

## GLLEP Investment Board Agenda and Papers

## Paper 0

Date and Time: Thursday, 21<sup>st</sup> July 2016

Venue: William the Conqueror Room, Lincoln Castle (Prison Building)

Item No	Item and Brief Description	Lead	Additional Information
1	<b>Welcome and Introductions</b> <ul style="list-style-type: none"> <li>Apologies for Absence and Declarations of Interest</li> <li>Matters arising</li> </ul>	Chair - Ursula Lidbetter  Ruth Carver	
2	<b>Growth Deal Update Report</b> <ul style="list-style-type: none"> <li>Growth Deal Programme Progress Report</li> </ul>	Halina Davies	Verbal Update
3	<b>Lincoln Transport Hub</b> <ul style="list-style-type: none"> <li>Due Diligence Summary Report</li> </ul>	Halina Davies	Paper 1 (attached) – for decision Paper 1.1 (attached) – for information
4	<b>Boston Quadrant (Unlocking Rural Housing Programme)</b> <ul style="list-style-type: none"> <li>Due Diligence Summary Report</li> </ul>	Cathy Jones/ Halina Davies	Paper 2 (attached) – for decision Paper 2.1 (attached) – for information
5	<b>Northern Junction Roundabout</b> <ul style="list-style-type: none"> <li>Due Diligence Summary Report</li> </ul>	Halina Davies	Paper 3 (attached) – for decision Paper 3 (attached) – for information
6	<b>Any Other Business</b>	All	

**Additional Papers:** There is a large additional papers pack which contains drawings and maps. These will be made available on the day.

**Confirmed Attendees:** Ursula Lidbetter – Chair, Cllr Colin Davie, Cllr Dave Watson, Baroness Liz Redfern, Chris Baron, Herman Kok, Mark Tinsley, Richard Wills

**Accountable Body:** Justin Brown

**Officers:** Ruth Carver, Halina Davies, Cathy Jones, Pete Holmes

**Apologies:**

**Recommendation: A Paper for Decision**

A decision for approval to proceed to contracting on the Lincoln Transport Hub scheme subject to DFT Ministerial approval of the project is required from Investment Board.

DFT Webtag Appraisal

The full business case for the Lincoln Transport Hub scheme was submitted to DFT on the 6<sup>th</sup> June 2016. The DFT appraisal process is well underway and a ministerial decision on whether or not the scheme will be supported is expected in late July. The business case includes strategic, economic, financial, commercial and managerial details and will be subject to rigorous analysis.

Lincoln Transport Hub – GLLEP Due Diligence Requirement

The DFT business case has also been subject to a green book due diligence appraisal by external appraisers on behalf Greater Lincolnshire LE, to ensure value for money and SLGF compliance.

This pipeline project has been provisionally allocated £11m of retained DFT funding and £2m of Greater Lincolnshire LEs Growth Deal funding, however the release of the DFT element to Greater Lincolnshire LE is dependent on the final Ministerial decision.

The scheme is forecast to spend £9.5m of growth deal in 2016/17 and is expected to start on site mid-August 2016 providing all necessary approvals and contractual agreements are in place.

The scheme had to be redesigned towards the end of 2015 when a new railway bridge design proposal from Network Rail made the existing scheme undeliverable. A new proposal was presented to and endorsed by Investment Board in March 2016 and it is this project that has formed the basis of the final full business case.

The Project

The main purpose of the Lincoln Transport Hub is to provide an integrated and improved transport hub that would enable both the bus and railway stations cope with increased passenger numbers and open up the possibility of more services in the future. In addition, the Lincoln Transport Hub will provide a welcoming gateway access to the city with associated public realm improvements and will help kick-start regeneration and economic growth in what is a deprived part of the historic city. There are a number of existing problems which the Lincoln Transport Hub is seeking to address, these are listed below.

- Sub-standard, old, poorly designed bus station;
- Low bus mode share / bus patronage;
- Poor interchange (including infrastructure quality, legibility) between the bus station and railway station, and access from these into the city;

- Severance, poor accessibility and permeability across the railway line / railway station;
- Low quality urban realm;
- Poor safety / high accident record;
- Fragmented city centre parking system;
- Under-performing economy;
- Low levels of investment, poor quality retail offering, low quality office space in this part of the city;
- Poor sustainable travel provision;
- Deprivation; and
- Poor environment.

A 'do nothing' option constrains not only the transport and accessibility opportunities within the City but also other aspects of the Lincoln Growth Strategy. It is clear that a failure to implement the Lincoln Transport Hub will constrain the City's economic potential, and would not provide the impetus to regenerate the town nor facilitate the urban realm and transport accessibility, permeability connectivity improvements. If left unaddressed or subject to ongoing minor improvements and maintenance, bus mode share is likely to remain low, and retail and commercial activity is likely to decline further in this area of the City.

The scheme has identified a number of objectives and these are as follows:

- Assist the sustainable economic growth of Lincolnshire, and the wider region, through improvements to the transport network.
- Create a fit-for-purpose transportation hub, which will enable affordable transportation options to be further developed and increased, responding to the needs of Lincoln residents ;
- Provide a positive and welcoming experience for visitors into the city allowing easier accessibility in and around the city centre, including the historic Uphill area of the city supporting the city's tourism sector;
- Provide a crucial link, including walkways and cycle paths, into the city centre for people living in the surrounding residential area who currently feel disconnected from the city and its commercial and retail facilities;
- Successfully connect road, rail and pedestrian links within the heart of the city contributing directly to future economic growth.
- Improve access to employment and key services by widening travel choices, especially for those without access to a car.
- Make travel for all modes safer and, in particular, reduce the number and severity of road casualties.
- Maintain the transport system to standards which allow safe and efficient movement of people and goods.
- Protect and enhance the built and natural environment of the county by reducing the adverse impacts of traffic.
- Improve the quality of public spaces for residents, workers and visitors by creating a safe, attractive and accessible environment.
- Improve the quality of life and health of residents and visitors by encouraging active travel and tackling air quality and noise problems.
- Minimise carbon emissions from transport across the county.



### Funding

A fixed sum of **£11m** is being sought from the Department for Transport (DfT) Local Growth Fund, which represents over 35% of the scheme outturn costs. **£2m** funding from Single Local Growth Fund contributions held by the Greater Lincolnshire LEP is also to be allocated, providing DfT funding is forthcoming. An allocation of **£225k** of National Station Improvement Programme (NSIP) funding via Network Rail has been agreed in principle. The remaining balance of **£15.775m** of the scheme outturn costs will be provided by the City of Lincoln Council and other third party funding sources still being progressed.

The estimated cost of the scheme is **£29m** at outturn prices.

Scheme Element	Total Cost (£)
MSCP	15,096,000
Bus Station	5,446,000
Station forecourt and new Network Rail car park access	540,000
Temporary Bus Station & resurfacing after operations ceased	489,000
Highways / Public Realm works including soft landscaping and alternative temporary access arrangements during construction	3,835,000
Archaeology, surveys, investigations & water attenuation	619,000
Willmott Dixon PCA / SCAPE/Planning & Building Regulations	473,000
Services Diversions, Drainage Infrastructure and Services Upgrades	964,000
Contingency / Design & Price Risk	1,538,000

<b>Total</b>	<b>£29,000,000</b>
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#### Outputs and Outcomes

Outputs	2016/17	2017/18	2018/19	2019/20	2020/21	Later Years	Total
Housing Units			9				
Jobs Created/Safeguarded		102	10	247	96		455
Public/Private Sector Match	3	5	8				16
Commercial Floorspace Sqm		2508			2137		4,645
Businesses Created	1	1	2	1			5
Outcomes	2016/17	2017/18	2018/19	2019/20	2020/21	Later Years	Total
Construction jobs	168	276	22				466
Land Reclaimed/ Serviced Ha		7.74					7.74
Indirect Jobs		102		182			284
Indirect commercial Floorspace Sqm				1,050			1,050
Indirect Housing Units			5	5			10
Indirect Private Sector Leverage £m			1	1	1		3

#### Conditions Arising from Due Diligence

The offer of £2m growth deal funding and £11m DFT retained funding is recommended subject to the following conditions;

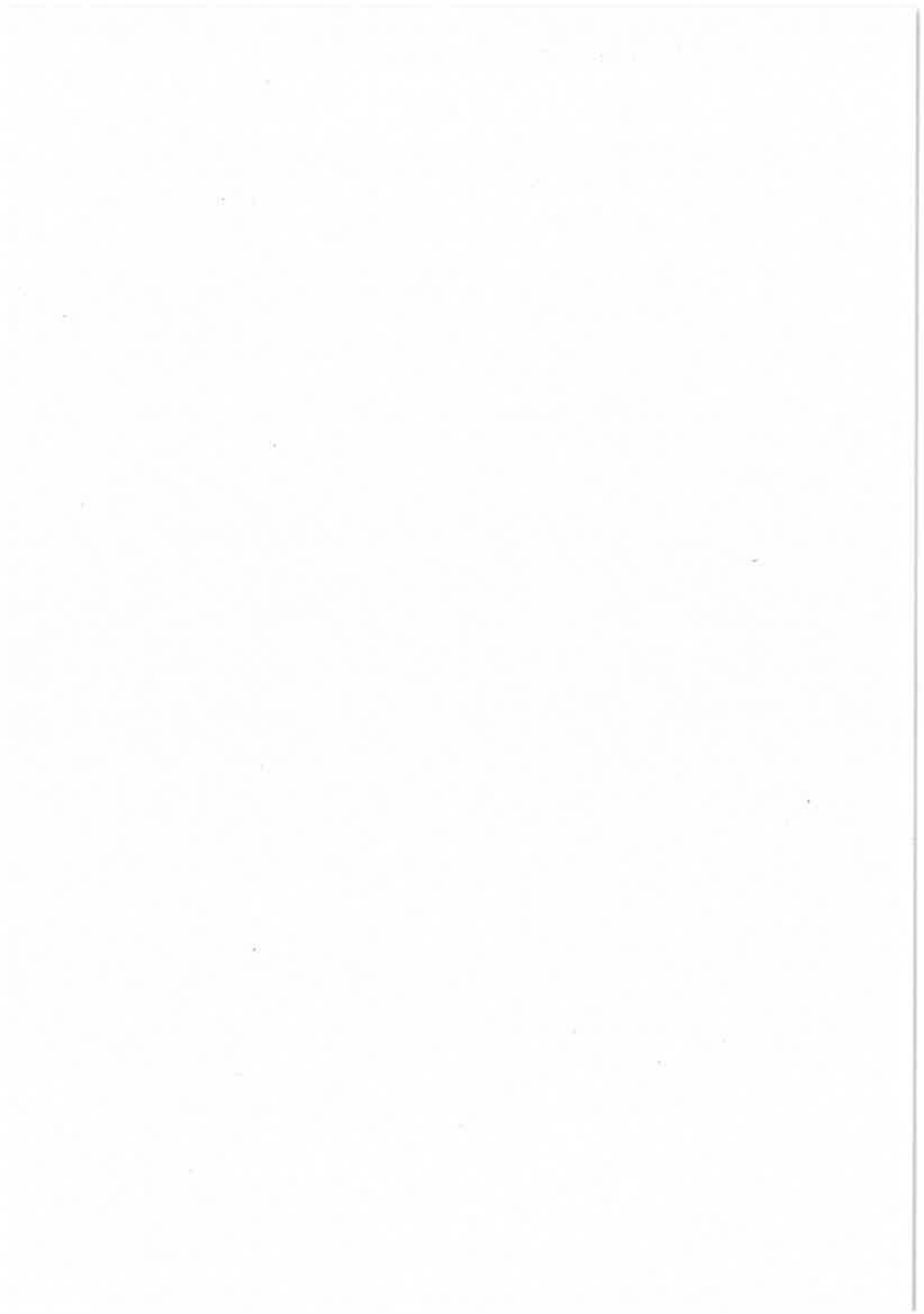
- i. SLGF be invested in the Local Infrastructure elements of this project only, with no investment to be permitted within the MSCP.
- ii. CoLC provide regular updates in respect of the necessity to implement the CPO in order to fully assemble/extinguish any third party interest in the scheme and to advise of any material changes to an overall programme for delivery of the scheme as proposed.
- iii. CoLC to provide updates in respect of the ongoing negotiations with LCL in relation to the development agreement and obligations in respect of scheme delivery.
- iv. Updated and final cost schedules and spreadsheets to be provided for all elements of the project with the inconsistencies between such documents addressed. This is required to confirm a breakdown of funding required for each element of the project.
- v. A profile for drawdown of SLGF funding and confirmation that £9.5 million can be drawn down in 2016/17, excluding any investment in the MSCP.
- vi. Drawdown of grant against the public works (excluding the MSCP) is supported by a certified valuation confirming expenditure for the period against which SLGF is sought. Thornton Firkin or whoever is

appointed as project manager to certify expenditure on the project is to be required to owe a duty of care to GLLEP in order to verify project expenditure, given that a detailed assessment of costs has not been undertaken.

- vii. An updated programme for delivery of the scheme and outputs to be provided.
- viii. CoLC to be obligated to monitor and assess the position in relation to State Aid, confirming compliance with regulations in drawing down SLGF. CoLC also to undertake assessment in relation to any necessity to impose clawback provisions where necessary, in terms of any party which received selective advantage through investment of the SLGF. Where contributions are received towards the scheme from any parties deemed to be benefitting from selective advantage, or where any clawback provisions are triggered, GLLEP to be entitled to a share in clawback if such an entitlement arises.
- ix. Standard clawback provisions also to apply in terms of disposal of any asset within the project funded by SLGF and in the event of non-delivery of outputs.

#### Recommendation

It is therefore recommended that £2m of SLGF be approved by the Investment Board and that the project can proceed to contracting providing the £11m of retained DFT contribution receives Ministerial sign off.







**Greater Lincolnshire Local Enterprise Partnership**

**Due Diligence Assessment**

**In Respect of**

**Single Local Growth Fund**

**For**

**Lincoln Transport Hub, Lincoln**

**14<sup>th</sup> July 2016**

**Paper 1.1**

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## **APPENDICES**

I	LOCATION PLAN
II	SCHEME PLANS
III	WYG COST APPRAISAL

## 1.0 Project Summary

### Background

- 1.1 City of Lincoln Council (CoLC) submitted a Full Business Case Application to GLLEP in June 2016 seeking Single Local Growth Fund (SLGF) of £13 million to support delivery of the first phase of construction of the Lincoln Transport Hub. The Transport Hub is the major redevelopment and regeneration project in central Lincoln and a key component of the growth strategy for the city. Ultimately the scheme is designed to create a fully integrated, accessible and welcoming city centre, safeguarding the future of the High Street.
- 1.2 Phase 1 of the project is a £29 million development, which is to deliver a new multi-storey car park (MSCP), bus station and improvements to highways network and public realm. As a major project, the scale and remit of the scheme also requires other significant upfront investment in infrastructure in order to accommodate the development. In this respect, funding is also being sought from CoLC and other third parties in order to meet the balance of phase 1 costs at, £16 million.
- 1.3 The delivery of the Hub is required to address existing major deficiencies in public transport services, congestion within the existing highways network and poor quality environment. As a significantly enhanced transport interchange, The Hub is also designed to unlock major new commercial, retail, leisure and residential developments planned within the city and increase the city centre's attractiveness for investment.

