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| Cabinet Meeting | |
| Meeting Date | 17 March 2021 |
| Report Title | Swale House refurbishment project |
| Cabinet Member | Cllr Monique Bonney, Cabinet Member for Economy & Property |
| SMT Lead | Nick Vickers, Chief Financial Officer |
| Head of Service | Anne Adams, Head of Property Services |
| Lead Officer | Anne Adams, Head of Property Services |
| Key Decision | Yes |
| Classification | Open |
| Recommendations | Cabinet is recommended to: <ol style="list-style-type: none"> 1. Authorise the Chief Financial Officer to borrow either internally or externally up to £1.9m and allocate the funding to installing double glazed windows, LED lighting, repairing and insulating the roof, insulating the under-croft and carrying out minor internal alterations. |

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to present the detailed proposals for the low carbon refurbishment of Swale House and to seek Cabinet approval to allocate the required funds to the project. This project represents a significant contribution towards the target of achieving net zero carbon In Council operations by 2025.

2 Background

- 2.1 The progress report that was presented to Cabinet on 9 December 2020 provided the background to the project, detailed the appointment of the project/consultancy team and set out the key objectives for the project. These were:
- To contribute towards the delivery of the Climate and Ecological Emergency Action Plan by creating a low carbon building,
 - To create a modern and efficient working environment for the organisation, and
 - To support the Council's Economic Improvement Plan and Recovery Plan by providing opportunities for businesses to locate at Swale House.

2.2 Our consultants have carried out extensive works to determine our options for reducing carbon emissions and their reports can be found as background papers to this report. In order to maximise the possible carbon reductions and achieve the net zero carbon objective the following works would need to be considered:

- Wall insulation,
- Ground bearing slab insulation,
- Under-croft soffit/slab insulation,
- Roof stair core and plant room insulation,
- New double or triple glazed windows,
- New external doors,
- Solar shading,
- Roof insulation,
- Air source heat pump,
- New air handling plant with heat recovery,
- Upgrade to incoming electrical supply,
- Solar PV panels,
- LED lighting.

Public Sector Decarbonisation Scheme

2.3 In the previous report it was explained that the scope of the project and amount of funding to be recommended would be dependent upon whether the grant application had been successful. The very short timescales were also set out.

2.4 The amount of funding that we were able to apply for was considerably less than first realised due to the cap that was placed on applications. The cap was based on the amount of carbon that would be saved each year and, in our case, that resulted in a maximum grant of £1.1m.

2.5 The grant funding also had other criteria that have proven impossible to meet with the amount of match funding available. The installation of an air source heat pump was an essential requirement of the grant and for this to be an effective method of heating the building, it would require high levels of thermal insulation to the fabric of the building. The cost of the necessary work to meet the grant criteria has been estimated as £6m excluding fees.

2.6 At the same time as submitting the grant bid for Swale House, we also submitted a bid for the refurbishment of Master's House, Sheerness. We have now had notification from Salix Finance, who are managing the grant process, that the Master's House bid has been successful. We have therefore advised Salix that we propose to proceed with the grant for Master's House and withdraw the bid for Swale House.

BREEAM accreditation

2.7 In the previous report, it was recommended that the BREEAM accreditation be used to measure the success of the low carbon measures due to it being a widely recognised accreditation scheme which allows comparisons to be made against other buildings.

The reduced scope of the proposed work now means that it will not be possible to meet the criteria required for the accreditation. Other options for measuring the success of the low carbon measures are being investigated.

- 2.8 The nature of the proposed work, which is primarily essential maintenance work, does not require a BREEAM accreditation.

Workplace planning

- 2.9 Our consultant Spacelab has carried out an extensive engagement exercise to establish the needs of the organisation post-Covid. This has demonstrated that around one third of the building could potentially be freed up for third party occupiers.

- 2.10 A number of principles have been applied to their proposed design of the staff and member area:

- New ways of working, eg. greater home and flexible working,
- Improved social experience between teams, eg. use of break out spaces away from the desk,
- Delivering services digitally whilst continuing to be accessible, approachable and people focussed,
- Opening up part of the building for external paying tenants to generate rental income.

