

Innovation Park Medway Delivery and Investment Plan

May 2019

Innovation Park Medway Delivery and Investment Plan

Contents

1.0 Introduction.....	2
2.0 Enterprise Zone Status.....	2
3.0 Authority and Regulation.....	3
4.0 Development Approach.....	4
4.1 Indicative Plots	4
4.2 Ownership.....	4
5.0 Site Development Options Analysis	4
5.1 Analysis	4
Table 1: Development Options Appraisal	7
5.2 First Phase Development: Recommended Route.....	10
6.0 Procurement Approach.....	11
6.1 Land Approach	11
6.2 Scoring Criteria.....	11
6.3 Site Interest.....	12
6.4 Land Values	12
7.0 Future Phases, Capital Interventions and Revenue Support	13
7.1 Capital Interventions.....	13
7.2 Priority totals.....	17
7.3 Capital Schemes.....	17
8.0 Funding the delivery of Innovation Park Medway.....	17
8.1 Introduction	17
8.2 Enterprise Zone Business Rates Policy	18
8.3 Business Rates Incentives	18
8.4 Business Rates Income Modelling	18
8.5 Investment Options.....	19
9.0 Programme.....	20
10.0 Recommendations.....	20
Appendices	22
Appendix 1: Site Plan.....	22
Appendix 2: Site Plots.....	23
Appendix 3: Site Interest (Exempt Appendix)	24
Appendix 4: Business Rates Modelling (Exempt Appendix).....	25
Appendix 5: Revenue Support and Resource Plan.....	256
Appendix 6: Anticipated Capital Receipts and Rental Income (Exempt Appendix).....	29

1.0 Introduction

This report sets out the recommended approach to site development, selection of future occupants, funding required and the investment strategy to deliver Innovation Park Medway (IPM).

IPM is identified in the masterplan as totalling 45.37 acres, which is in Medway Council ownership with the exception of 4.36 acres at Woolmans Wood Caravan Park, which is owned by Sheppey Industries. The masterplan defines the overall site as four distinct parcels of land; parcels 1 & 3 are council owned, parcel 2 is council owned but leased to BAE Systems and parcel 4 is owned by Sheppey Industries but has been included as part of the Enterprise Zone (EZ) – see map at Appendix 1. The masterplan outlines development of the site in four phases with parcels 1 & 3 being in the first phase.

The site was awarded Government EZ status from 1 April 2017, which means the Local Authority retains 100% of business rates uplift for a period of 25 years. Although fully owned by Medway Council, part of the site falls under the administration of Tonbridge & Malling Borough Council (TMBC) who will retain business rates from its portion. It is therefore essential that business rates yields are maximised on the site and these are derived from higher value uses and developments that achieve high rental values.

To date, the site has been awarded almost £9m from external funding sources, including;

- **£4.4m** grant funding from the Government's Local Growth Fund round one, through the South East Local Enterprise Partnership (SELEP), towards enabling infrastructure improvements at Rochester Airport.
- **£3.7m** grant funding from the Local Growth Fund round two towards site infrastructure for the first phase of IPM northern site.
- **£650,000** loan from the Growing Places Fund towards site infrastructure on the southern site.
- **£141,000** grant from the Sector Support Fund towards the development of a masterplan and Local Development Order (LDO).

An allocation of £1.5m has also been made from the Local Growth Fund round 3b.

2.0 Enterprise Zone Status

In 2015, a bid was submitted to the Department for Communities and Local Government for a multi-site EZ proposal spanning four local authorities - Dartford, Gravesham, Medway and Maidstone, encompassing three schemes:

- Ebbsfleet Garden City
- Kent Medical Campus
- IPM (previously Rochester Airport Technology Park).

This is known as the North Kent Enterprise Zone. Each scheme has a sector focus with IPM's being advanced manufacturing; engineering; IT and scientific services.

The bid was successful and on 1 April 2017, IPM became a 'live' EZ, with business rate discount incentives of up to £275,000 available to businesses locating on the site in the next 5 years. Medway Council will benefit from the retention of 100% of business rates uplift accrued from the site for a period of 25 years from the commencement date.

Partners in NKEZ signed a Memorandum of Understanding (MOU) with the Secretary of State for Communities and Local Government (now MHCLG) in October 2016. This outlines the terms of the agreement for which SELEP are co-signatories. The MOU states that Local Authorities will retain 100% of business rates for 25 years from 1 April 2017 and these will be *“directed towards the development of the Enterprise Zone and into infrastructure and services to support economic growth within the relevant local authority area”*.

IPM is covered by both Medway Council and TMBC with approx. 82% of the EZ applicable to Medway. A business rate baseline figure for IPM was established on 1 April 2017, which identified two properties with total rateable value of £22,500. The council will therefore retain rates uplift above this figure and it is therefore necessary to produce an Investment Development Strategy to forecast business rates income and potential borrowing against future income to enable development of the EZ.

Central government will reimburse the cost incurred by Medway Council in providing a 100% business rates discount for a period of up to five years to any business that sets up operations within the EZ site before 31 March 2022, and is able to receive the support within the State Aid De Minimis threshold (or other limitation applicable by law). The council will retain all business rates uplift from the site; this will not be affected by business rates reform, reset or distribution for a period of 25 years.

It is the council's ambition to deliver the site as quickly as possible to capitalise on the EZ status and to maximise the business rates income over the EZ period.

An Investment and Development Strategy has been developed (see section 8) outlining how the business rates retained from the EZ should be invested. This report seeks the adoption of this strategy.

3.0 Authority and Regulation

The IPM land has been designated as surplus by Cabinet (18 December 2012) and authority to dispose of the land delegated to the Assistant Director of Legal & Corporate Services, in consultation with the relevant Portfolio Holder. Disposing of land under the Local Government Act then requires the council to obtain “best consideration” unless the general consent is used when we can sell for an undervalue of up to £2m provided that this is for wellbeing reasons.

The site Masterplan is due to be adopted in 2019 along with a Local Development Order (LDO) which will set out clear guidelines for the type of business uses which will be permitted at the site, and a Design Code to be followed by developers. Other considerations will include the need for development to commence within certain timescales and should specifically preclude land banking. Disposal of the land will therefore be more involved than a straight sale but this will provide more certainty and control. This might be achieved by appropriating the land for planning purposes and the council following an EU tender process like it did with Rochester Riverside. This method would require a fresh Cabinet authority.

<p>Recommendation: Cabinet authority should be sought for the land to be appropriated and disposed of using planning powers.</p>

4.0 Development Approach

4.1 Indicative Plots

The northern site (Parcel 1) is shown as seven parcels in the Masterplan, broken up further into plots (shown in Appendix 2). Medway Council has obtained Local Growth Fund (LGF) funding of £3.7m to develop initial infrastructure on this site. This funding has been allocated to provide road and underground infrastructure to parcels N1 and N2, referred to as the “Northern Gateway”. It is paramount that this initial development has a high visual impact and sets the scene and vision for the future development of IPM.

