

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

25th August 2020
8th September 2020

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:

Funding and Delivery of Two Friargate

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 delivery of the Friargate business district is a key corporate priority for the Council. The Council secured £51.2m of grant funding from the West Midlands Combined Authority in 2018 to support the delivery of the next commercial office building – Two Friargate. A condition of this funding was the establishment of the Friargate Joint Venture between the Council and Cannon Cannon Kirk to deliver the wider Friargate development scheme. Following the establishment of the joint venture in January 2019, work on design and development stages for the building and a tender process to appoint a contractor to deliver the building has been on-going. Two Friargate is due to start on site during Autumn 2020.

The total capital cost of the Two Friargate scheme is anticipated to be £68.2m. This report seeks approval for the £17m of funding (in excess of the WMCA grant) to acquire the land and building to be constructed necessary to deliver the Two Friargate scheme.

Friargate is located next to Coventry Railway Station, one of the fastest growing stations outside of London, which is currently benefiting from an £78m masterplan to create a new transport hub, second station building and new car park.

Recommendations:

Cabinet is recommended to:

- 1) Authorise officers to arrange for the completion of the Agreement for Lease and all associated legal agreements between the Council and Friargate JV Project Limited necessary to allow the Council to purchase the 250 years long leasehold interest in the land and building to be constructed on Two Friargate (as shown edged red on the plan in Appendix 1 attached to the report).
- 2) Authorise the completion of the Project Development Management Agreement and all associated legal agreements between the Council and Friargate Coventry Developments Limited necessary for the delivery of Two Friargate.
- 3) Authorise the completion of all necessary documentations with statutory undertakers and service providers required for the provision of service to facilitate the delivery of Friargate Two.
- 4) Delegate authority to the Strategic Lead – Property and Development, following consultation with the Finance Manager, the Director of Law and Governance and the Cabinet Member for Jobs and Regeneration, to undertake the necessary due diligence and approve the final terms of the purchase.
- 5) Cabinet is requested to recommend that Council:
 - I. Approve capital expenditure up to a capped amount of £17m from prudential borrowing to fund the grant of the 250 years long leasehold interest in the land to the Council and the delivery of the building to be constructed on Two Friargate
 - II. Make available additional working capital in the sum as highlighted in the private version of this report, to match the other Friargate JV Project Limited shareholder's contribution and ensure that the JV Company is adequately funded to promote schemes to investors and secure development in accordance with their business plan
 - III. Approve the necessary adjustment to the Capital programme to reflect the capital expenditure incurred in the delivery of Two Friargate.

Council is recommended to:

- 1) Approve capital expenditure up to a capped amount of £17m from prudential borrowing to fund the grant of the 250 years long leasehold interest in the land to the Council and the delivery of the building to be constructed on Two Friargate
- 2) Make available additional working capital in the sum as highlighted in the private version of this report, to match the other Friargate JV Project Limited shareholder's contribution and ensure that the JV Company is adequately funded to promote schemes to investor and secure development in accordance with the business plan
- 3) Approve the necessary adjustment to the Capital programme to reflect the capital expenditure incurred in the delivery of Two Friargate.

List of Appendices included:

Appendix 1 - Site Plan

Appendix 2 – General Masterplan Layout

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>

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 – 8th September 2020

Title: Funding and Delivery of Two Friargate

1. Context (or background)

- 1.1. In January 2018, Cabinet and the Council approved the creation of a joint venture (JV) company between the City Council and Cannon Cannon Kirk to accelerate the delivery of buildings within the Friargate masterplan area. The JV was legally established in January 2019 as “Friargate JV Project Limited” which is now the freeholder of the majority of the land within the masterplan area.
- 1.2. The January 2018 Cabinet and Council reports also approved the receipt of £51.2m of grant funding from the West Midlands Combined Authority (WMCA) to support the delivery of the next commercial office building within Friargate (as well as the wider first phase of the new business district).
- 1.3. The Council, its project managers IDP Group and commercial advisors Cushman and Wakefield (CW), have been kept regularly updated by the Friargate JV and its development managers, Friargate Coventry Development Limited (FCDL), on the necessary scheme design development to allow the construction contract for the building to be let. The Friargate JV has taken this proactive approach in order to ensure that the Council (acting in its capacity as purchaser) is satisfied that the building it will be purchasing will be fit for purpose. The tender process for the building contractors began on the 17th July and is due to conclude on the 11th September. This will enable an anticipated start on site in October which is in line with the milestones included with the WMCA grant agreement.
- 1.4. Two Friargate will be located on the site identified in appendix 1 (referred to as “Plot C10” within the wider Friargate Masterplan – please see appendix 2 for the general masterplan layout) and also benefits from a detailed planning consent granted in June 2016 (planning reference RMM/2016/0870). The site is adjacent to the Council’s offices at One Friargate, 50 metres from Coventry rail station (which is currently in the process of an £78m upgrade) and five-minutes walk from Coventry city centre.
- 1.5. Two Friargate will deliver 134,000 sqft of lettable Grade A office space (as well as a high-quality café or restaurant offer on the ground floor) which will be able to compete with the best the wider region has to offer. As the city moves to post-COVID economic recovery, investment in the Two Friargate scheme provides a fantastic opportunity to secure significant jobs growth and be a visible symbol of confidence in Friargate and the city.

2. Options and recommended proposal

2.1. Option 1. To not agree the funding required to deliver Two Friargate

- 2.1.1. If the Council were to not proceed with the proposal that is the subject of this report, then there would be a significant delay (18-24 months) to the delivery of Two Friargate whilst the scheme is redesigned and reduced in scale in order to fit within the existing £51.2m grant. Furthermore, there would be a risk to the £51.2m grant funding from the WMCA as it is predicated on the delivery of the outputs associated with the consented building.
- 2.1.2. The advice received from the Council’s advisors is that the current building is the right size to suit market requirements, therefore, a significant reduction in floor area (as a result of reducing the scheme to fit within the existing grant funding envelope) would have a detrimental impact on the Council’s ability to market and let the building.

2.1.3. Given the Council's ambitions for Friargate, its economic development ambitions for the city and its residents together with the need to support the post-COVID recovery of the city, not delivering the consented Two Friargate scheme 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 funding required to deliver Two Friargate (preferred option)

2.2.1. To facilitate the delivery of the Friargate business district and meet our ambitions regarding growth and economic development it is recommended that the Council agrees to the funding required to acquire the land interest and fund the delivery of the building of Two Friargate.

2.2.2. The Two Friargate scheme will provide:

- 134,000 sqft of lettable commercial office space across 12 floors
- 4,500 sqft of space on the ground floor for a new restaurant (or similar) offer
- Very high technological and IT resilience that is increasingly being seen as a 'must' for the occupier market, as evidenced through aiming for a Wired Score Platinum Standard
- Excellent environmental credentials, as evidenced through the developer targeting a BREEAM Excellent standard
- A second office building on the Friargate development that will continue to put Coventry 'on the map' as a business district with the benefit of close proximity to one of the UK's busiest train stations
- A real alternative to neighbouring towns/cities for businesses to occupy Grade A office space
- A flexible mix of future-proofed space to suit current and future occupier needs which is particularly relevant given the changes in office layouts as a result of COVID-secure workspaces

2.2.3. Key benefits for the city

2.2.3.1. **Enhancing the city's reputation:** delivering the scheme will support the changing perception of Coventry as it will demonstrate that the city is open for business and able to get on and deliver growth and major schemes, despite the challenging global economic context. The commercial space itself, along with a vibrant and buzzing ground floor food and drink offer, will set a benchmark standard for the city.

2.2.3.2. **Job creation, investment and financial benefits:** the likely tenant mix occupying Two Friargate offers the potential to create new, high quality jobs. Crucially, the scheme will contribute towards improved economic regeneration which will be increasingly important as the market recovers from COVID-19.

2.2.3.3. Furthermore, it is anticipated that business rates of at least £1.4m per annum will be created once the building is fully let. The capital investment itself in the scheme will also mean that an estimated further 700 jobs¹ will be created during the construction of the scheme and tens of millions of spend in the local economy generated. The successful contractor will also be expected to engage with local schools and colleges to ensure that work experience and apprenticeship opportunities are maximised.

