



Investment Board

Date: Monday 18 December 2017

Time: 10.00 am **Public meeting** Yes

Venue: Room 116, 16, Summer Lane, Birmingham, B19 3SD

Membership

Councillor Izzi Seccombe (Chair)
Councillor Jim O'Boyle
Councillor Sean Coughlan

Councillor Robert Hulland
Councillor Majid Mahmood
Councillor Peter Richards
Nick Abell

Paul Brown
Gary Taylor

Warwickshire County Council
Coventry City Council
City of Wolverhampton Council, Dudley MBC,
Sandwell MBC and Walsall MBC
Solihull Metropolitan Borough Council
Birmingham City Council
Non-Constuent Authorities
Coventry & Warwickshire Local Enterprise
Partnership
Black Country Local Enterprise Partnership
Greater Birmingham & Solihull Local Enterprise
Partnership

Quorum for this meeting shall be three members.

If you have any queries about this meeting, please contact:

Contact Carl Craney Governance Services Officer West Midlands Combined Authority
Telephone 0121 214 7965
Email Carl.Craney@wmca.org.uk

AGENDA

No.	Item	Presenting	Pages
Meeting Business Items			
1.	Apologies for Absence (if any)	Chair	None
2.	Notification of Substitutes (if any)	Carl Craney	None
3.	Declarations of Interests (if any) Members are reminded of the need to declare any disclosable pecuniary interests they have in an item being discussed during the course of the meeting. In addition, the receipt of any gift or hospitality should be declared where the value of it was thought to have exceeded £25 (gifts) or £40 (hospitality).	Chair	None
4.	Minutes of last meeting	Chair	1 - 6
5.	Matters Arising	Chair	None
Business Items for Consideration			
6.	Birmingham City Council - Residential Development/ Land regeneration of 13.3 hectare (33.09 acres) council owned site - Yardley Brook, Cole Hall Lane, Shard End	Gerald Gannaway	7 - 32
7.	Exclusion of the Public and Press [To pass the following resolution: That in accordance with Section 100(A) of the Local Government Act, 1972 the press and public be excluded from the meeting for the following items of business as it involves the likely disclosure of exempt information relating to the business or financial affairs of any particular person (including the authority holding that information).]	Chair	None
Business Items for Noting			
8.	WMCA CIF / BDPDF	Nick Oakley	33 - 36



WEST MIDLANDS COMBINED AUTHORITY

Investment Board

Monday 27 November 2017 at 10.00 am

Minutes

Present

Councillor Izzi Seccombe (Chair)
Councillor Jim O'Boyle
Councillor Robert Hulland
Councillor Peter Richards
Gary Taylor

Warwickshire County Council
Coventry City Council
Solihull Metropolitan Borough Council
Non-Constuent Authorities
Greater Birmingham & Solihull Local
Enterprise Partnership

In Attendance

Sarah Middleton

Black Country Local Enterprise
Partnership

Linda Horne

West Midlands Combined Authority

Phil Hewitt

Transport for West Midlands

Sean Pearce

West Midlands Combined Authority

Paul Dransfield

City of Wolverhampton Council

Bill Kirk

Dudley Metropolitan Borough Council

Rhian Palmer

Coventry City Council

Carl Craney

West Midlands Combined Authority

Item Title No.

41. Apologies for Absence (if any)

Apologies for absence had been received from Councillor Majid Mahmood (Birmingham City Council), Nick Abell (Coventry & Warwickshire Local Enterprise Partnership) and Paul Brown (Black Country Local Enterprise Partnership).

42. Notification of Substitutes (if any)

No notifications of substitutes had been received.

43. .Declarations of Interests (if any)

No declarations of interests had been received relative to items under consideration at the meeting

44. Minutes of last meeting

Resolved:

That the minutes of the meeting held on 30 October 2017 be confirmed as a correct record and signed by the Chair.

45. Matters Arising

There were no matters arising from the minutes of the meeting held on 30 October 2017.

- 46. Very Light Rail: Transforming Connectivity West Midlands (VLR:TCWM)**
- Rhian Palmer and Bill Kirk presented a report which sought the approval of £12.2 million for the Very Light Rail: Transforming Connectivity West Midlands (VLR: TCWM) programme via a Strategic Outline Business Case. They explained that VLR: TCWM was a programme of activity to help establish the West Midlands as a world-class business investment location by supporting urban public transport connectivity, developing significant supply chain opportunities and providing a focus for driving up skill levels, focussing on the development of VLR technology. The programme was being promoted by Coventry City Council (CCC) and Dudley Metropolitan Borough Council (DMBC) with support from Transport for West Midlands. They outlined the various aspects of the scheme as follows:
- I. Dudley H2H TIC and Test Track (including (a) The Hub to Home Transport Innovation Centre and Test Track Project : Very Light Rail and Autonomous Technologies (HTHTIC) and (b) Metro Retaining Wall (Shared Wall);
 - II. Coventry VLR Phase 1 : Research and Development;
 - III. Coventry VLR Phase 2 : First Route.

Rhian Palmer and Bill Kirk responded to various questions from Members of the Board. Councillor Jim O'Boyle advised that Coventry City Council was particularly keen to promote this initiative which could have long term positive effects for the region both in terms of connectivity and employment and manufacturing opportunities. He commented on the potential for its use by Jaguar Land rover employees working at the Whitley site.

Councillor Robert Hulland commented that the proposal dovetailed well with the Government's Industrial Strategy which had been published that morning. With regard to the Metro retaining Wall he enquired whether this was to be a feature wall or, alternatively, if it was likely to attract the attention of local graffiti artists. Bill Kirk explained that the wall would be masked by the Transport Innovation Centre. Councillor Hulland also queried the accuracy of the projected costs. Bill Kirk outlined the processes applied to define the anticipated costs. Linda Horne reminded the Board that in the event that the costs were exceeded such costs would be the responsibility of the Delivery Bodies and not this Board. Rhian Palmer advised that with regard to the Coventry City Council elements of the scheme, sufficient contingency sums had been included and that contributions towards the costs were also being sought from the private sector.

