Matters relating to Council's guarantee of ASB Loan to Eden Park Trust Board

File No.: CP2018/07658

Matataputanga / Confidentiality

Reason:	The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
Interests:	s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). In particular, the report contains sensitive information, the disclosure of which may disadvantage Auckland Council's position in future negotiations.
Grounds:	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

Te take mō te pūrongo / Purpose of the report

1. To consider the options relating to Council's guarantee of the ASB Loan to Eden Park Trust Board (EPTB) and delegate responsibility for resolving the course of action for the preferred option.

Whakarāpopototanga matua / Executive summary

2. Council has a decision to make by 30 June 2018 on whether to extend the $40 million loan guarantee provided to the ASB or let the guarantee expire on 30 September 2019. The EPTB is not currently in a position to repay any or all of their $46.6 million of loans when they fall due.

3. Council has several alternative courses of action it could follow, but just extending the term of the guarantee does not solve the problems of EPTB and is no longer acceptable as a solution for securing its loans. Therefore, there are two viable options for Council:

   a) 'do nothing' and wait for the ASB to call its guarantee – with all of the associated difficulties, or

   b) 'move early' to improve the position of Council financially and Council's influence over the Eden Park facilities.

Ngā tūtohunga / Recommendations

That the Finance and Performance Committee:

a) authorise the Chief Executive Officer to:

   i) enter into formal discussions and reach agreement with the EPTB and the ASB to purchase the $40 million loan and negotiate a new combined loan and cost sharing contribution where the terms shall:

      1) be fully commercial, including first ranking security, provision for charging interest (at a margin) and principal repayment;

      2) be for a period of up to 10 years; and

      3) include a non-cumulative cost sharing contribution for no more than $3.2 million per year.

ii) agree to purchase the $40 million debt of the EPTB for no more than $40 million.

iii) complete detailed due diligence on the EPTB financial projections.

iv) provide in the Annual Budget 2018/19 for the raising of a further debt funding to enable the purchase of the ASB loan and providing up to $3.2 million a year for cost sharing contributions.

Horopaki / Context

4. In March 2016 the Finance and Performance Committee agreed to fully provide for the non-payment of the $40 million ASB and $6.6 million Council loans to EPTB. The purpose of this paper is to consider the options relating to Council's guarantee of the ASB Loan to EPTB and delegate responsibility for resolving the course of action for the preferred option.

5. Council has a decision to make by 30 June 2018 on whether to extend the guarantee provided to the ASB or let the guarantee expire on 30 September 2019. Both the ASB and Council loans are secured over the underlying assets of the EPTB. As at 31 March 2018, Council's total financial exposure to EPTB is $46.6 million.

Tātaritanga me ngā tohutohu / Analysis and advice

6. The EPTB is not currently in a position to repay any or all of the $46.6 million of loans when they fall due. While EPTB is profitable at the Earnings Before Interest and Tax (EBIT) level, it is projecting losses of $6.4 million (per annum) after accounting for depreciation over the medium term. It is currently unable to fund necessary renewal works.

7. Council has fully provided for the $46.6 million that is likely to result in a loss in the event that EPTB fails to repay its debts when they fall due.

8. Council has several alternative courses of action it could follow, but just extending the term of the guarantee does not solve the problems of EPTB and is no longer acceptable as a solution for securing its loans. The EPTB is unlikely to accept any proposal to new terms without resolving its medium term financial sustainability. Therefore, there are two viable options for Council:

   a) 'do nothing' and wait for the ASB to call its guarantee – with all of the associated difficulties, or

   b) 'move early' to improve the position of Council financially and Council's influence over the Eden Park facilities.

9. The 'do nothing' option would involve Council letting these loans run to their termination date and waiting for the ASB to call their $40 million guarantee. While Council has provided for the guarantee, Council would still be required to fund the $40 million. This would require raising $40 million of new debt and funding the interest cost of approximately $1.5 million per annum.

