

Report to Accountability Board	Forward Plan reference number: FP/AB/152
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Title of report:	Rochester Airport LGF progress update report
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1. Purpose of report

- 1.1 The purpose of this report is to make the Accountability Board (the Board) aware of the latest progress on the Rochester Airport project phases 1 and 2 (the Project). The funding award of £4.4m Local Growth Fund (LGF) for phase 1 of the Project was approved by the Board on 10th June 2016.
- 1.2 The Business Case for Phase 2 of the Project has not yet been submitted for Gate 1 review by the Independent Technical Evaluator (ITE), but has been provisionally allocated £3.7m LGF.

2. Recommendations

- 2.1 The Board is asked to:
 - 2.1.1 **Note** the update on the Rochester Airport LGF Phase 1 project
 - 2.1.2 **Agree** the change to the proposed Phase 1 Project outputs as set out in Table 2
 - 2.1.3 **Note** the proposed timetable for bringing forward the Business Case for the LGF3 project (Phase 2).
 - 2.1.4 **Note** the proposed programme for delivering both LGF funded phases of the Project.

3. Background

- 3.1 Medway Council (the Council) owns the Rochester Airport site and currently leases the site to Rochester Airport Ltd., as airport operator. The Rochester Airport site is seen as one of the Council's most valuable assets.
- 3.2 The Council has a long-held ambition to deliver a high quality business, science and technology development (the Development) on part of the Rochester Airport site, as detailed in the Medway Local Plan 2003. The Development will enable the delivery of 1,300 high Gross Value Added (GVA) jobs and will help to realise the ambitious jobs target in support of local growth. The Development will be known as Innovation Park Medway.
- 3.3 Of equal importance to the Council is a commitment to safeguard the future of Rochester Airport. The airport is considered to be of increasing strategic importance, particularly given the closure and reconfiguration of other local airports. Closure of the second runway, without making any improvements to the airport infrastructure will undoubtedly threaten the future of the airport. This is due to the current poor condition of buildings on the site (despite Rochester Airport Ltd. maintaining the buildings in accordance with the lease), which directly impacts on the ability of the airport to remain viable. Current health and safety concerns relating to the poor condition of the buildings have resulted in businesses currently based on the site looking to relocate elsewhere, and pilots who store their planes at the airport looking for alternative storage locations.
- 3.4 In order to safeguard the future of the airport and to bring forward the Development, the Council submitted a request for LGF funding to bring forward the first two phases of the Innovation Park Medway project. Phase 1 of the project focusses on infrastructure improvements at the airport (Phase 1). Through the delivery of the works within Phase 1 the future of the airport will be secured, whilst releasing the land required for the creation of Innovation Park Medway. Phase 2 of the project will deliver the enabling infrastructure required to bring forward development on the newly released land, which will form Innovation Park Medway (Phase 2).

4. Phase 1

- 4.1 Phase 1 was approved by the Board on 10th June 2016, and awarded the allocation of £4.4m LGF.
- 4.2 The scope of Phase 1 as detailed in the original Business Case, was as follows:
 - 4.2.1 Provision of a hard paved runway with a parallel grass airstrip, new runway lighting and all other ancillary runway equipment;
 - 4.2.2 Provision of a new hub and control tower;
 - 4.2.3 Refurbishment of two existing aircraft hangars;
 - 4.2.4 Provision of two new hangars; and

4.2.5 New working facilities and visitor viewing facilities for the Medway Aircraft Preservation Society (MAPS).

- 4.3 Completion of these works would have allowed for the closure of one of the two current grass runways. In doing so it would release 17.07 hectares of commercially developable land for B1 and B2 uses (see areas A, B, D and E on the site plan at Appendix 1). Closure of the runway will release areas D and E for commercial development as they will be freed from the development restrictions associated with being positioned on an active flight path.

Delivery of phase 1 works

- 4.4 Phase 1 focusses on improving the airport infrastructure as required to safeguard the future of the airport and to enable the closure of the second runway and subsequent release of the land needed for the development of Innovation Park Medway. As detailed in both the Business Case and the lease between Rochester Airport Ltd. and Medway Council, Rochester Airport Ltd. will be responsible for delivering the improvement works. Rochester Airport Ltd. will also lead on the procurement process, albeit following the Public Contracts Regulations 2015 as the funding constitutes public money. It is considered that Rochester Airport Ltd. are best placed to deliver these works as they will be able to use their experience to ensure the phasing of the works is most conducive to maintaining a fully operational airport during the construction period.
- 4.5 Whilst Rochester Airport Ltd. is responsible for delivering these works Medway Council is ultimately accountable for the project. For this reason, Medway Council will employ an independent surveyor to inspect the building works undertaken prior to releasing any funding to Rochester Airport Ltd. Payments to Rochester Airport Ltd. will be made upon successful completion of key works milestones, to facilitate payment of the appointed contractor. This will ensure that the LGF funding is spent in accordance with the Business Case.
- 4.6 There are two key beneficiaries from Phase 1 – Medway Council and Rochester Airport Ltd.
- 4.7 In March 2013 an open procurement process was undertaken to appoint a company to operate the airport. The tender documents clearly indicated that funding would be available to deliver improvements to the airport infrastructure. At the end of the procurement process Rochester Airport Ltd. were appointed to operate the airport from 13th January 2014 until 12th January 2039. Rochester Airport Ltd. will benefit from the Phase 1 works for the duration of their lease period only. As Rochester Airport Ltd. have been appointed through an open and fair procurement process, there are no State Aid implications in terms of the delivery of and benefit from these works. Other potential airport operators were aware of the availability of funding to improve the airport and had the opportunity to tender to operate Rochester Airport.

