



CABINET – 5TH OCTOBER 2016

SUBJECT: WELSH GOVERNMENT TOWN CENTRE LOANS FUND

REPORT BY: CORPORATE DIRECTOR - COMMUNITIES

1. PURPOSE OF REPORT

- 1.1 To provide an update to Members on the progress and challenges faced in relation to the delivery of the Welsh Government £0.5 Million Rhymney Town Centre Loans Fund.
- 1.2 To advise Members that Welsh Government (WG) have confirmed that their Town Centre Loans Fund currently focused on Rhymney can be extended to include two additional town centres (subject to final approval by WG) with an overview of the options available for expanding the Town Centre Loans Fund.
- 1.3 To recommend to Members which two of the County Borough's main town centres are considered to be best placed to benefit for inclusion in the expanded WG Town Centre Loans Fund.
- 1.4 To inform Members of the recent opportunity presented by WG for local authorities to bid for a share of a further £10 Million funding allocation for the Town Centre Loans Fund and the decision by CCBC not to pursue this funding at this moment in time.

2. SUMMARY

- 2.1 In February 2015 WG launched a new initiative, restricted to towns located within WG's Tackling Poverty Fund areas, offering long term loans to Local Authorities to provide capital funding for key regeneration projects. In October 2015 Cabinet approved the delivery of a WG Town Centre Loans Fund (TCLF) of £500,000 for Rhymney Town Centre, following a successful funding bid submitted by the Council's Urban Renewal Team. The "interest-free" WG loans are available to Local Authorities for a maximum period of 15 years, with loans being recycled every five years until the specified repayment date in 2031.
- 2.2 Despite attempts to progress projects there have been very few opportunities to utilise and recycle the loan funding within Rhymney and other local authorities have also experienced a lack of interest in the loan scheme. Consequently, WG have recently offered local authorities the opportunity to expand the programme. WG have offered the Council the opportunity to expand the TCLF to include two additional town centres.

- 2.3 This report outlines the attempts made to launch the Rhymney TCLF, examines the potential for the expanded TCLF in each of the County Borough's main towns and makes recommendations on the two additional towns that are considered to be best placed to benefit for inclusion in the expanded loan scheme.
- 2.4 In taking account of the WG conditions associated with the TCLF, the level of funding available, potential alternate funding sources and the opportunities within each town centre for the reinvestment of the TCLF funding over a 15 year period, the report recommends that alongside Rhymney, Blackwood and Risca are considered to be best placed to be the Council's focus for the extended TCLF.
- 2.5 The report considers the recent opportunity presented by WG for all Welsh authorities to bid for a share of an additional £10 million allocation under its "2016/17 Town Centre Repayable Funding Scheme" and highlights the fact that senior officers have determined that this opportunity should not be pursued in light of the challenges encountered to date in utilising the current allocation.

3. LINKS TO STRATEGY

- 3.1 The WG TCLF will contribute to the priorities and activities set out in the Welsh Government's VVP regeneration framework and the Council's "People, Business, Places" Regeneration Framework and Action Plan.
- 3.2 The TCLF also links directly to the priorities set out in "Caerphilly Delivers", the Single Integrated Plan for a Prosperous Caerphilly, Greener Caerphilly and Healthier Caerphilly:
- P1 Improve local employment opportunities including access to opportunities across a wider geographical area.
 - P3 Provide support to enable local people to compete for all employment opportunities.
 - G1 Improve local environmental quality.
- 3.3 The TCLF will have a positive impact upon the social, economic and environmental well-being of the town and the community it serves. In particular the loan scheme has potential to contribute to the following goals of the Well being of Future Generations Act (Wales) 2015:
- A sustainable Wales
 - A prosperous Wales
 - A Wales of cohesive communities

4. THE REPORT

Background

- 4.1 On 28th October 2015 Cabinet approved the implementation of a WG Town Centre Loans Fund of £500,000 for Rhymney town centre. The loans provide capital funding to towns located within WG's Tackling Poverty Fund areas for key regeneration projects. Rhymney is

the only town within the County Borough identified within WG's Tackling Poverty Fund which has been the focus for the TCLF. The 0% loans are available to Local Authorities for a maximum period of 15 years.

4.2 The aims, objectives and outcomes of the WG TCLF are:

Aims -

- To reduce the number of vacant, underutilised and redundant sites and premises in town centres.
- To support the diversification of town centres by encouraging more sustainable uses for empty sites and premises, such as residential, leisure and other key services.

