

## **CABINET**

**7 MARCH 2017**

### **ROCHESTER RIVERSIDE REGENERATION**

Portfolio Holder:	Councillor Alan Jarrett, Leader Councillor Rodney Chambers OBE, Inward Investment, Strategic Regeneration and Partnerships
Report from:	Richard Hicks, Director of Regeneration, Culture, Environment and Transformation
Author:	Deborah Crow, Rochester Riverside Regeneration Project Manager Jade Milnes, Principal Regeneration Project Officer

#### **Summary**

Further to the approval obtained on 8 March 2016 to award the contract or series of contracts for Rochester Riverside Regeneration to Countryside Properties PLC (“Countryside”), this report seeks approval to complete the Development Agreement, reflecting a reduction in land value to the Rochester Riverside site for the following items:

1. A specific S106 requirement to secure funding for the future repair and replacement of the river wall, as agreed at the Rochester Riverside Board (“Board”) on 10 January 2017.
2. Confirming capped values for the bid qualifications included in Countryside’s offer. This risk was identified in the original Cabinet paper under paragraph 4.1; risk number 4, financial risks, as discussed at Rochester Riverside Board on 10 January 2017. This acknowledged that both of the shortlisted developers had provided a list of assumptions accompanying their financial offers that upon the outcome of further due diligence work may increase or decrease the land value.

This Cabinet Report has been approved for submission to the Cabinet at the Rochester Riverside Board on 10 January 2017 and RCET DMT on 2 February 2017.

The Homes and Communities Agency (HCA), the Council’s partners for this development, have the flexibility within their existing approval to agree to the reductions requested, as detailed in the exempt Appendix.

## **1. Budget and Policy Framework**

- 1.1 Rochester Riverside is designated as an Action Area for redevelopment in the Medway Local Plan (2003). Policy S7 of the Local Plan states that the comprehensive regeneration of the area will be sought in accordance with a development brief, as approved by the Council.
- 1.2 In September 2014, Cabinet approved the adoption of the 2014 Rochester Riverside Development Brief and Masterplan, as a Supplementary Planning Document to the Local Plan. The Development Brief establishes a set of strategic parameters and illustrative guidance to steer the future development of the site, provides planning and design guidance to developers, and will inform future development management decisions.
- 1.3 In March 2016, Cabinet approved the award of contract or series of contracts for Rochester Riverside Regeneration to Countryside. The details of this award have changed in value and this is a matter for Cabinet.
- 1.4 A report was submitted to Full Council in April 2016, in accordance with the constitutional requirement that land and property over £500,000 be reported to the next Council meeting for information.

## **2. Background**

- 2.1 Rochester Riverside is a 32-hectare (74-acre) flagship regeneration scheme within the Thames Gateway. The site stretches from the A2 Rochester Bridge southwards to Doust Way, with the River Medway forming the eastern boundary of the site, and the high-speed rail line to central London forming the western boundary.
- 2.2 The scheme is managed in partnership by Medway Council and the Homes and Communities Agency (HCA), who jointly own the site and have invested substantial funds in land assembly, remediation, site preparation and infrastructure works to enable the comprehensive regeneration of the site. Representatives of each partner sit on the Rochester Riverside Board.
- 2.3 The key objective of the partners is to transform the area into an attractive place to live, work and play through the implementation of a substantial, high quality, sustainable, mixed use scheme.
- 2.4 Development has already begun on site. A new riverside walk and cycle way opened in 2008, making the waterfront accessible to the community for the first time in a century. The first phase of residential development was delivered on Phase 1 of the site in 2013, with the construction of 73 affordable housing units, associated infrastructure, and the creation of a new public square, the 'Southern Gateway Square' by Hyde Housing.
- 2.5 Funding of £4.4m from the Growing Places Fund (via the South East Local Enterprise Partnership) was also committed to deliver further site preparation and infrastructure works along with a 321-space multi storey car park.
- 2.6 Network Rail has created a new £26m station for Rochester, which is connected to the Rochester Riverside site via a new pedestrian subway. The new station provides increased capacity and fast journey times to Central

London (approximately 40 minutes), facilitating economic growth of the local area and the regeneration of Rochester Riverside. The station opened in December 2015.

