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Coventry | City Centre South

Potential Means of Funding and Delivery

7 December 2021

Contents

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7 December 2021

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FAO: Richard Moon, Director of Project Management & Property Services

Dear Sirs

CITY CENTRE SOUTH
POTENTIAL MEANS OF FUNDING AND DELIVERY REPORT

Please find enclosed our report in respect of the above, which we understand is to form a public appendix to the Council's report to Cabinet in respect of the proposed making of a Compulsory Purchase Order ('CPO') for City Centre South ('the Scheme').

This report has been prepared in accordance with the terms of the CCS Management Consultancy Framework (RM3745) Call Off Order Form, dated 1st July 2019 between Deloitte LLP and Coventry City Council ('the Contract') and further to your instructions of 10 June 2021.

This report is confidential to the addressees and prepared solely for the purpose of assisting the Council in considering the proposed means of Funding and Delivering the Scheme. It is subject to the restrictions on use specified in the Contract.

This report includes information provided by you, your development partner Shearer Property Group, your legal advisors Pinsent Masons, your cost consultants, namely WT Partnership, and our sub-consultants KLM Real Estate and Leonard Design Architects. For the purposes of this report, we have assumed that the information disclosed to us is reliable and complete and therefore has not been verified.

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Yours faithfully

Deloitte LLP.

Deloitte LLP

1. Introduction

1.1. Synopsis

Coventry City Council ("the Council") has longstanding ambitions to bring forward a mixed use development project within Coventry City Centre, known as City Centre South ("CCS").

A public procurement process commenced in late 2015, with final tenders received at the end of July 2016.

The Council selected Shearer Property Group ('SPG') as its 'Preferred Bidder' in January 2017 and subsequently entered into detailed Heads of Terms which informed an initial period for SPG to secure an 'anchor store tenant', which at the time was envisaged to be a department store operator such as House of Fraser or Fenwick.

In parallel to this, the Council also advanced an application to the West Midlands Combined Authority ('WMCA') for grant funding to help facilitate the development. This resulted in up to £98.8m of WMCA Grant being awarded and a Grant Agreement being entered into on 8 February 2018.

SPG concluded over the course of 2018 that the market for a traditional department store was weakening and agreed with the Council to promote an alternative approach. This concept reflected a Covent Garden style development with a Pavilion building situated within a large piazza which would link the Indoor Market to the west and The Wave to the east. The Pavilion was intended to offer flexible space for a range of retail, food and beverage ('F&B') and leisure uses.

These concept proposals were then taken forward as an illustrative scheme, which is referred to within the Development Agreement ('DA'). The DA was entered into in March 2019, with the parties being Coventry City Council and Shearer Property Regeneration ('SPRL'), a Special Purchase Vehicle ('SPV') established for the purpose of delivering the project. The DA is guaranteed by SPG, who also owns the shares in SPRL.

Following exchange of the DA, SPRL advanced scheme design proposals for the purposes of submitting an Outline Planning Application, which adopted a parameter plan based approach, not relying on but consistent with the illustrative scheme. The rationale for this was to allow appropriate flexibility with the scheme design, use mix and configuration at Reserved Matters stage.

The Council's Planning Committee resolved to grant planning permission in April 2021.

During June 2021, SPG commenced a marketing campaign for the purposes of finding a JV Development/Funding and Delivery Partner.

1.2. Instructions

Deloitte was instructed on 10 June 2021 to support with the preparation of the Funding and Delivery section of the Statement of Reasons for the CPO. Through further discussion with the Council and its legal advisors, Pinsent Masons, these instructions were broadened on 17 June 2021 to include the preparation of a 'Means of Funding and Delivery Report', which was required as an appendix to the Council's report to Cabinet, seeking authority for the making of the CPO.

In preparing this report, Deloitte has been asked to review SPG's proposed means of funding and delivering the Scheme, having regard to relevant provisions of the DA, resolution to grant outline planning permission and ongoing efforts by SPG to secure a JV Development/Funding and Delivery Partner.

Our instructions are to solely consider how the Scheme could potentially be delivered. We therefore do not consider the case for making the CPO within this report, nor any procurement issues, UK subsidy control and/or the requirements to achieve best consideration, which will need to be separately considered by the Council.

1.3. Purpose of this Report

Under the terms of the DA, responsibility for securing Vacant Possession of the CCS site resides with the Council. The Council has been making efforts to acquire the required interests by agreement and is now making a CPO to ensure the development is able to proceed.

In making a CPO, the Council has had regard to Government Compulsory Purchase guidance, as contained within the MHCLG *Guidance on Compulsory Purchase Process and the Crichel Down Rules*[1].

This guidance includes reference to the matter of financial viability, as follows:

The factors which the Secretary of State can be expected to consider include:

....

the potential financial viability of the scheme for which the land is being acquired. A general indication of funding intentions, and of any commitment from third parties, will usually suffice to reassure the Secretary of State that there is a reasonable prospect that the scheme will proceed.

