



**COUNCILLOR
ANGELA DAVIES**

CABINET

25 MARCH 2019

**WIRRAL WATERS INVESTMENT FUND –
APPLICATION FOR FINANCIAL
ASSISTANCE**

Councillor Angela Davies, Cabinet Member for Jobs and Growth said:

“The Wirral Waters Investment Fund is there to kick-start regeneration at the site. This proposal is to support a major development at Wirral Waters, helping to bring more businesses and growth to the area.”

REPORT SUMMARY

Peel Investments (Intermediate) Limited has requested a grant of £1,500,000 from the Wirral Waters Investment Fund to support the delivery of Marine Energy and Automotive (MEA) Park Phase 2, which comprises 12 new industrial units for light industrial uses as part of the wider MEA Park Masterplan, which is targeted to provide a sector-focused environment to support business growth and capacity.

The Wirral Plan: A 2020 Vision sets out the vision for the borough and has economic growth at its heart to ensure residents are able to access good, high paying jobs in a stable and thriving economy. The Plan identifies 20 key pledges that the Council, and its partner agencies, must deliver and the application for financial assistance contained in this report directly supports the following pledges:

- Increase inward investment
- Workforce skills match business needs
- Greater job opportunities
- Thriving small businesses

This matter affects all Wards within the Borough.

The decision is regarded as a key decision.

RECOMMENDATIONS:

It is recommended that Cabinet:

1. Approves a grant to Peel Investments (Intermediate) Limited through the Wirral Waters Investment Fund to support the development of new high quality industrial floorspace;
2. Authorises the Director of Governance and Assurance in consultation with the Corporate Director of Business Management to draw up and sign a legal agreement between the Council and Peel Investments (Intermediate) Limited that is within State Aid regulations and subject to the conditions contained in Appendix 1 to this report.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

- 1.1 To enable Peel Investments (Intermediate) Limited to create new, high-quality industrial floorspace at MEA Park Phase 2, to support the priorities of the Wirral Waters Investment Fund (WWIF).
- 1.2 To develop a sector-focused environment to support business growth and job creation in the supply chains of priority sectors, in line with the objectives of the Wirral Plan and Growth Plan and Liverpool City Region sector priorities.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Peel Investments (Intermediate) Limited has requested a grant of £1,500,000 to support the delivery of Marine Energy and Automotive (MEA) Park Phase 2, which comprises 12 new industrial units for light industrial uses as part of the wider MEA Park Masterplan, which is targeted to provide a sector-focused environment to support business growth and capacity. The £5.98m project costs demonstrate a total viability gap of £1.5m.
- 2.2 The Council has considered a number of other options which were discounted as follows:
 - a) Provide a loan rather than grant: An independent appraisal of the application has concluded that the project is not currently viable and therefore requires grant funding through WWIF to facilitate development.
 - b) Adopt a 'do nothing' approach: The development would be jeopardised, as the project is reliant on securing funding from other public/private sources to meet the identified viability gap. This WWIF grant will enable the delivery of a high-quality industrial development which will support the Wirral Plan and Growth Plan and Liverpool City Region sector priorities. Without grant funding support the project may not proceed at all.

3.0 BACKGROUND INFORMATION

Wirral Waters Investment Fund Background

- 3.1 Cabinet approved the development of an investment framework for the reinvestment of business rate uplift within the Wirral Waters part of the Mersey Waters Enterprise Zone at its 12 March 2015 meeting (Minute 156 refers). A further report was taken to Cabinet on 5 November 2015 where Members formally approved the creation and operation of the Wirral Waters Investment Fund and the incorporation of the investment potential for Phase 1 (£16m by 2020) into the Council's Capital Programme (Minute 62 refers). The Cabinet report also identified potential for the Fund to enable longer-term investment of up to £47m by 2037.
- 3.2 The Investment Fund has been created on the basis of reinvesting uplifted business rates and/or prudential borrowing against future business rates into the Enterprise Zone up to 2037, to support new projects through grants and loans and generate further business rates income. This will support the growth aspirations of the Wirral Plan and Wirral Growth Plan.

