

Birmingham City Council

Report to Cabinet

14th November 2023



Subject: Additional Grant Funding for the Typhoo Building Redevelopment

Report of: Strategic Director of Place, Prosperity and Sustainability

Relevant Cabinet Member: Councillor John Cotton, Leader of the Council
Councillor Brigid Jones – Cabinet Member for Finance and Resources`

Relevant O &S Chair(s): Councillor Akhlaq Ahmed, Economy and Skills
Councillor Jack Deakin, Finance and Resources

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Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s): Bordesley & Highgate		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 011894/2023		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

1 Executive Summary

- 1.1 At the Cabinet meeting on the 25th April 2023 the full business case was approved to award Stoford Digbeth Ltd (SDL) up to £14.3m of Enterprise Zone (EZ) grant funding to redevelop the derelict Typhoo building and deliver a new broadcasting centre for BBC plus additional retail space. Completion of the scheme is scheduled for 2026 and the project objectives and benefits remain unchanged from that approval. In addition, Cabinet also approved £0.429m of EZ funding for associated City Council project related costs.

- 1.2 Following a decline in the financial markets and rising gilt rates Aviva, the purchaser of the Typhoo building, has reduced the purchase price from £63.75m to £57.675m, which is a £6.075m reduction. As a result, additional EZ grant funding of £2.3m has been approved by the EZ Partnership Board to deliver the scheme. The remaining viability gap of £3.775m is being reduced by a reduction in land value of £1.9m by the landowner, Benacre, and a reduction in returned costs of £1.875m to SDL.
- 1.3 Stoford Digbeth Ltd (SDL) and Benacre (2022) LLP are working to redevelop the former derelict Typhoo Tea Factory ("Typhoo") to deliver a new broadcasting centre for the BBC totalling 84,000 sqft. (net internal area), along with 2,780 sqft. additional retail space by 2025. The scheme proposes to deliver this high quality floorspace and approx. 75 FTE net additional employment opportunities within Digbeth and a net additional gross value add (GVA) of approx.£3.9million per annum to the local economy. This increase in local economic activity and productivity is forecast to deliver public benefits of approx. £40.7million. The Business Rates Income Growth is estimated to be a net-additional £1.5m p.a. from 2026 onwards.

2 Recommendations

That Cabinet:

- 2.1 In its role as Accountable Body for the Enterprise Zone (EZ), approves funding of £2.3m to fund the provision of grants to SDL to facilitate the delivery of the former Typhoo Building redevelopment. This will be funded from existing resources within the EZ programme, currently £11.7m in reserves as at 31st March 2023.
- 2.2 Approves additional EZ grant funding of up to £0.099m to fund City Council project related costs which will also be funded from the existing resources within the EZ programme.
- 2.3 Approves the additional EZ grant of up to £2.3m to be awarded to SDL to provide funding for the increased project viability gap for the redevelopment of the Typhoo Factory in line with the Full Business Case (FBC) approved by Cabinet on the 25th April 2023.
- 2.4 Note that £1m of the grant funding will be repayable to the Enterprise Zone should development in future phases on the site be sold before 31st December 2029 and scheme achieves above a developer's profit return above 15%.
- 2.5 Notes that the business rate growth associated with the development will be retained by the programme up to March 2046 and reinvested into other EZ projects
- 2.6 Authorises the City Solicitor & Monitoring Officer to negotiate, execute, seal and complete all necessary documents in connection with the above recommendations.

3 Background

- 3.1 On 25th April 2023 Cabinet approved the full business case and awarded Stoford Digbeth Ltd (SDL) up to £14.3m of EZ grant funding to redevelop the derelict

Typhoo building and deliver a new broadcasting centre for the BBC which totals 84,000 sq.ft (net internal area) plus additional retail space of circa 2,780 sq.ft.

- 3.2 Since then, there have been a number of adjustments to the overall financial position and viability of the project as outlined in the table below. The investor along with most of the investment market, had predicted that gilt rates would improve during 2023 as inflation reduces and the economy recovers. However, 20-year gilt rates have continued to worsen.

	April 2023	Current Position	Commentary
Purchase Price	£63,750,000	£57,675,000	Adjustment of £6.075 million in the purchase price from Aviva.
Total Build Price	£38,455,721	£39,150,721	Information below explaining build price increases.

