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| <b>Report title:</b> Innovation Park Medway Update Report   |                      |
| <b>Report to Accountability Board on 14<sup>th</sup> February 2020</b>  |                      |
| <b>Report author:</b> Rhiannon Mort SELEP LGF Capital Programme Manager and   |                      |
| <b>Date:</b> 03/01/2020   | <b>For:</b> Decision |
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| <b>SELEP Partner Authority affected:</b> Medway Council   |                      |

## 1. Purpose of Report

- 1.1 The purpose of this report is to provide the Accountability Board (the Board) with an update on the delivery of the Innovation Park Medway project (the Project).

## 2. Recommendations

- 2.1. The Board is asked to:

- 2.1.1. **Note** the update on the delivery of the Project;
  - 2.1.2. **Agree** that the £1.519m Local Growth Fund (LGF) allocation to the Phase 3 Project should be reallocated to the next project on the LGF pipeline.
  - 2.1.3. **Agree** that by the Board meeting on the 3<sup>rd</sup> July 2020, Medway Council must:
    - 2.1.3.1. demonstrate how the Phase 2 Project meets the five conditions set out in 8.3; and
    - 2.1.3.2. provide evidence that satisfactory progress has been made towards meeting the Project milestones, set out in Table 2 below; and
    - 2.1.3.3. provide an update on the mitigation sought by Highways England and the extent to which this will impact the overall deliverability of the Project, as set out in section 6 below.

*If the condition set out in 2.1.3.1 to 2.1.3.3 are not satisfied by 3 July 2020, the Board will be asked to consider the reallocation of the £3.7m LGF award to Phase 2.*

- 2.1.4. **Note** the risk to Medway Council of abortive LGF spend on the Phase 2 project, if the LDO is not approved to enable the delivery of the Project. If LGF spend on the Project becomes an abortive revenue cost, this must be repaid to SELEP by Medway Council under the terms of the Service Level Agreement with the SELEP Accountable Body.

### **3. Executive Summary**

- 3.1. Through the last few Board meetings the Board has been made aware of the challenges which have come to light in the process of developing and adopting the Local Development Order (LDO) for the Innovation Park Medway site.
- 3.2. Specifically, concerns have been raised by Highways England (HE) about the impact of the Project on the Strategic Road Network.
- 3.3. HE's engagement with Medway Council in relation to the Project has improved and positive discussions have been held to consider the issues which HE raised in response to the consultation on the LDO for the Project. However, additional time is required for Medway Council to undertake a series of tasks prior to the adoption of the LDO and the project being able to progress. These tasks are set out in Table 2 below.
- 3.4. Due to these project deliverability issues, the Board is asked to consider its position in relation to SELEP's LGF contributions to the Project. This includes a £3.7m LGF award which has been made to Phase 2 Project but cannot progress until the LDO has been adopted.
- 3.5. An additional £1.519m LGF was also prioritised by the Investment Panel to Phase 3 of the Project. This additional funding was allocated by the Investment Panel subject to the Board being satisfied with the deliverability of the Project. As Phase 3 is also dependent on the LDO being adopted, this £1.519m LGF allocation has not yet been awarded to the Project and it is recommended that this funding should be reallocated to the next project on the LGF3 pipeline, as set out in section 7 below.

### **4. Innovation Park Medway**

- 4.1. The Innovation Park Medway is one of three sites across Kent and Medway which together forms the North Kent Enterprise Zone.
- 4.2. 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 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.
- 4.3. Innovation Park Medway consists of two parcels of land, either side of Rochester Airport. The northern site is currently part of Rochester 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.
- 4.4. A substantial amount of funding has been identified for investment across the Innovation Park Medway site by SELEP through the LGF programme and Growing Places Fund (GPF). A total of £10.269m SELEP funding has been allocated to the Project, as set out in Table 1 below.

**Table 1 SELEP funding allocation – Innovation Park Medway**

|   | Status  | LGF spend to date (to end of Q3 2019/20) | Total LGF allocation |
|---|---|--|----------------------|
| <b>Rochester Airport Phase 1</b>  | Approved June 2016 (change of scope agreed June 2018)       | £0.853m                                  | £4.400m              |
| <b>Innovation Park Medway Northern Site (Phase 2)</b>                             | Approved February 2019                                      | £0.167m                                  | £3.700m              |
| <b>Innovation Park Northern Site – Extended Enabling Infrastructure (Phase 3)</b> | Awaiting approval<br><br>Due to be considered February 2020 | No LGF spend to date                     | £1.519m              |
| <b>Innovation Park Southern Site GPF loan</b>                                     | Approved September 2018                                     | £0.046m                                  | £0.650m              |
| <b>Total</b>  |   | £1.066m                                  | £10.269m*            |

\*Of which £8.750m has been approved to date.

