

# Agenda



## Cabinet Member for Regeneration & Investment

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Date: Wednesday, 8 March 2017

Time: 2.00 pm

Venue:

To: Councillor J Richards

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### Item

### Wards Affected

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| 1 | <u>Town Centre Repayable Funding Scheme</u> (Pages 3 - 12) Stow Hill,<br>Victoria, Pillgwenlly, Shaftesbury |
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# Report

## Cabinet Member for Regeneration and Investment

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### Part 1

Date: 8 March 2017

Item No:

### Subject **Town Centre Repayable Funding Scheme**

**Purpose** The purpose of this report is to seek Cabinet Member approval to accept the award of £750,000 from the Welsh Government Town Centre Repayable Funding scheme. This funding can be used for the purposes of reducing the number of vacant, derelict, underutilised and redundant sites and premises in the city centre.

### Reason For Urgency

The Welsh Government delayed award of the funding from November 2016 to late January 2017. Subsequent due diligence and briefing requirements left NCC with insufficient time to seek approval through the normal channels by the original deadline date of 28<sup>th</sup> February. An extended deadline has been negotiated with the Welsh Government of the 10<sup>th</sup> March 2017. The funding is significant (£750,000) and an urgent decision is required if the opportunity to confirm acceptance of the award is not to be lost.

**Author** Regeneration Manager

**Ward** City Centre - Stow Hill, Victoria, Pillgwenlly and Shaftesbury

**Summary** Newport City Council was one of a number of local authorities to receive support from the Welsh Government's Vibrant and Viable Places (VVP) regeneration framework, benefitting from the single largest award. The funding was awarded via a competitive bidding round in 2014, and has been invested across a number of schemes in the city centre. This programme draws to a close in March 2017 with no successor programme yet in place.

Those authorities that did not receive a core VVP award were able to benefit from two phases of Town Centre Repayable Funding (TCRF), which aimed to deliver the same regeneration benefits in the areas eligible, albeit using a smaller pot of recyclable loan funding in place of a traditional grant investment. This secondary scheme has been successful, and with the wider policy momentum within the Welsh Government encouraging the use of repayable funding as the basis for future regeneration investment, a third phase of TCRF has been made available to the 22 authorities in Wales.

Newport City Council submitted a prospective application expressing interest in the scheme in September 2016. An offer of funding has now been made totalling £750,000. The Welsh Government award is significantly less than requested due to the levels of demand for the scheme from across Wales.

The Council must re-evaluate its priorities in terms of the ongoing regeneration of the city centre as a result, and consider more fully what is deliverable in light of the reduction in

forecast funding before any subsequent use of the funding can be agreed. At present, this report therefore requests Cabinet Member permission to accept the TCRF award of £750,000 only.

At this critical stage of the regeneration of the city centre, a number of sites and premises can be identified that might potentially take advantage of this funding to deliver redevelopment proposals. Further reports and briefings will be forthcoming as these proposals are developed over the coming months.

**Proposal** To accept the award of £750,000 from the Welsh Government Town Centre Repayable Funding scheme and begin immediate work to prioritise sites and premises that might benefit. This available funding is of particular significance over the short term and can be used to facilitate developments of significance that will benefit the ongoing strategic aim of regenerating the city centre.

**Action by** Head of Regeneration, Investment and Housing

**Timetable** Immediate

This report was prepared after consultation with:

- Head of Law and Regulations (Monitoring Officer)
- Head of Finance (Chief Finance Officer)
- Head of People and Business Change

