



ECONOMY REGENERATION AND DEVELOPMENT COMMITTEE

Meeting Date 4th March 2021

REPORT TITLE:	MARITIME KNOWLEDGE HUB
REPORT OF:	DIRECTOR OF REGENERATION AND PLACE

REPORT SUMMARY

The Maritime Knowledge Hub is a catalytic project that will support wider development within Wirral Waters. It will create a world class centre of excellence for maritime business growth and sector development. It will bring together the region's key maritime assets in business, research, education and training to address challenges around innovation and skills within a refurbished and new build high profile centre.

The Wirral Plan 2025 Vision sets out the Council's vision to secure the best possible future for our residents, defined by the community prosperity we create and supported by our excellent people and services. The Maritime Knowledge Hub (MKH) project directly supports the following key themes within that plan.

- Prosperous, inclusive economy where local people can get good jobs and achieve their aspirations; and
- Brighter futures for our young people and families – regardless of their background or where they live.

This is a key decision and matter affects the Seacombe Ward within the Borough.

EXEMPT INFORMATION

Appendices 1 and 3 to this report contain exempt information as defined in Schedule 12A of the Local Government Act 1972. It is in the public interest to exclude the press and public during consideration of these items under Paragraph 3 'Information relating to the financial or business affairs of any particular person (including the authority holding the information)' and Paragraph 5 ('legal professional privilege')

RECOMMENDATION/S

That Economy Regeneration and Development Committee request that Policy and Resources Committee approve the following recommendations:

- 1 Authorise the Director of Regeneration and Place in consultation with the Director of Law and Governance and the Director of Resources, to finalise the Heads of Terms

substantially in accordance with the draft Heads of Terms attached as Appendix 3 to this report.

- 2 Approve the Full Business Case for Maritime Knowledge Hub.
- 3 Authorise the Director of Law and Governance in consultation with the Director of Regeneration and Place and the Director of Resources, to finalise agreements for the Council to enter into a conditional Forward Funding Agreement, Agreement for Lease and Lease, based on the finalised heads of terms, with Peel Land and Property (Intermediate) Ltd.
- 4 Authorise the Director of Regeneration and Place in consultation with the Director of Law and Governance and the Director of Resources to accept the terms of the Grant Funding Agreement, subject to successful award, from Liverpool City Region Combined Authority and Ministry of Communities, Housing and Local Government in respect of the pre-test and trial Maritime Accelerator Project and to commence necessary procurement exercises to enable the delivery of the Accelerator.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

- 1.1 Participating in the development of the Maritime Knowledge Hub (MKH), through a Forward Funding Agreement and taking of a 250-year lease will create a world class centre of excellence for maritime business growth and sector development. It will bring together the region's key maritime assets in business, research, education and training to address challenges around innovation and skills within a refurbished and new build high profile centre. The recommendations will allow the project to proceed as an investment vehicle for the Council which has the potential to deliver a financial return to offset the capital investment.
- 1.2 The project will establish Phase 2 of the MKH, Phase 1 having already been established at a smaller site adjacent to the A41 and Cammell Laird as a base for Mersey Maritime – the industry leading cluster organisation. Phase 2 will support the place shaping undertaken for both Wirral Waters and Birkenhead Town Centre by establishing a second university presence within the Borough. A university presence brings a range of regenerative benefits including higher level skills, knowledge-based start-up businesses and students and staff who require a range of amenities and will therefore provide increased footfall into a revitalised Birkenhead.
- 1.3 The MKH will deliver sector specific targeted Grade 'A' office accommodation, skills, research and innovation support in Wirral Waters, an area providing significant potential for growth and regeneration. It will provide a circa 58,000 sq.ft facility including a new build element and the renovation of the Grade 2 listed Hydraulic Tower. The project has the potential to create up to 621 gross direct jobs. It will also result in the reclamation of circa 2.3 acres of brownfield land.
- 1.4 Delivery of a complementary pre-test and trial Maritime Accelerator Project presents an ideal opportunity to pilot activity in advance of the scheduled launch of MKH II, building cluster capacity, facilitating wider engagement of the sector and initiating test and trial innovation accelerator activities in readiness for full roll-out of the concept of the new Hub within the Liverpool City Region Innovation Ecosystem.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Do Nothing:
The Council takes no action and does not participate in the project. This would result in the scheme not progressing due to the viability gap. Not developing the site and refurbishing the listed building would be detrimental to the wider Wirral Waters scheme.
- 2.2 Direct Delivery by the Council:
This has not been an option as the land upon which this development will take place is in the ownership of Peel Holdings Land and Property (UK) Limited and they are unwilling to dispose of the freehold interest. This option would require significant Council resource to project manage the build and also add significant risk to the Council in terms of cost overruns which would be the Council's responsibility.

