Derby City Council

REGENERATION AND CULTURE OVERVIEW AND SCRUTINY BOARD
21 October 2014

ITEM 11

Report of the Strategic Director of Resources

City Centre Living Initiative

SUMMARY

1.1 A report to Council Cabinet for the meeting on 22 October 2014 has been prepared by the Cabinet Member for Planning, Environment and Regeneration to seek approval of the City Centre Living Initiative. The report to Council Cabinet can be found at Appendix 2 of this report.

RECOMMENDATION

2.1 To note the contents of the report to Council Cabinet and make any comments and appropriate recommendations in relation to the proposed approval of the initiative.

REASONS FOR RECOMMENDATION

3.1 To enable the Regeneration and Culture Overview and Scrutiny Board to be kept informed of the progress of this initiative and make any comments and recommendations to Council Cabinet.

SUPPORTING INFORMATION

4.2 The Board requested to see draft City Living Proposals at it's meeting of 22 October through the development of its work programme for 2014-2015.

OTHER OPTIONS CONSIDERED

5.1 None.

This report has been approved by the following officers:

Legal officer **Financial officer** **Human Resources officer** **Estates/Property officer** **Service Director(s)** **Other(s)**	Phil O'Brien

For more information contact: **Background papers:** **List of appendices:**	Clare Harrison 01332 643648 Clare.Harrison@derby.gov.uk None Appendix 1 – Implications Appendix 2 – Report to Council Cabinet on City Centre Living Initiative Appendix 3 - Financial Assumptions Appendix 4 - Revised Draft Terms of Reference, Regeneration Fund Board (October 2014)

Appendix 1

IMPLICATIONS

Financial and Value for Money

1.1 None arising directly from this report.

Legal

2.1 Part 4 of the Council's Constitution sets out the Overview and Scrutiny Procedure Rules to which this Board is governed. These rules also set out how Council Cabinet should respond to any recommendations made to them as a result of items considered by the Board.

Personnel

3.1 None arising directly from this report.

IT

4.1 None arising directly from this report.

Equalities Impact

5.1 Effective scrutiny benefits all Derby people.

Health and Safety

6.1 None arising directly from this report.

Environmental Sustainability

7.1 None arising directly from this report.

Property and Asset Management

8.1 None arising directly from this report.

Risk Management

9.1 None arising directly from this report.

Corporate objectives and priorities for change

10.1 Our aim is to work together so that Derby and its people will enjoy a thriving sustainable economy, good health and well-being and an active cultural life. The work of this board contributes to the Council’s ambitions to give people in Derby an inspiring working life by improving skills and creating jobs, and to make the city an inspiring place to live by improving the inner city. The work of the board also contributes to the Council's priority outcome of promoting good health and well-being and preventing ill health.

Appendix 2

ITEM XX

Derby City Council

COUNCIL CABINET
Date 22/10/2014

Report of the Cabinet Member for Regeneration and the Cabinet member for Housing and resources

City Centre Living Initiative

SUMMARY

1.1 The purpose of this report is to establish the City Centre Living Initiative and to make recommendations as to its future direction.

1.2 City Centre Living is a funding initiative to develop a distinct lifestyle and housing offer in Derby city centre through a loan based fund of £6.5m made available to owners of vacant/under occupied commercial properties in the City Centre for conversion to residential accommodation. There will also be a sum of £250k grant fund to support projects where there are specific viability issues including additional cost due to conservation, design, sustainability and other issues related to viability for new build schemes on brownfield sites.

1.3 DCC intends to support the private rented sector market and strengthen the current offer for conversions to residential as well as new build schemes. Through the provision of initial loan funding to developers – the market will be reinforced such that the programme would be continued without DCC funding in the longer term.

1.4 It is proposed to be a revenue neutral scheme which is proposed to bring forward approximately 40% of the Core Strategy housing target for Derby city centre in the next 3 years. Taking into account the anticipated Council Tax income, the scheme will be revenue positive generating approximately £210k pa revenue income for the Council. In addition it is anticipated the scheme will attract additional income of £562k from the New Homes Bonus scheme.

RECOMMENDATION

2.1 To approve the City Centre Living Initiative as detailed in this report.

2.2 To approve the funding proposal as set out in para 4.15 to 4.19 which includes:

- £6.525m - recoverable loan fund (through corporate unsupported borrowing subject to the annual capital programme setting process and analysis of available resources to fund the borrowing costs)
- £250k – grant funding (identified from the existing Regeneration Capital

Programme for grant payments to cover abnormal development costs)

2.3 To delegate authority to the Regeneration Fund Board, in consultation with the Cabinet Member for Regeneration, Chief Executive, Head of Legal and Head of Finance to approve individual schemes of:
- Grant applications up to a maximum of £250,000
- Loan applications of up to a maximum of £1,000,000

2.4 To give permission for the appointment of commercial and legal advisors, as well as consultants to prepare the feasibility, design, financial appraisals, and legal agreements as set out in para 4.21 to 4.23.

