



**COUNCILLOR PHIL DAVIES**

**CABINET**

**18<sup>TH</sup> DECEMBER 2017**

**HOYLAKE GOLF RESORT**

**Councillor Phil Davies, Leader of the Council - Growth, said:**

"The Hoylake Golf Resort will be a flagship development which will create hundreds of jobs for local people and support businesses across the borough. As a globally-significant tourism and leisure attraction, it will support growth in our vibrant tourism economy and attract thousands of additional visitors to Wirral every year.

"Building on the success of the 2006 and 2014 British Open Championships at neighbouring Royal Liverpool Golf Club Hoylake, the Golf Resort will cement Wirral's leadership position with the international golf community, benefitting from the visitors, tourism revenues and global attention that recognition will bring with it.

"However, it is more than simply two new golf courses. Hoylake Golf Resort will be a key leisure destination with a high-end hotel, restaurants, spa and conference facilities. It will prove to be an attractive offer for international conferences and similar events.

"Working with partners with the expertise and reputation of Celtic Manor, arguably the strongest brand in golf hospitality today, and north-west based Story Homes means we are confident we will deliver a resort of the highest possible quality.

"This is another example of Wirral Council being commercial, ambitious and innovative. By using our resources and skills to secure major private sector investment into our borough, we will create jobs for residents and generate revenue for the Council.

"The revenue this development will generate each year – significant sums in council taxes and business rates – will be reinvested in supporting our frontline services, and will go some way to start replacing the funding Wirral has lost since austerity policies began in 2010.

"We pledge to continue to talk to local residents and businesses to make sure their concerns are listened to and they are able to benefit from the once-in-a-generation opportunity to create a fantastic new destination."

## **REPORT SUMMARY**

Following the signing of a Development Agreement with the Nicklaus Joint Venture Group (NJVG) in November 2016 as reported to Members (minute 55 and 61) the NJVG and their consultants Grant Thornton have submitted their Funding and Phasing Plan for the Hoylake Golf Resort project. The Council's consultants have conducted a detailed analysis of the submission and their report, a confidential document, is appended to this report and is exempt from publication due to commercial sensitivity considerations under Schedule 12A of the Local Government Act 1972.

This Cabinet report sets out the publicly available information which includes;

- i. the project description and proposed timetable,
- ii. the partners,
- iii. a summary of the assessment of the Funding and Viability Plan (with the commercial detail in the exempt appendix),
- iv. the requirement for prudential borrowing,
- v. arrangements for funding highway works in the area if grant is not secured for these works and
- vi. a recommendation to move the project forward to the next stage so the NJVG can prepare a planning application.

The Hoylake Golf Resort project supports the business category of the 2020 pledges and in particular the priority to create a vibrant tourism economy. It also links to the priorities to increase inward investment and create greater job opportunities in Wirral. The report is of greatest relevance to the Hoylake and Meols ward but the wider economic impacts will have implications for all wards. The subject of this report is a key decision for the Council.

## **RECOMMENDATION/S**

1. That the Hoylake Golf Resort project progresses to the next stage which allows the Nicklaus Joint Venture Group to carry out the detailed studies, at their cost, to enable them to prepare a planning application for the project.
2. That, subject to planning permission being secured for the golf resort development and all the conditions of the loan being satisfied by NJVG as set out in this report, Members approve the use of the Council's access to prudential borrowing under the terms reported and agree to enter an investment agreement with the Nicklaus Joint Venture Group.
3. Should the application for Liverpool City Region Strategic Investment Fund for highway works be unsuccessful, to recycle the land receipt funding into a contribution to the construction of a new adopted public highway to open up the golf resort and provide a new link road to and from Hoylake to benefit the wider highway network and businesses local residents.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 To enable the Hoylake Golf Resort project to move forward to the next stage and for the NJVG to undertake the necessary technical studies to prepare a planning application for the development.
- 1.2 To agree a mechanism to fund public highway works in the area should grant not be forthcoming from the Liverpool City Region.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 The option was selected from a range of development proposals as part of a competitive dialogue procurement process.

