

PLYMOUTH CITY COUNCIL

Subject: Finalisation of the Land Transfer Agreement to transfer areas of South Yard from MOD to Plymouth City Council as part of City Deal

Committee: Cabinet

Date: 9 December 2014

Cabinet Member: Councillor Evans

CMT Member: Anthony Payne (Strategic Director for Place)

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Ref: MTDec14

Key Decision: Yes

Part: I

Purpose of the report:

This report seeks approval to proceed with the finalisation of a Land Transfer Agreement to transfer areas of South Yard from MoD to Plymouth City Council as part of the City Deal and presents a high-level vision and master-plan of the future South Yard MIPC site which seeks to safeguard and enhance its historic legacy. The report presents a summary of the results of feasibility, site investigations and master-planning work which has been ongoing throughout 2014 and summarises the status of land transfer negotiations with the MoD to effect the transfer of parts of HM Naval Base South Yard to Plymouth City Council for redevelopment as a Marine Industries Production Campus (MIPC) in line with the Plymouth and South West Peninsula City Deal Agreement.

The Council, the MoD and the Navy have been in discussions for many years with regard to the future of South Yard and its potential to be released to the City for redevelopment. As part of the City Deal Agreement, this transfer can now finally become a reality which provides an outstanding and unique opportunity to create a new marine industries production campus (MIPC) within and for the City.

This campus will complement the region's key strength in the marine and advanced marine research and manufacturing sectors. The South Yard site will provide new employment space along with access to deep water jetties and docks, thereby enabling marine sector companies to undertake a range of research, development and general commercial marine activities.

Taking over and redeveloping over seven hectares of the South Yard site will be very challenging with many uncertainties and inherent and often unquantifiable risks to be overcome. The site will take many years to fully redevelop but will ultimately make a substantial contribution to the local economy through the creation of over 1,200 specialist and highly skilled local jobs for Plymouth and wider region. It is estimated that the gross value added (GVA) to the economy by the site will be £136.7m per annum when fully developed.

To initiate the redevelopment process, market the campus site and create employment opportunities from the outset, the report proposes the development of a business case to immediately begin direct development on the site on the eastern area of South Yard Area I site. This initial development will create high-quality office space and a number of hybrid office/workshop units with flexibility to accommodate marine related design, training, technology development, laboratory and testing facilities which are estimated to create over 150 jobs, along with construction jobs and apprentices.

To safeguard the Naval Heritage Collection already in the South Yard site, the Council has provided a commitment that the Collection will remain on site in South Yard until an alternative arrangement is agreed between the MoD and Plymouth City Council.

The future South Yard MIPC master-plan will, when delivered, convert over 10,000m² of existing building floor space for marine related employment use and provide over 15,000m² of floor space in new buildings. It is anticipated that this employment space will be used for marine consultancies; design, research and development; laboratories and production; hi-tech fabrication, repair and assembly; and other waterside, dock and support activities.

In addition to the direct benefits resulting from new business and employment, South Yard's business activity will have a positive secondary benefit for the local area in terms of general spending and in helping to sustain existing inter-related marine, manufacturing and research related business activity already present in the City through such aspects as more effective and local supply chain management. Once developed the MIPC should also contribute to the South West region's Marine Energy Park concept to help support the wider marine renewable energy sector and hence contribute to the wider economic benefit of the SW region.

The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:

The creation of a MIPC in the City will directly contribute towards achieving the City's Vision of Plymouth becoming one of Europe's most vibrant waterfront cities and it will be delivered by the Council providing strong leadership and working in partnership with our City Deal partners, local community and the private sector.

The creation of a MIPC will also contribute to the Council's core objectives as follows:

Growing Plymouth – the regeneration of South Yard as a marine industries production campus will create many new jobs for the City, most of which will be highly skilled in specialist marine sectors. In addition the MIPC will facilitate economic investment and growth opportunities by attracting local, national and international marine related companies and organisations to the area.

Confident Plymouth – South Yard is a spectacular historic maritime site which, following its transfer from MoD to Plymouth City Council, will ultimately become a key specialist marine employment and production campus for the City and will further enhance the City's reputation as a world class centre for marine research, development, design innovation and engineering.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land:

The decision to proceed with the land transfer of areas of South Yard to the Council for development as a Marine Industries Production Campus will have capital, revenue, land and resources implications.

Land

Heads of terms for the land transfer agreement have been agreed such that it is intended to transfer 7.4 hectares of South Yard from MoD to the Council in three phases conditional on providing continuity of operational service provision and maintaining security for the MOD retained estate.

The timing of land transfers are provisionally targeting Area 1 East in March 2015, Area 1 West by April 2016 and Area 5 by April 2017 and the transfers will be for freehold of Area 1 East and a long leasehold (299 years) of the remaining site areas. Licences and rights will be established for each party whilst the separation works are ongoing.

Designated employment uses will be permitted on all three transferred sites although there will be conditions, constraints and protocols attached to developing the site in the future recognising the MoD's Warships in Harbour requirement to safeguard site occupants from berthed warships carrying armaments.

The transfer agreement will include terms for reimbursement of MoD separation costs, any existing land value and for the sharing of any development profits above a target level that covers the Council's costs of developing the project.

The Council will be responsible for covering any additional MoD security requirements revenue costs and there will be a commitment for the Naval Heritage Collection to remain in the South Yard site until an alternative arrangement is agreed between the MoD and Plymouth City Council;

The MoD has provided land quality assessments based on previous surveys but the MoD will not retain any liability for land contamination on the transferred site hence the Council will need to manage any site contamination that is found.

Although the above arrangements are not legally binding at this stage it is intended that parties will develop them into detailed legal agreements for completion before the end of March 2015 in line with the target date set out within the City Deal Agreement.

Capital and Revenue Implications

A financial business case model has been developed for the project which considers how the currently available capital funding will be spent and what further grant funding is needed by the Council to complete the separation and preparation of the site and undertake sufficient direct development such that the revenue costs for running the site are covered by income streams. This cost information is presented in the background report and is summarised below.

Capital

The City Deal Agreement provides for various capital funding allocations which are dependent on the Council taking on and progressing the South Yard site. These are set out below:

Available, agreed and bid funding sources for South yard MIPC development

Funding Source	Amount	Status
Plymouth City Council	£5m	Capital - approved
Department for Government and Local Communities (DCLG)	£4m (2015/16) £4m (2016/17)	Agreed as part of City Deal Agreement. To be a Section 31 capital grant
LEP (Growing Places funding)	£5m	Agreed as part of City Deal Agreement
Ministry of Defence (MoD)	Up to £1m	Agreed as part of City Deal Agreement.
LEP (New Growth Deal 2)	Up to £1.5m	Capital grant bid submitted (Nov 2014) for direct development
Total capital funding currently available	£19m + £1.5m bid	

Recognising the capital funding currently available (as shown above), a phased programme of works to develop the South Yard site is proposed. For the first five years this work will be prioritised on site separation and site preparation works across the whole site with some direct development in Area I proposed subject to a separate business case being approved early in 2015.

An envisaged spend profile for the next five years together with an estimate of works that can be currently funded is set out in the table below along with an estimate of the additional capital grant funding required to deliver further direct development in Area I which is ultimately needed to generate revenue income for the Council to offset revenue expenditure. Assuming all the additional grant required is obtained within the modelled time periods then the project has a pay-back period of between 25 and 30 years.

Summary table of capital expenditure on the South Yard MIPC site for next 5 years with assumed construction inflation at 4% per annum.

Works	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	Future years £,000	Total £,000
Total estimated capital expenditure of works above	£911	£3,314	£9,510	£6,063	£3,488	£16,288	£39,574
Funded by currently available City Deal funds (assuming £1.5m of New Growth Deal grant received)	Yes – all the above	Yes – all the above	Yes – all the above	Yes – all the above	Only £700k of the above	None of the above	
Additional capital grant required to deliver more Area I direct development				£4,004	£4,480		£8,484

Based on the cost modelling analysis a further £28m of public sector capital grant money is needed, in addition to the that already available, for the Council to fund the completion of site preparation and public works across the whole site and fund a substantial element of direct development in Area I in order to generate revenue income. Assuming all the additional grant required is obtained within the modelled time periods then the project has a pay-back period of between 25 and 30 years.

