
A separate report is submitted in the private part of the agenda in respect of this item, as it contains information that there is no public interest in disclosing in accordance with Schedule 12A of the Local Government Act 1972 as amended. The grounds for privacy are that it refers to the identity, financial and business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services.

Cabinet
Council

19 November 2013
3 December 2013

Name of Cabinet Member:

Cabinet Member (Business Enterprise & Employment) - Councillor Kelly
Cabinet Member (Strategic Finance & Resources) – Councillor Gannon

Director Approving Submission of the report:

Executive Director, Place

Ward(s) affected:

All

Title:

Regenerating City Centre Office Accommodation Through The Development Of Student Accommodation

Is this a key decision?

Yes – the proposals in this report will result in financial implications exceeding £500,000

Executive Summary:

Coventry's two universities are a major driver of Coventry's economy. Both universities continue to gain national and international recognition for the quality of their teaching and both attract students from across the world.

However the credit crunch and subsequent recession have made financing the development of student accommodation extremely challenging. This has resulted in a shortage of good quality student accommodation, particularly for foreign students. This has, in turn, led to an increase in demand for "house in multiple occupation" in suburban areas with resulting issues for local residents.

Coventry City Centre includes a number of obsolete office blocks. There is an opportunity to regenerate these sites which in turn will improve the city centre and drive footfall into the retail and leisure areas.

This report explores how the Council could respond to a request to provide mortgage funding, effectively by acting in a banking capacity to facilitate the development of 3 student housing blocks in the city centre. This will secure additional student housing, physical and economic regeneration in the city centre and to create financial benefits for the Council and the wider local economy and achieves the administrations stated aims of securing regeneration of the city centre within a 12 month period.

Recommendations:

Cabinet is requested to recommend that the Council:

1. Approves the use of its powers under the Local Government Act 2003 to prudentially borrow..
2. Approves the use of its powers under the Localism Act 2011 to provide a loan to Study Inn over a term of 5 years, at a commercial rate of interest as detailed in section 1.8.6 to be met from prudential borrowing as an addition to the existing approved Capital Programme.*
3. Delegate authority to the Executive Director Resources and the Council Solicitor to agree detailed terms of the transaction, including the detailed approach to achieve the transaction in the most tax efficient manner for the Council and Study Inn.
4. Delegate authority to the Executive Director Resources and the Council Solicitor as appropriate, in consultation with the Cabinet Member (Business, Enterprise and Employment) and Cabinet Member (Strategic Finance and Resources), to make variations or new requirements to give effect to the proposals that are deemed necessary.
5. Delegate authority to the Executive Director Resources and the Council Solicitor as appropriate, in consultation with the Cabinet Member (Business, Enterprise and Employment), Cabinet Member (Strategic Finance and Resources) and Cabinet Member (Community Safety and Equalities) to complete the funding agreements and such other ancillary documentation as is necessary to complete the refinancing transaction, based on the principles detailed in this report.

Council is asked to:

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2. Approve the use of its powers under the Localism Act 2011 to provide a loan to Study Inn over a term of 5 years, at a commercial rate of interest as detailed in section 1.8.6 to be met from prudential borrowing as an addition to the existing approved capital programme.
3. Delegate authority to the Executive Director Resources and the Council Solicitor to agree detailed terms of the transaction, including the detailed approach to achieve the transaction in the most tax efficient manner for the Council and Study Inn.
4. Delegate authority to the Executive Director Resources and the Council Solicitor as appropriate, in consultation with the Cabinet Member (Business, Enterprise and Employment) and Cabinet Member (Strategic Finance and Resources), to make variations or new requirements to give effect to the proposals that are deemed necessary.

* this is on the basis that the Council is minded to approve recommendations (1) and (2) to Council but is not authorised by the authority's executive arrangements, financial regulations, standing orders or other rules or procedures to make a determination in those terms.

5. Delegate authority to the Executive Director Resources and the Council Solicitor as appropriate, in consultation with the Cabinet Member (Business, Enterprise and Employment), Cabinet Member (Strategic Finance and Resources) and Cabinet Member (Community Safety and Equalities) to complete the funding documentation and such other ancillary documentation as is necessary to complete the refinancing transaction, based on the principles detailed in this report.

List of Appendices included:

None.

Other useful background papers:

None.

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 3rd December 2013.

Report title: Regenerating City Centre Office Accommodation Through The Development Of Student Accommodation

1. Context (or background)

- 1.1 Both Coventry University and The University of Warwick are nationally and internationally recognised for the quality of their teaching. As a result both universities attract students from across the world. Currently the combined student population of both institutions is 58,000 of which 36,000 are full time.
- 1.2 It is estimated that the direct benefit to the local economy of student spend is £200-£300m per annum. The total benefit of both universities is much higher to the local economy.
- 1.3 Study Inn are a Coventry based provider of high quality student accommodation. They currently operate 4 schemes in the City providing a total of over 400 student bedrooms together with schemes in Nottingham and Sheffield. These schemes currently operate at a 100% occupancy rate for 50 weeks per year.
- 1.4 The success of both universities has however led to some unexpected consequences. As both universities only guarantee places in Halls of Residence to first year students more and more houses in the suburbs have been let to students in their second and subsequent years. These student houses are often referred to as HiMO's (Houses in Multiple Occupation). This has led to complaints from residents who argue that the nature of certain residential areas can be adversely affected by large student populations and large numbers of HiMO's, often owned by absentee landlords.
- 1.5 In light of the above Study Inn have identified 3 buildings in the city centre as being suitable for conversion into student flats, namely:
 - 175 Corporation Street (former Axa tower).
 - Well Street tower (former Axa tower).
 - Burges House, the Burges.

