



WEST MIDLANDS
COMBINED AUTHORITY

WMCA Board

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| Date | 9 March 2018 |
| Report title | Commonwealth Games Athletes Village - WMCA Contribution |
| Portfolio Lead | Councillor Izzi Seccombe - Finance & Investments |
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| Report to be/has been considered by | WMCA Investment Board - 13 February 2018 WMCA Programme Board - 23 February 2018 |

Recommendation(s) for action or decision:

The WMCA Board is recommended to agree:

- (1) The award of a grant to Birmingham City Council from the WMCA Brownfield Land and Property Development Fund to the Commonwealth Games Village application as set out in Paragraph 4.2 totalling no more than £20.075 million subject to:
 - (a) The final independent valuations being in line with the current estimates underpinning the £20.075 million estimate, as detailed in Section 5.
 - (b) In the event there is a surplus on the Athletes' Village scheme following sale of the residential units, this surplus is shared with WMCA up to a maximum of £20.075 million in line with the principles detailed in section 5.
- (2) That the elements of the bid with a particular reference to grant conditions A4 (Learning Institutions) are approved as contained in paragraph 4.1 given that this is the first time that this type of expenditure will be funded under the Brownfield Land and Property Development Fund as set out in Paragraph 4.2.

- (3) The principle that the contribution be subject to the successful shortlisting of the Housing Infrastructure Fund announcement which provides the 39% (£144 million) of the overall funding for the village as set out in Paragraph 6.8.
- (4) A one off variation to the basis of the Brownfield Land and Private Development Fund for this project to recognise that the outcomes of this application will not be delivered until 2022 for the Commonwealth Games Village and 2023 to 2025 for the permanent scheme as this does fall outside the time period indicated in the originating Fund documents approved by the Board as set out in Paragraph 2.11.

1.0 Purpose

1.1 The West Midlands Combined Authority (WMCA) are required under the agreed Assurance Process for the Investment Programme to endorse specific investment proposals. The proposal contained within this report relates to a contribution of £20.075 million by WMCA from the Brownfield Land and Property Development Fund (BLPDF) to help deliver the Athletes Village required to facilitate the 2022 Commonwealth Games.

2.0 Background

2.1 The BLPDF provided via the WMCA seeks to invest in Individual Strategic Projects which support the reuse of brownfield land and buildings and the delivery of supporting infrastructure, across the WMCA geography. The BLPDF is designed to invest to secure new housing, industrial and commercial development and is currently made up of allocations from the £200 million WMCA Land Remediation Fund secured from Government as part of the first devolution deal.

2.2 The BLPDF is designed to support the delivery of key individual strategic projects by de-risking private sector investment and addressing a number of challenges including market failure, adverse ground conditions, poor infrastructure, abnormal site remediation costs and providing gap funding to bridge the viability shortfalls on schemes.

2.3 The overall WMCA Land Remediation Fund is £200 million, with an allocation to the BLPDF of £50 million which is operational between 2017- 2021. This was agreed via WMCA Board Meeting dated 17 February 2017. The BLPDF is aligned with the target outcomes of Black Country Land and Property Investment Fund and looks to deliver similar levels of outputs through deployment of the full £50m of the Fund;

- 1,600 Jobs;
- 800 houses;
- 200,000 square metres of Commercial floor space; and
- Significant private sector funding leveraged.

2.4 As detailed above, the BLPDF totals £50 million as approved by WMCA Board on 8 September 2017 and commitments to date against the fund total £14.7 million as follows:

- £1.908 million YMCA City of Wolverhampton Council;
- £3.790 million House Building Programme Telford & Wrekin Council;
- £4.386 million Yardley Brook Housing Birmingham City Council;
- £2.630 million Seven Stars, Oldbury - Opus Land (Oldbury) LLP; and
- £2.025 million Mucklow Park – A & J Mucklow (Halesowen) Ltd.

2.5 On 21 December 2017, Birmingham were confirmed as Host City for the 2022 Commonwealth Games. Birmingham City Council's bid reflected the Commonwealth Games Federation's requirement for there to be a single athlete's village constructed for occupation by athletes, officials and event organisation staff between April 2022 and August 2022.

