

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 contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet
Council

9th March 2021
16th March 2021

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration - Councillor J O'Boyle
Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director(s) Approving Submission of the report:

Director of Property Services and Development
Director of Finance

Ward(s) affected:

St Michael's

Title:

Provision of Loan Funding to Support a Key Regeneration Priority in Friargate

Is this a key decision?

Yes – the Decision will result in expenditure of over £1m

Executive Summary:

Coventry City Council has a long-held ambition to realise the delivery of high-quality new hotels within the city. To support the realisation of this ambition, the Council agreed in September 2019 to enter into the necessary property arrangements with Castlebridge to help bring forward a Hotel Indigo within the Friargate area of the city. The Council also agreed funding necessary for infrastructure and public realm provision around the proposed hotel site. As a result of these decisions, the Council has been able to enter into an Agreement for Lease with Castlebridge in relation to the site for the Hotel Indigo.

In order to take forward the construction of the hotel, Castlebridge need to secure the necessary development financing. Their ability to do so has, unsurprisingly, been affected by the COVID-19 crisis over the past 12 months which has had a significant impact on the leisure and hospitality sector as well as all other sectors of the economy. Notwithstanding this, they have a private funding offer which, along with their own equity injection, will fund the majority of the cost of developing out the hotel.

This report is therefore seeking approval to enter into a repayable loan facility agreement with Castlebridge (for an amount that is set out in the private element of this report) in order to fund the development of the hotel. The terms of the loan will be finalised following a comprehensive due diligence process to ensure the Council's position is suitably protected.

Cabinet is recommended to:

- 1) Approve the Council entering into a loan facility agreement with Castlebridge for an amount that is set out in the private elements of this report to be used solely as development finance for the delivery of the hotel in Friargate, Coventry.
- 2) Delegate authority to the Director of Finance (S151 Officer) and the Director of Law and Governance, following consultation with the Director of Property and Development Services, the Cabinet Member for Jobs and Regeneration and the Cabinet Member for Strategic Finance and Resources, to undertake the necessary due diligence and approve the terms of the loan funding agreement and, thereafter, enter into any associated legal agreements that are necessary to give effect to the recommendations within this report.
- 3) Delegate authority to the Director of Finance (S151 Officer) and the Director of Law and Governance, following consultation with the Director of Property and Development Services, the Cabinet Member for Jobs and Regeneration and the Cabinet Member for Strategic Finance and Resources, to manage the loan facility. The authority under this recommendation shall include the power to negotiate and agree subsequent variations to the terms of the loan facility.

Cabinet is requested to recommend that Council:

- 4) Approve a loan for an amount that is set out in the private elements of this report to be added to the Council's Capital programme as appropriate and used to provide a loan facility agreement with Castlebridge for the delivery of the hotel in Friargate, Coventry.

Council is recommended to:

- 1) Approve a loan for an amount that is set out in the private elements of this report to be added to the Council's Capital programme as appropriate and used to provide a loan facility agreement with Castlebridge for the delivery of the hotel in Friargate, Coventry.

List of Appendices included:

Appendix 1 – Hotel Site Plan

Background papers:

None

Other useful documents:

Report to Cabinet 27th August 2019 and Council 3rd September 2019
"Grant of lease on land in Friargate Business District"

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 – 16th March 2021

Title: Provision of Loan Funding to Support a Key Regeneration Priority in Friargate

