

## **Cabinet**

**13 February 2024**

### **Innovation Park Medway Update**

Portfolio Holders: Councillor Simon Curry, Portfolio Holder for Climate Change and Strategic Regeneration  
Councillor Lauren Edwards, Portfolio Holder for Economic and Social Regeneration and Inward Investment

Report from: Sunny Ee, Assistant Director - Regeneration

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#### **Summary**

Medway Council is proposing to pause development at Innovation Park Medway and explore the best options for its future delivery. The market has changed quite significantly in the current financial climate and in the wake of COVID-19 impacting the way businesses now work. It is good practice to take the opportunity to pause and review the best long-term opportunities for Innovation Park Medway to ensure the most sustainable future for the sites and to achieve the outcomes envisaged from the sites.

#### **1. Recommendations**

- 1.1 The Cabinet is requested to agree to pause delivery at Innovation Park Medway at appropriate milestones and note the pause of expenditure associated with this.
- 1.2 The Cabinet is asked to agree to officers carrying out the review of development options for the Innovation Park Medway sites and to delegate authority to the Director of Place, in consultation with the Leader of the Council and Portfolio Holders for Climate Change and Strategic Regeneration and for Economic and Social Regeneration and Inward Investment, to investigate options for disposal of the Innovation Park Medway sites, including a Joint Venture, and present Cabinet with the preferred option for approval.
- 1.3 Subject to the above recommendation at paragraph 1.2 being agreed, the Cabinet is asked to approve the virement of £200,000 capital funding from the Innovation Park Medway budgets to a new capital budget code to undertake a review of the most sustainable development options for the Innovation Park Medway sites.

## 2. Suggested reasons for decisions

- 2.1 Further work is required to ensure that the sites are brought forward in a manner that suits the evolving needs of businesses in Medway along with ensuring that the sites are delivered in the most sustainable manner. It is deemed necessary to pause the current work to avoid any abortive expenditure whilst this review takes place.

## 3. Budget and policy framework

- 3.1 IPM to date has been funded by a mix of council borrowing, grants and loans. IPM has been awarded £11.6m external funds (a mix of capital grants, loans and revenue grants).
- 3.2 As a consequence of this proposed pause, spend in the IPM capital budgets will also be paused at appropriate milestones. Where works are partially completed spend will continue until a suitable milestone is reached, alongside continued staffing costs to manage this work. The anticipated spend against capital is contained within the Council's Capital monitoring report. It is proposed that £200k of the IPM capital budget is repurposed to fund the work required to assess development options and a virement to a new budget code agreed. This is a matter for Cabinet.

## 4. Background

- 4.1 IPM retains the ability to be a catalyst for business growth in Medway, focusing on high value knowledge intensive businesses. Set over two discrete but adjacent sites, IPM is designed to deliver Over 60,000m<sup>2</sup> of commercial space to help grow Medway's local economy and create up to 3,000 High Value (high GVA) jobs attracting high value technology, engineering, manufacturing, and knowledge intensive businesses. The Council support for IPM has helped secure the extension of the investment in the neighbouring BAE site due to the potential for a cluster of related high value occupiers. Currently the Regeneration and Planning teams have received more than 200 general enquires seeking to locate on site. A new development approach is now required to respond to raised interest rates and the impact nationally of inflation. This report sets out options for this revised approach.
- 4.2 Development at IPM is guided by a Local Development Order (LDO), Design Guide and Illustrative Masterplan. This sets a clear vision and speeds delivery. The LDO drives the following vision: -
- Ensuring the layout and design of IPM embraces the spirit of innovation and where possible exceeds, the prevailing sustainability standards.
  - Ensuring new landscaping character types enhance the sustainability, amenity, and biodiversity value at IPM.
  - Create an environment that puts Medway on the map as a smart and sustainable city.
  - Ensuring that the IPM is a good neighbour and mitigates its impacts.

