

<b>Cabinet Meeting</b>	
<b>Meeting Date</b>	17 March 2021
<b>Report Title</b>	Master's House, Sheerness – low carbon refurbishment
<b>Cabinet Member</b>	Cllr Monique Bonney, Cabinet Member for Economy & Property
<b>SMT Lead</b>	Nick Vickers, Chief Financial Officer
<b>Head of Service</b>	Anne Adams, Head of Property Services
<b>Lead Officer</b>	Anne Adams, Head of Property Services
<b>Key Decision</b>	Yes
<b>Classification</b>	<b>Open</b>
<b>Recommendations</b>	<p>Cabinet is recommended to:</p> <ol style="list-style-type: none"> <li>1. Approve the allocation of £1.3m of funding towards the cost of the low carbon refurbishment of Master's House, Sheerness,</li> <li>2. Agree to waive Contract Standing Orders for the award of contract over £100,000 and delegate authority to the Head of Property Services and Head of Legal Services in consultation with Cabinet Member for Economy and Property to enter into the necessary contract(s) to undertake the works, due to the short timescales associated with the grant funding and to ensure that the required completion date of 30 September can be met, and</li> <li>3. Delegate authority to the Head of the Legal Partnership to negotiate and complete all necessary contracts, leases, deeds and ancillary deeds and documents on the terms agreed by the Head of Property Services as referred to at recommendation 2 above.</li> </ol>

## 1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to seek Cabinet approval to allocate capital funds to the low carbon refurbishment of the Master's House, Sheerness. This will secure the long-term future of the building as a social, community and business hub for Sheerness.

## **2 Background**

- 2.1 Master's House in Trinity Road, Sheerness was formally the district office for Swale Borough Council. It is a two storey Victorian period property that has an Edwardian extension on the western end, as well as a large 1960s side extension to the east. It comprises 5,813 sq ft gross internal area. It is a well located asset in the heart of Sheerness, between the Water Tower and Holy Trinity Church, with SBC's Trinity Place Car Park to the rear and a short walk from the High Street, train station and sea front.
- 2.2 In 2011, Kent County Council opened the Gateway in Sheerness High Street and the SBC services that were previously delivered from the Trinity Road offices transferred to the Gateway.
- 2.3 The building has been let to the current tenant for six years, on a peppercorn rent and on full repairing terms. The tenant has sublet the space for community purposes as well as to individual occupiers on rolling short term leases pending a longer term decision on the future of the building.
- 2.4 The building was rebranded as the "Master's House" by the recent occupiers to reflect its earlier purpose in connection with the adjacent water company buildings.
- 2.5 Historically there has been very little investment in the building and consequently it is now in need of significant refurbishment to bring it up to standard in order to be able to relet it.
- 2.6 The building currently does not meet the minimum standard required for a compliant Energy Performance Certificate. This means that the building cannot be leased out without environmental improvement works being carried out.
- 2.7 Notice has been served on the existing tenant to ensure that vacant possession is achieved prior to the works commencing.

## **3 Proposals**

- 3.1 There are two key drivers for the proposed refurbishment:
  - Making a significant contribution towards the Climate Change Action Plan objective of achieving net zero carbon Council operations by 2025, and
  - Meeting the priorities set out in the Economic Improvement Plan 2020-2023 including the Council investing in its own assets. "Securing investment and Infrastructure", "Raising Swale's Profile" and "Supporting Local Business". This project will enhance Sheerness town centre by creating a business and community hub that provides high quality office, meeting and social/community space for use by the local community.

### ***Consultancy team***

- 3.2 Due to the similarities with the Swale House project, it was decided to appoint the same project managers and quantity surveyors (Quartz Project Services) and MEP/sustainability experts (Elementa Ltd) for both projects.
- 3.3 In addition, Noviun Architects were appointed to design a new internal layout and advise on the required improvements to the building fabric.
- 3.4 Because of the tight timescales for the grant application process, all appointments were made using approved framework agreements.

