

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

27th August 2019
3rd September 2019

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration - Councillor J O'Boyle

Director Approving Submission of the report:

Chief Executive

Ward(s) affected:

St Michael's

Title:

Grant of lease on land in Friargate Business District

Is this a key decision?

Yes – the expenditure to be approved pursuant to this report will be in excess of £1 million pounds

Executive Summary:

The City Council has a long-held ambition to realise the delivery of high-quality new hotels within the city and currently has the option to acquire a site for this purpose within the Friargate business district. There is now an opportunity to secure the delivery of a four star 'Hotel Indigo' for the city, to be open and operational in the early part of 2021.

However, given the unproven market for higher end hotels within Coventry city centre (there has been no hotel of a four-star equivalent for approximately 50 years) and the cost of delivering such a hotel within such an early phase of Friargate, a development of this quality requires the support of the Council through:

- a contribution to the delivery of public realm and the provision of utilities infrastructure in the surrounding area to the site
- a disposal of the land at a value that may be less than the prevailing market value of that site
- the making available of up to 50 car parking spaces (which will be the subject of a separate lease).

Recommendations:

Cabinet is requested to:

- 1) Approve capital expenditure (subject to the satisfaction of the conditions precedent (contractual protection) contained within the option agreement dated 15th January 2019 between the Council and Friargate JV Project Limited, as outlined in para 1.2), to fund the acquisition of the site shown edged red in appendix 1 by way of the entering into of a 250 year lease the sum of which is identified in the private element of this report.
- 2) Delegate authority to the City Solicitor, following consultation with the Finance Manager (Corporate Finance) and the Cabinet Member for Jobs and Regeneration, to finalise the terms of the leasehold acquisition between the Council and Friargate JV Project Limited to ensure that this transaction will be entered into in the most efficient manner.
- 3) Authorise the grant of a new lease for the unexpired term of the headlease to be acquired under recommendation 1 above (less seven days) to a special purpose vehicle to be formed by Wylam Investments Limited for the site shown edged in red in appendix 1 for the development of a hotel in accordance with the terms of this report.
- 4) Approve the draft Heads of Terms for the grant of the underlease as set out in the private element of this report.
- 5) Delegate authority to the City Solicitor, following consultation with the Finance Manager (Corporate Finance) and the Cabinet Member for Jobs and Regeneration, to undertake the necessary due diligence, make any subsequent variation to the Heads of Terms and to complete the necessary legal documentation required to enter into the new lease arrangements.
- 6) Approve capital expenditure of up to £1m from existing resources within the Public Realm programme associated with City of Culture readiness, to be used for the purposes of delivering a public realm scheme in and around the hotel site.
- 7) Delegate authority to the City Solicitor, following consultation with the Finance Manager (Corporate Finance) and the Cabinet Member for Jobs and Regeneration, to agree the final public realm cost, specification and necessary legal documentation required for delivery.
- 8) Approve capital expenditure of up to £0.685m from existing resources within the capital programme to be used for the purposes of providing the necessary utilities and servicing infrastructure in the surrounding area to the site as well as up to the boundary of the site in order to enable the delivery of the hotel.
- 9) Delegate authority to the City Solicitor, following consultation with the Finance Manager (Corporate Finance) and the Cabinet Member for Jobs and Regeneration, to agree the final services and utilities cost, specification and necessary legal documentation required for delivery.
- 10) Approve (following practical completion of the infrastructure) the proposed grant of a lease for up to 50 car parking spaces at the rail station multi-story car park, the details of which are set out in the private report.
- 11) Delegate authority to the City Solicitor, following consultation with the Finance Manager (Corporate Finance) and the Cabinet Member for Jobs and Regeneration, to undertake the necessary due diligence and to complete the necessary legal documentation required to enter into the new car park lease arrangements.

Cabinet is requested to recommend that Council:

- 1) Approve the necessary adjustment to the Capital programme to reflect the capital expenditure incurred in the acquisition of the leasehold interests within the Friargate Business District.

Council is requested:

- 1) To approve the necessary adjustment to the Capital programme to reflect the capital expenditure incurred in the acquisition of the leasehold interests within the Friargate Business District.

