



PAPER D

Purpose: For Decision

Committee report

Committee	CABINET
Date	15 FEBRUARY 2018
Title	FINANCIAL ARRANGEMENTS FOR THE DEVELOPMENT OF MARINE MANUFACTURING FACILITIES IN THE MEDINA VALLEY
Report to	DEPUTY LEADER AND THE CABINET MEMBER FOR RESOURCES AND THE CABINET MEMBER FOR REGENERATION AND BUSINESS DEVELOPMENT

EXECUTIVE SUMMARY

1. This report seeks the agreement of the Cabinet to the principle of the council acting as the developer of new marine manufacturing facilities in the Medina Valley and to instruct the director of finance and director of regeneration to investigate the financial package necessary to enable such development. Currently the primary site option for the relocation of marine industries from within Cowes harbour is Kingston Marine Park, which the council is in the final stages of acquiring from Homes England, formerly the Homes and Communities Agency (HCA).
2. Any financial arrangements will be subject to a full financial appraisal and agreement of best value.
3. There is a need and an opportunity for public-sector led intervention to prepare the site and enable the development of marine employment space in order to meet local demand and to safeguard local jobs.
4. As such the council is also working to secure private investment in the scheme to bring additional financial benefits and to help support any investment by the council in a complex scheme. Any grant support will support the provision of marine infrastructure.

BACKGROUND

5. The Kingston site is six hectares (14.5 acres) and located in a riverside position approximately one mile south of East Cowes town centre. The site is partly serviced with the net development areas extending to four hectares (ten acres).
6. The council's Executive agreed, in December 2016, to purchase land from the HCA at, Kingston Marine Park (KMP) and Island Technology Park (ITP), in order to secure

its contribution to increasing the future prosperity and sustainability of the Isle of Wight, provided that the purchase price is at **'best value'** to the council.

7. The council will acquire Kingston Marine Park to safeguard the land for employment purposes and to provide an opportunity to relocate and safeguard the marine businesses as key, long-standing large-scale regeneration projects with-in Cowes harbour move into the delivery phase.
8. Kingston Marine Park (KMP) was inherited by the Homes & Communities Agency (HCA) under the national Regional Development Agency 'Economic Assets' programme.
9. The HCA has continued to invest in the infrastructure of the site however, given the levels of investment made in the site to date, and with a changed corporate focus on housing delivery, the HCA is unable to fund further marine infrastructure works and the provision of marine industrial units. In addition the site has been marketed as a development opportunity over the past ten years with little interest, largely due to the costs associated with the provision of a hoist dock facility.
10. The proposed hoist dock design is complex given the extent of intertidal mud, with a requirement for a dredged channel and with all the high-level environmental designations. As such the costs of providing this infrastructure alone is forecast to be in the region of £4 million.
11. The River Medina forms the western boundary of the site and areas of intertidal mud are variously designated as a Site of Special Scientific Interest (SSSI), a Special Protection Area (SPA) and a Special Area of Conservation (SAC). These environmental designations add complexity to the consenting and licencing processes.
12. All of the stakeholders in this project are supportive of the need for safeguarding marine related employment and business in this key sector for the local economy.
13. In addition in light of the significant threat to local employment, and with the on-going constraints linked to the Kingston site, all stakeholders consider it necessary to continue to assess any alternative site options to deliver the required marine infrastructure at a lower cost, if external grant funding is not available to support infrastructure costs on KMP.
14. KMP, as with many water-side sites, has been more costly to design and gain planning consent. The topography of the site also added costs in terms of groundworks and servicing. Finally in development, infrastructure provision also adds additional abnormal costs. For these reasons the investment rational for the site, in isolation, has been considered as being unviable. In this context a public sector intervention is deemed to be necessary, with any investment needing to be viewed in a wider strategic and longer-term context.

15. A key issue for the project leads has been to identify a mechanism by which the fundamental financial and commercial viability of this marine scheme, with abnormal costs, with environmental constraints and with additional infrastructure requirements, can be overcome.
16. The viability issues linked to the development of a marine park need to be addressed to safeguard local economic activity and jobs. The overall strategic approach has been to identify a development model based on a public sector intervention, with benefits to private investors and by adopting a longer-term view. A new marine park is only viable over a 15 year time-frame and then, only if business rate gains are inputted into the residual land value position.
17. In considering this scheme the council will need to assess any long-term commercial benefits against medium to long-term risks, particularly around marine sector demand and consider if the level of borrowing required to meet total development costs, at the outline phase, is acceptable.

