

From: Rebecca Spore, Director of Infrastructure

To: Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services

Subject: Construction of new office building at Henwood Highways Depot - Disposal of surplus office building

Decision no: 25/00028

Key Decision: *Yes, the decision involves expenditure or savings of maximum £1m.*

Classification: **Unrestricted report with exempt appendix A**, *not for publication under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

Future Pathway of report: Cabinet Member Decision

Electoral Division: Ashford Central - Paul Bartlett

Is the decision eligible for call-in? Yes

Summary: The report considers property condition and asset management issues at the Henwood Depot Site and Existing Henwood Office, which together are known as the Henwood Project. It sets out a recommendation for capital investment into the Depot Site to create a new Modular Office which would address these issues and render the Existing Office building surplus to the Council's operational requirements. Subject to the construction of the new Modular Office, authority would be granted for the sale of the Existing Office building via an open and transparent marketing process.

Recommendations:

The Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services is asked to agree to:

1. **APPROVE** the Henwood Project and **NOTE** the contribution towards Corporate Landlord Medium-Term Financial Plan savings targets;
2. **APPROVE** the allocation of £1.5m from the Capital Programme Budget 2024-34 as approved by County Council on 19 February 2024 for the delivery of the proposed capital works at the Henwood Depot site;
3. **APPROVE** the disposal of the Existing Henwood Office building following delivery of the Henwood Project; and
4. **DELEGATE** authority to the Director of Infrastructure, in consultation with the Deputy Leader and Cabinet Member for Finance, Corporate and Traded

Services, to enter into the necessary contracts and legal agreements to facilitate the implementation of the decisions.

1. Introduction

- 1.1 The report will first set out the service-led rationale for capital investment into the Henwood Depot Site (Depot Site) which is to be used by an external contractor as part of the delivery of Council's Highways Term Maintenance Contract. This contract is currently subject to procurement and was considered under key decision 24/00086.
- 1.2 The report then considers the challenges posed by the underutilisation of the adjacent Henwood Office building (Existing Office), and the alignment with the Council's newly adopted Asset Management Strategy and other policy positions, including Securing Kent's Future.
- 1.3 A rationale for enhanced capital investment into the Depot Site is set out which involves the construction of a new Modular Office. The construction of this Modular Office would result in the Existing Henwood Office becoming surplus to the Council's operational requirements.
- 1.4 The report then outlines the potential strategy for the disposal of the Existing Office which would generate a capital receipt and secure an ongoing revenue saving. Contributing to current Corporate Landlord Medium-Term Financial Plan savings commitments.

2. Background

- 2.1 The Henwood Depot Site and Existing Henwood Office sites are located within Ashford. South of the M20 and to the east of Junction 9. The sites form part of the wider Henwood industrial estate.
- 2.2 Both sites are owned freehold by Kent County Council (KCC) and are currently contained within a single registered title (Appendix B).
- 2.3 The site is approximately 2km from Kroner House on the Eurogate Business Park, which is the Council's Ashford Hybrid Office. Providing various facilities including bookable desks, meeting rooms, touchdown space and video conferencing.



- 2.4 The combined site area of the Depot Site and Existing Office is circa 4.25 acres. Of this the Existing Office site occupies circa 1.9 acres and the Depot Site circa 2.35 acres.
- 2.5 The Depot Site is currently let to Amey as part of the current Highways Term Maintenance Contract which is due to be reprocured with further detail set out in separate Key Decision 24/00086.
- 2.6 The Existing Office is occupied and operated by the Council. However, as working practices have changed and the use of KCC's office estate has reduced, since February 2023 the Henwood Office has been held part vacant to generate a revenue saving with staff utilising space at KCC's other KCC offices. Circa 75% of the available footprint is surplus to the Council's operational office requirements.
- 2.7 Following the partial closure and decommission in 2023, most staff who previously operated from the building have been relocated to Kroner House. Feedback from relocated staff has been positive and further limited works are planned to Kroner House to ensure the building meets business needs.
- 2.8 The remaining Highways staff who continue to operate from the Existing Office are those who have a requirement to work in close physical collaboration with the contractor awarded the Highways Term Maintenance Contract.

3. The Depot Site

- 3.1 The c2.35-acre depot site is fully let to the current Highways Term Maintenance Contract provider. Subject to procurement, this lease will come to an end upon the conclusion of the existing service contract. The depot will then be re-let to the new contracted service provider.

