
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

13 February 2024
19 March 2024

Name of Cabinet Member:

Cabinet Member for Jobs, Regeneration and Climate Change - Councillor J O'Boyle
Cabinet Member for Strategic Finance and Resources – Councillor R Brown
Cabinet Member for Housing and Communities – Councillor D Welsh

Director approving submission of the report:

Director of Property Services and Development
Chief Operating Officer (Section 151 Officer)

Ward(s) affected:

St. Michael's

Title:

City Centre South Additional Grant Funding

Is this a key decision?

Yes - the proposals involve financial implications in excess of £1m per annum.

Executive summary:

City Centre South (CCS) will deliver transformational improvements to Coventry city centre through the creation of a new residential led community providing new homes, jobs, commercial and leisure opportunities and high-quality public spaces.

The Council's development partner, Shearer Property Regen Ltd (SPRL), led by Hill Developments are continuing to move the scheme forward and have made considerable progress since being appointed as the funding partner under the terms of the Development Agreement between the Council, SPRL and Shearer Property Group (SPG).

This report seeks formal approval to the next stage of the project following the previous Council Decisions in December 2022 which approved the provision of Council funding to the scheme.

Since the recommendations contained within the December 2022 report were approved, a significant amount of work has been undertaken to progress the scheme, including the Compulsory Purchase Order (CPO) being confirmed by the Secretary of State, the delivery of high-quality new premises for the Shopmobility scheme and a significant amount of ground investigations and surveys being undertaken. However, changes in fire safety regulations proposed earlier this year in the wake of the Grenfell disaster have required changes to the design of, and timescales for, the scheme resulting in viability challenges which need to be resolved before the scheme can commence further.

These changes announced by Michael Gove, Secretary of State for Levelling Up, Communities & Housing, in July 2023 will require all residential buildings over 18m in height to incorporate dual stair cores and additional fire-fighting lifts to improve means of escape and building safety in the event of fire. This change was not anticipated at the time the previous report was considered.

This change in regulation has had a significant, adverse effect on scheme viability due to increasing build costs and reduced sales/lettable area, thus depressing overall scheme viability. In order to address this issue and to prevent the scheme from stalling the Council has been able to successfully negotiate an additional grant assistance from the West Midlands Combined Authority (WMCA) of up to £12.24m (“Additional WMCA Funding”) in addition to the £98.8 million pounds already provided.

This report, therefore, requests authority to accept the Additional WMCA Funding and to request delegated authority to amend the Development Agreement with SPRL and Grant Agreements with WMCA in order to be able to apply this funding towards the delivery of the scheme.

Recommendations:

Cabinet is asked to recommend that Council:

- 1) Approve the acceptance of the Additional WMCA Funding of up to £12.24m to be added to the £98.8m previously secured which will be utilised to facilitate the delivery of City Centre South.
- 2) Delegate authority to the Director of Property Services and Development, following consultation with the Chief Operating Officer (Section 151 Officer), the Chief Legal Officer, the Cabinet Member for Jobs, Regeneration and Climate Change, the Cabinet Member for Strategic Finance and Resources and the Cabinet Member for Housing and Communities, to undertake the necessary due diligence and approve and enter into the legal agreements and undertakings necessary to give effect to recommendation 1) above.
- 3) Add the Additional WMCA Funding to the Council’s 5 Year Capital Programme.

Council is recommended to:

- 1) Approve the acceptance of the Additional WMCA Funding of up to £12.24m to be added to the £98.8m previously secured which will be utilised to facilitate the delivery of City Centre South.
- 2) Delegate authority to the Director of Property Services and Development, following consultation with the Chief Operating Officer (Section 151 Officer), the Chief Legal Officer, the Cabinet Member for Jobs, Regeneration and Climate Change, the Cabinet Member for Strategic Finance and Resources and the Cabinet Member for Housing and Communities, to undertake the necessary due diligence and approve and enter into the legal agreements and undertakings necessary to give effect to recommendation 1) above.
- 3) Add the Additional WMCA Funding to the Council's 5 Year Capital Programme.

List of Appendices included:

The following appendices are attached in the private element of this report:

- Deloitte Review of Additional Funding Request Report

Background papers:

None

Other useful documents

Report to Cabinet and Council 24th January 2017 "City Centre South Development"

Report to Cabinet 28th November 2017 and Council 5th December 2017 "City Centre South –Early Acquisition of Aviva Long Leasehold Property Interests"

Report to Cabinet 11th January 2022 "City Centre South Land Acquisition and Compulsory Purchase Order"

Report to Cabinet 15 November 2022 and Council 6 December 2022 "City Centre South Funding and Delivery"

Has it or will it be considered by Scrutiny?

