



# PROPERTY ASSET PERFORMANCE

ANNUAL REPORT 2014/15



## **Vision Statement \***

*“All of our assets will contribute to sustainable and accessible service delivery.”*

\* Vision Statement approved by Policy & Resources Committee on 29<sup>th</sup> March 2006.

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## **EXECUTIVE SUMMARY**

This report addresses the performance of the operational property portfolio against an agreed set of objectives using indicators developed by the Scottish Local Authority Property Benchmarking Group and Audit Scotland.

The operational property portfolio, although distributed across five main property groups, is dominated by the School Estate. For this reason, changes in performance in the other groups have limited impact on overall portfolio performance. The wide range of results across the groups reflects the different nature and character of the buildings within each.

Portfolio property costs increased by less than 1% from the previous year. However, there was a wider fluctuation within cost categories with increased spend on repairs and maintenance and on rents and rates more than offsetting a significant 6% reduction in energy costs. Although more was spent on repairs and maintenance to the school estate than previously, expenditure levels remain significantly lower than the overall portfolio average, which itself has been consistently lower than the Scottish average.

The average reported performance across all Scottish local authorities for building condition has remained steady over the past four years at above 80%. As at 31 March 2014, the performance of Moray's operational portfolio at 32% was the lowest of all Scottish local authorities and was 21 percentage points below the next lowest authority. This is consistent with a longstanding lower than average expenditure on repairs and maintenance.

The council has 150,185m<sup>2</sup> of operational property that does not meet the required standard for condition. The bulk of this (78%) is accounted for by failing school buildings.

The costs of works required over the next 5 years to bring each property up to an acceptable standard for condition has increased by 11% over the last year. Although increases have been noted in every property group, the most marked increase (+354%) related to the depots and workshops group. This increase arose from the completion of detailed condition surveys that provided more up to date information on these buildings.

The school estate continues to account for the majority (94%) of buildings that fail to meet the required standard for building suitability, with most of that floor area accounted for by three secondary schools – Buckie High, Elgin High and Keith Grammar.

Portfolio performance has improved in relation to sustainability, with energy consumption and carbon emissions reduced by 2% and 3% respectively. These reductions follow the previous year's improvement of 12% for both sustainability indicators.

Although a system of Area-Based Reviews was initiated to help identify the shape of a sustainable property portfolio that is fit for purpose, there is still much to be done to develop a system of reviews that would inform the ongoing process of identifying the timescales and costs of achieving agreed targets for condition, suitability and sustainability.

It is recommended that:

1. The council develops a system of a structured Property Reviews whereby service managers are routinely challenged around the ownership, utilisation, performance and strategy of holding and using property assets to deliver services.

2. Each property group is reviewed over a fixed number of years and that the property review is carried out as a joint exercise led by the Head of Housing and Property and the head(s) of the relevant user service(s), with the outcome of each review being formally reported to a Member-led project board.
3. There is no major investment in any property group without first completing a property review, the outcome of which identifies achievable and sustainable dates for meeting agreed targets for condition and suitability.

## 1. INTRODUCTION

- 1.1 The Local Government in Scotland Act 2003 imposes a duty on the council to ensure Best Value in all of its operations. Best Value is about continuously improving the performance of services. Effectively managing performance and improvement is essential to achieve this. Authorities securing Best Value are able to demonstrate sound management of their assets. This includes maintaining an appropriate balance between the quality of its assets and the cost of securing that quality.
- 1.2 Sound asset management requires clear property related objectives derived from corporate objectives. It requires a performance management framework for all assets with strategic targets that are agreed and reported at a corporate level.
- 1.3 This report addresses the performance of the operational property portfolio against an agreed set of objectives using indicators developed by the Scottish Local Authority Property Benchmarking Group and Audit Scotland. These indicators have been in use by the council for its operational property portfolio since 1 April 2006.

## 2. PERFORMANCE FRAMEWORK

- 2.1 On 11<sup>th</sup> October 2011, Policy & Resources Committee approved a vision statement for asset management together with four supporting objectives. (Paragraph 7 of the Minute refers.)

