



WEST MIDLANDS
COMBINED AUTHORITY

WMCA Board

Date	9 March 2018
Report title	Coventry Friargate Business District Phase 1
Portfolio Lead	Councillor Izzi Seccombe - Finance & Investments
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Report to be/has been considered by	Technical Approval Panel (12/4/17) WMCA Investment Advisory Group (8/5/17) WMCA Leadership Team (23/5/17) Investment Board (29/1/18) Programme Board (23/2/18)

The WMCA Board is recommended to:

- (1) Approve the award of £51.0 million Devolution Deal funding to Coventry Friargate Business District Phase 1, which is promoted by Coventry City Council based on the assurance work completed and the endorsement of the Project by the Investment Board on 29 January 2018 as set out in Paragraph 5.4.
- (2) Delegate to the Monitoring Officer and the Director of Finance in consultation with the Portfolio Lead for Finance to conclude the grant agreement with Coventry City Council in accordance with this report as set out in Paragraph 6.7.

1.0 Purpose

1.1 This report seeks the approval of £51.0 million for Coventry Friargate Business District Phase 1. This report sets out the work undertaken by the Investment Board and the assurance now provided to support the approval being proposed to the West Midlands Combined Authority Investment Board. It summarises the key aspects to the application and is supported by the summarised business case submitted by the lead Council, in this case, Coventry City Council that was considered by the Investment Board.

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 masterplan was conceived by Friargate LLP, who assembled the majority of the land required to regenerate the area around 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 Phase One of the Friargate Masterplan comprises five office blocks and a hotel. The first office block in the scheme, One Friargate, is already complete and is now occupied by Coventry City Council. This project seeks funding to further develop Phase One of the Masterplan, with the remainder of the scheme comprising four office buildings and a hotel. This is in addition to the works that have already been completed on the Friargate Bridge Deck, and public realm schemes.

2.3 Coventry City Council is proposing a model to provide a programme of development that would seek to deliver the four office blocks and the hotel remaining 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. Initial investment from the Combined Authority would be supported by the Council also investing in a joint venture with the developer.

2.4 The proposal in the Final Business Case is to start the development of Phase One of the scheme by using West Midlands Combined Authority funding to deliver the second building at Friargate against a commitment from Coventry City 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.

2.5 The joint venture arrangement between Coventry City Council and the developer would cover the entire Friargate scheme and not just be limited to Phase One. The joint venture would give the Council a 50% share in the LLP Company that would own and develop the scheme, and share the returns and the risks from the overall Friargate development.

2.6 This option is for Coventry City Council to use the £51 million 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

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

2.8 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.

3.0 Summary of the West Midlands Combined Authority Assurance Process

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

3.2 One Friargate, the first building in the Friargate Masterplan is now open and occupied. Coventry City Council has secured a letting of part of this building to the Financial Ombudsman Service. Coventry City Council 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 which has been subject to the West Midlands Combined Authority Assurance process.

3.3 Delegated authority was given to Coventry City Council officers by Cabinet on 24th January 2017 to enter into negotiations with the West Midlands Combined Authority 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.

3.4 The application for approval has moved through the West Midlands Combined Authority approvals process and a summary is provided in the table below.

Table 1: West Midlands Combined Authority Assurance activities completed

Process	Decision
Technical Appraisal Panel	01/11/17 - TAP endorsed the Full Business Case to progress to IAG
Investment Advisory Group	04/12/17 - The investment case was approved to progress to WMCA Leadership Team
WMCA Leadership Team	WMCA Leadership Team approval to progress to Investment Board: Sean Pearce approved 18/01/18 Tim Martin approved 18/01/18 Patrick White approved 18/01/18
Investment Board	Investment Board approved 29/1/18

3.5 All other points and issues raised during the assurance process have been satisfactorily resolved by those Panels, Groups and Boards set out in Table 2. This included a session facilitated by the Development Director at Coventry City Council with the Chair of the Investment Board, the Investment Board member from the Greater Birmingham and Solihull Local Enterprise Partnership and the West Midlands Combined Authority Finance Director that went through in detail the Final business Case and Commercial Case for Phase One. This included the arrangements and security package on the Joint Vehicle as well as the Commercial Agreement with the Private Sector Partner.

3.6 The final substantive item discussed and agreed at Investment Board related to those points outline below which are capable of resolution between respective Finance Directors should the West Midlands Combined Authority Board approve this report:

- As the form of funding from the West Midlands Combined Authority a Grant and Coventry City Council intend to issue a Loan to the Joint Vehicle, an agreement that any loan interest to be ring fenced and used only by Coventry City Council for the Joint Vehicle overhead costs only V costs;
- All revenues to be delivered from Phase 1 to be reinvested into further phases; and
- Further development of a developer management fee that represents Value for Money for Coventry City Council and the West Midlands Combined Authority.

4.0 Wider West Midlands Combined Authority Implications

4.1 The proposal in the business case complements other West Midlands Combined Authority 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 and the West Midlands Combined Authority.

