

CABINET

30 MARCH 2021

PENTAGON CENTRE - UPDATE

Portfolio Holder: Councillor Adrian Gulvin, Portfolio Holder for Resources

Report from/Author: Perry Holmes, Chief Legal Officer

Summary

This report provides Cabinet with an update on the proposed re-development of the Pentagon Centre.

1. Budget and policy framework

1.1. Decisions about the Council's property portfolio are a matter for Cabinet.

2. Background

2.1. The Cabinet approved the acquisition of the Pentagon Centre on 12 February 2019 (decision no. 31/2019) after taking professional advice from industry experts Knight Frank, with Council agreeing to the funding of the purchase and investment in the Centre on 21 February 2019 for a total sum of up to £45 million (minute no. 838/2019). Under delegated authority, officers completed the buying of the Pentagon Centre head leases together with some freehold properties in April 2019 for £34.875 million. A reduction of almost £1million was achieved just prior to completion.

2.2. Cabinet received an update report in July 2019 which advised Members that Ownership of a significant asset such as the Pentagon Centre allowed the Council to consider how else it might intervene to encourage vitality and economic growth in Chatham. This followed, at that time, significant investment in the public realm from Chatham Station, by St John's Church down through Military Road and onto the Paddock area in central Chatham. It also followed the Council, through its housing company, MDC, achieving planning permission for residential schemes at sites now known as Garrison Point and Waterfront Chatham in close proximity to the Pentagon Centre. The development of those residential sites are now both well underway.

2.3. To that list of activity reported to Cabinet can now be added a series of other interventions. A planning application has now been submitted for 161 units at Mountbatten House, with the newbuild element of that scheme including a

food and beverage offer and improvements to the public realm area just opposite the Brook Theatre (see computer generated image below). That planning application is due to be heard at the Council's Planning Committee meeting in April. Consideration will also take place of a linked affordable housing scheme for 24 units on the site of the current Upper Mount car park site.



Fig1 CGI of Plaza area opposite the Brook Theatre used in the public consultation process

- 2.4. The Council has worked as part of a joint venture with Creval who are bringing forward a planning application for 178 units at Queen Street and 45 units of affordable housing on an adjacent site. (Decision 164-166/2020 refers).
 - 2.5. The Council has also been notified that it is likely to receive £9.6 million through the Future High Streets Fund which will enable some of the proposed re-development proposals.
 - 2.6. Members were advised that Officers would in the first instance seek general advice on the various options open to the Council for the Pentagon site, so that they these can be appraised and presented to Members. That work has now taken place. The first element of proposed development is set out in detail in the attached Exempt appendix 1.
3. Redevelopment proposals
 - 3.1. The Council is in advanced discussions with a public sector organisation to reconfigure and occupy an area of the Centre. The envisaged project would provide the prospective tenant with the ability to divest itself of other unsuitable property, it would provide a rental income to the Council. It would drive footfall to the centre and improve the overall vitality of this strategic asset. This proposal would dovetail well with the bringing back into use of

Mountbatten House and the other town centre improvements planned to be delivered over the next 2-3 years, set out above.

3.2. Part of the original strategy was to redevelop an area of the Centre, which is currently under-performing as lettable space, to provide additional leisure facilities in Chatham. However due to changes in demand in the leisure market, a prospective tenant has withdrawn their interest and this is no longer considered a viable redevelopment or letting option for the Council. A new repurposing strategy has therefore been produced which is to bring alternative uses into this area, reducing the amount of retail and thereby increasing the sustainability and profitability of the ground floor retail. The new uses will be varied, but the redevelopment will be anchored by an excellent public sector covenant with supporting civic uses. Consultation will begin with the current occupiers affected shortly to establish whether they can be offered alternative premises in the Pentagon Centre.

3.3. One of the options for alternative premises that the Council is actively considering could see a dedicated area retained for charitable and other third sector organisations operational space to deliver their services. This would complement the public sector and other civic uses envisaged.

4. Funding the next element of design work

4.1. In developing this new repurposing strategy, the Council has completed design work up to RIBA stage 1 (the various RIBA stages are set out in the attached Appendix 1) with funding from the One Public Estate initiative. This proves that the concept could work.

4.2. Further design work is needed to progress the proposal such that the public sector tenant will enter into Heads of Terms and an agreement to Lease. This work would in essence be at risk.

4.3. Cabinet is asked to consider and approve this additional funding as landlord of the Pentagon Centre.

4.4. The likely cost of the proposed scheme will be in excess of £10 million, with the capital funding being provided by the prospective tenant. They would also underwrite any abortive design costs after RIBA stage 2 if the project did not proceed.

5. Advice.

5.1. The Council has been advised during the period 2019 to present by Ellandi, who are the managing agents for the Pentagon Centre. Part of their brief is to offer professional advice about the redevelopment of the asset, to improve economic performance, Centre vitality and to enhance the overall capital value. The Chairman of Ellandi is Mark Robinson, who is the currently chairing the Government's High Street Task Force. This means that the repurposing strategy has been informed by activity and initiatives being employed elsewhere in the country.

5.2. Ellandi advise that the proposal would offer a significant positive impact on the Pentagon Centre. They further advise that, to put the request for funding at risk in some perspective, if the owner of the Centre was a commercial landlord, they would take the step of funding at risk, given the likely financial benefits.

6. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Council funding of the RIBA stage 2 work is wasted	Public funds are not fruitfully deployed	Look to mitigate the financial risk through the use of unallocated One Public Estate and Section 106 funds.	C2
The prospective tenant does not decide to pursue the project	Proposal not progressed	Maintain live dialogue with the tenant.	C2

7. Finance and legal implications

7.1. Underspent One Public Estate and Section 106 funds have been identified that are sufficient to cover the cost of the RIBA stage 2 works. Additional funding is available should it be required from the Pentagon: Future Capital Works scheme in the Council's Capital Programme, with a budget of £5.045m.

7.2. Once the RIBA stage 2 works are complete the Council will agree Heads of Terms and an agreement to lease with the public sector tenant, to protect any further investment to complete this project.

8. Recommendation

8.1. The Cabinet is asked to approve progressing of the re-development proposal outlined at Exempt Appendix 1, including the RIBA stage 2 design works.

9. Suggested reasons for decision

9.1. The Council wants to regenerate Chatham and wants to support the economic renewal post Covid-19 of the "city centre" of Medway. By progressing this proposal the Council will be working towards its ambitions for a more vibrant and busy Pentagon Centre.

Lead officer contact

Perry Holmes, Chief Legal Officer

T: 01634 332133 E: perry.holmes@medway.gov.uk

Appendices

Appendix 1 – RIBA stages document

Exempt Appendix 1 – draft proposal

Background papers

None.