### The Site

- 1.4 The project is located in the heart of the city, bounded on the south by the railway station, to the east by Melville Street and Pelham Bridge and on the north by St Mary's Street, Norman Street and the existing Lincoln City Bus Station. To the west of the site is High Street and Sincil Street.
- 1.5 *A location plan is contained in Appendix I*
- 1.6 The phase 1 scheme is situated to the north of the Lincoln Central railway station, incorporating Melville Street, Oxford Street, Norman Street, Sincil Street and St Mary's Street. Present use of the land consists of the existing bus station and rooftop car park, railway station forecourt and concourse, retail and office uses, surrounding highways network and limited public realm.
- 1.7 As a large scale complex site, subject to a myriad of uses, occupiers and landowners, it is recognised that there could be existing legal interests which could delay delivery of the project. We understand however; that the majority of land is in the ownership/control of CoLC, Lincolnshire County Council as Highways Authority and the Lincolnshire Co-operative Society Limited. Each party has agreed to vest their landholdings into the project and is formally secured by way of a development agreement for the delivery of the phase 1 works. This is detailed within later sections of this report.

- 1.8 In order to ensure that there are no currently unknown existing third party legal interests/rights that could delay delivery of the scheme, as a safeguarding measure a compulsory purchase order (CPO) is to be sought as a means to extinguish any such interests. It is therefore recommended as a condition of funding that updates are provided in terms of progress with the CPO to ensure that there are no issues which could prevent delivery of the scheme or would materially impact on timescales for delivery.

### The Project

- 1.9 The Transport Hub has evolved over several years, with significant ongoing feasibility and negotiations between the principal landowners, being CoLC and Lincolnshire Cooperative Limited (LCL). A first legal agreement was agreed between the parties in April 2011 setting out the purchase terms for various plots of land and buildings, along with surrender of a number of existing leases. In essence the 2011 agreement contained the following main provisions;
- The right for LCL to buy out land restrictions.
  - CoLC to surrender the bus station, roof top car park and other leases.
  - The re-provision by LCL of a 300 space replacement car park.
  - Contribution by LCL of £839,900 towards the cost of a new footbridge over the railway.
  - Options to purchase other properties.
- 1.10 In accordance with the above agreement, LCL secured outline planning permission for the shopping centre development at Lindongate along with other properties within their ownership.
- 1.11 The subsequent ongoing feasibility and analysis of the Lindongate proposals ascertained that the scheme as proposed under the 2011 agreement was not viable and therefore stalled.
- 1.12 CoLC and LCL therefore collaborated further in seeking to identify means to address viability issues and in 2014, CoLC secured indicative support for SLGF grant of £11 million with match funding of £11.3 million. This funding was secured to deliver the new bus station, improvements to the railway station concourse and associated highway works. The construction of the MSCP is excluded from the SLGF funding and is therefore not subject to detailed appraisal within this due diligence
- 1.13 Further analysis of this scheme resulted in some changes in relation to delivery of specific elements along with the necessity to develop the Transport Hub over two phases.
- 1.14 It has also necessitated new arrangements which will need to be agreed by a variation to the 2011 agreement between the two parties, which at this time we understand remain under negotiation, although are anticipated to be finalised shortly.
- 1.15 The variation to the 2011 agreement is summarised as follows;
- LCL to pay CoLC £589,900 by way of contribution towards public realm works.

- LCL to agree with CoLC to carry out public realm improvements in the Cornhill area with an approximate value of £250,000.
  - CoLC will procure the construction of the new bus station, associated highway and public realm works.
  - LCL will transfer freehold land to CoLC to facilitate the new bus station, associated highway and public realm works.
  - CoLC will procure the construction of the MSCP, associated highway and public realm works.
  - LCL will transfer freehold land to CoLC to facilitate the MSCP, associated highway and public realm works.
  - Immediately prior to the transfers of the bus station and MSCP sites, the existing leases in respect of the existing bus station, roof top car park and Oxford Hall car park will be surrendered by CoLC to LCL.
  - CoLC to transfer the freehold of a block of retail premises at Sincil Street to LCL.
  - CoLC to transfer the freehold of properties on St. Marys Street to LCL. It is noted the existing option agreement between LCL and CoLC will not be exercised.
  - CoLC to transfer a small piece of former highway land to LCL to enable construction of a building known as Block A Mixed Use Scheme to be constructed on LCL land.
- 1.16 The analysis of the variations to the proposed scheme has resulted in an increase in costs to £29 million, in part which has been sought to be met by an increase in SLGF from £11 million to £13 million.
- 1.17 Negotiations between CoLC and LCL, along with completion of feasibility and State Aid advice, is anticipated to be completed imminently. Notwithstanding impending completion of these matters, there could be variations in terms agreed between the parties through negotiations or State Aid issues or amendment to the project due to findings within the feasibility studies.
- 1.18 It is therefore recommended that any material changes to the terms agreed between parties, which impact through changes to the project, are notified to GLLEP accordingly.
- 1.19 Key elements of the phase 1 works, for which SLGF funding of £13 million is sought are summarised as follows;
- A new 14 stand bus station situated on St Mary's Street, opposite the railway station. A range of facilities will be provided within the bus station, including café, driver facilities, admin/office areas and other public facilities.
  - Works to improve the railway station forecourt, cycle docking stations, taxi bays and enhanced public realm.
  - Improved access arrangements to the railway station and parking areas.
  - New retail unit with nine residential units proposed above.
  - Improvements to the highway along St Mary's Street, incorporating traffic calming measures, cycle lanes, safe pedestrian crossing and a new public space outside the main railway station entrance leading to the new bus station and the city centre.

- 1.20 The above works are therefore crucial for the overall delivery of the transport interchange aspect of the project and required to meet Transport, Government and GLLEP objectives for Lincoln, which are as follows:

**Objective 1:** Necessary to support delivery of sustainable economic growth within the Lincoln Policy area through the provision of reliable and efficient transport infrastructure. The broad range of uses within the transport hub will ultimately provide a wide range of jobs at different social levels, assisting in improving in general prosperity of local residents and wider community.

**Objective 2:** To increase public transport usage by improving reliability, frequency, journey time and integration of bus and rail services. The Hub is designed to encourage modal interchange and uptake of transport modes. Greater uptake of passengers should in turn lead to increased service frequency.

**Objective 3:** To encourage the use of alternative/sustainable modes through provision of new pedestrian and cycle infrastructure, including provision of improved public realm, footways and cycle infrastructure to aid uptake of these modes.

**Objective 4:** To support the city's parking strategy and enhance the role of parking as a safe, efficient and integration transport mode. The provision of a new and modern MSCP as part of the Hub will provide a net increase in car parking spaces, replacing poor quality fragmented facilities with a new MSCP being in close proximity to the city centre.

**Objective 5:** To support improvements in the quality of life, attractiveness and liveability of central Lincoln for residents, workers and visitors by creating a safe and accessible environment. The provision and delivery of additional development opportunities should also add to the ability for a greater number of people to come and live, work and spend leisure time in the city centre.

**Objective 6:** To improve the health of residents and visitors by encouraging active travel and tackling air quality and noise problems within the Lincoln Policy area.

**Objective 7:** To decrease the number and severity of road traffic accidents by reducing the potential for conflict between different modes of transport and improving facilities for convenient and safe alternatives.

- 1.21 The above objectives will also be supported by the Transport Hub scheme unlocking other development opportunities in close proximity to the Hub. Specifically sites benefitting from the Hub are Lincolnshire Cooperatives proposals along St. Marys Street for commercial and residential space and the Cornhill Quarter which commenced on site earlier in the Spring, delivering 2,508 sq.m. of retail space in Phase 1 and a further 2,136 sq.m. in phase 2.

#### Planning

- 1.22 Following significant feasibility being completed including, archaeology, ecology, flood risk, air quality, noise and vibration and infrastructure assessments, outline planning permission was secured for the Lincoln Transport Hub in 2012 as part of the wider Lindongate proposals.

- 1.23 Full planning permission specifically for the Transport Hub was approved by CoLC in October 2015. A revised planning application however was submitted to reflect the two phase approach to scheme delivery and was approved by CoLC in June 2016.
- 1.24 We understand from CoLC there are a number of conditions remaining to be satisfied prior to the formal construction of the Hub and associated works being able to commence. From our review of the planning documentation, we are of the view that these conditions are standard and typical and would ordinarily be associated with a scheme of this scale and magnitude.
- 1.25 It is also noted that the commencement of works on site will enable the discharge of some of these planning conditions, particularly in relation to the final element of archaeological investigation works.

#### Procurement

- 1.26 Construction of the scheme has been procured by CoLC utilising the Scape Framework. Wilmott Dixon have been appointed as the design and build contractor with Thornton Firkin appointed as project manager, also from the Scape Framework. The procurement process utilised was subject to detailed scrutiny and analysis to ensure that the process was EU compliant, in accordance with regulatory requirements of the various funding partners and appropriate in context with delivery requirements and programme established for constructing the scheme.

#### Programme

- 1.27 A detailed and final construction programme is to be prepared and agreed with Wilmott Dixon. The programme will be prepared against key millstone dates set by CoLC and partners, which are identified as follows:
- May 2016 – Planning permission secured
  - June 2016 – Submission of DfT and GLLEP Business Case
  - June 2016 – Closure of Tentercroft Street car park for provision of temporary bus station
  - July 2016 – Approval by DfT and GLLEP for SLGF
  - August 2016 – Start on site – carry out archaeological excavation works
  - September 2016 – Closure of Thornbridge Car Park to commence works for new MSCP
  - October 2016 – Bus Station works commence
  - June 2017 – Bus Station works complete
  - August 2017 – Highways works complete
  - September 2017 – Handover Network Rail forecourt
  - October 2017 – Handover Bus Station and remainder of highways
  - November 2017 – MSCP completes
  - November 2017 – Tentercroft Street Reinstatement complete
  - December 2017 – Completion of landscaping and remaining external works
- 1.28 It is acknowledged that the above milestones may vary and that a detailed programme is yet to be prepared. It is therefore recommended as a condition of investment that an updated programme for delivery of the scheme is provided to GLLEP when available.

## **2.0 Funding Sought**

- 2.1 SLGF is sought at £13 million, with £11 million from DfT and £2 million from GLLEP. If the project receives ministerial approval, it is intended that the £13 million SLGF will be invested via GLLEP.
- 2.2 Total estimated scheme costs are £29 million for phase 1 of the Transport Hub. The funding applied for from GLLEP as part of total SLGF will contribute to around 44.8% of scheme costs. SLGF will not be invested to deliver the MSCP, which will be delivered by CoLC. The balance of funding at £16 million will be from CoLC and NSIP. The wider Lindongate project will be delivered by LCL.
- 2.3 At this stage, a detailed profile for the breakdown of funding from CoLC and partners and status of this funding has not been provided. It is therefore recommended as a condition of investment that this information is provided in order to clarify match funding, type and status. CoLC to be required to demonstrate that sufficient funding has been secured in order to meet costs of delivering the project and to inform the assessment of outputs.

## **3.0 Key Issues**

- 3.1 A number of key issues were identified and addressed within the application, which are summarised as follows;
- i. Confirmation through the CPO process that all unknown/existing third party rights can be extinguished, without risk to the scheme or delaying programme for delivery.
  - ii. Scheme Costs – A costed specification of works, along with supporting technical drawings was not initially provided within the Business Case documents and was requested to enable the appraisal of costs to be undertaken. Significant information and cost schedules has been provided to WYG enabling the appraisal of costs to be undertaken.
  - iii. Allocation of GLLEP Funding – Confirmation as to the specific works that SLGF is required to fund in the business case is required. This information is necessary to enable a profile of proposed drawdown of SLGF investment both in terms of timing and element of works. CoLC have provided this information which has been assessed as part of the due diligence.
  - iv. State Aid – there was reference to a report being produced by Browne Jacobson which establishes there is no issue in relation to state aid. There are additional references to clawback obligations proposed to be imposed on LCL and other landowners that will benefit from uplift in land value due to the scheme. A copy of the state aid report was requested to verify that any offer of SLGF is made on a state aid compliant and consistent basis with DfT's requirements. In addition GLLEP to also benefit from any clawback obligations imposed, if GLLEP should be entitled to receive such benefit.

A copy of Browne Jacobson's draft State Aid report has now been provided. The review of this report identified that further state aid report had been



commissioned from Browne Jacobson specifically in relation to the ability to invest SLGF in compliance with state aid regulations. This report is not yet available. In addition, Brown Jacobson's report also refers to a valuation report being prepared in order to inform land values agreed with the Development Agreement and a another report assessing potential spill over benefits from the scheme accruing to other landowners within the wider area.

We were advised that the latter two reports are highly sensitive, confidential and not for further release and cannot therefore be provided for the purposes of this due diligence report. We have subsequently received the valuation report and details of our review of this detailed below.

The findings of our review of state aid matters are detailed within Section 5.0 of this due diligence report.

- v. Outputs – in the business case outputs are presented in totality for DfT outputs relating to the highways/transportation works with reference to a BCR. No outputs relating to GLLEP's programme were provided in addition to the existing DfT business case information. These were subsequently provided by CoLC.
- vi. Project Programme – Key milestones and an indicative programme has been provided at this stage. A detailed and updated programme will be required to confirm timescales for delivery and for monitoring purposes will be required when available.
- vii. Expected quarterly drawdown of SLGF to be provided.

## 4.0 Project Appraisal

- 4.1 The technical appraisal of this project has been undertaken by Thomas Lister, working alongside WYG, who have undertaken analysis of scope of work and associated costs of undertaking the phase 1 scheme.

- 4.2 The appraisal is summarised as follows;

- i. **Site Acquisition Costs** - in accordance with variations noted to the 2011 Development Agreement (as per Section 1.15 of this report) – The Development Agreement briefly summarises some costs associated with assembling the site. This information has been supported by a copy of the valuation report prepared by Lambert Smith Hampton (LSH) on behalf of CoLC.

