
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

24th January 2017
24th January 2017

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration - Councillor O'Boyle

Director Approving Submission of the report:

Executive Director of Place

Ward(s) affected:

St Michael's, Westwood

Title:

Friargate Update Report

Is this a key decision?

Yes, due to the level of potential financial liability being over £1m

Executive Summary:

In 2013, the Council approved starting the Friargate Business District to regenerate the City, transform the Council and deliver savings, through the purchase of the first building on Friargate for occupation by the Council, The Councils operational office buildings would be reduced and agile and flexible working arrangements introduced to support productivity and efficiency gains from Council staff.

The report also recognised the importance of a second tenant and gave approval to negotiate with the Royal Institution of Chartered Surveyors (RICS) to help secure them as the second tenant on Friargate.

The RICS are the institution governing Chartered Surveyors globally and both strategically important nationally and as a second tenant to the Friargate scheme are likely to provide confidence to other potential private sector tenants. The RICS currently have major offices in London and Coventry. The Coventry office is becoming obsolete and the RICS have been looking to relocate to new offices for a period of years. Many of the options under consideration are outside Coventry.

In 2013 discussions commenced between the Council, Friargate Coventry LLP and the RICS to secure the national HQ of the RICS as the second occupier of Friargate and build further space for letting to other occupiers.

In the absence of a second building under construction at Friargate this report outlines an opportunity for the Council to negotiate terms directly with the RICS in order to sublet space in its building at Friargate and secure the RICS as the second tenant on Friargate rather than losing this strategically important business occupier to both Friargate and potentially the City.

If these negotiations proved successful this would require the Council to retain operational building capacity within its existing building portfolio for a quarter of the staff (470) intending to move to Friargate, whilst further discussions continue in order to try and secure early delivery of Building 2.

To that end the opportunity has now arisen for the Council to make a formal application to the WMCA to secure up to £50m to bring forward development opportunities around Friargate to supplement the £100m already secured from the WMCA for City Centre South. Authority to make this application and to negotiate a new delivery framework with Friargate LLP is now requested.

Authorisation is also being sought in this report for delegated authority to officers (in consultation with the relevant Cabinet Member) to make such variations to the Collaborations Agreement (and other associated documents) that may be required to achieve the objectives set out in this report. It should be stated that such delegation will be limited only to the extent required to secure the sub-leasing of part of the Council's building at Friargate to the RICS.

Recommendations:

Cabinet is asked to recommend that Council:

- 1) Agree to amend the approved Kickstart strategy to co-locate staff to Friargate, by retaining existing operational buildings to house some of those staff and invest in these buildings in the event that the Council agrees to grant a sub-lease to the RICS
- 2) Approve that officers be mandated to negotiate terms with the RICS to allow the Council to grant a sub-lease to the RICS to occupy space within its building at Friargate on terms as broadly outlined in this report and delegate authority to the Executive Director of Place and Executive Director Resources in conjunction with the Cabinet members for Finance and Jobs & Regeneration to conclude terms, make minor amendments or corrections and complete the necessary legal documentation.
- 3) Delegate authority to the Executive Director Place and Executive Director Resources , in consultation with Cabinet Member for Jobs and Regeneration, to enter negotiations with the WMCA in order to secure a grant of up to £50m to secure further Friargate related development and to negotiate a new delivery framework with Friargate LLP subject to the terms of any such agreements being the subject of a subsequent formal report to Cabinet.
- 4) Delegate authority to the Executive Director for Place and Executive Director for Resources in consultation with the Cabinet Member for Jobs and Regeneration and Cabinet Member for Finance and Strategic Resources to negotiate and make any necessary amendments or variation to the Collaboration Agreement and associated document between the Council and Friargate LLP only to the extent required to achieve the sub-leasing of parts of the building to the RICS.