REASONS FOR RECOMMENDATION

3.1 This proposal would seek to address the issues of an increasing stock of obsolete offices which are no longer fit for purpose and are uneconomic for office refurbishment. Without intervention, these buildings will decline further and create sterile areas within the City Centre.

3.2 The current housing stock in the city is mainly suburban housing. It lacks diversity and variety to attract groups of people interested in other types of housing such as heritage conversions and contemporary apartments, close to employment areas, city centre amenities, public transport and leisure and culture offer.

3.3 People seeking the benefits of city centre living are currently unable to live within Derby and accordingly require to live in other centres such as Nottingham and Leicester and commute into the City to work. Accordingly, investment is currently being lost from the City.

3.4 This initiative helps to fill the identified gap in the housing market by providing funding to overcome the barrier of development finance. By reducing dereliction it aims to increase the long term sustainability of Derby City Centre. This is proposed to be achieved with relatively low risk intervention, minimal or no additional pressure on the Council’s resources.

3.5 The role of city centre is changing due to changes in shopping, banking and trading patterns. The introduction of online technology, recent recession and out of centre retail and commercial developments have had a considerable impact on Derby’s city centre. Many commercial properties are under occupied, with vacant space above the ground floor. The deterioration of such properties, the adverse impression that derelict buildings can bring to the City as a whole, and the resultant reduction in external investment, can lead to a spiral of decline.

COUNCIL CABINET
Date 22/10/2014

Report of the Chief Executive

SUPPORTING INFORMATION

4.1 The City Centre Living initiative has been designed in collaboration with the City Council's Regeneration, Strategic Housing, Conservation, Building Control and Planning services to make best use of empty buildings and preserve historic fabric, with particular focus on first floor levels and above.

4.2 This initiative has been designed in collaboration with the City Council's Regeneration, Strategic Housing, Conservation, Building Control and Planning services to make best use of empty buildings and preserve historic fabric, with particular focus on first floor levels and above. Key Objectives of this initiative are:

a. Vibrancy and Vitality
   - Increasing footfall
   - Improving day and night time economy
   - Reducing dereliction and vacancy rate

b. Meeting housing need
   - Core Strategy target-530 homes by 2028
   - Reinforcing the weak housing market and reducing pressure on greenfield land
   - High quality accommodation close to amenities- key to attracting high quality work force

4.3 Key benefits to DCC:

- Revenue Neutral scheme forecast to make a small profit of £63k in the year 2020-2021)
- £210k pa increase in Council Tax income
- £562k additional income through New Homes Bonus
- Additional fee income through planning application and building control consultancy

4.4 Key Benefits to the city:

- 225 new dwelling units created (40% of Core Strategy target for the City Centre)
- 125,000sq ft of vacant space regenerated
- £23.5m private sector residential market generated in the city centre
- £1.17m private sector rental income per year
- 300-350 more people living in the city centre (20% more than today)
- £1.5m pa extra spend in the city centre economy
- 15-20 key properties revitalised including some listed buildings

4.5 **Planning Context:**

The existing City of Derby Local Plan Review (2006) sets out policies to encourage more people to live within the Central Area, in particular the conversion of existing buildings and use of upper floors. The emerging Core Strategy seeks to enable the delivery of 12,500 homes by 2028 with a minimum of 530 homes identified within the City Centre. This includes the identification of key strategic regeneration opportunities and a positive approach to the reuse of vacant or underused buildings and sites.

4.6 The need for additional housing is also realised in the temporary relaxation in Permitted Development Rights for Changes of Use from Offices (use class B1(a) to Residential (use class C3). Department for Communities and Local Government (DCLG) is in the process of considering to make this relaxation in planning law a permanent change, beyond 2016. Such Permitted Development changes will not trigger the usual Section 106 Agreement Contributions.

