Subsidy Control Principles Assessment Template

Section 12 of the Subsidy Control Act 2022 requires public authorities to consider the subsidy control principles and be of the view that their subsidy or scheme is consistent with those principles before giving an individual subsidy or making a subsidy scheme. This template outlines the main components of the assessment framework which helps to ensure that a subsidy is consistent with these principles. Public authorities should also refer to the full requirements set out in the Act as explained in the Statutory Guidance.[1]

It is recommended that public authorities use this template to assist with documenting their evidence, analysis and conclusions for their principles assessment for most subsidies and subsidy schemes.[2] The depth of the assessment of compliance with the principles for a subsidy or subsidy scheme should be commensurate with the size and the potential distortive impact of the subsidy, or subsidies given under the scheme. This template may be used as the starting point for documenting the principles assessment for Subsidies or Schemes of Interest (SSoIs) or Subsidies or Schemes of Particular Interest (SSoPIs). However, a more extensive assessment on the potential distortive impacts will need to be undertaken for these types of subsidies and schemes.[3]

Public authorities should state what evidence has been used for each component of the assessment. This may involve cross-referencing to specific sections of the associated business case or other internal or external documents. Additionally, it is recommended that public authorities explain their approach to:

- how contradictory or inconsistent evidence was weighed in coming to conclusions under each element of the assessment; and
- any decisions made in relation to the proportionality of not collecting evidence or undertaking analysis as suggested in the Subsidy Control Statutory Guidance.

[1] www.gov.uk/government/collections/subsidy-control-regime
[2] A scheme's consistency with the subsidy control principles is generally assessed in the same manner as for individual subsidies. The assessment should focus on the subsidies that could reasonably be given under the terms of that new scheme that have the highest risk of not complying with the principles.
[3] As set out in Chapter 3 ('subsidy design and assessment') of the statutory guidance, public authorities are advised to follow the same four-step assessment framework for these categories of subsidy and to refer to Annex 2 of the Statutory Guidance as well the Subsidy Advice Unit guidance.

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(Subsidy Control Principle A)</td><td>

- *Provide details of specific policy objective*

Property values in Digbeth are low leading to viability challenges for developments. More specifically, Savills' market analysis has shown that values for office space and retail space are approx. 35% and 46% respectively lower in Digbeth than in adjacent areas in Birmingham despite of Digbeth's excellent access to city centre amenities, as well as to local, regional, and national public transport links. Even though an occupier (**BBC**) has been attracted who is willing to pay rents well above (approx. factor 2) the current Digbeth market rates, a viability gap remains.

The Enterprise Zone

The GBSLEP first listed Birmingham City Centre as an Enterprise Zone (**EZ**) in 2011. The GBSLEP recognises that the area required support to unlock key development sites such as the £500m Paradise scheme and has supported infrastructure and public realm improvements including the Metro Extension and the redesign of Centenary Square. The EZ was then extended to cover the Curzon Masterplan area – including Digbeth – recognising that there is potential on the back of HS2 to deliver 77,000 jobs, 2,000,000 sqm of employment space, 4,000 new homes, and unlock over £1.7 billion of private sector investment.

Digbeth has so far seen investment of £16m in Public Realm improvements on Digbeth High Street with GBSLEP's aim to reinvigorate the area into a business and creative district. Thus, the scheme would complement this Public Realm project as the first large scale transformational regeneration project in Digbeth supported by the EZ, given that the EZ was established to provide a mechanism to forward fund this type of regeneration work.

The tea factory in Digbeth sits at the heart of the EZ, in a strategically important location south of the Curzon Street HS2 station which is currently under construction. The Enterprise Zone Investment Plan (EZIP) identifies £67m of wider intervention funding needed in Digbeth, making specific reference to Typhoo Wharf as a key public realm asset to invest in (see EZIP, p.16).

