A CINEMA FOR LICHFIELD DISTRICT

Leader of the Council

Date:	11 October 2022
Agenda Item:	6
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Key Decision?	**YES**
Local Ward	All Wards.

Lichfield district council

CABINET

1. Executive Summary

1.1 This paper proposes a significant financial investment by the council in its role as place-shaper for our district, to spark the regeneration of the site known as 'Birmingham Road', adjacent to the district council house in the centre of Lichfield city.

1.2 It seeks Cabinet support for the creation of a joint venture partnership with Evolve Estates (owners of the Three Spires Shopping Centre) through which a new cinema and associated food and beverage (F&B) units will be developed.

2. Recommendations

2.1 That Cabinet agree and recommend to full Council that:

a) Lichfield District Council enter a joint venture Limited Liability Partnership (LLP) with Evolve Estates (subject to any issues identified in relation to financial standing and independent valuation of the Debenham's building being satisfactorily addressed) for the purposes of developing a new cinema and associated food and beverage units in the former Debenhams store on the Three Spires retail site.

b) Delegated authority be granted to the Leader and Chief Executive Officer to finalise the details of the LLP in consultation with the Monitoring Officer and S151 Officer subject to financial implications remaining within the budget framework recommended for approval below.

c) To approve the Leader and Chief Executive being the Council's representatives on the LLP board.

d) The Medium-Term Financial Strategy is updated to include:

- A budget in the Capital Programme for the Joint Venture loan advance totalling **£5,349,000** (including £400,000 being funded by the UKSPF).
- To fund the capital investment through UKSPF funding of **(£400,000)**, the capital receipt from the sale of Venture House of **(£850,000)** (an increase from the Review of Reserves Report recommendation of (£650,000) and the strategic priorities earmarked reserve of **(£4,099,000)**.
- A BRS enabling works budget of **£1,070,000** (a reduction from the Review of Reserves Report recommendation of £2,000,000) funded by the strategic priorities earmarked reserve of **(£1,070,000)**.
- At this stage, the Revenue Budget will be based on a budget neutral (no surplus or deficit is included) position until the projections included in this report have been reviewed. Any

future changes following independent review will be reported in line with the Council's budget monitoring and any budget approvals will be in line with the budget framework.

3. Background

3.1 The importance of local government as 'place shapers' has been understood for decades but was most recently underlined and articulated by Sir Michael Lyons in his inquiry into the sector in 2007 where he addressed our role, function, and funding. He called for us to help improve satisfaction and prosperity of local areas through 'the creative use of powers and influence to promote the general well-being of a community and its citizens'.

3.2 In the context of this paper, delivering 'place shaping' responsibilities requires the council to shift away from a focus purely on delivering our day-to-day services, which of course remain important, to become an organisation that understands its role and relationships within our local communities – becoming a partner and enabler and working alongside other public and private institutions and organisations, using resources (including money) judiciously to make things happen for our communities where they otherwise would not.

3.3 This paper introduces a proposal for the council to enter a commercial arrangement with a private sector organisation to deliver a long-standing 'place shaping' aspiration, identified in the city centre Masterplan and Zoning Plan, to develop and operate a cinema and associated F&B activities for the benefit of the entire district.

3.4 The councils' Lichfield City Centre Masterplan 2020 is an important document that aims to shape the future growth of the city centre, set out opportunities for enhancing the quality of environment, the range of different uses on offer, and provide a prospectus for investment in Lichfield. While the council believes elements of it have evolved since its inception, the Masterplan is still considered to be a key means of enhancing what is already a strong and vibrant city centre, and its adoption demonstrates the importance of the city centre as an asset for residents, visitors, those who work in the city and residents across the district.

3.5 The Masterplan states that the Birmingham Road Gateway Site (BRS) is the most significant development opportunity in the city centre aimed at supporting & providing a vibrant mix of uses. With the intention for it to be reconfigured to provide a new city centre quarter, one that enhances the experience of arrival into the city centre by all modes of transport and introduces a new mix of leisure (a new cinema together with restaurant uses), residential, and commercial development opportunities to Lichfield.

3.6 The Debenhams building sits adjacent to BRS and provides an opportunity to deliver on these ambitions, especially the recommendation for a cinema with associated food and beverage units.

3.7 Three options have been considered to ignite regeneration on this important site:

Option	Description
Option 1	**Leave to** the market – i.e., do not directly intervene but do what we can to encourage the market to invest the district.
Option 2	Intervene **in place of** the market and directly fund the full cost of the development – i.e., identify a site and raise investment required to develop a scheme and operator
Option 3	Intervene **with** the market and jointly fund the development – i.e., identify a partner and jointly locate a site, raise investment, and develop a scheme.

3.8 Option 1 is the 'do nothing' option. Options 2 and 3 are similar, in that the council is required to intervene to make a cinema a realistic prospect. However, jointly developing a cinema – through a joint venture company – with a commercial partner significantly reduces risk, cost to the public purse and uncertainty. Working with a commercial party provides access not only to funding but also to the key skills required to deliver the cinema and associated activities which the council does not have in-house.

3.9 The place shaping opportunity this offers cannot be understated. As set out above, the council has a clearly stated and strong desire to bring forward the regeneration of the BRS site after a number of previous attempts. The council's plan for the regeneration of this part of the city centre includes the development of a cinema and food and beverage units. It also begins to improve access to the Three Spires retail centre by 'punching through' from the BRS site to the former Debenhams store site (phase 1b), to increase footfall to/from Three Spires and link its more directly to additional food and beverage outlets, high quality office and residential accommodation, increasing the attraction of this part of the city.

The Proposal

3.10 The proposal is based on option 3 above, to enter a joint venture between Lichfield District Council (LDC) and Evolve Estates (EE), the owners of Three Spires shopping centre. The joint venture will fund, through loans provided by both organisations, the refurbishment of the previous Debenhams store to create a multi-screen cinema and multiple F&B units.

3.11 This opportunity has arisen principally because of the change of ownership of the Three Spires Shopping Centre and early engagement with the new owners, EE, over theirs and the council's ambition for the city centre. Engagement led to a conversation about the old Debenhams store, and the difficulty in letting the store as a single unit, alongside our desire to enable a cinema. We agreed to investigate the potential to jointly invest in converting the retail unit into a cinema, through shared ownership of the entity that would bring it forward.

3.12 This option learns lessons from the previous attempts to regenerate this site where the council has sought a single developer, capable of delivering all elements of the regeneration – albeit with a balance which favours achieving maximum return on their investment over the place shaping ambitions of the council. Our preferred approach now is to bring forward regeneration of the site in zones, with potentially multiple developers rather than one. For this proposal, in this first zone of activity, the council in partnership with EE becomes the developer. EE is an organisation we have identified which has shared objectives and common aims – to help ensure a vibrant city and increased footfall which will benefit the rest of the city.

3.13 A well-known, small but high-quality cinema operator has been identified and will enter a 25-year lease for the cinema space and fund 50% of the cost of refitting that space to create the multi-screen (up to 5) offering - a mixture of small (up to 48 seats) and large (up to 120 seats) screens.

3.14 Alongside the cinema, a range of F&B units (5 – 6 in total) will be created. Discussions have commenced with 20 - 30 F&B providers, from which the joint venture will select those which add most value to the cinema operation **and** our existing, well-established independent restaurants in the city. Both parties in the joint venture are clear, key to this proposal is that new F&B outlets complement the existing offer in the city.

3.15 Due diligence has been undertaken by both parties to establish whether there is a fit from an ambition, skills, and cultural perspective. EE purchased Three Spires earlier this year with an ambition to ensure the shopping centre remains a viable and thriving part of the district economy. It is essential to the success of Three Spires that the council's regeneration ambitions are brought to life. This very clearly matches with the council's ambition for the area. Evolve also bring key skills to the table, as a partner, which the council would otherwise have to procure separately. They have delivered several similar schemes in the past, have a solid understanding of the cinema and F&B markets and are able to apply strong commercial nous to the arrangements with potential commercial leases.

3.16 The council is seeking to be a more commercially minded organisation. It recognises the strengths it can bring to the proposed arrangement and believes EE fits in terms of providing the skills we lack to achieve our place shaping ambition.