### ***Vision Statement***

*'All of our assets will contribute to sustainable and accessible service delivery.'*

### ***Asset Objectives***

- *'To ensure that our assets are fit for purpose in terms of condition, sufficiency, suitability, and accessibility.'*
- *'To ensure that our asset use demonstrates Best Value in terms of running costs and environmental impacts.'*
- *'To ensure that our asset management processes reflect good practice.'*
- *'To ensure that our assets reflect the policies and priorities of the council.'*

- 2.2 On the same date, Policy & Resources Committee approved a Property Strategy that included provision for reporting annually on the performance of the operational property portfolio using the indicators identified in that strategy. (Paragraph 8 of the Minute refers.)
- 2.3 During the 2013/14 financial year, the performance indicator for accessibility was dropped from the sets of performance indicators used by both the Scottish Local Authority Property Benchmarking Group and the Local Government Benchmarking Framework. For this reason, no separate accessibility indicator is included in this report. Accessibility remains an important consideration in assessing suitability.
- 2.4 Measures for assessing sufficiency are different for each property type so do not lend themselves to analysis on a whole portfolio basis. For this reason, these are not

reported here but, where available, are used together with the performance information referred to in this report to inform property reviews.

- 2.5 Property reviews are an essential element of good asset management practice and should be undertaken on a regular basis as part of service planning.

### 3. **OPERATIONAL PROPERTY PORTFOLIO**

- 3.1 The council's operational property portfolio has a gross internal floor area (GIA) of 223,082 m<sup>2</sup> and an asset value or Net Book Value (NBV) of almost £250 million. For ease of analysis, the portfolio is separated into groups according to function. The groupings reflect the different management arrangements that are in place for each. A detailed analysis of each group is undertaken as part of individual property reviews.
- 3.2 To present a complete overview of the operational property portfolio, the school estate has been re-introduced into the analysis. A review of the makeup of each property group has been undertaken following this re-introduction. Performance for the previous financial year has been reanalysed using the revised groups. **Table 1** provides a breakdown of the portfolio by property group.

Property Group	Floor Area		Asset Value (NBV)	
	m <sup>2</sup> GIA	%	£	%
School Estate	146,389	66%	181,334,123	73%
Community Facilities	37,297	17%	38,144,805	15%
Depots & Workshops	15,722	7%	7,787,347	3%
Corporate Offices	14,687	7%	13,359,369	5%
Other Operational Properties	8,987	4%	9,360,727	4%
Overall Portfolio Total	223,082	100%	249,986,371	100%

**Table 1.** Breakdown of Operational Property Portfolio by Property Group as at 31<sup>st</sup> March 2015.

- 3.3 The operational property portfolio is dominated by the school estate. For this reason, changes in performance in this group have the greatest impact on overall portfolio performance. Budgetary responsibility for the school estate is governed by the council's Scheme of [Devolved School Management](#).
- 3.4 The next largest property group is accounted for by facilities that provide a direct service to the general public. This includes community centres, town and village halls, libraries, museums, public toilets and various sports and leisure related facilities. Day-to-day management of these is undertaken by the relevant service manager.
- 3.5 The Designing Better Services' Property Theme identified the need for the council to undertake a review of its depots and workshops. The initial results of this review are currently being considered by the council.
- 3.6 Although the corporate office portfolio is similar in size to the depot and workshops group, due to its nature it comprises higher value buildings and incurs significantly higher operating costs. Corporate offices were the subject of an improvement project undertaken as part of the Designing Better Services (DBS) programme. As a

result of this project, the size of the corporate office portfolio has been reduced by more than one-fifth over the last three years. Management of the corporate office portfolio is overseen by the Head of Housing and Property.

- 3.7 The remaining operational properties comprise those which do not readily fit within the other main groups. A significant proportion of these are accounted for by properties, such as day centres, that provide a direct service to specific client groups rather than to the general public. This group includes a small number of buildings within the industrial portfolio that are used on a long term basis by council services.