2.2.3.4. **Unlocking the delivery of the Friargate business district:** alongside the current works to transform the railway station and the new hotel scheme being brought forward, the

¹ Based on HCA Best Practice Guide 2015

delivery of Two Friargate will be a clear signal to the market that Friargate should be a destination of choice for business investment. The delivery of the scheme will increase the critical mass of development around Friargate and will give the Council the long-term control of a key strategic site adjacent to the railway station. Alongside this, Two Friargate will have an active ground floor use that will help intensify footfall in the area as the city recovers from the impacts of COVID-19.

2.2.3.5. **Supporting the regeneration of the city and wider region:** Friargate is the key gateway from the railway station to the City Centre and the delivery of Friargate will play an important role in supporting the regeneration of the city and the delivery of the City Centre South (CCS) scheme as it will bring with it high quality, professional workers who will benefit from the offer the CCS scheme is aiming to deliver.

2.2.4. Delivery and costs

2.2.5. The Two Friargate scheme is anticipated to require £68.2m (excluding VAT) to fund its delivery. This includes the cost of the land, the building contract, Stamp Duty Land Tax (SDLT), supporting physical and utilities infrastructure, the cost of fitting out the building to the required standard, initial management and maintenance allowances and contractual payments relevant to the JV. Further information about costs is contained within the Financial Comments in section 5.

2.2.6. As the tender process being undertaken by FCDL for the building contract is currently underway, the final cost for the building is not yet finalised. This report, therefore, seeks approval for a capped, additional funding amount which is based on the final pre-tender cost estimate received from FCDL (and which has been reviewed by the Council team). The report is seeking approval for the funding at this stage as to delay the decision until the tender process is complete may compromise the ability to start on site within timescales aligned with the WMCA grant funding agreement

2.2.7. It should be noted that once FCDL have reviewed the final tender returns and the JV approve the preferred contractor, the Council will then enter into the long lease for the site with the JV and the Project Development Management Agreement with FCDL, which includes a fixed price contract for the building. Section 6.2 below provides more information regarding managing risk in relation to delivery and timescales.

2.2.8. As important as putting in place a robust approach to managing the delivery of the building is, ensuring that the building is successfully let as soon as reasonably possible post practical completion is also key. The Council has appointed Cushman and Wakefield to act as its lettings agents for the building and this has informed the carefully considered and prudent approach that the Council wishes to take forward in relation to the fit out of the building. Three of the twelve floors will be completed to “category A” standard (where a tenant is then able to come in and undertake their bespoke fitout works to suit their business requirements) with nine floors being fitted out to a reduced “shell and core” standard. This approach is prudent as it will allow the Council to invest in the fit out of these floors once tenants have been secured and contracts signed. It also provides maximum flexibility to tenants which is particularly important as we emerge from the impacts of the COVID pandemic.

2.2.9. It is also important to note the delivery of Two Friargate is made possible by the £51.2m grant funding secured from the WMCA which, in turn, covers the majority of the costs of the building. This fundamentally derisks the scheme from the Council’s perspective and helps ensure that the Council significantly benefits from the income produced from the building as only a small amount of the income generated will be required to service the debt associated with the additional Council funding for the scheme.

2.3 Friargate JV Company working capital

- 2.3.1 The January 2018 Cabinet report approved funding from the Council (to be matched by the other JV shareholder partner) to provide working capital for the JV to enable it to promote sites to investors and take forward the necessary works to enable development sites to come forward (including physical infrastructure). This working capital has been spent or allocated in the delivery of these enabling works and, to continue the delivery of the wider Friargate scheme and its agreed business plan, additional working capital in the sum as highlighted in the private version of this report, is required from the Council as shareholder. This will again be matched by the JV partner. This will fund infrastructure (including public realm) works that the JV is required to bring forward to deliver Two Friargate as well as future development plots. This investment is expected to be recouped as development activity and future site sales are realised, as is the case with historic investment costs which are now being recovered as part of Two Friargate.

3. **Results of consultation undertaken**

- 3.1. Formal public consultation on the proposals for Two Friargate was undertaken as part of the formal planning application process during 2016.