3.17 The parties to the joint venture have discussed two potential phases to their activity:

1. Phase 1a – this includes the redevelopment of the former Debenhams store into a cinema with associated F&B units. Detailed financial costs have been developed for Phase 1a.
2. Phase 1b – is a shared ambition to extend the span of activity to deliver more regeneration on the BRS. This would start with providing a small (up to 50 spaces) replacement car park in the location of the existing multi-storey car park. A further stage, subject to a full business case, could see the joint venture bringing forward additional F&B and high-quality office accommodation alongside the new, replacement car park. Phase 1b's full footprint, were it to go ahead, would include the site of the current multi-storey car park and a number of the adjacent retail units on Three Spires.

3.18 **This report deals only with Phase 1a**. The proposal is for the full cost of this initial phase to be funded on a 50%/50% basis by the two parties. EE will sell the Debenhams site to the joint venture with full rights to its management. EE will also loan an amount of cash to the joint venture partnership to fund the cinema and F&B units fit out. The council will match the EE investment with the loan an equivalent amount of cash to the joint venture for the same purposes.

3.19 Phase 1b plans will be further developed and costed through a comprehensive business case for Cabinet and full Council to consider in the first half of 2023.

Commercial terms of the joint venture

3.20 Key principles for the joint venture have been agreed between the Council and EE, subject to both Cabinet and full Council's agreement:

- The joint venture will be held on a 50/50 basis between LDC and EE.
- The joint venture will be a limited liability partnership (LLP).
- Each party will have the same rights attaching to their shares or interest (income, capital, and voting).
- Each party will have the same number of directors on the board.
- To ensure that all decisions are made by both parties, quorum will require at least one LDC and one EE director at meetings.
- Decisions of the company will require unanimity of all directors present at a board meeting.
- The Board will be Chaired by an LDC representative.
- Roles and responsibilities for each party to the joint venture (HR, accounting etc) will be mutually agreed.
- Some matters will be too significant for the Board representatives to approve so will be escalated for Shareholder/Partner resolution – these arrangements will be defined.
- Deadlock arrangements will be confirmed for dispute management
- Each party will be restricted from transferring their interests in the joint venture without the prior consent of the other.
- Each party will be able to exit the joint venture after a minimum period. The other party will have a 'first option' to purchase the other's shares where this happens.
- The refit of the former Debenhams store will be achieved as swiftly as possible.
- The cinema and F&B units will be pre-let / agreed to ensure minimal delay in income to the joint venture.
- Rental / operational income (i.e., net income after operating costs) from the operation of the cinema and F&B units will be shared between the two parties to the joint venture.

- The council agrees that EE will ‘draw down’ repayment of its investment faster from operational income than its own loan. That is, the split of operational income will be set to enable that to happen. Once EE has recouped its repayment, the income split will then adjust in favour of LDC to enable it to achieve repayment of its loan. Once both parties have achieved repayment of their initial investment, then the split of income generated will revert to 50%/50% ongoing.

Who are Evolve Estates Ltd

3.21 Evolve Estates are part of the M Core group of businesses. A brochure setting out the background, structure and value of M Core is attached at Appendix A. M Core is an established, highly profitable family business of property investment and management companies. Its interests include:

- Retail – local convenience, high street shops, retail parks and shopping centres.
- Industrial and warehouse units.
- Residential – high quality, refurbished and new build units.
- Offices – high specification, multi-occupancy, small, serviced offices, including on upper floors of retail developments.

3.22 EE specialises in strategic planning, regeneration, and active management of centres across the UK and works in partnership with Sheet Anchor Properties Limited, one of the other group of businesses under the M Core group. The partnership company is called Sheet Anchor Evolve Limited (purchasing vehicle). Sheet Anchor is a private company owned by the MacDonald-Hall family with investment assets of £765m. The MacDonald-Hall family are also ‘co owners’ of London and Cambridge Properties which is one of the largest privately owned property companies in the UK and France, owning £4,600m of assets across the UK, France, Germany, and Poland.

3.23 For their part, EE has a portfolio value exceeding £300m. Some recent Evolve Estates transactions are listed below:

Swanley, Town Centre	£10.9m
Killingworth, Shopping Centre	£8.7m
Halifax, Woolshops Centre	£13.4
Tonbridge Wells, Calverley Rd	£21.65m
Dorking, St Martin’s Walk	£14m
Derby, Park Farm	£10.45m
Maghull, Central Sq.	£11.8m

Why a Limited Liability Partnership (LLP)

3.24 In deciding to enter the joint venture with EE, the council must ensure it has taken due consideration of the reasons why it is choosing to do so and must have followed a process of due diligence. To support achievement of these objectives, the council appointed Trowers and Hamlins (T&H) to provide legal advice, Price Waterhouse Coopers (PWC) for taxation advice and Townsend and Renaudon (T&R) for quantity surveyor and asset valuation advice.

3.25 T&H set out the legal implications of using a Limited Liability Partnership (LLP) – instead of a limited company as the joint venture vehicle. They recommended this would be the most appropriate entity for the council to utilise (Appendix B - Confidential). An LLP is a corporate entity in which two or more partners agree to go into partnership with a view to making a profit or for place shaping purposes.

3.26 LLPs are incorporated under the Limited Liability Partnership Act 2000. Essentially, an LLP is a business entity that combines limited liability for partners with the relaxed internal regulation of a traditional partnership. LLPs are regulated by legislation in the same way as a company and must file accounts and details of membership with Companies House. To create the LLP, it will be necessary to enter into a binding partnership agreement with EE. This commits both parties to obligations in terms of establishing appropriate management and decision-making structures. The management and decision-making structures are set out below under governance arrangements.

Governance arrangements

3.27 The council must satisfy itself the new corporate structure, the joint venture, meets its governance requirements. Appendix C sets out the governance considerations we must consider, and next stages subject to approval being given to establish the joint venture as an LLP. The next stages are likely to involve; due diligence, consideration and draft legal documents including the Partnership Agreement, incorporation of the LLP, inaugural meeting of Partnership Board and initiation of projects.

Financing the Joint Venture

3.28 The Joint Venture is based on the principle of a 50:50 sharing of costs, income, risk, and benefits. This principle is therefore applied to the financing mechanism for the joint venture negotiated between the Council and EE. The financing mechanism is explained further below:

- The ownership of the former Anchor Store asset is transferred to the Joint Venture.
- The assessed value of the asset is matched by an initial financial contribution from the Council.
- The capital investment budget to convert the asset is agreed by both parties.
- Capital investment in excess of the initial financial contribution from the Council will be shared on a 50:50 basis.

3.29 The level of investment required by the Council based on the latest budget and utilising this financing mechanism is included in the financial implications section.

3.30 The Council's financial contribution will be for capital investment by the Joint Venture and therefore it will need to be included in the Capital Programme as a capital loan advance.

3.31 The capital loan advance to the Joint Venture will need to comply with subsidy control requirements.

3.32 The Council's Balance Sheet will also need to account for the Council's investment in the Joint Venture.

Tax advice and implications

3.33 The council commissioned tax advice from T&H with the primary consideration being whether the council should invest into a Limited Liability Partnership joint venture with EE or invest in a Limited Company joint venture with EE.

3.34 Their advice is provided in full at Appendix D – Confidential.

Construction cost evaluation

3.35 The council has appointed Townsend and Renaudon who are Chartered Surveyors to advise on this activity. They carried out independent evaluations for the cost proposals provided by EE. This includes an evaluation of the construction and fit out costs for a cinema in the Debenhams site, a valuation of the capital asset (Debenhams building) to be incorporated into the joint venture and a valuation comparator (index linked) for a previous cinema scheme that was being proposed on the BRS site.

Construction and fit out cost –

3.36 Building Cost Information Service (BCIS) for Construction Data, as set out at Appendix E – Confidential.

Asset valuation

3.39 EE has proposed an asset value for the Debenhams building (see financial implications section), calculated using the most up to date rental income figures multiplied by the number of years of the joint venture agreement, which is industry standard and highly likely to be accurate.

3.40 The council, through its required due diligence process, has appointed T&R to complete an independent valuation process to validate this value. This is fundamentally important to the partnership proposal because the asset value is being used as part of EE's contribution into the joint venture as opposed to a cash equivalent. A verbal update on the outcome of this independent review will be provided to Cabinet.

