

Policy and Resources Committee

28th June 2017

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Update on the Maidstone East project

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Head of Regeneration and Economic Development
Lead Officer and Report Author	John Foster, Regeneration and Economic Development Manager
Classification	Public
Wards affected	North

This report makes the following recommendations to this Committee:

1. To note progress against the short term holding strategy and approach to the master planning and redevelopment work.

This report relates to the following corporate priorities:

- Regenerating the town centre: through the regeneration of the Maidstone East area.
- Promoting a range of employment opportunities and skills required across our borough: from the business and retail development on the site.
- A home for everyone: from the residential development of the site

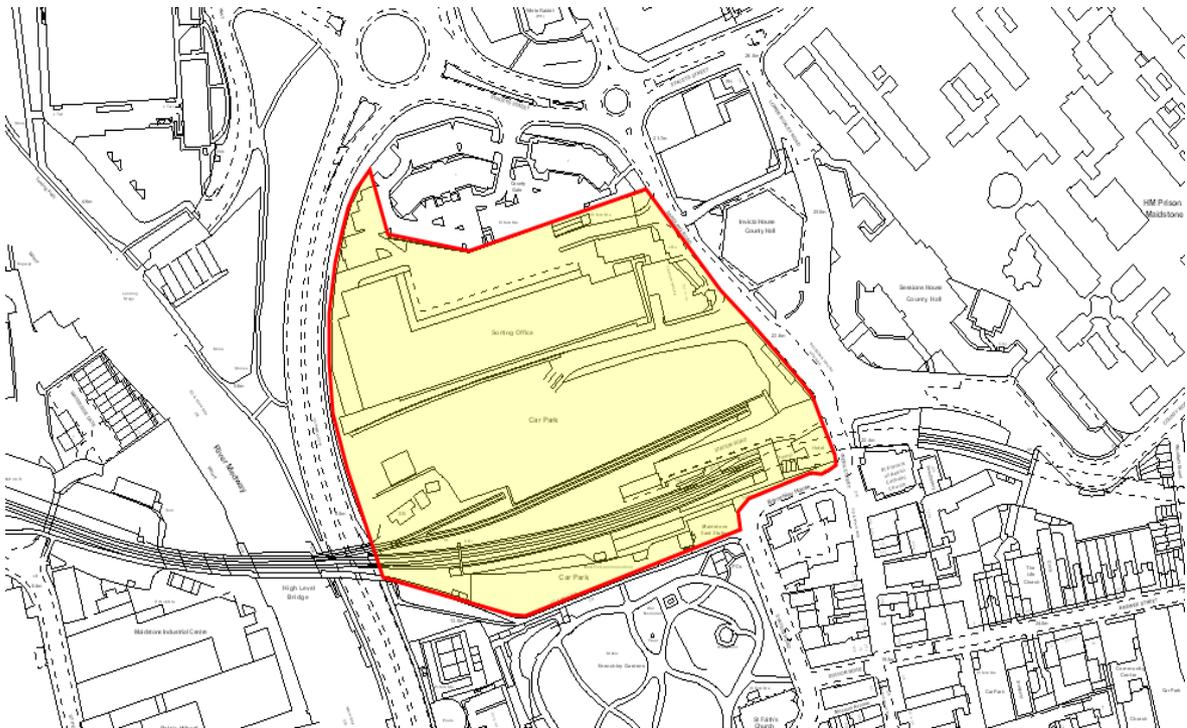
Timetable

Meeting	Date
Committee	28 th June 2017

Update on the Maidstone East Project

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report sets out progress towards achieving the Councils' Short Term Holding Strategy (c.5 years) in respect of the former Royal Mail Site, jointly owned with Kent County Council (KCC), and the appointment of a suitable Lead Consultant to support and facilitate the delivery of the comprehensive mixed-use redevelopment of Maidstone East. The proposed Maidstone East Scheme is approximately 10.5 acres in extent and comprises the former Royal Mail Sorting Office site, Cantium House and Network Rail's adjacent station & commuter car park, as illustrated below.



