

From: Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services

Rebecca Spore, Director of Infrastructure

To: Policy and Resources Cabinet Committee, September 2021

Subject: Disposal of KCC's interest in the Former Royal Mail Sorting Office, 98 Sandling Road and Cantium House, 99-102 Sandling Road, Maidstone, Kent to Maidstone Borough Council.

Key decision: Yes - Expenditure or savings (capital receipt) of over £1m

Classification: NON-EXEMPT Report and Appendix 1 for publication.

Past Pathway of report:

Property Sub-Committee, Sept 2019 (decision to conditionally acquire National Rail Land not taken)
Property Sub-Committee Update, June 2019
Property Sub-Committee Update, March 2018
Property Sub-Committee Update, Sept 2016
Property Sub-Committee, Sept 2015 (Decision No: 15/00069)

Future Pathway of report: N/A

Electoral Division: Maidstone North-East

Summary: In September 2016, KCC entered into a 50/50 partnership with Maidstone Borough Council to acquire the Former Royal Mail Sorting Office as discussed at the Property Sub-Committee, in September 2015.

This report considers the current position and the proposed disposal of the Council's 50% interest in the Former Royal Mail Sorting Office site to Maidstone Borough Council, plus its freehold interest of its adjoining Cantium House office building.

Recommendation(s):

The Policy and Resources Cabinet Committee is asked to consider and endorse or make recommendations to The Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services on the proposed decision to agree to complete the freehold disposal of KCC's interest in the Former Royal Mail Sorting Office and Cantium House and delegate authority to:

1. The Director of Infrastructure in consultation with the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services, to finalise the contractual terms of the disposal.
2. The Director of Infrastructure to authorise the execution of necessary contractual and land agreement required to implement the above.

1. Background

- 1.1. In September 2016, the Council entered into a 50/50 partnership with Maidstone Borough Council, to acquire the freehold interest in the Former Royal Mail Sorting Office. This was with the agreed long-term objective of intervening in the market to facilitate a comprehensive, high quality and commercially viable mixed-use redevelopment of this part of Maidstone town centre, directly opposite County Hall / SHQ, incorporating adjoining land owned by Network Rail, a project informally known as “Maidstone East Gateway”.
- 1.2. This report considers the current position of this project in the context of KCC’s strategies and financial requirements and sets out the option of selling KCC’s 50% interest in the Former Royal Mail Sorting Office site, plus its freehold interest of its adjoining Cantium House Office Building to Maidstone Borough Council.
- 1.3. The Maidstone East Gateway area comprises of:
 - The Former Royal Mail Sorting Office, c.3.5 acres jointly acquired by KCC/MBC in Sept 2016. Currently arranged as a temporary car park, warehouse and offices.
 - Cantium House, c.0.3 acres (c.18,000sqft net internal area), owned freehold by KCC. Currently occupied temporarily by KCC staff and partner organisations.
 - Maidstone East Station commuter car parks, c.3.93 acres (c.485 spaces), owned freehold by Network Rail. This operational station site forms part of the Solum Regeneration Partnership, which is a Joint Venture between Network Rail and Kier.
- 1.4. The above three properties as illustrated on the site plan at Appendix 1, are considered a key town centre regeneration site currently allocated for retail led mixed-use development within Maidstone Borough Council’s 2017 Local Plan (RMX1 (2)).
- 1.5. Since project inception, KCC has remained firmly of the view that the future redevelopment of the Maidstone East Gateway area should both incorporate and have a positive impact upon the setting of the adjacent County Hall Estate (i.e. Invicta House, Sessions House & Sessions Square) and the newly improved station setting.
- 1.6. Since the site was acquired, KCC with Maidstone Borough Council have:
 - Implemented a holding strategy of the Former Royal Mail Sorting Office site comprising of the creation of a temporary car park (for general public and KCC staff use) and short-term charity lettings of existing buildings (under a temporary planning consent which expires in Jan 22) to mitigate holding costs and generate revenue.
 - Developed a comprehensive residential led RIBA stage 1 Masterplan through an appointment with Savills in relation to the Former Royal Mail

Sorting Office, Cantium House and Network Rail land following key stakeholder and market engagement.

- Explored the delivery of a comprehensive masterplan with Network Rail and its delivery partner, Solum Regeneration.
- Corporately promoted the Council owned land for quality, mixed use redevelopment within Maidstone Borough Council's Local Plan.

