

Forward Plan reference number: FP/AB/201

Report title: Innovation Park Medway (northern site) – Extended Enabling Infrastructure - LGF3b deliverability update	
Report to Accountability Board on 12th April 2019	
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Date: 2 nd April 2019	For: Decision
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SELEP Partner Authority affected: Medway Council	

1. Purpose of Report

- 1.1 The purpose of this report is to make the Accountability Board (the Board) aware of the updated Independent Technical Evaluation in relation to the deliverability of the proposed LGF3b Innovation Park Medway (northern site) – Extended Enabling Infrastructure project (the Project).
- 1.2 This update report follows the Investment Panel meeting on the 8th March 2019, through which this Project was prioritised as part of the LGF3b pipeline for a provisional funding allocation of £1,518,500 LGF. This provisional funding allocation was subject to the Board's agreement that the deliverability concerns raised by the SELEP Independent Technical Evaluator (ITE) could be mitigated.
- 1.3 The Board is asked to consider the additional information provided by Medway Council and the updated ITE assessment, in order to reaffirm the provisional funding allocation to the Project. A Business Case will need to be brought through the ITE process in order for the Board to take a funding decision in relation to the Project.

2. Recommendations

- 2.1. The Board is asked to:
- 2.2. Agree one of two options:
 - 2.2.1. **Option 1 - Agree** that Medway Council have satisfactorily addressed the deliverability concerns raised by the ITE in their initial assessment of the Project, which was presented to Investment Panel on 8th March 2019; having done so, Medway Council will be required to bring forward an updated Business case to satisfy the ITE process prior to a Board decision to award the funding to the Project; or
 - 2.2.2. **Option 2 - Agree** that the £1.519m should be considered for re-allocation at the next Investment Panel meeting on the 28th June 2019.

3. Background

- 3.1. The Project is part of a wider package of investment at Innovation Park Medway. The Innovation Park is one of three sites across Kent and Medway which together form the North Kent Enterprise Zone.
- 3.2. The vision for Innovation Park Medway is to attract high GVA businesses focused on the technology, engineering and knowledge intensive sectors. These businesses will deliver high value jobs in the area and will contribute to upskilling the local workforce.
- 3.3. Innovation Park Medway consists of two parcels of land, either side of Rochester Airport. The northern site is currently part of Rochester Airport and is in use as one of the two operational runways at the airport. The southern site is south of Innovation Centre Medway and is currently partially used as an overflow car park for the Innovation Centre but is primarily an unused site in Council ownership. Appendix 2 shows the Innovation Park Medway site layout.
- 3.4. To date the Board have awarded £8.1m LGF to the wider package, as follows:
 - 3.4.1. £4.4m LGF, from LGF round 2, was awarded in June 2016, to enable the delivery of the Rochester Airport – Phase 1 project. This investment will change the configuration of Rochester Airport, whilst also delivering improvements to the airport infrastructure to help safeguard the future of the airport. Reconfiguration of the airport allows the closure of the second runway which releases the land required for the development of the northern site of Innovation Park Medway.

Completion of the Rochester Airport - Phase 1 project also enables the Innovation Park Medway southern site GPF project (as outlined below) to progress, as the Phase 1 works free the southern site from current Civil Aviation Authority flightpath safeguarding restrictions, through the closure of one of the two existing runways.
 - 3.4.2. In February 2019, £3.7m LGF was awarded in February 2019 to the delivery of the Innovation Park Medway (northern site) – Enabling Infrastructure project, subject to Medway Council satisfying a number of funding conditions (as outlined in 3.7 below). This investment will bring forward the enabling works, including access road, signage and utilities, required to facilitate development of the first section of the northern site of Innovation Park Medway through private sector investment in buildings on the site.
- 3.5. In addition, the Board has also approved the award of £650,000 Growing Places Fund funding to the delivery of the Innovation Park Medway southern site enabling works project. This investment will bring forward enabling works

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on the southern site of the innovation park, which will make the site more attractive to businesses looking to relocate to and expand in Medway.

