

Maidstone House – Next Steps

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Alexa Kersting-Woods, Leisure Property Manager
Classification	<p>Public report with private appendix.</p> <p>The information contained within Appendix A is 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>Public interest test</p> <p>On applying the public interest test, the public interest in non-disclosure of the financial information relating to tenants outweighs the public interest in revealing this information. The reasons in favour of disclosure are transparency in relation to income from a council property and the reasons against disclosure are the impact on the council's commercial position and the financial affairs of the third parties involved.</p>
Wards affected	All

Executive Summary

The Council acquired a long leasehold interest in Maidstone House and The Link in December 2021. This report sets out management arrangements for the building, proposed investment plans and a strategy for its future use.

Purpose of the report

For decision.

This report makes the following recommendations to this Committee:

1. To approve the management approach for Maidstone House set out in the report.
2. To delegate authority to the Director of Finance and Business Improvement, in consultation with the Chair of Policy and Resources Committee, to release capital programme funding for the projects set out in paragraphs 2.19 and 2.23, up to an overall limit of £0.5 million.
3. To delegate authority to the Director of Finance and Business Improvement to undertake a procurement process and award such contracts for delivery of the works in accordance with financial procedure rules and applicable public contracts regulations and principles.
4. To authorise the Head of Mid Kent Legal Services to complete the necessary contract documentation and agreements associated with the works.

Timetable

<i>Meeting</i>	<i>Date</i>
Policy and Resources Committee	23 rd March 2022

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1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Providing suitable office accommodation for the Council helps to support all its corporate priorities. The presence of the Council in the Town Centre and its role as a major property occupier and owner helps support the priority of making Maidstone a thriving place.	Director of Finance and Business Improvement
Cross Cutting Objectives	Upgrading Maidstone House provides an opportunity to address the cross-cutting objective of respecting biodiversity and environmental sustainability, and specifically to contribute towards the Council's carbon reduction target.	Director of Finance and Business Improvement
Risk Management	This has been addressed in section 5 of the report.	Director of Finance and Business Improvement
Financial	The financial implications are set out in the report and the proposals meet the criteria of the medium term financial strategy.	Director of Finance and Business Improvement
Staffing	There will be significant implications for staff in the way that the Council provides office accommodation in the future. Details are set out in the report.	Director of Finance and Business Improvement
Legal	Legal can assist with the negotiation and drafting of any necessary leases and contracts required by the management approach in the report	Legal – Team Contracts & Commissioning and Property and Regeneration Team Leader
Privacy and Data Protection	There is no specific impact.	Director of Finance and Business Improvement
Equalities	There is no specific impact.	[Equalities and Corporate Policy Officer]
Public Health	There is no specific impact.	[Public Health Officer]

Crime and Disorder	There is no specific impact.	Director of Finance and Business Improvement
Procurement	All procurements will be carried out in line with the Council's procurement regulations.	Director of Finance and Business Improvement
Biodiversity and Climate Change	Upgrading the Council's office accommodation provides an opportunity to address the cross-cutting objective of respecting biodiversity and environmental sustainability, and specifically to contribute towards the Council's carbon reduction target.	Director of Finance and Business Improvement Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

- 2.1 Following a decision of this Committee at its meeting on 29 July 2021, the Council acquired a long leasehold interest (199 years) in Maidstone House and The Link from Capital and Regional, owners of the Mall shopping centre. The acquisition was completed in December 2021.
- 2.2 The objective of the decision was to reduce the Council's accommodation costs and to give it greater flexibility, allowing it to adjust occupancy up and down as necessary and to let space not required by the Council itself to third parties. Ownership of the site also supports the Council's objective to make Maidstone a thriving place, by giving it the opportunity to invest in Maidstone House and the Link and to continue developing the facilities they offer.
- 2.3 The purchase consideration was £7.07 million, which was comfortably within the level authorised by the Policy and Resources Committee. Funding for the purchase came from the Council's internal resources and Public Works Loan Board borrowing.
- 2.4 Details of the accommodation acquired are as follows.