- 4.8 As landowner, Medway Council will benefit from the improved infrastructure on the airport site in the long-term. All assets on the site are the property of Medway Council and upon cessation of the lease will revert to Medway Council control. Following completion of Phase 1 a fully detailed schedule of condition will be prepared and Rochester Airport Ltd. will be required to maintain the buildings inline with this schedule. The buildings will therefore be returned to Medway Council in good condition, allowing for use by the next airport operator (should this be the route chosen by the Council).

Planning application

- 4.9 In March 2017 the planning application (ref: MC/14/2914) was approved by Medway Council's Planning Committee. This application related to the 'erection of two hangars, erection of a new hangar for Medway Aircraft Preservation Society, erection of fencing and gates, formation of associated car parking areas, fuel tank enclosure, ancillary works and a memorial garden'. The airport site straddles the administrative boundary between Medway Council and Tonbridge and Malling Borough Council. As a result, depending upon the location of the proposed works, planning applications will need to be considered by one or both of the Local Planning Authorities. This planning application related to the part of the airport which sits wholly within the Medway Council boundary and therefore determination by Tonbridge and Malling Borough Council was not required on this occasion. Tonbridge and Malling Borough Council were, however, involved in the consultation process.
- 4.10 A second planning application covering the paving of the runway, construction of a new control tower and hub and associated infrastructure was submitted by Rochester Airport Ltd. to both Medway Council and Tonbridge and Malling Borough Council in September 2017. This planning application was accompanied by the required Environmental Impact Assessment (EIA).
- 4.11 A review of the application and EIA identified that the EIA did not completely fulfil the requirements of the previously agreed scoping decision. Furthermore, as part of the consultation process comments were received from Natural England and Highways England which requested that further information be provided in relation to the impact on air quality and any change in level of risk to users of the nearby high speed highway transport infrastructure.
- 4.12 Accordingly, Rochester Airport Ltd. and their consultants are currently undertaking the additional work required to provide the information requested by both organisations. However, they have indicated that the work will take approximately three to four months to complete. As a result the planning application is not expected to be determined until late summer 2018 at the earliest. Given the planning history of this project a further two months has been accommodated within the programme to allow for any potential challenge or judicial review to be considered.

Project costs

- 4.13 In addition to the ongoing issues with the planning application, officers from Rochester Airport Ltd. have indicated that costs have risen significantly since the original Phase 1 Business Case was prepared and submitted to SELEP for consideration, with inflation being a key factor given the unforeseen delays and issues encountered with the Project, impacting the budget by approximately 30%¹ (£1.3m). The cost increase may be particularly high due to the proposed use of steel within project construction. In addition, the detailed specification work has identified omissions from the original cost estimate for outputs which are required as part of the project scope. The additional £4.6m of cost associated with Phase 1 has resulted in there being considerable uncertainty regarding whether all the outputs stated within the Business Case can be delivered within budget.
- 4.14 Medway Council appointed an independent Quantity Surveyor (QS) to review the construction costs provided by Rochester Airport Ltd. to determine if there were any areas where the projected costs could be reduced. The work undertaken by the QS consisted of an initial, low risk review of the updated construction costs compiled by Rochester Airport Ltd. and their consultants. The costs calculated by the QS are subject to a full open procurement process and consideration of options for value engineering during the construction period and could, therefore, be reduced. The results of the review indicated that it will no longer be possible for Rochester Airport Ltd. to deliver all the outputs expected within Phase 1 without exceeding the £4.4m LGF award by, in a worst case scenario, up to £3.3m (excluding inflation and dependent upon the outcome of the procurement process and consideration of all available value engineering options).
- 4.15 Table 1 below summarises the results of the QS review, in comparison to the figures quoted in the original Business Case.

¹ Inflation calculated using the UK Tender Price and Building Cost Indices, as issued by Costmodelling.com dated October 2017, which is based on information provided by the Office of National Statistics. Original budget was established in Q1 of 2014, at which point the tender price indices stated 138. The tender price indices for Q1 2018 stated 177. The inflation over the period is therefore: $(177/138)-1=0.283$ (28.3%).

Table 1 – Results of QS review of construction costs

Output	Original costs ⁵	Forecast costs ⁶	Variance
Hard paved runway, parallel grass airstrip and associated works ¹	2,220,000	4,420,727	+2,200,727
Runway lighting	415,000	296,640	-118,360
Control tower and hub building (including hub extension) ²	300,000	1,271,003	+971,003
Refurbishment of two hangars	750,000	1,088,304	+338,304
Two new hangars ³	-	970,401	+970,401
MAPS working facilities	-	357,217	+357,217
Access road and car park	528,000	403,657	-124,343
Planning costs ⁴	100,000	-	-100,000
Services	-	137,886	+137,886
Total	4,313,000	8,945,835	4,632,835

¹ Forecast costs include allowance of £36,318 (including inflation) for relocation of the helipads. An allowance for the relocation of the helipads was also included within the original project costing.

² Forecast costs include allowance of £173,667 (including inflation) for the provision of an extension to the hub building.