The greater the uncertainty about the financial viability of the scheme, however, the more compelling the other grounds for undertaking the compulsory purchase will need to be. The timing of any available funding may also be important. For example, a strict time limit on the availability of the necessary funding may be an argument put forward by the acquiring authority to justify proceeding with the order before finalising the details of the replacement scheme and/or the statutory planning position.

The purpose of this report is to address these viability considerations and in particular to:

(a) provide a commentary on the progress that has been made with regard to the financial and funding proposals for the CCS development ("the Scheme"); and

(b) provide our conclusions on the reasonable prospects of delivery, in the context of Government guidance.

1.4. Report Structure

This report is structured as follows:

- A background summary to SPG's selection and its work undertaken to date;
- A summary of the DA and WMCA Grant Agreement provisions, in the context of funding and viability matters;
- A summary of SPG's current efforts to secure a funding and delivery JV partner; and
- Our conclusions in the context of the Government Compulsory Purchase guidance.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/964686/CPO_guidance_-_with_2019_update.pdf

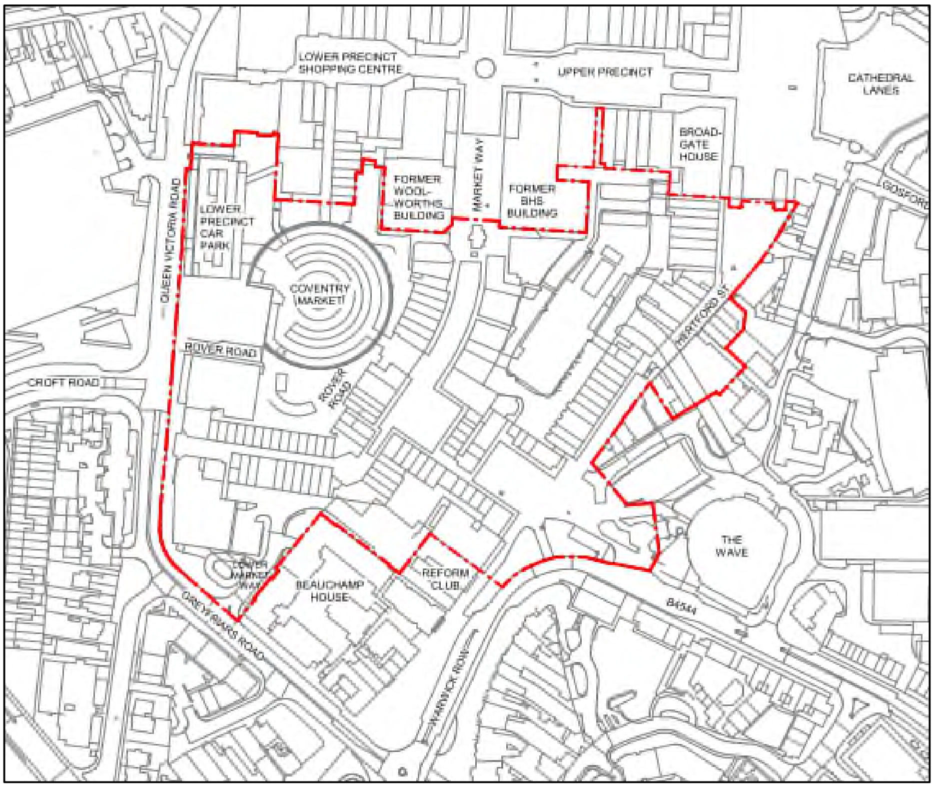
2. Project Background Summary

2.1. The Site

The Scheme comprises approximately 6.36 hectares and is situated in the southern part of the city centre, about 600 metres north of Coventry mainline station.

The Scheme boundary is indicated within the red line planning boundary on the plan (Figure 1) below, noting that Coventry Market and the Lower Precinct Car Park are excluded from the development proposals.

Figure 1: Red Line Planning Boundary



The site currently comprises a number of post-war commercial buildings, which are predominantly used for retail and leisure purposes at ground floor, with storage and generally redundant office space provided on upper floors. The site also includes 1,233 public car parking spaces, accommodated in multi-storey car parks ('MSCPs'), including City Arcade and Barracks MSCPs.

The total quantum of existing floorspace within the site is summarised as follows:

Use	*Estimated GIA (sqm)*
Use Class E – Retail	*31,340 (circa. 7,240 sqm of which comprises the Coventry Market ground floor and basement, which is to be retained)*
Use Class E – Office	*7,300*
Use Class B8 – Storage	*160*
Other Uses (Use Class F.1 Non-Residential Institutions, Sui Generis floorspace to be demolished)	*4,030*
Total estimated floorspace to be demolished	*35,590*

Source: City Centre South Planning Statement (November 2020), prepared by CBRE

2.2. Planning and Procurement Background

2.2.1. Original Masterplan

The masterplan principles for CCS were originally derived from the *Coventry City Centre Master Plan* produced by Jerde in 2008/2009 and subsequently incorporated into an outline planning application on behalf of the Council and Aviva (who at the time, had a significant property interest within the scheme boundary). Outline planning permission was granted in May 2012 (OUT/2012/0575).

