

COUNCIL

13 JANUARY 2011

ROCHESTER RIVERSIDE PHASE 1A FUNDING & PROVISION OF INFRASTRUCTURE

Portfolio Holder: Councillor Rodney Chambers, Leader

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

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Summary

Council is asked to agree an addition to the Council's 2011/12 Capital Programme in order to progress development at Rochester Riverside.

1. Budget and Policy Framework

- 1.1 Rochester Riverside is a high profile regeneration project within Medway and is of strategic importance within the Thames Gateway. The development of Rochester Riverside is identified within the Council Plan 2010-2013 and fits within the Council strategic priority of everyone benefiting from the area's regeneration.
- 1.2 Council is asked to agree a new addition of £2.5m to the 2011/12 Capital Programme with the funding to be met from borrowing and recouped in the future from land sales at Rochester Riverside.
- 1.3 The Rochester Riverside site is jointly owned and managed by Medway Council and SEEDA. There is a formal Collaboration Agreement between the two organisations, which sets out the project's decision-making process; this is managed by the Rochester Riverside Board. The Board considered the matter of the future development activity on 7 December 2010.

2. Background

- 2.1 In October 2009 the Council and its partner SEEDA, entered into an Exclusivity Agreement (EA) with Crest Nicholson Regeneration Ltd (CNR) for Phase 1 of Rochester Riverside. Although intensive negotiations over the past year resulted in approval for the design of the first 161 homes the parties have been unable to agree satisfactory commercial terms and the EA expired on 22

November 2010. The Council and SEEDA have an obligation to ensure any commercial deal is in the public interest and is best value. The ongoing impact of the economic recession and its effect on house building has meant that the parties have been unable to reach a satisfactory agreement and therefore the decision was made not to renew the exclusivity agreement with CNR.

- 2.2 Since the EA with Crest Nicholson Regeneration Ltd (CNR) expired, officers have considered how to enable development on the site and how to preserve the majority of the £4.6m HCA affordable housing grant which will be lost if it cannot be drawn down during 2010/11. Hyde Housing Group were CNR's affordable housing partner and in 2009 secured an offer of £4.6m affordable housing grant from the HCA from the scheme. They have been closely involved in the project since the Council first selected CNR in 2008. Hyde have now expressed an interest in undertaking their own direct development of the three main affordable housing blocks in Phase 1A Part I and have written to the Council setting out their proposal which was considered by Cabinet on 21 December 2010. This report is in part related to that proposal but the matters included here require separate consideration and stand alone as even if the Hyde proposal does not proceed, there is benefit in carrying out works to further derisk Rochester Riverside and recoup additional value in the future.
- 2.3 A new road, services and infrastructure are required to service the Rochester Riverside site. It is proposed that the Council would meet these costs of c£2.5m from its 2011/12 capital programme and procure the construction of such works. By doing so the Council will be facilitating delivery of affordable housing on the site and also derisking the remainder of the phase for future developers. This will add value to the site and the Council would subsequently be able to sell part of the site with benefit of the road and affordable housing. The Council will seek to agree with SEEDA, DCLG and HCA satisfactory terms to enable the £2.5m investment to be recouped by the Council, which may require amendments to the collaboration agreement and funding agreement. The exempt appendix contains an illustration of how the investment can be recouped in the event that SEEDA, DCLG and HCA agree that the Council can recoup the £2.5m as a priority return on future sales in phase 1.
- 2.4 The costs of the first part of any regeneration site tend to be disproportionately high. This is usually due to the need to upgrade off site infrastructure and due to the provision of new services. This is the case at Rochester Riverside where it is intended to provide sufficient capacity in the services and road to support future development on the majority of Phase 1.
- 2.5 The elements of work included in the budget estimate of £2.5m are as follows:
 - New road design and construction to serve Phase 1A (i) up to the boundary of Phase 1A (ii) (The phasing is shown on the attached plan)
 - S278 works (alterations to existing highways)
 - Doust Way junction
 - Doust way student access
 - Doust Way car park alterations
 - Southern Gateway square
 - Off site services
 - On site services incl. sub station
 - Sundry service media
 - Relevant hard and soft landscaping

- Design fees
- Contractor fees.

2.6 Subject to approval, officers will start to work on the design and procurement of the details in order to then select and appoint a contractor in accordance with the Council's procedures. Costs associated with the proposal in 2010/11 will be met from existing Rochester Riverside budgets including SEEDA's budget for the project.