Comparison with previous cinema options

3.41 The original Master Plan and Zoning Plan assumed a cinema would be developed on the BRS site, as a new build. The alternative to jointly developing a cinema / F&B unit in the former Debenhams store is to go back to that new build, either at the same location, or on the BRS site proper, at the multi-storey car park site. Both options would involve the demolition of one of those properties to make way for the new build.

3.42 Initial investigations, using BCIS construction cost data (Q32022), suggest an indicative price for a new build cinema with F&B units of between £9.05m and £10.03m. This cost does not include incentive packages tenants require or the £2.50m cinema fit out. A full assessment of the likely up to date, and like for like, costs has been commissioned.

3.43 In terms of offer, the previous scheme was slightly different with a new build cinema and surrounding separate F&B buildings as opposed to the integrated offer being proposed at the Debenhams site. The previous BRS cinema scheme was set out at 10,549 sq ft, was for 2-3 screens with 250 to 270 seats and showed separate buildings for 7 F&B units at approximately 29,601 sq ft - 30,892 sq ft. A total space of circa 40,150 sq ft – 41,441 sq ft. The proposal for converting the Debenhams store has 5 F&B outlets within it and has 4 screens with 306 seats in total at approximately 42,725 sq ft.

Alternative Options	1. Cabinet could decide not to enter into a Joint Venture with Evolve Estates to redevelop the Debenhams site as a cinema and leave the market to invest in the district. This impairs the council's ability to place shape and we could end up with a facility that we don't want. 2. Cabinet could intervene in place of the market and directly fund the full cost of the development – i.e., identify a site and raise investment required to develop a scheme and operator. This places all risk on the council and we know we don't currently have the necessary skills to deliver it.

Consultation	1. Bringing a cinema to Lichfield is a long-term, clearly stated and supported ambition of LDC. 2. There will be public engagement and consultation on the redevelopment plans as part of any planning application process.

Financial Implications	There are a number of elements to the financial implications, and these are explained in the paragraphs below. <u>The Level and Nature of Investment in the Joint Venture LLP</u>

The latest project budget for the development is **£6,997,000** and is shown in detail at **APPENDIX F**.

Taking account of the Council's initial financial contribution of **£3,000,000** to match the assessed value of the asset, this means that the remaining cost of **£3,997,000** will be shared on a 50:50 basis between the two partners.

This cost sharing arrangement will result in each partner making a further financial contribution of **£1,998,500**.

Therefore, the Council's project budget contribution will be **£4,998,500**.

However, a further client contingency of **10%** identified by the Council's Quantity Surveyor is recommended and this equates to **£350,500** (being the Council's 50% share).

Therefore, the total financial contribution and Capital Programme Budget is recommended to be **£5,349,000**.

An indicative investment profile, that will need to be refined as the project develops, based on a start date of November 2022 and practical completion in November 2024, is shown in detail at **APPENDIX F** and in summary below:

Investment Profile (assumes start Nov 2022 & opening Nov 2024)				
	2022/23	**2023/24**	**2024/25**	**Total**
	£	**£**	**£**	**£**
Capital Budget	£834,000	£2,499,000	£1,665,500	£4,998,500
Client Contingency @ 10%	£58,000	£175,000	£117,500	£350,500
Profiled Total Budget	**£892,000**	**£2,674,000**	**£1,783,000**	**£5,349,000**

This financial contribution will be through a long term capital loan advance to the Joint Venture. The presence of a private sector partner will mean the terms of the loan will need to be in compliance with subsidy control requirements.

<u>The Funding of the Investment</u>

The Review of Reserves Report to Cabinet on 6 September 2022 recommended to Council to:

- Repurpose earmarked reserves of **(£5,169,000)**.
- Dispose of Venture House and include a budgeted capital receipt of **(£650,000)**.
- To include a budget for BRS enabling works of **£2,000,000** that will be funded the repurposed earmarked reserves and the capital receipt.
- Latest information indicates the capital receipt related to the disposal of Venture House (after taking into account disposal costs) is projected to be **(£850,000)**.

Therefore, the recommended funding for the investment of **£5,349,000** and updated BRS enabling works budget that takes account of this recommended revised investment level would be:

	2022/23	**2023/24**	**2024/25**	**Total**
	£	**£**	**£**	**£**
UKSPF			(£400,000)	(£400,000)
Sale of Venture House - Original	(£650,000)			(£650,000)
Sale of Venture House - Current	(£200,000)			(£200,000)
Repurposed Reserves	(£42,000)	(£2,674,000)	(£1,383,000)	(£4,099,000)
Total Funding	**(£892,000)**	**(£2,674,000)**	**(£1,783,000)**	**(£5,349,000)**

Latest BRS Enabling Works Budget	**£535,000**	**£535,000**		**£1,070,000**

<u>Financial Implications resulting from the Investment</u>

The investment through a long term capital loan advance will result in income to the Council from the repayment of the loan (capital receipts until the loan has been repaid).

Other financial implications relate to:

- Loan interest (revenue income).
- The use of earmarked reserves to partly fund the investment will also result in a loss of investment income (revenue cost).
- Additional business rates from the enhanced 'footprint' of the development.
- The loss of 11% of net income from the former anchor store because the joint venture will be outside of the shopping centre lease.

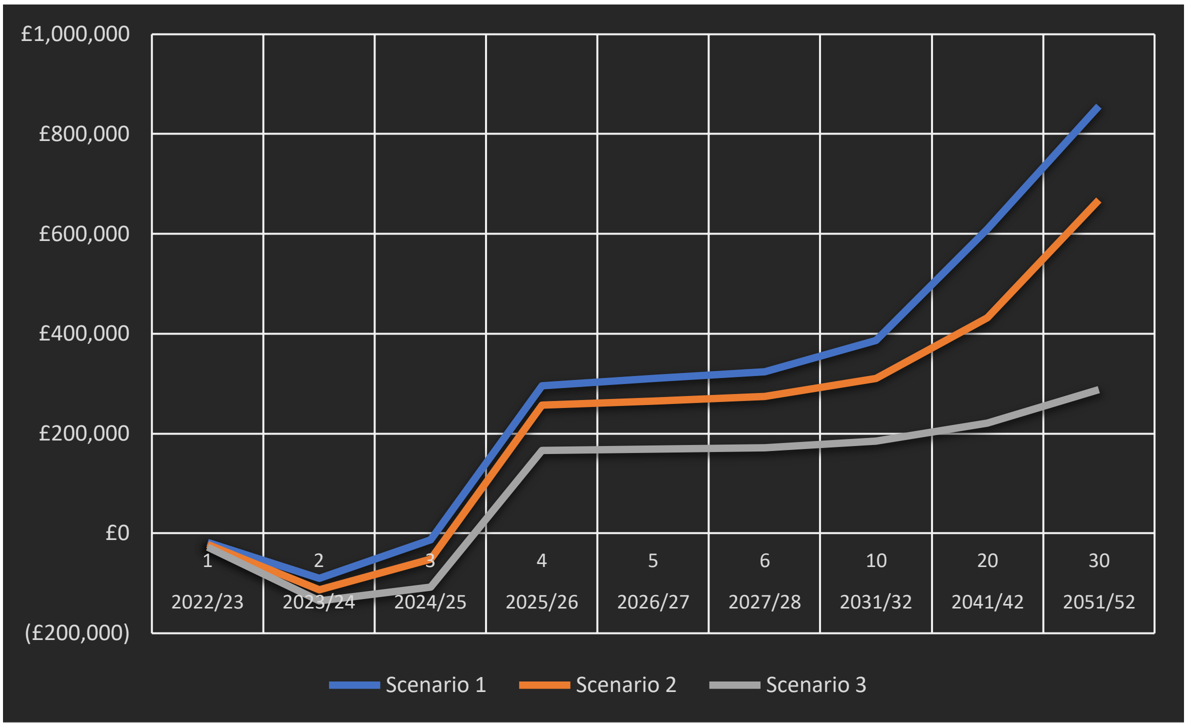
The Projected Net Income of the Joint Venture

The starting point to assess the financial implications relates to the projected net income and expenditure for the Joint Venture.

