

Report To: Cabinet

Date of Meeting: 7 December 2020

Report Title: 12/13 York Buildings

Report By: Peter Grace, Chief Finance Officer

Key Decision: Y

Classification: Cabinet decision

Purpose of Report

To seek approval for additional funding to meet unforeseen costs in the conversion of the upper floors to six flats.

Recommendation(s)

- 1. To increase the budget for this project by £166,000 to £1.011m to meet additional maintenance costs, remedy issues identified when converting the upper floors to 6 flats, and to meet additional contract costs arising from Covid-19.**
- 2. Fund £46,000 of the additional costs from the Renewals and Repairs Reserve with the remaining balance being funded by borrowing.**

Reasons for Recommendations

This is a significant regeneration project in the Town centre on a Grade 2 listed building. Maintenance works have been identified e.g. to the mathematical tiles which would be best undertaken whilst the scaffolding for the major Capital works are in place. There are also further works required to remedy new issues uncovered within the building. A 16 week contract extension is required as a result of Covid-19 and there are additional costs associated with this.

Introduction

1. The conversion of the upper floors of this grade 2 listed building to six flats is a major project and has been included in the Capital programme since 2017. Given the grade 2 status and associated conservation requirements the project was never seen as straight forward, and has indeed remained challenging not least because of Covid-19.
2. The large spaces above retail shops in town centres across the country have been seen as opportunities to help tackle some of the issues faced by town centres and their continued sustainability. The historically low borrowing rates provided, and continue to provide, the Council with the means to convert the otherwise unusable space in a building it owns, to meet severe housings needs in the borough.
3. The construction works were largely started on the 9 December 2019 with the removal of asbestos followed by the general works starting in January 2020. The works were disrupted due to the government lockdown on 23 March 2020 and the site was closed for health and safety concerns and the supply chain for materials being considerably disrupted. Works resumed in June 2010 after a closure of 10 weeks, with a further week to re-establish welfare facilities on site.
4. The cabinet last considered this project in September 2019, when the budget was increased to £846,000 (from £757,000).
5. The Council's project managers (Mackellar Schwerdt LLP – Chartered Architects) have advised that Covid-19 and further major structural works will result in an extended contract period of some 16 weeks to 23 July 2021 – with all the added associated costs e.g. scaffolding hire etc. They have advised that the structural works result from "*the poor quality of the original structure and what appears to be a lack of understanding by the original builder on the principals of structure*".

6. Unforeseen Costs

Additional costs are arising from:

Structural works (£28,211) & making good (£18,917 to date) – plus extensive historic water damage to the building leading to the removal of the flat roof above room F7.

Fire protection requirements throughout the building to meet latest regulations, Wood beetle treatments (£4,620)

Additional asbestos removal found during opening up (£9,629)

Gas, Water and electrical utility works (£6180) – omitted from contract costs as ordered direct by the Council

Provisional sums included for Carpets, drainage surveys.

7. Maintenance Costs

The contract was for internal conversion works, but once underway it has become clear that external structures, windows, cills and gullies also require maintenance. The additional costs have been estimated at £45,980. For example the costs of replacing and repairing some of the Mathematical tiles on the building were not originally envisaged when this project was first approved in 2017 - they have now been identified as requiring attention – estimated at some £13,000. Damage to the newer windows requiring extensive repair works (£14,995), The leaking lead cills (£10,650), replacement of the lead valleys (£5,244).

It is sensible to undertake these repairs whilst scaffolding is still up. These costs would be normally be met from the Renewals and Repairs Reserve and as such it is proposed that these further costs are financed from this Reserve.

8. The government have provided the Council £2,048,518 in un-ringfenced funding this year to meet additional costs and some of the lost income streams resulting from Covid-19. The monthly returns have included an estimate of the additional costs likely to be faced by the Council in terms of longer project timescales, increased material costs, revised methods of working and delayed income streams. This is one of several projects that is impacted. The additional costs have yet to be agreed with the contractor – an estimate for these costs is included in these figures.

Financial Implications Revised Costs

9. Project costs are expected to increase to £1,010,939 from £845,037. This represents an increase of some £165,902 on the Capital programme.
10. The estimated costs in September 2019 amounted to some £846,000. Based on the estimated rentals as at July 2018 of £40,200 p.a. , the 6 flats were expected to provide a net annual surplus of £2,468 p.a. based on a 40 year PWLB loan.
11. The net cost of the scheme now, after allowing for £46,000 of maintenance costs being funded from the Renewals and Repairs Reserve would be some £965,000.
12. In the chancellor's Spending Review announced on the 25 November 2020, the Public Works Loan Board rates were reduced by 1%. A 40 year Maturity loan to finance the projected £965,000 cost would result in borrowing costs of £40,141 p.a. – effectively a breakeven position when compared to the rental stream. The rental income from the scheme is expected to be higher now than the £40,200 p.a. estimated back in July 2018. As such there is not expected to be any material change in the total net costs to the Council.

Conclusion

This project was only ever likely to be viable whilst borrowing rates remain at their historically low levels, and this remains the case. The Covid-19 pandemic has highlighted more than ever the need to transform town centres and include more homes in them – thus enhancing the vibrancy and sustainability of the local economy. The need for these new homes remains as high as ever. The Council is still in the fortunate position to be able to complete this project – despite these additional, and unwelcome, costs.

Timetable of Next Steps

13. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Amend Repairs and Renewal programme	Amend Works Contracts as necessary	After Cabinet approval	Estates Manager /Legal Services/ Senior Surveyor/ Financial Services

Wards Affected

Castle

Policy Implications

Reading Ease Score: 30.0

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	N
Crime and Fear of Crime (Section 17)	N
Risk Management	N
Environmental Issues & Climate Change	N
Economic/Financial Implications	Y
Human Rights Act	N
Organisational Consequences	N
Local People's Views	N
Anti-Poverty	N
Legal	N

Additional Information

Officer to Contact

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