2. INTRODUCTION AND BACKGROUND

- 2.1 Following protracted negotiations, the Councils exchanged contracts with Royal Mail to acquire the site on 28th July 2016 at a revised price of £5m. Completion of the purchase took place on 16th September 2016.
- 2.2 Policy and Resources Committee in September 2015 agreed the establishment of a member led joint Strategic Board to oversee the project and gave delegated authority to the Chief Executive and Director of Regeneration and Place, in consultation with the Chairman of Policy and Resources Committee and the Chairman of Strategic Planning, Sustainability and Transport to implement the Business Plan as approved by this Committee. The Strategic Board has met three times since September 2016.

2.3 The short term holding strategy includes capital works to convert/refurbish the existing buildings on site to enable four primary income generating activities:

- Conversion of Warehouse 1 and the open yard areas to operate a 'Pay & Park' public car park (c.150 spaces)
- Short term letting of Warehouse 2 to Demelza Children's Hospice for retail warehouse use, following a targeted marketing exercise
- Short term letting of the office building and storage/welfare areas to charities or commercial businesses, subject to viability
- Licensing the car parking spaces (c.100) located in the undercroft to KCC for staff use Monday to Friday (public 'Pay & Park' at weekends)

2.4 Progress to Date

2.5 Temporary Planning Permission (5 years from Jan 2017) for the works and changes of use was granted in December 2016. A Traffic Regulation Order (TRO) for the creation of the new Pay & Park car park is now in place.

2.6 At the 10th October 2016 Strategic Board Meeting, KCC requested that the c.100 space under croft car park be made available to KCC staff from 3rd January 2017, much earlier than the programmed completion date for the public car park due in early April 2017. The works necessary to achieve this were commissioned separately from the main mechanical & electrical and civils contracts and were completed ready for KCC occupation in January. However, in late December 2016 KCC advised the Partnership that due to unforeseen delays with wider staff consolidation/relocation programmes, its requirements for additional staff parking had been regrettably delayed and reduced. KCC subsequently took occupation of 66 designated spaces in the under croft from 25th April 2017 paying a rent of £59,400pa (£900pa per space). The licence to document the occupation is in the course of being completed. The remaining 34 spaces in the under croft are currently being marketed along with the vacant office building and storage space to prospective tenants.

2.7 The Lease to Demelza Children's Hospice of Warehouse 2 was signed and completed on the 2nd June. The Councils have granted a 5-year internal repairing lease contracted outside of the Landlord & Tenant 1954 Act security of tenure provisions with a 6-month rolling break option so either party can terminate from September 2018.

2.8 The 'Pay & Park' public car park opened for business on the 8th June 2017. MBC Parking Services will be responsible for the collection of income from the public Pay & Park car park (cash, card & phone payments accepted) and parking enforcement on behalf of the Partnership under a management agreement. The annual cost of this service is estimated to be £29,570 (including daily patrols and pay machine collections/maintenance, etc.).

2.9 Caxtons Chartered Surveyors have been appointed as the Partnerships' managing & letting agent to deal with the day-to-day management of the former Royal Mail site including, but not limited to, arranging general

maintenance, repairs, security, rent collection (including arrears management), tenant liaison, statutory compliance management, office and permit parking lettings, etc. It was previously intended under the Councils' Collaboration Agreement that GEN2 would undertake the facilities and estates management function for the whole of the site but unfortunately they were not in a position to do so. The Partnership invited three local businesses to quote for the work from which Caxtons were selected.