More broadly, the GBSLEP aims to:

- Create 250,000 private sector jobs by 2030
- Increase GVA by £29bn by 2030
- Have the lowest unemployment amongst the LEP Core Cities by 2030
- Increase productivity rates to the National Average by 2030

The WMCA Strategic Economic Plan

In addition, the WMCA Strategic Economic Plan sets the following targets:

- Increase jobs from 1.9m to 2.4 million;
- Use 1600ha of brownfield land for first class employment land of national significance;
- Productivity will be 5% higher than the national average.

Other goals (and how they will be met) are set out in the section below.

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Assessment Framework Component	Recommended Evidence
	West Midlands Local Industrial Strategy/ Birmingham City Council's "Our Future City Plan" The West Midlands Local Industrial Strategy quotes evidence that Birmingham and Solihull alone have the potential to add nearly 4,000 new creative enterprises and 30,000 new related jobs with the opportunity to scale this across the West Midlands. The West Midlands Local Industrial Strategy aims to add to job growth, make the West Midlands a more innovative, productive and competitive business environment that in turn creates and attracts better paid and highly skilled jobs. Birmingham City Council's "Our Future City Plan" has similar objectives. **West Midlands Growth Company** The WMGC has a £24m programme aiming to create a long-term legacy by boosting perceptions of Birmingham, the West Midlands and the UK as world-class destinations for trade, investment and tourism. **Birmingham's Transport Plan** This aims at "reducing transport's damaging impact on the environment, supporting Birmingham's commitment to becoming a carbon neutral city by 2030". **The Ten Point Plan for a Green Industrial Revolution and Midlands Engine – Ten Point Plan for Green Growth plan** This aims to increase the share of journeys by public transport, cycling and walking and provide more green buildings. **Build Back Better Policy** At a national level, the UK's Build Back Better Policy's overarching goal is transformational, aiming to tackle long term problems and deliver growth that creates high quality jobs across the UK. The initiative's vision is for every region and nation to have at least one internationally competitive city, driving the prosperity of the surrounding region and propelling forward the national economy. More specifically, the initiative makes Net Zero a priority. **Levelling Up agenda** In addition, Levelling Up is core to central government policy. A core element is the theory that productivity is highly correlated to a wide range of social and economic outcomes, including life satisfaction, crime, health and wellbeing. Improving productivity can have an impact across a range of community indicators.

Assessment Framework Component	Recommended Evidence
	Additionally, at the heart of Levelling Up is the theory that skills and talent of our communities and people is evenly spread across the country, but opportunity is not. • *Establish the existence and significance of the market failure and/or the inequality the subsidy seeks to address* The market failure is negative externalities. Derelict buildings are a blight and attract crime and other anti-social behaviour. Savills' analysis finds that incidents of crime would be reduced by 10% p.a. (approx. 360 incidents) in the area around the Tea Factory if the scheme would go ahead. Savills' detailed market analysis of this former industrial area finds that negative externalities have an effect on the nearby premises and reduce values below what these premises could achieve in a well-functioning market (i.e. occupiers suffer from effects outside of their control) and – most importantly – below the level that would make development commercially viable. The market failure is also evidenced by the fact there has been very limited investment over the last decades. Our analysis finds that most buildings were constructed pre 1945, and the last substantial refurbishment took place in 2013. There is high vacancy of buildings and land, low quality of stock, and multiple surface level car parks (see appendix 14). This is despite the area being located adjacent to the HS2 Curzon Street station, which is currently under construction. The building itself has been vacant for 30 years during which time the market has failed to find a productive use for the property despite its strategic and central location. • *Identify how the subsidy will remedy the market failure (i.e. provide a more efficient outcome) and/or address the equity objective (reduce an inequality)* The project would resolve this market failure by closing the viability gap for the redevelopment of the tea factory building, and creating one of the most advanced office and production space in the region for a nationally significant occupier, the BBC. This will create regeneration benefits, acting as a catalyst for the development of a vibrant cluster of digital, tech, and media occupiers and by ameliorating negative externalities thanks to bringing an iconic building back to life. It would deliver 84,000 sqft of high quality office space and 2,700 sqft of retail space. The high rents the BBC have agreed to pay, and the quality of the proposed scheme will help to raise values in the area up to the levels the market requires to make developments viable, thus, resolving the market failure and leading to a more efficient outcome that enables the factors of production (i.e. capital and labour) to move more efficiently within Greater Birmingham. This would also reduce inequalities as it would create economic opportunities in a deprived part of Birmingham, where the median equivalised income is approx. 33% lower than at the England level. **The WMCA Strategic Economic Plan** The scheme is particularly well aligned with the WMCA strategic objectives in addition to those set out above as it will create [redacted] additional employment opportunities. By bringing in the BBC as an anchor tenant, the scheme will likely

