

# A9Addendum

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

HOUSING AND PROPERTY SCRUTINY COMMITTEE – 18 MARCH 2019

ADDENDUM REPORT BY THE DIRECTOR FOR CORPORATE PROPERTY

**37 PEMBROKE ROAD OFFICES REFURBISHMENT  
ESSENTIAL INFRASTRUCTURE IMPROVEMENTS  
05401/19/K/AB**

Following requests from the Chair of the Housing and Property Scrutiny Committee, this addendum report published on Friday 15 March 2019, is intended to make public further information about the costs, business case and time line of the project.

## **1. Costs**

- 1.1 The Key Decision on 11<sup>th</sup> July 2018 approved a budget of £1m to cover cosmetic redecoration works, and new furniture for the office areas to be refurbished. The project at this level did not meet the definition of capital expenditure and as such the decision was that this would be an addition to the revenue budget in 2018/19 to be fully funded from the Special Projects Reserve.
- 1.2 A feasibility study and detailed condition survey has since determined that the works required are more extensive than originally envisaged.
- 1.3 As part of the 2019/20 Budget Setting process, a further bid in the sum of £4m has been submitted for inclusion in the Capital Programme that will provide for Housing Teams to be relocated to the building, the minimum requirements of essential mechanical and electrical works and the installation of a new lift.
- 1.4 As such the current budget provision for the Pembroke Road Refurbishment scheme is £5m funded as £1m Special Projects Reserve (revenue), Capital Receipts Reserve £2.940m (capital) and external borrowing £1.060m (capital).
- 1.5 This Key Decision seeks approval for additional funding to increase the capital budget up to a maximum total estimated cost of £11.8m as detailed at paragraph 6.2 in the part A report.

## **2. Options and Analysis**

- 2.1 Table 1 at 6.3 in Part A Option 4 describes work to 'Other Office areas.' Phases 1 to 5 refurbish office accommodation for Housing Management, Highways, ELRS, Environmental Health. 'Other' areas include the offices occupied by: Security; Pest Control; Holland Park Opera; Parking Wardens and enforcement staff; ELRS waste and cleaning contractors.

## **3. Time line**

- 3.1 The aim is to get Housing Management into the building by the end of 2019, before their current lease expires. This will require Phases 1 to 3 to be completed by the end of 2019.
- 3.2 The works will be carried out while staff are in occupation in the other parts of the building.
- 3.3 We have held discussions (without prejudice) with an experienced contractor and this timescale is achievable providing the works are tendered using a 2 stage Design & Build (D&B) process. The process would commence in April 2019, with tendering of the packages and validation of the existing M&E services, and provision of a fixed price prior to start the office fit outs in July 2019.
- 3.4 The office fit outs would take place in parallel with the M&E works, and the installation of new windows, with the fit out of other areas and Phases 4 to 5 following on for completion during 2020

#### **4. Business case**

There are 4 aspects to this:

1. The cost of providing accommodation of all staff currently in the building including Housing Management if the building is not improved.
2. The cost of providing alternative accommodation solely for Housing Management.
3. The likely rent from subletting the new space created in the building, should demand for RBKC desk space reduce in the future
4. The saving in rent currently paid for Housing Management's existing offices when they move to Pembroke Road, which will fund the cost of the work.

#### **5. Cost of providing alternative accommodation for all RBKC staff in 37 Pembroke Road including Housing Management**

- 5.1 If the existing building condition is not addressed, it will soon become uninhabitable, and alternative accommodation for the occupants will need to be found. The completed fit out to Option 4 increases the number of desks currently in the building from 357 to 476. Therefore, alternative space would be required for 476 desks. Table 3 in confidential part B sets out the cost of preparing and renting alternative accommodation, to provide accommodation for this number of workspaces. This figure excludes the cost of accommodating the cleaning and refuse collection workforce, and the parking enforcement staff. Over a five-year period, this would exceed the cost of option 4.

#### **6. The cost of providing alternative accommodation solely for Housing Management**

- 6.1 Housing Management currently occupy two buildings. One at Kensal Road, and the other at 346, High Street Kensington. The cost of providing alternative accommodation solely for Housing Management is shown in Table 4 in part B.
- 6.2 The cost for providing alternative office space would be approximately £700,000 pa.

**7. The likely rent from sub-letting any areas in Pembroke Road**

7.1 In the event that renewed areas became surplus to requirements, these could be sub-let with a rent achieved equivalent to the cost of providing alternative office space for Housing management. The building would be re-planned in that eventuality so that a discrete area could be let to an outside organisation. The layout of the building would allow areas of a small as 100 m2 to be easily separated and sublet.

**8. The saving in rent currently paid for Housing Management’s existing accommodation**

8.1 Housing Management currently occupy a building at Kensal Road, and another at 346 High Street Kensington. If Housing Management are accommodated at 37 Pembroke Road, that cost will be saved.

8.2 The cost of renting the above offices is currently being paid to a third party property company by the HRA. When the Housing staff relocate to Pembroke Road a cross-charged rent will be payable from the HRA to the General Fund. As such, although the saving achieved in payments to third parties will initially accrue to the HRA, the financial benefit of this move, through the subsequent rental charge, will fall to the General Fund to which the asset is related.

**9. Cash-flow and Funding**

9.1 Forecast Cash-flow at Table 7 below shows how the funds will be required over a period of 36 months commencing March, 2019. The actual construction period is expected to be about 18 months, allowing decant, relocation and refurbishment works.

<b>Table 7 Cash-flow</b>	
<b>Financial Year</b>	<b>Projected Cost</b>
<b>2018/19</b>	£100,000
<b>2019/20</b>	£7,500,000
<b>2020/21</b>	£3,600,000
<b>2021/22</b>	£554,375

9.2 As outlined in the report the deliverables of this element of the proposal deliver a number of structural improvements including new lift and will enable accommodation of current occupants, any balance of staff to be accommodated through the disaggregation of shared services (thought to be negligible) and additionally accommodate the Housing Management staff. As a result, there is

a saving to the council on the £750k current expenditure on Housing Management Accommodation. The balance of where this saving falls depends on the accommodation recharge mechanism between the General Fund (GF) and Housing Revenue Account (HRA).

- 9.3 Options 3 & 4 deliver a number of additional structural and cosmetic works to ensure compliance with building regulations and radically adjust the workspace to open plan in line with KTH, and enable additional desk space to be created either reducing staff/desk ratio or enabling a commercial let opportunity in future. The additional estimated project costs vs the £5m already agreed for options 1+2 are £3.9m (option 3) and £6.8m (option 4). These additional costs are unfunded and would have to be funded through external borrowing.
- 9.4 The cost of borrowing (Capital + Interest) are based on a 4% annuity rate with repayment over a 25-year period, which for option 4 results in £438k/annum. This will reduce the net benefit to the council from saved Housing Management Accommodation costs, and as above the balance of where this falls between HRA and GF is dependent on the recharge mechanism.
- 9.5 The table below illustrates the impact on revenue of delivering option 4.

<b>Revenue Impact Comparison</b>	<b>Option 2</b>	<b>Option 4</b>
Revenue Saving (Housing Management accommodation costs)	£750,000	£750,000
Additional borrowing cost to cover unfunded project phases	£0	£438,000
<b>Net Revenue Saving</b>	<b>£750,000</b>	<b>£312,000</b>

- 9.6 The options for internally recharging, yet to be agreed, are set out in Part B
- 9.7 In summary the financial impact of proceeding with option 4 is a decrease in the revenue savings being delivered by the already agreed and funded option 2 due to the requirement to borrow to fund this element of the scheme at a cost of £438k.