

# Cabinet

15 July 2020



<b>Title</b>	3 Roundwood Avenue, Stockley Park, Uxbridge – Major Works		
<b>Purpose of the report</b>	To make a decision		
<b>Report Author</b>	Nick Cummings, Property and Development Manager Heather Morgan, Group Head Regeneration and Growth		
<b>Cabinet Member</b>	Councillor J. McIlroy	<b>Confidential</b>	No
<b>Corporate Priority</b>	Economic Development		
<b>Recommendations</b>	<p><b>Cabinet to:</b></p> <p><b>Approve a budget of £271,600 for the forward funding of works to replace the central plant (chiller and boiler system) at 3 Roundwood Avenue.</b></p> <p><b>Authorise expenditure of the above sum.</b></p> <p><b>Approve the appointment of contractor B for the chiller works, and contractor D for the boiler replacement, following a competitive tender process. Authorise the Group Head of Corporate Governance to enter into any legal documentation necessary to formalise the appointments.</b></p>		
<b>Reason for Recommendation</b>	<p><b>The works are of an urgent nature following the unexpected mechanical failure of the main chiller and boilers.</b></p> <p><b>The building is fully let with repair and maintenance costs recoverable through a service charge. Given the scale of the works, it is proposed that the Council forward funds the works and recovers the costs from the tenants via the service charge over the next 18 months.</b></p> <p><b>The works will greatly enhance the future potential for securing new lettings in the building.</b></p> <p><b>The works have been competitively tendered and represent good value to the Council.</b></p>		

## Key issues

- 1.1 3 Roundwood Avenue was acquired by Spelthorne Borough Council in July 2017 and comprises a two storey business park office extending to 42,961 sq ft. The building is fully let to two tenants, Verifone UK Ltd and Volga Dnepr

UK Ltd. Both leases are effectively full repairing (i.e. repairs are the tenants' responsibility with the costs recovered via a service charge). The asset produces a rental income of £1,425,961 per annum.

- 1.2 The building was constructed in 1990 and the previous owner had carried out a full refurbishment in 2014. A full building and mechanical and electrical (M&E) survey was carried out at the time of acquisition. This report identified that the central plant was generally in good condition but would require some repair and replacement in the medium term. As a consequence a sinking fund of £1.58m has been set aside for this asset to allow for future capital expenditure or unexpected void costs to be incurred without impacting on the Council's Revenue Budget.
- 1.3 The tenants in the building have different operational demands upon the building. Verifone prefer the heating to run at a higher temperature than would be expected, while Volga Dnepr have previously run a 24/7 cargo logistics operation. These will have put additional demands on the central plant, and as a consequence the Asset Management team has previously commissioned a planned preventative maintenance (PPM) regime for the building to ensure that building performance is monitored and major works instructed in a timely and appropriate manner to ensure full service charge recovery. It was previously identified that the two of the five boilers serving the heating system were malfunctioning, and the cost of replacing these has been built into the service charge for the financial year ending 2020 and 2021.
- 1.4 Earlier this year the central chiller unexpectedly failed due to a rupture in the evaporator with refrigerant entering into the chilled water loop system, and is beyond repair. Given the intention to replace the boilers, a comprehensive scope for the replacement of the cooling and heating system was commissioned. A replacement Variable Refrigerant Flow system operating a combined heating and cooling solution was explored, alongside a replacement of the chiller and boiler systems. The former has proved to be prohibitively expensive (in excess of £1m) and the latter solution has therefore been progressed.
- 1.5 The managing agent for the building, Cushman & Wakefield has commissioned a competitive tender for the replacement of the chiller and boiler system. A copy of the competitive tender returns for both projects is attached at Appendix 1.
- 1.6 The lowest price returns were obtained from three contractors as follows:-
- 1.7 Chiller Replacement – Contractor A - £101,230  
Contractor B - £99,310  
Contractor C - £109,200
- 1.8 Boilers Replacement (assume out of hours max cost)  
Contractor D - £91,460  
Contractor E - £104,295  
Contractor F - £94,476
- 1.9 The most competitive tender return for the chiller replacement was from Contractor B (£99,310). Taking into account project supervision costs and a contingency, the overall cost is £116,441.

