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To: Mr Paul Carter, Leader of the Council

Date: 05 March 2007

Subject: ESTABLISHMENT OF A JOINT VENTURE VEHICLE  
INCORPORATING THE COUNTY COUNCIL'S LANDHOLDINGS  
AT MANSTON PARK, MANSTON, THANET

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- 1) In June 2006, the County Council acquired 27 hectares of land at Manston Park, also known as the Kent International Business Park, from the Administrators of Planestation plc, under Decision reference 06/00826. This action reflected the opportunities which the site offers in terms of regeneration and economic return on KCC's investment as well as the significant public sector investment in establishing the site in the past decade.

### **Background to the Acquisition**

- 2) In the mid 1990s, as part of the East Kent Initiative, three major employment sites/business parks were identified as having a key role to play in addressing the economic development and employment issues prevalent in Thanet. The three sites were: Thanet Reach, now mostly developed, Eurokent (aka Rose Farm), which has been partially developed and Manston Business Park, the largest of the three sites, which at the time was controlled by Wiggins Plc, re-branded as Planestation Plc, who subsequently also owned and managed Manston airport. See Figure 1 for the location of the latter two sites.
- 3) At the time, the major issue in bringing forward Manston for development was that the cost of providing the basic enabling infrastructure exceeded the value of the land generated by the proposed development. To address this issue, a Participation Agreement was entered into between Wiggins, Thanet District Council, KCC and English Partnerships under which 80% of the cost of the infrastructure provision was met by way of grant by the Public Sector signatories to the Agreement. The value of the grant was £5,263,000, the majority of which was funded through the European Regional Development Fund and the Single Regeneration Budget. KCC's contribution was the construction of the major off-site highway works, at a cost of £1,517,000. The Public Sector's interests in the implementation of the infrastructure works were jointly managed by Thanet District Council and the County Council.

- 4) At the time of the Participation Agreement, the land under the control of Wiggins extended to about 110 acres having a net developable area of around 55 acres, and the infrastructure provided was of sufficient capacity to service the net developable area. The infrastructure works were satisfactorily completed in 1997, but in terms of business space development, other than complying with the minimum specified requirement under the Participation Agreement, Wiggins did little to bring the land into development. As a result, only three business premises have been constructed, the largest of which is the Cummins Power facility. This facility is currently being extended by the owner occupier.
- 5) In the Spring of last year, the opportunity arose to acquire the undeveloped area of Planestation plc's holdings at Manston Business Park from the Company's Administrator. Although there was competing interest from the private sector, there was a risk that a speculative developer could land bank the site for a number of years and stymie the development of a key Thanet Central Island employment site in which the Public Sector already had a substantial financial interest. In order to protect this interest, therefore, and to ensure that the land was brought forward for development as intended, the County Council acted quickly and submitted an offer of £5.35m to purchase the land. The offer was accepted and the sale was completed on 16 June. The Corporate Property Enterprise Fund has financed the acquisition of the site.
- 6) A total of 27 hectares (almost 70 acres) of land was acquired. Of this, as previously masterplanned, approximately 35 acres are intended for business space development within commercial use classes B1 (office), B2 (general light industrial) and B8 (storage and distribution). The balance of the land comprises of the physical infrastructure, including substantial surface water balancing ponds and extensive belts of landscaping.

## **Vision and Objectives**

- 7) The following vision statement and objectives for the County Council's ownership were developed by us and agreed by the Cabinet Member for Regeneration & Supporting Independence:

### Vision

*"To act as a significant impetus to the regeneration of the Thanet and wider East Kent economy by the provision of high quality employment land, and in turn high quality jobs, in a phased and co-ordinated manner. To provide a return on KCC's capital investment both in real terms and by ensuring high quality development is brought forward. To allow an opportunity for rationalising the KCC Estate by relocating some of its operations to the site creating efficiency savings and potential for disposals elsewhere. Furthermore, to reflect KCC's commitment to quality design and sustainability in the development which is brought forward."*

### Objectives

- To bring forward quality commercial development in conjunction with the private sector which will realise high added value employment opportunities. These jobs will be in sectors to be identified but which would benefit from the Park's location, particularly its close proximity to the airport at Manston;

- To provide a return on KCC's capital outlay. However, an assessment will not be made through a straight profit-and-loss accounting system. KCC's investment in the site is likely to be a long-term one (although this may in time be delivered through an arms-length delivery vehicle) and build-out of the site is expected to be over a 5-10 year period. Returns to KCC will need to be measured over the course of this time period and the added value that enhanced employment opportunities bring to the East Kent economy;
- To provide an opportunity for rationalising KCC's office estate in East Kent, or for relocation of back-office functions occupying more valuable real estate or office space elsewhere in Kent. Any development that comes forward for KCC uses will be required to demonstrate a similar level of high quality design and sustainability standards to the other commercial development, irrespective of its method of delivery (eg as owner-occupier or part of a private sector joint venture partnership).