2.3 Alternative leasehold structure:

Other leasehold arrangements have been considered and in particular consideration was given to a 30 year strip out lease. Advice secured from Lambert Smith Hampton, the Council's retained property advisor, indicates that where the occupational income is relatively complex (e.g. more than 5 tenants) and there is a significant chance that throughout the investment period, the income may not match that of the liabilities within the headlease, Public Works Loan Board finance should be considered strongly. Taking the above issues into account officers have identified that this would therefore not be a viable option to pursue.

3.0 BACKGROUND INFORMATION

- 3.1 Wirral Waters is one of the largest regeneration projects in the UK (some 500 acres) with the potential to create over 20,000 permanent jobs and to transform the derelict docklands through a mix of sustainable mixed-use development schemes.
- 3.2 The Maritime Knowledge Hub will create a world class centre of excellence for maritime business growth and sector development. It will bring together the region's key maritime assets in business, research, education and training to address future challenges around innovation and skills within a refurbished and new high-profile centre. The space will be designed to create an environment for maritime businesses and for University provision to locate and for a range of skills to come together from these organisations to help drive new products intended to significantly advance the growth of the sector.
- 3.3 The Wirral Plan 2025 sets out the Councils vision to secure the best possible future for our residents, defined by the community prosperity we create and supported by our excellent people and services. This project supports the key themes of the vision through the creation of a mix of uses within the hub including the provision of support and growth space for fledgling maritime businesses through an accelerator model, the creation of next generation talent through degree apprenticeships and satisfying the demand for mandatory offshore safety and survival skills. It will also further develop university presence within Wirral's economy supporting the skills campus place-making theme and the wider ambitions for Birkenhead and the surrounding areas.
- 3.4 MKH is a nationally significant project that also acts as a major catalyst for activity within Wirral Waters. It has recognition from central Government and support from the Combined Authority who have included it as a project within the Liverpool City Region Economic Recovery Plan – Building Back Better.
- 3.5 The proposed scheme will deliver a new iconic maritime sector facility of circa 58,000 sq.ft within the Wirral Waters Enterprise Zone. It will be built around the iconic 19th century Grade 2 listed hydraulic tower, a copy of the Palazzo Vecchio in Florence. The site being developed sits within the Four Bridges 'neighbourhood area' of Wirral Waters. This is a mixed- use area that combines commercial, training, educational, cultural and ancillary retail uses within a high-quality landscape and is the first area being delivered within Wirral Waters. A plan of the site is shown in Appendix 2.

The 2025 Wirral Plan

- 3.6 The Wirral Plan 2025 Vision sets out the Council's vision to secure the best possible future for our residents, defined by the community prosperity we create and supported by our excellent people and services. The Maritime Knowledge Hub (MKH) project directly supports the following key themes within that plan.
- Prosperous, inclusive economy where local people can get good jobs and achieve their aspirations; and
 - Brighter futures for our young people and families – regardless of their background or where they live.
- 3.7 The Wirral Waters area is recognised in the borough's Strategic Regeneration Framework, approved by Council in October 2017, as one of the key spatial priority areas for regeneration and investment. Wirral Waters is also identified in the emerging Birkenhead Regeneration Framework and Local Plan as an area providing significant potential for growth which will support and guide the delivery of physical, economic and environmental change and deliver wider regeneration.