	Approx Gross Internal Area (sq ft)
Maidstone House	
Ground Floor - Reception and KCC	3,685
Floor 1 – Business Terrace	10,983
Floors 2-6 – Offices	59,518
Floor 7 – Plant Room	845
Sub-total	75,031
The Link	

Ground Floor – Entrance	2,866
Floor 1 – MBC and DWP	7,437
Mezzanine – MBC and DWP	1,796
Floor 2 – Business Terrace	4,851
Sub-total	16,950
Grand total	91,981 sq ft
Car parking	
Undercroft (level 4)	87 spaces
Level 5 (accessed via multi-storey)	50 spaces
Rooftop	57 spaces
Total	194 spaces

2.5 The Council currently occupies offices on floor 5 and part of floor 6, and shares the Link with the DWP. The Business Terrace is let by the Council to start-ups and growing businesses. The remainder of the accommodation is subject to a number of leases to third parties, which generate total income of approximately £500K per annum. Details are set out in Exempt Appendix A. These leases expire over the next few years, apart from the lease to Kent County Council, which runs to 2077.

2.6 This report sets out a proposed approach to managing the Council's investment as follows.

- Building management
- Business Terrace
- The Link
- Letting strategy – short term
- Letting strategy – medium to long term
- Future capital investment and carbon reduction
- Future redevelopment of the Mall

Building management

2.7 Prior to the acquisition of the long lease on Maidstone House and the Link, the Council and the Business Terrace already occupied around two thirds of the combined space. The Council has a facilities management team and contracts in place for cleaning, equipment maintenance, etc. through which it has managed this space. These arrangements will continue and will be managed on a day-to-day basis by the Leisure Property Manager. Where building works would previously have fallen to Capital and Regional as landlord, the Council will now manage these, utilising external advice and support as appropriate.

2.8 Prior to the council's acquisition of Maidstone House, Capital and Regional levied a Service Charge for items such as the Ground Floor reception service and cleaning of common parts. Following the acquisition, these services are being undertaken by external managing agents instructed by the Council, Fidum Property Management, who have also taken on the responsibility for collection of rent from sub-tenants and service charge accounting. These are specialist activities which it is appropriate to outsource. Procurement of

property management services is subject to the Council's procurement regulations and remains under review.

- 2.9 There are a number of residual services which the Council continues to obtain from Capital and Regional under the terms of our lease, such as maintenance of car park barriers.

Business Terrace

- 2.10 The Business Terrace was established on the First Floor Terrace of Maidstone House in 2015 with the two-fold purpose of providing affordable space to business start-ups, in line with the Council's Economic Development Strategy, and utilising unused space to which the Council had committed itself under the original lease with Capital and Regional. The Business Terrace has subsequently expanded, such that it now occupies the entire First Floor.
- 2.11 The Business Terrace's offer to tenants includes not only space for rent, but also business advice and the benefits of working with a cluster of similar businesses.
- 2.12 The Business Terrace has been extremely successful, both in achieving high occupancy rates and hence recouping most of the Council's occupancy costs, and in providing an environment in which businesses have succeeded in establishing themselves and growing to a level where they are able to move on to bigger space elsewhere. Firemind Limited, who occupy part of the 6th Floor of Maidstone House, is just one business that has grown successfully from inception in the Business Terrace.
- 2.13 In light of the Business Terrace's track record, both in promoting economic development and as a viable enterprise in its own right, it is proposed that the First Floor of Maidstone House continues to be dedicated to this use. The acquisition of Maidstone House will allow the Council to offer longer tenancies than is possible currently and offers the potential for the Business Terrace to expand in line with demand.

The Link

- 2.14 The Link (formerly known as the Gateway) was originally conceived as a One Stop Shop for Kent County Council and MBC's customer services. In the event, KCC withdrew from the project and the Council has sub-let space on the Ground and First Floor of the Link to the Department of Work and Pensions, who use the site to provide a Job Centre Plus (JCP). The Council continues to use part of these areas to deliver Customer Services.
- 2.15 The Link is an ideal location for the JCP, being located in the centre of the town. Unusually for JCP premises, the Link has the potential for providing the DWP with back office space in Maidstone House. It is anticipated that the Council will continue its relationship with the DWP.

Letting strategy – short term

- 2.16 Apart from the Ground Floor unit which is let to Kent County Council on a long term peppercorn rent, the leases are all due to expire over the next few years.
- 2.17 The office space is of a high standard. Where space is vacant or falls vacant, our agents are confident that it can be let readily. The Council is in a position to offer full repairing leases or serviced office space according to tenants' requirements.
- 2.18 It was assumed in constructing the business case for the acquisition of Maidstone House that the offices would be fully let at commercial rates. The rental income obtained is therefore reflected in the Council's budgets and financial strategy. It is therefore appropriate to continue seeking to maximise utilisation of office space on a commercial basis.
- 2.19 It was envisaged when acquiring Maidstone House that capital investment would be required in the building and this was reflected in the business case for the purchase. In line with this, it is proposed that the offer to potential tenants is enhanced by providing a more attractive reception area, cosmetic improvements to the exterior of the building on the ground floor, and better signage. Initial indications are that the likely cost of this work would be in the region of £150,000. We will engage with members, staff and tenants in developing detailed plans.