Investor purchase price

- 3.3 The 'original' agreed purchase price between the landowner, Benacre, with Aviva, which was the basis of the grant approval, was £63,750,000. This reflected a yield of 4.54%. Following further decline in the financial markets and rising gilt rates since their bid Aviva confirmed a price adjustment to £57,675,000 – a £6.075m deduction. The current purchase price reflects a yield of 5.00%. Whilst this reflects a £6.075 million reduction, comparatively, in the context of market conditions, this remains a strong position. This price has been approved at their Investment Committee.

Build price

	April 2023	September 2023
Shell & Core	£34,600,000	£35,487,486
Cost 'Buffer'	£500,000	-
Asbestos and Oil Removal	£355,721	£355,721
Public Realm	£3,325,000	£3,325,000
Total	£38,780,721	£39,168,207

- 3.4 The current build price from the contractor BAM is above the estimate which was forecast at FBC stage. SDL have undertaken a thorough value engineering exercise to, as far as possible, minimise costs whilst still satisfying the design committed to the BBC. Nevertheless, the complexity of redevelopment of the building (considering its current condition and locally listed status), along with build price pressures means there is a delicate balance to be struck between build cost, investment price, and returns, to achieve viability. BAM issued a tender price return on 18 September and the value engineering options (which are included in the price), and ground strategy is being worked through before SDL can confirm with a greater degree of certainty that this is now within the appraisal figure above. SDL

remain confident that this can be achieved. However, this will not be definitively confirmed until issue/signing of the final build contract, expected to take place at the end of November 2023.

Viability Gap

- 3.5 Considering the changes to the purchase price and the build contract, with all other factors remaining (relatively) the same there is a total 'gap' of £6,442,487 made up of both the price reduction and the build cost increasing. The table below sets out how this gap will be met.

	Additional Investment
EZ	£2,300,000
Benacre	£1,900,000
SDL	£1,545,605
Associated Savings (Finance and SDLT)	£696,882
Total	£6,442,487

- 3.6 This reflects a 36-64% split between public and private sector input. It has been recognised and entirely appreciated that it needs to be demonstrated that there needs to be relative commitment and sacrifice from all parties in seeking to balance the viability of the project and that it would be entirely unacceptable for any party to be disproportionately benefitting from contributions/adjustments from another. Outlined below is the approach taken by all parties in relation to this viability challenge.
- 3.7 If the additional £2,300,000 of grant is made available, the project achieves a 10% profit on cost and therefore the viability condition, required by the Investor, is satisfied. When the project goes unconditional, no additional grant is required, and cost overruns or project delays will sit with SDL as developer. The value for money calculation has been reworked to consider this increased grant ask and reduced land value, and the BCR is 2.2 which still demonstrates high value for money. This revised calculation needs to be independently evaluated, which will be a condition of this approval to the additional EZ grant.

Aviva

- 3.8 Aviva have committed (with formal investment committee (IC) approval) to a purchase price ahead of the current market conditions, which have moved negatively since the IC approval. They have agreed to hold this price for four months despite the risk of the financial markets worsening. The advice is they would not get IC approval at the same level (let alone an increased level) should they submit again now in the context of gilt rates.

Stoford

- 3.9 SDL are reducing their return by £1.545m to reduce the viability. The margins (10% profit on cost and 2% development management fee) are at the minimum acceptable requirement for satisfaction of the viability condition under the development funding agreement. For the avoidance of doubt this condition is non-

negotiable since it reflects the lowest acceptable level in the market. As a result of the adjusted land price SDL will take a reduction of £1,545,605 in their return. Beyond this, to get to the unconditional date, SDL will have spent over £3,000,000 at risk to enable the project to continue within a timeframe that the BBC deem acceptable. Had these costs not been expended, the BBC would have walked away from the deal.

Benacre (landowner)

- 3.10 Benacre had already agreed to reduce the value of the land to invest in the public realm on the site, however, in recognition of the project's importance they have now agreed to take a nominal land value to help address the viability gap.

BBC

- 3.11 The BBC have agreed to extend their lease by 5 years which increases the project's investment value by £5,200,000 and thus helps to reduce the viability gap.
- 3.12 The BBC's lease at Mailbox expires in 2026. The BBC remain fully committed to signing a 25-year lease, at the redeveloped Typhoo building, subject to final Board approval w/c 16 October 2023 and providing the high quality fit out is achieved and public realm is delivered. They have been working with SDL over the last six months to explore ways to mitigate the delays in taking occupation at Digbeth.

Alternative Grant Funding

- 3.13 Extensive discussions have been held with Homes England and the West Midlands Combined Authority (WMCA). Whilst both have supported the wider scheme, the redevelopment of the Typhoo building does not satisfy their funding requirements/objectives for residential. However, they have indicated there may be available funding for future phases.

