
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 refers to the identity, financial and business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services. The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet

1st August 2017

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration – Councillor J O’Boyle

Director Approving Submission of the report:

Executive Director - Place

Ward(s) affected:

St Michaels

Title:

Friargate Letting to Financial Ombudsman Service

Is this a key decision?

No

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.

Securing a second tenant to the Friargate scheme remains strategically important to provide confidence to other potential tenants. The Council were approached confidentially in early May by the Financial Ombudsman Service who were conducting a property search in the Midlands and negotiations commenced with the Financial Ombudsman Service to become the second tenant at Friargate by taking up occupation in the Councils building.

The Financial Ombudsman was seeking modern office accommodation for up to 300 staff from October 2017, to supplement their office accommodation in London. Time was of the essence to agree the terms and complete an agreement for lease to them in May to permit occupation in October. Acting under powers of urgency and after consulting the Leader of the Council and the Cabinet Member the agreement for lease was completed at the end of May. This report therefore

seeks retrospective approval to that lease to ensure that this strategically important business occupier to both Friargate and the City was not lost.

The consequence of completing this lease requires the Council to retain operational building capacity within its existing building portfolio for staff (350) intending to move to Friargate, and the upper floors of Broadgate House have been retained for this purpose for the medium term.

A report on the private part of your agenda sets out the terms of the letting and the implications for retaining part of the existing estate.

Recommendations:

Cabinet is retrospectively asked to:

- 1) Agree to amend the approved Council strategy to co-locate staff to Friargate, by retaining the upper floors of Broadgate House to co locate staff not now destined for Friargate and invest in these buildings for staff.
- 2) Approve the letting to the Financial Ombudsman Service of Floors two and three of the Council's new building at Friargate
- 3) Request officers to bring back a further report on investment to maintain Broadgate House in use for operational purposes and any other mitigation measures.

List of Appendices included:

None

Background papers:

None

Other useful document:

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.

<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=130&MId=9911&Ver=4>

Friargate Update Report 24th January 2017

<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=124&MId=11339&Ver=4>

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?

No

Report title:
Friargate Letting to Financial Ombudsman Service

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 Councils 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 Councils 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 is due for completion in August 2017.
- 1.2 At the same time Council gave approval to negotiate with an incoming second occupier as a strategically important tenant and bring forward a second building at the development subject to a report back.
- 1.3 The incoming second occupier did not proceed but a second tenant to the Friargate scheme still remains strategically important to provide confidence to other potential tenants. The Council were approached confidentially in May by the Financial Ombudsman Service who were conducting a property search in the Midlands and negotiations commenced with the Financial Ombudsman Service to become the second tenant at Friargate
- 1.4 The Financial Ombudsman Service are based in London and were looking to establish a new office within a defined travel time of London in which they intend to locate 300 staff jobs. The search focussed around several Cities and included Coventry. Negotiations on a suitable location within Coventry focussed on Friargate.
- 1.5 The Financial Ombudsman Services requirement for space was urgent and in order to guarantee they would have the space they needed for October they wanted to conclude negotiations for an agreement for lease to start in October urgently or would have had to consider other options.
- 1.6 This proposal will impact on the Council's approved accommodation strategy in that approximately 20% of the office space to house Council staff will now not be available for Council purposes, requiring the Council to retain some operational office space from the Council's existing building portfolio to house these staff and investment in them in the absence of any other solution. In the medium term the building with the capacity to provide accommodation for displaced staff is the upper floors of Broadgate House, which were intended to be disposed when vacated.

2. Options considered and recommended proposal

- 2.1 The agreement for lease to the Financial Ombudsman Service is for two floors of office accommodation in the new Friargate building together with a shared reception on the ground floor for a term of 10 years on open market terms. The commercial terms of the lease are reported in the private report elsewhere on your agenda.
- 2.2 The Financial Ombudsman Service intend to locate 300 staff in the new building and commence occupation in October building up to full capacity before the end of the year.
- 2.3 The move would mean that under the current arrangements a number of staff would be unable to relocate to Friargate and would remain in some retained operational space. 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 Councils use for the medium term.