The southern site is the area to the south of the Innovation Centre Medway adjacent to Chatham Maidstone Road. This site, shown as Parcels S1, 2 & 3 in the Masterplan, will be visible from the main road and it is therefore essential that development of this site has the maximum visual impact. Medway Council has been successful in obtaining Growing Places loan funding of £650k to provide the infrastructure to this site e.g. road, underground services including broadband.

Indicative plot sizes have been listed below; however, flexibility will be required dependent on the needs of future occupiers.

Innovation Park Northern Site Phase One

Parcel	Area (m ²)	Acres	Height	Use
N1.1	2,479		2	B2
N1.2	1,800		6	B1
N1.3	2,705		3	Deck parking
N1.4	1,581		3	B1
Total	8,565	2.1		
N2.1	2,925		2	B2
N2.2	2,250		2	B2
N2.3	2,100		2	B2
N2.4	2,400		2	B2
N2.5	2,700		4	Deck parking
N2.6	1,950		2	B1
N2.7	1,500		1	B1
Total	15,825	3.9		

Innovation Park Southern Site (Medway land)

Parcel	Area (m ²)	Acres	Height	Use
S1.1	4,558		4	Deck parking
S1.2	1,829		2	B2
S1.3	2,961		2	B2
Total	9,348	2.3		

4.2 Ownership

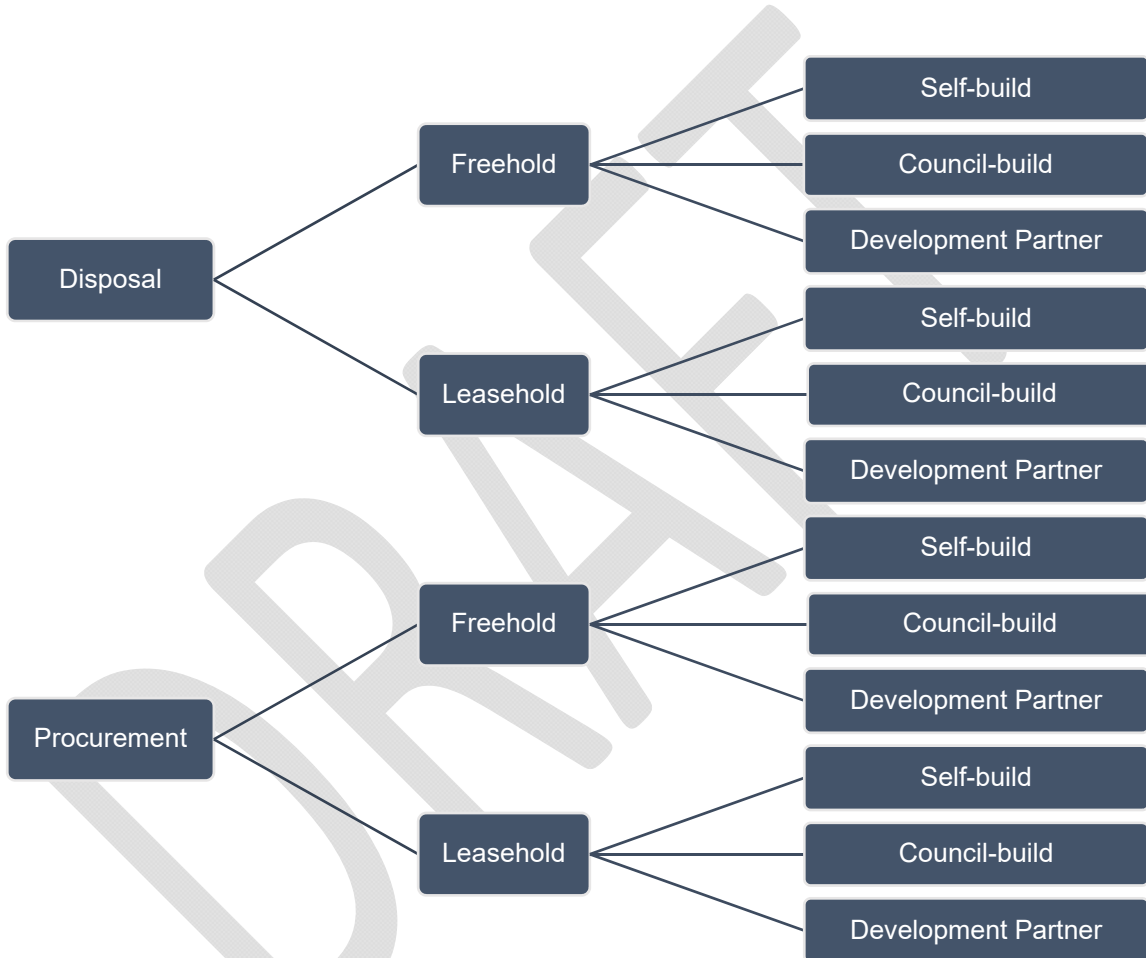
All first phase plots are in Medway Council's ownership and administrative area. Given the infrastructure funding in place, it would be pragmatic to develop these sites in the first instance.

5.0 Site Development Options Analysis

5.1 Analysis

Approval will be sought on the most appropriate method of land development and this will vary according to the different clusters, type of business and the overall plan for the Innovation Park. Options include the marketing, tenure and build approaches.

Marketing	<ul style="list-style-type: none"> • Disposal • Procurement
Tenure	<ul style="list-style-type: none"> • Freehold • Leasehold (150-999 year lease)
Build	<ul style="list-style-type: none"> • Self-build (let or sell serviced plots) • Council-build (MDC or procured partner contractor) • Development Partner/JV (3rd party development partner).



Marketing

Marketing the site could be undertaken through either disposal or procurement. Disposal allows for less control over which bids are taken forward and would operate on a best value financial basis. Please see table 1 below.

Procurement would allow for occupants to be selected on a quality and cost basis, using quality criteria set by the council to ensure that as far as possible, the right parties are allocated a plot, particularly around the gateway sites, and would give Medway Council optimum control over the development.

Tenure

The site could be marketed on either a freehold or leasehold basis. Freehold would not allow for retention of any control once disposal/procurement has taken place, which may not prevent future changes to the site, which could negatively affect the quality. Long leasehold is the alternative preferred approach, which will allow the council to retain control over uses and development and command ground rent for the site, which could be used towards revenue costs for maintenance and operation.

Build

The approach to site buildout could be:

- Self-build by occupants, with the council selling or letting serviced plots, Businesses may wish to bring forward their own appointed contractor if they have a clear vision for the design and are intending to deliver a particular design in line with their business ambitions. Control over the design quality would be retained through the procurement approach, as well as restrictions through the Local Development Order.
- Build by Medway Council. This could be either Medway Development Company or a procured third party contractor, with the contractor constructing buildings to be let or sold to occupiers who are contractually bound to buy or let the properties from the council with no profit share (ie pre let/sold development not speculative).
- Through a development partner via a joint venture agreement, with the council and JV partner selling or letting plots to the end user with a shared risk/profit arrangement.