At this stage, no projections have been provided by EE however to inform the decision making process at the Council, three illustrative scenarios have been developed based around the following assumptions:

Scenario	1	2	3
Annual Inflation	2%	1%	0%
Running Void	0%	5%	10%
LDC Loan Rate	4%	5%	6%
Year 4 Rental Income	(£612,000)	(£606,000)	(£600,000)
Year 4 Operational Costs	£316,000	£349,300	£434,000
Year 4 2025/26 Net Income	**(£296,000)**	**(£256,700)**	**(£166,000)**

Projected net income (for illustrative purposes, income is shown as positive) has been estimated over a 30 year horizon and is shown in detail at **APPENDIX G** and in summary below:

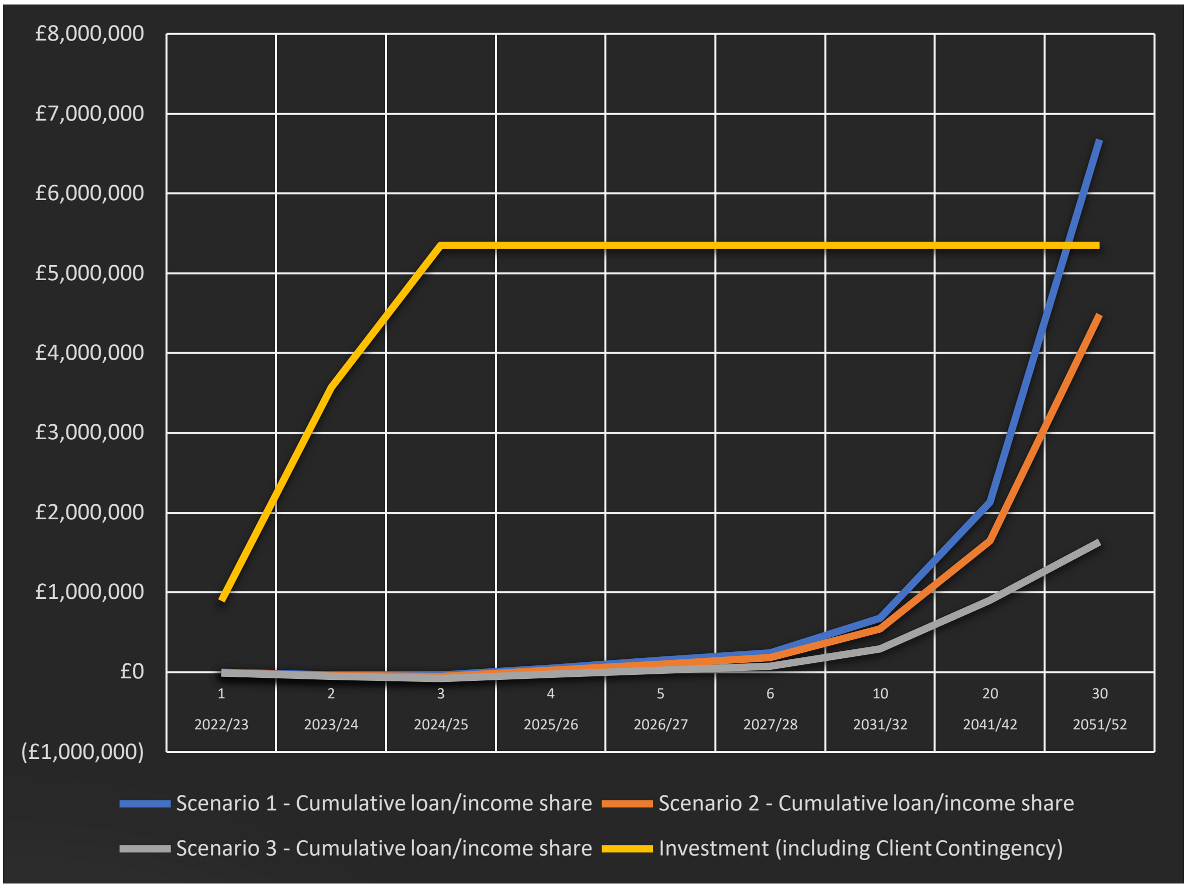


It is important to note that these projections will need to be agreed with EE and will be subject to review by an independent set of advisors.

Payback of the Investment

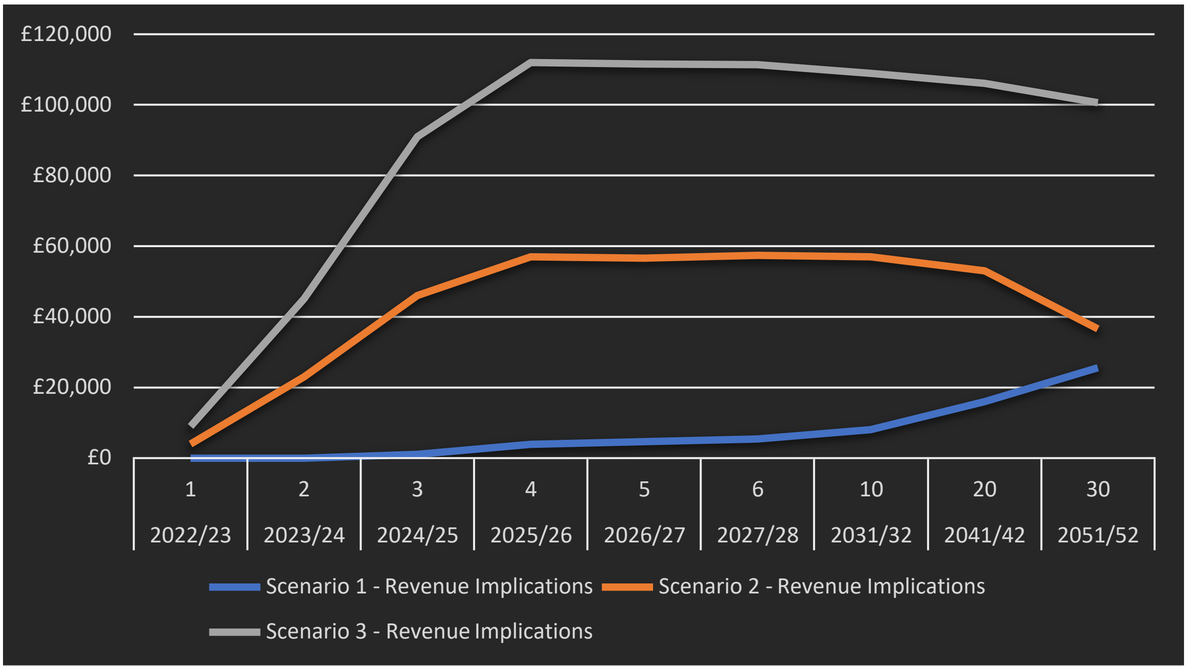
These projections have also been used to estimate the payback period for the capital loan advance over a 30 year horizon (once the loan has been repaid, the income could then become revenue income).

This is shown for the three scenarios above (for illustrative purposes, income is shown as positive) in detail at **APPENDIX H** and in summary below:



<u>Other Financial Implications</u>

Annual projections for the other financial implications are also provided over a 30 year horizon and this is shown (for illustrative purposes, income is shown as positive) for the three scenarios above in detail at **APPENDIX I** and in summary below:



<u>Investment Appraisal</u>

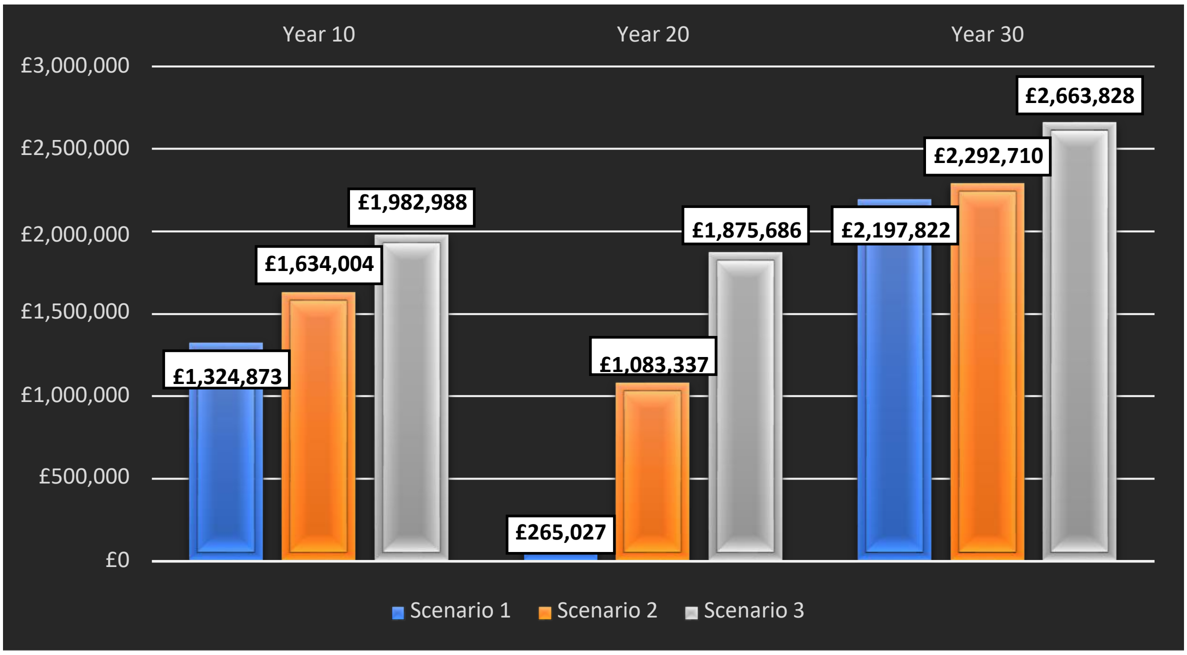
Investment appraisal information has been provided for each of the three scenarios:

