

Audit Committee

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Enterprise Zone and Paradise Update

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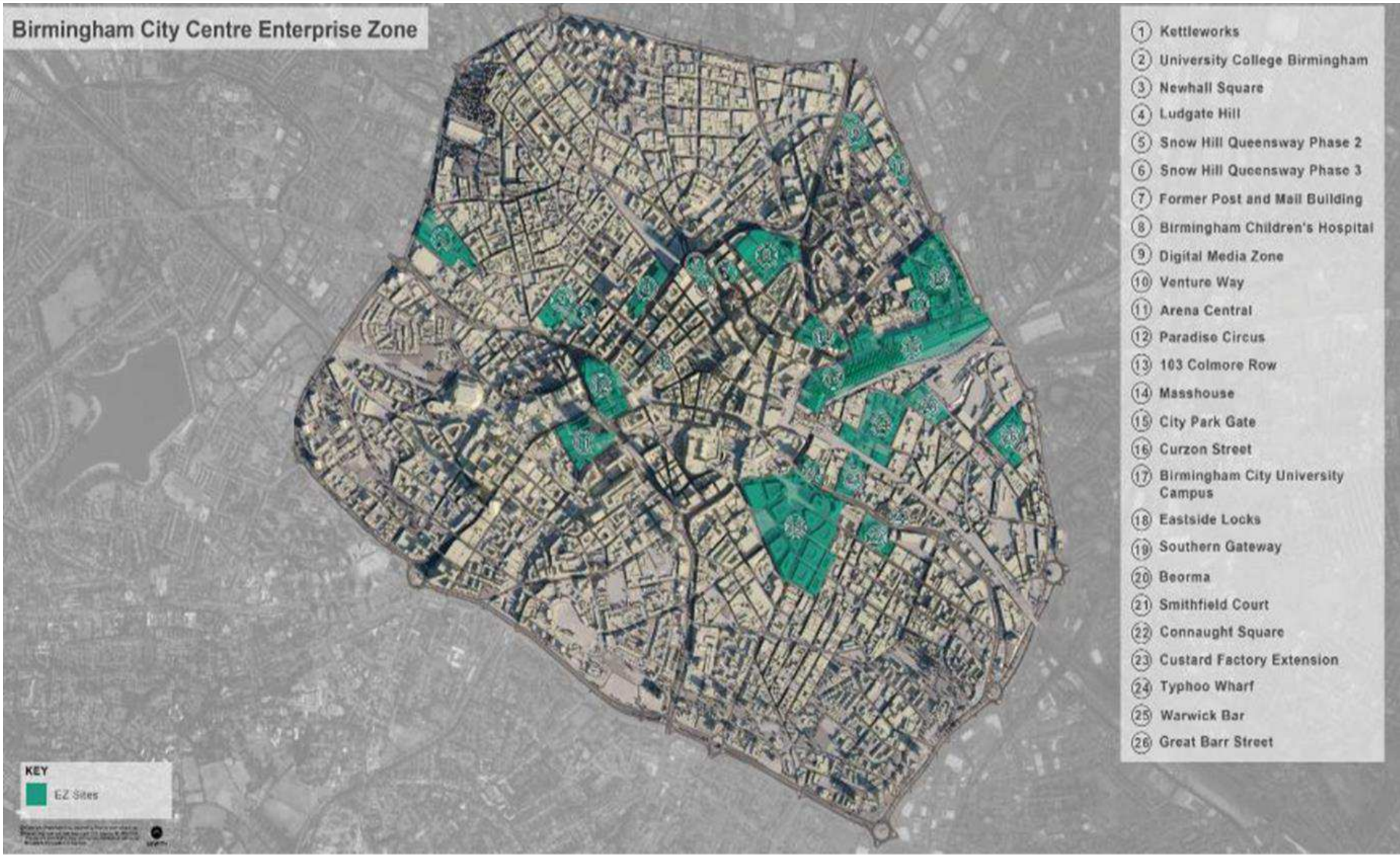
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City Centre Enterprise Zone



City Centre Enterprise Zone

- Designated April 2011.
- Largest EZ in UK - 26 sites across 70 hectares.
- Based upon sectorial strengths.
- A business rate discount worth up to £55,000 per year per occupier.
- Radically simplified planning approaches.
- Retention of business rates for 25 years – enables use of the US TIF model.
- EZ identified a variety of sites, some strong viable sites (such as 2 Snowhill) which generate good secure income which could then support unviable commercial development, such as Paradise and Smithfield.

