

## Royal Crescent - capital project

### Overview and Scrutiny Panel 16 July 2024

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| <b>By</b>                       | Sally O'Sullivan, Head of Tenant and Leaseholder Services          |
| <b>Cabinet Portfolio Member</b> | Cllr Helen Whitehead, Deputy Leader and Cabinet Member for Housing |
| <b>Key Decision</b>             | yes  |
| <b>Decision classification</b>  | Unrestricted   |
| <b>Call in status</b>           | yes  |
| <b>Ward:</b>                    | Central Harbour  |

### Purpose of the Report

In March 2021, Cabinet gave authority to award a contract to carry out essential structural and fire safety works to Royal Crescent. Royal Crescent is a listed building of important heritage significance that is held within the council's Housing Revenue Account (HRA) social housing stock.

Work to procure a contract for the work during the financial year 2022/23 was unsuccessful, as there was insufficient interest from the construction industry, largely as a result of the scope and timescale of the advertised package of works. Work has now been completed to tender for a contractor, based upon a revised scope of work and timescale, as set out in this report.

This report seeks review and comments from the Overview and Scrutiny Panel on the proposal to let the contract to the successful tenderer. The estimated cost of the works contract, as set out in the successful tender, is £2.3m.

### Recommendation(s):

Members of the Overview and Scrutiny Panel are asked to note and scrutinise the following:

1. Proposal to approve the letting of a contract for the completion of the works at Royal Crescent, Ramsgate as set out in this report.
2. The change in the scope of works to remove the improvement of the basement.
3. Note the increase in costs of works, that will be within the budget presented to Council 11 July 2024

## **1. Summary of Reasons**

- 1.1 Royal Crescent is a building of significant heritage importance, it is situated in Ramsgate on the seafront. It is owned and managed by the council and used for social housing, with a proportion of the properties being owned by leaseholders.
- 1.2 The building is in need of structural repair and improvements to the fire safety arrangements. The proposals set out in this report are considered to be the most economically advantageous approach to the completion of the essential works.
- 1.3 The proposed changes to the scope of works are to both ensure that the project remains affordable and to respond to the views of residents about the project. The basement works were always considered to be optional and are proposed to be excluded due to the high cost.

## **2. Background**

- 2.1 The council owns approximately 3,400 tenanted and leasehold homes. All costs, investment and income for these homes is managed with the council's Housing Revenue Account, and budgets for revenue and capital works are reviewed annually.
- 2.2 We own two buildings within the historic Royal Crescent, situated in St Augustine's Road, Ramsgate. The blocks overlook the sea and the Westcliff Promenade and are considered to be of significant heritage value as well as grade II listed. The two buildings owned by the council are 4-15 and 19-23 Royal Crescent. They are divided into 16 and 6 flats respectively, of which 12 are tenanted and 10 sold as leasehold, under the right-to-buy legislation.
- 2.3 We need to carry out essential structural works and passive fire works to both buildings to fulfil the council's landlord obligations to maintain properties. The buildings are listed and protected by Heritage, which adds complications to any works we want to undertake.
- 2.4 In April 2021, cabinet gave approval to let a contract that would mean vital structural and fire safety works could be carried out, to the value of £2.778m. This work was to be delivered over 3 phases, with phases 1 and 2 consisting of essential structural and fire safety works and phase 3 being discretionary work to the basement, subject to resident consultation, with estimated values as follows:
  - Phase 1 (2021-22 and 2022-23): £2.023m
  - Phase 2 (2023/24): £235k
  - Phase 3 (2023/24): £520k
- 2.5 The figure of £2.778m represented a total project cost, including both works and professional fees.
- 2.6 Work to procure a contract for the work during the financial year 2022/23 was unsuccessful, as there was insufficient interest from the construction industry, largely as a result of the scope and timescale of the advertised package of works. This also

coincided with post-pandemic pressures on the construction industry dealing with a backlog of work and facing inflationary pressures.

- 2.6 Following the initial, unsuccessful tendering, the timetable for the delivery of the project was reviewed, based on feedback from the construction industry. The programme has been reduced from 76 to 42 weeks by effectively rolling the original phases 1 and 2 together.
- 2.7 Phase 3 of the work, to refurbish the basements, had always been considered to be discretionary. In addition, the high cost of the project, particularly for leaseholders, who are required to fund a proportion of the cost, meant that this element of the project was not supported. As a consequence a new scope of works, excluding the discretionary basement works has been prepared, and includes only the essential structural and fire safety works. The project budget, in the HRA Capital Programme, was reduced to £1.977m to reflect the reduced scope.
- 2.8 Subsequently, further pre-tender estimates were prepared based on the reduced scope of works. This indicated that the likely cost had risen to £2.870m, plus professional fees, estimated to be £200k (approximately 7%). This compared to the original pre-tender estimate for phase 1 and phase 2 of £1.977m, and represented an inflationary increase of 45% increase in costs. The primary factors influencing this increase were general inflation, together with a three fold increase in the estimated cost of specialist windows and glazing to conform with heritage requirements.