### **Masterplanning and progress to date**

- 8) Consultants DTZ were commissioned from the Property Group's Framework list to produce a masterplanning study and recommendations on delivery, based upon the vision statement and objectives set out above. The aim of the masterplanning was to produce an overall site development framework that maximised the development potential of the available land. It sought to sub divide the site into sensible plot sizes that can be released in a phased manner to meet all sectors of demand: eg sites for owner occupation, speculative development, bespoke development for rent. The efficient use of infrastructure, available utility services and development thresholds, and demand assessment were all significant factors in the masterplanning process.
- 9) The study was completed at the end of January and its indicative land use plan is attached at Figure 2. It proposes a mix of office and industrial / distribution uses on the land in KCC's ownership, in response to our aspirations and local market conditions. It is intended to strike a balance between flexibility of end use, the potential to add value through attraction of higher value uses (such as office) and the prevailing commercial market in Thanet. Higher value uses, such as B1 office, would be located towards the front of the site. A range of supporting uses including A1 and A3 (retail and catering / food) are proposed to support the workforce on the Park as it grows.
- 10) There is some work underway in relation to the assessment of off-site utilities infrastructure provision (water supply and foul drainage), funded by the East Kent Spatial Development Company. But the DTZ study concludes that KCC can deliver development on its landholding at Manston Park and return both a financial return on investment as well as considerable benefits to the Thanet and wider East Kent economy, as shown in the table below.

**Table 1: Assessment of Economic Benefits of development at Manston Park**

| Use          | %age of developed floorspace | Estimate of gross no. of jobs created | Estimate of GVA per annum (£millions) |
|--------------|------------------------------|---------------------------------------|---------------------------------------|
| Office       | 15                           | 624                                   | 14.2                                  |
| Distribution | 49                           | 645                                   | 27                                    |
| Industrial   | 36                           | 706                                   | 21.3                                  |
| <b>Total</b> | <b>100</b>                   | <b>1975</b>                           | <b>62.5</b>                           |

Source: Manston Park Masterplan, DTZ, January 2007

11) Since the site was acquired, essential health & safety measures have been enacted and processes for the efficient management of the site in the longer term have been put in place. The existing occupiers on the site (such as Cummins plc and Air Atlanta) have obligations to pay service charges to KCC as majority landowner and discussions are ongoing to establish a framework for estate management.

### **Options for Delivery**

12) With an agreed masterplan and the efficient estate management in place the County Council needs to decide the most appropriate mechanism for delivering development at Manston. The DTZ study discusses the following options:

#### Disposal of development plots via freehold sales.

13) Since identified demand is mainly for owner occupiers this would generate some immediate return on KCC's investment, but would not represent a sustainable long-term source of income, one of the aspirations behind the acquisition.

#### Disposal of the entire holding via a freehold sale.

14) This would have the advantage of a potential immediate return on investment but again would not facilitate a long-term source of income to the Council. It would offer no prospect of gains in the longer-term due to uplift in the value of land at Manston as a result of success in the early phases of development and resultant regeneration benefits.

#### Joint Venture Partnership with private sector developer or other public sector organisation.

15) If KCC were to identify JV partner(s) to undertake some speculative commercial development on the site it would offer the potential of generating the greatest return on investment, but at higher risk than options a) or b) above. It could generate a longer-term revenue stream through leasehold deals although many end users in the market today favour freehold.

16) As part of the process of identifying the most appropriate mechanism for delivery, discussions have been held with Thanet District Council, owners of approximately 50% of the land at the nearby Eurokent Business Park. Out of these discussions has arisen a proposal to pool both authorities' landholdings in a single Joint Venture mechanism, as set out below. The resultant JV vehicle would be a powerful force in regenerating Thanet as well as a useful source of ongoing income to each partner authority.

### **Eurokent Business Park**

17) The Eurokent Business Park, close to the Westwood Cross Retail centre, is another of the major Thanet Central Island employment sites which date from the 1990s (see figure 1 for location). Whilst development at Eurokent has proceeded further than at Manston, it is still only part developed. Thanet DC owns the southern half of the site, with the northern half owned by a private sector developer, Rose Farm Estates. TDC has recently severed a joint venture agreement with Rose Farm due to the lack of progress in bringing the business park forward for development. Current proposals for the site and surrounding development are shown on figure 3. KCC owns a small area of land at Eurokent, the greater proportion of which will be transferred to the Marlowe Academy for development of an Innovation Centre.