List of Appendices included:

Appendix 1 - Site Plan

Appendix 2 – Masterplan General Arrangement

Background papers:

None

Other useful documents:

Report to Cabinet 9 January 2018 and Council 16 January 2018; Friargate Joint Venture
<https://edemocracy.coventry.gov.uk/documents/s36714/Friargate%20Joint%20Venture.pdf>

Report to Cabinet and Council 24th January 2017; Coventry Station Masterplan Update
<https://edemocracy.coventry.gov.uk/documents/s32667/Coventry%20Station%20Masterplan%20Update%20incl%20Appendix%201.pdf>

Report to Cabinet 27th November 2018; Coventry Tourism Strategy
<https://edemocracy.coventry.gov.uk/documents/s42029/Coventry%20Tourism%20Strategy.pdf>

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 – 3rd September 2019

Title: Grant of lease on land in Friargate Business District

1. Context (or background)

- 1.1. In January 2018, Cabinet and Council approved the creation of a joint venture (JV) company between the City Council and Friargate LLP to accelerate the delivery of buildings within the Friargate business district masterplan area. The JV was legally established in February 2019 as “Friargate JV Project Limited” and the Council is now the joint freeholder of the majority of the land within the masterplan area.
- 1.2. The legal documentation agreed when establishing Friargate JV Project Limited includes an Option Agreement which (subject to the satisfaction of the condition precedent) enables the Council to call for the grant of a long leasehold interest by the JV of the site identified in appendix 1. The condition precedent referred to above which needs to be satisfied is the approval of the JV’s masterplan architect of the proposed hotel scheme, for use as a hotel. Upon exercise of the option, a premium payment will be payable by the Council to Friargate JV Project Limited, the sum of which is highlighted in the private element of this report.
- 1.3. There is now the opportunity to secure the delivery of a high quality new four star hotel in the first phase of the Friargate scheme, which will trade under the highly regarded “Indigo” brand, through the granting of a lease by the Council to a special purpose vehicle (SPV) formed by Wylam Investments Limited (the parent company of Castlebridge) with Castlebridge being responsible for developing and operating the hotel on the site.
- 1.4. Castlebridge is a private development company who have delivered over 20 hotels within the UK and Europe. Examples include Hotel Indigos in Stratford-Upon-Avon and Chester, the Hilton Garden Inn at Birmingham Airport and Holiday Inns in Winchester, Gibraltar and Bilbao Airport. They are currently delivering a further seven hotels on behalf of the InterContinental Hotels Group. Hotel Indigo itself is a chain of boutique hotels and will form part of InterContinental Hotels Group. As of April 2019, there are 102 Hotel Indigo hotels worldwide. Each hotel has a strong focus on creating an identity that is specific to its local context and that approach will be replicated in Coventry.
- 1.5. The hotel will be located on the site identified in appendix 1 (referred to as “Plot C06” within the wider Friargate Masterplan – please see appendix 2 for the general masterplan layout) which benefits from the outline planning consent approved under planning reference OUT/2011/0036 dated 27th July 2011. The site is adjacent to the Council’s offices at Friargate One, 100 metres from Coventry rail station (which is currently in the process of a £82m upgrade) and five minute walk from Coventry city centre.
- 1.6. The proposed scheme, which is due to be submitted for Planning consideration in the Autumn of 2019, will deliver a c.100 bed Hotel Indigo with a 100 cover ground floor restaurant and a 40 cover public bar with external roof terrace area both of which will be accessible to the general public. Subject to the grant of Planning Permission, work on the hotel is expected to commence during the first quarter of 2020 with practical completion expected, and the hotel being fully operational, during 2021.
- 1.7. The delivery of high quality hotel developments in the city has been a long held ambition for the Council and is an immediate priority for the Council due to the expected influx of visitors during City of Culture 2021 and Commonwealth Games 2022, the role they play in boosting the city’s image and inward investment potential, the need to provide suitable accommodation to service the city’s growing economy and the lack of ‘upmarket’ hotels currently operating within the city centre. However, the market for high quality hotels in Coventry is still relatively unproven so a partnership approach is required to deliver this opportunity. As part of the delivery of the first phase of the Friargate business district masterplan, the Council will be

investing in high quality public space and associated landscaping improvements (for the benefit of local residents, visitors and existing and future occupiers of the business district), as well as ensuring that the necessary utilities infrastructure is in place to enable the hotel to operate. This investment will help secure the delivery of the hotel whilst also enabling the delivery of the future commercial and residential development within the masterplan area.

2. Options and recommended proposal

2.1. Option 1. To not agree to the granting of the lease on the terms set out in the Heads of Terms

2.1.1. If the Council were to not proceed with the proposal that is the subject of this report then there will not be a four-star hotel delivered within Friargate in the immediate future. The site will continue to be marketed as a location for a hotel but there is no guarantee that a hotel of the quality proposed through this deal will come forward nor that more advantageous lease arrangements will be entered into.