Objectives -

- To be used directly by the Council to acquire and unlock sites and premises with the intention of packaging and selling a proposal on the open market within an agreed timeframe.
- To be used directly by the Council to redevelop or refurbish sites and premises within an agreed timeframe.
- To provide loans to third parties for repayment within an agreed timeframe. Eligible applicants may include owners of sub standard properties, e.g. landlords, owner occupiers, charities

Outcomes

- Support Job creation.
- Economic growth.
- Tackling poverty.
- Increase the supply and quality of accommodation on offer.
- Support the vibrancy and viability of town centres.
- Support targeted training and recruitment during construction.

4.3 During the loan period, local authorities are expected to recycle and re-invest the funding every 5 years, ultimately repaying the loan in full to WG at the end of the 15 year period. WG also stipulate that from 1 April 2017, the Council must not retain the funding for longer than six months and must either make arrangements to transfer such underspend to another local authority or repay the residual funding to WG.

4.4 To deliver WG's aims and objectives two themes were developed and approved by Cabinet in October 2015:

A Town Centre Owner Loan Scheme

4.5 An allocation of £300k to return redundant /underutilised properties within a town centre back into beneficial use through repayable loans to property owners. The Council will work with the

property owners to establish uses that will in turn create local jobs. Eligible applicants may include owners of sub-standard properties, e.g. landlords; owner occupiers who pass affordability checks, charities and business owners. The loan repayment period to property owners is up to a maximum five years. The Council is allowed to charge a one off fee of up to 15% of the value of any third party loan, which can be retained, to contribute to the administration and management costs incurred in delivering the Scheme.

Asset Improvement and Disposal Programme

4.6 A budget of £200k has been allocated to this programme which will target local authority owned sites and premises to attract investment from the private sector. The aim is to make sites and premises more attractive to the private sector, reducing the initial financial burden and risk for developers. Such works will encourage economic growth in Rhymney.

4.7 In 2015 only two council owned sites/premises had been identified in Rhymney for improvement under this programme, namely:

- The former Aldi site
- 38b High Street.

Progress to date and challenges faced

4.8 Despite attempts to progress both of the project themes, Officers have concluded that, at present, there are very limited opportunities to utilise and recycle the loan funding within the restricted geographical area of Rhymney. At the time of preparing this report no funding has been committed or utilised through the TCLF programme.

Town Centre Owner Loan scheme:

4.9 Developing and establishing the necessary technical, financial and legal administrative frameworks to support the TCLF and the associated detailed documentation required (including loan application forms, terms and conditions, legal agreements and loan agreements, debt recovery processes) has proven particularly onerous and time consuming in terms of staff resources.

4.10 In May 2016, Urban Renewal Officers carried out a targeted promotional campaign aimed at over 30 properties and identified property owners in the Rhymney area. This proactive targeting of TCLF to potential applicants resulted in only one phone call enquiry being received to date. This lack of response to the potential for a 0% loan is consistent with past experience of slow uptake by property owners within Rhymney when other grant schemes such as the Townscape Heritage Initiative were active in the area.

4.11 Promoting the “attractiveness” of the loan scheme to potential applicants has also proven challenging, in the context of the scheme being a significant departure from the traditional grant-based interventions usually undertaken by the Council in its regeneration areas and in comparison to loans from commercial lenders.

4.12 A similar WG-backed Loan Scheme aimed primarily at residential owner occupiers in Rhymney, is being delivered concurrently by the Council’s Private Housing Team. It should be noted that this Scheme has encountered the same challenges in terms of lack of interest from

potential applicants and the relative complexity of the loan administration process in comparison to established grant schemes.

4.13 *Asset Improvement and Disposal Programme:*

Aldi Site: Initial interest by a Registered Social Landlord has not progressed and after discussions with Corporate Property Services it has been concluded that there is little or no demand for residential, business, commercial or industrial use on this derelict brownfield site. Property Services are currently tasked with marketing the site but due to the prevailing local economic climate there appears to be little prospect of attracting private sector investment interest in the site.

38B High Street, Rhymney: It had been envisaged that internal and external refurbishment works could be undertaken to facilitate the sale of this Council owned property. However it is unlikely that the property's value would increase sufficiently to cover the costs of the required works. The property is also in receipt of Heritage Lottery Funding with associated clawback conditions which makes any scheme unviable at this moment in time.

