



**ECONOMY REGENERATION AND HOUSING COMMITTEE  
27 MARCH 2024**

<b>Report Title:</b>	<b>MARITIME KNOWLEDGE HUB</b>
<b>Report of:</b>	<b>DIRECTOR OF REGENERATION AND PLACE</b>

**REPORT SUMMARY**

The derelict Grade II listed Hydraulic Tower on Tower Road, Birkenhead is the subject of a proposal that would generate some 56,000 sq. ft of accommodation to deliver a Maritime Knowledge Hub. Bringing this building back into use is of significant value to the regeneration of the wider area. The development of the Maritime Knowledge Hub at this location presents a significant economic growth opportunity as it aims to deliver approximately 58,756 sq ft of new commercial floorspace and generate additional business rates within the Wirral Waters Enterprise Zone from practical completion until 2037. The project has the potential to create up to 1,062 gross direct and indirect jobs, with 621 Full time equivalent (FTE) jobs following practical completion and 22 FTE jobs during the construction phases. These outputs are based on the original business plan of 2021 and need to be reviewed; however significant change is not expected as the overall vision remains the same. Development of the building for other uses has previously been considered and ruled out. The landowner (Peel) has confirmed that the development of the Maritime Knowledge Hub is its priority, and it is not currently considering any other options.

The proposed development of the Maritime Knowledge Hub was last considered by this Committee in March 2021 when it was agreed that the Council would enter into a conditional Forward Funding Agreement based on a 250-year lease. Since this time circumstances regarding borrowing costs have changed and the premise of the original arrangements resulted in this arrangement no longer being viable. The Council has been working with Peel, seeking alternative arrangements for bringing this project forward. This report outlines the current position.

The hydraulic tower is symbolic of both the rise and decline of Birkenhead and maritime industry associated with the docks. It is a prominent feature in the immediate area and its development could be symbolic of the re-emergence of Birkenhead from the economic decline it has faced over a significant period.

The ability to proceed with this development is reliant on getting to a position of an agreed Heads of Terms with the Council, an agreed funding model with the Liverpool City Region Combined Authority which will then be subject to passing the public sector subsidy assessment. To be able to proceed all factors need to be achieved/satisfied by the end of June 2024 in order to meet the deadline of March 2026 for the proposed public sector funding to be spent.

The report proposal directly supports the Wirral Plan (2023-27) through the key theme of working together to deliver people focused regeneration.

This decision affects Seacombe Ward, but the subject asset is close to Bidston and St James and Birkenhead and Tranmere Wards. This is not a key decision.

Appendix 1 of this report is exempt from publication pursuant to paragraph 3 of the part 1 of Schedule 12 A of the Local Government Act 1972 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) because it contains or refers to information relating to the financial and business affairs of Peel and the Council and the public interest in maintaining the exemption outweighs the public interest in disclosure.