10. More importantly, with this option, Council would be left with the challenge of recovering the $46.6 million, with all of the political and optical challenges of collecting this debt. In all likelihood, Council could expect to be left in their position for at least 10 years, at which time there would be little prospect that Council could expect to recover the principal of either loans.

11. Under this option it is highly likely that Council will not only have written off the $46.6 million, but will also incur interest costs of another $15 million over the next 10 years. Overall Council could expect this scenario to cost Council a total of $61.6 million (including the previously provisioned bad debts expense), with an ongoing obligation to pay interest beyond the 10 years.

12. The second alternative (and recommended option) is to seek to resolve the guarantee and medium term financial viability issues of the EPTB while also improving Council's influence over EPTB. In this alternative we would look to reset the Council's $46.6 million exposure into owning a 'performing loan', while also earning $2 million of interest per annum (netted off against the $1.5 million interest cost incurred).
13. In this scenario, Council would seek an equal 50 percent cost sharing contribution from the Government for securing the medium term sustainability of EPTB to the EBIT level. The quantum of the total contribution has been determined to be up to $6.4 million per annum, Council's share would be up to $3.2 million per annum. This contribution would be sought concurrently with the proposal to renegotiate the two loans into one.
14. The proposed contribution is intended to be a non-cumulative annual amount, capped at $3.2 million (Council's share). In the event that EPTB's financial performance improves the contribution would decrease commensurately.
15. Council would immediately seek to negotiate the loans into one performing loan, paying interest and repaying the principal (at the end of the term) on normal commercial terms. Council would be the first ranking security holder with terms for: interest, principal repayment, the provision of asset management and health & safety plans and the requirement for maintaining appropriate insurance covers. Interest is proposed to be charged at the Council's marginal borrowing rate, plus an appropriate margin.
16. Negotiating this refinancing and cost sharing arrangements are linked and both require the approval of the EPTB. The EPTB is unlikely to accept any proposal to new terms without resolving its medium term financial sustainability.
17. The preferred option would involve Council seeking:
    a) To purchase the secured debt of the ASB, including all of their security rights, for no more than $40 million.
    b) To jointly contribute to the viability of the EPTB with the Government:
        I. capped to a maximum of $3.2 million per annum,
        II. for a term of up to 10 years, and
        III. matched by an equivalent 50% cost sharing contribution.
    c) To negotiate a new commercial loan agreement for both loans ($46.6 million) concurrently with (b).
18. Purchasing the ASB debt would enable Council to receive the full benefits of the ASB loan, including having $100 million preferential entitlement in the event the assets are sold or the EPTB is disestablished. This would provide a stronger position for entering into discussions with the Government and negotiating with the EPTB. In turn, the proposed option results in Council having a much closer (direct) relationship with EPTB.
19. Under the recommended option Council would be able to charge interest that would result in the full cost of funding being passed through to the EPTB. Providing a contribution would reflect Council's on-going commitment to supporting this regionally significant facility.
20. Staff recommend that Council purchase the debt and provide financial support because:
    a) ASB will not approve an extension of their $40 million facility without a further guarantee from Council;
    b) The EPTB will not be able to refinance the facility elsewhere;
    c) ASB is highly likely to call-in the guarantee in the event of non-repayment;
    d) Cost sharing retains the operation of a regionally and nationally significant stadium;
    e) Major events at the stadium provide economic benefits to both the region and nationally; and
    f) Events at Eden Park provide a social, recreational and sporting benefit to Aucklanders.

21. It is recommended that Council 'move early' to improve the position of Council financially and seek to improve Council's relationship and influence over these facilities.

Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe / Local impacts and local board views

22. Eden Park is a significant facility in the Albert-Eden Local Board area. The Local Board does not specifically mention Eden Park in its priorities under the Long Term Plan.

23. Local Board views have not been sought as the recommendations relate specifically to financial obligations of the Council and not the Local board.