2.1.2. Given the Council's ambitions for Friargate, its economic development ambitions for the city and its residents together with the importance of boosting the visitor economy during, and after, the UK City of Culture 2021 programme, not delivering a hotel of this quality would run contrary to the Council's objectives for the city centre. For these reasons, this option is not recommended.

2.2. Option 2. Agree to the granting of the lease on the terms set out in the Heads of Terms

2.2.1. To facilitate the delivery of the Friargate business district and meet our ambitions regarding economic development and the visitor economy it is recommended that the Council agrees to the granting of the lease in line with the terms set out in the private element of this report. As well as the delivery of a high-quality four-star hotel for the city, it will also deliver a number of wider benefits to the city (these are outlined in paras 2.2.4. – 2.2.4.8 below).

2.2.2. To protect the Council's position and ensure the delivery of the hotel, the Council will ensure that the legal documentation contains a legally binding obligation which will ensure that the Council is able to reacquire the site (and buildings if relevant) if key delivery milestones are not met. Section 6.2 below provides more information regarding managing risk in relation to delivery and timescales.

2.2.3. As the hotel is developed and becomes operational, the Council will also explore whether there is the potential for a future acquisition of the hotel if it were to meet the Council's wider income generation policies and criteria. Clearly, should this be the case, any approval to proceed with such a transaction would be a matter for future Cabinet and Council decisions.

2.2.4. Key benefits for the city

2.2.4.1. **Enhancing the city's reputation:** Hotel Indigo is recognised within the hospitality industry as a premium brand that offers a unique hotel experience. This, alongside the proposals for the restaurant and bar (open to the general public) on the ground floor of the development and the close proximity to the train station and areas of high footfall, provides a fantastic opportunity to deliver a new reputation for the Friargate area of the city. In short, it will create a premium hotel of choice for tourists and investors (enhanced by a "destination" restaurant offer) and help deliver a significant perception change for the city.

2.2.4.2. **Visitor economy:** The Coventry Tourism Strategy 2019-2023 (agreed by Cabinet in November 2018) sets out the steps the Council and partners will take to help develop and sustain a thriving visitor economy in Coventry. The strategy makes clear that the city's ability to capitalise on the visitor economy is hampered through the quality of its accommodation

offer and that improving this is key to being able to position Coventry as a destination and a place for city breaks.

- 2.2.4.3. This situation is exacerbated when put in the context of the city's host status for UK City of Culture 2021 and as a location for Commonwealth Games 2022 events (as well as the connectivity between Coventry and other games venues across the region creating a great opportunity to capture visitors from across the world to the city). Currently, it is estimated that approximately 2.5 million visitors will visit Coventry during City of Culture and providing high quality accommodation options is a fundamental building block for a successful year when the city will be in the spotlight like never before.
 - 2.2.4.4. The proposals set out within this report will help deliver the vision within the Tourism Strategy that "By 2023 perceptions and awareness of Coventry as a leisure and business tourism destination will have improved and grown and residents will be even more proud active ambassadors of their city. The city will be recognised as host for major events and the city will be attracting more than 10 million visitors a year."
 - 2.2.4.5. **Job creation and financial benefits:** it is anticipated that approximately 40 permanent jobs will be created by the opening of the Hotel Indigo. These include a Hotel General Manager, a Restaurant General Manager, Chefs and kitchen staff, restaurant and bar staff, housekeeping teams and maintenance staff. Castlebridge will aim to recruit locally wherever possible and are committing to work with the Council's Job Shop to help ensure local people are given training opportunities (where required) in advance of the hotel opening to give them the best chance of securing a role.
 - 2.2.4.6. Furthermore, it is anticipated that business rates of at least £150k per annum will be created by the hotel and restaurant. The developer's investment itself in the scheme will also mean that an estimated further 30 jobs will be created during the construction of the hotel as well as wider spend in the economy generated. Castlebridge and their contractors will also engage with local schools and colleges to ensure that work experience and apprenticeship opportunities are maximised.
 - 2.2.4.7. **Unlocking the delivery of the Friargate business district:** alongside the current works to transform the rail station, the construction of a Hotel Indigo will help to provide market confidence that Friargate should be a destination of choice for business investment. This is particularly important for the Council as we near the commencement of the next commercial office building within Friargate where it will be vital to secure high-quality tenants for what will be a prestigious office scheme.
 - 2.2.4.8. Alongside this, the hotel will have an active ground floor with the introduction of the new restaurant and bar. This will not only serve hotel guests but will also be open to the public and would trade independently. Given the success of Cathedral Lanes and what that has done for the food and beverage offer and evening and weekend economy within the city, there is confidence that a high-quality restaurant offer will thrive, intensify footfall to the area and pave the way for future leisure, retail and food and beverage businesses exploring Friargate as a destination to locate.
- 2.2.5. Public realm
- 2.2.5.1. Given the importance the Council places on the Friargate business district to help fulfil its economic development objectives, it is essential that a high quality, and safe, public realm environment is created in and around the hotel site. It is proposed that the Council invests up to £1m of capital expenditure to deliver this scheme.