- 2.11 The area identified for third party use (tenant area) amounts to 2377 square metres of space. For the purposes of the draft layout and upon the advice of local agents, the area has been divided into four different office types together with meeting rooms, co-working areas, shared tea points and waiting areas. The potential income that could be achieved if this area were fully let is estimated as between £250,000 and £380,000 per annum.

- 2.12 The proposed internal refurbishment will also include other necessary improvements such as the addition of a fully accessible toilet on every floor, additional shower facilities and a review of on-site storage and ICT infrastructure.

- 2.13 It is important to use a low carbon approach to the internal refurbishments as well as to the carbon reduction measures themselves. This involves a “make do and mend” approach using the principles of the “circular economy”. This will be explored in more detail at the next stage of the project but could include the purchase of previously used desks and/or upcycling existing furniture where possible.

- 2.14 The estimated cost of the internal refurbishment works is up to £5.2m. This could potentially be reduced through a reduced scope of works and it is recommended that this is considered at a later phase of the works.

- 2.15 The next step is for the work carried out by Spacelab to be validated by SMT and members and for further work to be carried out to understand the rental market for commercial space in Sittingbourne. This will allow the risks to be evaluated prior to a final decision on this piece of work. At this stage, no decision is being requested in

relation to this element of the project as it will form the subject of a future report in due course.

3 Proposals

- 3.1 It is proposed that the alterations and improvements explored by the consultancy team should be carried out on a phased basis, with a view to all carbon reduction works being complete by 2025 if funds allow.
- 3.2 The first phase of the works which members are being asked to approve primarily consists of essential maintenance work which will also deliver the essential first steps towards the objective of a net zero carbon building by 2025. It is also proposed to carry out some minor internal alterations with a view to freeing up some space for renting out.
- 3.3 The target carbon reduction figure stated in the Carbon Trust report is 186t CO₂ per annum. The proposed works will achieve an estimated 70t CO₂ reduction per annum.
- 3.4 A relatively low cost improvement is the use of LED lighting. Many of the light fittings within Swale House have already been replaced with LED lights as part of routine maintenance or previous refurbishments (eg. toilets). It is recommended that any lights that have not yet been replaced should be included in the project.
- 3.5 A further low carbon option is the installation of solar PV panels on the roof. This would be an option if the roof structure is strong enough to take the additional weight of the panels. It has been included in the consultants' report and is included as an option in this report but will require more detailed structural investigations to determine its feasibility. The cost of solar PV panels is estimated as £105,000.
- 3.6 Improving the insulation to the fabric of the building is also an important contributor to reducing carbon emissions. To optimise this would require new double glazed windows, insulation to the roof and under-croft and cladding to the existing walls. The cladding could be applied either externally or internally. It is recommended that all of the work is carried out with the exception of the wall cladding which could be considered in a later phase of the project. The replacement of the windows and the work to the roof are deemed to be essential maintenance work as both are over 40 years old and are life expired.

Financial Implications and risks

- 3.7 The table below sets out the justification for the work that is recommended to be carried out in 2021/22.

| Element | Justification | Capital cost | Running cost implications |
|------------------------------|---|---------------------|----------------------------------|
| Window and door replacements | Anticipated annual carbon reductions of 49 tonnes | £940,200 | £6,600 (cost of gas savings) |

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| | Improved comfort conditions for staff | | |
| Roof repair and insulation (including provisional sum for strengthening roof slab) | Essential repairs due to poor condition of roof structure and coverings. Anticipated annual carbon reductions of 5 tonnes | £538,000 | £700 (cost of gas savings) |
| Insulation of under-croft | Anticipated annual carbon reductions Improved comfort conditions for staff | £233,000 | TBC |
| Minor internal alterations to free up space for tenants | Supporting the Council's Economic Improvement Plan and Recovery Plan by providing opportunities for businesses | £200,000 | TBC but tenants would contribute towards running costs (service charges) as well as paying rent. |
| LED lighting (excluding cables and controls) | Anticipated annual carbon reductions of 16 tonnes | £75,000 | £9,500 (cost of electricity savings) |

3.8 Funding the £1.9m will require borrowing, given the sum involved this could be in full or part from internal borrowing at least initially. Even if the funding source is internal borrowing the Council will need to pay Minimum Revenue Provision- basically charging the revenue account for the repayment of principal and moving that to the balance sheet. The cost of MRP would be £38,000 per annum. If we borrowed the sum in full externally the interest cost would be £38,000 per annum.