The valuation report confirms that all land values have been assessed as being in accordance 'best value' requirements in accordance with public sector regulations. Furthermore, in terms of the various interests being acquired and transferred between CoLC and LCL as these are in accordance with best value requirements, it is considered that are no implications in terms of SLGF funding elements of the project on this land. This is particularly in respect of the bus station site. The terms of the transfer between CoLC and LCL are for any clawback obligations potentially being

required will be put in the place between the parties with no issues arising in respect of such obligations being required for the SLGF.

Notwithstanding the above, clawback obligations will remain as part of GLLEP's standard funding agreement in relation to non-delivery of outputs, disposal of any assets (such as the bus station) and clawback arising due to land value increases attributable to the public works.

This is however subject to confirmation that the works funded by SLGF do not confer any selective advantage to specific landowners in creating uplift in asset values. Furthermore, our advice is caveated on the basis that this is subject to further legal review by GLLEP's state aid advisors. See Section 5.0 for further detail.

- ii. **Project Costs** – WYG have undertaken an assessment of costs in accordance with the estimates along with supporting information provided and is a breakdown of main works and costs are detailed in the table below;

<b>Scheme Element</b>	<b>Total Cost (£)</b>
MSCP	15,096,000
Bus Station	5,446,000
Station forecourt and new Network Rail car park access	540,000
Temporary Bus Station & resurfacing after operations ceased	489,000
Highways / Public Realm works including soft landscaping and alternative temporary access arrangements during construction	3,835,000
Archaeology, surveys, investigations & water attenuation	619,000
Willmott Dixon PCA / SCAPE/Planning & Building Regulations	473,000
Services Diversions, Drainage Infrastructure and Services Upgrades	964,000
Contingency / Design & Price Risk	1,538,000
<b>Total</b>	<b>£29,000,000</b>

WYG requested detailed breakdowns and scheme drawings to support the costs for each element of the phase 1 scheme. Updated cost information was provided to WYG directly by CoLC on the 8<sup>th</sup> July and reviewed accordingly.

The outcome of this review is that there are currently some inconsistencies between cost schedules and spreadsheets for individual scheme elements and also with the main overriding spreadsheet. It is acknowledged this may be due to the scheme undergoing the final stages of design and costs also being refined.

In view of the issues noted with the information provided as detailed above, WYG have therefore undertaken a benchmarking exercise of similar projects in other locations.

WYG confirm the outcome of this benchmarking exercise is that costs are generally comparable and in accordance with other similar projects which have been tendered and delivered and have no concerns with costs in this respect.

In accordance with the appraisal undertaken, this means that construction of the MSCP at £15,096,000 leaves a balance of works costs and fees in the region of £13,904,000.

In view of the above, it is therefore recommended that in order for GLLEP to be able to rely on CoLC's costs as provided that updated cost schedules are provided to clarify the costs for delivering each element of the project once finalised. In addition, any drawdown of grant against the public works (excluding the MSCP) is supported by a certified valuation confirming expenditure for the period against which SLGF is sought. Thornton Firkin or whoever is appointed as project manager to certify expenditure on the project is to be required to owe a duty of care to GLLEP to verify project costs in the absence of a detailed appraisal of costs being undertaken at this time.

- iii. **Programme for Delivery** – WYG have undertaken an overview of the indicative programme provided for delivery and advise at this time that programme for delivery is considered to be realistic and achievable in accordance with the information provided.
- iv. **CoLC and third party funding** – CoLC have confirmed that under the terms of the Development Agreement, the Council are investing land and capital funding equating to circa. £16 million. This is broken down into £15.775 million from CoLC and £225,000 NSIP funding towards the station forecourt improvements.

It is noted that throughout the delivery of the Phase 1 project, CoLC will be required to provide confirmation of amounts of match funding as part of each claim submitted for funding from GLLEP. This will enable monitoring of match from CoLC and other potential partners to be captured throughout the delivery stage of the project.

- v. **Value of the Completed Scheme** – We have not been provided with details of estimated value of the completed scheme at this time given that this information remains sensitive and confidential. However; in accordance with earlier comments in relation to SLGF not being invested in any site acquisition, we are provisionally of the view that the value of market elements of the scheme are not required on this basis.

The above position is however strictly conditional on no landowners receiving benefits from the public works funded by SLGF. In the event that landowners do benefit through uplift in their asset values, contributions should be sought

to the cost of the works, with contributions to be commensurate with the uplift in value received, wherever possible.

It is recommended that in order to verify matters, that GLLEP's legal advisors review this position accordingly.

4.3 In terms of the ability for SLGF to fund the various scheme elements subject to this appraisal, this has been considered in further detail with our analysis of the State Aid position which is detailed in Section 5.0 below.

4.4 *A copy of WYG's report is appended to this appraisal (Appendix III).*

## **5.0 Mechanism for Investment and State Aid**

5.1 The analysis of State Aid has been assessed on the basis that the £13 million of funding from SLGF will contribute towards the phase 1 works identified within Section 1.0 of our report, excluding the MSCP.

5.2 CoLC have sought State Aid advice in relation to the scheme in its entirety through Browne Jacobson and we have been provided with a copy of their latest draft report dated May 2016.

5.3 We understand from Browne Jacobson's report, that State Aid compliance in relation to delivery of all aspects of the scheme, including those to be delivered through the SLGF is being prepared, although this is based on other associated reports that that have commissioned separately by CoLC. We are advised that these reports are not available at present as are yet to be finalised.

5.4 The State Aid report provided notes that there is a further separate piece of work commissioned in respect of state aid compliance and investment of SLGF and that the findings of this report should be clarified and agreed with GLLEP and DfT directly.

5.5 Browne Jacobson's advice summarises that the project can be made to be State Aid compliant through the following measures;

- i. Article 56 of the GBER – Investment Aid for Local Infrastructure – It is intended that these regulations will cover those aspects of the project which represent public infrastructure including reconfiguration and extension of the existing public highways network, areas of public realm and works to improve the railway station concourse and associated public transport facilities. This should also cover highway improvements on the highway along St. Marys Street, which incorporates traffic calming measures, cycle lanes and pedestrian crossing areas.

With regard to the bus station, this is also considered to fall within the requirements of the Article 56 GBER due to compliance with the following tests;

- The bus station is an investment in local infrastructure.
- It will contribute to the local economy.
- As a facility it will be open to all users in a non-discriminatory way.
- The investment to be made is in a tangible asset.

- There is no subsidy or operating profit taking place.
- The bus station is conducive to private investment and growth.

A minor risk has been raised in terms of the future operation of the bus station in that if CoLC retain and operate this, it could be considered as being dedicated infrastructure and specific to CoLC's needs. This risk is considered to be low given that operational requirements for the bus station will be generic rather than specific to CoLC.

Alternatively if CoLC decide to appoint an independent operator, providing that this is undertaken following a procurement exercise and on wholly open, transparent and market terms, there will be limited risk of falling foul of State Aid.

- 5.6 As previously referred within Section 4.0 of this report, any landowners that received "selective benefit" from the public works should be required to contribute to these works, commensurate with the level of benefit they received.
- 5.7 As the public works proposed to be delivered should be open and free for all to use on a non-discriminatory basis, it is not envisaged that there will be issues of selective benefit.
- 5.8 However, as we are not party to various additional reports underpinning the State Aid analysis, it is recommended that CoLC be obligated under the terms of the SLGF funding agreement to ensure that where selective benefit is established, financial contributions are secured from landowners. In such circumstances GLLEP to be entitled to a proportion of clawback in accordance with level of investment made and clawback provisions in the relevant legal agreement, wherever reasonably possible and paid as clawback to GLLEP.
- 5.9 The only other element of State Aid to be considered is the issue relating to the direct benefit that LCL may receive in terms of an uplift in the value of their asset through the works being funded utilising SLGF.
- 5.10 As noted earlier, a copy of the report prepared by LSH has been provided by CoLC and we are satisfied that there are no issues arising from this in relation to investment of SLGF, subject to verification by GLLEP's legal advisors.
- 5.11 We understand it is intended that clawback obligations will be incorporated within the varied Development Agreement between CoLC and LCL. As GLLEP are not party to all State Aid information or legal agreements with CoLC, LCL and other landowners/interested parties, CoLC should also be obligated to confirm to GLLEP any clawback arising specifically due to works SLGF is to fund and to secure clawback accruing on behalf of GLLEP.

## **6.0 Outputs and Value for Money**

- 6.1 The outputs deliverable by this project were initially presented as those claimable by the DfT on major highways and infrastructure projects, with little assessment undertaken as to those generated in accordance with GLLEP's SLGF programme.

- 6.2 The outputs initially reported to GLLEP and claimable under the SLGF are detailed in the table below;

<b>Indicative Outputs</b>				
	<b>2016/17</b>	<b>2017/18</b>	<b>Future Years</b>	<b>Total</b>
Public/Private investment leveraged (£m)	£3m	£5m	£8m	£16m
Number of Jobs Created	-	12	0	12
Net Additional GVA Per Annum			£0.5m	£5m over 10 years

- 6.3 On review of the project through this due diligence, it has been ascertained that much greater package of outputs will be generated in addition to DfT outputs, which are claimable as directly attributable to SLGF.

- 6.4 The revised outputs which CoLC are therefore able to claim as directly attributable to SLGF are summarised in the table below.

	Year of Delivery						
Output	2016/17	2017/18	2018/19	2019/20	2020/21	Later Years	Total
Core Outputs							
Housing Units			9				9
Jobs Created/ safeguarded		142	14	344	134		634
Public/Private Sector Match Funding	3	5	8				16
Sq.m. commercial floorspace		2,508			2,137		4,645
Local Strategic Outputs							
Businesses Created	1	1	2	1			5
Others							
Construction Jobs	233	384	30				647
Land Redaimed /Serviced ha		7.74					7.74

	Year of Delivery						
Output	2016/17	2017/18	2018/19	2019/20	2020/21	Later Years	Total
Core Outputs							
Indirect Jobs		142		285			427
Indirect new Commercial floorspace sq.m.				1,050			1,050
Indirect Housing Units			5	5			10
Indirect Private Leverage £m			1	1	1		3

- 6.5 A number of the outputs identified in the table above are required to be subject to adjustment in order to establish net outputs for the scheme. The following adjustments have been applied to some of the outputs;

Deadweight	27%
Employment leakage	5%
Displacement	17%
Multipliers for East Midlands region in accordance with Green Book	1.25%

- 6.6 The adjusted outputs are therefore shown in the table below;

	Year of Delivery						
Output	2016/17	2017/18	2018/19	2019/20	2020/21	Later Years	Total
Core Outputs							
Housing Units			9				9
Jobs Created/ safeguarded		102	10	247	96		455
Public/Private Sector Match Funding	3	5	8				16
Sq.m. commercial floorspace		2,508			2,137		4,645
Local Strategic Outputs							
Businesses Created	1	1	2	1			5

	Year of Delivery						
Output	2016/17	2017/18	2018/19	2019/20	2020/21	Later Years	Total
Core Outputs							
Others							
Construction Jobs	168	276	22				466
Land Reclaimed /Serviced ha		7.74					7.74
Indirect Jobs		102		182			284
Indirect new Commercial Floorspace				1,050			1,050
Indirect Housing Units			5	5			10
Indirect Private Sector Leverage £m			1	1	1		3

6.7 In terms of value for money, we would comment as follows;

- 19 Housing Units - Equates to a cost of £684,210 per dwelling, which represents extremely poor value for money, in accordance with the HCA benchmarks for cost per dwelling. Housing is however ancillary to the primary outputs of the scheme being the delivery of a transport interchange.
- 455 Jobs Created – Calculates to a cost per job of £28,571 per job, which represents reasonable value for money in accordance with HCA benchmarks.
- £19 million Public/Private Sector Match - Provides a ratio of 1:1.46, which is below the public sector benchmark of 1:2 being good value for money; however this is reflective of the construction of the lake comprising primarily of public works/infrastructure, whereby private sector leverage is limited due to the nature of the facility being provided.
- 5,695 sq.m. New Commercial Floorspace – Equates to £2,272 per sq.m. which exceeds HCA cost benchmarks. However this output is also ancillary to the delivery of the new transport interchange.
- 466 Construction Jobs – Equates to a cost of £27,896 per job which is above the standard HCA benchmarks for cost per job and is therefore poor value for money.
- 5 Businesses Created - At a cost of £2.6 million per business. This represents poor value for money; however reflects this output being ancillary in nature.



- 7.74 hectares Land Reclaimed – At a cost of £1,679,587 per hectare, this cost is also high, but is also ancillary in nature.
- 6.8 Overall this project is assessed to deliver a good package of outputs and is fundamental to facilitating the delivery of the Lindongate and Cornhill developments within the City. It is noted however that many of the above outputs are ancillary in nature to the Transport Hub which has the primary objective of delivering a new transport interchange, which in turn is intended to enhance the attractiveness of the City, thus attracting new investment and significantly increasing tourism numbers.
- 6.9 These outputs will have significant and far reaching benefits for Lincoln City, however are not captured as part of quantitative outputs deliverable by this project.
- 6.10 Therefore despite the overall value for money for this project being low, the overall benefits that delivery of this facility can bring are anticipated to bring justified investment on this basis.

## **7.0 Conclusions**

- 7.1 The Lincoln Transport Hub is a project which has been subject to feasibility for a number of years and has required an ongoing site assembly process and negotiations with LCL as developer partner, culminating in a development agreement being in place between the parties. LCL are the developer of the adjoining Lindongate project, which has secured planning permission and includes consent for the delivery of the Hub.
- 7.2 The original development agreement was agreed in 2011 and the scheme stalled due to viability issues. Revised terms for the delivery of the Hub and Lindongate scheme have been agreed in principal with a varied development agreement anticipated to be put in place imminently.
- 7.3 Match funding has been secured for the project by CoLC and it is advised that there should be no other contributions or third party land required to deliver the project.
- 7.4 The project is therefore in a position to be able to conclude the procurement process and commence on site in August 2016, with completion anticipated for phase 1 in 2018.
- 7.5 It is confirmed that Thomas Lister have been unable to obtain all supporting reports and project documentation required to conclude all aspects of due diligence due to issues of commercial sensitivity and confidential information.
- 7.6 In terms of the cost appraisal, WYG have been provided with detailed cost information; however have identified some inconsistencies in costs for elements of projects within differing cost schedules and spreadsheets. In accordance with the benchmarking exercise undertaken with similar projects, overall costs are considered to be reasonable and realistic.
- 7.7 In view of this, we have therefore made a series of recommendations to safeguard GLLEP's position in terms of level of funding appropriate for the project and in terms of state aid regulations and compliance. In accordance with the recommendations

detailed below, we are confident that GLLEP are able to make an investment decision for the approval of SLGF at the required sum of £13 million.