Enterprise Zone Investment Plan

- First EZ Investment Plan in 2012 with £128m programme.
- Revised Investment Plan updated in 2014 increased programme to £275m.
- Extended again in 2015 with additional 13 sites to capture HS2 growth.
- Curzon Investment Plan launched in 2016 taking programme to £724m.
- The fundamental principle behind the Enterprise Zone was to fund infrastructure and investment to unlock business rates and drive economic growth.
- A consolidated Investment Plan for the expanded EZ is currently being prepared to cover period to 2028.

Project Aims

- Deliver a comprehensive mixed use development providing commercial, retail, amenity and possibly residential space.
- Support expansion of the Central Business District
- Major infrastructure improvements including:
 - remodelling of highway network
 - demolition of the existing library building and site wide reconfiguration
 - significant improvements to the public realm
- Relocation of Birmingham City University and Conservatoire.

Project Outcomes

- The project will deliver approximately 2 million sq ft of new development comprising of :
- Up to ten new Grade A office buildings (BREEAM Excellent as minimum standard with the opportunity to achieve BREEAM Outstanding).
- 4* hotel with up to 250 bedrooms.
- Lower level shops, bars, cafes and restaurants.
- Up to 550 car parking spaces.

Strategic Benefits

- One of the largest opportunities in Birmingham regenerating a strategic site in the City Centre.
- The scheme will support the continued economic growth and prosperity of the City and will make significant enhancements to the overall environmental quality and pedestrian connectivity of the surrounding area.
- Connecting the Colmore Business District to the business area of Westside.
- Further strengthening Birmingham's offer and competitiveness as a premier UK business destination.
- The Gross Development Value of the scheme is forecasted to be £750m.
- Original business rates forecast of £315.5m
- Creation of up to 10,000 new jobs in the City.

GBSLEP Investment Approval 2013/14

- Overall capital investments by the GBSLEP into the project of £87.8m with an indicative allocation across phases as follows:

Phase 1 £37.7m

Phase 2 £28.0m

Phase 3 £22.1m

- The capital investment will fund demolition of existing buildings including central library and major alterations to the highways and utilities infrastructure.
- It does not fund land assembly activities and building construction.

TIMELINE 2009 - 2014

TIMELINE 2009-2014

2009		2012		2013	2014
April	November	July	July	October	June
<p>EXCLUSIVITY AGREEMENT signed between Argent and Birmingham City Council</p>	<p>Central Library immunity from listing</p>	<p>Outline Planning application submitted</p>	<p>GBSLEP FUNDING announced for enabling and infrastructure works</p>	<p>OUTLINE PLANNING PERMISSION GRANTED</p>	<p>JV APPROVED PCLP</p>
	<p>Pre-Development public consultation</p>				<p>Carillion announced as contractor for first phase on infrastructure works</p>
					
		<p><i>Masterplan granted outline planning in 2012</i></p>			



TIMELINE 2015 - 2016

TIMELINE 2015-2016



TIMELINE 2017 - 2020



TIMELINE 2017-2020

2017				2018			2019	2020
February	December	December	December	January	March	November	Q1-Q4	Q1-Q4
<p>BAM APPOINTED AS MAIN CONTRACTOR for Two Chamberlain Square</p> 	<p>PwC COMMITS to remaining commercial space in One Chamberlain Square</p> 	<p>ONE CHAMBERLAIN SQUARE TOPS OUT</p> 	<p>Planning application for One Centenary Way submitted</p> 	<p>Carillion administration stops work on One Chamberlain Square</p> 	<p>PLANNING PERMISSION GRANTED for One Centenary Way</p>	<p>PHASE TWO COMMENCES ONE CENTENARY WAY WORKS COMMENCE</p> 	<p>PHASE TWO Demolition and construction of foundations and podium - Q1 2019 Completion: Q4 2019</p>	<p>HOTEL - PHASE 2 Construction Start: Q1 2020 Completion: Q4 2021</p> 

Phase 1 Delivery to date:

- **Major alterations to the inner ring road**, which facilitated the removal of traffic that was previously routed through the middle of the site to the perimeter of the site. The works also required **major changes to the utility infrastructure in and around the site**.
- The **demolition of the Central Library, Birmingham City University Conservatoire, Chamberlain House and the Link Building**, facilitating phase 1, 2 & 3.
- The **site wide infrastructure** to support the first two buildings which includes the **refurbishment of Chamberlain Square, reinstatement of Congreve Street, the opening up of Centenary Way and refurbishment of Paradise Street**.
- The basement **car park** for the scheme occupier delivering up to **330 spaces**.
- A **temporary service yard** to service the offices and **public realm**.
- **Public realm** and event space in the newly refurbished **Chamberlain Square**.