### **3.0 BACKGROUND INFORMATION**

- 3.1 Members will recall a report to Cabinet 20<sup>th</sup> July 2015 (minute 34 refers) seeking to appoint the Nicklaus Joint Venture Group (NJVG) as the Council's preferred development partner. A further report was presented to Cabinet 7<sup>th</sup> November 2016 (minute 55 refers) seeking the authorisation to enter into a Framework Development Agreement with the NJVG.
- 3.2 This enabled the NJVG to commission Grant Thornton UK LLP to prepare the Funding and Phasing plan for the project and this has now been submitted to the Council.
- 3.3 The project is transformational and consists of many principal elements. It is not just a world class golf offer but the hotel, restaurants, spa and conference facilities will make it an important destination. The hotel and conference facilities in particular will boost and complement the existing tourism and leisure offer in Hoylake. The development proposal consists of the following principal elements;
  - Leading development and operational partners, Celtic Manor, Story Homes, Nicklaus Design,
  - A development valued at approximately £200m delivering;
    - i. a Jack Nicklaus designed championship standard golf course,
    - ii. Celtic Manor branded and managed resort including a 90 bed hotel, conference facilities and spa,
    - iii. 40 apartments linked to the hotel,
    - iv. new clubhouse and restaurant,
    - v. a new 18 hole affordable (regionally benchmarked) municipal course based on Nicklaus group design,
    - vi. golf academy and practice range,
    - vii. maximum of 160 new homes,
    - viii. a new public highway.

## 4.0 FUNDING AND PHASING PLAN

4.1 Grant Thornton acting on behalf of the NJVG has prepared the commercial Funding and Phasing Plan. In their assessment they conclude that the business plan is built up around a clear and understandable financial model which demonstrates;

- A fully funded development phase;
- Reliable cost estimates for the development;
- A funding model forecast to repay the senior lender in full; and,
- A robust trading model based on reasonable assumptions.

4.2 The Council's consultants IPW have provided a detailed commercial in confidence assessment of the Funding and Phasing Plan (attached to this report as an exempt appendix) which concludes that the NJVG have brought together a strong team to deliver a world class golf resort in Hoylake and that the project has the potential to generate a significant return on investment.

4.3 The Funding and Phasing Plan seeks as a component part of the funding a prudential borrowing loan of a maximum of £26m which will be drawn down in tranches, following the granting of planning permission, and this loan will be secured against the Council owned land with the benefit of planning permission and the satisfaction of the terms of the loan by NJVG and repaid to the Council with interest as the project is implemented.

4.4 This report is therefore seeking Cabinet's agreement to the principle of Prudential Borrowing, up to a maximum of £26m subject to the satisfaction by the NJVG to the Council, of all the following conditions below. The Development Agreement between the NJVG and the Council governs how the relationship will operate including the completion of key criteria to the satisfaction of each party. Normal dispute processes have been provided for in the case where arbitration is necessary.

- Ensure the whole development has planning permission. The essential documents required for the planning application are;
  - Environmental Impact Assessment (subject to screening)
  - Traffic Impact Assessment/Transport Assessment
  - Flood Risk Assessment including drainage
  - Habitats Regulations Assessment (subject to screening)
  - A Design and Access Statement
  - A Planning and Regeneration Statement
  - Economic Impact Assessment
- Produce a detailed and fully costed development programme of all costs and timescales and milestones,
- Have completed all third party land acquisitions including Council land,
- All equity funds should be received in full,
- All construction contracts should be executed by the NJVG,
- All residential land sales contracts should be executed,
- The operating contract for hotel and golf operations shall be executed,
- Step in documents must be in place,
- Submission of a ten year operational business plan,

- Other conditions – including funding and viability, highways, footpath and the Royal and Ancient (R&A) conditions.

4.5 If all these conditions are satisfied the Council will loan this maximum sum to the project on the commercial arrangements set out and annexed in the confidential appendix to this report.

4.6 The indicative timetable for the project, provided by the NJVG, is as follows;

|  |                     |
|--|---------------------|
| Cabinet report seeking approval to prudential borrowing subject to planning permission | December 2017       |
| Commencement of detailed design studies, statutory and public consultation             | February 2018       |
| Planning decision  | June 2019           |
| Commencement of ground works   | February/March 2019 |
| Construction of first houses   | December 2019       |
| Opening of “municipal course”  | January 2020        |
| Hotel opening  | March 2020          |
| Opening of championship course   | April 2021          |
| On-going phased house building up to 2027  |                     |

## 5.0 DUE DILIGENCE

5.1 The Special Purpose Vehicle (SPV) structure being used for this project is a commonly used model for developing projects. The actual value of the SPV company itself may be minimal as it is the equity partners or contracting partners that have significant value. As a result it is these partners that safeguard the monies invested and manage the construction risks. The critical issue relates to the management of the risks and the allocation of those risks amongst the development partners themselves. This can be by way of shareholding or contracting partner relationships.