No

Has it or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes - 19 March 2024

Report title: City Centre South Additional Grant Funding

1. Context (or background)

- 1.1 The proposal to redevelop the City Centre South (CCS) site (“the Scheme”) is the Council’s key regeneration priority for the city centre.
- 1.2 Shearer Property Regen Ltd (SPRL) are the Council’s development partners for the Scheme and they were appointed by the Council in 2017 following a competitive procurement process to take forward development proposals for the site. SPRL have appointed Hill Holdings Limited as the Approved Funder for the scheme and Hill are also investing equity to become a shareholder in the SPRL development vehicle the Council is in partnership with.
- 1.3 The Scheme benefits from £98.8m of grant funding from the West Midlands Combined Authority (WMCA) which was secured by the Council (also in 2017) to fund land acquisition, enabling works, demolition and other key development costs necessary to bring forward the Scheme.
- 1.4 Whilst CCS has always been envisaged as a mixed use, city centre scheme, the original proposals included a significant amount of retail space anchored by a department store. Clearly, the changes to both the high street and the wider economy have influenced the Council and SPRL to re-envisage the scheme and bring forward proposals for more residential development as part of a deliverable, mixed use city centre development scheme.

This has resulted in:

- Planning Committee granting outline planning permission for the residential led Scheme in January 2022
- Hill (through Hill Holdings Limited) being confirmed as Approved Funder for the scheme in March 2022 and then subsequently investing into SPRL (through Hill Residential Ltd)
- The Compulsory Purchase Order (CPO) for the Scheme being made in April 2022
- WMCA Investment Board approving changes to the grant funding to pivot the scheme from a predominantly retail scheme to one which is predominantly residential in October 2022.
- A Minor Material Amendment (S73) Planning Application submitted to the Council in November 2022 to reflect the Scheme refinements.
- In December 2022, Council agreed to approve the use of up to £32.75m to support the delivery of the Scheme (£28.7m of which is to be funded from the West Midlands Combined Authority City Centre South grant and £5.25m from Capital receipts)

- A CPO Public Inquiry taking place in January 2023 following which the Secretary of State confirmed the CPO in April 2023
- A further Minor Material Amendment (S73) Planning Application submitted to the Council in October 2023 (and approved in December 2023) to reflect the Scheme changes required to comply with the dual core requirements referenced below.
- The Discharge of Reserved Matters Planning Application (RMA) for phase one of the scheme was submitted in December 2023.

1.5 The Scheme will deliver a range of transformational benefits for the people of Coventry. The proposed refinements to the Scheme will lead to up to 1,575 new homes (of which 20% will be affordable, predominantly social rented units), new retail, employment, health care and leisure space resulting in a new sustainable city centre community whilst still retaining a mixed-use approach. As well as these quantitative benefits, the delivery of the Scheme will realise a significant number of qualitative benefits that will benefit local residents and businesses, which include:

- An increased diversity in city centre uses, through the delivery of residential units (including different tenures), mixed retail and leisure spaces and new public realm provisions.
- An active, attractive and inclusive evening economy, as a result of the provision of a more varied commercial offer which will lead to a more socially inclusive place.
- Improved attractiveness of the city centre as a business location, through attraction of talent to the area and better linkages to the city's existing business district.
- Improved connectivity across the city centre through the proposed public realm works and new pedestrian and cycle linkages.
- A more active and varied cultural offer, through the diverse range of leisure and retail uses proposed under the new scheme.
- Improved perception of the city centre, through its transformation into an exciting and thriving location in which to live and work. This will not only encourage local visitors but will also increase tourism.
- Changed perception of Coventry as a place to live, work, visit and study due to the vibrant and successful mixed-use environment.
- Improved local and regional economic and commercial regeneration by the Scheme acting as a stimulus for further private sector investment due to an enhanced economic sentiment around the city centre.

1.6 As has been the case since the Scheme's inception, bringing forward a complex city centre regeneration scheme like CCS and delivering the range of benefits outlined above has required financial viability challenges to be overcome. The £98.8m WMCA grant funding acknowledged the reality of the "market failure" in this part of Coventry and the economics associated with bringing forward a city centre scheme of this nature. This has been reinforced through subsequent WMCA Investment Board Decisions to both continue to allow the full utilisation of the grant funding and to reprofile some elements to support Scheme cashflow.