Delivering the Project – the Full Business Case

- 3.8 The site is in the ownership of the Peel group and it is proposed that the delivery of the MKH will be carried out by Peel Land and Property Investments (Intermediate) Ltd (Peel) acting as developer. This will be based on a Forward Funding model, with the Council's role being that of Forward Funder (effectively a capital purchase). The Council will commit to taking a 250-year lease of the completed asset to an agreed design, subject to Peel satisfying a number of conditions precedents which are outlined in the exempt Full Business case (enclosed as Appendix 1 to this report).
- 3.9 Completion of conditional contracts will enable Peel to progress to detailed design of the scheme and to then submit detailed planning and Listed Building consent applications. Peel will also at this stage commence full marketing of the project to secure tenants for the completed property. The Council and Peel will only commit to the build at the stage when the conditions precedents are fully met. This will include that Peel have secured pre letting of 80% of the property based on the total estimated rental value which has been agreed by the parties. The marketing will be directed at the maritime sector businesses and associated industries. Peel will secure the pre lets on terms which are in line with the Letting Strategy which has been drafted by the Council's external property advisor. This Letting Strategy will form part of the legal contract documents and will ensure that the tenants are approved by the Council and of sufficient covenant strength to provide a secure level of income.
- 3.10 The Letting Strategy includes the following requirements to secure the Council's risk position: -
- Achieving or exceeding the agreed level of Estimated Rental Value;
 - Not exceeding a specific tenant incentive (rent free period);

- No service charge caps, unless agreed by the Funder (acting reasonably)
- Specific rent review mechanisms such as 5 yearly Consumer Price Index/ Retail Price Index linked reviews
- Initial lease terms - minimum term
- Covenant strength / financial position

- 3.11 The remaining 20% of the property will be marketed by Peel but will not be subject to the conditions precedents.
- 3.12 The 250-year lease between Peel and the Council will be at nominal premium and a peppercorn rent but will contain obligations on the Council which are set out in the Heads of Terms attached to this report. The Council's commitment as owner of the long lease will be to manage and maintain the property.
- 3.13 The Council will be taking on a 250-year lease of the MKH and therefore the specification and design must be entirely acceptable to the Council. The Council will be fully involved in the work to finalise the specification to RIBA Stage 3 and will have absolute discretion as to whether it can be finally signed off. This will be a condition within the Funding Agreement. The scheme has an outline design that has been prepared by two award-winning, internationally acclaimed architectural firms, Schmidt Hammer Lassen Architects in Denmark, and Ellis Williams Architects in Liverpool. The architects are committed to breathing new life back into the Grade II listed Hydraulic Tower building, which was bombed during World War II. Visually, this project is expected to be one of the most spectacular parts of the entire Wirral Waters regeneration project.
- 3.14 The current programme sets out that Peel will aim to submit a planning application for the scheme in June 2021. Should the planning application be approved the construction tender would be issued with construction estimated to commence in December 2021.
- 3.15 The appointment of a construction contractor will be via a fully compliant procurement process to ensure value for money. The Council will ensure that the design and specification of the project will be of a high quality and will deliver a scheme that will attract tenants. The Council and Peel are also committed to the need to address Social Value. There will be a requirement that all bidders must deliver against Wirral Council's Social Value policy and contribute towards the social and economic development and regeneration of the area. This will reflect the social value delivered through the construction of the Wirral Metropolitan College Campus in Wirral Waters and include the use of local labour, the provision of apprenticeships, the use of the Wirral Construction Forum for supply chain opportunities and work placements.
- 3.16 A key objective of the Council in investing in this scheme is to address the business needs of the maritime and marine sector and to create a world class centre of excellence for maritime business growth and sector development located within Wirral. It will be designed to bring together the region's key maritime assets in business, research and development, education and training to address challenges facing the industry around innovation and skills, decarbonisation and digitalisation. The space will create an environment for maritime businesses and for higher education to locate and for a range of skills to come together from these

organisations to help drive new products and services intended to significantly advance the growth of the sector.