If this additional grant funding is not available then the development of the site could be taken forward by the private sector or development of the site by the Council can be slowed with areas of the site remaining unprepared for development and/or moth-balled for a period of time to reduce revenue costs on the Council.

Revenue

Based on the cost modelling which is built on a range of assumptions, it is estimated that there will be a net revenue impact on the Council which will need to be accounted for between 2015/16 and 2018/19 following which income will then exceed expenditure.

These revenue costs will fund aspects such as site management, MoD and site security, insurance, empty building business rates, loan repayments etc. These revenue costs will initially have to be fully met by Plymouth City Council although over time this revenue demand will be reduced and offset by rents, service charges and business rates received from organisations moving into the MIPC site.

All additional NNDR (Business Rates) generated from this project and detailed in this report will be captured as part of our GAME programme as part of the Growth Dividend work stream. This will then form a component part of the overall council resource envelope which is used to finance the council's priorities. One such priority will be ensuring adequate funding is available to support this project. For the purposes of estimating revenue income in this report it is assumed that these business rates will be used to support this project and therefore these are included within the Total Revenue Income (see table below).

A summary of estimated revenue expenditure and income over the next five years is shown in the table below although it must be noted that this is based on current information and a range of assumptions and is likely to change. Cost reductions and clarifications are still being explored along with the potential to capitalise some of these costs although in the meantime an allocation of £1m contingency has been requested in the MFTP to cover the estimated revenue liabilities between 2015/16 and 2018/19.

Summary table of total revenue expenditure and income over first five years

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total Revenue Expenditure	26	152	1,043	1,037	1,096
Total Revenue Income	0	(23)	(448)	(703)	(1,303)
Net Revenue Position (assuming no capitalisation)	26	129	595	334	(207)

It should be noted that the positive net revenue position shown in the table above from 2019/20 onwards is based on a number of significant assumptions including that the Council receives more grant funding and progresses the majority of direct development across Area I West. Without this additional direct development to generate income the revenue position will remain adverse although there will be opportunities for the Council to reduce its liabilities and expenditure by such means as slowing down the development of the MIPC site and/or moth-balling development areas for a period of time.

Resources

Given that the first part of the South Yard site will transfer to the Council in April 2015, officers are reviewing options for the most appropriate Council governance model for this project and also the best delivery vehicle to manage and deliver the site development and ongoing campus. This future governance and delivery arrangement will steer, direct and manage the project alongside the existing South Yard Programme Board (SYPB) which is intended to continue until the land transfer has been completed in 2017. The SYPB currently consists of multiple stakeholders who have steered the investigation, feasibility, master-planning and transfer of South Yard to date.

In the short-term, management resources are provided from within existing City Deal capital costs and from existing Economic Development resources and an additional estate management resource of a Grade J Principal Surveyor has been provisionally identified with revenue costs for 2016/17.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The scale, complexity and short-timeframes associated with understanding, negotiating and transferring parts of South Yard from the MoD to Plymouth City Council as part of City Deal inevitably leads to a number of significant risks, liabilities and unknowns. These issues have to be recognised and accepted by Plymouth City Council at this point in time in order to proceed with the delivery of the MIPC and create the future opportunity that will ultimately be a major asset for the City and sub-region.

The significant risks, liabilities and unknowns identified at this stage and how these are being managed are set out in the background report but the key risks identified are:

1. Failure to secure additional public sector capital grants
 2. Cost estimates/allowance prove significantly lower than actually required due to unknowns such as ground contamination
 3. Market demand and take up of the MIPC site is slower than anticipated or is insufficient
 4. Onerous constraints/conditions attached to land transfers
 5. Land transfers cannot be achieved to agreed timeframes
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Equality and Diversity:

Has an Equality Impact Assessment been undertaken? Yes

Recommendations and Reasons for recommended action:

1. To delegate to Strategic Director for Place the negotiation, finalisation and signing of a legal agreement to transfer areas of South Yard (namely Areas 1 and 5) from the Secretary of State for Defence to the Council.
Reason: to allow negotiations on the land transfer to continue but be concluded before the end of March 2015 in line with target dates set within the City Deal Agreement.
2. To recommend to Full Council the acceptance of the funding offered as part of the City Deal Agreement (dated 31st January 2014) towards the creation of a South Yard MIPC ie: DLCC grant £8m, LEP (Growing Places funding) £5m loan and MoD up to £1m loan.
Reason: The funding identified as part of the City Deal Agreement has not yet been formally recognised within the Council's capital budget but is now certain based on the Terms of the City Deal agreement and subject to the signing of the South Yard land transfer agreement.
3. To authorise officers to prepare a detailed design and business case for a direct development proposal on the eastern area of South Yard Area 1 site.
Reason: To authorise resources to investigate and prepare a direct development proposal for South Yard which could secure a grant of £1.5m from the New Growth Fund (subject to approval) and if then taken forward will accelerate development and generate market interest in the South Yard MIPC site. This direct development proposal is estimated to deliver 149 and 176 new jobs.

Alternative options considered and rejected:

1. Do nothing and not progress the land transfer of areas of South Yard for an MIPC site.
This option was rejected as it would not therefore deliver the benefits predicted as part of the Plymouth and South West Pensions City Deal in terms of regenerating under-utilised land in South Yard to deliver permanent new jobs, significant marine employment space and leveraging in significant private sector investment.
 2. Delay the timing of land transfer pending resolution of all outstanding information and unknowns.
The option was rejected as failure to progress and secure a land transfer agreement by the end of March 2015 would jeopardise the £8.0m of grant funding offered by the Department for Communities and Local Government (DCLG) and potentially other funding agreed as part of City Deal.
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Published work / information:

Plymouth and South West Pensions City Deal Agreement signed 31st January 2015
http://www.plymouth.gov.uk/plymouth_city_deal_implementation_plans.pdf

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7
South Yard Stage 1 feasibility Report dated August 2014 (draft)		Yes			Yes				
South Yard Stage 2 feasibility Report dated October 2014 (draft)		Yes			Yes				
South Yard final master-plan cost appraisals		Yes			Yes				
Heads of Terms for land transfer between Secretary of State for Defence and Plymouth City Council		Yes			Yes				
New Growth Deal 2 bid for direct development on Area 1 East		Yes			Yes				
Business Case financial model and capital expenditure profiles for South Yard MIPC site		Yes			Yes				
Equality Impact Assessment (attached)	Yes								

Sign off:

Fin	djn14 15.2 2	Leg	ALT 21826	Mon Off	RSN No. 2188 5/DV S	HR	N/A	Assets	JW 004 0 04/1 2/14	IT	N/A	Strat Proc	N/A
Originating SMT Member: David Draffan													
Has the Cabinet Member(s) agreed the content of the report? Yes													

Background Report

1. Introduction

- 1.1. This report summarises the results of feasibility and site investigations, master-planning and land transfer negotiations with MoD to transfer approximately 7.46 Hectares (18.4 acres) of HM Naval Base South Yard to Plymouth City Council for redevelopment as a Marine Industries Production Campus (MIPC) in line with the Plymouth and South West Peninsula City Deal Agreement.
- 1.2. This report seeks approval to proceed with the finalisation of legal documentation to transfer areas of South Yard from MoD to Plymouth City Council as part of the City Deal.
- 1.3. The City Deal Agreement and its objectives are summarised in Section 2 along with the South Yard feasibility and market analysis work undertaken to date which is outlined in Section 3. This background agreement, feasibility and investigation work has been used to inform a high-level vision for the South Yard MIPC site which is presented within Section 4 together with a development master-plan which has been submitted for outline planning approval and which estimates the future employment benefits.
- 1.4. A programme of enabling and site preparation works together with an envisaged future development sequence is set out in Section 4 along with indicative costs, risks, benefits, and opportunities. The site enabling and future development works programme has been aligned to the proposed land transfer agreement and land transfer phasing provisionally agreed between MOD and the Council which is set out within Section 5.
- 1.5. Along with proposed vision, master-planning and outline development programme for the transferred South Yard site, this report also presents an opportunity and proposals to immediately progress some direct development at the site to secure early benefits and generate initial interest in the new MIPC South Yard site.