- 2.7 At Board on 20 October 2015, it was agreed to remove the coach park from Rochester Riverside. It was also agreed to amend the site boundary, prior to the Best and Final Offers stage, to include the river walk within the developer's boundary and make the maintenance of this element of the site their responsibility. It was also noted that the river wall remained the responsibility of Medway Council and officers were to report back to Board regarding a dowry or future funding to cover the maintenance and future replacement of the river wall.
- 2.8 Over the last year, Medway Council and the HCA have been working with Countryside and their development partner Hyde Housing to agree the terms of the Development Agreement.
- 2.9 Countryside's original offer for the site included a series of qualifications that could potentially raise or lower the land value. The majority of these were known risks to Medway Council and the HCA and evidence to support the removal of these qualifications was provided by the Council and the HCA. This information has been reviewed and all parties have agreed the removal of the relevant qualifications from the development agreement.
- 2.10 Some qualifications required further investigation in the form of intrusive and non intrusive surveys. Countryside and Hyde have completed these and can estimate the residual risk and therefore the potential affect on the land value. This information has led to a number of qualifications being removed from the development agreement; however some qualifications remain which may have a cost impact on the land value. All costs are subject to scrutiny by officers at Medway Council and the HCA and the Development Agreement includes a mechanism for dispute resolution.
- 2.11 The impact on the land value requires further Cabinet approval. Details of the remaining qualifications and the affect on land value are detailed in the exempt appendix.
- 2.12 Countryside are on programme to complete their planning submission in April 2017, and as part of that application, will be the S106 agreement for the scheme. The planning application and the accompanying S106 will be a decision for the Planning Committee.
- 2.13 In Countryside's original bid, there was an assumed amount of S106 contributions, as well as a qualification which stated that if they were to increase for any reason, these would be incorporated into the financial viability and the land value could then reduce. Medway Council and The HCA would like to increase these contributions to allow for a specific allocation for the future repair and replacement of the river wall, this increase would then reduce the land value received, which is a decision for Cabinet.

### **3. Options**

- 3.1 The Cabinet is being asked to delegate authority to the Director of Regeneration, Culture, Environment and Transformation, in consultation with

the Leader and Portfolio Holder for Inward Investment, Strategic Regeneration and Partnerships, to complete the Development Agreement on the basis of the revised land value. This was a qualification of the original offer and will need to be agreed prior to the Development Agreement being completed.

- 3.2 As some of the costs referenced in paragraph 2.9 to 2.11 and the exempt appendix may not be realised until future phases of the development, the Cabinet is being asked to also delegate authority to the Director of Regeneration, Culture, Environment and Transformation, in consultation with the Leader and Portfolio Holder Inward Investment, Strategic Regeneration and Partnerships, to approve future land payment amounts in line with the revised maximum capped land value. It has been agreed with the developers that initial estimated amounts will be entered into the cashflow, but these figures will be scrutinised throughout the life of the project and will not be deducted from the land value until agreed by all parties.
- 3.3 The Board, on 20 October 2015, agreed to amend the boundary of the site plan to include the river walk within the developer's area to make them responsible for future maintenance costs to reduce revenue impacts to Medway Council. At this same meeting, Members recognised that the river wall was a responsibility that needed to remain with Medway Council, but asked officers to report back on a possible dowry or funding to assist with the future maintenance and possible replacement of the river wall.
- 3.4 Officers have reported back to Board on a number of possible options to secure funding for the maintenance and replacement of the river wall. At Board on 10 January 2017, it was agreed to request a specific S106 from the development to secure an amount of funding for the river wall. It was within Countryside's qualifications that any S106 requests above those included within their original bid would not have been allowed for within the land value offered, and so any additional amounts would need to be included within the financial appraisal and would affect the land value. This would mean that the request for a specific S106 to secure funding for the river wall would affect the land value and so approval is required from Cabinet to delegate authority to the Director of Regeneration, Culture, Environment and Transformation, in consultation with the Leader and Portfolio Holder for Inward Investment, Strategic Regeneration and Partnerships to complete the Development Agreement, with the inclusion of the S106 for the River Wall.
- 3.5 In addition to the specific S106 request for the river wall, Board members agreed to support future maintenance, to request a rent charge payable on a per bedroom basis, per property, per year, or, an agreed amount per unit type, RPI index linked, by residents of Rochester Riverside for the residential and non-residential units. This charge is not linked to the land value, but it is a matter for Cabinet to agree in principle and to delegate authority to the Director of Regeneration, Culture, Environment and Transformation, in consultation with the Leader and Portfolio Holder for Inward Investment, Strategic Regeneration and Partnerships, to agree the level of rent charges to be payable by occupiers.
- 3.6 Currently Medway Council and the HCA are in discussions with Countryside and Hyde with regards to the anticipated level of service charges to the development, and once these are known will be able to agree an affordable level for the rent charge for residents. Medway Council have initiated