- 5) Approve the Council grant a lease extension to the RICS on their current premises at Westwood Business Park subject to a deal for the occupation of Friargate being finalised.
- 6) Request officers to bring back a further report on buildings to be retained and investment to maintain them in use for operational purposes and any other mitigation measures.
- 7) Authorise officers to negotiate a variation of the building contract to split a floor between the Council and RICS and to minimise any non-recoverable costs from not taking two and half floors

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- 2) Approve that officers be mandated to negotiate terms with the RICS to allow the Council to grant a sub-lease to the RICS to occupy space within its building at Friargate on terms as broadly outlined in this report and delegate authority to the Executive Director of Place and Executive Director Resources in conjunction with the Cabinet members for Finance and Jobs & Regeneration to conclude terms, make minor amendments or corrections and complete the necessary legal documentation.
- 3) Delegate authority to the Assistant Director for City Centre and Development Services and Executive Director Resources (Legal Services), in consultation with Cabinet Member for Jobs and Regeneration, to enter negotiations with the WMCA in order to secure a grant of up to £50m to secure further Friargate related development and to negotiate a new delivery framework with Friargate LLP subject to the terms of any such agreements being the subject of a subsequent formal report to Cabinet.
- 4) Delegate authority to the Executive Director for Place and Executive Director for Resources in consultation with the Cabinet Member for Jobs and Regeneration and Cabinet Member for Finance and Strategic Resources to negotiate and make any necessary amendments or variation to the Collaboration Agreement and associated document between the Council and Friargate LLP only to the extent required to achieve the sub-leasing of parts of the building to the RICS.
- 5) Approve the Council grant a lease extension to the RICS on their current premises at Westwood Business Park subject to a deal for the occupation of Friargate being finalised.
- 6) Request officers to bring back a further report on buildings to be retained and investment to maintain them in use for operational purposes and any other mitigation measures.
- 7) Authorise officers to negotiate a variation of the building contract to split a floor between the Council and RICS and to minimise any non-recoverable costs from not taking two and half floors.

List of Appendices included:

None

Background papers:

None

Other useful documents:

Cabinet (18th June 2013) and Council (25th June 2013) report – Starting the Friargate Business District to Regenerate the City, Transform the Council and Deliver savings.

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 – 24th January 2017

Report title:
Friargate Update Report

1. Context (or background)

- 1.1 In 2013 the Council approved the strategy to start the Friargate Business District by investing in the first building for the Council's occupation, and investing in Junction 6 and public realm improvements to the entrance to the City from the Railway Station. The Strategy involved the rationalisation of the Council's operational property estate to avoid backlog maintenance. Staff were due to work from the new building when it was completed and the office estate rationalised. Other parts of the strategy to create a single customer centre and improve the democratic centre at the Council House have been delivered. The Friargate building is under construction and due for completion in August 2017.
- 1.2 At the same time Council gave approval to negotiate with the RICS and the developer to secure the RICS as a strategically important tenant and bring forward a second building at the development subject to a report back.
- 1.3 The RICS is the governing board for Chartered Surveyors throughout the world and is based in the UK with its international headquarters in London and offices throughout the UK the biggest of which is at Westwood Business Park in Coventry which they occupy on a long lease granted by the Council.
- 1.4 The Coventry office is becoming obsolete and the RICS have been looking to relocate to new offices for a period of years. Many of the options under consideration are outside Coventry.
- 1.5 Discussions have been held since 2014 between the Council, Friargate Coventry LLP and the RICS to secure the national HQ of the RICS as the second occupier of Friargate. Originally this was focussed on creating a second building with space for the RICS and further space for letting to other occupiers.
- 1.6 Although Planning permission has been granted for a second building the developer Friargate LLP have not yet secured a tenant and therefore construction of this building has not gone ahead yet. The WMCA has provisionally allocated up to £50m of funding to support the development of Building 2. At the current time however no formal application has been made to the WMCA as discussions around a new delivery framework for Friargate have not been concluded with Friargate LLP, formal approval to commence this process is therefore sought.
- 1.7 The RICS requirement for space has now become urgent and whilst keen to stay in Coventry they have had problems finding suitable premises and if there is no new space available at Friargate, they may be forced to widen their search to Birmingham. The only option therefore available at the moment in order to secure the RICS at Friargate is for the Council to sub-let part of its new building at Friargate.
- 1.8 This proposal will impact on the Council approved Kickstart strategy in that approximately 26% of the office space to house Council staff will now not be available for Council purposes, requiring some operational office buildings from the Council's existing building portfolio to be retained to house these staff and investment in them in the absence of any other solution