#### **4. CURRENT PERFORMANCE**

- 4.1 The Moray Council was one of the founding members of the Scottish Local Authority Property Benchmarking Group. This group, which works closely with the Improvement Service and the Scottish Futures Trust, uses a standard set of indicators that were developed in conjunction with Audit Scotland. Although no longer a member of the group, these indicators continue to be used to monitor the performance of the council's operational property portfolio.
- 4.2 The council is required to report annually on its Asset Management performance as part of the Local Government Benchmarking Framework. This framework includes indicators for condition and suitability. Although the indicator for condition is identical to that used by the Property Benchmarking Group, there is an important difference in that used for suitability. For this reason, both suitability indicators are included in this report.

##### **Property Costs**

- 4.3 Property costs include all revenue expenditure associated with the running of property with the exclusion of management costs. They include expenditure on repairs and maintenance, energy, water and sewerage, grounds maintenance, rents and rates, cleaning and insurance. Portfolio performance for 2014/15 was:

<b><i>Property Costs per m<sup>2</sup> (GIA) = £51.69 (up by less than 1% from 2013/14)</i></b>
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The council has no agreed target for property costs. A comparison across the five property groups is provided in **table 2**.

Property Group	Property Costs		£ per m <sup>2</sup>		
	£	%	2014/15	2013/14	% Change
Corporate Offices	1,020,598	9%	<b>69.49</b>	81.86	-15%
School Estate	7,770,679	67%	<b>53.08</b>	50.99	+4%
Community Facilities	1,790,878	16%	<b>48.02</b>	50.35	-5%
Other Operational Properties	412,425	4%	<b>45.89</b>	44.18	+4%
Depots & Workshops	536,361	5%	<b>34.11</b>	34.02	+<1%
Overall Portfolio	11,530,940	100%	<b>51.69</b>	51.46	+<1%

**Table 2.** Comparison of Property Costs by Property Group for financial years 2014/15 and 2013/14.

- 4.4 The uneven nature of some categories of property costs, such as repairs and maintenance expenditure, can give rise to wide variations in performance from year



to year for the smaller property groups. The large variation in expenditure rates for offices is a direct result of a change in priorities for property maintenance. To gain a better understanding it is helpful to look at the elements that make up property costs. A breakdown of these by cost category is provided in **table 3**.

Cost Category	Property Costs		£ per m <sup>2</sup>		
	£	%	2014/15	2013/14	% Change
Rent & Rates	3,978,676	35%	<b>17.84</b>	17.26	+3%
Energy	2,514,141	22%	<b>11.27</b>	12.01	-6%
Repairs & Maintenance	2,478,544	21%	<b>11.11</b>	10.76	+3%
Building Cleaning	2,010,541	17%	<b>9.01</b>	8.86	+2%
All Other Property Costs	549,038	5%	<b>2.46</b>	2.54	-3%
Overall Portfolio	11,530,940	100%	<b>51.69</b>	51.46	+<1%

**Table 3.** Breakdown of Property Costs by category for financial years 2014/15 and 2013/14.

- 4.5 Approximately one-third of all property costs relate to rents and rates, with the bulk of these relating to non-domestic rates. The council has little influence over the level of non-domestic rates as these are set nationally. Expenditure on energy, repairs and maintenance, and cleaning is subject to a greater degree of control. Savings in relation to energy costs were offset by increase in expenditure in other areas. Maintenance expenditure shifted from corporate offices towards other property groups, reflecting the better relative condition of the office portfolio. Although maintenance expenditure on the school estate also increased, it remains at a level that is significantly lower than the portfolio average.
- 4.6 Expenditure on repairs and maintenance covers planned, reactive and cyclical works. Information on the level of expenditure necessary on planned maintenance over the next 5 years is provided in the next section. This shows that the current level of revenue expenditure is insufficient to meet portfolio needs. Anecdotal evidence suggests that the council's expenditure per m<sup>2</sup> on repairs and maintenance continues to be significantly lower than the average for Scottish local authorities.

