



Investment Board

Date	29 January 2018
Report title	Coventry Friargate Business District Phase 1
Portfolio Lead	<p>Andy Street - Mayor</p> <p>Councillor Steve Eling - Cohesion & Integration and Public Sector Reform</p> <p>Councillor Ian Ward - Economic Growth</p> <p>Councillor Patrick Harley - Environment</p> <p>Councillor Izzie Seccombe - Finance & Investments</p> <p>Councillor Sean Coughlan - Housing & Land</p> <p>Councillor George Duggins - Skills & Productivity</p> <p>Councillor Roger Lawrence - Transport</p> <p>Councillor Pete Lowe - Health & Wellbeing</p> <p>Councillor Bob Sleight - Wellbeing and HS2</p>
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Report to be/has been considered by	<p>Technical Appraisal Panel</p> <p>Investment Advisory Group</p>

Recommendation(s) for action or decision:

The Combined Authority Board is recommended to:

1. To support the Coventry City Council application for funding to support its Friargate Business District proposal and to approve a grant of up to £51 million.

1.0 Purpose

- 1.1 The purpose of this report is to summarise the Friargate Business District proposal and to highlight the process already undertaken to challenge and clarify the proposed scheme.
- 1.2 The report seeks the approval of £51m for Coventry Friargate Business District requested via a full Business Case.

2.0 Background

- 2.1 The 'Friargate Masterplan' is a redevelopment scheme located on approximately 26 acres of land next to Coventry Railway Station. The mixed use scheme will provide a new high quality business district for the city. There will also be provision for ancillary retail, hotel and leisure uses along with residential buildings.
- 2.2 This project seeks funding to further develop Phase One of the Masterplan. Comprising four office buildings and a hotel. This is in addition to the building constructed for Coventry City Council, the Friargate Bridge Deck, and public realm schemes.
- 2.4 The Council is proposing a model whereby initial investment from the Combined Authority would be supported by the Council also investing in a joint venture with the developer and providing a programme of development that would seek to deliver the four office blocks and the hotel included in Phase One. The rationale for intervention is to overcome market failure whereby it is difficult to attract occupiers to a scheme before a building is constructed yet conversely the private sector will not currently finance construction of a building until occupiers are secured.
- 2.5 The proposal is to start the development of Phase One of the scheme by using Combined Authority funding to deliver the second building at Friargate against a commitment from the Council that, once annual rental income is secured it will use its ability to borrow to fund further buildings, using rental income to fund the finance costs.

3.0 Wider WMCA Implications

- 3.1 The proposal in the business case complements other WMCA schemes in Coventry, including the City Centre South scheme and the Station Masterplan, and if developed, will generate increased business rates that would benefit the wider region.

4.0 Progress, options, discussion, etc.

- 4.1 Following political briefings throughout 2017, negotiations have continued with Friargate. The current discussions are around a CCC investment in a Joint Venture model that envisages securing the land for the Joint Venture and the funds required to take the scheme forward.

- 4.2 One Friargate, the first building in the Friargate Masterplan is now open and occupied. The Council has secured a Letting of part of this building to the Financial Ombudsman Service. CCC occupies the remainder of the building. A number of options have been considered to deliver phase one of the scheme. These options are detailed in the Full Business Case.
- 4.3 Delegated authority was given to officers by Cabinet on 24th January 2017 to enter into negotiations with the WMCA to secure the grant for Friargate Business District, with the terms being subject to a further report to Cabinet. Regular political briefings have taken place since this approval was given, with Friargate Business District being the subject of a further report to Cabinet on 9th January 2018 and Council on 16th January 2018.

5.0 Recommended option: Develop a rolling programme using development finance following initial investment from WMCA

This option is for CCC to use the £51m from the combined authority to build the first building. This would make development of a second building much more likely. An added benefit is that debt can be repaid once buildings are sold following letting

Further borrowing would be required to enable the rolling programme, and repayment of such borrowing would be dependent on letting the buildings. CCC as a partner would take a share of the development risks.

Benefits of a rolling programme include the wider economic impact of the project, and demonstrate the value for money to the public purse. The development of the additional office space will generate more temporary and permanent jobs in the area boosting GVA and will also result in higher footfall in the area boosting economic activity. The additional office blocks will also generate additional business rates and rental income.

