
A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet
Council

01 September 2015
08 September 2015

Name of Cabinet Members:

Cabinet Member for Business Enterprise and Employment – Councillor Maton
Cabinet Member for Strategic Finance and Resources – Councillor Gannon

Directors Approving Submission of the report:

Executive Director, Place
Executive Director, Resources

Ward(s) affected:

St Michael's

Title: City Centre South - Update

Is this a key decision?

Yes, this is a key decision as it affects the city centre and therefore has a wider impact on the city as a whole.

Executive Summary:

Coventry is ranked 13th largest city in the UK and is a growing city with a projected population growth of 50,000 by 2031. Yet its city centre is under performing in relation to its size, position and aspiration to be in the top ten of UK cities.

Coventry requires a city centre that supports its aspiration to become a top 10 UK city. The city centre needs to improve to shift perceptions of the city as a whole, attract investment, cope with future demands and compete with rival cities.

Transforming the city centre is thus a top priority for the Council and is the last major part of various regeneration schemes, which are already underway including Friargate, the Railway Station Master-plan and Cathedral Lanes.

The City Centre South regeneration scheme obtained Outline Planning Permission in 2012 and the procurement of a “Preferred Developer Partner” was undertaken in 2013. Following the appointment of Queensberry Real Estate (QRE) as our “Preferred Developer Partner” in 2014, feasibility work on their City Centre South scheme proposal was undertaken.

This feasibility work is now complete and the results show retailer demand for a transformational scheme and financial unviability. To address this lack of financial viability, the QRE scheme proposal for City Centre South requires a capital investment from the Council.

The following three options have been considered:-

1. Do Nothing.
2. Accept QRE’s scheme proposal.
3. Test market for transformational scheme with offer of financial support.

Option 3 is recommended.

Recommendations:

Cabinet is requested to recommend that Council:-

1. Authorise officers to undertake a further OJEU compliant developer procurement exercise for a transformational scheme and to test level of financial support required.
2. Authorise a statement for inclusion in the City Centre South developer tender documents confirming that the Council will consider funding land acquisition for the scheme where it is not viable for the developer to do so, subject to finding a suitable development partner and future Cabinet and Council approvals once tenders have been received.
3. Authorise officers to develop a financial strategy based on identifying and prioritising capital receipts to fund any future Council financial support.
4. Request officers to bring a report to Cabinet and Council at the end of the procurement process to consider scheme proposals and any financial contribution required.

Council is recommended to:-

1. Authorise officers to undertake a further OJEU compliant developer procurement exercise for a transformational scheme and to test level of financial support required.
2. Authorise a statement for inclusion in the City Centre South developer tender documents confirming that the Council will consider funding land acquisition for the scheme where it is not viable for the developer to do so, subject to finding a suitable development partner and future Cabinet and Council approvals once tenders have been received.
3. Authorise officers to develop a financial strategy based on identifying and prioritising capital receipts to fund any future Council financial support.
4. Request officers to bring a report to Cabinet and Council at the end of the procurement process to consider scheme proposals and any financial contribution required.

List of Appendices included:

Appendix 1 – City Centre South Red Line Boundary Area

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes, on 8 September 2015.

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1. Context (or background)

- 1.1 Coventry has a population of 323,000 and is ranked 13th largest city in the UK and is continuing to expand with a projected growth in its population of 50,000 by 2031.

Yet Coventry's city centre is under performing in relation to its size, position and aspiration to be in the top ten of UK cities. This is evidenced in various statistics, but perhaps most keenly in retail rankings, where Coventry is 51st for retail footprint (CACI May 2013) and 58th for shopping destinations (NLP 2014). There is a mismatch between these two statistics and the city centre is clearly punching below its weight.

- 1.2 Coventry's aspiration to become a top 10 UK city requires a city centre that supports that aspiration. The city centre needs to improve to shift perceptions of the city as a whole, attract investment, cope with future demands and compete with rival cities.
- 1.3 Transforming the city centre is thus a top priority for the Council and is the last major part of various regeneration schemes, which are already underway including Friargate, the Railway Station Master-plan and Cathedral Lanes.
- 1.4 The City Centre South regeneration scheme obtained Outline Planning Permission in 2012 and the procurement of a "Preferred Developer Partner" was undertaken in 2013. Following the appointment of Queensberry Real Estate (QRE) as our "Preferred Developer Partner" in 2014, feasibility work on their City Centre South scheme proposal was undertaken.
- 1.5 This feasibility work is now complete and the results show retailer demand for a transformational scheme and financial unviability.

2. Options considered and recommended proposal

2.1 Option 1 – Do Nothing

- 2.2 This option entails the Council doing nothing for the course of this development cycle. In practice, this means managing the decline of the city centre - allowing Council assets in the red line boundary area (as shown in Appendix 1) to depreciate in capital value and decline in revenue income performance, allowing retailers to leave the city and move to competing centres and allowing continued under performance of the city centre in general.
- 2.3 This option will not contribute to the Council's strategic objective of delivering transformational change in the city centre, which is required to facilitate economic growth, attract inward investment and create jobs for local people.
- 2.4 Following due consideration, this option has been rejected for the reasons stated in 2.3.

2.5 Option 2 – Accept QRE's Scheme Proposal

- 2.6 This option entails the Council agreeing to provide financial support to fund the estimated capital viability gap, transferring our existing assets and entering into a development agreement with QRE to deliver their City Centre South scheme proposal.
- 2.7 The provision of Council financial support for the QRE scheme proposal would constitute a material change to the basis of their original appointment and following the Winchester case judgement on a similar scheme, which went against Winchester City Council, there is

now a legal requirement to undertake a fresh procurement exercise where this circumstance arises.