## **RECOMMENDATION**

The Economy Regeneration and Housing Committee is recommended to authorise the Director of Regeneration and Place further develop the proposals for the development of a Maritime Knowledge Hub on the derelict Grade II listed hydraulic tower on Tower Road, Birkenhead within the parameters set out in sections 3.1 to 3.10 of this report with a view to bringing back a more detailed report to a future meeting of this Committee.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 The Council is currently working closely with the Liverpool City Region Combined Authority (“the LCRCA”) and Peel to bring forward a finalised proposal. This report updates the Committee on the current position and inform them about a potential future transaction. There is further due diligence work to be done and in addition to this further work is needed to confirm grant funding streams to support the scheme. Council officers are working with the LCRCA to progress this.
- 1.2 The Maritime Knowledge Hub is a key regeneration project and its delivery will result in:
- the renovation of a historic landmark building, removing a blight within the major regeneration area of Wirral Waters;
  - the creation of high-quality accommodation for businesses in the maritime sector, related industries and higher education organisations create a new, high quality Maritime Knowledge Hub, to support the priorities of the Wirral Waters Investment Fund;
  - a new specialist sector facility to accelerate growth in the maritime sector including University led skills, research and innovation, promote research, development and innovation in the maritime sector through co-location and collaboration between building occupiers; and
  - provide intensive support for new enterprises.
- 1.3 The redevelopment of this property may, building on previous investments in the area, generate confidence in the office market and act as a catalyst for further regeneration in the area.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 The Council could choose not to progress with further work on the proposal. It does not own the property, and to date is under no obligation to proceed with the proposal. To do nothing would mean that the Grade II listed Hydraulic Tower would not be brought back into an economic use for the foreseeable future. The property is emblematic of both the rise of Birkenhead as a centre of Maritime Industries and could act as a symbol of the re-emergence of Birkenhead following a significant period of economic decline. The Council would not be exposed to commercial and financial risk should the Committee choose this option. It is unlikely that the owner of the property would be able to bring forward the proposal on their own. Intervention by the Council is needed to support the development of the site, in large part due to the significant level of investment that is needed.
- 2.2 The Council could pause, or otherwise delay the scheme. Potential reasons to do this could be to wait for improved economic conditions or more favourable funding in the future or perhaps work to prepare the site or opportunity so it becomes ‘oven ready’ for future intervention. This option will result in the need to identify an alternative funding model as the proposed request of LCRCA SIF funding and the Freeport Seed fund will time out as both funds need to be spent by March 2026. To achieve this a decision to proceed from both the Council and the LCRCA in respect of them agreeing the funding model is required.

- 2.3 The Council could seek to only develop the listed building; however, this would lack the mass needed to deliver a Maritime Knowledge Hub, and would generate less lettable space for the scheme.

### **3.0 BACKGROUND INFORMATION**

- 3.1 The current proposal would see this listed building protected and developed alongside a new build component, in line with existing planning permission granted in 2023. The current proposal would see c£25m of funding put into the property, with an anticipated £12.6m of capital funding from public sources through the LCRCA. The proposed funding model is for an ask of £12.6m from a combination of Freeport Seed funding and the SIF programme. The balance of the funding would be secured by Peel. The Council's role in the scheme would be through taking a 50-year head lease of the finished building, paying a rent for its lease. The Council would gather rent from occupiers of the building.
- 3.2 The type of transaction used to secure private sector funding is commonly known as a lease wrap. This would see the Council take a lease and then sub lease the building to other tenants. Generally, this type of transaction is favoured by investors as it protects the income they receive, in return for their capital investment. This arrangement protects the investor from the fluctuations in the property market. Rent reviews would be upward only between certain parameters (termed a cap and collar) and index linked. Rent to the Council from occupiers would be at market rent, subject to normal market fluctuations. These rents over time, will perform differently to the rent out to the investor. The difference in rent to the investor and the rent into the Council can be considered the rent headroom. Traditionally the headroom between these rents is set deliberately high to protect the Leaseholder, however in this instance this is not the case.
- 3.3 Due to current economic conditions and market performance this specific type of transaction is currently not common and more generally in the market speculative office build is currently challenging. Clearly bringing this project forward might be justified by seeking to deliver a catalyst for regeneration, delivering a hub for the Maritime industry and of course bring a listed building back into economic use. The Council would also benefit from business rates that would be generated by the scheme. It is reasonable to expect that should the Council not intervene, the property owner, by themselves would find it very difficult to bring the asset back into economic use, where business rates would be generated.
- 3.4 Over the period of the lease, even assuming that the accommodation was to perform above normal market expectations the Council could face a liability based on rent alone. The building would also be very sensitive to the way the accommodation is laid out. The Council would need to maximise the lettable space and reduce circulation space as much as possible to maximise rental income. Therefore, the way the space is laid out and used will be critical to the amount of rent and business rates that the building would produce. If the lettable area was reduced to make the building fit a particular use, the Council would still have to pay rent on the same agreed basis. There is no guarantee that the rent would continue to support the investment over the whole term of the lease.
- 3.5 Some sources of capital funding would naturally restrict the use of the property. In this specific case support from grant funding would be deliberately focused to support the maritime industry, through the delivery of a Maritime Knowledge Hub. Whilst the maritime sector is very wide ranging and a historically strong sector in the Liverpool

region, limiting the use of the property risks restricting the letting potential of the asset which could weaken its commercial and financial case especially when considered over the 50-year term of the council's proposed head lease.