2.2.5.2. These works will be undertaken by the hotel developer at the same time as the hotel is being built to ensure they are done in a co-ordinated way and that value for money is being achieved. The final specification for the public realm works will be finalised through the Planning process and a reimbursement process will be agreed between the Council and the developer in order to ensure that costs and specifications are worked through to both parties satisfaction (with Cabinet noting that the Council's contribution is capped with the funding being made available from a combination of existing resources, including grant monies if appropriate).

2.2.6. Servicing

2.2.7. One of the key conditions of the lease, as set out in the Heads of Terms, will be the hotel having access to a fully serviced site suitable for the operation of a hotel of this quality. This includes power, heat and cooling (through connection to the Heatline decentralised energy network), water, drainage and broadband.

2.2.8. Friargate JV Project Limited through its role as the freeholder of the site is currently producing a utilities strategy for the first phase of the Friargate business district (of which the hotel site is part of) and once this strategy, and negotiations with utility providers, is complete (anticipated to be during Autumn 2019), Friargate JV Project Limited will be implementing the delivery of this utilities strategy. This, therefore, presents an opportunity whereby the Council could agree to reimburse (subject to a final cost being provided) Friargate JV Project Limited for the cost incurred towards the delivery of the necessary site servicing to facilitate the delivery of the hotel site (Cabinet are also asked to note that the Council's contribution is capped with the funding being made available from the budget agreed by Cabinet and Council in the January 2018 Friargate Joint Venture report which is able to fund relevant development costs within the Friargate scheme).

2.2.9. Car parking

2.2.9.1. Another key requirement of the hotel operator is the ability to provide car parking spaces for its guests within the vicinity of the hotel. The Council will facilitate the entering into of the necessary lease or licence arrangements to provide up to 50 car parking spaces at the new multi-story car park being built at Coventry rail station (or other such location agreed by the parties, if necessary).

3. Results of consultation undertaken

3.1. Formal public consultation on the development proposals will be undertaken as part of the formal planning application process during the Autumn of 2019.

4. Timetable for implementing this decision

4.1. Subject to Cabinet and Council approval, officers will work with the Castlebridge group of companies and their advisors to complete the necessary agreements as soon as possible to enable the delivery of the hotel during the early part of 2021.

5. Comments from the Director of Finance and Corporate Services

5.1. Financial implications

Details of the financial implications of this transaction are contained within the private element of this report.

5.2. Legal implications

Property Implications - disposal at less than market value

- 5.2.1. The Council has powers under Sections 123 and 127 of the Local Government Act 1972 to dispose of land in any manner they wish, including sale of their freehold interest, granting a lease or assigning any unexpired term on a lease and granting of easements. The only restriction is that a disposal must be for the best consideration reasonably obtained otherwise consent is required from the Secretary of State.
- 5.2.2. On 4 August 2003, the Government launched the General Disposal Consent 2003 (“the Consent Order”). This allows the Council to sell land, in certain circumstances, for less than its market value without having to obtain consent from the Secretary of State for any disposal of land where the difference between the unrestricted value of the interest to be disposed and the consideration accepted is £2m or less. This is known as “an undervalue”.
- 5.2.3. The Council has obtained an independent valuation of the site from Savills (based on the terms of the deal set out within the Heads of Terms which is contained in the private element of this report, including the site being fully serviced and integrated into the wider public realm). Under the General Disposal Consent Order 2003, local authorities may dispose of land at “under value” (of up to £2m) if the disposal is likely to contribute to the promotion or improvement of the economic, social or environmental wellbeing of its area.
- 5.2.4. In view of the benefits described in section two (preferred option) of this report, legal services are satisfied that the criteria in para 5.2.3 above has been satisfied.

State Aid Implications

- 5.2.5. Whenever the Council grants a benefit in any form to an undertaking, it is possible the grant may constitute State Aid. It is, however, unlikely that the cost to be incurred by the Council under this report will constitute illegal State Aid because:

Servicing of the Site

- 5.2.6. The European Commission has concluded in what is commonly referred to as (“the German land scheme decision”) that the provision of direct grants for the development and revitalisation of land does not constitute state aid. This was determined on the basis that the development of land by local authorities (which includes making land ready to build and ensuring that the land is connected to utilities) is part of their public tasks and therefore outside the realm of EU State aid rules.