### ***Public Sector Decarbonisation Scheme***

- 3.5 A bid for grant funding has been made to the Public Sector Decarbonisation Scheme. The amount that could be applied for was capped by the amount of carbon savings to be achieved from the works. This resulted in a maximum possible bid of £273,400. We have now received formal notification that the bid has been successful. We have also been granted a further £28,500 towards the cost of the professional fees, making a total grant contribution of £301,900.
- 3.6 The success of this bid places tight timescales on the delivery of project with it having to be commenced by 31 March and completed by 30 September.

### ***Works proposed***

- 3.7 The low carbon refurbishment project comprises the following elements:
- Low energy air source heat pump
  - LED lighting
  - Roof insulation
  - Internal wall cladding
  - New windows and external doors
  - Alterations to internal partitions
  - New toilets and kitchens
  - IT infrastructure cabling
  - Solar PV panels
  - Upgrade electrical supply
  - Improved disability access including 8-person/disabled access platform lift and disabled toilet
- 3.8 The works will deliver significant carbon reductions together with an associated reduction in energy use. The total annual carbon reduction is 84 tonnes and the estimated reduction in energy running costs is £8,260 per annum.

- 3.9 The architects have designed a new internal layout for the building which is based partly on the requirements of a modern office environment and partly on making the best use of the large function room on the first floor. The draft plans can be found at Appendix II.
- 3.10 The scheme also includes the option to convert the outbuildings to the rear of Master's House into workshops. These could potentially be rented out as studios to businesses compatible with users of the main building (i.e. not noisy/dirty occupiers who would disturb tenants in the main building).
- 3.11 The budget estimate for the works is detailed in Appendix III. The total cost is estimated at £1,389,617 for the main building and £156,730 for the workshops including fees and contingencies. Assuming a grant of £301,900 the capital sum required to match fund the project would be £1,087,717 (excluding workshops) or £1,244,447 (including workshops).
- 3.12 The works programme is very short due to the grant criteria. It is proposed that the project will be put out to tender by the end of March with works commencing on site in early June. All work must be complete by 30 September. Whilst the works are well under the UK procurement thresholds, Contract Standing Orders (CSOs) requires that all contracts of over £100K in value must be approved by Cabinet. Due to the timescales involved it is unlikely that there will be a suitable Cabinet meeting at which the contract could be approved. It is therefore being recommended that Cabinet agrees to waive this part of the CSOs, if necessary, to avoid any delay to the start of the project and to meet the conditions of funding. The Cabinet Member for Economy and Property will be appraised of the tender process throughout.

### ***Income potential***

- 3.13 There are three key areas for income generation within this project, 9 x office rentals, 3 x workshop rental and hiring of 3 x meeting room/conference space. There is an untested office market in Sheerness, with potentially limited demand, but also limited supply.
- 3.14 The serviced business hub model does run very successfully nationally, and in Sittingbourne there are schemes that have enjoyed some success, operating at viable rents and carrying limited voids. The best known example is the St George's Business Park scheme, which has just celebrated its 20<sup>th</sup> year of trading and which offers a mix of office and workshop space. A key principle of this model is to provide a fully inclusive rent, on an easy in easy out basis, based on a month to month licence, paid in advance. Despite this, there is not a rapid turnover of occupiers and this flexibility, alongside services such as central reception, maintenance, internet provision, and other management services does command a rental premium. However, such a scheme has not been tested on the Island.
- 3.15 In order to look at a base operating model to ensure viability, advice has been sort from local agents and a review of the local letting market has been undertaken as well as some modelling, considering fixed and variable costs. It is also unknown what impact COVID19 will have on this type of operating model, although national industry intelligence is predicting a more flexible approach will become the norm.