- 2.4 In financial terms in addition to providing a medium to long term income, sub-letting space to the Financial Ombudsman Service would produce savings in maintenance costs and rates at Friargate which need to be set against any increases in costs for ongoing costs of occupation for retained accommodation.
- 2.5 A decision to accommodate the Financial Ombudsman Service 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 Council's approved proposals for the Councils occupation of Friargate.

Options

- 2.6 This report seeks retrospective approval for the terms agreed and lease granted to the Financial Ombudsman. Council officers acted on grounds of urgency and in consultation with the leader of the Council and the Cabinet Member Jobs and Regeneration to ensure that this strategically important letting, and the jobs that come with it, were not lost to the Friargate development or the City. The Council will 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. The office building that offers the capacity to house the number of staff displaced is Broadgate House upper floors, which was due to be released under the the Councils approved accommodation programme.

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 The letting to the Financial Ombudsman Service has already been secured under emergency powers, this report is seeking retrospective approval.

5. Comments from Director of Finance and Corporate Services

- 5.1 Financial implications

The financial implications of this letting and the need to retain operational space in the existing estate are reported fully in the private report elsewhere on your agenda.

Sub-letting space to Financial Ombudsman Service would mean that up to 350 staff would be displaced from locating at Friargate. It is planned to retain Broadgate House floors 3-5 for this purpose as the only space capable of co-locating this number of staff.

The Councils approved accommodation strategy has a revenue savings target of £500,000 per annum. The impact of the letting to the Financial Ombudsman and the consequential investment in retained space will be managed within the existing target revenue savings target, and reported at the completion of the project.

- 5.2 Legal implications

The reports seeks retrospective approval to approve the grant of an agreement for lease which has been entered into between the Council and the Financial Ombudsman Service to allow the occupation of two floors within the Council's building at Friargate.

In order to avoid any risk of a state aid challenge (on the basis of a failure to secure market value and so in essence provide a subsidy) the terms of the lease arrangement should be certified by an independent valuer as representing market value. To achieve this the letting to the Financial Ombudsman Service was negotiated on the Councils behalf by independent Chartered Surveyors (GVA Grimley). They have certified that the Council is compliant with its responsibilities under section 123 of the Local Government Act 1972. The report does not identify any issues with the proposals.

No consent was required for the letting to the Financial Ombudsman from the Councils superior landlord (Friargate LLP) although the Council will need to register the lease with them.

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 the Financial Ombudsman Service within the city – but will require buildings retaining with backlog liabilities that were being avoided by the original proposal for the Council to occupy the Friargate office alone.
- **Supporting Businesses to grow** - Within this proposal the Financial Ombudsman are looking to bring some of their business to Coventry.
- **Developing the city centre** – The Financial Ombudsman 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 Financial Ombudsman is 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 agreement for letting to the Financial Ombudsman is legally binding. The key risk is that the buildings completion is delayed beyond October, for which there are penalty arrangements in the lease. Officers are in close contact with the developers but have not been informed formally of delays beyond the current building completion date of August.

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 namely 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

Report author(s):

Name and job title:

David Cockroft
Assistant Director, City Centre and Development Services

Directorate:

Place

Tel and email contact:

024 7683 3964
david.cockroft@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Lara Knight	Governance Services Coordinator	Place	4/7/17	4/7/17
Phil Helm	Finance Manager	Place	25/6/17	30/6/17
Oluremi Aremu	Head of Legal Services	Place	25/6/17	30/6/17
Nigel Clews	Assistant Director	Place	25/6/17	30/6/17
Names of approvers for submission: (officers and members)				
Martin Yardley	Executive Director	Place	4/7/17	6/7/2017
Councillor J O'Boyle	Cabinet Member Jobs and Regeneration		7/7/2017	11/7/2017

This report is published on the council's website: www.coventry.gov.uk/councilmeetings