Both the build by Medway Council or development partner approaches would allow businesses that are unable or unwilling to bring forward their development themselves to seek buildout through the development partner/council procured contractor. This could be offered in parallel with the self-build approach. No buildings would be constructed without pre-let or pre-sale agreements.

Harlow – Benchmarking

Harlow has been used as an example Enterprise Zone site as it has a number of similar characteristics to Innovation Park Medway, including the use of a Local Development Order, similar target sectors and comparable site arrangement, situated within the south east.

Harlow acquired the land for their Science Park site in 2015, and appointed a development partner via an OJEU process in 2016/17. They are now underway with the development of the site having completed the infrastructure works over the last 18 months.

Harlow took the decision to retain absolute freehold of the land, and then disposing of plots as occupiers came forward and then developing them. These plots could be on a leasehold basis or a virtual freehold potentially up to 999 year lease for the right occupier, once terms are agreed. Subsequently, Harlow did not follow any procurement route for land disposal as that was completed for the selection of the development partner, who is building out the plots.

An assessment of the approaches is included below, including a risk score for each. The recommended development option may change following the first phase.

Table 1: Development Options Appraisal

Stage	Method	Advantages	Disadvantages	Risk
Marketing	Disposal	<ul style="list-style-type: none"> • No strict rules – so long as follow general principles of reasonableness and best value • Can be a relatively short process • Costs are relatively low for both bidders and council • Familiar and attractive to a wide market and potential for most competitive bidding 	<ul style="list-style-type: none"> • Not public works contract compliant – any development agreement cannot contain positive obligations to build. Risk of challenge if it does. However a buy back clause can be included if development does not proceed within a certain timescale, although this would cause delay. • Limited council control over the development. Largely relying on planning powers through the LDO. • Bids can be lacking in detail due to shorter timeframe. Bids may not be submitted on comparable basis. • Bidder selection tends to be focussed around the financial bid level rather than the scheme proposals. • Bids can significantly reduce after selection of preferred developer and legal closure delayed. 	Medium
	Procurement	<ul style="list-style-type: none"> • Public works contract compliant – council can use a development agreement to put positive development obligations on the business and have a level of control over the development. • Opportunity to develop and shape proposals in a competitive bidding situation. • Final bidders must demonstrate commitment. • Legal closure follows closely after developer selection. 	<ul style="list-style-type: none"> • Favours large organisations and large schemes – small/medium sized businesses less likely to bid unless a procurement support package is in place. • Involves an OJEU procurement process that businesses may not be aware of or fully understand. 	Low

Tenure	Freehold sale	<ul style="list-style-type: none"> • Lowest cost method • No borrowing requirement for Medway Council 	<ul style="list-style-type: none"> • May not achieve highest return • Lack of control over final occupiers results in limited control over quality outcome • No ongoing ground rent • May not maximise business rates yield • Market downturn may affect speed of development • Difficulty preventing land-banking once freehold sold (unless a buy back clause is included which is also very limited) 	Medium
	Long leasehold sale	<ul style="list-style-type: none"> • Medway Council remains landowner • Medway Council retains ongoing planning rights • Medway Council receive an ongoing revenue from ground rent • Potential for best quality designs • Opportunity for smaller businesses • Development likely to be quicker • Medway Council retains control through freehold • Ability to impose development timescales as part of lease agreement 	<ul style="list-style-type: none"> • Higher legal costs • Ongoing resource and revenue costs of managing multiple occupiers 	Medium
Build	Self-build by occupants (the council would sell or lease individual plots to occupiers)	<ul style="list-style-type: none"> • Potential for a range of designs • Design guided by the planning policy including LDO and Design Code 	<ul style="list-style-type: none"> • Cash flow, need to forward fund 	Low
	Medway Council to be developer (MDC or procured contractor)	<ul style="list-style-type: none"> • Medway Council maintains most control • Potential for best quality designs • No profit share with third party • Subject to funding, council retain control over pace of delivery 	<ul style="list-style-type: none"> • Highest initial costs • Borrowing is required • Ongoing costs and resources • Downturn in market is a greater risk 	Medium

	Development partnership/JV	<ul style="list-style-type: none"> • Medway Council maintains a degree of control • Potential for high quality designs • Risk share with JV partner 	<ul style="list-style-type: none"> • Initial and ongoing costs • JV partner will have high profit share margins • Delay in land receipt as part of the council's contribution to shared risk • Downturn in market could affect JV partner appetite for pace of delivery. 	Medium
--	----------------------------	--	--	--------

Risk/Benefit Scores

5 = high risk/low benefit

0 = low risk/high benefit

Stage	Option	Capital Receipt	Ongoing Income	Business Rates Yield	Overall Control & Quality of Design	Certainty & Pace of Delivery	Financial Risk	Overall Score
Marketing	Disposal	0	4	2	4	4	2	16
	Procurement	2	0	2	0	1	2	7
Tenure	Freehold sale	1	4	2	3	3	0	13
	Long leasehold sale	4	3	1	1	1	3	13
Build	Self-build by occupants	2	2	1	1	3	1	10
	Medway Council to be developer	3	2	1	1	2	3	12
	Development partnership/JV	5	0	1	0	2	4	12