Tauākī whakaaweawe Māori / Māori impact statement

24. There are no identifiable Māori impacts relating to the decision required.

Ngā ritenga ā-pūtea / Financial implications

25. Under the 'do nothing' option Council could expect to incur interest costs of $15 million over 10 years, in addition to the $46.6 million already provided for (written off) in the Statement of Comprehensive Revenue and Expenditure. All told, this alternative would require $55 million of new funding, with little prospect of any recovery at the end of the ten years. The interest cost would be on-going.

26. By comparison, the financial implications of the proposed course of action for Council are that it incurs a cost sharing contribution obligation of up to $3.2 million per annum, while borrowing costs are unchanged. However, Council benefits from $2 million of interest revenue annually and repayment of the principal at the end of the 10 year loan period.

27. Under the proposed option Council's contribution may be less, depending on the performance of EPTB. Council will also have greater ability to influence EPTB under this alternative.

28. Under the recommended course of action Council would receive a total of $5 million of interest income above the associated interest cost. This reflects the small margin on borrowing and earning interest on the original Council loan.

29. All told, this option produces a net return to Council of $20.4 million, largely as a result of recovering the $46.6 million of principal repayment and net interest revenue. Furthermore, Council would be preserving the option of a reduced contribution and the opportunity of a more influential relationship with EPTB.

30. No funding is currently included in the FY2017/18 budget or the Long Term Plan for the payment of the guarantee or purchase of the loan from ASB. Nor is any provision included for providing the proposed cost sharing contribution. Provision is required in the 2017/18 budget process to either purchase the loan or pay the guarantee, and to provide for the cost sharing contribution.

31. 10-years have been chosen as a reasonable timeframe over which to compare the options.

Ngā raru tūpono / Risks

32. Council's primary risk is that it may need to try and recover the debts owed by EPTB to Council and the ASB. This risk materialises if Council does nothing and no plan is in place for resolving EPTB's financial position. This risk would be mitigated if Council follows the recommended course of action.

33. A second risk exists in the event that any unplanned or unforeseen significant negative events occur at Eden Park. This could have a negative impact on anticipated financial revenues and viability of EPTB. This risk would partly be mitigated by (i) the proposal of sharing risk with the Government and (ii) having a more comprehensive set of commercial loan documents in place.

Ngā koringa ā-muri / Next steps

34. We are seeking the following approvals for Councillors to authorise the Chief Executive Officer to:

   a) Enter into formal discussions and reach agreement with the EPTB and the ASB to purchase the $40 million loan and negotiate a new combined loan and cost sharing contribution where the terms shall:

      1) be fully commercial, including first ranking security, provision for charging interest (at a margin) and principal repayment;

      2) be for a period of up to 10 years; and

      3) include a cost sharing contribution for no more than $3.2 million per year.

   b) Agree to purchase the $40 million debt of the EPTB for no more than $40 million.

   c) Complete detailed due diligence on the EPTB financial projections.

   d) Provide in the Annual Budget 2018/19 for the raising of a further debt funding to enable the purchase of the ASB loan and providing up to $3.2 million a year for cost sharing contribution.

Ngā tāpirihanga / Attachments

No.	Title	Page
A⇩	Auckland Council Guarantee of the ASB Loan presentation - **CONFIDENTIAL**	9

Ngā kaihaina / Signatories

Authors	John Duncan, Executive Director, Auckland Investment Office
Reviewer	Francis Caetoano – Group Financial Controller
Authorisers	John Bishop - Treasurer and General Manager Financial Transactions Matthew Walker - Acting Group Chief Financial Officer