Gary Taylor advised that whilst he was supportive of the proposal he questioned whether it could be delivered given the efforts made previously, without success, on the continent. Rhian Palmer advised on the recent advances in battery technology, that Warwick Manufacturing Group, partners in the proposal, operated at the cutting edge of new technology and that materials not previously available would be investigated for use. Phil Hewitt explained that the nature of public transport operations and funding regimes were fundamentally different in the United Kingdom compared to Europe inasmuch as the regulation and competition frameworks were markedly

different. He commented that this was an excellent example of public sector and private sector partnership working.

Gary Taylor and the Chair also questioned the ownership rights with regard to Intellectual Property Rights and the possibility of the WMCA benefitting from future gain share arrangements. Sean Pearce reminded the Board that the WMCA was being asked for a capped contribution towards the project and that the Intellectual Property Rights would be vested with the Accountable Body. He suggested that the Funding for Growth Board could be asked to consider this particular issue. Rhian palmer advised that there was a tri-partite agreement between Coventry City Council, Warwick Manufacturing Group and the West Midlands Combined Authority with regard to Intellectual Property Rights.

Councillor Robert Hulland reminded the Board of the shortage of engineers and the possible consequences for the scheme. Bill Kirk reported on proposals by Dudley College to work with the Innovation Centre with a view to providing degree level apprenticeships and work experience.

Resolved:

1. That the award of £12,204,821 Devolution Deal funding to the Very Light Rail: Transforming Connectivity West Midlands programme, jointly promoted by Coventry City Council and Dudley Metropolitan Borough Council be approved – the allocation falling within Coventry's UK Central Plus Programme;
2. That no commitment be given at this time with regard to ring fencing the remaining £42.8 million of the £55 million WMCA funding package in the event that this is not required to spend on Phase 2 for delivery of the first route.

47. Wolverhampton Interchange Project

Paul Dransfield presented a report which provided an update on the Wolverhampton Interchange Project (WIP), the current funding package and the forthcoming reports to WMCA Governance. He reminded the Board of the history behind this scheme, on the production of an integrated business plan and that the Benefit Cost Ration (BCR) had improved as a result of the integration of the various elements. He assured the Board with regard to the financial costings which included contingency sums. He advised that, subject to the approval of funding, work on the new station building would commence on site in December 2017. He explained the financial breakdown and commented on the number of regulatory issues from the involvement of a large number of partners in the scheme.

Phil Hewitt reported that the financial costings of the original Metro elements had been under estimated significantly but that the Midland Metro alliance (MMA) had now provided a formal price: these costs had been audited by the Client and by independent auditors.

The Chair expressed concern with regard to the variation and suggested that lessons needed to be learnt. She outlined a series of steps which she wanted to be undertaken to offer comfort to this Board that this situation

would not be repeated. Councillor Robert Hulland commented on the need for rigorous monitoring of this project to ensure costs were controlled. He enquired which parties would be responsible for meeting any over expenditure. He also enquired as to the affect on the Investment Board's portfolio.

Linda Horne advised that the Board's portfolio had been re-profiled but that there was no capacity for any new schemes. Gary Taylor queried whether this meant that the 'headroom' had been lost. Linda Horne reported that in respect of 'the current profile this was the case. Paul Dransfield advised that the intention was to deliver the project within budget but that any over spend would be divided between the Responsible Authorities. He advised on the steps taken by the City of Wolverhampton Council to take client control of the rail station element including employing a 'rail expert' and a Quantity Surveyor to assess costs. This employment might be continued through the delivery phase. A report to the Integrated Governance Board was planned for December 2017 outlining additional governance requirements.

Resolved:

1. That the progress with the Wolverhampton Interchange Project (WIP) be noted;
2. That the funding package for WIP as detailed in section 3 of the report and the submission of a report to the WMCA Board seeking authority to commit the funding of £49.3 million of which £21.9 million WMCA Contribution (borrowing) to be funded by the Department for Transport (DfT) deed approved previously by the former Integrated Transport Authority (ITA) be endorsed;
3. That the submission of a recommendation to the WMCA Board to approve the delegation to the Metro Programme Director and Head of Governance to enter into the necessary legal agreements be endorsed;
4. That a Learned Lessons Review to:
 - Understand the reasons for the increase and mitigations that have been and will be put into place across:
 - a. This project;
 - b. All other Investment Programme Project;
 - TfWM have commenced work in this area to deliver the review by 31 December 2017;
 - An interim Lessons Learned briefing has been supplied to the WMCA FD by TfWM to identify how the Target Cost process has been revised to immediately implement lessons as a result of this project across all TfWM related projects;
 - The Learned Lessons Review to be reported back to this Investment Board;
 - How the Assurance Framework picks these risks up; and

- Updating of the risk register.

The meeting ended at Time Not Specified.

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INVESTMENT DIRECTOR:	Gerald Gannaway, Finance Birmingham
COMPANY NAME/APPLICANT:	Birmingham City Council
BUSINESS DESCRIPTION:	Residential Development/ Land regeneration of 13.3 hectare (33.09 acres) council owned site
LOCATION:	Yardley Brook, Cole Hall Lane, Shard End
INTRODUCED BY:	BCC- Andrew Hood/ Shahid Iqbal
FUND:	WMCA – Brownfield Land & Property Remediation Fund (“BLPDF”)
TRANSACTION TYPE:	£4,386,000 Land remediation grant request (alongside matching request from HCA’s Birmingham City Deal Programme) in respect of contaminated site (former sewage works) with additional exceptional remediation and infrastructure costs, totalling c£9.5m, ultimately to deliver 263 houses.

INVESTMENT SUMMARY

This request was presented to the IAG 4/12/17, who approved progression to Board.