## **8.0 Recommendations**

8.1 It is hereby recommended that SLGF funding be approved at £13 million from GLLEP. The offer of funding is recommended subject to the following conditions;

- i. SLGF be invested in the Local Infrastructure elements of this project only, with no investment to be permitted within the MSCP.
- ii. CoLC provide regular updates in respect of the necessity to implement the CPO in order to fully assemble/extinguish any third party interest in the scheme and to advise of any material changes to an overall programme for delivery of the scheme as proposed.
- iii. CoLC to provide updates in respect of the ongoing negotiations with LCL in relation to the development agreement and obligations in respect of scheme delivery.
- iv. Updated and final cost schedules and spreadsheets to be provided for all elements of the project with the inconsistencies between such documents addressed. This is required to confirm a breakdown of funding required for each element of the project.
- v. A profile for drawdown of SLGF funding and confirmation that £9.5 million can be drawn down in 2016/17, excluding any investment in the MSCP.
- vi. Drawdown of grant against the public works (excluding the MSCP) is supported by a certified valuation confirming expenditure for the period against which SLGF is sought. Thornton Firkin or whoever is appointed as project manager to certify expenditure on the project is to be required to owe a duty of care to GLLEP in order to verify project expenditure, given that a detailed assessment of costs has not been undertaken.
- vii. An updated programme for delivery of the scheme and outputs to be provided.
- viii. CoLC to be obligated to monitor and assess the position in relation to State Aid, confirming compliance with regulations in drawing down SLGF. CoLC also to undertake assessment in relation to any necessity to impose clawback provisions where necessary, in terms of any party which received selective advantage through investment of the SLGF. Where contributions are received towards the scheme from any parties deemed to be benefitting from selective advantage, or where any clawback provisions are triggered, GLLEP to be entitled to a share in clawback if such an entitlement arises.
- ix. Standard clawback provisions also to apply in terms of disposal of any asset within the project funded by SLGF and in the event of non-delivery of outputs.

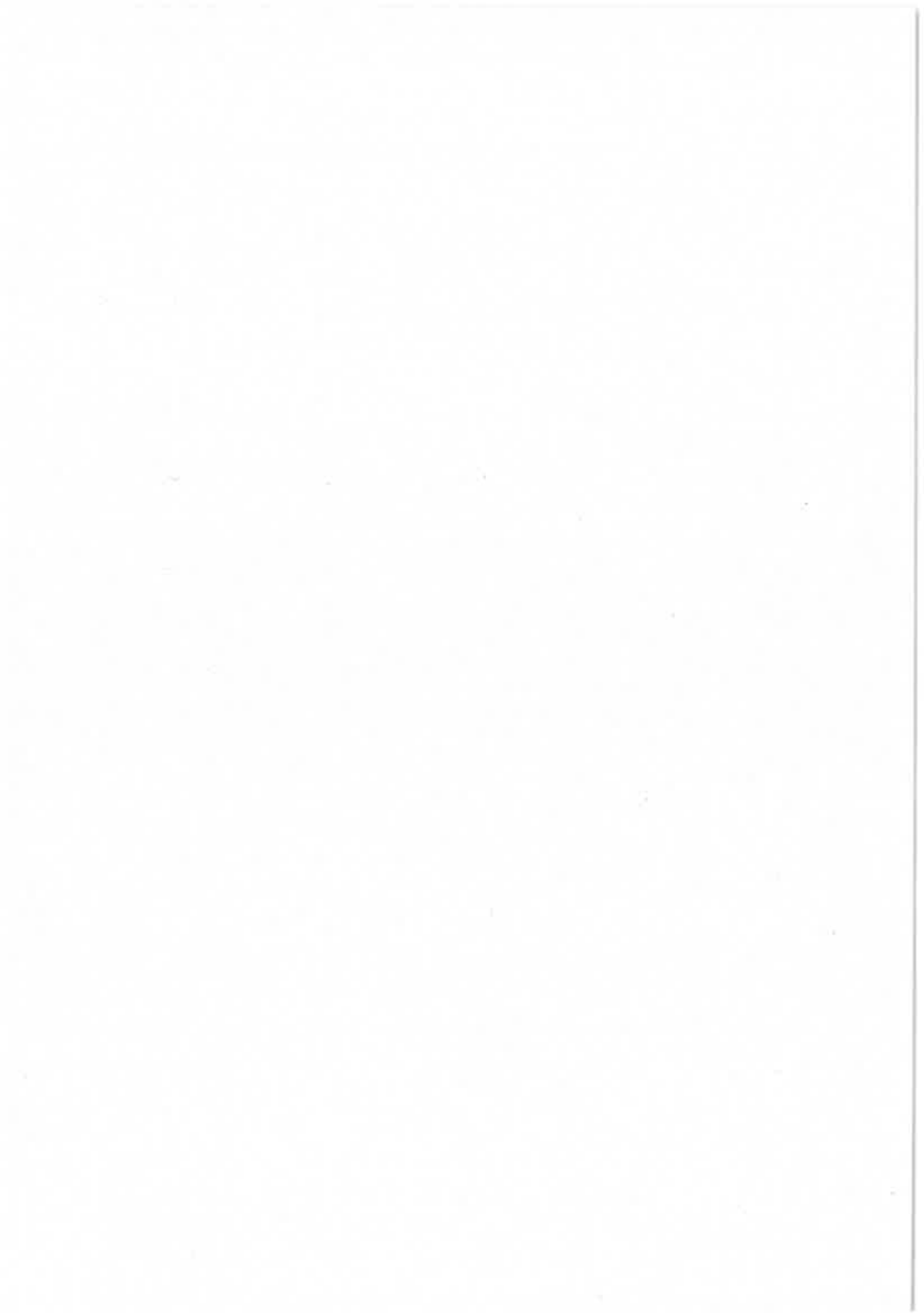
- x. CoLC to comply with ongoing monitoring requirements with GLLEP in terms of output delivery.



.....

Date: ...14<sup>th</sup> July 2016.....

Rachel Lister, BSc (Hons) MRICS  
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**Recommendation: A Paper for Decision**

This paper recommends approval of £1,000,000 Single Local Growth Funding to facilitate development of 100 affordable housing units within Phases 1 and 2 of the Boston Quadrant development

**Background to the application**

The Quadrant is a major mixed use development being delivered by Chestnut Homes. The site is situated on both sides of the A16, which is the main southern arterial route into Boston.

GLLEP has already awarded funding to separate aspects of the development, as follows:

- a loan of £3.5 million from the Invest and Grow Fund has been awarded to contribute to onsite infrastructure from the A16 to London Road.
- Single Local Growth Fund (SLGF) at £4.75 million has also been approved to meet the costs of undertaking improvements to the main A16 as public infrastructure works, designed to alleviate congestion issues within Boston and enable the construction of the first phase of a new distributor road proposed for the town

The Due Diligence Assessment of this project has taken full account of the above funding decisions.

**The project**

The project will facilitate development of 100 affordable housing units within Phases 1 and 2 of the Boston Quadrant development. Outline planning permission is in place. The Due Diligence Assessment provides a breakdown of the phases and details of the mix of affordable rent and shared ownership units.

The design and construction of the dwellings has been required to incorporate flood mitigation measures, given that the site is designated as being at risk of flooding at times of adverse weather conditions.

SLGF is sought to meet the viability gap between the costs of delivering the scheme, and the anticipated final value. SLGF will be utilised to specifically meet the additional costs of undertaking flood mitigation works.

**Approach to outputs**

The approach adopted by GLLEP in relation to the Invest and Grow loan and the previous SLGF grant (public infrastructure) has preserved a balance of the scheme's outputs for this project. Outputs relating to apprenticeships and Indirect Jobs created have been claimed in full already with nothing to claim for this scheme. However, all 100 affordable housing units can be attributed to this project.

**Points to note**

This is a mixed use development being undertaken by a private developer. Particular attention has been paid to ensure that only eligible costs are included in the project appraisal, and to identify any potential for the commercial elements of the scheme to cross-subsidise delivery of the affordable housing. Our Due Diligence Assessment has identified developer profit at levels significantly below standard industry rates. It has further demonstrated that there is no ability for the market housing to cross-subsidise the affordable dwellings; and that commercial

development in this location is not anticipated to make development profit at a sufficient level to enable any cross-subsidisation to occur.

The applicant is intending to use their own internal construction arm to undertake some elements of the construction of the scheme, as opposed to tendering all aspects of the work. The cost appraisal has established that this procurement method will deliver value for money and that a more cost efficient scheme could not be procured if the scheme were to be subject to a competitive tendering exercise.

The identified approved mechanism for funding available to GLLEP and appropriate for a scheme of this nature is the operation of the Services of General Economic Interest (SGEI). The need for SGEI funding in the form of grant aid has been identified through Due Diligence and cost appraisal at £1,000,000 in order to bridge the cost value deficit that exists and facilitate delivery of 100 affordable units.

The scheme is considered ready for early delivery given that all funding with the exception of SLGF Unlocking Rural Housing Fund from GLLEP has been secured. The scheme could commence on site in Autumn 2016 with the first dwellings completed some six months later. Delivery of all 100 units should be completed by Summer 2018.

### **Recommendation**

Investment Board is recommended to approve £1,000,000 of Single Local Growth Fund to facilitate delivery of 100 affordable housing units across Phases 1 and 2 of the Boston Quadrant scheme, subject to the conditions set out at para 8.1 of the accompanying Due Diligence Assessment.



**Greater Lincolnshire Local Enterprise Partnership**

**Due Diligence Assessment**

**In Respect of**

**Single Local Growth Fund**

**For**

**The Quadrant, Boston**

**8<sup>th</sup> July 2016**

**Paper 2.1**





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# APPENDICES

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## 1.0 Project Summary

### Background

- 1.1 The Quadrant comprises a major mixed use development being delivered by Chestnut Homes, a Lincoln based developer and sole delivery organisation for this project.
- 1.2 The site situated either side of the A16, which is the main southern arterial route in to Boston. The largest proportion of the site occupies the area of land between the A16 and London Road, which up until the construction of the new A16 was the trunk road out of Boston.
- 1.3 *A location plan is attached at appendix 1.*
- 1.4 The overall site extends to around 27 hectares (66.5 acres). The larger rectangular area of land extends to around 20.44 hectares (54.5 acres) whilst the remaining 5.26 hectares (13 acres) sits on the eastern side of the main A16 road.
- 1.5 *A site plan is contained in appendix II*
- 1.6 The scheme comprises the following key elements;
- 1.7 *Site Access and Infrastructure Works* - A new distributor road connecting the A16 by way of a new roundabout and extending through to London Road, which requires the demolition of numbers 262 and 264 London Road. These works are on site, following awards of funding from the Invest and Grow Fund, where a loan of £3.5 million was awarded to contribute to onsite infrastructure from the A16 to London Road.
- 1.8 Single Local Growth Fund (SLGF) at £4.75 million has also been approved to meet the costs of undertaking improvements to the main A16 as public infrastructure works, designed to alleviate congestion issues within Boston and enable the construction of the first phase of new distributor road proposed for the town.
- 1.9 *Residential Land* – Extending over 15.3 hectares with capacity to provide 500 new dwellings, with a broad mix of units including one and two bedroom apartments, and 2, 3 and 4 bed houses. It is intended that the residential scheme will provide up to 20% affordable housing.
- 1.10 **The application for funding submitted by the applicant is seeking £1 million of SLGF to facilitate development of phases 1 and 2, comprising 100 affordable dwellings to address viability issues.**
- 1.11 The applicant has confirmed that along with delivering the affordable homes, they will simultaneously be bringing forward the first phase of market housing on site comprising 48 units. A second phase of market housing will follow, although proposals for this will be established pending upon successful take up of the Phase 1 scheme.
- 1.12 *Commercial Land* – around 2.16 hectares of land to be provided divided into individual sites and designed to accommodate a range of commercial operators,

including a pub/restaurant site and hotel. Agents have been appointed to market the commercial land and we understand negotiations are at a relatively advanced stage with a number of potential occupiers.

- 1.13 *Retail Land* – 2.6 hectare site for food operators, along with a petrol filling station. This site is also subject to ongoing marketing.
- 1.14 *Community Football Stadium* – to occupy a 5.38 hectare site for a new 5,000 capacity stadium for Boston United Football Club, together with floorspace and associated facilities for an extensive community programme including a new sports hall and 3G pitch. The Stadium will be leased to a Community Interest Company (CIC) and part sub-let to Boston United Football Club. This aspect of the project is excluded from all applications for funding submitted to GLLEP and will be delivered solely by applicant.
- 1.15 Chestnut Homes set up a Special Purpose Vehicle (SPV) to deliver this project called Chestnut Homes (Land) Limited. The SPV will also be the company responsible for the delivery of the residential element of the project.
- 1.16 The construction of the two phases of affordable and market dwellings is now ready to proceed, subject to the applicant securing a grant from SLGF in order to meet the cost/value deficit that developer advises exists on scheme.

#### Current Proposals

- 1.17 The affordable dwellings are to be delivered comprise a mix of rent and intermediate housing where 50% equity will be sold. The mix of affordable accommodation is detailed in the table below;

Phase 1			
House Type	Dwelling Type	m <sup>2</sup>	Total No of Dwelling Type In Phase 1
101S	1 Bed Apartment	46	24
120S	2 Bed Apartment	53	6
103S and 104S	2 Bed House	58	6
T6S	2 Bed House	70.7	14
105S	3 Bed House	69	12
Total:		3587.8	62
Phase 2			
House Type	Dwelling Type	m <sup>2</sup>	Total No of Dwelling Type In Phase 2
101S	1 Bed Apartment	46	10
104S	2 Bed House	58	4
T6S	2 Bed House	70.7	12
105S	3 Bed House	69	12
Total:		2368.4	38

- 1.18 The affordable dwellings are to be sold at market value (in accordance with restrictions as affordable dwellings) to Boston Mayflower as the Registered Social Landlord (RSL), who will be responsible for letting/selling and managing the dwellings once completed. Terms have been agreed with Boston Mayflower and a Red Book Report and Valuation provided to support the sale price.
- 1.19 In addition, the applicant has confirmed that they will also be delivering a first phase of market housing on the site. The type and mix of units is shown in the table below;

<b>Phase 1</b>			
<b>House Type</b>	<b>Dwelling Type</b>	<b>m<sup>2</sup></b>	<b>Total No of Dwelling Type in Phase 1</b>
102	2 bed apartment	77	4
104	2 bed house	58	4
105	3 bed house	69	7
106	3 bed house	87	5
107	3 bed house	94	2
108	3 bed house	101	5
109	3 bed house	105	2
110	4 bed house	107	3
111	4 bed house	116	2
112	4 bed house	118	3
113	4 bed house	124	2
114	4 bed house	128	1
115	4 bed house	133	3
116	4 bed house	137	1
117	4 bed house	166	2
118	5 bed house	152	1
119	5 bed house	163	1
<b>Total</b>			<b>48</b>

- 1.20 A further phase of market housing will be delivered by Chestnut Homes, pending take up of the first phase.