STRATEGIC CONTEXT

18. The Isle of Wight Regeneration Programme is kick-starting, coordinating and managing a range of priority projects and work-streams aimed at driving regeneration, economic growth and delivering place-making benefits.
19. The Regeneration Programme is intended to be delivered in line with the council's current related strategies and plans in particular the medium term financial strategy (MTFS), Island Plan Core Strategy and Economic Development Action Plan.
20. As one of the key economic areas on the Island, the council aims to facilitate the development of additional employment space in the Medina Valley through infrastructure improvements, where these are required to unlock private sector investment. The council recognises that development may require a public sector role to support infrastructure investment and in delivering a marine park to safeguard marine sector employment. Further infrastructure funding is required, in part, justified against the need to support waterside regeneration investments in Cowes Harbour.
21. Regeneration schemes in Cowes harbour include the Victoria Marina development, Red Funnel's East Cowes town centre scheme and the Harrison Trust's proposed redevelopment of Medina Yard. The combined value of these schemes is in excess of £150m and providing new homes, transport infrastructure, public realm benefits and jobs.
22. The Solent's marine and maritime sector is one of the area's largest sectors, accounting for 20.5 per cent of Solent's GVA, providing 40,000 jobs locally, and supporting more than 3,000 businesses. Over the period to 2025, the marine and maritime sector in the Solent region is forecast by the Solent Local Enterprise Partnership to grow by at least 5 per cent.
23. The financial challenge facing the council is the biggest risk to sustainable local authority services on the Isle of Wight. The council's medium term financial strategy (MTFS) provides it with an opportunity to secure its financial position. In order to make the most of this opportunity the council must seek to grow its tax base (council

tax and business rates), by increasing the prosperity and sustainability of the Island community, based on the pillars of regeneration, growth and productivity.

24. The MTFSS recognises the council cannot sustain key services to the community in the longer term, purely by making further savings. It therefore sets out a fundamental policy shift to invest resources, in order to generate income/revenue directly, through increased council tax, business rates and financial receipts from the sale/use of its assets. The acquisition and development of HCA employment site assets provide an opportunity to support this policy position.
25. The Council's Corporate Plan 2017-2020 key objectives are:
 - Create opportunities for all
 - Deliver economic growth and prosperity
 - Preserve our environment
 - Protect our community
 - Plan for our future needs
 - Provide sound financial management

The development at KMP contributes directly to four of these objectives and indirectly to the other two.

CONSULTATION

26. A stakeholder group has helped inform the development of the council's position in taking a necessary lead on the project and a recent meeting of relevant members to discuss the project and options for implementation recommended the KMP development be prioritised. The stakeholder group also recommended that the council investigate alternative site options in Cowes harbour in light of the on-going infrastructure and licencing constraints on KMP.
27. The Leader and Cabinet member for Business Development & Regeneration have also met with the stakeholder group. Representations have also been made to the Solent Local Enterprise Partnership. Members of the stakeholder group and political leaders have also made high-level representations to the Department for Business, Energy and Industrial Strategy and the Ministry of Housing, Communities and Local Government.
28. The stakeholder group includes senior representatives from Wight Shipyard, Cowes Harbour Commission, the Homes & Communities Agency (HCA) Aluminium Marine Consultants (AMC), Red Funnel, Victoria Quay Estates Limited and Red Ensign Limited.
29. A wide ranging consultation was also undertaken by the South East England Development Agency and more recently by the HCA with regard to various planning submissions. Views have also been sought from statutory bodies including the Environment Agency, Natural England and the Marine Management Organisation.

FINANCIAL / BUDGET IMPLICATIONS

30. The outline business case indicates the potential finance arrangements being investigated to fund the project. Requests for grant support and accessing funds by borrowing from the Public Works Loan Board (PWLB) are key elements to the potential funding arrangements, alongside private sector investment partners, through a development financing model.
31. The project presents a level of risk in that the projected income without infrastructure grant support provides a marginal return. The project and financial benefits have to be viewed over the longer-term, more as an infrastructure investment. In addition borrowing costs have to be serviced, potentially from a constrained revenue budget if rental income streams are disrupted. The impact of potential rental voids need to be factored into the full financial appraisal.
32. Weighed against this is the need to secure jobs in the marine manufacturing sector, to underpin its future growth and the local NNDR tax base, whilst also providing high quality future employment opportunities.

CARBON EMISSIONS

33. The project has no direct impact on Council's Carbon Management Plan however the creation of a new marine park has the potential to support markedly reduced industrial carbon emissions.
34. Any new marine park at Kingston offers the opportunity to provide modern industrial accommodation, on-site renewable energy generation (Solar PV), grid-scale battery storage, energy efficiency measures, EV charging points and waste disposal.

LEGAL IMPLICATIONS

35. The Council has already agreed to purchase the site by way of separate Cabinet decision. Powers of acquisition of land are conferred on the council by the Local Government Act 1972, under Section 120.
36. This paper seeks to confirm that the council should explore further the potential for the council to act as developer of this site to enable it to be developed. If the Council proceeds to commit to the development of this site then this will be subject to a further decision.
37. If the level of borrowing or funding is out with the budget envelope then this decision may also require full council to approve the financial package.

