

Summary Sheet

Council
9th December 2015

Title

Magna Trust - update

Is this a Key Decision and has it been included on the Forward Plan?

No

Commissioner Approving Submission of the Report

Commissioner Managing Director

Report Author(s)

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Ward(s) Affected

All

Executive Summary

At the meeting of the former Cabinet of the 4th February 2015, Minute C141 (1) recommended, 'That a short term Council loan facility to the Magna Trust of £250,000 be deferred'. This meeting also resolved, 'That the appointment of an independent consultant to undertake a review of Magna's business, to help to strengthen the Magna business plan and to assess the future viability of Magna, be approved and a report be submitted back to the Cabinet in due course' (Minute C141 (3)). In response to this approved recommendation the Council undertook a formal tender process, which resulted in the award of the contract to PricewaterhouseCoopers LLP (PwC). This report summarises the minded to decision taken by Commissioner Manzie on 30th November 2015 and seeks Council's views.

List of Appendices Included

Appendix 1 – Report considered at the decision making meeting held by
Commissioner Managing Director on 30th November 2015 (Exempt)

Appendix 2 - PWC Magna Business Plan Review (Exempt)

Background Papers

The former Cabinet – 4th February 2015

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Scrutiny

Council Approval Required

Commissioner Managing Director's delegated decision but Council's endorsement sought.

Exempt from the Press and Public – Report – no; Appendices 1&2 exempt

Title (Main Report)

Magna Trust – update

1. Background – Magna Trust

1.1 Magna was one of the millennium projects, largely funded by the BIG Lottery Fund. Initially funded as a science adventure centre and educational visitor attraction the Magna Trust expanded its core business to develop a role as a corporate conference and event space, with significant investment taking place in 2007/2008, funded by Objective 1 and Yorkshire Forward, to extend and remodel this space.

1.2 Strategically the Magna site sits within the Advanced Manufacturing Innovation District (AMID), a transformational project for the SCR within the devolution deal, and the site is on a key gateway into the town. The AMID covers 2,000 acres of land, forming a triangle from Sheffield city centre to Rotherham town centre and the AMP at Waverley, encompassing the Don Valley corridor and the Sheffield Business Park. Magna has immediate access to the M1 and is on the route of the Bus Rapid Transit (BRT) North. The site adjoins the tram-train line and is close to the proposed HS2 station at Meadowhall. Magna is the only facility of its size in the Sheffield City Region, and it is unique in the flexibility of its spaces, making it the perfect venue for corporate and leisure events. In addition, there is significant unused space at the venue, which could be brought into use and in turn provide additional funding streams into the business.

1.3 Given this and the heritage of the building, there is a unique opportunity to link Magna with the world leading and innovative businesses on the Advanced Manufacturing Park (AMP) at Waverley and the University of Sheffield's Advanced Manufacturing Research Centre (AMRC). Magna could potentially be used as a showcase venue for the products produced on the AMP, and as a key conference and events facility for these businesses. As an example an event attracting global businesses linked to the AMP and AMRC was held at the venue early in November. In addition, there is an opportunity to develop the visitor attraction journey through from the history of steel to the new innovative technologies.

1.4 The Council is one of 3 Members of the Magna Trust, together with the Rotherham Chamber of Commerce and The Stadium Group. The various funders involved in Magna; the Big Lottery, DCLG, Yorkshire Forward, Lombard Property Facilities Limited, the Royal Bank of Scotland (RBS) and Rotherham MBC are bound together by an Inter-Creditor Deed, which determines the priority rights of the various parties in the event of Magna

being wound up. The Council has priority rights in respect of the proceeds of the sale of the Project Office, which sits at the front of the site, bordering Sheffield Road, and has a current valuation of approximately £200,000. The involvement of Lombard and RBS stems from a complex lease/lease-back arrangement that Magna entered into about 10 years ago. With regard to the £250,000 short term loan, in the event of Magna going into liquidation, the Council would rank with the other creditors, after the interests of the other parties to the inter-creditor deed have been settled. Therefore, once the remaining cash within Magna's business is determined, the Council would receive a percentage share of the £250,000, in line with the percentage share allocated to all of the other outstanding creditors.

