

LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 8 March 2019

Authority/Authorities Affected: Sefton

EXEMPT/CONFIDENTIAL ITEM: Not in respect of the Report and Appendix 1.

Appendices 2 to 4 are Exempted by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

REPORT OF THE DIRECTOR OF COMMERCIAL DEVELOPMENT AND INVESTMENT AND THE PORTFOLIO HOLDER: INCLUSIVE GROWTH, ECONOMIC DEVELOPMENT, DIGITAL AND INNOVATION

LIVERPOOL CITY REGION STRATEGIC INVESTMENT FUND – MERSEY REACH

1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to seek a Combined Authority approval to amend the terms and amount of finance provided by the Strategic Investment Fund to support the Mersey Reach project.

2. RECOMMENDATIONS

- 2.1. It is recommended that the Liverpool City Region Combined Authority:
 - (a) Rescind the decision made by the Combined Authority at its meeting on 4 July 2017 in relation to the Mersey Reach SIF application (minute 40 resolution (ii)) which was as follows:
 - “RESOLVED – That the Full Business Case in relation to the Mersey Reach project and the award of Single Investment Fund grant support in the maximum sum of £1,144,662 be approved.”
 - (b) Approve the replacement of the previously approved grant with a repayable, commercial loan to the maximum value of £4,512,500. This loan will be made to Chancerygate (Aintree) Ltd (“the Borrower”) and will be a 50% share of a £9,025,000 loan to be made jointly with the Chrysalis Fund.
 - (c) Grant authority to the Head of Paid Service and the Director of Commercial Development and Investment to finalise negotiations of detailed terms of the

loan funding and associated agreements in consultation with the Combined Authority Monitoring Officer and Combined Authority Treasurer.

3. BACKGROUND

- 3.1. The Mersey Reach project is for the reclamation of a 5 hectare site (the former Peerless Edible Oil Refinery) bounded by Dunnings Bridge Road, Heysham Rd, Sandiways Avenue and Lunt Avenue and the construction of 110,800 sq ft of speculative and bespoke floor space, together with petrol station and coffee shop. A schematic of the proposed development is set out as Appendix 1.
- 3.2. The Combined Authority approved on 14 July 2017 (Agenda Item 7) the award of a grant to the maximum value of £1,144,662 subject to certain conditions set out in Appendix 2 to the report then set out, including specifically, that the grant should reduce once actual costs were established. Application of such conditions subsequently reduced the awarded proposed grant to £949,289.
- 3.3. The Chrysalis Fund (“Chrysalis”) has been working with the project Sponsor (Chancerygate Ltd, the ultimate parent company of the Borrower) to provide debt finance to support the construction of the proposed facilities. As a result of limitations to the amount of funding Chrysalis can provide, as a result of the resources available and restrictions on proportion of project cost, the Sponsor and Chrysalis have jointly requested the LCRCA replace the grant with a 50% share of a commercial loan of £9,025,000. The proposed LCRCA share thus being £4,512,500.
- 3.4. Such change in award will allow:
 - The Combined Authority to recoup its investment in the project with interest; and
 - Allow the Sponsor to potentially invest in 2 further projects in the City Region. Such further projects would not be contractually guaranteed by either party.

Chrysalis Fund

- 3.5. The Chrysalis Fund is the City Region’s £35 million Urban Development Fund. It originally received its funding from the 2007-2013 European Regional Development Fund for the North West under the Joint European Support for Sustainable Investment in City Areas (“JESSICA”) programme.
- 3.6. The fund was novated to the Liverpool City Region Combined Authority in March 2017 although is managed independently on its behalf. Its objectives are to:
 - Facilitate the delivery of urban development projects that support employment creation and economic growth in the Liverpool City Region;
 - Fund projects that fall outside the normal parameters of mainstream criteria, e.g. those which fail to attract commercial finance or whose performance and outputs will be improved through Chrysalis participation; and
 - Maintain a sustainable source of recyclable finance for the benefit of the Liverpool City Region, including cooperation with grant funders to minimise the grant component required to progress eligible projects.

- 3.7. The Combined Authority has worked closely with Chrysalis on developing and agreeing the terms of the loan and the legal documentation.

4. KEY TERMS AND CONDITIONS OF LOAN

- 4.1. The Combined Authority in conjunction with Chrysalis has negotiated terms of the commercial loan. Detailed legal agreements are significantly progressed to conclude the loan, subject to authority being granted by the LCRCA. This includes both interest and fees which will be payable as well as security arrangements to minimise the risk and impact of any default (inability to repay).
- 4.2. Detailed Heads of Terms in respect of the loan are attached as Appendix 2 and are summarised below.