- 3.6 It is difficult to predict rental growth in Birkenhead due to the static nature of the office market in the area for a significant period of time. Although this property is envisaged as a high-quality asset capable of attracting favourable rentals and the nearby Hythe office development is achieving rent levels previously not secured in Birkenhead, there is a ceiling in the current market. The current appraisal for the project is assuming that the lettings would be at or above this current ceiling.
- 3.7 The proposal for the building was developed around the time of the pandemic and has not been updated. Therefore, further work is required to update the proposed operating model. There are three elements to the operating model:
  - Facilities Management – general running and maintenance of the building;
  - Co-working/Incubation management – the project proposes around 5,000sq ft of co-working space which would need more pro-active management; and
  - “Curating” collaboration – pro-actively working with building occupiers to collaborate on research and innovation.
- 3.8 Further work regarding sensitivity analysis is also required to determine the level of risk faced by the Council and this is directly related to the way the building would be operated.
- 3.9 The Council would have to invest in the property to keep it in as good a condition as possible to generate rent and it would also be in line with standard lease terms. Other management costs would also be associated with the asset which could not be recharged to tenants.
- 3.10 Taking this approach has subsidy control issues, where the Council would have to notify the Competition and Markets Authority's subsidy advice unit. Although work has been done in the past about the detail of the building's operation, this was based on a previous funding model with a lower amount of public sector investment. This needs to be updated to reflect the current position. In addition, any projected loss incurred by the Council in future years that may result from the Council's rent paid being higher than the rent received. This is in effect further public sector subsidy and needs to be considered in the assessment.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 Other than the costs associated with officer time and inputs from external consultants to provide professional advice, there are no direct financial implications of creating development proposals in relation to the derelict Grade II listed hydraulic tower on Tower Road, however the work could lead to the Council taking on the liability for a headlease on the site in the future. The Council would benefit from any business rates generated by the site.
- 4.2 This report identifies the risks around income streams not being sufficient to cover the buildings costs. This has the potential for significant financial risk if this is deemed an onerous contract. This is where unavoidable costs outweigh the economic benefits and would result in an immediate charge to revenue for the full period to set up a provision to cover the expected costs of those future financial liabilities. This would be fully explored as part of the recommended future report on the details of the proposal.

## 5.0 LEGAL IMPLICATIONS

- 5.1 There is a legal requirement in the Subsidy Control Act 2022 (“the Act”) for the Council to refer all proposed public grants that exceed in total £10m to the Subsidy Advice Unit (SAU) of the Competition and Markets Authority for an advisory report on whether the grants would comply with the 7 Principles of the Act. That report would have to be considered by the Council before it decided whether or not to agree to its share of the total subsidy which would enable Peel to construct the buildings so as to lease them to the Council for the purpose of use by advanced maritime technology firms.
- 5.2 The SAU would require the Council to draw up its own written Assessment of Compliance with the 7 Principles of the Act which are summarised below:
- (1) The subsidy should pursue a specific policy objective i.e., a financially viable advanced maritime knowledge centre in order to remedy an identified market failure or address an equity rationale (e.g., a local or regional disadvantage, social difficulties or distributional concerns). A market failure occurs when the private market does not take account of costs or benefits which are external to those operating in it or where there is asymmetrical information;
  - (2) The subsidy must be proportionate to the specific policy objective and must be limited to what is necessary to achieve it i.e., the grants must not exceed a reasonable share of the total cost (be value for money) and must be no greater than the viability gap between the estimated total cost and the estimated net present value (to Peel) of the investment (in terms of rent to be received from the Council);
  - (3) The grants must be designed to bring about a change of economic behaviour in Peel i.e., the Maritime Knowledge Hub (MKH) would not be built without the subsidy;
  - (4) The grants must not compensate Peel for costs it would have funded in the absence of a subsidy e.g. expenditure it had already incurred prior to any offer of a grant;
  - (5) The grant must be an appropriate policy instrument for achieving the specific policy objective which cannot be achieved through other less distortive means (on competition) e.g., by making the grant conditional on Peel (not the Council) taking the commercial risk of not finding the tenants and rents required to make the investment viable. In other words, the Combined Authority (CA) and the Council would subsidise Peel to construct the buildings, but Peel, not the Council, would let out the premises to technology tenants;
  - (6) The grants must be designed to achieve the specific policy objective whilst minimising any negative effects on competition and investment within the UK. In this regard the Assessment would have to show that the grants were likely to bring forth a viable maritime knowledge centre even though it would not be viable for the Council unless it were able to let it out at £18 per sq. ft., which is unlikely to be achieved in the present circumstances. In this regard if the Council sought to make the investment viable by supplementing its rental income with business rates from the property, that would likely be considered by the SAU as highly distortive of competition since other commercial landlords would not have the advantage of having a head tenant willing and able to pay the rent partially out of taxation.