- 3.17 The MKH development will also complement a range of other projects which are in progress including the housing delivery at Northbank, Tower Road offices and the proposed Marine, Energy and Automotive Park at West Float which is coming forward as a new, multi-unit, 1 million sq ft waterside manufacturing and logistics centre.
- 3.18 Investing in this scheme will also assist in broadening the business rate base to generate on-going revenue to support service provision. However, the Council will also be investing in the delivery of wider regeneration and economic development. MKH will secure a University presence, facilitate enterprise growth and deliver new Grade A office accommodation in an area of identified need bringing new employment opportunities to Wirral Waters.
- 3.19 The draft Heads of Terms for the Funding Agreement, Agreement for Lease and Lease are set out in the enclosed exempt Appendix 3 to this report.
- 3.20 During the development period of MKH, a time-limited maritime accelerator test and trial project will operate out of existing partner premises in the borough. Subject to confirmation of funding from the Liverpool City Region Combined Authority (LCRCA) and MHCLG, this will commence in this calendar year and run to June 2023 with the aim of building cluster capacity, facilitating wider engagement of the sector and initiating test and trial innovation accelerator activities that can be evaluated in advance of roll-out of the concept in the new Maritime Knowledge Hub. This project will be delivered at no cost to Wirral Council, with 100% costs supported through external funding.
- 3.21 The Council will be seeking to secure a supplier through a competitive tendering exercise to deliver one aspect of this test and trial project, namely a competitive, cyclical, intensive accelerator programme for small cohorts of SMEs/Individuals with a 'live' innovation project idea. This will include, but not limited to, activities such as: weekly masterclasses, custom workshop sessions, domain-knowledge sharing sessions, pitching classes, validation of market demand, facilitation of idea and prototype sprints, demo days. Procurement of a supplier to deliver this intensive accelerator programme will commence in Spring 2021, subject to confirmation of funding.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The project has been developed to stimulate and provide support to the Maritime Sector, whilst bringing back into use a derelict grade two listed building in Wirral Waters. However, from a property perspective, the project requires public intervention in order to overcome viability issues. This is when the value of the building on completion is less than the construction costs of the development. On this basis, for a developer to commit to constructing the property, there is a requirement for public sector intervention to address the viability gap.

- 4.2 The LCRCA recognises the need to stimulate private sector growth by making the best use of public sector funds to encourage private sector business investment and to maximise private sector leverage and a bid has been made for Strategic Investment Fund (SIF) monies in support of the project. In addition, a bid has been made for grant support from the Wirral Waters Investment Fund (WWIF). Details of the funding mix are set out in the exempt Business case and the WWIF appraisal and recommendations are subject to a separate report to this Committee.
- 4.3 The finances of this project have been structured on the Council using its ability to finance the capital costs through borrowing. The rents secured through onward letting of the property would be used to fund the borrowing costs. Part of the Heads of Terms with Peel for MKH is that the development costs and purchase price would be fixed regardless of any cost pressures on the construction. There is also a requirement for the property to have pre-let space of 80% of the rental value. Both of these factors reduce the financial risk, giving increased certainty on the revenue benefits for the Council from the project. The project is financially viable although not without risk and a number of financial scenarios have been modelled and the Council has taken specialist property advice and undertaken a number of market surveys to consider the demand for the property space.
- 4.4 The total cost of the project is detailed in Section 6 of the exempt Business Case attached to this report. The cost of borrowing assumes an interest rate of 2%. This is subject to market conditions at the time so may fluctuate until the full purchase price is paid. The principal repayment is charged to revenue over 50 years (the maximum allowable under regulations), in line with the Councils current Minimum Revenue Provision (MRP) policy. This starts at a low amount in the early years and increases by inflation each year, so that the full purchase price is recovered. As rental income will also increase by inflation in future years, this also helps offset the purchase costs being charged.
- 4.5 The rationale for promoting the forward funding and long lease structure is based on the following considerations:
- delivery risk** – risk in the delivery phase is shared by Peel (as developer) with responsibility for the contractor appointment. While demand risk lies with the Council in the long term, the proposal will only proceed upon satisfying key conditions, including an agreed level of pre-lets being achieved by Peel. On this basis, demand risk is deemed to be manageable.
- affordability** – the cost of borrowing for the Council remains affordable and is likely to be lower than the investment yield applied to the Council interest under the headlease proposition.
- cost certainty** – funding the purchase through borrowing enables the Council to fix a payment profile in advance, providing the Council with cost certainty from the outset.
- 4.6 The purchase is for a 250-year leasehold interest. The onward letting of the property will generate a rental return to the Council. The ownership of the lease gives the Council flexibility to dispose of the property if the commercial opportunity becomes available at some future point.

