



**Corporate Policy and
Resources Committee**

23rd September 2021

Subject: Market Street Renewal Limited

Report by:	Assistant Director People and Democratic Services + Deputy Monitoring Officer (interim)
Contact Officer:	Sally Grindrod-Smith Assistant Director of Planning and Regeneration sally.grindrod-smith@west-lindsey.gov.uk
Purpose / Summary:	To provide an update on the position of Market Street Renewal Ltd and seek to agree an extension to the shareholder agreement

RECOMMENDATION(S):

1. Note the updated business plan for Market Street Renewal Limited.
2. Approve a 5-year extension to the terms of the shareholder agreement with effect from 22nd March 2022.

IMPLICATIONS

Legal:

The Shareholders Agreement was signed by WLDC and Dransfield Properties Ltd in 2017 with a variation agreed in 2018. This paper seeks to extend the agreement for a further five years. This will require the drafting of a further variation agreement. The initial legal works were undertaken by DWF but it is proposed that we would now use Lincolnshire Legal Services to draft an extension to the agreement.

(N.B.) Where there are legal implications the report MUST be seen by the MO

Financial : FIN/69/22/TJB

The Council issued a £375,000 shareholders loan into the Joint Venture Company, the current principle balance outstanding is £357,500.

Net assets from the 2020/21 Balances sheet reflect a net liability of £115,305 of which £57,652 is WLDC 50% share.

The forecast cashflow for the period 2023 to 2026 shows repayments of a further £28,000 plus interest, should this cashflow be achieved.

The extension to the Shareholders Agreement will therefore enable an element of the shareholder loans to be repaid, whilst the potential for the valuation of properties to increase over the period.

There is a risk that valuations can go down as well as up and that in 5 years time a further extension may need to be considered.

Staffing :

The shareholder representative is Emma Redwood Assistant Director People & Democratic Services + Deputy Monitoring Officer (Interim)

Sally Grindrod-Smith as the Assistant Director of Planning and Regeneration replaced Eve Fawcett-Moralee as WLDC's representative Director on the company Board.

Equality and Diversity including Human Rights :

There are no implications within this report on Equality and Diversity. Works carried out to the properties were completed in line with building regulations ensuring that the access needs of those with disabilities were considered.

Data Protection Implications :

None from this report

Climate Related Risks and Opportunities:

None from this report. The energy efficiency of the buildings was improved as part of the work to refurbish the buildings.

Section 17 Crime and Disorder Considerations:

The work to regenerate this area of Market Street in Gainsborough has improved the street scene and sense of place.

Health Implications:

None from this report.

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

Risk Assessment :

Market Street Renewal Ltd have considered the sale of the investment on the market but it is deemed that at present this would not be sufficient to repay the outstanding shareholder loans and therefore the repayment arrangement as set out within this report is the preferred way forward.

Cashflow projections are estimates and do not account for any void periods.

Property values can decrease as well as increase.

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

Executive Summary

Market Street Renewal Ltd was established in 2017 with a WLDC shareholder loan of £250,000 followed by a further advance in 2018 of £125,000. Dransfield Properties Ltd made equal shareholder loans.

The shareholder agreement has been in place for 5 years in March 2022.

Three retail units and four residential units on Market Street in Gainsborough make up the property portfolio of Market Street Renewal Ltd.

The properties are now let and the company receives a regular income from the investment.

Since the inception of the shareholder agreement a total of £24,500 has been paid back to each shareholder plus interest.

Due to market conditions the three retail and four residential properties were subject to an overall downward valuation of £135,333 in 2020, making the original business plan aspiration of sale within the first five years unviable.

The report goes on to set out the cash flow assumptions and business plan forecast for the period to September 2026.

Based on the appraisal of the current position and forecast income, Market Street Renewal Ltd are seeking approval from the shareholders to extend the existing shareholder agreement for a further five years to March 2027.

1. Background

- 1.1 In 2016 West Lindsey District Council formed a joint venture company with Dransfield Properties Limited, known as Market Street Renewal Limited to regenerate the North Street, Market Street, Church Street and Market Place in Gainsborough Town Centre. The Council has a 50% share of all assets and liabilities.
- 1.2 The focus of activity has been on Market Street as this is the principal east-west axis of the historic town centre. The regeneration of Gainsborough town centre is dependent upon this route and the establishment of a quality retail and residential offer is seen as a signifier of improvements to come through the Townscape Heritage Initiative.
- 1.3 The Council invested £375,000 as a shareholder loan to facilitate the acquisition and redevelopment of 3 properties on Market Street. The three properties comprise of 3 retail units and 4 residential flats. Dransfield Properties Limited also facilitated a shareholder loan of £375,000 into the joint venture company.
- 1.4 It was intended that 3 & 5 North Street would be acquired by the Company from West Lindsey District Council who held the long leasehold. After appraising these properties, they were deemed unviable for the Company as they could not attract heritage grant funding to support their refurbishment, and costs would exceed the investment putting the company at risk of requiring further investment for no financial return.
- 1.5 This joint venture has provided evidenced support for significant grant funding of £4.1m to the Greater Lincolnshire Local Enterprise Partnership (GLLEP) Growth Deal, this funding will focus on the wider Gainsborough Regeneration programme.
- 1.6 In accordance with proper accounting practices the Council's share of the Joint Venture company's profits/losses and assets/liabilities are considered for consolidation into the WLDC Statement of Accounts.

2. Current Position

- 2.1 All properties within the Market Street Renewal Company are now complete and are let to residential and retail tenants. The table below shows the current levels of income associated with each residential and retail property.