Following grant of outline planning permission, the Council undertook a developer selection process. That process resulted in the selection of Queensberry Real Estate in 2014. Following an exclusivity period, both the Council and Queensberry concluded that the development could not be delivered without public sector financial support.

2.2.2. Revised Procurement

Based upon previous viability studies and feedback and dialogue with previous development partners, the Council anticipated that it would be required to participate financially in the project. On the basis that financial support was not envisaged in the original developer selection process, the Council ran a new procurement process.

On 8 September 2015, Full Council endorsed Cabinet's recommendation to proceed with a procurement for CCS, predicated upon the following financial commitment:

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 is unviable in the context of the scheme for the developer to do so and if necessary, by promoting a Compulsory Purchase Order; 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 is unviable in the context of the scheme for the developer to do so.

The Council formally commenced the procurement process on 6 November 2015, with a Contract Notice being advertised within the Office Journal of the European Union (OJEU). Final Tenders were received on 29 July 2016.

2.2.3. SPG Preferred Bidder Status

Following a period of evaluation and clarification, SPG was provisionally selected as the Council's preferred bidder in November 2016, with Full Council confirming this in February 2017.

SPG and the Council subsequently entered into detailed Heads of Terms in June 2017. These Heads of Terms provided SPG with an initial 12 month period to secure an anchor store tenant (assumed at Final Tender to be one of House of Fraser or Fenwick), with a further 6 month period to then enter into a funding agreement. Subject to both a department store and a funder being secured, the intention was for the parties to enter into a development agreement, with obligations upon the Council to secure vacant possession and for SPG to advance a new planning application.

During autumn 2017 it became increasingly evident that anchor store interest was waning; with House of Fraser experiencing financial difficulties and Fenwick was undergoing an internal restructure.

Over the course of 2018, the retail environment became increasingly challenging, with House of Fraser having entered into a Company Voluntary Arrangement (CVA) before being purchased by Mike Ashley, and others announcing store closure programmes.

SPG thus proposed the concept of a 'pavilion' building in spring 2018. The Pavilion was proposed as an alternative to a traditional anchor store, with the concept for the building being to provide a ground floor comprising smaller retail stores with a food & beverage offering located on the first floor.

The scheme remained broadly retail, commercial leisure and residential uses.

2.3. Development Agreement

Following the presentation of the Forum scheme, the Council agreed with SPG that this would be used as the illustrative scheme proposals for the Development Agreement ('DA').

The DA was advanced in accordance with the detailed Heads of Terms referred to above and was entered into on 21st March 2019.

The parties to the DA are as follows:

1) The Council of the City of Coventry ('the Council');
2) Shearer Property Regen Limited ('the Developer'); and
3) Shearer Property Group Limited ('the Guarantor').

The Development Agreement is subject to a number of standard pre-conditions, which are to be met before the Agreement goes unconditional.

2.4. WMCA Grant Agreement

The WMCA Grant Agreement ('GA') provides for multiple funding streams to be deployed for facilitation of the Scheme. Each funding item is subject to caps under the GA.

The Council is responsible for the management of the GA, which to date has been utilised for initial demolition works, preparation of the hybrid planning application and various land assembly activities.

3. Scheme Proposals

3.1. Hybrid Planning Application

SPG submitted a hybrid application on 23 November 2020 (Ref: OUT/2020/2876) for:

'Hybrid planning application for: Full application: A. Full Application for removal of bridge link between Coventry Market roof top car park and roof top parking over existing retail units on Market Way and associated reinstatement works to roof top car park surface and balustrade, removal of existing Coventry Market basement ramp from Rover Road and associated infilling and reinstatement works, works to retaining wall to north-east of Coventry Market, removal of existing pedestrian ramp into Coventry Market off Rover Road, creation of new Coventry Market basement ramp from Queen Victoria Road and associated works to Coventry Market basement, and removal and relocation of William Mitchell mural from front elevation of the former Three Tuns Public House building in Bull Yard; Outline application: B. For part of the site (Parameters Plans Document March 2021 Revision B) for the demolition of all existing buildings and redevelopment of the land for mixed uses, including details of the layout and scale of new development, with details of access, appearance and landscaping reserved; and C.

For part of the site for the demolition of all existing buildings and the redevelopment of the land for mixed use, with details of access, layout, scale, appearance and landscaping reserved. The scheme comprises a mixed use redevelopment of up to 1,300 residential units (Class C3), up to 150 hotel rooms (Class C1), up to 37,500 sqm of mixed-use non-residential floorspace including Class E Commercial, Business and Service uses, Class F.1 Learning and Non-Residential Institutions, and Sui Generis Pub or Drinking Establishment / Hot Food Takeaway / Cinema uses, hard and soft landscaping and new public open spaces including sustainable urban drainage systems, car parking provision and formation of new pedestrian and vehicular access and stopping up of existing highway.'