- 4.7 Further specific financial details of the scheme are set out in the Full Business Case attached as an exempt annex.
- 4.8 The total cost of the pre-test and trial Maritime Accelerator Project is £2m as detailed below. External funding sources will provide full cost recovery with no financial impact to the Council. Applications for ERDF and Match Funds are currently at final approval stage with grant funding agreements anticipated end of March 2021. The Council will not proceed without grant funding agreements for the full total project cost in place.

	ERDF (£)	Match Funding (£)	Total (£)
Capital	£0	£0	
Revenue	£1,000,462	£1,000,462	£2,000,924

5.0 LEGAL IMPLICATIONS

- 5.1 Heads of Terms for the Funding Agreement, Agreement for Lease and Lease have been provisionally agreed between the parties and if approved will progress to detailed drafting of contracts. There are some outstanding matters which will need to be resolved by negotiation when the legal documentation is drafted.
- 5.2 Wirral Council Grant Funding Agreements will need to be on finally agreed terms that are consistent with the Council's obligations for SIF/Wirral Waters Investment Fund Grant Funding Agreements.
- 5.3 The Heads of Terms as provisionally agreed with Peel are compatible with the new Subsidy Control legal requirements and are also compliant with the procurement requirements imposed on local authorities by the Public Contract Regulations 2015 as amended.
- 5.4 Detailed legal advice has been provided on a procurement strategy and a preferred approach has been identified. This solution relies on the exclusive rights exemption at Regulation 32(2)(b)(iii) PCR 2015 and mitigating reliance on this exemption through:
- (i) securing evidence supporting it in fact;
 - (ii) requiring Peel to conduct a works contract procurement in accordance with the PCR 2015; and
 - (iii) other practical mitigation measures which may apply to protect the Council should a challenge occur (for example, an indemnity from Peel if it breaches its obligations to procure in accordance with the PCR 2015).
- Further detail is set out in the exempt Full Business Case.
- 5.5 The Council has engaged suitably qualified external specialists in order to advise on the full range of legal, financial and technical matters associated with this project.

5.6 With regards the pre-test and trial Maritime Accelerator Project, as outlined in paragraph 4.8, confirmation of funding is imminent, and the Council has not yet received a grant offer detailing the terms and conditions of the award. Officers will seek advice from the Director of Law and Governance regarding acceptance of terms.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The Forward Funding Agreement will involve a financial liability to the Council. In addition, on completion of the development and grant of the 250-year lease the Council will be responsible for the onward management of the building.
- 6.2 The intention is for the Council to seek to appoint an Operator to manage the building and the facility. The role of the Operator in managing the facility will be to develop and create an environment for the occupiers of the hub that nurtures innovation, collaboration, skill development and promotes future business growth of the maritime industry. The operating costs are allowed for in the financial modelling.
- 6.3 Peel Holdings will be responsible for the procurement and delivery of the MKH project with oversight from Wirral Council in accordance with the Agreement for Lease. This will require input from officers within the Regeneration and Place Directorate and Legal and Finance teams together with some specialist input from property lawyers and commercial development surveyors.
- 6.4 The pre-test and trial Maritime Accelerator Project will provide 100% funds to support the recruitment and appointment of two Council Project Officers within the Regeneration & Place Directorate for coordination of project partner delivery.