Phase 1 Delivery to date continued

These site wide works have enabled the delivery of:

- One Chamberlain Square – 172,000 sq ft office building including retail/restaurants on the ground floor.
- Two Chamberlain Square – 183,000 sq ft office building including retail/restaurants on the ground floor.
- PWC are to occupy 150,000 sq ft of One Chamberlain Square and discussions with two potential occupiers for Two Chamberlain Square are underway.
- Phase 1 will deliver £162m in business rates.

Phasing

PHASE ONE

One Chamberlain Square

150,000 sq ft let to PwC

22,000 sq ft retail & leisure

Two Chamberlain Square

183,000 sq ft

PHASE TWO

One Centenary Way

280,000 sq ft

Three Chamberlain Square

100,000 sq ft - 140,000 sq ft

Hotel: One Ratcliff Square

4* 250 bedroom

PHASE THREE

Two Congreve Square

150,000 sq ft - 250,000 sq ft

Three Congreve Square

120,000 sq ft - 175,000 sq ft

Pavilion, Centenary Way

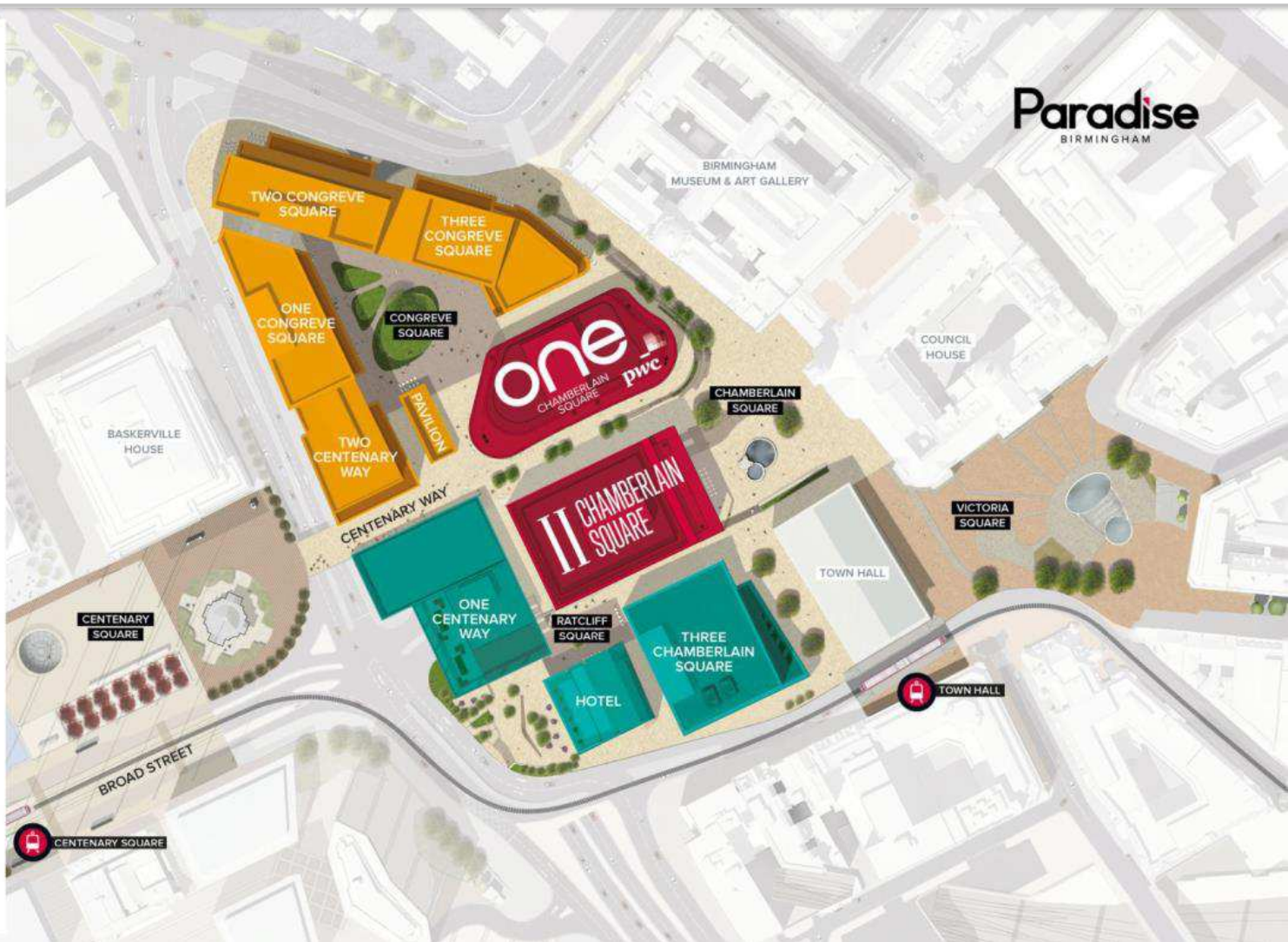
1,500 sq ft - 3,100 sq ft

Two Centenary Way

90,000 sq ft - 105,000 sq ft

One Congreve Square

100,000 sq ft - 165,000 sq ft



Development & Market Challenges

- Grade A Office rents have not increased since 2010.
- Construction inflation has been double market forecasts.