Letting strategy – medium to long term

- 2.20 The Council currently lets space in the Link to the Department for Work and Pensions and to KCC on the ground floor of Maidstone House. Both are public sector tenants with whom we would wish to continue developing our relationship. The Council has also periodically let office space in Maidstone House to the DWP and other public sector organisations. More generally, the Council has strong links with other public sector organisations both locally in Kent and further afield. It is worth building on this experience, as there are benefits from co-location with other public sector bodies, such as the opportunity to work more closely together and to facilitate customer access to our respective organisations. Interest has already been expressed from a number of other public sector organisations in this concept.
- 2.21 It is therefore proposed that, while continuing to maximise occupancy and rental income in the short term, the Council seeks to identify public sector organisations who would be interested in taking space at Maidstone House over the longer term. Such partnerships with the Council could eventually lead to Maidstone House forming a hub for public services.
- 2.22 The development of a public sector hub needs to be balanced with the Council's continuing commitment to supporting start-ups through the Business Terrace, and offering such businesses the space in which to continue growing successfully, thus promoting economic development in the borough. We believe that the objectives of providing a base for public services and promoting business growth are entirely compatible. Indeed, there are potential synergies, with public sector organisations providing a market for digital and related services which start-ups are well-equipped to serve.

Future capital investment and carbon reduction

2.23 As indicated in paragraph 2.18, some investment will be required in Maidstone House in order to enhance the offer to potential tenants. Capital investment will also be required to replace aging plant and equipment, in particular the lifts. The opportunity will be taken wherever possible to achieve low-energy solutions and thereby support the Council's carbon reduction objectives. It is estimated that costs for the initial phase of works, to include refurbishment of the lifts, will amount to £300,000.

Future redevelopment of the Mall

2.24 We understand that Capital and Regional have no current plans for redevelopment of the Mall. However, there may be a development opportunity associated with the Mall in the future. In drawing up the terms of our 199 year lease, careful consideration was given to ensuring that the Council's interest be protected in such an event. In any case, we would expect Capital and Regional or any successor as owner of the Mall to engage closely with the Council in any development proposals, such that we can ensure that any development is consistent with the emerging Town Centre strategy. If appropriate, the Council would seek equity participation in a redevelopment.

3. AVAILABLE OPTIONS

- 3.1 Option 1 - Approve the management approach set out in this report.
 - 3.2 Option 2 – Propose an alternative approach.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 This report recommends that the approach set out here be approved, for the reasons stated, and that a budget is committed from the Council's agreed capital programme to enable it to be implemented.
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5. RISK

- 5.1 We are satisfied that the risks associated with this approach are within the Council's risk appetite and will be managed as per the Policy.
- 5.2 Specific key high-level risks and mitigation are set out below:

Risk	Mitigation
Downturn in office letting	Where leases are due to expire, we will seek to secure our income by negotiating new leases of say 15 – 20 years duration. In the event of a catastrophic downturn in the economy, leading to tenant failure, our ownership of the entire building gives us the scope to seek strategic solutions.
Tenant failure	The position with existing tenants will be monitored carefully and appropriate due diligence will be undertaken on any new tenants. The approach of offering a 'public sector hub' implies that tenants will be at low risk of failing.
Occupancy rates are lower than anticipated	The Council's position as a major public sector occupier and landlord gives it a number of options that might not be available to a commercial landlord. For example, it would be in a strong position to offer office sharing arrangements to other public sector tenants. (The Council has already successfully sub-let parts of its current demise at Maidstone House to the NHS and the DWP).
Future income below projected levels	The relatively low financing costs enjoyed by the Council gives a wide margin in which income could fall short of projected levels, with the project nevertheless remaining cash positive.
Structural issues with building	A Building Survey was undertaken as part of the due diligence work on acquisition.
Management issues	Managing agents will handle those areas where the Council lacks sufficient in-house skills and experience.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 The overall approach to occupation and management of Maidstone House and the Link was discussed extensively with members prior to obtaining approval for the acquisition. The detailed arrangements set out in this report are consistent with the overall approach envisaged originally.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The measures described above will be implemented following Committee approval.

8. REPORT APPENDICES

Exempt Appendix A – Tenancy Schedule

9. BACKGROUND PAPERS

None