

CITY OF PLYMOUTH

Subject: Home Park Football Stadium
Committee: Cabinet
Date: 18 October 2011
Cabinet Member: The Leader
CMT Member: Director for Development and Regeneration
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Ref: PAFC
Key Decision: Yes
Part: Part I

Executive Summary:

Plymouth Argyle Football Company Limited went into administration in March 2011. Since then, the administrators have been seeking a purchaser for the company.

Prior to the sale of Plymouth Argyle Football Company Limited, (in administration), the Council had said it was prepared to work to help ensure the survival of the club and protect wider community benefits. That would include the consideration of the purchase of Home Park on a commercial basis, any decision being subject to appropriate due diligence checks and Council approval.

There are not only purely commercial benefits to the Council in owning and leasing out land. The City also has a role in ensuring the provision of sports and leisure facilities appropriate to a city the size of Plymouth. Further, there are economic, social and environmental advantages in securing the continuance of professional football in the city and having ownership of strategic assets which if lost would have a detrimental impact on other land owned by the Council.

An offer has been received from the administrator's preferred purchasers of Plymouth Argyle Football Company Limited, to sell Home Park stadium to the Council for £1.6m, following which the Council would lease the ground back to the club for 30 years for an initial rent of £135,000 per annum.

The prospective purchasers also wish to amend the covenants the Council has on adjoining land at Higher Home Park (currently owned by the football club) to align them to the Area Action Plan uses to enable the land to be used to support the future development of the football club. In addition the Council are asked to remove an option the Council has to purchase part of Higher Home Park. The value of that covenant amendment and loss of option is £425,000.

This report sets out the terms on which such an acquisition and letting and associated land transactions could take place.

Advice has been sought on the acquisition and letting terms proposed in this report from the District Valuer (DVS). They have advised that the acquisition of Home Park by the Council on the terms set out by the prospective owners (excluding Higher Home Park) are acceptable in terms of representing value for money to the Council in the current market condition.

Corporate Plan 2011-2014:

Value for Communities:

The acquisition and letting of the football stadium will reinforce Plymouth's position as a major regional centre for sport, linked to the opening of the Life Centre on an adjoining site in February 2012.

Delivering Growth:

To ensure the continuation of the economic value of the Club's activities, which it is estimated by the University of Plymouth to be around £9 -12m per annum from home games, and visits from away-teams' supporters.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

The Council will be making a capital purchase of the Plymouth Argyle Football stadium for £1.6m plus stamp duty land tax of up to £81,000. In return the Council will receive an annual rent of £135,000. The valuation has been independently assessed by the District Valuation Service, (DVS), who has determined that the terms to purchase Home Park are reasonable. Consultation has also taken place with our External Auditors, Grant Thornton.

The rental income, which will be indexed by the percentage change in Consumer Price Index, has been secured as part of the lease for 30 years through appropriate company guarantees. Annual income exceeds the cost of borrowing £1.681m which, if spread over 30 years at a current interest rate of 4.51%, would amount to £102,300 per annum.

The financing of this purchase will be determined through the overall funding of the Council's entire capital programme which is monitored throughout the year. We will continue to ensure that the Council maximises the use of its various capital funding streams including capital receipts and cash balances. The exact timing and value of borrowing is not necessarily linked to individual transactions.

The financial value to the landowner of the amendment/removal of the covenant on adjoining land at Higher Home Park has been assessed by DVS as £425,000.

Other Implications: e.g. Community Safety, Health and Safety, Risk Management, Equality, Diversity and Community Cohesion:

This report concerns property transactions that would not require the Council to have direct control of the property; therefore no other particular implications arise.

Recommendations & Reasons for recommended action:

1. The Cabinet agree the purchase of Home Park stadium on open market terms at a price of up to £1.6m plus ancillary costs (Stamp Duty Land Tax and surveyor's fees) and a lease back to the club for 30 years at an initial rent of £135,000 per annum. This is subject to Council approval of the capital expenditure and confirmation that the Football League has approved the purchase of the club by Mr Brent's company.