- 1.10 The most competitive tender return for the boiler replacement was from Contractor D (£91,460). The same company was also the most competitive assuming works can take place in working hours. Taking into account design sign off, project supervision costs and a contingency, the overall cost is £111,656.
- 1.11 Taking into account additional professional fees and a 10% contingency, the total costs of carrying out the replacement of the chiller and boiler system is therefore £271,600.
- 1.12 Both of the above tenders are from reputable firms with the relevant technical expertise and track record, and it is recommended that appointments are made on a fixed price basis with appropriate supervision by Smart Managed Solutions and the technical services team at Cushman & Wakefield. The installation and equipment will be warranted for 5 years from completion and will have a c.15 year life expectancy.

## 2. Options analysis and proposal

### Options

***Option 1 - Formally agree to forward fund the cost of the works; to approve the budget of up to £271,600 to agree the expenditure of this sum and; to appoint Contractor B to carry out the chiller works; to appoint Contractor D to undertake the boiler replacement works.***

- 2.1 This will ensure that the works are carried out at the earliest opportunity to allow the building to be fully operational. The chiller works will be subject to a 6-8 week lead in period and then 2 weeks on site, while the boiler system will require a 2 week lead in and 5 weeks on site. There is a practical advantage to carrying out the works while the building is occupied by reduced staff due to the Covid 19 pandemic.
- 2.2 The costs of both projects have been competitively tendered and best value through procurement has been obtained.
- 2.3 As the building is fully let, with tenant break options in January 2024 (Volga Dnepr) and July 2022 (Verifone), there is currently the ability to re-charge these costs via the service charge during 2020 and 2021.
- 2.4 By carrying out the works now, future re-letting of vacant accommodation will be easier to achieve and refurbishment costs to the Council will be reduced.

or

***Option 2 - Formally agree not to forward fund the works***

- 2.5 Failure to fund the works will mean there is insufficient reserve within the building service charge to carry out either the chiller or boiler system this year. This will mean that the heating and cooling systems are not working effectively, and will require short term solutions to ensure that the Council is not in breach of its obligations to the tenants. The cost of hiring a temporary chiller for six weeks is in the order of £27,500.
- 2.6 If the works are not addressed then it is likely that one or both tenants may attempt to withhold rent and service charge payments.

- 2.7 By not carrying out the works now, the Council risks not being able to fully recover the costs from the tenants, as Verifone's lease is subject to a break option in July 2022 which we expect them to operate. For that reason the sinking fund allocation for this asset has been increased for the 2020/2021 financial year, to

**Proposal -**

- 2.8 ***It is recommended that Cabinet formally approve a budget of £271,600 for these works, and that approval is granted to make this expenditure through the appointment of Contractors B and D for the chiller and boiler system replacement contracts respectively.***

**3. Financial implications**

- 3.1 The current service charge budget has been adjusted to provide for £100,000 to be collected from the tenants in the year ending December 2020, with the remaining £171,600 collected in December 2021.
- 3.2 The Council will therefore be forward funding £271,600 now, with £100,000 being repaid by the end of this year, and the remainder repaid by the end of calendar year 2021.
- 3.3 There is currently provision within the sinking fund for these works.

**4. Other considerations**

**Legal**

- 4.1 Our legal team will be able to document the contractual arrangements and we have discussed these proposals with them.

**Contract standing orders**

- 4.2 The procurement process carried out for the works complies with contract standing orders.

**5. Timetable for implementation**

- 5.1 If this proposal is approved, we will arrange for the appointments to be entered into as soon as possible.

**Background papers: none**