2. Background

City Deal - South Yard MIPC and land transfer

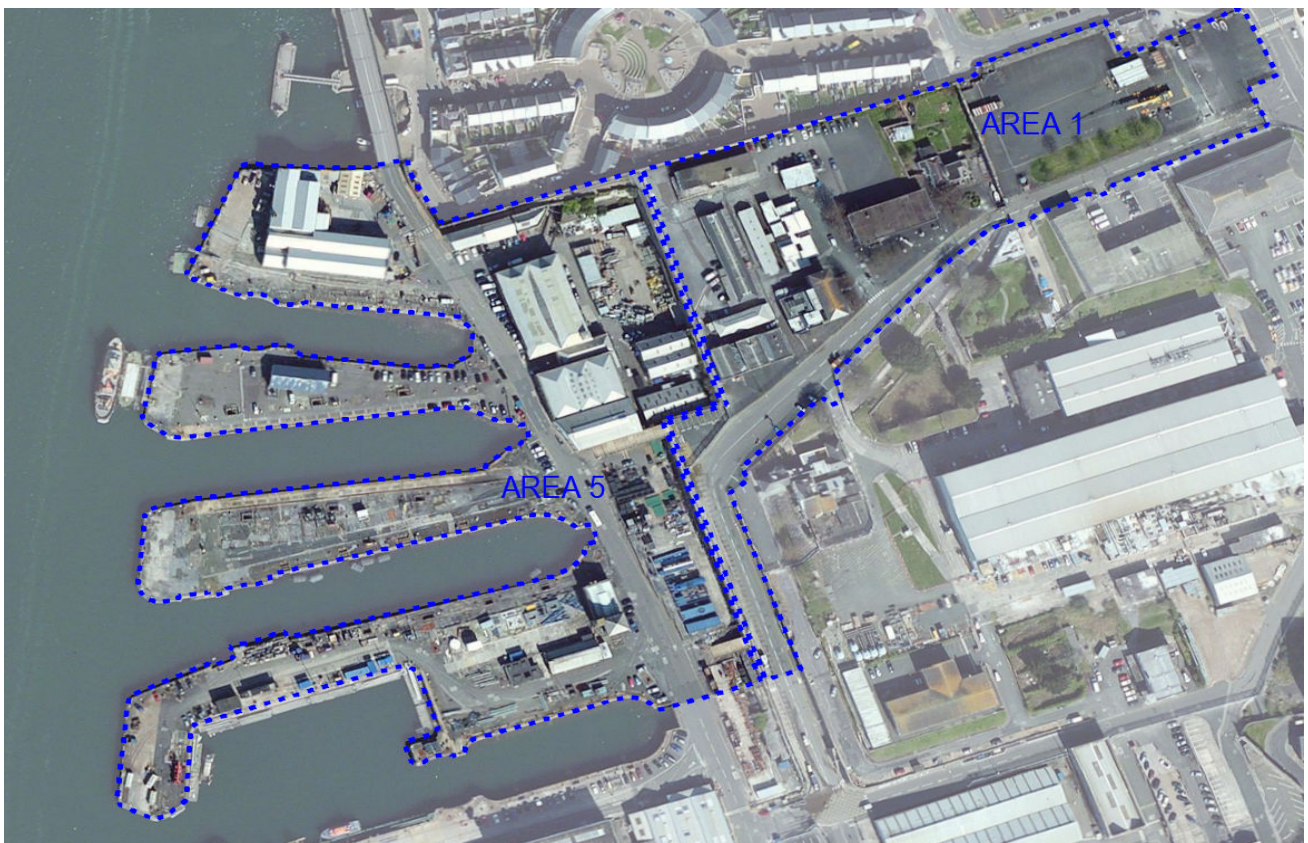
- 2.1. City Deals are a Government initiative announced in 2011 to promote economic growth by transferring certain powers from government to cities. Under these agreements cities are able to take responsibility for and make decisions on how public money should be used to promote business and economic growth within their local area.
- 2.2. The Plymouth and SW Peninsula City Deal is part of a second wave of City Deals and its flagship proposal is to transfer under-utilised land and buildings at the South Yard site in Devonport Naval Base from MOD control to Plymouth City Council for future development as a Marine Industries Production Campus (MIPC).
- 2.3. Unlocking this critical South Yard site will complement the region's key strength in the marine and advanced manufacturing sectors to provide employment space for marine sector companies and access to deep water, thereby enabling marine research and development and commercialisation activities to be undertaken. The South Yard site could also contribute to the South West region's Marine Energy Park concept to help support the wider marine renewable energy sector and hence contribute to the wider economic benefit of Plymouth and the SW region.
- 2.4. The City Deal South Yard proposal when agreed in January 2014 specifically targeted the creation of an estimated 1,184 new jobs, 32,400m² of new marine workspace and ultimately £59m of private sector investment from the initial part of South Yard to be transferred by a land transfer agreement which is targeted to be signed by March 2015.

- 2.5. The Council along with its City Deal partners signed the City Deal Agreement on the 31 January 2014. The Council recognised that the creation of a marine industries production campus in the City fully aligns to several of the Council's core objectives:
- a. Growing Plymouth – South Yard will create new jobs for the City, many of which will be highly skilled in specialist marine sectors. In addition the MIPC will facilitate economic investment and growth opportunities by attracting local, national and international marine related companies and organisations to the area. It is intended that these future job opportunities, as far as possible, would be marketed and promoted to local people with a commitment to a range of apprenticeships and skills development initiatives.
 - b. Confident Plymouth – South Yard is a spectacular historic maritime site which, following its transfer from MoD to Plymouth City Council, will ultimately become a key specialist marine employment and production campus for the City and will further enhance the City's reputation as a world class centre for marine research, development, design innovation and engineering.
- 2.6. As part of the City Deal Agreement, a Programme Board consisting of the Council, the Navy, MoD, English Heritage, Environment Agency, Defence Infrastructure Organisation and the Homes & Community Agency as key stakeholders was convened to progress the investigation, feasibility, master-planning and transfer of parts of South Yard to Plymouth City Council. The results of this work to date are set out in the following sections.

3. Feasibility Study

- 3.1. For the purposes of the Plymouth City Deal, South Yard, has been divided into 5 planning areas which are shown in figure A1 in Appendix A. Areas 2, 3 and 4 are to be retained by the MoD at least in the short to medium term with Areas 1 and 5 having been identified for release from MoD control as part of this City Deal transfer. Areas 1 and 5 are shown in figure 1 below:

Figure 1: Areas 1 and 5 of South Yard proposed to transferred to Plymouth City Council