- 3.3 The area in and around the Birkenhead Dock system suffers from a number of inter-related market failures following decades of industrial decline and lack of investment. New development in the area is often not viable without some form of public sector support. The low values - and associated impact on viability - are caused by the historically poor external perceptions of the area, the lack of occupier confidence across all sectors and associated uncertainties about investment returns.
- 3.4 The Wirral Waters Investment Fund therefore provides a mechanism to support the following:
- **Development viability support** – funding support for commercial, industrial and residential development schemes, to close the gap between costs and values, allowing commercial development schemes to proceed.
 - **Land remediation and servicing** – on-site and off-site works to address poor ground conditions through land remediation and the installation of key services.
 - **Environmental improvements** – on-site and off-site works aimed at enhancing the quality of the environment across the Wirral Waters area including the improvement of road corridors and gateway locations.
 - **Infrastructure investment** – on-site and off-site works targeting specific infrastructure weaknesses to enhance access and traffic flows.
 - **High quality communities** – a programme of on-site and off-site investment aimed at enhancing amenity to create a sustainable environment for businesses and residents moving into the area.

Wirral Waters Investment Fund Business Plan (August 2018)

- 3.5 The latest Wirral Waters Investment Fund Business Plan (August 2018) included as Appendix 2 to this report provides an up-to-date investment appraisal of Phase 1 projects. It provides an update to previous business plans, based upon the refined assessment of the emerging pipeline of development projects.
- 3.6 The Business Plan sets out that intervention in the early years of the programme – if invested in the right projects and in the right cluster locations - will have a transformational impact in terms of attracting significant investment and enhancing the image of the area in and around Birkenhead.

Wirral Waters Investment Fund Process

- 3.7 GVA has been commissioned to provide expert advice and support for the assessment and appraisal of business cases submitted to the WWIF, ensuring robust due diligence is undertaken. This includes undertaking a site-by-site independent business case review; analysing the property market to support the public investment decision; and reviewing the financial returns to the Council.

The Project

- 3.8 Peel Investments (Intermediate) Limited has applied for a grant of £1,500,000 viability support through the Wirral Waters Investment Fund to support the delivery of MEA Park Phase 2 which has a total project cost of £5,980,371. The project comprises 12 new industrial units for light industrial uses (at c. 69,000 sq ft) and external infrastructure works to support key sector development at West Float.

- 3.9 A site plan showing the extent of the boundary is included in Appendix 3.
- 3.10 The site forms part of the wider Marine, Energy and Automotive Park (MEA Park) Masterplan, which is targeted to provide a sector-focused environment to support business growth, and capacity in the local supply chains of these sectors, by enabling companies to gain efficiencies from modern premises, accommodate growth and benefit from clustering with businesses from similar sectors. The main sectors considered are energy/renewable energy related to offshore wind farms in the Irish Sea; automotive; aerospace; distribution and general manufacturing, which supports the aspirations of the Wirral Plan and Growth Plan and Liverpool City Region sector priorities.
- 3.11 Investment in the MEA Park Phase 2 development will also support the development of the Skills Factory and the Modular Development Centre (as detailed in the Wirral Waters Investment Fund Phase 1 Business Plan [August 2018] at Appendix 2) thereby enabling the local supply chain and SMEs to be well-positioned to take advantage of potential future contracts arising from those schemes.
- 3.12 The scale and configuration of the scheme has been designed to satisfy the requirements of small and medium sized businesses and the site will bring forward a derelict brownfield site for re-development.
- 3.13 At its meeting of 29 November 2018, the Investment and Change Board approved to progress to Cabinet the approval of £1,500,000 grant funding to Peel Investments (Intermediate) Limited for MEA Park Phase 2 through the Wirral Waters Investment Fund, subject to the conditions set out in Appendix 1 to this report.