0-5 Very low risk

6-11 Low risk

12-18 Medium

19-24 High risk

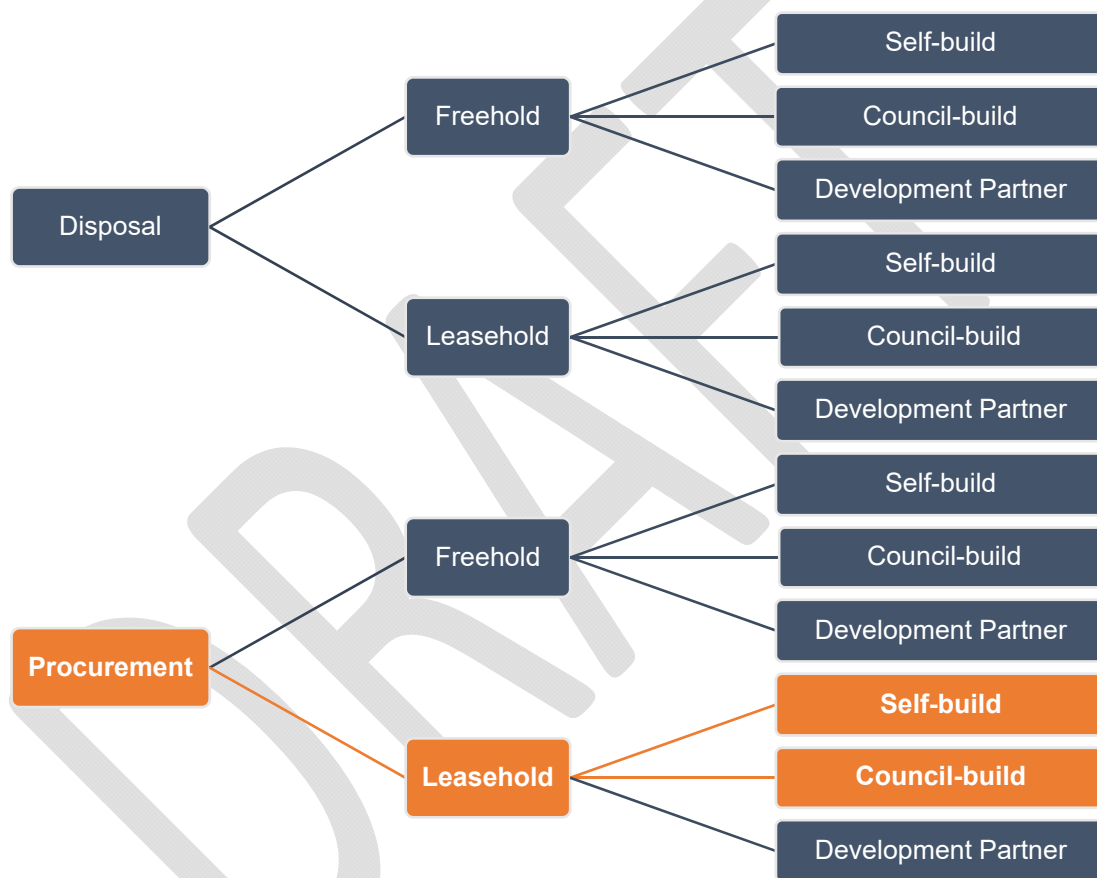
25-30 Very high risk

5.2 First Phase Development: Recommended Route

The procurement route (as highlighted in orange below) is recommended for the first phase to ensure Medway Council can achieve its quality & design ambitions for the site, particularly in respect of the gateways and ‘early adopters’. This sets the tone for future development phases.

Leasehold is considered appropriate to retain an element of control over the plots. There is more of a basis to encourage development at pace and ground rent will also provide a small income for ongoing maintenance and management.

Both self-build and the council-build routes are considered appropriate and this can be discussed with potential occupiers to ensure the right approach is selected to achieve quality across the site.



Harlow – Benchmarking

Harlow Council are building smaller units (up to 10,000 sq.ft.) to individual business requirements to be purchased on 999 year leaseholds. A development partner arrangement is in place to undertake the design and build for businesses including a full professional team, although this is not strictly a joint venture. If occupiers have an architect they wish to use, this is not an issue if it is important to the occupier and they follow the design guide, although this is typically only suitable for larger businesses. Harlow will only sign off on the design if they are satisfied it meets the requirements. The arrangement through a development partner shares risk and reward.

Recommendation: Procure on a long leasehold basis, with delivery through either self-build or a contractor procured by Medway Council.

6.0 Procurement Approach

6.1 Land Approach

The site may be marketed either as:

- Businesses state how much land is required and provide an offer per acre; or
- Packages of plots.

Provision of plots will be informed by demand. A preference system could be implemented where businesses identify a first, second and third preference for the location they would choose on the site. Medway Council would need to determine final plot allocations based on business tender scoring and suitability for the higher profile gateway and runway park facing plots.

6.2 Scoring Criteria

To achieve the quality aspirations for IPM, the tender process will make it clear that the selection criteria will not be based on price alone. The process will also consider a number of other criteria relating to the requirements of the LDO & Design Code, and specific assessments of the business in relation to innovation, growth potential, jobs and skills and social value.

At Pre-Qualification Questionnaire stage, the following criteria will be used on a pass/fail basis:

- **Uses:** B1 or B2, high value technology, engineering, manufacturing and knowledge intensive businesses.
- **Design:** Design code compliance
- **Due diligence:** In accordance with Medway Council Category Management standard procedure, plus confirmation of funding source and availability.
- **Viability:** Business case to be provided and checked by an external organisation e.g. Kent Invicta Chamber of Commerce, Greenwich University Innovation Coach.

At Invitation to Tender stage, scoring will be based on the following criteria:

- **Price (40%):** Capital receipt for the council
- **Innovation (15%):** How they consider themselves to be innovative, details of intellectual property etc. Detailed business plan including details of the structure of the business and management team. Structure & management team, future plans, work with Higher and Further Education sector, Innovate UK etc.
- **Design (10%):** A design outline for their proposed facility; does this comply with the design code and LDO, does the business achieve ambitions for the particular plots they are interested in? Principles of sustainable travel, traffic generation.
- **Delivery Timescales (10%):** Assessment of the timescales for plots to come forward with consideration of the EZ period. Land-banking test.
- **Growth (15%):** Future growth plans including workforce and skills requirements; last 2 years audited accounts and profit & loss projections for the next 2 years including Gross Value Added (GVA) calculations at or above SE average, job creation (new and also new outside of Medway/SELEP area)
- **Social Value (5%):** How their business will support corporate social responsibility policy, working with the local community e.g. work experience, etc. Established links with specialised businesses.
- **Skills (5%):** How their business will work with local with Educational Institutions (universities, colleges, schools or other), any established links, staff training,

apprenticeships, local graduate retention, or any other way the business will improve skills.

6.3 Site Interest

Since the launch of IPM on 18 September 2018, the council has received 20 “serious” enquiries and these are listed in Appendix 3 (Commercially sensitive). Seven of these are from owner managed businesses that are looking to build their own corporate HQ, some with workshop facilities. These are generally plot sizes from ½ to 1 acre preferably freehold or long leasehold and all have expressed enthusiasm for the design code. Three of the enquiries are from businesses that have experience of developing & managing business centres for start-up and small businesses and have expressed interest in developing new sites.

The initial site interest has been scored against the proposed scoring criteria at a high level to demonstrate how ranking could take place. This is subject to tender returns and is not indicative of actual scoring. Details are included in an exempt appendix (see Appendix 3).

6.4 Land Values

External professional advice will be sought to determine benchmark land values. This may be required on a plot-by-plot basis as some may command a premium e.g. Northern Gateway plots facing Runway Park, site gateways and the boulevard.

Recommendations:

The appointed property marketing consultant will refine the chosen development approach and take the approach forward.

It is also recommended that the site is marketed as individual plots, with businesses setting out how much land they require and how much they would offer per acre. It is recommended that tenders are scored based on the criteria set out above.

7.0 Future Phases, Capital Interventions and Revenue Support

7.1 Capital Interventions

It is proposed that a series of capital interventions form a future phasing schedule, with investment in these interventions in line with the investment strategy outlined below in terms of priority, and subject to member agreement. This will encourage sustained growth of IPM in line with the design ambition set out in the Masterplan, Design Code and LDO.