Public Realm

- 5.2.7. The public realm funding will be state aid compliant due to the fact that the monies are being used to provide public infrastructure to which the public will have general access. The agreement between the Council and hotel developer will have obligations contained within it so that tight controls and records of how the monies are spent and of the use of the funded infrastructure as public infrastructure which will enable the Council to demonstrate that it is being used in a state aid compliant manner.

Disposal at less than market value

- 5.2.8. EU State Aid rules on regional aid (Article 14 General Block Exemption Regulation) set the framework for financial assistance to companies to create or protect jobs in Britain’s less prosperous areas. These rules determine how much financial support the UK government and

the devolved administrations are allowed to give to companies, and where. The UK Assisted Area map is an integral part of the rules. The hotel site sits within St. Michael's Ward which is identified as a UK assisted area within the 2014-2020 UK Regional Aid map.

- 5.2.9. Regional investment aid, in essence, provides for aid of up to 10% of investment costs for investment projects in designated assisted areas up to a maximum amount of 7.5 million euros ("Aid Intensity Threshold"). This exemption covers all costs related to investment in tangible and intangible assets. The land value amount referred to in the private element of this report sits within the aid intensity threshold referred to above.

6. Other implications

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

- 6.1.1. The delivery of the scheme outlined in this report will deliver a range of economic development (including 40 new permanent jobs) and inward investment objectives that will help to realise the Council's ambitions for a more vibrant and economically prosperous city. It will also support the delivery of the Council's Tourism Strategy 2019-2023 through helping to improve the quality of accommodation in the city and improving the perception of Coventry as a destination for visitors and tourists.

6.2. How is risk being managed?

- 6.2.1. The Council's key requirements for this project are to ensure that the hotel is delivered within a timely manner, the site is utilised as a high-quality hotel for a period of at least twenty five years and that any financial risk to the Council relating to project delivery is minimised. These risks will be managed through the legal obligations within the agreement for lease and will be maintained through the restrictions imposed in terms of the lease.

Delivery and use

- 6.2.2. If the delivery of the hotel does not proceed in accordance with key milestones then the Council retains the ability of being able to reacquire the site from the Castlebridge group if this situation is not remedied. As part of this requirement, the Council will undertake regular monitoring inspections of the hotel to ensure progress against programme is satisfactory. However, it is important to note that whilst all parties will use reasonable endeavours to ensure that the hotel is delivered for 2021, the realities of a development scheme such as this means that this date cannot be guaranteed.
- 6.2.3. The Heads of Terms (as set out in the private report) contain an explicit requirement that the site is utilised for the purposes of a hotel and restaurant for a period of at least twenty-five years.

Construction and financial risk

- 6.2.4. In terms of the construction of the hotel, all construction and financial risk sits entirely with the hotel operator and developer, there is no financial risk to the Council from the delivery of the hotel going over budget.
- 6.2.5. Members are asked to note that in relation to public realm provision, the Council's position is protected through agreeing to a capped sum for this work (with any cost overruns falling to the developer). The recommendations within this report provide the authority to agree a process with Castlebridge where costs are shared transparently to ensure that the reimbursements are based on the actual costs incurred in the delivery of a high-quality public realm scheme.

6.2.6. Members' attention is drawn to the provision within the Heads of Terms set out in the private report to provide a fully serviced site (including the Council ensuring that temporary heat and power sources are available to the hotel in the event that the permanent connections are not in place at the practical completion of the hotel). The final cost of providing services will be known before we enter into the lease with the hotel operator and we will ensure that this is a capped sum.

6.2.7. The final key financial risk relates to the income target for the new station multi-storey car park if the hotel is not able to reimburse the Council for its use of spaces. The commercially sensitive financial implications of this transaction are contained within the private report.

6.3. What is the impact on the organisation?

6.3.1. The impact to the organisation will be minimal as it doesn't affect any service which the Council provides. It will generate work for officers within the Place Directorate in concluding the negotiations and processing the lease documentation.

6.4. Equalities and Consultation Analysis (ECA)

6.4.1. An Equalities and Consultation Analysis has not been undertaken as the proposal concerns the disposal of land for redevelopment and no Council service or group will be impacted.

6.5. Implications for (or impact on) climate change and the environment

6.5.1. The overall development will be in accordance with the Council's planning policies for sustainable development.

6.6. Implications for partner organisations?

6.6.1. There are no implications for any partner organisations.

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