4.7 There is no Permitted Development change where the change relates to a Listed Building or Scheduled Monument

4.8 **Housing market:**

There is an emerging trend in Derby's market that demonstrates demand for such housing evidenced by:

- Rise in enquiries for planning applications for residential conversions/ new build.
- Interest from owners and developers, evidenced through soft market testing has demonstrated a good level of demand and support for such intervention.
- Success of recent urban developments such as Castleward and Manor Kingsway.
- Residential planning approvals for schemes such as Full Street (47 apartments) and Willow Row application (35 apartments), including recent completion of 500 units of student accommodations.
- Preliminary marketing of Roman House resulted in several financial offers being received from developers seeking to convert the property into residential properties.
- Similar conversions in Nottingham, Sheffield and Leicester have been very successful, and a significant number of Derby's workforce travels from these locations.
- Changing demographics in Derby with increasing number of high skilled migrant workers, international students and digital entrepreneurs who are anticipated to be the end users for such housing.
- Positive signs of market improving, a slow but steady rise in the market demand for such housing.

4.9 Derby City Centre has the potential and appropriate infrastructure to fill this gap because of its role as the destination for retail, leisure and culture offer, good transport links to employment areas, its distinct character because of the historic fabric and access to the riverside and the range of vacant properties which are readily available for residential conversion.

4.10 The changes to the City centre over the past 5 years including improvements to the public realm, improvements to retail and leisure have created an attractive environment to young professionals who would not have previously considered living in Derby City centre.

4.11 In addition to the above, a significant national trend is predicted growth in the Private Rented Sector (PRS), long-term institutional investment in large scale housing schemes (100 plus units) built specifically for rent. The Government has established a PRS Task Force within DCLG to encourage this sector, creating a £1bn Build to Rent Fund and £10bn PRS Debt Guarantee Scheme, operated by the Homes and Communities Agency (HCA).

4.12 Derby stands a good chance to gain from this emerging investment class if the funding institutions see a business case for investing in Derby, as opposed to larger cities such as Manchester and Birmingham. PRS could be a game-changer for Derby, accelerating the delivery of core strategy targets and generating significant income for the City Council.

4.13 The City Centre Living Initiative provides a positive signal of intent, encouraging city living and Derby City Council is working with the PRS Taskforce to identify how this might be strengthened, primarily through complementary initiatives aimed at funding institutions.

4.14 **Funding Proposal:**

The fund is proposed to be launched in October 2014, with a target of entering into initial loan agreements in April 2015 and to support the delivery of 225 new dwellings over 3 financial years up to 31 March 2018.

4.15 A borrowing commitment of £6.525m (excluding interest) is required to establish the scheme through corporate unsupported borrowing subject to the annual capital programme setting process and analysis of available resources to fund the borrowing costs.

4.16 The costs of the scheme over 6 years period excluding interest are:

- £210k (over three years)- Professional fees for financial appraisal and legal costs (to be reimbursed from arrangement fees) + initial feasibility, design and planning (to be added to loan to developers if the scheme is viable and the application is successful)
- £120k (£20k pa)- Staff cost (for project management and fund management)

4.17 It is anticipated that the differential in interest rates between borrowing and lending costs will fund the interest on capital borrowing as well meet the above mentioned costs.

4.18 In addition, £250k has been identified from the existing Regeneration Capital Programme for grant payments to cover abnormal development costs to include design, conservation, sustainability aspirations and issues related to city centre brownfield site viability for new build schemes.

4.19 Other opportunities for accessing funding from Local Growth Fund (LGF), DCLG and HCA are being explored by the officers to increase the support for this initiative.

For details on financial assumptions, please refer to Appendix 2.

4.20 **Outline process for delivery of the scheme:**

Stage 1: Launch and Application

a. Following Cabinet approval, the funding package as outlined above will be launched (date to be agreed), marketed and expressions of interest invited from property owners and developers of empty buildings. An online portal will be set up with a package of information including an expression of interest form. This information will be available in printed copies and all accessible formats.

b. Legal and commercial advisors will be procured through EM Law-share and HCA Framework or other appropriate procurement frameworks to support and advise the Council team in the appraisal and due diligence processes.

c. To assist Officers in the assessment process, and if the owners haven't produced one, a design and feasibility study for the proposed scheme will be commissioned either by the Council or jointly with the applicant, depending on the scale of the project.

4.21 Stage 2: Assessment

d. Expression of Interest forms will be assessed by the Council's project manager and applications with suitable schemes will be invited to submit full application form.

e. Each application will be assessed against the following selection criteria:
   - Substantially vacant or derelict property where there is little or no demand for offices uses evidenced to date.
   - Appetite/ interest from the owner/developer in conversion to residential uses.
   - Desirable location for residential use (noise, anti-social behaviour, parking, building control requirements, access etc).
   - Deliverability (planning, design, conservation etc).
   - Financial viability and risk assessment.

f. The Council's appointed advisors will carry out the financial appraisal and due diligence checks specifically in the areas of:
   - Legal
   - Deliverability of development proposals
   - Proposals for the repayment of loan funding
   - Assessment of loan security provided
   - Market fit of proposals

g. Following initial checks, advice will be sought from the relevant DCC teams.