Interest and Fees

- 4.3. The following terms and conditions apply
 - 4.3.1. An interest rate set a fixed amount (“the Interest Margin”) above European Union Base Rate (currently 1.09%) as set out in Appendix 2 (“*Interest Margin and Fees*”). The EU Base Rate is published monthly, and the final interest rate will be fixed on entering into the loan on the basis of the EU Base Rate extant at that time. The total rate payable thus being the EU Base Rate plus the Interest Margin.
 - 4.3.2. An arrangement fee being a specified percent of the total loan facility (“Arrangement Fee”) less a fee payable to Chrysalis in respect of their costs incurred. This is set out in Appendix 2 (“*Interest Margin and Fees*” and “*Chrysalis Fee*”);
 - 4.3.3. A commitment fee as set out in Appendix 2 (“*Commitment Fee*”). A Commitment Fee is payable in respect of that part of the loan which has been made available but has not been drawn at any time. This is a standard element in commercial loans.
- 4.4. Combined Authority officers and Chrysalis are of the view this is in line with market conditions.
- 4.5. The Combined Authority will earn both interest and fees over the duration of the loan. However the precise amount will depend on the exact amount the borrower requires and the actual date funds are required and the date of repayment in accordance with paragraph 4.6. The estimate of interest and fees earned is set out in Appendix 2 (“*Estimated Total Interest and Fees Earned*”)

Repayment

- 4.6. The Borrower will be required to repay the loan together with any outstanding interest on the earlier of:
- The sale or refinancing of the Facilities post construction;
 - 3 years from entering into the Loan (approx. April 2022).
- 4.7. Until the loans are repaid in full, the Borrower will not be able to pay a dividend or otherwise take payment/release cash from the project.

Security Features

- 4.8. In order to minimise the risk of non-repayment, the Combined Authority and Chrysalis will benefit from market standard security features. The main aspects of this are:
- 4.8.1. The Borrower will invest an initial upfront amount in the development of the facilities. This is set out in Appendix 2 ("*Sponsor Contribution*") Apart from an advance element of the loan respect of the land, the Borrower's money will need to be spent prior to any loan from the Combined Authority/Chrysalis. This should mean the value of work undertaken will always significantly exceed the amount lent.
- 4.8.2. Chancerygate Ltd (the Borrower's ultimate parent company) will provide corporate guarantees in respect of repayment of the loan and in respect of funding any cost overruns. As at 31 March 2018, the last date for which public accounts are available, Chancerygate Ltd had net Assets of £56 million and this guarantee is therefore considered to be strong.
- 4.8.3. GVA Grimley have independently valued the developed site including an already agreed sale of the proposed petrol station and coffee shop to an experienced forecourt operator (Appendix 2 "*Petrol Station Purchaser*"). This valuation report is attached as Appendix 3.
- 4.9. Whilst no loan can be considered to be risk free, the risk of default is considered to be low. The security arrangements have been reviewed on behalf of the Combined Authority and Chrysalis by GVA Grimley who have confirmed that the terms of the loan are in line with market conditions.

5. INVESTMENT PANEL

- 5.1. The proposed arrangements set out in this report were considered by the Combined Authority's internal investment panel on 24 January 2019. It considered both the terms of the loan and a revised assessment of the economic impact of the project undertaken by Amion Consulting. This showed an improvement in the key value for money indicator resulting from the expectation that the Combined Authority will be repaid in full. This assessment is included as Appendix 4.
- 5.2. The Investment Panel endorsed the project and the revised arrangements.

6. RESOURCE IMPLICATIONS

6.1. Financial

The Combined Authority Treasurer has confirmed that the proposed funding request can be accommodated as part of the overall Strategic Investment Fund allocation.

6.2. Human Resources

The Investment Team and Legal Team will lead the negotiation of the Loan Agreement and the Programme Management Office will have responsibility for managing the delivery of the Combined Authority's investment.

The Chrysalis Fund will act as the Agent, based on their experience, in respect of the loan on behalf of both parties. The Agent acts as the interface between the Borrower and Chrysalis/Combined Authority as lenders ensuring that the Borrower is acting in accordance with the loan conditions.

6.3. Physical Assets

The physical assets to be created by the project are fully detailed in this report.

6.4. Information Technology

The approval of funding will not give rise to Information Technology issues.

7. RISKS AND MITIGATION

7.1. The key risk in respect of the project is that the Borrower will be unable to complete the construction of the Facility or once completed unable to sell and repay the loans.

7.2. Construction risk is mitigated by requirement for the Borrower to enter into a fixed price construction contract which includes retentions and bonding provided by the contractor. Any loan against the construction will be subject to legal advisors and technical consultants' confirmation that this contract is satisfactory and in line with market norms.

7.3. Repayment risk is mitigated by the security features of the loan described in paragraph 4.7 of this report.

8. EQUALITY AND DIVERSITY IMPLICATIONS

- 8.1. Equality and Diversity implications are considered as part of the appraisal process in accordance with the LCRCA's Investment Strategy.

9. COMMUNICATION ISSUES

- 9.1. All projects approved will be subject to the Combined Authority's branding guidelines and publicity requirements placed upon them as part of the Lending Agreement. In addition the Combined Authority will, through its adopted communication protocols, publicise the award of funding to the projects and the associated envisaged outcomes.

10. CONCLUSION

- 10.1. This report presents the revised Loan Funding arrangements in respect of the Mersey Reach project and gives approval to the Head of Paid Service and Director of Commercial Development and Investment to proceed with the finalisation of the lending agreements.

MARK BOUSFIELD

Director of Commercial Development and Investment

COUNCILLOR P DAVIES

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Appendices:

1. Schematic of proposed development

The following appendices are exempted for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

2. Heads of terms for proposed loan
3. GVA Grimley Valuation Report
4. Revised economic analysis

Background Documents:

1. Combined Authority Report, 14 July 2017 (Agenda Item 7)