### **Condition**

- 4.7 A full condition survey of each property is undertaken every five years as part of a rolling programme covering all operational properties. The results are reviewed and updated annually to reflect any material changes since the original survey. Each building is placed into one of four condition categories:
- A (Good):** Performing well and operating efficiently.
- B (Satisfactory):** Performing as intended but showing minor deterioration.
- C (Poor):** Showing major defects and/or not operating as intended.
- D (Bad):** Life expired and/or serious risk of imminent failure.
- 4.8 The portfolio performance for condition for 2014/15 was:

**The proportion of accommodation [by GIA] that is in satisfactory condition (condition categories A and B) = 33% (up 1% from 2013/14)**

The council has acknowledged that for a building to be fit for purpose in terms of condition it would need to be classified as B or better. No target date has yet been agreed for the necessary improvements to achieve this goal. A breakdown of performance by property category is provided in **Table 4**.

Property Group	Floor Area (GIA)		% in Cats A & B		
	Total m <sup>2</sup>	A/B m <sup>2</sup>	2014/15	2013/14	Change
Corporate Offices	14,687	11,818	<b>80%</b>	81%	-1%
Other Operational Properties	8,987	5,979	<b>67%</b>	66%	+1%
Community Facilities	37,297	22,034	<b>59%</b>	58%	+1%
Depots & Workshops	15,722	4,489	<b>29%</b>	29%	0%
School Estate	146,389	28,578	<b>20%</b>	20%	0%
Overall Portfolio	223,082	72,897	<b>33%</b>	32%	+1%

**Table 4.** Building Condition as at 31 March 2015.

- 4.9 The average reported performance across all Scottish local authorities has remained steady over the past four years at above 80%. As at 31 March 2014, the performance of Moray's operational portfolio was the lowest of all Scottish local authorities and was 21 percentage points below the next lowest authority. This result is consistent with a longstanding lower than average expenditure on repairs and maintenance.
- 4.10 During 2014/15, condition surveys were completed for depot and workshop facilities and commenced for the other operational properties group. Although there was a slight increase in the proportion of buildings in the A/B categories, this hides an overall deterioration in condition within categories. Changes to depot condition categories were reflected last year following the new surveys.
- 4.11 The analysis in **table 5** identifies the extent of the problem by property group.

Property Group	2015		2014		Change m <sup>2</sup>
	m <sup>2</sup>	%	m <sup>2</sup>	%	
School Estate	117,811	78%	117,487	78%	+324
Community Facilities	15,263	10%	15,693	10%	-430
Depots & Workshops	11,234	7%	11,155	7%	+79
Other Operational Properties	3,009	2%	3,009	2%	0
Corporate Offices	2,869	2%	2,869	2%	0
Overall Portfolio	150,185	100%	150,212	100%	-27

**Table 5.** Properties failing to meet the agreed condition target as at 31 March 2015.

- 4.12 The council has 150,185m<sup>2</sup> of operational property that does not meet the required standard for condition. In order to bring its performance up to the most recently reported Scottish average, over two-thirds of properties in category C or D would require to be improved to category B or above. This would require the poor condition of the school estate to be addressed. Even if all non-school properties were improved, that on its own would be insufficient to bring the performance of the portfolio up enough to exceed that of the next lowest performing authority.

### Required Maintenance

- 4.13 The second key performance indicator for building condition relates to the extent of maintenance required to be undertaken over the next 5 years:

***Cost of Required Maintenance per m<sup>2</sup> (GIA) = £309.40 (up 11% from 2013/14)***

The 5-yearly condition surveys identify the works required to bring each building up to, and maintain it at, the appropriate standard for its property group. The data is updated annually to reflect construction industry inflation using the BCIS All-in Tender Price Index and to reflect any material changes since the original survey.

- 4.14 Each element of work required is placed into one of three categories:

**Priority 1** Works preventing immediate closure, addressing an immediate high risk to health and safety, or remedying a serious breach of legislation.

**Priority 2** Works preventing serious deterioration, addressing a medium risk to health and safety, or remedying a less serious breach of legislation.

