

COUNCIL

18 JULY 2019

INNOVATION PARK MEDWAY DELIVERY AND INVESTMENT PLAN

Portfolio Holder: Councillor Alan Jarrett, Leader
Councillor Rodney Chambers OBE, Inward Investment, Strategic Regeneration and Partnerships
Councillor Jane Chitty, Planning, Economic Growth and Regulation

Report from: Richard Hicks, Director Regeneration, Culture, Environment and Transformation, and Deputy Chief Executive

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Summary

This report recommends the Council to approve the capital, resourcing and revenue requirements, as set out in section 8 and Appendix 5 of the Delivery and Investment Plan and to approve the addition of £14.5 million to the Capital Programme for the landmark building scheme as set out in paragraph 3.11 of the report.

1. Budget and Policy Framework

- 1.1 Innovation Park Medway (IPM) has been awarded a total of £8.75m external funding from the Government's Local Growth Fund (LGF) and Growing Places Fund (GPF) through the South East Local Enterprise Partnership (SELEP) for the enabling infrastructure improvements at Rochester Airport (£4.4m LGF round 2), the initial phases of delivery both on the southern site (£650,000 GPF loan) and northern site phase one (£3.7m LGF round 3). An allocation of £1.5m has also been made from the LGF round 3b for enabling infrastructure on phase two of the northern site, the full business case will be submitted in July for presentation at the SELEP Accountability Board in September. Appendix A illustrates the split of funding across the northern and southern parcels of the Innovation Park Medway (IPM) site.
- 1.2 Realising the Council's vision and maximising the full potential of IPM will require a series of capital interventions and investment; these will encourage sustained growth in line with the design ambitions set out in the Masterplan (the Illustrative Masterplan Site Plan is set out at Appendix B to the report),

Design Code and Local Development Order (LDO). Existing funding will deliver the initial access roads and associated utilities and infrastructure to service the first and second phases of the site. Future phases of the site will require further infrastructure and utilities upgrades before development can come forward. There will also be maintenance and ongoing running costs associated with the development.

- 1.3 The Delivery and Investment Plan set out at Appendix C to the report is consistent with the provisions of the Innovation Park Medway Masterplan, therefore, approval is a matter for Cabinet, as agreed on 11 June 2019. Approval of additions to the revenue budget and capital programme is a matter for Full Council.
- 1.4 In addition, there is a constitutional requirement that Cabinet decisions relating to land and property transactions over £500,000 are to be reported to the next Council meeting for information. This report fulfils that requirement.

2. Background

- 2.1 Innovation Park Medway (IPM) is a priority project for Medway Council, providing over 100,000sqm high quality B1 and B2 innovative business space on an area of land mainly within Medway Council ownership.
- 2.2 The Rochester Airport Masterplan (2014) has been reviewed and refreshed as part of the Innovation Park Medway masterplan (2019). The 2019 masterplan forms the basis for a draft Local Development Order (LDO), which is anticipated to be taken to Full Council in October 2019 for adoption.
- 2.3 The 2019 Masterplan outlines a scheme that will deliver a high quality innovation park, with flexible plots to encourage a wide range of high-value technology, engineering, manufacturing and knowledge-intensive businesses. The Masterplan seeks to establish a clear policy context that sets parameters but allows for flexibility to support market interest and deliverability.
- 2.4 The LDO allows future occupants and developers to submit proposals through a self-certification form, verifying their proposals against the criteria set out in the Local Development Order and Design Code. The process will be limited to 28 days from validation to help provide a swift response and allow development to come forward in a short timeframe.
- 2.5 IPM is one of three sites within the North Kent Enterprise Zone. Pace of delivery is essential at Innovation Park Medway as the five-year Enterprise Zone (EZ) status window runs until March 2022 and provides incentives to businesses locating on the site. These include business rates discounts worth up to £55,000 per year for five years and 100 per cent of the business rates uplift generated being retained by the local authorities for 25 years. In order for the initial phases of site infrastructure, public realm and development plots to come forward within the Enterprise Zone period, investment is required in the site above the investment identified through external funding.
- 2.6 EZ status provides Medway Council with the retention of all new business rates generated from the site for a period of 25 years (from April 2017), providing a future income stream against which early investment can be

secured, towards the development of the site in the first instance and into infrastructure and services to support enterprise and growth within the relevant local authority area. A clear strategy for investment of the rates must therefore be set out.

