

BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE

7 FEBRUARY 2007

INVESTMENT PARTNERS FOR MEDWAY

Report from: Robin Cooper, Director Regeneration and Development

Author: Brian Weddell, Head of Medway Renaissance

1 Purpose of item

- 1.1 Medway Council has set out an ambitious programme of regeneration, which will transform Medway into a city of learning, culture, tourism and enterprise. This report sets out the method of securing private sector investment necessary to achieve this objective in a manner which gives the Council the maximum amount of control and financial benefit. It also adds certainty to the ability of the Council to deliver the regeneration programme by 'trading out' of dependency on Department of Communities and Local Government (DCLG) grant.
- 1.2 The adoption of this proposal has a degree of urgency as the level of Government funding is likely to reduce over coming years and the property market in Medway has begun to pick up through the operation of the regeneration programme.
- 1.3. This report is to be declared urgent as this report is felt to be of significant importance to the Council as a partnership issue that it should be considered by both Business Support Overview and Scrutiny Committee and Regeneration and Development Overview and Scrutiny Committee (who already have this item on their agenda for 8 February) prior to being agreed by Cabinet on 20 February 2007.

2 Recommendations

That the Committee recommends to the Cabinet that:

- 2.1. The current line of seeking private sector investment is endorsed as it has the benefits of giving the Council more control of the regeneration programme than it would have by responding to a piecemeal approach from the market.

- 2.2 Officers enter into an exclusive negotiation for a period of 6– 9 months with the preferred developer with a view to agreeing a proposal for a long term Partnership for the purpose of delivering the agreed regeneration programme.
- 2.3. The partnership should seek to provide a mechanism for the Council to benefit from the development process rather than just the sale of the sites under its control.
- 2.4 The partnership should seek to secure the retention of surplus funds (currently due to be returned to the Treasury) for ‘recycling’ in Medway regeneration projects.
- 2.5. The partnership should provide a mechanism to create infrastructure for the regeneration programme.
- 2.6. Medway Council enlists the support of English Partnerships (EP) in the negotiation process to tap into their experience on such matters and to establish the potential for infrastructure funding for the future from EP. EP is represented on the Medway Renaissance Partnership Board.

3 Background

- 3.1 Medway Council’s regeneration programme is set out in the Medway Renaissance Waterfront Strategy and the approved Regeneration Framework.
- 3.2 The programme contained in the Waterfront Strategy has attracted approximately £100 million in Government funding and significant progress has been made in terms of physical regeneration. This includes Rochester Riverside, Chatham road network, Strood Riverside and Temple Waterfront. DCLG funding has also gone into the universities, Medway Innovation Centre and a range of community projects as well as to the preparation of Chatham Maritime for development.
- 3.3 The DCLG has indicated that the level of funding available for the regeneration of Medway will not be as high as it has been historically. The Government Spending Review 2007 will set the level of funding for the Gateway based on the DCLG Strategic Framework. This suggests that funding will be prioritised according to new criteria which are biased to key economic drivers for the Thames Gateway around Canary Warf, Ebbsfleet and the Olympics. The new Framework encourages the establishment of asset based partnerships which can generate funds from developments based on Government ‘seed corn’ funding and thus trade out of grant dependency.
- 3.4 The main focus of Medway Council and the Government investment is on preparing a series of sites for the market and infrastructure improvements. The physical regeneration will be supported by improvements to the economy, skills base, housing stock and community benefits which follow successful capital investment.

- 3.5 On Rochester Riverside the partnership of Medway Council, DCLG and the South East England Development Agency (SEEDA) has purchased the site, installed flood protection, decontaminated the land, demolished existing structures, installed land drainage and provides a clean and level site. In short, all of the 'unknown' risks to development of the site have been removed. This intervention now offers an extremely attractive site to the market for development. It is now for the private sector to invest the capital necessary to build out the project, in this case it will need about £600m of investment.
- 3.6 To apply this approach to the whole of Medway an investment of around £1 billion needs to be secured.

Paragraphs 3.7 – 3.11 are contained within the exempt appendix.