- 3.2. The Council procured the services of a multi-disciplinary consultancy team in June 2014 led by URS Consultancy Ltd to assess the feasibility of releasing part of the South Yard site together with assessing its historic merits, determining market interest, developing a preferred master plan and gaining outline planning approval for the MIPC project. It should be highlighted that this feasibility work and its resultant cost estimates and appraisals are high-level and further work will be necessary to determine the detailed works to be undertaken and more accurate cost estimates.
- 3.3. Between June and November 2014, a range of site investigations and surveys were undertaken to inform the feasibility of transferring the Areas 1 and 5 and various lay-outs and master-planning options were considered by the South Yard Programme Board. A short-list of preferred master-plan options was tabled for public consultation in October 2014 and a final preferred master-plan proposal was accepted in November 2014 and was submitted for outline planning consent.
- 3.4. It should be recognised that the master-plan proposals submitted for outline planning consent are primarily high-level indicative plans in order to gain approval for the infrastructure changes necessary to separate the MIPC site from the Naval Base and establish the key principles of development and land-use. These plans also provide a basis for the MoD and the Council to understand the implications, opportunities, impacts and costs of any future development and detail how the site can be separated from MoD control whilst maintaining operational integrity and the required level of security.
- 3.5. Alongside the feasibility study and master-planning work, the Council, URS consultancy team and RegenSW have been engaging with the marine sector and related companies to gauge market-interest and feedback. This information has been used to inform the Council's vision, master-plan and envisaged site development works programme for the site and is set out in Section 4.
- 3.6. As part of a Marine Sector Demand study, Regen SW have analysed trends in the wider marine sector to draw out the city's comparative strength and areas of greatest growth potential. This intelligence will be used to inform a proactive, targeted marketing campaign to ensure there is a pipeline of marine businesses to take up space at the MIPC (see 4.13 - 4.17).
- 4. South Yard MIPC – Vision, Master-plan, Programme and Marketing to Investors**
- 4.1 City Deal seeks the creation of a south-west peninsula wide Marine Industries Production Campus to coordinate and improve the area's potential for research and development and commercialisation activities in the marine sector. Work is ongoing to understand the current strengths and weakness of existing marines sites across Cornwall, Devon and Somerset and to identify gaps and opportunities for the future. Other marine sites being considered include sites at Falmouth, Appledore, Ilfracombe, Yelland, Brixham, Totnes, Bridgewater Bay and in West Somerset.
- 4.2 South Yard is seen as a critical site in providing new employment space for marine sector companies and access to deep water. These key factors together with its central location in the region and proximity to already established marine companies such as Babcock Marine Ltd and Princess Yachts Ltd in Plymouth provide a significant new opportunity for new marine development and employment which could in turn support the wider regional marine sites and economy.
- 4.3 South Yard's historic context and background has been fully assessed and is intended to be recognised, enhanced and preserved, not least through the retention and potential conversion of many listed buildings and features which will ultimately form part of the new campus.

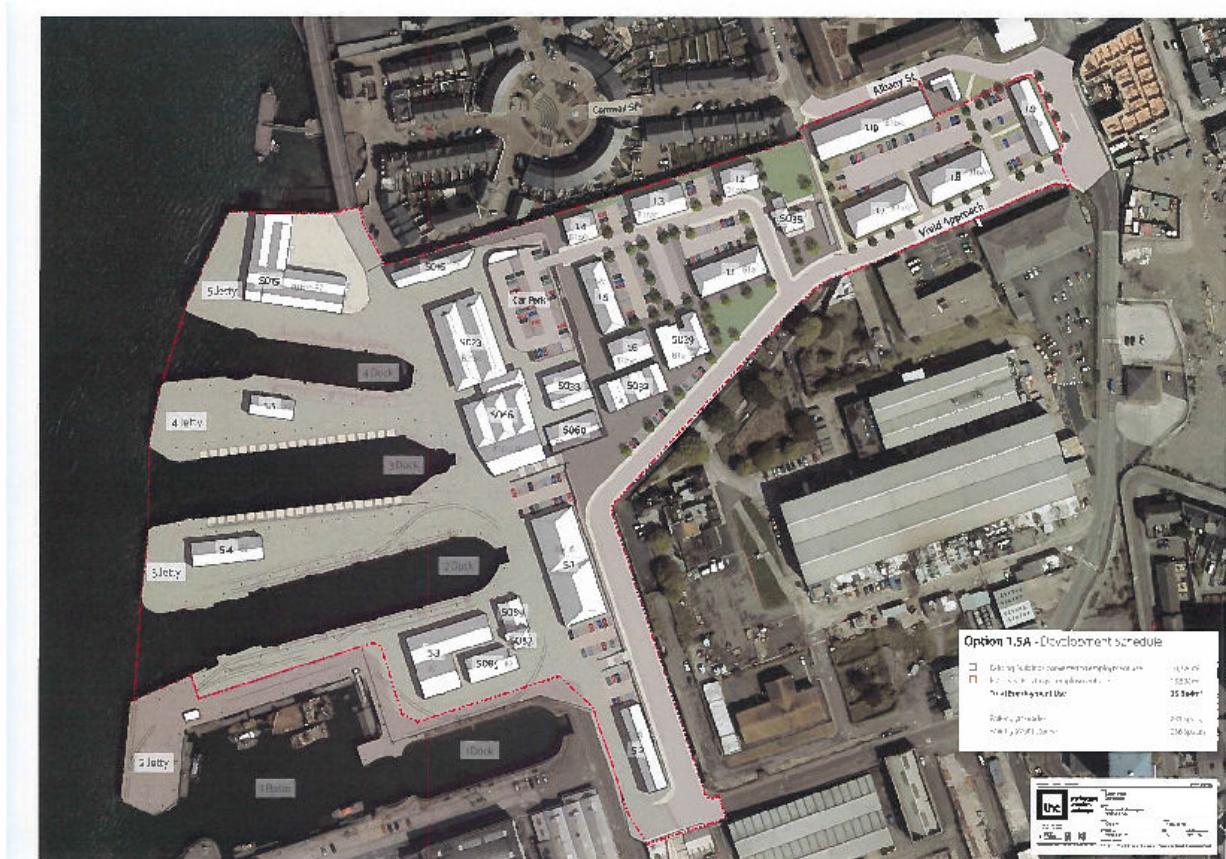
Marine Industries Production Campus (MIPC) Vision and Master-plan

- 4.4 To inform the high-level development vision for the South Yard site being considered for transfer, a Marine Demand Study has been commissioned by the Council via RegenSW and although this work has yet to conclude it has provided very useful information and feedback as to what might work best on the site. This work has complemented the market demand and market interest feedback gained by the Council and the URS consultant team and has resulted in a vision that proposes graduated marine related activities across different areas of the site from largely office related activities to the east through to marine industry/manufacturing activities to the west.

South Yard MIPC Master-plan

- 4.5 The resultant master-plan shown in figure 2 below (repeated in larger scale as plan A2 in Appendix A) is based on the above vision which could accommodate the following activities:
- Marine and water technology activities called Blue Tech (eastern area of Area 1) – office, meeting and marketing space for potential professional marine consultancy, ICT and design services
 - Campus (western area of Area 1) – hybrid office/workshop units with potential design suites, laboratories for technology and prototype production, and marine technology development
 - Production (eastern hinterland of Area 5) – potentially marine workshops, product and component manufacturing and hi-tech engineering
 - Marine Industries – engineering and manufacturing workshops, and waterside/dry dock activities including vessel fabrication, repair and assembly.

Figure 2 proposed master-plan layout for transferred areas of South Yard



- 4.6 This master-plan has been designed to retain future development flexibility on the site depending on what the Council requires and the private sector market proposes. Recognising the historic nature of the South Yard site, the proposal retains 12 existing buildings most of which are either listed or have historic value. These existing buildings together with other historic assets such as the listed docks and walls will be retained, upgraded and adapted for future reuse.
- 4.7 In addition the master-plan details the demolition of a number of existing buildings on the site which are considered unsuitable for future use in the MIPC and proposes the construction of 15 new buildings many of which are hybrid buildings with workshops at ground level and upper floors capable of being tailored to other uses such as office, research, design etc.
- 4.8 The plan will form the basis of the Outline Planning Application which will secure a change of use and will act as a consent against which future specific detailed developments on the site will be considered. This proposal retains 12 existing buildings on the site which will provide over 10,000m² of existing building floor space for employment use and proposes 15 new buildings generating over 15,000m² of floor space.
- 4.9 Based on recognised industry standards for proposed usage types, the proposed master-plan development is projected to generate employment for over 1,200 employees, many of whom would be specialist and highly skilled jobs (see plan A3 at Appendix A). To accommodate the employment numbers with the development layout shown around 500 new parking spaces would be required, some of which could be accommodated in a public or potentially private sector funded multi-storey car-park designed to serve Area 5 at its base level and Area 1 at its top level.

