

Forward Plan reference number: FP/AB/164

Report title: Innovation Park Medway, Growing Places Fund Award	
Report to Accountability Board	
Report author: Rhiannon Mort, SELEP Capital Programme Manager	
Date: 14 th September 2018	For: Decision
Enquiries to: Rhiannon Mort, Rhiannon.Mort@southeastlep.com	
SELEP Partner Authority affected: Medway Council	

1. Purpose of Report

- 1.1 The purpose of this report is for the Accountability Board (the Board) to consider the award of a Growing Places Fund (GFP) Loan to the Innovation Park Medway Southern site enabling works (the Project).

2. Recommendations

- 2.1. The Board is asked to:

2.1.1. Note that the Innovation Park Medway Project is dependent on the delivery of the Rochester Airport Phase 1, which is currently subject to a complaint that has been raised with the Local Government and Social Care Ombudsman. The outcome of the complaint will be advised to the Board when known.

2.1.2. Note the forecast GPF funding shortfall of £425,691 in 2019/20, as set out in section 6 below

2.1.3. Approve the award of £650,000 GPF by way of a loan to enable the delivery of the Project identified in the Business Case and which has been assessed as presenting high value for money with high certainty of achieving this, on the basis that:

2.1.3.1. The GPF loan is repaid by the 31st March 2022; and

2.1.3.2. Sufficient funding is available to SELEP (*see section 5 below*).

3. Innovation Park Medway

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 forms the North Kent Enterprise Zone.

3.2. The vision for Innovation Park Medway is to attract high GVA businesses focused on the technological and science sectors – particularly engineering, advanced manufacturing and digital creative industries. These businesses will deliver high value jobs in the area and contribute to upskilling the local workforce. This is to be achieved through general employment and the recruitment and training of apprentices including degree-level apprenticeships through collaboration with the Higher Education sector.

- 3.3. To date, the Board has awarded £4.4m Local Growth Fund (LGF) to the delivery of Rochester Airport Phase 1. This investment will change the configuration of Rochester Airport, whilst also delivering improvements to the airport infrastructure to help ensure the continued operation of Rochester Airport. Reconfiguration of the airport allows the closure of the second runway which releases the land required for the northern part of Innovation Park Medway. The runway closure also has the benefit of releasing the southern site from current CAA flightpath safeguarding which restricts the height and form of any development on the site.
- 3.4. The completion of Rochester Airport Phase 1 is required to enable the Project, under consideration for a GPF award, to progress.
- 3.5. A change of scope to Rochester Airport Phase 1 was agreed by the Board at its last meeting on the 15th June 2018. Rochester Airport Ltd is now working on a new planning application for the control tower, hub and relocation of the helipads. It is expected that the planning application will be determined in October 2018.
- 3.6. The decision by the Board to approve the change of scope for the Rochester Airport Phase 1 scheme will now enable this initial phase of works to progress; to deliver the infrastructure improvements to the airport and to unlock land for the development of the Innovation Park site, as set out in appendix 2.
- 3.7. The Project will bring forward site enabling works on the southern site at the Innovation Park, including the completion of:
 - 3.7.1. Access road with shared footpath, cycle route, lighting and signage;
 - 3.7.2. Utility ducting/service strip;
 - 3.7.3. Fencing round site boundary; and
 - 3.7.4. Demolition of unused building
- 3.8. The objective is for the completion of the site enabling works to make the Innovation Park more attractive to businesses looking to relocate and expand in Medway; benefiting from the sites Enterprise Zone status.
- 3.9. The GPF investment in the southern site will enable the delivery of 4,500m² of Net Internal Area (NIA) of the B1 land use, such as offices, research and development facilities etc. This will unlock approximately 307 net additional FTE jobs at the southern part of the site, as well as indirect benefits for the local economy.
- 3.10. In addition to the GPF investment considered in this report and the £4.4m LGF which has previously been awarded, there is a further £3.7m LGF allocation to Phase 2 of Innovation Park Medway. The Phase 2 LGF allocation is for infrastructure investment in the northern part of the Innovation Park site, including:

- 3.10.1. Access roads and pedestrian access infrastructure;
 - 3.10.2. Services, including drainage and water provision, electrical infrastructure, gas mains and trenching and ducting for broadband fibre; and
 - 3.10.3. Any required site surveys
- 3.11. The £3.7m allocation to the Phase 2 works is expected to create additional jobs at the northern part of the site, in addition to the jobs created through the GPF investment in the southern site.
- 3.12. The Business Case for the remaining £3.7m LGF allocation to Phase 2 will be considered by the Board on the 15th February 2019.

