

Birmingham City Council

Report to Cabinet

25th April 2023



Subject: Typhoo Building Redevelopment Full Business Case

Report of: Strategic Director of Place, Prosperity and Sustainability

Relevant Cabinet Member: Councillor Ian Ward, Leader of the Council
Councillor Yvonne Mosquito – Cabinet Member for Finance and Resources`

Relevant O &S Chair(s): Councillor Saima Suleman, Economy and Skills
Councillor Akhlaq Ahmed, 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: 010855/2023		
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 With the arrival of HS2, Digbeth is a key growth area for the city with multiple sites for development and investment that will drive economic growth and job creation. The redevelopment of the derelict former Typhoo building is a key site and its redevelopment will attract key employers and investment into the area.
- 1.2 Stoford Digbeth Ltd (SDL) are working to bring forward plans to redevelop the derelict Typhoo building and deliver a new broadcasting centre for BBC which totals 84,000 sq.ft (net internal area) plus additional retail space of circa 2,780 sq.ft. Completion of the scheme is scheduled for 2025.

2 Recommendations

- 2.1 Notes the Full Business Case for the derelict former Typhoo Building (attached at Appendix 1) at a total cost of £69.3m, approved by the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) Board on 23rd March 2023.
- 2.2 In its role as Accountable Body for the Enterprise Zone (EZ), approves Prudential Borrowing of £14.729m to fund the provision of grants to SDL (£14.3m) and the Council (£0.429m) to facilitate the delivery of the former Typhoo Building redevelopment.
- 2.3 Approves EZ capital grant funding of up to £0.429m to fund City Council project related costs.
- 2.4 Approves EZ grant of up to £14.300m to be awarded to SDL to provide funding for the project viability gap for the redevelopment of the Typhoo Factory as identified in the Full Business Case (FBC) subject to subsidy control compliance, restriction on title, planning consent and application of the Council's Social Value and Living Wage Policies.
- 2.5 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 In February 2014, the City Council launched the Curzon Masterplan which set its vision for driving growth and regeneration within Digbeth and help maximise the benefits of HS2. Covering 141 hectares, the Masterplan identifies a number of significant investment opportunities which have the potential to deliver large amounts of jobs and deliver commercial floorspace.
- 3.2 In 2019 the Enterprise Zone Investment plan (EZIP 2019) set out a £1.023bn programme of infrastructure investment up to 2045/46. EZIP 2019 was approved by Cabinet on 30th July 2019. The plan set out the intentions to accelerate development across the EZ, to unlock the major growth opportunities by removing barriers to development, creating a supportive environment for investment, job creation and growing the city and regional economy.
- 3.3 ONS data shows there is multiple deprivation in the Digbeth area. Derelict buildings attract crime and anti-social behaviour. This has an effect on the nearby premises and reduce values below what these premises could achieve in a well-functioning market. This project would address market failures by creating a vibrant cluster of modern occupiers and vastly improved public realm.
- 3.4 The redevelopment of Typhoo Factory by SDL will cost £69.3m, with an EZ gap funding ask of £14.3m with the remainder of circa £55m being funded by privately raised capital. The ratio of private to public funding is approximately 4/1.
- 3.5 SDL are seeking a secured grant of £14.3m of EZ funding to resolve the viability gap associated with converting the locally listed former Typhoo building (derelict

for 30+ years) into an 84,000 sq.ft of modern studio and office space for the BBC and 2,780 sq. ft of retail space.

- 3.6 To cover all BCC project related costs including but not limited to; legal advice, cost consultancy, etc., the City Council has applied a flat rate of 3% of the EZ grant up to £0.429m.
- 3.7 The overarching rationale for the project is to improve economic opportunities, enhance productivity, and to attract high wage jobs to Digbeth.
- 3.8 The BBC's lease at Mailbox expires in 2026. The BBC commenced a site search for a new broadcasting centre on 15 November 2021 and the Typhoo building was selected as their preferred location based on the proposed emphasis on sustainability, low carbon footprint during construction, future flexibility and build design. The BBC have committed to signing a 25-year lease providing the high quality fit out is achieved and public realm is delivered.
- 3.9 SDL have undertaken an open procurement process under their organisation's governance to confirm a main contractor for the work. This two-stage process is underway with a preferred contractor identified. Further discussions and negotiations are ongoing, and SDL are confident of being able to secure a preferred contractor and have agreements in place by May 2023, which aligns with the funding agreements and statutory consents needed to progress the project.
- 3.10 Following the submission of a Green Book Compliant Full Business Case on the 24th February 2023 and the independent appraisal of the FBC carried out by Aecom, the GBSLEP Board approved the Typhoo Factory redevelopment EZ grant of £14.3m and BCC Client Role costs of £0.429m at its meeting on 23rd March 2023.
- 3.11 The City Council on behalf of the EZ will require SDL to complete a funding agreement in order to provide a maximum of £14.3m of EZ grant funding. In the event of any overall future funding pressures, measures will be put in place to ensure the City Council is protected from any overspend. This will include placing conditions in the funding agreement with SDL that the grant from the EZ is capped and that no further funding will be provided by the Council to complete the project. SDL have confirmed their match funding and will bear the cost of any overruns.
- 3.12 Following a competitive process match funding has been agreed with a preferred forward funder. Heads of terms were agreed on 20th March 2023, and will be concluded in an agreed legal form. The EZ funding will be secured as a restriction on title on the property.
- 3.13 A full planning application was received in November 2022 and received planning permission on the 16th March for site clearance, partial demolition of, change of use and refurbishment of, and extensions to, the former Typhoo Tea Factory. The application confirms commercial use (Class E) including broadcasting, production, offices and associated staff facilities (including a roof extension) and food and beverage units (Class E and / or Sui Generis (drinking establishments), alongside new public realm and landscaping, access, parking and associated