7.0 RELEVANT RISKS

7.1 All risks associated with this project will be identified and managed as part of the Regeneration and Place Directorate’s programme management and a comprehensive risk register is contained within the Full Business Case. A Risk Workshop has been held to ensure that risks from across the Council have been identified and mitigation actions outlined. Below is a summary of some of the key risks identified and how they will be managed.

Key Risk	Mitigation Strategy
Occupier interest – extent to which the property is in demand and will be occupied by end users	Rent free periods have been allowed as incentive which is appropriately benchmarked with other schemes and the local market. A marketing budget has been allowed for as part of the development costs. Market analysis supports the demand for the product. In the long term the Council will explore the opportunity to appoint an external operator who would provide the

	necessary commercial skills and acumen for managing the facility including its marketing and promotion
Detailed planning permission is not secured in relation to the project	Recognition that scheme is covered by and is compliant with outline planning permission, and the Council are supportive of the proposed development. Fee is included within the appraisal to secure Reserved Matters permission, and this is not considered to be a major risk. Peel will progress pre application advice.
Dock wall – clarification and certainty of the responsibility for the future maintenance of the dock wall. This will be outside of the demised property boundary but the Council would rely on its future maintenance. Risk of the Council incurring abortive professional fees if an agreed position cannot be reached.	Peel is undertaking a full list of Site Investigations including a condition report in respect of the dock wall. The Council is seeking to mitigate the risk through the legal agreements and is taking advice from external legal experts.
SIF funding is not secured from the Liverpool City Region Combined Authority	Council officers and Peel hold regular meetings with the SIF Investment team to ensure that the project is supported and that a strong case is put forward for investment. The is a priority strategic investment project identified in the Liverpool City Region Combined Authority Recovery Plan
Construction Budget and Programme inadequate to deliver the proposed high-quality building	Risk reduced due to ‘fixed budget’ in place for the construction of the buildings. Peel has also worked with consultants to establish what provisional sums are needed to cover any unforeseen costs during the contract works. Peel also has a change control procedure in place to manage variations to the tender.
Worse than anticipated condition of existing Hydraulic Tower building results in delay or increased costs	A suite of surveys will be commissioned by Peel prior to the works commencing. The Council will have sight of these.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been ongoing consultation with businesses on the need for the facility and Peel supported by Mersey Maritime have undertaken soft marketing to establish

potential tenant interest and engagement. The Council has commissioned detailed demand studies. Further public consultation will take place as part of the planning application that will be submitted by Peel to the Council.

9.0 EQUALITY IMPLICATIONS

9.1 The potential impact of the MKH development has been reviewed with regard to equality and links to the existing EIA conducted for Wirral's Growth Plan and no amendments have been made.

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

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Heads of Terms contain an obligation to form part of the Specification for the new build elements of the development to be to BREEAM Excellent. This will be as a minimum target and the aim is to maximise the sustainability offer, green credentials and performance of the project overall.

10.2 The Maritime Knowledge Hub will focus on addressing the technology challenges facing the maritime sector. Two major challenges currently facing the sector are decarbonisation and digitalisation; Maritime Knowledge hub will therefore focus the first stage operational plan on research and innovation in these technologies, supporting the borough in advancing climate emergency priorities within the wider business sector.

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APPENDICES

Appendix 2 – Site plan showing land to the proposed site of MKH edged red, being land to the east of East Float dock and west of Tower Road. The land edged blue will be retained in the ownership of Peel and it intended to be used as a walkway.

Exempt appendices – by virtue of Paragraph 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972

Appendix 1 – Full Business Case & Associated Appendices
Appendix 3 – Draft Heads of Terms

BACKGROUND PAPERS

Gyron Demand Study 2016
GVA market report August 2018
SQW Demand Study February 2020

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
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N/A	
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