Assessment Framework Component	Recommended Evidence
	attract like-minded businesses into the area and create agglomeration effects, which in turn will support existing businesses' growth and productivity rates. The scheme is particularly well aligned with the goal to use brownfield land for development, as it brings a derelict site back to life and then unlocks further brownfield land for development. It is also aligned with the WMCA goal to foster environmental technologies, supported by the wider mixed use regeneration of the former industrial area to include land remediation, re-use of materials and delivery of a BREEAM "outstanding" rated building. In terms of other goals under the Plan: The scheme plans also aim to further develop the area's vibrant and flourishing 'creative and digital' sector. This is supported by delivering a BBC broadcasting centre as an anchor tenant and high-quality office space that supports the further growth of Digbeth's emerging creative and digital cluster enabling a wider contribution to other sectors by creating additional employment opportunities and business innovation. The goal to harness 'HS2 growth' is supported by delivering the scheme within Digbeth in walking distance to the Curzon Street HS2 station harnessing the potential delivered by improved connectivity and wider station development. The goal to 'exploit economic geography' is supported by investing in the EZ, which has been designated as an area in need of investment and one which will help to achieve the overall economic growth needed for the region. The scheme will deliver retail floorspace and high-quality open space. This will encourage a thriving local economy propelled by an influx of a high skilled employment, visitors and residents. **West Midlands Local Industrial Strategy/ Birmingham City Council's "Our Future City Plan"** The scheme will support creative job growth by bringing in the BBC as an anchor tenant. The scheme is well aligned with these strategies and plans as as the BBC as an anchor tenant will likely 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 rates. **West Midlands Growth Company** Its objectives are well aligned with the scheme, which aims to improve peoples' perception of Digbeth, putting it on the map as a creative and digital industries cluster centred around the iconic former tea factory helping to enlighten a much wider structural change in Digbeth by being the cornerstone of a significant regeneration project. **Birmingham's Transport Plan** The scheme is well aligned with Birmingham's Transport Plan, which aims at "reducing transport's damaging impact on the environment, supporting Birmingham's commitment to becoming a carbon neutral city by 2030". Cycling storage facilities promote active modes of transport, the development is adjacent to the new Digbeth Metrolink station and in walking distance from the new HS2

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	Curzon station, incentivising the use of public transport and discouraging the use of cars. **The Ten Point Plan for a Green Industrial Revolution and Midlands Engine – Ten Point Plan for Green Growth plan** The scheme also supports the objectives of the Ten Point Plan for a Green Industrial Revolution and Midlands Engine – Ten Point Plan for Green Growth plan both in terms of "greener" transport and buildings. See else where in this section for the outcomes. **Build Back Better** The scheme will support job growth, attract better and higher paid and more highly skilled jobs and kick start the transformational regeneration of Digbeth, as part of the wider master plan. In addition, the initiative makes Net Zero a priority because the scheme is an existing building and so embedded carbon is saved in the construction process when compared to demolishing and rebuilding existing comparable sites. This also links well to the goals stated in the Council's BCC Route to Zero Action Plan. The redeveloped former tea factory comes with strong sustainability credentials, such as an EPC 'A' rating, a BREEAM 'Outstanding' rating. The building (Shell and Core) is also 'Net Zero Carbon' (NZC) in construction. As an all-electric building, using Air Source Heat Pumps, LED lighting, comprehensive controls and a wide range of internal environmental conditions, the building is enabled to achieve Net Zero Carbon in Operation as the grid decarbonizes. In addition, an area of PV on the roof will be provided to provide an element of the operational energy required. A brown roof will encourage biodiversity. Overall, the scheme will set a new standard in terms of development quality, fit out and design that will act as a precedent for future development in the area. The scheme sets a new standard in quality of development, fit out and environmentally friendly design in the area. There are wider sustainability benefits in addition to the building itself. The Masterplan area will build on current brownfield land, taking pressure off developments on greenfield land. The wider scheme will also promote Digbeth as an area that is an inherently sustainable location for development as it features many previously developed sites which are not at their respective maximum lifespan in terms of productive uses. By promoting the area and acting as a catalyst, the scheme will help to ensure that existing developed sites will be used better and see their productive uses optimised. This will reduce the need for carbon intensive new builds elsewhere. **Levelling up** The proposed scheme aligns extremely well with the Levelling Up policy. Firstly, it aims to deliver high value, productive job opportunities, in high growth and value added digital and media sectors, in one of the underperforming areas Birmingham. It also has the potential to deliver productivity and therefore wider