- 2.7 IPM presents an important opportunity to help shape the economic future of the region, attracting investment and growth by bringing forward high quality jobs and enabling businesses to realise the benefits offered by operating in an Enterprise Zone.
- 2.8 In order to be successful IPM needs to achieve long-term financial sustainability and attract high value businesses that support this. This includes offering opportunities for apprenticeships, post-graduate opportunities and research partnerships and the potential to deliver high value businesses operating in an innovative environment.
- 2.9 In order to attract the businesses who will deliver this vision, priority interventions have been identified to encourage investment in the site, setting the standard of high quality development and gateway buildings, and giving early adopters confidence of delivery.
- 2.10 A Delivery and Investment Plan (DIP) has been produced to consider and make recommendations for site development options, procurement approach, capital interventions and revenue support over future phases, and strategic investment through business rates income. The DIP makes a number of recommendations to realise the vision for IPM and to accelerate delivery of the site.
- 2.11 The anticipated programme for the DIP is set out below;

Process	Date
Cabinet approval (Delivery and Investment Plan and ancillary decisions)	11 June 2019 (see section 7 of the report)
Full Council approval (funding)	18 July 2019

3. Options

- 3.1 The DIP sets out a number of options and recommendations in our approach to the development options, procurement approach, future phases, and funding delivery. These have been summarised below.

Development Options

- 3.2 Options have been considered for marketing (disposal/procurement), tenure (freehold/leasehold) and build (self-build/council-build/development partner). Full analysis can be found at section 5 of the DIP.
- 3.3 It was recommended that Cabinet approval should be sought for the land to be appropriated and disposed of using planning powers, and that the northern site phase one (parcels N1 and N2) and the southern site (S1) are offered as the first phase through a procurement process on a long leasehold basis, with

delivery through either self-build or a contractor procured by Medway Council. A property marketing consultant should be appointed to refine the chosen development approach and take the approach forward. The Cabinet agreed this approach on 11 June 2019.

Procurement Approach

- 3.4 The site may be marketed either as:
- a) Businesses state how much land is required and provide an offer per acre;
 - or
 - b) Packages of plots.
- Analysis can be found at section 6.1 of the DIP.
- 3.5 It was recommended to Cabinet that the site be marketed as individual plots, with businesses setting out how much land they require and how much they would offer per acre. A minimum price per acre will be specified.
- 3.6 Scoring criteria have been considered and set out at section 6.2 of the DIP. It was recommended that the scoring criteria in section 6.2 be adopted when assessing businesses for potential occupation of the site. The Cabinet agreed this approach on 11 June 2019.

Future Phases

- 3.7 Section 7 of the DIP considers future phases, including the requirement for capital interventions and revenue support over and above the LGF and Growing Places funding. Packages have been included according to their priority and it was recommended that the Council adopts the prioritised list of investment projects detailed in section 7.1 of the DIP. The projects set out in section 7.1 of the DIP can be split into three broad capital schemes with associated project delivery and resourcing costs. Estimated costs are as follows:

- Landmark 6 storey building on the northern site £14.5m
- Public realm northern gateway phase 1 £3.7 m
- Infrastructure and public realm northern site phase 2 £6.6m

- 3.7.1 The Cabinet agreed this approach on 11 June 2019 subject to Full Council agreeing specific schemes as additions to the Capital Programme.