PROPERTY IMPLICATIONS

38. Property implications and agreed land value in acquiring Kingston Marine Park have been assessed and approved by a surveyor within the Strategic Asset Management team. Development advice has also been provided to the council by an independent development surveyor.

39. Due diligence on the site has been completed, in conjunction with the Strategic Asset Management team. A risk register has been completed based on the full 'Developers Pack' provided by the Homes and Communities Agency.
40. External professional advisors have also provided an 'Order of Cost Estimates' on KMP. Cost estimates have also been commissioned on alternative site options.
41. The council will also need to consider options for the management of any construction contracts. One option open to the council is to procure an 'intelligent client' function to assess and support delivery options. This approach allows the council to procure external expertise to support construction delivery, with limited internal resources.

OPTIONS

42. Option 1 is to agree the principle of the council acting as the developer of new manufacturing facilities in the Medina Valley to safeguard local jobs and instruct the director of regeneration and director of finance to investigate the assembly of the necessary funding package to enable the development.
43. Option 2 is to not act as developer.

RISK MANAGEMENT

44. Five development options and a number of different delivery options have been assessed in the outline business case (OBC) using Treasury 'Green Book' model, assessing each option against strategic, economic, commercial, financial and management cases.
45. A preferred option for development has identified as being the scheme that most closely reflects the current level of local marine sector market demand. The preferred 'heavy duty' marine scheme includes the provision of infrastructure, a hoist dock and further site works, piled hardstanding, to enable the construction of vessels equivalent in size to the new Red Jet 7 or next generation wind farm support vessels.
46. The projects stakeholder group has also advised the council to consider any other feasible site options in Cowes harbour. This provides the opportunity to compare the costs of delivering different site options and therefore alternative or an additional option to provide waterside commercial premises.
47. In terms of delivery options a hybrid approach is preferred with the council acting as developer and working with a financial partner rather than a development partner. In attracting private investment to support delivery, with-in an established funding model, the partners can procure a construction partner and negate developer profit. Strategically this approach has the potential to allow the partners to partially address any infrastructure deficit.
48. The council has commissioned a risk register for the site, based on the 'Developer Packs' information provided by the HCA and all historic planning submissions.

49. A key risk for the council in delivering the hoist dock infrastructure is marine licencing as the Marine Management Organisation (MMO) still needs to grant a variation to the original licence.
50. In considering this scheme the council needs to assess any long-term commercial benefits against medium to long-term risks, particularly around marine sector demand and consider if the level of borrowing required to meet the total development costs, at the outline stage, is acceptable.
51. To safeguard rental streams the council will need to utilise mechanisms such as lease guarantees.
52. The council will shortly agree heads of terms with prospective tenants, to give certainty with regards to income and before a financial package is agreed.
53. In terms of delivery the council has identified a procurement policy approach based on the 'intelligent client' model that will enable the council to procure professional support in the management of a construction contract. This approach will also allow for development and delivery risks to be independently assessed and managed.
54. A risk register has already been developed for the site acquisition and development phases. The risk register was prepared for the council by external risk specialists.
55. The project is currently being subjected to a full financial appraisal with-in which financial risks will be fully considered.

EVALUATION

56. A 'do-nothing' option was discounted as the council plans to utilise the site for employment purposes. The main strategic objective is to deliver a new marine park scheme at Kingston or if necessary on an alternative site if Kingston proves to be undeliverable or simply too costly without infrastructure grant aid.
57. Ultimately the council will acquire the Kingston site to safeguard the land for employment purposes and the investments made in the site to date by the HCA and regional development agency. The need for a public sector intervention has been identified in the OBC, with the council acting as the developer of a new marine park facility.

RECOMMENDATION

58. Agree the principle of the council acting as the developer of new manufacturing facilities in the Medina Valley to safeguard local jobs and instruct the Director of Regeneration and Director of Finance to investigate the assembly of the necessary funding package to enable the development.

APPENDICES ATTACHED

59. [Appendix 1](#) - Hoist Dock Masterplan, Turley Associates

BACKGROUND PAPERS

60. Paper C – Executive Committee Report – ‘Isle of Wight Council Regeneration Programme’

<https://www.iwight.com/Meetings/committees/Executive/15-12-16/Paper%20C.pdf>

Contact Point: Chris Ashman, Director of Regeneration,
☎01983 821000 (Ext-6224) E-mail: Chris.Ashman@iow.gov.uk

CHRIS ASHMAN
Director of Regeneration

COUNCILLOR
STUART HUTCHINSON
*Deputy Leader
and Cabinet Member for Resources*

COUNCILLOR
WAYNE WHITTLE
*Cabinet Member for
Regeneration and Business
Development*