
Report to

Scrutiny Co-ordination Committee
Cabinet
Council

22nd March 2006
4th April 2006
11th April 2006

Report of

Director of Finance and ICT and Director of City Development

Title

Ricoh Arena:

- (1) Operation of the Ricoh Arena
- (2) Ricoh Arena Funding
- (3) Hotel developments

1. Purpose of the Report

- 1.1 As a 50% shareholder in Arena Coventry Limited (ACL), to update Members on the operation of the Ricoh Arena.
- 1.2 To seek approval to change the structure of the leases and company structures for the Ricoh Arena development to maximise the tax efficiency of the development.
- 1.3 To seek approval for the acquisition of the land necessary to facilitate the hotel developments on the Ricoh Arena site.

2. Recommendations

- 2.1 That Scrutiny Co-ordination Committee note the report and make comments to Cabinet as they feel appropriate.
- 2.2 That Cabinet recommend Council at its meeting of the 11 April 2006 to:
 - i. Note that the report has been submitted to the Scrutiny Co-ordination Committee on the 22 March;
 - ii. Note the successful start to the operation of the Ricoh Arena and the positive impact that this will have on the Council's investment in ACL;
 - iii. Authorise the Director of Finance and ICT and the Director of Legal and Democratic Services to make the changes to the lease structures required to maximize the tax efficiency of the Arena development in line with the implementation decisions approved by the Council on the 16th October 2003 as outlined in this report;

- iv. Authorise the surrender of the hotel land back to the City Council at a value of £1.25m payable to ACL for the loss of the car parking and land at the Arena, in accordance with the principle agreed by Cabinet at its meeting in June 2005. This transaction will be structured to achieve the most advantageous tax position.

3. Operation of the Ricoh Arena

- 3.1 Notwithstanding the difficulties of the delayed and phased opening of the Ricoh Arena, there has been a successful start to its operation by ACL. There are now conferences held on a daily basis and the entire exhibition hall has been used recently for both a fashion and a motor trade show. Since opening in August, there have been over 400 events held including AWM's Regional Conference, and major marketing events by Ricoh and Yorkshire Bank. Within the last few weeks, the Ricoh Arena has won a top international award for its conference, exhibition, banqueting and hotel facilities – just six months after opening. The Ricoh Arena was named best UK venue at the International CONFEX Exhibition held at Earls Court in London. CONFEX is the International Conference/Exhibition for all businesses and industries involved with the conference trade across the world. In addition, two major concerts will take place during the summer featuring Bon Jovi and the Red Hot Chili Peppers.
- 3.2 Football match attendance continues to be significantly higher than at Highfield Road. The residents parking scheme is working well and a significant number of people are travelling by bus. The closure of Judds Lane has also increased the effective dispersal of supporters by bus travel on match days.
- 3.3 The pitch side hotel rooms are fully operational and are reaching their occupation targets. The Bistro is also up and running within the main atrium. The Health and Fitness centre, to be operated by the Coventry Sports Trust, is on programme to be operational in March. The fit out of the community office space has commenced, with the programme of works scheduled to conclude on 16th June 2006.
- 3.4 The City Council has submitted a bid for a regional casino which will offer opportunities for greater investment on the Ricoh Arena site and in the surrounding areas. In the meantime, Laing O'Rourke have commenced works, under a separate contract, on the fit out of the Casino space. This will provide services throughout the area under the current casino license. The fit out of the casino is due to be completed by 15th December 2006.
- 3.5 In addition, the job creation at the (old) gasworks site is likely to exceed our original estimate by 25%. There are 2,700 jobs already or being created on the site and a further 1,000 jobs will follow if we are successful in achieving the regional casino licence. In itself, the regional casino licence is likely to generate a further £50m of investment in the immediate area which will create more jobs in the future.