- 3.16 The rent predictions vary significantly, with a premium product of a fully let scheme for the offices and workshops providing rents of circa. £76k inclusive of a service charge and with a more traditional offer of longer term rents producing estimates no lower than £34k exclusive of service charge. Meeting and conference space has also been predicted at a 30% occupancy rate would generate an annual income circa. £28k.
- 3.17 Market engagement and testing will now be required to see if there is demand for the business hub model, this can be undertaken during the refurbishment works. If the market did not respond to this model, then a more traditional office let could then be marketed and the management of the building and other associated services would be reduced and the most appropriate operating model taken forward.

### ***Options for management arrangements***

- 3.18 There are a number of options to be considered in relation to the future management arrangements for the building:
- ***Direct management by SBC using directly employed staff.*** Full control would be retained over how building is used. SBC retains all risk relating to rental income, voids and running costs. Potential difficulties with providing cover for sickness/holidays. May require a job share arrangement.
  - ***Indirect (“arms length”) management by a company or trust, working on behalf of SBC.*** Control over how building is used can be written into management agreement. Risks relating to rental income, voids and running costs likely to fall to SBC. Also lose connection to local businesses/Economic Development aspect.
  - ***Building leased to a company or trust to manage.*** Very low risk option as rental income would be guaranteed regardless of occupancy of the building or income generated from tenants. SBC could influence how building is used by including a user clause within the lease. However SBC would only have minimal influence how the asset is used/let. If business is not viable, lease could be forfeited and building returned to SBC
- 3.19 It can be seen that the different options have very different levels of risk. All three options will potentially deliver the key objectives for the scheme. At this stage members are not being asked to consider the management arrangements as this will be the subject of a future report in due course.

## **4 Alternative Options**

- 4.1 The building could be disposed of, either via a freehold or long lease, in its current condition. This could potentially result in the Council losing control over how the building is used in the future. This could be mitigated by including clauses in a lease that restricted the building's use to certain activities. It is also likely to result in a low capital receipt for the building due to its poor condition.

- 4.2 The building could continue to be occupied on a short term basis on the existing terms. This would result in no income being generated and the condition would continue to deteriorate as there would be no investment in the building. This option is also prevented by the inability to enter into a lease unless the environmental standard is improved.
- 4.3 The improvement works to the building could be reduced to the minimum necessary to meet the criteria for entering into a lease. This would require the EPC rating to increase from its current G to the minimum permissible rating of E. This is not recommended as it would not meet either of the objectives of the project set out in 3.1 above.

## 5 Consultation Undertaken or Proposed

- 5.1 Consultation has been carried out with Sheerness Town Council who have expressed an interest in occupying part of the building.

## 6 Implications

Issue	Implications
Corporate Plan	This project meets the corporate priority to address the climate and ecological emergency by reducing carbon emissions from Council operations. It also meets the priorities in the Economic Improvement Plan 2020-2023 including the Council investing in its own assets “Securing investment and Infrastructure”, “Raising Swale’s Profile” and “Supporting Local Business”
Financial, Resource and Property	The main source of funding for the project will be the balance of £850,000 from the Minster Cliffs capital receipt and the balance will be taken from uncommitted Improvement and Recovery funds.
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>The Local Government Act 1972, section 111(1) empowers the Council to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions</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>

	Acting on the recommendations is within the Council's powers as set out in the above statutory provisions.
Crime and Disorder	None identified at this stage.
Environment and Climate/Ecological Emergency	The environmental implications are set out in the report. The project will make a significant contribution towards the target of achieving net zero carbon Council operations by 2025.
Health and Wellbeing	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.
Safeguarding of Children, Young People and Vulnerable Adults	None identified at this stage
Equality and Diversity	Additional disabled toilet and the installation of an 8-person platform lift will ensure that the building is fully accessible to disabled people.
Privacy and Data Protection	None identified at this stage.

## 7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Existing floor plans
- Appendix II: Proposed layout plans
- Appendix III: Estimated costs

## 8 Background Papers

None