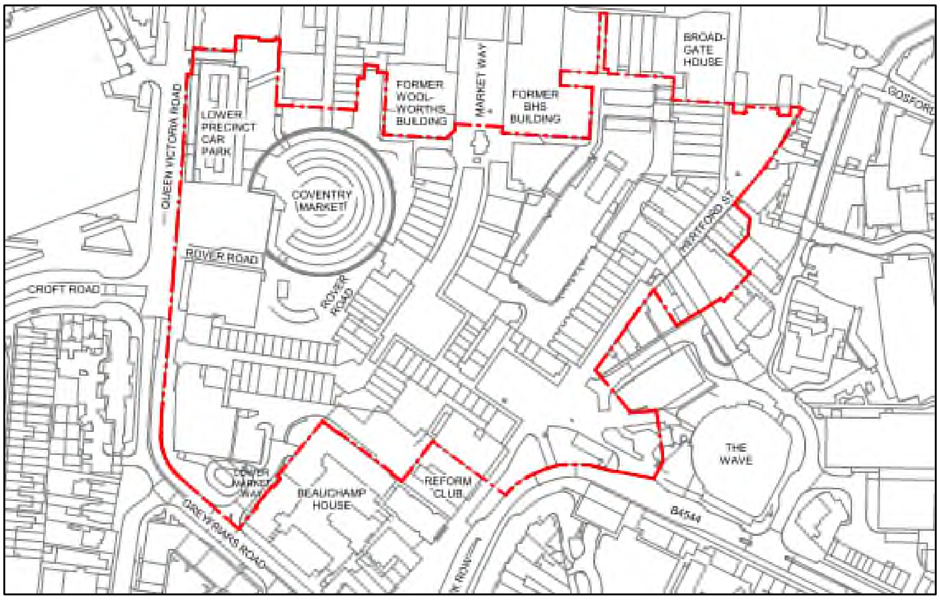
The Council's Planning Committee subsequently resolved to grant planning permission for the Hybrid Planning application on 22 April 2021, with the S106 expected to be finalised shortly.

A summary of the hybrid application is set out in the following sections.

3.1.2. Extent of Planning Boundary

The site boundary for the hybrid planning application is shown on Figure 2 below:

Figure 2: Hybrid Planning Boundary



The site area expands 6.36 hectares and comprises a large section of Coventry's post-war retail core. The application site is bound by Upper Precinct and Broadgate to the north, Hertford Street to the east, Warwick Road and Greyfriars Road to the south and Queen Victoria Road to the west.

3.1.3. Parameter Based Approach

As stated, the application is a hybrid planning application. Part A of the application related to the full planning component. The full/detailed planning element is for the following components:

- Removal of the bridge link between Coventry Market roof top car park and roof top parking over existing retail units on Market Way.
- Reinstatement to the roof top car park.
- Removal of the existing Coventry Market basement servicing ramp from Rover Road.
- Works to retaining the wall to the north-east of Coventry Market.
- Removal of existing pedestrian ramp from Queen Victoria Road.
- Works to Coventry Market Basement.
- Removal and relocation of William Mitchell mural from the front elevation of the former Three Turns Public House building in Bull Yard.

Part B of the proposal was an outline application, which had scale and layout fixed, with access, appearance and landscaping reserved. The following elements are included within Part B:

- Demolition of all existing buildings
- Redevelopment of the land for mixed use

Part C of the proposal was also in outline and had all maters reserved. This was to establish the principle of development. Part C included:

- Mixed use redevelopment comprising the provision of up to 1,300 residential units, up to 150 hotel rooms, up to 37,500 sqm of mixed-use non-residential floorspace
- Hard and soft landscaping

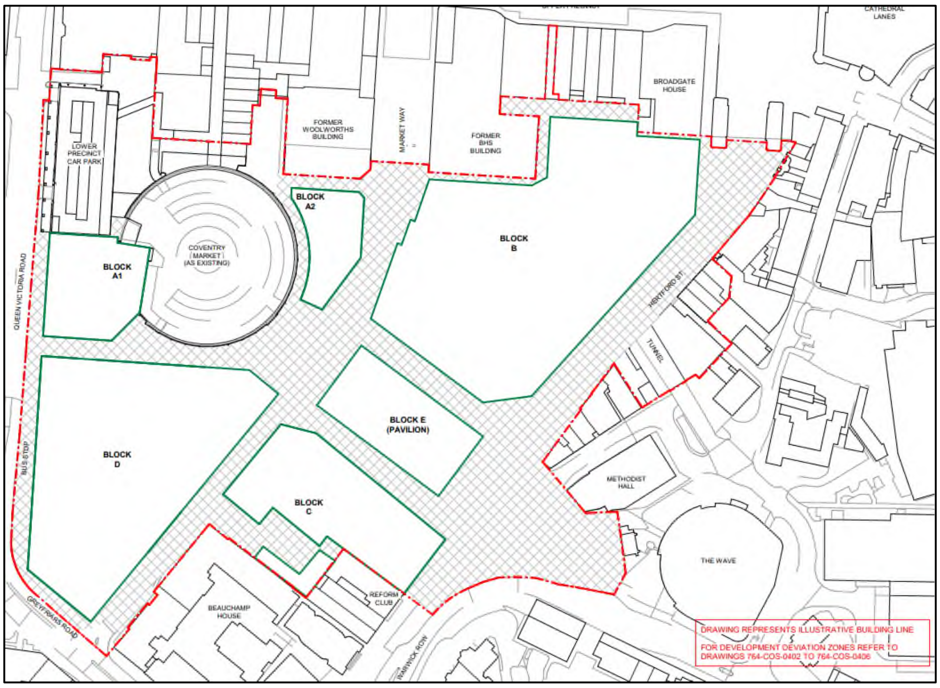
- New public open spaces
- Car parking provision
- Formation of new pedestrian and vehicular access.