4.22 Stage 3: Approvals

h. Any funding approval will be conditional on securing all necessary further approvals which may be required including planning application/ listed building consent/ prior approval will be prepared for relevant schemes.

i. Findings of the assessment process with recommendations for approvals will be presented to the Regeneration Fund Board for approval to proceed with completion of legal documents.

j. Each successful application will be documented through a formal Grant Agreement and/or Loan Agreement (and associated security documentation where necessary).

k. These documents will contain provisions governing repayment of the monies in the event of default and, to the extent deemed necessary as a result of the approvals process, will provide for appropriate security to protect the Council's investment in line with the financial assumptions outlined in Appendix 2.

4.23 **Governance and reporting:**

The project team will report via the appointed project manager to the Regeneration Fund Board. Individual schemes will be presented to the Board for decision and for signing off loan and grant agreements, in consultation with the Cabinet portfolio holder of Regeneration, Chief executive, Head of Finance and Head of Legal. The revised Terms of Reference for the Regeneration Fund Board is attached in appendix 3.

4.24 The project will be managed by appointed project manager in the Regeneration Projects team with a project team including officers from Finance, Strategic Housing, Estates, Planning, Building Control and Conservation.

4.25 A regular review of the progress of the initiative would be undertaken on an annual basis to monitor progress against business plan objectives.

4.26 **Timescales:**

The fund is proposed to be launched in October 2014, with a target of entering into initial loan agreements in April 2015 and to support the delivery of 225 new dwellings over 3 financial years up to 31st March 2018. Key timescales are:

- Launch of the initiative- November 2014
- Processing the applications and contract agreements- November 2014 to March 2015
- Potential start on site- April 2015

4.27 **Risk**

Principal risks associated with the establishment of a City Living Fund initiative are summarised as follows;

Risk	**Risk Mitigation**
1. Failure to secure interested parties in the proposed Fund	Soft market testing has identified a significant number of parties interested in the proposed initiative.
2. Non Repayment of Loan	A robust appraisal process is put in place to ensure that adequate security is put in place for any proposed loan made.
3. Administration of the Fund - Accountancy - Legal - Valuation and Appraisals	 - Arrangements to be made for monitoring throughout the programme. - External lawyers to be engaged to prepare all documents and liaise with the in-house legal team. - External appraisers and valuers will be engaged to support the Regeneration Team and report to the Regeneration Fund Board.
4. Incentives being insignificant in this emerging market	Initiative will be reviewed after the first year with the Lead Member and appropriate recommendations will be made to Cabinet.
5. Bad debt	The loan will be secured against the first charge on property and the loan will cover only 60-65% of the end value, leaving enough margin to cover this risk.

OTHER OPTIONS CONSIDERED

5.1 An option of funding this initiative through external sources was considered. A bid to D2N2 LEP was prepared but was unsuccessful.

5.2 Other option of bidding for DCLG funding through its potential Housing Zone Programme is being considered. If successful, this would provide additional funding to accelerate the growth in numbers of housing units.

5.3 A further option of recycling the fund to reinvest in more housing was considered. This wasn't pursued further due to the anticipation that this is only a market shaping exercise. Once the market is established, it is anticipated to be self-sustaining and will not require any further direct intervention from DCC.

This report has been approved by the following officers:

Legal officer	Emily Feenan
Financial officer	Martyn Marples
Human Resources officer	NA
Estates/Property officer	Steve Sprason
Service Director(s)	Richard Williams
Other(s)	Paul Clarke, Ian Fullagar, Cath Roff, Christine Durrant, Richard Boneham

For more information contact:	Pranali Parikh 01332 642060 pranali.parikh@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Financial assumptions Appendix 3 - Revised Terms of Reference for Regeneration Fund Board

Appendix 1

IMPLICATIONS

Financial and Value for Money

1.1 In order for the scheme to move forward £6.525m of corporate unsupported borrowed is required to establish the scheme. It is anticipated that this borrowing will be repaid through developer repayments with no cost to the council. A capital bid will be submitted during the capital budget setting process. The additional borrowing should the bid for the scheme be successful will require Full Council approval in order to add the borrowing to the capital programme.