discussions with the developer to look at a partial adoption of the roads on the site to enable a future Controlled Parking Zone (CPZ). This should overcome rail commuters parking on the site to avoid parking charges in the multi storey car park. If the roads are adopted on the development, this would reduce the service charges on the development, enabling a larger amount to be agreed for the rent charge and support the CPZ.

#### 4. Advice and analysis

4.1 In order to complete the Development Agreement and proceed with awarding the contract to Countryside, officers have completed investigations and surveys to reduce the risk initially reported in the Cabinet report in March 2016, paragraph 4.1, risk 4 which noted the qualifications included by the developers in their bids (see paragraph 4.1.1. below). The remaining items must stay within the Development Agreement, and so officers have done what they can to assign an amount to those elements which show the maximum amount that the land value could be affected by throughout the life of the project.

4.1.1 Details of this particular risk reported to Cabinet in March 2016 are set out in full below:

<p><b>Outline Description:</b> Both Developers have provided a list of assumptions for their financial offer, depending on whether these assumptions are correct, they could lead to a reduction, or increase in the land value.</p>
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<p><b>Plans to Mitigate:</b> The project team have allowed 3 months to complete the development agreement with the selected Developer and will review these assumptions throughout this period to ensure that they are correct and ascertain whether there is any change to the land value prior to exchange.</p>
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4.2 Officers plan to work with the developer throughout the life of the project, and it is hoped that the amounts could be reduced, but at this stage of the project it is too early to predict those amounts accurately and so this option was agreed with the developer to allow the Development Agreement to proceed with the best idea of the final outcome of this risk.

4.3 For the specific S106 for the river wall and the rent charge, this is to reduce financial pressures known to Medway Council and to give some comfort to members that the Council will not take on the responsibility for the river wall without some funding available to safeguard against future costs.

## 5. Risk management

### 5.1 Risk Categorisation

Risk	Description	Action to avoid or mitigate risk	Risk rating
Costs of qualified items may increase	Over the 7 phases of the scheme the costs associated with the qualified items may increase	The qualified items have a capped maximum amount. A lot of investigation has been undertaken to get to this stage. Medway Council and the HCA have discussed with the developer that if any further costs, in addition to these amounts, can be proven could be deducted from any future overage at the end of the development.	D3
All phases are not completed	There is a risk that if the development does not complete past a certain phase, the additional capped amount could be lost	By agreeing the actual costs on a phase by phase basis, Medway Council and the HCA's land value will only be reduced by that amount. This is why delegated authority is required to agree the amounts on a phased basis.	D3
Cost of repairs to river wall	There is a risk that the funding will be insufficient to complete works required to the river wall	A condition survey has recently been completed by JBA and these are being assessed to determine the cost of rectifying disrepairs to the river wall. An assessment of costs for ongoing surveys, inspections and maintenance works will be completed, so Medway Council will have a good idea of the ongoing maintenance costs for the wall.	D3
Replacing River Wall	There is a risk that the wall will need to be replaced in 70 years time.	Medway Council has received advice that the chances of the whole wall needing to be replaced at the same time is extremely low, and that if the inspections and maintenance is completed on a regular basis, this should expand the life of the wall. The current funding achieved for the river wall is insufficient to replace the whole river wall at the same time; additional funding will need to be secured if that should happen.	D2
Not receiving rent charge	There is a risk that residents will not pay and so funding will not be available for river wall repairs	Medway Council and the HCA have been advised that the best way of securing this charge is via a rent charge. This is included within the land transfer for the purchaser of the individual properties and will be transferred with each purchase. It will be collected once a year, similar to a Council Tax and if the resident refuses to pay, it will remain a charge on their property and they will not be able to sell their property without clearing the rent charge.	D4