works. As part of the formal planning process consultation was undertaken on the Typhoo Factory redevelopment.

3.14 The proposed development will contribute to the economy of Birmingham by:

- 3.14.1 Creating opportunities for highly skilled jobs and improving the quality of the built environment.
- 3.14.2 Increase business and workforce productivity and competitiveness' by creating 470 new net additional employment opportunities.
- 3.14.3 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'.
- 3.14.4 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.
- 3.14.5 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'.
- 3.14.6 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.
- 3.14.7 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.
- 3.14.8 The scheme will also support clean growth in the city centre thanks to making use of embedded carbon, being in close proximity to public transport infrastructure, and incentivising active modes of transport such as cycling.

3.15 Timescales

Key milestones for the Typhoo Redevelopment are summarised below:

Task	Start Date	Completion Date
RIBA Stage 3 (Spatial Coordination)	August 2022	December 2022
Site Survey	November 2022	March 2023
Planning Application	November 2022	16 th March 2023
Tender to Award	November 2022	June 2023
RIBA Stage 4 (Technical Design)	January 2023	May 2023

Mobilisation	April 2023	May 2023
Demolition works	May 2023	November 2023
RIBA Stage 5 (Construction)	May 2023	May 2024
Typhoo Shell and Core	November 2023	April 2025
BBC Cat A Fit Out (foundational elements of interior space's design)	May 2024	April 2025
BBC Technology Install (by BBC direct)	February 2025	February 2026

4 Options Considered and Recommended Proposal

- 4.1 Option 1 Business as Usual (Do Nothing / No 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 Grant – a lower specification redevelopment proposal would come forward. This would not include CAT A fit out; no studio space; basic (or even industrial style stripped back) office fit out; no BREEAM ratings sought; and no environmental improvements or net zero standard included. The resultant product brought to the market would therefore likely achieve lower base rents for the scheme. This option is not considered achievable. The building is a heritage asset, that has been derelict for 30 years, with complex structural challenges and asbestos to deal with. It requires careful restoration and redevelopment as well as structural changes to bring it up to even the most basic of building standards for occupation in terms of access.
- 4.3 Option 3 Preferred Option – Redevelopment and high quality fit out to accommodate the BBC. 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. The BBC have already agreed with SDL that a Cat A fit out will be delivered as part of the overall works.
- 4.4 Option 4 Do Maximum / More Grant – Higher density development and bring forward the wider regeneration Masterplan. This vision includes the redevelopment of adjacent sites to deliver a mixed-use community including residential development, as well as large scale public realm improvements. This has been included in the outline planning permission applied for. This option would see the 'Do Maximum' brought forward at the same time as the Typhoo scheme, but also to increase density of development to maximise growth. Whilst the delivery of the

entire masterplan is certainly a core priority for SDL and partners, to bring this wider development forward at this stage would create a number of challenges including.

- 4.4.1 There currently being no market for residential development of this scale or type in Digbeth,
 - 4.4.2 As such the values associated with delivery of homes at this stage would not support the costs to develop such schemes,
 - 4.4.3 Issues with bringing forward such large-scale regeneration at the same time in terms of workforce resource, site management, disturbance, access which would increase risk of cost overruns,
 - 4.4.4 Increasing densities could negatively affect the urban design quality of the area and set a negative precedence for further development proposals in the area.
- 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 a detailed cost benefit analysis has been undertaken.
- 4.6 The methodology used is consistent with the HM Treasury's Green Book (April 2018) and Ministry of Housing, Communities and Local Government (MHCLG) Appraisal Guide (December 2016) which sets out that projects should be appraised on the basis of a benefit cost ratio (BCR) reflecting the private benefit associated with the change in land use (land value uplift) and the external benefits (and costs) of the scheme, compared to the net public sector cost. The preferred option delivers a BCR of 2.85, which represents 'High' Value for Money according to the Department for Transport's Value for Money Framework. The BCR consists of Net Present Value (NPV) benefits of £40.7m and NPV costs of £14.3m reflecting the delivery funding contribution from the Enterprise Zone.