³ Forecast costs include allowance of £523,125 for construction of hangar 5 and £447,276 for construction of hangar 6.

⁴ Planning costs not considered by the QS.

⁵ Costs as per the original Business Case.

⁶ Forecast costs as provided by the QS, including inflation at 3%.

4.16 Table 1 above shows that the construction costs have risen by £4.6m since the original Phase 1 Business Case was submitted. The reasons for this increase are:

4.16.1 Cost increases in line with the UK Tender Price and Building Cost Indices as set out above, lead to an increase of approximately £1.3m;

4.16.2 The initial costs in the original Phase 1 Business Case were preliminary estimates, as at that stage there was no technical knowledge of the scheme specification. However, following submission of the Business Case, work has been carried out to develop a more detailed understanding of the scheme requirements, which has been reflected in the QS review. Further development of the scheme specification has resulted in a cost increase of approximately £2,027,000 (£82,000 in relation to the refurbishment of hangars 3 and 4, £845,000 on the airport office/control tower/hub and £1.1m on the runway and associated infrastructure);

4.16.3 Some elements of the scheme (as detailed in section 1.5 of the original Business Case) were not costed at the time due to a significant lack of information on specification and services. Inclusion of these outputs has resulted in an increase of approximately £1.5m. These outputs, as detailed in the Business Case, are essential to the overall sustainability of Rochester Airport.

- 4.17 These cost increases have been offset by cost savings identified by the QS in relation to the runway lighting and access road and car park.

Review of project outputs

- 4.18 Following receipt of the QS report, a full review of the Phase 1 outputs has been undertaken, in conjunction with Rochester Airport Ltd., to determine which outputs are essential to ensure that the agreed Project outcomes are delivered.
- 4.19 The over-arching Phase 1 outcomes as stated in the Business Case were:
- 4.19.1 releasing the land required to allow for delivery of Innovation Park Medway;
 - 4.19.2 safeguarding the long term future of Rochester Airport;
 - 4.19.3 creating 37 new jobs; and
 - 4.19.4 safeguarding 25 existing jobs.
- 4.20 Rochester Airport Ltd. has indicated that the provision of the new and refurbished buildings is essential for their long-term survival. At present the buildings, although being maintained as required under the terms of the lease, do not compare well with rival facilities and are not well-regarded by existing or prospective tenants. This has directly resulted in the loss of staff members, and concerns have been raised regarding the ongoing viability of storing customers' planes in the hangars, which are in urgent need of refurbishment.
- 4.21 Provision of improved buildings will allow Rochester Airport Ltd. to expand their current operations, potentially incorporating those providers of flying schools which have recently been given notice by Biggin Hill airport. In addition, these works would offer improved working conditions and facilities for businesses situated onsite and would increase the tourism offer on the site by providing MAPS with an improved and more visitor friendly building.
- 4.22 Medway Council has a long-held political commitment to safeguard the future of the airport, whilst the Medway Local Plan 2003 cites part of the airport site as 'allocated for a high quality business, science and technology development comprising class B1, B2 and B8 uses'. In order to bring forward the development anticipated in the Local Plan it is necessary to close one of the two runways currently in use at the airport. Closure of the runway, without delivering any improvements to the existing airport infrastructure would result in the airport becoming unviable which, given the political commitment to the airport, would be unacceptable. Therefore, improvements to the airport are essential to enable the development highlighted in the Local Plan to be brought forward.
- 4.23 Rochester Airport is increasing in strategic importance given the recent decision by Biggin Hill airport to become a 'business jet centre' and give notice to the six flying schools which are based on their site. The number of airports in the south east which are General Aviation friendly is declining,

which increases the prominence of Rochester Airport. An All-Party Parliamentary Group on General Aviation has been established to address issues that can directly or indirectly contribute to the growth and success of General Aviation in the UK. This Group has been monitoring and showing an interest in the plans put forward by Rochester Airport Ltd.

- 4.24 Furthermore as a result of the anticipated airport infrastructure improvements the Kent, Surrey and Sussex Air Ambulance are moving their administrative headquarters onto the Rochester Airport site. Their new building, costing £2.1m, is currently being constructed with staff due to relocate from their current Marden headquarters from June. At present the Air Ambulance building will house almost 40 members of staff, however, their intention is to create further jobs onsite and their building has been designed with this in mind. In addition to the staff employed by the Air Ambulance, construction of the building has created 25 construction jobs.
- 4.25 Rochester Airport Ltd. has indicated that the airport would remain financially viable with the provision of new and refurbished buildings. The provision of a paved runway would be beneficial if it could be delivered within budget; however, the priority for the airport operator is improving the facilities onsite for customers, existing businesses and potential new businesses. Provision of a paved runway alone would not safeguard the future of the airport as without improved buildings onsite there is a significant risk that businesses would relocate elsewhere due to the existing poor working conditions. Customers would also look to move the storage of their planes to an alternative location due to the poor and unattractive condition of the existing buildings.
- 4.26 Based on the business needs of Rochester Airport Ltd. the outputs delivered by Phase 1 have been amended. Table 2 below details all the outputs included within the Project Business Case and identifies those outputs which will still be delivered under the revised project scope.