4. Options

- 4.1. The impact of non-intervention (do nothing) has been considered as part of the Business Case development. The project Business Case states that, if funding cannot be secured to complete the enabling works on the southern site then it will not be possible to proceed with these works on a timescale that aligns with Medway Council's vision for the Innovation Park within the period that business incentives will be available in the North Kent Enterprise Zone. In addition, businesses may decide to locate elsewhere, leading to fewer employment opportunities for local people and increased out-commuting to surrounding areas.
- 4.2. Consideration has also been given to alternative funding sources, including private sector, Local Growth Fund and other sources of borrowing funds.
- 4.3. Private sector funding could be generated through the disposal of the site. However, if the site is disposed of prior to the enabling works detailed in this Business Case being undertaken Medway Council will have little/no influence over the access arrangements. The disposal of the site in its entirety will remove any influence Medway Council has over the type of company that uses the site. The vision is for highly skilled companies in the technological and scientific fields to establish themselves on the Innovation Park Medway site; this may not be achievable if the site is disposed of as a whole. Private sector funding does not allow for future proofing of the site in line with Medway Council's long term vision for the Innovation Park. Private sector funding is unlikely to be available unless it is linked with site disposal, as there is no guaranteed benefit to the private company.
- 4.4. Local Growth Fund (LGF) has been secured to unlock the site (£4.4m LGF, Phase 1) and to provide the necessary utility and access infrastructure required to enable the development of the northern site of the Innovation Park (£3.7m LGF allocation – subject to Board approval in February 2019). Consideration has been given as to whether the scope of the application could be amended to include works required on the southern site. However, if this amendment was made there would be insufficient funding available to

complete all the works required to bring forward the northern site, therefore jeopardising the success of the project and diluting the benefits offered.

- 4.5. Finally, consideration was given to borrowing funds from the Public Works Loan Board. However, this was not considered to be a viable option due to the repayment requirements. The Public Works Loan Board lending arrangements indicate that the first repayment must be made within 6 months of the advance of funding. In this instance, this was considered to be impractical as the enabling works will not be complete within this time period and therefore no income will be generated on the site. In addition, Medway Council would be required to pay both interest and fees on any borrowing from the Public Works Loan Board, which has an impact on the viability of the proposal.

5. Public Engagement

- 5.1. Medway Council has a long-held ambition to deliver a high quality business, science and technology development (the Development) on part of the Rochester Airport site. This was consulted on as part of the Medway Local Plan 2003.
- 5.2. A Masterplan is currently being developed for the Innovation Park at the Rochester Airport site. During the Masterplan process, the public will be consulted on the proposals for the wider Innovation Park Medway site and will be given the opportunity to put forward their ideas for the site which will be incorporated where appropriate. It is anticipated that this consultation exercise will take place between 17th September and 28th October 2018.
- 5.3. There has been opposition to the initial phases of Rochester Airport Phase 1 from local residents, which the Board have been made aware of through previous Board meetings. In addition, there have been a number of delays to the delivery of Rochester Airport Phase 1, particularly through processes to secure planning consent.
- 5.4. Given the interdependency between the Rochester Airport Phase 1 and the Project under consideration for a GPF award, there is a risk that the timescales for delivering the Project could be impacted by any further delays to Rochester Airport Phase 1.
- 5.5. In addition, Board members are also asked to note that a complaint has been raised with the Local Government and Social Care Ombudsman in relation to the LGF investment in Rochester Airport Phase 1 Project. The Ombudsman has not yet issued details of their determination of the complaint.
- 5.6. SELEP nor Essex County Council, as the SELEP Accountable Body, have received any information from the Ombudsman which prevents decision making in relation to Rochester Airport Phase 1 or dependant projects (see comments in section 10 below from the Accountable Body with respect to this issue).

6. Project Cost and Funding

- 6.1. The total cost of the Project is estimated at £2,651,000 once the cost of land and the follow on private sector investment at the site has been taken into account, as set out in Table 1 below.

Table 1 Innovation Park Medway Southern site enabling works spend profile (£m)

Source	2018/19	2019/20	2020/21	2021/22	Total
GPF loan	120,000	530,000			650,000
Medway Council funding contribution	1,000				1,000
Private Sector Contribution			1,000,000	1,000,000	2,000,000
TOTAL	121,000	530,000	1,000,000	1,000,000	2,651,000

- 6.2. The profile of GPF investment has been updated since the original GPF application, with the amount of GPF sought in 2018/19 having reduced from £400,000 to £120,000. The amended draw down schedule has been considered as part of the over GPF cash-flow position, as set out in the GPF update report under Agenda Item 9.
- 6.3. In 2019/20, the amount of GPF sought from projects included in the GPF programme exceeds the available funding by £425,691, as set out in the GPF update report under Agenda Item 9. The GPF update report sets out proposed mitigation to manage this risk. However, the Board are asked to consider this cash-flow risk in their decision making in relation to the award of £650,000 to this Project, which includes a £530,000 GPF ask in 2019/20.
- 6.4. The GPF award to this Project is subject to sufficient funding being made available through GPF repayments from existing GPF Projects. Further details on the expected GPF repayments are provided under Agenda Item 9.
- 6.5. The GPF investment will cover the cost of delivering enabling infrastructure at the southern site, as set out in 3.5 above.
- 6.6. Upon completion of enabling works, significant private sector investment in the site will be generated through the delivery of commercial buildings by businesses.
- 6.7. The GPF repayment schedule is shown in Table 2 below.