4. Ricoh Arena Funding

- 4.1 ACL signed their lease with Coventry North Regeneration Limited (CNR), the Council's 100% owned company, on the 26 January 2006. ACL have been paying the agreed rent of £1.9m per annum to CNR since the 1 February 2006 (due on the 14th February) using the £1m cashflow assistance provided by CNR. The cashflow assistance was approved by the Council on the 17th January 2006 and the formal agreement between CNR and ACL was signed on the 24 February 2006. Interest charges arising under this agreement will be backdated to the drawdown date of the 14 February 2006.

- 4.2 CNR have been making repayments on their £21m loan from the Council since August 2005. The rental stream from ACL will now cover these costs, meaning that the Council is no longer incurring any costs in relation to this loan.
- 4.3 ACL have accepted the offer of a £21m loan from the Yorkshire Bank, and it is now available for drawdown until the 1 June 2006. However, in order to draw down the loan, the Bank require the lease re-structure to be completed.

5. Lease and Company Structures

- 5.1 The Council, CNR and ACL have been working with their respective advisors to ensure that the most tax efficient position is achieved in accordance with the implementation decisions approved in the October 2003 Council report. At that time, officers made it clear to Members that company and lease structures would need to be addressed to ensure the optimum tax position was achieved.

Recommendation 2.2.4 of the October 2003 report is set out below:

"To note the detailed legal structure for this project set out in the [October 2003] report and agree that:

- *in order to achieve the most advantageous tax position that the structure may need to change*
- *authority be delegated to the Director of Legal and Democratic Services and Director of Finance and ICT, in consultation with the Leader and the Cabinet Advisory Panel referred to in recommendations paragraph 2.2.1 [of the October 2003 report], to make the appropriate changes to the company structure as necessary."*

Officers are now able to be clear on the best structures to optimise the tax advantages to the Council and these are set out for Members below.

- 5.2 CNR is entitled to receive tax allowances based on its costs incurred in the construction of the Ricoh Arena. However, CNR is unable to use these allowances (as it has insufficient taxable income) and it was always the intention to transfer these allowances to ACL which as a trading company can offset them against tax due on its profits.
- 5.3 As 50% shareholder in ACL, the Council will benefit from the use of these allowances as ACL will pay less tax, and therefore:
- have an improved cashflow position;
 - have more funds available to support its commercial interests including the early repayment of borrowings; and
 - in the medium term, be likely to make funds available for distribution to its shareholders (the Council and the Higgs Trust) at an earlier time than would otherwise be the case.
- 5.4 In order to transfer these allowances, the Council has been advised that it is necessary to assign the head lease from CNR to a new company (ACL 2006). Officers have sought to protect the interests of the Council in these arrangements and the new structures will not disadvantage the Council at all.

- The Council, through its 50% ownership of ACL will be a 50% owner of ACL 2006; and
- The assignment of the lease will preserve the Council's entitlement to the 'super rent' once ACL's profits reach £3.75m per annum.

The only restriction for the Council from the assignment will be in fifty years time, when CNR will lose the interest in the ACL lease for a period of 3 days. It has been confirmed by the Council's advisors that this loss has no value.

A diagram of the Company/Lease structures is attached at Appendix 1.

- 5.5 The changes to the lease and company structures were identified in 2003, when the new funding arrangements were put in place following the unacceptable conditions (a Council guarantee) placed on the original bank loan being sought by ACL from Banco Espirito Santo. At that time it was not possible to change the structures due to the volume of legal paperwork this would entail nor was there any perceived urgency to do so as, due to Disadvantaged Area Relief, stamp duty was not payable on lease changes. In 2005, the Chancellor of the Exchequer unexpectedly changed the stamp duty rules in respect of Disadvantaged Area Relief. This means that ACL will now be required to pay stamp duty of approximately £1m on the lease payment of £21m. However, this cost is more than outweighed by the advantages of the tax allowances. The tax allowances were always reflected within ACL's business plan in line with our original plans. The extra stamp duty cost has now been included in ACL's latest Business Plan.
- 5.6 This a complex arrangement and there remains a risk that the tax allowances may not be able to be used as planned. The Council and ACL together with their respective advisors have sought to minimise this risk but it cannot be eliminated completely.