Market Demand

- 3.14 Wirral Council commissions Wirral Chamber of Commerce to provide support to businesses seeking to expand or relocate in Wirral. As part of this contract, the Chamber of Commerce provides regular business intelligence to ensure that the Council is fully aware of the requirements of existing and new business seeking to invest in Wirral.
- 3.15 Recent intelligence received from the Chamber of Commerce identifies that between April and June 2018 Legat Owen, a firm of Chartered Surveyors and Commercial Estate Agents, registered up to 60 individual enquiries for industrial floorspace in Wirral; largely for between 4,000- 5,000 sq ft of space.
- 3.16 According to the latest Chamber of Commerce intelligence, the most pronounced shortages in Wirral are currently for industrial premises up to 10,000 sqft, which has only been partly addressed by recent developments along the A41, at the Lightbox and Turbine Business Park. Wirral has a relative lack of high quality industrial units to support local investment projects, as well as inward investment enquiries, demonstrating a need for new, high-quality medium sized industrial units at MEA Park.

- 3.17 GVA has reviewed the market demand position for industrial uses in Wirral as part of the appraisal of the MEA Park Phase 2 application and conclude that the anticipated rent of £5.75 per sq ft is considered reasonable in the context of a high-quality product in what will become a high-demand area, with tenants of good covenant strength on decent lease terms.

Key Outputs

- 3.18 The project will deliver approximately 69,000 sq ft of new industrial floorspace and will generate an estimated £3,069,937 for the Council in additional business rates within the Mersey Water Enterprise Zone from practical completion until 2037, at an average rate of £170,552 per annum.
- 3.19 The project is projected to create 67 new jobs (gross person years) during the construction phase and 154 (FTE) jobs following practical completion. It is also projected to leverage £4.48m of private sector investment during the construction phase and generate further investment by end users in the form of fit-out and ongoing operation.

4.0 FINANCIAL IMPLICATIONS

- 4.1 GVA has appraised the solvency of Peel Investments (Intermediate) Limited as the applicant and conclude that, although the company has been given a credit score of D-9 by Creditsafe and is considered to be a high risk, it is important to look at the parent company Peel Holdings Land and Property (UK) Ltd which has a strong credit rating. Peel Holdings Land and Property (UK) Ltd also has a good track record in delivering projects. A condition of the grant funding would be that a guarantor agreement will be put in place with Peel Holdings Land and Property (UK) Ltd to provide additional security to the Council that Peel Investments (Intermediate) Limited has the financial capacity to develop the project.
- 4.2 Project costs and funding arrangements are set out in Appendix 1 to this report. In addition to the grant request of £1.5m from the Wirral Waters Investment Fund, there will be £3,480,371 of private sector funding and a £1m loan from Chrysalis required to deliver the project. The private sector funding is in place and the loan has been agreed in principle by Chrysalis.
- 4.3 GVA has appraised that, once completed, this scheme will deliver approximately £3,069,937 for the Council in additional business rates from practical completion until 2037.
- 4.4 The project will provide the Council with an Internal Rate of Return of 7.15% on the investment (the Grant) and a Net Present Value of £115,194 at a target rate of return of 6.00% over the 20 year period. The payback of the initial capital investment through business rates would be by 2029. The project would make a positive financial return. A detailed breakdown of the return on investment to the Council is set out in Appendix 1.
- 4.5 The financial implications set out above have been verified by the Council's finance service.

