

CABINET MEETING: 23 JANUARY 2020

TOWN CENTRE LOAN SCHEME APPLICATION APPROVAL

INVESTMENT & DEVELOPMENT (COUNCILLOR GOODWAY)

AGENDA ITEM: 11

Appendices 1 - 4 of this report are not for publication as they contain exempt information of the description contained in paragraphs 14 of part 4 and paragraph 21 of part 5 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To seek Cabinet authority to approve an application for loan funding under the Welsh Government funded Town Centre Loan Scheme relating to the completion of the Coal Exchange development at Mount Stuart Square, Butetown.

Background

2. The Coal Exchange is one of the most important historic buildings in Wales. It was the centre-piece of international coal trade and the heart of Cardiff business community for over 75 years. Recognising its historical and architectural importance, the building is designated a Grade II* listed building. The listing recognises the building as “one of the most historically important commercial building in Wales, illustrating the region’s immense commercial power in the 19th and 20th centuries”.
3. The Coal Exchange building sits at the heart of Mount Stuart Square Conservation Area. Designated in 1980 the Conservation Area contains a high concentration of listed buildings including some of the finest examples of late 19th century and early 20th century commercial properties.
4. During the transformation of Cardiff Bay, the Coal Exchange was owned by the former Cardiff Bay Development Corporation, and then the Land Authority for Wales, and was sold to a private sector company in 1995. Despite numerous attempts to finance a redevelopment of the building, it slowly fell into a state of disrepair and following significant water ingress was deemed to have become a dangerous structure forcing the Council to use its powers under Section 78 of the Building Act to make the building safe in 2014. The costs incurred by the Council were secured in the form of a charge against the building.

5. Following these works the company owning the building went into receivership. Its liquidator disclaimed beneficial freehold ownership of the building as a wasting asset. The building then vested in the Crown, which similarly disclaimed beneficial freehold ownership. Consequently, a bare residual ownership was then held by the Crown in escheat, which imposes no obligation on the Crown to maintain or insure the building. The Council's statutory charge continued to remain in being despite the disclaimers of the freehold.
6. The Council, in order to secure a sustainable long term future for the building arranged discussions with a range of interested parties and the opportunity went to a tender (a process managed by the Council) and after detailed discussions the Coal Exchange was acquired by Signature Group, a private hotel and property group from the North West of England. They were the only party who had agreed to acquire and refurbish the building without requirement of a grant from the public sector towards the works. They also wanted to commence works immediately in order to take advantage of the Business Premises Renovation Allowance (BPRA), an Inland Revenue scheme designed to encourage the refurbishment of vacant buildings in Assisted Areas.
7. Work began on the building following the approval of planning permission and listed building consent in 2016. The Council, with the agreement of Signature Group secured its costs for the Section 78 works against the property as a loan, and this is due to be repaid in Spring/Summer 2020.
8. Signature Group has also acquired other historic buildings in the North of England, particularly Liverpool and commenced a major refurbishment programme to establish a hotel and residential group. Today this group has a turnover in excess of £35 million per annum. However, among the properties acquired by Signature Group, the Coal Exchange has had the most serious structural and development issues and this has been reflected in the current challenges facing Signature Group in completing the hotel within the Coal Exchange building.

Issues

9. Work began on the refurbishment of the Coal Exchange in 2016 and the first phase consisting of 56 bedrooms was opened in 2017. To date, £15 million has been expended: creating 56 bedrooms; refurbishing the Coal Exchange Hall; refurbishing a new bar and restaurant; and undertaking some external stone repair and cleaning. However, further sections of the building need to be refurbished and brought back into use to create a hotel with 173 bedrooms. This will radically improve the financial sustainability of the hotel and the company's projections show that in full operation the completed development would attract a market valuation of around £30m - £35m. In order to complete the refurbishment further funding is required as set out in the funding proposal attached at Confidential Appendix 1. Traditional funders are unwilling to commit to financing a property part refurbished and with a complex set of existing finance arrangements and construction challenges and uncertain profitability (without the additional room revenues).

10. The final phase of development will complete all 173 bedrooms and the exterior of the building would be clear of scaffolding. This will provide a much more attractive proposition for visitors to the building and would bring some normality back to the lives of the residents of the Mount Stuart Square area who have had to live adjacent to a development site for a long period. Once completed, it will provide the opportunity for the owners, Signature Group Ltd, to re-finance the development and repay all existing creditors, including the Council.

