

LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 1 November 2019

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: In Part:

Report – Not exempt
Appendix 1 – Not Exempt
Appendix 2 – Investment Panel Report - Exempt by virtue of paragraph (s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972
Appendix 3 – Financial Conditions - Exempt by virtue of paragraph (s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972

Key Decision

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

STRATEGIC INVESTMENT FUND – LIGHT INDUSTRIAL PROJECTS

1. PURPOSE OF REPORT

- 1.1 To advise the Combined Authority on the progression of proposals from developers to undertake light industrial development to accommodate the needs of growing businesses requiring commercial floorspace.
- 1.2 To seek Combined Authority approval to award Strategic Investment Funding to specific projects to support the development of speculative light industrial floorspace across the city region.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Liverpool City Region Combined Authority:
 - (a) Approve the provision of grant funding from the Strategic Investment Fund (SIF) for each of the following four projects up to the amount specified:
 - Brookfield Park, Ph 2 (Liverpool) - £1,092,247
 - Gerards Park, Ph 2 (St Helens) - £1,040,029
 - Image Business Park (Knowsley) - £861,069

- Magazine Point (Wirral) - £766,943
- (b) Approve the funding conditions set out in Appendix 3;
 - (c) Note the progress of the Sutton Fold project and request that the project applicant demonstrates deliverability by 31 May 2020 in order for a decision to be taken regarding SIF grant funding for the project; and
 - (d) Grant delegated authority to the Director of Commercial Development and Investment to finalise negotiations of detailed funding terms and associated agreements for the projects specified at (a) and (b) above in consultation with the Combined Authority Monitoring Officer and Combined Authority Treasurer.

3. BACKGROUND

- 3.1 Since the launch of the SIF II call, the LCR Combined Authority (the LCRCA) has received a number of enquiries from developers proposing to undertake speculative light industrial development, to accommodate the needs of businesses that require modern commercial floorspace to expand and grow. In response to this, the LCRCA issued Supplementary SIF Guidance in March 2019 for the delivery of light industrial floorspace across the city region.
- 3.2 The guidance responded to a recognition of the value of this type of activity and the need to provide for it in a way that balances demand against other economic growth sectors/interventions. This approach was supported by the constituent local authorities.
- 3.3 The provision of this activity supports the city region in retaining indigenous SMEs, looking to expand / upgrade from lower grade stock whilst also attracting new inward investment opportunities into the region.
- 3.4 The LCRCA sought submissions from private sector sponsors who had “worked up” proposals able to deliver new and/or refurbished industrial space in the short term, targeted at SME occupiers.
- 3.5 In response, seven SIF applications were received across five local authority areas. Two projects have since withdrawn from the process, with five remaining schemes progressing to Full Business Case (FBC).

4. PROJECT OVERVIEW

- 4.1 Five schemes were considered at FBC stage; a description of each project is included at Appendix 1. An independent review of the costs and values, an economic assessment and a review of deliverability have been undertaken. Following this work, four projects are presented for funding approval, these being:
 - Brookfield Business Park, Aintree, Liverpool
 - Gerards Park, St Helens

- Image Business Park, Knowsley
- Magazine Point, Bromborough, Wirral

4.2 A fifth scheme, Sutton Fold is not considered to be at a suitably advanced stage to meet the deliverability criteria or merit an offer of investment at this stage.

4.3 However, it is considered that the social motives of the Sutton Fold project merit its retainment within the SIF pipeline. It is proposed that the applicant be given until 31 May 2020 to demonstrate greater deliverability (including progression of land ownership to signed Heads of Terms, submission of detailed cost and design information and evidence of planning preparation).

4.4 All schemes recommended for approval have an evidenced viability gap, whereby the projects costs are greater than the end values. These projects will therefore not proceed in their current form without public sector intervention.

4.5 Funding will be provided on a grant basis with overage provisions included to enable recovery of the SIF outlay if financial conditions allow.

5. SUMMARY APPRAISAL

5.1 The LCR Combined Authority appointed Keppie Massie to conduct an external viability appraisal of the individual projects to ascertain the need for public sector support. This specifically considered the project values, costs and deliverability.

