

<b>Scrutiny Committee</b>	
<b>Meeting Date</b>	19 January 2022
<b>Report Title</b>	<b>Master's House, Trinity Road Sheerness – Low Carbon Refurbishment</b>
<b>Cabinet Member</b>	Cllr Monique Bonney - Cabinet Member for Economy & Property
<b>SMT Lead</b>	Emma Wiggins - Director Regeneration & Neighbourhoods.
<b>Head of Service</b>	Joanne Johnson – Head of Regeneration & Economic Development
<b>Lead Officer</b>	Jeremy Pilgrim – Interim Property Manager

## **1 Purpose of Report and Executive Summary**

- 1.1 The purpose of this report is to advise Swale Borough Council Scrutiny Committee in respect to the works, progress, and financial propriety in respect to the Cabinet approval dated 17<sup>th</sup> March 2021 to allocate capital funds to the low carbon refurbishment of the Master's House, Sheerness.
- 1.2 Cabinet recommended :-
- a) Approve the allocation of £1.3m of funding towards the cost of the low carbon refurbishment of Masters House.
  - b) Delegate authority to the Head of Property Services and Head of Legal Services in consultation with Cabinet Member for Economy and Property to enter the necessary contract to undertake the works, due to the short timescales associated with the grant funding and to ensure that the required completion date of 30<sup>th</sup> September 2021
  - c) Delegate authority to the Head of the Legal Partnership to negotiate and complete all necessary contracts, leases. Dees and ancillary deeds and documents on the Terms agreed by the Head of Property Services as referred to in recommendation (b) above.
- 1.3 In addition to the approval of funding of £1.3m by Cabinet further funding was awarded by Public Sector Decarbonisation Scheme in the sum of £234,750. The grant was given conditionally for specific items of works in relation to Low Carbon refurbishment to include:- Low energy air source heat pump; LED lighting; New Double-glazed windows and roof insulation. Additionally, the Grant was awarded on the basis that the contract would commence March 2021 and complete by end of September 2021.
- 1.4 Due to number of serious events, most notably business disruption caused by the Covid pandemic; critical staff departures; lack of competitive bids and unprecedented construction cost rises; the original timetable could not be met.

- 1.5 Following further discussions with Salix, the grant funding agency, an extension to the timetable to complete the Low Carbon Works has been extended to the end of March 2022. Due to the current pandemic continuing and the Government implementing 'Plan B' Salix has invited applications to extend completion for a further three months ending 30<sup>th</sup> June 2022, subject to proof that works have commenced. Preliminary work started on site 13<sup>th</sup> December, with start on site to commence January 2022.
- 1.6 The contract was further delayed due to only one bid being received following a detailed Procurement exercise. Following detailed discussions and further negotiations it was agreed to appoint the sole bidder, Astral Contractors Ltd. Astral are an established building contractor located at Sheerness and consequently comply with the Council's policy to where appropriate local contractors, employing local labour.
- 1.7 Due in part to Brexit; the Covid pandemic and the period of lockdown there has been an unprecedented increase in construction costs together with increases in order time and availability of equipment. This required the project to be re-evaluated, with the outcome of either terminating the contract, reducing the specification of works, without diminishing the outcomes or seeking additional funding either through the Council or externally. In view of the contractual agreement to complete the Low energy grant funding works within an agreed timetable, it was agreed to reduce the specification, revise the contract, and proceed. A further evaluation and cost estimates are being obtained for Phase 2 works to obtain further Council funding together with possible additional grant funding through the Levelling Up Fund.
- 1.8 In order to allow an earlier 'on site' start date a Letter of Intent was signed by the Council and Contractor pending completion of the detailed and revised contract. Preliminary work started on site 13<sup>th</sup> December, with start on site to commence January 2022.