3. Options

3.1 Officers have identified four options to progress development on Rochester Riverside. Each option is detailed below.

- a. Fund the road, services and infrastructure: this will derisk the site for future developers and enable Hyde Housing Group to drawdown and utilise the HCA grant which they have secured for Rochester Riverside. Subject to the proviso set out in paragraph 2.3 above, it is expected that the capital costs can be recouped by future land sales at Rochester Riverside, which will benefit from the works undertaken under this proposal.
- b. Secure alternative funding for the road, services and infrastructure: there are few sources of funding currently available, those that are, including EU funds, take considerable time to secure. Delays will jeopardise the use of the HCA grant.
- c. Select a developer partner who could forward fund the works: the expiry of exclusive negotiations with Crest Nicholson is partly a reflection of the difficulties developers are facing in the current economic climate. Abnormal and infrastructure costs make regeneration schemes financially problematic and it is unlikely another developer could currently forward fund these works. In addition, procurement of a new developer would need to be in accordance with EU procurement law and Council procedures and would take some time to complete. In the meantime the HCA grant would be lost and there would be little opportunity for development activity in the near future.
- d. Do nothing: The Council could leave the site until the housing market has recovered from the economic downturn. The £4.6m HCA grant would be lost and there would be no opportunity for development activity in the near future.

4. Advice and analysis

4.1 An addition to the 2011/12 capital programme is required if the Council is to fund and deliver the road, services and infrastructure to service new homes and to derisk part of Phase 1 of Rochester Riverside.

5. Risk management

5.1 The risk analysis is set out below.

| Risk | Description | Action to avoid or mitigate risk |
|--|--|--|
| Reserved Matters Planning Approval | <p>A detailed reserved matters planning permission is required by end of March 2011 to include the road alignment and other infrastructure elements. Failure to do so will result in loss of the HCA grant</p> <p>This risk is rated – C1 (significant probability, ‘showstopping’ impact)</p> | <ul style="list-style-type: none"> ▪ Application submitted by 31 Jan at the latest. ▪ Application validated as soon as submitted ▪ Regular meetings with Development Management. |
| Funding and Provision of new road and infrastructure | <p>Hyde are risking costs associated with planning and construction and require comfort that the new road and infrastructure will be funded, procured and provided by the Council. Failure to comply with this requirement will jeopardise the Hyde proposal and the HCA grant</p> <p>This risk is rated – D1 (low probability)</p> | <ul style="list-style-type: none"> ▪ £2.3m be included within the 2011/12 Council Capital Programme. ▪ A robust procurement timetable is in place. ▪ Regular liaison with Hyde to give assurances that the timetable will be met. |
| Costs | <p>There is a risk that costs will escalate and/or that the budget estimate is insufficient</p> <p>This risk is D2 (critical impact)</p> | <ul style="list-style-type: none"> • Robust design and cost management processes to be put in place |

6. Consultation

6.1 The proposal has been presented to the Rochester Riverside Project Board on 7 December.

6.2 There was considerable public and stakeholder consultation regarding the CNR proposals and this has led to an expectation that development will start at Rochester Riverside. Constructing the road and other associated works will begin to meet these expectations.

7. Cabinet – 21 December 2010

7.1 The Cabinet considered this report on 21 December 2010 and its recommendation is set out in paragraph 9.1 of this report. In addition, Cabinet agreed to delegate authority to the Assistant Director, Housing and Corporate Services, in consultation with the Portfolio Holder for Finance and Deputy Leader, to enter into any legal agreements required to ensure the recovery of the £2.5m funding.

7.2 The Cabinet also considered a report regarding a grant of lease on Rochester Riverside Phase 1A. The Cabinet agreed to grant delegated authority to the Chief Executive, in consultation with the Leader, to grant a lease or leases and any necessary preliminary agreements, of or relating to part of Phase 1A of Rochester Riverside within the area as shown edged black on the plan set out in the report, together with any associated rights, for a term of not exceeding 999 years to a company or companies within the Hyde Housing Group on the best terms reasonably achievable.

8. Financial and legal implications

8.1 The scheme is estimated to cost £2.5m and this will need to be treated as an addition to the Council's Capital Programme and reported to Full Council on 13 January 2011. The revenue effect of this borrowing is estimated at some £62,500 per annum.

8.2 The legal implications are contained in the body of this report.

9. Recommendation

9.1 The Cabinet recommends to Full Council that a sum of £2.5m be included in the 2011/2012 Capital Programme and delegate authority to the Chief Finance Officer, in consultation with the Portfolio Holder for Finance and Deputy Leader, to proceed with the prudential borrowing subject to reaching satisfactory agreement with SEEDA and DCLG as to recovering of the funding from future sales on Rochester Riverside.