2. Options Considered

The partnership is now at a critical point and moving into delivery and the following options have been considered:

- 2.1. **Option 1** – KCC to sell its 50% stake of the Former Royal Mail Sorting Office plus its freehold interest in Cantium House to Maidstone Borough Council.
- 2.2. **Option 2** – KCC to acquire Maidstone Borough Council's 50% stake of the Former Royal Mail Sorting Office Site.
- 2.3. **Option 3** – KCC/MBC to continue to work in partnership to deliver a scheme through to practical completion (direct development or via securing a development partner).
- 2.4. A more detailed assessment is set out in the exempt appendix 2, along with the associated risk. Options have been considered and it is recommended that the Council proceed with Option 1, to dispose of the Council's 50% stake in the Former Royal Mail Sorting Office site plus the freehold interest in Cantium House to Maidstone Borough Council. This will enable the Council to recoup capital invested to date; meet its S.123 best consideration obligations; and enable it to focus its resources on other priority projects.

3. Timeline

3.1. Indicative timeline for the disposals is as follows:

Negotiation and agreement of principle heads of terms	July 21 (completed)
Appointment of external solicitors to quality assure terms	July 21 (completed)
Consultation & endorsement by KCC Property Board	July 21 (completed)
Key Decision (KCC & MBC)	Sept 21
Simultaneous Exchange on both Former Royal Mail Sorting Office & Cantium House	Dec 21
Completion & capital receipt payment for Former Royal Mail Sorting Office	Dec 21
Deferred Completion (& capital receipt payment) of Cantium House	Dec 23
Expiry of Overage provisions to capture any planning gain value (if applicable)	Dec 31

4. Financial Implications

- 4.1. As a result of the proposed disposal transactions, the Council will generate a capital receipt in relation to the Former Royal Mail Sorting Office within this 2021/22 financial year and a further capital receipt in relation to the deferred completion of Cantium House in 2023/24 towards its medium-term financial plan. The sums payable are subject to formal independent valuations to ensure the Council discharges its s.123 best consideration obligation and fiduciary duties and are set out in more detail in the exempt appendix.
- 4.2. Furthermore, there is the potential to generate a further capital receipt up to year end 2031/32 via proposed overage provisions within the proposed sale contracts.
- 4.3. In terms of revenue, the Council will also benefit from savings to its running costs, as a result of the disposal of the two properties upon completion.

5. Equalities implications

- 5.1. There are no equalities implications.

6. Governance

- 6.1. The site has been declared surplus to KCC's requirements with a key decision being sought in line with the Council's governance processes. External legal advice has been sought following discussion with General Counsel on the proposed transaction.
- 6.2. Upon completion of the sale of the Former Royal Mail Sorting Office, targeted for December 2021, it is intended that the Maidstone East Strategic Board will be disbanded which has to date been overseeing the project development.
- 6.3. To replace this, it is intended there will be different layers of governance as follows:
 - 6.3.1. A Maidstone Town Centre Strategic Board is to be established by Maidstone Borough Council, on which KCC Members and senior officer representatives will be invited as board members. Details of which are to be confirmed.
 - 6.3.2. A sub-steering group/board, focused on the regeneration, master planning and delivery of the Maidstone East area (i.e. the Former Royal Mail Sorting Office/Cantium House site led by Maidstone Borough Council and KCC's County Hall Estate) will be established. It is envisaged elected Members and senior officers from both councils will sit on this group and meet at least 6-monthly. The intention being to ensure both councils continue to collaborate positively; remain aligned; and add value/synergy to each other's respective projects.

7. Conclusions

- 7.1. It is considered that the disposal of KCC's 50% interest in the Former Royal Mail Sorting Office and freehold interest in Cantium House to Maidstone Borough Council is in the best interest of the Council and best enables the development of the site to be brought forward in accordance with the emerging local plan.
- 7.2. This way forward will support housing delivery in the town with KCC continuing to have a strategic stewardship role, whilst allowing KCC to focus its resources on its strategic priorities.

8. Recommendation(s)

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9. Background Documents

- Appendix 1 – Maidstone East land ownership with site areas.
Appendix 2 – Exempt Appendix

10. Contact Details

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