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**Strictly Private and Confidential (DRAFT)  
Commercially Sensitive Information Contained  
SUBJECT TO CONTRACT**

**26<sup>th</sup> February 2018**

Dear Mr Murray

Further to our various discussions, I write to set out the current position in relation to our proposal. This document sets out the proposal being promoted by Quinn Estates Limited (QE) and provides the rationale, background and evidence to support a proposal brought forward by QE for the delivery of a new hospital shell building, infrastructure and land for East Kent Hospitals University NHS Foundation Trust in Canterbury. This letter contains highly confidential and sensitive information but in the spirit of openness and transparency, and to allow you a high degree of confidence as to the viability and deliverability of this proposal, we have included as much detail as we are able to at this stage. As such, this information should be treated on a strictly private and confidential basis, but we wanted to include as much as possible in order to allow you to formally consider the option we are able to put forward to your Trust.

**Executive Summary**

The proposal is to bring forward a comprehensive residential led development, incorporating a new hospital shell building, as envisaged on the enclosed indicative master plan. We are proposing to deliver a serviced new shell building to the Hospital Trust of circa 591,100 sq ft (subject to further review, discussion and confirmation), with appropriate access and associated car parking for circa 600 spaces, provision, alongside a comprehensive residential scheme of circa 2,250 new homes, new education, sport, leisure and community facilities serviced by a significant infrastructure provision. The shell building, car parking and associated infrastructure will be constructed at the outset and given to the Hospital Trust at nil cost, and for clarity, the proposal does not encompass any of the existing Trust owned land.

**Landowners**

The site is currently under the ownership and control of 5 major landowners (indicative land holdings are all subject to confirmation based on final layouts and shown in approximate figures only), these being:

The Wacher Family	161.2 acres
Kent County Council	14.57 acres
Canterbury City Council	23.5 acres
The Pope Family	21.5 acres
A C Hume	11 acres

Our proposal is to facilitate the provision of a new hospital facility to shell and core finish, with associated car parking, services and landscaping, to be funded via a “land tax” type arrangement from the sales of land on the remainder of the site. The site and associated land for the shell building would be gifted to the hospital trust, to complete the fit out etc at completion.

Discussions with the relevant land owners are progressing well and the principles of the approach with the majority landowner, the Wacher Family, are now agreed and Heads of Terms are in the process of being confirmed. The intention is that these terms will then form the basis of the agreements with the other relevant landowners to allow formal documentation to be entered into with all parties.

### **Quinn Estates Role**

QE are a Kent based local developer and in every scheme, we aim to do something positive for the communities in which we develop. Now directly employing in excess of 350 local people and sub-contractors, our schemes create huge social, environmental, sporting and economic benefits for the communities in which they are located. Our reputation for delivery has led to us becoming joint venture partners with several councils in Kent, including Ashford and Swale Borough Councils. Working with Swale we have recently struck the ground on the Sittingbourne Town Centre regeneration scheme, a scheme which several developers attempted and failed to deliver (including Tesco who lost £100m in the process). With Ashford, we are currently building out phase 1 of the Ashford Commercial Quarter, a proposal for which Ashford had been searching for a development partner who would commence construction since the turn of the millennium.

At QE we have assembled a team of qualified chartered surveyors with a wealth of experience in development and construction to progress this project. The team for this project is led by Mark Quinn, the founder and owner of Quinn Estates, who has been delivering high quality mixed-use developments for over 20 years and is ranked in the top 100 most influential people in the UK property industry. Mark is supported in the delivery of this project by William Sheardown, a Chartered Surveyor for over 12 years with in excess of 15 years’ experience in the delivery of NHS projects from his previous role as Group Development Director for GPI, a specialist Primary Care investor and developer. Alastair Cracknell is also a key member of the team, also a Chartered Surveyor and with over 10 years’ experience in the locality. On the construction side, the team is supported by our construction director, Chris Hall, a highly qualified MRICS quantity surveyor with a wealth of delivery experience in the construction industry.

