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**REPORT TO: SPECIAL MORAY COUNCIL ON 12 DECEMBER 2018**

**SUBJECT: PROPERTY ASSET MANAGEMENT APPRAISAL**

**BY: CORPORATE DIRECTOR (ECONOMIC DEVELOPMENT,  
PLANNING & INFRASTRUCTURE)**

**1. REASON FOR REPORT**

- 1.1 This report presents the findings arising from the Property Asset Management Appraisal (2018).
- 1.2 This report is submitted to Council in terms of Section II (13) of the Council's Administrative Scheme relating to the approval of council reports and strategies of a corporate nature.

**2. RECOMMENDATION**

**2.1 It is recommended that Council:-**

- (i) considers and agrees the main findings and recommendations set out in the Property Asset Management Appraisal (PAMA);
- (ii) considers and notes the financial implications set out in Section 4.3 and 6 of this report and Section 15 of APPENDIX I;
- (iii) considers and decides whether it wants to retain all or part of the non-operational assets (industrial estate) and if retained, introduce an annual review of individual units to consider their retention or possible sale;
- (iv) agrees to implement the Improvement Plan set out in Section 16 of the PAMA;
- (v) agrees to progress the review of offices, depots and storage facilities in 2019/20 based on early estimates of recurring savings £200k (revenue) and £250k (capital) as detailed in 6.4 of the report;
- (vi) agrees to develop a new Asset Management Staffing Structure in 2019/20;
- (vii) agrees to fund a dedicated resource from Reserves at a cost of £86k for 9 months to complete the review of offices, depots and storage facilities and implement the new Asset Management Structure; and

(viii) agrees that progress on the Improvement Plan will be reported to the Policy and Resources Committee as and when required in 2019/20 and thereafter on an annual basis.

### 3. **BACKGROUND**

- 3.1 The Property Asset Management Appraisal (PAMA) seeks to provide a comprehensive overview of the Council's property assets, their function, current condition and the "hidden" financial risks that sit within the property portfolio. A copy of the appraisal is provided in **APPENDIX I**.
- 3.2 At the time of writing the appraisal, the Council was using 198 separate properties to deliver 10 core services and other back office functions. These buildings fall into three main categories of use:

<b>Operational</b>	<b>No</b>	<b>Community</b>	<b>No</b>	<b>Education</b>	<b>No</b>
Offices	15	Community Centres	8	Primary	46*
Depots	15	Town Halls	10	Secondary	8
Storage facilities	10	Public toilets	32		
Recycling Centres	3	Museums	2		
Homeless Hostels	2	Swimming/Leisure	5		
Harbours	4	Libraries	12		
Day Centres	7	Pavilions	18		
Respite Centres	1				

Note: \* Linkwood primary is a registered school operating from East End at present

- 3.3 The Council carries out a rolling programme of assessments to assess the suitability and condition of each property for its intended purpose. Buildings are placed into one of four categories:

<b>A (Good)</b>	Performing well and operating efficiently.
<b>B (Satisfactory)</b>	Performing as intended but showing minor deterioration.
<b>C (Poor)</b>	Showing major defects and/or not operating as intended.
<b>D (Bad)</b>	Life expired and/or serious risk of imminent failure.

- 3.4 The overall assessment of condition is based on an element-by-element survey. Each element group is allocated a score with the results being aggregated under the Element Weighting and Scoring System introduced by the Scottish Government and updated in 2017. For a building to be considered fit for purpose it must be classed as B or better. Under this system, a building can meet the overall standard while failing in respect of individual elements.
- 3.5 In terms of suitability, the property portfolio scores reasonably well with 94.8% of properties being considered suitable for its intended use. In contrast, only 52.8% of the portfolio (198 separate buildings) attained a B condition standard with 52.2% of schools failing to meet the standard.
- 3.6 The recurring need for the Council to find budget savings has had a significant impact on frontline and back-office services. To protect these, investment

across the asset base was reduced. On 25 May 2016, the Council adopted a Make Do and Mend Policy (paragraph 11 of the Minute refers). This was designed to limit investment as far as possible, while maintaining sufficient resilience to deliver services short term. The new policy was designed to manage with less by repairing what we have and only buying new where there is no other suitable or sustainable alternative. The policy is due for review in 2018/19.