6. Hotel Developments

- 6.1 The hotel development arrangements were set out in a report to Cabinet in June 2005. In order to progress these developments, it is recommended that the Council buy out ACL's interest in the land and negotiate the development arrangements directly as it is in a position to grant a longer lease which will maximise the premium payable. This will enable the Council to proceed with the development of the sites without the need to make any further agreements or payments to ACL. The amount payable to ACL for the surrender of their 50 year leasehold interest in these sites has been determined by external professional advisors, engaged by the Council, at £1.25m.
- 6.2 Two option agreements have already been completed with a developer for the proposed hotel developments which will provide the Council with a gross receipt of £1.77m, giving a net gain of £0.52m, after allowing for the £1.25m payment to ACL. However Members should note that should the developer not exercise his options on the sites, the Council would not immediately receive any income to offset the purchase cost. The option for 'site A' (gross receipt - £1.165m) is expected to be exercised in early 2007 and for 'site B' (gross receipt - £605k) in late 2007. In the event that the proposed developments do not go ahead, the attractiveness of the sites, due to the regeneration of the area, means that it would be likely that an alternative operator would come forward to develop the sites.
- 6.3 The lease changes required to remove the hotel land will be completed at the same time as those required for the transfer of the tax allowances.

7. Other specific implications

	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		✓
Trade Union Consultation		✓
Voluntary Sector – The Coventry Compact		✓

7.1 Best Value

The proposals in the report offer best value to the Council in respect of the management of its investment in ACL and its contribution to the regeneration of the area.

7.2 Finance

The transfer of tax allowances will benefit the Council through improved profitability of ACL by increasing:

- the value of its 50% shareholding in the Company;
- the probability of receiving dividend income from its shareholding in the Company; and
- the probability of profits exceeding the 'super rent' level of £3.75m.

In addition, the successful operation of the Ricoh Arena should increase the value of the Council's property assets in the surrounding area.

The buy out of ACL's interest in the hotel development will cost the Council £1.25m. This cost will be recouped through the exercise of the option by the developer at £1.77m generating a net surplus to the Council of £0.52m.

7.3 Legal and Property Implications

The legal and property implications are set out in sections 4 to 6 of the report.

7.4 Risk Management

There are a number of risks arising to the Council from its 50% shareholding in the ACL. The Directors of ACL are responsible for risk management within the Company and need to balance the risks of activities against the predicted returns from these activities. These risks have been minimised through the use of appropriate professionals to establish the relevant company and lease structures.

The Council will acquire the land for the hotel developments before the options are exercised meaning that there is a risk that the proposed developments do not proceed. However, the developer is keen to proceed with the developments and the attractiveness of the sites means that the eventual risk of loss to the Council from acquisition is low.

8. Monitoring

The operation of the ACL will continue to be monitored to ensure that the holding of 50% of the shares in the Company continues to be in the best interests of the Council.

9. Timescale and expected outcomes

The lease changes necessary will be put in place as soon as possible to enable ACL to obtain the tax allowances and the Council, via CNR, to receive the £21m lease premium from ACL

	Yes	No
Key Decision	√	
Scrutiny Consideration (if yes, which Scrutiny meeting and date)	√ Scrutiny Co-ordination 22 March 2006	
Council Consideration (if yes, date of Council meeting)	√ 11 April 2006	

List of background papers

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Papers open to Public Inspection

Description of paper

Location

Council Report (17 January 2006)

