



Report sponsor: Cllr Nadine Peatfield (Cabinet Member City Centre, Regeneration, Culture and Tourism) Report author: Catherine Williams (Head of Regeneration and Economic Growth)

Capital Loan for City Centre Property Purchase

Purpose

- 1.1 To support the purchase of a number of properties in a key location within the city centre to address long term market failure, enable the regeneration of this priority area and contribute to the delivery of our city centre regeneration objectives
- 1.2 In order to enable the purchase of the properties, the applicant has approached the Council for funding support to enable the scheme to proceed and to kick start the process of area transformation. This location has been identified as a priority in the analysis and strategy work driven by the council and partners during the pandemic and is cited in the subsequent City Centre Ambition strategy.
- 1.3 This Report seeks approval to the Council making a £1.3m secured capital loan to support the delivery of the purchase element (Phase 1) of this scheme. Phase 2 of the project will see the site extensively refurbished and repurposed to bring back activity and footfall to this critical area within the city centre and will be subject of a further report to Cabinet.

Recommendation(s)

- 2.1 To approve in principle that a loan of £1.3m is advanced to the applicant, subject to the confirmation of a satisfactory due diligence outcome, security protection, suitable property valuation appraisal and subsidy control position.
- 2.2 To delegate authority to negotiate and agree final terms to make the loan advance to the Company to the Strategic Director of Place following consultation with Cabinet Member for City Centre, Regeneration, Culture and Tourism and the Director of Finance and Section 151 Officer.
- 2.3 To approve the addition of £1.3m to the Other Regeneration Loan capital budget on the Council's 2023/24 capital programme for the capital loan advance, financed by a transfer from the Eastern Gateway budget on the Regeneration Capital Programme (£0.240m in 2023/4 and £1.060m in 2024/5) and update the Capital Programme accordingly.

- 2.4 For clarity the original ask of the Council was for capital funding of £3.8m relating to the project in its totality (Phase 1 and 2) but due to current council funding availability it is proposed to only consider capital loan support of £1.3m towards purchase only (Phase 1) as part of this report.

The council is in active dialogue with the Developer on the proposals for Phase 2 to ensure the end usages are aligned to the Council's Ambition for the city centre and will bring back any further funding support requested in due course to support the redevelopment element of the project.

The external due diligence will assess the viability of the entire project (phase one and two) with and without any further council support beyond the £1.3m loan proposed.

Reason(s)

- 3.1 To comply with Financial Procedure Rules.
- 3.2 To support Regeneration and Economic Growth initiatives aimed at creating jobs, repurposing sites/buildings that are no longer in use, and generating foot flow and spend opportunities where appropriate.
- 3.3 Whilst this report is focused on Phase 1 (the purchase) the developer as part of phase 2 (the refurbishment/development) plans to provide a transformative regeneration scheme which will provide high quality residential units, office space and retail and hospitality outlets. This would complement the existing committed regeneration projects in the city centre, supporting the Council's aims to increase footfall, increase city centre living and jobs, boost city centre visitor spend and improve the night-time economy
- 3.4 The properties, once completed and occupied, are expected to deliver additional business rates revenue streams of c.£100k per annum together with council tax payments from the planned residential element.

Supporting information

4.1 Company Background.

The applicant is a new company established as a vehicle to purchase and subsequently refurbish the properties in question. The directors behind the business are experienced property investors and have developed numerous commercial and residential properties. Historically their business model sees improvement works taken on quickly post purchase using their own experienced contacts/team.

This project is being supported by a full team of experienced local property professionals.

4.2 **Due Diligence**

External Due Diligence (DD) will be undertaken prior to the loan being given final approval. This will cover several key areas such as:

- Level and timing of security cover linked to timing of advance.
- Developer funding to complete the property purchase Loan terms – including timing of advance, principal and interest repayments, recommended interest rate.
- Subsidy Control compliance.
- Outputs to be built into the loan agreement.

4.3 **Rationale for Council intervention**

A developer trying to deliver this project through conventional high street funding sources is unlikely to attract commercial funding support on viable terms.

There is the added consideration of timescales with the exclusivity period held expiring during September 2023. Traditional funding sources would not be able to deliver a response within this timeframe. The applicant has stated a willingness to proceed if Cabinet approves the loan (subject to due diligence etc.) and would then commit to the initial purchase within timescales that are acceptable to the current owners.

The timescale outlined above would ultimately allow the 2nd phase of redevelopment to be completed in time to complement the existing regeneration projects in the city. Should alternative finance routes need to be explored this would significantly delay matters and risk the project not going ahead, with the current owners looking at other (potentially less desirable) options to dispose of the site.

4.4 **Value for Money**

Providing a £1.3m loan fully repayable by year 5 on commercial interest rate terms is expected to unlock an investment of c.£11m in prominent city centre properties, based on the developer's proposals. As already mentioned above, as well as the direct benefits to the city, business rates etc there will be several additional positive impacts such as improved street scene, knock on effect to connecting streets and both daytime and night-time foot flow improvements.

The loan advance, if approved, would be on commercial lending terms and is not expected to be considered a Subsidy. The Council will also charge a 1% loan arrangement fee (£13k) payable on drawdown for the work undertaken by the Economic Growth team in processing the loan application and managing any subsequent monitoring period post drawdown.

The interest rate will be assessed at due diligence based on perceived risk and security cover.