- 1.8 The financial re-appraisal of the refined Scheme undertaken at the time of the December 2022 report indicated that even after a full utilisation of those elements of the WMCA grant available to the developer a viability gap remained. Accordingly, the Council agreed to provide a contribution of up to £32.75m of funding to help facilitate delivery of the Scheme. The proposed Council funding of the Scheme includes utilisation of £28.7m of the WMCA grant which is awarded to the Council as compensation for its loss of existing land interests in the CCS area and which the Council is willing to see recycled into supporting Scheme delivery.
- 1.9 Our advisers, led by Deloitte, advised the Council that an additional funding contribution from the Council to close the Viability Gap was justified and required in order to deliver the Scheme.
- 1.10 However, subsequently in July 2023, Michael Gove, Secretary of State for Levelling Up, Communities & Housing announced that all residential buildings over 18m in height will be required to incorporate dual stair cores and additional fire-fighting lifts and emergency systems to improve means of escape and building safety in the event of fire. This change was not anticipated at the time the previous report was considered.
- 1.11 The consequences of these late changes to the scheme have been considerable. The overall design of the scheme has been modified to allow the incorporation of additional staircases, protected core and fire-fighting lifts. These changes both increase the cost of constructing the scheme and reduce the amount of liveable area available to sell or rent. SPRL have estimated significant additional costs to the scheme as a result (the figure is available in the Private version of the report).
- 1.12 The Council is not in a position to contribute additional funds to the scheme. Accordingly, an approach was made to the WMCA who have agreed to provide an additional £12.24m of funding to allow the project to proceed. This additional funding was approved by the WMCA Investment Board on the 15 January 2024.
- 1.13 Once again the Council has requested that Deloitte provide a written report confirming the justification for the additional funding and demonstrating that value for money for the public purse is being secured. This report has been shared with the WMCA to support the request for additional funding and is included within the Private version of the report.

2. Options considered and recommended proposal

- 2.1 Option 1. Reject the additional funding request from SPRL and funding support from the WMCA
- 2.1.1 SPRL raised a formal Viability Amount request on 26 October 2022, which under the terms of the DA, the Council had a requirement to consider. This informed the decision of the Council to commit £32.75m in December 2022. There is no further formal requirement for the Council to consider an additional funding request from SPRL. However, if the Council formally resolves not to agree to accept this additional funding, then there is a real risk that the scheme may not proceed or proceeds in a fundamentally different form following a lengthy delay.

2.1.2 Whilst the Council and SPRL are obligated to collaborate with one another to assess if there might be an alternative solution, any such solution, if one were to emerge, would undoubtedly require the scheme to be re-designed and reduced in scope and quality. Many of the benefits that the scheme is due to deliver could be put at risk.

2.1.3 This is not the recommended option, and it should be recognised that this option would come with its own challenges, constraints and risks.

2.2 Option 2. To approve the Recommendations set out above and agree additional funding into the Scheme.

2.2.1 CCS is the Council's key regeneration priority for the city. The Council has worked closely with its development partner and the WMCA for a number of years to bring this complex scheme forward and deliver the much-needed benefits it will bring.

2.2.2 The Council and its advisors are satisfied that the additional funding that SPRL have requested is required to bring the Scheme forward. If this option is approved, it will help to provide the best possible opportunity for the Scheme to come forward and to help meet the Council's economic development, regeneration and well-being objectives for Coventry.

2.2.3 The decision to agree to accept the additional funding for the Scheme provides the opportunity for the key benefits for Coventry as set out in section 2.3 below to be delivered as part of the Scheme:

2.3 Key benefits for the city

2.3.1 **Regeneration:** The Scheme is at the heart of the city's regeneration ambitions. CCS will transform six and a half hectares of the city centre making it work for the way people want to use and enjoy city centres today. With up to 1,575 new homes the refined Scheme will help to create a new community in the city centre alongside all the benefits that brings. Recent investment in the public realm has shown how spaces can be transformed with high quality materials, water features and art. These important factors will also be at the heart of CCS and we expect lots of new jobs to be created. The Scheme will also fit with our wider ambitions for the Friargate area of the city which is only five minutes' walk away.

2.3.2 The Scheme will also play an important role in delivering a key objective for the city, namely the provision of a range of housing options, including affordable housing, which will help to create thriving, vibrant and diverse communities. This includes the retention of graduates and the role they play in attracting high value businesses. A young talented pool of labour is one of the most important considerations for businesses when deciding to relocate. CCS will play an important role if Coventry is to achieve its wider economic goals. With a significantly improved city centre, Coventry can expect to retain more graduates and attract more high value businesses – helping to close the City's productivity gap.