Discussion focussed on the commitment that BCC are making to the scheme, and timescales. In respect of the former, the expected loss (to BCC) on the scheme after grant, as outlined on page 8, is £3.283m, even if all goes to plan and cost. In addition, Birmingham will need to fund the balance of the costs, £37.625m, and on which basis, it will be over 40 years before they seen any positive return. They have many competing priorities, and without this grant support, they would not be bringing forward this scheme at this time.

In terms of timescales, which were also discussed, we have brought forward the end scheme completion date, and enhanced Grant conditions, such that the scheme must achieve intermediate deadlines, failing which the Grant request will need to be re-approved by Investment Board.

The site is owned by BCC, and was formerly a sewage treatment works, operated by the then public utility, Upper Tame Drainage Authority, until it was decommissioned in the early 1970’s, and purchased by the City Council. Formal responsibility for waste water treatment became the sole responsibility of the Water Authorities in Autumn 1974.

Located approximately 6 miles east of Birmingham city centre, and situated in the corridor suburb of Shard End. The site is located adjacent to an established residential

area to the north, east and west, and to the south of the site lies green open space and beyond that large industrial units.

Since decommissioning the site as a sewage works, limited remediation work has been undertaken on site including; the removal of the concrete tanks and structures to ground level, mounding and sealing deposited sludge on the site and importing pulverised fuel ash to raise ground levels to prevent flooding from the nearby River Cole. Any contamination is now contained within the site. Landscaping was finalised in 1982 to create a public open space.

At the southern edge of the site lies the River Cole Valley and surrounding woodland which is designated as Site of Importance for Nature Conservation (SINC). The Yardley District North Rugby Club is located at the western edge of the site and this facility may remain, and will be unaffected by the development proposals.

A 132KV high voltage cable runs through the site buried at shallow depth that will require reburial as part of the redevelopment of the site.

Extensive further land remediation will be required to enable future use of the site for housing development.

Intrusive Ground Investigation has been undertaken, showing that the site is affected by high levels of gas associated with the deposited sewage sludge. The work will involve excavating deposited sludge (c1m depth under current capping) and redepositing and capping on a mound on the site, which reduces the net developable area to c 20 acres. The developable land will require further abnormal expenditure, including gas barrier membranes, abnormal foundations etc. Total exceptional costs are estimated at c£10.5m, but strictly defined remediation costs, c£8.6m (£9.5m including contingency). Remediation liability now rests solely with BCC. [See Appendix 4](#)

Redevelopment is anticipated to produce some 263 new homes, with 132 of these to be sold (or the remediated land attributed sold to a developer) as private market homes, and 131 retained as Affordable Homes by the City Council under its 'Birmingham Municipal Housing Trust' brand within its Housing Revenue Account.

Savills were instructed by BCC & the HCA, in conjunction with Arcadis, to review options for the redevelopment.

The proposals now put forward are considered to drive the optimum deliverable outcome for both BCC and the wider WMCA region.

Whilst consideration could be given to a totally private sector led development of the scheme, which might drive higher sale values, the options review by Savills has confirmed that the same level of grant requirement will prevail, even if the maximum number (65%) of private sector houses were built.

This would not however achieve BCC aims of providing additional social housing stock, which may (after c40 years) start producing a net positive return for the Council, on its c £20m capital investment.

Further, recent sales evidence for a large scale residential scheme in the vicinity, suggests that bulk private sector sales are hard to achieve and a developer would be hard to attract, so delivery of homes would be delayed.

BCC Planning are fully aware of proposals for the site, and have ongoing dialogue, as BCC move closer to submitting a planning application. BCC (via Arcadis) are currently working up an Environmental Impact Assessment for the site, which will then be followed by a full planning submission December 2017.

The scheme is actively supported by Planning and Senior Council members.

Timing (revised and brought forward in accordance with latest Arcadis Project Plan)
Essentially remediation and new build work now overlaps.

Planning for housing expected **June 2018**.

Contractor appointment for remediation and new build September 2018

Developer remediation planning submissions October 18 to Dec 18, expected March 2019. **This is an intermediate deadline (see grant conditions).**

Site remediation commences **September 2019**.

Remediation partially completed September 2020.

Start on site houses 3 phases , 1st 100 houses, **September 2020. This is an intermediate deadline.**

Remediation complete January 2021.

Final units completed **December 2024**.

Planning

PLANNING AND POLICY CONTEXT

The Birmingham Plan (Adopted 10 January 2017)

The site at Yardley Brook is covered by Policy GA8 – Eastern Triangle. It is proposed that the Eastern Triangle will deliver regeneration and growth for around 1000 new homes. This will be across a number of locations offering a range of housing types. The potential for the redevelopment of further suitable housing stock as well as the more efficient and effective use of existing land and buildings where practical and particularly at locations that are close to local centres, accessible by public transport and on or close to main transport corridors will be explored.

The development is expected to provide high quality new housing environment that will ensure wider housing choice within the Shard End area in line with the principles in Policy TP27. This will include broader housing opportunities and associated community facilities.

National Planning Policy Framework (NPPF) (2012)

The NPPF promotes sustainable growth and development, seeking positive improvements in the quality of the built environment including the improvement of conditions in which people live, work, travel and take leisure.

The Framework recognises the importance of town centres and how local authorities should consider policies that address management and growth.

The Framework also aims to significantly boost the supply of housing – and guidance is provided in achieving a wide choice of high quality homes and the creation of sustainable, inclusive and mixed communities.

The NPPF also promotes healthy communities, which includes recognising the importance of open space and playing fields. Any proposed development of open space or playing fields should only be undertaken if an assessment has been undertaken that shows the land to be surplus

Management

The scheme is actively supported by planners and senior Council officers and local Councillors for residential accommodation.

