

# LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 26 July 2019

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: No

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

### REQUESTED CHANGES TO PREVIOUSLY AGREED SIF PROJECTS

#### 1. PURPOSE OF REPORT

- 1.1 To consider and agree changes requested by applicants in relation to previously approved SIF projects.

To note that some SIF projects will continue to be brought to members for determination regarding proposed changes.

#### 2. RECOMMENDATIONS

- 2.1 It is recommended that the Liverpool City Region Combined Authority:

- (a) Consider and agree the changes requested by the applicant Speke Training and Education Centre Limited set out in paragraphs 3.2-5 below;
- (b) Consider and agree the changes requested by the applicant Liverpool City Council as they relate to Paddington Village set out in paragraph 3.6-7 below;
- (c) Note that some SIF project changes will continue to be brought to members for determination as not all project changes will readily fit into the newly agreed change control criteria.

#### 3. BACKGROUND

- 3.1 Members will recall that in May 2019, a revised constitution was approved for the LCRCA. Included in the revised constitution was a criteria to deal with changes that may occur in the life of an approved SIF project. Application and interpretation of the criteria, is settling down with officers in the CA. For ease, the agreed change control criteria is;

*Following Combined Authority approval of a Strategic Investment Fund project to give officers delegated authority to deal with changes that may occur whilst the project is being delivered with the following parameters:*

*(1) Immaterial includes:*

- a. financial changes up to the greater of £100k and 5%*
- b. changes in outputs up to 7.5%; and*
- c. delays in timing (for both funding and outputs) of up to 10%.*

*of the value of the SIF funding approved*

*(2) Intermediate includes*

- a. Financial changes up to the greater of £250k and 10%*
- b. changes in outputs up to 15%; and*
- c. delays in timing (for both funding and outputs) of up to 20% of the value of the SIF funding approved.*

*Such changes may be approved by the Head of Paid Service, and/or Directors and Monitoring Officer. Such Directors must include the Treasurer. Such consideration can include changes in delivery arrangements unless they present a material change in risk to the SIF commitment approved. Such decisions will be reported to the CA as part of the SIF monitoring arrangements.*

*The CA shall consider material changes in excess of these thresholds.*

- 3.2 However, two changes warrant consideration and determination by the CA, as they do not coincide with the change control criteria. The first change relates to STEC and second relates to Paddington Village.

**Speke Training and Education Centre Limited (STEC)**

- 3.3 The STEC change is a change to project works completion date, financial completion date and project end date. It is the scale, not the nature of the changes that make this a case that should be considered by the CA. In total the project is being delayed by 19 months as the works completion is now forecast for 30 September 2020. The project scope remains the same. This means that the outputs and outcomes of the project as originally specified are unaffected.

<b>Nature of Change</b>	<b>Original date</b>	<b>New date</b>
Project Works Completion	28 February 2019	30 September 2020
Financial Completion Date	31 July 2020	30 November 2020
Project End Date	1 April 2023	1 October 2025

- 3.4 As a consequence of these changes, the expenditure profile set out in the Grant Funding Agreement requires revision. The revision will also reflect the fact the project is, in common with other projects, experiencing increased construction costs.
- 3.5 An overall observation that officers would wish to make that there are a number of projects from SIF 1 that may require amendment/change control in this way. Where the change control criteria allows, officers will determine these change requests, so as to ensure that projects are not unduly delayed.

## **Paddington Village**

- 3.6 Members will recall that in December 2017 the Combined Authority (the CA) approved a grant contribution towards site preparation and remediation works at Paddington Village. These works will create a platform for 8 key development plots to be brought forward as part of the Knowledge Quarter extension. The intended uses for the individual plots were detailed in a Masterplan appended to the Grant Funding Agreement. At the point of legal execution, 3 of the 8 plots had confirmed delivery plans in accordance with the Masterplan. The site preparation works are being delivered across 5 separate work packages, at the point of approval these work packages were partially still subject to tender and phasing arrangements.
- 3.7 In May 2019, LCC notified the CA of a number of project changes since the GFA was executed, these being:

### **1) Amendment to the Masterplan to change the intended use of Plots 9 and 10 from commercial offices to a hotel and residential block**

The original masterplan was submitted at OBC stage (Sept 2017) to the CA; since this period, the scheme has evolved reflecting market considerations and delivery constraints. As such, a variation to the original Masterplan is required.