The Town Centre Loan Scheme (TCL)

11. The Council has been awarded Repayable Loan Funding by Welsh Government for Town Centre Regeneration (TCL). This scheme has prioritised regeneration schemes in the disadvantaged wards of Butetown and Grangetown and to date awards have been made to the Tramshed (Grangetown); Butetown Railway Station (Butetown); and Merchant Place (Butetown). The aim of the funding is to unlock sites and buildings through the provision of interest free loans over a short period. The loan funding would then be recycled into other schemes prioritised by the Council. A key requirement is that the funding has to be secured.
12. The Council currently has funding capacity available within its TCL fund and has approached Welsh Government regarding the potential to provide a loan to Signature Group to support completion of the Coal Exchange development. The loan will be for circa half of the full amount required to complete the development and will enable the developer to raise the necessary match funding to complete the works. Welsh Government has agreed in principle, subject to the Council's own due diligence and the loan being appropriately secured. Details of the funding proposal are set out in Confidential Appendix 1. Detailed terms and conditions relating to the proposed loan are set out in the offer letter to the Council from Welsh Government relating to the administration of the overall Town Centre Loan Scheme attached at Confidential Appendix 2.
13. As is the case with all TCL applications received by the Council, external due diligence has been sought (see Confidential Appendix 3) along with detailed discussions and negotiations with the owners and Directors of Signature Group. Signature Group believe that the provision of a loan from the Council will give confidence to private sector investors to provide the rest of the funding gap. The loan from the Council will only be provided once the developer is able to demonstrate that the full amount required to complete the works has been secured. Payment of the loan will be drawn-down in phases against completion of works in accordance with certificates provided by independent cost consultants. It has been agreed that the loan from the Council will be secured as a first charge against the Coal Exchange building.
14. Further to the above, Cabinet is being asked to approve a loan to Signature Group subject to the following principal conditions and any others identified in due course as appropriate:

- i) Signature Group is able to demonstrate that the total finance required to complete all of the works set out in the funding proposal is in place.
 - ii) The proposed first charge offered as security for the loan is appropriately secured and legally binding.
 - iii) Payment of the loan will be in phases based on independently verified certification of works to ensure the whole of the loan is used to deliver works on the Coal Exchange building only.
15. A recent report, by Avison Young Hotel and Leisure Consultants (August 2019) on the hotel market in Cardiff highlights:
- “Cardiff has a healthy hotel market with a good volume of properties across different grades. Market occupancy and average daily rates have shown growth over the last few years and demand remains robust.....significant new development is going on across the city and region which will further drive demand in the city “*
- On completion, the Exchange Hotel will be able to offer 173 bedrooms and become a sustainable and profitable investment. The value of the property will significantly exceed the total amount required to be paid to creditors.
16. The scale of the loan exceeds the threshold for delegated officer decisions under the Town Centre Loan Scheme and therefore Cabinet is required to authorise approval of the application.

Scrutiny Consideration

17. The Economy and Culture Scrutiny Committee considered this issue on 16 January 2020. Any comments received will be circulated at the Cabinet meeting.

Reason for the Report

18. To seek approval of a loan application under the Town Centre Loan Scheme to support completion of the Coal Exchange development.

Financial Implications

19. The loan can be made in utilising various tranches of town centre repayable funding received from Welsh Government. It should be noted that any funding received by the Council is repayable. As part of the due diligence, consideration should be given to appropriate security for any loan and the terms and conditions on which funds will be transferred to ensure completion of the works. Processes should be put in place to monitor performance, obligations under existing and revised loan terms as well as risks. Further financial implications are set out in Confidential Appendix 4.

Legal Implications

20. The Council has wide powers under s.2 of the Local Government Act 2000 to do anything which it considers is likely to achieve the promotion or improvement of the economic, social or environmental well-being of its area. This may include but is not limited to the provision of financial assistance by way of loan secured by legal charge over the premises.
21. The Council should undertake a thorough due diligence process to identify any risk in the borrower being unable to repay the loan, and ability to secure match funding to complete the re-development.
22. Legal charges rank in priority in order of the date they are created. Any existing lenders will need to enter into a deed of priority consenting to the Council's charge taking priority as a first legal charge.

RECOMMENDATIONS

Cabinet is recommended to approve the application for a loan under the Town Centre Loan Scheme to support completion of the Coal Exchange development in accordance with the principal conditions set out in paragraph 14 of this report and attached at Confidential Appendix 2.

SENIOR RESPONSIBLE OFFICER	Neil Hanratty Director of Economic Development
	17 January 2020

The following appendices are attached:

Confidential Appendix 1: Funding Proposal
Confidential Appendix 2: Town Centre Loan Scheme Terms and Conditions
Confidential Appendix 3: Independent Due-Diligence
Confidential Appendix 4: Financial Implications