

Report

The Leader



THIS IS FOR MEMBER CONSULTATION PURPOSES – RESPONSES BY 4PM ON 25 MARCH 2020

Part 1

Date: 18 March 2020

Subject Town Centre Repayable Funding Scheme: Clarence House

Purpose To seek formal approval from the Cabinet Member in relation to a recent application for Town Centre Repayable Finance, to support development works at Clarence House, Clarence Place.

Author Project Manager

Ward All

Summary Newport City Council has been successful in securing £1 million Welsh Government funding to support a Town Centre Repayable Funding Scheme in Newport, to support the development of vacant and underutilised sites and premises across the city. This report briefs the Cabinet Member on a recent expression of interest, and subsequent application from the owner of Clarence House, and seeks approval of a TCRF award of £750,000

Proposal To seek approval of an award of £750,000 through TCRF to Nine Hills Ltd to convert two upper floors into 28 apart hotel rooms, and to update the external façade of the building. This will be subject to completion of due diligence and satisfactory legal agreement.

Action by Head of Regeneration, Investment and Housing

Timetable Immediate

This report was prepared after consultation with:

- Strategic Director – Place
- Head of Law and Regulations (Monitoring Officer)
- Head of Finance (Chief Finance Officer)
- Head of People and Business Change

Signed

Background

In 2014, Vibrant and Viable Places became the flagship regeneration programme of the Welsh Government, replacing a number of regeneration area schemes (including the Newport Unlimited joint-venture initiative) with a competitive fund targeted at those urban centres across Wales in the greatest decline. Newport was been the largest beneficiary of the programme, 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.

The competitive nature of the fund meant that some authorities which evidenced pockets of significant urban deprivation failed to attract any investment from the VVP framework. To assist regeneration projects in those areas, the Welsh Government also made available a secondary pot entitled the Town Centre Repayable Funding (TCRF) scheme as part of its Tackling Poverty agenda. As the name suggests this fund was to be used to stimulate development in town centres benefiting from the fund, and address vacant, derelict and underutilised sites in particular; 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.

In March 2019 Welsh Government approved an award of £1 million to Newport City Council in the latest phase of the Town Centre Repayable Funding Scheme.

In August 2019 Newport City Council sought Expressions of Interest for new applications under this scheme. As a result, Nine Hills, the owners of Clarence House came forward to express an interest.

The Proposal

Clarence House is an eleven-storey office building situated on the East bank of the River Usk, a short walking distance from the main commercial and retail core of the city centre.

The building has a number of occupiers across the various floors. There remains however, a number of vacant floors that whilst historically have been available for office space, are now not fit for purpose.

The ninth floor has previously been refurbished and converted into 14 one and two bedroom short stay apart hotel rooms, and is currently on a ten year let to Gateway Apartments Ltd (nine years remaining on lease).

Nine Hills propose the conversion of a further two upper floors (floors eight and ten) which are currently vacant, but constructed to provide office space. Each floor is to be converted to provide 14 apart hotel rooms containing a bathroom, open plan kitchen/ living area, and 1 or 2 bedrooms.

Planning permission was secured for floors eight and nine and therefore remains in place for floor eight. The applicant will need to seek planning approval for the tenth floor conversion, but are confident this will be given based on permission already having been given for floors eight and nine.

The funding will also enable an upgrade of the building façade which is currently tired and in need of capital investment. The external works entail preparation of the façade, application of base surface resin, and repainting (3no coats of polyurethane paint).

Financial Summary

The TCRF is a repayable fund of up to £1,000,000, which must be used in accordance with the purposes of the scheme as set out in Annex A. The funds have been drawn down by NCC, and are held on the balance sheet. The repayable funding is available for the period 5th March 2019 until 31st March 2034, at which point it must be repaid in full. The funding must also be recycled at least three times over the course of the term. The terms and conditions of the funding state that the loan must be interest free, but we are able to charge an admin fee up to a maximum of 15%. 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.

A loan value of £750,000 has been requested by Nine Hills Ltd with a proposed 36-month repayment schedule. The developer is investing £50,000 of their own money in the refurbishment project and is assuming a 16-month build period. A subsequent 8 months settling in period is accounted for, after which the repayments schedule will commence.

It is proposed that the two floors will be leased to Gateway Apartments, who currently have a 10-year lease of the ninth floor apart hotel rooms.

