Medway Council
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COUNCIL

18 OCTOBER 2012

GROWING PLACES FUNDING: ROCHESTER RIVERSIDE

Portfolio Holder:	Councillor Alan Jarrett, Deputy Leader and Finance
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Summary

This report seeks approval for the addition of £4.410m to the capital programme, to deliver the next phase of essential infrastructure for the Rochester Riverside Development, funded through an interest free loan, through CLG's Growing Places Funding.

1. Budget and Policy Framework

1.1 The council's policy and budget framework requires Full Council approval to increase the council's capital programme.

1.2 A decision is required to inform the timely variation of the Stage 3 works, currently being delivered by FM Conway, Medway Council's contractor, to include additional works to complete the eastern section of Southern Gateway Square, enabling this to be added to the current programme or works.

1.3 The use of Growing Places Funds has been recommended for approval by the joint Rochester Riverside management board, subject to the approval of the HCA's Board on 31 October and by Full Council on 18 October.

1.4 As a jointly owned and managed site, future capital receipts are split according to the respective organisational investment in the site, (after the repayment of any jointly agreed priority debts), with Medway Council receiving 31.4% of capital receipts, and the HCA receiving 68.6%.

2. Background

2.1 Growing Places Funding is a programme of affordable loan finance, allocated by Local Economic Partnerships, to cash flow strategic investment in development opportunities, to enable the quicker delivery of developments, which might otherwise stall, enabling economic growth through creation of new jobs and homes.

2.2 Historically the risk and cost associated with private sector developers delivering site wide infrastructure has seriously impacted upon the commercial viability of the site, with developers building in significant additional construction costs, and enhanced percentages of developer profit to address the perceived financial risk and debt servicing costs of private sector delivery of site wide infrastructure.

2.3 To counter this, Medway Council has previously approved prudential borrowing of up to £2.5m to fund site wide infrastructure, required to deliver the first phase (Phase 1Ai), in partnership with Hyde Housing.

2.4 The first phase of 74 Homes by Hyde Housing is now due for occupation by March 2013. However, the previous hesitancy of private sector developers to deliver site wide infrastructure, combined with additional costs of financing such front loaded investment, threatens the financial viability of the remainder of Phase 1A and Phase 1B of the development.

2.5 Following a successful bid to the South East Local Economic Partnership (SELEP), up to £4.410m of loan finance from CLG has been secured to invest in Rochester Riverside to deliver the next phase of infrastructure, provided through an interest free loan over 7 years.

2.6 The bid enables the delivery of the next phase of infrastructure, providing fully serviced plots, sufficient for the next 7-8 years of anticipated development, reducing the risks and costs to developers and also the required percentage of developer profit, thus increasing the resulting obtainable land values from future market sales of development plots.

2.7 As a form of loan, this will need to be repaid in full at the end of the agreed term, with staged payments over a 7 year period. Please refer to Table 1.1 below; which details the SELEP approved drawdown and repayment of the loan.

Table 1.1

	2012-13 (£000's)	2013-14 (£000's)	2014-15 (£000's)	2015-16 (£000's)	2016-17 (£000's)	2017-18 (£000's)	2018-19 (£000's)	2019-20 (£000's)
GPF Spend	452	2542	1415	0	0	0	0	0
GPF Repayment	0	0	0	0	110	130	1650	2520
Net Position	-452	-2994	-4410	-4410	4300	-4170	-2520	0

3. Options

3.1 The options available for the delivery of the remaining land within Phase 1 of the development are as follows:

a) Release development opportunities to the market, with a requirement for developers to install side wide infrastructure for the remainder of Phase 1, including roads and other public space and the provision of statutory services;

b) To deliver site wide infrastructure for the remainder of Phase 1 through further prudential borrowing, optimising the achievable land value, repaying borrowing **and** the cost of borrowing through capital receipts from the future disposal of land interests.
c) To deliver site wide infrastructure for the remainder of Phase 1 through Growing Places Funding, optimising the achievable land value and repaying borrowing without interest through capital receipts from the future disposal of land interests.

4. Advice and analysis

4.1 Due diligence undertaken through the Growing Places Funding application process included the appointment of Property Consultants GL Hearn, who were commissioned to undertake a viability assessment to define the potential increase and timing of capital receipts arising from the proposed infrastructure investment. This viability assessment was based upon development plans for the detailed consent for the remainder of Phase 1A, and on the EDAW outline master plan for Phase 1B.

4.2 Given that Growing Places funding provides an opportunity to benefit from interest free borrowing, option 3.1 b (Prudential borrowing) was not assessed by GL Hearn; instead the viability assessment examined three scenario's:

a) The likely financial profile and corresponding land value of the remainder of Phase 1A and B, without GPF Funding, assuming a 25% developer profit, associated with the risk of delivering site wide infrastructure (Unviable, results in a loss of over £2.4m)
b) The likely financial profile and corresponding land value of the remainder of Phase 1A and B, without GPF Funding, assuming a more optimistic 20% developer profit, with developers delivering site wide infrastructure. (Produces a marginal land value of £672,255)
c) The likely financial profile and corresponding land value for the remainder of Phase 1, after the proposed investment of £4.41m in site wide infrastructure by the council, through growing places (Land value £6,001,944 or £1,591,944 after the repayment of GPF borrowing)

4.3 Therefore the best option available to improve the viability of the site and the resulting capital receipts is option C, implementing site wide infrastructure through Growing Places Funding.