Reasons –

- (a) To support the economic, cultural and sporting life of the City
- (b) To protect the City’s position as a regional centre for competitive sports,
- (c) To ensure that one of the City’s most important public facilities remains in its intended use within the City.
- (d) To prevent the risk of the football ground falling into a state of disrepair, affecting the overall quality of Central park and impacting upon the city’s overall ambition for Central Park improvements as defined by the Area Action Plan and the Environmental Master Plan.

2. The Council is recommended to amend the capital programme to incorporate the purchase of Home Park.

Reason - Required to implement recommendation 1. above.

3. That Cabinet approves the amendment of the restrictive covenants on use and development on Higher Home Park to accord with the Central Park Area Action Plan and the removal of the option to purchase part of Higher Home Park, together valued at £425,000, on the terms set out in the report.

Reason – To facilitate the land purchase and lease back set out above

4. That delegated authority to finalise the legal, financial and due diligence arrangements be delegated to the Chief Executive in consultation with the Council Leader, Director of Development and Regeneration, Director of Corporate Support and Monitoring Officer.

Reason – To give the flexibility to respond to circumstances that may require rapid action.

Alternative options considered and reasons for recommended action:

The Council could not take any action and decline the offer to purchase the land. This would not provide the benefits outlined in the report and could lead to the liquidation of Plymouth Argyle Football Company Limited (in administration).

It has been suggested that the Council could instead buy Home Park from others with an interest in the land, rather than from the prospective purchasers. However, this is not possible, because Home Park is presently owned by Plymouth Argyle Football Company Limited (in administration) and only they are in a position to sell the land.

Background papers:

Report from the DVS attached.

Sign off:

FinM CIII 2.05		LegDS 13066		HR		Corp Prop		IT		Strat Proc	
Originating SMT Member											

1.0 Background

- 1.1 In 2007 the Council sold the freehold of land at Home Park to the Plymouth Argyle Football Company for the sum of £2.7m with the specific intention that the freehold would enable new investment to take place, including the redevelopment of the Main Stand. That figure was based on a valuation by the District Valuer. The land that was sold in 2007 is the land shown edged red and edged green on the attached plan.
- 1.2 In March 2011 Plymouth Argyle Football Company Limited went into administration and the appointed administrators undertook actions to deal with the club's debts and find a purchaser. That process has been quite complicated with the initial preferred bidder unable to complete the transaction resulting in the relatively recent appointment of Green Pilgrim a company led by Mr. James Brent as the administrator's preferred purchaser for the Plymouth Argyle Football Company Limited.
- 1.3 There are not only purely commercial benefits to the Council in owning and leasing out land. The City also has a role in ensuring the provision of sports and leisure facilities appropriate to a city the size of Plymouth. Further, there are economic, social and environmental advantages in securing the continuance of professional football in the city and having ownership of strategic assets which if lost, would have a detrimental impact on other land the Council own.

2.0 The offer to sell Home Park stadium to the Council

- 2.1 An offer has been received from the administrator's preferred purchasers (referred to as Green Pilgrim in the attached DVS report), to sell Home Park stadium to the Council for £1.6m, following which the Council would lease the ground back to the club for 30 years for an initial rent of £135,000 per annum.

In addition, the prospective purchasers wish to amend the covenants the Council has on adjoining land at Higher Home Park (owned by the club) and to remove an option the Council has to purchase part of that land to enable the land to be used (subject to planning controls) to support the future development of the football club.

The land the Council may wish to buy is edged red (the Home Park stadium) and the land to be retained by the club is edged green (Higher Home Park). For simplicity, the report sets out the details and the impact of the proposed transaction with respect to each piece of land separately.

