that Council does not suffer any adverse financial impact.

Time has not allowed Council to undertake any modeling on this, and it will be dependent on the repayment schedule sought by the clubs. However, in principle it would involve consolidating all 8 tranches into a single facility for a term of say 15 years at an interest rate that is not less than the weighted average rate Council will pay to the LGFA. Whilst this sounds simple, the mismatch between the terms of the loans will make it a reasonably complex. The interest rate on the loan to the clubs will not be less than the current average 6.89% pa.

In the event a consolidation is cost-prohibitive or not achievable, the existing loans could easily be restructured to provide for a 24 month interest-only period. This would not increase the loan amount but change the timing of repayment.

### Clubs' financial position

The latest audited financial statements for the clubs are for the year ended 31 October 2011. The 2011/12 accounts are not finalized and are currently being audited.

The 2010/11 accounts for the two clubs combined (as they are both borrowers and guarantors under the loan agreements) show:

	\$000
Net operating surplus	732
<i>Balance sheet:</i>	
Cash	385
Investments	49
Other current assets	244
Leasehold improvements, gaming entitlements, plant and equipment	6,934
Current liabilities	(496)
Borrowings and lease commitments	(3,081)
<b>= Net equity</b>	<b>4,035</b>

### Conclusion

The clubs are taking a long term view of its sustainability and has developed a sensible and prudent strategy to meet its needs. The disposal of 4 gaming entitlements is expected to generate proceeds of around \$216,000 to fund its planned machine changeover schedule without adversely affecting gaming income.



Its proposed loan restructure is also a prudent avenue to pursue. It would simplify loan its payment schedule and align it with its annual cash cycle. The two-year interest only period will conserve cash in the short term for the clubs for repayment in subsequent years. It is important to note that the clubs are not seeking to enlarge its loan facility, but to consolidate the current 8 tranches into a single facility. If this is not achievable, then the existing loan tranches can be retained and a 24 month interest-only period implemented.

#### **BUDGET**

Council's 2012/13 budget includes equal and offsetting provision for repayment of its loan from LGFA and repayment of the loan to the clubs. In the event that one or both loans are restructured, there will be an impact on the budget but any new facility(ies) will be structured to ensure that Council's financial position is not adversely affected.

Disposal of the clubs' gaming entitlements will not have any implications for Council's budget.

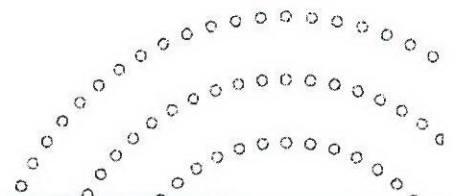
#### **LIFE CYCLE COSTS**

Restructuring of one or both loans will have implications on Council's forward budgets however any new facility(ies) will be restructured to ensure Council's forward financial position is not adversely affected.

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# Attachment 1





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15 JUN 2017

04 December 2012

Justin Lynch  
Chief Executive Officer  
City of Holdfast Bay Council  
Po Box 19  
Brighton, SA, 5048  
Via email: [JLynch@holdfast.sa.gov.au](mailto:JLynch@holdfast.sa.gov.au)

Dear Justin,

**COMMERCIAL IN CONFIDENCE**

I write to you seeking Council support for the financial strategy outlined below.

1. Context

- a. Earlier this year we were forced to defend ourselves in the ERD court to gain approval for the construction of four light towers for the purpose of playing night SANFL football at Gliderol Stadium. Ultimately we were successful in our joint defence with Council. I need not go into the details as I'm sure Council is fully aware. The cost of our defence however amounted to \$132,000 which has had a significant and to date unrecoverable impact on cash position. (The value of the lights project is in the vicinity \$500,000 of which the City has not had to contribute financially).
- b. The hospitality industry is experiencing very challenging times as you would no doubt be aware through your dealings with publicans in the City of Holdfast environs. In our recent financial year our gaming revenue has dropped by 7%. Whilst some of this can be attributed toward a downturn in the South Australian gaming industry, what particularly hurt us was our inability to turnover our gaming machines due to our cash position. We have had a strategy to relacing four machines per year however this year we could only do two.
- c. The functions industry also continues to be very challenging and highly competitive to secure functions/events and pressure on pricing. Despite some recent promising signs our function trade was down some 17% in 2012.
- d. Finally, it's been reported in the media that a number of SANFL clubs are facing extreme financial challenges at present. We are conscious of implementing financial risk management strategies to secure our long term position.