South Yard MIPC high-level works and development programme

- 4.10 Extensive works will be required to establish a new Marine Industries Production Campus in South Yard and work will need to be phased and progressed over a number of years. Some of the work will be undertaken by the MoD which are linked to separating and safeguarding their operations, some by the Council as part of the preparing the site and some by private sector developers tailoring new developments to suit their specific needs.
- 4.11 The City Deal funding is not intended to deliver the master-plan in full and hence with the funding currently available the Council will concentrate on servicing, preparing and upgrading the site ready for development. Notwithstanding this, the Council does have an ambition to progress some direct development on the site as soon as possible (see section 7) although the rate, extent and exact areas of development will vary depending on the availability of funding, market interest and upon the specific requirements and needs of businesses seeking to occupy the MIPC site.
- 4.12 The works intended for the site have been simplistically divided into the following categories:
- a) **Separation Works – Access and Security Works** – including works to separate the South Yard MIPC site from the Naval Base in terms of security and access routes to MoD retained areas
 - b) **Site Preparation Works** – including works to: remove surplus MoD services and divert and revise MoD services; provide new services to the MIPC site; demolish unwanted buildings; refurbish/repair retained buildings and structures to an acceptable standard; form primary access routes and undertake localised site remediation as required.
 - c) **New Build and Fit Out of New Development** – including works to: construct new employment buildings and spaces; fitting out existing retained buildings; formation of secondary and tertiary access routes; provision of car-parking and provision of hard and soft landscaping.

4.13 Subject to achieving the agreed dates for the phased hand-over of the South Yard site (see Section 5 HoTs) and assuming a degree of latitude for the Council to undertake works under licence in advance of the formal land transfer, a high-level site development programme with a broad indication of capital works over the next 5 years is set out in Table 1 below.

Table 1 - high-level site capital works development programme

Year (land transfer from MoD)	Access and Security Works	Site Preparation Works	New Build and Fit Out
2014/15 Currently funded		Area 1 East: relocation, diversion and capping of MoD services	
2015/16 (Area 1 East – April 2015) Currently funded	Area 1 East: amended fence lines Area 1 West: amended fence lines	Area 1 East: relocation, diversion and capping of remaining MoD services Area 1 West: relocation, diversion and capping of MoD services Area 1: new primary services, primary road modifications, remediation and demolitions Area 5: relocation, diversion and capping of MoD services	Area 1 East: potential direct development of offices and units
2016/17 (Area 1 West – April 2016) Currently funded	Area 5: new security fence and road to 2 Jetty, revised and new security gates, road markings	Area 1 West: relocation, diversion and capping of remaining MoD services Area 1: new primary services, primary road modifications, remediation, urgent building and infrastructure repairs, remaining demolitions, building refurbish/repair works Area 5: relocation, diversion and capping of MoD services Area 5: new primary services, primary road modifications, remediation and demolitions	Area 1 East: potential direct development of offices and units Area 1: New builds and fit-outs subject to private sector interest and/or additional grant funding
2017/18 (Area 5 – April 2017) Currently funded		Area 1: infrastructure repairs, building refurbish/repair works Area 5: relocation, diversion and capping of remaining MoD services Area 5: new primary services, primary road modifications, remediation, urgent building and infrastructure repairs, remaining demolitions, urgent repairs to walls, docks and jetties	Area 1: landscaping, secondary access routes and servicing as development requires Area 1 West: direct development if additional grant funding sourced Other new builds and fit-outs subject to private sector interest and/or additional grant funding
2018/19 Currently unfunded		Area 1: infrastructure repairs, building refurbish/repair works Area 5: remediation, building refurbish/repair works, repairs to walls, docks and jetties	Area 1 and 5: hard and soft landscaping, car-parking, secondary access routes and servicing as development requires Area 1 West: direct development if additional grant funding sourced Other new builds and fit-outs subject to private sector interest and/or additional grant funding

Year (land transfer from MoD)	Access and Security Works	Site Preparation Works	New Build and Fit Out
2019/20 Currently unfunded		Area 5: remediation, building refurbish/repair works, repairs to walls, docks and jetties	Area 1 and 5: landscaping, secondary access routes, multi-storey car-park as development requires Further new builds and fit-outs subject to private sector interest and/or additional grant funding

Marketing the MIPC to investors

- 4.14 The new MIPC at South Yard presents a significant opportunity to address the city's low productivity, by stimulating high-value job creation in one of the city's strongest sectors. Analysis by Regen SW has demonstrated areas within the broader marine sector where the city has clear capabilities and growth potential¹ - this intelligence will inform a targeted approach to marketing the MIPC for new business growth and investment.
- 4.15 Regen SW analysis suggests that successful industry clusters are based on a combination of indigenous strengths and new inward investment. Enquiry management work by Alder King has already identified a strong pipeline of existing city businesses looking to potentially expand into the MIPC; this demand will be consolidated through more proactive efforts to secure new investment from further afield.
- 4.16 Case study analysis has shown that businesses are drawn to 'ready-made assets', like minded companies and intellectual capital. Therefore the effective packaging and promotion of Plymouth's key assets will form a key part of the MIPC investment strategy. Marketing collateral including a high-level 'sales' brochure and website is in development and will be promoted through local (eg *investinplymouth*), regional (eg LEP) and national (eg UKTI – Regeneration Investment Organisation) channels. Furthermore, the MIPC/South Yard offer will be showcased at a series of industry-specific trade shows (All Energy Conference in Glasgow in May 2015, for example) to maximise interest.
- 4.17 The MIPC investment strategy will be necessarily collaborative, drawing on the strengths and knowledge of local partners to effectively account manage a MIPC business pipeline. A virtual inward investment group (including key players like Plymouth University, Plymouth Marine Laboratories, Marine Biological Association, PCC and the Heart of the SW LEP) has been created and will prioritise the South Yard opportunity. In addition, City Deal funding will be used to procure specialist sector support to help hone the sector proposition, drive forward new investment opportunities, and develop the necessary connections with business to stimulate and nurture demand. City Deal 'soft landing' financial support is also available to incentivise the development.
- 4.18 Given the phasing of development described above, the initial focus will be in securing interest in Area 1 East, the so-called 'Blue Tech'² offer, which will provide high quality office space and test facilities suitable for knowledge based business growth.

¹ Sub-sectors include autonomous vehicles, marine ICT, green shipping, marine science applications, decommissioning, composites and environmental instrumentation

² Blue tech – includes the following naval architects, marine consultants/consultant engineers, marine commercial/professional services and ICT/Marine technology

5. Land Transfer Agreement

- 5.1 Heads of Terms (HoTs) for an agreement to transfer South Yard land Areas 1 and 5 have been concluded between the Secretary of State for Defence and Plymouth City Council. These HoTs are commercially confidential but include the following high-level terms and conditions:
- a) A set of legally binding agreements will be completed by 31 March 2015 which will transfer the South Yard land areas in 3 phases conditional on providing continuity of operational service provision and maintaining security for the MOD retained estate;
 - b) The timing of land transfers are provisionally targeting Area 1 East in March 2015, Area 1 West by April 2016 and Area 5 by April 2017;
 - c) The transfers will be for freehold of Area 1 East and a long leasehold (299 years) of the remaining site areas;
 - d) Designated employment uses will be permitted on all 3 transferred sites;
 - e) Leases, licences and rights of parties will be established whilst separation works are ongoing;
 - f) Terms for reimbursement of MoD separation costs and any existing land value;
 - g) Terms for the sharing of any development profits above a target level that covers the Council's costs of developing the project;
 - h) New MoD security requirements and apportionment of associated capital and revenue costs;
 - i) Conditions, constraints and protocols attached to developing the site in the future recognising the MoD's Warships in Harbour requirement to safeguard site occupants from berthed warships carrying armaments;
 - j) A commitment for the Naval Heritage Collection to remain in the South Yard site until an alternative arrangement is agreed between MoD and Plymouth City Council;
 - k) The MoD has provided land quality assessments based on previous surveys but the MoD will not retain any liability for land contamination on the transferred site hence the Council will need to manage any site contamination that is found.
- 5.2 Although these HoTs are not legally binding at this stage it is intended that parties will develop these HoTs into detailed legal documentation for completion before the end of March 2015 in line with the target date set out within the City Deal Agreement.