We have previously provided as requested the last three years of accounts for Quinn Estates. Quinn Estates Ltd is a wholly owned subsidiary of Quinn

Investments, which is owned by Mark Quinn. Huw Evans, QEs Managing Director, also owns a small element of shares in the business. Due to the nature of a development company there are various companies which feed into the overall QE business with sizeable projects also being held under the Quinn Estates Kent banner, which again is majority owned by Mark Quinn alongside Emma his wife and Huw Evans. All requested information has been provided during the due diligence process led by Deloitte and we trust this has provided a high degree of confidence in our ability as a company to work with all parties in order to fulfil our obligations.

The QE role in bringing this proposal forward is initially that of the promoter of the site, responsible for running “at risk” the planning application along with responsibility for all of the costs and fees associated with progressing the proposal to the stage of an implementable planning consent.

Once planning has been granted for the proposal it is envisaged that QE fulfil the role of main contractor and project manager for the implementation of the works in relation to the new shell hospital building and the associated infrastructure to go with this. QE believe that they are well based to fulfil this role due to their unrivalled track record for delivery of large scale projects offering huge community benefits across the county. This coupled with our “lean” overhead, means that we are able to deliver these proposals in a manner which offers an exceptional end product alongside excellent value for money. Notwithstanding this however, QE would be happy for this element of the project to be opened up to competition, if required, and these services could be delivered by an alternative organisation if it was desired by the Trust and the land owners.

### **Potential Partners for the Scheme**

Additionally, alongside the due diligence process, we have progressed our discussions with potential partners to work with on delivery of this exciting proposal and in particular, we have identified London & Quadrant as a potential joint venture partner for delivery of this project.

We believe that L&Q is well placed to add value for all parties here in terms of their long-term commitment to creating great places to live and work. L&Q is one of the UK’s leading housing associations and developers and manages more than 90,000 homes across London and the South East. They have a successful track record of building quality homes and creating sustainable communities stretching back over 50 years and currently have more than 80,000 homes in their development pipeline and plan to be enabling the delivery of 5,000 new homes a year by 2020. Worth more than an estimated £23bn, in the previous financial year, the L&Q Group delivered a record pre-exceptional surplus before tax of £332m, a £53m increase from the previous year.

We would envisage working with L&Q on a joint venture type basis, whereby they get involved in the project early, and also work with us to fund the up-front development costs and drawdown land on a preferential basis to offset monies lent upfront for the delivery of both the hospital shell and the associated infrastructure. Their support for this approach is outlined in their letter of support dated 23<sup>rd</sup> February 2018 and is the culmination of detailed discussions held with them both on

the approach to the project and also the high level financial analysis carried out to date. We believe that their involvement in the project from the outset adds significant additional resilience to the overall proposal and also a high degree of certainty over the delivery of the infrastructure at the outset of the project as envisaged by this proposal.

We have also held initial discussions with Homes England (formerly the HCA) in relation to the potential to work together to fund the infrastructure costs at the outset of the project to facilitate the delivery of the overall proposal. These discussions have been held on the basis of upfront lending to facilitate the delivery of the infrastructure, with monies repaid as land is disposed of throughout the development process. Homes England have confirmed that they welcome the prospect of becoming involved in the project on this basis not just due to the huge public benefit which the proposal would deliver but also based on the transformational effect which the project can have for Canterbury and the surrounding areas and its ability to accelerate housing delivery in an area where it is needed. Their overall support for the project as a whole and their involvement in providing upfront funding to support the initial infrastructure is outlined in their letter dated 26<sup>th</sup> February 2018. This provides an additional layer of certainty and resilience to the project as a whole and underlines their support for the proposal.

## **Financial Viability and Forecast**

Our anticipated costs and assumptions are summarised below. We believe these to be robust and accurate and they have been prepared by our in house chartered surveyor with build cost input from our specialist in house construction team.