- As the project moved into delivery stage, it became apparent additional scope items, design development, inflation, programming, highway related infrastructure, demolition and remediation costs would require substantially more infrastructure investment than the original LEP contribution of £37.7m planned.

Mitigations

- A value engineering cost efficiency programme within PCLP resulted in a saving of £2m in partnership costs.
- Working capital interest rate reduced from 6.5% to 5%.
- Car Park to be sold early in Phase 2 raising capital to improve the cash flow reducing interest cost.

Phase 1 Cost Increase

Increased infrastructure costs alongside bringing forward demolition and infrastructure costs from Phase 2 & 3, have been met by spending almost all the £66.8m monies allocated to phases 1 and 2.

This decision to spend Phase 1 and 2 allocations on Phase 1 only was not communicated widely within BCC or to the LEP. The additional £29.105m spend is summarised below;

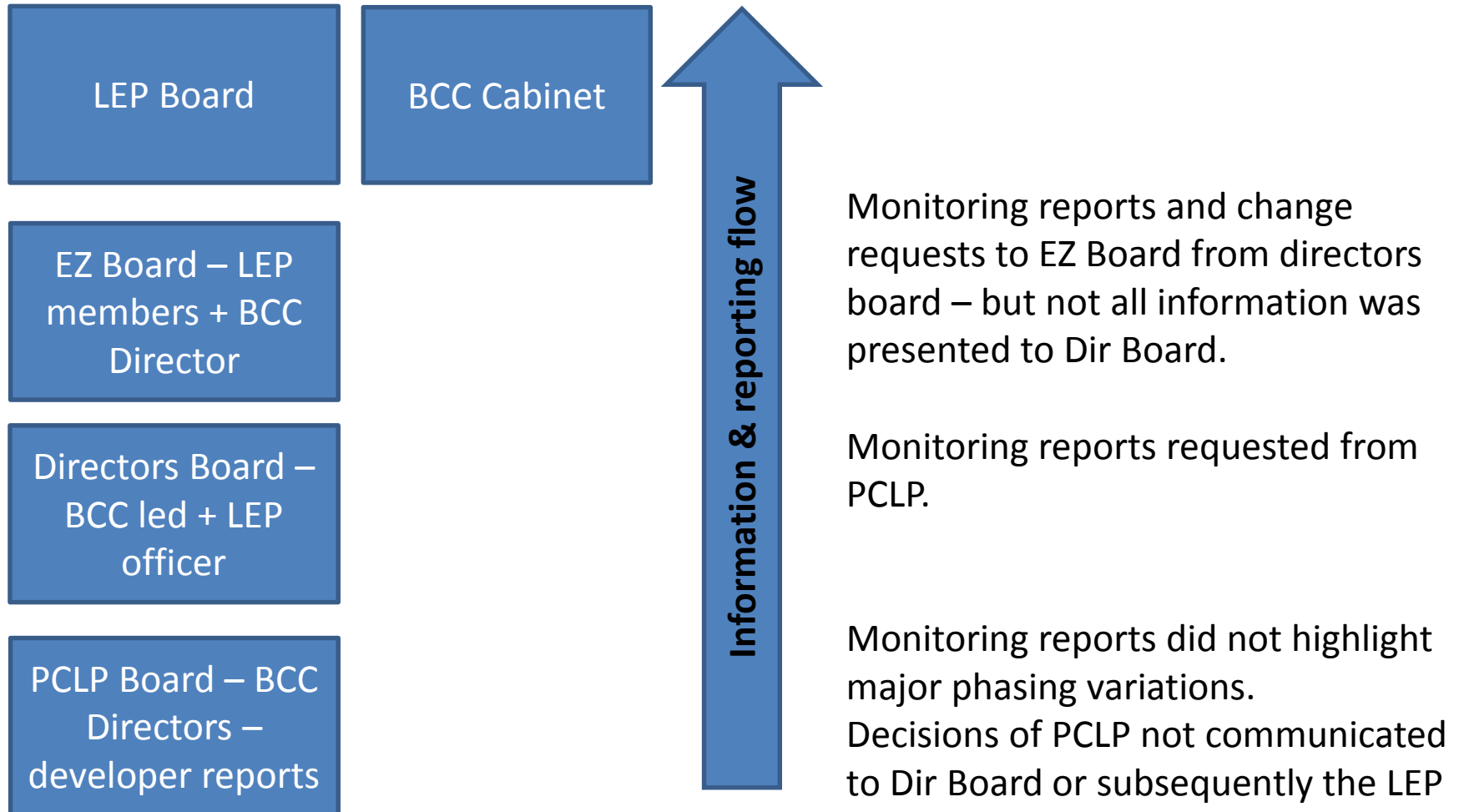
- Design Development £1.280m.
- Programme £1.330m.
- Inflation £4.300m.
- Scope extension £3.290m.
- Carillion liquidation £2.250m (part provision settlement).
- Highway & Infrastructure, demolition and remediation £16.655m