- 4.3 The primary purpose of the Design Guide is to:-
- Provide robust and tested guidance to inform future development proposals.
  - Ensure each character area to be distinctive and recognisable whilst achieving coherent overall identity across the site as a whole.
  - Ensure high quality design for streets, open spaces, plots and buildings.
  - Create connections to landscape corridors to enhance wider connectivity between IPM and neighbouring developments.
  - Positively influence future development in Rochester International Airport Industrial Estate and Laker Road Industrial Estate.
- 4.4 In 2019 a Delivery and Investment Plan (DIP) was produced to consider and make recommendations for site development options, procurement approach, financial support over future phases, and strategic investment through business rates income. The DIP made a number of recommendations to realise the vision for IPM and to accelerate delivery of the site. This has been considered further in the context of the changing economy.
- 4.5 In June 2019 Cabinet agreed for the development land to be appropriated and disposed of through either self-build or a contractor procured by Medway Council. Cabinet also agreed that the site be marketed as individual plots. Disposal options did not include a joint venture (JV) as an approved disposals route, however market changes have since suggested this or a Development Agreement approach may now be a more viable route for some parcels or all of the site. In May 2021 Cabinet agreed to amend this to also allow for exploration of alternative options. It is considered that this delegation is sufficient to enable officers to carry out the exploration of alternative options, however the wording has been updated at paragraph 1.2 to more accurately reflect the current portfolios.
- 4.6 In May 2021 (Decision 47/2021) the Cabinet agreed 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 and for Planning, Economic Growth and Regulation, to investigate options for disposal, including a Joint Venture, and present Cabinet with the preferred option for approval.
- 4.7 The Cabinet also previously 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.
- 4.8 It is good practice to take the opportunity to pause and review the best long-term opportunities for Innovation Park Medway to ensure the most sustainable future for the sites and achieving the outcomes envisaged from the sites. As part of this review Medway Council will work proactively with existing

stakeholders and identify new ones to ensure the review is comprehensive and collaborative.

- 4.9 The Southern Site offers a unique opportunity to occupy new build flexible E(g) Hi Tech office space, which also provides the much needed 'grow on' space for the nearby Innovation Centre Medway. The northern site offers up to 28 plots for E(g) and B2 use. At the heart of site, 'The Runway Park' green spine is a fundamental element of the masterplan.
- 4.10 IPM can offer access to research and development as well as skilled talent through the cluster of Kent and Medway based universities, and Mid-Kent College which will provide a steady flow of industry-ready graduates for internships and apprenticeships and provide in-work training and employees careers development and the IPM team works closely with Medway's cluster of Further and Higher Education institutions to better align skills training with the needs of its future tenants, thereby providing a pipeline of people with the skills needed to drive innovation.
- 4.11 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.
- 4.12 *Southern Site* - Despite delays due to Covid-19 and rising inflation costs, significant progress has been made in bringing both the northern and southern sites forward. Breheny were appointed in 2020 to deliver the infrastructure on the Southern site. This is now complete. In addition, UKPS were appointed in January 2021 to install power connections to both sites, and work is underway for Southern site.
- 4.13 Planning permission for the first office building and the associated car park was achieved via self certification under the Local Development Order. The self-certification for the office provides 2025.3 m<sup>2</sup> GEA of E(g) office space with the car park being 4 storeys with surface level disabled parking, associated site-wide infrastructure plus hard and soft landscaping and is designed to address the design requirements for an iconic building as required by the design code. Officers reached RIBA 3 for buildings S1.1 & S1.3 and RIBA 2 for site S1.2. The tender for the construction of S1.3 and S1.1 closed in June 2023. Following analysis of the tender submissions the Business Case was rerun and with the higher costs due to inflation and interest rate rises, was found to be unviable in the current financial climate.
- 4.14 *Northern Site* - FM Conway are currently completing a package of infrastructure and public realm work on the Northern Site. This is expected to complete in February 2024. This includes access roads, bus stops, footpaths and cycleways, drainage, utilities (including trenching for broadband), lighting, landscaping, outdoor gym equipment and street furniture. The original commission also included tree planting however following their sub-contractor