Welsh Government's opportunity to extend the Loan Scheme to additional towns

- 4.14 With other local authorities experiencing similar challenges in allocating loan funds, WG are prepared to revise the TCLF parameters to ensure that the funding is put to beneficial use within the programme period. On 17th May 2016 WG advised that the TCLF could be extended to include **two** additional town centres (subject to final approval by WG).
- 4.15 WG are not intending to impose any new criteria or conditions and it will be for each local authority to determine the additional towns and the associated town centre boundary within which the TCLF can be made available. Each Local Authority must consider that any additional towns need to have the economic durability to be able to recycle the loan funds every five years over a 15 year period.
- 4.16 Delivering the TCLF in a further two town centres would enable the Council to concentrate on a number of alternative projects to ensure that the initial funding is committed by the deadline date of the 1st October 2017.
- 4.17 CCBC officers have requested that WG consider extending the TCLF to all of the principal towns in the County Borough. Unfortunately WG have insisted that the scheme must be restricted to a total of three town centres, one of which must be Rhymney.

Potential Projects

- 4.18 In order to prioritise the town centres that the expanded loan scheme could encompass, officers have identified a number of potential projects that could be funded through this programme.
- 4.19 A review has been undertaken on each of the main town centres to establish which are best placed to benefit from this programme.
- 4.20 This review highlights there are several opportunities in towns across the County Borough. However, given the longevity of the Loan Scheme programme, the rationale for determining the most appropriate towns has been based on the following criteria:

- A desk top assessment of how the projects align to the specific objectives of the TCLF and the Council's long term regeneration priorities.
- An overview of the current development opportunities within the Council's land and property portfolios with a broad assessment of the sites & premises which would most benefit from immediate investment / investment within the initial deadline of April 2017.
- An assessment of current economic activity within each town centre and its realistic potential to successfully commit loan funding within the initial deadline for residential, commercial or leisure project purposes (i.e. the likely interest in third party loans from local property/land owners, Registered Social Landlords).
- The potential opportunities within each town to successfully recycle the loan funding over a 15 year period.

Synopsis of Town Centre Options

- 4.21 Extending the TCLF opportunity to a further two town centres will increase the potential to utilise the funding to enhance regeneration activity within the County Borough. It should be noted that although the focus will move away from Rhymney if the Council take up this opportunity to extend the TCLF, any initial investment will be recycled at year five. By this time there may potentially be more economic activity and new opportunities in the north of the County Borough subject to progress of the Circuit of Wales racetrack at Ebbw Vale.
- 4.22 As part of this options review, alternative delivery methods for the loan scheme could also be considered. Officers have held initial positive discussions with a number of Registered Social Landlords (RSLs), including United Welsh Housing Association (UWHA), on the potential benefits of the TCLF in a partnership arrangement to support their current Empty Properties Programme, or use it towards the costs associated with new build schemes.
- 4.23 **UWHA have advised that the areas most likely to benefit from their Empty Properties Programme, (which involves them buying properties that have been on the open market for some time, restoring them and then offering them for rent/sale) are Blackwood, Risca and Caerphilly.**
- 4.24 It should be noted that where any part of the TCLF is used to support the build of social housing units, schemes must comply with specific Development Quality Requirements and with WG Acceptable Cost Guidelines.
- 4.25 WG's terms and conditions allow scope for local authorities to procure a third party to manage and administer the loan fund on their behalf. A successful example of this is Rhondda Cynon Taff CBC's "Home-step Loan" Scheme, which is being managed and administered by UHWA.

Individual Town Synopsis

- 4.26 Whilst **Risca** has obtained some large scale investment in the town over the last five years, the progression of the town is largely constrained by the River Ebbw flood issues. As a consequence a number of brownfield sites are currently unviable to develop. Recent flood alleviation works and subsequent assessments have identified a number of sites that have the potential to be developed out. Given the number of sites available to develop in Risca, there is potential to recycle the funding over the full 15 year period. Risca appears well placed to

benefit from the Town Centre Owner Loan Scheme and is an ideal location to roll out UWHA Empty Properties Programme, or contribute funding to a number of Pobl Housing Association's new development opportunities.