- 2.10 Following two tender processes DMA were appointed on 3rd January 2017 to carry out both Mechanical & Electrical validation and rectification work together with the Civils contract. The original target date for completion of the two warehouses and external areas was April 2017. This included a two week period for asbestos clearance from the floor of warehouse 1 being converted into a car park. Unfortunately the contractor encountered significant issues in removing the asbestos as the nature of the adhesive meant that it had impregnated into the top layer of the concrete surfacing. Its removal took over seven weeks and is the main reason for the over-run and delayed handover. It has now been tested and is clear of asbestos.
- 2.11 It should be noted that professional fees, specialist contractors, ticket machines, off site signage and CCTV works are all separate from these contract sums, and are part of the overall project budget.
- 2.12 A number of variations to the contracted works were required as is common in a building refurbishment project. The fire alarms had previously been checked by a specialist, and they did indicate that the existing alarms should be suitable for re-use. However upon further testing, it was found that the parts for these alarms are no longer available meaning they could not be upgraded to include all building areas, and the cost for their replacement was £26,495. A further £11,700 has also been incurred for the unforeseen lightning protection system works.
- 2.13 The other high cost element is the replacement of the lighting in the main carpark warehouse at £55,000 (including rewire). The decision was made to install a higher specification of LED light as the old lights were not suitable for the intended use. This would also allow the lighting to be programmed to reduce output when not in use. This will significantly reduce the electricity usage over the next five years, which will assist in offsetting the additional capital expenditure incurred.
- 2.14 Whilst the majority of the two-storey welfare and plant room block adjacent to warehouse 1 is considered beyond economic reuse, there is an area of approximately 2,700 sq. ft. on the ground floor that is considered suitable for storage use. Interest has been expressed by KCC's ICT department for a 9-month laptop roll out programme. In principle, it has been agreed that if KCC meet the capital costs of the required fit out works estimated at a further £10,000 to £15,000 then a lease for a period of 9 months could be granted rent free. Following this period, the space could be re-let to the open market generating a rental income in the region of £15,000 pa.

- 2.15 The costs for rectification works to the office building are estimated to be in the order of £73,000, but given previous findings this figure will likely increase depending on the specification and fit-out requirements of these areas. A budget figure of £100,000 is therefore considered prudent to bring the property up to a basic lettable standard. The Strategic Board met on the 5th June and agreed to carry out the works. There is occupier interest in the office and the site is on the market with Caxtons.
- 2.16 The office building which fronts Sandling Road provides a first impression of the wider site owned by the councils. Having it refurbished and occupied by charities or SME business(es) not only provides a better first impression and improves security, but also offers a much needed opportunity for wider socio-economic benefits to the town during the master planning/delivery phase of the project, which could run for the next 5 years+ as well as generating potential income.

2.17 Project Budget Summary, please see Exempt Appendix.

2.18 Delivering a comprehensive mixed-use development

- 2.19 Following the Strategic Board meeting in November 2016, a Sifting Brief was prepared and issued to all thirteen consultancy firms listed on the HCA's Property Panel. This particular technical framework panel (OJEU Reference No. 2013/S 235-408288) was considered to comprise the most suitable real estate consultancy firms who would be best placed to lead the Councils' redevelopment objectives for the Maidstone East area from master planning through to delivery.
- 2.20 The objective of the Sifting Brief was to identify from this selected panel the most suitably qualified, experienced and interested parties who would then be invited to tender and enter into a mini competition to lead the master planning and delivery of the Maidstone East scheme. Six bids were received and four firms were subsequently scored and shortlisted.
- 2.21 An Invitation to Tender (an ITT) setting out the scope of the proposed appointment was issued to the four firms on the 9th June. The proposed timetable to appoint the Lead Consultant is set out below.

Table 4: Timetable for Appointment

Stage	Date
Issue Invitation to Tender	Friday 9 th June
Deadline for Clarifications	Friday 23 rd June
Tender Return Date	Monday 3 rd July
Potential Interview date	Wednesday 12 th July
Notification of Successful Bidder	Thursday 13 th July
Contract Start	Monday 17 th July

- 2.22 It is expected that the Lead Consultant identified to undertake this commission will act as Programme/Project Manager and will be able to draw upon a variety of suitable multidisciplinary resources including, but

not limited to urban designers, cost consultants (Qs), architects, structural engineers, master planners, planning & transport consultants, legal advisors, valuation/development appraisal & commercial/development agency services.