5.0 LEGAL IMPLICATIONS

- 5.1 The offer of financial assistance is always subject to State Aid compliance. State Aid rules exist in order to prevent any form of aid to a commercial undertaking distorting, or threatening to distort, competition within the European Community.
- 5.2 Legal support have advised on the State Aid implications of the proposed £1,500,000 WWIF grant along with the proposed loan from Chrysalis fund of £1,000,000 and has advised that the funding can be State Aid compliant via potentially two alternative options:
- a) Within the requirements of Chapter 1 and Article 56 of the *General Block Exemption Regulation 2014* (Commission Regulation 651/2014 (OJ L 187/1 of 26 June 2014) as "investment in local infrastructure"; or
 - b) Alternatively, the project might proceed on the basis that if all relevant conditions for granting the Chrysalis loan have been satisfied, then State aid compliance for an additional grant required for overall viability may be assumed by reliance on the wording in the original (2011) European Commission State Aid decision (SA.32835 (2011/N), C(2011) 4942 at paragraph 2.9 (Combining repayable investments with grant funding) approving the *North West Urban Investment Fund* (JESSICA), of which Chrysalis is a part.
- 5.3 Once the process of approving the Chrysalis loan has been completely finalised legal support will advise as to which of the above options should be progressed as the State Aid compliant route.
- 5.4 Details of both State Aid options are set out in Appendix 1 to this report.
- 5.5 The legal implications set out above have been verified by the Council's legal service.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The monitoring and management of the grant will be resourced through the existing work programmes of officers within the Council's Place and Investment Team.

7.0 RELEVANT RISKS

- 7.1 GVA has carried out a risk assessment of the project and has identified appropriate mitigation measures.
- 7.2 In terms of market demand, GVA has identified a risk of the property failing to secure end user occupiers, which would affect the ability of the Council to get a return on its investment. To mitigate this risk, a nine month rent free period for end users has been allowed as incentive and Peel Investments (Intermediate) Limited has allowed for a marketing budget to deliver an effective marketing strategy. Furthermore, GVA's market demand review supports demand for the completed development.
- 7.3 In terms of costs, GVA has identified risks relating to increased costs being incurred, which could hinder the viability of the scheme and increase the Council's

liabilities for additional costs. To mitigate this risk, the funding agreement will ensure that any cost overruns will be Peel Investments (Intermediate) Limited's liability and recommend that Peel Investments (Intermediate) Limited should seek a fixed price construction contract to reduce uncertainty.

7.4 GVA has also identified a risk to the Council that Peel Investments (Intermediate) Limited may not secure the additional funds required to bring forward this proposal. In order to mitigate this risk, Peel Investments (Intermediate) Limited will be required to provide confirmation of match funding prior to grant being awarded.

7.5 A full risk register is included in Appendix 4 to this report.

8.0 ENGAGEMENT/CONSULTATION

8.1 This report is consistent with the principles of Wirral Council's Growth Plan and Strategic Regeneration Framework, which identifies Wirral Waters Enterprise Zone as an identified and agreed area of significant growth potential.

8.2 The Growth Plan and Strategic Regeneration Framework have been informed by consultation which has taken place with a number of private sector partners and local businesses through Wirral Chamber of Commerce sector forums.

8.3 Consultation will take place as part of the planning application which will be submitted to the Council.

9.0 EQUALITY IMPLICATIONS

9.1 The potential impact has been reviewed with regard to equality and links to the existing EIA conducted for Wirral's Growth Plan.

<https://www.wirral.gov.uk/communities-and-neighbourhoods/equality-impact-assessments/equality-impact-assessments-2014-0>

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APPENDICES

Appendix 1: Report to Investment and Change Board – Application for Financial Assistance (29 November 2018) **EXEMPT**

Appendix 2: Wirral Waters Investment Fund Package 1 Business Plan (August 2018) **EXEMPT**

Appendix 3: Site Location Plan **EXEMPT**

Appendix 4: Risk Register **EXEMPT**

REFERENCE MATERIAL

Appraisal Report
State Aid Advice

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet 'Enterprise Zone – Re-Investment of Business Rate Uplift'	12 March 2015 (Minute 156)
Cabinet 'Wirral Waters Enterprise Zone – Investment Fund'	5 November 2015 (Minute 62)