

**OVERVIEW AND SCRUTINY COMMITTEE
7 NOVEMBER 2023**

PART 1 – PUBLIC DOCUMENT

Call to account with regards to the Harkness Court Refurbishment

TITLE OF REPORT: Harkness Court Refurbishment

REPORT OF: Service Director – Enterprise

EXECUTIVE MEMBER: Executive Members for Enterprise and Arts.

COUNCIL PRIORITY: SUSTAINABILITY AND A BRIGHTER FUTURE TOGETHER

1. EXECUTIVE SUMMARY

1.1. To provide an account of the Harkness Court refurbishment project.

2. BACKGROUND TO PROJECT

- 2.1. As part of the 2016/17 budget setting process the Council approved revenue and capital funding in relation to the provision of housing at market rents. This included revenue funding for feasibility work and £3m capital funding over 2017/18 to 2019/20.
- 2.2. In March 2018, a report to the Cabinet Sub-Committee (Trading Companies) and Cabinet determined that the approach for the £3m should be focused on development and conversion of existing Council land and buildings. That report was also considered by Overview and Scrutiny. That report highlighted that Careline would be moving into the District Council Offices. That would free up Harkness Court (in Hitchin) as a property that would be suitable to be developed.
- 2.3. The aim of the project was to refurbish the former Careline offices into four residential flats to generate income from the property. As mentioned above, this was initially part of a much wider strategy to acquire and develop residential property. The changing regulatory landscape (e.g. in relation to Council borrowing and the financial costs associated with that borrowing) have affected the scope of the overall strategy, but the target of redeveloping Council land/ property has been continued.
- 2.4. The sale of the property once planning permission for the conversion had been granted was considered. This was discounted as (1) it would remove the potential to generate income and (2) the increase in the capital value post-development was expected to be greater than the value with planning plus the cost of the development.
- 2.5. The exit route of a sale of the property (either as a block or as four individual flats) is still possible, and will remain as a possibility.
- 2.6. There wasn't a detailed project plan, however, the following is an extract from an email dated 14 August 2018.

The stages of the project are as follows:

<i>Prepare plans</i>	<i>Done</i>
<i>Obtain planning permission</i>	<i>Done – 6 August 2018</i>
<i>Obtain building regulations</i>	<i>In progress by Architects</i>
<i>Specification for conversion</i>	<i>To be prepared by Architects</i>
<i>Tender the conversion work</i>	<i>Architects (Winter 2018)</i>
<i>Appoint contractor</i>	<i>NHDC (Spring 2019)</i>
<i>Hand over of finished flats</i>	<i>Contractor (2019)</i>
<i>Setting up the NHDC company</i>	<i>NHDC</i>
<i>Research letting / sale values</i>	<i>NHDC</i>
<i>Appointment of letting agents</i>	<i>NHDC (2019)</i>
<i>Letting of flats</i>	<i>Letting agent</i>
<i>Management of the flats</i>	<i>Letting agent</i>

- 2.7. Based on the above the target completion date of the building works was Autumn 2019.
- 2.8. Fairly early into the project, it was identified that the garden was under the ownership of Settle, therefore, officers of the Council and Settle worked together to ensure the land was transferred back to North Herts Council.
- 2.9. The project was then held up further due to the electrical intake (covered in detail in para 5.1.4), which meant the Council could not award the refurbishment work until this was resolved.
- 2.10. The commencement date was then further impacted by COVID-19, as the Council wanted to ensure there was clarity from the Government with regards control measures and any associated restrictions, prior to commencement. Once this was fully understood the contract was awarded and work commenced on 5th August 2020 with the programme of conversion works scheduled to complete by the end of January 2021. However, it was noted by the Council that there could be delays due to the impact of COVID-19, and the target date could easily slip.
- 2.11. The building works commenced, however, there were further delays which are set out in detail in section 5 (Lessons identified) of this report.