Table 2 – Change to Phase 1 Project Outputs

Output	Deliverability
Provision of a hard paved runway with a parallel grass airstrip, new runway lighting and all other ancillary runway equipment	The runway lighting will be replaced and the existing helipads relocated but no other works will be undertaken
New control tower	To be delivered
New hub building	To be delivered
Refurbishment of two existing aircraft hangars	To be delivered
Provision of two new hangars	One of the two new hangars will be constructed
New working facilities and visitor viewing facilities for the Medway Aircraft Preservation Society (MAPS)	To be delivered

- 4.27 It should be noted that one of the new hangars was purely for the purpose of storing planes and would have offered no commercial or office space which may have facilitated creation of new jobs or direct safeguarding of existing jobs. Accordingly removal of the new hangar from the project scope will not have a significant impact on the viability of the airport or Phase 2 of the project.
- 4.28 The outputs to be delivered under the revised project scope have been costed in accordance with the QS review to ensure that all the outputs can be delivered within the agreed budget. Table 3 below breaks down how the £4.4m Phase 1 budget will be utilised.

Table 3 – Revised project costing

Output	Forecast costs ¹	Spend to date	Total cost
Replacement runway lighting	296,640		296,640
Relocation of helipads	36,318		36,318
New control tower	98,732		98,732
New hub building (without hub extension)	998,604		998,604
Refurbishment of two existing aircraft hangars	1,088,304		1,088,304
One new aircraft hangar	523,125		523,125
MAPS working facilities	357,217		357,217
Services	137,886		137,886
External works ³	113,300		113,300
Preliminary costs		361,544	361,544
Project Management costs	23,317		23,317
Contingency at 10%	365,013		365,013
Total	4,038,456	361,544	4,400,000²

¹ Forecast costs as provided by the QS, including inflation at 3%.

² Phase 1 is entirely funded through LGF funding.

³ Scope of external works reduced to reflect overall change to project scope.

- 4.29 The procurement process will be carefully managed to ensure that contractors are appointed to deliver all outputs before any work commences onsite. This will provide greater certainty in terms of deliverability within budget. In addition a 10% contingency has been included within the updated project costs. Should there be any unexpected cost increases during the construction period, Rochester Airport Ltd. will be responsible for covering any cost over-run. Throughout the construction period Rochester Airport Ltd., in conjunction with Medway Council, will closely monitor the budget and spend and will take action as required, at an early stage, to address any issues which arise.
- 4.30 The lease between Medway Council and Rochester Airport Ltd. clearly states that 'the Landlord (Medway Council) shall not be required to make any further contribution to the cost of the Works in the event of: If the Landlord has previously paid £4,000,000 (being the maximum Capital Grant towards the costs thereof'. Due to the scale of the current cost over-run (in excess of

£4m) it is not considered conducive to the overall objective of safeguarding the future of Rochester Airport to enforce this clause for the current cost over-run. As a result the decision has been made to review the project outputs, rather than proceeding as set out in the original Business Case.

- 4.31 The changes to Phase 1 outputs, detailed in Table 2 above, are not expected to impact on the overall Phase 1 Project outcomes and benefits. At present it is the poor condition of the buildings on the airport site which is directly resulting in some businesses losing employees, leading to business owners investigating options to relocate their premises elsewhere. Delivery of improved buildings will ensure that existing businesses are able to retain their staff and will make it viable for them to continue to operate from the site. In addition, the improved buildings will offer Rochester Airport Ltd. the opportunity to expand their business operations, including the potential incorporation of additional flying schools, increasing the number of on-site jobs, which has already been boosted through the arrival of the Kent, Surrey and Sussex Air Ambulance administrative headquarters.
- 4.32 It should be noted that all the flying schools currently based at Biggin Hill who have approached Rochester Airport Ltd. are fully aware that there are currently only grass runways at Rochester airport. In addition, Rochester Airport Ltd. has made the schools aware that whilst there is a pending planning application for a paved runway, it is likely that this application will be amended and the paved runway will not be forthcoming. Delivery of these works will offer Rochester Airport greater security for the future, allowing the closure of the second runway, releasing the land required for the development of Innovation Park Medway in Phase 2, which will be subject to a separate funding decision.
- 4.33 As delivery of project outcomes will not be affected by the proposed change in outputs the Value for Money offered by Phase 1 is also unaffected. The Value for Money assessment within the Phase 1 Business Case considers the Project as a whole and therefore also looks at the benefits offered by Phase 2. Changing the outputs being delivered through Phase 1 will not have an impact on the Value for Money offered by the overall project.
- 4.34 Delivery of the new hub and control tower and the new facilities for MAPS will require the airport to close the second runway as these buildings will be in the current flightpath for planes using this runway.
- 4.35 Rochester Airport Ltd. has indicated that removing the paved runway from the Phase 1 Project outputs would take away one element of the scheme causing controversy among a small minority and would therefore be expected to reduce the considerable risk of challenge currently associated with the planning application. The ongoing objections to the airport infrastructure improvement proposals, and the additional work required before the planning application can be determined, stem from public safety and environmental concerns related to the development and the potential increase in flights associated with the provision of this infrastructure (although a cap in flights was suggested within the planning application). In addition, Rochester Airport

Ltd. has indicated that it was the inclusion of the paved runway which resulted in the need for an EIA.