Repayable Grant

- 3.14 To ensure the project delivers maximum value for money for the Enterprise Zone it has been agreed that if development on future phases is sold before 31st December 2029 and the project has agreed a developer's profit return above 15% then £1m of the grant will be repaid.
- 3.15 In addition, should Aviva sell the asset within 7 years from signing the agreement for more than the original asset price plus transaction costs, they will share the additional profit 50:50 with the City up to a cap of £2.3m.

Business rates

- 3.16 When sectional completion occurs, the BBC will sign the Occupational Lease whilst they spend a further 12 months installing the technical fit-out. They will still be operating from the Mailbox during this technical fit-out period. Therefore, the BBC will be paying business rates in both the Typhoo building and the Mailbox until their lease expires.
- 3.17 The Business Rates Income Growth is estimated to be £30m, which will be retained by the programme to invest in other projects.

- 3.18 Since the 25th April 2023 the Council on behalf of the EZ has completed a funding agreement with SDL to provide a maximum of £14.3m of EZ grant funding. Following approval of the additional grant funding the Council will agree a variation to the agreement for £2.3m.
- 3.19 The proposed development will contribute to the economy of Birmingham by:
- 3.19.1 Creating opportunities for highly skilled jobs and improving the quality of the built environment.
 - 3.19.2 Increase business and workforce productivity and competitiveness' by creating 470 new net additional employment opportunities.
 - 3.19.3 Result in a net-additional approx. £3.9m p.a. GVA and the additional retail space of circa 2,780 sqft to support the development of a thriving local economy in relation to the plan's focus on 'Place'.
 - 3.19.4 By bringing in the BBC as an anchor tenant, the scheme will attract like-minded businesses into the area, thus, creating agglomeration effects facilitating knowledge spill overs which in turn will support existing businesses' growth and productivity.
 - 3.19.5 The scheme will align with the set objective to 'increase private sector investment' as it enables mix-use development-led regeneration opportunities that enhance and harness the potential of local cultural and creative assets in relation to the plan's focus on 'Place'.
 - 3.19.6 The scheme will act as a catalyst for the development of a further 800,000 sqft of mixed-used space on land owned by Benacre adjoining the subject site. Thus, the redevelopment of the former Typhoo Building will help to bring in private investment worth £320m.
 - 3.19.7 Thanks to the new local employment and training opportunities created by the BBC, the scheme would help increase the skill level in the area. The BBC's supply chain effects will also mean an increase in demand for creative services the area further helping to boost this already existing and diverse industry in Digbeth and thus support inclusive growth.
 - 3.19.8 The scheme will also support clean growth in the city centre thanks to making use of embedded carbon, being near public transport infrastructure, and incentivising active modes of transport such as cycling.

3.20 Timescales

Key milestones for the Typhoo Redevelopment are summarised below:

Milestones	Completion Date (FBC)	Revised Completion Date
Detailed Planning Application submitted	21 November 2022	21 November 2022
RIBA Stage 3 (Spatial Coordination)	31 December 2022	14 July 2023

Site Surveys complete	31 March 2023	30 June 2023 (some will continue until start on site)
Detailed Planning Consent	31 March 2023	16 March 2023
RIBA Stage 4 (Technical Design)	31 May 2023	15 September 2023
Contractor Appointment	31 May 2023	24 November 2023
Mobilisation	31 May 2023	27 November 2023
Demolition works commence	31 May 2023	27 November 2023
Main construction works commence	31 May 2023	27 November 2023
Demolition works complete	30 November 2023	30 June 2024
Main construction works complete	31 May 2024	8 August 2025
Typhoo Shell and Core complete	30 April 2025	8 August 2025
BBC Cat A Fit Out	30 April 2025	21 November 2025
BBC Technology Install (by BBC direct)	28 February 2026	31 st March 2027

- 3.21 The project outputs and outcomes detailed which are expected to be delivered as presented in the FBC remain unchanged. However, the timing of achieving them is now expected in November 2025 (was previously April 2025) and November 2036 (previously April 2036) and is tied to the availability and approval of EZ funding.
- 3.22 Commissioners support the recommendations of this report. It recognises that in the immediate future the Council cannot commit to additional borrowing so a one-off payment from retained surplus funds is the only way forward and that once the deal goes unconditional there can be no further claim on council funding as the risk then sits entirely with the developer.