- 2.6 The athletes' village is required to provide temporary accommodation for some 6,510 athletes, coaches and team administrators with subsequent modifications to enable the residential accommodation to become mixed tenure homes to deliver a legacy uplift for Perry Barr. In order to deliver the Village, WMCA has been approached to make a contribution to the scheme, funded from the BLPDF. The application was initially considered by Investment Advisory Group on 5 February 2018 as part of the WMCA Assurance Process.
- 2.7 Birmingham City Council have been working intensively with West Midlands Development Capital on the application under significant time pressure. This has been reviewed by the Investment Board as part of their work to endorse the approval of this proposal to the WMCA Board. For this reason, there remain a number of areas of the application which are subject to change or of an indicative nature at this point.
- 2.8 The investment proposal tabled by Birmingham City Council would require the WMCA to fund acquisition, relocation, remediation and demolition costs which are required in order to assemble the site, some of which is Brownfield land. As part of this site assembly a replacement facility for a bus depot is required that will occupy Brownfield land, plus financial support in contracting an alternative site for the Education Funding Agency (EFA) to construct a new secondary school and the Purchase of the "Hare of the Dog" pub. Of these buildings only the Homes England part of the Birmingham City University campus is currently occupied but will be vacated in June 2018.
- 2.9 Of the £20.075 million requested it is noted that one area of the grant totalling £6 million aligns to a new grant condition not previously approved by the WMCA Board. For this reason, greater detail is set out in this report to ensure the WMCA Board is comfortable with the satisfaction of grant conditions.
- 2.10 It is considered that the remaining £14 million of the overall request strongly support the objectives of the fund and further comment is included below
- 2.11 It should be noted that the legacy outcomes to be achieved by the proposed investment are outside the operational timing parameters of the fund (being 2017 to 2021) with the outcomes being realised between 2023 and 2025. It is recommended within this report that WMCA agree a derogation in respect of the timings for the outcomes of this investment if this scenario is acceptable to the Board.

3.0 Athletes Village Scheme Overview

- 3.1 The proposal for the athlete's village looks to deliver some 1,226 residential units to accommodate 6,510 athletes, coaches and team administrators during the games. Post the Games it is proposed that the units will be re-developed to provide a variety of one and two bedroom apartments as well as 4 bedroom townhouses. Once the re-development has taken place units are intended to be disposed of as follows;
- 717 apartments for the sale on the open market
 - 453 apartments built specifically for sale to the Private Rented Sector in 4 blocks; and
 - 56 Townhouses to be retained by Birmingham City Council as part of the Birmingham Municipal Housing Trust, to be let as social housing.

3.2 The initial costs of delivering the athletes village have been assessed at £370 million detailed as follows:

| Costs | £M |
|--|--------------|
| Purchase and ancillary costs | 21.3 |
| Construction costs | 163.4 |
| Planning | 1.0 |
| Retrofitting Cost | 26.0 |
| Site Infrastructure | 11.2 |
| Rental of Overlay Elements | 1.5 |
| Highways | 10.1 |
| Capping Island | 7.1 |
| EFA Relocation | 6.0 |
| POS | 1.4 |
| S106/S278 | 3.0 |
| Demolition | 10.0 |
| Void Council Tax | 3.1 |
| Consultant/Professional Fees | 20.9 |
| Station | 10.0 |
| Bus Depot | 3.5 |
| Bus Interchange | 2.0 |
| Local Contribution to Sprint | 33.1 |
| Total Costs (excluding financing) | 334.6 |
| Interest | 20.3 |
| BCC Risk Margin | 15.5 |
| Total costs (including financing) | 370.4 |

4.0 West Midlands Combined Authority Investment Proposal

4.1 Birmingham City Council intend to fund the above costs through a variety of different borrowing / funding means as set out in this report, including a maximum £20.075 million grant from the WMCA BLPDF as follows:

| Funding | £M |
|--------------------------|--------------|
| WMCA BLPDF Grant | 20.1 |
| HIF Grant | 143.5 |
| BCC Prudential Borrowing | 170.4 |
| LGF | 1.6 |
| HS2 Connectivity Package | 29.8 |
| CIL | 5.0 |
| Total | 370.4 |

4.2 The WMCA Investment is intended to be used to fund acquisition, relocation, remediation and demolition costs which are required in order to assemble the site. As part of this site assembly a replacement facility for a bus depot is required plus financial support in contracting an alternative site for the Education Funding Agency (EFA) to construct a new secondary school and the cost of refurbishment to buildings on the EFA owned Campus. An analysis of the WMCA contribution proposed by Birmingham City Council is detailed as follows:

| WMCA Contribution Details | £ Million | Alignment to Fund Objectives |
|--|---------------|---|
| Land Remediation and Demolition Costs in the athlete village site | 5.000 | The remediation and demolition of buildings to release the brownfield site into use are clearly within the scope of the fund. |
| Payment to Education Funding Agency for existing land. | 3.200 | The purchase of this site for the purposes of providing housing is within the objectives of the fund. Commissioning Framework reference B1-5 Housing. |
| Contribution by BCC to EFA for the additional cost of constructing a new secondary school at Perry Barr. | 6.000 | Broad alignment with the commissioning framework item A4 - Learning Institutions where " <i>Investment in the conversion/construction of buildings for learning and knowledge institutions in key existing population centres or future centres of Economic regeneration</i> " |
| Payment to National Express to enable the construction of the new accommodation campus | 3.200 | The purchase of this site for the purposes of providing housing is within the objectives of the fund (B1-5 Housing). The site is currently classed as brownfield as confirmed by Birmingham City Council. |
| Replacement Bus Depot costs for National Express | 2.000 | Broad alignment with the Commissioning Framework item B2 Off-site infrastructure to support residential development |
| Other fees and costs | 0.675 | The fees are mostly related to the above items and are considered to be in line with the fund objectives. |
| Total BLPD Fund Requirement | 20.075 | |