Ricoh Arena Development

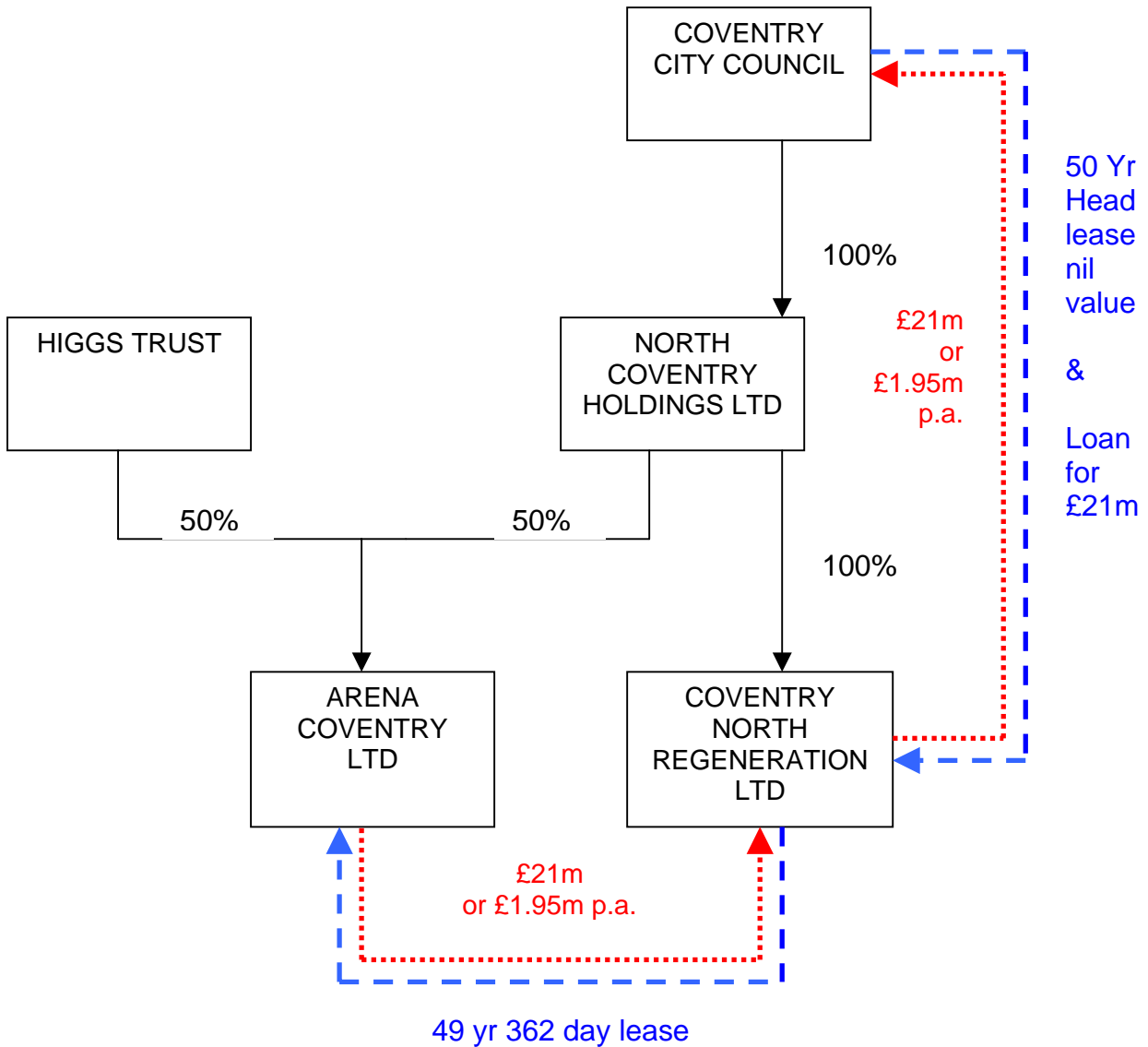
Cabinet Report (7 June 2005)

Ricoh Arena: Hotel development on the Sidings site

Council Report (15 October 2003)