2.2 The Home Park Stadium (land edged red)

The proposals are:

- That the Council buys the Home Park Stadium from the new owners for £1.6m plus stamp duty land tax of £81,000.
- The Council then immediately grants to the owners a 30 year full repairing lease at an initial annual rent of £135,000 per annum.
- The company provides rental guarantees for the 30 years of the lease.
- The rent is indexed by the percentage change in the Consumer Price Index at the end of each period of five years, the first such period commencing on completion. The increase in the rent will be subject to a floor of 2% and a cap of 4% per annum.
- In any season when the Club is in the Championship League, the rent will be increased by 150% and in any season the Club is in the Premiership League it will be increased by 300%.

- The Tenant will be responsible for repairing and insuring the Stadium. A condition survey will be undertaken prior to commencement of the Lease and the repairs and dilapidations obligations shall relate back to that condition.
- Following the purchase of the stadium, the present covenants which restrict the use of the stadium will now be lease covenants
- The tenant will, every 5 years, have the option to buy back Home Park stadium from the Council for a price equal to twelve times the then annual rent. In the event that the tenant exercises this option, the original restrictive covenants will be re-imposed.
- In the event that the tenant acquires the freehold and subsequently develops the Main Stand at Home Park stadium, including non-football uses such as hotel, then the Council will receive an additional payment by way of overage based upon the increase in the value of the land for the non-football uses.
- In the event that the tenant redevelops the Main Stand without acquiring the freehold of the stadium, the Council will receive an additional stadium rental equal to 10% of the occupational rental value of any non-football uses within the new stand, such as hotel.
- The tenant will also use their best endeavours to utilise the spoil heap on land adjacent to Home Park in the redevelopment of Home Park and/or Higher Home Park

2.3 The land at Higher Home Park (land edged green)

The proposals are:

- The Council will amend the restrictive covenants it has over the land (which restrict the use to a professional football stadium and associated purposes). The amended covenant will instead restrict the use of the land to those included within the Central Park Area Action Plan. This would include leisure and sporting uses, but exclude large scale food and bulky goods retailing.
- In consideration for the Council amending the covenants, the club will agree to pay to the Council 50% of any development profits in excess of a developer's profit calculated as 15% of development costs.
- In addition the Council will remove the option it currently has to buy the majority of Higher Home Park for £1. The value of the loss of that option is deemed to be equal to the land value of Higher Home Park without the restrictive covenants in place.

3.0 **Property Valuation**

3.1 The Council instructed the District Valuer (DVS) to undertake a number of valuation exercises in relation to this matter. To enable Cabinet and Council to have a full understanding of the valuation, a copy of the report is attached. The executive summary of the DVS valuation says:

1. The Market Value of the Freehold interest with vacant possession in Home Park is £2,400,000 on the basis of a stadium for football or other similar sporting events.
2. Under the proposals of the proposed purchaser of PAFC, the Market Rental Value of Home Park is £135,000 and the Market Value is £1,600,000 on the basis of an on-going football club.
3. The value of the retained land, Higher Home Park is £425,000 assuming hotel and other leisure uses within the guidance in the Council's Central Park Area Action Plan.

3.2 In addition, DVS made two recommendations in section 9 of the report. These are set out below, followed by the officers' responses to them.

The acquisition of Home Park by the Council on the terms set out, are largely acceptable in terms of representing value for money to the Council in current market condition. I recommend that the rent

review provisions be considered carefully to ensure that the Council is happy with the way they will work. The option to base rent on ticket income should be considered and discussed with the Council's auditors as either method of assessing the rent is subject to risk.

Consideration has been given to basing rental on ticket income rather than a fixed rent with increases following promotion through the football leagues. However there are benefits in having a fixed rental with indexation to provide certainty and transparency and on balance, the proposed method is preferred.

It is recommended that the overage conditions relating to Higher Home Park be reviewed along the lines suggested in my commentary above. In the commentary the valuer says: A better mechanism may be a payment based on a fraction of the increase in value of the land over an agreed base value subject to some form of indexation.