- 3.7 The PAMA has identified that current levels of investment are insufficient to adequately address the condition of the property estate (particularly schools). Major change is therefore required.

#### **4. MAIN FINDINGS**

##### **4.1 Corporate Buildings**

- 4.1.1 The Council has 15 offices with 12 of these located in Elgin, 1 in Keith, 1 in Forres and 1 in Buckie. One of the office buildings (Ashgrove) is scheduled for possible demolition in 2019/20 so the repairs and maintenance costs for this building has been omitted for the purposes of this report. To bring the remaining office buildings up to a B condition standard would require investment in the region of £895k.
- 4.1.2 To support front-line services, the Council uses 15 separate depots (12 occupied by Direct Services and 3 by Building Services). To bring these properties up to a B condition standard would require investment in the region of £2.2m.
- 4.1.3 There are 10 industrial units currently being used by separate Council services - some primarily for storage. There is an opportunity to generate savings if storage space was rationalised and merged where possible.
- 4.1.4 The Council should review its use of office space, depots and storage options. This has the potential to generate savings and reduce some of the "hidden" costs associated with repairs and maintenance of these assets.
- 4.1.5 Other buildings that sit within corporate buildings (recycling centres, homeless hostels, harbours, day centres and respite centres) are unlikely to generate significant savings so it is intended to review these at a later date when resources allow.
- ##### **4.2 Community Assets**
- 4.2.1 Community Assets include swimming pools, town halls, community centres, libraries, public toilets, pavilions and museums. To bring all of these assets up to a B condition standard would cost in the region of £5.2m. In terms of repairs and maintenance, these buildings are only repaired where there is a significant breakdown and/or a health and safety risk (i.e. high level stonework repairs). In 2018/19, none of these buildings were identified for improvement works and a decision relating to the review of the Leisure Estate (which includes some of these buildings) has yet to be made.
- 4.2.2 To generate budget savings in 2018/19, the Council decided to close town halls in Buckie, Cullen, Elgin, Findochty, Forres and Keith and the community

centres in Cullen and Dufftown. A proposal to sell Cullen Town Hall to a developer is currently being progressed through the courts (common good asset) while the remaining halls and community centres are all now leased to community groups while they prepare their full Community Asset Transfer (CAT) submissions.

4.2.3 Public toilets in Buckie (Strathlene), Craigellachie (Fiddich Park), Cullen (The Square and West Beach), Findhorn (South Block), Forres (Leys Road), Keith (Mid Street, Reidhaven Square and St Ruffus Park), and Lossiemouth (Station Park) have been closed and declared surplus. They are now being prepared for disposal, where feasible.

4.2.4 As part of the 2019/20 budget proposals:

- Elgin Community Centre is the subject of a consultation for possible closure/CAT;
- The Bowling Pavilion, Cooper Park is currently leased but will also be considered for possible closure/CAT; and
- The museum service will be considered for closure or a transfer to a trust.

#### 4.3 School Estate

4.3.1 Delivering Curriculum for Excellence, Getting it Right for Every Child (GIRFEC) and closing the poverty related attainment gap continues to be the key priorities for Education. While the school estate supports these priorities, the condition (if not addressed) is likely to impact and disrupt pupil education. The learning environment is important to positive learning experiences by providing a nurturing and safe environment for children and young people to achieve. In addition, to prepare learners for jobs that do not yet exist, it is essential that school buildings meet new and emerging standards and are fit for purpose.

4.3.2 The school estate is valued at £202m. Significant investment is required to maintain these buildings to a B condition standard. Repairs and maintenance programmes are split into three key areas of investment:

- Reactive repairs/maintenance (funded from capital/revenue budgets);
- Planned capital projects (funded through the capital plan); and
- New Build/major refurbishment (Council and Scottish Government grant).