## **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 The property and adjacent garden have been secured with fencing as part of the construction site,

### **3 Background to Proposals**

- 3.1 There were 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.
  - The adjoining land and buildings, not in Council ownership are derelict, and it hoped that with the substantial improvements to Masters House it will act as a catalyst for inward private investment and redevelopment of the surrounding area

#### ***Consultancy team***

- 3.2 Due to the similarities with the Swale House project, which did not proceed 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, Novium Architects were appointed to design a new internal layout and advise on the required improvements to the building fabric. Revised plans attached at (appendix 2)
- 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 One of the key drivers outlined in 3.1 above is to achieve net zero carbon operations. The current building is very inefficient and needs substantial improvements to achieve an acceptable level. Principally replacement of the oil-fired boiler was required and as there is no local Gas supply, it was recommended that the heating system be replaced with Low Energy Air Source Heat Pumps. In addition, further Low Carbon works to include Roof Insulation; Internal Wall Cladding; New double-glazed windows and Solar PV panels. Under the Public Sector Decarbonisation Scheme, grant funding has been awarded to the total value of £234,750. This money has been received by the council and is required to be expended only in accordance with the agreed contract with the Government Funding Agency SALIX. A detailed reporting and evaluation process is in place and all grant monies are required to be audited and signed off by the Council's Section 151 Officer.
- 3.6 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.

### ***Further refurbishment works***

- 3.7 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.
- 3.8 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)

## **4.0 Income Potential**

- 4.1 Following refurbishment of the building there will be 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.
- 4.2 The serviced business hub model does run very successfully nationally, and in Sittingbourne there are schemes that have enjoyed some success. A key principle of this model is to provide a fully inclusive rent, and on-site management, at an economic cost to start-up businesses and organisations, whilst ensuring that management and maintenance costs are covered.
- 4.3 At the time of the March Committee report it was estimated that an average annual income circa £50K could be achieved inclusive of Service Charge. This was based upon data and research from local agents and then demand. It is unknown what impact the continuing COVID pandemic is having on this type of operating model, although

national industry intelligence is predicting a more flexible approach will become the norm. We have also received unsolicited interest from several public and private.

- 4.4 Further Market engagement and testing will be conducted and a full marketing and letting programme will be in place prior to completion of the refurbishment, now anticipated to be in July/August 2022.

## 5.0 Options for Management Arrangements

- 5.1 The Council are currently undertaking further evaluation for managing the building post completion. The Cabinet report highlighted three options listed below for reference. It is current thinking that the Council wishes to retain an interest in the project over that of income generation and to create a social and economic hub to promote start up and public sector supported enterprises / charities.

- **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

- 5.2 All three options will potentially deliver the key objectives for the scheme, but with varying risk as to cost, income and management resource. The Council is currently considering several management arrangements including seeking to work with other providers of Inclusive workshop and office accommodation to ‘pool’ resources to achieve economy of scale.

## 6.0 Risk Management

- 6.1 The project has had to face unprecedented issues and challenges since the approval of the report recommendations in March 2021. These have included Fiscal, contractual and timetable risks.
- 6.2 Fiscal risk has involved securing and maintaining funding. It has been necessary to secure extended completion of Grant funded works. This has been

successfully negotiated and the revised agreement will ensure that the Grant funding is expended in accordance with the contract agreement and retained.

- 6.3 Contractual Agreements. A Letter of Intent, forming a legally binding agreement between the Contactor and The Council has been signed, allowing the Contractor to commence works, securing the site and commencement of ordering specified equipment to assist in reducing lead in times. The full revised contract will be signed and sealed on or before Friday 14<sup>th</sup> January 2022.
- 6.4 The Contract has been respecified to ensure that the works come within the budget set. Any additional works will be subject to further approval by Cabinet or Committee.
- 6.5 Whilst the timetable originally proposed has not been met, due to exceptional circumstances, revised contracts, revised completion dates for Grant funding works have been secured mitigating risk of Funding being withdrawn.
- 6.6 A detailed Project Management and Risk Management reporting structure is in place to ensure that the contract runs on time and to contract budget. In addition to ensure that any risks to the project are highlighted and processed promptly
- 6.7 Monthly on-site meetings are diarised to include project cost valuation reporting, and submission and approval of invoices against specification of costs.

## **7 Appendices**

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Proposed layout plans
  - Appendix II: Set of Pictures of Masters House

## **8.0 Background Papers**

Cabinet Report dated 17<sup>th</sup> March 2021