



**Committee: Corporate
Policy and Resources**

Date: 10 January 2019

Subject: Market Street Renewal Ltd – Financial Management

Report by:

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Purpose / Summary:

To seek agreement to allow Market Street Renewal Limited (MSRL) to rent out the four flats with a view to sell at a later stage, therefore revising their Business Plan 2018/19.

RECOMMENDATION(S):

That Members agree to allow Market Street Renewals Limited (MSRL) to rent out the four flats with a view to sell at a later stage and to revise their Business Plan accordingly.

IMPLICATIONS

Legal:

The Council, Dransfield Properties Limited ("**Dransfield**") and MSRL are parties to a Joint Venture Agreement dated 22 March 2017 (the "**JV Agreement**"). The JV Agreement contains terms agreed between the Council and Dransfield which relate to the management of MSRL (which is jointly owned by the Council and Dransfield).

Whilst this proposal does not affect either the Joint Venture Agreement or the Loan Agreement, it does affect the Business Plan and future cashflows as previously approved by this Committee.

Financial : FIN/184/19/TJB

In making our assessment of the financial implications the following assumptions have been made (pending the updated business plan):

- Estimates based on the shareholders fund interest rate payments of 2% + Base rate prior to 22nd March 2022 and 4% + Base rate post that date (as per the deed of loan agreement);
- That the Council's short term investment interest rate is currently 0.7%;
- That the estimated additional rental income net of costs will be utilised by MSRL to make shareholder payments on an annual basis.

The financial impact of renting the flats out as opposed to selling in January 19 (as per current business plan) is based solely around the delays it will cause in the repayments of the shareholders fund.

The current business plan shows a repayment of funds to WLDC in January 19 of £137.5k. This was predicated on the sale of the flats. With no offers made on the properties to date, then this repayment of shareholders' funds cannot be made.

The proposal to rent rather than sell the flats will generate an annual net income stream to MSRL and it is proposed that they will then make an annual repayment of principal of shareholder funds.

Based on rental information provided annual repayment of circa £7k could be made to each shareholder.

The impact for WLDC is positive. Whilst we would not receive the £137.5k principal repayment as a lump sum, we would instead receive a smaller annual payment over a longer term. Based on the assumptions detailed above, and as the loan interest rate exceeds the rates we are currently able to achieve from investing our funds (circa 0.7%), this would generate an estimated additional £2.8k per annum. Loan interest increase to 4% + base rate after 5 years from the date of the loan agreement.

Over a 10 year period an additional £32k of additional loan interest would be receivable from MSRL.

Retaining the flats to rent out also provides MSRL with the opportunity to maximise its returns from sales by monitoring the housing market closely and selling at the appropriate time, which in turn would benefit WLDC as 50% shareholder at some point in the future.

The loan agreement should be reviewed and amended as necessary, upon agreement of all parties, to align with the Business Plan and repayment schedule.

Staffing : This project will be led by the Executive Director for Economic and Commercial Growth and supported by the Growth Team as part of the agreed work plan.

This project has been developed to accelerate the regeneration of the town centre by improving the viability of Market Street, and also by attracting footfall from Marshall's Yard into the historic town centre and down to the riverfront.

This is a key project within the Gainsborough regeneration programme, with the primary focus being the creation of a self-sustainable and affluent town and constituent community. Specific programmes for the South West and North Wards will assist in addressing the multiple indices of deprivation, in tandem with the Strategic Partnership in the South West Ward and the Council's Skills programme.

The Council is required to demonstrate its compliance with the Equality Act 2010 and in particular its' Public Sector Equality Duty (section 149). An Equalities Impact Assessment will be undertaken specifically for this project and will highlight how the delivery of the hotel, and further regeneration works delivered through the joint venture company will have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The Council is also required to demonstrate how it has complied with its duty under Section 17 of the Crime and Disorder Act 1998. This requires the Council to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent:

- (a) crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment); and
- (b) the misuse of drugs, alcohol and other substances in its area; and

(c) re-offending in its area.

It is anticipated that the regeneration of Market Street and the delivery of a hotel will have a material impact on the reduction of crime and disorder in the area. A crime and disorder assessment will be undertaken specifically for this project prior to the Council entering into the grant funding agreement and the joint venture company.