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	economic and social value benefits to a deprived and left behind community, while also supporting other major Government investment initiatives aiming to Level Up the country such as HS2. The scheme aims to invest in a heavily deprived area, which has seen limited growth and investment, and so aims to unlock the potential of the community by delivering opportunities for jobs, skills and economic growth. The scheme will act as a catalyst for the development of the whole Masterplan area and will reduce income inequality further by making high quality developments viable, which are likely to attract high value added businesses. The scheme and the developments it will unlock will also contribute to improving social value due to decreased anti-social behaviour. In addition, opportunities for young people in the area are limited. During construction, the scheme will create a number of apprenticeships - the exact number will be confirmed. During operation, the BBC are likely to support apprenticeships on an ongoing basis as they have already started to do at the Cardiff and Salford offices. • *State the desired outcome(s)* • [redacted] more office and retail jobs for locals during operation (this takes into account that a) the BBC are vacating the Mailbox, i.e. jobs are being 'taken away' there; b) multiplier effects due to supply chain impacts; c) leakage of jobs to people outside of Greater Birmingham who commute to the tea factory) • More high value economic activity leading to an increase in GVA of £27m. • Training opportunities • Promote active and sustainable travel thanks to 120 cycle spots and access to nearby local, regional, and national public transport • Transform perceptions of place • [redacted] p.a. of additional Business Rates • Reduce crime levels These outcomes are complementary to the outcomes set out in the sub-section above and will be measured as welfare benefits using the following indicators: Land Value Uplift, (LVU) is the Governments preferred metric for monetising social benefits as it reflects the change in the productive use of the land, and the price people are willing to pay to access the benefits. There are two elements to LVU, the direct impact on a specific site, moving it from low productive to high productive use; and the wider impact a scheme can have on LVU of adjacent sites or neighbourhoods. In regeneration schemes, the wider LVU impacts of the scheme on surrounding residential, commercial and retail prices can be more significant than site specific impacts. This is set out in more detail in section 2.3 of the FBC template. • Direct LVU, estimated to be approx. £-0.6m • Wider LVU, estimated to be approx. £37.0m • Labour supply impacts, estimated to be approx. £2.6m