- 4.36 Under the revised project proposals the number of flights undertaken will be dependent upon the weather conditions, as is currently the case. As the revised planning application will not incorporate any changes to the runway infrastructure, it is expected (subject to confirmation from a planning consultant) that the requirement to further investigate the impact on public safety and the environment will be removed from the planning process. However, these factors will continue to be monitored through other mechanisms including the CAA (safety) and Medway Council (air quality).
- 4.37 Rochester Airport Ltd. is in discussions with the Council, as the Local Planning Authority, regarding the requirements of the planning application for the reduced scope of works to ensure the correct process is followed reducing the risk of further challenge or judicial review. Following submission of the amended planning application there will be a further round of public consultation as part of the planning process, allowing the local community to comment on and engage with the revised proposals for the airport infrastructure improvements.
- 4.38 Based on the information provided by Rochester Airport Ltd. it is now anticipated that the amended planning application will be determined approximately three months sooner than the current application. The removal of the runway from the planning application also removes the requirement for Tonbridge and Malling to determine the application, as the runway was the only element of the works which encroached on their administrative area. Tonbridge and Malling will still be included within the consultation process so will still be able to submit their comments in relation to the proposals.

5. Phase 2

- 5.1 An allocation of £3.7m LGF has been provisionally assigned to Phase 2 of the Project. The Business Case for Phase 2 has not yet been submitted for consideration by the Board, as it is considered essential that planning consent is in place for the enabling works under Phase 1 before progressing with the Business Case for Phase 2. As soon as the planning issues currently delaying Phase 1 of the project have been resolved the Business Case will be brought forward for consideration.
- 5.2 Phase 2 will deliver enabling infrastructure to 10.79 hectares (area A on the site plan at appendix 1) of newly released commercial land. The scope of Phase 2, as detailed in the preliminary Business Case, is as follows:
 - 5.2.1 Access roads and pedestrian access infrastructure;
 - 5.2.2 Services including drainage and water provision, electrical infrastructure, gas mains and trenching and ducting for broadband fibre;
 - 5.2.3 Any required site surveys.

- 5.3 An updated Masterplan is currently being developed for the entire Innovation Park Medway Enterprise Zone. On the 9th June 2017, the SELEP Strategic Board endorsed a £161,000 revenue Sector Support Funding contribution to the North Kent Enterprise Zone, to support the development of the updated Masterplan and the preparation of the Local Development Order. The content of Phase 2 will be guided by the principles contained within this Masterplan.
- 5.4 It is essential that Phase 1 works are underway prior to the closure of the second runway, as this will provide Rochester Airport Ltd. with the conditions within which to maintain a fully operational airport during the construction works. It will be necessary for the second runway to be closed to facilitate the construction of the control tower, hub and MAPS building as these new facilities will be built on the flightpath for this runway. The provision of a new aircraft hangar and refurbishment of the two existing aircraft hangars prior to the closure of the runway will strengthen the airports operational capabilities during the construction period. It is vital to ensure that progression with Phase 2 does not in any way jeopardise the future of the airport.
- 5.5 In line with the recommendations of SELEP Strategic Board, the Business Case must be approved by the Board by the end of the 2018/19 financial year for Phase 2 to secure the provisional allocation of £3.7m LGF.
- 5.6 Given the change in Project outputs being delivered by Phase 1 it is anticipated that planning consent will be in place and any potential challenges addressed by mid to late September 2018. Therefore, the intention is to submit a Full Business Case for Phase 2 in November 2018, for consideration by the Board in February 2019. Should the planning application be more complex than anticipated by Rochester Airport Ltd. and the determination date slip, an Outline Business Case for Phase 2 will be submitted in November, with the Full Business Case following once there is more certainty in relation to planning consent for the Phase 1 works.

6. Phase 3

- 6.1 The original Phase 1 Business Case indicates that there are three phases to the project, with the suggestion that the LGF3 funding request will enable the delivery of phases 2 and 3. Phase 3 of the project focusses on bringing forward development on the southern site of Innovation Park Medway (area D on the site plan at appendix 1), through the delivery of enabling infrastructure including an access road with shared pedestrian/cycle facilities and utility ducting.
- 6.2 Since submission of the original Phase 1 Business Case further work has been undertaken to develop both future phases of the project. This work has included further scoping to establish the outputs required in order to bring forward development and more detailed construction costings. Following the development work it was concluded that the funding requested under LGF3 would be insufficient to bring forward both phases of the project sufficiently to

attract the private sector investment required to fully develop the site. As a result the LGF3 funding request now focuses solely on Phase 2 and a separate Growing Places Fund bid has been submitted in order to deliver the enabling works required to bring forward Phase 3. The jobs delivered through Phase 3 of the project will be in addition to those quoted in the Phase 2 Business Case.

- 6.3 The Growing Places Fund Business Case requests a loan of £650,000, to be used to provide the enabling infrastructure on the southern site of Innovation Park Medway. Alongside the Growing Places Fund contribution to Phase 3, the Council will be providing a confirmed contribution of £851,000 (£850,000 land and £1,000 financial contribution), alongside a projected private sector contribution of £2m. The private sector contribution has not yet been confirmed, however, there has been significant interest in developing on the site without any active marketing. It is anticipated that the Growing Places Fund Business Case will be considered by the Board in September 2018.