BCC – Scheme overseen by Andrew Hood, a senior manager within the City Council's housing development team, and managed by Shahid Iqbal, a development manager in the Council's housing team. Both have experience of progressing residential development projects for the City Council since 2008, when housing development of mixed tenure accommodation was recommenced. The City Council has successfully delivered some 1,000 new homes on the Council's landholdings since that date. Legal input from City Council in-house legal to a) the Development Agreement with preferred developer (and its remediation sub-contractor) and b) plot transfers for market sale homes to purchasers.

Advisors:-

Savills - market report and appraisal options.

A full report was commissioned by BCC/HCA, which has considered a variety of development options for the site. FB, on behalf of the WMCA, have further engaged directly with Savills 7 Arcadis

The report provides a commentary on residential house values in the area and assesses residual land value of various development option, and concludes that the various option are not commercially viable

The chosen development plan which provides 50/50 market and affordable (Council) homes is deemed the optimum solution, however there is a large viability gap, and remediation cost.

The development will be procured through the Homes and Communities Agency DPP3 framework with the successful tenderer being responsible for the development of the outright sale homes under a development agreement under a build now and pay later arrangement and also enter into JCT build contract with the City Council for the construction of the affordable housing and these will be funded through the Housing revenue account.

Arcadis – Darren Clarke (Head of Client Services for Commercial Developers) and David Robertson (account Principal Residential Sector) have been procured by BCC to act as its Employers Agent to manage all aspects of this project, including:-

- a) securing Environment Agency and NHBC approval
- b) updating habitat and other surveys
- c) Securing planning consent for residential development (including screening and scoping opinions and completion of Environmental Impact Assessment)
- d) securing legal Agreement with National Grid for working adjacent to 132kV cable
- e) procurement of developer from HCA's DPP3 Panel (including remediation contractor). Includes preparing tender documentation, assessing tenders and recommending preferred bidder to City Council.
- f) Project monitor for planning application process (discharging reclamation strategy conditions by appointed developer) and ensuring requisite pre-start consents in place.
- g) Project monitor for site activities undertaken by appointed developer (and its remediation contractor), including ensuring liaison with Environment Agency and Local Planning Authority.
- h) Certification of payments to appointed developer (and its remediation contractor) by City Council, and funding claims for City Council to HCA (City Deal) and LRF.

An intrusive site investigation was undertaken by Arcadis, and treatability testing undertaken by Celtic Technologies.

HCA (contact David Warburton) - are expected to provide matching Public Asset Accelerator grant funding for the other half of the remediation costs.

Options review on behalf of the WMCA

Further to the previous Advisory Group minutes, Finance Birmingham have engaged directly and received input from both Arcadis and Savills, to ensure there are no other options, in terms of remediation or achieving a higher land value (i.e. lower grant requirement)

Remediation methodology

i.e is there a better cheaper more expeditious method

Finance Birmingham are in receipt of updated advice from Arcadis, accompanied by Site Investigation and Strategy report by Celtic. This confirms there is still only one viable remediation method, known as “lift and shift” which will enable houses to be delivered in compliance with the warranties needed for purchasers, e.g NHBC. Other options were considered, with costs ranging from £8.688m to £21m plus.

Options included:-

- 1) Onsite treatment of sludge /re-use
- 2) Off site re use/disposal of sludge
- 3) Partial relocation of the sludge
- 4) Barrier systems

The chosen “lift and shift operation” is costed at £8.688m, with contingency, this is assumed at £9.5m.

In essence, there is no other viable remediation plan.

This is as recommended originally, and still supported by Arcadis, verified by Celtic, and accepted by the HCA. We therefore support this plan.

Housing mix

i.e. Increase element of private sector houses to 65% (maximum possible) from 50%, with a view to achieving a higher GDV and minimising grant

Savills have prepared (with cost input by Arcadis) a specific alternative appraisal for us, on this basis, and the highlights are:-

GDV £37.487m

Costs £37.304m (excluding and land value or developers profit) Cost figures supplied by Arcadis.

Plus remediation costs c£9.5m

Loss/shortfall £9.317m (i.e. greater than £8.6m grant)

Total shortfall means even with 65% private sector housing, we cannot reduce the grant requirement.

In addition, Savills advise that the proposed 50/50 split will deliver the provision/ take up of houses more quickly than with a higher proportion of private units. Their full recommendation to us is:-

“The option that sees the 50% social housing delivered alongside 50% open market housing is likely to deliver the most amount of housing in the shortest period of time.

Whilst the site has not been formally marketed, our experience with housebuilders in the region suggests that they would not approach the site in its current form (requiring significant remediation costs), and even with remediation undertaken would not likely be of sufficient interest. This is largely because the area is a low value area, with values struggling to get above £200 psf, combined with the added pressure of build costs, which means this is not a highly attractive or sought after location. Given the socio-economic make up of the area, affordability is key issue for potential house purchasers, and therefore values are likely to remain low. This will also affect the take up of completed units. On a policy compliant scheme (35%) if a sales rate of only 2 open market units per month is able to be achieved, it could take up to 7 years to sell all the open market units. However, if a 50% social / open market scheme is pursued with the same sales rate, the open market units could all be sold within 5 and a half years - this is a 30% improvement on the delivery of homes for a 15% increase in social housing numbers. This is assuming that the social housing is delivered at the same rate as the open market, but operates on a turn key basis, where occupation is taken as soon as the units are completed. In order to achieve the maximum housing numbers in the shortest period of time, we would recommend that the 50/50 approach is taken”.

As is noted under Timing above, the final delivery of completed units, based on the revised plan by Arcadis, where there is now overlap between the remediation work and housebuilding work, final full delivery of housing has been brought forward some 2 years from 2026 to 2024

Transaction (update) based on 50/50 split, updated appraisal prepared by Savills attached at Appendix 2

This full scheme (as currently proposed, 24/10/17) involves the construction of:-

132 private units – 62 x 2 beds, 54 x 3 beds, and 16 x 4 beds.