4. Options Considered and Recommended Proposal

- 4.1 Option 1 Business as Usual (Do Nothing / No additional grant) – under this option, it is assumed that there would be no redevelopment of the Typhoo building in the short or medium term. The building has been derelict for over 30 years. During that time there has been very little interest in occupying the building and conditions have worsened. Now the level of investment required to bring the building back into productive use would be prohibitive for any market driven development scheme. Values for standard offices, or even residential conversion would not bridge the gap to redevelopment. This option is not considered appropriate and has been discounted from further analysis.
- 4.2 Option 2 Do Minimum / Less additional grant – This option is not considered achievable. As outlined above other stakeholders are contributing towards the viability gap and it would not be possible to increase this to compensate for a lower level of additional grant funding. In addition, there has been significant value engineering of the build contract to reduce costs and any further changes

would compromise the integrity of the building and the net zero ambitions which are a key requirement of the BBC and Council.

- 4.3 Option 3 Preferred Option – Provide additional EZ grant funding to reduce the increased viability gap. Bringing the iconic Typhoo building back to life is identified as a priority in the Enterprise Zone Investment Plan (EZIP). There are very limited options for the redevelopment of the building as it is locally listed.
- 4.4 Option 4 Do Maximum / More additional grant – The project is already receiving a significant level of public investment and is at a level which is higher than would be considered for other projects, but is considered appropriate given the fact the BBC is an internationally recognised brand that will act as a catalyst for growth in the surrounding areas. However, increasing the grant further may compromise the ability to fund other projects.
- 4.5 Based on the above analysis it is not felt that there are suitable alternative options at this stage due to the uniqueness of the site, and the conditions for the redevelopment scheme. As such option 3 is preferred and the detailed cost benefit analysis has shown that the project still represents high value for money.

5 Consultation

- 5.1 Members of the EZ Partnership Board support the recommendations of this report and provided approval to the additional grant at the Board meeting on the 21st September 2023.
- 5.2 Consultation on the Typhoo Factory redevelopment has been undertaken through the formal planning process.

6 Risk Management

- 6.1 An extensive risk register was included within the full business case approved by Cabinet on the 25th April 2023 which highlights the scheme's strategic risks.
- 6.2 While are set out in Table 1 below.

Table 1

Risk	Mitigation
Construction costs increase.	SDL has completed the two-stage procurement to appoint the contractor and costs have now been fixed following extensive and detailed pricing with SDL, contractor and supply chain.
Securing funding	The funding offer from Aviva is fixed until 22 nd December and provided the lease is signed and EZ funding is in place then the investment can go unconditional, and the project will start on site. If the deal is not completed before the offer expires then the project will not be delivered.

Challenge to Subsidy Control	There is a risk that there may be a challenge to the subsidy control assessment which may impact on the programme. The Council has taken legal advice which confirms that the grant is compliant with the principles assessment.
Agreement for lease not signed	There is a risk the agreement for lease will not be signed, however, extensive discussions have taken place with the BBC Board to address any concerns and the key issue now is to ensure the funding package is in place.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

7.1.1 The proposals set out in this report will support the City Council's key priorities as set out in the City Council Corporate Plan 2022 – 2026:

- *Support inclusive economic growth.*
- *Tackle unemployment*
- *Attract inward investment in infrastructure.*
- *Tackle poverty and inequality*
- *Promote and champion diversity, civic pride and culture.*
- *Support and enable all children and young people to thrive.*
- *Make the city safer.*
- *Improve street cleanliness.*
- *Improve air quality.*
- *Continue the Route to Net Zero*

7.1.2 **Birmingham Development Plan (BDP) 2031** – The project will help to deliver the following objectives:

- *To protect and enhance the city's heritage assets and historic environment.*
- *To provide high quality connections throughout the city and with other places including encouraging the increased use of public transport, walking and cycling.*
- *To create a more sustainable city that minimises its carbon footprint and waste and promotes brownfield regeneration while allowing the city to grow.*
- *To encourage better health and well-being through the provision of new and existing recreation, sport and leisure facilities linked to good quality public open space.*

7.1.3 Our Future City Framework 2040 (OFC) – The project will help to deliver upon the aspirations set out within the OFC by creating sustainable connections to key growth areas in the city core and encouraging further investment and subsequent footfall to new and existing sites within the vicinity of Curzon Street Station.

7.1.4 Route to Zero Commitment - The scheme supports the additional Climate Change Commitments agreed by Cabinet on 30th July 2019 following the motion on Climate Emergency passed at the full City Council meeting of 11th June 2019, including the aspiration for the City Council to be net zero-carbon by 2030.