18) Development of the Eurokent site is dependent upon the construction of a new access road across it, as shown on figure 3, which would also act as a bypass for the existing Haine Road. The total estimated cost for construction of the access road is £5.45m. This is to be funded from the value of the site, with the exception of a contribution of £0.5m to be made from EU ERDF funds in relation to the development by SEEDA of commercial starter units / grow-on space (figure 3). There is a requirement that this funding is spent and claimed by March. The programme is tight and progress must be maintained to meet these objectives. The construction of East Kent Access Phase 2 will further improve the local highway network.

19) KCC has indicated informally to Thanet District Council (TDC) that it would be willing to forward fund the remaining costs of constructing the road scheme, in return for a guarantee of the return of the funding in due course.

20) KCC and TDC have jointly commissioned consultants DTZ and the London Planning Practice to undertake a masterplanning study of Eurokent, as with the Manston Park study outlined above. This study is due to be completed at the end of the month (March 2007).

### **Key Features of Joint Venture Mechanism**

21) There are a number of significant advantages that would arise from the pooling of the two authorities' landholdings into a single Joint Venture vehicle. These include the following:

- The development of both sites can be taken forward in a complementary manner and not in direct competition with each other. This in turn will lead to more effective marketing and the ability to locate end users on the site that most satisfies their needs. This might mean concentrating office space at the more urban Eurokent with the larger industrial and / or distribution uses at Manston Park;

- The JV vehicle would be able to raise both infrastructure and development finance, using the value of the land as security. This would enable the infrastructure at both sites to be implemented and for speculative development to be undertaken without impacting on the authorities' Capital Budgets. In this way the JV vehicle would absorb the developer's profit margin;
- The JV vehicle would be able to recruit fit for purpose staff, agents and consultants to take forward the developments, without directly impacting either authority's staffing or revenue budgets; and
- There would be the opportunity for the JV vehicle in the future to expand its remit to incorporate more landholdings or partners, if agreed by KCC and TDC.

22) The advice from consultants DTZ is that the value of plots on each site in a serviced condition would be comparable. There is approximately 40 acres of developable land held by each authority. Hence it is proposed that the land would be pooled in the mechanism and proceeds drawn from it as follows:

- i) Reimbursement to KCC of the costs of constructing the Eurokent spine road, including any borrowing costs incurred; and then
- ii) A 50:50 split between KCC and TDC on all subsequent proceeds.

23) This report seeks an in-principle decision to enter into a JV vehicle with TDC. If both parties agree, then a Collaboration Agreement will be signed by officers of each authority. The detailed nature of the mechanism could be, for example, a holding company or a Limited Liability Partnership. The decision as to the nature of the vehicle would depend on a number of factors, including the likely tax burden on the vehicle and its constituent parties. This report also seeks to delegate to officers the selection of the most appropriate vehicle and negotiation of terms of contract.

24) Should the go-ahead be given, it is currently envisaged that it will take until the end of the summer to develop the detailed Joint Venture Agreement. An external set of legal advisors with considerable experience in the field, K&L Gates, have been commissioned jointly by KCC and TDC under KCC's legal services framework. It is anticipated that any JV vehicle would eventually recruit its own staff, but until then sufficient capacity exists within the E&R Directorate's Regeneration & Economy Division to support the establishment of the vehicle. Services such as accounting and legal may be contracted to KCC in the future.

## **Risk**

25) Any dealings with the property market inevitably incur some risk. The creation of the JV as an arms length vehicle would help to manage the risk to KCC in a number of ways, including lessening demands on our budgets and reduced competition in the marketplace. There is a risk that the creation of the mechanism will slow down the process of development of KCC's landholdings at Manston, due to the time involved in developing the agreement. However, as stated above, there is still essential ongoing study work on

infrastructure at Manston Park and once that has been completed it would still be possible to advance some development whilst the work on the JV also proceeds.

## **Summary**

- 26) The acquisition of our landholdings at Manston Park demonstrated a commitment by KCC to the regeneration of the Thanet economy as well as a recognition of the substantial public sector investment in the site. Whilst development of KCC's landholdings in isolation would bring significant benefits, there is now an exciting opportunity to take this further and create the critical mass for driving forward the economic development of the East Kent sub-region, through the creation of a Joint Venture vehicle incorporating Thanet District Council's landholdings at Eurokent. This would complement KCC's wider commitment to the regeneration of East Kent including the Turner Contemporary Gallery in Margate. It would also be a prime example of enhanced two tier working in operation.
- 27) The Cabinet Members for Finance and Regeneration & Supporting Independence, and the Chief Executive have all indicated their support for the creation of the JV vehicle.

## **Recommendations:**

- i) that the County Council should agree in principle to enter into a Joint Venture vehicle incorporating the County Council's landholdings at Manston Park and Eurokent, and Thanet District Council landholdings at Eurokent; and
- ii) that the Managing Director of Environment & Regeneration, the Director of Property and the Director of Law and Governance be authorised to negotiate and agree terms, including the precise nature of the vehicle, on behalf of the County Council.

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