

# Report

## Cabinet Member for Regeneration and Housing

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### Part 1

Date: 20 March 2019

**Subject** Award of additional £1m for Town Centre Repayable Funding

**Purpose** The purpose of this report is to advise the Cabinet Member of the Welsh Government's offer of an additional £1 million repayable funding for the Town Centre Loan Scheme.

### Reason for Urgency

The Repayable Funding awarded by the Welsh Government must be claimed in full by 21<sup>st</sup> March 2019 and any unclaimed part of the Repayable Funding will cease to be available to Newport City Council after this date.

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

**Summary** The maintenance of momentum behind city centre redevelopment is a key risk to the Council's strategic objectives for the central area of Newport. Complementing the commitment of the Welsh Government to provide a 'Targeted Regeneration Investment Fund', Newport City Council made a successful bid to the Welsh Government for an additional £1 million under the Town Centre Repayable Funding (TCRF) Scheme. This report is to summarise progress to date and recommend acceptance of the award, with repayable funding an increasingly core element of support the Council is able to offer regeneration projects.

**Proposal** To accept the award of an additional £1 million of TCRF in order for NCC to pursue the strategic redevelopment of vacant and underutilised city centre properties. To allocate the funding to eligible projects over the coming 12 months in accordance with Council priorities and subject to further briefings and due diligence requirements.

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

**Timetable** Immediate

This report was prepared after consultation with:

- Cabinet Member for Regeneration and Housing
- Strategic Director - Place
- Head of Law and Regulations (Monitoring Officer)
- Head of Finance (Chief Finance Officer)
- Head of People and Business Change
- Head of Regeneration, Investment and Housing

**Signed**

## Background

Newport has to date benefitted from £750,000 in Town Centre Repayable Funding. Whilst bold strides have been made by the Council and its partners to reverse the decline of the city centre, it is evident that many properties suffer from neglect, under-occupancy and economic obsolescence in their current formats.

Newport can be considered a leading Welsh authority in terms of utilising repayable funding to stimulate development. In addition to the landmark Friars Walk development, properties including the King's Hotel, the former Argus printing works at 4-5 Market Street and a range of smaller owner-occupied and rented properties have been improved and refurbished using repayable loan funds in order to improve the economic performance and environment of the city centre.

In August 2016, the Welsh Government agreed a third phase of the TCRF scheme in recognition of the funding gap created by the ending of the Vibrant and Viable Places Programme, with eligibility opened up across all local authorities in Wales. Newport City Council's application to the scheme in September 2016 was successful and resulted in an award of £750,000. This funding has been used to support the redevelopment of numbers 195-198 Upper Dock Street, a run of prominent properties facing on to the Old Green at the northern entry to the city centre.

Welsh Government issued a call for further loan funding requests in January 2019 and NCC were successful in being awarded a further £1million. It is envisaged that this additional funding will be used to finance large-scale projects within the city centre. This fund would be open to developers wishing to bring forward proposals with the potential to make contributions to the Council's economic regeneration ambitions. Whilst no specific scheme has been identified for this loan funding, there is significant interest from developers and the Council have a further 12 months to identify a scheme and allocate the funds.

Welsh Government has confirmed that this is an acceptable approach, subject to there being no significant variation from the purposes of the funding or the expected outputs. This is not expected to be an issue. The choice before the Council is therefore whether to accept the funding and develop schemes to utilise it, or to reject the offer in the hope that other alternative funding sources become available within the next financial year.

This report is submitted via the urgent process due to the very short timetable between the Welsh Government call for projects and the award of funding. Critically, the late award of the funding means that a full Cabinet Member report process would not allow sufficient time to claim the funding. The full timetable of relevant events is provided below to demonstrate the need for an urgent Cabinet Member decision:

- 18<sup>th</sup> January 2019 - Phase 5 of the TCRF was confirmed
- 25<sup>th</sup> January 2019 - Deadline for applications
- 28<sup>th</sup> January 2019 - Discussion with Welsh Government regarding maximum funding available (some projects in the pipeline have indicative repayable funding requests of up to £4 million)
- 29<sup>th</sup> January 2019 – Agreed late application submitted to Welsh Government with indicative scheme identified within request for £1 million
- 30<sup>th</sup> January 2019 - Application accepted by Welsh Government
- 4<sup>th</sup> February 2019 - Welsh Government panel met to consider application
- 21<sup>st</sup> February 2019 - NCC chased progress / update, no reply
- 22<sup>nd</sup> February 2019 - Confirmation recommendations forwarded to Cabinet Secretary, no indication of success received
- 5<sup>th</sup> March 2019 - Award letter received stating deadline for claiming the £1 million funding is 15<sup>th</sup> March 2019
- 5<sup>th</sup> March 2019 - Extension to deadline negotiated, deadline extended by one week to 21<sup>st</sup> March 2019

## Financial Summary

The repayable funding award of £1,000,000 (one million pounds) is available over a 15 year term, from 5th March 2019 until 31st March 2034. If accepted, the funding must be claimed in full by NCC by the 21<sup>st</sup> March 2019 and be recycled at least three times over the course of the term.