- 2.3.3 **New homes:** The refined Scheme is anticipated to provide up to 1,575 new homes in the city centre. As well as making a positive contribution to local housing supply, the new homes built on existing brownfield land will help make the city centre a location of choice for new and existing residents of Coventry.
- 2.3.4 **Enhancing the city's reputation and offer:** Alongside the Friargate scheme and the works to transform the rail station, the delivery of the Scheme will help to provide market confidence that Coventry should be a destination of choice for business investment.
- 2.3.5 The Scheme will support the diversification of the city centre's residential, retail, leisure, and community offer to attract increased footfall throughout the daytime and into the evening, supporting the viability of businesses within City Centre South and the wider city centre.
- 2.3.6 **Health and well-being:** The Scheme will deliver a larger area of public realm of a higher quality, providing a significant amount of public open space for residents and visitors to socialise, relax and dwell, supporting improved health and wellbeing. There will also be significant improvements to the permeability and legibility of this key city centre location through enhancing the historically important north-south connectivity along Hertford Street and Market Way, as well as creating new east-west connectivity which will improve the community's use of this part of the city.
- 2.3.7 **Environmental:** The Scheme will bring underutilised land in a city centre location back into productive use, maximising the use of brownfield land in a way which will enhance the quality of the built environment to the benefit of existing and new residents in Coventry.
- 2.3.8 The Scheme will also realise large improvements to the quality of the built environment, through the removal of poor-quality buildings and the replacement of the current public realm with new, high quality public spaces as well as an enhanced setting for the Grade II listed Coventry Market, making the building more prominent at ground floor level and enabling its architectural and communal values to be experienced in a more open manner.
- 2.3.9 The Scheme will also encourage sustainable modes of travel by removing surplus car parking capacity in the city centre and there is the potential for biodiversity net gain, through the creation of new planting, green and brown roofs at detailed design stage.
- 2.3.10 This is the recommended option.

3. Results of consultation undertaken

- 3.1 Ahead of the Scheme's Outline Planning Application submission, SPRL carried out a public consultation exercise between June – July 2020 which focused on understanding the community's and stakeholders' views on the vision and themes of the proposed scheme. Due to the COVID-19 pandemic and related restrictions, the consultation was primarily digital, with paper copies of information sent where requested. Eight webinars were held for stakeholders and local people.

- 3.2 The consultation was promoted in local press via adverts and press releases, through the Council and SPRL's websites and social media and through direct messaging to stakeholders and local groups.
- 3.3 A total of 2,700 people visited the consultation webpage and 281 online feedback forms were completed with additional feedback received via the Freepost address provided.
- 3.4 From the feedback received, 62% of people strongly agreed or agreed with the City Centre South vision. Respondents were keen to see the indoor market and the post war masterplan protected. There was clear support for green and open space and a desire for support for cultural and minority groups as part of the plan. 88% of respondents either strongly agreed or agreed that they would like to see improved pedestrian links and public spaces in this part of the city centre. 66% indicated that they liked the use of materials and outline design principles shown in the images provided. There was also support for the community uses. Throughout the feedback there was a clear desire to see something different or special added to ensure Coventry has a USP that celebrates its thriving art scene and heritage. This feedback has informed the development of the Scheme and will continue to inform final detailed designs going forwards.
- 3.5 There has been, and will be, further engagement in relation to the Scheme refinements as part of the evolution of the scheme in planning terms, including the reserved matters applications. There is also engagement and dialogue taking place with Shopmobility and relevant stakeholders and user groups in relation to the relocation of the Shopmobility service (the relocation is a pre-commencement condition attached to the Outline Planning Permission).

4. Timetable for implementing this decision

- 4.1 If Cabinet and Council agree to the Recommendations set out in this report then it is anticipated that the relevant legal agreements relating to funding and the Development Agreement will be agreed in early 2024. Subject to a positive outcome to the Reserved Matters Application submitted in December 2023, it is anticipated that the developer will be able to commence demolition during 2024.

5. Comments from Chief Operating Officer (Section 151 Officer) and Chief Legal Officer

5.1. Financial Implications

- 5.1.1 In 2022 a revised Full Business Case was submitted to the WMCA. This approved the proposed use of the £98.8m grant that was originally awarded in 2017 to support the scheme. In addition to this, a further £4m was approved by Full Council to provide gap funding for the project (plus approval to recycle £28.7m of WMCA Grant into the scheme).