4.3.3 Based on the Moray (54) schools model and current industry standards, if all school buildings met the B condition standard, annual investment of £4m to £6m (dependent on the overall condition assessments) would be required simply to maintain them to the standard. Insufficient investment and a continuation of the Make do and Mend Policy due to wider budget pressures means that the condition of the school estate will only continue to deteriorate. The annual budget for reactive and cyclical repairs in 2018/19 is £1.2m – well below the minimum industry standard.

4.3.4 Planned capital works are focused on upgrading key building elements that could result in school closure (heating, electrics, distribution pipe works, roofs,

external stonework and potentially windows). The annual budget for capital works is £3m. Based on this level of investment and taking account of ongoing natural deterioration, the task of bringing the school estate up to a B condition standard is impossible to achieve.

- 4.3.5 To help modernise the school estate, the Council has worked in partnership with the Scottish Government and Scottish Futures Trust to fund new schools. These include:

- Elgin Academy
- Elgin High
- Keith Primary
- Lossiemouth (work has started on site)

As well as the above schools, a design brief for a new primary school at Linkwood is also being developed with the project being fully funded by the Council.

- 4.3.6 New build and major refurbishment programmes (such as the 4 schools project) should be viewed as the best options currently available to improve the school estate. This should not be viewed in isolation as there is a requirement to consider changing needs and local demographics. To support and forward plan the delivery of future educational priorities, a School Estate Strategy (2035) is being developed. Specific to the landlord functions (repairs and maintenance), the Strategy will allow the Council to move away from a reactive service to one where spend can be prioritised and planned more effectively. The Strategy will be linked to the Local Development and Capital Plans. This will provide more certainty around future property developments and potential increases and decreases in school rolls. It will also provide a robust and defensible evidence base for securing Developer Obligations. In future years, there will be a need to prioritise capital investment and linking the Strategy to the Capital Plan will allow the Council to consider what investment it can afford on existing schools and how new build and refurbishment projects can best be delivered.
- 4.3.7 Capital investment for new build and/or the refurbishment of schools will have a negative impact on revenue budgets and borrowing costs. The PAMA proposes that before any future new build/refurbishment projects are taken forward, option appraisals should be completed and signed off by Corporate Directors. This will improve oversight at senior level and also promote a culture of challenge and best value.
- 4.3.8 The PAMA considers the different landlord roles within Housing and Property and Education. Housing and Property have landlord responsibilities for council housing, corporate buildings, community assets and the industrial estate. The landlord role for the school estate rests exclusively with Education but Property Services provides support in relation to design, planning, project management and controlling costs. There is regular crossover between both Services and the PAMA identified an opportunity to merge the landlord roles into a single Asset Management Team. Work is currently progressing on a new staffing structure to support this objective and is expected to be completed early in 2019.

#### 4.4 Specialist Assets

- 4.4.1 These include day centres, respite accommodation and also temporary accommodation hostels for homeless people. To bring these assets up to a B condition standard is currently estimated at £493k. These services offer a place of safety for the most vulnerable people in Moray. The need for these services is kept under constant review by the Moray Integrated Joint Board (day centres/respite accommodation) and the Housing and Property Service (homeless hostels).

#### 4.5 Non-operational Property Assets

- 4.5.1 The industrial portfolio comprises 178 business units and 126 development leases, as well as a stock of serviced and un-serviced land for future development. These currently generate rents totalling £1.756m annually. Due to a lack of private sector investment the Council's business units and serviced sites are crucial to small businesses and economic development in Moray. The most recent valuation of the industrial portfolio was completed on 1 April 2015 at a value of £19.26m.

- 4.5.2 Rental income from non-operational property assets far exceeds the reduction in Council borrowing costs that could be realised from their sale. The portfolio is generally performing well, with consistently high occupancy rates and rising rental income. There is an option to sell all or part of the non-operational property assets but financially, it would be in the Council's best interests to retain the industrial portfolio. It is therefore recommended that the portfolio is retained and an annual review of individual units is introduced to consider their retention or possible sale.

