

Investment Board

Date	17 September 2018
Report title	Chelmsley Wood Town Centre – Revised timescale request for the submission of the outline business case for Chelmsley Wood Town centre (CWTC) to allow consultation alignment with Metro and the ‘in principle’ approval of a strategic acquisition budget.
Portfolio Lead	Councillor Bob Sleigh – Finance and Investments
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Report to be/has been considered by	WMCA PMO office 15/08/19 – Leadership Board

1.0 Purpose

1.1 Approve:

- (1) The revised timescales for the submission of the Outline Business Case to allow consultation on the masterplan to be aligned with Metro;
- (2) Agreement in principle for bringing forward of £2.5m of Devolution Deal funding from the UKC Infrastructure Package requested ahead of Full Business Case to enable the early acquisition of property in Chelmsley Wood Town Centre. The in principle decision is subject to:
 - a. the red book valuation being provided prior to completion of any acquisition; and

- b. a longstop date to be agreed with the WMCA Director of Housing and Regeneration beyond which, should the purchase not be concluded, then the allocation reverting back to approval in an FBC.
- (3) That delegated authority be granted to the WMCA Director of Housing and Regeneration to conclude the commercial arrangements with Solihull Metropolitan Borough Council in relation to securing appropriate interest in the land and future venture capture for the WMCA.

2.0 Background

- 2.1 As part of Solihull MBC's Strategic Outline Case, Phase 1, approved in October 2017, the development of a masterplan for CWTC was supported by the Combined Authority.
- 2.2 Crucially, in the context of future economic growth CWTC is strategically located at the heart of the North Solihull regeneration area, sitting between Birmingham City Centre and the key employment sites around the HS2 interchange site and the NEC, and also on the planned Metro route. A key objective of the masterplan will be the maximisation of wider infrastructure investment for the benefit of this important town centre.
- 2.3 The concept behind the regeneration of Chelmsley Wood town centre supports the WMCA Strategic Economic Plan in 3 areas:
- 2.3.1 Geographically Chelmsley Wood is ideally located to enhance connectivity within the area and exploiting the strengths of the UK Central growth corridor through Birmingham, Solihull and Coventry.
 - 2.3.2 Directly relates to the strategic objectives for housing helping to accelerate the housing market to support economic growth and to provide a better range and more sustainable mix of homes for sale and rent across the area, including attracting a greater proportion of higher income households with the skills to drive a knowledge-led economy to live in the area.
 - 2.3.3 This brownfield development, will also support office accommodation, retail and leisure improving the environment and quality of life for the community.
- 2.4 As part of the masterplanning, the Council has appointed consultants, BDP Architects, supported by their specialist viability consultants JLL, quantity surveyors Mace, and movement and transportation consultants Systra to deliver a masterplan.
- 2.5 The masterplan is being undertaken to allow the Council to understand the constraints, issues and opportunities that have a bearing on the future of CWTC. It is intended to be an ambitious and aspirational scheme that maximises future economic growth for the benefit of the local community.
- 2.6 The core of CWTC is bounded by three roads and a river. Within that area the majority of the land is currently owned and managed by Ellandi who operate the retail centre. Appendix 1 shows the land ownerships with that owned by Ellandi in pink. The masterplan is being developed in close partnership with Ellandi.
- 2.7 As part of Solihull MBC's Strategic Outline Case, Phase 1, approved in October 2017, the development of a masterplan for CWTC was supported by the Combined Authority.

- 2.8 Since that time, the Council has appointed consultants, BDP Architects, supported by their specialist viability consultants JLL, quantity surveyors Mace, and movement and transportation consultants Systra to deliver a masterplan.
- 2.9 The masterplan is being undertaken to allow the Council to understand the constraints, issues and opportunities that have a bearing on the future of CWTC. It is intended to be an ambitious and aspirational scheme that maximises future economic growth for the benefit of the local community.
- 2.10 The core of CWTC is bounded by three roads and a river. Within that area the majority of the land is currently owned and managed by Ellandi who operate the retail centre. Appendix 1 shows the land ownerships with that owned by Ellandi in pink. The masterplan is being developed in close partnership with Ellandi.

