

CABINET

5 JULY 2022

IPM SOUTHERN SITE DEVELOPMENT

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

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Summary

This report asks Cabinet to agree and recommend to Full Council the borrowing of £12million total against future capital receipts and to undertake the detailed design and build (D&B) for a building (£8million) and car park (£4million) on the Southern Site of the Innovation Park Medway (IPM). Cabinet is also requested to delegate authority to the Director of Place and Deputy Chief Executive, in consultation with the Leader of the Council and Portfolio Holders for Inward Investment, Strategic Regeneration and Partnerships as well as Planning, Economic Growth and Regulation to oversee the D&B of the building and car park.

1. Budget and policy framework

- 1.1. IPM has been awarded a total of circa £10.3m external funding from the Government's Local Growth Fund (LGF) and Growing Places Fund (GPF) through the Southeast Local Enterprise Partnership (SELEP) for the enabling infrastructure on the IPM site, in addition to further Council borrowing against future business rates.
- 1.2. Realising the Council's vision and maximising the full potential of the IPM will require a series of capital interventions and investment to encourage sustained growth in line with the design ambitions set out in the IPM Masterplan and Design Code, supported by the adopted Local Development Order (LDO).

- 1.3. The Delivery and Investment Plan, agreed by Cabinet in June 2019, forms the basis for this report and sets out the approach to the delivery of the site (Council build).

2. Background

- 2.1. The IPM is a priority project for Medway Council, providing over 60,000sqm of high-quality innovative business space on an area of land mainly within Medway Council ownership.
- 2.2. The masterplan and LDO, supported by an Environmental Statement and Design Code, provide a simplified planning process for future occupants and developers. The process is limited to 28 days after validation to provide a swift response and allow development to come forward at pace.
- 2.3. The IPM presents an important opportunity to help shape the economic future of the region, attracting investment and growth by bringing forward high-quality jobs. To be successful the IPM needs to achieve long-term financial sustainability and attract high value businesses that support this. To attract the businesses who will deliver this vision, it is important to set the standard of high-quality development and give confidence of delivery.
- 2.4. The IPM Southern Site consists of two plots S1.2 & S1.3 and a car park S1.1. The two plots can accommodate one building on each plot and share a car park.
- 2.5. From late 2021 throughout 2022, local Marketing agents have been actively marketing IPM Southern Site plots. Despite this no tenants came forward willing to take up a plot and develop it. To reach a wider audience, a national agent (Avison Young) was brought in to work jointly with the local agents (Harrisons and Locate in Kent). With all three agencies working together it has been challenging finding a business or a developer to take up any of the plots for development.
- 2.6. Marketing agents have advised due to the nature of the Market post Covid and inflation, businesses are unwilling to take the risk of building from scratch and the need to want or have a new asset is no longer there. Due to the cost of building developers are now very selective on where they want to build, our Marketing agents have liaised with several developers, and they do not view IPM as a priority.
- 2.7. An anchor tenant has approached the IPM team and is keen on taking approximately 10,000 sq ft which equates to roughly half of a building (plot S1.2). The tenant has been established over 100 years and have offices in Kent and Medway, they also have very good links to the area. Their business is growing and are actively recruiting therefore will need a bigger space.

3. Options

3.1. The following options are considered for the site:

3.1.1. Do nothing and leave the site vacant but continue to market the site.

3.1.2. Agree to recommend to Full Council for the borrowing of £12million for the D&B of S1.1 and S1.2 to accommodate the anchor tenant and delegate authority to the Director of Place and Deputy Chief Executive, in consultation with the Leader of the Council and Portfolio Holders for Inward Investment, Strategic Regeneration and Partnerships as well as Planning, Economic Growth and Regulation to oversee the D&B of the building and car park.

3.1.3. Procure a joint venture partner (JV) to share the development and build out of the site.

3.1.4. Delay building and wait to secure more tenants to reduce risk.

4. Advice and analysis

4.1. Option 3.1.2 above is recommended; this will enable development on the new site and retain a key business in Medway as well as generate income for the Council. The development will pave the way for other developers to come forward and allow existing businesses within Medway to grow.