- 4.27 **Caerphilly** offers some opportunities to recycle loan funding given its location close to the M4 and Cardiff. However Caerphilly has the potential to capitalise on its proximity to Cardiff and is well placed to benefit from the Capital Region City Deal and the implementation of the Valleys Metro. There is one significant and immediate opportunity for utilising the funding by purchasing the vacant former Specsavers building. However the purchase cost is likely to use up the total available WG allocation of £500,000. Like Risca, both a owners loans scheme and an empty properties programme in association with UWHA have a good chance of success.
- 4.28 **Blackwood** provides an area of opportunity where loan support may be the key to unlocking and developing several key sites within the town. There are a number of immediate projects that could initiate the recycling of funds. Blackwood town centre has one of the highest footfalls in the county borough which demonstrates the vibrancy of the town and opportunities for investment in the town centre. Possibly with the exception of Caerphilly, Blackwood has the best chance of success with an expansion of the Town Centre Owner Loan Scheme and also with the expansion of the UWHA Empty Properties Programme. Pobl Housing Association are very active in the Blackwood area and have identified a number of sites for investment.
- 4.29 **Bargoed** has already seen significant investment by the Council, WG and European Regional Development Fund and although the project is not entirely complete, there is a view that funding should now be directed to other towns that are in need of similar investment. Only one scheme, to enhance the shell conditions of the remaining unit shops in Bargoed is considered to be in a suitably advanced position to commit monies by April 2017. This may not be required if potential tenants are secured over the course of the next 3 months. It is considered that establishing interest in a loan scheme to private owners in Bargoed would be difficult, following the recent Building Improvement Grant initiative recently undertaken in the town.
- 4.30 **Newbridge** currently offers fewer opportunities to benefit from this fund and it is considered that there is limited potential opportunity to be able to re-cycle the loan through the full period of 15 years in this town. The town centre has recently benefitted from a targeted Building Improvement Grant Scheme during the Newbridge Regeneration Programme therefore interest in third party loans may be limited so soon after the recent programme of investment.
- 4.31 **Ystrad Mynach** is very similar to Newbridge in that it currently has few opportunities for investment. It does offer several opportunities for long term strategic investment to align with the current Capital Region City Deal programme, which identifies the Ystrad Mynach corridor as a key site. At present there is limited potential for sites which could offer a return on investment within the initial five year recycling period.

Synopsis Results

- 4.32 Based on the assessment of projects available, particularly those that offer greatest potential to implement the Town Centre Owner Loan Scheme in association with the activities of Registered Social Landlords, and the envisaged opportunities to recycle the funding over a 15 year period, **Blackwood** and **Risca** are considered to offer the most potential.

- 4.33 The Council also retains the option of simply returning its Repayable Funding allocation in the event of an under-spend, subject to written approval from WG. The under-spend would be transferred to another local authority within the programme (This option has been taken up by a number of other local authorities that have been unable to utilise their allocated funding).

WG £10 Million Town Centre Repayable Funding Scheme 2016/2017

- 4.34 On 1st August 2016 WG announced the launch of its “Town Centre Repayable Funding Scheme” for 2016/2017, with a total allocation of £10 Million available to participating local authorities through a competitive process.
- 4.35 The 2016/2017 Repayable Funding Scheme offers local authorities the opportunity to bid for a share of the available £10 Million funding allocation to further support the diversification its town centres within the same criteria and conditions as the existing TCLF, with the funding having to be recycled in regular five year periods and repaid in full after 15 years.
- 4.36 The aims and objectives of the 2016/2017 Scheme are consistent with the current TCLF. The location of the investment can be focussed on up to two key towns/settlement areas, one of which must be the initial settlement area of Rhymney. WG has been advised that the second area must be one of the two additional town centres identified in any case for expansion.
- 4.37 The deadline for funding applications was the 9th September 2016 with a decision on approvals expected by late October 2016.
- 4.38 Applications were invited from all Welsh local authorities and not restricted to those participating in the current programme, therefore there is likely to be significant competition for the available funds.
- 4.39 Officers have given careful consideration to the merits of applying for additional funds in this more competitive environment and also within the context of the difficulties and challenges faced to date in utilising the existing TCLF allocation. There is a strong case to be made that the timing of this opportunity is far from ideal in light of the difficulties encountered in establishing the current scheme. A more prudent option would be to focus resources on successfully utilising the existing allocation of £500,000 before any bid for additional funding is considered.
- 4.40 This view has been reinforced and supported through the various consultation responses to this report. It should be noted that the Council already benefits from favourable borrowing terms without many of the administrative and geographical restrictions imposed by the WG’s TCLF programme. Members are therefore asked to note the decision not to pursue this additional funding.

Risks & Benefits of the Repayable Funding Scheme

- 4.41 There are inherent risks with loan funding from the Welsh Government and also to third parties. These risks will be minimised with robust administrative and financial protocols put in place to manage and govern the scheme. However, the following table highlights the main risks associated with schemes of this nature, in addition to the anticipated benefits.