2. Options considered and recommended proposal

- 2.1 The proposal under discussion is for the RICS to lease two and a half floors of the building together with a reception area adjacent to the Council's reception on the ground floor and would move circa 290 of their staff into the building which although mostly from Coventry would include staff from elsewhere.
- 2.2 The RICS would pay a market rent, for the space, together with a service charge to cover a fair proportion of business rates, utilities, facilities management and maintenance and repairs to the common areas of the building.
- 2.3 In line with other market transactions of a similar nature it is proposed that the RICS would receive a package of incentives including an initial rent free period from the Council.
- 2.4 Currently, the proposals under discussion do not impact upon the Council's existing Collaboration Agreement with Friargate LLP and associated documents. However, this will be kept under review.
- 2.5 The RICS intend to dispose of their current premises at Westwood Way should they move to Friargate. To facilitate this it will be necessary for the council to extend their ground lease on these premises which it is proposed to do at a full market consideration
- 2.6 The move would mean that under the current arrangements staff would be unable to relocate to Friargate and would remain in operational offices. In the absence of any other permanent proposal for these staff capital investment will be required in these buildings to ensure that they are fit for the Council's use.
- 2.7 In financial terms in addition to providing a medium to long term income, sub-letting space to the RICS would produce savings in maintenance costs and rates at Friargate. Clearly these need to be set against any increases in costs for ongoing costs of occupation elsewhere in the city. However, the savings and income generated from sub-letting to RICS outweigh the retained buildings costs
- 2.8 A decision to accommodate the RICS in the Friargate building means that not all staff can transfer to Friargate into one consolidated building therefore this proposal would need to be balanced against the Kickstart proposals for the Council's occupation of Friargate.

Options

Reject the proposal (Not Recommended)

- 2.9 The Council could reject the request to lease space to the RICS. The RICS would be forced to either stay at Westwood Way which is now seen as obsolete or find alternative premises. At present whilst they are still based in Coventry, it is likely that they would be forced to extend their search for new premises to Birmingham. The RICS are seen as a prestigious tenant and it is highly likely they will be offered alternative space elsewhere with similar or greater incentive package. If the RICS moved out of Coventry the city will lose the bulk of their 290 jobs together with the RICS as a prestigious occupier for the City and as a second tenant at Friargate that is likely to act as a catalyst to others.

Accept the proposal to lease space to the RICS within the Council's building at Friargate (Recommended).

2.10 Under this option, the Council would lease two and half floors of office accommodation to the RICS together with some reception space for a term of 15 years on the broad terms outlined in section 2.2 - 2.4 above.

2.11 The Council would need to make plans to retain space and accommodate staff within alternative Council offices and invest in these buildings to give them a useable life.

3. Results of consultation undertaken

3.1 The Council has not undertaken formal public consultation around the proposal.

4. Timetable for implementing this decision

4.1 If the decision is made to proceed with the recommendations, the intention would be to instruct Legal Services to agree and complete the documentation so that the RICS can take possession of their space at the same time the Council takes occupation of building one at Friargate in summer/autumn 2017.

5. Comments from Executive Director of Resources

5.1 Financial implications

Should the Council approve the recommended proposal, and the terms proposed to the RICS be accepted, the RICS would pay the Council an annual market rent after an initial rent free period. Additionally, they would pay business rates and a service charge for their share of the building.

Sub-letting space to RICS as described would mean some staff could not co-locate to Friargate within one building, resulting in a requirement to retain space elsewhere in the City Centre.