131 affordable units - 62 x 2 beds, 52 x 3 beds, 17 x 4 beds

Units comprises a mixture of apartments, bungalows and houses.

Total 250,448 sq feet

Updated project Profit Summary Revenues & Costs

Revenues	£k
Total GDV - Private £23149	34656
Affordable £11507	
Costs	
Land Purchase including stamp duty	0
Construction costs	19850
Primary infrastructure	4935
Secondary infrastructure	305
Footpath on layout	621
Abnormal foundations	670
Prelims	3915
Services to plots	657
Professional costs	1913
Marketing & sales	264
Remediation	9500

Contractors OH profit and contingency £716)	2744
Total Costs (Ex Financing)	
Assumed financing	Nil
Monitoring Costs	Nil
Total Costs excl Finance and disposal fees	46625
Projected Loss before grants, land value, finance, and developers profit	11969
Loss therefore mitigated by £8686 grant	(8686)
Net loss	3283
Break even costs (before finance)	43342

Funding Required/Cashflow Drawdown/Timing

BCC funding structure for the scheme attached at Appendix 1, to be updated

Essentially :-

Costs met by:-

HCA Grant £4.3m

BLPDF Grant £4.386m

Balance to be funded by council - £37.625m (effectively offset by the 131 homes retained as affordable homes under its "Birmingham Municipal Housing Trust" brand within Housing Revenue Account) and sales of the 132 private sector homes for £23m.

The BCC NPV funding model suggest that the net benefit to the council of HRA receipts offset against debt and funding costs, only becomes positive after 40+ years.

Section 106 is not expected to be required, and no land payment.

DEVELOPMENT

Overview of scheme - construction and marketability.

Land has no/negative value (as open space).

Current proposal assumes, of total acreage, only 20 net developable acres.

Remediation cost at £8.6m (£9.5m inc. contingency), plus other abnormals results in total additional costs of £10.5m for this site.

There is the potential for further cost, depending upon the final amount of sludge excavated, albeit this will be at the risk of BCC. The site investigation highlights the main risk is additional depth of materials, however the estimated maximum potential further risk in this regard is c10%

Cost have been prepared by Arcadis. Core housing construction costs are £90 psf which seem realistic, but on top of this there are significant further infrastructure (excluding

£9.5m remediation costs) reflecting that the site remains challenging, even post remediation.

Savills base sale prices of the private sector housing on £180 psf. This seems realistic, given the local challenges, and evidence.

Any savings on costs or enhanced GDV or land value ultimately made would be captured by proposed clawback of the grant (see below). Clawback also links into timescales.

Ground conditions

Arcadis (previously E C Harris) were commissioned by HCA and BCC in 2016 to undertake site survey, ecology survey, flood risk survey, intrusive ground investigation and Remediation Strategy. Celtic Technologies were appointed to undertake a Treatability Study of the sewage sludges and concluded that the only viable option is to relocate approximately 83,000 cubic metres of sewage sludge by a 'lift & shift' operation producing a landscaped mound on part of the site, with the addition of further stabilisation, installation of a barrier to prevent gas movement to the development area and a drainage system. Preferred remediation strategy considered as least cost compared to other methodologies.

The Rugby Club has a club house on a small part of the land, which it occupies on a long leasehold basis (until 2028) from the BCC. Its pitches are on adjacent City Council owned land. The club has aspirations to move to a new location but has not sought funding for this, although the Council has budget cover within its Housing Revenue Account to contribute to its relocation. It is possible that the Club may remain in situ, such that there will a loss of around 10-12 homes (hence 273 to 263 units) with an impermeable barrier implemented to prevent landfill gas movement from under the club house. In the event that the club moves off site, then there exists the possibility to deliver these additional units.

A 132 kVA cable traverses the site. Relocation is costed at circa £2m by the utility company.

Economic & Social outputs

Description		BLPDF targets #
Land remediated	13.3 hectares	
Homes Created	263	800 homes
CIF Loan	0	
BLPDF Grant (max)	£4,386,000/ £17k per home	<£20.8k per home
Value for Money £k per home	33 (allowing for HCA Grant, before clawback)	

13.3 hectares of remediated land, where the WMCA SEP is looking for annual remediation of some 115 hectares per annum

263 residential mixed tenure new homes developed, including some 131 Affordable Homes to be owned and managed by Birmingham City Council to reduce the 20,000 families seeking accommodation on the Council's Waiting List.

16 Full time equivalent temporary jobs created during the remediation and housebuilding phase (estimated 1 year FTE per £200,00 Works costs)

Includes commitment for developer procurement to require up to 27 training /apprenticeship opportunities based on an assumption of £1m of contract value per full time apprenticeship.

Note the BLPDF (£50m fund) targets are:-

1600 jobs, 800 homes, 200,000 square feet commercial floorspace, significant private sector funding leveraged. This fund was primarily anticipated to work alongside the CIF.

Sales Demand

Savills have undertaken a full review of the proposed development. It appears that the proposed pricing of the market units for sale is appropriate alongside the retained affordable. Market evidence in the vicinity includes Shard End Village (Barratt scheme) where even with very significant public subsidy, it has been a struggle to sell homes. Hence the proposal to phase the development. Ultimately the sales risk (of the land for private sector development) lies with BCC.

Clearly there will be no issues with affordable house rentals given the desperate shortage and waiting list for affordable homes to rent across the city.

Security

We would propose a first legal charge over the portion of the site to be remediated and sold for open market housing, as a minimum.

Clawback

Proposed conditions, subject to final legal advice and accountable body input into discussions with BCC:-

Profit/cost

- If, due to remediation costs and build costs being lower than £43.3m (see page 8, at which point BCC will break even on value/expenditure before land and finance costs) and/or GDV exceed £38m, where BCC will then make a “profit”, thanks to the Grant support, subject to agreement with HCA, the BLPDF grant will be reduced proportionately, based on 50% of any “profit”.
- If any sale of the remediated land achieves more that £250k per acre, then again, subject if need be to pro-rata agreement with HCA, the BLPDF grant will be received proportionately, minimum 50% of excess.