Scenario (including Client Contingency)	1	2	3
Rental Share @ year 5	30%	30%	30%
Rental Share @ year 20	70%	70%	30%
Rental Share @ year 30	50%	70%	30%
Payback Period in years	27	31	48
Net Present Value (nil residual value, 6% & over 30 years) **negative value because investment exceeds net present value of income**	£2,546,771	£2,651,397	£2,802,376
Accounting Rate of Return over 30 years	4.39%	3.73%	2.90%

<u>Exit or ‘Cash Out’ from the Joint Venture</u>

The Joint Venture agreement will allow either party to exit the agreement after a set period of time. The calculation of an exit or ‘cash out’ payment is very difficult to determine because it will be impacted by a range of wider economic conditions. Therefore to provide an illustration of the projected level of gains or (losses), a net present value-based calculation has been undertaken using a discount rate of **6%.** <u>However it is important to note this is not a formal or definitive valuation.</u>

The detailed calculations are provided at **APPENDIX J** with a summary (for illustrative purposes, losses are shown as positive values) in the chart below:



<u>Areas where further Information is still Required or Independent Review will take Place</u>

- Further information on the approach to Service Charges by the Joint Venture.
- Further information on the net income projections for the Joint Venture from EE.
- A review of the commercial, indirect taxation and financial arrangements (draft Heads of Terms) of the proposed JV, identify and quantify the key commercial and financial risks throughout the life of the JV, identify mitigations and recommendations to address same, and considers the overall balance of risk and return between the two parties as currently presented, and

A review of the financial standing and integrity of the proposed counterparty to the transaction.

Approved by Section 151 Officer	Yes

Legal Implications	• A LLP is a corporate entity in which two or more partners agree to go into partnership. LLPs are incorporated under the Limited Liability Partnership Act 2000 and must file accounts and details of membership with Companies House. • Assets and liabilities belong to the LLP. Capital can be increased or reduced at the will of the partners. • In a LLP the members have the benefit of limited liability providing they act within the powers of the constitution of the LLP. • The relationship between the partners is governed by the terms of a Partnership Agreement. This commits both parties to obligations in terms of establishing management and decision-making structures. • Local authorities have relied on powers in section 11 of the Local Government Act for the establishment of corporate entities. The general power of competence by section 1 of the Localism Act 2011 is generally accepted as providing further power subject to conditions and limitations. In order to overcome any potential legal issues a clear record should be kept of the decisions made in determining the purpose of the LLP. • From a legal perspective, the next stages would include due diligence, consideration of draft legal documents including the Partnership Agreement and the incorporation of the LLP.
Approved by Monitoring Officer	Yes

Contribution to the Delivery of the Strategic Plan	1. This will particularly support and deliver the Council's strategic objectives of **shaping place** and **developing prosperity** and will enhance the district to visitors. 2. Having a cinema situated within the district supports our **enabling people** to live healthy and active lives. 3. Through the JV approach, it shows that we're **a good council** that is financially sound, transparent and accountable, including further collaborative working with key partners.
Equality, Diversity and Human Rights Implications	1. There are no equality, diversity or human right implications associated with the proposals at this stage. 2. A full Equality Impact Assessment will be conducted on the buildings redesign and an access statement will accompany any planning application.

Crime & Safety Issues	1. As the project moves through the planning and redevelopment phases these elements will be considered further to ensure the proposed development plays a positive role in the reduction of crime and safety.
Environmental Impact	1. Repurposing the former Anchor Store unit as a cinema will give the building an expected additional lifespan of 25 years. 2. The design of the development will incorporate sustainable elements in line with Council policies.

GDPR / Privacy Impact Assessment	1. Data processing arrangements will be addressed as part of the LLP Partnership Agreement.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
	Finance			
A	The capital cost of the development exceeds the Approved Budget	Likelihood: Yellow Impact: Red Score: Yellow	Inclusion of Developer contingency, 50:50 cost sharing arrangement and specialist asset management partner. Review by independent Quantity Surveyor and inclusion of Client Contingency.	Likelihood: Green Impact: Yellow Score: Yellow
B	The financial projections including taxation implications are inaccurate or too optimistic leading to budget pressures	Likelihood: Yellow Impact: Yellow Score: Yellow	Three scenarios prepared using different assumptions and recommendation is to initially adopt a budget neutral position with the MTFS. Review by independent set of advisors.	Likelihood: Green Impact: Yellow Score: Yellow
C	The partner in the Joint Venture cannot meet obligations or gets into financial difficulty	Likelihood: Yellow Impact: Yellow Score: Yellow	Financial standing review by independent set of advisors.	Likelihood: Green Impact: Yellow Score: Yellow
	Corporate entity and structure			
D	Ensuring that the council enters the most advantageous Joint Venture vehicle, whether this is through an LLP, CLG, Trust or other.	Likelihood: Yellow Impact: Yellow Score: Yellow	Legal advice suggests that an LLP is likely to be the most advantageous route for a JV for Corporation Tax, VAT and Governance purposes.	Likelihood: Green Impact: Yellow Score: Yellow
E	The council needs to establish whether the proposal is for Place Shaping or Profit Making.	Likelihood: Yellow Impact: Red Score: Yellow	The council is clear that whilst it needs to protect its investment and see a financial return, the primary objective of the proposal is the place shaping of Lichfield city.	Likelihood: Green Impact: Yellow Score: Yellow
F	Legal Challenge from another developer.	Likelihood: Yellow Impact: Red Score: Yellow	Legal advice suggests that legal challenge is unlikely when entering a JV through an LLP for the purposes of place shaping.	Likelihood: Green Impact: Yellow Score: Yellow
	Governance			
G	The council need to ensure that once the company is set up it is run day to day in an acceptable manner.	Likelihood: Yellow Impact: Yellow Score: Yellow	Governance arrangements to be agreed with by both partners and implemented as part of the corporate structure.	Likelihood: Green Impact: Yellow Score: Yellow
H	There will be times when decisions being taken by the joint venture will need to revert to primary organisations.	Likelihood: Yellow Impact: Yellow Score: Yellow	Parameters for decision making set out in the governance arrangements including when there's a need to revert.	Likelihood: Green Impact: Yellow Score: Yellow
	Development failure			
I	The scheme does not attract occupiers.	Likelihood: Yellow Impact: Yellow Score: Yellow	Pre agreements in place with a preferred cinema operator and over 30 F&B operators are interested in the 5 available F&B outlets.	Likelihood: Green Impact: Yellow Score: Yellow
J	Developer does not perform.	Likelihood: Yellow Impact: Yellow Score: Yellow	Monitoring of milestones. The developer forms part of the JV and shares the same risks as the council in terms of under performance.	Likelihood: Green Impact: Yellow Score: Yellow

	Background documents **Money Matters: Review of Reserves – Report to Cabinet 6 September 2022** **Appendix A. M Core Group Business** **Appendix B. Confidential - Legal advice in relation to a joint venture structure - LLP** **Appendix C. LDC - Evolve - LLP - Governance Arrangements** **Appendix D. Confidential - Tax report in relation to the Joint Venture** **Appendix E. Confidential - Feasibility Report - Cinema construction and fit out** **Appendix F. Confidential - The Latest Joint Venture Project Budget** **Appendix G. Confidential - Projected Joint Venture Net Annual Income Scenarios** **Appendix H. Repayment of Loan/Income Share** **Appendix I. Lichfield District Council Financial Implications** **Appendix J. Illustrative Exit or 'Cash Out' Projections**

	Relevant web links

M® Core

Long-term Investors

Connecting business and property.