## 5. Rochester Airport Phase 1

- 5.1. In June 2016, the Board awarded £4.4m LGF, to 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.
- 5.2. The Rochester Airport Phase 1 enabling works are required to enable the Innovation Park northern site (Phase 2 and 3) and GPF project, at the southern site, to progress. The Phase 1 works both release the land required for development on the northern site and free the southern site from current Civil Aviation Authority flightpath safeguarding restrictions, through the closure of one of the two existing runways.
- 5.3. To date, there have been substantial delays to the Project and slippage to spend of LGF. At the last Board meeting, an update was provided to explain that works were now underway for Phase 1, with the contractor site compounds having been set up and archaeological works having got underway.
- 5.4. In the update to the Board in November 2019, it was expected that the Phase 1 Project would complete by March 2020, dependent on progress with the archaeological works. However, the expected completion date for Phase 1

has now slipped to September 2020. This updated programme for the delivery of the Phase 1 works is primarily the result of an additional four months being required for the completion of the archaeological works, as a result of finds including three iron age round houses and an early roman age enclosure being discovered at the site.

- 5.5. To date, £0.853m LGF has been spent on Phase 1 of the Project to the end of Q3 2019/20, of the £4.4m LGF allocation to Phase 1.
- 5.6. The Phase 2 Project was dependent on the closure of the second runway as part of the Phase 1 delivery. As the second runway has now been closed, the timing of the start of the Phase 2 works is no longer dependent on the timing of the completion of Phase 1.

## **6. Innovation Park Phase 2**

- 6.1. In February 2019, the Board approved the award of £3.7m LGF to the Innovation Park Northern Site (Phase 2) which will deliver the enabling infrastructure required to bring forward development on this section of the Innovation Park. This includes the delivery of:
  - 6.1.1. access road, with associated footpath, cycle path and public realm improvements;
  - 6.1.2. lighting and directional signage;
  - 6.1.3. new drainage piping and soakaways;
  - 6.1.4. new water main for potable water;
  - 6.1.5. electricity – ring main and secondary substation;
  - 6.1.6. gas main provision;
  - 6.1.7. trenching for and provision of fibre cabling;
  - 6.1.8. site surveys; and
  - 6.1.9. associated capital project consultancy.
- 6.2. The enabling infrastructure will support the delivery of the Masterplan, which has been developed for the Innovation Park Medway site.
- 6.3. A Local Development Order (LDO) is being developed for the delivery of the Innovation Park Medway Masterplan.
- 6.4. Approval of the LDO is subject to statutory consultees' approval. Through the first public consultation on the LDO, concerns were raised by Highways England (HE) and Natural England. HE has an interest in the Project due to the potential traffic impact of the Project on the Strategic Road Network. HE raised queries regarding the trip generation methodology and requested further modelling, beyond the scope of the Medway Strategic Transport Assessment (STA). The methodology has been confirmed by
- 6.5. At the point of funding approval, in February 2019, it was expected that the LDO would be approved by July 2019, infrastructure works would start on site in September 2019 and the Phase 2 Project would complete in December 2020.

- 6.6. At the point of the last update being presented to the Board in November 2019, it was expected that the LDO would be approved in January 2020, to enable the construction works to commence in April 2020. This timescale is no longer feasible and updated milestones for Phase 2 are set out in Table 2 below.
- 6.7. Following several letters having been sent to senior officers in HE to call for stronger engagement with Medway Council in relation to the Project, meetings have been held to agree the scope of the transport modelling which Medway Council are required to complete for the LDO, as set out in Table 2 above.
- 6.8. The transport modelling work will be used to inform the mitigation required to offset the impact of the Project on the Strategic Road Network. The mitigations work will require approval from HE and Kent County Council, as the junction itself is located in Kent. The new statutory consultee comments will also mean that a further stage of public consultation will be required prior to the LDO being adopted.
- 6.9. As a result of the additional tasks, set out in 6.8, it is now not expected that the LDO will be agreed before October 2020 and the completion of the Project will extend until Summer 2021. It is therefore now expected that a minimum of £500,000 LGF spend will extend beyond the Growth Deal period; ending on 31 March 2021.
- 6.10. The spend of LGF beyond the Growth Deal period was considered by the SELEP Strategic Board at its last meeting on the 31<sup>st</sup> January 2020. The Strategic Board have sought further reassurances around the deliverability of the Project and have asked for a further update to be provided to the Strategic Board prior to LGF spend being endorsed beyond the Growth Deal for the Project.
- 6.11. The potential requirement for mitigation works to be delivered, to offset the traffic impact of the Project on the Strategic Road Network, increases the project deliverability risk. The scope and potential cost of the mitigation works have not yet been confirmed. It is therefore unclear whether these potential works can be delivered within the available Project budget or if additional funding sources will need to be identified prior to the Project being in a position to proceed.