3. CONTRACTUAL AGREEMENTS AND MANAGEMENT

- 3.1. The Council appointed Stevenage Borough Council to assist with this refurbishment, their role was to write the specification, tender the work, gain planning and building control approval, monitor the work of the contractor to ensure it was completed to the specification (including Building Control and Planning requirements).
- 3.2. Officers from North Herts Council were responsible for project managing the work of Stevenage Borough Council officers, liaising with Settle with regards utilities and land access and producing a business case to determine whether the site should be sold or retained following the refurbishment.
- 3.3. The contractor who undertook the building work was appointed using a JCT (Joint Contracts Tribunal) Minor Works Building Contract with Contractors Design and this type of contract is commonly used within the construction sector. The Council's legal team prepared a Form of Agreement in accordance with the JCT Minor Works Contract.

4. COST VERSUS ESTIMATE

- 4.1. The Council incurred £23k of costs prior to the contractor starting work on site. This would have included the costs of obtain approvals (planning permission and building control) and resolving the issues referenced in paragraphs 2.8 and 2.9. As the Council then carried out the construction work, these costs were treated as capital costs.
- 4.2. The value of the property with planning and building regulation approvals was estimated to be £425k. It was estimated that the value of the fully converted property would be £760k, i.e. a £335k increase.
- 4.3. The original estimate was that the main construction works would be around £210k. With professional fees and other contractors' costs, the total cost would have been expected to be around £255k. (excluding the £23k referenced in paragraph 4.1).
- 4.4. As a result of the issues described in this report, the actual construction cost to date has been just under £340k (excludes the £23k references in paragraph 4.1). As detailed in section 6 there are still some further costs to be incurred. On reflection. Based on the original estimates and focusing on capital value only, it would have been better to sell the property once planning and building regulations approval had been obtained. Due to the passage of time the capital value of the property has increased above the costs incurred.
- 4.5. The Council's plan is to lease the completed flats to Broadwater Hundred Property Management Ltd (the Council's wholly owned trading company). The original business case set out that Broadwater Hundred Property Management Ltd would rent it to the open market and provide a revenue income of £16K to the Council. This will need to be reviewed to reflect current market conditions, and may now be higher. The Council have lost income during the 4 year delay, which in basic terms would be £64k. The Council have incurred the capital expenditure later, so will have off-set some of that loss by being able to invest those funds. During the period of the delay there has been some very high inflation, and it also looks like there may be a need for high interest rates to be in place for a sustained period. The delay will help ensure that the lease arrangement with Broadwater Hundred Property Management Ltd adequately reflects those economic conditions, which would not have been evident in 2019.

5. LESSONS IDENTIFIED

- 5.1. To ensure lessons can be learned from this project a lesson learned document is provided in appendix 1 which has been produced by officers of North Herts Council and Stevenage Borough Council. Also, the Council Shared Internal Audit Service (SIAS) have undertaken a review of the project, their findings are provided in appendix 2. The key findings from both documents are set out below:
 - 5.1.1. **Project Management** – there is no evidence to demonstrate this project was formally set up using the Council Project Management Framework, therefore, although officers were working on the refurbishment, there was no clear person that was responsible for the project. Therefore, the project lacked coordination and momentum raising confusion at times and preventing resolution of some issues in a timely manner.

- 5.1.2. **Building Control** - Better understanding of Building Control requirement. Full plans were not fully assessed following Building Control approval (with conditions) prior to a start on site. This has caused significant delays, including an item with regards the travel distance from the car park to the property.

Due to a change in Building Regulations (prior to the project commencing) a fire engine attending the site needs to be able to park and have access to the furthest point of the building with a travel distance of 45 meters or less. This item was not identified during the design stage and was picked up near to end of the refurbishment work (May 2022). It has taken approximately 17 months to find a solution to this item, therefore, causing significant delay and loss of income to the Council.

- 5.1.3. **Project Team** - Several key members of the Project Team departed at critical stages of the Project due to health reasons, leaving the work of three people in the hands of just one. This severely weakened resilience and efficiency of the Project Team.