Timescale

- If a minimum 260 houses are not completed by 31 March 2025, then BLPDF grant clawback applies pro rata based on unit shortfall (£17k per property).
- If planning approval for remediation works is not in place by 30 June 2019, then the grant offer lapses and must be resubmitted to Investment Board for ratification.
- If start on site for housebuilding is not achieved by 31 December 2020, then the grant offer (i.e. any remaining funding) lapses and must be resubmitted for ratification.

Risk Analysis & Risk Management

- **Ground Conditions** - Fully investigated albeit the potential remains for extra costs, albeit this risk will rest with BCC (incentivised by the Clawback provisions)
- **Satisfactory completion of scheme within acceptable timeframe** - Grant availability proposed to be restricted to initial 39 month timeframe (or such other period as may be reasonably agreed by fund manager).
- **Cost Overruns/contractor risks** - Developer/contractor risk will be borne by BCC.
- **Exit/Sales/Occupier Demand** - Fully satisfactory review undertaken by Savills. Proposed sale prices look entirely reasonable against local market comparisons, but ultimately this risk is again borne by BCC (land sale value for private sector houses, and rental from retained affordable homes). Sale at the nearby Barratts scheme have been slow, which therefore underpins the plan to split and phase the site between affordable and private housing.

Conditions of grant availability/drawdown

In addition to Clawback above we propose:-

~ Satisfactory outline planning must be in place for a minimum of 260 homes, and remediation, before work commences/grant may be drawn

~ Confirmation satisfactory grant from HCA (locally approved to date) via Public Housing Accelerator Programme. Anticipated January.

~ Drawdown/availability period to be agreed, but anticipated final drawdown to be no later than March 2021.

~ Sight of final remediation costings in line with expectations. We reserve the right to obtain a further independent review of such costs.

~ Drawdown overseen by Finance Birmingham against invoices.

~ Site visits by Finance Birmingham to ensure satisfactory progress.

~ Satisfactory State Aid compliance. Satisfactory legal review at applicants expense if grant progressed. All such extra professional cost to be added to grant (hence up to £4.386m grant)

Recommendation

This is a complex site and scheme, the options for which have been explored by BCC and its professional advisors.

- FB, on behalf of the WMCA, have further tested the plans with Arcadis and Savills directly. In terms of remediation methodology, and housing mix in particular.
- Timing has been brought forward.
- The HCA have also confirmed, insofar as a definitive legal opinion is ever available, that the chances of securing compensation from any third party for rectification works to housing standard, are remote.
- We have expanded clawback and conditions such that various deadlines must be met (June 2019 and December 2020) in order to fully draw the grant. Thereafter clawback also applies if 260 houses are not completed by March 2025.

The scheme is actively supported by Planning and Senior Council members.

Having reviewed the various options and considered the alternatives, the redevelopment as now proposed seems to provide the best value and optimum route, to both regenerate the site, and help provide a balance of housing supply across the WMCA, as quickly as possible, meeting key SEP objectives.

Therefore recommendation is to approve the grant request subject to the above clawback terms, and conditions.

Gerald Gannaway

Investment Director, Finance Birmingham.

Attachments:-

Appendix 1 BCC funding model (to be updated for higher costs of revised scheme)

Appendix 2 Revised 50/50 development appraisal.

Appendix 3 Minutes of IAG meeting 4/12/17

Gerald Gannaway December 2017

Appendix 4 Summary legal advice to HCA re polluter pays

Appendix 4

HCA have confirmed they have received legal opinion from Pinsents. Copy of such advice will be provided or obtained directly.

Essentially HCA confirm, based on their advice from Pinsents, there is no clear cut case to seek contribution from any other entity:-

Issue 1 –

BCC acquired the site from Upper Tame Drainage Authority. In practice BCC acquired the site with full awareness of the pollution, and have already part remediated.

Upper Tame Drainage Board interests were subsequently acquired by STW.

Upper Tame Drainage Board no longer exists.

Attributing liability to STW is a grey area, as the site was disposed of, before STW took on the interests of Upper Tame.

Issue 2 - BCC have remediated the site already, to a point where any contamination is contained/sealed, and the site is in used as public open space. Further remediation costs arise now, out of the desire to bring forward the land for residential use, to current standards. Pinsents cannot confirm that attributing such further costs to a successor body of the original polluter (particularly bearing in mind Issue 1) would be successful.

Pinsents advised that in the last 10 years there has only been one case of a council pursuing a utilities provider.

This “uncertain” position seems to have been further substantiated by the recent, July 2017 Court of Appeal judgment in Powys Council v Price & Hardwick. In this case, Powys were not held liable for contamination by their predecessor body (Brecknock), caused at a landfill tip from 1960 to 1993. The site was/is owned by Price & Hardwick.

On 15 September 2001 the contaminated land regime in Part 2A of the Environmental Protection Act 1990 (**Part 2A regime**) came into force. The regime contains the legal framework for identifying contaminated land and allocating responsibility for remediation. The persons responsible for remediation are usually those who have caused or knowingly permitted contamination, but where they cannot be identified or no longer exist, then it is the current owner/occupier.

Whilst the local Govt reorganisation (1996) order did pass “all ...liabilities” to Powys as successor body, Lord Justice Lloyd Jones found that the Environmental Protection Act 1990 did not come into force until after the Govt body transfer had taken place, thus there were no liabilities at the time of the transfer (as defined under the EPA 1990).

This ruling further supplements that in the Transco case :-

The 'Transco' case

In 2007 the House of Lords ruled in a dispute between the Environment Agency and Transco plc over liability for contamination arising from a former gasworks, that the transfer of rights and liabilities from a private company to a nationalised utility under the Gas Act 1948 and then to a privatised company under the Gas Act 1986 did not include liabilities under the Part 2A regime.