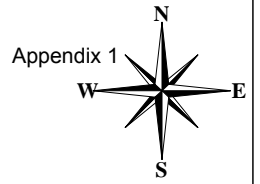
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Background papers

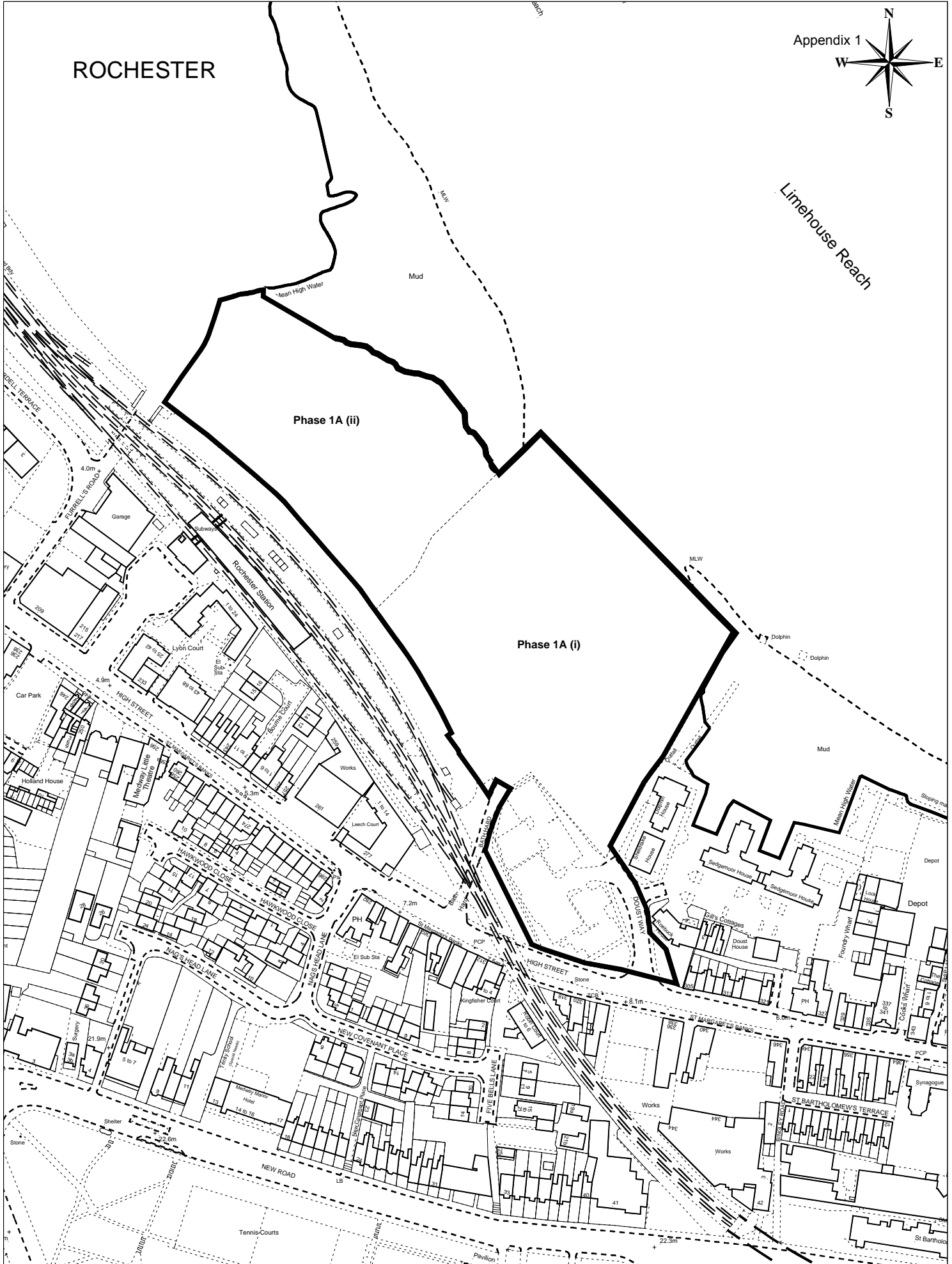
None

ROCHESTER



Appendix 1

Limehouse Reach



Rochester Riverside - Phase 1A



Scale: NTS 07/12/10

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