



# Meeting of the City Council

## 9 November 2016

<b>Report title</b>	Wolverhampton Interchange Programme	
<b>Referring body</b>	Cabinet (Resources) Panel – 1 November 2016	
<b>Councillor to present report</b>	Councillor John Reynolds / Councillor Andrew Johnson	
<b>Wards affected</b>	All	
<b>Cabinet Member with lead responsibility</b>	Councillor John Reynolds / Councillor Andrew Johnson City Economy / Resources	
<b>Accountable director</b>	Keren Jones, City Economy	
<b>Originating service</b>	City Development	
<b>Accountable employee(s)</b>	David Moore Tel Email	Head of Major Projects 01902 555871 <a href="mailto:David.moore2@wolverhampton.gov.uk">David.moore2@wolverhampton.gov.uk</a>
<b>Report has been considered by</b>	Strategic Executive Board Cabinet (Resources) Panel	25 October 2016 1 November 2016

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### Recommendation(s) for action or decision:

The Council is recommended to:

1. Approve that the Council underwrites additional costs of £8.1 million initially funded through prudential borrowing with the expectation that external funding will be secured in due course.
2. Approve that the capital programme is updated to reflect the additional budget required.

## **1.0 Purpose**

- 1.1 The Council's Cabinet (Resources) Panel received a report on the Wolverhampton Interchange Programme on 1 November 2016 and recommended that a contribution of £10.7 million from the West Midlands Combined Authority be accepted and that the capital budget be increased to reflect the additional expenditure and associated funding, with the completion of associated legal agreements delegated to the Director of Governance.
- 1.2 The Cabinet (Resources) Panel also noted that a separate report would be presented to Council to seek approval to the Authority underwriting additional costs of up to £8.1 million for the programme and including this in the capital budget, funded initially through prudential borrowing, recognising that it is the expectation that external funding will be secured in due course to fund the additional costs.

## **2.0 Background**

- 2.1 The Wolverhampton Interchange Programme (WIP) is strategically important to the Strategic Economic Plan for the City and the wider Black Country. It will deliver a multi-modal transport hub comprising a new train station, multi-storey car park (MSCP) extension and an extended tram connecting to the railway station through a new stop at the bus station. It will deliver 30,000 sq.m of office, retail and leisure floor space, £80 million of private sector funding and 2,000 jobs.
- 2.2 On 11 March 2015, Cabinet agreed the strategy for bringing forward the Interchange Programme and gave approval to use Council assets to support delivery of the scheme.
- 2.3 The partners to the programme include the City of Wolverhampton Council, Network Rail, West Midlands Combined Authority (WMCA), Canals and River Trust (CRT) and Virgin Trains (as the Station Franchise Operator). The developer for the project is Neptune Projects Limited (Neptune).
- 2.4 The West Midlands Combined Authority/Transport for West Midlands (WMCA/TfWM) will provide £21.9 million funding for the programme, which is split into £10.7 million for the Station and Car Park, with a further £11.2 million allocated to the Metro Extension.
- 2.5 The programme has made good progress to date, building on the success of i10 and i11, with i10 now close to being fully let, ahead of previous budgeted estimations. The success of i10 has also increased demand for premium office accommodation in the City, and other office sites are also now being brought forward in the programme – including plans for commercial buildings at i9 (on Railway Street) and the Steam Mill site. The Steam Mill has been demolished and the site cleared, and work started in February 2016 to extend the Multi-Storey Car Park, and is expected to complete in December 2016.
- 2.6 As part of their responsibilities under the Master Development Agreement, Neptune are in the process of appointing a contractor to undertake the station demolition and reconstruction works.

- 2.7 Some budget pressures and cost increases have emerged on the programme and were reviewed by the Cabinet (Resources) Panel on 1 November 2016. The Cabinet (Resources) Panel were also made aware of activities that are underway to secure additional external funding to cover the additional cost pressures.
- 2.8 In summary, the costs to the project have increased by £12.4 million, and the WMCA/TfWM has agreed to underwrite the additional costs arising from the metro extension (£4.3 million) whilst external funding is secured from sources identified to the Cabinet (Resources) Panel. This is currently expected to result in the Council underwriting the balance of funding (ie £8.1 million) whilst additional external funding is secured. It is expected that the additional funding will be secured before the programme cashflow needs to use the funding that is being underwritten by the Council.
- 2.9 The Council is recommended to agree to underwrite the funding gap of £8.1 million in the short term until such time as external funding is secured.
- 2.10 The Cabinet (Resources) Panel have recommended that the contribution of £10.7 million from the WMCA/TfWM be accepted and that the capital budget for the programme be increased to reflect the additional expenditure and associated funding, and to delegate completion of associated legal agreements to the Director of Governance. This would allow Neptune to progress with procurement of the contractor.