<b>Phase 2 (indicative at this stage)</b>			
<b>House Type</b>	<b>Dwelling Type</b>	<b>m<sup>2</sup></b>	<b>Total No of Dwelling Type in Phase 1</b>
104	2 bed house	58	2
105	3 bed house	69	7
106	3 bed house	87	6
108	3 bed house	101	5
109	3 bed house	105	2
110	4 bed house	107	3
111	4 bed house	116	1
113	4 bed house	124	3
114	4 bed house	128	2
115	4 bed house	133	2
118	5 bed house	152	1
<b>Total</b>			<b>34</b>

- 1.21 The design and construction of the dwellings has been required to incorporate flood mitigation measures, given that the site is designated as being at risk of flooding at times of adverse weather conditions.
- 1.22 The flood mitigation works include raising site levels of the development areas, road and footpaths along with finished floor levels of the dwellings above potential flood levels.
- 1.23 In addition, the dwellings will incorporate flood resilient construction methods to minimise damage and disruption in the event that flood defences were breached.
- 1.24 The flood mitigation works add significant costs to the project, which is within an area where house values are typically low and as such creates viability issues. Furthermore, given that the affordable dwellings are to let/sold below market rates, the effects of additional abnormal flood work costs creates generates greater impacts on viability than for market houses.

#### Procurement

- 1.25 Chestnut Homes are intending to utilise the company's internal construction arm to undertake some elements of construction of the dwellings, although some of the works, primarily site preparation and abnormals, will be tendered. As grant funding is to contribute towards the construction costs, the cost appraisal has assessed costs on the basis that these provide value for money and that more competitive terms could not be achieved if the works were subject to a competitive tendering exercise.

#### Programme

- 1.26 Indicative milestones for the scheme have been provided and are detailed as follows;
- Detailed design process completed – May 2016
  - Reserved matters application submitted – June 2016
  - Works commence on site – September 2016
  - Works complete – January 2018
- 1.27 A detailed programme for the scheme has yet to be provided and it is recommended as a condition of investment that this is provided as soon as available.

## **2.0 Funding Sought**

- 2.1 Total development costs for the affordable dwellings are detailed by the applicant at £8,767,370. The value of the completed scheme is estimated to be £7,729,852. The applicant calculates the deficit on the project to be £1,037,518. Chestnut Homes are seeking £1 million from SLGF under the Services for General Economic Interest (SGEI) programme to meet this deficit.
- 2.2 SLGF will be utilised to specifically meet the additional costs of undertaking the flood mitigation works, which as previously noted are one of the key factors attributable to generating the viability of the project.

### **3.0 Key Issues**

3.1 In order to undertake the due diligence for this scheme, a number of key issues have been raised with the applicant. These are identified as follows:

- i. A breakdown of construction costs had been provided; however this is mainly lump sums and both specification details and cost assumptions are required to enable a proper verification of costs. This matter has been addressed through direct dialogue between Thomas Lister, Chestnut Homes and cost consultants during the due diligence process and detailed further within this report.
- ii. Clarification was sought as to timescales for delivery of market housing by Chestnut Homes. Confirmation was provided by the applicant and detailed within this report accordingly.
- iii. As this is a mixed used development, it needs to be demonstrated that the private housing, commercial and retail elements cannot cross subsidise delivery of the affordable housing, thereby resulting in a need for less or no grant. This matter has been assessed during the due diligence of this project.
- iv. Chestnut Homes will need to provide a red book valuation for the land for the affordable dwellings as existing and also once the affordable scheme has been completed. The reason for this (and has been a requirement for all the other affordable housing schemes that GLLEP have appraised) is because these values are a key component of the appraisal against which grant is calculated.
- v. The applicant are intending to undertake some elements of the construction of the scheme utilising the company's internal construction arm, as oppose to tendering all aspects of the work. The cost appraisal will therefore need to demonstrate that this procurement method delivers value for money and that a more cost efficient scheme could not be procured if the scheme were to be subject to a competitive tendering exercise.

### **4.0 Project Appraisal**

4.1 A number of discussions have been held with Neil Kempster, Director at Chestnut Homes, who has responded to requests for information and submitted additional detail in respect of the project and specific items to be funded by the SLGF.

4.2 Our detailed appraisal of the project is detailed below along with commentary on the issues identified in Section 3.0 above as follows;

- Value of the Completed Scheme – A Red Book Report & Valuation has been prepared on behalf of Chestnut Homes by Poyntons Consultancy in relation to the Phase 1 and Phase 2 affordable housing units.

The Valuation Report takes into account issues relating to the scheme being situated on a floodplain along with the flood mitigation works requiring to be undertaken as part of development works.

The valuation is also undertaken on the basis that the units subject to the valuation are affordable housing and will be restricted to ownership and disposal by a Registered Social Housing Landlord. The Valuation Report therefore estimates the completed value of the Phase 1 scheme comprising 62 units is £4,755,000. The market value of the Phase 2 scheme comprising 38 affordable units is £3,150,000. The combined market value for Phases 1 and 2 is £7,905,000.

The affordable dwellings are to be disposed of to Boston Mayflower and legal costs and charges associated with this disposal have been deducted from the market value at £175,148 equating to 2.2%. It is usual for legal costs and stamp duty to be deducted from market value to provide a net value representing the actual sum the seller received. It is also noted that as Boston Mayflower are to acquire properties as they complete throughout the construction process, this will reduce stamp duty thresholds than if all properties were purchased on completion.

**Net of purchaser's costs therefore, this provides a combined completed value for the 100 affordable dwellings of £7,729,852.**

It is however recommended that confirmation of sale of the affordable dwellings to Boston Mayflower is confirmed by way of written confirmation from the applicant's solicitors. This is to verify that the units sold are in accordance with the value reported in this due diligence and that any clawback obligations will not be triggered.

- Land Cost – Comprehensively, the site has been secured by Chestnut Homes by way of an Option Agreement capable of phased drawdown. The land in its existing condition, with outline planning permission in place for the scheme, has also been subject to the Report & Valuation prepared by Poyntons, which confirms that the market value of the Phase 1 land is £700,000 and the market value of the Phase 2 land is £475,000.

This provides a combined land value for the Phase 1 and 2 schemes of £1,175,000. Chestnut Homes have however allocated a land value for the affordable dwellings of £1,159,478. This value has been accepted for the purpose of the appraisal.

To the land cost has been added 4% to provide for legal fees and stamp duty costs which equates to another £47,000, equating to a total site cost of **£1,205,857.**

- Construction Costs – Construction costs for the 100 units had been included within the appraisal provided by the applicant at £4,594,260. This includes all abnormal site works relating to flood mitigation and incorporating flood proofing within the construction of individual dwellings.

Fusion Building Consultancy have undertaken a comprehensive review of the proposed works, associated costs and undertaken discussions with the applicant, which has resulted in supplementary data and assumptions being provided to substantiate various cost heads.

Fusion's review of costs is that these are highly competitive within the current marketplace particularly when benchmarked against a number of schemes within the last 18 months which have been undertaken within the Lincolnshire area.

Costs are particularly competitive when taking into account the extent of infrastructure and abnormals that are included within the rates provided.

Fusion's assessment is therefore that the costs are very competitive in comparison to current market conditions and have made no adjustment to the costs proposed accordingly. Appraised construction costs are therefore **£4,594,260**.

- Contingencies – Provided for at 5% of build cost equating to **£229,713**. A contingency sum at this level is considered to be reasonable given the extent of works required, particularly in relation to flood mitigation.
- Professional Fees – Included at 8% of construction costs, site on costs, development costs and contingency totalling £6,181,807 equates to **£494,545** to provide for all professional fees associated in the design, costing, procurement and management of the construction contract. Professional fees at this level for the delivery of new build housing is in accordance with standard industry rates and evidenced on other similar projects and has therefore been accepted for the purposes of this project.
- Development Costs – A lump sum figure of £1,462,866 was originally submitted as part of the overall appraisal. It is noted that these costs were to cover matters including site investigations, ecology, archaeology, transport, flood risk analysis, planning consultant fees, planning application fees, adoption costs, utility connections and internal company overheads.

Revised costs were requested from Chestnut Homes on the basis that company overheads are ineligible for SGEI funding and only those costs associated with the direct development of the project are eligible expenditure.

A revised development cost sum has been provided and supported by a detailed breakdown at **£1,357,834**. These costs have been reviewed and accepted as eligible project expenditure and incorporated within the appraisal at this level.

- Site On Costs – Included at **£501,689**, relating to preliminaries and costs on setting up and managing the construction site, this equates to 10.92% of construction costs and is considered to fall within standard industry benchmarks for such costs associated with the construction of a scheme of this nature.
- Development Management Fee – This has been provided for at 2.5% undertaken in relation to managing this project from inception at feasibility stage through the development management services and coordination with the professional team during the construction process. This fee is also in accordance with standard industry rates and typically chargeable by developers for the time spent in the specific management of development projects. This fee equates to **£154,545** and has therefore been accepted for the purposes of this appraisal.



- **Developer's Profit** – Included by the applicant at 2.48% equating to £191,409. Profit at this level has been accepted as it is an eligible cost and considered to be at a low level given the challenges and thus risk presented in constructing the scheme. It is noted however that the disposal of the affordable dwellings is low risk given terms in place with the RSL, Boston Mayflower. Typical levels of profit included in affordable housing schemes are generally between 5-10% depending on risk. Profit levels on this project at 2.48% are therefore below typical industry rates for a project of this nature.

- 4.3 **Total development costs for delivering the project are therefore appraised at £8,729,852.** The costs are lower than the applicants figure detailed at 2.1, due to deductions to exclude ineligible costs as referred to earlier within this report.

### **Viability Analysis**

- 4.4 The total capital value of the entire scheme is therefore £7,729,852.
- 4.5 Total appraised costs for delivering the project are £8,729,852.
- 4.6 **On the basis of the above analysis, the deficit identified on this project is therefore £1,000,000. SGEI funding from the GLLEP Unlocking Rural Housing Scheme is therefore recommended at £1,000,000.**
- 4.7 In accordance with SGEI funding requirements, we have also undertaken an additional review of appraisals of the wider project in order to establish whether there is any ability for the market element of this project to cross subsidise delivery of the affordable housing scheme.
- 4.8 In this respect, Chestnut Homes have provided a copy of the overall development appraisal which details all works necessary to deliver the residential and commercial element along with all of the onsite infrastructure and public works.
- 4.9 The appraisal provided for the scheme is a residual appraisal which assesses land value for the various elements of the scheme following deduction of all development costs and demonstrates that without the various sources of public funding from GLLEP that there are significant viability issues in being able to deliver this project.
- 4.10 In addition to this appraisal, we have also requested a development appraisal to be provided in relation to delivery of the first two phases of market housing which are to be brought forward alongside the first two phases of affordable dwellings.
- 4.11 The summary position with the development appraisal is that total value of the first two phases of affordable and market housing generate a value in the region of £23,336,000.
- 4.12 Costs associated in constructing all of the market and affordable units have been assessed to be in the region of £21 million. The residual sum remaining therefore equating to developers profit is in the region of 9.85%.
- 4.13 It is noted that the above appraisal at this time does not include any finance costs which Chestnut Homes will incur through utilising their corporate lending facilities

and therefore developers profit once interest costs have been accounted for will further serve to reduce developers profit to a lower level.

- 4.14 We are aware from involvement in other residential schemes throughout the East and West Midlands that developers profit on residential development, particularly those that are more challenging with adverse site conditions, tend to be in the region of 20-22% in order to reflect risk.
- 4.15 Developers profit therefore at the levels indicated through the appraisal of this scheme are clearly significantly below standard industry rates and are not considered commensurate with the overall level of risk of delivering a project of this nature in this location.
- 4.16 Even in the event of increases in sales values of the market units, it is considered unlikely that such increases would result in developers profit exceeding standard industry benchmarks at circa. 20%.
- 4.17 On this basis therefore we are satisfied that the appraisal can demonstrate there is no ability for the market housing to be able to cross subsidise the affordable dwellings.
- 4.18 With regard to any commercial elements of the scheme being able to make profits to be able to cross subsidise the affordable dwellings, although there is good levels of interest in the commercial units, terms have not been formally agreed for the disposal of this space and at this time therefore an assessment in this respect cannot be undertaken.
- 4.19 It is not however anticipated that commercial development in this location is likely to make development profit at a level above standard market rates, enabling any cross subsidisation to occur. We have therefore not undertaken further analysis of the commercial space given these circumstances.
- 4.20 We are therefore of the opinion that SGEI funding from the GLLEP Unlocking Rural Housing Scheme is required at £1,000,000 in order to facilitate delivery of the affordable housing units.
- 4.21 In the event that terms for the disposal of the affordable housing exceed the sum reported within this due diligence, clawback obligations should be triggered for repayment of SGEI at 50% of any uplift in value.
- 4.22 In the event that costs are lower than appraised within this report, the applicant will not have the ability to drawdown grant as this should only be against defrayed expenditure.
- 4.23 In terms of programme for delivery of the project, it is currently anticipated that procurement contracts will be awarded in September 2016, with start on site in November 2016. The completion of the units is anticipated by July 2019, which includes not only affordable housing but also the first element of the market housing as detailed within this report.

- 4.24 It is noted however at this time that the programme is indicative and it is therefore recommended as a condition of funding that an updated programme for delivery is provided.

## **5.0 Mechanism for Investment and State Aid**

- 5.1 The identified approved mechanism for funding available to GLLEP and appropriate for a scheme of this nature is the operation of the Services of General Economic Interest (SGEI). This fund falls under Article 106 (2) of the Treaty on the functioning of the European Union to State Aid, in the form of public service compensation granted to certain undertakings entrusted with the operation of Services of General Economic Interest.
- 5.2 In essence, this fund is available to undertakings in charge of providing social services, including the provision of social housing for disadvantaged citizens or socially less advantages groups, who are unable to obtain housing in normal market conditions.
- 5.3 The fund operates by being able to contribute funding (termed as compensation) in relation to net costs remaining on projects. Net cost is calculated as the difference between the costs incurred in operating the service i.e. delivering social housing and the revenue earned from such activities. In effect this refers to any cost value deficit generated by projects.
- 5.4 The EU guidance also confirms that reasonable profits are also deemed eligible under the scheme.
- 5.5 Compensation (funding) is restricted to activities falling within the scope of the SGEI and any activities falling outside of this scope are to be excluded from funding.
- 5.6 It is also stated that in terms of any revenue generated by elements of the scheme not eligible for SGEI; however which generates profits in excess of reasonable profit, or benefits from other advantages granted by the state funding, these are to be incorporated within the revenue and form part of the calculations for compensation.
- 5.7 Therefore on the basis of the scheme being implemented by the applicant demonstrates that costs exceed revenue generated and that there is no ability for other elements of the scheme to cross subsidise provision of the affordable housing, the funding sought of £1,000,000 from GLLEP is considered compatible and in accordance with SGEI regulations.

