

OVERVIEW AND SCRUTINY COMMITTEE 13 AUGUST 2024

**RECEIPT OF A 'CALL-IN' -
MAIDSTONE HOUSE AND THE LINK DECARBONISATION**

ADDITIONAL INFORMATION

1. Introduction

- 1.1 As set out in the original report to Cabinet of 24 July 2024, the project to decarbonise Maidstone House and the Link is a key component of the Council's Biodiversity and Climate Change Programme. Maidstone House and the Link are the second largest emissions source for the Council, accounting for 17.6% of total emissions in 2022-23.
- 1.2 The request to call-in the decision to proceed with this decarbonisation project raised a number of issues:
- Notional return is less than the council's target rate of return as set out in the Capital Strategy
 - Further work is required to obtain definitive costs
 - Cost of the project has increased
 - No indication where the additional Maidstone Council contribution will come from

Each of these points is dealt with below.

2. Adherence to Capital Strategy

- 2.1 The Capital Strategy is a central element of the Council's budget and policy framework. It shows how the capital programme will deliver the priorities set out in the Council's overall strategic plan. It is also needed in order to comply with CIPFA's Prudential Code, which requires capital investment to be prudent, sustainable and affordable.
- 2.2 The Capital Strategy agreed by Council in February 2024 requires that the economic value of investments is assessed in relation to the cost incurred by borrowing to fund the schemes (para 3.9 (c)). A hurdle rate of return of 5% is used for the purpose of establishing whether schemes are self-funding.
- 2.3 However, the particular aspect of the Capital Strategy which is relevant to this decision is that it permits schemes which are not self-funding, but meet the Council's overall strategic plan priorities (para 3.4 (iii)). Delivering the decarbonisation of Maidstone House and the Link helps to meet a key strategic plan priority even though the project is not self-funding.
- 2.4 The affordability requirement of the Prudential Code for schemes like this, which do not in themselves deliver a 5% return, is met by including the financing costs within the Council's overall strategic revenue projections.

In this way, the financing cost of these schemes, above and beyond the returns that they generate, is still accounted for. It can therefore be demonstrated that the requirements of the Prudential Code are met.

- 2.5 The project to decarbonise Maidstone House and the Link is not self-funding, as the investment only generates a direct return of 1.9%. However, it is worth noting that there may be indirect financial benefits from the project, for example in making Maidstone House more attractive to potential tenants, which will impact on the rent levels that can be achieved.

3. Obtaining definitive costs

- 3.1 The cost estimates for the decarbonisation project set out in the Cabinet report of 24 July 2024 were based on a cost plan prepared by our building consultants, Calford Seaden. Calford Seaden are in regular contact with contractors and so have access to up-to-date information about materials, labour and other costs. However, their cost plans can only be indicative at this stage, as ongoing development in design and survey information can have further cost implications. Costs also remain subject to inflation.
- 3.2 A more definitive indication of costs will be obtained when contractors are asked to quote for the contract. In the meantime, the risk of under-estimates is addressed through a contingency budget. The costs shown in the report to Cabinet cannot be definitive, but they represent the best estimate at the time of writing the report.
- 3.3 Further updates to estimated costs, and any budget approvals that are necessary, will be sought from Cabinet as the project progresses.

4. Increase in project costs

- 4.1 The report presented to Cabinet gave a high level explanation of the increase in project costs as compared to the original Salix bid in paragraph 2.10, referring to changes in materials specification, technical advice and updated pricing. A more detailed explanation of the key variances is set out below.

Materials specification - exterior wall cladding

- 4.2 APSE, the consultants whose cost estimates were used for the Salix bid, proposed a rendered cladding system. This is a low cost external wall insulation solution. However, it requires periodic maintenance to maintain appearance standards. Calford Seaden have recommended instead fibre cement cladding panels. Whilst this involves a higher initial cost, the panelling is more durable (lower maintenance and improved longer-term appearance) and quicker to install.
- 4.3 Both options – rendered cladding and fibre cement panels – have been considered and pre-application planning advice sought. The planning advice was that rendered cladding would not be suitable. In light of this,

and the other advantages of fibre cement cladding panels, this option has been chosen, but has given rise to a higher project cost.

Technical advice - roofing replacement and remedial works

- 4.4 As part of the preliminary work carried out by Calford Seaden, technical surveys have been carried out covering the different aspects of the project. This has included a survey of the Maidstone House roof to assess its suitability for the proposed new heating installation. This established that the condition of the roof's waterproofing was of concern. The material is coming to the end of its serviceable life and demonstrating signs of age, fatigue and fragility that could lead to serious failure. It has been concluded that the existing waterproofing system should be completely removed and replaced.
- 4.5 Whilst this work would have been necessary as part of the regular Maidstone House asset management programme, the requirement to install new equipment on the roof means that the work will need to be carried out as part of the current decarbonisation project.

Updated pricing

- 4.6 APSE's estimates of preliminaries costs were considered low by Calford Seaden and an extra allowance has now been built in. Furthermore, the Salix bid was based on an energy audit carried out by APSE in September 2022. Calford Seaden have recommended an inflationary uplift of 10% for items not addressed elsewhere in their cost plan.

Other

- 4.7 As noted in the previous section, it is not possible to provide definitive costs for the project at this stage. Accordingly, further cost variances may arise. However, every effort will be made to mitigate these wherever possible.

5. Funding Maidstone Council's additional contribution

- 5.1 The Council's Financial Regulations provide for in year changes to be made to budgets through virements between budget headings, such that additional expenditure will not necessarily lead to an increase in overall capital expenditure. The total capital programme budget for 2024/25 is £96 million, which gives scope for absorbing additional costs in this way.
- 5.2 In practice, following the Council's usual approach, it is proposed that the overspend in relation to the original estimates for the Maidstone House and Link decarbonisation project is covered from within the same capital programme line ('Carbon Reduction to Maidstone BC estate'). The net capital budget available under this heading, after the expected Salix grant, amounts to £3.244 million. This is sufficient to cover the total Council contribution of £2.723 million set out in the report to Cabinet. It does, however, mean that there will be less funding available for other carbon reduction projects.

- 5.3 It is proposed that any future overspend above and beyond the £3.244 million, if it were to arise, would in the first instance be met from Corporate Property's Asset Management budget (£1.695 million).