25 Market Street	
Flat 1 rent	375
Flat 2 rent	400
Retail rental Income	1,342
27 Market Street	
Flat rent	400
Retail rental Income	1,000
35 Market Street	
Flat rent	400
Retail rental Income	983

- 2.1.1 Despite challenging conditions throughout 2020/2021 income remained stable with 81% rental income received by due date and 99% within 7 days of becoming due.
- 2.1.2 It was noted that the business grant scheme administered by WLDC played a positive role in supporting tenants during national lock down periods.
- 2.1.3 There have only been nominal tenancy changes with the retail units occupied by original tenants. Re-lets of the residential units have been swift with the quality of the property assisting in securing new tenants.
- 2.1.4 As part of standard auditing practices, the whole of Dransfield Properties Ltd portfolio, including the Market Street Renewal Ltd properties were revalued last year, as it is every three years. Due to the challenges on the High Street as a result of Covid 19 – leading to significant reductions in footfall and projected impact of the pandemic, the Market Street Renewal Ltd properties, as with many other were down valued. The total down valuation was £135,333 across the 3 retail and 4 residential properties. There is no further re-valuation proposed in 2021 and the accounts have now been signed off on this basis.
- 2.1.5 As it stands, the balance sheet below sets out that with outstanding loans of £734,000 (of which WLDC share 50%) and inclusive of the down valuation, the company liability is £115,305 (of which WLDC share 50%).

Market Street Renewal Limited (Registered number: 10298200)

Balance Sheet

30th September 2020

	Notes	2020		2019	
		£	£	£	£
FIXED ASSETS					
Investment property	4		618,885		615,000
CURRENT ASSETS					
Debtors	5	7,433		17,541	
Cash at bank		<u>19,246</u>		<u>64,666</u>	
		26,679		82,207	
CREDITORS					
Amounts falling due within one year	6	<u>22,218</u>		<u>82,185</u>	
NET CURRENT ASSETS			<u>4,461</u>		<u>22</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			623,346		615,022
CREDITORS					
Amounts falling due after more than one year	7		(734,000)		(750,000)
PROVISIONS FOR LIABILITIES			<u>(4,651)</u>		<u>-</u>
NET LIABILITIES			<u>(115,305)</u>		<u>(134,978)</u>
CAPITAL AND RESERVES					
Called up share capital	9		200		200
Retained earnings	10		(115,505)		(135,178)
SHAREHOLDERS' FUNDS			<u>(115,305)</u>		<u>(134,978)</u>

2.6 It is clear from previously approved business plans that the company had always intended to realise the assets and settle debt by means of sale. Initially the residential properties were to be sold almost immediately, but with deteriorating market conditions, the Market Street Renewal Ltd Board agreed that the ongoing rental of the properties provided greater assurance to the shareholders of loan repayment. At present the portfolio is generating an annual income of £58,800 allowing for minimal, but regular loan repayments to be made to both shareholders.

3. Business Plan 2021 to 2026

3.1 Clearly for reasons set out above, the Business Plan 2021/2026 does not propose further investment in acquiring properties for development at this time. Appendix 1 sets out the Market Street Renewal Cash Flow based on the assumptions set out below. This demonstrates that based on current levels of repayment, with the agreed assumptions, by September 2026 each of the shareholders will have a remaining investment balance of £270,500 meaning that £104,500 of the original investment will have been repaid.

3.2

Market Street Renewal Ltd Cash Flow Forecast		27/07/2021
		Prepared by - Steve Stead
Assumptions		
JV Partner Funding		
1) Original loan of £250k each from WLDC and DPL and further loan of £125k each in Feb 18		
Interest		
1) Interest payable at 2% plus base rate, all inclusive rate of 2.1% currently provided for		
Misc Expenditure		
1) A general provision of £1000 per quarter for the company administration is included. This will be a recharge from DPL		
2) £6,650 per annum corporation tax is included in June each year from 2022 onwards		
3) Fees of £1500 per annum provided for from March 2020 for Smailes Goldie		
4) A non-specific provision for £50 per month expenditure is included		
JV Investments		
Based on the projections the forecast shareholder investment balance for the coming years will be as follows:		
at 30 September 2021	£	350,500
at 30 September 2022	£	334,500
at 30 September 2023	£	318,500
at 30 September 2024	£	302,500
at 30 September 2025	£	286,500
at 30 September 2026	£	270,500

4. Shareholder Agreement

- 4.1 As previously considered by Corporate Policy and Resources Committee, Market Street Renewal Ltd was established in 2017 with a shareholder loan from WLDC to the company of £250,000. The agreement was then varied in 2018 when a further £125,000 loan was provided by each shareholder to the company.
- 4.2 The Market Street Renewal Ltd Board held it's annual board meeting on 29th July 2021. The Board considered the annual statement of accounts, a property update, the Business Plan for 22/23 and the loan repayment as part of the Shareholder Agreement.
- 4.3 It was agreed that the current approach to the repayment of the shareholder loans remained appropriate, noting that small but consistent repayments are being made. In this respect Market Street Renewal Ltd have formerly requested the Directors to seek a five year extension to the current shareholder agreement including continuing the 2% interest arrangement.
- 4.4 If this approached is approved by Corporate Policy and Resources Committee the shareholder agreement will be legally updated and signed by the respective shareholders.

5. RECOMMENDATION(S):

1. Note the updated business plan for Market Street Renewal Limited.
2. Approve a 5-year extension to the terms of the shareholder agreement with effect from 22nd March 2022.