Priority (1= most urgent and immediately necessary for marketability, 5 = least urgent)

1: Bare minimum and essential infrastructure to get targeted businesses on site at pace.

2+: Internal business case required with appropriate budget and resources to make an appropriate decision.

Package	Project	Value	Description	Funding Source	Priority	Timescales
Repayments	Growing Places Fund repayment	£650k	Repayment of the Growing Places Fund loan from SELEP	Repayment required from capital receipts	1	£50k March 2021, £600k March 2022
Northern site phase one	Northern gateway infrastructure	£3.7m	Access road and associated infrastructure to service the northern gateway area of the northern site, to include all utilities and broadband.	LGF3, secured in principle	1	N/A; external grant
	Immediate highways mitigation	£300k (estimate)	Signals or other local highways mitigation to address immediate impact of development on the surrounding network.	Borrowing in advance of capital receipts	1	Upon delivery of northern gateway infrastructure (by March 2021)
	Public realm northern gateway phase one	£2m	Runway park and greenspace/public realm across the northern gateway of the northern site.	Borrowing in advance of capital receipts	1	With northern gateway infrastructure or by March 2022
	Landmark six storey building	£10.05m	Six storey iconic building on the northern site at the top of the runway park. Pre-let agreements of upper floors from business support services businesses. Potential for ground floor IPM marketing suite & café space to attract surrounding employees from	Borrowing against future rents from the building	1	By March 2022 to realise business rates benefits

			BAE and Laker Road, and create a revenue stream.			
	Temporary parking	£800k	At-grade parking on the area of land forming the northern site phase two to provide temporary provision prior to delivery of decked car parking.	Borrowing in advance of capital receipts	1	Upon delivery of northern gateway (by March 2021)
Southern site	Southern site infrastructure	£650k	Access road and associated infrastructure to service the southern site, to include all utilities and broadband. Demolition of the rifle range building to release land.	GPF, secured loan to be repaid from capital receipts	1	N/A; external loan
Northern site phase two	Phase two infrastructure and public realm	£5.5m	Access road, infrastructure and primary substation for the remaining land on the northern site. Runway park and greenspace/public realm across the remainder of the northern site.	LGF3b ¹ or borrowing in advance of capital receipts	2	With northern gateway phase one (more cost effective) or as site capacity is required
	Northern to southern pedestrian link	£80k	Footpath and cycle path between the northern and southern sites of IPM to improve connectivity.	Borrowing in advance of capital receipts	2	With phase two infrastructure and public realm
	Permanent fencing	£20k	Fencing across the existing runway to secure the entire northern site along the edge of the airport.	Borrowing in advance of capital receipts	2	With phase two infrastructure and public realm
Delivery package (required to facilitate all packages)	Security and site maintenance	£195k p.a buildings £25k p.a public realm £10k p.a highways	Management and maintenance of Medway Council owned buildings and the site. Figures may be lower in the initial years, maximum included for reference.	Revenue expenditure funded from additional business rates	Ongoing	Ongoing

¹ SELEP allocated funding subject to Business Case approval in September 2019.

	Project delivery and resourcing	£950k/year plus £100k one off	As set out in Appendix 5, to include core team, internal and external support. £100k one-off for website and CRM system	Borrowing in advance of capital receipts	Ongoing	Ongoing
Long-term projects (further feasibility work and budget will be required)	Multi-storey deck car parking	TBC	Deck car park(s) to provide sufficient parking for the maximum development quantum to come forward. Seven car parks are proposed in total across IPM, however temporary at grade parking can be provided in the short-term.	Rates reinvestment/ capital receipts	3	Phased with development
	Data centre. Either; a) Use existing ICM line and Custodian data centre service and offer as part of the IPM marketing package b) Use of the ICM line but explore the council providing a physical data centre as part of IPM marketing package, possibly in the landmark six storey building.	a) £100k b) TBC	The provision of Custodian data service currently used at ICM/ISM originates from the data room at Maidstone Studios; there is sufficient capacity to extend across the whole of the IPM site, and will give businesses the choice of BT or Custodian; all Custodian use will bring income to the council.	Rates reinvestment/ capital receipts	3	Phased approach
	Supporting services/ amenities (eg crèche/nursery, dry cleaners, etc.)	TBC	These fall outside of the permissions granted through the LDO but would be required as the site begins to develop (interest received from potential nursery)	Developed by the private sector	4	2025 or triggered by private sector interest

	Long-term mitigation, to include highways and air quality as required	TBC	Any mitigation required by development coming forward on the site that cannot be addressed through mitigation by individual occupiers or S106 contributions.	S106 contributions TBC/ rates reinvestment/ capital receipts	2 (if required)	As needed by S106/ mitigation requirements
--	---	-----	--	--	-----------------	--

DRAFT

7.2 Priority totals

Project prioritisation	Cost
Priority 1	£14,172,000
Priority 1 and 2	£19,822,000 (plus any long-term highways mitigation costs TBC)
Priority 1, 2 and 3+	Further business case work required to identify costs
Ongoing revenue (5 years)	£5,900,000

7.3 Capital Schemes

It is proposed that the series of interventions in section 7.1 above can be broken down into three broad capital schemes in line with the priority 1 and 2 ordering. Estimated costs for these schemes are as follows:

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

Harlow – Benchmarking

Site infrastructure funded from future business rates (£5m) has already been installed to a very high standard and the council will be providing broadband services through a 3rd party provider to provide income.

The first building (30,000 sq.ft. over three floors) is currently being erected funded by £10m borrowed against future business rates. This building will act as the flagship and provide a management/marketing suite and multi-tenanted business space.

A second building is being developed by Anglia Ruskin to provide incubation space and business support services.

Delivery of early buildings has demonstrated the quality of development, helping to encourage smaller businesses to commit to taking forward a plot themselves.

A central area has been set aside for on-site amenities including food outlets & crèche.

The council have agreed to offer business rate discounts for up to a further 3 years from the EZ cut-off date.

Recommendation: The council adopts the prioritised list of investment projects detailed above. This list is subject to change as the programme progresses and the focus of interventions becomes more defined.

8.0 Funding the delivery of Innovation Park Medway

8.1 Introduction

This section sets out the council's approach to investment of the business rates retained from the IPM EZ and the borrowing options that are available to the council to accelerate the development of the EZ, creating new jobs and maximising the future taxation retained by the authority. This is required to deliver the capital interventions and revenue support for future phases as detailed in section 7.1 above.

8.2 Enterprise Zone Business Rates Policy

The EZ status awarded to IPM in the 2015 Autumn Statement will help incentivise businesses operating in innovative fields and disciplines, focusing on high-value technology, engineering, manufacturing and knowledge-intensive activities, and mobilise inward investment needed to support required infrastructure and at-risk investment in buildings. The expectation is that the Innovation Park will encourage growth of existing and new businesses, and circa 3,000 jobs.