**Table 2 Phase 2 Project Milestones to adopt LDO**

| <b>Steps to be taken (timescale subject to statutory authorities' engagement and agreement):</b>   | <b>Duration (estimated)</b> | <b>Timescale (anticipated)</b>    |
|--|-----------------------------|-----------------------------------|
| Modelling scenarios undertaken by consultants:<br>1. Baseline - current baseline scenario <b>without</b> proposed development across the borough or the IPM. | 6-8 weeks                   | February to mid/end of March 2020 |

| <b>Steps to be taken (timescale subject to statutory authorities' engagement and agreement):</b>   | <b>Duration (estimated)</b>    | <b>Timescale (anticipated)</b>  |
|--|--------------------------------|---------------------------------|
| 2. Baseline + growth - baseline plus all proposed development across the borough. This will be used to determine the impact of the IPM and help identify the necessary mitigation. |                                |                                 |
| 3. Baseline + growth + Mitigation – baseline plus all proposed development across the borough, assuming implemented mitigation to negate the impact of the IPM.                    |                                |                                 |
| Assess and agree final mitigation design with statutory authorities based on modelling.  | 2 months                       | April to end of May 2020        |
| Amendments to LDO documentation and any further modelling required based on mitigation discussions.  | 1 month                        | June 2020                       |
| LDO updated public consultation.   | 30 days                        | July 2020                       |
| Amendments to LDO if needed based on updated public consultation.  | 2 weeks                        | Early August 2020               |
| Medway Council approvals.  | TBC dependent on meeting dates | Late August into September 2020 |
| Adoption of LDO  | TBC dependent on meeting dates | October 2020                    |
| Design of infrastructure and utility works   | 14 months                      | April 2019 to May 2020          |
| Tender and appointment process for works contractor  | 6 months                       | June 2020 to November 2020      |
| Mobilisation and delivery  | 9 months                       | November 2020 to July 2021      |

## **7. Innovation Park Medway – Northern site extended enabling infrastructure (Phase 3)**

- 7.1. A further £1.519m has been sought by Medway Council through the LGF3b process. This funding was allocated by the Investment Panel, subject to the Board being satisfied that the delivery concerns raised by the Independent Technical Evaluator (ITE) through the LGF3b process could be satisfied.
- 7.2. Phase 3 seeks to deliver enabling works on a wider section of the northern site of the Innovation Park. This aims to allow accelerated development of

commercial space and maximising the number of businesses who can benefit from establishing themselves within the North Kent Enterprise Zone.

- 7.3. Phase 3 is expected to deliver the following outputs:
  - 7.3.1. Extended access road/footpath, lighting and signage;
  - 7.3.2. Utility infrastructure including electricity, gas, fibre trenching, water and drainage;
  - 7.3.3. Primary substation; and
  - 7.3.4. Secondary substations as required.
- 7.4. Phase 3 is expected to bring forward 38,500m<sup>2</sup> (gross external area) of commercial workspace and 1,300 highly skilled jobs in the engineering and technology sector. This is in addition to the jobs which will be delivered as a result of the LGF2 funded Innovation Park Medway (northern site) – Enabling Infrastructure project.
- 7.5. The RAG rating produced by the ITE for the Project for the Investment Panel is shown in Table 3 below.