6. Costs, Funding, Risks and Liabilities

Summary of MPIC cost appraisals and analysis

- 6.1 Based on cost appraisal analysis using the information set out over the following pages, a further £28m of public sector capital grant money is needed, in addition to that already identified, to fund the necessary site separation, site preparation, direct development and public works. Without such additional public grant funding, the private sector will have to fund more aspects of the development but this will reduce the income available to the Council who will retain a revenue cost implication to run the site. Furthermore the MIPC site may not be in a position to be completed by private sector development which in itself may require some form of grant funding or incentive.

- 6.2 In terms of revenue funding, there are many areas of ongoing revenue cost that need to be recognised from the point of land transfer such as site management, MOD and site security, insurance, empty building business rates, loan repayments etc. These revenue costs will initially have to be fully met by Plymouth City Council although this revenue demand will be reduced through demolition of unwanted buildings and the balance offset by rents, land premiums, service charges and business rates received from organisations moving into the MIPC site.
- 6.3 To obtain the required level of revenue income to offset ongoing site running costs, it has been assumed that the majority of new-build development in Area I will be undertaken by the Council, some of which (Area I West) will require additional and as yet unidentified grant funding. It is estimated that without additional capital grant funding the site will not reach payback and revenue expenditure will always exceed revenue income.
- 6.4 Assuming £28m of additional capital grants is forthcoming then the payback period for investment becomes between 25 and 30 years which is realistic for a long-term development of this scale. A sensitivity analysis has been undertaken (see section 6.16 and Appendix D) which shows how changes in assumptions affect this pay-back and the revenue position for the Council. Once full developed, it is estimated that the gross value added (GVA) to the economy from the site will be £136.7m per annum.
- 6.5 The following sub-sections set out the Council's commercial strategy for the next five years along with estimated revenue and capital spend costs associated with taking and developing the MIPC site and the available funding streams that will fund this work.

Outline Commercial Strategy for the MIPC site development

- 6.6 The high-level commercial strategy being proposed by the Council to take the site forward over the first 5 years is set out in Table 2 below:

Table 2: Commercial strategy to be adopted over first 5 years

Development Years	High-level description of Council activities	Funded by
Years 0 to 2	Separate South Yard MIPC site from the Naval Base, provision of new services, demolition of unwanted buildings to reduce rates liabilities	City Deal grants, loans and Council investment but minimal or no rental income
Years 1 to 4	Refurbish/repair retained buildings and structures to an acceptable standard for letting, undertake around 3,000m ² Direct Development on Area I East (see section 7), market site to increase letting income to support borrowing and site revenue costs.	City Deal grants, land and property disposals, loans and Council investment with increased rental income to help offset site running costs and loan repayments.
Years 2 to 5	Market site to allow private sector to construct new employment buildings and spaces to, increase letting income to support borrowing and site revenue costs. Seek additional grant funding to progress around 4,000m ² of Direct Development on Area I West and site regeneration	Secure increased rental income to further offset site running costs and loan repayments. Land and property disposals. Additional grant funding needed to continue to separate and develop site

Estimated Capital costs

- 6.7 Estimates of the capital investment needed to deliver the envisaged South Yard MIPC master plan (including private sector investment) has been prepared against each of three broad categories or stages of work. The first two categories of works ie Site Separation and Preparation will need public sector funding to make the site viable with the latter category (New Build and Fitting Out) primarily funded by the private sector. High-level capital cost estimates needed to deliver the master-plan are shown in Table 3 below at 2014 prices noting that these costs will be subject to inflation and exclude other unavoidable costs such as design, fees and project management.

Table 3: Capital Cost Estimate to Deliver MIPC Master-plan at 2014 prices

Category of Cost	Activity or Location	Order of Cost (to nearest £0.5m)	High-level description of cost
Separation Costs	(a) Security and Access related (b) Servicing Related	(a) £0.5m (b) £2m	Includes works to separate the South Yard MIPC site from the Naval Base in terms of security and access routes and removing surplus MoD services and diverting/revising MoD services to MoD retained areas
Site Preparation Costs	(a) Area 1 (b) Area 5	(a) £4m (b) £13m	Includes works: to provide new services to the MIPC site; demolish unwanted buildings; refurbish/repair retained buildings and structures to an acceptable standard; create serviced sites for disposal and development; form primary access routes; and undertake localised site remediation.
New Build & Fitting Out of New Development	(a) Area 1 East (b) Area 1 West (c) Area 5	(a) £7.5m (b) £9.5m (c) £17.5m	Include works to: construct new employment buildings and spaces; fitting out existing retained buildings; formation of secondary and tertiary access routes; provision of car-parking; and provision of hard and soft landscaping.
Total Estimated Cost (at 2014 prices)		£54m	Current project cost analysis assumes that the Council, via public sector funding, will pay approx 2/3's of this total cost but that this will amount to £48m once inflation and other excluded costs are added. Analysis assumes the other 1/3 of this cost (primarily development in Area 5) will be private sector funded although this ratio could change.
The above costs include a 10% contingency but excludes the following aspects at this stage: design, project management and professional fees; adoption Costs; VAT; works phasing; ground conditions/contamination; special planning conditions; Section 106 contributions; Section 278 works and other works beyond site boundary; asbestos removal associated with demolitions; surveys and remediation measures associated with radiation contamination; pumping foul drainage off site; fibre optic service diversions; specific impact of Heritage Reports; general CCTV Installations; provision of pontoons caisson gates to docks and associated pumping equipment; piling to new buildings; fitting out building SO35 if used as a café; MOD costs associated with relocation, decanting; IT Hub relocation.			

6.8 To commence the development of the South Yard MIPC site, various funding arrangements have been agreed as part of the City Deal agreement including investment from the Council's Investment Fund. These funds will contribute to the transfer, separation and preparation of the MIPC site although it must be recognised that additional grant funding will need to be sought and required to fully complete the site preparation works alongside any private sector investment. The funding sources currently identified and agreed are summarised in table 4 below together with outline terms and conditions where known. This table also includes an additional funding bid from New Growth Deal 2 which is intended to be used for the delivery of the direct development proposal set out at Section 7:

Table 4 – Available, agreed and bid funding sources for South yard MIPC development

Funding Source	Amount	Status	Terms and Conditions
Plymouth City Council	£5m	Capital - approved	
Department for Government and Local Communities (DCLG)	£4m (2015/16) £4m (2016/17)	Agreed as part of City Deal Agreement. To be a Section 31 capital grant	Subject to progress of City Deal South Yard land transfer agreement. Released in 2 tranches but not time limited
LEP (Growing Places funding)	£5m	Agreed as part of City Deal Agreement	Business case required for release as £3m capital loan and £2m grant – terms of repayment to be negotiated
Ministry of Defence (MoD)	Up to £1m	Agreed as part of City Deal Agreement.	Capital loan towards MoD separation and enclaving. Areas of spend agreed and repayable within 10 years
LEP (New Growth Deal 2)	Up to £1.5m	Capital grant bid submitted (Nov 2014) for direct development at Area 1 East	Currently a funding bid hence money not assured and terms as yet unknown
Total money available	£19m + £1.5m bid		

6.9 Recognising the City Deal funding currently available from table 4 above, the areas and timing of expenditure on developing the South Yard Site have been prioritised over the next five years based on the information currently available. This is summarised in Table 5 below together with what can be funded by the City Deal money available. Whilst costs for separation of the site can be readily projected over the medium term, it is recognised that the actual building development and fit out will also be market led and so it is only possible at this stage to profile the initial direct development at Area 1 East (see section 7) with any accuracy albeit further direct development is needed and will be targeted for Area 1 West. The spend profile in Table 5 is based on the master-plan order of cost estimates which have a range of unknowns and hence this spend profile will be subject to change over time. This spend profile will also change as additional grant money becomes available and/or if specific private sector development and leases are confirmed. Table 5 summary is shown below:

Table 5 – Summary table of capital expenditure on the South Yard MIPC site for next 5 years and thereafter with assumed construction inflation at 4% per annum.