In terms of the quantum of floorspace proposed, the minimum and maximum development areas are set out in Table 1 below:

Land Use	Minimum Development Quantum	Maximum Development Quantum
Residential (Class C3) (Units)	900	1,300
Hotels (Class C1) (Keys)	0	150
Commercial (Class E) Learning and Non-residential institutions (Class F1) and Sui Generis (GIA sqm)	22,000	37,500
Car Parking (Spaces)	90	300

The proposed development quantum as shown above will be split across the entire site within different development blocks. The different development blocks are shown in Figure 3 below.

Figure 3: CCS Proposed Development Blocks

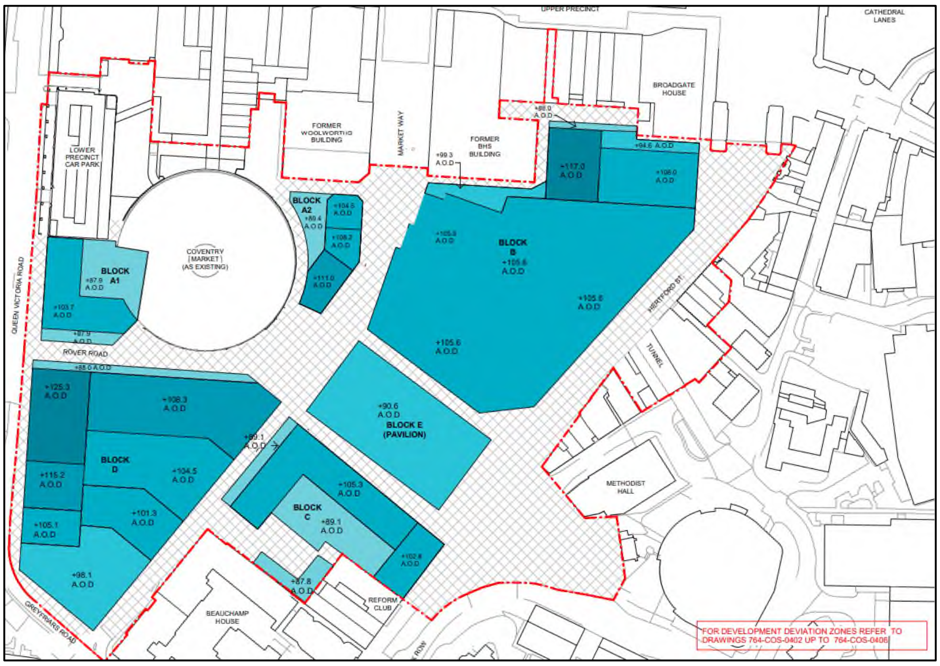


3.1.5. Maximum and Minimum Height Zones

The application has not sought approval for a specific number of storeys but is governed by maximum and minimum heights to protect long views of the 'three spires' and allow for rationalised floor-to-floor ceiling heights and different residential and non-residential uses.

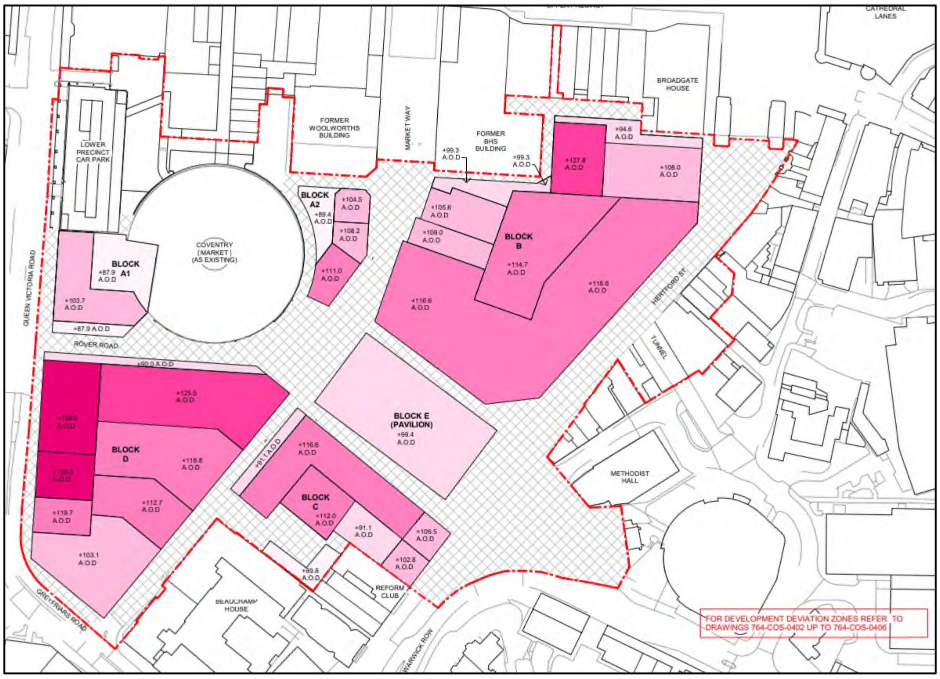
The minimum heights for each of the Block are shown on Figure 4 below:

Figure 4: Minimum Height Parameters



The maximum heights are shown on Figure 5 below.

Figure 5: Maximum Height Parameters



When details on the proposed heights of the Blocks are finalised, they must be developed in accordance with the Development Principles Document along with any other material considerations at the reserved matters application stage. In regard to scale, height and roofscape, the Development Principles Document recommends that there should be clear division in the façade to promote verticality and variety in the building elevation, especially where there is a change in building height.

Block A1

Block A1 will have a lower building element to the rear adjacent to Coventry Market, with a view to accommodating a terrace. The upper storeys of Block A1 must be set back by at least 18 metres from the residential units on the upper storeys of Block D to safeguard privacy and amenity.

Block A2

The parameter plans allow the building to rise to approximately six levels of residential space, with the top level set back to form a terrace. In elevational terms, the Block should be so that the height steps down from South to North to respect the height of the existing Woolworth's building in elevation.

Block B

The massing of Block B must transition from the lower height of the Former British Home Stores, up towards the pavilion

Block C

The massing of the Block must show a north-south transition in building heights, from the lower proportion of the Reform Club up towards the new public square.

Block D

There must a gradual transition of three steps from the taller element of Block D on Rover Road towards the lower element of Block D on Greyfriars Road. The stepping down must frame the long-range view of Christ Church Spire from the Buttes.

Block E

The proposed height of the building is approximately two storeys.

3.1.7. Use Types

For each of the proposed blocks, certain uses have been proposed. The proposal allows for the provision of one or a combination of two or more, of the uses listed in Figure 6 below for the different blocks:

Table 1: Summary of Use Types

<table>
<tr><th>Development Block / Zone</th><th>Ground / First / Second Floors</th><th>Upper Floors</th></tr>
<tr><td>Block A1</td><td>Class C1 Hotel
Class C3 Residential
Class E Commercial, Business and Service
Class F.1 Learning and Non-Residential Institutions
Sui Generis (Pub or Drinking Establishment / Hot Food and Takeaway)</td><td rowspan="5">Class C1 Hotel
Class C3 Residential
Class E Commercial, Business and Service
Class F.1 Learning and Non-Residential Institutions</td></tr>
<tr><td>Block A2</td><td>Class C1 Hotel
Class C3 Residential
Class E Commercial, Business and Service
Class F.1 Learning and Non-Residential Institutions
Sui Generis (Pub or Drinking Establishment / Hot Food and Takeaway)</td></tr>
<tr><td>Zones B (Block B however, different block arrangements can be accommodated)</td><td>Class C1 Hotel
Class C3 Residential
Class E Commercial, Business and Service
Class F.1 Learning and Non-Residential Institutions
Sui Generis (Pub or Drinking Establishment / Hot Food and Takeaway / Cinema)</td></tr>
<tr><td>Block C</td><td>Class C1 Hotel
Class C3 Residential
Class E Commercial, Business and Service
Class F.1 Learning and Non-Residential Institutions
Sui Generis (Pub or Drinking Establishment / Hot Food and Takeaway / Cinema)</td></tr>
<tr><td>Zone D (Block D however, different block arrangements can be accommodated)</td><td>Class C1 Hotel
Class C3 Residential
Class E Commercial, Business and Service
Class F.1 Learning and Non-Residential Institutions
Sui Generis (Pub or Drinking Establishment / Hot Food and Takeaway / Cinema)</td></tr>
<tr><td>Pavilion</td><td>Class E Commercial, Business and Service
Class F.1 Learning and Non-Residential Institutions
Sui Generis (Pub or Drinking Establishment / Hot Food and Takeaway / Cinema)</td><td>N/A</td></tr>
</table>

3.1.8. Listed Building Considerations

The application site contains a Grade II listed building and is located adjacent to the Greyfriars Green Conservation Area.

As such, the Hybrid Planning Application was accompanied by two applications for listed building consent. The first listed building consent sought permission for:

the removal of the bridge link between Coventry Market roof top car park and the roof top parking over the existing retail units on Market Way and associated reinstatement works to roof top car park surface and balustrade, removal of existing Coventry Market basement ramp from Rover Road and associated infilling and reinstatement works, works to retaining wall to north-east of Coventry Market, removal of existing pedestrian ramp into Coventry Market off Rover Road, creation of new Coventry Market basement ramp from Queen Victoria Road and associated works to Coventry Market basement.