Public/stakeholder engagement

- 5.1 The Council have had a series of constructive dialogue sessions with the Managing Director in the development of this report. In addition ongoing dialogue with key city centre stakeholders including the Business Improvement Districts have continually flagged this location as a priority to support city centre regeneration .

Other options

- 6.1 Do nothing and risk the property purchase not being completed. The knock-on effect of this is the risk of the potential wider regeneration benefits not being delivered as part of Phase 2.

Financial and value for money issues

- 7.1
- The capital loan request is for £1.3m and the proposed loan terms being considered, subject to final agreement between the parties, are:
 - Loan to be fully drawn by January 2024, with actual timing of advance linked to consideration of loan security and delivery of outcomes yet to be determined.
 - 5-year repayment term and the loan fully repaid by January 2029, with interest to be repaid by monthly repayments throughout the loan term.
 - A fixed commercial interest rate to be applied to the loan on a daily basis, confirmed at due diligence.
 - A 1% arrangement fee (£13,000) to be applied to the loan at drawdown, in line with usual commercial lending terms.
 - For loan security purposes it is proposed that we will take a legal charge over the entire site. Any other suitable security such as a debenture will also be taken as required. Whilst not a formal valuation we have been provided with a written appraisal from a respected local surveyor giving his opinion of value and thought process supporting. As the refurbishment progresses the expected market value will rise thereby strengthening our security position.
- 7.2 Cabinet approval is also sought to add the £1.3m to the Other Regeneration Loan capital budget on the Council's 2023/24 capital programme for the capital loan advance, financed by a transfer from the Eastern Gateway budget on the Regeneration Capital Programme (£0.240m in 2023/4 and £1.060m in 2024/5) and update the Capital Programme accordingly.

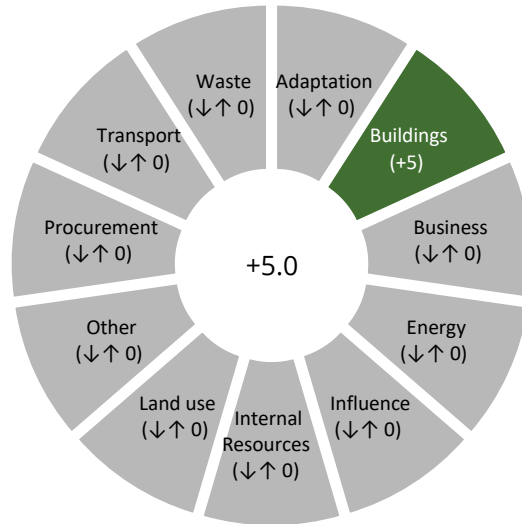
- 7.3 The Council is currently in the process of reviewing the scheme costs and funding package for the Eastern Gateway scheme in conjunction with our development partner, and have already determined that the £1.3m can be released from the scheme budget, with any further changes required to be reported to a future Cabinet. The £1.3m budget to be transferred is funded by the Derby City Council funded element of the overall capital scheme funding, in the form of Capital Receipts. Of this, £1.060m is currently profiled in 2024/25 and this proposal will result in spend being brought forward into 2023/24 which will impact the Council's overall cashflow requirement and associated treasury management costs for 2023/24.
- 7.4 In line with proper accounting practices, the future loan principal repayments will be treated as General Fund capital receipts to support the overall capital programme to be considered as part of future MTFP. The associated interest repayments will be credited to the corporate Treasury Management budget.
- 7.5 As with any other loan, there is a risk of default on the repayment. Sections 7.1 and 10.1 of this report provide further detail.
- 7.6 The developer is also preparing a case for the Council to support Phase 2 of the project, which will be reviewed and brought to Cabinet for approval as necessary.

Legal implications

- 8.1 The loan advance will be made under the general power of competence (GPC) in the Localism Act 2011, sections 1 to 8 but is also permitted under the power to invest granted by section 12 of the Local Government Act 2003. The statutory guidance on local government investments will apply to the loan.
- 8.2 At this stage there are not considered to be any subsidy control implications associated with the proposed loan arrangements, as they will be subject to a commercial rate of interest.
- 8.3 The loan agreement and associated documentation will be drafted by Legal Services or external legal advisers appointed by the Council for this matter.

Climate implications

- 9.1 Limited direct impact from phase 1 property purchase. However, given neglected condition of the properties with often no improvement works for several decades it's anticipated that significant opportunity is available to enhance the energy efficiency of several premises. As part of any refurbishment and conversion work undertaken (post purchase) during phase 2 energy efficiency improvements would be considered and implemented as appropriate.



Other significant implications

10.1 The key risks and mitigations are outlined below;

Risk description	Effect	Mitigation
Loan default	Advance not repaid leading to loss of future capital receipts, to replace funding used for initial advance, and interest	Future interest receipts have not been included in the MTFP. Loan security as outlined at paragraph 7.1
Non delivery of further phase of redevelopment to support wider benefits	Loss of proposed benefits and outcomes anticipated.	Developers strong track record of delivering multiple schemes previously. These have included sites with significant refurbishment needs which have been delivered on time and to a high standard. To consider as part of DD whether it is appropriate to include an 'end use' clause into the loan agreement with potential penalty if not delivered.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Emily Feenan	24/08/2023
Finance	Alison Parkin	24/08/2023
Service Director(s)		
Report sponsor	Cllr Nadine Peatfield	24/08/2023
Other(s)	Catherine Williams (HoS)	24/08/2023

Background papers:
List of appendices: