

**Communities, Housing and Environment Policy Advisory Committee**

**19 December 2022**

**Granada House Refurbishment**

<b>Timetable</b>	
<b>Meeting</b>	<b>Date</b>
Communities Housing and Environment Policy and Advisory Committee	19 <sup>th</sup> December 2022
Executive	21 <sup>st</sup> December 2022

<b>Will this be a Key Decision?</b>	Yes
<b>Urgency</b>	Not Applicable
<b>Final Decision-Maker</b>	EXECUTIVE
<b>Lead Head of Service</b>	William Cornall
<b>Lead Officer and Report Author</b>	Andrew Connors
<b>Classification</b>	<p>Public Report with Exempt Private Appendix</p> <p>The information contained within the Appendix has been considered exempt under the following paragraph of part 1 of schedule 12A to the Local Government Act 1972:-</p> <p>3 = Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p> <p>Public Interest Test</p> <p>On applying the public interest test, the public interest in non- disclosure of the report outweighs the public interest in disclosing this information. The reasons in favour of disclosure are the public interest in ensuring value for money and the reasons against disclosure are the harm to the Councils financial position in</p>

	respect of a commercial transaction. Any disclosure of such information may compromise the negotiating position of the Council. Keeping the information exempt is therefore in the public interest.
<b>Wards affected</b>	High Street

### **Executive Summary**

We are requesting permission to proceed with the refurbishment works with the preferred contractor for the total scheme cost as outlined within Exempt Appendix 1 – Financial Summary. This issue is to be considered by the Communities Housing and Environment Policy Advisory Committee before to advise the Executive’s decision.

### **Purpose of Report**

Decision

### **This report makes the following recommendations to the Committee.**

#### **That the Executive be recommended to:**

1. Agree to carry out the proposed refurbishment works to Granada House up to the Total Scheme Cost as outlined in Table 1 within Exempt Appendix 1 – Financial Summary.
2. Enters into contract with the preferred contractor to carry out the refurbishment works to Granada House.
3. Agree that:
  - a) Officers explore fully with Pelling’s (the appointed Employers Agent) and the appointed Contractor the merits of providing solar PV to the property as a way of off-setting electrical use. b) That this option and additional expenditure (as outlined in Table 2 within Exempt Appendix 1 – Financial Summary) is only pursued after consultation, post contract award with the Lead Member on the Executive for Housing and Health.
4. Agree that the Director of Finance, Resources and Business Improvement is granted delegated authority to enter into any related appointments, legal actions, deeds, contracts and agreements which may be required to facilitate the refurbishment works required.
5. Agree that the Head of Mid Kent Legal Services is authorised to appoint the Solicitors required to negotiate and complete the necessary contract documentation, deeds and agreements associated with the refurbishment works on the terms as agreed by the Director of Finance, Resources and Business Improvement.

# Granada House Refurbishment

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	<p>The four Strategic Plan objectives are:</p> <ul style="list-style-type: none"> <li>• Embracing Growth and Enabling Infrastructure</li> <li>• Safe, Clean and Green</li> <li>• Homes and Communities</li> <li>• A Thriving Place</li> </ul> <p>Accepting the recommendations will materially improve the Council's ability to achieve and support Embracing Growth and Enabling Infrastructure and Homes and Communities. We set out the reasons other choices will be less effective in section 2 [available alternatives].</p>	Director of Regeneration and Place.
<b>Cross Cutting Objectives</b>	<p>The four cross-cutting objectives are:</p> <ul style="list-style-type: none"> <li>• Heritage is Respected</li> <li>• Health Inequalities are Addressed and Reduced</li> <li>• Deprivation and Social Mobility is Improved</li> <li>• Biodiversity and Environmental Sustainability is respected</li> </ul> <p>The report recommendations support the achievements of the cross-cutting objectives by respecting the heritage of the existing building with sensitive design and addressing and reducing health inequalities with significant upgrade works to improve the internal and external condition and visual appearance of the building.</p>	Director of Regeneration and Place
<b>Risk Management</b>	Already covered in the risk section	Director of Regeneration and Place
<b>Financial</b>	The report sets out the challenges to delivering this project in a way that delivers value for money to the Council. The	Director of Finance, Resources

	<p>associated risks will need to be managed with care and any variance from the planned course of action reported back at the earliest opportunity. The costs of the works exceed what is currently in the capital programme, but the additional funding will be identified as part of the ongoing development of the new five-year programme for 2023/24 onwards.</p>	and Business Improvement
<b>Staffing</b>	We will deliver the recommendations with our current staffing.	Director of Regeneration and Place
<b>Legal</b>	<p>The Local Government Act 1972, section 111(1) empowers a local authority 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>The Council also has a general power of competence pursuant to Section 1 of the Localism Act 2011 which enables it to do anything that individuals generally may do.</p> <p>Any procurement or contracting must be done in accordance with the Council's Constitution and arrangements.</p>	Interim Team Leader (Contentious and Corporate Governance)
<b>Information Governance</b>	<p>The recommendations will impact personal information (as defined in UK GDPR and Data Protection Act 2018) the Council processes. The Information Governance Team will/have reviewed the processing of personal data affected and the associated documentation has been/will be updated accordingly, including a data protection impact assessment.</p>	Information Governance Team
<b>Equalities</b>	An EqIA has previously been carried out of which will be updated in accordance with proposed refurbishment works as outlined in this report.	Equalities & Communities Officer
<b>Public Health</b>	We recognise that the recommendations will improve living conditions and therefore have a	Public Health Officer

	<p>positive impact on the health and wellbeing of individuals residing in Granada House however the impact of rent increases to some existing residents will need to be considered.</p> <p>The chosen contractor will also be following their own policies and procedures to manage the Health and Safety of workers on site during the refurbishment works.</p>	
<b>Crime and Disorder</b>	No implications	Director of Regeneration and Place
<b>Procurement</b>	On accepting the recommendations, the Council will appoint the preferred contractor via direct award from the identified framework and undertake the refurbishment works required.	Head of Service & Section 151 Officer
<b>Biodiversity and Climate Change</b>	The implications of this report on biodiversity and climate change have been considered and aligns directly with the intentions of the BCC Action plan to decarbonisation MBC assets in line with the council's 2030 net zero commitment. The refurbishments considerations should include low carbon heating. Renewable energy generation, insulation (particularly on the external façade), insulation measures, and smart controls.	Biodiversity and Climate Change Manager

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The Council purchased Granada House back in 2016. It contains 20 apartments and some commercial units at ground floor level. The purchase price was £3.5m and the rental income from the residential and the commercial elements were similar, hence the purchase price of the apartments can be deemed to be circa £1.75m (£87.5k each).
- 2.2 Granada House is a building of high significance to the character and appearance of that part of the Maidstone Centre conservation area centred on Gabriel's Hill. This is perhaps the key building in the Gabriel's Hill street scene due to its width and mass and also its central location.

- 2.3 The original strategy when Granada House was purchased was for it to be demolished to make way for the wholesale redevelopment of The Mall shopping centre. The owners of the Mall, Capital & Regional opted not to advance these ideas, and so the Council has been renting the apartments at market rents through Maidstone Property Holdings Limited (MPH). The apartments have rented reasonably well, but at quite modest rents with an annualised gross rental income of £136k (average £566pcm) to reflect their current condition, which is broadly similar to the commercial units.
- 2.4 Since the acquisition, the Council has only undertaken responsive repairs on the apartments, and they are now in an extremely poor condition and fall short of meeting the Decent Homes Standard. MPH as the landlord has a duty to ensure that all of its properties meet the Decent Homes Standard for letting purposes. The "A Fairer Private Rented Sector White Paper" published on 16<sup>th</sup> June 2022, outlined the government's plans to legislate and introduce a legally binding Decent Homes Standard to the private rented sector (PRS) for the first time, under the Renters' Reform Bill.
- 2.5 If landlords are in breach of this requirement to ensure their property meets the Decent Homes Standard, this would be a criminal offence and it can be dealt with by either issuing a civil penalty or undertaking a prosecution in the magistrate's court. The Government recognise that they propose some significant changes, and therefore propose a phased approach or transition period. This would allow local councils time to prepare for Decent Homes Standard enforcement and landlords additional time to comply with the Decent Homes Standard. Further details and information are awaited on this and timescales for implementation.
- 2.6 From 2025 all newly rented properties will need to achieve an Energy Performance Certificate (EPC) rating of C or above. The flats at Granada House currently have a range of ratings from C to E. There is therefore a pressing need to carry out the required refurbishment works to Granada House as outlined in this report.
- 2.7 Granada House was identified as one of the five Town Centre Opportunity sites for a roof top extension to the existing building and a planning guidance document was produced to help inform and shape development design proposals to be taken forward. However, after a lot of detailed design work, this particular opportunity was rejected by the Policy & Resources & Committee, who decided they favoured just a comprehensive refurbishment of the existing accommodation.
- 2.8 It was agreed that a tender procurement process be undertaken to choose a suitable Contractor and Employers Agent (with hybrid of services such as Clerk of Works and Principal Designer) to undertake and oversee the necessary refurbishment works required. With a follow up report being presented outlining the results from the tender procurement process and to approve the financial commitments required to complete the refurbishment works.

- 2.9 Pelling's were duly appointed as Employers Agent (including Clerk of Works and Principal Designers services). They assisted Officers in preparing a schedule/specification for the works and overall tender pack for procuring a contractor, as well as the evaluation and scoring of tenders once they were received back.
- 2.10 Following evaluation, there was concern that the initial procurement process didn't deliver value for money for the required specification. Also the total costs associated for the scheme were going to exceed likely end values for the flats. The Council's procurement rules also do not allow us to negotiate or materially value engineer with the preferred contractor.
- 2.11 The Council therefore has commenced a fresh procurement exercise to appoint a suitable contractor at the target price (as outlined in Exempt Appendix 1 – Financial Summary).
- 2.12 If the appointed firm cannot deliver it within our budget inclusive of their design fees and on-costs, we will value engineer the specification with them to keep within our cost envelope.
- 2.13 The rental income for the flats will also be increased once the refurbishment works are completed, recognising the significant scope of improvement works undertaken. Once refurbished the flats will let for an annualised gross rental income of £196,800 (average £820pcm), so £254pcm more than previously. This is a further £60k per annum of gross income, and if this were capitalised at 5%, this equates to value creation of circa £1m (net of ongoing management and maintenance costs).
- 2.14 Given the state of repair of the flats, they are now largely void in readiness for the refurbishment works to be carried out. The decanting of the building has been done in a planned and co-ordinated manner adhering to the correct legislation, providing move on support to those tenants who may have required it during the 6-month notice period that was given.
- 2.15 There are no works proposed to the Commercial units on the ground floor, but some of the refurbishment works to the flat roof and deck above the commercial units at the rear of the building will be contributing towards the upkeep of these units and safeguarding the commercial rental income.

### **Proposed refurbishment works**

- 2.16 A visual inspection and intrusive survey of the existing apartments has been undertaken to help inform the proposed schedule of refurbishment works of which is based on an All-Electric specification. This includes modern oil filled electric wall mounted radiators as the heating solution, with small point of use electric water heaters in the kitchens and bathrooms, plus electric showers.

- 2.17 This will eliminate the need for piped heating systems and gas fired boilers. This is beneficial with regard to the servicing costs and maintenance and replacement costs. Gas installations require annual servicing, at an assumed cost of around £2,000 to £3,000 per year for the building, and mean the whole flat being without heating and hot water in the event of a boiler failure or breakdown. This proposal would allow single elements to be repaired or replaced as appropriate upon failure, with the added benefit of maintaining heating and/or hot water in other parts of the flat if one unit was to fail. Repairs will be much cheaper and quicker to fulfil.
- 2.18 The decarbonisation opportunity with this option is substantial. The elimination of gas use means that no fossil fuels will be used to heat the building or water used within and if a green energy provider is used to provide the electricity demand, there would effectively be no carbon emissions through heating and hot water. Although this option would have a higher running cost due to the reliance on higher cost electricity, the efficiency of the heaters and upgraded thermal performance of the building will limit this.
- 2.19 In order to minimise further the cost impact on future tenants of the building, it is recommended that a solar photovoltaic (PV) system be installed on the roof of the second floor and configured to offset the electrical use in the building. How this works in practice will need to be fully explored, and it may be necessary to have a single meter, with charges paid by the Council and recovered via an all-inclusive rental arrangement. Whilst this option is likely to require a UKPN upgrade to incoming supply heads, it is believed that this will be a small-scale upgrade to the existing infrastructure and will not require any incoming cable upgrades or works to the sub-station. This is to be confirmed by the contractor's design team once appointed.
- 2.20 This all-electric approach is expected to easily achieve an EPC rating of C once the refurbishment works are completed and could exceed this with the solar PV option included. Officers will fully explore the merits of this further with Pelling's and the Contractor and will only go ahead with this option and additional expenditure (as outlined in Table 2 within Exempt Appendix 1 – Financial Summary) in consultation, post contract award, with the Lead Member on the Executive for Housing and Health.
- 2.21 The initial proposed refurbishment works are thorough. They include full roof and window replacements, external brick and concrete repair and clean. Replacement of kitchens, bathrooms, new flooring, internal front doors, alarms, emergency lighting, heating, electrical rewires and internal re-decorations within the flats and communal areas.
- 2.22 When considering the cost of the proposed refurbishment works referred to within Exempt Appendix 1 – Financial Summary, it is important to note that:
- There has been virtually no planned maintenance work to the building undertaken ever, only piecemeal responsive repairs have ever been done.