The second listed building consent application sought permission for:

the removal and relocation of the William Mitchell mural from the front elevation of the former Three Turns Public House building in Bull Yard.

4. Funding and Delivery Approach

4.1. Background

SPG established 'Shearer Property Regen Limited' ('SPRL') as the special purchase vehicle ('SPV') to deliver the Scheme.

SPRL was incorporated on 4 March 2019, with its three shareholders being Guy Edwin Argus Shearer, Adam Charles Drury Markwell and Stewart Underwood, two of whom are the registered Directors of SPG.

SPRL in isolation lacks the ability to fund development works, particularly of the scale of the Scheme.

SPRL's funding to date has been provided through SPG equity (in respect of Directors and wider internal resources it has deployed on the Scheme), with third party planning costs – for example architect, planning consultant and cost consultancy services – recovered under the terms of the DA from the WMCA GA.

Such arrangements are not uncommon on projects of this type, with SPG having previously established SPVs to deliver projects in locations such as Newbury and Cambridge and then disposing of the majority interest to a funding partner when the scheme was sufficiently advanced from a design and business plan perspective.

4.2. Development Agreement Provisions

The DA requires SPRL to take responsibility for securing a private sector funding and delivery partner ('Funder') to invest into SPRL. The expectation is the Funder would then provide the necessary finance to cover the Developer's obligations up to the unconditional date – for example preparing detailed scheme design plans and procuring a main contractor, with a commitment in principle to fund the Scheme, subject to all pre-conditions having been met, including satisfaction of a pre-commencement viability test.

4.2.1. Funding Security Condition

The Developer is also required to secure sufficient funding assurances to satisfy the requirements of the Funding Security Condition.

4.2.2. Viability Amount

The Funder's commitment is assumed to be predicated upon the continued ability to draw down the WMCA GA. The DA also provides for the Developer to seek an additional financial contribution (the 'Viability Amount') towards the Scheme from the Council, in the event that both the Developer and Funder have concluded that the Scheme would otherwise not be financially viable – i.e. be projected to deliver a profit below the target threshold set out in the DA.

For the purposes of considering any Viability Amount request, the DA includes requirements upon the Developer to provide various 'viability gap information' – scheme plans, marketing reports, appraisals and the like, which are then to be reviewed by the Council and its advisors.

Agreement of the Viability Amount is at the Council's discretion. In the event that the Council does not agree to provide the Viability Amount, then there are provisions for the DA to terminate. In such circumstances where the Viability Amount is agreed, there are provisions for the DA to be amended as required.

4.3. Progress to Date

4.3.1. Funding Principles

Over the first half of 2020, the Council and SPG collaboratively identified a number of initiatives and principles, to help inform an approach to securing a funding partner:

1. Planning – the hybrid planning application to adopt a parameter plan based approach, so as to allow flexibility for an incoming partner (or partners) to optimise the detailed design in response to their specific requirements and the prevailing economic conditions;
2. Land Assembly - for the Council to commit to accelerating the land assembly process to provide the funding partner confidence. This would assist in demonstrating the Council's commitment and would be a proactive approach to facilitating the development;
3. Phasing – the overarching principle of delivering a comprehensive scheme remains unchanged but there was recognition that a phased approach to delivery should be considered. This could include multiple funding / delivery partners working on individual phases, so as to be able to present more manageable funding 'lot sizes' to the market – for example a number of BTR investors expressed interest in delivering 200 – 300 units, rather than attempting the c.1,000 units provided for in the outline planning scheme;
4. Council Participation – inclusion of active ground floor spaces, incorporating a range of retail, leisure and cultural activities, is a key priority for the Council. Given this, as well as its long standing experience of being an active retail and leisure landlord within the city centre, the Council indicated it was prepared to consider proposals where it purchased an element of the commercial uses within the Scheme, subject to all necessary internal approvals and understanding the level of financial return. This would contribute towards replacing some of the Council's current estate income from the existing buildings that they own within the site; and
5. WMCA Funding – examination of opportunities for the use of the WMCA funding to be restructured in terms of advancing planning and land assembly tasks, as well as funding site wide infrastructure. This latter element could be widened to include public realm which sits outside of the development plots (e.g. Market Way and Hertford Street). The Council has had initial engagement WMCA on this, noting that any approach which deviated from the existing GA would require WMCA approval.

4.3.2. Marketing Approach

Through discussions between the Council, WMCA and SPG, it was agreed that a targeted marketing approach should be adopted and that the type of partner targeted should be able to demonstrate the following:

- A track record of delivering major residential led urban projects;
- Experience of working in partnership with UK public authorities;
- A strong balance sheet;
- An ability to introduce equity into the project; and
- Design, delivery and construction expertise.

The rationale for this approach was to respond to a shared understanding that the scheme required more than a 'traditional' funding partner (i.e. one whose role would primarily be to introduce finance) and that securing a partner who could assist with further enhancements and rationalisations to the illustrative scheme design, enhancing efficiencies and improving scheme viability was key.