INTRODUCTION

M Core is an established, highly profitable family of property investment and management companies. UK, France, Poland, Germany - wherever we operate, we're committed to three things: our investment partners, our tenants and our team. Considered, thoughtful, long-term, growth and stability, for our business and everyone we work with.

Pan European Property Collective. Portfolio size of £4.6bn.

Performance

Committed to improving asset growth, through intensive management of a mixed use property portfolio.

Gross annual rental income	£331m
Core maintainable /underlying annual profits	£189m
Properties	1,216
Portfolio value	£4.6bn
Occupancy	93%

PHILOSOPHY

M Core carefully assess and evaluate each investment opportunity

Charting our own success since 1987

1987
£0.05bn
Property Value

1998
France
- First investment property acquired

2002
Asset portfolio
£325m

2005
First access to capital markets, £600m

2005
Poland
- First investment property acquired

2007
Germany
- First investment property acquired

2022
Forecast
£4.6bn Property Value

Continuous expansion in countries and sectors where the potential for the application of the core philosophy enables us to generate significant returns over the long term.

Granularity of tenant exposure with no single tenant representing more than 1.4%.

8,250 tenants relationships. Top 10 tenants represent <10% of rent roll.

Core philosophy:
– Intensive management of property assets to maximise income value
– Generation of repeatable, reliable cashflows
– Efficiently control financing and operating costs
– Minimising commercial risks

PRESENCE

Hiring the best people and
giving them space to grow

We have 300+ talented employees working across Europe

The Companies employ over 300 employees based in offices at Kingswinford, London, Bristol, Glasgow, Düsseldorf, Warsaw, Paris, Lille, Nantes and Strasbourg.

The offices cover all facets of portfolio asset management including:

– Acquisitions and disposals
– Lettings, lease renewals and rent reviews
– Property maintenance
– Development and refurbishment project management
– Financial operational management, reporting and controls

Number of employees	
UK	
France	
Poland	[illegible]
Germany	10

No single tenant represent more than 1.4% of rent roll

8,549 tenants relationships. Top 10 tenants represent <10% of rent roll.

We take the long term view

Retail
Local convenience parades, high street shops, retail parks and shopping centres, accommodating a wide range of independent and national operators.

Industrial
Wide range of industrial and warehouse units, on well-maintained estates, located in key business locations.

Residential
High quality, refurbished and new build units throughout the UK.

Offices
High specification, multi-occupancy, small serviced offices on flexible terms and ancillary office accommodation on upper floors of retail developments.

Covid 19

During the pandemic, the combined companies have increased emphasis on cash collections and management of tenants to maximise recoveries while protecting occupancy levels going forward Cash. Cash collections in excess of 95% during the period. Occupancy levels have been maintained.

COMPANIES

Long term positive growth

LCP
Leading asset management of blended portfolios across UK, Poland and Germany

Proudreed
Asset management across France with substantial investments within industrial and retail sectors

Sheet Anchor
A strategic investment vehicle providing funding through multiple subsidiaries

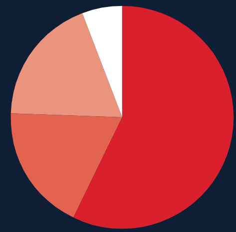
Evolve Estates
Specialising in strategic planning, regeneration and active management across the UK

Net Asset Value is £2.2bn

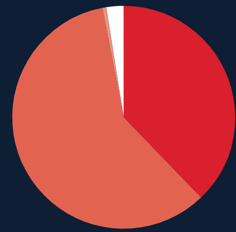
UK £1.3bn
Continental Europe £0.9bn

Gross Property Values by Country and Sector

Combined	£4,564m
UK	£2,025m
France	£2,004m
Poland	£380m
Germany	£155m

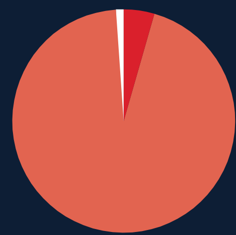


Retail
- UK £1,156m
- France £311m
- Poland £345m
- Germany £104m



Industrial UK
- £808m
- France £1,378m
- Poland £32m
- Germany £51m

Residential
UK £45m



Offices
- UK £16m
- France £315m
- Poland £3m

10 Year Financial Performance

Investment Property

2022	£4,564m
2012	£2,562m
2000	£679m

2022	£2,210m	2022	£331m	2022	£189m
2012	£833m	2012	£189m	2012	£76m
2000	£281m	2000	£69m	2000	£23m

t

Underlying Profit

£ ms

200

189

174

162

146

150

129

110

100

90

76 79 75

63

50

UK £110m
France £20m
Poland £24m
Germany £8m

UK £56m
France £80m
Poland £1m
Germany £3m

UK £4m

UK £3m
France £2m

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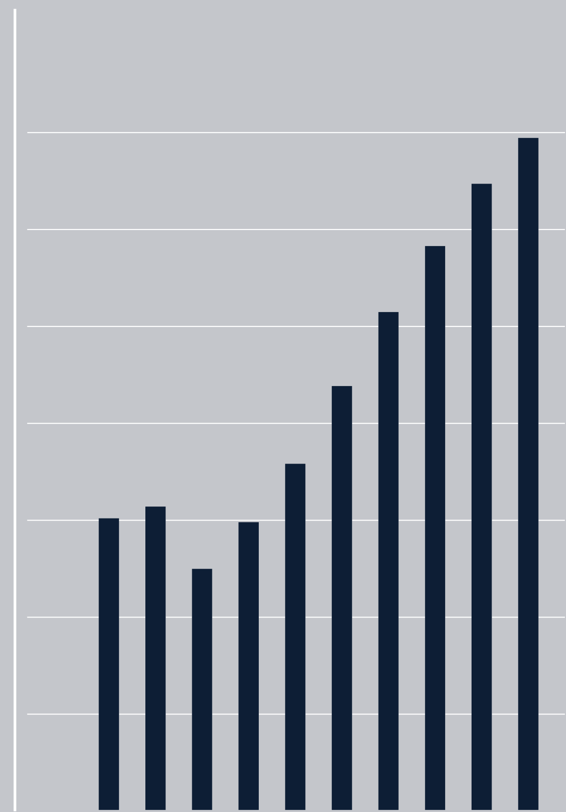
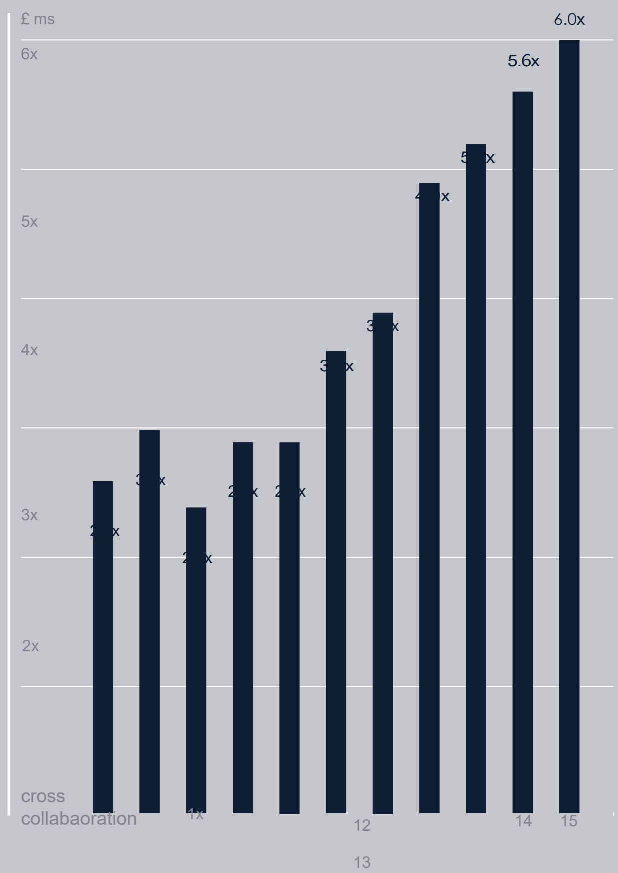


