

OPTIONS APPRAISAL

Delivery Options for Phase 1

Peddimore

April 2017

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1. Executive Summary

The work undertaken so far by the Project Board suggests that the infrastructure costs associated with building out Peddimore are significant. The costs place a substantial burden on the development and the Council from a financial risk perspective. However, the Delivery Options Appraisals suggest that there are solutions that will enable the City Council to deliver development at Peddimore whilst also satisfying its financial and strategic aims and managing its exposure to financial and development risk.

This document summarises the Delivery Options Appraisal and recommendations for Peddimore which identifies a Preferred Delivery Option. The Outline Business Case that sits behind this Options Appraisal has been developed by consultants GVA on behalf of the Peddimore Project Board. GVA are the lead consultant for a team of specialist consultants who continue to work on the project to construct the range of options that have been developed whilst commenting on the commercial attractiveness of the development options through soft market testing undertaken by GVA as part of a cohesive development delivery strategy. GVA and the consultant team have also advised on:

- Site master planning (indicative scheme layout, quantum of development and site constraints). This will also inform the Supplementary Planning Document for the site.
- Ecology assessment
- Heritage assets assessment (impact on strategic assets in close proximity)
- Access junction and spine highway design. The design work in respect of the access junction has been finalised. The detailed design of the proposed junction will be undertaken by the developer partner.
- Utilities assessments and the strategy for the site with all utility providers including Severn Trent. This includes the drainage strategy and power (electricity).
- Structured landscaping design – parameter visual protection to balance of green belt.
- Flood risk assessments
- Phase 1 geo-technical assessment (non-intrusive)

The preferred option offers the best financial and strategic fit to achieve the Council's objectives for the Peddimore site.

2. Strategic Case

The Birmingham Development Plan has been examined by an Inspector appointed by the Secretary of State and that Inspector has concluded that the Plan is sound.

The BDP was subsequently adopted by the City Council on 10th January 2017 and the period for legal challenge has now passed.

The delivery options that have been considered by the Project Board and outlined in the Outline Business Case (OBC) include:

Option 1 – Do Nothing	The Council takes minimal action and the site remains unchanged
Option 2 – Partial Disposal (with infrastructure delivery obligations)	The Council disposes of part of the site and obligates the developer to implement the enabling infrastructure works. The Council retains a proportion of the site for future disposal
Option 3 – Full Disposal (With infrastructure delivery obligations)	The Council disposes of the whole site
Option 4 – Whole site disposal with enabling infrastructure delivered by the Council	The Council disposes of the whole site, however prior to disposal undertakes the enabling infrastructure works to unlock the site. The cost associated with infrastructure is prudentially borrowed
Option 5 – Direct Delivery	The Council delivers the entire infrastructure, develops the individual plots and seeks to let the commercial space. All associated capital costs are prudentially borrowed.

3. Delivery Options Appraisal

Although the financial output of each of the options summarised below is important, the overall assessment of suitability of the option in addressing the objectives of the scheme, require measurement against the Council's strategic objectives for the Peddimore site.

Option 1 - Do Nothing Option

With this option the Council takes no action and the site remains in its current form. Whilst the Council is not exposed to any financial risk associated with investment in the site, the option fails to deliver on any of the core objectives associated with the project.

Option 2 - Disposal of the Phase 1 site with Infrastructure provided by the developer. Council retains Phase 2

The Council disposes of sufficient amount of the overall development site - a phase 1 site of approx. 70 acres (net) to secure the strategic infrastructure for phases 1 and 2. The positive obligations to deliver the infrastructure required will form part of the land disposal contract using an OJEU compliant disposal process.

In this option the Council retains control of the phase 2 site with the benefit of the infrastructure and the ability to respond quickly to investment and employment generation opportunities.

In this option grant funding of up to approx. £10M is included in the option appraisal. Funding to support this has been identified. Peddimore scored highly in LGF3 bids and a full business case is now being developed for up to £10M by the consultant team led by GVA.

This option minimises the Councils' exposure to financial risk, as the Council will not be required to borrow any funds to pay for infrastructure.

Option 3 - Disposal of the entire site

Following adoption of the Birmingham Development Plan the Council disposes of the entire site. This option would attract a capital receipt for the Council, probably on a phased basis.

However by selling all of the land up front in this option the Council may not capture any land value growth of the phase 2 site that is going to be likely from the high quality master planning and development of the phase 1 site.

Additionally in this option the Council loses control of phase 2.

Option 4 - BCC provides and funds the infrastructure

In this option the council provides and funds the infrastructure. This approach therefore requires the Council to fund the capital to fund the infrastructure works.

The Council would receive capital receipts as the development plots are disposed of and the receipts can be applied to pay off the funding.

This option will generate significant pressures for the Council and would expose the Council to risk if delays were to occur in disposing of the sites and if the cost of the infrastructure works increased or if the works over run.

Option 5 - BCC acts as the developer for the site

This option assumes that the Council adopts the role of developer. The option appraisal assumes that the Council will undertake all necessary infrastructure work to bring forward the site for development and also constructs all of the buildings on the site.

In this approach the Council would need to fund all costs associated with the development. This option requires very significant levels of borrowing over a number of years and expose the Council to significant risk.

