

Policy and Resources Committee

29th June 2016

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

Yes

Business Plan for land and property following its acquisition

Final Decision-Maker	Policy and Resources
Lead Head of Service	Director Regeneration and Place
Lead Officer and Report Author	Economic Development and Regeneration Manager
Classification	<p>Exempt – The information contained within the report has been considered exempt under the following paragraph of Part I of schedule 12A to the Local Government Act 1972:-</p> <p>3 = Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p> <p><u>Public Interest Test</u></p> <p>It is in the public interest that this report be taken in private because it relates to commercially sensitive information.</p>
Wards affected	North

Exempt Category

The information contained within the report has been considered exempt under the following paragraph of part I of schedule 12A to the Local Government Act 1972:-

3 = Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Public Interest Test

It is in the public interest that this report be taken in private because it relates to commercially sensitive information.

This report makes the following recommendations to the final decision-maker:

- 1. That Maidstone Borough Council does not unilaterally acquire the Royal Mail Sorting office and continues to work in partnership with Kent County Council (KCC) to achieve the purchase at a ceiling price of £5m split 50:50 with KCC.**
- 2. That KCC and MBC investigate whether a Compulsory Purchase Order is appropriate if negotiations with Royal Mail fail.**

This report relates to the following corporate priorities:

- Enhancing the appeal of the town centre for everyone: through the regeneration of the Maidstone East area.
- Promoting a range of employment opportunities: from the business and retail development on the site.
- Planning for sufficient homes to meet our borough's needs: from the residential development of the site

Timetable

<i>Meeting</i>	<i>Date</i>
Policy and Resources Committee	29 th June 2016

The Acquisition of Land and Property

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 To consider unilaterally acquiring the Royal Mail Sorting Office. Given the abnormal ground conditions, other risks and negative viability appraisals to date, Kent County Council (KCC) has stated that they are unable to bid more than £5m for the site. It has been agreed with KCC that if the site cannot be acquired for under £5m, KCC would not object to MBC negotiating with Royal Mail a higher figure (up to the £6m as originally agreed) and purchasing the site without KCC. The report asks the committee to consider the financial implications and risks of unilaterally acquiring the site and concludes that these risks are too substantial for the Council to do so.
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2. INTRODUCTION AND BACKGROUND

- 2.1 Maidstone Borough Council (MBC) and Kent County Council (KCC) have agreed to work together to purchase the Royal Mail Sorting Office. Both Councils have agreed to share the costs and income generated by the acquisition on a 50:50 basis.
- 2.2 The Councils accepted that the bid price of £6m (subject to due diligence including ground condition surveys) was necessary in order to obtain control of this strategic site following a competitive marketing process.
- 2.3 Royal Mail (RM) has insisted that all environmental liabilities are to be the responsibility of the buyers; investigations have therefore focussed on contamination issues. In addition, following intelligence received about unusual ground conditions in the area, the geology of the site has been investigated. Arcadis Consulting was instructed to undertake this work.
- 2.4 The Arcadis Report, received at the end of April, indicated adverse ground conditions including ground and ground water contamination and a need for a high density piling solution. The estimated abnormal development costs are in the region of £1.5m to £3.7m of for the Royal Mail site.
- 2.5 Both Councils have agreed to the establishment of a member led joint Strategic Board to oversee the Maidstone East project. At the Strategic Board meeting in May, the Councils agreed their negotiation position with RM following consideration of the Arcadis Report, which pushes the commercial viability gap of redevelopment even further than previously reported. The baseline for market value is deemed to be the existing warehouse and storage use at £4-4.5m.
- 2.6 Given the abnormal ground conditions, other risks and negative viability appraisals to date, KCC have stated that they would like to renegotiate with RM and offer £4.25m. This amount can be justified in pure property terms. KCC would be utilising monies from their Property Investment Fund, which

have to make a return on investment. A bid above £5m would be difficult to justify in commercial terms. MBC is concerned that a low bid would be rejected and the Councils could lose the site. However it has been agreed that £4.25m would be the opening bid but authority was given to officers to negotiate up to £5m.

