
A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. 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**

29 November 2016
6 December 2016

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton
Cabinet Member for Jobs and Regeneration – Councillor J O'Boyle

Director Approving Submission of the report:

Executive Director of Place
Executive Director of Resources

Ward(s) affected:

St. Michael's

Title:

Coventry Investment Fund Investment Cathedral Lanes Phase 2

Is this a key decision?

Yes – The proposals within the report will result in financial implications in excess of £1m.

Executive Summary:

In 2014, the Council awarded a Coventry Investment Fund (CIF) loan to Shearer Property Group (SPG) who own Cathedral Lanes shopping centre. The loan award made SPG's plans to redevelop the centre as a leisure scheme and open several new restaurants commercially viable. The first phase of the scheme has been very successful, and has formed a key part of the Council's overall plans for regeneration of the city centre.

This report seeks retrospective approval for a new loan facility to support the second phase of development. It was necessary to enter into the loan agreement in advance of Cabinet and Council approval to allow SPG to meet the deadline for renegotiation of their Senior Loan. This was done in consultation with the Cabinet Member for Strategic Finances and Resources and the Cabinet Member for Jobs and Regeneration who agreed on the basis that a retrospective report was produced.

SPG now wish to proceed with the second phase of the redevelopment which will include more new restaurants, and bring with it further regeneration benefits and increases in business rates. The loan will be made on appropriate commercial terms and will be subject to usual Council controls on such lending.

Recommendations:

Cabinet is requested to:

- (1) Recommend that Council retrospectively approves the variation to the previous loan agreement granted to Shearer Property Group in September 2014 in relation to the refurbishment of Cathedral Lanes,
- (2) Recommend that Council delegates authority to the Executive Director of Place and the Executive Director of Resources, following consultation with the Cabinet Member for Jobs and Regeneration and Cabinet Member for Strategic Finance and Resources, to manage the new revolving loan facility. The authority under this recommendation shall include the power to negotiate and agree variations to the terms of the new revolving loan facility.

Council is requested to:

- (1) Retrospectively approve the variation to the previous loan agreement granted to Shearer Property Group in September 2014 in relation to the refurbishment of Cathedral Lanes,
- (2) Delegate authority to the Executive Director of Place and the Executive Director of Resources, following consultation with the Cabinet Member for Jobs and Regeneration and Cabinet Member for Strategic Finance and Resources, to manage the new revolving loan facility. The authority under this recommendation shall include the power to negotiate and agree variations to the terms of the new revolving loan facility.

List of Appendices included:

None.

Background papers

None

Other useful documents:

Growing Business Rates through creating the Coventry Investment Fund
Council 3rd December 2013 [Report](#)

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 - 6 December 2016.

Report title: Coventry Investment Fund Investment Cathedral Lanes Phase 2

1. Context (or background)

- 1.1 Cathedral Lanes is a 60,000 sq. ft. retail premises situated in a prime location in Coventry City Centre between the shopping core and the Cultural and Heritage Quarter. It was built in the 1980s and comprises 13 retail units over two floors around a glass atrium, including an anchor store, Wilko. In September 2014, the property was acquired by Shearer Property Group (SPG). A loan from Coventry Investment Fund (CIF) was entered into with SPG (the Existing Loan Facility) in September 2014 which assisted SPG with completion of the first phase and made the project commercially viable for SPG. The new owners successfully completed the first phase of the project to convert the shopping centre into a leisure orientated scheme, with Cosy Club, Las Iguanas and Wagamamas opening in 2015.
- 1.2 The CIF support for the development was very successful. When the loan became available to SPG it demonstrated the development's viability to the market, and almost immediately the company was able to secure borrowing from the private market to support the project. Using a publically funded intervention like CIF to attract private investment in a project is an example of best practice in public financing.
- 1.3 Following the success of the first phase, both in terms of CIF financing and the regeneration benefits of opening the new restaurants, the Council wish to ensure that phase 2 is also completed. The Council used this as an opportunity to negotiate terms which ensured the Councils funds were secured and also helped to support the construction of phase two of Cathedral lane. Phase two of Cathedral lanes will provide additional restaurants and bars which will increase business rates and the number of jobs. A total of 37,000 square feet of restaurant space will be created in phase 2.
- 1.4 The new loan facility will be managed as a revolving facility, meaning that SPG can re-borrow any sum repaid during the term of the loan. This provides maximum flexibility for the Council's support to the development, whilst maintaining the usual controls that exist over a loan arrangement.
- 1.5 The new revolving facility will retain the same value and interest rate as the Existing Loan Facility. The outstanding balance and interest rate of the Existing Facility Loan totalling just was repaid to the Council as part of the new refinancing arrangements.
- 1.6 The benefits to the Council in varying the Existing Loan Facility was:
 - Early repayment of the existing loan which was outstanding together with interest
 - If SPG drawdown on the new loan they will immediately pay an arrangement fee.
 - The period of the loan is extended, therefore if SPG borrow the money the interest charged will apply for a longer period which as a result potentially brings in additional income; and
 - Supporting SPG will help complete phase 2 of Cathedral Lanes and deliver additional business rates and jobs, which was difficult for SPG under their previous loan arrangements.