- 2.23 The Partnership is not expecting consortium bids. After appointment the Lead Consultant will procure any necessary specialist sub-consultants on behalf of and in consultation with the Partnership where it is unable to demonstrate it has the skills and resources in house. The Lead Consultant will be expected to manage and pay any appointed sub-consultants on behalf of the Partnership who will reimburse the Lead Consultant at agreed intervals. An indication of which sub-consultants the Lead Consultant will look to appoint to form part of the proposed master planning team will be requested. The Partnership is interested in offering opportunities for sub-consultancy work to Kent based firms who have solid experience in the area.
- 2.24 It is expected that the firm appointed would have a strong background in implementing complex development schemes and have expertise and a track record in major station redevelopment and working with Network Rail and its complex consents processes.
- 2.25 It is envisaged that the commission will be divided into three main stages with the ability for stages two and three to be reviewed and refined at the end of stage one (with agreed milestones within each stage as required) to ensure maximum flexibility and value for money. It is worth noting the ITT will allow the Lead Consultant firms to make their recommendations as to how they propose to structure the commission. From which the Councils can assess the merits of each approach from the submissions, presentations and interviews to be scored as part of the selection process.

STAGE ONE: Feasibility, Market Research & Optioning

This stage will involve:

- Site analysis including title review, technical/commercial/planning feasibility work and market research to understand what type of scheme could increase the potential viability of the site (financial return and wider regeneration benefits) understanding the constraints whilst reducing risk, optimising values and deliverability.
- Early stakeholder engagement through workshops and meetings with senior planning officers, Highways officers, elected local councillors/Members, Kent Estates Partnership and Network Rail
- Strategic requirements of the Councils and its wider One Public Estate (OPE) partners is to be investigated.
- Preparation of scheme plans for at least 4 – 5 different scheme options setting out the proposed mix of uses, quantum and arrangement of the different uses taking into account of site constraints and market conditions.
- Computer generated images of the preferred scheme option should be produced.

- Exploration and advice relating to various delivery strategies potentially available to the Councils including phasing and private sector development partner.
- It is envisaged at this stage that an Economic Impact Appraisal setting out the wider socio-economic benefits of the scheme may be required to support bids to Government and South East Local Enterprise Partnership (to be itemised in the price separately)
- Demonstrate viability against anticipated costs and the Councils' need for a return on their investment. It is envisaged that the scheme options will be presented with accompanying development appraisals and robust market commentary in the form of an "Options & Feasibility Report" as deemed appropriate for the Councils and other stakeholders to consider preferred option(s).

Estimated Duration: 3-6 months

STAGE TWO: De-risking the site

At this stage it is not known whether it would be more appropriate to obtain an outline planning permission or seek to produce a development brief for the Councils preferred scheme whether or not it is adopted as a Supplementary Planning Document or as a more informal material consideration. Panel Applicants are therefore asked to price all three options. The Partnership would be interested to know if the Panel Applicants consider whether there is a better way of achieving the same outcome exploring means for the Councils to add value, de-risk and secure both private and public funding. This second stage will involve a greater level of due diligence including securing formal agreements from Network Rail regarding the preferred development proposal affecting their land. It is expected that robust soft market testing of occupier and developer/investor interest will take place to inform the outline designs and refined development appraisals. The aim is to de-risk the scheme in order to create an attractive proposition for developer investment. Progression to this stage is dependent on the outcome of phase 1, satisfactory performance and Council funding.