- 3.2 The established use class is sui generis being a mixture of B2 and B8 storage accommodation.
- 3.3 The Council owns several freehold depots across the County which are provided on a leasehold basis to contracted service providers. These are held corporately as the highways service cannot be delivered in the absence of a suitable depot network across the county.
- 3.4 The Council receives a market rent for these depots whether explicitly provided through the leasehold rental contracts or implicitly accounted through savings on the service level contract.
- 3.5 Several units within the Depot Site are coming to the end of their operational lifespan and require replacement. Other facilities, including welfare accommodation are currently provided within the main Existing Office building, rather than at the depot.
- 3.6 Underinvestment in accommodation within the depot sites will have a negative impact on the service delivery ultimately impacting residents and road users across Kent.
- 3.7 The Council therefore is required to replace necessary accommodation on the Depot Site before the commencement of the new service contract in 2026. The costs for this work will be met through the Council's Modernisation of Assets programme.
- 3.8 Depot sites are extensively used throughout the winter months (weather dependent but typically considered to be October – March) and therefore any construction works will be timed to avoid this period as far as possible. This leads to a preference for modular or off-site construction which minimises on-site construction periods.
- 3.9 Based on feasibility costings the replacement of necessary units within the Depot Site, with a new single-storey modular building, requires a capital budget of £750k, which would not require a Key Decision as this falls within the limits of officer delegations.
- 3.10 Based on KCC's adopted discount rate of 9% there is a strong rationale for investing in the purchase of a modular building versus hire-in options, which would run at an ongoing revenue loss despite lower up front capital costs.
- 3.11 Further commentary on rental values is included within the exempt Appendix A.

4. The Existing Office

- 4.1 The Existing Office site is circa 1.9 acres, including 2150m² of B1 Office accommodation over 2 floors. The site provides parking for c160 vehicles.
- 4.2 Due to the Council's financial challenges the Existing Office was partially closed on 1 February 2023, to save money on utility and FM costs.

- 4.3 Highways Staff operating from the Existing Office were able to work from the nearby Kroner House as part of KCC's Hybrid Office estate. A small number of staff continued to operate from the Existing Office building where their roles required close collaboration with the external highway's contractor. Around 20 desks continue to be in active use.
- 4.4 Welfare facilities on the ground floor of the Existing Office building were also used by the external contractor as facilities were not available within the depot site.
- 4.5 The building is currently 75% vacant and while revenue running costs have been reduced due to this part vacancy, there is not a direct linear relationship between percentage occupancy and revenue costs. The building therefore represents an inefficient use of the Council's resources.
- 4.6 The Council's Future Assets programme which is part of the strategic reset programme and the newly adopted Asset Management Strategy, places significant emphasis on the need to reduce the size of the estate, to reduce revenue running costs and condition work expenditure. The reduction in the size of the estate also forms an important contribution towards the Council's net zero ambitions.
- 4.7 Kroner House on the Eurogate estate is the Council's principal Hybrid office in the Ashford District and provides a suitable venue for all staff who do not have an operational requirement to work on the same location as the contracted service provider.
- 4.8 Therefore, the continued retention of the Existing Office, when only circa 25% of the footprint is required for operational purposes, is not considered sustainable or best use of the Council's limited resources.
- 4.9 Further commentary is provided within the exempt Appendix A. The building has an estimated capital value associated with the Henwood office if it was disposed of exceeding £1million.

5. The New Modular Office

- 5.1 Due to the condition issues outlined in section 3 above and the estate vacancy issues summarised in section 4, an alternative proposal has been devised for an enhanced modular offering within the Depot Site.
- 5.2 This would involve the construction of a two-storey New Modular Office within the Depot Site. The ground floor would re-provide necessary Depot accommodation outlined at 3.9, the first floor would re-provide the areas of the Existing Office which are still currently occupied, resulting in the entire Existing Office becoming surplus to operational requirements.

5.3 By combining these uses within a single new modular office building the following objectives are achieved:

- Provides for replacement of end-of-life Depot facilities
- New Depot facilities will be sufficient to ensure continued delivery of key Highway services and will increase overall rental value of Depot site.
- A reduced building footprint is secured for KCC service use, reducing ongoing maintenance and FM costs
- Reinforces the Council's policy of only having one hybrid office per district to avoid duplication
- Provides necessary collaboration space for Highways staff and external contractors
- Allows for the Existing office to be declared surplus. Fully decommissioned achieving further revenue savings in line with Medium-Term Financial Plan savings requirements
- Allows the existing office to be disposed of generating a substantial capital receipt.

5.4 The budgetary estimate for a two-storey New Modular office is £1.5million inclusive of contingency allowance. It is envisaged that the cost would be met through Modernisation of Assets Budget and asset review budgets attributed to the restructuring of the Council's office accommodation to meet changing organisational needs.

5.5 Due to the need to avoid construction work taking place during the winter service period and construction lead times, a planning application is being prepared for submission which will run in parallel with this Key Decision process.

6. Disposal of the Existing Office

6.1 Subject to the construction of the two-storey New Modular office on the Depot site, the Existing Office will become surplus to KCC's operational requirements in full.

6.2 The proposed key decision seeks authority to dispose of this site, following the completion of construction works.

6.3 Further commentary is provided in the exempt Appendix A in respect of market advice.

6.4 Necessary utility and boundary separation works have been included within the budgetary estimate given above. Subject to the completion of these works it would be the Council's intention to openly market the Existing Office on an all-enquiries basis.