**Table 3: RAG rating for Innovation Park Medway – Extended Enabling Infrastructure project**

| Match/<br>Leverage | Scale of<br>impact | Need for<br>intervention | Value for<br>money | Deliverability | Benefits<br>realisation |
|--------------------|--------------------|--------------------------|--------------------|----------------|-------------------------|
| Green              | Green              | Amber/<br>Green          | Green              | Amber          | Amber/<br>Green         |

- 7.6. Within the accompanying report the ITE set out the reasons for the Project RAG rating, as outlined below:
  - 7.6.1. 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; however to note, the beginning of the Phase 1 works has released the runway to enable the beginning of Phase 2 works.
  - 7.6.2. The Rochester Airport – Phase 1 project was awarded £4.4m LGF in June 2016. A further £3.7m LGF has also already been allocated to the Innovation Park Medway (northern site) – Enabling Infrastructure project;
  - 7.6.3. 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;

- 7.6.4. Development partners have yet to be identified; and
  - 7.6.5. If considered as a whole scheme, the total spend on Innovation Park Medway will be difficult to achieve in the timescales.
- 7.7. In April 2019, the Board were provided with updated information from Medway Council on the delivery of the Project, including an updated schedule for the delivery of the Project by 31 March 2021.
- 7.8. In response to the concerns raised by the ITE, Medway Council have confirmed that the “However, the original business case outlined reasons of speed and economies of scale to accelerate the delivery of the jobs, by ensuring the site is ready sooner. This will allow more extensive marketing and early occupation of businesses across the site. In addition, this allows flexibility should businesses wish to locate strategically outside of the northern cluster funded by LGF3.”
- 7.9. “There are at least 35 companies that have expressed an interest in the site, the majority of which would fit the qualitative criteria of innovation and high GVA jobs. Marketing the site to confirm development partners, would happen in parallel with the adoption of the LDO and start of works”.
- 7.10. The Board resolved that Medway Council had satisfactorily addressed the deliverability concerns raised by the ITE in their initial assessment of the Project, which was presented to Investment Panel on 8 March 2019. Having done so, Medway Council were 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.
- 7.11. Medway Council have prepared a Business Case to be considered by the ITE. However, the issues in relation to the adoption of the LDO were not considered by the Board as part of this update on the deliverability of the Project in April 2019.
- 7.12. In November 2020, the report stated that, “If Highways England’s position in relation to the Local Development Order (LDO) for the Project hasn’t been confirmed by January 2020, it is recommended that the Board should consider the reallocation of the LGF3b funding at its meeting in February 2020 to the next project on the LGF3b pipeline”.
- 7.13. The LDO is now not expected to be agreed until at least October 2020 and there remain a number of activities required, as set out in Table 2, prior to Phase 2 and 3 being able to proceed. These activities create a deliverability risk as the scale and cost of the mitigation works have not yet been confirmed.
- 7.14. The Phase 3 allocation was prioritised by the Investment Panel on the condition that the deliverability issues could be resolved, and the Project would progress to delivery within the Growth Deal period, however, assurances can no longer be provided to the Board that this condition has been satisfied.

- 7.15. It is therefore recommended to the Board that the £1.519m LGF allocation to the Phase 3 Project is reallocated to the next Project on the LGF3b pipeline.

## **8. Next steps for Phases 1 and 2 of the Project**

- 8.1. The last update report to the Board on the 14<sup>th</sup> November 2019, also stated that, “depending on the outcome of discussions with HE in relation to the adoption of the LDO, the impacts on the earlier phases of the Project will need to be considered”.
- 8.2. Whilst the planning consent for Phase 1 has been secured separately from the LDO, the rationale of the LGF investment in this first stage was to unlock the Innovation Park Medway site for investment. As such, the benefits of the Phase 1 Project are dependent on the commercial space at the Innovation Park Medway materialising.
- 8.3. The delivery of the Phase 2 Project is fully dependent on the LDO being approved. The delays in approving the LDO for the development mean that it is no longer feasible to spend the full £3.7m LGF allocation to Phase 2 by the end of the Growth Deal period. The Phase 2 Project must therefore demonstrate that it meets the following five conditions for LGF spend beyond 31<sup>st</sup> March 2021:
- 8.3.1. A clear delivery plan with specific delivery milestones and completion date to be agreed by the Board;
  - 8.3.2. A direct link to the delivery of jobs, homes or improved skills levels within the SELEP area;
  - 8.3.3. All funding sources identified to enable the delivery of the project. Written commitment will be sought from the respective project delivery partner to confirm that the funding sources are in place to deliver the project beyond the Growth Deal;
  - 8.3.4. Endorsement from the SELEP Strategic Board that the funding should be retained against the project beyond 31<sup>st</sup> March 2021; and
  - 8.3.5. Contractual commitments being in place with construction contractors by 31<sup>st</sup> March 2021 for the delivery of the project.
- 8.4. It is therefore recommended to the Board, that by the Board meeting on the 3<sup>rd</sup> July 2020, Medway Council must:
- 8.4.1.1. demonstrate how the Phase 2 Project meets the five conditions set out in 8.3; and
  - 8.4.1.2. provide evidence that satisfactory progress has been made towards meeting the Project milestones, set out in Table 2 below.
  - 8.4.1.3. Provide an update on the mitigation sought by Highways England and the extent to which this will impact the overall deliverability of the Project, as set out in section 6.
- 8.5. In providing evidence that the full funding package is in place, is it expected that this evidence will include the funding to deliver the infrastructure works, set out in the Phase 2 business case and the cost of any additional works