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.

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.

The repayable funding will be paid in one instalment of £1,000,000 (one million pounds). 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%.

Due to changes in accounting policy, for any loans the Council makes (whether that be repayable funding to WG or otherwise), a provision is required to be made on providing the loan for any expected future losses. The value of this will be assessed for each individual loan on the due diligence and risk of non-payment. The administrative fee charged will need to be ring-fenced to cover this until the provision can be released in the event full security cannot be provided through the normal risk mitigation measures attached to third-party loans (land charges, LTV assessments, etc.). It is important to note, that while the funding is provided by Welsh Government, the on-loan is made by NCC and ultimately the majority of the risk of non-payment sits with the Authority.

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. As the schemes which might benefit from the funding are as yet unidentified, it is not possible to fully detail these and the financial commitments involved with these schemes at this stage.

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 Economic Regeneration Team with governance provided through the Thriving City board with reports to the Cabinet Member as required.

## Risks

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	An extensive list of pipeline projects exists that may be reviewed in light of this funding award. In the first instance, it is intended that officers identify those projects where repayable finance is a viable option for developers.  Funding unallocated at the end of the financial years 2018/19 and 2019/20 must be returned to the Welsh Government or to	Regeneration Manager

			transferred another local authority within the scheme, at no penalty to NCC.	
Project Governance	M	L	<p>The Thriving City 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> <p>No funding is to be defrayed without full due diligence being undertaken and satisfactory completion being accepted by the Heads of RIH, Finance and Law and Regulation, sufficient that a robust case for funding can be recommended to the CM Member for sign-off.</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, a hypothetical interest calculation will be applied 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>The following are required to secure any use of the funding:</p> <ul style="list-style-type: none"> <li>• Loan to Value Assessment</li> <li>• Land Charges/Restriction in favour of NCC</li> <li>• Loan Agreement</li> <li>• Repayment Schedule</li> <li>• Schedule of works</li> <li>• Statutory consents</li> </ul> <p>The Council is required to complete legal charges or restrictions securing the funding prior to any</p>	Regeneration Manager

			<p>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 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>Further collateral securities may be 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

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.

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

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 the legacy of 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.

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.

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.

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.

## **Options Available and considered**

Two options are available. To accept the award, or not accept the award.

The Award represents an opportunity to continue the excellent progress made in regenerating Newport City Centre. With the Targeted Regeneration Investment framework subject to ratification by both the Welsh Government and the Council's partners in the Cardiff Capital Region, the TCRF represents a relatively unfettered funding stream with which city centre projects can be supported.

However, the use of repayable funding remains subject to different inherent risk than traditional grant-based funding. The Cabinet Member can therefore consider rejecting the TCRF award.

## **Preferred Option and Why**

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.

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.

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'.

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.

The recommendation is therefore to accept the offer of funding subject to further CM approval for any subsequent loan agreements utilising the funding.

## **Comments of Chief Financial Officer**

The TCRF scheme has different implications depending on what the £1m 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. 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.

In addition, and importantly, as the Council is ultimately responsible for the loan repayment, then the risk of non-payment of the loan sits with the Council. In this respect, the WG grant is akin to the Council borrowing 'cash' from the PWLB albeit, at zero interest rate which reduces the Council's costs. Working with those who receive loans, using this 'cash grant' to ensure repayment are made is therefore crucial.

If this is the case, the relevant regeneration 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.

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.

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.

### **Comments of Monitoring Officer**

The proposed action is in accordance with the Council's legal powers under Section 2 of the Local Government Act 2000, to provide financial assistance for economic regeneration purposes. The Council has been offered a further £1million by Welsh Government under the Targeted Regeneration Investment Fund scheme to provide further development loans in order to facilitate key regeneration schemes within the City Centre. No match funding is required, but the funding offer needs to be accepted and drawn down by 21st March. The loan funding can then be recycled by the Council to provide a series of individual development loans over a period of 15 years. Each individual scheme will need to be the subject of legal and financial due diligence and must meet the output requirements of the WG offer letter. The loan repayment will need to be secured by a legal charge in favour of the Council registered against the development property. Because the decision to accept the grant needs to be taken urgently, the matter cannot be taken through the usually pre-decision consultation process and is too urgent to await the post-decision call-in period. However, the reasons for the urgency will need to be reported to Audit Committee in due course.

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

The Town Centre Repayable Funding Scheme has become an increasingly important source of financial support the Council can offer regeneration projects. The report sets out the potential contribution of physical regeneration on sustainable development and wellbeing, for instance in reduced community safety risks, economic growth, employment opportunities, reduced pressure on greenfield sites etc. The report also highlights the importance of city centre regeneration to delivery of key elements of the Corporate Plan and the One Newport Local Wellbeing Plan.

There are no direct HR implications arising from this report.

### **Scrutiny Committees**

None

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

Not applicable

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

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.

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

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.

## **Crime and Disorder Act 1998**

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.

## **Consultation**

None

## **Background Papers**



20190304 NCC  
Award Letter ( Unsig

Dated: 21 March 2019