7. Project Programme

- 7.1 The Project programmes for both Phase 1 and Phase 2 have been updated in line with the changes to outputs from Phase 1 proposed by Rochester Airport Ltd. Phase 1 is currently expected to be complete by the end of the 2019/20 financial year, whilst phase 2 will continue until the end of the 2020/21 financial year.
- 7.2 The key milestones for both phases of the Project are outlined in Table 4 below:

Table 4 – Project Milestones

Phase 1	
Submission of amended second planning application (MC/17/3109)	Early July 2018
Determination of second planning application by Medway Council	Late September 2018
Period for potential Judicial Review/challenge	Late September to late November 2018
Procurement and delivery of hangar refurbishment, new aircraft hangar, hub building, control tower and MAPS building	September 2018 to March 2020
Closure of second runway	Between December 2018 and April 2019 (dependent upon phasing of works)
Phase 2	
Submission of Full Business Case to SELEP and ITE	November 2018
Accountability Board funding decision	February 2019
Detailed design	Mid February to late September 2019
Delivery of enabling infrastructure	October 2019 to late December 2020

8. Update on project expenditure

8.1 In light of the changes to the Project programme the spend profiles for both phases of the project have been reviewed and updated. The updated spend profiles are shown in Table 5 below.

Table 5 – Project Expenditure

£m	16/17	17/18	18/19	19/20	20/21	21/22	22/25	Total
Phase 1¹								
Current LGF spend profile*	0.179	0.243	3.588	0.390	-	-	-	4.400
Updated LGF spend profile^	0.179	0.182	0.745	3.294	-	-	-	4.400
Phase 2								
Current LGF spend profile*	-	-	0.520	1.930	1.250	-	-	3.700
Updated LGF spend profile^	-	-	0.210	1.820	1.670	-	-	3.700
Original private developer contribution spend profile ²	-	-	-	4.600	8.000	8.000	24.00	44.60
Updated private developer contribution spend profile ³	-	-	-	-	2.000	8.000	34.60	44.60
Residual land value – Medway Council contribution	-	-	-	0.370	-	-	-	0.370
Total for all phases	0.179	0.182	0.955	5.484	3.670	8.000	34.60	53.07

* As per SELEP Capital Programme Update to the Board in March 2018.

^ As included within May 2018 quarterly reporting to SELEP.

¹ Phase 1 of the project is being entirely funded through the LGF allocation.

² Private developer contribution spend profile as set out in the provisional LGF3 Business Case.

³ Updated private developer contribution spend profile to reflect the revised programme.

9. Project Risks

9.1 Whilst the proposed change in Project outputs reduces the considerable risk currently associated with the planning application, other risks associated with project delivery remain. Table 6 below sets out the key risks faced by both Phase 1 and Phase 2 as they progress.

Table 6 – Project Risks

Phase 1	
Risk	Mitigation
Costs are higher than the agreed LGF funding award	The costings provided by Rochester Airport Ltd. have been independently reviewed by a quantity surveyor in order to determine their reliability. In addition, the procurement process will be carefully managed to ensure that all the proposed outputs can be delivered within budget. Should there be any unexpected cost increases during the construction period, Rochester Airport Ltd. will be responsible for covering any cost over-run.
Rochester Airport Ltd. cannot meet any cost over-run and the liability passes to Medway Council	Medway Council have appointed a surveyor as per the lease to review work undertaken and to ensure delivery is inline with the agreed project specification. Any additions to the scope will need to be agreed prior to undertaking further works.
Public opposition to the revised proposals for the airport infrastructure improvements	The main causes of local opposition to the project was the paved runway and associated concerns regarding increased flight numbers, noise, air quality and public safety. The new proposals remove this element from the scheme along with the requirement to further investigate these concerns as part of the planning process (they will still be monitored outside of the planning arena by the CAA and Medway Council as part of their routine monitoring), it is therefore expected that there will be a significant reduction in public opposition to the planning application. The local community will be consulted on the revised proposals as part of the planning process.
Risk to the ongoing operation of the airport during delivery of the proposed works	Rochester Airport Ltd. is developing a comprehensive programme of works, which takes into account operational requirements of the airport and the required safety margin for contractors working onsite. The CAA is being consulted as required to ensure there are no issues with the airport licence.
CAA doesn't licence the new airport facilities	Rochester Airport Ltd. is working closely with the CAA to ensure that all proposed works comply with CAA licence requirements.
Phase 2	
Risk	Mitigation
Public opposition to proposed	During the Masterplan process the public will

Masterplan for the site which will influence the works proposed under Phase 2 of the project	be consulted on the proposals for the wider Innovation Park Medway site and will be given the opportunity to put forward their ideas for the site which will be incorporated where appropriate.
Costs are higher than the available funding	The costs will be reviewed and updated as part of the Business Case process to ensure that the scheme proposals are affordable. If costs rise during the construction period value engineering will be implemented as required to ensure delivery within budget. Costs will be closely monitored throughout the project.
Failure to deliver the Project in accordance with the LGF funding period	A high level programme has been produced for Phase 2 which demonstrates that the Project can be delivered before the end of March 2021. This programme will be continuously refined and updated as the project progresses, with any risks to the programme identified and mitigated as early as possible in order to avoid any delay to project delivery.
Lack of commercial interest in the Innovation Park Medway site	Even before marketing the site there has been considerable interest from companies wanting to relocate to or establish themselves at Innovation Park Medway. To support this, the Masterplan process will include some market testing to identify the commercial sectors most suitable for developing on the site.