- 3.6. To date, there has been a substantial slippage of LGF spend between financial years for Phases 1 and 2. This has primarily been as a result of complications with the planning process and public opposition to the proposed airport improvements. As a consequence of these delays the main Rochester Airport – Phase 1 works have not yet commenced onsite and only £369,000 of the £4.4m LGF allocation, as approved by the Board in June 2016, had been spent to the end of December 2018.
- 3.7. In line with the funding conditions attached to the Board approval of the £3.7m LGF3 allocation to the Innovation Park Medway (northern site) – Enabling Infrastructure project, Medway Council have now confirmed that there has been no successful judicial review of the decision by their Planning Committee to grant planning consent for the airport infrastructure improvement works. In addition, a contractor has now been appointed to deliver the works and a signed legal contract is in place, meaning that the conditions attached to the funding decision have been fulfilled. Medway Council have reported that delivery of the Rochester Airport – Phase 1 project will be complete by the end of the 2019/20 financial year.

4. Innovation Park Medway (northern site) – Extended Enabling Infrastructure (the Project) – LGF3b allocation

- 4.1. Through the LGF3b process, a further £1.519m LGF was provisionally allocated to the Project, subject to the Board being satisfied that the deliverability concerns raised by the ITE can be addressed (as set out in 4.8 below).
- 4.2. The Project will seek to deliver enabling works on a wider section of the northern site of the Innovation Park, allowing accelerated development of commercial space and maximising the number of businesses who can benefit from establishing themselves within the North Kent Enterprise Zone.
- 4.3. The Project will deliver the following outputs:
 - 4.3.1. Extended access road/footpath, lighting and signage;
 - 4.3.2. Utility infrastructure including electricity, gas, fibre trenching, water and drainage;
 - 4.3.3. Primary substation; and
 - 4.3.4. Secondary substations as required.
- 4.4. It is anticipated that completion of the enabling works will encourage investment from the private sector in the form of construction of commercial buildings on the site.
- 4.5. Development of the site is expected to bring forward 38,500m² (gross external area) of commercial workspace and 1,300 highly skilled jobs in the

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engineering and technology sector. This is in addition to the commercial workspace and jobs which will be delivered as a result of the LGF2 funded Innovation Park Medway (northern site) – Enabling Infrastructure project.

- 4.6. As part of the LGF3b process the ITE undertook an independent review of each Business Case submitted, along with considering additional clarification information provided by all scheme promoters. At the end of this process the ITE produced a RAG rating for each project put forward for LGF3b funding.
- 4.7. The RAG rating produced by the ITE for the Project for the Investment Panel is shown in Table 1 below.

Table 1: RAG rating for Innovation Park Medway – Extended Enabling Infrastructure project

Match/ Leverage	Scale of impact	Need for intervention	Value for money	Deliverability	Benefits realisation
Green	Green	Amber/ Green	Green	Amber	Amber/ Green

- 4.8. Within the accompanying report the ITE set out the reasons for the Project RAG rating, as outlined below:
- 4.8.1. The scheme is dependent upon the delivery of earlier phases of work which have come up against public opposition and have not yet been implemented; creating a risk to the spend of the current LGF allocation to the wider package of works;
- 4.8.2. The Rochester Airport – Phase 1 project was awarded £4.4m LGF in June 2016, however, less than £369,000 LGF has been spent to date. A further £3.7m LGF has also already been allocated to the Innovation Park Medway (northern site) – Enabling Infrastructure project;
- 4.8.3. SELEP have previously been made aware of the intention to deliver the Innovation Park Medway (northern site) – Enabling Infrastructure project using developer contributions (along with the £3.7m LGF which is currently allocated to the project). It is therefore unclear why further public sector funding contributions are being sought;
- 4.8.4. Development partners have yet to be identified; and
- 4.8.5. If considered as a whole scheme, the total spend on Innovation Park Medway will be difficult to achieve in the timescales.
- 4.9. At the Investment Panel (Panel) meeting on the 8th March 2019, the Panel agreed that the Project should be prioritised for £1.519m LGF3b funding, subject to Medway Council overcoming the burden of proof in lifting the technical evaluation in relation to the deliverability of the Project. Following which the Project would also need to be formally approved for funding by the Board, in line with normal governance processes.

