

COUNCIL

21 FEBRUARY 2013

GROWING PLACES FUNDING: CHATHAM WATERFRONT

Portfolio Holder: Councillor Alan Jarrett, Deputy Leader and Finance

Report from: Robin Cooper, Director of Regeneration, Community and Culture

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Summary

The report seeks approval for the addition of £2.999m to the capital programme, to deliver land assembly, flood mitigation measures and the creation of public space at the Chatham Waterfront development, funded through an interest free loan via the South East Growing Places Fund.

1. Budget and Policy Framework

- 1.1 The council's policy and budget framework requires Full Council approval for additions to the Council's capital programme.
- 1.2 The South East Local Enterprise Partnership (SELEP) Board approved the use of Growing Places Funds for the Chatham Waterfront project on 7 September 2012. The SELEP Board will agree the Heads of Terms and finalise the legal agreement. The Local Enterprise Partnership Secretariat has the delegated authority to release the finance.

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 and to enable the quicker delivery of developments which might otherwise stall, enabling economic growth through the creation of new jobs and homes.
- 2.2 The Chatham Waterfront proposals form part of the wider regeneration proposals for Chatham centre. The site lies within an area covered by the Chatham Centre and Waterfront Development Brief (2008).

- 2.3 The proposals for the Chatham Waterfront Development include the construction of 159 new homes, 36,522 sq.ft of commercial space, plus significant areas of hard and soft landscaping. Planning permission for the scheme was granted in 2011, although this included provision for 111 residential units and a proposed hotel. An amendment to the current consent is required to increase the number of residential units from 111 to 159, in place of the hotel development due to concerns over its economic viability.
- 2.4 Following a successful bid to the South East Local Economic Partnership (SELEP), up to £2.999m of loan finance from CLG has been secured to invest in essential site preparation and infrastructure works at the Chatham Waterfront site, provided through an interest free loan repayable in Year 7.
- 2.5 The loan finance will fund land assembly, flood mitigation measures, and the creation of public space required to enable the development of the proposals for the site. Specifically the works comprise:
- Land Acquisition and assembly
 - Demolition and levelling
 - Land raising and Flood defences
 - Statutory Services
 - Pier refurb & Café/restaurant
 - RAFA/Gun Wharf stage 1 refurb
 - Landscaping River Walk Anchor house to Rats Bay
 - Pumping Station Improvement Works
- 2.6 The site preparation and infrastructure works will de-risk the overall site, reducing the risks and costs to potential developers and also the required percentage of developer profit, thus increasing the resulting obtainable land values from the future market sale of the site.
- 2.7 While the project will directly enable the development of the site, the improved flood defences, including the integrated river wall, has a much wider significance for the rest of Chatham Town Centre, significantly reducing flood risk.
- 2.8 As the funding is a form of loan, it will need to be repaid in full at the end of the agreed year term with staged payments over a 3-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)
GPF Spend	54	1,840	1,105	0	0	0	0
GPF Repayment	0	0	0	0	0	0	2,999
Net Position	-54	-1,894	-2,999	-2,999	-2,999	-2,999	0

3. Options

- 3.1 The options available for the delivery of the enabling works at Chatham Waterfront are as follows:
- a) Release development opportunity to the market, with a requirement for developers to undertake site preparation and infrastructure works as outlined, either as a planning obligation or as a development obligation, prior to construction of the development itself.
 - b) To deliver the site preparation and infrastructure works 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 the site preparation and infrastructure works 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 site preparation and infrastructure works investment.
- 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 two scenarios:
- a) The likely financial profile and corresponding land value following development of the site, without GPF Funding, assuming a 20% developer profit, associated with the risk of delivering the site wide infrastructure (Unviable, results in a loss of £158k).
 - b) The likely financial profile and corresponding land value following the development of the site, after the proposed investment of £2.999m in site preparation and infrastructure works by the council, through Growing Places Funding (Land value £3,439,470 or £500k 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, and therefore the preferred option, is **option 3.1(c) To deliver the site preparation and infrastructure works through Growing Places Funding, optimising the achievable land value and repaying borrowing without interest through capital receipts from the future disposal of land interests.**

5. Risk management

5.1 Below are the principle risks associated with the proposed investment in site preparation and infrastructure works. A more detailed risk register will be monitored by the Chatham Waterfront Board and Officers Group.

Risk	Description	Action to avoid or mitigate risk	Risk rating
OJEU Engagement of Development Partner	Failure to engage a development partner leads to a delay in achieving the projected capital receipts, required to repay GPF borrowing.	Sufficient time allocated in the programme to enable the procurement process. Staff member to be appointed to lead on the process.	3
Overspend	The proposed site preparation and infrastructure works are not sufficiently resourced or capital contracts lead to overspend.	The project includes a 4 - 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
Amended planning consent	Variations to the approved scheme will require an amendment to the planning consent.	To be actioned in March 2013.	2

6. Consultation

6.1 Consultation has been undertaken with the South East Local Enterprise Partnership and internally with legal, property, finance and planning teams.

7. Cabinet

7.1 The Cabinet considered this report on 12 February 2013. During the discussion on this item clarity was sought as to the agreed term for the repayment of loan, as the report referred to a 5-year repayment period whereas the bid to the South East Local Economic Partnership had been for 7 years. Members requested that this point be clarified for the report to Council on 21 February 2013.

7.2 The Cabinet agreed the following:

- The Cabinet recommended that Full Council be asked to approve the proposed investment of £2,999,000 Growing Places Finance, with the loan being repaid at the end of the 7-year period with future capital receipts being used to pay off the Growing Places Finance debt.
- The Cabinet recommended to Full Council that the Council enter into a loan agreement with Essex County Council, as accountable body for Growing Places Funding.
- The Cabinet agreed to delegate authority to the Assistant Director of Legal and Corporate Services in consultation with the Portfolio Holder for Finance to acquire third party land in the Chatham Waterfront area.

8. Financial and legal implications

8.1 The financial implications are contained within the report.

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

8.3 The loan agreement will be in a form approved by the Assistant Director for Legal and Corporate Services on behalf of the Council. There are no other legal implications.

9. Recommendations

9.1 That Council approves the proposed investment of £2,999,000 Growing Places Finance, with the loan being repaid at the end of the 7-year period with future capital receipts being used to pay off the Growing Places Finance debt.

9.2 That the Council enters into a loan agreement with Essex County Council, as accountable body for Growing Places Funding.

Lead officer contact

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Background papers

None