- 4.3 As detailed above, one element of the grant relates to grant condition A4 (Learning Institutions) which is covered in the framework as follows:

A4 Learning Institutions

Investment in the conversion / construction of buildings for learning and knowledge institutions in key existing population centres or future centres of Economic regeneration.

- 4.4 Whilst recognising that this expenditure is being incurred as part of land assembly, this is a new grant condition that is being approved by the WMCA Board and references made in the Legal section to the need not to set a precedent with regard to future developments. The basis on which this expenditure has been identified as being compliant is due to its connection with the site assembly of the athlete's village that includes Brownfield land, specifically Birmingham City Council's comment is attached below:

"The new site for the school is within the existing BCU campus which is private land. Although the site is currently undeveloped the intention is to convert brownfield land within the campus to public open space as it considered to be in a more accessible location for future residents and the wider community".

- 4.5 As this request is seen as an "exceptional request" due to the time constraints in place for delivery of the village WMCA approval will be required for the provision of the grant once the final terms are known. Given the significant economic outputs that the legacy scheme will generate for both Birmingham and the WMCA and the national publicity that the games will generate, WMCA are supportive of the principles of the contribution and are committed to working with Birmingham City Council to identify a suitable solution.

- 4.6 It should be noted that the Black Country Consortium recently approved an investment on behalf of the WMCA Board from the Black Country Land and Property Investment Fund for an investment in a Music Institute in Brierley Hill, which was partly made under condition A4 of an equivalent framework. It is understood that the LEPs powers in terms of investment in education is limited to adult education (18+).
- 4.7 The following economic out-puts have been estimated which directly correlate to the Investment WMCA is being requested to make, all of which are consistent with the objectives of the fund as detailed in Section 2 above.
- 25,000 sq metres of new gross employment and school floor space;
 - 256 new homes;
 - 5.4 hectares of brownfield land remediated and serviced;
 - £74m Private Sector Investment;
 - 125 new and safeguarded jobs;
 - 1,500 temporary construction jobs; and
 - Additional Council Tax of c.£1,000 per annum per dwelling (c.£1.2m per annum) which is expected to be mostly offset against additional costs of refuse collection, street lighting, highways maintenance and maintenance of the public realm.

5.0 Investment Advisory Group & Investment Board Clarifications

5.1 The initial proposal was presented for consideration at Investment Board on 12 February 2018. A number of points of clarification were resolved at that Investment Board but two clear tasks remained outstanding which are detailed below along with a proposal for dealing with the out-standing item:

- i) Verifying market rates and valuations for the properties included within the proposal.

It is proposed that the valuations will be undertaken at the appropriate point relative to the acquisition being undertaken and that where these valuations / acquisitions are lower than the current estimates, WMCA will benefit from a corresponding reduction in its contribution towards the scheme. If the valuation is higher, the WMCA contribution will remain capped for that specific deliverable.

Grant support requested from the WMCA for (a) land acquisition and compensation payments (to follow Red Book principles with independent certification) and (b) works costs for land preparation (including fees), demolition, remediation, accesses and utility reinforcement and relocations are commissions which will be made under Birmingham City Council and Homes England competitive procurement methodologies.

It is important to recognise that cost estimates for the various items within the request for funding are currently initial estimates. It is likely that there will be variations, but as Birmingham City Council commits to work on an 'open book' basis with WMCA, any variations will be explained. Any movement between allocations would be likely to reduce the overall WMCA contribution or be the subject of a clear change control, requiring endorsement of WMCA's Section 151 Officer before changes can be made.

The formal review of estimates versus actual valuations will be undertaken as part of the agreed WMCA Investment Programme grant claim process.