5.2 An economic analysis has also been undertaken to estimate the economic impact of the project. The appraisal has focused on the employment impact of each development, expressed in terms of Gross Value Added (GVA) to the LCR economy and compared against the level of SIF grant to derive a Net Present Value (NPV) and benefit cost ratio (BCR). In total, it is expected the four projects will create up to 452 gross jobs for the city region (108 net and indirect jobs).

5.3 All projects have a BCR greater than 5, indicating a very high value for money (VfM) position.

5.4 The below table provides the key metrics from the economic appraisal:

Metric	Magazine Point	Image Business Park	Gerards Park	Brookfield Business Park	Total
NPV	3.55	4.09	4.58	4.75	16.97
BCR	5.61	5.76	5.40	5.36	5.51
VfM	Very High	Very High	Very High	Very High	Very High

5.5 There is also a strong qualitative case for investment in light industrial premises. Data of new development in recent years demonstrates that very little speculative development of such premises has been undertaken, due to the risk inherent in such a market and the differential in cost and capital values. However, demand from occupiers is positive and this market sector is important for the Liverpool City Region in enabling SME creation and growth and associated job creation.

6. INVESTMENT PANEL CONSIDERATIONS

6.1 At its meeting of 11 October 2019, the SIF Investment Panel endorsed the projects presented for progression to Combined Authority consideration.

6.2 A copy of the Investment Panel paper is attached as Appendix 2. This paper recommends the offer of grant support to individual projects is conditional on the following:

- Terms of grant being materially in line with the draft Heads of Terms
- Inclusion of overage provisions for each project. Recalculation of the “end value” at a pre-prescribed future date with proportion of any uplift repaid to the CA.
- Inclusion of contractual project specific milestones within each funding agreement
- Satisfactory provision of state aid opinion
- Completion of social value questionnaire.

7. RESOURCE IMPLICATIONS

7.1 Financial

The level of SIF funding represents the LCRCA’s sole financial resource commitment to the Projects.

7.2 Human Resources

The Investment Team and Legal Team will lead the preparation of the Funding Agreements for each Sponsor and the Programme Management Office will have responsibility for managing the delivery of the Combined Authority’s investment.

7.3 Physical Assets

There are no physical asset implications arising from this report.

7.4 Information Technology

There are no information technology implications arising from this report.

8. RISKS AND MITIGATION

8.1 The identified project risks include:

- 8.1.1 Delivery – further cost refinement is anticipated across all the projects as they near start on site position. Consequently, delivery costs could increase, however available costs and specifications have been appraised by the LCRCA's independent consultants.
- 8.1.2 State Aid – each applicant is to provide the LCRCA with a State Aid opinion confirming state aid compliance.
- 8.1.3 Planning – one project has received full planning permission. The remaining three schemes are currently in the process of preparing and / or securing permission. The risk of this is considered low as all sites are in areas of existing industrial use.
- 8.1.4 Realisation of Outputs (Letting/Sale risk) - these are speculative proposals, therefore the ability to realise the job creation and economic outcomes is reliant on the successful occupation of the buildings.

9. EQUALITY AND DIVERSITY IMPLICATIONS

- 9.1 No adverse impacts are anticipated. Each project applicant will be required to complete the Social Value questionnaire prior to contracting.

10. COMMUNICATION ISSUES

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

11. CONCLUSION

- 11.1 This report presents four projects for SIF funding consideration and the proposed grant funding arrangements to support the cumulative delivery of c.232,000 sq ft of new industrial floorspace across the city region. Delegated approval is sought for the Director of Commercial Development and Investment to proceed with the finalisation of the funding agreements in consultation with the Combined Authority Monitoring Officer and Combined Authority Treasurer.

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Councillor P Hackett
Portfolio Holder: Inclusive Economy and Third Sector

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Appendices:

- Appendix 1 – Summary of Projects (non exempt)
- Appendix 2 - Investment Panel Paper (exempt)
- Appendix 3 – Financial Conditions (exempt)