Glendy Football Club Inc  
PO Box 216 Holdfast Bay SA 5048  
Ph: 0883241930  
Fax: 0883241930  
www.holdfastbay.sa.gov.au

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*Pride of The Bay*



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## 2. Objective

- a. We have a very strong brand, dedicated patronage and membership base from which to build however due to the above factors we wish to implement two key strategies which will underpin our financial model and specifically deliver a return to our desired cash threshold whilst re-investing back into this community asset.
- b. We wish to re-invest in the Club's infrastructure and presentation to drive increased profitable activities. We have just taken delivery of 300 new function chairs at a cost of approximately \$30,000. Other proposed upgrades include new carpet (to replace the 8-year old carpet), new audio-visual equipment to meet the expectations of corporate clients plus replacing our ageing Brighton Road signage to create greater visual awareness (subject to appropriate planning consent). Investment will then extend to an upgrade of our southern bistro toilets which were not part of the original bistro development in order to enhance patron amenity.

## 3. Strategies

- a. Gaming entitlements
  - i. We wish to offer four (4) of our 40 gaming entitlements for sale in the upcoming trading round 2/2012 for which applications close 21 December 2012. Your consent is sought.
  - ii. Our motivation for doing so is primarily driven by the new Federal legislation which will require all machines to be compliant with voluntary pre-commitment technology by 2018. Currently the majority of our machines are not compliant. We are therefore seeking to expedite our machine change-over schedule so we are not caught out with unsustainable expenses in 2018 to replace all the machines – the costs of doing so (if we don't act now) will be in the vicinity of \$1.2 million (40 machines at \$30,000 each). In order to help fund a proactive and progressive machine changeover schedule (thus reinvesting in our business to ensure sustainability) we are opting a strategy of selling up to four (4) entitlements bring our total number of machines down from 40 to 36. (Please note that even if we do sell 4-entitlements we remain licenced for the maximum 40 machines).
  - iii. Our entitlements are currently shown on our balance sheet with a value \$1.5million. Based on the first trading round 1/2012 (held earlier this year) vendor price of \$54,472.73 it would be reasonable to suggest the value of our entitlements is closer to \$2.16million. Should we dispose of four (using trading round one price as an example) our remaining 36 entitlements would be worth approximately \$1.94million.
  - iv. Please note that entering this trading round does not guarantee any entitlements will indeed be sold.

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- v. Based on knowledge and experience we are confident that reducing our entitlements will not have any negative impact on our gaming revenue. This has been confirmed in the attached independent report by IGA.
  - vi. In event of gaining Council consent to sell up to four (4) entitlements such consent is sought without restrictions with regard to the use of any proceeds from the sale. It is stated clearly in this document that any such proceeds will be used to reinvest in our facility and re-establish our cash reserves. This is fundamental to this proposal.
- b. Loan structure
- i. We wish to seek a restructure of our various debenture loans to simplify repayment schedule commensurate with the seasonality of our trading period and included in this a 2-year suspension of principle repayments (i.e. interest only).
  - ii. We have a current outstanding balance on our debenture loans with Council of \$1,810,544. We have been diligent and successful in not just paying the interest but also paying \$769,456 in principle repayments since 2002.
  - iii. Such a restructure would not only simplify loan repayments and administration work for all parties concerned it will also assist us to re-establish our cash reserves to the desired level overcoming the unbudgeted legal costs relating to the lighting project as referred to in item 1 of this document.
  - iv. In the event a full restructure of the debenture loans being cost prohibitive (due to break costs) then we still seek support to pay interest only for a 24 month period (i.e. suspend principle repayments) on the current loan structure.

### Summary

In summary we have a very solid strategy outlined above which achieves two objectives:

- (1) Restore our cash reserves
- (2) Invest in our business activity to ensure sustainability

I trust this strategy is received positively and demonstrates our club's diligence and responsible approach in proactively managing our financial and business risks to ensure long term sustainability in challenging economic times and continue to realise our vision as the leading and most respected sports and community club in South Australia.