- 1.5 The Council has supported Magna since its inception, and has provided it with financial support during periods of difficulty. In 2006 the Council granted Magna a £300,000 fifteen year long term loan, repayable at £5,000 per quarter plus interest. £190,000 is currently outstanding on this long term loan, and Magna have been on an agreed repayment holiday on this loan since 1st April 2013. This loan is secured on the Project Office.
- 1.6 In 2008, following the onset of the recession, the Council provided Magna with an unsecured one year working capital facility. This was reviewed annually by Cabinet, a sum of £250,000 being agreed in March 2014. Without this facility Magna would not have been able to meet its financial obligations and would have been forced to close. An additional unsecured £80,000 bridging loan facility was agreed in January 2014, and on the 16th January 2015, in accordance with her delegated powers, the former Interim Chief Executive agreed to provide Magna with an immediate additional £100,000 loan facility, to be drawn down by Magna on demonstration of need.
- 1.7 At the meeting of the former Cabinet of the 4th February 2015, Minute C141 (1) recommended, 'That a short term Council loan facility to the Magna Trust of £250,000 be deferred'. Following this meeting, Magna successfully reached completion on the sale of part of the car park for £300,000 on the 2nd March 2015. Since that date, loan principal repayments of £158,081 have been received from Magna, with the result that it now has outstanding loans of £440,000. This is made up of the £190,000 long term loan and the £250,000 short term loan.
- 1.8 The former Cabinet meeting of the 4th February 2015 also resolved, 'That the appointment of an independent consultant to undertake a review of Magna's business, to help to strengthen the Magna business plan and to assess the future viability of Magna, be approved and a report be submitted back to the Cabinet in due course' (Minute C141 (3)). In response to this approved recommendation the Council undertook a formal tender process, which resulted in the award of the contract to PricewaterhouseCoopers LLP (PwC). This review has now been delivered to the Council. There are a number of recommendations that came out of the review that Magna and the Council need to consider and which could be the subject of further work.

2 Key Issues

Magna Business Plan Summary

- 2.1 Magna have produced a business plan for the period 2015-2020. Magna's strategy is essentially to maintain and build on the existing business model, as a visitor attraction and conferencing and events venue.

PwC Review of Magna Business Plan - Conclusions

- 2.2 The PwC review highlighted a number of key conclusions relating to Magna's financial resilience and future business prospects and can be found in the exempt reports at Appendix 1 and 2.
- 2.3 Following consideration of the PwC business plan review report, the Council has commenced a dialogue with Magna in relation to the minded to decisions in order to determine how these recommendations can be progressed. One of the key immediate tasks is to work with Magna, their solicitors, DLA Piper, and the key stakeholders, to seek changes to the inter-creditor deed. This will enable Magna to move forward with a more effective and streamlined decision making process.

3. Options considered and recommended proposal

- 3.1 The Council needs to determine (i) whether it continues to provide ongoing financial support to the Magna Trust and (ii) what level of financial support is provided and what repayment terms are agreed for the current loans. Currently Magna has outstanding loans to the Council of £440,000. This is made up of the £190,000 long term loan and the £250,000 short term loan. The long term loan is secured.
- 3.2 **Option 1 – Call-in the two outstanding loans, totalling £440,000.** Magna are not in a position to repay the loans from its existing cash balances.
- 3.3 If the Council sought to call in the loans immediately it could force Magna into administration. Magna's trustees would resign prior to this happening as they would not wish to be associated with this process, as it would impact on their business lives outside of Magna. In the event that Magna enters administration, the Council would effectively take ownership of the Project Office as its security on the £190,000 long term loan. In respect of the £250,000 short term loan, any monies available would be shared with the other creditors, so effectively the Council would have to write off all or part of this loan under this scenario.
- 3.4 If the Council sought to seek repayment of the loans, it would need to consider future options for the site.

- 3.5 **Option 2 – Write off the £250,000 loan in part or full.** The Council has made revenue provision in its 2014/15 Accounts for the full £250,000. A decision to write off the loan would not therefore impact further on the Council's revenue budget position. By writing off the loan the Council would end any ties with Magna, the long term loan being secured, which would allow Magna to develop the business without the annual uncertainty regarding the Council's financial support. In this scenario Magna would continue to make repayments on the £190,000 long term loan. On the basis of the annual agreed principal repayments of £20,000 the loan would not be repaid until 2025. The Council could seek to agree a new repayment profile, so that the loan is repaid by December 2021 in line with the original profile.
- 3.6 On the basis of Magna's business plan projections, there is an expectation that Magna will begin to move into a trading surplus, this would enable it to begin to repay the loans over time. Therefore, there is no reason from a financial point of view as to why the Council should write off its short term loan at this time. There is also an opportunity for the Council to work in partnership with Magna to drive the business forward, for the benefit of both parties. Magna is the only facility in the Borough that has conference / event facilities of that size and flexibility. Indeed, there are no competing facilities of Magna's size anywhere in the Sheffield City Region. There is a clear opportunity to link Magna with the AMP at Waverley, links that Magna and RMBC are already beginning to make. Added to the potential for a tram-train stop at Magna (plus the BRT North), there is a great opportunity to develop the area as a key strategic site/venue for Rotherham and the SCR.
- 3.7 **Option 3 – Seek to agree a repayment plan with Magna on the £250,000 loan.** Under this option it is proposed that the Council agrees a repayment plan on the £250,000 loan. This would be on the basis of a minimum period of 5 years and a maximum of 10 years. The plan would be sufficiently flexible to take account of Magna's trading circumstances, and enable the Council to link loan repayments to Magna receiving any windfall payments through asset sales, etc. Under this scenario the first call on the loan repayments received would be the £250,000 loan, with the balance of any payments made being against the secured £190,000 loan. If there is a significant deterioration in Magna's trading position the Council could revert to considering Options 1 or 2 at that time. In order to facilitate this, a revised loan agreement would need to be drawn up in respect of the £250,000 loan, and changes would also need to be made to the existing long-term loan agreement.
- 3.8 **Option 4 – Seek to agree a repayment plan with Magna on the two loans, totalling £440,000.** This is a variation on Option 3 above, the difference being that the Council would seek to agree a repayment plan on the full £440,000 loans outstanding. This would be on the basis of a longer period, say a minimum of 10 years and a maximum of 15 years. Again the plan would be sufficiently flexible to take account of Magna's trading circumstances, and enable the Council to link loan repayments to Magna receiving any windfall payments through asset sales, etc. In order to facilitate this, a revised loan agreement would need to be drawn up