Masterplan – Progress and Draft Options

- 2.11 The masterplan for CWTC has been developed to the point where the Council are considering three draft options. Each option represents a different level of intervention – low, medium and high – whereby the options could be considered phases of the same development. The draft options are shown in appendix 2.
- 2.12 A key opportunity area at CWTC which is common to each of the 3 options is the north-west quadrant which currently contains the police station (green in appendix 1 plan), job centre (blue with red hatching), BT exchange / former postal sorting office (yellow) and former library site (blue). With Metro proposed to run along Chelmsley Road to the north of the site, the northern area becomes the key gateway to the town centre and this quadrant will be critical to the development of any successful scheme and the realisation of wider regeneration objectives.
- 2.13 In order to deliver any development on the north-west quadrant it will be necessary to consolidate land ownership. The key parcels are as follows:
- a. Former library site - owned by SMBC and as such is within our control. Currently vacant and used for informal parking.
 - b. Police station is owned by WM Police – but is understood to be too large for their existing need and also in need of some repairs.
 - c. Job centre – long leasehold owned by Telereal Trillium with DWP occupying the building on a 10 year lease.
 - d. BT site – following discussions with BT the telephone exchange is understood to be a constraint and will need to remain for the foreseeable future. The former postal sorting office (which occupies the northern half of the plot owned by BT) is currently vacant and there may be an opportunity to acquire it separately (although no discussions have yet taken place).

3.0 Slippage request for submission of outline business case to allow consultation alignment with Metro

- 3.1 As noted above, a key catalyst for change at Chelmsley Wood Town Centre will be the Metro link between Birmingham City Centre and the Airport / NEC / HS2 Interchange

whilst integration of a Metro stop and maximisation of the associated benefits are two objectives of the masterplan process.

- 3.2 When the masterplan was put out to tender in late 2017 it was envisaged that Metro route publication and consultation would have commenced in Spring 2018 and to align with this consultation on the Chelmsley Wood masterplan was planned for Summer 2018 – initially in May/June with detailed consultation in July.
- 3.3 There have been some delays to the Metro development programme and as a consequence the initial publication and consultation is now scheduled for September 2018. Due to this delay engagement on the Chelmsley Wood Masterplan did not take place as planned in May/June and will not take place in July due to concerns around (1) distraction from town centre proposals – which could reduce quality of consultation, and (2) blight.
- 3.4 In order to address the above it is proposed to partially pause work on the Chelmsley Wood masterplan by delaying the consultation element until after the initial Metro publication and consultation has taken place. This will delay the submission of an OBC from June 2019 to March 2020.

4 CWTC acquisitions budget

- 4.1 The regeneration of Chelmsley Wood Town Centre is a key objective in itself, with Metro forming part of the wider masterplan that incorporates residential, retail, offices, leisure and community uses, together with infrastructure, public realm and landscaping improvements.
- 4.2 Ongoing evolution of this Masterplan has identified the Jobcentre as a key potential redevelopment site, providing an opportunity to deliver a range of growth and development options, which could include, for example, mixed-use retail, leisure, or food and beverage options at ground floor level, with residential apartments above. The site is also key to delivering public realm and connectivity improvements across the east-west axis of the Town Centre. Further detail on the preferred option for the future use of the site will be contained in the final version of the Masterplan.
- 4.3 Development appraisals prepared as part of the Masterplanning process currently show a significant financial viability gap that will need to be closed in order to bring forward the strategic aspirations of the Masterplan, especially in the short to medium term.
- 4.4 The Council is exploring a range of potential funding options to enhance the viability of the scheme, which could include a combination of private sector investment, the Council leveraging of its existing assets, WMCA funding and de-risking development through early Strategic Acquisitions
- 4.5 Solihull MBC has recently been approached by agents appointed by Telereal Trillium to market the Jobcentre for sale, who have enquired whether the Council would be interested in purchasing the property. The Council's preferred option would be for such an acquisition to proceed, in order to secure the availability of the asset for future redevelopment purposes, subject to vacant possession, in accordance with the emerging Chelmsley Wood Town Centre Masterplan.