4.4 However the amounts above do not factor in the need to repay existing prudential borrowing associated with Phase 1Ai works previously agreed by the Board, up to a maximum value of £2.5m. Factoring in prudential borrowing and capital receipts from Phase 1, the current financial scenario is as detailed in Table 2: (cumulative infrastructure debt and capital receipts)

Table 2: cumulative infrastructure debt and capital receipts

Borrowing	
Phase 1Ai Infrastructure Costs (prudential borrowing, Phase 1Ai)	-£2,500,000
Proposed GPF infrastructure investment (Phase 1Aii)	-£4,410,000
Sub Total	**-£6,910,000**
Income	
Capital Receipts (Hyde, Phase 1Ai)	£600,000
Projected Income (Phase 1Aii)	£6,001,944
Sub Total	**-£6,601,944**
Variance	**-£308,056**

4.5 The GL Hearn assessment therefore suggests, that with infrastructure investment, the site becomes financial viable to the market, and after the additional GPF debt repayment, generates more surplus than a delivery through a private sector developer. However, this leaves a gap of £308,000 short of reaching breakeven point, when factoring in previous agreed prudential borrowing of £2.5m for the delivery of Phase 1Ai associated with the Hyde Development.

4.6 However, the report also highlights specific weaknesses within the current masterplan, on which the assessment is based, which will be addressed through the master plan, providing significant scope to increase the potential achievable land values, and thus enable a surplus to be generated, after the repayment of all infrastructure borrowing.

4.7 On 10th September 2012, the Rochester Riverside Board agreed to undertake a refresh of the Rochester Riverside Master Plan, which will seek to address specific commercial weaknesses, highlighted by the GL Hearn viability analysis for Phase 1 and to ensure that achievable land values increase.

4.8 For example, the GL Hearn model assumed zero capital receipt for the small budget hotel within Phase 1A, and alteration to residential would likely generate enough additional value to enable the site to be viable, if married with the proposed investment in infrastructure through GPF borrowing.

5. Risk management

5.1 Below are the principle risks associated with the proposed investment in infrastructure. A more detailed risk register is monitored by the Rochester Riverside Board and Officers Group.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Master Plan	Failure of the master plan refresh to address unprofitable areas of Phase 1, would result in potential loss, projected at £308K.	Refresh process will be supported by an appropriate property specialist to ensure this informs the emerging refresh.	2
Overspend	The proposed infrastructure is not sufficiently resourced or capital contracts lead to overspend.	The project includes a 5% contingency budget, and will be closely monitored throughout its lifecycle. A detailed independent cost estimate of proposed works has been produced by the project Quantity Surveyors.	2
OJEU Engagement of Development Partner	Failure to engage development partners leads to a delay in achieving the projected capital receipts, required to repay GPF borrowing.	The council and HCA will appoint a dedicated post to ensure the engagement of a development partner	3
Property values decrease	Property values decrease and as a result land values decrease	Refresh of masterplan to make the site more commercially viable	

6. Consultation

6.1 The Rochester Riverside Project Board, comprising of members from the Council and the Homes and Communities Agency, have considered and recommended approval, subject to respective Council approval and approval by the HCA's Board on 31 October 2012.

7. Cabinet

7.1 The Cabinet considered this report on 2 October 2012 and its recommendations are set out in paragraph 9 below (decision nos. 166-168/2012 refer).

8. Financial and legal implications

8.1 The financial implications are contained within the report.

8.2 The Council has a collaboration agreement with the HCA that sets out the division of receipts between the Council and the HCA, based on historic contributions towards acquisition and remediation of the site. The collaboration agreement will require amendment so that the Council is able to recoup the amount of the loan (to the extent that it is drawn down and used on the site) before any division of surplus takes place.

8.3 The Council will be required to enter in to a loan agreement with the lead accountable body for the Growing Place Funding (Essex County Council) detailing the terms of repayment of the loan.

9. Recommendations

9.1 The Cabinet recommends to Full Council to approve the proposed investment of £4,410,000 Growing Places Finance, to be repaid as per table 1.1, subject to the approval by the HCA Board on 31 October, confirming that any future capital receipts, (above and beyond the current priority repayment of £2.5m of prudential borrowing), be used to pay off GPF debt.

9.2 The Cabinet recommends to Full Council that the Council enter into a loan agreement with Essex County Council, as accountable body for Growing Places Funding.

9.3 The Cabinet recommends to Full Council that the Council enter into a variation of the Rochester Riverside Collaboration Agreement to ensure that the loan amount can be recouped from the proceeds of disposal, prior to the division of any surplus between the Council and the HCA.

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Background papers

None