- The original Crittall windows are in poor condition, with broken mechanisms and in some instances broken glass. These are incredibly poor in terms of thermal performance and without replacement for double glazing the EPC rating of C could not be achieved, which will be required from 2025.
- The internal finishes of the flats that have been inspected and are very poor - predominantly woodchip wallpaper and damp stained plaster ceilings. The original woodwork throughout is discoloured, damaged, and covered in many layers of paint.
- Existing heating systems are original or 50s/60s retrofits at the latest. The radiators are old panel style, which are large and inefficient. The pipework and radiators will be heavily oxidised and filled with sludge.
- Generally, the flats are in poor condition and in some cases have unresolved rainwater ingress causing dampness, mould, and other related defects. Fire safety is an obvious risk that the works will rectify too.
- The proposed refurbishment works are considered to be fundamental in order to meet Decent Homes Standards and ensure the long-term efficiency, sustainability and economic future for the building.
- If the preferred contractor cannot deliver our initial specification within our budget inclusive of their design fees and on-costs, we will value engineer the specification with them to keep within our cost envelope.

2.23 The works planned will be to a high quality and will significantly improve the buildings appearance. Undertaking these works will also benefit residents by improving internal living conditions, increase energy efficiency, thereby reducing bills, as well as contributing to the future long-term sustainability of the building and presenting a far more attractive offering to existing and new potential tenants. Any refurbishment works will also add value to the property through targeted investment.

### **Financial Commitments**

2.24 The breakdown of the Total Scheme Cost and financial commitments for the refurbishment works is shown at Exempt Appendix 1 – Financial Summary.

### **Proposed Schedule of Events**

2.25 The proposed schedule of events if proceeding with the refurbishment works is given below. The dates should be regarded as indicative at this stage (with the exception of the Committee and Executive approval dates) as we may need to extend and /or amend the timetable as necessary.

<b>Activity</b>	<b>Finish Date</b>
CHE Policy Advisory Committee	19 <sup>th</sup> December 2022
Executive Approval	21st December 2022
Appoint Contractor	January 2023

JCT Design and Build Contract Signed	January 2023
Start on Site	April 2023
Practical Completion	October 2023

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### 3. AVAILABLE OPTIONS

- 3.1 **Option 1: Choose to do nothing on this property.** This is not recommended. The Council and occupiers of Granada House would not realise the benefit of improving the value, appearance and general living conditions and standard of the market rental accommodation within Granada House. Maidstone Property Holdings (MPH) has a duty as the landlord to ensure the property meets the Decent Homes Standard. If landlords are in breach of this requirement, this would be a criminal offence and it can be dealt with by either issuing a civil penalty or undertaking a prosecution in the magistrate's court. This would cause significant reputational damage to the Council as owners and to MPH as the landlord.
- 3.2 If the Council don't do the refurbishment work, and decide to just sell for example, this could be viewed as a negative and poor response by the Council in terms of our town centre strategy and climate change commitments. There would also be a high degree of uncertainty as to what would happen to the building once it is not in our ownership. Improvement works might not take place or to the required standard and the Council might have to take enforcement action against the new owners.
- 3.3 **Option 2: To carry out the proposed refurbishment works for a lower or higher total scheme cost.** This is not recommended. If the total scheme cost is reduced this in turn will affect the level of specification which will undermine the long-term rental demand for the flats and will also drive up responsive repair costs once relet.
- 3.4 The initial specification is thorough and adequate allowance needs to be provided for replacing all the kitchens and bathrooms, windows, rear walkway, roof repairs and full electrical, plumbing and heating systems of which are considered to be key priority areas of work. Pelling's have not selected a high-end specification, the standard is middle to lower range, whilst still being of good quality, durable and suitable for the end use.
- 3.5 A markedly higher total scheme cost is not recommended to avoid incurring a total scheme cost greater than the likely end values for the flats.
- 3.6 **Option 3: To carry out the proposed refurbishment works for the Total Scheme Cost (or lower if this can be achieved by reasonable value engineering) as outlined in Table 1 within Exempt Appendix 1. With Officers exploring fully with Pelling's (the appointed Employers Agent) and the appointed Contractor the merits of providing solar PV to the property as a way of off-setting electrical use.**