1.2 The scheme is proposed to be revenue neutral, implying no revenue implications to the Council. All council investment in capital and revenue costs are anticipated to be repaid under the scheme and therefore there will be no net investment by the Council. Benefits of this scheme to the city are wide ranging and accordingly it is considered that this initiative will provide excellent value for money

1.3 The scheme is forecast to make a small profit of £63k at the end of year 2021-22. This does not consider the bad debt. It is proposed to consider the risks of bad debt as part of the financial appraisal and due diligence process. The interest rate charged for each loan as well as the repayment arrangements will be determined by this risk, taking into account the security of DCC investment.

1.4 The scheme will be eligible for receiving New Homes Bonus for the units delivered in the first year of the project. DCC will receive a sum of £93,805 pa for 6 years (based on an assumption of 80 units delivered in the first year), adding up to a total of £562,830 in the year 2021.

1.5 Delivery of new 225 homes will mean additional council tax income of minimum £210k per year 2021 onwards.

1.6 It is not possible to make assumptions on bad debt without specific scheme appraisals. To mitigate against this risk, the loan is secured against the first charge on property and the loan covers only 60-65% of the end value, leaving enough margin to cover any risk.

Legal

2.1 The application process will involve a number of legal checks, including: ownership, planning consents, rights to undertake proposed works. Initial checks will be undertaken by Council's appointed commercial advisors and to the extent problems are identified with ownership etc. that are not resolved through further enquiries, legal advice will be taken from the Council's Legal Team.

2.2 Each successful application will be documented through a formal Grant Agreement and/or Loan Agreement (and associated security documentation where necessary). Arrangements will be put in place with external legal advisors to produce a suite of standard form documents. These standard form documents (which will be based on those used for Derby Enterprise Growth Fund scheme) will then form the basis of all transactions. Fixed price arrangements will be put in place with legal advisors for the production and negotiation of the legal documentation.

2.3 The standard form loan documents will contain provisions governing repayment of the monies in the event of default and, to the extent deemed necessary as a result of the approvals process, will provide for appropriate security to protect the Council's investment. In addition, sale of the property will trigger early repayment of the loan and interest in full.

2.4 The standard form grant agreements will provide for the provision of monitoring information by the recipient and the right for the Council to claw back grant funding where it is not spent on achieving the specified outputs.

2.5 Loans will be on normal commercial terms, in line with the EU' market economy investor principle' to avoid the risk that loans could be classified as illegal State Aid. Recipients of grant funding will be required to confirm that such grant funding will not result in the recipient being in receipt of aid in excess of the *de minimis* level for state aid in a rolling three year period, or will be in line with the appropriate part of the EU general block exemption scheme.

Personnel

3.1 Resources have been identified from the existing regeneration projects team to manage the scheme.

IT

4.1 NA

Equalities Impact

5.1 Building Control requirements for the new homes will ensure disabled friendly access to properties.

Health and Safety

6.1 NA

Environmental Sustainability

7.1 This scheme proposes the use of empty buildings to create more housing, reducing the impact of building on greenfield land.

7.2 Improving the building fabric of vacant properties will enhance their environmental performance and make them more energy efficient.

7.3 Housing in a sustainable location such as city centre will mean good transport links, resulting in reduction of car dependency.

Property and Asset Management

8.1 This scheme is anticipated to deal predominantly with properties in private sector ownership. In case any DCC property and assets are being considered, relevant teams will be consulted and advice from DCC officers will be sought.

Risk Management

9.1 A review of key identified risks and appropriate risk mitigation measures for this proposed fund is set out in the table below:

Risk	Risk Mitigation Measure	Comment
1. Failure to Secure Suitable Investment Opportunities	Consultations will be undertaken with existing landlords and it is proposed that a series of case studies be undertaken to demonstrate both the viability of projects as well as the quantum of potential opportunities for the fund.	Initial research undertaken indicates a significant number of suitable opportunities for which a residential conversion is likely to be the most viable future use.
2. Market Failure for Sale of New Units Within Completed Schemes	Market research will be undertaken to consider demand and supply of residential units within Derby City centre. As this is a new market, comparison will be drawn with other centres within the East Midlands.	Each project will be assessed on its individual merits and DCC will ensure that there is adequate security provided for any loan. The failure to dispose of units is likely to defer repayment of the loan as opposed to providing significant risk of non-recovery of loan funding.
3. Properties Let Out on a Rental Basis	Where properties are let out as opposed to sold – DCC shall receive a proportion of net rental in accordance with the ratio of loan to total project cost. Once 90% of properties are let then the freeholder will have a period of 6 months to refinance. There will be a longstop date for the loan of say 5 years.	It is important that properties proposed to be marketed on a rental basis are identified on this basis at appraisal stage and risks assessed on this basis. DCC may consider the grant of a longer term loan dependant on individual project circumstances.
4. Cost Overruns for	DCC loan funding would be for a fixed amount and therefore any	Whilst liability for cost overruns lies with the