Regeneration of North Coventry – Arena Coventry

**RICOH ARENA
CURRENT COMPANY STRUCTURES**



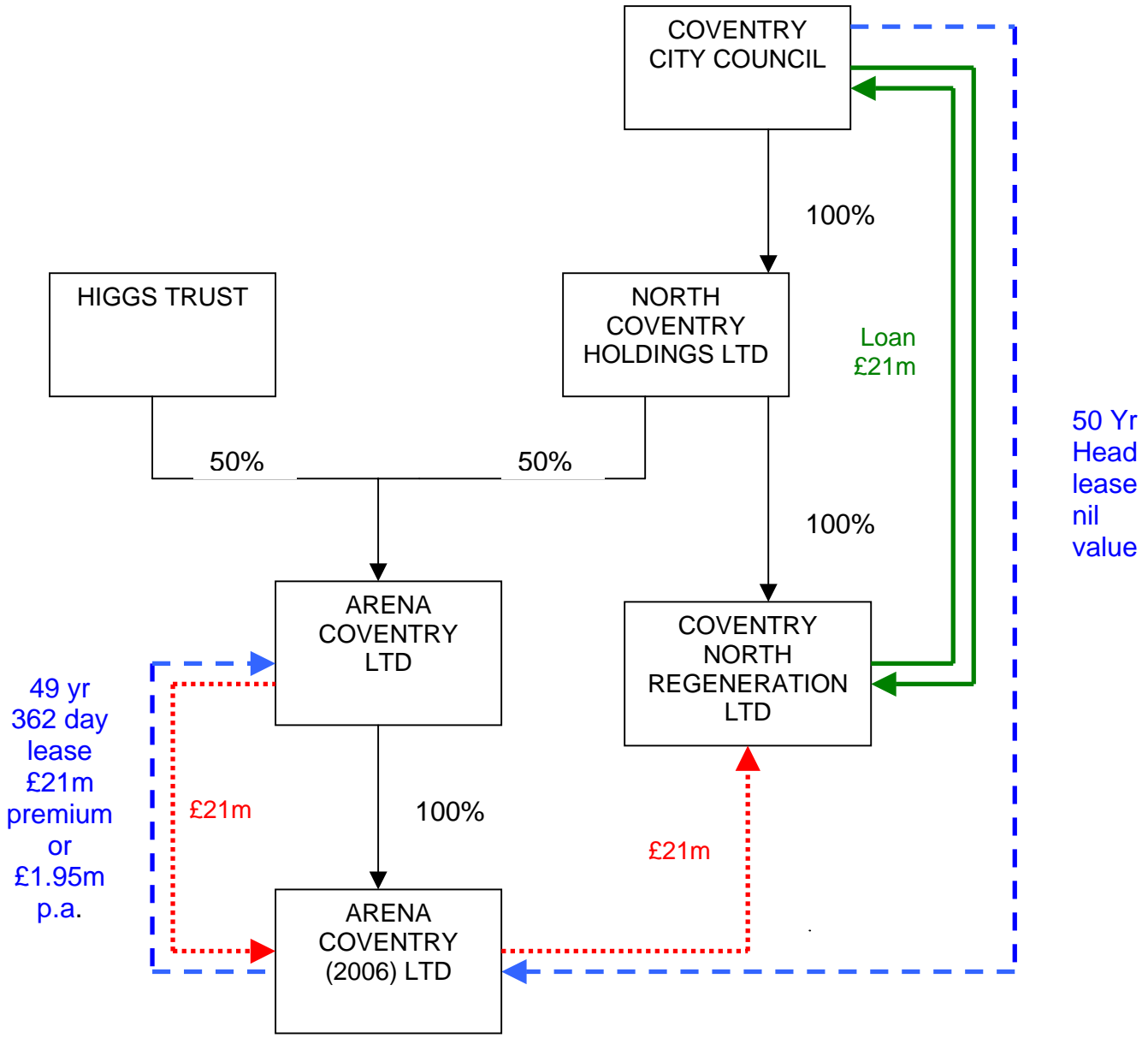
Key

—————▶ Ownership

- - - - -▶ Leases

.....▶ Payment

**RICOH ARENA
PROPOSED COMPANY STRUCTURES**



- Key**
- > Ownership
 - - - - -> Leases
 -> Lease Payment
 - > Loan Payment