- 4.6 This is a time limited opportunity ending in mid September 2018 to negotiate and agree terms with the Landlord Telereal Trillium, a solus transaction with the Council as freeholder. If terms have not been agreed, the Landlords agents have been instructed to offer the opportunity to the wider investment market. The Council has provisionally agreed with the Landlord to proceed, subject to funding from the WMCA: this agreement was made to protect against interest from other buyers being progress (we understand from the agent that there are likely to be a number of interested parties)
- 4.7 The strategic acquisition of Chelmsley Wood Jobcentre Plus would therefore represent a direct intervention into the Chelmsley Wood Town Centre Masterplan area, complementing the Council's existing land ownership assets in the area and helping to support the future delivery of the emerging Masterplan. Subject to the preferred option for the future use of the site to be detailed in the final version of the Masterplan, the acquisition of the property represents an opportunity to deliver a range of growth and development options, including residential apartments, together with employment uses such as mixed-use retail, leisure, cafés and restaurants which directly support the WMCA Strategic Economic Plan (SEP). It would also help to accelerate the delivery of the Masterplan by reducing the risk of the Council needing to use compulsory purchase powers in the future and the timescales associated with such a process.
- 4.8 In addition to supporting the WMCA's SEP there are a number of compelling strategic reasons why the acquisition of the job centre should be undertaken:
- a. It is an enabling an enabling acquisition in a strategically important area of the site which is vital to each masterplan option being considered.
 - b. There is a strategic rationale for acquiring the site ahead of Metro investment to ensure that Metro, and other forms of public transport, are properly integrated into a key town centre.
 - c. It will increase the quantum of publically owned land in the centre thereby also increasing the control and influence.
- 4.9 Should the property not be acquired the impact of the Job Centre going on the open market is:
- a. The Councils wider redevelopment scheme being unable to go ahead as it removes any leverage there maybe to fulfil the One Public Estate agenda associated with co-locating the Department of Work and Pensions with Council Services in a centralised and efficient public facing solution.
 - b. Delay in bringing forward any development within the north western quarter of the CWTC site.
 - c. There is currently no scheme in place for a Compulsory Purchase Order and, in order to bring forward a regeneration scheme in this situation, a CPO would be required. This will not only delay the delivery of the emerging Masterplan (as a whole host of preparatory work and legal process will be necessary before the Council can make any sort of delivery impact on site) but also widen the viability gap – increasing the overall cost of the development and reducing its potentially transformational benefits for the Town Centre due to Ellandi's increased level of control (as majority land owner) over the final design and commercial delivery strategy for the scheme.

- 4.10 The asking price for the property is £2,141,854, plus there will be purchaser's costs of 6.8% to cover fees and stamp duty land tax of up to £150,000. Negotiations will take place with the owners to provisionally agree a purchase price that represents best value to the Council, and which will be supported by a Red Book valuation to be prepared by the Council's Strategic Land Advisors.
- 4.11 It should be noted that the asking price is based on continued rental income at the current level under the lease and which in practice cannot be maintained longer term as it is based upon the current landowner's market valuation of the asset, having regard to a continued rental income for the duration of the 10 year term and the application of an appropriate investment yield.
- 4.12 Due to ongoing changes in the DWP's corporate estate strategy, the Council considers that there is a significantly greater risk of DWP activating their break option on the fifth anniversary, which would result in the loss of the rental income. At that point, the building would be functionally obsolete and unlikely to be re-lettable in the current market to a tenant of acceptable covenant strength (or at least, not without a significant rent reduction), at which point it is likely that instead the building would be demolished and the site redeveloped in accordance with the emerging CWTC Masterplan
- 4.13 With point 4.10 in mind, the Council is negotiating a significantly lower price and have put forward an initial offer of £1.5m. Following further negotiations with the landowner's agent, the Council can confirm that an agreement for the acquisition of the property is now likely to be settled at a figure in the region of £1.8m, exclusive of costs. The Council is in the process of commissioning a formal Red Book valuation to support this figure.
- 4.14 In addition to the purchase price, the Council will be liable for costs including Stamp Duty Land Tax, agent's fees, Red Book valuation fee, and legal fees. These are estimated in the region of £150,000 in total