2. Options considered and recommended proposal

2.1 Decline the request for refinancing.

The Council could have chosen to decline the request to refinance the loan. SPG would have access to a borrowing over a shorter period because the term of the original loan only runs until three years from the completion date of the purchase of Cathedral Lanes which was completed in late 2014. A much smaller amount of loan support would be available for the next phase of the projects because the current facility does not revolve, so any funds already drawn down and repaid are unavailable to SPG. In turn, this could cause problems with the senior creditor which may be unable to support the project in the absence of the new Council loan facility. This would put a successful city centre regeneration project at risk so this option has not been chosen.

2.2 Consider undertaking the project directly

Another possible option examined at the outset of the project was for the Council to purchase Cathedral Lanes and complete the project without the involvement of a private developer. However, this was not pursued because it would have been a great deal more costly in terms of public finance to acquire the entire shopping centre when compared to providing financial support to cover the viability gap for a private partner. SPG now owns Cathedral Lanes and has shown that it can work successfully with the Council, so this option has been discounted.

3. Results of consultation undertaken

3.1 No consultation of this proposal is required as it relates to a variation of a commercial arrangement between the Council and its existing development partner. However, the next phase of refurbishment work will go through consultation as part of the planning process.

4. Timetable for implementing this decision

4.1 This is a retrospective report.

5. Comments from Executive Director of Resources

5.1 The proposal seeks to vary the terms of an existing loan facility provided to SPG to enable them to successfully complete Phase 2 of the Cathedral Lanes redevelopment.

The revised loan facility permits SPG, subject to a fixed one off draw down arrangement fee, to draw down tranches of money up to the maximum value of the loan, accruing interest at a fixed rate. Interest would be payable in a lump sum on redemption of the balance. The facility has also been extended.

The facility will ensure that SPG can vary the terms of their senior debt, which will in turn make phase 2 of the scheme financially viable and thus more deliverable. Delivery of the scheme will in turn result in an estimated net uplift in business rates of approximately £429,000 per year once complete

5.2 Legal implications

5.2.1. There are various statutory powers available to the Council when considering to make a loan, they are:

- The Council has a specific power to invest under Section 12 of the Local Government Act 2003; and
- The Council also has a general power to make investments/and or a grant under the powers of general competence contained in Section 1 of the Localism Act 2011.

5.2.2. The current proposed transaction is for a “commercial purpose” for the purposes of the Localism Act 2011. Therefore the transaction does not need to be carried out through a trading company.

6. Other 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)?

Further investment into Cathedral Lanes will contribute significantly to the council’s vision as set out in the Coventry Plan. It will support the priority of being globally connected through supporting businesses to grow, creating infrastructure, and raising the profile of Coventry. It will support sustainable growth within the local economy as well as providing local employment opportunities.

6.2 How is risk being managed?

Officers from the Place and Resources directorates will monitor the progress of the project and will have the ability to intervene in line with conditions in the loan agreement.

6.3 What is the impact on the organisation?

There will be no direct impact on staffing resources.

6.4 Equalities / EIA

The Coventry Investment Fund is open to all businesses and investments within the Coventry area and a number of businesses in the Warwickshire area that benefit the residents of Coventry. No equality impact assessment is required as the recommendations do not constitute a change in service or policy.

6.5 Implications for (or impact on) the environment

The refurbishment will complement the significant on-going investment the council is making in the upgrading of the built environment in the city centre.

6.6 Implications for partner organisations?

There are no implications for partner organisations.

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