RISKS	PROPOSED MITIGATION MEASURES
<ul style="list-style-type: none"> ▪ <u>Risk of default</u> on loan repayments by third party applicants ▪ Anticipated purchase price of sites/ premises may not be realised affecting ability to repay loan ▪ <u>Lack of take-up in loan scheme</u> ▪ The current state of the commercial property market and local economy conditions may deter take up by local property or land owners ▪ Scheme compares unfavourably to traditional loans offered by commercial lenders ▪ Minimum Revenue Provision & Financial charges incurred by the Council in “servicing the loan” ▪ Difficulty in generating interest from third parties in loan scheme in comparison to previous short term grant scheme initiatives ▪ Impact on staff resources required to administer and manage the scheme over a long term period 	<ul style="list-style-type: none"> ▪ Robust affordability and credit rating checks on all loan applicants ▪ Stringent monitoring of debtors ▪ Risk of default will be shared equally between the Council & Welsh Government ▪ Loan to property value ratio ▪ First / Second property charges ▪ Local Land & Legal Charges ▪ Default fees ▪ Higher intervention rates and flexible repayment terms may entice interest ▪ Loans will be interest free (but subject to a one off administrative fee) ▪ Administration fee offers an opportunity for income generation to cover the costs of managing the scheme ▪ Council may retain 50% of any funding surplus or profit at end of loan period ▪ Return the repayable funding allocation in its entirety to WG.
BENEFITS	
<ul style="list-style-type: none"> ▪ Broad funding criteria allows the Council to utilise the repayable funding for a variety of purposes; including investing in its own sites and premises or offering third party loans to help diversify its town centres. The repayable funding can also be used on residential, commercial, leisure and other key services ▪ 15 year repayment period allows the Council to align funding with long term regeneration priorities for its town centres and other sites ▪ Opportunity to continually recycle funds over a five year period and reinvest into key local projects ▪ Council may retain 50% of any funding surplus or profit at end of loan period ▪ Risk of default on loan repayments shared equally with WG ▪ Administration fee offers an opportunity for income generation to cover the costs of managing the scheme ▪ Innovative loan funding may help initiate an important cultural shift from historical dependency on grant assistance in the Council’s most deprived areas 	

5. EQUALITIES IMPLICATIONS

5.1 There are no direct equality implications to this report.

6. FINANCIAL IMPLICATIONS

6.1 CCBC's Finance team has advised that the Town Centre Loans funding is subject to Minimum Revenue Provision (MRP) which is a statutory annual charge to the Council's debt charges budget. This charge currently amounts to 4% of the total funding drawn down. i.e. an annual charge of £20k based on maximum funding draw down of £500k. The charge is applicable to both approved loans and any balance held by Caerphilly CBC pending approvals. The Interim Head of Corporate Finance has indicated that this charge can initially be absorbed within the debt charge budget but that this will need to be reviewed if the full funding allocation is utilised.

6.2 There are costs associated with the administration of processing loan applications by the Council but, under the terms of the programme, this can be offset by charging an administration fee of up to 15% of the loan value. In the case of CCBC it is likely that the administration costs are likely to be circa £1,000 per application which will be passed onto the applicant. This does not presently account for Finance staff input who propose dealing with the additional workload under core business. However the level of applications will be monitored and if there is an uplift in the number of loans being processed this position will be reviewed.

7. PERSONNEL IMPLICATIONS

7.1 The management, monitoring and administration of the TCLF will require input from various sections of the Council. The Urban Renewal team will take the lead co-ordination role but support from both Legal Services and Corporate Finance will be required to effectively administer the scheme.

7.2 The Council is required to establish a "Loan Board" which will be responsible for the Fund locally and to act as the final decision maker and the monitor of all transactions which uses the Repayable Funding. It is anticipated that the membership of the Board will consist of Senior Officers and Members and that the Board will meet at least on a quarterly basis.

8. CONSULTATIONS

8.1 The comments from consultees have been included in the report.

9. RECOMMENDATIONS

- 9.1 That Members note the content of the report.
- 9.2 That in addition to Rhymney town centre, Blackwood and Risca town centres are to be the focus of the Council's activity in relation to the existing WG Town Centre Loans Fund.
- 9.3 That Members agree to officers explore the options presented by working in partnership with Registered Social Landlords to develop potential projects for the TCLF.
- 9.4 That Members note that the opportunity to bid for additional funding from the 2016/2017 "Town Centre Repayable Funding" Scheme has not been pursued but alternatively efforts are being focussed on the existing allocation and its expansion to two additional town centres (subject to agreement with 9.2 above).

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To enable the Council to expand the boundaries of the WG Town Centre Loans Fund and increase the programmes chances of success.

11. STATUTORY POWER

- 11.1 Sections 70 and 71(1) of the Government of Wales Act 2006 and sections 126-128 of the Housing Grants, Construction and Regeneration Act 1996.

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Appendices:-
None

Background Papers:-

- (i) Cabinet – 28th October 2015 Rhymney Town Centre Loans Scheme