### **3.0 Financial implications**

- 3.1 The overall scheme is now estimated to cost £51.8 million which is £12.4 million above total budget. The additional costs relating to the metro extension (£4.3 million) will be met by the WMCA/TfWM. There are a number of bids in place to secure funding for the remaining balance of £8.1 million. A cost consultant is being employed to review and challenge some of the cost increases and will monitor closely future commitments and identify opportunities for value engineering so reducing the likelihood of further cost increases.
- 3.2 The project has now reached a stage where station design is almost complete and a contract will need to be issued to allow the build to commence in early 2017. A decision not to proceed until formal offers of funding are received would cause a delay to the scheme and incur some additional costs. Inflation increases due to delays to the timing built into the initial business case are one reason for the escalation of costs above budget.
- 3.3 Council is requested to underwrite the shortfall of £8.1 million on the MSCP/station element of the project, initially using prudential borrowing, recognising that it is the expectation that external funding will be secured. The current cash flow profile of the programme suggests that this sum would not be required until late 2017, by which time it is hoped that external funding to meet the shortfall will have been confirmed. It should be noted that at this stage there is no absolute certainty over securing the external funding. In the event that the external funding is not secured there are two options available:

- I. To fund the gap through generating capital receipt(s) and/or
- II. To use prudential borrowing which would cost up to £400,000 revenue per annum.

3.4 The grant agreements with Walsall as Accountable Body for Local Growth Fund and Local Transport Board have clauses that provide for clawback of some/all grant in the event of the specified outputs not being delivered. Failure to progress with the redevelopment of the station could lead to clawback arrangements being invoked which would require the Council to meet the costs previously funded from grant through its own resources [MF/27102016/L]

#### **4.0 Legal implications**

- 4.1 The Council is the station promoter and station facilitator for the Wolverhampton Interchange Project. It has and is required to enter into grant and funding agreements with various financial undertakings attached to the agreements.
- 4.2 The project has reached a stage where the construction of the multi storey car park is near to completion with the station works underway. As detailed with the body of the report, a decision not to proceed until funding streams are in place would cause a delay to the Wolverhampton Interchange Project with potential financial implications.  
[RB/31102016/K]

#### **5.0 Equalities implications**

- 5.1 There are not expected to be any implications for Equalities as a result of this report.

#### **6.0 Environmental implications**

- 6.1 The Wolverhampton Interchange Project will have significant environmental benefits by facilitating the interchange between public transport modes and enabling an increase in the use of public transport. This will have a positive impact on the reduction of CO2 emissions. Underused and derelict land and buildings will be brought back into beneficial use. The buildings will also be built to a high environmental standard. The signing of the Letter of Intent will contribute to the progress in achieving these environmental improvements.

#### **7.0 Human resources implications**

- 7.1 There are no human resource implications.

#### **8.0 Corporate landlord implications**

- 8.1 The Interchange development will produce assets that are operated by transport service providers or the private sector.

8.2 The commercial development floor space developed at Block 11, Queens Building and i10 are owned by the Council and managed by the Corporate Landlord Service.

## **9.0 Schedule of background papers**

- Cabinet Report 10 April 2013 – Block 10, Wolverhampton Interchange
- Cabinet Report 26 February 2013 - Treasury Management Strategy 2013/14
- Cabinet Report 24 July 2013 – Annual Treasury Report 2012/13 & Treasury Management Activity Monitoring – Quarter One 2013/14
- Cabinet Report 18 September – Blocks 10 & 11, Wolverhampton Interchange
- Council Report 6 November 2013 – Blocks 10 & 11, Wolverhampton Interchange
- Cabinet Report 11 March 2015 Wolverhampton Interchange Progress Update and Delivery Strategy
- Cabinet (Resources) Panel 1 November 2016 Wolverhampton Interchange Programme