The key changes to the Masterplan are:

- Original masterplan: Plot 10: Commercial offices. Plot 9: Commercial offices.
- Proposed masterplan: Plot 10: Hotel (220 bed key dual brand). Plot 9 Build to rent residential (200 units). Minor amends to some Original Use floor areas.

The original masterplan had a significant proportion of floor space identified for commercial offices (c 630,000 sq ft); this is now considered by Liverpool City Council as too much to bring to the market in the timescales. Following market research, a hotel is proposed to both support Paddington and the wider Knowledge Quarter, Liverpool. Bringing a hotel and residential scheme forward after the first commercial building (Plot 3 the spine – c 200,000 sqft) would keep development momentum and allow time to bring the next commercial office scheme to the market at Plot 8 (c120,000). Due to site logistics, the development sequence is intended to be Plot 3, Plot 10, Plot 9, Plot 8, Plot 7. The other plots remain unchanged.

It should be noted that whilst the proposed amends have no impact on the project costs or outputs, it is quite a significant change proposed to the overall commercial nature of the scheme. The introduction of residential could optimise the opportunity for the CA overage above first returns to be triggered.

### **2) Amendment to the Project Longstop Date from 31 March 2020 to 30 September 2020**

The original Phase 1-5 scope of works and sequence/logistics of construction was submitted at OBC stage (Sept 2017) and during FBC/GFA negotiations evolved to the current Phase 1-5 work packages (WP) based on the latest masterplan which is proposed to be delivered on site. With the GFA now signed in February 2019, a Variation is required to update the composition and timescales for each package.

There is no change to the overall scope or specification of works. It has no effect on the costs, outputs, outcomes of the project but does have an impact on the Longstop Date and annual expenditure profiles. Works have simply been moved around to become more efficient and, to accommodate development of plots on site that were not visible at OBC/FBC stage.

### **3) Amendment to Relevant Percentage from 72.04% to 78.3% and level of Qualifying Expenditure from £16,657,224 to £15,324,970.**

The proposed amendment to the Longstop Date, would mean SIF would not be fully claimed until Q3 2020/21. Officers have worked with LCC to accelerate the SIF claim period, to enable all SIF to be claimed against work packages 2, 3 and Utilities and claimed by end Q4 2019/20.

In summary, following consideration, of this Change Control, a Deed of Variation to the Funding Agreement will be required to:

- Replace Schedule 9 (Masterplan)
- Replace Schedule 8 (Project Cost Tables)
- Amend the Longstop Date to September 2020
- Amend the Relevant Percentage to 78.3% and associated Qualifying Expenditure

### **General**

- 3.8 Experience to date has demonstrated that SIF projects come in all shapes and sizes and their journey to outcomes being delivered can be varied, challenging and rarely follows a straight path. The development of the change control criteria tries to ensure that decision making process around project changes is efficient, proportionate and appropriately governed. Older projects approved in the early days of SIF 1 by the CA, are now benefitting from increased experience and confidence on how to manage project outcome and delivery. For many of these legacy projects, the timelines, budget and outcomes were both optimistic and ambitious. Consequentially, despite the new control criteria, some SIF 1 project changes will continue to require determination by the CA. Members will also note that a regular quarterly report on the Strategic Investment Fund will be presented to the CA for information. This quarterly report will include information about any changes agreed by officers at the immaterial and intermediate level as defined above.

## **4. RESOURCE IMPLICATIONS**

There are no resource implications arising from consideration of this report for the following aspects, financial, human resources, physical assets or information technology.

## **5. RISKS AND MITIGATION**

- 5.1 Members can choose to not agree to the requested changes. Such a step would mean that project delivery of agreed outputs and outcomes would either be compromised or cease.

## **6. EQUALITY AND DIVERSITY IMPLICATIONS**

- 6.1 There are no issues arising from the contents of this report.

## **7. COMMUNICATION ISSUES**

- 7.1 Appropriate liaison has occurred with relevant officers from Liverpool City Council.

## **8. CONCLUSION**

- 8.1 Members are requested to consider and agree changes to previously agreed SIF projects.

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PORTFOLIO HOLDER FOR INCLUSIVE GROWTH AND THIRD SECTOR

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Background Documents:

Nil