Key Issues & Lessons Learnt

- BCC should have had an internal Project Manager structure to ensure coordination and communication across all internal departments and regular meetings chaired by a Director with authority to make decisions.
- Scope and cost increases were most likely reported and approved by the PCLP including BCC directors, but this information was not disseminated within BCC or to the LEP. The apparent lack of these has resulted in parts of BCC and the LEP being unsighted on major cost changes.
- Some of the development challenges the project has experienced were not foreseen earlier by BCC. For example, an Asset Protection Agreement being requested in November 2014 – 2 weeks prior to signing the construction contract and the reconstruction of a major plant room that serves the dual carriageway tunnel.
- The original business case should have been a compliant HM Treasury Green Book Appraisal in line with best practice.
- The EZ programme management has not been sufficiently or consistently resourced to manage such a range and large set of complex projects.

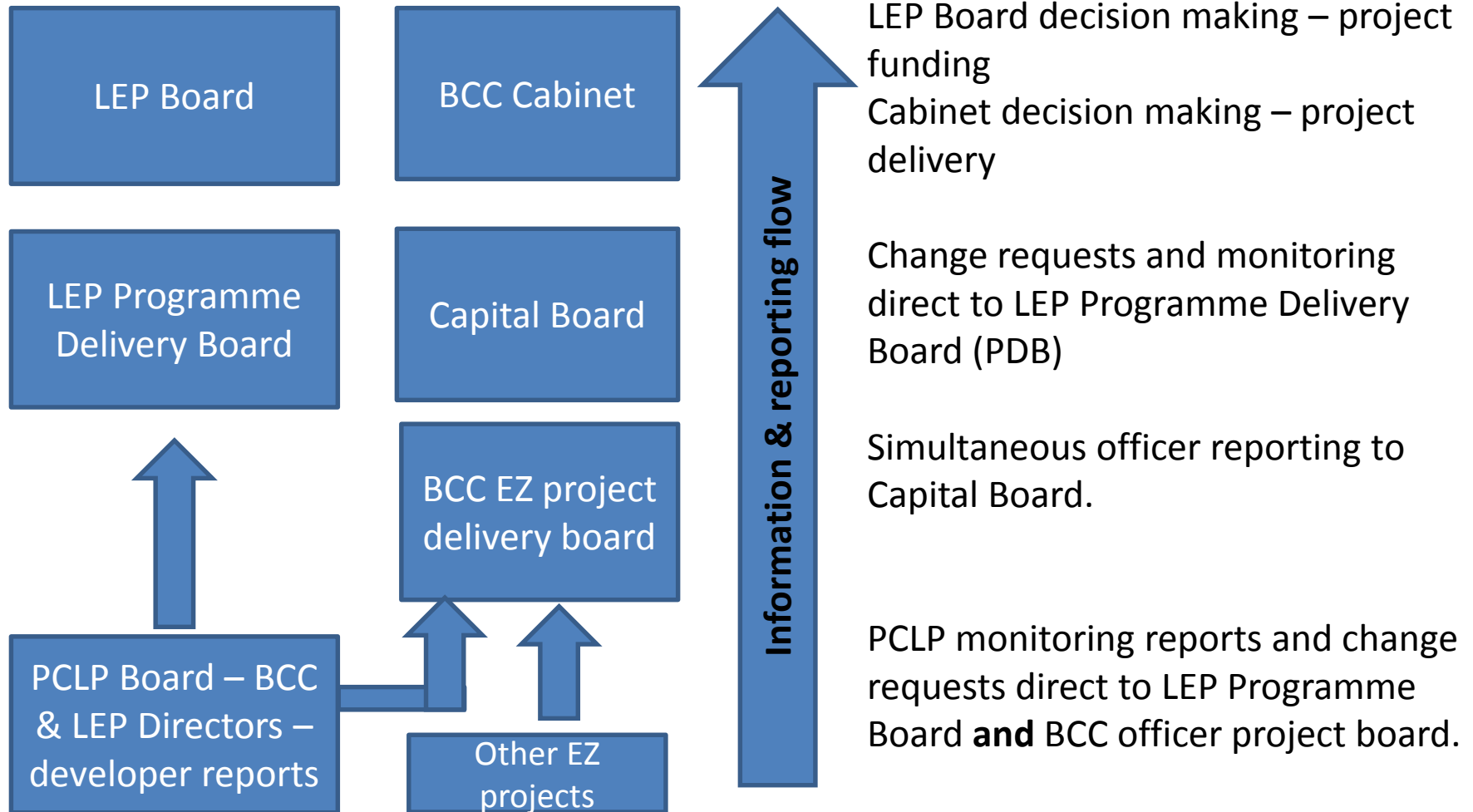
Governance Changes

Project governance to Summer 2018



Governance Changes

Project governance from Summer 2018



Phase 2 - Additional Funding Request

- To complete the Phase 2 delivery, PCLP have requested additional funding of £49.5m. This would support the following;
- £2.3m - balance of Carillon liquidation claim.
- £17.2m - CPO cost of the hotel freehold which also clears the Phase 3 area for development.
- £30m - infrastructure capital;
 - i. Below podium and service tunnel infrastructure works - £20.8m.
 - ii. Public realm works - £9.2m. This includes the new southern public square (Ratcliff Square), landscape works on Easy Row, works to the west of Town Hall and to the north of Paradise Street.

Phase 2 Deliverables