**Signed**

## 1. Background

- 1.1 Vibrant and Viable Places, the flagship regeneration programme of the Welsh Government, replaced a number of regeneration area schemes (including the Newport Unlimited Urban Regeneration Company) with a competitive £30m fund targeted at those urban centres across Wales in the greatest decline. Newport has been the largest beneficiary of the programme to date, the case for investment reflected in both the economic malaise of the city centre over the last decade along with the bold strides made by the Council to reverse that decline through strategic projects such as Friar's Walk.
- 1.2 The competitive nature of the fund meant that some authorities failed to attract any investment from the VVP framework, despite evidencing pockets of significant urban deprivation. To assist regeneration projects in those areas, the Welsh Government also made available a secondary pot available entitled the Town Centre Repayable Funding (TCRF) scheme, as part of its Tackling Poverty agenda. This fund was to be used to stimulate development in town centres benefiting from the fund, and vacant, derelict and underutilised sites in particular, in order to create economic opportunities and improve the quality of housing in the targeted areas; albeit on a scale much smaller than the grant-funded initiatives delivered under the VVP framework and on the basis that any funding would be repayable to the Welsh Government.
- 1.3 The first iteration of VVP will come to an end in March 2017. Much has been achieved in Newport city centre as a result of this and other regeneration initiatives over the past five years, but it is recognised that these achievements are milestones in an ongoing journey rather than a destination. A great deal of work remains to be done in the city centre to ensure the positive momentum generated to date is not lost.
- 1.4 As yet, the Welsh Government has not confirmed if any successor programme will emerge to take the place of VVP. A major funding arc contributing to the regeneration of the city centre will therefore be lost from April 2017 until such a time as a new framework is published and made accessible by the Welsh Government, or alternative funding arrangements can be found by Newport City Council via its own means.
- 1.5 Partially in recognition of this funding gap, and partially due to the success of TCRF, the Welsh Government agreed a third phase of the scheme agreed in August 2016 with eligibility opened up across all local authorities in Wales. Newport City Council submitted a prospective application to the scheme in September 2016 in the knowledge that no further VVP framework would be in place for the coming financial year 2017/18 despite the continuing requirement for significant investment into the city centre.
- 1.6 This application requested funding of £1.5m to create a repayable and sector-neutral 'Major Development Fund' to finance large-scale projects within the city centre. This seed fund would be open to developers wishing to bring forward proposals with the potential to make major contributions to the Council's economic regeneration ambitions, in addition to the Welsh Government's VVP and Tackling Poverty framework objectives.
- 1.7 Unfortunately, the award made to NCC is only half the requested sum, in light of the demand expressed for the scheme from across Wales. The Welsh Government have capped the scheme at a maximum of £1m in order to allow more authorities to access the funding and also increase opportunities for the funding to be recycled over the term. Whilst this approach is sensible, there must necessarily be some re-adjustment in Newport's plans to reflect the diminished award.
- 1.8 The Welsh Government has confirmed that the specific projects being taken forward through the scheme is at the discretion of Newport City Council unless there is a significant variation from the purposes of the funding or the expected outputs. The choice before the Council is therefore whether to accept the funding and develop replacement schemes to utilise it, or to reject the offer in the hope that other alternative funding sources become available over the coming year.

## 2. Financial Summary

- 2.1 The repayable funding award of £750,000 is available over a 15 year term, from 1<sup>st</sup> February 2017 to the 31<sup>st</sup> March 2033. If accepted, the funding must be claimed in full by NCC by the 31<sup>st</sup> March 2017 and be recycled at least three times over the course of the term.
- 2.2 The purposes of the funding are to reduce the number of vacant, underutilised and redundant sites and premises in the city centre along with diversification of uses. These purposes require written consent from the Welsh Government if they are to be varied.
- 2.3 The repayable funding can be used by the local authority or a third party developer. Any loan from the fund must be repaid within five years and can be repaid in stages or one lump sum at the end of the period.
- 2.4 The repayable funding will be paid in one instalment of £750,000. Subsequent loans may be for any sum between £5,000 and £1,000,000. Any loan must be interest free; however the authority is entitled to charge a one-off administrative fee of up to 15%.
- 2.5 Accepting the funding will involve the creation of new budget heads both to accept the initial capital payment and also to furnish the financing of individual projects. Due to the issues highlighted around the need to re-prioritise schemes which might benefit from the funding, it is not possible to fully detail these and the financial commitments involved with these schemes at this stage.
- 2.6 A copy of the offer of funding letter in full is included in the background papers section of the report. There are no revenue implications as the management of the funding can be achieved through the existing Regeneration and Business Support teams with governance provided through the VVP/Regeneration Programme Board

## 3. Risks

- 3.1 The following key risks are identified in relation to accepting the repayable funding:

<b>Risk</b>	<b>Impact of Risk if it occurs* (H/M/L)</b>	<b>Probability of risk occurring (H/M/L)</b>	<b>What is the Council doing or what has it done to avoid the risk or reduce its effect</b>	<b>Who is responsible for dealing with the risk?</b>
Failure to Identify Projects	M	L	<p>An extensive list of pipeline projects developed to support Newport's VVP programme exists. In the first instance, it is intended that officers open negotiations around the more significant opportunities on this list if the award is accepted, in order to identify those projects where repayable finance is a viable option for developers.</p> <p>Funding unallocated at the end of the financial years 2017/18 and 2018/19 must be returned to the Welsh Government or to transferred another local authority within the scheme, at no penalty to NCC.</p>	Regeneration Manager

Project Governance	M	L	<p>The VVP Regeneration Board will continue in the interim and provide on-going project oversight to continuing regeneration schemes, including those progressed using this award, if accepted.</p> <p>Governance arrangements including evidence of appropriate due diligence procedures must be supplied prior to any loan agreement being completed using the repayable funding.</p>	Regeneration Manager
State Aid	L	L	<p>The Council has received confirmation from the Welsh Government that State Aid legislation will only apply to the 'interest-free' benefit to developers – i.e. the amount of interest that would normally accrue on the loan were it not interest free. As part of the Council's due diligence on loan applications, we will apply a hypothetical interest calculation to indicative cash flows (at the Bank of England Base Rate or in accordance with a loan offer from a third party as appropriate) to identify issues of potential State Aid.</p>	Regeneration Manager
Risk of Default	L	L	<p>Two or more of the following are required to secure any subsequent use of the funding:</p> <ul style="list-style-type: none"> <li>• Loan to Value Assessment</li> <li>• Second Property Charges</li> <li>• Local Land Charges</li> <li>• Staged Repayments</li> </ul> <p>The Council will be required to complete legal charges or restrictions securing the funding prior to any payment of funds in excess of £50,000 to a third party.</p> <p>Where the Council is borrowing directly from the repayable funding, a restriction in favour of the Welsh</p>	Regeneration Manager

			<p>Government must be placed on the property.</p> <p>Further full due diligence shall be undertaken in respect of any applicant to the scheme (e.g. Companies House checks, accounts, Credit assessment etc. as appropriate).</p> <p>Newport City Council has suggested that collateral securities accepted where there is insufficient value in a property to secure the repayable funding requested will be at the Council's own discretion.</p>	
Loss of Momentum City Centre	H	M	<p>The ongoing effort to regenerate the city centre is contingent upon sizeable capital investment. The Council has a key role to play in facilitating the development of sites and premises where the market is unlikely to intervene, as has been demonstrated in the completion of Friar's Walk.</p> <p>The Council is exploring a number of future funding options to ensure this funding is available, for example, recent applications to the Heritage Lottery Fund.</p>	Regeneration Manager
Commercial Sensitivity	L	H	<p>Both because the loan may be used directly by the Council, and also due to the purpose of the funding in allowing developers to unlock vacant sites, the uses of the funding are extremely commercially sensitive. Confirmed that a process will be put in place between NCC and WG by which future press releases can be approved prior to release into the public domain. Selection of projects to be subject to subsequent Part 2 CM Reports as necessary.</p>	Regeneration Manager



- 3.2. Discussion around these and other identified issues are underway between NCC officers and officials at the Welsh Government to inform the development of projects that may utilise this funding.

#### **4. Links to Council Policies and Priorities**

- 4.1 The TCRP scheme will dovetail with and add value to many of the Council's strategic priorities, the chief of which is the Improvement Plan aim to continue the regeneration and development of the city centre. The fund will also add value to schemes such as Friar's Walk and Vibrant and Viable Places, and help ensure the changes in perception and performance achieved around the city centre are sustainable.
- 4.2 The project supports also Newport's Economic Growth Strategy, which sets out a ten year programme for delivering growth across the city through capital redevelopment. The Strategy Action Plan identifies that creating a safe, attractive city centre is a key to promoting an excellent economic environment.
- 4.3 Reducing the number of vacant and derelict sites will contribute towards the aims of Newport's Wellbeing Plan, reducing material deprivation, increasing access to services, safety at home, satisfaction with area and indicators on community resilience.
- 4.5 Finally, with support for the forthcoming City Deal having been approved by Cabinet the fund could be used to secure sites and premises in order to ensure Newport is well-placed to respond quickly to the priorities for funding to emerge from progress with the City Deal.