If converted, these properties could provide up to 420 additional student flats.

The provision of more student accommodation in the city centre could have the following benefits:

- Up to 100 HiMO's released back from student use.
 - Increased student foot fall and spend in city centre.
 - Redevelopment of out-dated office buildings that are unlikely ever to be occupied in their current form.
- 1.6 Due to the credit crunch and subsequent recession banks are currently reluctant to commit to what they consider to be speculative development, particularly when such development is not secured by a long term letting to a blue chip tenant. The nature of student accommodation does not permit long term leasing. Whilst Study Inn have secured options to acquire these buildings and have secured short term finance to convert the properties to student accommodation they have not yet been able to secure medium term mortgage finance in order to be able to refinance the properties once they have been completed and let to allow them to hold in the long term.
 - 1.7 Study Inn are a Coventry based company who have already developed 4 schemes in the City. They have secured the finance to complete the refurbishment of the schemes, but have been unable to secure loan finance beyond the development phase. This is despite business plans which suggest the schemes can service the debt.

Study Inn have therefore approached the Council to request that the Council be prepared to provide medium term commercial loan finance in the event that Study Inn are unable to secure finance from the market at completion of the schemes.

1.8 Officers anticipate the following principled basis for the loan agreement:

1.8.1 Coventry City Council to grant up to 3 commercial loans to Study Inn for a period of 5 years each. The loans will be granted in 2 tranches:

– **Tranche 1 – September 2014**

Burges House
175 Corporation Street

– **Tranche 2 – September 2015**

Well Street Tower

1.8.2 Tranche 2 to be subject to: At least one property from Tranche 1 being re-financed with a commercial lender. Study Inn having fully complied with all financial and property covenants required by the Council on a commercial basis.

1.8.3 All lending to be subject to a maximum Loan to Value ratio.

1.8.4 Such valuations to be undertaken independently by RICS qualified valuer appointed by Coventry City Council.

1.8.5 Lending subject to:

- Borrower completing all refurbishment works to the property to the lenders reasonable satisfaction.
- Borrower paying a one off arrangement fee on completion of legal documentation and further on draw down.
- Borrower achieving 95% pre-lets prior to draw down.

1.8.6 Interest rate to be subject to variations should LIBOR increase over the period.

1.8.7 Coventry City Council to be granted full fixed and floating charge over property and shares.

1.8.8 Study Inn to cover all CCC's legal, valuation and reasonable admin costs.

1.8.9 A requirement for Study Inn to produce a 5 year business plan for approval prior to advancement of the loan and on an annual basis demonstrating Study Inn's ability to service the loan.

1.8.10 A Senior Officer in Finance and Legal Services, who is not connected to the Company in any way, will be appointed to monitor and manage the loan on behalf of the Council. Initially this will be the Executive Director - Resources who will discharge this day to day responsibility to a qualified senior officer in Financial Management.

1.8.11 A requirement for Study Inn to comply with financial and property ratios appropriate to a loan of this type; to ensure there is sufficient cash in the business to repay the Council's loan and that there is sufficient value in the company to cover the full value of the loan.

1.9 The Council will generate a surplus on the loan to Study Inn, which can be used to support the savings targets built into the Medium Term Financial Strategy as part of

Commercialisation and Income Maximisation review and Strategic Property reviews set out in the 2013/14 budget and assist in preventing cuts to front line services.

1.10 As part of its treasury management activities the Council will look to utilise temporary cash balances or short term borrowing to minimise the cost to the Council, prior to taking out longer term borrowing. Using such funds will allow the Council to initially generate a margin. The Council's overall cost of short term borrowing is currently low, reflecting current market conditions and the availability of cash balances in the short term. The option for the Council to review the interest rate in the event of rates rising is key in protecting the Council's financial position. The basis of how the Council finances the loan to Study Inn will be reviewed alongside the wider treasury management activities.

1.10.1 Under the Capital Finance Regulations 2003, the Council will treat the loan as capital expenditure on the basis that it is provided to meet the capital expenditure costs of converting the properties into flats. The capital expenditure will be resourced by prudential borrowing with Minimum Revenue Provision (MRP) provided over 25 years in order to meet the cost of the prudential borrowing. The scheduled principal repayment on the loan will match the MRP charge over the term of the loan.

1.10.2 An option to repay the loan early, recompensing the Council for any economic loss for the financial year in which early termination occurs.