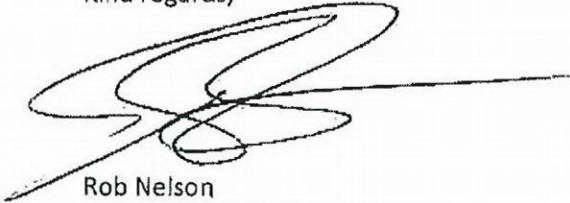


Thank you for your consideration of the matter. Importantly please note that we must lodge our application to enter the 2/2012 trading round by 21 December. Your prompt attention to this matter is therefore appreciated.

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Kind regards,

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Rob Nelson

Chief Executive Officer

*(For and on behalf of the boards of the Glenelg Football Club Inc. and the Glenelg Footballers Club Inc.)*

Attached: Report from Independent Gaming Analysis



INDEPENDANT GAMING ANALYSIS PTY LTD

RELEASED

15 JUN 2017

Thursday 29<sup>th</sup> November 2012

Robert Nelson  
Chef Executive Officer  
Glenelg Football Club  
Brighton Road  
Glenelg SA 5045

Dear Rob,

I am in receipt of your request for assistance and advice on the possible impact of the sale of up to 4 gaming entitlements in the next trading round to be conducted in December 2012.

The following is an outline of the procedures for Trading Round 2/2012 which closes at 5.00pm 21<sup>st</sup> December 2012. At that time, all application to buy or sell entitlements must be with the Office of Liquor and Gaming Commissioner.

In July 2011 the "Gaming Machines Act" was amended to remove the fixed price of gaming machines and establish a system that allow venues to operate less than the approved number of gaming machines under their gaming license.

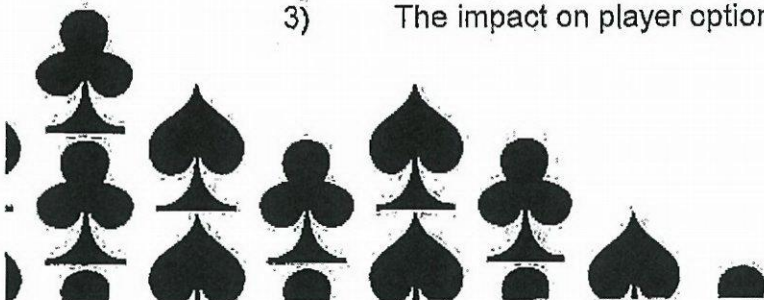
In separating the actual number of gaming machine operating (entitlements) and the number of machines approved in a gaming license allowed venues to sell entitlements through trading rounds approved by the OLGC (Office of Liquor and Gaming Commissioner). Selling or buying entitlements does not affect your gaming machine license which will remain at forty (40) gaming machines.

The trading round for the purchase or sale of entitlements is held at the commissioner's discretion and must be run under the approved system. The trading round system is complicated but in laymen's terms all eligible persons wishing to sell entitlements make application with a price they wish to sell the entitlements at, all applications are then collated and an average price is determined. The same procedure is then applied to venues wishing to purchase entitlements.

The sale price and purchase price are then compared and when matched a "sale" is conducted. No venue can sell an entitlement for less than their lodged price and no venue can purchase an entitlement for more than their lodged price, any sale or purchase outside of the designated price is deemed to be a no sale and excluded from the trading round.

In regards to the Glenelg Football Club and the sale of four (4) entitlements there are three (3) areas which we should consider before the sale of entitlements,

- 1) The impact on revenue
- 2) The impact on the room ambience and layout
- 3) The impact on player option and choice



Phone (08) 8376 6966  
Facsimile (08) 8376 6969  
Email info@ingaming.com.au

Level 1, 13 Brighton Road, Glenelg SA 5045  
ABN 60 075 831 873 ACN 075 831 873



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**Impact on Gaming Revenue on the sale of 4 Entitlements**

Based on the last quarter of gaming results (1<sup>st</sup> August to 31<sup>st</sup> October), produced by IGA and balanced to IGC (Independent Gaming Corporation) the following data shows the percentage return on installation against turnover and profit

	Hold	T/O	Profit
Top 4 machines	10%	19.2%	19.6%
Bot 4 Machines	10%	4.6%	2.4%

Even taking into account individual machine returns, the bottom 4 machines are achieving less than 50% of the room average income.