7.1.5 Birmingham Business Charter for Social Responsibility (BBC4SR)
As part of the approval by Cabinet on the 25th April 2023 SDL were certified to the Birmingham Business Charter for Social Responsibility and produced an Action Plan with commitments proportionate to the value of the grant. The requirement to pay the Real Living Wage in accordance with the Council's policy will also be a requirement of the funding conditions. The Council will also ensure that all main and sub-contracted organisations involved in the re-development of the site maximise the employment outcomes for local people. The plan will be updated to reflect the additional grant.

7.1.6 Environment and Sustainability

An environment and sustainability assessment (Appendix 4) has been completed and approved by the ESA team. The report's overall conclusion is that the Typhoo Factory redevelopment links well to the goal stated in the BCC Route to Zero Action Plan to promote sustainable construction. The redeveloped former Typhoo Building comes with strong sustainability credentials, such as an EPC 'A' rating and a BREEAM 'outstanding' rating.

7.2 Legal Implications

7.2.1 The Local Government Finance Act 2012 supports the development of Enterprise Zones by enabling Local Authorities to borrow for capital

schemes against projected growth in business rates income. The Act allows the City Council to retain 100% of business rates income from within the Enterprise Zone.

- 7.2.2 Section 1 Localism Act 2010 confers a general power of competence on the Council which permits the grant funding proposed in this report.
- 7.2.3 Section 12 of the Subsidy Control Act 2022 requires the Council to consider the Principles in the Act before deciding to give a subsidy, and not to give the subsidy unless it is of the view that the subsidy is consistent with the Principles. The grant funding is considered a lawful subsidy. The principles assessment and supporting evidence was submitted to the Subsidy Advice Unit and they issued their report on 13 July 2023. The grant will need to be put on the Subsidy Control Database once the grant agreement has been entered into. This triggers a period of thirty calendar days for any challenges on the award of subsidy. The additional grant will need to be notified to the Subsidy Advice Unit as a permitted modification. Legal Advice is that this will not require a new subsidy control assessment.

7.3 Financial Implications

- 7.3.1 In line with the Programme's Assurance Framework and Financial Principles, approved by Cabinet on the 6th September 2022, the EZ and City Council, as Accountable Body, can fund the additional grant from existing EZ resources, currently £11.7m in reserves as at 31st March 2023.
- 7.3.2 The scheme will generate additional Business Rates income by enabling key commercialisation investments. The Business Rates Income Growth is estimated to be a net-additional £1.5m per annum from 2026 onwards. Based on the expected delivery year of 2025 and the remaining 21 years of BBC's lease to 2046, this equates to £31.5m of additional Business Rates Income, which will be retained by the EZ to be reinvested in other projects. In addition, it will improve the values of development located around and in proximity to the scheme whilst also increasing the occupancy rates of these developments.
- 7.3.3 There are financial risks associated with the Accountable Body role, the main one being failure of the EZ to deliver sufficient business rates uplift to cover the level of borrowing and up-front revenue expenditure incurred by the City Council. These risks have and will continue to be managed primarily through detailed financial modelling and by receiving, for independent examination/approval, detailed individual business cases for project expenditure.
- 7.3.4 Within the EZ all business rates are collected by the City Council and any net uplift is allocated to the EZ for a period to 31st March 2046. The EZ decide how and where these funds are deployed, making the investment decisions in line with the EZ Investment Plan, subject to the City Council in

its Accountable Body role ensuring compliance with the financial governance principles.

7.4 Procurement Implications

7.4.1 There are no procurement implications with the recommendations of this report.

7.5 Human Resources Implications

7.5.1 All activity identified within this report will be managed by existing Council employees. The scheme's Project Management sits within the EZ delivery team and is resourced through the project.

7.6 Public Sector Equality Duty

7.6.1 Due regard and consideration have been given to this EIA for the report recommendations. In overall terms the redevelopment of the Typhoo Factory redevelopment has been assessed as leading to a positive effect on the equality through the provision of new and better paid jobs, apprenticeships, increased GVA, improvements to the perceptions of the place resulting in reduced crime and positive impact on people's quality of life and health.

8 Appendices

Appendix 1 – EZ Offer Letter

Appendix 2 – Equality Impact Assessment EQUA1195

Appendix 3 – Environment and Sustainability Assessment

9. Background Documents

9.1 EZ Investment Plan 2019