5.0 Financial implications

5.1 The report seeks approval to grant £51 million 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.

5.2 The table below funding sought is intended to fund the next building in Phase One and is 100% based on West Midlands Combined Authority funding. The table below demonstrates programme costs relating to the Construction of this first building:

Table 2: Funding Summary

£ millions	18/19	19/20	20/21	21/22	Total
Construction cost	14.7	19.6	4.9	0.0	39.2
Plot and infrastructure costs	0.2	0.3	0.2	0.0	0.7
Professional fees	1.6	1.6	0.5	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

- 5.3** Following completion and a full letting of the first building, 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 of circa £220 million.
- 5.4** The capital grant of £51.0 million received from the West Midlands Combined Authority 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 a senior loan term facility into the joint venture company secured with a first charge on the land and buildings. The loan will be repaid to the City Council using income from these buildings. The funding will then be recycled to fund future buildings on an ongoing basis. Coventry City Council confirm that the funding will be ring-fenced to the Friargate scheme in order to deliver the outcomes for the Friargate development as described in the full business case.
- 5.5** As a result of providing loan funding to the Joint Venture, Coventry City Council will be in receipt of interest. Following questions raised during the assurance process, the Council clarified that the return from the loan will be ring-fenced to the project, and be utilised to fund Coventry City Council's share of the Joint Venture costs, including the overheads that it has agreed to contribute.
- 5.6** Independent economic analysis prepared for the bid to the West Midlands Combined Authority, indicates that there is an estimated £19.13 of economic benefit generated for every pound invested on the preferred option. These benefits 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 Gross Value Added and will also result in higher footfall in the area boosting economic activity. The additional office blocks will also generate additional business rates of circa £5 million.
- 5.7** Following questions raised at previous stages of the assurance process, Coventry City Council has clarified that both procurement and state aid risk will be managed in relation to all aspects of the project. More specific questions regarding the structure of the proposed Joint Venture arrangement were addressed during the assurance process.

- 5.8** In agreeing to the recommendation the West Midlands Combined Authority Board need to take into account the summary and recommendations that it received in January 2018 with the report, 'Progress Update on the West Midlands Combined Authority Investment Programme'. This report set out that not all income streams that support the West Midlands Combined Authority Programme are secured. Therefore the following points with regard to this scheme should be noted:
- a) Existing funding rated as 'Green' or prudential borrowing that can be made and to be repaid by the region's future forecast Devolution Grant is sufficient to support the requested funding for this scheme; however
 - b) Given that there is still substantial work to be concluded to confirm all West Midlands Combined Authority Income Streams, namely income to be derived from Precept and a Business Rates Supplement as set out in the region's first Devolution Deal then approval of this scheme may not allow all further schemes to be approved that are dependent on West Midlands Combined Authority internally generated resources that are contained within the Investment Programme;
 - c) The annual revenue cost to service the borrowing for this scheme is £3.1 million. The basis on which this can be signed off is due to the assumption that the 30 Year Devolution Grant will be received in Full from Central Government. The Total Annual Devolution Grant over 30 years after taking into account the funding of interest costs provides funding for the investment programme of £748 million. The Devolution Grant will be subject to a 5 yearly gateway review that is currently being scoped with Ministry of Housing, Communities and Local Government and SQW. Should the Devolution Grant be reduced, the Annual Revenue Cost will need to be met through contributions from Constituent Authorities on the basis of the underwriting of all West Midlands Combined Authority commitments by each Constituent Authority.

Table 3: Investment Programme Schemes funded by WMCA resources to be generated

	£000's	WMCA	Total	Status
1	UKC Interchange	396,015	1,020,326	SOC pending March CA Board allocation
2	UKC Infrastructure	290,144	638,979	SOC pending March CA Board allocation
3	HS2 Connectivity Programme schemes	603,766	1,099,686	Various
4	Brierley Hill Metro Extension	103,000	343,600	SOC, Grant spending first
5	Programme Governance	3,676	3,676	Year 1 spending to Budget
6	Coventry City Centre Regeneration	150,097	360,055	£99m FBC with remainder in March Board
7	Coventry UKC City Centre First	11,600	18,351	-
8	Coventry UKC North	21,600	142,900	SOC/OBC
9	Coventry UKC South	149,250	311,900	SOC/OBC
10	Land Remediation Fund	200,000	200,000	£68m/£88m deployed pre-March 2018
11	Business Innovation	50,000	50,000	£0.275m SOC
12	Employment, Education & Skills	20,000	20,000	Not commenced
13	Commonwealth Games	25,000	25,000	2022 – subject to full assurance process
-	Other Investment Programme Schemes	-	4,122,634	Various
	GRAND TOTAL	2,024,148	8,357,107	

5.9 A Task and Finish Group of the West Midlands Combined Authority Board is being established in Quarter 1 as set out in the January 2018 Investment Programme Report and February 2018 Budget Report to consider this in more detail.

5.10 All other finance points raised during the assurance process have been satisfactorily resolved.

6.0 Legal implications

6.1 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.

6.2 Coventry City 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.

6.3 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.

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

6.5 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.

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

6.7 Delegation to the Monitoring Officer and the Director of Finance in consultation with the Portfolio Lead for Finance is required to conclude the Grant Agreement with Coventry City Council in accordance with this report.

7.0 Equalities implications

7.1 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.

8.0 Next Steps

- 8.1** Full Council approval has been given to enter in to a Joint Venture arrangement with the developer in order to deliver the scheme. CCC is in the process of finalising the shareholders agreement and other associated documentations with the development partner which will govern the arrangement of the joint venture to ensure that it is able to achieve its stated objectives as set out in this report and, subject to WMCA approval, the Council will proceed with this arrangement.
- 8.2** Following the establishment of a new Joint Venture company, this company will commence a competitive procurement tender of a Contractor to construct the next building in the scheme as per the business case.

9.0 Appendices

- 9.1** There are no appendices.