### Overriding Financial Assumptions

Our forecast is based on various assumptions as summarised below:

- 7% affordable housing provision (subject to viability assessment), reduced due to an increase in the size of medical facility required
- Realistic assumptions in terms of end house values, based on our current experience in the local housing market and suitably adjusted by our in house surveyor
- Build costs are based on our current contracting arrangements and independently verified by our in house construction team
- A hospital shell building of 591,100 sq ft,
- A realistic build cost estimate for the NHS and initial infrastructure requirements as set out in more detail below
- 5% contingency on costs to allow for unforeseen circumstances
- Realistic and suitable provision for other community contributions:
  - Sport and Community £450,000
  - Youth £225,000
  - Libraries £101,250
  - Social £562,500
  - Primary Education £10,125,000
  - Secondary Education £11,250,000

- Parish £450,000
- Significant provisions for archaeology (£1,125,000) and ecology (£1,687,500)
- Appropriate allowances for site wide servicing costs
  - Drainage £6,750,000
  - Landscaping £3,375,000
  - Highways £11,250,000
  - Services upgrades/diversions £4,500,000
  - Possible additional emergency access £3,750,000
- A Nil promotion fee associated with KCC and CCC land reflecting the fact that it is already allocated.
- All figures are exclusive of VAT

### NHS and Infrastructure Assumptions

QE have an extensive and ongoing construction programme, being delivered by a team of qualified surveyors. In arriving at the figures for the Trust element of this proposal, we have initially based this upon our experience at the Ashford Commercial Quarter office building, where we are currently on site. These figures have then been adjusted as set out below to arrive at a robust build cost estimate based on sensible and prudent assumptions.

The total contract value for the ACQ building is £11,648,000 and is backed up by the detailed breakdown document previously provided. The overall GIA of the building is 83,200 sq ft and the building is of a similar open plan finish to the shell proposed for the hospital with limited M&E infrastructure being provided within our contract. Overall this breaks back to a build cost rate of circa £140 per sq ft which includes professional fees. Whilst it is noted that this is an office building and as such a very different animal to the hospital shell, there are significant similarities in that it is a concrete frame, brick skinned building, with similar floor loading requirements to those which the hospital shell will require. Having reviewed the detailed costing for this building, we have then uplifted the budget cost for the hospital shell to reflect the following:

- Increased utility and service loading requirements
- Increased floor to ceiling height (circa 4.4m) to allow for much increased service void requirement for M&E and air handling
- More extensive landscaping and access requirements
- Enhanced circulation requirements including lifts and stairs
- Auxiliary buildings which may be required such as an energy center
- Significant plant room requirements
- Upgraded external works and layout requirements for scanners etc
- Hospital Shell specific HTM/HBN and BREEAM requirements
- Enhanced Contingency allowance

ACQ actual Build Cost Rate	£140 per sq ft
Uplift for enhanced spec, contingency, build cost inflation (circa 10%) etc	£15 per sq ft
Predicted Hospital shell blended Build Cost rate	£155 per sq ft x 591,100 sq ft =
	£91,620,500

We have assumed a 70% proportion of the costs associated with the overall Spine Road and Infrastructure Costs (100% of the new roundabout costs), surface water attenuation and services upgrades will be required as part of the upfront works. These are as follows:

	Total	70%
Highway Improvements and internal Road	£11,250,000	£7,875,000
Service Diversion and Upgrades	£4,500,000	£3,150,000
Surface Water Attenuation	£2,250,000	£1,575,000
Drainage	£6,750,000	£4,725,000
100% of new Access roundabout		£1,687,500
Contingency for Emergency Access		£3,750,000
<b>Total Infrastructure Costs</b>		<b>£22,762,500</b>
Plus Hospital Shell	£91,620,500	
Plus Car Parking		£6,750,000
<b>Total Upfront Build costs to Fund</b>		<b>£121,133,000</b>
Add 5% Contingency		<b>£127,189,650</b>

As added comfort in relation to build cost assumptions, we would also have the ability to further vary the affordable housing provision, subject to viability, further into the process should it become necessary on the grounds of overall viability, although noting that we have already reduced this to 7%. The scheme is still at a relatively early stage and whilst we retain a high level of confidence in the costings set out, this added level of flexibility should also provide further comfort to the Trust.

The building provided to the Hospital Trust will be HBN and HTM compliant in so far as is applicable to a shell building, and will also ensure that a BREEAM requirement of “excellent” is targeted for the relevant elements of the build. The size of the building assumed is in line with the initial indications which have been provided to us to date by the Trust’s estates team.