- 2.7 It was agreed that if RM would not sell at £5m, KCC would not object to MBC negotiating with RM on a higher figure (up to the £6m) and purchasing the site without KCC.
- 2.8 The importance of this opportunity is clear. Royal Mail Depot site, together with Maidstone East Railway Station in the ownership of Network Rail, is part of a strategic gateway site into the County Town. These two sites present a major opportunity to strengthen the town centre retail offer at the north end of Week Street, provide much needed residential accommodation, improve the railway station and connectivity with the town centre and create a better setting around Kent County Council's Sessions House and County Hall. The importance of these two sites is set out in the Council's Economic Development Strategy and the Local Plan Regulation 19 in Policy RMX1(2).
- 2.9 From information gained to date all other private sector bidders for the site have no interest in working with Network Rail, and if they secured the site would not work towards a comprehensive redevelopment. Furthermore, it is doubtful that the Council would be able to secure the mixed use development needed to revitalise this part of the town centre through its planning powers alone and there is a high probability that the site would be lost to either retail park type use or housing. The opportunity to gain control of the site and shape the future of this part of town could therefore be lost.
- 2.10 Both Councils have decided to seek legal advice regarding the potential to use Compulsory Purchase Advice. This advice should be able by the 28th June.
- 2.11 However there are both financial implications and others risks that need to be considered.

FINANCIAL IMPLICATIONS

- 2.12 Under the KCC/MBC partnership proposal the maximum cost for the acquisition to the Council, following Arcadis' report, is expected to be £2.5m for a 50% share in the site, excluding Stamp Duty Land Tax, other fees and development costs all of which would be shared on a 50:50 basis. A decision on how to finance the purchase will be subject to the overall resourcing of the capital programme, however, for the purposes of this decision, it is assumed that prudential borrowing will be used.
- 2.13 Table 1 sets out the projected costs and income at the end of a 5 year period after buying the site with KCC at £5m.

Table1
Projected costs and income at the end of 5 year period at £5m purchase price

	£5m	MBC 50% contribution
Site Conversion	-£200,000	-£100,000
SDLT	-239,500	-£119,750
Agency & Legal Fees	£62,500	£31,250
Costs to Date	-£115,286	-£57,643
Interest Costs	-214,500	-£107,250
Net income - charitable leases	£56,667	£28,334
New income - car parks	£837,394	£418,697
Balance at end of year 5	£187,275	£93,638

2.14 Should MBC unilaterally purchase the RM site then it will be necessary to borrow a larger sum which will attract higher interest costs. Consequently this exposes the Council to a higher degree of risk in the event that income levels are lower than anticipated or the council is unable to find a suitable buyer for the site. Table 2 below sets out the estimated income over a five year holding period and sets out the costs based on purchase prices of £5.25m, £5.5m, £5.75m and £6m and assumes MBC will bear the full cost of acquiring the property (excluding costs incurred to date) and will retain 100% of the income;

Table 2
Projected costs and income at the end of 5 years

	£5.25m	£5.5m	£5.75m	£6m
Site conversion	-£200,000	-£200,000	-£200,000	-£200,000
SDLT	-£252,000	-£264,500	-£277,000	-£289,500
Agency & Legal Fees	-£65,625	-£68,750	-£71,875	-£75,000
Costs to date	-£57,643	-£57,643	-£57,643	-£57,643
Interest cost	-£234,675	-£245,850	-£257,025	-£268,200
Net income - buildings	£56,667	£56,667	£56,667	£56,667
Net income - car park	£837,394	£837,394	£837,394	£837,394
Net income	£84,118	£57,318	£30,518	£3,718

2.15 The following assumptions have been made to support the figures set out in Table 1 and Table 2:

1. Interests costs on borrowing are PWLB rates as at 8 June 2016;
2. Car parking spaces will generate an average gross income of £1000 per space per annum (these are typical for a Town Centre car park);
3. Charity occupying Warehouse 2 pays rent of (incl service charge) gross £45,000 in the first year and £67,500pa from year 2 onwards.
4. A charity occupies the main office block but on a peppercorn rent reflecting the poor condition of the offices. Whilst there is a charity interested in this office, no terms have been agreed so this could represent a financial risk is the Council has to pay empty business rates. It is not known what this might be at this stage.

5. All other costs will be met from the council's existing resources and the Business Rates Pool;
6. The asset will be disposed of after 5 whole years of purchase, generating a capital receipt for the council of at least the purchase price plus initial costs and finance costs. Longer term borrowing will attract higher interest rates and repayment costs.

2.16 At the end of the 5 year period the Council will need to consider what to do with the asset. The Council could dispose of the site. If property values have not moved, market indications to date suggest the asset has a value somewhere between £4 and £5m, not taking into account any special interest party. If the Council were to buy the site at £6m and sell at £5m then it would incur a loss of £1m.

2.17 OTHER RISKS

2.18 Many of the risks are the same if we continue to partner with KCC or acquire the site unilaterally. These are set out in section 7. However there are specific risks that arise if Maidstone and KCC do not sign a Collaboration Agreement.

2.19 The main risk is that all of the costs incurred in holding the site, master planning and bringing a viable development to market will be borne by the Council. Some areas of specialist expertise, currently provided by KCC without cost to the partnership may have to be bought in.