going into administration, this element has been removed and the contract sum reduced accordingly. The planting of trees would now need to be procured separately. UKPS was appointed in January 2021 to carry out works to provide power to both sites. Two power connections have been successfully installed and the third is in progress. The Northern Site gateway building has been designed to RIBA 3 with archaeology and ecology surveys undertaken. The associated Multi-Storey Car Park (N1.3) has been designed to RIBA stage 3+.

- 4.15 As part of the wider site delivery, consultants have produced the Monitor and Manage Strategy for both sites and agreed the cap with Kent County Council and National Highways for the required highways improvements at appropriate trigger points.
- 4.16 To appropriately assess the most sustainable future for the Medway Enterprise Zone sites, a figure of £200,000 is proposed to be repurposed from the existing capital funding for IPM. This will cover the assessment of development options for the sites via an external commercial team, including planning advice and legal advice as required. The intention being to update the Council's approach reflecting the changes in the financial climate, as well as the needs of the market, and formulate alternative strategies to deliver the outcomes. Staff salaries are currently capitalised, and it is proposed that this approach is maintained but with a potential cost reduction to reflect the pause in delivery and dependent on the scope of work agreed.
- 4.17 There are a number of options to consider in promoting the delivery of IPM. For example, the two sites could be taken to market together, or individually. The benefits and risks of dealing with them as part of one programme need to be explored and specialist commercial advice sought. Approaches to be considered include; Direct Delivery, Direct Sale, Development Agreement, or a Joint Venture. Given the breadth of options, officers are keen to explore options further via appointing specialist commercial advisors. A report will then be brought back to Cabinet outlining the developed options.
- 4.18 Direct delivery is the current approach for the sites as agreed by Cabinet in June 2019. For a Development Agreement or Joint Venture a procurement exercise would be required to appoint a partner. This would need to be through a public works contract (what was known as an OJEU procurement). Prior to advancing any of these options it is necessary to procure specialist legal and commercial advice on what is the best economic option.
- 4.19 As a first step an appointed commercial advisor could undertake some soft market testing, advise the Council on how best to package the two sites, which of the above options to use for each site and to then advertise and assess the resulting offers.
- 4.20 Conditional Development Agreements and Joint Ventures are phrases which are often used interchangeably but represent different approaches to development, so clarity is required for the market. Hence, the Heads of Terms of a draft Joint Venture or Development Agreement would need to be in place

prior to marketing the site/s. Further, the more information the Council can supply on each site, the more accurate and potentially higher any offer will be.

## 5. Options

- 5.1 Option 1: Do nothing and continue to deliver IPM as previously outlined in the DIP. This is not recommended as post Covid the needs of businesses in Medway have developed and it is important that IPM captures these evolving needs.
- 5.2 Option 2: Pause all work but do not carry out a review of development options. This is not recommended as this work is key to ensuring that the vision of IPM is achieved but in the most sustainable way. This approach also raises the immediate risk of clawback from external funders.
- 5.3 Option 3: Pause all work at appropriate milestones and carry out a review of development options. This will enable the sites to come forward in the most sustainable manner and achieve the IPM vision whilst avoiding abortive costs. This is the recommended option.

## 6. Advice and analysis

- 6.1 Proceeding with Option 3, i.e. carrying out a comprehensive review of the development options for IPM including development appraisals, planning assessment and viability assessment is recommended to ensure that the most sustainable future for the sites is achieved, and the outcomes envisaged from the sites unlocked. This is necessary as the market has changed quite significantly in the current financial climate and in the wake of COVID-19 and the way businesses now work. It is therefore necessary to take the opportunity to pause and review the best long-term opportunities for IPM.