An admin fee of 3.5% has been agreed with Nine Hills Ltd and will be payable to NCC in accordance with the proposed terms and conditions of the TCRF. This will be in addition to the £750,000 loan sum, and will be payable in advance. Should the final loan drawn down be less than that approved, the Admin value will be calculated proportionally, with any difference returned to Nine Hills Ltd.

The loan arrangement admin fee of 3.5% will be ring-fenced for use to support future operations of the regeneration team within the city centre.

A valuation of the property commissioned through Norse, provides a market value 'in the region of £6,650,000'

The application form submitted by Nine Hills Ltd shows an existing mortgage of £2,700,000 against the property, giving equity of £3,950,000.

The Welsh Government award letter states that where an application exceeds £50,000, the applicant is required to provide a legal charge on the freehold, as security for the repayment of the loan, and or restriction (as appropriate) over the property, which requires approval to any sale or lease of the property. However, this will rank second, behind the existing mortgage,

Costs	Year 1 2019/20 £	Year 2 2020/21 £	Year 3 2021/22 £	Total	Including match funding	Notes including budgets heads affected
Loan value	750,000	0	0	750,000	Applicant is providing 50,000 in addition to the 750,000 requested	Loan value: 750,000 Match: 50,000
Admin fee	26,250	0	0	26,250		
Funding breakdown						
Welsh Government TCRF	750,000	0	0	750,000		
Nine Hills Ltd	26,250	0	0	26,250		

Repayment of Loan Facility by Nine Hills Ltd: the following is based on a suggested 36-month repayment schedule starting at month 25, but is subject to agreement.

	Year 1 2019/20 £	Year 2 2020/21 £	Year 3 2021/22 £	Year 4 2022/23 £	Year 5 2023/24 £	Total
Admin fee	26,250	0	0	0	0	26,250
£20,833 x 12 payments	0	0	249,996	0	0	249,996
£20,833 x 12 payments	0	0	0	249,996	0	249,996

£20,833 x 11 payments	0	0	0	0	250,008	250,008
£20,845 x 1 final payment						
	26,250	0	249,996	249,996	250,008	776,250

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Risk of applicant defaulting	H	L	<p>Two or more of the following will be implemented as part of the Councils internal application process:</p> <ul style="list-style-type: none"> • Loan to Value Assessment • Second Property Charges • Local Land Charges • Staged Repayments <p>A valuation of the property has been undertaken by Newport Norse, which shows sufficient equity in the property. In addition to this Finance has undertaken due diligence to ensure the scheme is viable. The loan exceeds the £50,000 threshold for legal charges and therefore, the Council is required to complete legal charges or restrictions to secure the funding prior to any payment of funds being made to the applicant.</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

Links to Council Policies and Priorities

The TCRP has been designed to dovetail with Council strategic priorities, in particular the Improvement Plan aim to continue the regeneration and development of the city centre

The Newport City Centre Masterplan identifies Riverside as one of its three key target areas, an area with a focus on creating improved linkages....new developments and the riverside. Within this, Clarence Place (and Clarence Tower) are identified as key locations for improvement.

The Council's Economic Growth Strategy is a ten-year programme for delivering growth across the city through capital development. This proposal directly contributes to Aim 2.3 (3) *'To Support the creation of more hotel bed spaces within the city to support the ICCW development'*, and Aim 2.3 (4) to *'Promote and support investment opportunities within the City centre to increase the number of people working, living and visiting the city centre'*. The development supports the creation of 28 apart hotel rooms in the city centre, increasing opportunities for people to visit and stay in the city, with the management and maintenance creating job opportunities. The owners of Clarence House are also putting in £50,000 investment into the project.

Options Available and Considered

There are two options: to approve the application or not approve the application

Funding provides an opportunity to upgrade a prominent city centre building. The property is located alongside the main rail routes in to the city, and therefore one of the first key buildings visible to visitors. The property is tired looking, requiring improvements to its façade, and does not create a positive first impression to anyone arriving in the city. The TCRF will support the refurbishment of the property façade.

The property is under used with a number of vacant floors, currently not fit for purpose, and not meeting the requirements for modern office use. The TCRF will bring two floors back in to use as 28 apart hotel rooms, which contributes towards the additional bed spaces required to support the known demand generated by ICCW.