2. Options considered and recommended proposal

2.1 The options available to the Council are either to decline the request for support or to choose to offer support.

2.2 Option 1 – Decline

2.2.1 In the event that the Council declines the request for support Study Inn will be unlikely to proceed with the acquisition and conversion of the properties as the risk of acquisition without a firm offer of funding would be too great a risk for the company to take on. This would result in a lost opportunity to secure the development of 3 outdated and empty office buildings in the city centre and the loss of up to 500 student places. The students would have brought increased footfall to city centre bars, restaurants and shops increasing the vitality and viability of the city centre.

2.3 Option 2 – Offer loan funding on a commercial basis

2.3.1 If the Council were to make an offer of funding to Study Inn it would be in a position to realise the following potential benefits:

- Securing the redevelopment of three outdated office buildings.
- Creation of up to 500 student places in the city centre.
- Secure increased footfall to city centre bars, restaurants and shops increasing the vitality and viability of the city centre.
- Financial benefits to the Council in accordance with the proposal set out above.
- Freeing up of up to 100 HiMO's for family occupation.

2.4 It is clear however that, as with any financial transaction, there are risks inherent in the proposal. These risks are set out in more detail in paragraph 6. Were it agreed to proceed with an offer of finance, officers would strive to minimise risk through rigorous due diligence and a robust mitigation strategy.

2.5 In view of the benefits that can be secured for the city it is recommended that, subject to satisfactory due diligence and legal security, option 2 be pursued.

3. Results of consultation undertaken

3.1 Where appropriate, consultation regarding the specific development proposals will be conducted through the planning process.

4. Timetable for implementing this decision

4.1 It is intended that, if accepted, the recommendations of this report be implemented immediately commencing with due diligence. Study Inn are proposing to draw down the first mortgages in September 2014.

5. Comments from Executive Director, Resources

5.1 Financial implications

5.1.1 Approval of the recommendations in this report would result in the Council making available a loan to Study Inn to refinance development finance and begin work on development of the three sites above. The Council will generate a surplus on the loan to Study Inn, which can be used to support the savings targets built into the Medium Term Financial Strategy for the Commercialisation and Income Maximisation, and Strategic Property reviews, set out in the 13/14 budget, and also assist in preventing cuts to front line services.

5.1.2 The Council has discussed the proposed actions, including the accounting treatment of the loan as capital expenditure, with Grant Thornton, the Council's External Auditors. This discussion has included the details of the proposed transaction and the proposed financial implications for the Council and accounting treatment.

5.1.3 Study Inn will meet the one off costs associated with due diligence and reasonable admin completed by the Council to provide the loan. In addition the Council will receive a one off arrangement fee regardless of whether the loan is drawn down.

5.1.5 The loan agreement requires Study Inn to provide financial information regularly to the Council for the purposes of monitoring and to support their continued ability to service the new loan.

5.1.6 The recommendations specifically for the Council are being made because Cabinet is minded to recommend to Council to approve the level of prudential borrowing and the related loan to Study Inn for the equivalent value, which is in addition to the current agreed Capital Programme.

5.2 Legal implications

5.2.1 The Council will use the general power of competence under section 1 of the Localism Act 2011("the Act") as the power to make this commercial loan. Section 2 of the Act provides that where the power of competence is conferred on the Council to do something it confers power to do it in any way whatever including for or otherwise than for, the benefit of the Council, its area or persons resident or present in its area.

5.2.2 The power to borrow money is contained in the Local Government Act 2003.

- 5.2.3 The issue of vires would have to demonstrate that taking all circumstances into account this was a reasonable decision to be taken by the Council and in accordance with the Council's fiduciary duty.
- 5.2.4 As part of its due diligence the Council obtain valuations of each of the buildings to ensure there is sufficient security. It will also look at the business plan and accounts of Study Inns to ensure repayment of the loan can be maintained.
- 5.2.5 A state aid assessment will be carried out to ensure there are no implications that there is a breach of EU law. It is intended that this loan if approved will be at a commercial rate and will be fully secured against the assets of the company.

6. Other implications

Any other specific implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

- 6.1.1 If adopted the proposals will contribute to revitalising the city centre, supporting the local economy and securing regeneration.

6.2 How is risk being managed?

- 6.2.1 Study Inn have an impressive track record in developing and managing student accommodation. They are currently achieving close to 100% occupancy in their current schemes at average rents reflecting those required to support the proposed schemes however to try and minimise risk officers propose that the following risk mitigation strategies will be employed:
- Full independent valuation of the properties
 - Maximum loan to value ratio
 - Full independent scrutiny of business plan
 - Legal charge over the properties and debenture over shares.
 - No mortgage draw down until all refurbishment works complete and property pre-let.

6.3 What is the impact on the organisation?

- 6.3.1 The impact on the organisation will be minimal. It will generate additional work for Place and Resource Directorates.

6.4 Equalities / EIA

- 6.4.1 Section 149 of the Equality Act 2010, known as the Public Sector Equality Duty, requires the Council to eliminate discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people.
- 6.4.2 An equality impact assessment has not been carried out by officers as the proposal set out in this report does not constitute a change in service delivery or the exercise of a public function.

6.5 Implications for (or impact on) the environment

- 6.5.1 None.

6.6 Implications for partner organisations?

6.6.1 None.

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