## 7. Risk management

- 7.1 Risk management is an integral part of good governance. The Council has a responsibility to identify and manage threats and risks to achieve its strategic objectives and enhance the value of services it provides to the community. Using the following table this section should therefore consider any significant risks arising from your report.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Spend against capital borrowing	Continued spending against the capital borrowing poses a risk given that the outputs are likely to change as part of this assessment of options for the future of the sites.	It is proposed that spend against capital budgets is paused as appropriate milestones are reached.	BII

Risk	Description	Action to avoid or mitigate risk	Risk rating
Ongoing salaries and fees against Council borrowing	Projected salaries and fees within the capital budget lines were £359,666.67 per annum.	A review of resources required to undertake the work is underway, with the actual salary requirement expected to reduce to reflect the pause and dependant on the scope of work required. This focused team alongside the review of delivery options will facilitate bringing forward the IPM vision whilst also taking account of the current economic and market conditions	CIII
Risk of clawback	There is a risk of clawback from SELEP and grant funders if the outputs and outcomes related to the conditions of the grants are not met. External funding for IPM and Rochester airport amounts to £11.6m	This paper only proposes a pause to assess the best way of delivering the outputs associated with the overall vision and grants	CI

For risk rating, please refer to the following table:

Likelihood	Impact:
A Very likely	I Catastrophic
B Likely	II Major
C Unlikely	III Moderate
D Rare	IV Minor

## 8. Consultation

- 8.1 Two public consultation processes ran for the LDO and Environmental Statement with supporting documentation. These consultations ran from 17 June to 19 July 2019 and 26 October to 27 November 2020. The outcomes of the consultations are contained within the cabinet report from 15 December 2020 - [Innovation Park Medway Local Development Order - Request to adopt](#) Regular discussions take place with IPM key stakeholders. No further consultation is proposed at this stage.

## 9. Climate change implications

- 9.1 [The Council declared a climate change emergency in April 2019](#) - item 1038D refers, and has set a target for Medway to become carbon neutral by 2050. 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 and IPM as a whole has the potential to make a positive contribution to climate change. S1.3 and S1.1 which have planning permission have been designed with sustainability in mind. The building design aims to achieve Net Zero Carbon status, and BREEAM Excellent as minimum, acting as exemplar for the rest of the IPM.

## 10. Financial implications

- 10.1 There will continue to be some spend against the current capital budgets to enable works to reach appropriate milestones to pause at. A potential reduced salary drawdown associated with the IPM team salaries will continue as staff are required to manage the work. Along with a repurposed from existing IPM budgets, capital cost of £200k to develop the future options for the site to achieve the IPM vision in a more sustainable manner. To date the IPM salaries have sat in two budget codes 9T080 (park ph1 and 2) & 9T072 (gateway building). It is proposed that from 2024/25 the reduced salary figure sits solely in 9T080 (park ph1 and 2).
- 10.2 This pause will also impact the profiled business rates that were intended to cover the c.£19m borrowing costs. The length of pause required will be dictated by the outcomes of the development appraisal work.
- 10.3 There is a risk of clawback from grant funders if the outcomes from the site are not achieved, this is in the order of up to £11.6m. The development options work will take account of the funding outcomes and will look to achieve them, although potentially by different mechanism than the previous direct delivery.

## 11. Legal implications

- 11.1 Under Part 5 of Chapter 3 of the Council's Constitution, any final decision to appropriate and dispose of the site is a matter for Cabinet with a requirement to report the decision to Full Council for information on the basis that the transaction will be over £500,000.
- 11.2 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.
- 11.3 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. As set out in the report above the market has moved on since the original DIP was produced and therefore in order to ensure that all options are open to achieve best consideration this report is being put before Cabinet.

### Lead officer contact

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### Appendices

None

### Background papers

[Innovation Park Medway Local Development Order - Request to adopt](#) (15 December 2020)

[Innovation Park Medway Delivery and Investment Plan Cabinet Report \(11 June 2019\)](#)