### **3. Tender Estimate**

- 3.1 A second procurement exercise was completed on behalf of the council by our appointed consultants.
- 3.2 The tender period has now closed and submissions have been evaluated. The evaluation considered both quality and cost, and the most economically advantageous submission included a tender price of £2.3m. This submission is £470k below the pre-tender estimate for the work.
- 3.3 This submission includes £150k of provisional sums, which is considered to be prudent based on the heritage nature of the buildings, and the fact that we are looking to refurbish existing buildings that may require some unanticipated works and works that are not possible to fully quantify.
- 3.4 In addition, the estimated cost of professional fees for the delivery of this project is £200k, taking the total estimated project cost to around £2.5m. Careful control of costs during the project delivery phase will help to mitigate the risk of any significant cost overrun. This estimated project cost is £278k below the original project budget of £2.778m, but £523k above the current approved budget and original estimates for the essential works.

## **4.0 Leaseholders**

- 4.1 Leaseholders will be subject to a service charge for the work being carried out as part of this project.
- 4.2 Based on the estimated costs set out in this report, leaseholders will become liable for substantial contributions to the costs, in accordance with the terms of lease agreements.
- 4.3 In normal circumstances these costs would be invoiced to leaseholders during the financial year following the completion of the works. However the large amounts involved mean that this is not a normal circumstance and lump sum payment is not realistic.
- 4.4 In the report presented to Cabinet in March 2021, it was decided to offer leaseholders the following additional options for payment:
- Payment by instalments, over an agreed number of years, supported by a voluntary legal charge registered against the property asset.
  - A legal charge registered against the property, requiring repayment in the event of the property ownership changing. Meaning the full value of the charge would be recoverable on sale of the property.
- 4.5 Following the completion of the tender and contract award, TDC will refer itself to the First-Tier Tribunal. The job of the tribunal will be to assess if the proposed works are necessary and the costs passed to leaseholders are fair. We will comply with what the Tribunal tells us we must do.

## **5. Alternative Options**

- 5.1 To proceed with the works as set out in this report and let a contract to the successful contractor to an estimated value of £2.3m, and a total estimated project cost of £2.5m. This recommended option includes removing discretionary basement works from the project scope.
- 5.2 To further reduce the scope of works to reduce the value of the contract to the original phase 1 and 2 estimate of £1,977m. The buildings have been subject to extensive condition surveys and it would not be possible to complete all essential structural works and required fire safety works at this value. Although a reduced scope of works could be delivered in the short-term, following a value engineering process with the successful contractor, works omitted at this stage would still be required later, potentially at an even higher cost due to inflation. This option is not therefore recommended as all works proposed are considered to be essential.

## **6. Consultation**

- 6.1 The council has an obligation to consult leaseholders when we carry out major works that they will be charged for. It is section 20 of the Landlord and Tenant Act 1985 which stipulated this.
- 6.2 The statutory consultation has been followed and supported by face to face events held on site. Giving tenants and leaseholders an opportunity to speak to council officers and appointed consultants about this project. The council has also provided

regular newsletter updates to all tenants and leaseholders about the progress of this project.

## **7. Corporate Implications**

### **7.1 Finance and Resources**

7.1.1 The Housing Revenue Account includes budget provision of £1.977m for the Royal Crescent project split over 24/25 and 25/26 and is allocated over various budget headings such as Structural repairs.

7.1.2 An additional budget of £523k is now required in order to bring the budget up to the £2.5m required to complete the works and this would be financed by the Major Repairs Reserve.

7.1.3 A revised 4 year HRA Capital Programme will be presented to Council in July to approve the additional budget required for this scheme, as well as approval to combine the budgets into a single budget heading which will make budget monitoring for the project more straightforward.

### **7.2 Legal and Constitutional**

7.2.1 The council, as a landlord of residential buildings, has a statutory responsibility to ensure that they are properly maintained.

7.2.2 The legal issues in relation to the charging of apportioned costs to leaseholders are set out within the body of this report.

### **7.3 Council Policies and Priorities**

7.3.1 This report relates to the following corporate priorities: -

- To deliver the housing we need

### **7.4 Risk**

7.4.1 The risk of not carrying out this work is reputational. Royal Crescent is a building of historical significance that requires structural remediation.

7.4.2 The exploration for the remediation was started whilst the service was managed by East Kent Housing and picked up by the Tenant and Leaseholder Services when moved in house.

7.4.3 The works are highly complex due to the heritage status of the building. We have had one unsuccessful procurement campaign, which has extended the timescales of being able to carry out the work

7.4.4 Residents are frustrated as we have not started work as there are elements of work that show clear deterioration: ie wooden windows. And scaffolding has been in place for a number of years due to the uncertainty of the safety of the balconies.

7.4.5 There is a financial risk presented if the building falls further into disrepair. Currently we have been able to provide responsive maintenance to prolong the life of elements but replacement and remediation is required.

## **7.5 Climate Change and Biodiversity**

- 7.5.1 The environment will be impacted by the contractors we use to deliver this project. The contractor we are recommending will take regard to climate change by:
- Reduce or eliminating waste from all on site operations
  - Produce zero carbon from operations and operational vehicles
  - Have a positive impact on nature from operations by enhancing the natural environment where they operate

They also work in accordance with ISO14001 Environmental Management System in an effort to minimise negative impact of their works.

## **8. Equality, Equity and Diversity Implications**

- 8.1 The council's tenants and leaseholders include residents that have protected characteristics as set out in the Public Sector Equality Duty.
- 8.2 The completion of the works set out in this report will benefit all tenants and leaseholders, including those with protected characteristics.

## **9. Crime and Disorder Implications and Community impact**

- 9.1 None identified

## **Subject History**

Approval was obtained by Cabinet in March 2021 to proceed with this project

## **Appendices**

## **Background Papers**

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**Report Sign Off / Signed off by / Date sent / Date signed off / Initials**

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