

# LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 26 July 2019

Authority/Authorities Affected: Wirral

Key Decision

EXEMPT/CONFIDENTIAL ITEM: In Part:

*Report – Not Exempt*

*Appendix 1 Investment Panel Report – Exempt by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972*

*Appendix 2 Viability Gap Analysis – Exempt by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972*

*Appendix 3 SIF I Appraisal Report - Exempt by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972*

## REPORT OF THE PORTFOLIO HOLDER FOR INCLUSIVE ECONOMY AND THIRD SECTOR AND DIRECTOR OF COMMERCIAL DEVELOPMENT AND INVESTMENT

### STRATEGIC INVESTMENT FUND – TOWER ROAD SOUTH

#### 1. PURPOSE OF REPORT

- 1.1 This report seeks Combined Authority (the “CA”) approval to provide grant support to Peel Land and Property for the delivery of the Tower Road South office development in Wirral Waters, to close an identified viability gap.
- 1.2 Please note that this is a Strategic Investment Fund (“SIF”) legacy project so has been progressed and appraised in accordance with the 2016 SIF I Prospectus and previous SIF assurance framework.

#### 2. RECOMMENDATIONS

- 2.1 It is recommended that the Liverpool City Region Combined Authority:
  - (a) Approve the provision of grant funding of up to £3,000,000 for Tower Road South.
  - (b) Grant delegated authority to the Director of Commercial Development and Investment to finalise negotiations of the funding terms and associated

agreements in consultation with the Combined Authority Monitoring Officer and Combined Authority Treasurer.

### **3. BACKGROUND**

- 3.1 The Combined Authority is being asked to approve grant funding to support the speculative development of a 33,541 sq ft Grade A office development on a key site within Wirral Waters (part of the Mersey Waters Enterprise Zone).
- 3.2 Wirral Waters is an ambitious regeneration initiative to transform the 500 acre Birkenhead docklands into a mixed use waterside city extension.
- 3.3 Delivery of the masterplan is underway, with two developments now completed: Wirral Metropolitan College has moved into its £10.5m, RIBA award winning built environment campus, and the new 48,000sqft Tower Wharf building which is now occupied by the Contact Company.
- 3.4 Both Peel and Wirral Borough Council wish to build on this momentum and see the delivery of new commercial floorspace within the Four Bridges area. Tower Road South continues this momentum.
- 3.5 Peel Land & Property as project developer, land owner and SIF applicant, will be responsible for the delivery of the 3 storey, BREEAM Excellent office complex. The building will target indigenous businesses and inward investors looking to either relocate or who require modern floorspace options to facilitate their growth. The building could accommodate up to 113 net new jobs.
- 3.6 The scheme has the full support of Wirral Borough Council, including potential funding support.

### **4. SIF COMMITMENT**

- 4.1 An independent appraisal of the project costs and development values have been undertaken, concluding that the scheme is commercially unviable without public sector grant support. This report is available at Appendix 2.
- 4.2 The report concludes that there is a viability gap of £3.47m; resulting from the costs of development for Peel (£8.4m) being greater than the end value (£4.9m). The maximum SIF grant available has been capped at £3m.
- 4.3 The remaining project costs will be met by Peel; details of the project costs are available at Appendix 2.
- 4.4 It is recommended that the offer of grant support be conditional on the following:
  - 4.4.1 Any offer of Grant support is time limited subject to the completion of a funding agreement by October 2019.
  - 4.4.2 The funding agreement should require Peel to achieve clear delivery milestones (including a defined start of activity).

- 4.4.3 Know Your Customer checks and financial due diligence is completed
- 4.4.4 State Aid compliance is evidenced
- 4.4.5 Confirmation from Peel on the intended procurement route
- 4.4.6 Satisfactory overage provisions are included to capture uplift in values

## 5. SUMMARY APPRAISAL

- 5.1 The Combined Authority engaged Cushman & Wakefield to conduct an external appraisal of the project. This included a review of the development value, review of the construction and other related costs and a review of the economic case for support.
- 5.2 The appraisal concludes the project offers good value for money. The below table provides a summary of the key metrics taken from the economic appraisal:

<b>NPPV</b>	£26.47m
<b>Benefit Cost Ratio</b>	9
<b>Gross Jobs</b>	194
<b>Net Cost per gross job</b>	£17,114
<b>Net jobs</b>	113
<b>Net Cost per net job</b>	£29,394

Note that the realisation of these benefits depends on the origin and type of occupiers attracted. Occupiers from outside the City Region generate the greatest value to it.

## 6. INVESTMENT PANEL CONSIDERATIONS

- 6.1 At its meeting of 11 July 2019, the SIF investment panel endorsed the Project to proceed to Combined Authority consideration. It was recognised that the project originally progressed under SIF Round I and accepted that the appraisal work had been completed satisfactorily. The Panel encouraged the CA to align future interventions with proven demand for the space considered, in order to address market failures in a sustainable way.
- 6.2 The Panel stressed the need for robust default and performance requirements, and to seek robust step-in rights. No additional conditions were raised, further to those presented by the Investment Team (see Appendix 1).
- 6.3 A copy of the Investment Panel paper is attached as a confidential and exempt Appendix 1.

## **7. RESOURCE IMPLICATIONS**

### **7.1 Financial**

The level of SIF funding represents the CA's sole financial resource commitment to the Project.

### **7.2 Human Resources**

The Investment Team and Legal Team will lead the preparation of the funding agreement, and the Programme Management Office will have responsibility for managing the delivery of the Combined Authority's investment.

### **7.3 Physical Assets**

N/a

### **7.4 Information Technology**

N/a

## **8. RISKS AND MITIGATION**

8.1 A number of the delivery risks have been addressed by Peel between consideration of the Outline Business Case and Full Business Case. The site has been remediated and planning permission is now in place.

8.2 The main outstanding / longer term risks are considered to be:

- State Aid – Peel to provide the Combined Authority with a State Aid opinion confirming state aid compliance. Advisors have provided initial advice; final confirmation is now pending.
- Cost Overruns – the costs have been appraised by the CA independent consultants and are therefore considered realistic. Peel bears responsibility for any cost increases.
- Realisation of Outputs and Project Benefits – this is a speculative development with no current occupier identified. Therefore the ability to realise the job creation and economic outcomes are reliant on the successful occupation of the building.

## **9. EQUALITY AND DIVERSITY IMPLICATIONS**

9.1 No adverse impacts anticipated.

## **10. COMMUNICATION ISSUES**

- 10.1 All projects approved will be subject to the Combined Authority's branding guidelines and publicity requirements placed upon them as part of the funding agreement. In addition the Combined Authority will, through its adopted communication protocols, publicise the award of funding to the project and the associated outcomes.

## **11. CONCLUSION**

- 11.1 This report presents the proposed grant funding arrangements in respect of the development by Peel of a new Grade A office development and seeks delegated approval to the Director of Commercial Development and Investment to proceed with the finalisation of the funding agreement.

Mark Bousfield  
Director of Commercial Development and Investment

Councillor P Hackett  
Portfolio Holder: Inclusive Economy and Third Sector

Contact Officer(s):

Mark Bousfield, Director of Commercial Development and Investment

### Appendices:

Appendix 1 - Investment Panel Paper (exempt)

Appendix 2 – Cushman & Wakefield Viability Gap Analysis (exempt)

Appendix 3 – Cushman & Wakefield SIF I Appraisal Report (exempt)

### Background Documents:

Nil