#### 4.6 Housing

- 4.6.1 The Council has 6,052 properties that it rents out as social housing. These assets sit within the Housing Revenue Account (HRA) which is ring-fenced for housing management activities. The Housing Service is regulated by the Scottish Housing Regulator. There would be no financial gain to the General Services Account if the Council were to stock transfer so this is not recommended or considered within the PAMA.

#### 4.7 Surplus Properties/Land

- 4.7.1 There are opportunities to generate additional capital receipts from the sale of property and land assets. **APPENDIX II** provides details of the Property Disposal Programme. The programme includes properties and sites that have been sold; are on the market for sale; are being prepared for sale; properties that may become surplus; and others that are retained meantime. The programme is frequently updated and the list should be viewed as a snapshot in time (as at 30 September 2018). These assets, if sold, will generate capital receipts. The Estates/Legal teams continue to work towards this objective. Staff resources and also market conditions will ultimately determine how quickly these assets are sold and for how much. A brief summary of potential values is provided below:

<b>Asset description</b>	<b>Receipt or Potential Value</b>
Properties/sites sold to 30 September 2018	£132,315 (receipt)
Sales in progress with Legal	In the region of £1.3m
Properties on Market/Negotiation	In the region of £1.96m
Properties being prepared for disposal	In the region of £1.3m
Properties that may become surplus	No current valuation
Properties retained meantime	No current valuation

## **5. KEY RECOMMENDATIONS**

5.1 The PAMA makes 20 separate recommendations. Section 16 of the PAMA provides an overview of the recommendations which are part of the Property Asset Management Improvement Plan 2018/2020. The Improvement Plan includes short, medium and long term objectives with a focus on quick wins, highest financial returns and longer term strategic objectives.

5.2 The key recommendations identified for completion in 2019/20 include:

- The development of a School Estate Strategy;
- To develop and implement a new Asset Management staffing structure;
- To review corporate buildings (offices, depots and storage facilities); and
- To conclude the Leisure Review.

## **6. FINANCIAL IMPLICATIONS**

6.1 Section 15 of the PAMA provides an in-depth financial assessment of the investment that would be required to bring the current Property Portfolio up to B condition standard. A brief summary by asset type is also provided below for reference:

<b>Corporate Buildings</b>	<b>Community Assets</b>	<b>Schools</b>	<b>Total</b>
£4,095,448	£5,226,385	£141,678,567	<b>£151,000,400</b>

Note: These costs were updated in May 2018

6.2 A significant number of buildings within the Property Portfolio (mainly schools) remain in a poor condition. The Council is no longer in a financial position to retain and maintain all of these properties and must reduce, replace and reconfigure the portfolio if it is to protect front-line services and also deliver sustainable schools for the future.

6.3 It is proposed to take forward a review of offices, depots and storage facilities in 2019/20. Other public services operating across the region are also facing significant budget pressures so these reviews will provide an opportunity to look holistically at what properties the public sector needs in Moray to deliver services. A “community hub type” model approach could see a range of public services operate out of a single building with opportunities to reduce operating costs. Reducing buildings also has the potential to generate new incomes from lease or sale.

- 6.4 Specific to the Council, any reduction in the property portfolio will provide both capital and revenue savings. Early estimates of recurring savings are £200k (revenue) and £250k (capital). An ambitious target of 9 months has been set to complete the reviews and as each review progresses, clarity around the actual savings will become clearer.
- 6.5 To achieve the 9 month deadline, dedicated staff resources will be required at an estimated cost of £86k. These staff will link to the Corporate Modernisation and Improvement Programme (CMIP) to ensure that cross service issues are considered and any proposed changes meet with the future direction agreed by the Council.
- 6.6 Further savings will be achieved from the merger of staff from Property Services and Education. These savings are likely to increase as processes are streamlined and roles and responsibilities clarified. Until the new structure has been finalised, it is not possible at this time to predict the amount of savings that will be achieved from the restructure. Progress on the restructure will be reported to the Policy and Resources Committee once completed.
- 6.7 An appraisal of costs for the dedicated team is provided below for consideration and approval:

<b>Resources Required</b>	<b>Level</b>	<b>Financial Impact</b>
Project Management	Senior Officer	Seconded from Housing and Property or external appointment. Cost for backfill or appointment £50,000
Asset Management Officer	Grade 9	Seconded from Housing and Property – no additional cost
Asset Management Officer	Grade 9	Additional cost = £36,085
Admin support as required	-	No additional cost - provided from Housing and Property
<b>Total Cost for the Review Team</b>		<b>£86k</b>

## **7. IMPROVEMENT PLAN**

- 7.1 Section 16 of the PAMA includes an Improvement Plan that captures the actions required to implement all 20 recommendations. If all recommendations are approved, it is proposed to provide updates on the Improvement Plan to the Policy and Resources Committee annually.

## **8. SUMMARY OF IMPLICATIONS**

### **(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

This report supports the aims of the Corporate Plan by setting out how the Council can make best use of its property assets. It also provides a strategic direction to assist making the Council financially stable.

### **(b) Policy and Legal**



The Developer Obligations Supplementary Guidance will be reviewed in 2019. The development of the School Estate Strategy (2035) will inform the new Supplementary Guidance so must be viewed as a corporate priority. If the evidence base for developer obligations is not robust and up to date, the Council could be open to challenge and fail to maximise developer obligations.

**(c) Financial implications**

The main financial implications relating to this report are set out in Sections 4.3 and 6 of this report and Section 15 of **APPENDIX I**.

- i) The Council is not able to make the levels of investment required to repair and maintain the school estate. The reactive repairs budget of £1.2m per annum is well below industry standards for the Moray (54) schools model. The £3m budget for planned capital works is also short of what is required meaning the school estate will only continue to deteriorate.
- ii) To bring all of the Property Portfolio up to a B condition standard requires investment in the region of £151m. The Council is no longer in a position to meet this financial obligation.
- iii) The PAMA prioritises a review of offices, depots and storage facilities during 2019/20. Early estimates of recurring savings are £200k (revenue) and £250k (capital). As each review progresses, clarity around the actual savings will become clearer.
- iv) The merger of staff from Property and Education into a single Asset Management team will generate a recurring annual saving but it is not possible at this to put a figure on this. Progress on the restructure will be reported to the Policy and Resources Committee once completed.
- v) Dedicated staff to complete the reviews and implement the new Asset Management structure is estimated at a cost of £86k. The Council is asked to approve additional budget from Reserves to meet this new financial obligation.

**(d) Risk Implications**

The Council is no longer in a financial position to retain and maintain all of its property assets. The PAMA has identified the hidden financial risks relating to the property portfolio and a range of actions designed to reduce and mitigate risk where possible.

**(e) Staffing Implications**

There are staffing implications both in terms of completing the reviews identified within this report and there could also be further implications depending on the outcome of each review.

- i) The additional staffing resources are detailed in Section 6 of the report;
  - ii) Staffing implications arising from the reviews are unknown at this time but will be identified as each review progresses and reported back to future meetings of the Council.
- (f) **Property**  
The property implications are set out in **APPENDIX I** and **APPENDIX II** of this report.
- (g) **Equalities/Socio Economic Impact**  
There may be some equalities/socio impacts arising from the property reviews. It is not possible to predict these currently but will be identified as each review progresses and reported back to future meetings of the Council.
- (h) **Consultations**  
Consultations have taken place with the Corporate Management Team, the Head of Schools and Curriculum Development, the Head of Development Services, the Head of Finance, Head of Legal Services, Service Managers in Housing and Property, Education and Development Services and the Democratic Services Manager and any comments have been incorporated into the report.

## **9. CONCLUSION**

- 9.1 **The PAMA provides the Council with background information relating to the Council's Property Portfolio; its condition; and the "hidden" costs required to bring all current properties up to a B condition standard. It seeks approval to implement the 20 recommendations contained within an Improvement Plan in Section 16 of the PAMA. It proposes a review of office accommodation, depots, storage facilities and the implementation of a revised Asset Management Structure – all to be completed in 2019/20. The report highlights the need for additional staff resource to complete the reviews and asks the Council to approve additional budget from Reserves for this purpose.**

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Background Papers: with author  
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