Refurbishment Works	liability for cost overruns will be the sole responsibility of the applicant. A review of projects will be undertaken to consider the adequacy of the proposed loan and also the ability of the applicant to meet any cost overrun.	applicants, the appraisal process will require to ensure sufficient funding is available to deliver relevant scheme proposals.

5. Bad debt	The loan is secured against the first charge on property and the loan covers only 60-65% of the end value, leaving enough margin to cover any risk.	It is not possible to make assumptions on bad debt without specific scheme appraisals. The appraisal process will consider this risk and ensure the right level of margin to allow for potential bad debt.

Initial consultation with developers and owners of empty buildings has suggested good interest and appetite for this initiative. Financial appraisals and due diligence process will be crucial to ensure a viable business case. It is proposed to review the scheme annually to assess the success and viability of the scheme.

Corporate objectives and priorities for change

10.1 This initiative will contribute towards Derby Plan's big ambition:

- Inspiring place to live by improving inner city areas
- Inspiring working life by improving skills and creating jobs

COUNCIL CABINET 22/10/2014

Financial Assumptions

City Centre Living initiative is anticipated to be launched in October 2014, with a target of entering into initial loan agreements in April 2015 and to support the delivery of 225 new dwellings over 3 financial years up to 31 March 2018.

A borrowing commitment of **£6.525m** (excluding interest) is required to establish the scheme through corporate unsupported borrowing subject to the annual capital programme setting process and analysis of available resources to fund the borrowing costs.

The costs of the scheme over 6 year period excluding interest are:

- **£210k** (over three years)- Consultants cost for financial appraisal and legal costs (to be reimbursed from arrangement fees) + initial feasibility, design and planning (to be added to loan to developers if the scheme is viable and the application is successful)
- **£120k** (£20k pa)- Staff cost (for project management and fund management)

It is anticipated that the differential in interest rates between borrowing and lending costs will fund the interest on capital borrowing as well meet the above mentioned costs.

In addition, **£250k** has been identified from the existing Regeneration Capital Programme for grant payments to cover abnormal development costs to include design, conservation, sustainability aspirations and issues related to city centre brownfield site viability for new build schemes.

Capital Investment:

- It is assessed that the fund will provide loan funding for the first year for 20 2-bed flats(average cost of conversion of £60 k per flat) and 70 1-bed flats (average cost of conversion of £45 k per flat) then total loan investment in the first year would provide a total of £4.35 million. For the purpose of this exercise, assumptions are made based on the available current market information for rental values, sale values and cost of conversion. These numbers will need to be tested through the detailed appraisal of individual schemes.

- It is anticipated that the repayment of say 50% of loans will be paid in within Year 1 following the disposal of converted flats providing loans repaid of £2.175 m and therefore reducing net investment in Year 2 to £2.17m.

- It is noted that refurbishment schemes will typically require a period of 6 months or less and most developers will seek a level of pre-lettings or pre-sales during the course of the works. On this basis, the assumptions are considered to be prudent – as is appropriate in the undertaking of an assessment of cash-flow in relation to a programme of this nature.

- Based on the above assumptions, the maximum capital funding requirement for the proposed loan fund is assessed at £6.5 million

- It is proposed to borrow £6.5m repayable loan as unsupported corporate borrowing. In order to avoid paying interest on the capital that is not being used, it is proposed to borrow in two phases- £4.35m in the first year (2015-16) for 5 years and additional £2.175m in the next year (2016-17) for 4 years.

- Initial proposals for the City Living Fund have been based on a target interest rate of 6.5% compounded (dependent on the level of security provided) compared with the current estimate of PWLB rate of [2.79%] for a 5 year loan term and therefore provides a surplus of 3.71% interest receivable on the redemption of a loan.

- Individual schemes will be assessed for risks and rates will be charged accordingly. Interest rates will be competitive to encourage take-up of the fund – but above the state aid thresholds.

- Loan funding will be repayable upon the disposal or occupation of the completed scheme or on a pro-rata basis against the disposal of individual units – subject to a longstop date to be agreed. It is assumed that in case of rental occupation, the owner will refinance the property.