Estimated Duration: 12 -18 months

STAGE THREE – Appointment of Development Partner & Delivery

Progression to stage 3 will be dependent upon the success of phase 2, satisfactory performance and Councils funding. The detailed brief will be significantly informed by the work from the previous stages. It is envisaged at this stage that the Partnership will need the Lead Consultant to ultimately seek and secure an experienced Private Sector Development Partner to invest in the site's infrastructure, promote the site and secure occupier interest, identify the sequencing and timing for development, negotiate development agreements. The Lead Consultant will advise the Councils in respect to retention of elements of the scheme for occupation and or investment purposes and the mechanism to achieve a fair and equitable return on investment to all parties.

The Development Partner will secure all necessary consents from Network Rail, the Office for Road and Rail (ORR) and detailed planning consents prior to building out the end scheme.

Once the development partner has been secured there is a strong likelihood that the Partnership will still need further advice outside the scope of this commission from the Lead Consultant through to practical completion but this will be agreed as an additional service at the appropriate time.

Duration: 6 to 12 months to appoint a Private Sector Development Partner

- 2.26 Surplus income generated from the holding strategy, the Kent Business Rates Pool (c.£100,000 is available to date) and OPE funding will be used to help fund this commission.
- 2.27 The Strategic Board has agreed the approach set out above in respect of the Lead Consultant appointment including the indicative timetable and give delegated authority to the Project Team to appoint the Lead Consultant following a panel interview.

3. AVAILABLE OPTIONS

- 3.1 The report is for information only.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The report is for information only.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Committee Members have asked to be kept updated on an annual basis.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The report is for information only.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate	The proposal impacts on the corporate priorities in four	Head of Finance &

Priorities	<p>ways:</p> <ol style="list-style-type: none"> 1. Regenerating the town centre. 2. Promoting a range of employment opportunities and skills required across the borough. 3. A home for everyone. 4. Securing improvements to the transport infrastructure of the borough. 	Resources
Risk Management	<p><u>The key risk of this proposal is:</u> The scheme as envisioned does not commence and the resale of the site does not generate the resources required to recoup the Council's costs. Given the current appraisals significant work will be undertaken to test market values and demand to seek the mix of uses that meet both Councils agreed objectives.</p> <p><u>Further risks are:</u></p> <ul style="list-style-type: none"> • Car parking on the site does not generate the income expected. This is unlikely as the location is highly suitable as car parking given the proximity of a major route into the town and the main railway station. 	Head of Finance & Resources
Financial	The financial implications are set out in the report.	Head of Finance & Resources
Staffing	Staff time is being met within existing resources.	Head of Regeneration and Economic Development
Legal	<p>The legal implications relate to:</p> <ul style="list-style-type: none"> • License to KCC for their Staff Car Park. • The Pay and Park Contract with KCC for MBC to manage the new car park. 	Head of Legal Partnership

	<ul style="list-style-type: none"> • A lease to Demelza and subsequent license or leases for the remaining property on site. • A contract with the letting and management agent (Caxtons) • Advice required in connection with the appointment of the Lead Consultant and any work flowing from that appointment 	
Equality Impact Needs Assessment	Disabled access for Pay and Park Car park has been assessed and the necessary car parking spaces have been made and dropped kerbs introduced. However due to the significant level differences, the ramp up to Sandling Road from the car park will remain an obstacle.	Head of Regeneration and Economic Development
Environmental/Sustainable Development	The redevelopment of the site will enable the Council to ensure the regeneration plans deliver the Council's sustainable development requirements	Head of Regeneration and Economic Development
Community Safety	N/A	N/A
Human Rights Act	N/A	N/A
Procurement	All purchases of goods and services will be completed in line with the Council's procurement procedures.	Head of Finance & Resources
Asset Management	The site will be managed by Caxtons on behalf of the Councils.	Head of Finance & Resources

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

Exempt Appendix: Report of the Head of Regeneration and Economic Development – Update on the Maidstone East Project

9. BACKGROUND PAPERS