3.9 A risk register has been prepared for the project. Some key risks worthy of highlighting are:

- The market for commercial office space in Sittingbourne may not be strong enough to guarantee that all of the space created can be let. Space could therefore be left vacant for a protracted period. This risk can be partly mitigated by designing the space so that the meeting rooms and other parts of the tenanted area could potentially be used by the Council while there is no external demand for it. However, the projected income figures would still be impacted. In order to break even on borrowing it would be necessary to rent out 2,500 sq ft of space at a rental figure of £15 per sq ft.
- Tendered costs could exceed the agreed budget figure. The project scope will have to be reduced to come within the funding allocated.

Project Delivery

- 3.10 The timescale for delivery of the work will be dependant upon the extent of work carried out. It is anticipated that the work to the windows, roof and boilers would be carried out during the summer with completion in the Autumn.
- 3.11 The essential repairs and the internal alterations work are all potentially disruptive to staff, members and tenants so careful planning will be required and work carried out on a phased basis if possible. If the majority of staff are able to continue working from home and Council meetings can continue to be held online, it is thought that disruption will be manageable without the need to seek temporary alternative accommodation.

4 Alternative Options

- 4.1 *Not to carry out any refurbishment works:* This is not recommended because the building would continue to be environmentally inefficient and any scope to increase rental income from third party occupiers would not be realised.
- 4.2 *Carry out all works required to maximise carbon reductions:* This is not possible at the current time due to the high costs involved.

5 Consultation Undertaken or Proposed

- 5.1 As part of the space planning work carried out by Spacelab they carried out an extensive engagement exercise with staff to gain an insight into how staff and the organisation are likely to use the building once all Covid restrictions have been lifted.

6 Implications

| Issue | Implications |
|----------------------------------|---|
| Corporate Plan | This project meets the corporate priority to address the climate and ecological emergency by reducing carbon emissions from Swale House. It also meets the priority to reduce dependence on government-controlled funding sources by increasing the amount of space available for renting out to third party occupiers. It also supports the Council's Economic Improvement Plan by providing office space for renting out. |
| Financial, Resource and Property | The financial implications are set out in the report. The project delivery phase would be managed by the project managers (Quartz Project Services) with the continued support of the existing design team. |

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| Legal, Statutory and Procurement | <p>The Council has statutory power under section 1 of the Localism Act 2011 to do anything that individuals generally may do.</p> <p>Support will be required from both Procurement and Legal Services in relation to the procurement process and the completion of contracts.</p> <p>All necessary contracts and ancillary deeds and documents to be entered into must be in accordance with the Council's Contract Standing Orders on procurement and contracts as outlined in the Council's Constitution and should be in a form approved by Head of Mid Kent Legal Services.</p> <p>Acting on the recommendations is within the Council's powers as set out in the above statutory provision.</p> |
| Crime and Disorder | None identified at this stage. |
| Environment and Climate/Ecological Emergency | The environmental implications are set out in the report. |
| Health and Wellbeing | The internal alterations being proposed for the organisation take account of the views expressed by staff in the staff engagement exercise. It is therefore anticipated that there will be a positive impact on staff's health and wellbeing. |
| Safeguarding of Children, Young People and Vulnerable Adults | None identified at this stage. |
| Risk Management and Health and Safety | All risk management and health and safety implications will be addressed in the Project Initiation Document and will be managed throughout the project delivery phase. |
| Equality and Diversity | None identified at this stage. |
| Privacy and Data Protection | None identified at this stage. |

7 Appendices

- 7.1 Appendix I: Budget estimate – net zero carbon works
Appendix II: Budget estimate – internal works

8 Background Papers

None