- 100% of the conversion costs will be eligible for DCC funding. The DCC investment will be paid out against the independently certified expenditure against an agreed schedule of works carried out to the property up to a maximum sum.

- One of the real benefits of a fund of this nature is that in most cases a quick turnaround is expected in the loan funding. The refurbishment of an existing building could take say 6 months and repayments would start as soon as individual properties are sold and payment made to release charges on properties. Accordingly a loan could typically be recycled within a 2- 3 year period – when it could be re-invested in a further project. This ability to quickly re-cycle funding compares with the longer timescales for investment by the Regeneration Fund in commercial schemes with longer development and disposal timeframes where investment could potentially be locked up into a single project for 5 years or more in some circumstances.

- It is proposed to review the scheme annually to assess the success.
- It is not possible to make assumptions on bad debt without specific scheme appraisals. To mitigate against this risk, the loan will be secured against the first charge on property and the loan covers only 60-65% of the end value, leaving enough margin to cover any risk.

Table 1: Capital investment and interest costs

	2015-16 Year 1	**2016-17 Year 2**	**2017/18 Year 3**	**2018/19 Year 4**	**2019/20 Year 5**	**2020/21 Year 6**	**Total £**
Corporate unsupported borrowing	£4,350,000	£2,175,000					6,525,000
Interest cost (5 year loan for £4.35m @2.79%		121,365	121,365	121,365	121,365	121,365	606,825
4 year loan for £2.175m @ 2.83%			61,553	61,553	61,553	61,553	246,212
Total interest cost		121,365	182,918	182,918	182,918	182,918	**853,037**

Table 2: Interest income

	2015-16	**2016-17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**Total £**
@ 6.5%		142,676	425,426	354,413	141,376		**1,063,891**

Additional costs (Staff, consultants and grant funding)

- £80k of loan funding over three years will be available for preparation of feasibility studies, structural surveys, architectural designs, financial appraisals, legal advice etc. If the scheme is unsuccessful in receiving the loan for conversion, this money will be considered as grant funding and written off. It is assumed that at least 60% of schemes will be successful hence approx £55k will be reimbursed as loan repayments.

- DCC will charge an arrangement fee on each loan on a consistent basis with commercial practice. It is assumed that total arrangement fees of £130,000 will be receivable over 3 financial years based on say 2-3 loan agreements per year. This will pay for the surveyor and legal consultants cost for appraisal.
- In addition, £250k has been identified from the existing regeneration capital programme to offer as grant money where additional expenditure is expected due to the listed status of the building, higher quality of design or sustainability criteria need to be achieved, or in case of viability gap on new build brownfield sites.
- The cost of staff time to manage this scheme is anticipated to be £20k pa for the whole life of the scheme from 2015 to 2021 over a 6 years period.

Table 3: Additional costs

	2015-16	2016-17	2017/18	2018/19	2019/20	2020/21	Total
Grant (viability/ heritage etc)	£100,000	£100,000	£50,000				**£250,000**
Loan for feasibility	£30,000	£30,000	£20,000				**£80,000**
Consultants cost	£50,000	£50,000	£30,000				**£130,000**
Staff cost	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	**£120,000**

Additional Revenue- Council Tax:

- It is anticipated to increase the quality of the dwellings to a level that generates higher end value resulting into higher Council tax Band rating, generating increased revenue income for the Council. For the purpose of assumption, all 1 bed flats are considered band B, and all two bed properties are considered Band C.
- It is also assumed that half the dwellings completed in the first year will be occupied in the next year.
- Based on 225 new apartments to be delivered over three years, the scheme will generate estimated Council Tax income to DCC equating to a total of £210,350 pa 2020 onwards. It is assumed that 175 new dwellings (one bed) within Band B and 50 new dwellings (two bed) with Band C will be delivered.

- On the assessment for 2014/15 for additional receipts over the period are set out within table 1 as follows;

Table 4: Revenue Income- Council Tax

	2015-16	**2016-17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021 onwards**
Completed dwellings							Total 225
One bed (Band B) Two bed (Band C)	60 20	70 20	45 10				175 50
Occupied Dwellings (cumulative)							225
Band B Band C		30 10	95 30	153 45	175 50	175 50	175 50
Council Tax income Band B- £906 pa Band C- £1,036 pa	 £0 £0	 £27,180 £10,360	 £86,070 £31,080	 £138,618 £46,620	 £158,550 £51,800		
Total (upto 2020) £550,284		£37,540	117,150	185,238	210,350	**£210,350 pa**	**£210,350 pa**

It is recognised that the conversion of commercial properties to residential uses will result in the loss of some business rates, however the opportunities which are likely to be brought forward will include a combination of sites and vacant buildings – many of them listed (and therefore exempt from business rates) and others in a poor condition as a result of a lack of interest from commercial occupiers.