6.0 Financial implications

- 6.1 The report seeks approval to grant £51m funding for the purpose of establishing a vehicle which will bring forward a programme of building at Friargate. The next building in phase one is number Two Friargate and is planned to be funded from this grant. It is proposed that this would be made available from the Council to the Joint Venture in order to facilitate the construction of Two Friargate.
- 6.2 The funding sought is intended to fund the next building in phase one (C10). The table below demonstrates programme costs relating to the Construction of this first building:

	18/19 £m's	19/20 £m's	20/21 £m's	21/22 £m's	Total C10 £m's
Construction cost	14.7	19.6	4.9	0.0	39.1
Plot and infrastructure costs	0.2	0.3	0.2	0.0	0.7
Professional fees	1.6	1.6	0.4	0.0	3.7
Letting costs including voids	0.0	0.0	2.8	1.0	3.8
Development overhead	0.9	1.2	1.2	0.3	3.6
Total	17.4	22.7	9.6	1.3	51.0
WMCA Funding	17.4	22.7	9.6	1.3	51.0

- 6.3 Following completion and a full letting of the first building (C10), it is intended that further loan finance will be provided to Joint Venture Company for the construction of the third building and so on until Phase one is completed. It is anticipated that the costs to build the remainder of Phase One will likely total c£220m.
- 6.4 The capital grant of £51.2m received from the WMCA is intended to be paid into Coventry City Council for the purposes of funding future buildings at Friargate. It is likely that it will be used in the form of loan finance into a joint venture company, and repaid to the City Council using income from these buildings. The funding will then be recycled to fund future buildings on an ongoing basis. We confirm that we expect the funding to be ring-fenced to the Friargate scheme in order to deliver the outcomes for the Friargate development as described in the full business case.

7.0 Legal implications

- 7.1 The Council has various powers to set up a company in order to trade for a profit. The Localism Act 2011 provides powers for local authorities to do anything that individuals may generally do. Where the Council uses the General Power of Competence to do something for a commercial purpose, section 4 of the Localism Act 2011 requires that the Council must do so through a company (which has a wider definition than for the purposes of section 95 Local Government Act 2003). This power also allows the Council to set up and enter into a Joint Venture Company for a commercial purpose.

The Council's rights and obligations under the proposed joint venture shall be contained in a Joint Venture Shareholders' Agreement. This agreement will cover, amongst other things:

- The establishment of the joint venture vehicle and how each party will contribute resources to it;
- The rights of each party to appoint directors to the board;
- Any restrictions placed on the parties (i.e. not separately competing for business that should be run through the JV);
- The content and process for agreeing annual business plans;
- The dividend policy, setting out how and in what circumstances profits should be distributed to each JV partner;
- The process for dealing with a deadlock situation where neither party can agree a course of action;
- Terminating and unwinding the arrangement.

The board of directors will have responsibility to run the business of the JV on a day-to-day basis. Certain decisions (being those of greater importance) will be reserved to the shareholders (the so-called 'reserved matters'). Reserved matters would include agreeing the business plan for each year, altering the rights attached the shares in the company, changing the company name and entering into contracts or employing anyone over a pre-agreed financial limit. Other reserve matters can be added to this list to ensure the Council retains control over certain, key issues.

The appointed directors to the newly-incorporated LLP Company will be under statutory duties imposed by the Companies Act 2006.

Conflicts of interest can frequently occur in the context of a joint venture when directors have to balance the interests of the shareholder organisation that appointed them with the need to exercise independent judgment and promote the success of the company. The JV articles will include detailed provisions on how the shareholders will be able to permit the directors from still acting notwithstanding any actual or potential conflict they may face.

Any loans granted to the company by the Council should be provided on commercial rates so as to avoid any potential State Aid challenges.

8.0 Equalities implications

- 8.1 This project is not expected to have any negative equalities impacts. When the joint venture LLP company is established, CCC will place requirements upon the new company to ensure that appropriate equalities impact assessment work takes place as it begins to undertake its stated objectives.

9.0 Other implications

- 9.1 The development of Friargate will deliver office accommodation, reflecting modern day standards and building regulations. The use of new materials will eliminate energy loss from the fabric of the buildings and promote energy efficiency, resulting in a reduction in carbon emissions and utility costs for occupiers.
- 9.2 All buildings constructed as part of the Friargate scheme will have the benefit of connecting to the Heatline network allowing all future tenants to connect to the renewable energy source.
- 9.3 Friargate LLP, as a current landholder and a future Joint Venture partner will be a major stakeholder in the scheme. The Joint Venture will enable Friargate to ensure that there is no remaining charge over the land within the scheme, enabling development of the site.

10.0 Schedule of background papers

- 10.1 Report to Cabinet 18 June 2013 and Council 25 June 2013 – Starting the Friargate Business District to Regenerate the City, Transform the Council and Deliver Savings.

11.0 PMO Assurance

Assurance activities completed

Technical Panel	Appraisal	01/11/17 - TAP endorsed the Full Business Case to progress to IAG
Investment Group	Advisory	04/12/17 - The investment case was approved to progress to WMCA Leadership Team
WMCA Team	Leadership	WMCA Leadership Team approval to progress to Investment Board: <ul style="list-style-type: none">• Sean Pearce approved 18/01/18• Tim Martin approved 18/01/18• Patrick White approved 18/01/18
Investment Board		