Consideration has been given to uplift in land value as opposed to a share of the development returns from the future development of this land, subject to planning permission being granted. The officers' view on balance was that it would be more beneficial to wait until any development project has been completed, and to relate any additional payment to a known development outcome, rather than to base it on an assessed uplift in the land value when planning permission is granted and before the scheme has actually been built, when there could be greater uncertainty as to the actual development cost and value.

4.0 The Benefits of the Council Acquiring Home Park Stadium

4.1 The reasons for the Council's involvement are:

- (a) To support the economic, cultural and sporting life of the City
- (b) To protect the City's position as a regional centre for competitive sports,
- (c) To ensure that one of the City's most important public facilities remains in its intended use within the City.
- (d) To prevent the risk of the football ground falling into a state of disrepair, affecting the overall quality of Central park and impacting upon the city's overall ambition for Central Park improvements as defined by the Area Action Plan and the Environmental Master Plan.

The above includes the wish to ensure the continuation of the economic value of the Club's activities, which it is estimated by the University of Plymouth could be around £9 -12m per annum from home games, and visits from away-teams' supporters.

In addition to the proposed initial level of annual property rental, there are indexation and rent review arrangements and performance payments if the Club improves its earning position because of future promotion to the Championship and Premiership Leagues.

5.0 Other relevant considerations

5.1 In deciding on whether or not to accept the recommendations members will need to consider:

- The exposure of the Council to long-term financial risks of property ownership which it could avoid by simply not buying the property.
- The Council's investment policy for its liquid funds is to make very short term investments. Investment in the freehold of Home Park would be a long-term commitment of capital funding.

- The future failure of the Club as the tenant, in which case the property rental which would support the Council's borrowing of the purchase price and associated tax and professional fees, could be lost. This risk is ameliorated by the Council obtaining associated company guarantees.
- The risk that the Football League doesn't approve the new purchasers. This has been taken into account by making it a condition that the land transactions will not be completed unless the Football Association has given approval for the Club to continue to play in the Football League.

6.0 Legal Powers

- 6.1 The legal powers to purchase the stadium are covered by both specific legislation and the council's general well-being powers.

Under the Local Government Act 2000 the Council has power to do anything which it considers is likely to promote or improve the economic, social or environmental well-being of the area.

- 6.2 In addition to those general well-being powers, the Council has specific powers to provide recreational facilities under section 19 of the Local Government (Miscellaneous Provisions) Act 1976. Those powers include in particular, powers to provide outdoor facilities consisting of pitches for team games and premises for the use of clubs or societies having athletic, social or recreational objects.

7.0 Financial Issues

- 7.1 The Council will be making a capital purchase of the Plymouth Argyle Football stadium for £1.6m plus stamp duty land tax of up to £81,000. In return the Council will receive an annual rent of £135,000. The valuation has been independently assessed by the District Valuation Service, (DVS), who has determined that the terms to purchase Home Park are reasonable. Consultation has also taken place with our External Auditors, Grant Thornton.
- 7.2 The rental income, which will be indexed by the percentage change in Consumer Price Index, has been secured as part of the lease for 30 years through appropriate company guarantees. Annual income exceeds the cost of borrowing £1.681m which, if spread over 30 years at a current interest rate of 4.51%, (stated Public Work Loans Board rate), would amount to £102,300 per annum.
- 7.3 Financing for this purchase will be determined through the overall funding of Council's entire capital programme which is monitored throughout the year. We will continue to ensure that the Council maximises the use of its various capital funding streams including capital receipts and cash balances. The exact timing and value of borrowing is not necessarily linked to individual transactions.
- 7.4 The financial value to the landowner of the removal of the covenant on adjoining land at Higher Home Park has been assessed by DVS as £425,000. The Council is giving up its option to purchase this land for £1. The overall value of the transaction of £2.025m, (purchase of £1.6m and land value of £0.425m), is lower than the market value of the stadium and land as detailed within the DVS report.
- 7.5 Professional fees required to secure completion of the purchase will not exceed £4,000 plus VAT.

Appendices

Report from District Valuer DVS
Map of ownership (within the DVS Report)