New Homes Bonus

New Homes Bonus is paid to the Local Authority for every new dwelling completed up to the year 2015/16 over a 6 year period. Currently there is no interim measure proposed for any period post new financial year 2015/16 and the outcome of the next spending review. For that reason, New Homes Bonus income has been accounted for the dwellings completed in year 2015/16 and not thereafter.

According to the HCA's online New Homes Bonus calculator, for net addition of 80 units (60 of Band B and 20 Band C)- total payment for the year 2015-16 is- £93,805; Total payment over 6 years- £562,830. If this scheme is extended, total income for 225 units could be £1.5m.

Table 5: Revenue Income- New Homes Bonus (NHB)

	2015-16	2016-17	2017/18	2018/19	2019/20	2020/21	Total
NHB (for 80 units completed in the first year)	93,805	93,805	93,805	93,805	93,805	93,805	**562,830**

Appendix 4
DRAFT
City Centre Living Initiative

COUNCIL CABINET 22/10/2014

Revised Draft Terms of Reference, Regeneration Fund Board (October 2014)

Purpose
To steer, manage, approve and monitor the activities supported by the Regeneration Fund.

Areas of Activity

The Regeneration Fund Board will be responsible for:

- The Board will devise the strategic direction and priorities of the Regeneration Fund for agreement by Derby City Council's Cabinet.
- Operate a means of considering and agreeing a position on items seeking assistance from the Regeneration Fund having full regard to risk and impact.
- Decide how the activities associated with the Regeneration Fund should be delegated.
- Ensuring the Regeneration Fund Investment Strategy agreed by the Board is implemented on time and within budget.
- Monitoring and reviewing the performance of the Regeneration Fund and steering its future direction.

- Ensuring that funds delegated or assigned to the Regeneration Fund for investment, where the Board has determined a method of allocation, are being implemented to best effect on behalf of the Council.
- Providing a forum for consideration of strategic property issues and the development of ideas and proposals prior to decision making by the Council Cabinet.
- Other issues specifically delegated to the Board.

Accountability

- The Board will make recommendations to the Council Cabinet for the use of The Fund.
- The Board will report to the Regeneration Capital Programme Board.
- Project Managers responsible for schemes benefiting or seeking to benefit from the Regeneration Fund will report on progress to the Regeneration Board.

Governance

<u>General</u>

The Regeneration Fund will be governed by an Executive Group of Council Officers with Consultancy assistance, operating within and to the delegated authorities provided by Derby City Council.

<u>Board Membership</u>

- Director of Regeneration, Chair
- Cabinet portfolio holder for Regeneration
- Head of Regeneration Projects
- Consultants for commercial and legal advise

Officers from the following teams:

- Regeneration Projects
- Legal Services
- Estates
- Finance

The Board will be serviced by the relevant business support personnel for secretarial assistance.

Decisions

- The Board shall operate on the basis of consensus.

- In the event a decision is required outside of a scheduled meeting the Chair may decide to hold an Extraordinary Meeting or seek agreement to a proposal via electronic procedure.

Financial Parameters

To approve grant applications up to a maximum of £250,000 subject to satisfactory completion of the Regeneration Fund application process and state aid compliance.

To approve recoverable loan applications of up to a maximum of £1,000,000 subject to satisfactory completion of the Regeneration Fund application process and state aid compliance.

It will remain at the Regeneration Fund Board's discretion to take, any grant and recoverable loan application that has successfully completed the application process, to Council Cabinet for approval.

Logistics

The secretarial function will be performed by Regeneration Projects Team.

- The Board will meet every six weeks. A calendar of future meetings will be set for a year at a time.

- The agenda and papers for the meeting shall be approved and circulated with the Chair's agreement. Members wishing to suggest items for the agenda should contact the secretariat.

- Minutes of the Board shall be approved in draft form by the Chair and disseminated to Board members as soon as practicable following the meeting.

Secretariat and Administration

The secretariat function will be responsible for:

- Ensuring the efficient administration of the Board
- Providing information and support to the Chair
- Co-ordinating the production of papers and agenda items
- Managing communications activity on behalf of the Board
- Ensuring compliance with financial regulations of the Council
- Ensuring an appropriate process is followed for setting budgets and preparation of budget monitoring information if produced and reviewed.