10. Outcome of ITE assessment (SELEP Secretariat Comments)

10.1 The Phase 1 Project Business Case has been updated to reflect the update to the Project as set out above, and has been re-assessed by the SELEP ITE.

10.2 In reassessing the Phase 1 Business Case the following comments have been made by the ITE:

“In considering the Value for Money of the Rochester Airport Innovation Park scheme following these changes, it is necessary to consider the case for investment across all three phases. Phase 1 is explicitly designed to safeguard the financial viability of the airport site following the closure of one of the two grass runways which, in turn, will release 17 hectares of commercially developable land.

In isolation, phase 1 does not deliver significant monetisable benefits (safeguarding 25 existing jobs and relocating 37 jobs through construction of a new headquarters for the Kent, Surrey and Sussex Air Ambulance service). The case for investment across all three phases, therefore, hinges upon successful delivery of the Innovation

Park campus, the benefits of which are only marginally affected by the change in scope of works to the runway and hangar provision at Rochester Airport.

The business case prepared by Medway Council states that, in order to proceed with Phases 2 and 3 of the Innovation Park scheme, it is imperative that Rochester Airport remains a going concern following closure of one of its runways.

Correspondence received by the Independent Technical Evaluator from Rochester Airport Ltd (dated 1 June 2018) confirms that this will be the case, and notes that demand for engineering services and hangarage is currently suppressed by the limited and ageing facilities currently available at the airport. As a consequence, the airport will continue to operate as-is albeit with a single grass runway which, as at present, will close for three months of the year.

It should be noted that as an enabling scheme, Phase 1 in isolation offers poor Value for Money, and is reliant upon successful completion of subsequent phases of work. There is, therefore, a risk to SELEP if these phases do not proceed as planned.

On the basis of the assurances provided by Rochester Airport Ltd we do not consider the revised scope of Phase 1 to materially affect the Value for Money of the Innovation Park proposal, which continues to offer very high VfM. In turn, this suggests that the previous scope for Phase 1 may have been over-specified”.

- 10.3 The outcome of the ITE assessment confirms that the project continues to represent high value for money but the realisation of benefits is dependent upon the delivery of Phases 2 and 3 of the Project. This will require further investment, including the award of a the provisionally allocated £3.70m LGF contribution to Phase 2 and the £0.65m GPF loan towards Phase 3, along with private sector contributions (as set out in Table 5 above).

11. Financial Implications (Accountable Body Comments)

- 11.1 Delays in the implementation of this Project and the outcome of a review of the costs and specification of this Project have resulted in a significant (over 100%) increase in the expected costs for the delivery of phase 1. As this increase in cost cannot be met by either Medway Council or Rochester Airport Ltd (as set out in 4.30), this report is recommending to reduce the scope of the proposed changes to within the £4.4m funding envelope.
- 11.2 Whilst it is expected that there will be some variation in costs between an Outline Business Case and a Full Business Case, an escalation of over 100% indicates a need for a greater consideration of the Project specifications to ensure that all requirements are incorporated and costed, including appropriate consideration of inflation and level of contingency.
- 11.3 It is noted that the proposal to reduce the overall outputs also seeks to minimise the impact on the expected outcomes in the original business case. Further, it has been confirmed by the ITE that the value for money assessment (which considers the benefits across all phases of the Project) is not significantly impacted by the proposed changes; it does highlight therefore, that the original phase 1 business case seeking LGF may have

been over-specified with regards to achieving the overall benefits.

- 11.4 It is also unfortunate that some of the additional costs associated with this business case were not highlighted as a risk by Medway Council when it brought forward the Project for a decision in 2016, in particular the inflationary increases; over half of the inflation pressure of £1.3m identified in paragraph 4.13 above could have been identified at this point.
- 11.5 In determining this recommendation, it is advised that the following risks are considered:
 - 11.5.1 The value for money assessment for phase 1 is dependent on the successful delivery of phases 2 and 3, which have yet to come forward as business cases for consideration by the Board;
 - 11.5.2 The costs for phases 2 and 3 have yet to be subject to the same detailed analysis as phase 1 and as such may not reflect the funding profile as set out in table 5 above; it is noted that significant cost increases will be managed through value engineering, which may detriment the value for money assessment – in these circumstances, a further decision to agree any changes would need to be brought back to the Board;
 - 11.5.3 There is a requirement for significant private sector investment to ensure completion of phase 2 that has yet to be secured; paragraph 6.2 addresses concerns already identified by Medway Council with regard to securing sufficient private sector interest. The Board may wish to consider seeking assurances in this regard when a decision is sought on the phase 2 business case given that the LGF spend is profiled in advance of any private sector contributions.
 - 11.5.4 The private sector contribution to phase 3 has also yet to be confirmed, although it is noted in the report (paragraph 6.3) that considerable interest in the proposals has been received.
- 11.6 Should the board approve the recommendation for agreeing the proposed changes to phase 1, it is advised that further assurances should be sought on an on-going basis with regard to the projected project costs for all phases, to ensure that project outputs can still be delivered in the revised funding allocations, given that the proposals are still subject to consultation and planning approvals. In particular this should be considered at the point that the phase 2 business case is brought forward for funding approval as the benefits for this scheme have already been taken into account in the value for money assessment of phase 1 of the business case.
- 11.7 Should the board chose not to approve the recommendation with regard to phase 1, Medway Council will need to consider the options for the scheme, which include:
 - 11.7.1 Progressing with the scheme at the increased cost; the additional funding would need to be identified by Medway Council to support this and would potentially require a reassessment by the ITE

- 11.7.2 Reviewing alternative options for the scheme and return a revised proposal to the board – this may also be subject to a further ITE to meet the Assurance Framework requirements
 - 11.7.3 Closing the project – in this circumstance, any LGF spend on the scheme to date may need to be returned under the terms of the SLA in place with the Accountable Body
- 11.8 It should be noted that any funding agreed by the Accountability Board is dependent on the Accountable Body receiving sufficient funding from HM Government. Funding allocations for 2018/19 have been confirmed, however, funding for future years is only indicative.