Risk Assessment: The proposals have developed from inception with confirmation that this is legally sound and with in-principle agreement from both Prosperous Communities and Corporate Policy and Resources Committees.

Climate related Risks and Opportunities: The new developments will ensure that current building regulation standards on sustainability of the refurbished shops in Market Street can be achieved.

In addition, the projects will support our bid to the Heritage Lottery Fund for Townscape Heritage Funding of circa £1million all of which is driven to deliver a “whole town” offer and improved quality of life for existing and new residents.

Title and Location of any Background Papers used in the preparation of this report:

None.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1. Background

- 1.1 West Lindsey District Council has formed a joint venture company with Dransfield Properties Limited – Market Street Renewal Limited (**MSRL**) to regenerate the North, Market and Church Streets and the Market Place. MSRL aims to act as a delivery vehicle capable of attracting investment into Gainsborough that might otherwise not have been available to the Council (acting alone). The economic benefits of MSRL were outlined in the previous committee report (PRCC. 53 16/17).
- 1.2 Members will recall that the properties acquired by MSRL were in effect beyond economic repair i.e. the costs of refurbishing these on a single basis

would not be viable and would not attract a tenant capable of paying a market rent. Furthermore their listed and conservation area status required a conservation led approach with significantly higher build costs. The refurbishment schemes have the benefit of planning consent and Historic England support which has been instrumental to securing a successful Heritage Lottery Fund bid for the Council of £1.5m from this fund.

1.3 The project has ensured that the entire run of properties from the Methodist Church on North Street to 35 Market Place, has been refurbished in tandem with the redevelopment of the Sun Inn. This constitutes a Gateway scheme to the town centre, a transformational change to the environmental quality of the historic town centre and will provide a catalyst to the wider regeneration of Gainsborough. The economic impact of these developments has been appraised at in excess of £600k pa. More significantly the comprehensive nature of this entire scheme will fundamentally change the perception of the town centre and will draw more affluent shoppers from Marshall's Yard to the historic core. The intention is to continue this conservation led regeneration work through the recently adopted Heritage Master plan funded by Heritage Lottery, the Development Partnership and Housing Unlocking Grant in subsequent years. This approach is attracting strong interest from other Council's and Historic England and has been hailed as good practice and an exemplar of town centre regeneration.

1.4 Geography of the Joint Venture Company – Market Street Renewals:

North Street;
Market Street;
Church Street;
Market Place.

The initial focus will be on Market Street as this is the principal east-west axis of the historic town centre. The regeneration of Gainsborough town centre will be dependent upon this route. Improving the condition of this route by enhancing existing properties containing active ground floors and town centre uses is a priority, which must establish the aspirational quality benchmark for the rest of the town centre.

2. Business Plan 2018/19

2.1 Business Plan 2018/19

2.1.1 The business plan 2018/19 was approved by this Committee at its meeting on 8 November 2018 and included the assumption that the flats would be marketed and sold by January 2019 and outlined the point at which an element of shareholder funds would be repaid.

2.1.2 The properties have been marketed since May 2018 with no sales to date. MSRL have therefore considered the option of renting the flats and selling at some future date when the market conditions are improved. (potential tenants have been identified).

2.1.3 For WLDC this report proposes to agree to the update of the Business

Plan in relation to the 4 flats and that they be let rather than sold at this time.

- 2.1.4 Whilst this proposal will affect the cash flow of the Council, the financial implications result in a favourable position as interest payable on the loan exceeds our current interest receivable from investments as detailed in the financial implications section of this report.
- 2.1.5 There is obviously an opportunity cost to not receiving the lump sum principal repayment; however, this loan was funded from cash (internal borrowing) and would therefore not be available for capital investment purposes.
- 2.1.6 The loan agreement will be reviewed and amended as necessary, upon agreement of all parties, to align with the Business Plan repayment schedule.

3 Conclusion and Recommendations

Given the impact this project will have on the town and the need to maintain the reputation of MSRL, Members are asked to agree the following:

To allow Market Street Renewals Limited (MSRL) to rent out the four flats with a view to sell at a later stage and to revise their Business Plan accordingly.