5. Medway Council update on deliverability

- 5.1. Following the discussion at the Investment Panel meeting, Medway Council have provided additional information on the project in order to seek to address the deliverability concerns raised by the ITE.

Programme

- 5.2. Through the independent review process the ITE raised concerns regarding whether the Project could be delivered within the LGF funding period, particularly in light of the limited progress made on earlier phases of the project.
- 5.3. Medway Council provided an update on the delivery of the Rochester Airport – Phase 1 project. Planning consent has now been granted for all elements of the Phase 1 project, with no successful judicial review against this decision being made. Furthermore, following a successful procurement process a contractor has now been appointed to deliver the airport infrastructure works. It is expected that work will commence onsite in April 2019, with all enabling works completed by the end of March 2020.
- 5.4. Medway Council have provided a programme for delivery of the Project, which indicates that the works will be complete by the end of March 2021. The intention is to deliver the Project as part of the contract for the Innovation Park Medway (northern site) – enabling infrastructure LGF3 project. This will allow cost and programme efficiencies to be made as there will be only one mobilisation period, and works will be able to progress across the extended site simultaneously. This approach should give greater assurance regarding deliverability within the LGF funding period, subject to there being no further delays in procuring a contractor to undertake these works.
- 5.5. The intention is to use a Local Development Order (LDO) as the planning mechanism for the Innovation Park Medway site. Consultation is still to be undertaken on the proposed LDO and should any objections be received this has the potential to delay adoption of the LDO and further delay the delivery of the Project.
- 5.6. Whilst assurances have been provided by Medway Council that the Project can be delivered by the end of March 2021, it should be noted that the enabling works (airport infrastructure improvements) are currently scheduled for completion two years later than originally intended. Any further delays to these works will have a knock-on effect on the delivery of both the Project and the Innovation Park Medway (northern site) – Enabling Infrastructure LGF3 project.

Delivery Plan

- 5.7. It was noted during the LGF3b assessment process that there appeared to be no clear delivery plan in place to ensure that delivery of commercial workspace followed completion of the LGF funded enabling works. It was also noted that development partners are yet to be identified and the timescales for doing so have not been clarified.
- 5.8. Medway Council have indicated that they are currently finalising a Delivery and Investment Plan for the development of the site, which focuses on delivery of benefits, achieving quality and design ambitions which will set the tone for future development phases. The plan seeks to ensure that the Innovation Park is developed as quickly as possible, whilst maximising the number of high-quality jobs created and the business rates generated from the site.
- 5.9. The priority for Medway Council is to retain ownership and control of the site in order to ensure quality throughout the build-out phase within the Enterprise Zone period. Both self-build and development partner routes are considered appropriate for the site and these options will be discussed with businesses to ensure the right approach is selected to achieve quality across the site. Steps will be taken to identify and appoint a suitable development partner following approval of the Delivery and Investment Plan by Cabinet. Businesses locating on the site will have the option to work with the identified development partner or to appoint their own contractor to deliver their commercial premises. All commercial premises on the site will need to adhere to the LDO and design code requirements.
- 5.10. The Delivery and Investment Plan also sets out how the development of Innovation Park Medway will be funded. Alongside the LGF and GPF funding secured from SELEP, the intention is for Medway Council to borrow against future business rates receipts in order to accelerate development on the site. Once businesses are located on the site, Medway Council will reinvest business rates received into the site to bring forward further development. This funding approach is still to be considered by Cabinet as part of the approval of the Delivery and Investment Plan, however, Members have previously demonstrated their commitment to the development of Innovation Park Medway.
- 5.11. The Delivery and Investment Plan was considered by the Innovation Park Medway Delivery Board in March 2019 and will be taken to Cabinet for approval by July 2019. Should Cabinet decide not to approve the Delivery and Investment Plan the development of Innovation Park Medway will continue but at a significantly slower pace. Further development of the site will be dependent upon receipt of business rates, which will then be reinvested in the site. This approach to developing the site will mean that fewer businesses have the opportunity to benefit from establishing themselves within the Enterprise Zone.