## **6.0 Outputs and Value for Money**

- 6.1 As other elements of the scheme have been funded by GLLEP's Invest and Grow fund and SLGF for the public infrastructure works, the outputs have been apportioned by GLLEP between SLGF for the infrastructure works, affordable housing and the Invest and Growth Fund so as to avoid double counting of outputs. The basis of apportionment is shown in the table below;

	Total	Loan (Invest & Grow)	SLGF Public Works	SLGF Unlocking Rural Housing
<b>Core Outputs</b>				
New Homes	500	151	249	100
Employment Floorspace (sq.m.)	16,390	5,336	3,864	7,190
New Jobs Created / Safeguarded	182	59	98	25
Private Sector Leverage (£m)	19	6	10	3
<b>Additional Outcomes</b>				
Construction Jobs	528	106	175	247
Apprenticeships	4	1.5	2.5	0
Indirect Jobs Created	200	76	124	0

- 6.2 In terms of the calculation of outputs, these have been calculated in accordance with known deliverables by the project in accordance with existing planning permissions. This specifically relates to the extent of infrastructure, new homes and creation of employment floorspace.
- 6.3 Private sector leverage has been calculated through the assessment of the developer's project appraisal and the total value generated by the scheme which is net of the public investment necessary to support the project.
- 6.4 The outputs are however subject to the following adjustments;
- Deadweight – 27%
  - Employment Leakage – 5%
  - Displacement – 17%
- 6.5 Multipliers are as detailed within the English Partnerships/Green Book Additionality Guidance and the proportion of outputs therefore specifically attributable to the SLGF Unlocking Rural Housing grant of £1 million, subject to adjustments is therefore detailed in the table below;

	<b>Net Output</b>
Direct jobs	15.6
Construction jobs	177
Indirect jobs	0

- 6.6 The identified proportion of outputs and net of adjustments and the cost for providing each is detailed in the table below;

	<b>Cost Per Output</b>	<b>SLGF Unlocking Rural Housing</b>
<b>Core Outputs</b>		
New Homes	£10,000 per unit	100 units
Employment Floorspace (sq.m.)	139 per sq.m.	7,190 sq.m
New Jobs Created / Safeguarded	64,102 per job	15.6 jobs
Private Sector Leverage (£m)	1:3	£3 million

	Cost Per Output	SLGF Unlocking Rural Housing
<b>Additional Outcomes</b>		
Construction Jobs	£5,650 per job	177 jobs
Apprenticeships	0	0
Indirect Jobs Created	0	0

6.7 The value for money assessment in relation to the cost of outputs to the £1 million SLGF Unlocking Rural Housing Fund is as follows;

- The cost of providing new housing at £10,000 per dwelling, falls within the HCA standard benchmark of a cost per dwelling of up to £40,000 and is very good value for money.
- Employment floorspace at £139 per sq.m. falls well within HCA standard benchmarks of a cost between £200-£400 per sq.m. for construction of new floorspace. This represents good value for money.
- Cost per job at £64,102 is higher than the HCA benchmark of value for money parameters falling between £16,600 to £42,000. Employment space and jobs created is the smaller element delivered by this project, thus outputs are going to be lower overall and therefore need to be considered in context of the package of outputs delivered.
- Private sector leverage ratio at 1:3 falls above the required benchmark of 1:2.
- Construction jobs at £5,650 per job falls below standard industry cost benchmarks of between £7,000-£15,000 per job in accordance with the HCA's benchmarks and is good value for money.

6.8 Overall therefore, this project is assessed as delivering good value for money.

#### **Other Outputs and Benefits Generated**

6.9 As this project is to provide the first phases of new housing to Boston, along with provision of new commercial and retail floorspace, clearly there will be considerable benefits to Boston and the wider surrounding communities that rely on Boston as its main service centre.

6.10 At this stage, detailed economic analysis has not been undertaken; however benefits potentially attributable to this project or elements of it are noted as follows;

- Boston's five year housing land supply remains critically in short supply and as this project was not an allocated residential site, this has helped to alleviate the shortage of housing land within Boston. Delivery of dwellings on this site, beyond increasing land supply, will assist in providing much needed market and affordable housing to enable retention of the local population, who are often forced to seek housing outside of the Borough. Delivery of the dwellings will also provide a more balanced mix and tenure of housing accommodation within Boston.

- Business Rates Income Generated – Delivery of housing on site is likely to be catalytic to attracting commercial occupiers to the site. This may generate additional business rates income, particularly if the occupier is new to Boston.
- Stimulate Market and Economic Confidence – Given recent circumstances and concerns over turbulent instability in the economy and potential recession due to Brexit, the delivery of built development on a major site in Boston will promote positive messages for the town and wider County.

6.11 Overall therefore, the package of outputs generated by this project are considered to provide good value for money.

## **7.0 Conclusions**

- 7.1 The due diligence completed for this project has been undertaken through detailed discussions with Chestnut Homes, provision of significant supporting information and state aid advice from Eversheds
- 7.2 The scheme is considered ready for early delivery given that all funding with the exception of SLGF Unlocking Rural Housing Fund from GLLEP has been secured.
- 7.3 In accordance with state aid regulations and discussions with Eversheds, the mechanism for investment in this project deemed appropriate is by way of grant aid under the SGEI programme to bridge the cost value deficit that exists.
- 7.4 The need for SGEI funding through the due diligence and cost appraisal has therefore been identified at £1,000,000 in order to facilitate delivery of 100 affordable units across two phases. This sum takes into account the ineligible expenditure being included within scheme costs and thus removed from the appraisal.
- 7.5 It is therefore confirmed that the scheme could commence on site in Autumn 2016 with the first dwellings completed some six months later. Delivery of all 100 units should be completed by Summer 2018.

## **8.0 Recommendations**

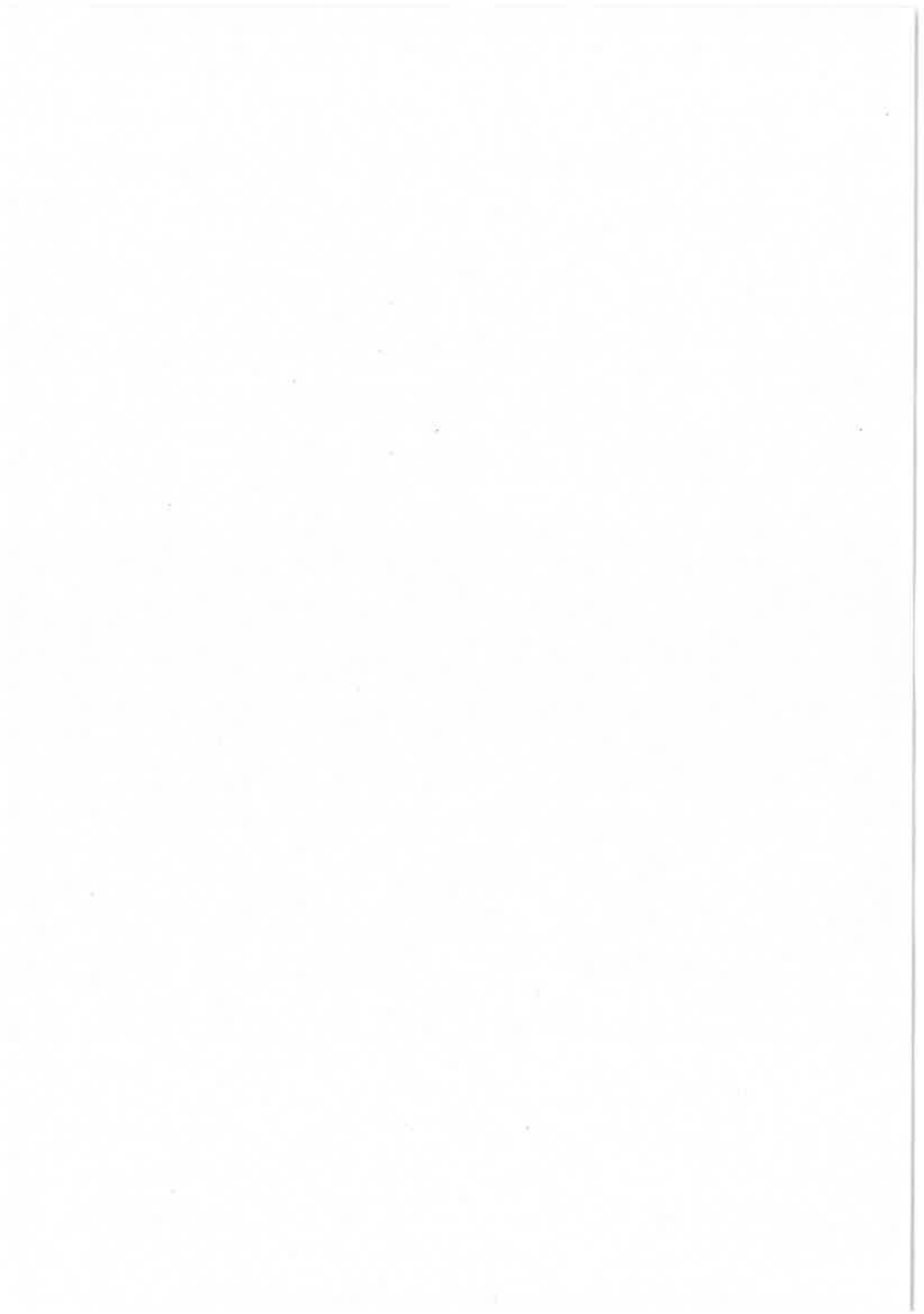
- 8.1 It is hereby recommended that SGEI funding of £1,000,000 is approved for this project, subject to the conditions detailed below;
  - The applicant be required to provide a detailed and updated programme for delivery of the project.
  - That drawdown of grant is only against deferred construction expenditure.
  - Legal confirmation of the sale price achieved on the disposal of the affordable units is provided when all units have sold to Boston Mayflower.
  - Clawback obligations are triggered in the event that disposal of the affordable units is higher than the sums detailed within this due diligence report.

- The applicant undertakes monitoring and reports as required to GLLEP in terms of delivery programme and performance of the project along with all other financial information as required.

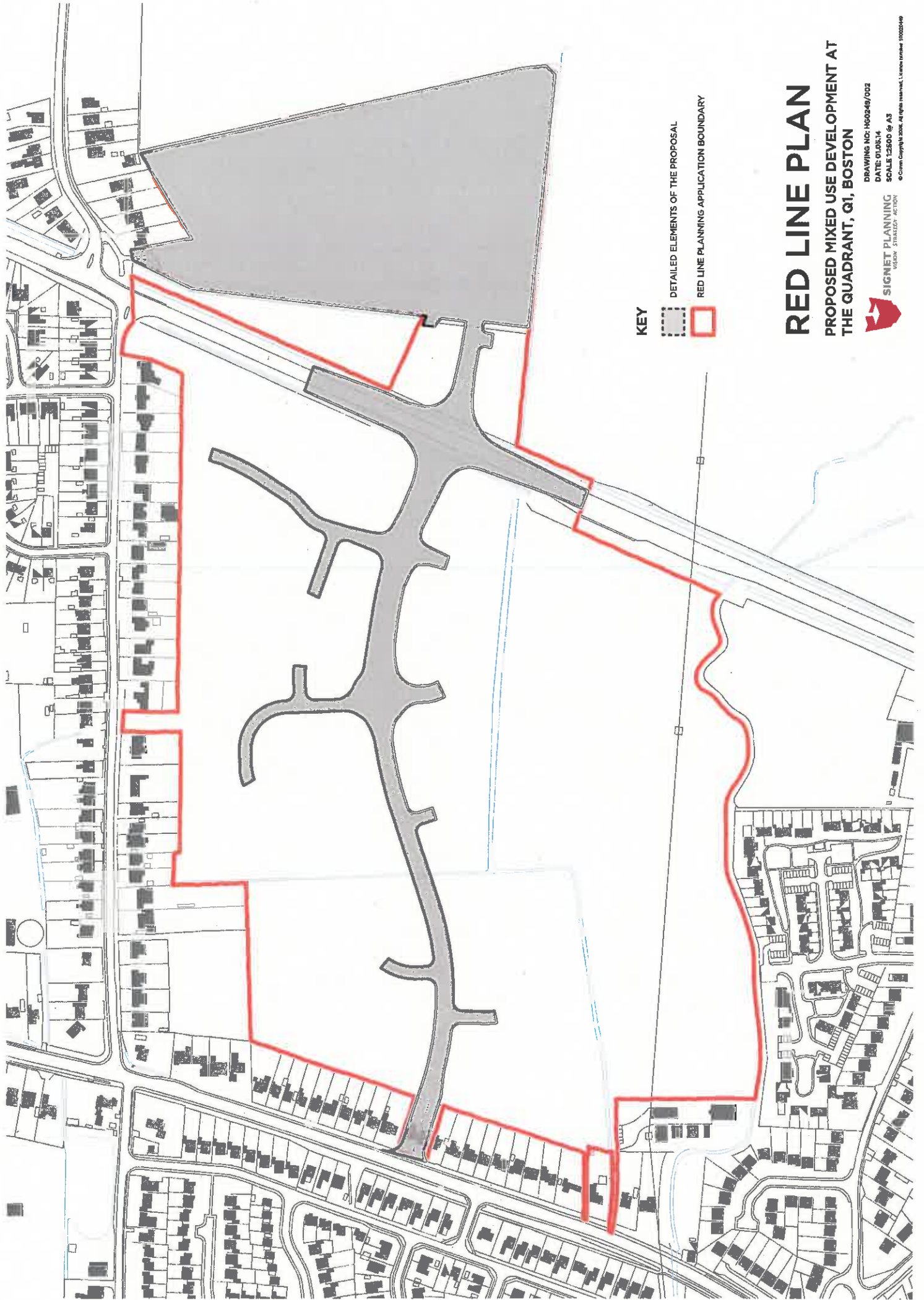


.....  
Date:...8<sup>th</sup> July 2016...