- 3.12 A Medway wide approach allows the Council to control the development process in a way which ensures a comprehensive, high quality result. It would allow the Council to benefit financially from the development process. It would add commercial certainty over uncertain grant dependency. It would allow the new Partnership to acquire key sites for delivery of the Waterfront strategy (funds permitting)
- 3.13 In order to assess the options open to the Council, an advertisement seeking interest from the market for long-term investment partners was placed in the Financial Times and Property Week newspapers

Paragraph 3.14 is contained within the exempt appendix.

3.15 Selection Criteria

- Investment/development capabilities (scale, source and type of funding)
- Regeneration Expertise Partnership with the Public Sector
- Outstanding quality in design and end product
- Safeguarding the position of the local authority
- Experience in cultural development
- Attitude to type of delivery vehicle
- Green approach
- Unique nature of partnership offer

- 3.16 The panel comprised Councillor Alan Jarrett, Portfolio holder for Finance and Councillor Kenneth Bamber. The Director of Regeneration and Development and the Head of Medway Renaissance acted as assessing officers.
- 3.17 The panel was unanimous in selecting two of the organisations for further discussions as the investment partner(s) for Medway.

- 3.18 Discussions with the DCLG indicate that they are fully in support of this approach to investment partners.
- 3.19 Following further discussions the two organisations were invited to make a second presentation to a panel comprising Councillor Rodney Chambers, the Leader, Councillor Jarrett, Portfolio holder for Finance and Councillor Jane Chitty, Portfolio holder for Strategic Development and Economic Growth. The Chief Executive of Medway Council, the Director of Regeneration and Development and Head of Medway Renaissance acted as assessing officers.
- 3.20 The two organisations were asked to firm up on their individual 'offers' based on the objectives set out in paragraph 3.21 below.

3.21 Objectives for Investment Partnership

The basis for seeking an investor partner is as follows:

- a comprehensive regeneration approach to large areas of Medway
- site acquisition/assembly within agreed parameters
- capital investment
- co-ordinated development briefs
- high standards of design
- optimise development benefits to Medway in terms of scale and quality of development, increase in land values, potential future income
- benefit from specialist experience and connections of partner
- a development schedule which avoids "cherry picking"

It should be noted that Rochester Riverside and Temple Waterfront were excluded from this area of investment partnership as they are already the subject of joint venture arrangements.

3.22 Principle Benefits:

- To give the Council greater control of the overall regeneration process
- To provide funds to carry out the programme
- To generate surplus from the process over and above that produced by land sale
- To give greater certainty to the programme by achieving financial independence through the development process
- To respond to the potentially decreasing grant levels from central Government
- To act in advance of the significant and likely on-going increase in property values created by the regeneration programme.

Paragraph 3.23 is contained within the exempt appendix.

3.24 Programme

Receive and analyse response from market	9 June 2006
Establish panel, criteria and procurement route	14 June 2006
Panel assess submissions and call shortlist to interview	July 2006
Assessment Panel – preliminary selection of investor(s)	July 2006
Assessment Panel- two short listed companies	August 2006
Due diligence, property advice, legal advice	Sept/Nov 2006
Establish delivery vehicle type for approval	Sept/Nov 2006
Medway Regeneration Advisory Group	30 Jan 2007
Regeneration & Development Overview & Scrutiny Committee	8 Feb 2007
Cabinet; consider vehicle and preferred investor	20 Feb 2007
Satisfactory conclusion of negotiation or go back to short list	August 2007

3.25 Department of Communities and Local Government (DCLG)

DCLG have published a strategy for the whole of the Thames Gateway. Fundamental to the approach that they are taking is what they call ‘trading out of a grant dependency’. This means the use of Government funds to attract private investment to the point where the Central Government contribution is no longer needed as the area has reached a point where regeneration has become self sustaining/perpetuating.

In order to assist this process, DCLG has suggested that the surplus capital from successful regeneration projects be ‘recycled’ in Medway rather than being returned to the Treasury.

To accomplish this Medway would need to establish a Regeneration Development Partnership (RDP) with an investor.