Furthermore, business rates are intended to pay for the statutory services arising from regeneration e.g., maintaining and cleaning highways, ensuring safety in office premises, safeguarding, trading standards etc. Business rates are not intended to pay for investments that are likely to be loss making from the outset; that could be regarded as a breach of the Council's fiduciary duty to its ratepayers to carry out its investment functions prudently and economically unless the external social benefits e.g. increased employment in an economically depressed neighbourhood, were likely to be substantial and long lasting which is arguably not the case with MKH and the Council could afford to sustain significant financial losses over a long period of time without adversely affecting its ability to finance the performance of its statutory duties( a matter for the Director of Finance to give advice on);

(7) Finally, the beneficial effects of achieving the policy objective must outweigh the negative effects on competition within UK of favouring one corporate landlord (i.e., Peel) over others in Wirral. The bigger the subsidy and the more uncertain the prospects of a viable MKH, the less likely it is for the subsidy to Peel to be lawful.

- 5.3 The Assessment of Compliance document for the SAU would have to be accompanied by a business case, a value for money assessment and an independent valuation of the viability gap. A reliance on Peel's own surveyors would not be regarded as due diligence by the SAU.
- 5.4 Prior to entering into an agreement the Council would have to consider whether it was a transaction at best consideration. The Council would need to understand what the proposals for the operation of the asset were and what procurement route would be required to identify an operator.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 There are no direct staffing and ICT implications arising from this report. The Council's asset management service is not envisaged to directly manage this asset, and it's likely the Council would seek an operator to manage and keep the asset let. It is noted that there is a cost associated with this activity.

## **7.0 RELEVANT RISKS**

- 7.1 As with any project, there are a number of relevant risks that need to be considered. Due to the commercial nature of the project these risks are contained within Appendix 1. Appendix 1 is exempt from publication pursuant to paragraph 3 of the part 1 of Schedule 12 A of the Local Government Act 1972 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) because it contains or refers to information relating to the financial and business affairs of Peel and the Council and the public interest in maintaining the exemption outweighs the public interest in disclosure.
- 7.2 The Committee when considering this proposal will need to balance these risks against the potential regeneration benefits of the proposal.
- 7.3 To do nothing would mean that the Grade II listed Hydraulic Tower would not be brought back into an economic use for the foreseeable future but the Council would not be exposed to commercial and financial risk should the Committee choose this option. It is possible alternative options for the site may come forward, for example delivery of a heritage solution for the site as set out in 8.2 of this report.



## TERMS OF REFERENCE

This report is being considered by the Economy, Regeneration and Housing Committee in accordance with section (f) of its Terms of Reference, “the promotion and development of the economic factors in the area, such as seeking to ensure sufficient and appropriate employment sites, investment, adult skills, apprenticeship schemes, productivity, development sites and so forth”.

<b>Council Meeting</b>	<b>Date</b>