4.2. The other options are not recommended as to date no potential JV partner, developer or business has come forward. There is a real risk of losing this tenant and opportunity if the Council does not secure the anchor tenant lease and deliver the building as they are keen on securing an office by March 2024 and are actively looking elsewhere.

5. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Low uptake of the remaining office space	There is a risk of no uptake from businesses occupying the remaining floors.	Although this is a risk our marketing agents are very confident, they can fully let a ready built product at a faster rate than an undeveloped plot of land.	D4
Do not develop on Southern site plots or delegate authority	If Cabinet decides not to recommend to Full Council for the borrowing the development on the Southern Site there is a high risk of losing	Liaise with members to agree suitable occupiers / developers.	A1

Risk	Description	Action to avoid or mitigate risk	Risk rating
	<p>the anchor tenant from IPM and Medway.</p> <p>Delays now will also mean a delay to the overall programme as the anchor tenant has to occupy a building in March 2024.</p>		
Interest rates risk	The cost of borrowing could be subject to change up and until the point where the loan is taken	The Finance team will monitor interest rates and manage our debt portfolio appropriately using of shorter- and longer-term loan	B2

6. Consultation

- 6.1. Extensive consultation was undertaken during the LDO process which also covers this site.

7. Climate change and implications

- 7.1. All self-certification proposals through the IPM Local Development Order will consider emission reductions, sustainability, and environmental considerations in line with the adopted IPM Design Code.

8. Financial implications

- 8.1. The interest rate provided by the Finance team over 40 years rate offered by PWLB at 20/05/2022 was just under 3%.
- 8.2. We are seeking approval to borrow £8 million for the D&B of S1.2. Based on advice from our Marketing agents we would charge a minimum of £21 per square foot (psf) in rent.
- 8.3. Over 40 years the loan repayment on £8million will be £13,866,320 (£346,658 per annum). The building will generate £14,249,760 in rental income (based on 16,964 sqft) therefore a surplus of £383,440 once the loan has been repaid.
- 8.4. Additionally, we are seeking approval for £4million to undertake the D&B of car park S1.1 which will accommodate occupiers for both S1.2 & S1.3. Over 40 years, the loan repayment will be £6,993,120, we anticipate charging through rents for parking. This would equate to an extra £5 psf per annum,

across both S1.2 & S1.3. This could generate £10,337,800 (based on 51,689 sqft), over 40 years providing a surplus of £3,344,680.

9. Legal implications

- 9.1. All additions to the Capital Programme are matters for Full Council and this report asks Cabinet to make the recommendation to Full Council to add £12million to the Capital Programme to fund the D&B of S1.1 and S1.2.
- 9.2. A compliant procurement process will be required to award the D&B.

10. Recommendations

- 10.1. The Cabinet is requested to agree to recommend to Full Council the borrowing of £12million to be added to the Capital Programme for the design and build of S1.1 and S1.2 (as set out in Appendix 1) to accommodate the anchor tenant (as set out in option 3.1.2 of the report).
- 10.2. The Cabinet is also requested to delegate authority to the Director of Place and Deputy Chief Executive, in consultation with the Leader of the Council and Portfolio Holders for Inward Investment, Strategic Regeneration and Partnerships as well as Planning, Economic Growth and Regulation to oversee the design and build of the building and car park (as set out in option 3.1.2 of the report).

11. Suggested reasons for decisions

- 11.1. Medway will be kick starting development and pave the way for other developers to come forward, we are also retaining Medway businesses within Medway and allowing them to grow.

Lead officer contact

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Appendices

Appendix 1 – Site plan

Background papers

Innovation Park Medway Delivery and Investment Plan Cabinet Report (11 June 2019)
<https://democracy.medway.gov.uk/ielIssueDetails.aspx?Id=25854&Opt=3>