



**WEST MIDLANDS**  
COMBINED AUTHORITY

## WMCA Board Meeting

<b>Date</b>	9 December 2016
<b>Report title</b>	Coventry City Centre South Development
<b>Portfolio Lead</b>	Councillor Izzi Seccombe – Finance and Investment
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<b>Report has been considered by</b>	WMCA Investment Board Investment Advisory Group Investment Technical Panel

### Recommendation(s) for action or decision:

#### The WMCA Board is recommended to:

1. To support the Coventry City Council application for funding to support its Coventry City Centre South proposal and to approve a grant of up to £98.8 million subject to:
  - a) that any terms of a grant should ensure that the risks associated with any legal challenge are solely the responsibility of Coventry City Council and should such challenge prove successful then any grant paid over should be returned to the WMCA;
  - b) that where there are any cost savings or unused contingency the WMCA should benefit from such reductions which should be included in the grant conditions;
  - c) That delegation be given to the WMCA Monitoring and WMCA S151 officers and their equivalent Coventry City Council colleagues to enter into the appropriate grant agreement between the West Midlands Combined Authority and Coventry City Council to secure the grant funding.

## **1.0 Purpose**

- 1.1 The purpose of this report is to summarise the Coventry City Centre development proposal and to highlight the process already undertaken to challenge and clarify the proposed scheme, and to seek the board support for the application for a grant of up to £98.8m.
- 1.2 Coventry City Council are in the final stages of appointing and announcing a preferred development partner to deliver the City Centre scheme following a comprehensive procurement exercise and as such, there are a number of matters, the subject of this report which are deemed to be “commercially sensitive information” and which have been addressed in the private agenda.

## **2.0 Background**

- 2.1 As part of the West Midlands devolution deal an £8bn investment program was proposed across the region. Included within that program was an allocation of up to £150M to Coventry City Council for regeneration. This report only deals with the first scheme submission for funding as part of the overall package of £150 Million allocated to Coventry City Council under the devolution deal.
- 2.2 The WMCA Assurance process requires that applications for this funding need to be supported by a business case submission. Coventry City council prepared a full business case application using the template provided which provides for a strategic, economic, commercial, financial and programme analysis of the proposal.
- 2.3 The first draft report was provided on Friday 23<sup>rd</sup> October and was considered by the Technical Advisory panel and Investment Advisory Group (IAG). A number of questions and observations were raised by these groups which were answered by the Coventry team and incorporated into a final Business Case.
- 2.4 This final Business Case was then considered by the Investment Committee on 21 November 2016, along with a presentation by Coventry City Council about the scheme.
- 2.5 The committee obtained clarification to various questions and observations and thanked Coventry City Council for a very thorough and detailed business case and helpful presentation.
- 2.6 The key observations raised by the Investment Advisory Group and Technical Panel were considered by the Investment Committee and where appropriate have been incorporated into the recommendations included in this report, being a need to ensure that the WMCA should benefit from any cost savings should they materialise; and that any risk of challenge relating to either the procurement process or state aid should sit with the council.
- 2.7 Coventry City Council team are comfortable with both these requirements as they have taken all necessary actions and advice relating to the procurement process and state aid; and they agree that any savings should accrue back to the WMCA.

## **3.0 Project outline**

- 3.1 The Coventry and Warwickshire strategic Economic Plan has identified the regeneration of Coventry City as a key priority and the LEP and Coventry City Council have invested heavily in the City Centre in recent years, with £180m being spent on the Friargate bridge deck scheme, the Friargate Council Building, the City Centre Destination leisure facility, the Railway Station Masterplan and public realm works within the city centre.

- 3.2 The Council is proposing that the next stage of regeneration is the City Centre South (CCS) retail led scheme. CCS is the Council's top priority for funding over the next five years. This scheme will complement the other regeneration projects and is critical to the success of the Friargate Business District. The details of the proposed scheme are set out in the Private section of this report.
- 3.3 The CCS scheme will contribute towards the WMCA's objectives as set out in the Strategic Economic Plan, the benefits of which are set out fully in the private section of this report.
- 3.4 Total capital costs and Gross Development Value of this scheme are set out in the private element of this report.
- 3.5 As such, there is a clear market failure preventing the private sector from undertaking significant retail based investment within the City Centre core. Therefore, in order to bring about transformational change public sector funds are needed to address the cost / value gap barrier, without which the scheme would not happen on the scale proposed and the opportunity to increase employment and boost GVA amongst other benefits would be lost.
- 3.6 The gap funding is being requested from the WMCA and without such funding the project would be unviable.
- 3.7 The Council will also incur fees for external support in managing the scheme including commercial advice, quantity surveyor advice, letting and investment advice and CPO advice, of approximately £816,000.
- 3.8 The £98.8m funding ask will therefore be used for the purposes set out in the private section of this report.
- 3.9 The scheme will contribute to the SEP as set out above, and its viability is made possible by the opportunity for WMCA Devolution deal funds. This funding reflects the Councils funding strategy in order to deliver this scheme. It is recognised that the city centre has been underperforming for some time now and in order to build strong and positive growth a transformational scheme is required. Public funds and a joint approach between the Council and the selected developer is necessary to fund up-front acquisition costs and also to help remove a key development risk by funding costs associated with gaining vacant possession of the sites where it is unviable in the context of the scheme for the developer to do so.

#### **4.0 Financial implications**

- 4.1 Details of the overall scheme costs are detailed in the financial implications section of the private element of this report.
- 4.2 The WMCA contribution is being used to leverage in significant commercial finance.
- 4.3 Coventry City Council have detailed the proposed program financial breakdown and there are various allowances built into the assumptions which are appropriate for this early stage of programme development.
- 4.4 Coventry City Council have also outlined the risk sharing proposals whereby a significant number of financial risks are being borne by the developer.
- 4.5 Should these not materialise and savings are made then these will flow back to the Council and ultimately to the WMCA. The collaborative nature of the agreement between Coventry City Council and the developer will ensure transparency of all costs.

- 4.6 The proposed grant of up to £98.8m is included within the overall £8bn investment program, under that element to be funded by the WMCA. The funding sources underpinning the WMCA are:
- a. The annual £36.5m Government grant
  - b. A share of the government's 50% share of any business rate growth above an agreed base position
  - c. A mayoral precept and a
  - d. 2% Business rate supplement.
- 4.7 The business case included the assumptions that the council would be contributing a 50% share of future business rates growth in accordance with bullet point b above.
- 4.8 Subsequent discussions amongst the constituent Authority Finance Directors' has confirmed this general assumption and that they will work together to clarify the funding framework that underpins the investment programme.
- 4.9 The government grant has been approved for the term of this government, whilst the other three sources still require agreement and negotiation.
- 4.10 There is a risk that should one or other of these sources not materialise then either alternative sources will need to be found or that the programme will need to be reduced.
- 4.11 Should the programme be reduced then this would clearly favour any scheme that has been presented early and already approved.

## **5.0 Legal implications**

- 5.1 Appropriate agreements will need to be in place to ensure the WMCA position is protected and the assumptions and requirements set out in the report above can be enforced.

## **6.0 Equalities implications**

- 6.1 The Scheme has the potential to regenerate the area, reduce unemployment and promote inclusion. To ensure the public realm and proposed infrastructure meet key accessibility standards, Coventry city council must ensure that an equality impact assessment is conducted at the appropriate design stage to include consultation with all relevant stakeholders, including key local disability groups".