1. Context (or background)

- 1.1. The delivery of a high quality new four-star hotel is a key priority for the Council, given its tourism, economic development and regeneration ambitions for Coventry. The Friargate area is the ideal location for such a hotel given its adjacency to both the £50m Friargate Two commercial scheme (which will create hundreds of new permanent jobs when completed and let to businesses) and the £80m+ Coventry rail station redevelopment which will transform the key arrival point in the city.
- 1.2. The hotel will be located on the site identified in appendix 1 and has the benefit of a planning consent approved under planning reference FUL/2019/2433 in 2019. The consented scheme will deliver a Hotel Indigo of at least 95 bedrooms with a ground floor restaurant and a 40-cover public bar with external roof terrace area both of which will be accessible to the general public. Subject to the Decisions which are the subject of this report, work on the hotel is expected to commence by Summer 2021 with practical completion expected, and the hotel being fully operational, by early 2023.
- 1.3. Castlebridge is a private development company who have delivered over 20 hotels within the UK and Europe. Examples include Hotel Indigos in Stratford-Upon-Avon and Chester, the Hilton Garden Inn at Birmingham Airport and Holiday Inns in Winchester, Gibraltar and Bilbao Airport. They are currently delivering a further seven hotels on behalf of the InterContinental Hotels Group. Hotel Indigo itself is a chain of boutique hotels and will form part of InterContinental Hotels Group and there are currently 102 Hotel Indigo hotels worldwide. Each hotel has a strong focus on creating an identity that is specific to its local context and that approach will be replicated in Coventry.
- 1.4. The original intention of Castlebridge, following the relevant Decisions undertaken by Cabinet and Council in August and September 2019, was to enter into the necessary lease arrangements with the Council and funding arrangements with private partners, to enable a start on site during 2020. Due to the significant impacts of COVID-19 on all sectors of the regional, national and global economy, but felt with particular force by the leisure and hospitality sectors, Castlebridge have been unable to secure full funding from a private sector partner to fund the development of the hotel.
- 1.5. The current cost of building the hotel is estimated to be £16.1m. Castlebridge have a loan funding offer from a senior funder and will be injecting their own equity funding into the development cost of the hotel (the amounts of which are contained in the private elements of this report). The loan funding being sought from the Council will be a mezzanine funding arrangement which will mean the finance being provided by the Council will act as a secondary charge (behind the senior lender) on any assets (reflecting the lower funding exposure it has). The Council is receiving debt advisory advice from specialist commercial investment consultants to ensure that the terms of the loan are robust, protect the Council's position as a mezzanine funder as far as possible (including any of the terms of an inter-creditor agreement with the senior funder) and reflect what terms available in the funding market. This approach is being taken to ensure that the transaction is being undertaken on an "arms-length" basis (i.e. separate to the Council's property roles as landlord of the site) as well as ensuring that issues of Subsidy Control are mitigated on the basis that the Council will be lending on terms commensurate with the private sector funding market.

1.6. In addition to the debt advisory services referenced above, the Council will also be undertaking further due diligence on the scheme's finances to mitigate risk as far as possible. This includes a review of the hotel's business plan and a valuation of the hotel property by commercial property specialists Savills to ensure that the Council, by way of a second charge on the site and property, is able to recover as much as possible of its loan in the event of a default by Castlebridge. External legal advice will be provided by Gowling WLG in relation to the drafting of the loan funding agreements.

1.7. It is envisaged that the costs associated with the Council's due diligence will be repaid by Castlebridge through the terms of the loan

2. Options and recommended proposal

2.1. Option 1. To not agree to the loan funding necessary for the hotel development to proceed

2.1.1. If the Council were to not proceed with the proposal that is the subject of this report, then it is reasonable to presume that no Hotel Indigo scheme will be brought forward due to Castlebridge not being able to raise the necessary finance. Whilst the Council could look to terminate its current agreements with Castlebridge and seek alternative hotel opportunities on this site, that would lead to significant delay whilst any proposals were forthcoming (which would also need to be the subject of their own due diligence and decision-making processes) and would also provide no guarantee that a high quality four star hotel will be brought forward on the site.

2.1.2. Given the Council's vision for Friargate, its tourism objectives for the city and its economic development ambitions for its residents together with the need to support the post-COVID recovery of the city, not facilitating the Hotel Indigo development would run contrary to the Council's objectives for the city centre. For these reasons, this option is not recommended.

2.2. Option 2. To agree to the loan funding necessary for the hotel development to proceed

2.2.1. To provide the best possible opportunity for the Hotel Indigo to come forward and to help meet the Council's wider economic development, regeneration and tourism objectives for Coventry it is recommended that the option to agree the principle of the loan facility agreement with Castlebridge is agreed. This approach provides the opportunity to provide the following key benefits for Coventry.

2.2.2. Key benefits for the city

2.2.2.1. **Regeneration:** it is anticipated that approximately 40 permanent jobs will be created by the opening of the Hotel Indigo. These include a Hotel General Manager, a Restaurant General Manager, Chefs and kitchen staff, restaurant and bar staff, housekeeping teams and maintenance staff. Castlebridge will aim to recruit locally wherever possible and are committing to work with the Council's Job Shop to help ensure local people are given training opportunities (where required) in advance of the hotel opening to give them the best chance of securing a role.

2.2.2.2. Furthermore, alongside the Two Friargate scheme and the works to transform the rail station, the construction of a Hotel Indigo will help to provide market confidence that Friargate should be a destination of choice for business investment.

2.2.2.3. **Enhancing the city's reputation:** Hotel Indigo is recognised within the hospitality industry as a premium brand that offers a unique hotel experience. This, alongside the proposals for the restaurant and bar (open to the general public) on the ground floor of the development and the close proximity to the train station and areas of high footfall, provides a fantastic

opportunity to deliver a new reputation for the Friargate area of the city. In short, it will create a premium hotel of choice for tourists and investors (enhanced by a “destination” restaurant offer) and help deliver a significant perception change for the city.