3.26 The Medway Model

There are a number of partnerships/companies which have been set up to carry out regeneration. The proposal set out below under paragraph 6.3 would be unique in its relationship between a local authority and the private sector.

There are similar arrangements in existence such as ‘One North East’ and ‘Yorkshire Forward’ but with these arrangements the local authority is not in control of the regeneration process. With some organisations the planning powers are withdrawn from the Council and given to a separate body such as with the Olympic Delivery Authority. We are proposing that all the planning powers remain firmly with Medway Council.

Additional paragraph is contained within the exempt appendix.

4 Advice and Analysis

4.1 As a result of the assessment panels, the two preferred organisations have been working with Medway to establish:

- consensus of aims and objectives
- best practice
- delivery vehicle proposals
- contribution and benefit
- safeguarding position of Council

Paragraphs 4.2 – 4.6 are contained within the exempt appendix.

5 Consultation

- 5.1 This process is commercially sensitive and consultation has been limited to the following parties; DCLG, Medway Council and Investors. References were taken on the prospective parties. Advice on the basic principles was taken from Alan Cherry of Countryside and Duncan Innes of English Partnership both as members of the Medway Renaissance Partnership.

6 Financial and legal implications

- 6.1 The financial benefits to the Council could be enhanced in terms of private sector investment, retention of DCLG “seed corn” funding and return on investment.
- 6.2 The corporate vehicle to deliver these benefits would be likely to have the following characteristics:
- 6.3 Regeneration Development Partnership (RDP) for Medway
- 6.3.1 The proposal to take forward the regeneration programme in Medway is to form a Regeneration Development Partnership with a private sector investor. This has been discussed with the DCLG and the Council has an understanding of the type of partnership vehicle that would be acceptable to DCLG and the Treasury. The proposed model is based on those discussions and the lessons learned from other examples. The model has also been discussed with the potential private sector partners who indicate that they are willing, in principle, to enter into such an agreement.
- 6.3.2 The model comprises a 50/50 limited liability partnership with a private sector partner. The purpose of the partnership is to carry out large scale physical, community, social and economic regeneration over a 10-15 year period after which the partnership is either closed or continued. The Regeneration Development Partnership will be able to own assets against which it can raise funding to carry out projects which it can manage or sell as appropriate. The Management Agreement will be simple based on: regeneration projects only, high quality of product and with a 'green' agenda.
- 6.3.3 The assets from the local authority are the sites which it owns and the agreed surplus from current development activities. DCLG have indicated that the surplus due to them, from these activities, would also be 'recycled' into the Regeneration Development Partnership. The private sector partner will provide

the required monies. Both parties have specialist expertise which they will bring to the Regeneration Development Partnership.

- 6.3.4 The partnership would be simple and would have no planning or Compulsory Purchase Order powers.
- 6.3.5 This partnership would then set up limited liability project delivery vehicles, as appropriate, to minimise the risk against project losses to the 'mother' partnership.
- 6.3.6 Operations would be conducted in partnership with Medway Renaissance. Dealing with the strategic delivery of the priorities in the Strategic Framework as it does currently and the private sector partner dealing with the raising of the funding and the development process.

Paragraphs 6.3.7 – 6.3.10 are contained within the exempt appendix.

6.3.11 The legal relationship between the parties will be the subject of external legal advice and Berwin Leighton Paisner have been selected from Medway's panel of legal advisers.

6.4 The legal matters to be addressed in the Partnership are;

- Public law including vires and state aid etc
- Tax transparency and efficiency
- Protection of the Council, Members and Officers and any conflicts of interest
- Accounting Principles
- Exit arrangements for non performance
- Acquisition and stamp duty
- Governance and Nolan Principles

These matters would be part of the detailed negotiations with the preferred investor.

Background documents

Appendix 1 - Board Structure
Appendix 2 - Exempt Appendix

Contact for further details:

Brian Weddell
Head of Medway Renaissance
Tel: 01634 337152

brian.weddell@medway.co.uk

COMPANY STRUCTURE

APPENDIX 1