4. **Timetable for implementing this decision**

- 4.1. Subject to Cabinet and Council approval, and the conclusion of the building contract tender process by the JV Company, officers will work with the Friargate JV and FCDL to enter into the necessary arrangements and legal agreements to enable a start on site in October 2020 and to secure the acquisition of the land and delivery of the building. Two Friargate is anticipated to be complete in Summer 2022.

5. **Comments from the Director of Finance and the Director of Law and Governance**

5.1. **Financial implications**

5.1.1. Two Friargate

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

5.1.3. Friargate JV Company working capital

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

5.2. **Legal implications**

- 5.2.1 Section 1 of the Localism Act 2011 provides a “general power of competence” for local authorities, defined as “the power to do anything that individuals generally may do” and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area.
- 5.2.2 Section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any other of its functions, whether involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.

- 5.2.3 Section 120 of the Local Government Act 1972 provides authority for the Council to acquire land by agreement for the purpose of exercising any of its functions. This Act therefore enables the Council to acquire the long lease from the superior landlord with the purpose of promoting the regeneration of its area.
- 5.2.4 Section 227 of the Town and Country Planning Act 1990. This permits the Council to acquire land for any purpose for which a local authority may be authorised to compulsorily acquire land under s. 226 of that Act. the Council therefore has the power to acquire land where (i) the Council thinks that the acquisition will facilitate the carrying out of development, re-development or improvement or (ii) the land is required for a purpose which it is necessary to achieve in the interests of the proper planning of an area.
- 5.2.5 Legal Services will support officers to ensure that any legal agreements entered into pursuant to the recommendations contained in this report protect the Council's position as well as ensuring that any funding made to the JV Company by way of working capital is undertaken in such manner as to avoid any potential State Aid challenges.

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 hundreds of new permanent jobs) and inward investment objectives that will help to realise the Council's ambitions for a more vibrant and economically prosperous and city.

6.2. How is risk being managed?

- 6.2.1. **Delivery:** The Council's key requirements for this project are to ensure that Two Friargate is delivered within a timely manner 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 the PDMA which sets out performance milestones for the scheme and a fixed price arrangement between the Council and FCDL where financial risk sits with the JV, its development manager and the scheme contractor. If the final contract price for the building comes in lower than that estimated in this report then the amount the Council will need to spend will be reduced accordingly.
- 6.2.2. **Scheme quality:** a thorough due diligence process has been undertaken by the Council and its advisors IDP and CW. Both advisors have been working alongside the Development Managers and the appointed design / construction teams to ensure the designs, layout, construction methodology and general approach to delivery represents industry best-practice and the feedback (via regular reports) confirms that the building conforms with the Council's objectives for a market-leading office facility in the heart of the West Midlands.
- 6.2.3. **Securing future lettings:** to maximise the profile of Two Friargate, the Council's lettings advisors will position the building as the preferred choice for inward investors into the West Midlands through a comprehensive marketing campaign. Marketing material will be prepared that outlines the genuine benefits that Coventry has to offer and the lettings strategy will focus on web presence; direct engagement with occupiers; newsletters; marketing suites; liaison with local influencers and the hosting of presentations / seminars to raise the building's profile. It should be noted that occupiers are not generally interested in moving to negotiation phase until the building can be visibly seen, i.e. construction activity on site. October's target commencement date will provide an ideal opportunity to 'launch' the marketing campaign and fast-track an active marketing strategy. Regular updates will

be provided to the project team and the level of interest will be carefully monitored throughout.

6.3. What is the impact on the organisation?

6.3.1. The main impact to the organisation will be that Two Friargate becomes part of the Council's commercial property portfolio and will, therefore, require suitable management arrangements to be put in place. These will need to be finalised but will include the option of outsourcing to a managing agent with the necessary experience in managing a building, and tenants, of this scale. The financial implications of this are included within the financial ask that is the subject of this report and once the building has sufficient tenants will be covered by the service charges payable by tenants.

6.4. Equalities/EIA

6.4.1. An Equalities Analysis has not been undertaken as the proposal concerns the development of a new commercial office building 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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