4.15 Options for acquiring the property

- 4.16 The use of Solihull MBC funding the acquisition through the Capital Programme, Prudential Borrowing or Reserves is unlikely as available capital funding is unlikely to be sufficient to cover the estimated land values, so it is likely to draw down PWLB prudential borrowing. This is dependent on there being sufficient revenue budget available to fund the loan repayments. For the Council to pursue this option, it would be necessary to ring-fence the DWP income stream for the full ten year term of their existing tenancy which expires in 2028.
- 4.17 This requirement is overshadowed by the risk that the DWP may not remain in the property for the full lease term, as DWP's sublease is subject to a tenant-only break clause on the 5th anniversary. Should DWP exercise their break right, the Council would be in a position where a new tenant would be required for at least a further five years assuming that the same rent could be achieved.
- 4.18 The reality is, however, that the building is considered to be functionally obsolete and unlikely to be re-lettable in the current market to a tenant of acceptable covenant strength

at a rent close to the current level without a significant void period being incurred and a substantial incentive package being offered.

- 4.19 This funding method acts as a significant disincentive to the Council bringing forward the demolition and redevelopment of the site as an early phase of the Masterplan, contrary to its emerging priorities. Additionally, this funding option would result in a potential ten year delay to the scheme, further affecting its viability and increasing the stranglehold on proposals currently enjoyed by the owners of the Shopping Centre.
- 4.20 It is the Council's view that the Business Case for this option is therefore not viable due to being contrary to both the Masterplan and One Public Estate objectives which encourage co-location into shared accommodation in the Town Centre, thus acting as a catalyst to the redevelopment and ultimate regeneration of Chelmsley Wood Town Centre.

5 Wider WMCA Implications

- 5.1 The acquisition of the property is seen as a key to support the delivery of the WMCA Strategic Economic Plan as detailed in point 2.3 .
- 5.2 Delivery of UKC-IP and this project in particular will result in improved access to employment, business and services; reduced congestion, enhanced journey time reliability, increased cycle usage and walking; an enhanced local environment, and will enhance the attractiveness of UK Central Solihull, and the WMCA area as a whole, as a place to invest.
- 5.3 This will contribute to improving regional GVA and productivity, whilst enhancing Solihull's productivity and economic growth; improving competitiveness through energy and resource efficiency; improving the connectivity of people and business to jobs and markets; a greater and broader range of homes; improved life chances, and improved health and wellbeing of communities.

6 Progress, options, discussion, etc.

- 6.1 This report reflects feedback and guidance from the WMCA PMO and the Leadership Board.

7 Financial implications

- 7.1 In the event of the Council acquiring the property using a WMCA grant a revenue budget will be necessary to maintain the Council's interests once acquired, including carrying out the landlord's estate management responsibilities under the terms of the lease. It is also anticipated that within this budget it will be necessary to establish a fund sufficient to cover all liabilities relating to the building (prior to demolition) at the point the tenant vacates. It is anticipated the Council will negotiate with the tenant to vacate well in advance of lease expiry in order to enable the wider development of the site in accordance with the emerging Masterplan.
- 7.2 In order to provide a reasonable degree of contingency, it is proposed that WMCA approve the acquisition budget of up to £2.5m of funding to Solihull Council pursuant to the existing SOC Phase 1. It should be noted that full cost recovery by the Council of the purchase

price and all additional taxes and fees associated therewith will be subject to presentation by the Council of appropriate evidence of actual expenditure incurred.