12. Legal Implications (Accountable Body Comments)

- 12.1 There are no legal implications arising from this report.

13. Staffing and other resource implications (Accountable Body Comments)

- 13.1 None at present.

14. Equality and Diversity implications (Accountable Body Comments)

- 14.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 14.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 14.3 In the course of the development of the project business case, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision making process and were possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

15. List of Appendices

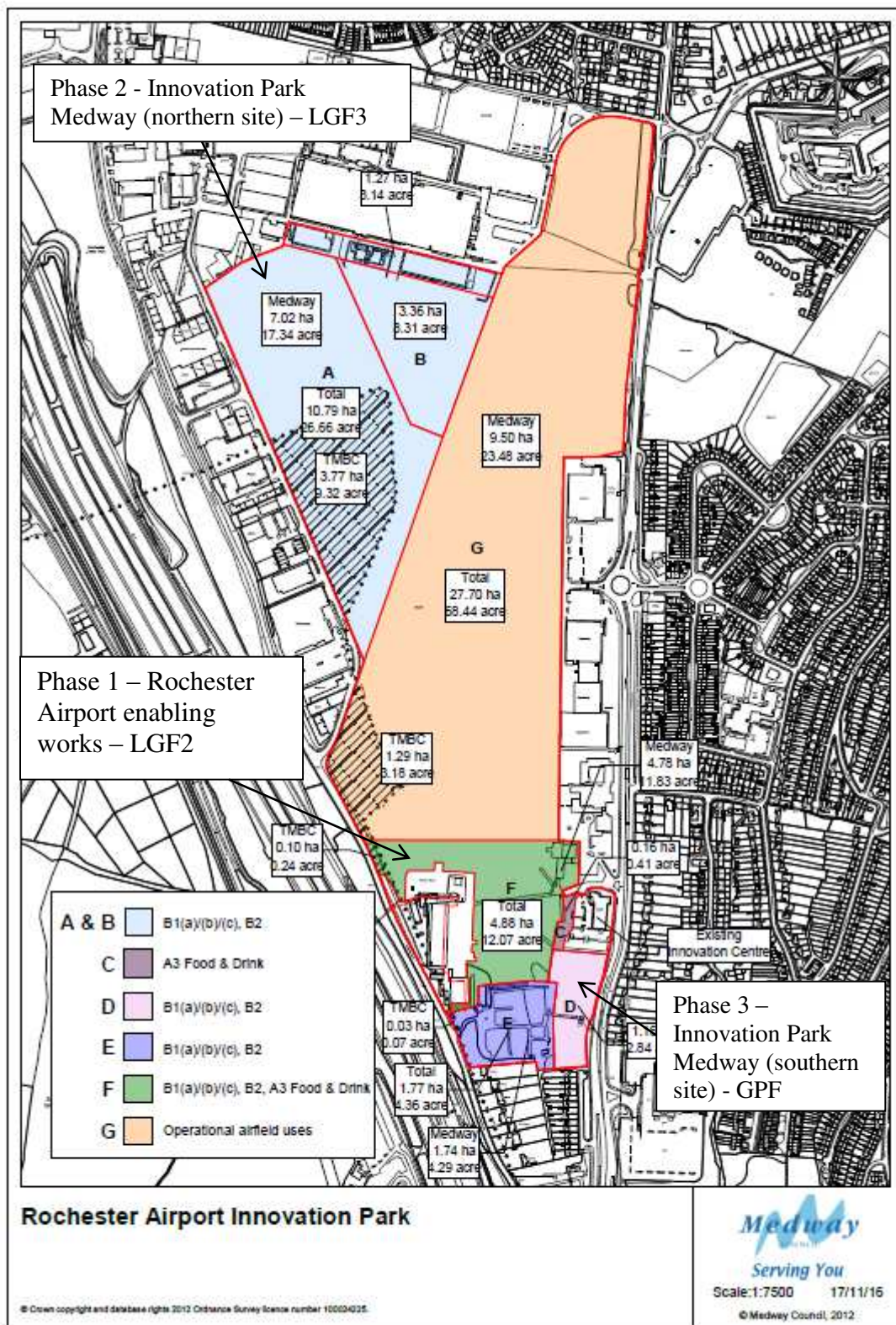
- 15.1 Appendix 1 – Rochester Airport site plan
- 15.2 Appendix 2 – Rochester Airport updated Business Case

16. List of Background Papers

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	Date
Accountable Body sign off Stephanie Mitchener (On behalf of Margaret Lee)	 7/6/18

Appendix 1 – Rochester Airport site plan



[illegible]

- Refurbished hangar 4