
Report to :
Cabinet
Council

10th January 2006
17th January 2006

Report of : Director of Finance and ICT and the Director of City Development

Title : Ricoh Arena Development

1 Purpose of the Report

1.1 To seek Members' agreement to the recommendations set out below.

2 Recommendations

Cabinet agrees the following recommendations to Council:

- 2.1 Council agrees to provide additional funding, estimated at £900k, to Coventry North Regeneration Limited (CNR), the Council's 100% owned development company, to enable the company to meet its costs during the period between the practical completion of the Arena (19 August 2005) and the receipt of income from Arena Coventry Limited (ACL) (31 January 2006), the tenant company of the Ricoh Arena, in the form of either rent or the lease premium.
- 2.2 Council notes that the arrangement made between CNR and ACL means that the Council will be required to fund the borrowing costs of the £21million estimated at £400k until the receipt of income from CNR in the form of loan repayments.
- 2.3 Council notes the intention of ACL to pay the lease premium of £21m to CNR to enable the company to repay the Council loan of £21million.
- 2.4 Council agrees to provide time limited cashflow assistance of up to a £1million to CNR. A commercial rate of interest will be charged on any amounts advanced as part of the agreement.
- 2.5 Council notes the intention to seek redress from Laing O'Rourke Midlands Limited for the breach of contract and consequential loss of income to CNR.
- 2.6 Council agrees that Cabinet receives a report back in 2006 on the progress of the Ricoh Arena development and any related financial implications.

3 Background

- 3.1 On the 16 October 2003, the Council approved the scheme to construct an Arena in the North of Coventry on the site of the former Foleshill Gas Works. The Ricoh Arena is a mixed-use regeneration project, including a 32,000 seat football stadium, a casino, conferencing and banqueting suites, offices, fitness studios and community space. The Ricoh Arena is being developed alongside a private sector shopping development.
- 3.2 The Council is the ultimate owner of CNR, a company set-up by the Council to construct the Ricoh Arena. The development agreement requires CNR, on completion, to lease the Ricoh Arena to ACL. ACL will operate the Ricoh Arena and is 50% owned by the Alan Edward Higgs Trust and 50% owned by the Council. ACL is required to pay CNR either rent of £1,950k per annum or a lease premium of £21million. CNR will use this income to repay the £21million loan from the Council either in instalments or in full.
- 3.3 On the 19 December 2003, CNR signed the construction contract for the Ricoh Arena with Laing O'Rourke. The contract stated that the completion date for the Arena was the 31 July 2005 subject to any extensions of time granted under the contract. In June 2005, the Council received a report stating that the Ricoh Arena would be completed on the 19 August 2005. This report set out the reasons for the short delay to the opening.
- 3.4 The Council budget for the Ricoh Arena included an allocation for the interest due on the £21million loan from the date it was advanced to CNR to construct the Arena until the Ricoh Arena was completed.
- 3.5 The Ricoh Arena was substantially complete on the 19 August 2005 and the first football match took place there on Saturday 20th August 2005. It was noted on the 19 August 2005, that although the Ricoh Arena was substantially complete, there were a number of areas and items of work that were not fully completed that were in addition to the snagging list of works attached to the certificate of practical completion.
- 3.6 ACL have presented CNR with information that demonstrates the impact that the Ricoh Arena not being fully complete had on ACL's trading performance during the period between the 19 August 2005 and the completion of these areas and items of work.
- 3.7 CNR recognises that there was an adverse impact on ACL's trading performance and as a result, the Directors of CNR have agreed to give ACL:
 - an allowance equal to the amount of rent ACL is due to pay to CNR between the 19 August 2005 and the 31 January 2006; and
 - time limited cashflow assistance, at a commercial rate of interest, up to an amount of £1m.

Rent Allowance

- 3.8 The agreement means that CNR will not be able to make the repayments (capital and interest), estimated at £900k, due on its loan from the Council of £21million. The Council will therefore need to provide additional funding to CNR, estimated at £900k, in order for the company to meet its costs during the period.
- 3.9 The Council will need to continue to fund the £21million borrowed to provide the loan to CNR to construct the Arena. The cost to the Council of this borrowing, using the Council's current borrowing rate of 4.28%, is estimated to be £400k.

Cashflow Assistance

3.10 The time limited cash flow assistance will be provided at a commercial interest rate and therefore neither the Council or CNR will incur any costs in respect of this arrangement.

Summary

3.11 The allowance and the cashflow assistance will enable ACL to continue to operate and also give consideration to the issues being raised by its tenants in respect of the impact on their trading performance. The Council has agreed with ACL that they will not be able to seek any further amounts from the Council or CNR in respect of the impact on their trading performance irrespective of any agreements made with their tenants as the rent waiver is in full and final settlement of any claims for parts of the development that were not completed.

3.12 CNR intends to seek redress from Laing O'Rourke Midlands in order to mitigate the impact of the arrangement agreed with ACL.

4 Other specific implications

4.1

	Implications (See below)	No Implications
Best Value	✓	
Children and Young People		
Comparable Benchmark Data		
Corporate Parenting		
Coventry Community Plan		
Crime and Disorder		
Equal Opportunities		
Finance	✓	
Health and Safety		
Human Resources		
Human Rights Act		
Impact on Partner Organisations		
Information and Communications Technology		
Legal Implications	✓	
Neighbourhood Management		
Property Implications		
Race Equality Scheme		
Risk Management		
Sustainable Development		

	Implications (See below)	No Implications
Trade Union Consultation		
Voluntary Sector – The Coventry Compact		

4.2 Best Value

The Council is seeking to obtain best possible value in relation to the delivery of and costs of the Ricoh Arena.

4.3 Finance

This is dealt within the report

4.4 Legal and property implications

CNR has a contractual obligation under the development agreement with ACL to provide an operational development. The only outstanding works should be the snagging list attached to certificate of practical completion and the additional works for the balancing pond and the nose works around the Arena.

CNR will endeavour to seek redress from Laing O'Rourke Midlands Limited for the breach of contract and the consequential loss of income to CNR.

5 Conclusions

In order to ensure the successful operation of the Ricoh Arena, the Council has recognised the adverse impact that the late completion of certain areas and items of work had on the trading performance of ACL. The agreement made is in the best interests of both the Council and ACL in that it enables ACL to continue to operate the Ricoh Arena.

	Yes	No
Key Decision	√	
Scrutiny Consideration (if yes, which Scrutiny meeting and date)		√
Council Consideration (if yes, date of Council meeting)	√ 17 th January 2006	

List of background papers

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Papers open to Public Inspection

Description of paper

Location

Council Report (16 October 2003)
Regeneration of North Coventry – Arena Coventry
Council Report (21 June 2005)
Ricoh Arena Development