2.2.2.4. **Visitor economy:** The Coventry Tourism Strategy 2019-2023 sets out the steps the Council and partners will take to help develop and sustain a thriving visitor economy in Coventry. The strategy makes clear that the city’s ability to capitalise on the visitor economy is hampered through the quality of its accommodation offer and that improving this is key to being able to position Coventry as a destination and a place for city breaks.

2.2.2.5. **Financial:** it is anticipated that business rates of at least £150k per annum will be created by the hotel and restaurant. The £16m+ investment itself in the scheme will also mean that an estimated further 30 jobs will be created during the construction of the hotel and almost £40m of spend in the economy generated. Castlebridge and their contractors will also engage with local schools and colleges to ensure that work experience and apprenticeship opportunities are maximised.

2.2.3. Proposed Loan Funding Agreement with Castlebridge

2.2.4. The terms of the Loan Funding Agreement (including the term, security provisions, interest rate and covenants) will be finalised once all due diligence is completed and on the basis of advice provided to the Council on current market conditions. The Council will ensure that any risk of the loan not being repaid is minimised as far as possible through the relevant legal clauses which will be set out within the agreement. Notwithstanding that, it is important to note that the Council will have a secondary charge on the site behind that of the senior funder.

3. **Results of consultation undertaken**

3.1. No formal public consultation is required for the completion of this report.

4. **Timetable for implementing this decision**

4.1. Subject to Cabinet and Council approval and the completion of the necessary due diligence, it is anticipated that the Loan Funding Agreement will be entered into during Spring 2021. Subject to Castlebridge and the Council discharging all Conditions Precedent in their Agreement for Lease for the site, it is anticipated that construction will commence by Summer 2021.

5. **Comments from the Director of Finance and the Director of Law and Governance**

5.1. **Financial implications**

5.1.1. Details of the financial implications of this transaction are contained in the private elements of this report.

5.2. **Legal implications**

Legal Power

5.2.1 The Council has the necessary legal powers to provide the loans set out in this report. In particular the General Power of Competence under the Localism Act 2011 and section 12 of the Local Government Act 2003 are the relevant powers.

Subsidy Control/State Aid

- 5.2.2 On 24th December the UK and EU reached an agreement in principle with the 'UK-EU Trade and Cooperation Agreement' (UK-EU TCA). On 31st December, the UK government published guidance to assist funding bodies in understanding what international subsidy control commitments and related obligations the UK has as of 1st January 2021. All funding bodies must comply with these obligations when awarding subsidies. Funding bodies must undertake their own analysis on a case by case basis to determine whether their proposed measures breach any of the international obligations.

The Council has commissioned external legal advisors who are working alongside our in-house legal service to assess the proposal set out within this report to ensure that it aligns with the subsidy control principles. Provided that it can be shown that there is no subsidy in the first place, there should be no legal concerns, but this will be verified as part of the external legal advice.

6. Other implications

6.1. How will this contribute to achievement of the Council's Plan?

- 6.1.1. The delivery of the proposal outlined in this report will help deliver a range of economic development, regeneration and tourism objectives that will help to realise the Council's strategic ambitions for a more vibrant and economically prosperous city.

6.2. How is risk being managed?

- 6.2.1. The Council is being supported by an expert professional team to ensure the Council's position will be protected as far as reasonably possible. This due diligence includes commercial advice reviewing the value of the hotel when complete and when operational to ensure that the value of the Council's loan can be covered by the value of the hotel. Furthermore, specialist debt advisory advice will ensure that the loan arrangements are robust and reflect an appropriate commercial position. This comprehensive due diligence will be finalised before any loan funding arrangements are entered into.

6.3. What is the impact on the organisation?

- 6.3.1. The impact to the organisation will be primarily on officers within the Finance and Property Services divisions who will be responsible for undertaking the due diligence and negotiations to conclude the necessary legal documentation.

6.4. Equalities / EIA

- 6.4.1. Section 149 of the Equality Act 2010 requires the Council in the exercise of its functions to have due regard to the need to:
- eliminate discrimination, harassment, victimisation and other form of conduct prohibited under the act; and,
 - to advance equality of opportunity and to foster good relations between persons who share a relevant protected characteristic (age, disability, gender re-assignment, pregnancy and maternity, race, religion and belief, sex, and sexual orientation) and persons who do not share it.

6.4.2. Having regard to the need to advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share it involves having due regard in particular, to the need to:

- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- take steps to meet the needs of the persons who share that characteristic that are different from the needs of persons who do not share it; and,
- encourage persons of the relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

6.4.3. The Equality Duty has been considered and it is felt that an Equalities Analysis is not required as the proposal concerns the potential disposal of land for redevelopment and no Council service or group will be impacted.

6.5. Implications for (or impact on) climate change and the environment

6.5.1. The overall development will be in accordance with the Council's planning policies for sustainable development.

6.6. Implications for partner organisations?

6.6.1. There are no implications for any partner organisations.

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