Private Sector Investment

- 5.12. It was noted during the LGF3b process that £30m of private sector match funding was referenced in the Project Business Case. This funding would be received through businesses investing in commercial premises on the site. The Business Case indicated that whilst receipt of this investment was dependent upon businesses coming forward to occupy the site, this was considered to be low risk due to the level of interest expressed in the site prior to any formal marketing being undertaken. However, it was noted that, to date, none of the stated private sector investment has been secured.
- 5.13. In the additional information provided by Medway Council the private sector investment in commercial buildings on the site was stated to be £80.352m. This figure was reached by using a verified Royal Institution of Chartered Surveyors costing for construction of commercial units.
- 5.14. Since submission of the LGF3b Business Case Medway Council have developed a Delivery and Investment Plan for the site, which has enabled a review and update of the private sector match funding required to bring forward development of the Innovation Park.
- 5.15. Whilst an explanation has been provided as to how the £80.352m private sector investment figure was calculated, there is still no evidence to indicate that any of this funding has been secured. Therefore, there remains a risk that the anticipated commercial development on the site, following completion of the LGF works, will not be forthcoming casting doubt on the delivery of the job's outcomes stated within the Business Case.

6. Updated ITE assessment

- 6.1. Following receipt of additional information provided by Medway Council, a revised assessment of the Project has been undertaken. The main focus of the assessment was to consider the three primary areas of concern highlighted in the initial assessment:
 - 6.1.1. The period within which a judicial review claim could be made regarding the planning decisions upon which the delivery of the wider Innovation Park Medway package of schemes is dependent upon had not elapsed;
 - 6.1.2. A development partner had not been confirmed which raised concerns around certainty of delivery, but also security of match funding for the scheme; and
 - 6.1.3. Limited progress had been made on the delivery of the other components of the wider Innovation Park Medway package of schemes, which are also in receipt of LGF or GPF funding from SELEP. This raised concerns about whether Medway Council would be able to spend the additional LGF3b funding allocation before March 2021.

- 6.2. Medway Council have now confirmed that the period within which a judicial review claim could be made has elapsed, without a claim being submitted for consideration.
- 6.3. In addition, Medway Council have now appointed a contractor to deliver the airport infrastructure improvement works, which will enable the Innovation Park Medway development works to commence.
- 6.4. Additional information has been provided by the scheme promoter which shows that good progress has been made on the other components of the wider Innovation Park Medway package of schemes and that planning permission for Innovation Park Medway will be awarded through a Local Development Order, which reduces the risk of planning objections being made. To date there have been no objections raised during the Masterplan consultation and adoption process.
- 6.5. Information provided has indicated that delivery of the Innovation Park enabling works is on target and achievable by March 2021. Elected members are committed to the delivery of the scheme and have agreed that design work in relation to the Project can proceed in advance of a formal funding decision by the Board.
- 6.6. There remains some uncertainty around the security of the match funding which is made up of private sector investment through commercial development on the site of £80.352m.
- 6.7. In light of the additional information provided the ITE is satisfied that sufficient certainty of deliverability has been demonstrated. However, the Board are invited to consider the risk that the uncertainty around the security of the match funding presents before determining whether to endorse the provisional LGF allocation to the Project proposed by Investment Panel.