Land assembly and servicing for the Athletes Village site is required to enable construction of the Village to proceed. Completion by December 2021 is a fixed date and constructing an excellent venue that will be sustainable as a Legacy for the area is imperative, as such joint working between the WMCA, Birmingham City Council, Homes England and other partners essential.

ii) Confirmation of final appraisal figures, with all costs being on an “open book basis”

It has been agreed that WMCA will have ‘open book’ access to financial documents underpinning the Athletes Village Programme. The open book agreement will help WMCA validate Birmingham City Council’s proposals for claw-back which will be based on the principle that receipts from sales of the Legacy elements of the Village are shared between the CA and Homes England on the basis of land that each has acquired. Homes England approval for its Perry Barr land to form part of the Athletes Village is intended to be progressed in April on this basis. The Council will commit to sharing any subsequent surplus on the wider Athletes Village project in proportion to investment, but terms for other grant support programmes are not yet known (particularly for Housing Infrastructure Fund Forward Funding that is likely to come via the WMCA for Perry Barr).

6.0 Housing Infrastructure Fund

- 6.1 It is important to note that the delivery of the athlete’s village is entirely conditional on the provision of the £143.5 million Housing Infrastructure Fund grant which is to be shortlisted in March 2018 with final approval expected later in the year. However, given the tight deadlines required to deliver the village, the land acquisitions and initial remediation/groundworks must be commenced ahead of final Housing Infrastructure Fund funding approval and therefore there is a risk that the delivery of the village will remain uncertain until the Housing Infrastructure Fund decision is finalised.
- 6.2 Should the Housing Infrastructure Fund bid not be shortlisted and ultimately awarded, the proposed Village will not be delivered as the Housing Infrastructure supports a substantial proportion of its construction costs and provides funding support to enable the delivery of a high density Village with the appropriate infrastructure and 'place making' to support Birmingham City Council's Legacy ambitions within the wider Perry Barr.

- 6.3 In the absence of Housing Infrastructure Fund, Birmingham City Council and Homes England will deliver a suburban-density (i.e. less dense) residential-only development on land assembled by Homes England and by Birmingham City Council with BLPDF funding on the Village site, subsequently serviced and remediated with funding. The development will include more townhouses and less apartments, and will be brought forward by land sales to developer(s) and / or the Birmingham City Council's Municipal Housing Trust model (i.e. using its HRA borrowing for affordable homes with market units sold to purchasers). The funding for housing, land remediated, investment secured, school and new bus depot built space outputs will remain essentially the same as per the funding application. Outputs accruing to the BLPDF will potentially be delivered earlier than following conversion of the Village although in an area that will not have received investment to provide a Games Legacy.
- 6.4 If the Games Village could not be delivered as proposed, Birmingham City Council and its Commonwealth Games partners would need to find alternative accommodation, likely including a range of existing student accommodation, for athletes and officials for the period of the Games. This would have significant revenue implications, would be a less effective Games-time solution and would not provide the legacy benefits sought for the Perry Barr area.

7.0 Next Steps

- 7.1 The WMCA, Birmingham City Council and West Midlands Development Capital will continue to work together to identify a set of agreed terms and conditions for the grant which are clear in terms of cost breakdown and are underpinned by professional valuations. WMCA will continue to work with Birmingham City Council to maximise any claw back of WMCA grant, in line with the agreed principles outlined in Section 5.

8.0 Financial implications

- 8.1 The Financial implications associated with this investment proposal are covered in the main body of the report.
- 8.2 It should be noted that any contribution into the athlete's village project will be provided for by WMCA through prudential borrowing, secured on the income streams which support the £8 billion Investment Programme agreed as part of the first devolution deal. These income streams remain subject to the risks detailed in the report to WMCA Board on 12 January 2018 (Progress Update on the WMCA Investment Programme).
- 8.3 The overall BLPDF totals £50 million as approved by WMCA Board on 8 September 2017 and commitments to date against the fund total £15 million.
- 8.4 In agreeing to the recommendation the WMCA Board need to take into account the summary and recommendations that it received in January 2018 with the report, 'Progress Update on the WMCA Investment Programme'. This report set out that not all income streams that support the WMCA 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 WMCA 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 WMCA internally generated resources that are contained within the Investment Programme.
- c) The annual revenue cost to service the borrowing for this scheme is £1.2 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 WMCA commitments by each Constituent Authority.

8.5 A Task and Finish Group of the WMCA 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.

9.0 Legal implications

9.1 As set out in Section 4 above the proposal is seen as an exceptional request to the fund due to the nature of some aspects of the project. As such, should the WMCA Board choose to approve it, the exceptional nature of the project will be relied upon to avoid an argument of a precedent being set for the future.

9.2 Nevertheless the one item referred to in paragraph 4.3 is covered in the BLPDF Commissioning Framework and in relation to the costs of the provision of learning institutions and in the particular circumstance of this project it is considered that these costs can properly be met from the fund.

9.3 Various risks and conditions are set out in the report particularly in section 5 above. These will continue to be the subject of legal advice and negotiation and will need to be included in any relevant legal documentation in due course.

10.0 Equalities implications

10.1 There are no equalities implications as a result of the recommendations to approve the grant.