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		• Crime reduction impacts, estimated to be approx. £1.0m • Amenity benefits, estimated to be approx. £0.7m A comprehensive description of these benefits can be found in the FBC template in section 2.3. Savills have also monetized the environmental benefits in terms of carbon savings. The redeveloped former tea factory comes with strong sustainability credentials, such as an EPC 'A' rating, a BREEAM 'Outstanding' rating. An assessment of project's whole life carbon impact has found that the scheme will lead to savings of 589,008 kg CO_2 per year. This equates to total savings worth £40,730 per year. This savings has not been included in the BCR, since the BBC would likely move to another high quality, energy efficient building elsewhere if the former tea factory was not redeveloped. The calculations are set out in detail in section 2.3.5 of the FBC template. The Council considers that the provision of the subsidy is consistent with Principles A.
	Appropriateness (Subsidy Control Principle E)	• *Justify why a subsidy is the most appropriate instrument for addressing the identified policy objective and why other instruments have been set aside such as regulation, direct provision of the good or service by the authority, or loans or equity investment on commercial terms* A subsidy in form of a grant used to close the scheme's viability gap (see more detail below) is the most effective and cost efficient means to ensure delivery of the scheme in time for the BBC to move in before their current lease deal at the Mailbox expires. It is also the most efficient and effective means to bring the iconic building back to life. Neither a loan or equity investment could close the viability gap that currently prevents the developer to deliver the scheme. A loan would not close the viability gap, because loan repayments – even if at 0% interest rates – would add to future expenses, thus, lower the value to the funding partner leading to a lower valuation of the scheme. As such, a loan would push the viability gap out into the future but not resolve it and would fail to address the basic issue that development costs outweigh future revenues.. Similarly, an equity investment would lead to (some of) the future revenue generated by the scheme being redirected to the equity investor and away from the funding partner. Again, this would reduce the funding partner's valuation of the scheme and, thus, not resolve the viability gap. SDL undertook detailed market engagement with private sector funds to finance the project. Having approached [redacted] parties at the outset, (Sept 2022) [redacted] and now has in place a preferred funding strategy and agreement. This robust market engagement helps to demonstrate that the private sector funding available is at the maximum feasible level.

	Assessment Framework Component	Recommended Evidence
		Direct provision of the scheme by the authority would require the Council to act as a developer and would require CPO as the Council is not in control of the asset. Moreover, it is unlikely that the Council would have the resources and experience required to deliver the scheme. • The developer's profit will not be inflated by the subsidy. This has been demonstrated conducting detailed financial appraisal with and without the subsidy. The subsidy merely enables the developer to deliver a redevelopment. The profit levels assumed in the development appraisal are no greater than market level in this sector and in fact lower than DLUHC guidance suggests ([redacted]). Because the future occupier and lease costs have already been agreed, there is a degree of certainty regarding the developer's profit. Moreover, the developer bears the risk of construction cost increases, which further demonstrates that the assumed profit is not above market rates. A clawback clause is being agreed between the grant funding authority and the developer ensuring that any savings thanks to cost efficiencies will be equally shared between the grant funding authority on the one hand and the developer, the land owner and the BBC on the other hand. Additionally, the scheme currently delivers an [redacted] profit on cost and the developer will incrementally return [redacted] of the grant to the grant funding authority if the scheme achieves above a [redacted] profit on cost. In the absence of the subsidy, the developer would not deliver the scheme and utilise their resources to deliver schemes elsewhere with similar profit margins. Indeed, the building has been unoccupied for 30 years and no other developer has sort to develop it – and would not do so on the basis of the above, without a subsidy. As set out above, the Council considers that a subsidy is the most appropriate instrument to address the policy objective, but it also ensures that the development is brought forward at this time when the site is within an enterprise zone and the arrangements around this have been agreed. Thus the provision of a subsidy (enabling the development to go forward) will mean that [redacted] per year in Business Rates will be generated. This reinforces the Council's view that a subsidy is the most appropriate instrument. The Council considers that the provision of the subsidy is consistent with Principle E.
Step 2	**Baseline no-subsidy scenario** (Subsidy Control Principles C & D)	• *Set out the future scenario – over both the short and the long-term – In the absence of the subsidy* The building has been vacant for more than 30 years and no other developer has sought to develop it. 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. Thus, it is unlikely that there will be a developer willing to take on the risk in the absence of public funding support. This is further elaborated on in the FBC template (see section 2.2.1)

