



ADUR & WORTHING
COUNCILS

Adur Cabinet Member for Finance &
Resources and the Worthing Cabinet
Member for Resources
Date 3 November 2023

Decision to be taken on or after
13 November 2023

Key Decision [Yes/No]

Ward(s) Affected: n/a

**Strategic Property Investment Fund Refurbishment Contract Award
Eskan Court, Milton Keynes**

Report by the Director for Place

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Executive Summary

1. Purpose

- 1.1. To award a contract to refurbish office space held within the Adur Strategic Property Investment Fund.

2. Recommendations

- 2.1. The Cabinet Members are being asked to:-
- 2.1.1. To approve the use of £474,355 (ex VAT) from the SPIF capital budget for the refurbishment cost of Eskan Court, Milton Keynes.
- 2.1.2. The Members should note that we have received a payment from the outgoing tenant of £157,000 which will contribute to

the costs of the refurbishment works making a **net total of £317,356** to enable this project to go forward.

- 2.1.3. Current costs associated with holding the vacant space amount to our share of Landlord's service charge at c **£52,672** pa, plus business rates at **£57,200** pa; together equivalent to at least **£9,156** per month, (excluding any utility costs)
- 2.1.4. Build costs are rising which will add c **£7,100** per three months to the tender pricing above until a contract for works is let.

3. Context



- 3.1. The property is income producing at present as it is majority let, the main tenant is Alliance Automotive, and a ground floor suite is vacant following lease expiry since the format tenant, Konica Minolta, vacated.
- 3.2. The space is being actively marketed for lease by a national commercial agent with a local office:

<https://www.lsh.co.uk/find/properties/buckinghamshire/milton-keynes/2038285>

This brochure linked above comprises our 6,800 sq ft ground floor suite plus areas put up for sublet by Alliance Automotive who are our primary tenant in the remainder of the building.

Alliance wished to sub let some of their space so we decided to ensure our agent has an overview, without multiple agents marketing space in the same building for different clients which would potentially confuse

the market. It allows us to work with Alliance to optimise our chances of finding an appropriate tenant.

- 3.3. The vacant suite does not show well and is not in lettable condition. That said, this is otherwise an attractive building so the issues are confined to the vacant area only, with some upgrading required to the common reception area.
- 3.4. Hybrid working and the need to make office space more attractive to employees has changed the workplace dynamic and so higher standards are required to get the space leased compared to just a few years ago.
- 3.5. The vacant suite is rated for energy performance at below the legal minimum EPC required for letting from 2027. Its rating at EPC D requires improvement. This will require addressing in any scope of works.
- 3.6. Any potential tenant who chose to commit to a lease and take this suite in this condition would require a large rent free period incentive to do so and the market at present does not favour space that requires work. Tenants are unwilling to take on any work other than install their own movable items and light reconfiguration.
- 3.7. The refurbishment works are therefore required to ensure we do not miss out on rental income. We are also meeting holding costs in the meantime such as our share of service charges and rates, which would normally be paid by an occupying tenant.
- 3.8. We asked our letting agent, LSH, to specify what works would need to be done and what features would need to be incorporated, in order to meet market expectations and hence attract a suitable occupier.
- 3.9. We appointed Savills, our Managing Agent, to carry out a benchmarking exercise and a tender process, which established the market price for the scope of works recommended to get the vacant space income- producing.
- 3.10. Following the tender process carried out by Savills, a contractor was provisionally selected and can start work in short order.
- 3.11. The Adur SPIF has reserve funds available for precisely this purpose.

- 3.12. Build costs are increasing and the contractor's price is subject to revision after three months. In the Exempt Appendix a sum is allowed for this increase.
- 3.13. We have run a bid process through Savills and have a clear winner. The Project Initiation Document is linked in the Appendix .

4. Issues for consideration

- 4.1. Alternative options have been considered, including doing nothing. This would cost ADC SPIF c £109,000 per year in service charges and rates, plus any maintenance or repair costs outside the service charge, plus any residual standing charges for utilities.
- 4.2. Leaving the suite as it is may attract tenants but this would be at levels of rent that harm the value of the building and are likely to be tenants of less quality than the building warrants.
- 4.3. We had interest from a clinic in the space 'as seen', but they were only prepared to pay half the rent with a long rent free period on a five year term. We couldn't recommend acceptance of that offer, especially as it came with no obligation to reinstate at the end of the short lease.

5. Engagement and Communication

- 5.1. Internal engagement includes discussions with procurement and finance teams.
- 5.2. External engagement is not required, planning consent is not needed but we will have to make a building control application for certain aspects of the work.

6. Financial Implications

- 6.1. The cost of the refurbishment works of £570,000 including recoverable VAT is recommended to be met from use of the Strategic Property Investment Fund capital budget. A dilapidations payment of £157,000 has been received from the previous tenant to be used as a contribution towards the funding.

- 6.2. The Council has a budget of £92,960 for rental income for this office space at Eskan Court, in the current condition, this income has not been received for over 12 months due to the suite being vacant. Adur District Council is also responsible for the business rates and service charge costs whilst there is no agreed lease in place.
- 6.3. It is estimated that following refurbishment the annual rent for the commercial space could be circa £150,000 and the rates and service costs will be payable by the tenant, saving the council an average £109,000 per year (plus any unforeseen costs).
- 6.4. Assuming it takes a year to let, with a total of say 12m of rent free period, the payback period would be under two years.

7. Legal Implications

- 7.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to, the discharge of any of their functions.
- 7.2 s1 Local Government (Contracts) Act 1997 confers power on the local authority to enter into a contract for the provision of making available of assets or services for the purposes of, or in connection with, the discharge of the function by the local authority
- 7.3 Under the Council's Contract Standing Orders tenders over £100,000 are to follow an Open Process. At CSO 5.6.1 there is an exemption to the Open Process where the Chief Financial Officer and the Assistant Director Legal & Democratic Services agree that an Open Process need not be held and/or it is impractical to invite 5 bidders. In the circumstances set out in this report, use of the exemption has been approved.

8. Background Papers

- n/a- PID above

Sustainability & Risk Assessment

- The area to be refurbished has an outdated heating and ventilation system and is graded as EPC D. The refurbishment works are intended to improve the efficiency of the space to a EPC B grade if possible. If not, we will have to address these issues at a later date.
 - Matter considered and no other issues identified.
- 1. Economic**
 - This proposal/issue does not affect the economic development of our places or the economic participation of our communities
 - 2. Social**
 - 2.1 Social Value**
 - This proposal/issues raised has no effect upon our communities or specific groups within our communities
 - 2.2 Equality Issues**
 - None identified.
 - 2.3 Community Safety Issues (Section 17)**
 - None identified.
 - 2.4 Human Rights Issues**
 - None identified.
 - 3. Environmental**
 - None identified.
 - 4. Governance**
 - The implications for or alignment with the Councils' priorities, specific action plans, strategies or policies are solely around reducing risk and outgoings and improving the cash return consequent upon letting the space.
 - Implications to the Councils' reputation or relationship with our partners rest solely on providing quality business space and associating the Council's SPIF with good quality and effective working spaces.
 - There are no implications for resourcing, risk management (including health and safety), the governance of either Council, through the proper operation of the project.