5 Consultation

- 5.1 Members of the GBSLEP support the recommendations of this report and provided approval of the FBC at the GBSLEP Board on the 23rd March 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 is included within the attached FBC (see Appendix 1) which highlights the scheme's strategic risks.
- 6.2 The top three risks and mitigations are set out in Table 1 below.

Table 1

Risk	Mitigation
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Secure Planning permission	A full planning application was received in November 2022. Planning permission was approved on 16 th March 2023 however this is subject to conditions which need to be discharged.
Construction costs increase	The Stage 1 Tender process has been completed and a preferred contractor has been identified. Best possible expertise has been brought on board to manage any costs increases in most time efficient way. A contingency of 5% has been applied to the construction costs estimate to act as a buffer to any cost increases. Conditions will be placed on the funding agreement with SDL that the grant from the EZ is capped and that no further funding will be provided by the Council to complete the project. To note: SDL have confirmed their match funding and will bear the cost of any overruns.
Securing funding	As interest rates continue to rise globally, the investment market continues to soften. Currently, with public sector funding as outlined in this bid, this project is viable, but if interest rates increase this may not be the case. The viability analysis carried out by Stoford and Savills includes allowances for inflation rates going up. Thus, there is a buffer which should shield the project's viability.

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 on 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 **Big City Plan (BCP) (2011)** – The project will help to deliver upon the aspirations set out within the BCP 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)** - The funding agreement will require SDL to be certified to the Birmingham Business Charter for Social Responsibility and to produce 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.
- 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. Attached to this report is an assessment of the subsidy (Appendix 5), being considered against the principles (Appendix 5.1). If the Council is minded to approve the grant, then it must consider the assessment carefully and only decide to approve the grant if it considers that the subsidy involved is consistent with the Principles. In particular, it must conclude that the benefits of the subsidy outweigh any negative effects.
- 7.2.4 As well as complying with the requirements of the Act the Council, in taking its view as to whether the subsidy is consistent with the Act must comply with its public law duties. So the decision, for example, must be within the Council's powers and must not be irrational, biased or otherwise unlawful on any other general public law ground. The Council must be particularly careful to ensure that its decision is not so unreasonable that no reasonable authority would take the same view.
- 7.2.5 The Council's external legal advisers consider (based on the information that they have seen) that a decision to award a subsidy, on the basis that this would be consistent with the Principles, would be a reasonable decision.
- 7.2.6 Due to the amount of the proposed grant subsidy, it must be referred to the Subsidy Advice Unit (SAU). The SAU has 30 working days to provide its report once the referral has been accepted and what it does is provide an evaluation of the Council's assessment, which may also include recommendations on how the design and assessment of the subsidy can be improved. The Council could incorporate the SAU's recommendations (if any) and award the subsidy. Under the Subsidy Control Act 2022's (the Act) transparency requirements, details of the subsidy must be registered on a central subsidy database within 3 months of the decision to award the subsidy. There is a one month window for interested parties to request information about the subsidy. If there are no requests within that period there can be no challenge. If information is requested within that period, then the challenge period is one month from the date the information is provided.

7.3 Financial Implications

Capital Costs

7.3.1 The FBC estimates a total cost of £69.3m. The GBSLEP Board have approved a EZ capital grant of £14.729m to fund the redevelopment of Typhoo Factory (£14.300m) and BCC Client Role costs (£0.429m). In its Accountable Body role, the City Council requires approval for prudential borrowing of £14.729m.

7.3.2 The table below summarises the capital costs.

Capital Costs - Typhoo Factory Redevelopment	£'m 2023/24	£'m 2024/25	£'m 2025/26	Total £'m
Enterprise Zone Grant - SDL	5.788	8.244	0.268	14.300
Private Sector Funding	22.265	31.712	1.023	55.000
Total Build Costs	28.053	39.956	1.291	69.300
BCC Client Role Costs 3% of Grant	0.174	0.247	0.008	0.429
Total Capital Expenditure	28.227	40.203	1.299	69.729

Revenue Costs

7.3.3 In its Accountable Body role, the City Council will undertake additional prudential borrowing of £14.729m to support the delivery of the redevelopment of Typhoo building generated through the uplift in business rates within the EZ.

7.3.4 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

7.3.5 Based on the latest forecast, incorporating assumed interest rates as at December 2022 from Treasury Management, the revenue cost of borrowing the £14.729m over the life of the EZ programme is expected to be £25.4m.

7.3.6 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. 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.

7.3.7 Based on the costs included at 7.3.5 and estimated income at 7.3.6, the scheme anticipates an overall net Business Rates additionality of circa £6.1m over the life of the EZ programme (£31.5m of additional income less £25.4m of borrowing costs).

7.3.8 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 – Typhoo Factory Redevelopment Full Business Case

Appendix 2 – EZ Offer Letter

Appendix 3 – Equality Impact Assessment EQUA1078

Appendix 4 – Environment and Sustainability Assessment

Appendix 5 – Subsidy Control Principles Assessment

Appendix 5.1 - The Subsidy Control Principles

9. Background Documents

9.1 EZ Investment Plan 2019