5.2 The NJVG has formulated a construction and risk allocation where the early development risk in bringing the partners together and making progress with the planning application creates significant value but is undertaken by the partners themselves. Thereafter the direct construction and delivery risks are taken by contracts entered into and are secured by Story Homes and the equity injected into the SPV by its shareholders. This would also include the proposed new equity investors. The subsequent operating risk is managed through Celtic Manor.

5.3 It is not unusual at this stage of a development for an SPV to be a shell company and dormant in terms of previous activities. The roles, risks and sweat equity placed into the vehicle by its relevant partners are where the value at an early stage of a project is created but this value is not reflected in the SPV itself.

5.4 The NJVG have brought together a strong team to deliver the project, bringing considerable knowledge and expertise in the golf, hotel and residential sectors. Key partners include:

- Celtic Manor - branding and operational expertise. Celtic Manor are a leading hotel and golf management company owning and operating the high profile and internationally recognised Celtic Manor resort in Newport, South Wales. The 2016 audited accounts indicate a turnover of over £50m, a profit before tax of £5m and net assets of £56m. Celtic Manor is ultimately owned by Sir Terry Matthews worth an estimated £1.2bn and number 114 of the Sunday Times Rich List.
- Story Homes – based in Cumbria they are one of the largest regional house builders. They have divisions in the North West, North East, Cumbria and Scotland and have several ongoing housing developments in each region. They are a highly profitable and stable company and are 100% owned by Fred Story, a high net worth individual worth an estimated £150m, and number 748 of the Sunday Times rich list. The Hoylake development will be their first development in Wirral. Due diligence was undertaken on the information Story Homes provided including a full analysis of their audited financial accounts. They have undergone significant expansion over the last 3 years from selling 150 houses in 2013 to 565 in 2016, and are forecasting to continue with this expansion over the next few years. They also invested and continue to invest in increasing their land holdings with all profits being reinvested in the business to buy land and fund expansion. Their 2016 accounts show a turnover of £123m and net assets of £72m. Their forecast to 2019 suggests an increase in turnover to £315m and achieving a £53m profit. In summary, Story Homes are a substantial company with an expansion strategy. At the time of analysis, they had circa £38m unused loan facility from Lloyds Bank as well as over £140m worth of land and houses built or under construction which should provide additional comfort to the Council.
- Nicklaus Design – will design the signature golf course and academy and the new municipal course. The Jack Nicklaus group are shareholders in the NJVG
- Branded Hotel Management – a specialist hotel management company who also provide consultancy services in respect of Hotel development. They will provide commercial hotel advice and lead on the negotiation and management of the Celtic Manor partnership.
- James Anderson – chairman of Machynys Peninsula golf and country club. He has successfully completed 3 UK championship golf course developments in collaboration with Nicklaus Design

## **6.0 HIGHWAY ISSUES**

6.1 There are a number of highway issues in the Hoylake area, some of which are longstanding including congestion along Market Street and delays around the railway level crossing.

6.2 The Council is developing proposals to support grant applications which, if successful, will seek investment in the existing public highway and create a new link road to serve the Carr Lane Industrial Estate and Hoylake Golf Resort.

6.3 At this stage the outcome of the grant application is not known and therefore Cabinet is being asked to agree to recycle land receipts from the Hoylake Golf Resort (in relation to the land the Council owns) towards highway works. Should the efforts to secure grant be successful the land receipt would then be used to invest in the wider

public highway network to achieve maximum benefits for local residents and businesses.

## 7.0 PROJECT BENEFITS

7.1 The project has the following potential financial benefits;

|  |                           |
|--|---------------------------|
| Annual Council Tax income (on completion)                        | £603,000pa                |
| Annual Business Rates (on completion)                            | £334,000pa                |
| Minimum loan interest return on investment                       | £2.5m                     |
| Loan arrangement fee   | £250,000                  |
| Payment for Council consultant fees and site investigation costs | £550,000                  |
| Minimum premium sale of land receipt (subject to final design)   | £3m                       |
| Overage provisions on operational profits                        | see confidential appendix |
| 175 jobs and 168 construction jobs                               |                           |
| Estimated savings on operation of municipal course               | £79,000                   |

7.2 The NJVG advises that there will be environmental, ecological and economic benefits to the project which will be set out in their studies prepared for the planning application.