Table 2 Innovation Park Medway Southern site enabling works repayment schedule

	2018/19	2019/20	2020/21	2021/22	Total
GPF repayment	-	-	£50,000	£600,000	£650,000

- 6.8. There are two funding mechanisms for the GPF repayments. The first is through income generated through the development of the site following the completion of the infrastructure improvements. This could include the potential sale of the site.
- 6.9. The second mechanism is through the use of business rates income from companies which locate at the Enterprise Zone. This is based on the assumption that 50% of the site will be occupied by 2020/21, with the remaining businesses moving onto the site in 2021/22.
- 6.10. Cash flow modelling has been included as part of the Business Case which demonstrates that, based on the assumptions applied, sufficient income will be available to enable the repayment schedule to be met.

7. Outcome of ITE Review

- 7.1. The ITE review confirms that there is strong alignment with local and national strategic priorities and a robust analytical exercise has been undertaken by the scheme promoters to assess the costs and benefits of the scheme. This has shown that the scheme will deliver high Value for Money on the loan investment. The schedule and procedure for payback of the loan demonstrates that contribution to a revolving fund is secure.

8. Project Compliance with SELEP Assurance Framework

- 8.1. Table 3 below considers the assessment of the Business Case against the requirements of the SELEP Assurance Framework.
- 8.2. The assessment confirms the compliance of the project with SELEP's Assurance Framework.

Table 3 SELEP Secretariat assessment against the requirements of the SELEP Assurance Framework

Requirement of the Assurance Framework to approve the project	Compliance	Evidence in the Business Case
A clear rationale for the interventions linked with the		The Project meets with the objectives of the SELEP Strategic Economic Plan

Requirement of the Assurance Framework to approve the project	Compliance	Evidence in the Business Case
strategic objectives identified in the Strategic Economic Plan		through supporting the development of the Thames Gateway. The project objectives of raising GVA, increasing productivity and providing new highly skilled employment opportunities also align with SELEPs strategic objectives.
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account		The project outputs and outcomes are clearly defined. The schemes impact has been assessed following CLG Appraisal Guidance and HM Treasury Green Book.
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)		Work is underway on a Masterplan and Local Development Order for the site to support the projects delivery. A detailed risk register is included as part of the Business Case.
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions		A BCR value has been calculated as 3.92:1, categorised as high value for money.

8.3. In relation to State Aid, Medway Council has provided the following advice, "Whilst formal legal advice has not been sought as to whether the funding is exempt from State Aid, Medway Council's legal team are confident that the difference between the amount of interest payable on the Growing Places Fund loan and the amount of interest that would have been payable had the funding been borrowed from an alternative funding source will be below the De Minimis threshold".

9. Financial Implications (Accountable Body comments)

9.1. The GPF necessary to fund the Project in 2018/19 is available following repayments made by round 1 GPF projects. A potential risk to GPF cashflow in 2019/20 has been highlighted in the GPF report (agenda item 9) which may impact on payments to projects in that year; proposals to manage this risk are due to be brought to the next meeting of the Board in November 2018.

9.2. The repayment schedule for the loan, set out in table 2, looks ambitious compared to the proposed expenditure and funding profiles in table 1; should the sale of the site for private sector investment be delayed, the loan

repayments, which are dependent on sale income and/or business rates, will be at risk. The Board are advised to consider this risk on approving this Project.

- 9.3. It should be noted that any non-repayment of the loan will put at risk the funding required for the GPF programme to be maintained as an effective recyclable loan scheme; it is, therefore, imperative that all repayments are made in line with the agreed profile. As such, it is recommended that all GPF repayment risks are monitored as part of the regular GPF updates reported to the Board.

10. Legal Implications (Accountable Body comments)

- 10.1. The Board is not prohibited from taking a decision pending the outcome of the Ombudsman complaint. However, the Board should bear in mind that the Ombudsman determination may have implications to the Rochester Airport Phrase 1 project, which would then impact on this Project. The Board will be updated once the outcome is known, and any implications will need to be considered at that stage.

11. Equality and Diversity implication

- 11.1 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.
- 11.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 11.3 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.

12. List of Appendices

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

12.2 Appendix 2 – Innovation Park Medway Site Plan

13. List of Background Papers

13.1 Business Case for Innovation Park Medway Southern site enabling works
GPF

(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)	 06/09/2018

Appendix 2 – Innovation Park Medway Site Plan