The Hospital will be provided by shell building, with all services provided to an agreed point within the main structure. All landscaping, hard standing and access to the building will be provided, along with car parking to accommodate circa 600 cars. It is envisaged that the shell will be provided in a wind and watertight state, with a concrete frame and an outer brick skin. Windows will be provided along with canopies and solar shading as necessary. Provision will be made for suitably sized lift shafts as well as stair cores throughout the building. Floors will be left as finished concrete and the external walls will be plaster boarded and skimmed ready to receive paint finishes. Floor to ceiling heights will be set at approximately 4.4m to allow for suitable internal room height with sufficient clear voids above to receive mechanical and electrical services as needed to service the building. The full detail of the shell specification will be worked up in conjunction with the Trust’s estates team to ensure that the building is designed with the end-users requirements acknowledged at the outset and the frame, building, services and external works designed to accommodate these.

## Funding

It is proposed that QE fund all of the up front planning costs required to bring this scheme forward to an implementable planning consent. These costs are currently estimated at circa £2,000,000 and will be funded “at risk” by QE.

Once planning consent is achieved it is proposed that additional funding be put in place to facilitate the early delivery of both the hospital shell, road infrastructure and utilities and services, to allow the scheme to come forward for development. Whilst one option considered at an earlier stage was to make use of current central government funding initiatives, we now believe that in partnership with L&Q, the necessary funding for delivery can be raised of the back of the future land value, and as such, this will offer a very secure and reliable source of finance for the project to allow the upfront delivery of the hospital shell and infrastructure. The Homes England interest noted earlier also adds a further layer of comfort in relation to potential sources of upfront funding for the project should it be necessary.

### **Timeframe / Program**

Should this proposal be taken forward as the preferred option for consultation, we would anticipate being in a position to submit a planning application in summer 2018. This would be at our risk as it will be in advance of the consultation conclusion but we have assessed this risk and are comfortable with it, however, this will be subject to further discussion as the proposal progresses.

As the programme below demonstrates we believe that we will be able to hand over parts of the shell on a phased basis, thereby allowing the Trust to commence fit out of the shell in advance of the overall completion date. By adopting this flexible approach and working with the Trust, the overall delivery timetable can be shortened from the dates originally envisaged and provide a swifter route to overall completion.

The overall timeframe is set out below and we believe shows a realistic timeframe to completion of the shell and infrastructure by April 2022 and a finished building ready for the Trust to decant into by August 2022.

NHS options review	November-December 2017
Public Consultation	March - December 2018
Planning Application	August 2018
Planning Determination and Approval	January 2019
Scheme Call In	February - May 2019
S106 signed and Planning JR Free	November 2019
Site Set Up	December 2019
Commencement of Infrastructure and Hospital Shell Building	January 2020
Shell ready for commencement of Fit Out	April 2021
Completion of Infrastructure and Hospital Shell Building	April 2022
Trust Fit our works complete and building ready for decant	August 2022

### **Planning**

It is acknowledged that part of the site, in the ownership of KCC and CCC is already allocated for residential development within Canterbury's adopted Local Plan (and noting that a promotion fee is not being charged on this land). This allocation is for 310 new homes, alongside a new fast track bus route to link through from the South Canterbury development site to South Canterbury Road. Whilst our proposed site is not allocated in its entirety, it is generally perceived that there are a number of factors which will contribute positively towards its consideration to be brought forward for development outside of an allocation. These are summarised as follows:

- Canterbury City Council (CCC) has set out its housing requirement within its newly adopted Local Plan (July 2017), identifying a target of 15,600 dwellings over the Plan period 2011 - 2031.
- The Inspector also acknowledged through his review of the Local Plan, the reliance on strategic sites and the tight current assessment and considered this a weakness for the CCC in order to maintain a 5-year housing land supply position. Paragraph 1.78 of the local plan states that "In the context of the Department for Communities and Local Government's 2014-based sub national household projections, the Council will within one year of the Plan being adopted, undertake and publish an assessment of the current evidence on demographic change, how it relates to assumptions around student populations, and any impact on the overall housing need for which the Local Plan makes provision"
- It is likely that as the housing shortage intensifies in London, local areas, including Kent and Canterbury District may be expected to share some of this additional burden in the form of increased housing number requirements adding additional pressure to the current situation.
- Strode Farm (another strategic housing site) is also currently subject to an appeal for a hybrid planning application for 800 units. (CA//15/01317) which has yet to be decided and has a separate pending planning application. (CA//15/02782).
- This proposal offers an "exceptional benefit" to the city of Canterbury by providing a significant enhancement to the health and social infrastructure of the city.
- The infrastructure will also help mitigate air quality for the town center by dissipating traffic and creating alternative routes which avoid the use of the central ring road.
- The scheme facilitates huge economic benefits to Canterbury both through job creation and retention, and also offering the opportunity for a new medical campus to compliment the existing Further Education provisions within the City.
- By creating a Health Hub for the city, this will also attract new business and industry to the City in the form of medical science and pharmaceutical companies, further enhancing the economic benefits delivered.
- The site is located in a highly sustainable location due to its proximity to the town center, and being within walking distance of both mainline railway stations and the town center itself.
- The scheme has been sensitively master planned to incorporate good design principles for edge of town development and adopting large elements of public open space, making green areas accessible to all.

- The project also relates to the current high landscape value areas by retaining key features and incorporating them into the development.
- The scheme still retains the ability to make significant s106 contributions towards associated community and local needs, and additionally makes provision for new primary school provision and contributions towards secondary education.

## **Approvals**

In bringing the scheme forward there will be a number of approvals required from the various parties.

For Kent County Council and Canterbury City Council we anticipate that a full cabinet approval will be needed for the disposal of the land and in order to achieve this both Councils will need to be satisfied that due process has been followed and “best value” has been achieved.

The NHS will need to provide the requisite approvals for the hospital shell element of the scheme following the due consultation process and the progression of detailed design for the shell building. The additional land owners will also need to formally consent to and agree the proposed scheme and enter into legally binding contractual agreements at the appropriate time.

All parties will also need to approve and sign up to the over-arching promotion/collaboration and land agreements. The scheme itself will need an implementable planning consent, and if the application is called in by the Secretary of State, a final approval will also be required prior to being able to move forward.

For the shell building itself building regs sign off to the appropriate stage will be needed prior to handover and final certification pertaining to the completion of the shell building to the appropriate specification will be required.

## **Deliverability**

Deliverability is the key to this proposal, to this end the strengths of the proposal are as follows:

- The scheme relies on a limited number of committed landowners with realistic land value expectations to facilitate delivery of the exceptional benefits and historic involvement with healthcare provision in the city.
- A strong planning argument as set out within the planning heading of this letter.
- Land free from restrictive covenants to inhibit the ability for the scheme to come forward
- Extensive due diligence already carried out on the scheme to establish the development potential of the land.
- Flexible approach to affordable housing provision (subject to viability) for the site to allow for changes to the infrastructure provision requirements.
- Sensible and robust cost and budget assumptions made within the financial assessments to demonstrate the financial viability of the proposal.

- Huge political and community support for the range of benefits facilitated by the proposal.
- A committed developer/promoter with an excellent track record for the delivery of housing, commercial and community projects within the county.
- The opportunity for the scheme to be built by a local company, employing a local workforce and building extensively in the county at the current time.
- Support and commitment from L&Q, one of the UK's leading housing associations and developers, to work with QE to deliver the project and provide an alternative funding route to ensure delivery of the requisite infrastructure, importantly to include the hospital shell.
- Further support from Homes England as outlined in their letter of 26<sup>th</sup> February 2018.