required to mitigate the impact of the development, as agreed with HE and Kent County Council.

- 8.6. If the conditions set out in 8.4 cannot be satisfied, the Board will be asked to consider the reallocation of the £3.7m LGF award to the Project on the 3<sup>rd</sup> July 2020.
- 8.7. In November 2019, the Board resolved that they did not wish to put LGF spend on the Phase 2 project on hold until the LDO had been agreed, but the Board noted the risk to Medway Council of abortive LGF spend on the Phase 2 project, if the LDO is not approved to enable the delivery of the Project.
- 8.8. The grant conditions from central government strictly specify that the LGF must be spent on capital expenditure in delivering the Project. If LGF spend on the Project becomes an abortive revenue cost, this must be repaid to SELEP by Medway Council under the terms of the Service Level Agreement with the SELEP Accountable Body (Essex County Council).
- 8.9. Under the terms of the SLA, the Board is also required to approve any changes to the Project. As such, if any changes are made to the scope of the Phase 2 project as a result of amendments to the Masterplan and LDO, these changes must be agreed by the Board.

## **9. Financial Implications (Accountable Body comments)**

- 9.1. There remain continued significant delays in the delivery of the initial phases of this Project and this update confirms the risk raised in previous reports to the Board that the Project is now forecast to complete beyond the Growth Deal period, in July 2021. Further, the timelines set out in Table 2 above provide limited scope for slippage to meet this revised completion date.
- 9.2. 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 and potentially on future funding allocations.
- 9.3. 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.
- 9.4. It is noted that the condition for prioritisation of LGF for Phase 3 of the Project is no longer satisfied as the deliverability of the Project has been detrimentally impacted by the delay in agreeing the LDO; as a result, this funding is recommended for reallocation to the next project on the LGF pipeline. Should the Board choose not to agree this recommendation, then Medway Council would need to submit a business case that meets the requirements for funding in advance of a decision to award the LGF by the Board; such requirements include ensuring all issues with regard to the LDO are addressed; confirming that a full funding package is in place, including any mitigation works required

by HE; and that demonstrates value for money (VFM).

- 9.5. The potential requirement for mitigation works to be delivered, to offset the traffic impact of the Project on the Strategic Road Network, increases the overall project deliverability risk. The scope and potential cost of the mitigation works have not yet been confirmed. It is therefore unclear whether these potential works can be delivered within the available Project budget or if additional funding sources will need to be identified prior to the Project being in a position to proceed. Should an increase in the Project Budget be identified as a result of the mitigation works, a reassessment of VFM may be required by the ITE, alongside confirmation of the funding package.
- 9.6. Should these risks be insurmountable and Phase 2 of the Project unable to be addressed, then LGF spend on the Project may become an abortive revenue cost; in this circumstance, the LGF must be repaid by Medway Council under the terms of the Service Level Agreement with the Accountable Body. At the Board meeting on the 15<sup>th</sup> November 2019, Medway Council acknowledged and agreed to this risk, which was noted by the Board.

## **10. Legal Implications (Accountable Body comments)**

- 10.1. Any abortive costs will need to be repaid under the terms of the SLA and the processes and procedures for doing so would need to be followed.

## **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 the 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 it is possible to identify mitigating factors where an impact against any of the protected characteristics has been identified.

## **12. List of Background Papers**

- 12.1. Business Case for the Rochester Airport (Phase 1)
- 12.2. Business Case for the Innovation Park Medway (Phase 2)
- 12.3. Business Case for Innovation Park Medway (Phase 3)

**(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)**

| <b>Role</b>   | <b>Date</b> |
|---|-------------|
| <b>Accountable Body sign off</b><br><br>Stephanie Mitchener<br>(On behalf of Nicole Wood, S151 Officer, Essex County Council) | 6/2/20      |