#### **5. Options Available and considered**

- 5.1 Two options are available. To accept the award, or not accept the award.
- 5.2 The Award represents an opportunity to continue the excellent progress made in regenerating Newport City Centre. With no successor framework to VVP yet approved and emerging funding streams such as City Deal unlikely to deliver immediate capital finance over the short term the Council could seek to maximise funding opportunities such as the TCRF scheme in the interim to ensure the regeneration momentum achieved is not lost.
- 5.3 However, the use of repayable funding remains relatively new territory and by its nature is subject to greater inherent risk than traditional grant-based funding. The Council has a strong and successful record in attracting external funding into the city and it may be preferable to focus activity on alternative sources of funding if the loan scheme is felt to be unworkable in Newport. The Council can therefore consider rejecting the TCRF award.

#### **6. Preferred Option and Why**

- 6.1 The preferred option is to accept the funding and begin immediate work to prioritise those regeneration proposals and sites which offer the greatest synergies with the aims of the TCRF scheme.
- 6.2 No further announcement as to the successor regeneration programme has as yet been forthcoming from the Welsh Government. The acceptance of the repayable funding will not prejudice the authority seeking further sources of funding that can contribute towards the regeneration of the city centre.
- 6.3 Newport City Council has built up considerable experience in the administration and management of repayable funding, both in terms of large commercial loans facilitating major projects as well as marrying elements of repayable funding to pots of grant or private finance to make project viability 'stack up'.

- 6.4 If the TCRF scheme proves to not be palatable then it can be returned to the Welsh Government or a partner local authority (as applicable), at no risk to Newport City Council.
- 6.5 The recommendation is therefore to accept the offer of funding subject to further CM approval for any subsequent loan agreements utilising the funding.

## **7. Comments of Chief Financial Officer**

- 7.1 The TCRF scheme has different implications depending on what the £750k is spent on. If used as a loan facility to third party developers, over the life of the scheme (15 years) the WG terms – that the funds have to be recycled three times – can be met with each individual loan having a maximum term of five years. This could potentially create a maximum of £2,250k that could be invested in city centre regeneration. With this course of action, the accounting treatment for NCC will be akin to similar schemes (such as VVP Landlord Loan and Home Improvements/Safe Warm & Secure Loan schemes) where we are effectively acting as an ‘agent’ of WG to pass on the loan. There is no cost to the Council.
- 7.2 If this is the case, the relevant officers will need to ensure that all loans are issued in compliance with the WG terms and conditions, and necessary steps are taken to mitigate the financial risk to the Authority, such as the placing of legal charges on properties. Robust monitoring of loans issued and repayment profiles will be needed, in order to minimise overall exposure at a point in time.
- 7.3 If any funding is used by NCC to carry out works directly, then this element will be deemed capital expenditure and due to the nature of the arrangement, will be accounted for in the same way as prudential borrowing, i.e. there will be a revenue cost implication to NCC as the loan recipient, in order to make provision for the eventual repayment back to WG.

Any subsequent sale of assets generated can then be a general capital receipt to the Council. Indeed, if this was not done, then there is little, if no benefit of the Council using this as a loan vehicle, compared to borrowing outside of this scheme. Therefore, it is not recommended as a use of this facility, where there is no sale of the asset that at least matches the loan made.

- 7.4 It is therefore vital that the funding is utilised in the most advantageous way possible to meet its objectives, so potential projects and plans will need to be strategic, robust and financially viable.
- 7.5 As the loan is required to be repaid, then the governance arrangements will need to be robust as any loss on loans made sits with the Council.