*In my opinion the sale of up to 4 entitlements at this venue would have no decrease in the venues gaming income, the venue may even have an increase in profits as a more comfortable and spacious gaming layout could be produced in the same area with more income and less burden in taxes and maintenance.*

**Impact on Room layout and Ambience**

I would expect that there would be a minimal cost in either covering or replacing the gaming machine bases that would be left after the removal of four entitlements, however I suspect that the comfort of players would out way this cost due to increase in space achieved by the removal of 4 machines.

*In my opinion I believe that the ambience and comfort of players would be increased by the removal of 4 entitlements if conducted correctly.*

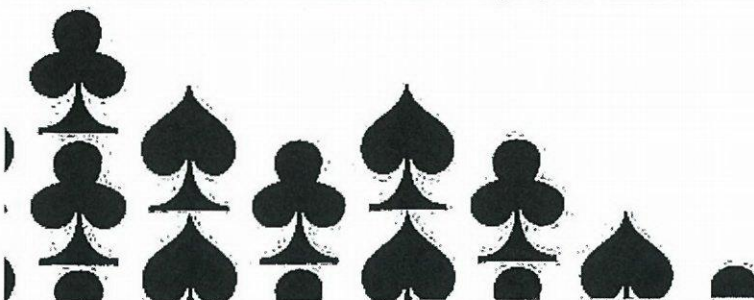
**Impact on Player Option and Choice**

Based on the current schedule of machines installed at GFC,

- 4 machines are old and are not covered for parts (if unavailable) under our current service
- 7 machines are Aristocrat Mk5 which are 14 years old and have no game changes available
- 5 machines are IGT GU4 model 10 years or more old and have no game changes available
- 4 machines are Konami ES and have no game changes available

Of our existing 40 machines only 15 or maybe less have the technical capabilities to have some form of pre-commitment installed in them which is a concern while current changes to gaming are being muted.

*In my opinion the sale of 4 entitlements and the removal of 4 gaming machines will have no effect on our installation and the player choice.*



Independent management & consultancy,  
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The first and only trading round conducted in SA at the start of this year had the following results

Purchaser Price \$72630.30  
Vendor Price \$54472.30

There was a total of 81 gaming entitlements sold with 13 gaming machine entitlements were cancelled.

It was a general condenses in the industry and especially in the club industry that the vendor price in the last round was too low and that most hotels who purchased the entitlements received a great deal.

In a presentation I did for "Club SA" managers in July this year I calculated that an entitlement in my opinion, based on the current buy and sell of hotel leases was a purchase price of \$100,000.00 and a vendor price of \$75,000.00

Understanding that some in our market are desperate to sell entitlements and that it is very unlikely to make those prices in this round, I still believe we should not give the entitlements away. I would recommend the following prices for sale of entitlements.

2 @ \$55000.00, 1 @ \$60000.00, 1 @ \$65000.00.

As I am sure you are aware the new federal government "National Gambling Reform Bill" is getting even closer to being passed in the parliament.

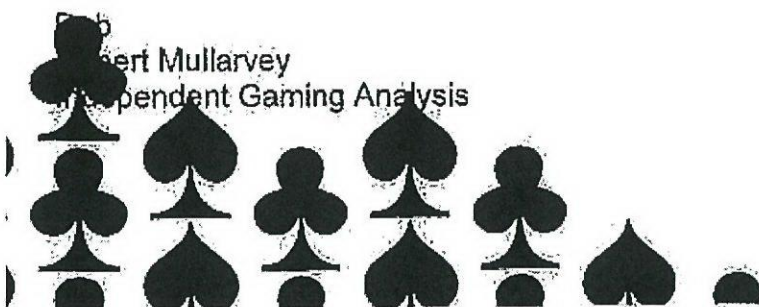
This "Bill" which includes restrictions to ATM withdrawals, voluntary Pre-commitment, the trial of mandatory Pre-commitment and a new Tax or supervisory levy will have sweeping effects in our industry.

Part of the pre-commitment conditions will be that it will be placed in gaming machines and that manufacturers will be supplying it in all new machines by the end of 2016 (being disputed). If this was the case then we would need to replace 25 machines in the next 4 years.

If GFC was successful in selling any entitlements I would recommend that at least 50% of that income is used to purchase gaming machines and or equipment, over and above current budgeted purchases. This would not only give us a strong advantage over our competitors but set us up well for the future and possible changes in legislation.

If I can be of any further assistance please call,

Regards



Bert Mullarvey  
Independent Gaming Analysis

Independent management & consultancy,  
maximising your profits