Funding Delivery

- 3.8 Section 8 of the DIP identifies funding potential through the retention of business rates based on modelling by the Revenue and Benefits team. An indicative forecast of rates illustrates that borrowing can be supported by rates reinvestment, to fund priority one and two projects as set out in section 7.1 of the DIP.
- 3.9 It is proposed to fund future investment in infrastructure and public realm from short term borrowing, which will be repaid as the capital receipts become available from the disposal of plots under long leasehold arrangements. As set out in section 8 of the DIP, Full Council will be asked to approve further additions to the capital programme, as the detailed schemes are formulated.

Estimated capital receipts are included within Appendix 6 of the DIP set out in the exempt appendix.

- 3.10 The Cabinet, on 11 June 2019, recommended to Full Council to agree to the capital, resourcing and revenue requirements as set out in section 8 and Appendix 5 of the DIP. The Cabinet also agreed that the Investment Strategy as set out in section 8 of the DIP.
- 3.11 The Cabinet, on 11 June 2019, also recommended to Council the addition of the landmark building scheme to the capital programme at its meeting on 18 July 2019. The £14.5 million scheme will be funded from borrowing, with rent and business rates generated from the building being sufficient to repay the loan over 25 years. The rent from the landmark building is included within Appendix 6 of the DIP set out in the exempt appendix. Overall business rates income from the whole site is estimated over the same period and is also included within Appendix 6 of the DIP set out in the exempt appendix.

4. Advice and analysis

- 4.1 In order to meet the council's key objective of bringing forward regeneration at Rochester Airport through the development of Innovation Park Medway, the Delivery and Investment Plan should be approved.
- 4.2 Full analysis of options can be found within the Delivery and Investment Plan document.

5. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Not proceeding to Full Council	It is a strategic objective to bring forward Innovation Park Medway. Not proceeding will not allow any further investment beyond current funding allocations.	Proceed to Full Council.	E1
Poor quality development	Development principles are set by the masterplan and LDO, but long-term quality relies on regular maintenance and effective operation of the site. Development must be built to a high quality to ensure it meets the masterplan and LDO ambitions.	Delivery, maintenance and operation by Medway Council will ensure quality ambitions are realised. The LDO sets out that quality and materials should be consistent with the first phases of the site, so Medway development will set the precedent for the remainder of the site.	D2

Development does not come forward in the timescales expected.	Demand for uses proposed in the masterplan and LDO could be lower than expected and rates returns are therefore lower than predicted. Development of plots by third parties is not timely.	Demand for uses proposed in the masterplan and LDO has been demonstrated through the number of serious enquiries to Economic Development Officers. Land disposal is proposed to be on a leasehold basis, with a procurement approach to ensure that terms can be set and agreed as positive obligations, including pace of delivery.	D2
Privately owned or leased land not coming forward in line with the strategic ambitions for IPM	The IPM masterplan and LDO provide a clear framework for development to come forward to ensure land parcels are consistent with the overall IPM vision. There is a risk that land will not come forward at all.	Investment in the site infrastructure and plots on Medway Council land will improve land values across the entirety of the IPM site, encouraging third party owned/leased land to come forward.	D2

6. Consultation

6.1 Internal consultation has taken place with colleagues in the Finance and Property teams. Consultation on the principles of the Delivery and Investment Plan also took place at the IPM Delivery Board on 11 March and 20 May 2019.

7. Cabinet

7.1 As highlighted throughout the report, the Cabinet considered this report on 11 June 2019 and made the following decisions and recommendations.

7.1.1 The Cabinet agreed the Delivery and Investment Plan (DIP) set out in Appendix C to the report (decision no. 58/2019).

7.1.2 The Cabinet agreed to delegate authority to the Director Regeneration, Culture, Environment and Transformation and Deputy Chief Executive in consultation with the Leader and Portfolio Holders for Inward Investment, Strategic Regeneration and Partnerships and Planning, Economic Growth and Regulation, to appropriate for planning purposes the land at Rochester Airport and dispose of the land on the best terms reasonably obtainable whilst securing development of the land (decision no. 59/2019).