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KEY

DETAILED ELEMENTS OF THE PROPOSAL

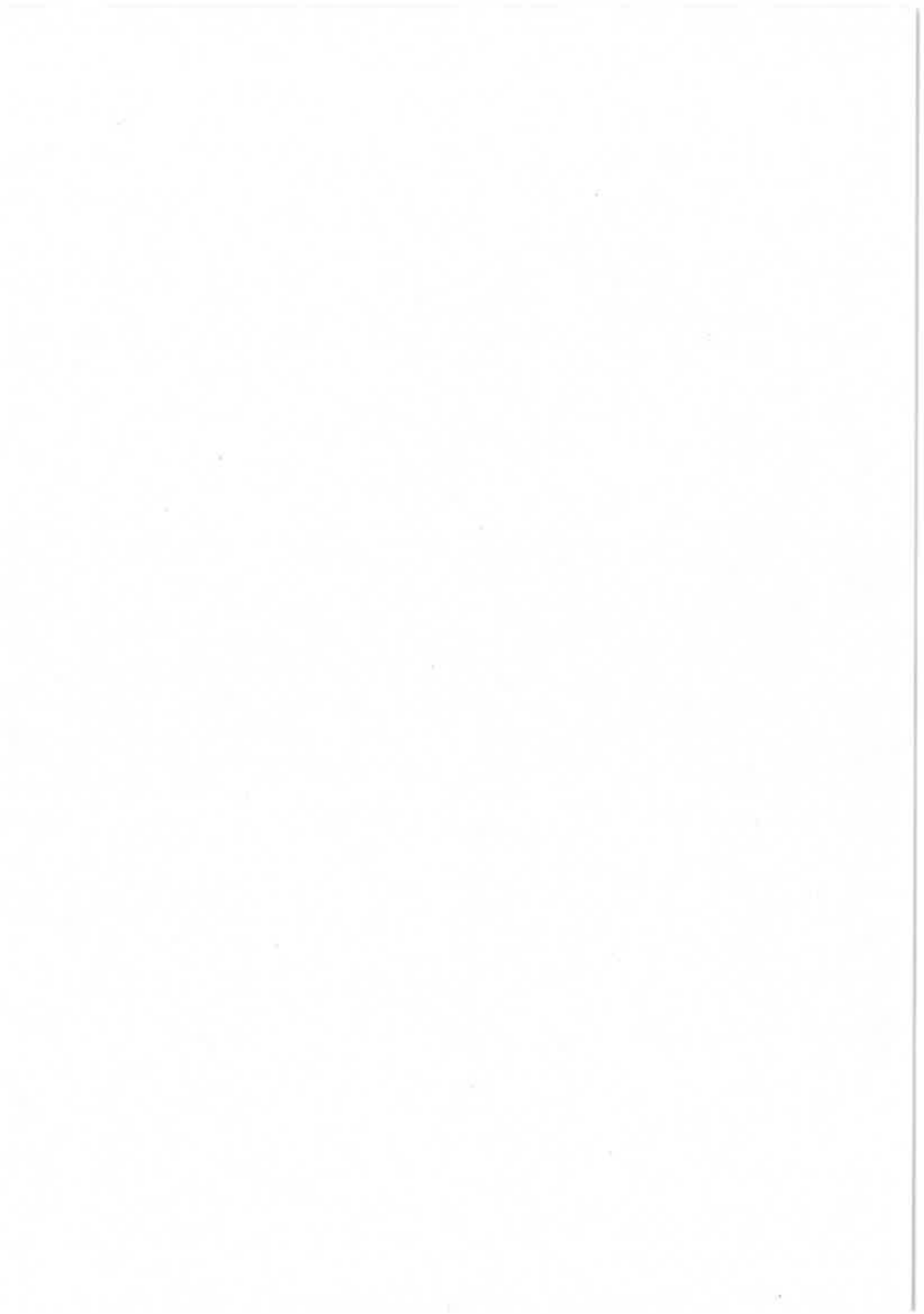
RED LINE PLANNING APPLICATION BOUNDARY

# RED LINE PLAN

PROPOSED MIXED USE DEVELOPMENT AT  
THE QUADRANT, Q1, BOSTON

DRAWING NO: HQ0249/002  
DATE: 01.05.14  
SCALE: 1:2500 @ A3  
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**SIGNET PLANNING**  
VISION STRATEGY ACTION



**Recommendation: A paper for decision**

A decision for approval to proceed to contracting on Northern Junction Roundabout is required from Investment Board.

**Background Information**

Following significant redundancies resulting from the recent Tata Steel site closure, North Lincolnshire Council approached Greater Lincolnshire LEP with a proposal to reassign the existing Berkeley Circle Growth Deal allocation to support investment in enabling infrastructure to bring forward the development of specific housing and employment land in North Lincolnshire.

At the January Investment Board members were asked to endorse 'in principle' the proposal to reallocate £2.9m of growth deal funding from Berkeley Circle to Normanby Enterprise Park 7 and Northern Roundabout infrastructure enhancements adjacent to the new football ground location and north of Lincolnshire Lakes. This due diligence appraisal applies to the second of these projects and relates to £1.9m growth deal grant.

**The Project**

The Northern Junction works, along with those to be undertaken by NLC/Highways England include;

- A terminating junction to be created in the vicinity of Brumby Common Lane over-bridge, with new infrastructure to some villages 1 to 5 to be delivered by Lucent over land forming part of their comprehensive land ownership.
- The creation of a new east-west link running from the terminating junction to Scotter Road, being the cornerstone of the masterplan for the wider Lincolnshire Lakes scheme.
- Construction of the new roundabout
- De-trunked M181
- Works to retained section of M181 to reduce speed limit

The works subject to this application will design and build the northern junction terminating from the M181 along with the required new roundabout. The works to be undertaken will also serve as the primary route of access to SUFC's proposed stadium expansion and new development. This stadium project will provide a 12,000 seated capacity stadium, new sports pitches, hotel, gym, coach and car parking areas.

The primary objective of the proposed works in addition to servicing the Lincolnshire Lakes wider development is:

- To encourage safe and efficient dispersal of vehicle movements into the local highway network, with natural resilience in the local route network with a choice of routes available for key destinations.
- Divert traffic away from the Doncaster Road/Berkeley Circle junction providing sustained and much need congestion relief.
- Provide a deliverable solution as the junction is located on land that is in a single land owners responsibility, who is supportive of the Council aspirations for the Lincolnshire Lakes Area and is prepared to provide the land

for free to implement the junction.

#### The Ask

SLGF is sought at £1.9 million, against total scheme costs of £4,000,000. The funding applied for from GLLEP will contribute to around 47.5% of scheme costs. The balance of funding at £2.1 million will be from SUFC in terms of a contribution towards the infrastructure that will in part, directly benefit their site.

#### Outputs/Outcomes

Though the direct outputs from the scheme, other than the £36m match funding from Scunthorpe United Football Club (SUFC), are deemed very low, this project will deliver one of the primary access routes for Lincolnshire Lakes and SUFC and it should be noted that accessibility to Lincolnshire Lakes is strategically important for both Greater Lincolnshire and Humber LEPS.

#### Conditions arising from Due Diligence Appraisal

The offer of £1.9m SLGF funding is recommended subject to the following conditions:

- i. That the Council provide the state aid advice from their legal advisor as detailed earlier within this report, to verify the works are considered to fall under the remit of Section 13 Aid for Infrastructures, Article 56 Investment Aid for Local Infrastructure.
- ii. An updated programme for completing the design of the scheme, procuring a contractor and delivery of the works to be provided.
- iii. Once the works have been competitively tendered, a copy of the final scheme proposals, report on tenders and submission from the preferred tenderer to be provided to GLLEP for final approval and sign off of costs.
- iv. Written confirmation from SUFC that any cost overruns will be borne directly by them and/or Lucent.
- v. That the proposed reforecasting of £1m of the £1.9m SLGF towards the scheme into 2017/18 is discussed with the LEP as soon as possible given the implications on the wider Growth Deal Programme.

#### Recommendation

It is recommended that £1.9m of SLGF be approved by the Investment Board towards the Northern Junction scheme and that the project can therefore proceed to contracting.

**Greater Lincolnshire Local Enterprise Partnership**

**Due Diligence Assessment**

**In Respect of**

**Single Local Growth Fund**

**For**

**Northern Junction, Lincolnshire Lakes  
Scunthorpe, Lincolnshire**

**11<sup>th</sup> July 2016**

**PAPER 3.1**

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# APPENDICES

I	LOCATION PLAN
II	SCHEME PLANS
III	WYG COST APPRAISAL

## 1.0 Project Summary

### Background

- 1.1 Scunthorpe United Football Club (SUFC), working in partnership with North Lincolnshire Council (NLC), submitted a Full Business Case Application to GLLEP in April 2016 seeking Single Local Growth Fund (SLGF) of £1.9 million to support delivery of the part of the first phase of upfront infrastructure required to service the Lincolnshire Lakes scheme. The infrastructure subject to this application is known as Northern Junction.
- 1.2 SUFC are applicant for SLGF for the Northern Junction as the infrastructure will also service their existing stadium site, enabling them to bring forward major redevelopment proposals for the stadium to increase capacity and deliver a mix of complimentary uses on the site.
- 1.3 In addition, SUFC are able to procure the Northern Junction works outside of OJEU procedures, which if required to be adopted, would impose additional timescales on procuring these works. Adopting an OJEU process would in turn adversely impact on timescales for delivery of other elements of the Lincolnshire Lakes development. Whilst SUFC procuring the works is a mechanism to enable OJEU to be dispensed with, this does not mean that a competitive process to appoint a contractor will be avoided.
- 1.4 In terms of the wider development, Lincolnshire Lakes is a £1.2 billion development project seeking to deliver over 6,000 new homes and accommodating a population of around 14,500 residents. The development is to be built within six villages, set beside five lakes with a target for completion of 2028.
- 1.5 The developer of the Lincolnshire Lakes project is the Lucent Group, who are in the process of working with NLC, GLLEP and South Humber LEP in co-ordinating a number of applications seeking public funding to meet the costs of providing major public infrastructure to enable development of the site.
- 1.6 In this respect, funding has also been secured from the Humber LEP to the sum of £13.3 million. Local Growth Funding (LGF) from the Humber LEP is to meet the costs of undertaking flood mitigation works as part of a package of measures to alleviate risk of flooding across the Lakes development.
- 1.7 LGF will therefore enable the procurement of specialised consultancy advice required to progress design of the flood scheme to an advanced stage. The detailed design would be to bring forward a complex water management and flood mitigation proposal specifically to assess how ground conditions of the River Trent bank along 3.8km can be enhanced. The advice will also be a mechanism for managing short term risks associated with improving the right bank of the River Trent defences from soft to hard defence.
- 1.8 Following the ground investigation works, the most appropriate pile installation techniques and sheet pile design will be identified. This work is expected to take between 9-12 months to complete.

- 1.9 The remaining funding from the Humber LEP will be utilised over years 2016/17 to 2019/20 as a contribution towards the construction of continuous piling and land raising within the development area.
- 1.10 We have been provided with a copy of the offer letter from Hull City Council as Accountable Body, which has been reviewed as part of this due diligence assessment and issues relating to the necessity to apportion outputs between GLLEP and South Humber LEP incorporated within this appraisal.
- 1.11 SUFC working in conjunction with NLC have submitted this application in conjunction with working up detailed proposals for the delivery of their stadium redevelopment, which as planning permission in place, is now in a position to move to delivery stage, once the infrastructure works are in place. The anticipated cost of undertaking the stadium redevelopment is in the region of £38 million.

#### The Site

- 1.12 In terms of location, Lincolnshire Lakes is accessed off Burringham Road to the west of Scunthorpe, adjacent to the eastern boundary of the existing M181 motorway. The present use of the land consists entirely of arable farming along with some areas in use as mobile homes along with areas of woodland. The land to accommodate the Northern Junction works is situated near to Brumby Common.
- 1.13 *A location plan is contained in Appendix I*
- 1.14 The land required for the Northern Junction works comprises in part existing highway being the terminating junction of the M181. The balance of land required, we are advised, is in agricultural use and in the ownership of the Lucent Group. On this basis we are advised that all of the land required for the construction of the new highway is in ownership of the public sector partners and Lucent Group.
- 1.15 Northern Junction will link with proposals currently being advanced by NLC and Highways England to de-trunk around 1.5km of the M181 from the location of the new terminus roundabout (being provided by the subject scheme) leading north from the existing roundabout with Doncaster Road. The de-trunked northern section of the M181 will be downgraded to an A Road. The total site area for these works extends over a site area of circa 12 hectares.

#### The Scheme

- 1.16 The Northern Junction works, along with those to be undertaken by NLC/Highways England include;
- A terminating junction to be created in the vicinity of Brumby Common Lane over-bridge, with new infrastructure to some villages 1 to 5 to be delivered by Lucent over land forming part of their comprehensive land ownership.
  - The creation of a new east-west link running from the terminating junction to Scotter Road, being the cornerstone of the masterplan for the wider Lincolnshire Lakes scheme.
  - Construction of the new roundabout
  - De-trunked M181
  - Works to retained section of M181 to reduce speed limit



- 1.17 The works subject to this application will design and build the northern junction terminating from the M181 along with the required new roundabout. The works to be undertaken will also serve as the primary route of access to SUFC's proposed stadium expansion and new development. This stadium project will provide a 12,000 seated capacity stadium, new sports pitches, hotel, gym, coach and car parking areas.
- 1.18 The primary objective of the proposed works in addition to servicing the Lincolnshire Lakes wider development is noted as follows:
- Encourage safe and efficient dispersal of vehicle movements into the local highway network, with natural resilience in the local route network with a choice of routes available for key destinations.
  - Divert traffic away from the Doncaster Road/Berkeley Circle junction providing sustained and much need congestion relief.
  - Provide a deliverable solution as the junction is located on land that is in a single land owners responsibility, who is supportive of the Council aspirations for the Lincolnshire Lakes Area and is prepared to provide the land for free to implement the junction.
- 1.19 Planning permission for the Northern Junction works was secured in 2014 and there are no other issues to address in terms of planning requirements to enable this scheme to be brought forward for delivery.
- 1.20 *Scheme plans are contained within Appendix II.*

## **2.0 Funding Sought**

- 2.1 SLGF is sought at £1.9 million, against total scheme costs of £4,000,000. The funding applied for from GLLEP will contribute to around 47.5% of scheme costs. The balance of funding at £2.1 million will be from SUFC in terms of a contribution towards the infrastructure that will in part, directly benefit their site.
- 2.2 It is confirmed that there is no requirement for any other third party funding to deliver the works identified within the application.
- 2.3 It is also confirmed that the construction of the Northern Junction and funding by GLLEP is a separate element of the Lincolnshire Lakes project from that being funded by GLLEP for construction of Lake 1 and works, as referred to earlier within this report.