## **8. Comments of Monitoring Officer**

- 8.1 There are no specific legal issues arising from the Report as the Cabinet Member is only being asked to confirm acceptance of the £750k grant award from the Welsh Government Town Centre Repayable Funding Scheme, and the grant conditions. There are no immediate financial risks associated with the acceptance of the grant as no match funding commitment is required and any unused or unallocated funds will simply be returned to Welsh Government. The purpose of the funding is consistent with the Council’s City Centre regeneration and economic growth strategies and should help to build on the success of Friar’s Walk and the VVP programme. Given that the funding will take the form of repayable loan finance to maintain and replenish a funding stream for the 15 year period of the Welsh Government funding, then appropriate steps will need to be taken to provide sufficient security and loan charges to secure the repayment of the loans on the relevant repayment dates. The interest-free nature of the loans should not create any specific state aid issues. Even if the state aid rules are engaged, the interest-free element of the funding is likely to be below the de minimis levels or within general regeneration block exemptions. The use of the funding to provide loans of this nature is within the Council’s general powers of social, economic and environmental well-being under section 2 of the Local Government Act 2000 and is

also consistent with the sustainable development principle and well-being objectives under the Well-being of Future Generations (Wales) Act 2015.

## **9. Comments of Head of People and Business Change**

- 9.1 As the future of funding under the Vibrant and Viable Places programme currently remains unclear, the Town Centre Repayable Funding (TCRF) Scheme offers an opportunity to maintain momentum on the regeneration of the City Centre, albeit at a reduced level. The report notes the extensive contribution regeneration projects make towards wellbeing and sustainable development principles and identifies a loss of momentum on regeneration as a potentially significant risk. It is noted that accepting the TCRF funding award would not prejudice eligibility for other sources of funding and that Newport City Council has considerable expertise in the management of repayable funding. Furthermore the report notes that TCRF could be used to secure sites for further investment through the City Deal.
- 9.2 Recent public engagement work has indicated that regeneration remains a high priority locally and has been linked to improved public perception indicators in recent years. However comments received also suggest that regeneration work needs to be extended to other city centre areas and sites now that Friars Walk has been completed.

## **10. Comments of Cabinet Member**

- 10.1 Cabinet Member has approved the report.

## **11. Scrutiny Committees**

- 11.1 None

## **12. Equalities Impact Assessment and the Equalities Act 2010**

- 12.1 N/A

## **13. Children and Families (Wales) Measure**

- 13.1 The Children and Families (Wales) Measure will be supported, particularly as the funding is targeted towards the reduction of vacant and derelict sites. The concentration of such sites within the city centre is deleterious to the economic ambitions of the authority, which include providing opportunity to young people once they leave mainstream education. In addition, vacant property in the city centre is plagued by instances of trespass and substance abuse, even when secured, and reducing the extent of such dereliction will remove such locations from the local environment taking the opportunity for crime and disorder with them.

## **14. Wellbeing of Future Generations (Wales) Act 2015**

- 14.1 The scheme complies with the requirements of the Act, addressing the following key points:
- Long term: the scheme will aim to bring vacant and derelict sites back into long-term beneficial use. It will encourage the use of existing brown field sites for development reducing the impact of such sites on the long-term economic performance of the city centre. Pressure to develop green space will be reduced by making city-centre brown field sites more attractive to developers.
  - Prevention: the fund can be used to target the incidence of vacant properties but could also assist businesses and other occupiers in danger of failing and leaving further vacant property along with associated job losses. Preventing properties from remaining vacant helps to promote a resilient city centre economy and also the incidence of properties falling into disrepair and unauthorised or criminal usage.

- Integration: The scheme will promote integration with partners, particularly in promoting community safety and resilience. Vacant property in the city centre is undeniably a factor in encouraging crime and anti-social behaviour in the vicinity and substance misuse in particular, which in turn affects the health and well-being of individuals who are marginalised and in relative poverty.
- Collaboration: The scheme will involve close collaboration across sectors with a range of potential public, private and third-sector partners. The fund is sector-neutral in this respect and open to any eligible person or organisation that can satisfy the criteria.
- Involvement: Consultation with local developers and agencies will be key to ensuring the loan fund can be used and successfully recycled over the term.

## 15. Crime and Disorder Act 1998

- 15.1 Again, vacant and derelict commercial poverty encourages crime and disorder and exacerbates the poverty and deprivation that contribute towards the causes of crime. Reducing the number of such properties within the city centre will discourage such activity and help create opportunities for the local community in terms of employment and new facilities.

## 16. Consultation

- 16.1 None

## 17. Background Papers

- 17.1



NCC Award Letter  
(Unsigned) Phase 3 (:

Dated 8 March 2017