Financing Highlights

Since 1987 M Core has been fully compliant with all banking covenants

- £2bn of debt across 24 lenders
- LTV under 43%
- Average cost of debt 2.46%
- ICR at 5.6x
- Conservative hedging policy - 81% hedged
- Relationships exceeding 20 years relating to over 70% of the debt

ICR 10 Year History



All companies are financed entirely independently, without

Debt Analysis on all Companies

		Percentage of hedged debt	Debt maturity
Combined	£2,012m	81%	3.4 years
UK	£836m	74%	3.5 years
France	£917m	89%	3.2 years
Poland	£169m	73%	3.2 years
Germany	£90m	72%	4.3 years

16 17 18

19 20 21 22

NOTES/DISCLAIMER. This brochure is promotional material for M Core Property. It is not a legal document and does not purport to show legal relationships or corporate structures. All valuation figures used are the respective Company's own book valuations as at the relevant date. The usage of Group is in a collective ethos context and not that of cross collateralisation between companies. References in this brochure to "Companies" refer to: Proudreed Limited (1981) London and Cambridge Properties Limited (1987) Ringmerit Limited (2000) Evolve Estates (2009) Sheet Anchor Properties Limited (2015)

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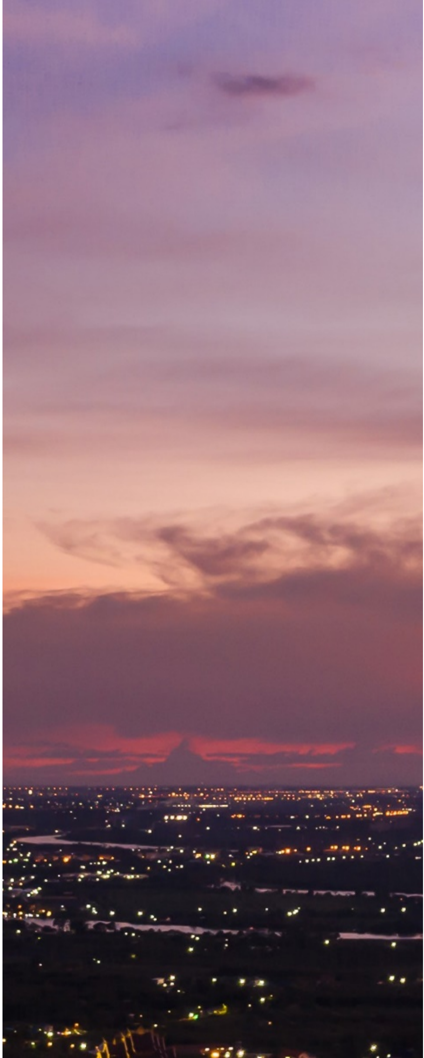

M® Core

Appendix C. LDC - Evolve - LLP - Governance Arrangements

Lichfield District Council & Evolve LLP

Partnership Agreement Checklist

Introduction

- A LLP is a corporate entity in which two or more partners agree to go into partnership with a view to making a profit.

- LLPs are regulated by legislation in the same way as a company and must file accounts and details of membership with Companies House.

- In a LLP the members have the benefit of limited liability – i.e. protection from personal liability for any debts or claims made against the LLP providing they act within the powers of the constitution of the LLP (see detailed advice from Trowers & Hamlins)

- To enter into the LLP it would be necessary to enter into a binding partnership agreement with Evolve. This commits both parties to obligations in terms of establishing management and decision making structures.

Subject to approval being given to establish a LLP the next step are likely to involve:

- due diligence.
- consideration of draft legal documents including the Partnership Agreement.
- incorporation of the LLP.
- inaugural meeting of Partnership Board.
- initiation of projects.

Partnership Agreement

The relationship between Partners in the LLP is governed by the terms of a partnership agreement. This covers:

- how profits are shared among members
- who needs to agree decisions
- members' responsibilities
- how members can join or leave the LLP

The framework of a previous LLP agreement is set out below. Agreements drawn up by solicitors will vary but it provides a (non-exhaustive) checklist. There are a number of standard clauses but some areas for consideration are outlined in blue.

Partnership Agreement – Framework and Checklist

1. Introduction

Sets out that

- The Partnership is incorporated as a limited liability Partnership Under the Limited Liability Partnerships Act 2000.
- The Partnership is incorporated for the purpose of carrying out the Partnership Business (to be set out in the Agreement).
- The Agreement sets out mutual rights and duties of the Partners

2. Commencement, Term and Effect

- Effective date.
- Term of Agreement e.g. 10 years unless terminated in accordance with a termination clause.
- Set out the aims and objectives of the Partnership.
- Commitment to comply with the relevant legislative and administrative requirements.

3. Capital and Partners Interests

- Statement of responsibilities – no liability to accrue to the Council.
- Statement of initial financial contribution of both parties (this may be a token £1 from each).
- The Partners may from time to time agree to make further financial contributions – of such amounts and in such proportions as they shall agree.
- No obligations clause (to commit further capital)
- The Capital Account to comprise – the sum of 'Member's Capital' and other reserves.
- Set out arrangements for the Capital Account – e.g. Partners may from time to time reduce the Capital Account by such amount and in such proportions as they agree.
- Save as expressly provided in the Members Agreement or agreed between the partners, no partner may draws out or receive back any part of the amount credited to them as Member's Capital.

4. Profit Shares and Losses

- Unless expressly provided in the Agreement profits to be shared between the Partners after the recovery of costs, fees and charges.
- Set out the provision for the repayment of Members' Capital e.g. Evolve 50%, LDC 50%. Or in such other proportions as may be from time to time agreed (note: there may be supplemental agreements for each project undertaken).

- Profits calculated after deduction of any credit on loans, management fees etc.

5. Assets & Liabilities

- Set out the ownership of any property and assets e.g. all property used by the Partnership to be the property of the Partnership.
- The Partnership name etc. to be the property of the Partnership.

6. Contracts and Commercial Arrangements

- Contracts and agreements entered into will be for the benefit of and biding on the partnership
- The Partnership shall not enter into any contract or agreement unless:
  (i) Provided for in accordance with a project budget
  (ii) approved by the Partnership Board.

7. Bank Account and Banking Arrangements

Clauses about establishing a bank account

- The Partnership shall not enter into any debt facility or security arrangements unless approved by the Partners.

8. Accounts

Clauses about the keeping of accounts and records.

- Each partner and its appointed representatives and auditors shall have access to the Partnerships books of account and records at all times.

9. Costs

- Costs shall be born and reimbursed as provided for in the agreement
- Partnership shall not be responsible for Partners taking independent advice on their individual interests

10. Management of the Partnership and Decision Making

The agreement should set out how each of the Partners shall participate in the day to day management and control of the Partnership and the Partnership Business.

- No decision or action shall be taken unless in accordance with this clause of the agreement
- Matters agreed by the partners to be determined by a resolution at a Partnership Meeting or a written resolution.

- Matters provided for in a schedule to the agreement shall require **unanimous** approval

11. Corporate Representatives

- Each partner shall be entitled to appoint up to X representatives who shall be officers, Members, employees, consultants or agents of that Partner – to attend and vote on its behalf or to sign resolutions in writing.
- Partners are appointed in writing (submitted by the Partner) and can be removed in the same manner.
- A clause on any entitlement for Partners to be reimbursed for out of pocket expenses incurred in the performance of duties under the Agreement.

12. Partnership Meetings

- Set out frequency of meetings – e.g. at least twice a year and more frequently as necessary at such time and place the Partners think fit.
- Clause on convening meetings and notice periods – e.g. can be convened by either partner not giving less than 5 working days written notice and by providing a written agenda of the business to be conducted.
- Clause on emergency meetings – e.g. not less than 24 hours oral notice if the interests of the Partnership or its business are likely to be materially prejudiced.
- No business unless a quorum is present – define quorum.
- Provisions for adjournment.
- Provision for appointing a representative to act as Chairman of the Partnership meetings.
- No casting vote for the Chairman
- Each partner to have one vote – which may be cast by their representatives.
- A resolution is carried if the two votes are cast in favour.
- Minutes to be prepared for all Partnership meetings.

13. Written Resolutions

Provision for written resolutions signed by the Partners.