8 Legal implications

- 8.1 Provision of funding will be subject to Solihull Council providing appropriate evidence of actual expenditure incurred.
- 8.2 It will be necessary for Solihull Council to enter into a contract with the current owner of the Jobcentre for the sale and purchase of the long leasehold red book in the property on the agreed final terms. It is anticipated that the lease will be surrendered and merged in the Council's freehold reversion upon legal completion, meaning that the Council will become the direct landlord of DWP. Solihull Council's Cabinet have confirmed their approval of the acquisition in principle, subject to the final terms being signed off by the Director of Resources and Deputy Chief Executive, acting in consultation with the Cabinet Member for Managed Growth.

9 Equalities implications

- 9.1 There are no equality implications at this stage as a specific design or development scheme is still to be finalised. There are, however, clear equality benefits in providing good quality, modern, well-designed Town Centres for local people. Any specific equality issues identified during the design, development and public consultation process will be taken into account as the scheme evolves.

10 Other implications

- 10.1 None identified.

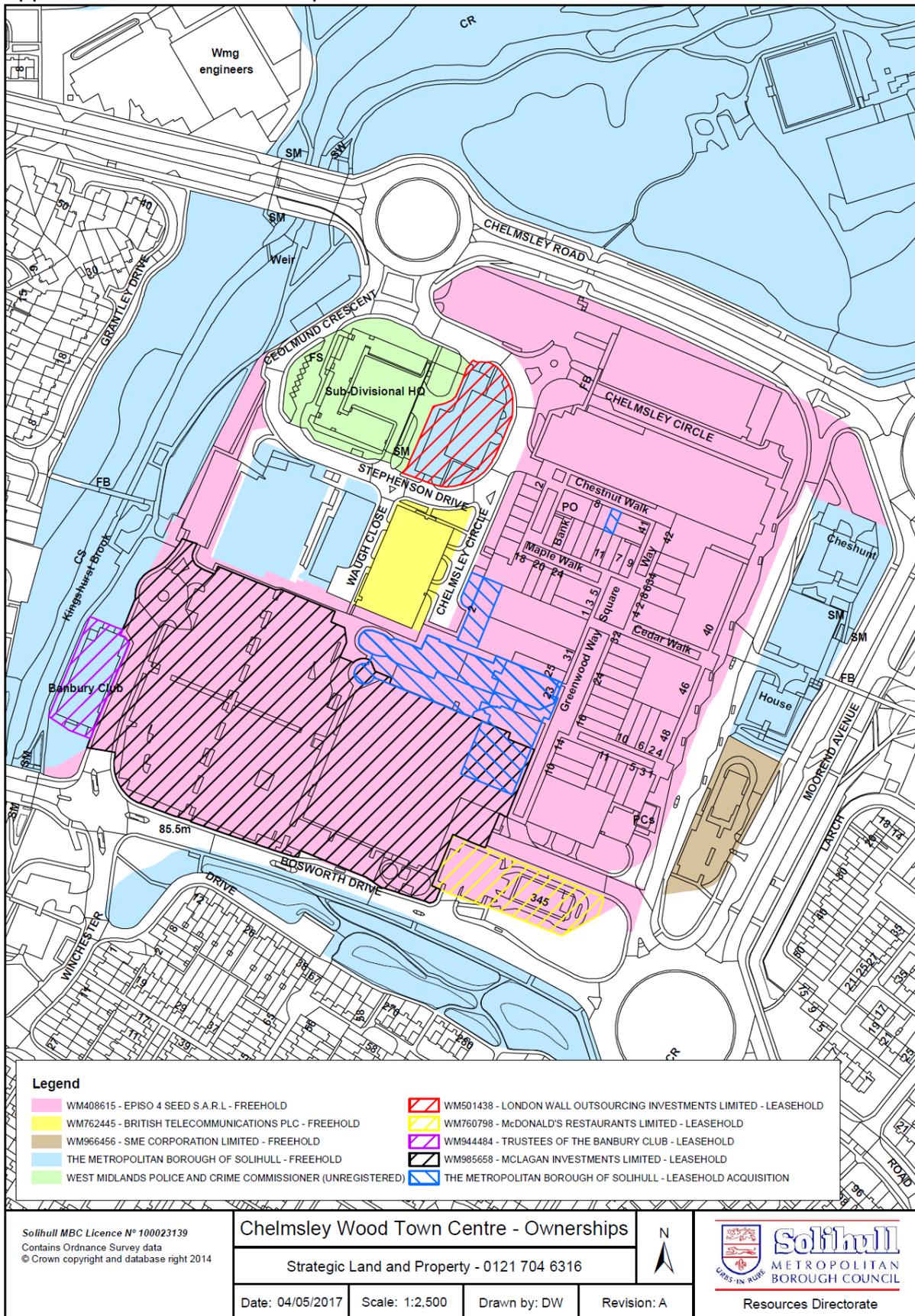
11 Schedule of background papers

- 11.1 SOC Phase 1 – Solihull MBC

12 Appendices

- Appendix 1: Land ownership
- Appendix 2: Draft options
- Appendix 3: Property Details

Appendix 1 – Land ownership



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Chelmsley Wood Town Centre - Ownerships

Strategic Land and Property - 0121 704 6316



Resources Directorate

Date: 04/05/2017

Scale: 1:2,500

Drawn by: DW

Revision: A

Appendix 2 – Draft options



Figure 4.1: Option 1



Figure 4.3: Option 2A



Figure 4.7: Option 3

Appendix 3 – Property details

- 1.1 Chelmsley Wood Jobcentre Plus comprises a two storey purpose-built office building of traditional facing brickwork construction under a pitched tiled roof, located at 1 Chelmsley Circle, Chelmsley Wood. The property was erected in 1991 and provides ca. 11,000 sq ft (1,030 sq m) of office accommodation together with 24 car parking spaces.