Handover briefings of incomplete or ongoing tasks from former members to the single replacement member were either absent or insufficiently detailed in several cases. This adversely affected momentum and confidence levels in the Project Team and meant time had to be allocated to checking that tasks had been completed to the required standard.

- 5.1.4. **Utilities** - Insufficient investigation and research into the existing building to be refurbished, including the provision and adequacy of existing mains services.

Arrangements for the installation of mains gas, electricity and water with three separate external statutory undertakers were not addressed sufficiently early in the Project. As such, parts of the main conversion work had to be paused or works re-sequenced in the Project to ensure the safe and correct installation of mains services.

- 5.1.5. **Land ownership discrepancies** - It was identified that parts of the property to be encompassed in the Project (specifically front entrance porch, rear garden and the site of a refuse bin store) had been incorrectly transferred to North Hertfordshire Homes as part of the wider Stock Transfer between North Hertfordshire District Council and this organisation in 2003. Rectifying these land ownership discrepancies took longer than anticipated due to staffing issues at both the Council and Settle Group.

This led to a delay of approximately 2 months pending completion of the transfer documentation for the three areas of land. Fortunately, the contractor agreed to hold their pricing on resumption of proceedings.

- 5.1.6. **Project Brief** – The project brief did not take into consideration all of work that would be required to rent out the properties, therefore, there were several items that were not included in the main building works. This included changing a couple of windows, flooring, kitchen works, new front door and landscaping. This caused further delays (approximately 3 months) and these works being carried out in a less efficient sequence.

- 5.1.7. **COVID-19 and the introduction of Government enforced site lockdowns**. Delays in progressing work due to awaiting for Government confirmation as to when restrictions on construction sites were to be lifted. This introduced delays into the project programme. Although construction sites were permitted to re-open relatively early following the first Covid-19 lockdown, the Project was required to be managed in accordance with health & safety advice regarding close proximity working and minimising

unnecessary contact. This inevitably reduced productivity of work on site. Furthermore, delays were experienced in securing certain materials during the Covid-19 pandemic. It is anticipated that this delayed the project by approximately 6 months.

6. NEXT STEPS

- 6.1. Although the project is near completion, there are still a few more tasks that need to be completed to finish this project, these are set out below:

Task	Start date	Completion date	Responsible
Planning Permission to provide a parking space for a Fire Engine		Approved at the 12 October 23 Planning committee	
Agree with Settle the works that have been approved as part of the Planning approval,	Already started	3 November 23	NHC/Settle
Get quote to undertake parking space and landscaping work	Done	Done	NHC
Lead in time for contractor	6 November 23	24 November 23	Contractor
Undertake parking space and landscaping work (3 weeks)	27 November 23	15 December 23	Contractor
Obtain Building Control approval including Parking, SAP and Energy Certificates	18 December 23	22 December 23	Stevenage BC
Ensure building is compliant and ready to hand over to Broadwater Hundred Property Management Ltd	Already started	22 December 23	NHC
Agree lease with Broadwater Hundred Property Management Ltd	Already started	1 December 23	NHC / Company
Handover to Broadwater Hundred Property Management Ltd	22 December 23	22 December 23	NHC / Company
Start advertising flats for renting		1 December 23	Company
Tolerance		6 weeks	
Complete project		2 February 2024	

- 6.2. A tolerance of 6 weeks has been provided for the remaining tasks, as many tasks are dependent on external organisations.
- 6.3. Once the flats are handed over to the Broadwater Hundred Property Management Ltd, the Council will start receiving the revenue income of £16k per annum and it will be the responsibility of the company to let them, therefore, no date has been stated with regard occupancy. However, the company will be keen to get these in use as soon as possible.

7. APPENDICES

- 7.1. Appendix 1: Lessons Learned Document - NHC
- 7.2. Appendix 2: Internal Audit Report North Herts Council – Harkness Court 2023/24

8. CONTACT OFFICERS

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9. BACKGROUND PAPERS

- 9.1. None.