**Priority 3** Works preventing deterioration, addressing a low risk to health and safety, or remedying a minor breach of legislation.

Priority 1 works, being those required immediately, account for half of all works identified as being required over the next five years. A comparison of the costs of required maintenance for each property group is provided in **table 6**.

Property Group	Required Maintenance		£ per m <sup>2</sup>		
	(£)	m <sup>2</sup> GIA	2014/15	2013/14	% Change
School Estate	58,967,705	146,389	<b>402.82</b>	380.32	+6%
Depots & Workshops	2,660,894	15,722	<b>169.24</b>	37.30	+354%
Community Facilities	6,020,606	37,297	<b>161.42</b>	134.69	+20%
Other Operational Properties	532,686	8,987	<b>59.27</b>	30.16	+97%
Corporate Offices	840,280	14,687	<b>57.21</b>	46.99	+22%
Total Portfolio	69,022,171	223,082	<b>309.40</b>	279.18	+11%

**Table 6.** Comparison of Property Group 5-Year Required Maintenance Costs as at 31 March 2015.

- 4.15 Construction industry inflation over the past year amounted to 5.3%. The rest of the changes reflect new information from condition surveys or the results of adjustments to reflect known changes in building condition.
- 4.16 The substantial 354% increase in the cost of required maintenance for the depots and workshops group arises from the completion of detailed condition surveys that provided more up to date information on these buildings. This information has been fed into the ongoing depots review.
- 4.17 Consistent with its lower standard of condition, the school estate has a significantly higher level of works required to bring it back into an acceptable condition.
- 4.18 Within community facilities, swimming pools account for over a third of required maintenance, requiring £219.07 per m<sup>2</sup> to be spent over the next 5 years on addressing known maintenance requirements.

## Suitability

- 4.19 Suitability assessments help us understand the performance of the portfolio in terms of its effect on service delivery. Issues that impact on suitability include a building's location, functionality, accessibility, internal environment, safety and security, and its fixed furniture and fittings. A suitability assessment of each property is undertaken every three years, with an interim reassessment following any material change in circumstances. Each property is placed into one of four categories:

- A (Good):** *Performing well and operating efficiently (supports service delivery and staff needs).*
- B (Satisfactory):** *Performing well but with minor problems (generally supports service delivery and staff needs).*
- C (Poor):** *Showing major problems and/or not operating optimally (impedes service delivery and/or staff performance).*
- D (Bad):** *Does not support (seriously impedes) the delivery of services.*

- 4.20 There is a clear distinction between suitability and condition. To ensure consistency and avoid potential confusion, buildings are assessed as if they are in a satisfactory condition.

- 4.21 There are two performance indicators used for assessing suitability. The council is required to report on the performance of its operational buildings as part of the Local Government Benchmarking Framework. The indicator used for reporting suitability under this framework is:

***The proportion [by number] of operational accommodation that is suitable for its current use (suitability categories A and B) = 94% (No change from 2013/14)***

The council has acknowledged that for a building to be fit for purpose in terms of suitability it would need to be classified as B or better. No target level or date has yet been agreed for the necessary improvements to achieve this goal. A breakdown of the numbers of buildings and proportions in each property group that are assessed as suitable for their current use is provided in **table 7**.

Property Group	Number of buildings		% Cats A/B		
	Total	A/B	2014/15	2013/14	Change
Other Operational Properties	30	30	<b>100%</b>	100%	0%
Community Facilities	91	88	<b>97%</b>	97%	0%
Corporate Offices	13	12	<b>92%</b>	93%	-1%
School Estate	53	48	<b>91%</b>	91%	0%
Depots & Workshops	19	15	<b>79%</b>	79%	0%
Overall Portfolio	206	193	<b>94%</b>	94%	0%

**Table 7.** Building Suitability (by number of buildings) as at 31 March 2015.

This indicator suffers from a serious disadvantage insofar as it gives the same weight to a small public toilet of 15m<sup>2</sup> as it gives to a large secondary school of 15,000m<sup>2</sup>. For this reason, it is also necessary to analyse performance using floor area.