5.1.2 Following changes to building regulations and the subsequent gap caused from the increased cost and reduced income referred to in section 1.11 of this report, the WMCA have agreed to provide up to £12.24m funding to contribute to this gap. It has been made clear that the Council is not in a position to provide further funding to the project above the £4m already approved. Further information on the revised cost and funding of the scheme is contained in the Private version of the report.

5.1.3 This report seeks authority to accept the additional £12.24m grant funding from the WMCA in order to contribute to the viability of the scheme. It does not seek any additional resource from the Council.

5.2. Legal Implications

5.2.1 The legal power for the Council to accept, administer the Additional WMCA Funding is provided by the general power of competence contained in Section 1 of the Localism Act 2011.

5.2.2 In order to accept the Additional WMCA Funding and ensure that this is properly applied towards the delivery of City Centre South, it will be necessary to amend both the Development Agreement between SPRL and CCC and the Grant Aid Agreement between CCC and WMCA.

UK Subsidy Control

5.2.3 Prior to entering into final legal agreements, the Council will need to satisfy itself that the grant is being spent against appropriate items and only to the extent required to facilitate delivery of the scheme. As such, it will be necessary for the Council to demonstrate that certain principles set out in the Subsidy Control Act 2022 will be satisfied. Put broadly for this project, there are some applicable subsidy control exemptions and other principles which apply which include that a subsidy pursues a legitimate policy objective (either to meet a market failure or to advantage an equity rationale), is proportionate to meeting that objective which would not otherwise be achieved and generates positive benefits that outweigh any distortion of competition and Investment incentives that may arise from it.

5.2.4 The overage arrangements which is to be included in the amended development agreement and the fact that the Additional WMCA Funding will only be permitted to be drawn down in arrears against agreed pre-specified works and will be subject to sign off by an Employer's Agent (or equivalent) will assist in this regard. In addition, the Developer will be responsible for providing the Council with all necessary reports to demonstrate that monies is being properly utilised; and the Developer will indemnify the Council against any claims or breaches arising from misuse of the grant. The final updated Development Agreement package will be reviewed and appropriate legal advice obtained prior to entering into it.

Procurement

5.2.5 Prior to entering into final legal agreements, the Council will need to satisfy itself that it continues to satisfy procurement requirements. Appropriate legal advice will be obtained.

6. Other implications

6.1. How will this contribute to the One Coventry Plan?

<https://www.coventry.gov.uk/strategies-plans-policies/one-coventry-plan>

6.1.1 The delivery of the proposal outlined in this report will help deliver a range of housing, economic development, regeneration and wellbeing objectives that will help to realise the Council's strategic ambitions for a more vibrant and economically prosperous city.

6.2. How is risk being managed?

6.2.1 The Council has taken a proactive and positive approach to the identification, management and mitigation of risk associated with the project at both a strategic and project level. A dedicated risk register has been created, focussing on the risks that could impact the overall delivery of the project and this is managed by the project team responsible for bringing forward the Scheme.

6.3. What is the impact on the organisation?

6.3.1 The impact to the organisation will be considerable in terms of staff resources. A significant number of officers from across the Property and Development, Planning, Finance and Legal Services divisions are responsible for a range of work streams associated with this project, including: land assembly, CPO, scheme design, Planning processes and Decisions, legal agreements, financial analysis and agreements, commercial negotiations and community and business engagement.

6.4. Equalities / EIA?

6.4.1 Section 149 of the Equality Act 2010 requires the Council in the exercise of its functions to have due regard to the need to:

- eliminate discrimination, harassment, victimisation and other form of conduct prohibited under the act; and
- advance equality of opportunity and to foster good relations between persons who share a relevant protected characteristic (age, disability, gender re-assignment, pregnancy and maternity, race, religion and belief, sex, and sexual orientation) and persons who do not share it.

6.4.2 Having regard to the need to advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share it involves having due regard in particular, to the need to:

- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- take steps to meet the needs of the persons who share that characteristic that are different from the needs of persons who do not share it;
- encourage persons of the relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

6.4.3 An EqlA in relation to the land assembly and CPO elements of the Scheme was prepared and considered by Cabinet on the 11th January 2022 and updated in March 2022. The EqlA is an iterative and live document and is reviewed on a regular basis.

6.4.4 A separate EqlA has been prepared in relation to the relocation of Shopmobility (which is a Pre-commencement Planning Condition). The relocation of Shopmobility is being led by the Council and the developer following engagement and dialogue with key stakeholders and affected user groups.

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 implications for the Council's development partner for the Scheme, SPRL, that will result from the Decisions that are the subject of this report.

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