Providing this kind of development could require speculative build out with an estimated investment cost of up to £25m in the first five years. This will be difficult to achieve without EZ status and the incentives that are provided to potential businesses, which in turn mitigates the risk to them.

To date there has been significant investment in the site, set out in the table below.

Funding Body	Awarded	Budget	Works	Delivery Deadline
Local Growth Fund 2 (LGF 2, Grant)	✓	£4.4 million	Airport Improvement works	March 2020
Growing Places Fund (GPF, Loan)	✓	£650,000	Enabling infrastructure (southern site)	Repayment by March 2022
Sector Support Fund (Grant)	✓	£141,000	Masterplan and LDO	-
Local Growth Fund 3 (LGF3, Grant)	February 2019	£3.7 million	Enabling infrastructure Northern Gateway Phase 1	March 2021
Local Growth Fund 3 (LGF3b, Grant)	Allocated April 2019	£1,518,500	Enabling infrastructure Northern Gateway Phase 2	March 2021

8.3 Business Rates Incentives

It is anticipated that the first business rates generated from the site will be as set out in Appendix 4.

The council's business rates policy will include information on the business rates relief applicable to businesses locating in the EZ at IPM.

8.4 Business Rates Income Modelling

Robust modelling and sensitivity analysis is necessary to fully understand the quantum of business rates that may be retained over the 25 year lifespan of the EZ and to risk assess these forecasts.

This has been achieved by compiling the relevant information for all key metrics and assumptions across the zone, including:

- Timescales
- Development phasing
- Rateable space
- Rateable values
- Costs

The potential profile and quantum of business rates income to be generated for IPM has been developed, based on a number of different scenarios and modelling a number of different sensitivities taking into account realistic scenarios for the site.

The loans that could be supported by this level of income have been calculated, based on an appropriate risk adjustment.

The business rates model has been built by the Revenue and Benefits team based on a number of metrics and assumptions including the application of mandatory and discretionary business rate reliefs and the average rateable values per sq.m. for each use class.

Using the model, any number of scenarios can be profiled to demonstrate the potential business rates income over the life of the EZ. We have modelled a reasoned indicative forecast of business rates income over the 25-year period using the development scenario set out in Appendix 4. This will enable the council to take a view on potential borrowing required to finance its investment in the site.

8.5 Investment Options

As IPM is in the ownership of Medway Council, the council has a direct influence over the site including the Development Management planning process and our own investment. This document seeks to secure the following outcomes for the site:

- To develop IPM as quickly as possible;
- To maximise the number of high quality jobs created;
- To identify how to maximise the business rates generated from the site, to be reinvested in the development of the EZ and into infrastructure and services to support enterprise and growth within the Local Authority area.

The table in section 7.1 sets out the potential investment projects and scores them in terms of priority and delivery timescale. This is a live document which will be reviewed and revised to take account of how the market is performing. An evaluation will be carried out for each investment, which will consider risk, payback period and rate of return, so that an assessment can be made as to whether there is a sufficiently robust business case to support prudential borrowing. Evaluation will reflect priority scoring; anything that is scored above a priority 2 will be subject to a business case to ensure investment would be appropriate.

Medway Council could choose not to borrow against the future taxation but this would be a lost opportunity to accelerate the development and generate additional income from the investment.

Medway Council could decide not to adopt the Investment Strategy for IPM and reject the prioritised list of investment projects outlined in section 7.1. However, without intervention, development at IPM is likely to proceed at a significantly slower pace, solely reliant on private sector investment.

In order to maximise the benefits associated with EZ status, there is a need for development on IPM to be realised as quickly as possible within the 25 year time period that the site is "live" from 2017. The earlier that development is achieved, the more business rates receipts the council will receive. Investment made by Medway Council in the site is identified as a means by which further private sector development on the site can be generated.

To deliver any infrastructure on IPM, loan finance will need to be raised against the future business rates uplift and rents/capital receipts. Unlike private sector developers, the council

currently benefits from very low levels of interest rates available through the Public Works Loan Board (PWLB).

The £14.5 million landmark building capital scheme referred to in section 7.3 will be funded from borrowing, with rent and business rates generated from the building being sufficient to repay the loan over 25 years.

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. Capital receipts are included at exempt appendix 6. The expected rent from the landmark building is included at exempt appendix 6.

Recommendation: The council adopts the Investment Strategy for IPM in order to deliver the prioritised list of projects in section 7.1.

To fund the first capital scheme (landmark six storey building on the northern site), an initial figure of £14.5m is recommended – see section 7.3. It is recommended that approval will be sought for further additions to the capital programme as the remaining two detailed schemes are formulated.

9.0 Programme

Item	Date
Appoint marketing consultant	May/June 2019
Procurement of future occupants	July 2019 onwards
Adoption of the masterplan	March 2019
Adoption of the LDO	October 2019
Enterprise Zone period ends	March 2022
Repayment of the GPF loan	March 2021 (£50k) and March 2022 (£600k)
Completion of southern site works	April 2020
Completion of northern gateway works	December 2020