- 4.22 The second suitability indicator is that used by the Scottish Local Authority Property Benchmarking Group. This indicator provides a more accurate indication of the extent of any problems than does the Benchmarking Framework indicator and is the one used to inform property reviews. The Property Benchmarking Group indicator for suitability is:

***The proportion of accommodation [by GIA] graded as good or satisfactory (suitability categories A and B) = 85% (No change from 2013/14)***

A breakdown by property group of buildings that are assessed as suitable for their current use using this indicator is provided in **table 8**.

Property Group	Floor Area (GIA)		% Cats A/B		
	Total m <sup>2</sup>	A/B m <sup>2</sup>	2014/15	2013/14	Change
Other Operational Properties	8,987	8,987	<b>100%</b>	100%	0%
Community Facilities	37,297	37,227	<b>100%</b>	100%	0%
Corporate Offices	14,687	14,105	<b>96%</b>	96%	0%
Depots & Workshops	15,722	14,281	<b>91%</b>	92%	-1%
School Estate	146,389	114,467	<b>78%</b>	78%	0%
Overall Portfolio	223,082	189,067	<b>85%</b>	85%	0%

**Table 8.** Building Suitability (by floor area) as at 31 March 2015.

- 4.23 The Property Benchmarking Group indicator shows a significantly lower standard of performance than the Local Government Benchmarking Framework indicator, showing that the problem is greater than might otherwise be thought.
- 4.24 There have been few material changes to the portfolio over the last year, so the lack of any overall change is to be expected. A breakdown by property group of those buildings that fail to meet the suitability standard is shown in **table 9**.

Property Group	2015		2014		Change m <sup>2</sup>
	m <sup>2</sup>	%	m <sup>2</sup>	%	
School Estate	31,922	94%	31,922	94%	0%
Depots & Workshops	1,441	4%	1,441	4%	0%
Corporate Offices	582	2%	582	2%	0%
Community Facilities	70	<1%	70	<1%	0%
Overall Portfolio	34,015	100%	34,015	100%	0%

**Table 9.** Properties failing to meet agreed suitability target as at 31 March 2015.

- 4.25 The school estate continues to account for the bulk of those properties that fail to meet the council's agreed minimum standard, with most of that floor area accounted for by three secondary schools – Buckie High, Elgin High and Keith Grammar.

### **Sustainability**

- 4.26 The Climate Change (Scotland) Act 2009 set a long-term target to reduce emissions of greenhouse gases by 80% in 2050 relative to 1990, with an interim target to reduce emissions by 42% in 2020. The council has made a commitment to reducing energy

consumption and CO<sub>2</sub> emissions from its buildings over the next 10 years by 20% ([Moray 2023: a Plan for the Future](#)). This commitment is supported by two key property performance indicators. Portfolio performance for 2014/15 was:

**Annual Energy Consumption per m<sup>2</sup> (GIA) = 195 kWh (down 2% from 2013/14)**

**Annual CO<sub>2</sub> Emissions per m<sup>2</sup> (GIA) = 0.057 tonnes (down 3% from 2013/14)**

These reductions follow a previously reported 12% improvement in both indicators from 2012/13.

4.27 The above two indicators reflect actual energy usage and have not been adjusted for changes in weather. The Carbon Trust advises that a 1°C change in heating demand generally causes a corresponding 8-10% change in energy consumption. A detailed review of energy performance is beyond the scope of this report. These are undertaken regularly by the council's Energy Officer, who will bring forward recommendations for achieving efficiency improvements separately. The annual energy report was considered by the Policy and Resources Committee on 1 September 2015.

4.28 **Tables 10 and 11** provide details of the portfolio's energy consumption and CO<sub>2</sub> emissions respectively and highlight areas for further investigation and improvement.