Works	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	Future years £,000	Total £,000
City Deal management, feasibility and fees	£786	£179	£184	£188	£193	£0	£1,531
Site Access and Security	£0	£123	£445	£0	£0	£0	£568
Site Preparation	£125	£1,459	£4,511	£5,469	£2,388	£9,495	£23,447
Direct Development proposal on Area I East	£0	£1,553	£4,012	£0	£0	£0	£5,564
Other publicly funded works eg landscaping, carpark	£0	£0	£359	£405	£907	£6,793	£8,464
Total estimated capital expenditure of works above	£911	£3,314	£9,510	£6,063	£3,488	£16,288	£39,574
Funded by available City Deal monies (assuming New Growth Deal grant received)	Yes – all above	Yes – all above	Yes – all above	Yes – all above	Only £700k of above	No	
Additional capital grant required to deliver more Area I West direct development				£4,004	£4,480		£8,484

- 6.10 As can be seen from the figures in Table 5 above, the circa £20m funding currently available to the City Deal project can only fund the profiled expenditure until 2017/18 and is therefore considerably short of overall amount required to deliver the totality of the site separation, preparation, Area I East direct development and public works required on the site.
- 6.11 The last line of table 5 shows that the Council will also seek to deliver further direct development in Area I West by 2019/20 which is at present unfunded and would require further capital grant funding of around £8.5m. This additional direct development is needed to provide sufficient revenue income to offset revenue costs associated with running the site without which the Council will suffer an ongoing net revenue pressure or will have to reduce its liabilities and expenditure by such means as slowing down the development of the MIPC site and/or moth-balling development areas for a period of time. Therefore, in order to deliver the South Yard MIPC master-plan publicly funded separation and preparation works and the direct developments as proposed, a further £28m of additional grant funding will be required.

Estimated Revenue costs

6.12 The South Yard site once transferred from the MOD will also have revenue implications in terms of both income and expenditure. Upon transfer, it is estimated that there will initially be revenue cost liabilities (table 6) for the Council from various directions. These revenue costs will be minimised through various means such as demolitions and/or netted off by income set (table 7). Based on a range of assumptions, it is estimated that there will be a revenue impact on the Council which will need to be accounted for between 2015/16 and 2018/19 following which income will then exceed expenditure. Table 6 below sets out estimated estate management revenue costs for the next 5 year period. These costs, in particular those for security, are currently being reviewed and it is hoped that these can be reduced.

Table 6 – Summary table of estimated revenue costs for South Yard MIPC site over the next 5 years

Cost areas	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Management cost ^{Note 1}	0	57	59	62	65
Site running costs ^{Note 2}	25	36	190	199	208
Empty Business rates ^{Note 3}	0	17	169	136	167
Building Insurance ^{Note 4}	1	10	11	11	11
MOD Security costs ^{Note 5}	0	0	506	519	532
PCC Security ^{Note 6}	0	32	108	110	113
Total Revenue Expenditure (26	152	1,043	1,037	1,096

Notes

1. Management cost allows – one Grade J Principal Surveyor for general estate management of the site from 2016 including dealing with the lettings of the direct development buildings and refurbished existing buildings.
2. The site running costs allow for the planned and un-planned maintenance of the retained buildings and common areas including access roads and sea walls, grounds maintenance, utility costs and pest control etc.
3. Empty business rates are an estimate of the Council NNDR liability on retained vacant buildings and new buildings being let which will reduce in line with projected lettings from 2017/18. It should be noted that it has been assumed that non-retained buildings will be demolished immediately prior to transfer to avoid empty rates liability; in the event that demolition is delayed additional provision will need to be made for additional empty rates liability.
4. Building insurance costs have been estimated based on assumed vacant buildings otherwise costs will be paid by tenants.
5. The MOD security costs are to provide security to Jubilee Gate and a new gate to Morice Yard as per the transfer heads of terms as part of the MOD operational requirement. The existing gate will need to be increased to twenty four hour cover. The new gate will be required to provide twenty four hour cover. These costs are under review.
6. The PCC security costs are to provide civilian security cover to the docks area within Area 5. The extent and form of this cover is yet to be decided.

6.13 As development progresses on the site, income will increase to help offset ongoing revenue expenditure although the exact timing of this will depend on how quickly development takes place on the site. Table 7 below shows potential rental income for South Yard over the first 5 year period. The figures for Area 1 East relate to the direct development scheme to create new offices and hybrid units although the income from this scheme will be used to fund the cost of the Growing Places loan promised as part of the City Deal funding agreement (as shown in Table 4).

Table 7: Summary Table of Estimated Income for South Yard MIPC over the next 5 years

Income Stream	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Rental Income from Leasing ^{Note 1}	0	5	275	438	848
Business rates ^{Note 2}	0	18	154	167	303
Service Charges ^{Note 3}	0	0	19	42	95
Dock/waterfront land rental ^{Note 4}	0	0	0	55	57
Total Revenue Income	0	23	448	703	1,303
Notes					
1. Rental incomes in this period assume existing leased buildings continue, some existing retained buildings are leased and the Council has direct developed all but 2 new buildings in Area 1 which will require additional £9m of grant funding and that direct development has 60% occupancy in its year 1, 80% on its year 2 and 90% thereafter.					
2. This business rate income is based on the development schedule assumed in 1 above with the 50% element retained by the Council and it is assumed this same amount will be returned by the Council to fund the South Yard MIPC project					
3. Service charges are based on 65p per sqft applied to leased buildings					
4. It is assumed that the dockland and jetty area can be used to generate around £1k per week					

6.14 Based on tables 6 and 7 and the range of assumptions this is based on the net revenue position for the Council will be as set out in table 8 for the next five years. This table shows that initially there will be a revenue requirement to support the project but as development progresses across the site, income increases such that a positive net revenue position is attained. This positive net revenue will be used to fund loan interest costs and return the Council's £5m capital investment such that a payback period of around 25 to 30 years is expected.

Table 8: Summary Table of Net Revenue Position for South Yard MIPC over the next 5 years

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total Revenue Expenditure	26	152	1,043	1,037	1,096
Total Revenue Income	0	(23)	(448)	(703)	(1,303)
Net Revenue Position (assuming no capitalisation)	26	129	595	334	(207)

6.15 It should be highlighted that the positive net revenue position shown in table 8 from 2019/20 onwards is based on a number of significant assumptions including that the Council receives more grant funding to develop the South Yard site and progresses more direct development across Area 1 West. If these assumptions prove incorrect then there will be opportunities for the Council to reduce its liabilities and expenditure by such means as slowing down the development of the MIPC site and/or moth-balling development areas for a period of time such as Area 5 which is the area with the highest revenue demand generated by the MoD security costs and a highest level of currently unfunded site preparation and development works.

6.16 A sensitivity analysis has been undertaken which considers variations to some of the key assumptions and how this affects the revenue and payback period. A summary of this sensitivity analysis of key risks is included in Table 9 and the results with risks more fully explained included at Appendix B.