## **6. Consultation**

- 6.1 The developer has completed a number of consultation events in respect of their planning application submission outlined below. Additional consultation with the public and members is planned for March 2017, but dates have not been agreed as yet.

6 September 2016	Public Consultation
9 September 2016	Briefing with Councillor Tolhurst
13 September 2016	Members Briefing
14 January 2017	Members Walkabout
17 January 2017	Castleview Business Park Meeting
March 2017	Public Consultation
March 2017	Members Briefing

## **7. Financial implications**

- 7.1 The financial implications of the recommendations are detailed within the exempt appendix.
- 7.2 As an additional note the costs incurred by the Council in project managing and delivering the Rochester Riverside scheme should be covered by the first call on capital receipts from the developer. Any additional spend by the Council against this amount should be met from the Council's share of the residual capital receipts.

## **8. Legal implications**

- 8.1 The legal implications are set out in the body of the report.

## **9. Recommendations**

- 9.1 The Cabinet is asked to agree to a reduction in the Rochester Riverside land receipt to incorporate a specific S106 request to secure funding for the river wall, and to also agree to a capped maximum amount of land reductions to cover the qualifications contained within Countryside's original offer, which will remain within the Development Agreement, as detailed in sections 3 and 4 of the exempt appendix.
- 9.2 The Cabinet is asked to agree to delegate authority to the Director of Regeneration, Culture, Environment and Transformation, in consultation with the Leader and Portfolio Holder for Inward Investment, Strategic Regeneration and Partnerships, to complete the Development Agreement on the basis of the revised land value, incorporating the river wall S106 amount and the capped maximum amount to cover the qualifications required to remain in the Agreement, as detailed in Sections 3 and 4 of the exempt appendix.
- 9.3 The Cabinet is asked to agree to delegate authority to the Director of Regeneration, Culture, Environment and Transformation, in consultation with the Leader and Portfolio Holder for Inward Investment, Strategic Regeneration and Partnerships, to approve amendments to future phased land payments once the exact costs of the qualifications are realised within a certain phase,

provided they do not exceed the agreed land reduction, as detailed in section 4 of the exempt appendix.

- 9.4 The Cabinet is asked to agree, in principle, to a rent charge to the residential and non-residential units within the development and to delegate authority to the Director of Regeneration, Culture, Environment and Transformation, in consultation with the Leader and Portfolio Holder for Inward Investment, Strategic Regeneration and Partnerships, to agree the final value of the rent charge, as detailed in section 5 of the exempt appendix.

## **10. Suggested reasons for decision(s)**

10.1 To enable the Development Agreement to be completed, so that Countryside can proceed with the Rochester Riverside development.

10.2 To secure funding for future maintenance and replacement of the river wall through a specific S106 request and a rent charge to residential and non-residential units to ensure that some funding is available.

### **Lead officer contact**

Deborah Crow, Rochester Riverside Regeneration Project Manager 01634 332498  
[Deborah.crow@medway.gov.uk](mailto:Deborah.crow@medway.gov.uk)

### **Appendices**

Exempt Appendix

### **Background papers**

8 March 2016 Cabinet Paper – Gateway 3 Contract Award – Rochester Riverside Regeneration – item 19 refers  
<https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=3168&Ver=4>