- **One Centenary Way**, c 282,000 sq ft (NIA) offices led building with food/retail ground floor uses. To be built speculatively by Hermes to commence at the end of 2018 with financial commitment from Hermes of £130m. This generates £115m to the LEP in business rates.
- The 4* replacement to the Copthorne Hotel with c250 rooms including a Sky Bar – upon completion of the new hotel the existing hotel can be demolished which clears the Phase 3 area for development.
- PCLP will serve notice on the Copthorne Hotel to acquire their current site building and this then triggers the Copthorne ability to call for the new hotel which will be funded by the Copthorne, delivered by PCLP.
- Three Chamberlain Square is a 120,000 – 140,000 sq ft (NIA) office led building. This building is forecast to commence in 2022 provided demand secured.

Business Case Review

- HM Treasury Green Book compliant Business Case written with assistance from KPMG.
- Independent review of business case commissioned by the LEP.
- Modelling results suggest business rates have a positive return for the LEP.
- New overage terms offered by PCLP and the developer Hermes – to be part of VFM detailed study.

Phase 3

- There is no funding request for Phase 3 as there is currently no business case or appraisal which identifies the need for funding. It is hoped that the site plots will generate sufficient value to fund the infrastructure. A recommended future strategy for Phase 3 will be presented at the appropriate/relevant time.

Conclusion

- Note the background and challenges of the project and lessons learned.
- A HM Treasury Green Book compliant Business Case has been written with assistance from KPMG and is being independently assessed.
- Business case and independent report will be presented to the funders, GBSLEP in January 2019.
- The EZ Investment Plan 2018 will be presented to the GBSLEP Board in January 2019 and subsequently to Cabinet.