Options Appraisal									
	To release an employment site from the greenbelt	Obligate a third party developer to install the new A38 site access and primary infrastructure for the site and undertake development of the site	Collaborate over the Severn Trent plot of land	Obtain outline planning consent for the preferred development option	Limit the Council's exposure to development risk	Implement the preferred property development strategy that optimises Council objectives, delivers a land mark development and mitigates against development risk and manages land owner costs	To raise and maximise capital receipts from the disposal of land	To ensure that 40ha of the site is capable of development for B1c and B2 uses	Overall Score
Option 1 - Do Nothing	0	0	0	0	0	0	0	0	0
Option 2 - Partial Disposal (with infrastructure delivery obligations)	10	10	5	10	8	9	9	10	71
Option 3 - Full Disposal (With infrastructure delivery obligations)	10	10	3	10	10	10	9	4	66
Option 4 - Whole site disposal with enabling infrastructure delivered by the Council	10	5	3	10	7	6	8	4	53
Option 5 - Direct Delivery	10	5	6	10	2	4	1	10	48

Scoring: 0 = Does not contribute to delivery of the objective - 10 strongly contributes to delivery of the objectives

4. Preferred Option

GVA have undertaken detailed financial appraisals and options appraisals have been completed by GVA (summarised in the above table) to support the recommendations and the Preferred Delivery Option. The financial models used, which are commercially sensitive, have been refined over recent months by GVA to take account of more detailed infrastructure costs information available which provides greater clarity in respect of the strategic outputs.

GVA have also carried out “soft market testing” to establish that the recommended approach will stimulate significant market interest.

The Project Board has recommended option 2 as the Preferred Delivery Option.

Option 2 delivers on the Council’s strategic objectives most comprehensively. In addition, the Preferred Delivery Option best mitigates the associated project risks for the Council, specifically in the areas of financial risk, development risk and costs risk.

To ensure delivery of the project GVA has recommended a competitive OJEU compliant disposal process that will place obligations on the preferred development partner to deliver a master planned development and the infrastructure required to support the development subject to planning consent. The Competitive Procedure with Negotiation is proposed and includes a pre-qualification process. The proposed OJEU process is similar to Competitive Dialogue. Under the Negotiated procedure Short-listed parties are invited to take part in a negotiation process that leads to the selection of a preferred bidder subject to Cabinet approval of the final terms and structure of the transaction. GVA have undertaken soft market testing and are of the view that there is sufficient demand in the market place and appetite to engage in the proposed OJEU

process and following February Cabinet (2017) the Council has launched its Prior Information Notice (PIN).

It is proposed that the developer will acquire the phase 1 site, master plan the site to a high quality, secure planning consent and develop out the site installing all of the strategic infrastructure, including; a new road junction on the A38, the main spine road, strategic landscaping, main site drainage and utilities with sufficient capacity to service both phases of the development site. The new access junction will be adopted as public highway and possibly the spine road. The Council will have access to the mains drainage and other utilities infrastructure including capacity needed for phase 2.

There are two significant benefits to this option;

1. The Council is not required to borrow and fund the infrastructure costs and it is not directly exposed to any cost over runs on the infrastructure costs.
2. The Council retains control of the phase 2 site which will have the benefit of the access, infrastructure and therefore will be able to respond quickly to any major investment and employment opportunities which come forward in the future.

5. The Process for selecting a preferred development partner

If the preferred option (option 2) is selected and Cabinet approval to proceed is received the process to prepare the documentation, market the site, receive competitive bids, evaluate and select a preferred development partner can begin.

It is anticipated that this process will take approx. 9 months to reach a point where a preferred development partner and structure of the agreed transaction can be recommended to Cabinet. At that stage a further Cabinet report and Tender Report will be presented for approval.

It is very likely that the potential development partner will make their bid conditional on planning consent – outline planning consent for the uses and full planning consent for the access and infrastructure. It will be the preferred partner's responsibility to achieve planning consent at their own cost but within an agreed timescale which will be subject to penalties in the event of non-performance.

It is anticipated that the selection of a preferred development partner will require more than one round of bidding. A pre-qualification round will determine which potential bidders have the right credentials to deliver the project and a landmark development. This will then enable a round of financial bids using the Competitive Procedure methodology to select the preferred partner.

As part of the disposal documentation the Council will be providing a Supplementary Planning Document, associated design guides and master planning options. The Council will also provide Output Specifications for the access junction, the spine road, and drainage and utilities infrastructures to ensure that there is sufficient capacity for the phase 1 and importantly phase 2 sites. While this process will be driven by the Project Board as a property disposal it will need to

be compliant with OJEU as the preferred partner will have contractual obligations to deliver the project within pre-prescribed and agreed milestones and deadlines.

The Council will retain the services of GVA to assist and support the Project Board with the disposal. The Council, following February Cabinet, has launched its Prior Information Notice (PIN) and is in the process of appointing the external legal team with the range of expertise to advise across all aspects of the disposal. The team will be in place in April 2017.

The project governance will be managed through the Peddimore Project Board chaired by the Corporate Director Economy, which will involve officers across the Council together with the supporting commercial and legal consultants.

Appendix 1 shows a summary high level project plan.

The key tasks following April Cabinet approval are as follows:

- Complete the project team with the appointment of an external legal adviser.
- Consolidate the package of technical documents which will be used to generate the competitive bids. The package will be signed off by the Project Board on recommendation by GVA and the legal team.
- Marketing the opportunity.
- Receiving and evaluating pre-qualification submissions.
- Shortlisting and proceeding to the Competitive Process with the short listed parties.
- Evaluation and selection of the preferred development partner.
- Cabinet Report/Tender Report and continued Ward Member consultation.
- Negotiate and complete conditional contracts with the preferred development partner.
- Preferred Partner works up and submits a planning application for approval.
- Following planning approval the contracts become unconditional and work commences on the infrastructure work.
- New junction is adopted as public highways. Utilities infrastructure becomes live.
- Phase 1 site is available for development by the preferred partner.

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