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		In the absence of the subsidy, the redevelopment could not be delivered and the building would remain derelict in (at least) the short-medium term. The BBC, who is a suitable occupier for the building as it is willing to pay above Digbeth market rents (the BBC has agreed to pay [redacted] per sq.ft compared to the current average of £17.80 per sq.ft for office space in Digbeth), would move elsewhere within Birmingham, potentially to an area where there is no or little market failure and so the opportunity for such a lessee in an area where there is significant market failure would be lost. Without the BBC as a government backed occupier willing to pay above market rates, the viability gap increases, thus, more public funding support would be required. In the long term, the developer would have to find another occupier willing to pay well above Digbeth market rates to get to redevelopment to the same viability gap and the same level of public funding required. This seems unlikely to happen in the foreseeable future. Thus, the building would become increasingly derelict and, thus, more expensive to redevelop in the future, so the viability gap would be likely to increase leading to the building potentially remaining vacant in the long term. If the subsidy is not provided and the BBC is not attracted as an anchor tenant occupying this iconic building, the Masterplan for the area would not be delivered, there would be very limited regeneration, less new job opportunities for local residents and no Land Value Uplifts. The Council considers that the provision of the subsidy is consistent with Principles C & D.
	Additionality Assessment (Subsidy Control Principles C & D)	• *Relative to the baseline/no subsidy scenario, provide details of how the subsidy will lead to a change in the economic behaviour of the beneficiary (and therefore brings about something that would not have occurred without the subsidy) which assists with achieving the policy objective* The beneficiary is the developer who would not deliver the project if not provided with public funding support. The provision of the subsidy will result in the scheme being implemented and the outcomes set out above. Although not an economic beneficiary of the subsidy, the subsidy will result in the BBC moving to the area and thus resolve the market failure and unlock the delivery of the masterplan. The Council will receive increased levels of Business Rates, which will be reinvested to support further growth across Birmingham. • *Please provide appropriate justification if the subsidy will compensate for the costs the beneficiary would have likely funded in the absence of any subsidy such as business as usual costs.* The beneficiary (developer) would not deliver the redevelopment in the absence of funding and thus would not fund the costs in question. • *For schemes, please provide details of how it has been designed to exclude any groups of beneficiaries where it can be reasonably determined in advance that there is unlikely to be additional benefits that wouldn't have otherwise happened in the absence of the subsidy. Please provide*

	Assessment Framework Component	Recommended Evidence
		appropriate justification where it has not been possible/reasonable to identify and exclude these groups. N/A The Council considers that the provision of the subsidy is consistent with Principles C&D
Step 3	**Proportionality and Minimising Distortion** (Subsidy Control Principle B & F)	• *Demonstrate how the subsidy is proportionate and has been designed to minimise any negative effects on competition and investment within the UK whilst still allowing it to meet the policy objective. This should include details how you have considered the following subsidy characteristics (where relevant):* o *The nature of the instrument* o *The breadth of beneficiaries and the selection process* o *The size of the subsidy* o *The timespan over which the subsidy is given* o *The nature of the costs being covered* o *The performance criteria* o *Ringfencing* o *Monitoring and evaluation* <u>The nature of the instrument: Grant funding to resolve a viability gap</u> Savills have carried out detailed financial appraisal showing that there is funding gap of £14.3m preventing the redevelopment of the site without public intervention. This estimate is derived from assessing a) the commercial GDV (i.e. calculated based on the income the developers will receive taking into account an agreed rent free period of three years) which is [redacted] and b) total development costs of [redacted]. This is based on a) the rent payments [redacted] per sqft) the BBC have agreed to pay and b) the Stage 1 tendering process carried out by SDL, which takes into account the buildings structural challenges, asbestos and other pollutants, the site being a listed heritage asset, high fit out costs reflecting the BBC's requirements, the highest BREAM and EPC ratings, and the site being Net Zero during construction. Thus, the estimated funding gap is robust and public support will be limited to the amount. Further detail is provided in Appendix 14 to the FBC. The detailed viability analysis ensures that the estimated funding gap and resulting public funding support minimised distortion in the market as it enables the developer to redevelop the site without profits in excess of what market rates suggest ([redacted]). Moreover, there is currently a market failure, which means that there is neither any commercial impetus to develop the site in any event nor is there any commercial incentive to deliver the masterplan. Thus, the funding support is used to address a market