Table 9 – Sensitivity analysis on key risks and their financial implications

Risk No	Description	Values (excluding inflation)
1	Project funding, further grants and capital funding not available	1. Capital costs never recovered – no payback 2. Revenue is wiped out and an annual cost of £225k per annum is required to operate the site
2	Cost of Construction, annual inflation of 6%	1. Capital costs increase by £2m. 2. Payback increases by 5 years
3	Construction delayed by 2 years eg through slow receipt of additional grants and loans	1. Capital costs increase by £3m. 2. Payback increases by 5 years
4	Private development of Area 5 does not happen	1. Revenue reduces £150k per annum. 2. Payback increases by 4 years
5a	Rental income – occupancy reduced to 50%	1. Capital costs never recovered – no payback 2. Revenue is wiped out and an annual cost of £100k per annum is required to operate the site
5b	Rental income – rental values 25% lower than expected	1. Revenue reduces by £250k per annum 2. Payback increases by 26 years.
6	Operating costs underestimated by 25%	1. Revenue reduces by £265k per annum 2. Payback increases by 21 years

Risks, liabilities, unknowns and sensitivity analysis

6.17 The scale, complexity and short-timeframes associated with understanding, negotiating and transferring parts of South Yard from the MoD to Plymouth City Council as part of City Deal inevitably leads to number of significant risks, liabilities and unknowns. These issues have to be recognised and accepted by Plymouth City Council at this point in time in order to proceed with the delivery of the MIPC and create the future opportunity. Table 10 below lists the significant risks, liabilities and unknowns identified at this stage and how these are being managed.

Table 10 – Summary table of risks, liabilities and unknowns

Description	Potential impact	Proposed Management
Failure to secure additional public sector capital grants	The Council will not be able to complete the required site separation and preparation works Areas of the site may have to be mothballed The full potential of the MPIC site will not be delivered	Seek additional grant funding to continue with MIPC master plan works which need to be public sector funded Prioritise works to deliver maximum impact and development potential Develop a contingency plan in the event that grants are not available as required

Description	Potential impact	Proposed Management
Cost estimates/allowance prove significantly lower than actually required due to unknowns e.g. site services, works requirements, levels of site contamination and changes to Warships in Harbour regulations	Costs and liabilities increase for Council MIPC delivery slowed Less MIPC works delivered by Council Development sites not progress due to contamination liabilities	Build contingency into estimates Undertake further contamination survey to ascertain status Liaise with MoD re Warship in Harbour regulations Prioritise MIPC works to maximise delivery potential Continually seek additional funding
Market demand and take up of the MIPC site is slower than anticipated or is insufficient	Insufficient revenue income to the Council to fund the running and development of MIPC site Site under-utilised	Develop and deliver an attractive brand and a robust marketing plan for the MIPC site Council to undertake direct development on the site to promote and develop interest Council to develop contingency fund and plan for site Undertake further market and funding due diligence prior to land transfer to ensure that demand position is clearly understood
Onerous constraints/conditions attached to land transfers	Constraints prove unacceptable to the market hence site is not developable or fundable	Understand and minimise constraints, discuss with market sector and funders prior to transfer
Land transfers cannot be achieved to agreed timeframes	Impacts on agreed funding Development is slowed South Yard site transfer jeopardised	Secure certainty of legal land transfer with timing flexibility Ensure funding conditions known and negotiate flexibility

Future governance and site management

- 6.18 At present a South Yard Programme Board (SYPB) has steered the investigation, feasibility, master-planning and transfer of parts of South Yard to Plymouth City Council. This Board consists of the Council, the Navy, MoD, English Heritage, Environment Agency, Defence Infrastructure Organisation and the HCA as key stakeholders and is intended to continue until the land transfer has been completed in 2017.
- 6.19 The first part of the South Yard site will transfer to the Council in April 2015 and hence the Council is now reviewing options for the most appropriate Council governance model for this project and also site management, delivery and staffing arrangement to directly shape, manage and develop the site into the future. A range of potential governance and management delivery vehicles will be investigated during 2015 with a view to being established as soon as practical.

7. Initial Direct Development proposal for Area I East

- 7.1 As set out in section 4 above the current City Deal funding is not intended to deliver substantial development at the site. However it is recognised that in order to generate sufficient income to offset the revenue running costs of the site, it will be necessary for the Council to develop some buildings on the site. In addition to make the campus attractive to marine industry businesses it will be necessary to develop facilities at the outset that promote the campus as a suitable specialist business district.

- 7.2 There are buildings and infrastructure in South Yard that can be readily adapted to the marine sectors, however there are no direct high end facilities that offer clean technologies and client facing facilities that the private sector need to promote and develop their businesses.
- 7.3 The Council has appointed RegenSW to undertake a detailed economic demand study for the global, national and local markets in the marine industries. The findings of this study suggest that the entrance of the campus needs to consist of high end office, meeting and market spaces, along with a number of hybrid office /workshop, designed to accommodate design suites, labs and training rooms for technology development and product prototypes production. These being of a size that allows growing businesses to relocate to the campus because of the synergy the units have to other like businesses, clients and supply chains.
- 7.4 It is proposed therefore to initiate the direct development of Area 1 (east) of South Yard which will be the first development to create the Marine Industries Production Campus and will set the tone for the image and status of the development. The proposals will construct two buildings and car parking and public realm at this stage which would consist of 14,516 Sq ft of light industrial (hybrid) units with flexibility for potential laboratory and testing facilities, and 18,387 sq ft of class A office development. An additional building maybe also be constructed if additional grant funding is available.
- 7.5 The scale of the first development needs to be proportionate to the funding available at the current time and of a size that announces the campus opening without over developing as demand is stimulated. In this way the buildings will form the first catalyst infrastructure with a developed public realm at the entrance to the campus but leave room for future development at the front of the site.
- 7.6 The proposals to initially build two of the possible four buildings on the Area 1 (east) site would create between 149 and 176 direct jobs and in addition to this it is estimated that the build process will support 70 construction jobs and create five construction apprentices.
- 7.7 It is estimated that the proposal will bring in an average of £64k per annum in NNDR retention at 50% which will be used to offset site running costs.
- 7.8 The proposal is to use £1m of grant funding from the Council's Investment funding (a proportion of the £5m already allocated to South Yard) and £1.5m of a New Growth Deal 2 grant, which is being bid for, which together will meet the viability gap of a £5.6m development. The remaining funding can therefore be a £3.1m loan from Growing Places Fund which will be assumed to be repaid through an annual charge over a period of 10 years. This has been modelled as affordable from the rental income of the development over a period of 22 years, meaning that there will be a requirement to refinance the loan from year 10 onwards. The details of the business case will be submitted to the Council's Investment Board and the Leader of the council in a separate report.
- 7.9 The proposed direct development programme will be a two stage design and build procurement in the early part of 2015 with a target to secure full planning by the end July 2015, and be on site for November 2015, with the objective of being operational straight after Christmas 2016. This can be achieved, if agreed, through a batched procurement method with a similar direct development proposal as Plymouth Science Park (business case for the investment in this development was approved by the Council on the 6th November 2014). This is a challenging but realistic programme because the Council can take advantage of procurement undertaken in the early development work for technical advisors and the batching of procurements that would make the development a £12.5m programme which would be considerably more attractive to the construction market at this important stage as the market picks up.

- 7.10 In addition to funding set out above the Council will investigate an application to EDRF for a further £2m grant gap funding or seek more Growing Places Funding from the LEP as a grant, which if successful will allow a further building to be constructed by the same contractor as it will be included in the construction procurement. In this circumstance the grant gap funding may be sufficient to back out the Council's contribution of £1m. There is therefore the opportunity that the Council's £1m investment can be used to underwrite the proposals if EDRF or LEP funding is not available.
- 7.11 Further direct development is also desired to be undertaken by the Council in Area I West although this would not be until 2017/18 and 2018/19. This additional direct development would need to be funded by additional grant money and will be the subject of a further proposal in the future.
- 8. Equality Impact Assessment**
- 8.1 An Equality Impact Assessment has been undertaken and is included at Appendix C.

Appendices – Separately attached

Appendix A – Site plans

Appendix B – Sensitivity Analysis

Appendix C – Equality Impact Assessment