7. Next steps

- 7.1. Considering the additional information provided by Medway Council and the updated assessment by the ITE, the Board are asked to either:
 - 7.1.1. **Option 1 - Agree** that Medway Council have satisfactorily addressed the deliverability concerns raised by the ITE in their initial assessment of the Project, which was presented to Investment Panel on 8th March 2019, having done so, Medway Council will be required to bring forward an updated Business case to satisfy the ITE process prior to a Board decision to award the funding to the Project; or
 - 7.1.2. **Option 2 - Agree** that the £1.519m should be considered for re-allocation at the next Investment Panel meeting on the 28th June 2019.

- 7.2. Medway Council have indicated an intention to bring the Business Case to the Board meeting in September 2019 to seek final approval of the LGF allocation, which will enable the funding to be devolved to Medway Council to allow project delivery.
- 7.3. If the Board decide not to endorse the Investment Panel decision to provisionally prioritise the Project for LGF3b funding (Option 2), the £1.519m provisionally allocated to the Project will be returned to the central SELEP LGF pot for reallocation through the ongoing LGF3b process at the Investment Panel meeting on 28th June 2019.

8. Financial Implications (Accountable Body comments)

- 8.1. Significant delays in the delivery of the initial phases of this Project increases the risks associated with the overall Project completion within the Growth Deal period.
- 8.2. Delivery of the Growth Deal forms part of the Annual Performance Review assessment undertaken by Government in advance of confirming the annual LGF funding allocations. The significant slippage experienced by this Project detrimentally impacts on this delivery assessment, placing a risk over the outcome of this assessment.
- 8.3. In addition, further risks have been identified over the security of the match-funding of £80.352m due to be delivered through private sector investment in the site; there has not been any confirmation from Medway Council that any of this funding has been secured to date. Inability to secure investment at the anticipated levels places a risk on the delivery of the job's outcomes stated within the Business Case, and as such, the value for money assessment.
- 8.4. To mitigate these risks, the Board is advised to keep under review the delivery progress of this project and to take this into account with regard to any further funding decisions made.
- 8.5. The Accountability Board is required to approve the LGF3b allocations following submission of a business case that has been through the ITE process and meets the value for money requirements.
- 8.6. It is advised that should the Board agree to endorse the Investment Panel decision for this Project, that an update is included with regards to the £80m private sector investment within the business case to be brought forward to secure the funding.
- 8.7. Further, the additional allocation to the Project through the LGF3b process was less than had originally been sought due to insufficient funding being available for allocation; Medway Council committed to addressing this gap at the Investment Panel on the 8th March 2018 and this also should be set out in the business case.

- 8.8. It should be noted that any future LGF funding award will be subject to the funding having been received by the Accountable Body and will be transferred under the terms of the SLAs or Grant Agreements in place with the Sponsoring Authority.

9. Legal Implications (Accountable Body comments)

- 9.1. There are no legal implications arising out of this report.

10. Equality and Diversity implication

- 10.1. Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act.
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

- 10.2. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.

- 10.3. In the course of the development of the project business case, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision-making process and where possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

11. List of Appendices

- 11.1. Appendix 1 - Report of the Independent Technical Evaluator (as attached to Agenda Item 5).

- 11.2. Appendix 2 – Innovation Park Medway Site Plan.

12. List of Background Papers

- 12.1. Independent Technical Evaluation Report – as provided for Investment Panel meeting on 8th March 2019.

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- 12.2. Business Case for Innovation Park Medway (northern site) Enabling Infrastructure LGF3b project (the Project).
- 12.3. Business Case for Innovation Park Medway (northern site) Enabling Infrastructure LGF3 project.
- 12.4. Business Case for Rochester Airport – phase 1 LGF2 project.
- 12.5. Business Case for Innovation Park Medway southern site enabling works GPF project.

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	Date
Accountable Body sign off Stephanie Mitchener (On behalf of Margaret Lee, S151 Officer, Essex County Council)	04/04/19

Appendix 2 – Innovation Park Medway Site Plan