## 8.0 PROJECT RISKS

8.1 The project risk assessment is as follows;

|   |   |
|---|---|
| Planning consent is refused                       | <p>The NJVG carries the entire risk of obtaining planning permission for the development including paying all costs of applying for the permission – the NJVG propose this is funded by the equity investment.</p> <p>The loan term sheet includes a condition that drawdown of any Council funds will not occur until planning consent is obtained therefore the loan funding does not present any risk.</p> <p>Should planning consent be refused, the Council will be at risk for fees already incurred.</p> |
| The NJVG fails to raise the equity investment     | <p>NJVG need to raise equity investment before any loan drawdown occurs. If they fail to do this then the Council will be entitled to cancel the loan agreement before any loan is made.</p> <p>The Council have been very clear to the NJVG that the level of borrowing is capped at £26m and there will be no further increase to support any failure on their part to deliver the equity investment required.</p>  |
| Delay in the delivery of the infrastructure works | <p>There is a risk in terms of the timescale for the removal of the pylons as their removal is out of the control of the Council or the NJVG. It would depend entirely on Scottish Power delivering the works in line with the agreed programme.</p> <p>To mitigate this risk, the Council and the NJVG have engaged with Scottish power to get their commitment to the project with a strong contract in place.</p>  |
| Ground conditions                                 | <p>Mitigation – site investigation survey will be undertaken in the next stage of the project. Initial surveys along the route of the proposed and conditional</p>  |

|                        |  |
|------------------------|--|
|                        | road have been undertaken. This is a key risk on the drawdown of the Story Homes monies. Further investigations will be undertaken to identify actual risk and mitigation.   |
| Project cost increases | <p>The NJVG proposal is based on estimated construction costs. Whilst the costs include a contingency of c10%, there is still further work to be done to provide cost certainty.</p> <p>Any additional costs are wholly the responsibility of the NJVG.</p> <p>There is a risk that costs may increase beyond those contained in the NJVG financial model and as a result the project becomes unviable or requires additional funding.</p> <p>To mitigate the risk, the Council has included as a loan pre-condition, the requirement for the NJVG to submit a fully detailed cost proposal to the Council for approval before any loan drawdown.</p> <p>At the next stage of the project the NJVG will also be undertaking detailed design and engaging a wider team to confirm the project assumptions and projections to ensure they are robust and accurate.</p> |

## 9.0 FINANCIAL IMPLICATIONS

- 9.1 In addition to the considerations of public loan support other financial implication should be noted. This project represents a significant financial commitment from the Council for a strategic growth initiative. Whilst the headline figures are large, so too is the commensurate commercial rate of return on the investment, so it should be considered in terms of the overall scale of the development and the wider benefits to the Council including operating overage profit share, an increase in business rates and Council tax on the additional residential units. The legally binding underpinning repayments from the house builder provide the security as do the mechanisms in place that control land transfer and other contractual controls. All of the financial and other commitments are subject to the granting of planning permission and if refused they fall away from the Council.
- 9.2 The NJVG will commit in the region of £1.5m at risk to prepare a planning application which includes extensive surveys and detailed designs. The Council is not allocating any new additional money to the project.
- 9.3 The sale of Council land will be at a premium (above current value) generating a land receipt. The Council will also benefit from a share of overage on golf and hotel operational surpluses above a pre-determined level. In addition to these negotiated benefits will be the annual income from Business Rates and Council Tax which will also flow to the Council upon completion of the project. This income level will change in line with subsequent changes to Council Tax and Non-Domestic Rates.

## 10.0 LEGAL

- 10.1 The Framework Development Agreement sets out all the legal parameters relating to the project including obligations and safeguards.
- 10.2 A detailed loan term sheet has been developed which fully sets out the terms and conditions of the proposed loan. All the terms detailed have been provisionally agreed



by the NJVG and if Members agree to proceed a full detailed legal loan agreement will be drafted by the Council's legal advisers.