- 2.8 In summary, proceeding with QRE to deliver their scheme is not possible without retendering the revised opportunity.
- 2.9 Following due consideration, this option has been rejected for the reasons stated in 2.7 and 2.8.

2.10 Option 3 – Test Market for Transformational Scheme with Offer of Financial Support

This option entails the Council undertaking a fresh OJEU compliant developer procurement exercise to potentially secure a preferred developer partner to deliver a transformational City Centre South scheme with an offer of financial support from the Council. The wording detailed below would be included in the invitation to tender documents:-

“Subject to the Cabinet and full Council reviewing the bids it receives, it is the Council’s intention to appoint a lead development partner, who is able to demonstrate the delivery of a transformative scheme and on satisfactory financial terms. On this basis, the Council will consider taking responsibility for the following:-

- *Seeking to acquire third party interests and rights by agreement where it unviable in the context of the scheme for the developer to do so and if necessary, by promoting a Compulsory Purchase Order (CPO); and*
- *Funding the costs associated with gaining vacant possession of the sites, including CPO promotion and inquiry costs; professional fees and compensation payments where it unviable in the context of the scheme for the developer to do so.*

The principal rationale for this is to both assist the cashflow of the Council’s development partner, by removing up-front acquisition costs and also to help remove a key development risk.

Whilst the Council is offering to take responsibility for delivering vacant possession where it is unviable in the context of the scheme for the developer to do so, Bidders are encouraged to demonstrate ways in which they could support the Council in this respect. For example, Bidders will be expected to demonstrate how they would assist the Council with the potential promotion of a CPO; the extent to which their retail strategy will offer opportunities within the new scheme for existing tenants; and identify any opportunities to assist in securing third party land interests by agreement.”

- 2.11 The intended procurement route is competitive dialogue. It is anticipated that the process will start in autumn 2015 and take approximately twelve months to complete.
- 2.12 Following the Winchester case mentioned in paragraph 2.7, the Council now has a legal obligation to retest the market to obtain new proposals as there has been a material change to the basis of the original opportunity i.e. there is now an offer of potential financial support from the Council.
- 2.13 In addition to compliance with a legal requirement, the main benefit of retesting the market is that since the original tender, there has been an improvement in market conditions, supporting development has taken place on site and the tender would contain an offer of potential financial funding. All of which may elicit a new approach from developers that may be more favourable to the Council.

2.14 Following due consideration, this is the preferred option and it is recommended that it is accepted.

3. Results of consultation undertaken

3.1 Public consultation on proposals will be undertaken as part of the detailed planning application process.

4. Timetable for implementing this decision

4.1 If the recommendations in this report are approved, an OJEU procurement process will be undertaken starting in September 2015 and would last for approximately twelve months.

4.2 Progress of the procurement exercise will be monitored by the Project Board.

5. Comments from Executive Director, Resources

5.1 Financial implications

The financial commitment that will be required from the Council will be explored as part of the procurement process. However, the likely Council financial support will be to fund third party land acquisition costs and contribute our own land holding in the red line boundary area subject to the procurement of a suitable developer providing acceptable proposals with appropriate financial arrangements.

In order to fund the third party costs officers are requesting authority to develop a financial strategy based on identifying and prioritising capital receipts to fund any future Council financial support.

The costs incurred as a result of this decision to conduct a further OJEU compliant procurement process – consultants fees, legal fees, research for supporting information can be funded from existing resources.

5.2 Legal implications

The Council will undertake an OJEU compliant competitive dialogue process in accordance with the Public Contracts Regulations 2015 to appoint a developer partner to deliver the City Centre South scheme.

State aid implications will be monitored throughout the scheme development and procurement process. Measures will be put in place to ensure the Council's potential contribution to the scheme is undertaken in a state aid compliant manner.

6. Other implications

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

Transformational improvement of the city centre is essential to meet our aspiration of being a top ten UK city, which will help to facilitate economic growth, attract private investment and create jobs for local people. In particular, delivery of the City Centre South regeneration scheme will contribute to the Council's core aim of making Coventry an attractive and enjoyable place to be by improving the city centre's retail and leisure offer and public realm environment for local residents, businesses and visitors.

6.2 How is risk being managed?

The key risk associated with approving the recommendations in this report is that no developer submits compliant proposals.

The mitigation for reducing the likelihood of this scenario is the undertaking of soft market testing before the formal launch of OJEU process and ensuring that the opportunity tendered is attractive to the market with a clearly defined scoring matrix for compliant bids.

6.3 What is the impact on the organisation?

This decision impacts on the organisation's assets.

The impact on the organisation's assets is that a successful outcome of the procurement process may result in assets in the red line boundary being considered for disposal.

6.4 Equalities / EIA

No equality impact assessment has been carried out as the recommendations in this report do not constitute a change in any Council policy or service delivery.

6.5 Implications for (or impact on) the environment

A redevelopment of the city centre will deliver new retail units, which reflect modern day standards and building regulations. The use of new materials will eliminate energy loss from the fabric of the buildings and promote energy efficiency resulting in a reduction in carbon emissions and utility costs for occupiers.

6.6 Implications for partner organisations?

The recommendations in this report have no implications for partner organisations.

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Members: Cllr Gannon	Cabinet Member (Strategic Finance and Resources)	N/A	18.08.15	19.05.15

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Appendices

Appendix 1 – City Centre South Red Line Boundary Area

City Centre South, Coventry.

Scale at A4 1 : 1250