Property Group	Energy Consumption (kWh/m <sup>2</sup> )		
	2014/15	2013/14	% Change
Community Facilities	357	378	-6%
Corporate Offices	208	204	+2%
Other Operational Properties	178	184	-3%
School Estate	178	181	-2%
Depots & Workshops	85	87	-2%
Overall Portfolio	195	199	-2%

**Table 10.** Comparison of Energy Consumption for financial year 2014/15.

Property Group	CO <sub>2</sub> Emissions (tonnes/m <sup>2</sup> )		
	2014/15	2013/14	% Change
Community Facilities	0.097	0.104	-7%
Corporate Offices	0.077	0.077	0%
Other Operational Properties	0.052	0.053	-2%
School Estate	0.050	0.053	-6%
Depots & Workshops	0.033	0.033	0%
Overall Portfolio	0.057	0.059	-3%

**Table 11.** Comparison of CO<sub>2</sub> Emissions for financial year 2014/15.

4.29 Although reducing energy consumption also reduces associated CO<sub>2</sub> emissions, each fuel type has a different emissions profile for the same level of energy consumption, with biomass being regarded as carbon neutral. As more biomass plants are installed

in the portfolio, the council's overall carbon footprint will fall. For this reason, biomass is actively considered whenever heating plant is being replaced or upgraded.

- 4.30 There is a large variation in energy consumption and CO<sub>2</sub> emissions rates across the portfolio, reflecting the different nature of the facilities concerned. For this reason, the measure is at its most effective when used to compare properties within groups. This more detailed information is used by the Energy Officer to help identify problems with individual buildings within each group.
- 4.31 The average levels of energy consumption and CO<sub>2</sub> emissions per m<sup>2</sup> within Community Facilities stand out, being significantly above the overall portfolio average. This is due primarily to the high energy requirements of heating swimming pools and their associated accommodation.

## **5. KEY ISSUES**

- 5.1 The establishment of Area-Based Reviews set in motion a formal process whereby services were challenged regarding the property assets they occupy and use for the delivery of services. Property reviews are more effective when they routinely and consistently challenge service managers on the utilisation, performance and strategy of holding and using property.
- 5.2 The operational property portfolio is divided into five main property groups, each with their own characteristics and problems. The only reliable benchmarking information currently available to the council is through the Local Government Benchmarking Framework. At the time of writing, information on performance from this framework for the 2014/15 financial year was not yet available.
- 5.3 The most serious issue affecting the operational portfolio continues to be an ongoing deterioration in building condition caused by insufficient repairs and maintenance expenditure to improve and sustain the existing portfolio. From **table 3** we saw that expenditure on all repairs and maintenance over the last financial year amounted to an average of only £11.11 per m<sup>2</sup>, well below the portfolio requirement of £307.62 per m<sup>2</sup> over the next 5 years identified in **table 6**. The limited funds available have been targeted at those highest priority works designed to prevent immediate closure of buildings, address immediate high risks to health and safety, and remedying serious breaches of legislation. However, with almost half of identified maintenance requirements falling into this category, the revenue maintenance budget is insufficient to address more than a fraction of known requirements.
- 5.4 The key issues within the main property groups are set out below.

### **School Estate**

- 5.5 The school estate accounts for 66% of the total floor area of the operational property portfolio, 73% of its book value and 67% of its total property costs. More significantly, the school estate accounts for 78% of those buildings that fail to meet the minimum standard for condition, 85% of the maintenance required over the next 5 years, and 94% of those that fail to meet the minimum standard for suitability.

- 5.6 Projects are currently underway to address condition, suitability and sufficiency issues within the school estate. These projects include the replacement of Elgin High School, the refurbishment of Four Schools (Seafield, Millbank, Applegrove and St Gerardine Primaries), the provision of new nursery and classroom accommodation at Milnes Primary, together with a rolling programme designed to achieve BB standard.
- 5.7 Proposed future actions include the replacement of Lossiemouth High School. Funding for this has been agreed in principle by the Scottish futures Trust although formal confirmation has been delayed due to the impact of move to the European System of Accounts 2010 (ESA10). Officers from Asset Management are working closely with colleagues from Educational Resources to develop a project prioritisation matrix that will help inform the selection of projects. This work is regarded as being of critical importance at this time of financial austerity.