7.1.3 The Cabinet recommended to Full Council on 18 July 2019:

- a) The approval of the capital, resourcing and revenue requirements as set out in section 8 and Appendix 5 of the Delivery and Investment Plan set out at Appendix C of the report.
- b) The approval, in the first instance, of the addition of £14.5 million to the capital programme for the landmark building scheme as set out in paragraph 3.11 of the report.
- c) To note that approval will be sought for further additions to the capital programme as the remaining two detailed schemes set out on section 7.1 of the Delivery and Investment Plan at Appendix C of the report are formulated (decision no. 60/2019).

7.1.4 The Cabinet's reasons for decisions were:

- a) To ensure sufficient investment is made to deliver Innovation Park Medway as a high quality, innovative employment site.
- b) To ensure the right occupants are selected to realise the quality ambitions for the IPM, and land or disposal arrangements do not pose a risk to delivery at pace.
- c) To stimulate delivery at pace and accelerate business income receipts and sale of plots.
- d) This will allow Medway to maintain control of the development of the IPM, allowing it to be transformed into an area of prime, high quality commercial development.
- e) Cabinet and Council will be asked to approve further additions to the capital programme, as the detailed schemes are formulated.

8. Financial implications

- 8.1 The Council's ambitious plans for IPM will ultimately represent investment in excess of £100m funded from the SELEP grant, the Council's own borrowing against future business rates and capital receipts and most importantly investment by businesses developing their own facilities on the site. In addition to delivering the infrastructure and public realm necessary to attract business to invest in the site the Council will need to demonstrate its confidence in IPM and it is proposed to do this by creating a landmark six storey building on the site.
- 8.2 It is estimated that this will cost £14.5M to build including project delivery and resourcing costs. Maintenance and running costs will be covered by the service charges levied on tenants and the cost of borrowing will also be met from the rental income.
- 8.3 It is recommended that Full Council are asked to approve the addition of the landmark building scheme to the capital programme at its meeting on 18 July 2019. The £14.5M scheme will be funded from borrowing, with rent and business rates generated from the building being sufficient to repay the loan over 25 years.

9. Legal implications

- 9.1 Under Part 5 of Part 3 of the Council's Constitution, the decision to appropriate and dispose of the site is one for Cabinet with needing to report the decision to Full Council for information.
- 9.2 When it disposes of land under the power in section 233 of the Town and Country Planning Act 1990, the Council has a duty to obtain best consideration for the disposal, unless the letting is by way of a lease for 7 years or less, or a specific consent is obtained from the Secretary of State.
- 9.3 The obligations imposed on the Council when seeking to dispose of land under the powers in section 233 are twofold. Firstly, the Council must satisfy itself that the disposal satisfies the planning and regeneration objectives it has set for the site. Secondly, where there are two or more alternative routes of disposal that would satisfy these objectives, it must select the route that would provide the best financial consideration.

10. Recommendations

- 10.1 The Council is asked to approve the capital, resourcing and revenue requirements as set out in section 8 and Appendix 5 of the Delivery and Investment Plan set out in Appendix C to the report
- 10.2 The Council is asked to approve, in the first instance, of the addition of £14.5M to the capital programme for the landmark building scheme as set out in paragraph 3.11 of the report.
- 10.3 The Council is asked to note that approval will be sought for further additions to the capital programme as the remaining two detailed schemes set out on section 7.1 of the Delivery and Investment Plan set out in Appendix C to the report are formulated.

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Appendices

Appendix A: Funding Allocations Site Plans
Appendix B: Illustrative Masterplan Site Plan
Appendix C: Innovation Park Medway Delivery and Investment Plan
Exempt Appendix (Appendices 3, 4 and 6 of the Delivery and Investment Plan)

Background papers

None