10.3 In due course land transfer and lease agreements will be required to be signed.

## **11.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

11.1 The project will continue to be delivered by the Council's Regeneration Team with external specialist support as outlined in this report. The new link road will be built to adoptable standards and will become a public highway in due course. The Council will retain the freehold of the new municipal golf course site and control the operation via a long lease arrangement. The potential liability of the former landfill site will be mitigated by the remediation strategy and the proposed after use as a golf course.

## **12.0 RELEVANT RISKS**

12.1 See Section 8 above and full assessment in confidential appended report.

## **13.0 PLANNING IMPLICATIONS**

13.1 The facilities associated with the proposed Golf Resort would be located within the Green Belt (subject to Policy GB2 of the Council's adopted Unitary Development Plan), and within an Area Requiring Landscape Renewal (Policy LAN1, Policy LA1, Policy LA3 and Proposal LA4 refer).

13.2 The developers must seek to demonstrate that the benefits of the proposal are of particular significance and importance to merit "very special circumstances" for building on Green Belt land. This is a fundamental planning policy consideration that must be met to the satisfaction of the Local Planning Authority and the Secretary of State in addition to all other planning considerations relating to development of this nature. Any future planning application must be robust and address all material considerations, which will be considered on their merits during the determination process.

13.3 The National Planning Policy Framework (NPPF) will be an important material consideration alongside the emerging Core Strategy Local Plan. The Proposed Submission Draft Core Strategy Local Plan for Wirral was published in December 2012 and seeks to preserve and enhance the openness and rural character of the Rural Area, subject to national Green Belt controls. Following further consultation on housing needs and land supply, the Council is undertaking a wider review of development options before deciding on the final sites to be included for development in the Core Strategy Local Plan. The final Core Strategy Local Plan is expected to be published in 2019 before being submitted to the Secretary of State for public examination with adoption anticipated for late 2020/early 2021. On 19 December 2016, Wirral Council resolved to legally 'make' (adopt) the Neighbourhood Development Plan for Hoylake (prepared by Hoylake Community Planning Forum (Hoylake Vision)) and as such it now forms part of the adopted Development Plan, and covers part of the area for the proposed golf resort.

13.4 While appropriate facilities for outdoor sport and recreation are often consistent with Green Belt policies set out in the NPPF and the Unitary Development Plan (UDP), the

proposed Golf Resort development could be classed as 'inappropriate development' requiring exception in very special circumstances. 'Very special circumstances' exist when any potential harm to the Green Belt by reason of inappropriateness or any other harm, is clearly outweighed by other considerations, including economic and social outcomes and benefits. Following the submission of any formal planning application, the Local Planning Authority is required to consult the Secretary of State before granting planning permission for the proposed development, as required by the Direction in DCLG Circular 02/2009. Any planning application for the golf resort project would also need to be supported by a range of other assessments including:

- Environmental Impact Assessment (subject to screening)
- Traffic Impact Assessment/Transport Assessment
- Flood Risk Assessment including drainage
- Habitats Regulations Assessment (subject to screening)
- A Design and Access Statement
- A Planning and Regeneration Statement
- Economic Impact Assessment

13.5 All of these studies will be publicly available and consulted on through the planning process

#### **14.0 ENGAGEMENT / CONSULTATION**

14.1 A consultation exercise was undertaken in November/December 2015. This was to introduce the golf resort concept and was designed to impart basic information regarding the principal scheme elements and the understanding as to how the golf resort could work and how it could be accessed by vehicles and relate to the surrounding land uses. The outcome of this was publicised on the Council's web site. See <https://www.surveymonkey.net/results/SM-HX2D3T3C/> Further consultation will be organised prior to the formal planning application submission once additional survey work has been undertaken and designs have been formulated for planning purposes. When the planning application is submitted there will be statutory consultation undertaken giving ample opportunity for comments to be taken on board.

#### **15.0 EQUALITY IMPLICATIONS**

15.1 Impact review is attached – <http://www.wirral.gov.uk/my-services/community-and-living/equality-diversity-cohesion/equality-impact-assessments/eias-2010>

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**APPENDICES**                    **Hoylake Golf Resort – Review of the NJVG development proposal - November 2017**

**REFERENCE MATERIAL**

**SUBJECT HISTORY (last 3 years)**

| <b>Council Meeting</b> | <b>Date</b>                         |
|------------------------|-------------------------------------|
| <b>Cabinet</b>         | <b>20<sup>th</sup> July 2015</b>    |
| <b>Cabinet</b>         | <b>7<sup>th</sup> November 2016</b> |