### **Community Facilities**

- 5.8 Community Facilities account for 17% of the portfolio's floor area, 15% of its asset value and 16% of its property costs. This group accounts for 10% of those buildings that fail to meet the agreed minimum standard for condition, 9% of maintenance requirements over the next 5 years, but less than 1% of those that fail to meet the minimum standard for suitability.
- 5.9 Following publication of the Community Empowerment (Scotland) Bill, there has been increased interest from Voluntary and Community Organisations (VCOs) in taking over properties in this group through community asset transfer (CAT). The council CAT Policy recognises the potential benefits from successful transfers. These include safeguarding the delivery of a wide range of public services in a time of austerity and the creation of new organisations with the ability to attract additional resources that would be unavailable to the council acting independently.
- 5.10 Within this group, swimming pools account for 28% of floor area and 25% of property costs. This is followed closely by community centres with 25% and 24% respectively. These two property types account for three-quarters of the properties in this group that fail to meet the required standard for condition and three-fifths of required maintenance costs over the next five years.
- 5.11 At 1,213 kWh per m<sup>2</sup> and 0.278 tonnes of CO<sub>2</sub> per m<sup>2</sup>, council-run swimming pools are responsible for the highest individual rates of energy consumption and CO<sub>2</sub> emissions within the whole portfolio. The current rolling programme of heating and plant replacement is designed to help minimise future costs, energy consumption and emissions.
- 5.12 A recent leisure review has also helped identify highest priority facilities in terms of service need.

### **Corporate Offices**

- 5.13 Corporate offices account for 7% of the portfolio's floor area, 5% of its asset value and 9% of its property costs. The improvements brought about by the DBS programme have resulted in a smaller, more cost effective, office portfolio.



- 5.14 Work is underway to extend the principles applied to the Elgin offices under the DBS programme to area office locations as part of the transition to Business as Normal. Lessons learned will also be applied to all other property groups where relevant.

### **Depots & Workshops**

- 5.15 Depots and workshops comprise 7% of portfolio floor area but only account for 3% of asset value and 4% of property costs. They account for 4% of buildings that fail to meet acceptable suitability standards and 7% of those that fail to meet the required condition standard, requiring over £2.6 million of essential maintenance over the next 5 years.
- 5.16 Depots and workshops were the subject of a service property review, led jointly by the Head of Housing & Property and the Head of Direct Services. Recommendations concerning the development of an integrated facility at Moycroft to facilitate the consolidation on one site of various activities carried out at several other locations were approved in principle by the Council on 11 November 2015.
- 5.17 If approved in full, the proposed development at Moycroft is expected to improve the overall condition of the group, reduce the level of maintenance required over the next 5 years and reduce future property costs.

## **6. CONCLUSION**

- 6.1 Current levels of investment in the operational property portfolio are insufficient to stop the condition of the portfolio from deteriorating. However, given the current requirement to identify further budget savings, the investment required to bring the existing portfolio up to, and maintain it at, an acceptable level is unsustainable.
- 6.2 Although a system of Area-Based Reviews was initiated to help identify the shape of a sustainable property portfolio that is fit for purpose, there is still much to be done to develop a system of reviews that would inform the ongoing process of identifying the timescales and costs of achieving agreed targets for condition, suitability and sustainability.

## **7. RECOMMENDATION**

- 7.1 It is recommended that the council develops a system of a structured Property Reviews whereby service managers are challenged around the ownership, utilisation, performance and strategy of holding and using property assets to deliver services.
- 7.2 It is recommended further that each property group is reviewed over a fixed number of years and that the property review be carried out as a joint exercise led by the Head of Housing and Property and the head(s) of the relevant user service(s), with the outcome of each review being formally reported to the corporate and senior management teams and to Members.
- 7.3 To ensure best value, it is recommended that there is no major investment in any property group without first completing a property review, the outcome of which identifies achievable and sustainable dates for meeting agreed targets for condition and suitability.