Clearly, with the 1970s transfer of Upper Tame Drainage Board interests to STW, it would seem even, under this latest ruling, a similar view could be taken, i.e there would be no liability to attach as defined under the 1990 EPA at the time of the transfer (of liabilities) to STW, and/or sale of this site to BCC. This recent Powys ruling seems to leave the landowners (with parallels to BCC) nowhere to go (apart from the Supreme Court).

Overall, the summary of the Pinsents advice (which pre dates the Powys ruling) is that the likelihood of success of any action to seek compensation for remediation costs against STW, the successor body to the original polluter in these circumstances, is at best a “grey” area. The only certainty is that that there would be a very significant delay and very significant legal costs.

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Appendix 1 - Yardley Brook Redevelopment – Summary of Costs, Receipts and Borrowing

	30 Year Borrowing model	40 Year Borrowing model	Comments
Number of new Affordable Rent homes	143	143	
Number of new market sale homes	130	130	
Total number of new properties	273	273	
	£'m	£'m	
City Council Capital Investment	32.92	32.92	Includes remediation and infrastructure, excludes cost of constructing market sale homes.
External grant	(8.60)	(8.60)	Covers anticipated on-site remediation costs only
Receipts to City Council from Market sale homes.	(4.42)	(4.42)	Estimated at £34,000 per plot from other Council schemes
Use of RTB receipts / s106 etc	(9.31)	(9.31)	City Council contribution from other sites
Balance to be funded from wider City Council HRA	10.59	10.59	Note- project not charged financing costs for this internal Council subsidy
HRA surpluses from these properties over the period	(16.41)	(28.37)	Rental Income net of management costs / repairs / capital renewals
Net HRA Revenue impact of this scheme	(5.82)	(17.78)	Surplus over period from net rental income
NPV of Net HRA Revenue Impact	1.20	(0.91)	Assumes Discount Rate of 5% - NPV surplus only after 40 years
Effective Public Subsidy	9.80	7.69	NPV of net HRA impact + Grant
Per new Affordable Rent property at Yardley	£68,500	£53,750	Based on Affordable Rent (143) properties
Per new property at Yardley	£35,900	£28,150	Based on 273 properties NOTE HCA Benchmark of £45,700 gross cost per new property

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Savills (UK) Ltd

Development Appraisal

263 Dwellings - 50% Affordable

Yardley Brook, Shard End

Report Date: 13 November 2017

Prepared by Savills (UK) Ltd

**263 Dwellings - 50% Affordable
Yardley Brook, Shard End**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Rate ft ²	Unit Price	Gross Sales	Adjustment
2A Private - 2 bedroom apartment	14	10,108	148.89	107,500	1,505,000	0
2B Private - 2 bedroom bungalow	1	890	182.58	162,500	162,500	0
2C Private - 2 bedroom bungalow	1	982	165.48	162,500	162,500	0
2D Private - 2 bedroom house	2	1,730	173.41	150,000	300,000	0
2E Private - 2 bedroom house	12	8,784	177.60	130,000	1,560,000	0
2F Private - 2 bedroom house	27	23,436	172.81	150,000	4,050,000	0
2G Private - 2 bedroom house	5	4,340	172.81	150,000	750,000	0
3A Private - 3 bedroom house	24	24,240	202.97	205,000	4,920,000	0
3B Private - 3 bedroom house	9	9,459	195.05	205,000	1,845,000	0
3C Private - 3 bedroom house	7	7,175	200.00	205,000	1,435,000	0
3D Private - 3 bedroom house	3	3,069	161.29	165,000	495,000	0
3E Private - 3 bedroom house	11	10,659	167.70	162,500	1,787,500	0
4A Private - 4 bedroom house	6	7,932	204.24	270,000	1,620,000	0
4B Private - 4 bedroom house	4	5,348	201.94	270,000	1,080,000	0
4C Private - 4 bedroom house	3	3,906	205.45	267,500	802,500	0
4D Private - 4 bedroom house	3	3,456	195.31	225,000	675,000	0
2A Affordable - 2 bedroom apartment	13	9,386	148.89	107,500	1,397,500	(698,750)
2B Affordable - 2 bedroom bungalow	1	890	182.58	162,500	162,500	(81,250)
2C Affordable - 2 bedroom bungalow	1	982	165.48	162,500	162,500	(81,250)
2D Affordable - 2 bedroom house	2	1,730	173.41	150,000	300,000	(150,000)
2E Affordable - 2 bedroom house	12	8,784	177.60	130,000	1,560,000	(780,000)
2F Affordable - 2 bedroom house	27	23,436	172.81	150,000	4,050,000	(2,025,000)
2G Affordable - 2 bedroom house	6	5,208	172.81	150,000	900,000	(450,000)
3A Affordable - 3 bedroom house	23	23,230	202.97	205,000	4,715,000	(2,357,500)
3B Affordable - 3 bedroom house	8	8,408	195.05	205,000	1,640,000	(820,000)
3C Affordable - 3 bedroom house	6	6,150	200.00	205,000	1,230,000	(615,000)
3D Affordable - 3 bedroom house	4	4,092	161.29	165,000	660,000	(330,000)
3E Affordable - 3 bedroom house	11	10,659	167.70	162,500	1,787,500	(893,750)
4A Affordable - 4 bedroom house	6	7,932	204.24	270,000	1,620,000	(810,000)
4B Affordable - 4 bedroom house	5	6,685	201.94	270,000	1,350,000	(675,000)
4C Affordable - 4 bedroom house	3	3,906	205.45	267,500	802,500	(401,250)
4D Affordable - 4 bedroom house	3	3,456	195.31	225,000	675,000	(337,500)
Totals	263	250,448			46,162,500	(11,506,250)

NET REALISATION

34,656,250

OUTLAY

ACQUISITION COSTS

Residualised Price (Negative land)

(9,400,233)

(9,400,233)