14. Duties and Indemnities

Each Partner to be a 'Designated Member' for the purpose of Section 8 of the Limited Liability Partnerships Act 2000.

Set out the duties of the Partners e.g. act in good faith, act only within the scope of authorisation etc.

15. Deadlock

Provisions for where Partners cannot agree.

16. Termination and Dissolution

Provisions for termination e.g. to continue on the terms of the Members Agreement (as may be amended by unanimous consent) until wound up or dissolved.

- Can be dissolved by either partner
- Period of notice for dissolution
- Provision for winding up and default.

17. Transfer of Interests

Partners agree not to mortgage, sell or transfer any part of their interest etc.

18. Exclusions and Variations

Exclusion of legal rights and default regulations as deemed necessary on legal advice.

19. Freedom of Information and Data Processing

Acknowledgement that the Council is subject to Freedom of Information and Environmental Information and GDPR Regulations. Undertaking to ensure these are complied with.

- Council shall be responsible for determining at its discretion whether commercially sensitive information is exempt from disclosure.

Appendix H. Repayment of Loan/Income Share

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2031/32	2041/42	2051/52
	1	2	3	4	5	6	10	20	30
Scenario 1 - Cumulative loan/income share	(£5,400)	(£32,400)	(£36,400)	£52,400	£145,400	£242,600	£677,000	£3,267,500	£7,799,900
Scenario 2 - Cumulative loan/income share	(£6,600)	(£40,500)	(£56,000)	£21,010	£100,630	£182,860	£538,480	£1,983,830	£5,773,245
Scenario 3 - Cumulative loan/income share	(£8,100)	(£48,600)	(£80,900)	(£31,100)	£19,600	£71,200	£286,900	£898,900	£2,080,600
Investment (including Client Contingency)	£5,349,000	£5,349,000	£5,349,000	£5,349,000	£5,349,000	£5,349,000	£5,349,000	£5,349,000	£5,349,000

Appendix I. Lichfield District Council Financial Implications

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2031/32	2041/42	2051/52
	1	2	3	4	5	6	10	20	30
Scenario 1									
Capital Loan Advance Repayments	**£5,400**	**£27,000**	**£4,000**	**(£88,800)**	**(£93,000)**	**(£97,200)**	**(£115,800)**	**(£427,000)**	**(£428,000)**
Loan Interest Receivable	(£18,000)	(£90,000)	(£180,000)	(£214,000)	(£210,000)	(£206,000)	(£189,000)	(£92,000)	£0
Loss of Investment Income	£18,000	£90,000	£180,000	£214,000	£210,000	£206,000	£189,000	£92,000	£0
Business Rates Impact			(£13,000)	(£32,000)	(£32,600)	(£33,400)	(£36,000)	(£44,000)	(£53,600)
Rental Share Impact			£12,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000
Sub Total Revenue Implications	**£0**	**£0**	**(£1,000)**	**(£4,000)**	**(£4,600)**	**(£5,400)**	**(£8,000)**	**(£16,000)**	**(£25,600)**
Total Income	**£5,400**	**£27,000**	**£3,000**	**(£92,800)**	**(£97,600)**	**(£102,600)**	**(£123,800)**	**(£443,000)**	**(£453,600)**
Scenario 2									
Capital Loan Advance Repayments	**£6,600**	**£33,900**	**£15,500**	**(£77,010)**	**(£79,620)**	**(£82,230)**	**(£92,970)**	**(£302,050)**	**(£333,900)**
Loan Interest Receivable	(£22,000)	(£113,000)	(£225,000)	(£268,000)	(£264,000)	(£260,000)	(£243,000)	(£176,000)	£0
Loss of Investment Income	£18,000	£90,000	£180,000	£215,000	£212,000	£208,000	£194,000	£141,000	£0
Business Rates Impact			(£13,000)	(£32,000)	(£32,600)	(£33,400)	(£36,000)	(£44,000)	(£53,600)
Rental Share Impact			£12,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000
Sub Total Revenue Implications	**(£4,000)**	**(£23,000)**	**(£46,000)**	**(£57,000)**	**(£56,600)**	**(£57,400)**	**(£57,000)**	**(£51,000)**	**(£25,600)**
Total Income	**£2,600**	**£10,900**	**(£30,500)**	**(£134,010)**	**(£136,220)**	**(£139,630)**	**(£149,970)**	**(£353,050)**	**(£359,500)**
Scenario 3									
Capital Loan Advance Repayments	**£8,100**	**£40,500**	**£32,300**	**(£49,800)**	**(£50,700)**	**(£51,600)**	**(£55,500)**	**(£66,300)**	**(£201,600)**
Loan Interest Receivable	(£27,000)	(£135,000)	(£271,000)	(£324,000)	(£321,000)	(£318,000)	(£305,000)	(£269,000)	(£202,000)
Loss of Investment Income	£18,000	£90,000	£181,000	£216,000	£214,000	£212,000	£204,000	£179,000	£135,000
Business Rates Impact			(£13,000)	(£32,000)	(£32,600)	(£33,400)	(£36,000)	(£44,000)	(£53,600)
Rental Share Impact			£12,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000
Sub Total Revenue Implications	**(£9,000)**	**(£45,000)**	**(£91,000)**	**(£112,000)**	**(£111,600)**	**(£111,400)**	**(£109,000)**	**(£106,000)**	**(£92,600)**
Total Income	**(£900)**	**(£4,500)**	**(£58,700)**	**(£161,800)**	**(£162,300)**	**(£163,000)**	**(£164,500)**	**(£172,300)**	**(£294,200)**

Appendix J. Illustrative Exit or 'Cash Out' Projections

	Scenario 1					
Sale Year	**Year 5**	**Year 10**	**Year 15**	**Year 20**	**Year 25**	**Year 30**
Initial Investment	£4,718,401	£4,718,401	£4,718,401	£4,718,401	£4,718,401	£4,718,401
Income receivable	(£41,863)	(£399,427)	(£735,606)	(£1,045,177)	(£1,531,926)	(£2,092,654)
Initial Investment outstanding	**£4,676,538**	**£4,318,975**	**£3,982,795**	**£3,673,224**	**£3,186,475**	**£2,625,747**
Future cash flows	(£2,688,782)	(£2,994,101)	(£3,246,713)	(£3,408,198)	(£2,590,121)	(£427,925)
(Gain) or Loss	**£1,987,756**	**£1,324,873**	**£736,082**	**£265,027**	**£596,354**	**£2,197,822**

	Scenario 2					
Sale Year	**Year 5**	**Year 10**	**Year 15**	**Year 20**	**Year 25**	**Year 30**
Initial Investment	£4,718,401	£4,718,401	£4,718,401	£4,718,401	£4,718,401	£4,718,401
Income receivable	(£119,603)	(£591,406)	(£976,763)	(£1,292,882)	(£1,550,990)	(£1,985,823)
Initial Investment outstanding	**£4,598,798**	**£4,126,995**	**£3,741,638**	**£3,425,519**	**£3,167,412**	**£2,732,578**
Future cash flows	(£2,458,548)	(£2,492,992)	(£2,464,930)	(£2,342,181)	(£2,089,308)	(£439,868)
(Gain) or Loss	**£2,140,250**	**£1,634,004**	**£1,276,708**	**£1,083,337**	**£1,078,104**	**£2,292,710**

	Scenario 3					
Sale Year	**Year 5**	**Year 10**	**Year 15**	**Year 20**	**Year 25**	**Year 30**
Initial Investment	£4,718,401	£4,718,401	£4,718,401	£4,718,401	£4,718,401	£4,718,401
Income receivable	(£182,300)	(£727,607)	(£1,142,598)	(£1,458,535)	(£1,700,167)	(£1,884,667)
Initial Investment outstanding	**£4,536,101**	**£3,990,794**	**£3,575,803**	**£3,259,866**	**£3,018,234**	**£2,833,734**
Future cash flows	(£2,188,787)	(£2,007,806)	(£1,748,643)	(£1,384,180)	(£873,993)	(£169,906)
(Gain) or Loss	**£2,347,314**	**£1,982,988**	**£1,827,160**	**£1,875,686**	**£2,144,241**	**£2,663,828**

Please note –beyond year 20, the investment shortfall would increase in later years because the future income in a 30 year horizon would be lower and because the further into the future income is due, the lower the net present value.