6.5 Agents' advice indicates that several potential bidders may come forwards including developers who may look to demolish existing buildings, or potential office occupiers.

6.6 It is anticipated that in all scenarios the capital receipt generated from the sale of the Existing Office will exceed the proposed level of capital investment into

the depot. Albeit the Council's financial regulations prevent directly ringfencing a capital receipt in this way.

- 6.7 Therefore, any capital receipt generated will be applied to budgetary priorities as agreed by full Council and set out in the Medium-Term Financial Plan.
- 6.8 The sale of the Existing Office will produce an anticipated net revenue saving of £150,000 per annum after considering the new operating costs of the New Modular office. In addition to reinforcing the principles of the Council's Asset Management Strategy by minimising voids and reducing carbon footprint.

7. Options considered and dismissed, and associated risk

7.1 Do nothing – dismissed

Not investing in replacement of Depot facilities or reprovision of office accommodation poses a risk to the continued delivery of the Council's statutory Highways functions. In addition, it would not address the asset management issues in respect of the Existing Office including a 75% void rate and large ongoing revenue costs.

7.2 Retention of the Existing Office building as an investment asset – Dismissed

Advice was sought from agents for the retention of the Existing Office as an investment. Advice indicated that the size of accommodation made it unlikely a sole tenant would be found. While there may be a market appetite for smaller office units within a multi-let space, the level of capital investment required into the Existing Office to convert it for multi-let use rendered it unviable as an investment proposition.

7.3 Full reoccupation of the Existing Office building by Highways or other KCC services – Dismissed

No suitable KCC services could be identified. Retention of the building as part of the Hybrid office estate is not considered appropriate given the proximity to Kroner House (2km) which provides a comprehensive offering for the Ashford district and is not at full capacity.

7.4 Part occupation and let of Existing Office building – Dismissed

Advice from agents was that significant capital expenditure would be required to the Existing Office to make it suitable for multi-let use alongside KCC usage. This option would introduce significant risks as the Council would be liable for ongoing revenue costs if suitable tenants could not be identified. The construction of a new modular office ensures the Council can correctly size office accommodation to meet corporate needs.

8. Financial Implications

- 8.1 The budget cost of £1.5million will be met from Capital Programme Budget 2024-34, as approved by County Council on 19 February 2024.
- 8.2 Enhancement of the Depot facilities will generate an enhanced value and ensure that critical highways services can be provided.

- 8.3 The reduced office footprint will result in reduced revenue costs and deliver a saving as set out in the Medium-Term Financial Plan as part of the Future Assets Programme.
- 8.4 The sale of the property will result in a capital receipt which will be reinvested into the Council's Capital Programme, with priorities agreed by full Council as part of the budget setting process.
- 8.5 The disposal will remove holding costs associated with the site, easing pressure on revenue budgets.

9. Legal implications

- 9.1 As the project progresses, specialist advice will be sought via the Office of General Counsel for the implementation of asset management and construction matters including:
- Leasehold arrangements with external highways contractor
 - Procurement and award of construction contract for new build
 - Disposal of surplus Office accommodation

10. Equalities implications

- 10.1 A draft Equalities Impact Assessment (EQIA) has been completed and will be kept under review as project progresses. There are no equalities implications arising from the sale of a surplus property.
- 10.2 The new modular accommodation will be built to comply with current building regulation standards.

11. Data Protection Implications

- 11.1 As part of this approval process and in the handling of procurement/ contract award/marketing/conveyancing Data Protection regulations will be observed.
- 11.2 A Data Protection Implication Assessment (DPIA) screening has confirmed that there are no DPIA implications and that a further DPIA assessment is not required in respect of this decision.

12. Other corporate implications

- 12.1 The works to address end-of-life structures on the Depot site are necessary to avoid impact on the future procurement of the Highways Term Maintenance Contract.

13. Governance

- 13.1 As required by the Council's constitution the Local Member has been consulted and expressed views in relation to out of hours fly parking by HGVs and an interest in continued engagement.

13.2 Officers will take on board these concerns as part of the planning application process and in relation to future leases. The Local Member will be updated as the project progresses.

14. Next steps and Conclusions

14.1 An indicative timetable for the planned disposal is set out below:

Stage	Timescale
Planning application submitted for modular office	March 2025
Commencement of works	June 2025
Practical completion	October 2025
Marketing of Existing Office	Q1 2026
Completion assuming unconditional sale	Q2 2026
Completion assuming conditional sale	Q4 2026

Recommendation(s):

The Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services is asked to agree to

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15. Background documents / Appendices

15.1 Appendix A – Exempt Appendix A

15.2 Appendix B – Site Plan

15.3 Appendix C – Proposed Record of Decision

15.4 Appendix D - Equalities Impact Assessment

16. Contact details

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