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		failure, which will enable the market to function and will provide a level playing competition in the area in the long term. <u>The breadth of beneficiaries and the selection process</u> The beneficiary is the developer (Stoford) who is enabled by the subsidy to use its productive assets. In addition, the future occupier (BBC) is enabled to move into its preferred new building. The BBC conducted a competitive site selection process during which it received 19 bids from developers offering premises (all Birmingham based). The developer and the tea factory were chosen as the preferred developers and premises. The grant application was only submitted to GBSLEP when the BBC had already selected the Tea Factory and agreed a lease deal with the developer. Thus, from GBSLEP's perspective, there was (in effect) a pre-selection process by the BBC. The Council is providing the subsidy in the context of the occupier being the BBC. The BBC will be paying above Digbeth market rates to the developer (which assists in closing the viability gap). The land owner is receiving no more than market value for the land, thus, there is no distortion . <u>The size of the subsidy</u> The subsidy is limited to the size of the currently estimated viability gap. The subsidy is limited to the viability gap so that minimises distortion as much as possible. A clawback clause is being agreed between the developer and the Council to ensure that cost efficiencies will be proportionately captured by both the beneficiary and the Council. The ratio between private and public funding is approx. 4/1, thus, £1 of public funding support is crowding in £4 in private capital. Moreover, the scheme will unlock the delivery of the masterplan, which is anticipated to attract £320 million in private capital. <u>The timespan over which the subsidy is given</u> The developer prefers to receive the subsidy for to contribute to construction costs of the early stages of the redevelopment, i.e. to be paid in full in Financial Year 2023/2024. Savills' analysis of the funding profile has concluded that full payment of the funding support in FY 2023/24 would <u>not</u> result in the Council's payments being in arrears of construction expenditure. The maximum possible timespan is FY 2023/24 – 24/25. Because the payment is made earlier, this reduces (to a small degree) the viability gap. <u>The nature of the costs being covered</u> [redacted]. 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.

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		It is considered that this option would not be achievable. The building is a heritage asset, that has been derelict for 30 years, with complex structural challenges and asbestos. 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 addition, the surrounding area requires public realm works. The costs to deliver such works, even to a lower specification would remain significant. At the same time, values in the area are lower compared to the regional average. In the current market, with a shift to more flexible working and 'flight to quality' taking place in the office market, it is expected that demand from occupiers would not support a low grade fit out in such an iconic building. As such the values achievable would not cover the costs needed. The building could be demolished and a new development delivered on the site. However, as the building is of local interest, and an important icon reflecting the history and importance of the Digbeth area, it is unlikely that this option would be supported by stakeholders or council planning policy. It is therefore considered that this option is not appropriate. Initial cost estimates for the scheme were provided by Arcadis to the developer and updated in 2023. Savills have reviewed the cost plan. Because the building has been derelict for a number of years and has some significant issues relating to its refurbishment Savills consider it is appropriate to apply the public spending to the entire building project on a proportional basis of construction spend rather than to individual cost elements. Every activity will have an element of public support attached to it. From the replacement of the weather damaged steal frame, façade refurbishment, window and roof replacement to the new PV panels on the roof. The developer has carried out a two stage competitive tender to select its contractor, thus ensuring that it is not paying greater than market for the works involved in the project. Furthermore: ▪ **Type of contract** – JCT Design and Build contract 2016 edition with bespoke amendments. This is the standard UK contract for such works. ▪ **Contract Management** – Throughout the project, SDL runs a live project risk and opportunities register. This is reviewed at two weekly meetings. The project is a key high profile project for SDL and the resource dedicated to the project reflects its importance. The project is being led by two Stoford board directors. Further details are provided in the Management case in the FBC. ▪ **Value for Money** – SDL will monitor the performance of all the professional team and the building contractor throughout the project. SDL proactively work with the team to ensure that they do not slip behind the project requirements, however if any were to fail, be it through an irresolvable performance issue, or financial default SDL would act swiftly to bring in a replacement. Further details are provided in the Management Case in the FBC. <u>The performance criteria</u>