capturing the 2 loans. This is a simpler option than Option 3 in that everything would be captured in one agreement. **This is the recommended option.** If there is a significant deterioration in Magna's trading position the Council could revert to considering Options 1 or 2 at that time.

- 3.9 **Inter-Creditor Deed** – A key requirement to securing Magna's future and to unlock the external investment that Magna needs, is to change the inter-creditor deed to remove the restrictions on the business that this imposes. By removing all parties to the inter-creditor deed, other than the Council, this will enable the Council to secure all its loans against the property. Magna will need to make changes anyway to enable it to sell any surplus assets. Given that key contacts have now been identified within Government departments to enable the release of part of the car park, this process, whilst still protracted, should be relatively more straight forward. The Council will work with Magna's legal advisers, DLA Piper, to make the necessary changes to the inter-creditor deed. The costs of this work, including the legal costs of the other parties to the inter-creditor deed, will be met by Magna.

4. Consultation

- 4.1 As part of PwC's business plan review, PwC consulted with the Leader of the Council, Councillor Chris Read, the Strategic Director of Environment and Development Services, Karl Battersby, the Interim Strategic Director of Finance and Corporate Services, Stuart Booth, Magna trustees and key Magna officers.

5. Timetable and Accountability for Implementing this Decision

- 5.1 If approved, work will commence immediately to draft a new loan agreement with Magna. In addition, all parties will commence the process of changing the inter-creditor deed. Further, a small team of officers will be identified to support Magna in developing the strategic potential of the site within the AMID. Officers will assist the Trust in identifying and securing commercial and funding opportunities (including the under-utilised land and property) to develop the business and strengthen its financial and operating position.

6. Financial and Procurement Implications

- 6.1 These are contained within Sections 3 of the report.

7. Legal Implications

- 7.1 A revised loan agreement would need to be drawn up with Magna reflecting the agreed repayment terms. Such an agreement would need to be sufficiently flexible to enable the Council to receive a share of any asset sales or windfall income received by Magna.

8. Human Resources Implications

- 8.1 Magna currently employs around 80 staff. The majority of these are part-time, 19 are on full-time contracts.

9. Implications for Children and Young People and Vulnerable Adults

- 9.1 The objectives of the Magna Trust include the advancement of education through the exhibition, interpretation, demonstration, collection and documentation of science, technology, the environment, and industrial heritage including activities, skills and associated information relating to the development of science in society, industry and where appropriate referencing the steel industry as well as the pursuit of formal and informal learning through educational programmes targeting schools, colleges, other educational establishments, families and social groups.
- 9.2 Magna is used by Rotherham school children as part of the school curriculum and the visitor attraction itself is aimed at children of school age.
- 9.3 Further, Magna hosts music and club events which cater for the young people's night-life market. Magna also employs young people on apprenticeships, and it is able to offer a range of work experiences, such as catering, events management and marketing. It has also been used as alternative temporary school accommodation in the event of major building works to a school.

10 Equalities and Human Rights Implications

- 10.1 None

11. Implications for Partners and Other Directorates

- 11.1 Magna is a key conference/events space for the Borough. Currently election counts are held in Magna, as this is the only space of its size within the Borough boundary. The facility can also be used as a shelter in the event of a Borough-wide emergency.

12. Risks and Mitigation

- 12.1 The Council should look to formalise a revised agreed loan repayment schedule with the Magna Trust and facilitate changes to the inter-creditor deed, which will give the Magna Trust greater flexibility and freedom in terms of its future operation and would enable the Council to increase its loan security holding.

13. Accountable Officer(s)

Commissioner Managing Director

Approvals Obtained from:-

Interim Strategic Director of Finance and Corporate Services:- Stuart Booth
Strategic Director of Environment and Development Services:- Karl Battersby
Assistant Director of Planning, Regeneration & Culture:- Paul Woodcock
Interim Assistant Director Legal & Democratic Services: Catherine A. Parkinson