- 3.7 This is the preferred and recommended option. The properties would continue to be used for market rental purposes after completion of the refurbishment works, with the rents increased accordingly to reflect the scope of the improvement works undertaken.
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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 The preferred option is **Option 3** above. This will result in refurbishment works being undertaken of which will significantly improve the condition of the building both internally and externally. It will allow the Council as owners of the building and MPH as landlords to comply with the Decent Homes Standard and EPC requirements.
- 4.2 If the preferred contractor cannot deliver our initial specification within our budget inclusive of their design fees and on-costs, we will value engineer the specification with them to keep within our cost envelope.
- 4.3 Due to the extent of the refurbishment works required the majority of the properties are currently void, ready for the contractor to begin works. The rents will be increased to reflect the scope of the improvement works undertaken.
- 4.4 Officers will fully explore the merits of installing Solar PV's as a means of off-setting electrical use with Pelling's and the Contractor and will only go ahead with this option and additional expenditure in consultation, post contract award, with the Lead Member on the Executive for Housing and Health.
- 4.5 Taking into account the purchase price referred to, plus the total scheme costs for the refurbishment works as set out in Exempt Appendix 1 – Financial Summary, it is demonstrated that the Council will not be spending more than the likely end value of circa £4m (£200k per flat).
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#### **5. RISK**

- 5.1 The risks associated with this proposal, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework.
- 5.2 The major risk would be associated with taking no action at all, which would mean that the Council would not be able to demonstrate compliance with the Government's commitment to introducing a legally binding Decent Homes Standard to the private rented sector for the first time and also EPC requirements.
- 5.3 There is also an increased risk arising from adopting a target pricing model, with potential challenges to the quality and scope of the work to be undertaken and the viability of the project from the contractor's viewpoint. We are satisfied that the risks associated are within the Council's risk appetite and will be managed as per the Policy.

## **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 The Policy and Resources Committee previously agreed that a tender procurement process be undertaken to choose a suitable Contractor and Employers Agent to undertake and oversee the necessary refurbishment works required to Granada House.
  - 6.2 The Cabinet were consulted on the initial preferred contractor tender sum price. There was concern about value for money and the total costs associated for the scheme relative to likely end values for the flats. A re-procurement is therefore taking place for the reasons as set out within this report.
  - 6.3 The Housing Team have been previously consulted on the impacts of the refurbishment works to Granada House and in particular the issue of decanting/moving on the existing households of which this process has already been undertaken with the building largely vacant and ready for works to begin.
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## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 Following approval of the recommendations by the Executive Committee, the preferred Contractor will be appointed to undertake the refurbishment works required. The Council's appointed Employers Agent (Pelling's) and Legal Services will assist in the preparation and signing of the necessary contract documentation.
  - 7.2 A plan for communications and consultation with the commercial unit tenants will also be put in place with the appointed contractor and the Communications and Marketing Team prior to any refurbishment works commencing.
  - 7.3 Officers will fully explore with Pelling's and the appointed Contractor the merits of installing Solar PV onto the roof of Granada House as a means of off-setting electrical use. The findings will be consulted with the Lead Member on the Executive for Housing and Health before pursuing this option and additional expenditure.
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## **8. REPORT APPENDICES**

- Exempt Appendix 1: Financial Summary
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## **9. BACKGROUND PAPERS**

None.