## **3.0 Key Issues**

- 3.1 A number of key issues were identified and addressed within the application, which are summarised as follows;
- i. In terms of procurement of the Northern Junction works, utilising SLGF, confirmation from NLC has been sought to confirm that an industry standard competitive tendering process will be used to secure a contractor for the

proposed works. This is to ensure that the works will be secured on market terms and can be demonstrated therefore to deliver value for money.

- ii. **Project Programme** – It is noted that some of the information provided within the programme for the scheme is now somewhat historic and requires to be updated. Whilst broad parameters for overall delivery of the scheme have remained unchanged, a more detailed programme for delivery of the works and drawdown of GLLEP funding is required for profiling purposes.
- iii. **Outputs** - these appear to be low in terms of the potential package of outputs that could be claimed both in terms of jobs and increased GVA from the stadium development, and a proportion of outputs from the Lincolnshire Lakes development which this project will assist to bring forward. Clarification has been sought from NLC and is detailed within Section 6 of this report.
- iv. **State Aid** – NLC have provided a brief state aid report prepared by Bevan Brittan Solicitors. The report did not address issues relating to the benefit that SUFC will receive from the Northern Junction and whether the financial contribution from SUFC was appropriate and commensurate with the benefit they are receiving from the SLGF funded project.

There have therefore, been extensive discussions with NLC in this respect and the assessment of the position relating to state aid is addressed within section 5 of this report.

## **4.0 Project Appraisal**

- 4.1 The technical appraisal of this project has been undertaken by Thomas Lister, working alongside WYG who have undertaken analysis of scope of work and associated costs of constructing the lake and surrounding infrastructure.

- 4.2 The appraisal is summarised as follows;

- i. **Project Costs** – A cost appraisal has been undertaken by WYG utilising information provided by NLC/SUFC as part of the application to GLLEP. WYG have supplemented the information provided through undertaking a cost benchmarking exercise of similar schemes, which have been tendered and successfully delivered elsewhere within the Midlands and Yorkshire regions.

At the time the cost appraisals have been undertaken, the detailed design process has not been completed. WYG report that some of the sums included within overall costs will require to be subject to review and refinement.

WYG's review has concluded that works costs appear to be on the low side and that costs for delivering the scheme could be in the region of £5.124 million, incorporating provision for 25% preliminaries and 44% optimism bias. WYG's review is however on the basis of a 'first principles' approach, which does not consider any ability to make reasonable cost savings in relation to

the cost and fill exercise for preparing the site, and transporting of fill material. Such savings would be anticipated on a scheme of this nature.

In addition, WYG also consider it likely that preliminaries will be lower than the 25% sum, once detailed design has been concluded.

In view of WYG's findings, it is therefore recommended that costs are verified upon completion of the competitive tendering exercise, and a copy of the report on tenders prepared by SUFC's quantity surveyor/project manager provided to GLLEP accordingly.

In terms of cost risk, discussions have also been held with NLC/SUFC as to who will be responsible for meeting any cost overruns on the project. NLC have confirmed that SUFC will be responsible for meeting any increases in costs and it is recommended that this also is a condition upon which SLGF is approved

- ii. Programme for Delivery – An indicative programme for delivery has been provided and assessed by WYG. The review of the programme is that this is realistic and achievable; however it is recommended that a detailed programme be provided for information and monitoring purposes once the contractor has been appointed for the works.
- iii. Profile of Drawdown of SLGF - An annual programme of drawdown of SLGF has been provided at £900,000 anticipated for 2016/17 and £1 million in 2017/18. It is therefore recommended that a detailed profile for drawdown of SLGF on a monthly basis be provided to GLLEP for budgeting purposes once the construction programme has been agreed with the appointed contractor.
- iv. SUFC Financial Contribution – NLC confirm this has been secured from SUFC at £2.1 million. The appropriateness of this contribution in accordance with state aid regulations is detailed within section 5 of this report.

- 4.3 The due diligence process has therefore has therefore addressed issues of concern and assessed delivery risk, with the exception of SUFC contribution and state aid, which is detailed below.

## **5.0 Mechanism for Investment and State Aid**

- 5.1 The mechanism for investment of SLGF by GLLEP to be by way of grant under Section 13, Aid for Infrastructures, Article 56 Investment Aid for Local Infrastructure.
- 5.2 The investment from GLLEP would constitute funding for the Northern Junction as described earlier within this report. It is confirmed that SLGF will not fund any works directly associated with the Stadium redevelopment or Lincolnshire Lakes residential or commercial uses.
- 5.3 The works to be funded by SLGF will be to deliver enhanced and new public highway and a roundabout, which will form part of adopted highway infrastructure. Use of the infrastructure will therefore be available on an open basis and free to use by the

general public. Generally this falls within the definition of Local Infrastructure under the GBER.

- 5.4 Article 56 does however; make reference to circumstances where any landowners who benefit from public works through an uplift in asset values, should wherever possible be required to contribute towards the cost of works before being permitted to connect into and make use of infrastructure provided with public resource.
- 5.5 Clearly SUFC are benefiting from these works and we understand would not be able to implement the redevelopment of the stadium without these infrastructure works being in place. Clarification has also been sought from SUFC via NLC as to the estimated cost of the necessary infrastructure being provided to enable SUFC's expansion and development in the absence of the Lincolnshire Lakes development. SUFC has advised this is likely to cost circa £6million.
- 5.6 Lucent Group will also benefit from these works being undertaken in terms of unlocking development of the Lincolnshire Lakes site. We understand that Lucent are already contributing significant sums in other elements of the Lincolnshire Lakes development, including site assembly, undertaking feasibility, securing planning permission and by way of section 106 contributions, which will be utilised to meet some of the costs of providing public infrastructure required by the wider development.
- 5.7 In accordance with the contributions that Lucent are known to be making to the project, no further requirement to contribute towards the costs of providing the Northern Junction works has been undertaken.
- 5.8 In terms of assessing the reasonableness of SUFC's contribution, the basis for this has been considered as follows;
- An apportionment of the costs of delivering the Northern Junction works. This is the preferred basis for assessment given the extent of information available and is considered the most straightforward means to undertake analysis.
  - Repayment in accordance with the uplift in value of the stadium created through the works. This would require a Red Book Valuation to be undertaken of the Stadium in its current position and following completion of the infrastructure works, assuming that the stadium development has also been completed. This is likely to be a time consuming, complex and somewhat subjective exercise because, although planning permission is in place, this does not give certainty as to type and nature of any end users of the completed scheme. Varying assumptions in this respect, along forecast visitor numbers, use of pitches etc. can have a material impact on values and may not therefore be wholly reliable in this respect. This means of assessment has therefore been discounted for these reasons.
  - A payment to be structured in accordance with highways usage by the stadium and the Lincolnshire Lakes development. Analysis would require to be undertaken of the traffic generated by the Lincolnshire Lakes scheme over a significant period of time given overall programme for developing out the scheme, along with traffic generated by the Stadium development. A

contribution required by each party to be calculated and applied to the costs of delivering the infrastructure works in accordance with the proportions of traffic generated by each of the developments.

Such an exercise would be required to undertaken by highways consultants and given that there is no certainty in relation to end users of the completed scheme at this time, any assessment in this respect would be somewhat speculative and not necessarily wholly reliable. It is also likely to require considerable time and resource to undertake given the complexities of the exercise. For this reason this approach has also been discounted.

5.9 In assessing SUFC's contribution, we have therefore utilised the following assumptions :

- As public and adopted infrastructure, SUFC could connect into this given that permission is already in place for the stadium expansion and redevelopment proposals. This is subject to an approval for reserved matters where some contributions to infrastructure works could be required if these are specific and directly related to the stadium scheme
- SUFC will benefit from the works to the M181 and from one spur from the new four-spur roundabout providing access to their site along with land for one of the residential villages. The other three spurs from the roundabout will provide access to the new commercial centre and other residential village sites

On this basis SUFC will benefit from one quarter of the infrastructure works being provided. As total costs are anticipated to be £4million, SUFC's contribution would be £1million

- SUFC has estimated that costs of providing infrastructure necessary to service their redevelopment proposals in the absence of the proposed scheme would be circa £6 million
- As SUFC are contributing £2.1 million to Northern Junction, they are saving £3.9 million
- A contribution of £2.1 million equates to 52.5% of £4 million. The contribution of £2.1 million also equates to 54% of the saving of £3.9 million
- SUFC are therefore investing just 52.5% of estimated costs of £4M, when they are one of a number of beneficiaries of the Northern Junction scheme
- SUFC are also investing in the subject scheme over half of the saving they make from not being required to invest in works in the event the Northern Scheme were not being undertaken

In accordance with the above analysis, it is therefore considered that SUFC are contributing to works commensurate with the benefit that they are receiving from Northern Junction, which ultimately benefits the wider with the Lincolnshire Lakes development.

- 5.10 It is noted however that Thomas Lister is not a state aid specialist and therefore as a condition of investment it is recommended that NLC provide a more detailed verification of the state aid position from their appointed state aid advisor.

## 6.0 Outputs and Value for Money

- 6.1 The outputs potentially deliverable by this project as provided by NLC have been subject to ongoing discussion as outputs attributable to the scheme seem very low. NLC have confirmed that, as there are other elements of infrastructure being publicly funded as part of the wider Lincolnshire Lakes development, outputs have primarily been allocated and apportioned between their other publicly funded schemes.
- 6.2 It has been raised with NLC whether jobs created and an increase in GVA could be claimed through the stadium development; however NLC advise this is not possible at this time due to limited information being available on end users and overall potential levels of use.
- 6.3 The outputs which are therefore attributable to GLLEP funding are summarised in the table below;

	Year of Delivery						
Core Output	2016/17	2017/18	2018/19	2019/20	2020/21	Later Years	Total
Private Sector Match Funding	£18 Million	£18.1 Million					£36.1 Million
Other Outputs	2016/17	2017/18	2018/19	2019/20	2020/21	Future Years	Total
New Roundabout Junction		1					1
Indirect New Homes Built						4000	4000
Construction Jobs	30	30					60

- 6.4 It is noted that construction jobs are required to be subject to adjustment in order to establish a net output for the scheme. The following adjustments have been applied to construction jobs created;

Deadweight	27%
Employment leakage	5%
Displacement	17%
Multipliers for the East Midlands region in accordance	1.25%

6.5 The adjusted outputs are therefore shown in the table below;

	Year of Delivery						
<b>Core Output</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>Later Years</b>	<b>Total</b>
Private Sector Match Funding	£18 Million	£18.1 Million					£36.1 Million
<b>Other Outputs</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>Future Years</b>	<b>Total</b>
Construction Jobs	23	20					43
Indirect New Homes Built						4000	4000
New Roundabout Junction	1						1

6.6 In terms of value for money, we would comment as follows;

- Private Sector Match - Provides a ratio of 1:9.5, which exceeds public sector benchmarks of 1:2 and is excellent value for money
- Construction Jobs - Equates to a cost of £93,000 per job, which is significantly higher than the standard HCA benchmarks for cost per job of around £40,000 and is therefore poor value for money
- Other Outputs - The indirect housing outputs being claimed are those in the Lincolnshire Lakes development and are thus first phase of being claimed as direct outputs by other projects. The cost of providing the junction roundabout at £1.9 million from GLLEP is reasonable value for money given the contribution from SUFC

6.7 Therefore, the outputs which are identified as attributable to this project by NLC, are considered to be low in terms of a total package of outputs and thus overall, generally poor value for money. The private sector match funding is the exception to this being excellent value for money.

6.8 Notwithstanding the above investment in this project by SLGF will deliver one of the primary access routes for Lincolnshire Lakes and SUFC. Outputs claimed on the projects are low. However this is due to other publicly funded schemes claiming the majority of outputs generated.

## **7.0 Conclusions**

- 7.1 Lincolnshire Lakes is an important strategic project for GLLEP, NLC and the wider Lincolnshire and Humberside sub-regions. The project has the ability to deliver major new housing development, employment and other supporting uses, in a high quality environmental setting.
- 7.2 The project has been ten years in the making, with significant milestones achieved to date, including securing outline planning permission and advancing with the detailed design of some elements of the required infrastructure works.
- 7.3 In addition, significant upfront infrastructure has already progressed on site, being funded by the Humber LEP, primarily in relation to flood risk works along sections of the River Trent.
- 7.4 The recent approval of SLGF by GLLEP for the construction of Lake 1, also comprises a vital component of a package of upfront infrastructure necessary to service and unlock delivery of this major housing led development.
- 7.5 Northern Junction will enable delivery of infrastructure identified as the cornerstone within the Lincolnshire Lakes masterplan, which in combination with other infrastructure works referred to, will enable delivery of the first phases of development at Lincolnshire Lakes. Northern Junction will also unlock development of the stadium expansion and development.
- 7.6 Our analysis of the project and outputs potentially deliverable has been undertaken on the basis of revised outputs being provided by NLC. The outputs have been subject to apportionment with the Humber LEP, and other GLLEP funded schemes, being Lake.
- 7.7 Our analysis of outputs, which are being claimed by NLC for GLLEP investment for Northern Junction are assessed to be low as an overall package of outputs that could be generated and notably do not include any GVA uplift or jobs created by the stadium development. The low number of outputs claimed is also due to other publicly funded elements of the project already claiming outputs generated by the Lincolnshire Lakes scheme.
- 7.8 The project is therefore recommended for approval, subject to a number of conditions as detailed below.

## **8.0 Recommendations**

- 8.1 It is hereby recommended that SLGF funding be approved at £1.9million. The offer of funding is recommended subject to the following conditions;
  - i. That the Council provide the state aid advice from their legal advisor as detailed earlier within this report, to verify the works are considered to fall under the remit of Section 13 Aid for Infrastructures, Article 56 Investment Aid for Local Infrastructure.



- ii. An updated programme for completing the design of the scheme, procuring a contractor and delivery of the works to be provided.
- iii. Once the works have been competitively tendered, a copy of the final scheme proposals, report on tenders and submission from the preferred tenderer to be provided to GLLEP for final approval and sign off of costs.
- iv. Written confirmation from SUFC that any cost overruns will be borne directly by them and/or Lucent.
- v. The proposed re-forecasting of £1 million of the £1.9 million SLGF towards the scheme into 2017/18 is discussed with GLLEP as soon as possible, given the implications on the wider growth deal programme.



15<sup>TH</sup> July 2016

Date: .....

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