There are also weaknesses to the deliverability of the proposal and all parties will need to work together to minimize or address these as the project moves forwards:

- With any scheme involving multiple landowners, there is a pressure to make sure that all parties interests are aligned and each is treated with parity. QE have already sought to mitigate this through the proposed equalisation agreement and this will be further refined through the legal documentation process.
- The proposal involves public land holdings and needs to recognize that public bodies have a range of diverse needs, including ensuring transparency, competition and achieving best value. QE are proposing an open and transparent approach to the proposal and happy to participate in market testing as may be necessary in order to demonstrate this.
- The proposal is very much in the public and political arena and as such there is the potential for differing parties to seek to de-rail the process for their own ends. This will need to be managed by a controlled approach to information release and a common theme and consistency to any responses in the public realm.
- There are potential JR risks to a number of elements of the proposal and these risks will need to be identified early and mitigated or planned for early in the process. These could arise from:
  1. Challenge to the options considered under the STP process
  2. Challenge to the planning process to consent granted
  3. Challenge to due process being followed by the relevant public bodies involved in the proposal.
- KCC and CCC already have their land allocated for residential development and as such the values achieved for the proposal will need to seek to achieve a similar position in terms of values and benefits.
- The NHS need to go through a process in order to consider the proposal as part of their overall strategy and STP. This will again need to be managed and clear, reliable and robust information provided at each step of the proposal development. This starts now and the purpose of this letter is to enable the main parties to provide a level of clarity and commitment to the proposal which allows the option to be added into the NHS decision making process.

- A large scale health provision in Canterbury will be perceived to be to the detriment of health provisions in other parts of the county. Again, this perception needs to be managed and will form a key part of the NHS review of options available to them to fit in with their overall strategy for East Kent as a whole.
- There may be tax implications to be considered in relation to the disposal of the land and how this is approached, and early advice on this will be needed.

QE are already working with the relevant parties to mitigate these risks to the overall proposal and will continue to do so as the project progresses to ensure early mitigation and comfort can be provided as the proposal progresses.

### **Summary of Key Points**

- The approach outlined within this letter confirms the financial viability of this proposal and that it is deliverable.
- We have set out the approach to the funding of the various elements of the proposal and how this is envisaged and are confident in the approach set out.
- Overall program of 2 years to achieve and implementable planning consent by late 2019 and a flexible approach to Trust fit out works to enable the new facility to be operational by summer 2022.
- Land owner contributions, ensures each land owner achieves value for money from their respective land disposals.
- The proposal represents a compelling argument in planning terms, supported by the provision of “exceptional” benefits to the locality, as outlined above.
- A robust approach to potential risks has been adopted, with these being identified upfront and all parties working to resolve problems before they arise.
- The scheme adopts a well-conceived approach to access, both by car and alternative means, linking to both the existing and proposed road network, and facilitating the Fast Track Bus route, through the site and onto South Canterbury Road as well as onwards to the Wincheap area, avoiding the town center ring road. Notwithstanding this, provision within the proposal has also been made, should additional emergency access be required, so as to not to rely on the delivery of infrastructure by others.
- A total building of circa 591,000 sq ft GIA is currently proposed, in line with discussions with the Trust’s estates team.
- The shell building, land and associated landscape areas and car park will be transferred to the Trust with all rights as to access, along with appropriate collateral warranties at the point of completion and handover of the shell.
- The shell will have a minimum life expectancy of circa 60 years, as is usual for these type of buildings.
- It is confirmed that the proposal does not require any land currently in the ownership of the Trust to be transferred.
- Commitment from L&Q both for the promotion of the proposal and also as a delivery partner to fund upfront infrastructure in return for serviced land as the development progresses.

## **Conclusion**

I trust that the above and enclosed information provides sufficient detail on the where we are and the approach taken to date.

As is evident, a large amount of work has been done on bringing this opportunity forward and we truly believe that it offers an excellent opportunity for both the land owning parties involved, the Trust and the population of Canterbury as a whole. I look forward to hearing from you soon once you have had a chance to digest and we can then discuss the next steps to allow this proposal to move forward.

QE have undertaken extensive work to identify a delivery partner for the project and have evidenced that L&Q stand ready to partner with us in the delivery of this project. This additional support not only provides additional resilience to the delivery team for the project but also provides an important route for funding the infrastructure to be delivered at the outset of the project, as envisaged by this proposal.

To conclude, this letter is strictly private and confidential and provided as part of the necessary review process to enable the NHS to consider the option. Should this proposal be one which the Hospital Trust would like to pursue further then legally enforceable documentation will follow as part of the ongoing process.