2.20 It is envisaged that the comprehensive development will need to include KCC's Cantium House. If KCC are no longer a partner then they may not be willing to sell this site. Cantium House has the benefit of right to light provisions and there is a restriction on the title for the Property not to build within 3 metres of Cantium House. KCC benefits from party wall along the boundary between Royal Mail and County Gate office development.

2.20 KCC is willing to use the shared element of the Business Rates Pool on funding a Development Manager to take forward the project after the site's acquisition. They may not wish to do so if they do not have a financial stake in the project.

3. AVAILABLE OPTIONS

3.1 Do nothing option: The site could be left for sale on the open market at no cost to this Council or to Kent County Council. Such an option would mean that redevelopment of the area would be at risk of being piecemeal in its approach and unlikely to deliver a holistic outcome for the area that is in keeping with the importance placed on the site in the Council's Economic Development Strategy.

3.2 The Council could purchase the site unilaterally at a figure over £5m up to a ceiling of £6m as previously agreed. The margins generated from the holding strategy become increasing smaller towards the £6m ceiling. The

costs and income are best estimates at this stage and the smaller the projected margins the greater potential that the Council may not cover its costs which could impact on the Medium Term Financial Strategy (MTFS). There is also the Opportunity Cost to consider i.e. what else could the money be spent on? The Council could invest the funds into investment projects that make a return on capital to support the MTFS. For these reasons and the reasons set out in section above "Other Risks" this option is not recommended.

- 3.3 The Council could follow Kent County Council's position and negotiate in partnership a price between £4m and £5m. However Royal Mail have stated that they will not sell below a figure of £6m and if negotiations fail the site could be lost to a private developer resulting in the concerns set out in paragraph 3.1.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 It recommended that negotiations with Royal Mail on the sale price proceed in partnership with Kent County Council with a ceiling of £5m. Whilst the importance of this opportunity to the Councils is recognised the site is not worth £6m and continuing alone above £5m could expose the Council to substantial financial and reputational risk.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 There have been no public consultations due to the commercially sensitive nature of the purchase. A report was presented to the Urgency Committee in order for a bid to be made in the first instance. On the 23rd September Policy and Recourses Committee (P&R) agreed to the acquisition of the Royal Mail Sorting Office on terms set out in the report. P&R also agreed to the establishment of a member led joint Strategic Board to oversee the project and delegated decision making arrangements in respect of those decisions as set out in the Collaboration Agreement between the two authorities. In December P&R approved the Business Plan.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Negotiations will continue with Royal Mail in partnership with Kent County Council.
- 6.2 If negotiations fail then both Councils will investigate whether a Compulsory Purchase Order is an appropriate way forward.
- 6.3 If a price is agreed then the Council will exchange and complete the sale on the Royal Mail site.
- 6.4 Heads of Terms will be agreed with a Charity(s) and a lease(s) signed

- 6.5 Work will be commissioned to design the car park both for pay and display and for KCC's staff car park.
- 6.6 Work will be commissioned to convert the warehouse and office buildings for charitable uses.
- 6.7 A temporary planning permission will be submitted for the creation of car park, alterations to the warehouse and change of use.
- 6.8 A lease will be negotiated and signed with KCC for their staff car parking.
- 6.9 Work with Network Rail will continue along with the Dft Rail Franchise team.
- 6.10 Master planning will commence which is likely to lead to both Councils to seek a development partner.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<p>The proposal impacts on the corporate priorities in four ways:</p> <ol style="list-style-type: none"> 1. Enhancing the town centre 2. Promoting employment 3. Providing housing 4. Enhancing the transport network 	Head of Finance & Resources
Risk Management	<p><u>The key risk of this proposal is:</u></p> <p>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 	Head of Finance & Resources

	<p>railway station.</p> <ul style="list-style-type: none"> • Planning permission is not granted. 	
Financial	The financial implications are set out in the report.	Head of Finance & Resources
Staffing	Will need to recruit a Development Manager	Head of Commercial and Economic Development
Legal	The legal implications relate to the acquisition documents and lease agreements. Both of these issues will be overseen by the Head of Legal Partnership.	Head of Legal Partnership
Equality Impact Needs Assessment	There is no specific impact of the acquisition but a needs assessment will be completed as part of the longer term regeneration planning.	Head of Commercial and Economic Development
Environmental/Sustainable Development	The acquisition of the site will enable the Council to ensure the regeneration plans deliver the Council's sustainable development requirements	Head of Commercial and Economic Development
Community Safety	N/A	N/A
Human Rights Act	N/A	N/A
Procurement	The acquisition and development of the site will be completed in line with the Council's procurement procedures.	Head of Finance & Resources
Asset Management	The site will be managed by the Council.	Head of Finance & Resources

8. REPORT APPENDICES

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

9. BACKGROUND PAPERS

None