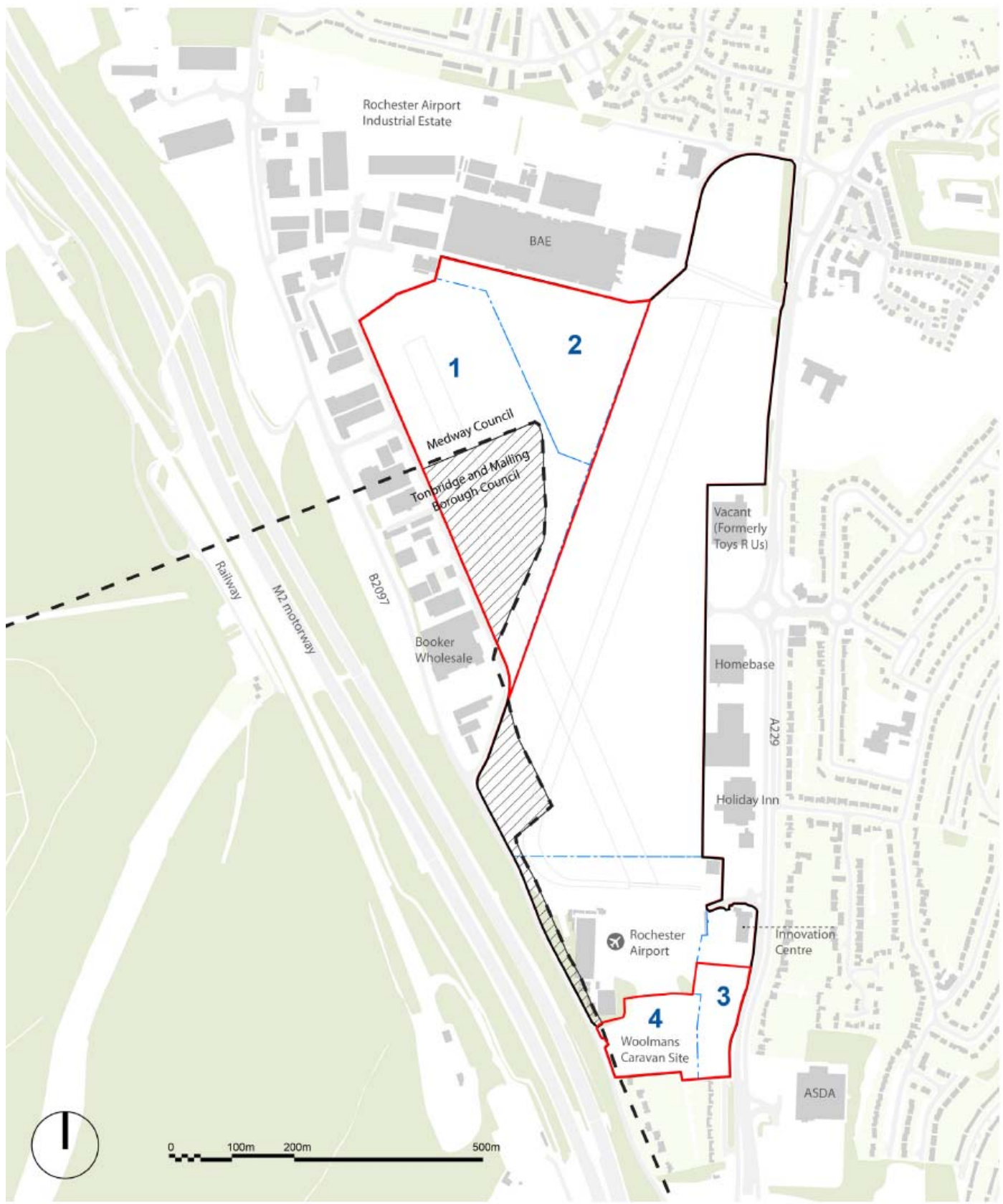
10.0 Recommendations

1. Cabinet approval should be sought for the Delivery and Investment Plan in June.
2. Cabinet approval should be sought for the land to be appropriated and disposed of using planning powers.
3. 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.
4. That the site is marketed as individual plots, with businesses setting out how much land they require and how much they would offer per acre.
5. That the scoring criteria in section 6.2 are adopted when assessing businesses for potential occupation of the site.
6. That the council adopts the prioritised list of investment projects detailed in section 7.1.
7. That Cabinet agree to the capital, resourcing and revenue requirements as set out in section 8, to be funded from borrowing against future business rates in the first instance.

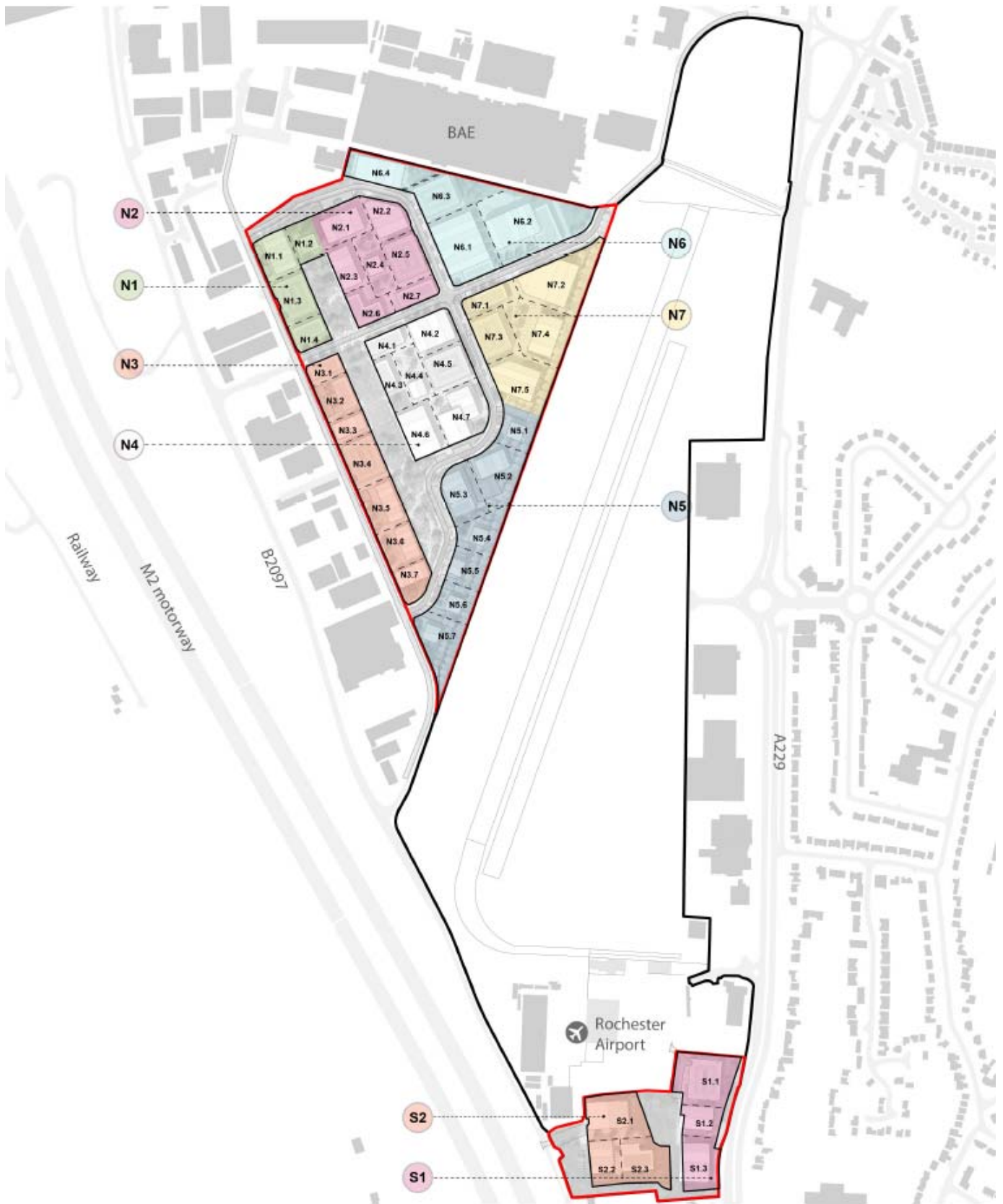
8. That the Investment Strategy as set out in Section 8 is adopted.