SPG, through its agents Montagu Evans, commenced a marketing process on 24 June 2021, which included both a press-release and a direct mail shot of a development prospectus to approximately 50 parties.

4.3.3. Shortlisting Process

Expressions of Interest were received from 10 parties and reported to SPG and the Council on 14 July 2021.

SPG and Montagu Evans considered each of the responses against each of the desired attributes and arrived at a shortlist of four potential partners:

SPG subsequently entered into a round of dialogue meetings with these shortlisted parties, where the following matters were discussed:

- Design and Planning Approach
- Team and Resourcing
- Programme
- Financial Viability and Funding
- Development Agreement and the Grant Agreement
- Commercial proposal to SPG

Bidding parties were invited to submit formal proposals to SPG by 22nd October 2021.

4.3.4. Current Position

At the time of preparing this report, SPG is considering proposals from three parties.

SPG hopes to identify a preferred partner by the end of the year. This will then precipitate more detailed discussions between SPG and that party in respect of the acquisition of the SPRL shareholding and in turn trigger a review of the DA and WMCA Grant Agreement.

The Council and its legal advisors are satisfied that the above considerations do not form an impediment to SPG being able to progress with its proposed approach and indeed the principle of SPG disposing of its shareholding in SPRL is contemplated in the DA.

In the event that this process was not for some reason satisfactorily concluded during the DA period (March 2023), it remains the Council's intention to continue to bring forward the Scheme. In such circumstances, the Council would intend to effectively assume the role of the 'master developer' and take responsibility for overseeing the completion of land assembly, application of the WMCA grant towards enabling works and releasing enabled development plots to third party developers to deliver. The principle of a local authority taking responsibility for the early delivery phases of an urban centre scheme if required is an increasingly established one. The Council has an established track record of delivering major works and developments and overseeing the delivery of high quality public realm works around the city centre.

5. Conclusions

The scheme has been the subject of a number of viability and delivery challenges during its evolution, as summarised in this report. This has not been unusual in relation to schemes over the last few years.

The project currently sits in a stronger position than it has done previously; a reflection of the efforts made by the Council and SPG to de-risk it through planning and advancing land assembly, as well as the Council having originally secured WMCA grant funding. The profile of the city itself has also grown in recent years, helped by factors such as the *City of Culture* designation; the growth and success of the two universities; and investment into the automotive sector, particularly linked to the development of battery electric vehicles.

The evolution of the scheme, from one that was originally retail and leisure led through to one which is a residential led mixed use development, aligns well with wider market trends and Government direction to encourage city centre living. The response SPG has received to its JV Funding and Delivery Partner process is very encouraging, with the three shortlisted parties all having a strong track record of working on complex regeneration schemes and having access to internal resources to be able to drive forward a project of this scale.

There presently appears a good prospect that SPG will be able to secure a partner, who in turn SPG will propose as the ‘Approved Funder’ under the terms of the DA and invite to take control of the SPV, which has been established to deliver the project.

The proposals received from SPG’s proposed JV funding and delivery partners all indicate the basis for a deliverable project in the circumstances. The analysis of these proposals remains ongoing but the initial indications are that the improved viability position has been arrived at through optimisation of the masterplan (both in terms of block design and use mix); the ability of at least two of the bidders to undertake construction works themselves at a competitive price; and a general confidence in the end values which could be realised.

All three parties have set out a commitment to fund the costs SRPL is responsible for up to the unconditional date, such as detailed design and reserved matters planning applications, which as a principle, is also encouraging.

It is important to note that both the approval of the ‘funder’ and any change of control of SPRL will remain subject to the Council’s agreement. It is also anticipated that WMCA will require a Change Order Request process to be followed, to address any wider amendments to the DA and/or grant agreement which may be sought.

Notwithstanding the encouraging progress SPG is making, it is important that the Council is able to satisfy itself that it has an alternative means of delivery approach as a fallback position.

We consider that there are reasonable grounds to conclude that in such circumstances, a Council led delivery approach could be achieved within financial parameters similar to the proposals which SPG has received from prospective JV Funding and Delivery Partners.

Any proposal for the Council to put additional funding into the scheme would be subject to Cabinet and Full Council approval. Whilst no commitment to such funding currently exists, the Development Agreement incorporates provision for the developer to seek an additional ‘Viability Amount’ if required (and subject to the Council’s approval).

In conclusion, there is a reasonable prospect of scheme delivery by SPG and an appointed delivery and funding partner within the DA period and in the event that this process was not for some reason satisfactorily concluded during the DA period, we understand the Council would intend to bring forward the Scheme as the ‘master developer’ and take responsibility for overseeing the completion of land assembly, applying the WMCA grant funding towards enabling works and releasing enabled development plots itself to third party developers to deliver.

Having regard to the legal advice received from Pinsent Masons and Counsel, the MHCLG Guidance on Compulsory Purchase Process and the Crichel Down Rules guidance in relation to potential financial viability and funding as set out in this report is considered satisfied in this regard.

7 December 2021