Preferred Option and Why

The preferred option is to approve the award of repayable finance to the value of £750,000 subject to the completion of the required due diligence. In doing so, the funding supports the ambitions within the City Centre Masterplan and the Economic Growth Strategy. It brings an underutilised property back in to beneficial use, creating jobs and providing the much needed bed spaces identified by and supporting the ICCW.

The funding has been made available to Newport City Council for a 15-year period, within which we are required to recycle the funds three times. Repayment of this within the 5 period agreed period will provide the Council with opportunities to further recycle the funding towards another key regeneration project.

Comments of Chief Financial Officer

The £750k will be funded from Welsh Government repayable funding, therefore there is no direct cost to making this loan. However, the authority is required to pay back all of funding by 2034. In the event of default the authority would be at risk for the majority of any unpaid loan, with WG only funding 2.5% of the total sum of Repayable Funding paid towards any shortfall. Finance have completed initial due diligence and the property has an existing bank loan therefore NCC will be the second charge secured against the property and this will increase this risk, however the valuation provided by Norse shows that there is enough equity in the property to provide security if there.

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 the loan issued and repayment profiles will be needed, in order to minimise the Council's exposure.

Comments of Monitoring Officer

The proposals are in accordance with the Council's statutory powers under section 2 of the Local Government Act 2000 to provide funding and financial assistance for the purposes of securing social, economic and environmental improvements to the area. The proposed scheme for the external refurbishment and conversion of two floors of Clarence House to hotel apartments meets the requirements of the TCRF scheme and is also consistent with the Council's strategic regeneration objectives, as set out in the City Centre Masterplan and Economic Growth Strategy. The loan funding will need to be subject to legal and financial due diligence, to ensure that the security documents are in place and that acceptable loan to value ratios are not exceeded in respect of the property. Although previous valuation reports suggests that there is sufficient equity in the property to support and provide security for this loan funding, the valuation will be entirely dependent on rental income and yields. The Council will require a legal charge on the freehold, as security for repayment of the loan, but this will rank second in priority behind the existing bank loan. Although the proposed loan is utilising recyclable capital funding from Welsh Government, the Council will still have an obligation to repay the monies at the end of the 15 year loan period and, therefore, must secure any risk of repayment by the owners. The Council has the power to provide interest-free loan assistance under its section 2 powers, as the primary purpose of this type of loan funding is to secure regeneration benefits rather than an investment return. However, any preferential terms must not infringe state aid rules. In this case, the proposed interest-free loan will not constitute unlawful state aid, firstly because the funding has been opened up to other bidders, so there is no unfair competition, and secondly because the interest-free element is likely to fall within the de minimis threshold, in any event.

Comments of Head of People and Business Change

The TCRF is intended to bring back vacant and underutilised sites into productive use. The proposal relates to a site where an upgrade to the premises and increased utilisation would contribute to the economic performance and improve perceptions of the city centre. At the same time the proposal would provide additional self-catering accommodation which would serve the growing visitor economy, particularly in the light of the opening of the International Convention Centre. Regeneration of city centre properties also contributes to improved community safety by providing 'natural surveillance' and reducing problems associated with derelict buildings. In this case the proposed loan arrangement represents a public/private partnership arrangement which should deliver benefits to local wellbeing objectives and sustainable development. It is also noted that the project would include a fee income to the council and as the loan is repayable the fund can potentially be recycled.

There are no human resources implications arising from the report.

Comments of Cabinet Member

Cabinet Member has been briefed on this report.

Local issues

Scrutiny Committees

None

Equalities Impact Assessment and the Equalities Act 2010

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users.

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

The scheme complies with the requirements of the Act, addressing the following key points:

Long term: The TRCF aims to bring vacant, derelict and underutilised sites back into long term beneficial use. It encourages the use of brown field sites for development, reducing the impact of such sites on the long-term economic performance of the city centre, and making the city centre more attractive to developers. The funding for this specific application will bring an underutilised property back into long-term beneficial use, and improve the external appearance of the property, making it more attractive.

Prevention: The TCRF provides an opportunity to assist businesses, reducing potential business failure and further vacant properties, 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 fund is sector neutral, and therefore was open to any eligible person or organisation. This specific application has been developed with Newport City Council and the private sector.

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

N/A

Background Papers

None

Date: 23 December 2019