- 1.2 The land upon which the building stands has an area of ca. 0.6 acres and is in the freehold ownership of Solihull MBC, but was leased to the Secretary of State for a term of 125 years from March 1990 at a peppercorn rent, to enable the original development of the Jobcentre to proceed. There are therefore 97 years remaining unexpired on the ground lease. A location plan is attached at Appendix A.
- 1.3 As part of a central government reorganisation and outsourcing process, in December 2004 the ground lease was assigned to Telereal Trillium, the government's PFI partner for Department for Work and Pensions (DWP) assets. In November 2014 the asset was subsequently assigned to the current tenant, London Wall Outsourcing Investments Limited, a group company of Telereal Trillium.
- 1.4 Although the building is assumed to have been maintained to a satisfactory standard over the last 27 years by Telereal Trillium, the design and specification is considered to be somewhat dated for office accommodation and is unlikely to be attractive to future tenants in the long-term. Significantly, however, the property is centrally located in Chelmsley Wood Town Centre, immediately adjacent to the Police Station and opposite the Shopping Centre and the former library site (also in the ownership of the Council).
- 1.5 As a result, the Jobcentre is considered to be at the heart of the emerging Chelmsley Wood Town Centre Masterplan, the preparation of which is well underway by the Council's appointed consultants, BDP Architects, supported by their specialist viability consultants JLL, quantity surveyors Mace, and movement and transportation consultants Systra. This Masterplan is being delivered with WMCA funding approved as part of the SOC Phase 1.

The ongoing evolution of this Masterplan has identified the Jobcentre as a key potential redevelopment site, providing an opportunity to deliver a range of growth and development options, which could include, for example, mixed-use retail, leisure, or food and beverage options at ground floor level, with residential apartments above. The site is also key to delivering public realm and connectivity improvements across the east-west axis of the Town Centre. Further detail on the preferred option for the future use of the site will be contained in the final version of the Masterplan