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		They key criterion is the delivery of the project to scope and timeline. A clawback clause will be negotiated between the developer and the Council separately. More specific milestones are detailed in the FBC template in sections 5.1.2 and 5.5. <u>Ringfencing</u> The subsidy is ringfenced in so far as it is will be used for this specific scheme and is paid against eligible costs and thus will not cross subsidise the developer's other commercial activities. As noted above, the developer has undertaken competitive tendering process for all of their contractors and consultants to ensure that they are paying market rates and that the subsidy paid is not used to distort competition amongst contracts and consultants <u>Monitoring and evaluation</u> The developer will provide invoices for the amounts the subsidy will be spent on and provide monthly updates on the total amount spent to date. This will be furthered laid out once the stage 2 tender has been completed and construction cost estimates for each cost item have been firmed up. The Council considers that the provision of the subsidy is consistent with Principles B & F.
Step 4	**Balancing Exercise** (Subsidy Control Principle G)	• *Set out details of the expected benefits of the subsidy (as they relate to the specified public policy objective) and its anticipated negative effects, including in particular any negative effects on competition and investment within the UK, and international trade and investment. This should also include any geographical and distributional impacts. Justify why the negative effects are outweighed.* Savills' detailed property analysis finds that the scheme is likely to uplift property values in the surrounding area as it will unlock further developments and make conversion from industrial use to office and retail use viable, thus, crowding in further investment. However, this does not amount to a subsidy to these surrounding landowners. The scheme's Green Book compliant welfare benefits estimated in the FBC (and set out more fully in section 2.3.1 of the FBC) for the purpose of providing a robust Value for Money assessment are as follows: • Direct LVU, estimated to be approx. £-0.6m • Wider LVU, estimated to be approx. £37.0m • Labour supply impacts, estimated to be approx. £2.6m • Crime reduction impacts, estimated to be approx. £1.0m • Amenity benefits, estimated to be approx. £0.7m Moreover, the scheme will unlock the delivery of the masterplan, which will lead to further job opportunities for local residents.

Assessment Framework Component		Recommended Evidence
		The required £14.3m worth of public funding for the scheme will generate over £40m of benefits, resulting in a Benefit-Cost-Ratio of 2.85, which represents 'High' Value for Money according to the DfT's Value for Money Framework. Further details are set out in section 2.4.2 of the FBC template. The land receipt paid to the current land owner, Benacre, is in line with current land values in the area, thus, there is no subsidy to the landowner and no impact on competition. Because investment is currently prevented by depressed values due to market failure, it is not considered that the investment the scheme is likely to incentivise in reflects a market distortion but rather a market correction enabling Digbeth to benefit from the nationally significant HS2 project. This will enable Digbeth to further develop a cluster of digital and tech businesses, that could not be achieved around the BBC's current location at the Mailbox due to site constraints. As such, competition will be increased further creating a virtuous cycle in the area. Thus, the subsidy addresses a market failure and does not distort competition. Negative effects might occur on an individual level, for example, in cases where occupiers of small industrial units will be priced out of the market as use class changes to office use. However, due to the substantial voids (>10% of the total industrial floorspace), it is considered that there is enough slack in the property market to act as a buffer protecting such occupiers form being priced out. Moreover, the positive impact on Digbeth and wider Birmingham from crowded in investment and regeneration in general far outweigh adverse impacts on such individual cases. Because the BBC is not relocating from outside Birmingham, there is no displacement of investment elsewhere. Moreover, the BBC is a publicly owned broadcaster largely funded by the public rather than private income streams, and any indirect effect on competition within its market is likely to be minimal (if any), not least because the BBC itself is not receiving a subsidy and will be paying a higher than market rent for the building. The positive outcomes resulting from the subsidy are set out in full above in this analysis. In summary, the subsidy will address local market failure (as outlinedabove and in more detail in the FBC template in section B.4) and will unlock the delivery of the masterplan. The regeneration impacts kick-started by the tea factory redevelopment thus contribute to the overarching aims of local (e.g. EZIP), regional (e.g. WMCA Strategic Economic Plan), and national (e.g. Levelling Up Agenda) policy goals. This is outlined in more detail above and in the FBC template in section 1.1. Thus, any effect on competition or investment within the UK and any potential negative effects at the local level are minimal and more than offset by the benefits of the subsidy as set out above. The Council considers that the provision of the subsidy is consistent with Principle G and that the expected benefits of the subsidy outweigh any negative effects.