Additionally, depending on the specific space retained, and the period it would be required for, there is a capital investment requirement to deal with both the backlog maintenance that were due to be avoided by moving the staff involved to Friargate and also any upgrade deemed necessary to facilitate new ways of working. For example, if Broadgate House floors 3-5 were to be kept long term, then it would need internal refurbishment services upgrade and roofing replacement. Whilst the cost of such capital investments cannot be accurately priced at this point, they would be significant and will therefore be reported back to members in response to recommendation 6.

During the initial rent free period the Council would benefit financially from proceeding with the recommendation but this would be broadly offset by the cost of retaining alternative space in the city centre.

From year 3, the rent received from the RICS would be a clear corporate net financial benefit from which any further capital investment in the retained stock would need to be netted off.

In taking a lease at Friargate, the RICS will require an extension to their lease at Westwood which will yield a one off cash receipt for the Council. This would partially offset the estimated receipts lost from assumed property disposals resulting from retaining buildings for continued use.

In addition there would need to be some additional expenditure to subdivide one of the office floors at Friargate to create a half floor for RICS. The contract to build the Councils

building at Friargate is for a fixed price contract to provide a fully fitted out building ready for the Council's occupation. There is the potential for non-recoverable expenditure resulting from omitting two and half floors of accommodation. Authority is sought to negotiate a variation of the contract with the developer to minimise this, once an agreement for lease is completed with the RICS.

A summary table setting out the financial arrangement is contained within the private element of the report.

5.2 Legal implications

If the recommendations contained in this report are approved, the Council has a duty under section 123 of the Local Government Act 1972 not to dispose of land at less than best consideration (other than by way of short lease) except with the consent of the Secretary of State.

Under the Lease agreement between Coventry City Council and Friargate Coventry Development Limited dated 13th February 2015, no Landlord consent will be required for the grant of the sub-lease to RICS for occupation of part of the building to be occupied by the Council. The Council will however need to give written notice to the Landlord of the disposition together with certified copies of all the documents giving effect to it and pay to the Landlord a proper and reasonable registration fee being not less than £40. This notice and payment will need to be made within one month of the grant of the sub-lease to the RICS.

The lease extension of the current premises occupied by the RICS at Westwood Business Park will be achieved by way of a surrender and re-grant mechanism.

Legal Services will ensure that all conditions which are considered necessary to safeguard the interests of the Council in any sub-lease and lease extension arrangement with the RICS are achieved.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives (Council Plan)?

The recommended proposal will contribute to the Council's core aims of:

- **Making the most of our assets** – The recommendations of this report propose that the Council uses its building at Friargate to secure RICS continued presence within the city – but will require buildings retaining with backlog liabilities that were being avoided by the original proposal.
- **Supporting Businesses to grow** - Within this proposal the RICS are looking to expand their business within Coventry.
- **Developing the city centre** – The RICS letting will help to provide confidence in the Friargate scheme and City Centre and will help when promoting both schemes to investors and occupiers.
- **Raising the profile of Coventry**– the RICS are a very prestigious tenant and their location in the centre of Coventry adjacent to rail station will promote both Friargate and the city.

6.2 How is risk being managed?

The letting to the RICS will be a legally binding lease hence neither side will be committed until this has been signed therefore there is minimal risk other than abortive legal fees. The Council is contractually bound to take delivery of a fully fitted building for the Councils use on completion. There are no provisions in the contract to reduce the spend under the contract and therefore at present no cost reduction has been assumed for costs in fitting out two and a half floors for the Councils. Authority to negotiate with the developer will be sought to minimise this cost.

6.3 What is the impact on the organisation?

The full benefit of the original proposal to co-locate back office staff to Friargate to will not be realised. Accommodation some staff will need to be retained in other locations, one of which will be the upper floors of Broadgate House because of the capacity that it offers. These facilities offer poor quality office accommodation and will require modernisation and backlog maintenance issues invested in. Officers will work on proposals to come forward with a costed retention plan once it is determined which teams will not move to Friargate as well as consider other mitigation measures.

6.4 Equalities / EIA

Equalities will not be affected by these proposals

6.5 Implications for (or impact on) the environment

As the proposal relates to space either under construction or currently existing there is no anticipated impact on the environment.

6.6 Implications for partner organisations?

None

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