Attachment A

Auckland Council Guarantee of the ASB Loan Presentation

Context

- Former Auckland City Council agreed to guarantee a **$40 million ASB loan** to Eden Park Trust Board (EPTB)
- Guarantee expiring in **September 2019** after an extension by the Finance and Performance Committee in March 2016
- Decision on the way forward will be required by **30 June 2018**
- Auckland Council also holds a **$6.6 million community loan** to EPTB
- EPTB currently running an **operating deficit** (depreciation unfunded) – has signaled funding required from Auckland Council

Options

	Option A Do nothing	Option B Move early	Option C Extend
Financing			
Partnered approach with EPTB	✗	✓	✗
Interest recovery	✗	✓	✗
ASB loan security ($40m)	✓	✗	✓
New AC loan security ($40m)	✗	✓	✗
Community loan security ($6.6m)	✓	✓	✓
Operating			
AC and Crown operating gap sharing*	✗	✓	✗
Eden Park asset maintenance	✗	✓	✗
Eden Park availability	1 years	10 years	2 years

*Non-cumulative commitment

Attachment A

Item C1

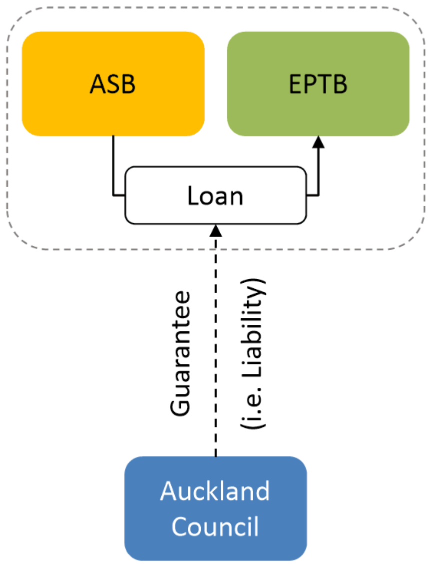
Options

Commentary

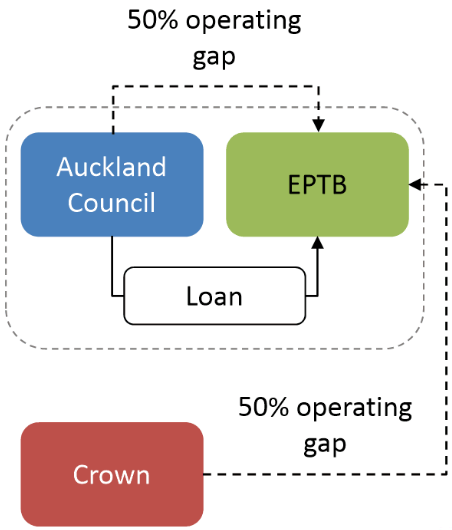
Under Options A and C Auckland Council will have no direct control over the loan security or any associated influence as the loan is held by ASB, however the guarantee effectively means Auckland Council is liable for the loan. EPTB has signalled operating funding may be required from Auckland Council and under Options A and C we may be the sole funder.

Option B refinances the loan so that Auckland Council holds the security and has direct control of its covenants. Crown has also signalled willingness to co-fund the operating gap.

Option A & C structure



Option B structure



Options – cash flow analysis

Options	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Net
Option A - Expire											
Repayment of ASB loan	(40.0)										(40.0)
Interest paid	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(15.0)
Recovery of ASB loan		Recovery will occur if and when Auckland Council decides to enact deed rights									?
Net	**(41.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(55.0)**
Option B - Refinance & fund											
Refinancing of ASB loan	(40.0)										(40.0)
Recovery of AC loan										40.0	40.0
Recovery of Community loan										6.6	6.6
Net interest	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.0
Share of operating funding gap	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(32.0)
Net	**(42.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**43.9**	**(20.4)**
Option C - Extend											
Repayment of ASB loan		(40.0)									(40.0)
Interest paid		(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(13.5)
Recovery of ASB loan			Recovery will occur if and when Auckland Council decides to enact deed rights								?
Net	**0.0**	**(41.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(53.5)**

Attachment A **Item C1**