DRAFT

Appendices
Appendix 1: Site Plan



Appendix 2: Site Plots



Appendix 3: Site Interest
See Exempt Appendix

DRAFT

Appendix 4: Business Rates Modelling
See Exempt Appendix

DRAFT

Appendix 5: Revenue and Resource Plan

Revenue support will be required initially over 5 years in order to support delivery of the IPM site, including ongoing management and maintenance of the high quality environment after delivery. This will be funded through reinvestment of business rates and capital receipts.

The recommended team is as follows. Please refer to the organigram below.

External consultancy team to cover:

- Marketing/property consultant (including lead consultant role for the below)
- Procurement of businesses to occupy the site
- Support to potential tenants through the procurement and planning processes
- Planning consultant (to judge LDO applications for Medway Council and TMBC)
- Legal support

Initial proposed internal team from Regeneration Delivery to deliver ongoing short-, medium- and long-term work:

Range 7 (0.5 FTE)

- IPM lead and line management of IPM team (range 6 and range 5 officers) and work packages

Range 6 (1 FTE)

- Management of short-term (March 2021) design and works including LGF3 and LGF3b, and data centre
- Management of capital works, medium-term to March 2026 and long-term to 2042, including design and construction, risk and budget management
- Development and delivery of parking strategy for temporary and permanent solutions, including parking on Rochester Airport site
- Management of works for 6-storey iconic building, runway park, public realm and other capital interventions, (subject to member approval)
- Review of self-certification of proposals through the LDO via the consultants team
- Management of marketing and leasing, procurement and disposal via the consultants team
- Member of the executive support team for potential tenants

Range 6 (1 FTE)

- Short-term (2019) masterplan and LDO completion including work with Highways England and ground investigation surveys
- Capital works to include Southern Site and public realm delivery on northern and southern clusters on the northern gateway (subject to Member approval) including design and construction, risk and budget management

- Liaison with bus companies to deliver new bus routes and services for the sites
- 5 year review of the LDO (2026) and annual monitoring as required for the LDO and business cases as required for SELEP (from 2019 onwards).
- Management of future funding strategy, business rates investment and strategic delivery plan.
- Development of future facilities management strategy of the site, to include consideration of this being delivered by an external management company or in-house team (and other options) and funding streams for this service
- Member of the executive support team for potential tenants

Range 5 (1 FTE)

- Administration and project support including dashboard reports and other internal reporting needs, financial monitoring and processing, meeting minutes and diary organisation, member of the executive support team for potential tenants
- Project delivery support to range 6 roles, taking the lead on work packages as required.

Proposed internal roles from other teams:

Principal Engineer

- Management of works delivery

Planning Officer(s)

- Involvement and consultation in pre-app discussions and LDO

Economic Development Team

- Liaison with potential future occupants, NKEZ and Locate in Kent.

LGF Programme Management Team

- SELEP regular programme reporting and monitoring

Property Team

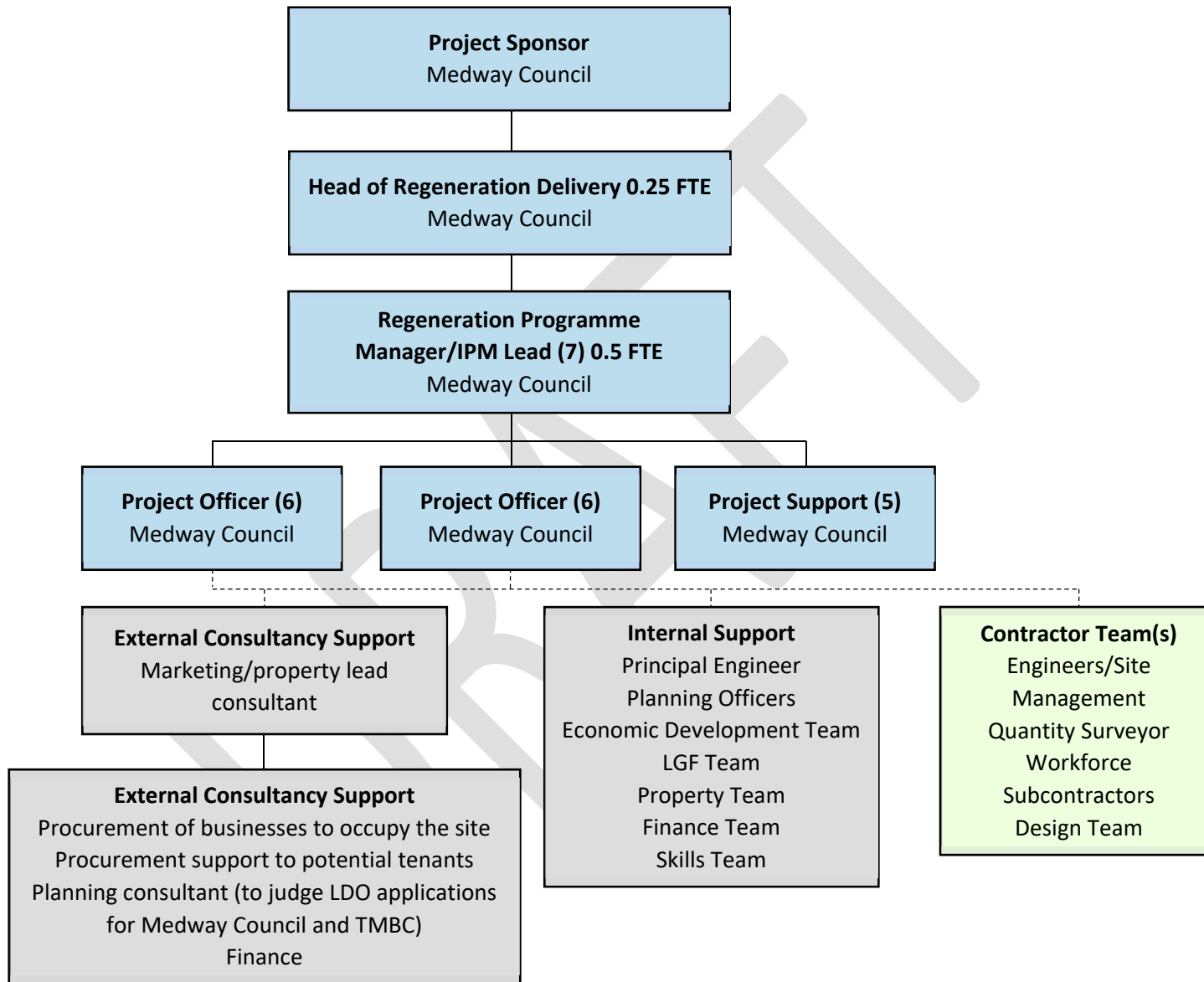
- Involvement in marketing processes including lease arrangements

Finance Team

- Involvement in business rates income and reinvestment, borrowing and repayments

Skills team support

- Liaison with potential future occupants and matching business demand with local skills provision and workforce



Appendix 6: Anticipated capital receipts and rental income
See Exempt Appendix

DRAFT