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost
2A Private - 2 bedroom apartment	11,116 ft ²	78.65 pf ²	874,273
2B Private - 2 bedroom bungalow	890 ft ²	78.65 pf ²	69,998
2C Private - 2 bedroom bungalow	982 ft ²	78.65 pf ²	77,234
2D Private - 2 bedroom house	1,730 ft ²	78.65 pf ²	136,064
2E Private - 2 bedroom house	8,784 ft ²	78.65 pf ²	690,862
2F Private - 2 bedroom house	23,436 ft ²	78.65 pf ²	1,843,241
2G Private - 2 bedroom house	4,340 ft ²	78.65 pf ²	341,341
3A Private - 3 bedroom house	24,240 ft ²	78.65 pf ²	1,906,476
3B Private - 3 bedroom house	9,459 ft ²	78.65 pf ²	743,950
3C Private - 3 bedroom house	7,175 ft ²	78.65 pf ²	564,314
3D Private - 3 bedroom house	3,069 ft ²	78.65 pf ²	241,377
3E Private - 3 bedroom house	10,659 ft ²	78.65 pf ²	838,330
4A Private - 4 bedroom house	7,932 ft ²	78.65 pf ²	623,852
4B Private - 4 bedroom house	5,348 ft ²	78.65 pf ²	420,620
4C Private - 4 bedroom house	3,906 ft ²	78.65 pf ²	307,207
4D Private - 4 bedroom house	3,456 ft ²	78.65 pf ²	271,814
2A Affordable - 2 bedroom apartment	10,322 ft ²	78.65 pf ²	811,825
2B Affordable - 2 bedroom bungalow	890 ft ²	78.65 pf ²	69,998
2C Affordable - 2 bedroom bungalow	982 ft ²	78.65 pf ²	77,234
2D Affordable - 2 bedroom house	1,730 ft ²	78.65 pf ²	136,064
2E Affordable - 2 bedroom house	8,784 ft ²	78.65 pf ²	690,862

**263 Dwellings - 50% Affordable
Yardley Brook, Shard End**

2F Affordable - 2 bedroom house	23,436 ft ²	78.65 pf ²	1,843,241	
2G Affordable - 2 bedroom house	5,208 ft ²	78.65 pf ²	409,609	
3A Affordable - 3 bedroom house	23,230 ft ²	78.65 pf ²	1,827,040	
3B Affordable - 3 bedroom house	8,408 ft ²	78.65 pf ²	661,289	
3C Affordable - 3 bedroom house	6,150 ft ²	78.65 pf ²	483,698	
3D Affordable - 3 bedroom house	4,092 ft ²	78.65 pf ²	321,836	
3E Affordable - 3 bedroom house	10,659 ft ²	78.65 pf ²	838,330	
4A Affordable - 4 bedroom house	7,932 ft ²	78.65 pf ²	623,852	
4B Affordable - 4 bedroom house	6,685 ft ²	78.65 pf ²	525,775	
4C Affordable - 4 bedroom house	3,906 ft ²	78.65 pf ²	307,207	
4D Affordable - 4 bedroom house	<u>3,456 ft²</u>	78.65 pf ²	<u>271,814</u>	
Totals	252,392 ft²		19,850,631	19,850,631

Contractors OH Profit and Others			2,027,969	
Developers Contingency			716,549	
				2,744,518

Other Construction

Primary Infrastructure			4,935,000	
EO for 2 Bellmouth Cole Hall Lane			25,000	
New Secondary Infrastructure			305,200	
Footpath on Layout			621,480	
Services to Plots			657,500	
Substation			100,000	
Deferred Instructure Charges			263,000	
Communal Bin and Cycle Storage			20,000	
Clothes Dryer			26,300	
Capping Layer to Gardens			394,500	
Abnormal Foundations (EO)			670,650	
Retaining Features to Poachers Pock			100,000	
Prelims			3,915,863	
				12,034,493

PROFESSIONAL FEES

Professional Fees			1,913,179	1,913,179
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MARKETING & LETTING

Marketing	132 un	2,000.00 /un	264,000	264,000
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DISPOSAL FEES

Sales Agent Fee		1.00%	212,275	
Sales Legal Fee		0.50%	106,138	
				318,413

TOTAL COSTS

27,725,000

PROFIT

6,931,250

Performance Measures

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%

IRR N/A

Profit Erosion (finance rate 6.000%) 3 yrs 9 mths

**263 Dwellings - 50% Affordable
Yardley Brook, Shard End****Net Sales**

1,505,000
162,500
162,500
300,000
1,560,000
4,050,000
750,000
4,920,000
1,845,000
1,435,000
495,000
1,787,500
1,620,000
1,080,000
802,500
675,000
698,750
81,250
81,250
150,000
780,000
2,025,000
450,000
2,357,500
820,000
615,000
330,000
893,750
810,000
675,000
401,250
337,500
34,656,250

**263 Dwellings - 50% Affordable
Yardley Brook, Shard End**

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Minute of meeting IAG 4/12/17

BCC Shard End

Gerald outlined the proposal, which was originally presented to the October IAG.

Sean enquired as to why BCC won't fund this project themselves. Andrew explained that they have a number of competing priorities, this scheme is loss making even after the grant, and without support BCC would not be in a position to progress this particular site. Whilst a demanding brownfield site, BCC cannot meet its housing targets from greenfield sites.

Gerald emphasised that if there is any profit for BCC to gain from this project, it will not be accessible for 40 years.

Sean asked whether the CA will get any return from the investment to which Gerald explained there are some clawbacks in the proposal.

Nick asked about the timing of the drawdown not being until September 2019. This will cause funds to be tied up for 2 years and not being allocated to other projects with immediate starts.

Andrew assured the group that as soon as the project is approved, BCC can accelerate the process and try to bring forward timescales.

Gerald also assured the group that more milestones could be put in place to make sure certain processes are achieved at certain times to ensure the project remains on track.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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