



REPORT TO: POLICY & RESOURCES COMMITTEE ON 30 AUGUST 2016

SUBJECT: PROPERTY ASSET PERFORMANCE

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

1. REASON FOR REPORT

- 1.1 To inform the Committee of the current performance of the operational property portfolio in terms of suitability and condition.
- 1.2 This report is submitted to Committee in terms of Section III (A) (30) of the Council's Scheme of Administration relating to asset management and the property disposal programme.

2. RECOMMENDATION

2.1 It is recommended that Committee considers and notes that:-

- (i) 192 of the Council's operational property assets, accounting for 85% of operational floor area, are fit for purpose in terms of suitability for their current use;
- (ii) 107 of the Council's operational property assets, accounting for 41% of operational floor area, are fit for purpose in terms of condition;
- (iii) although current investment in the school estate will result in an improvement in overall portfolio performance of up to 4 percentage points for suitability and up to 12 percentage points for condition, this level of investment is insufficient to address all immediate needs or sustain a long term improvement in overall condition;
- (iv) property asset performance data will continue to be used to inform the ongoing programme of property reviews and the development of property asset management plans; and
- (v) the Asset Management Working Group will continue to report progress annually on developing asset management plans.

3. BACKGROUND

- 3.1 On 7 June 2016, the Policy and Resources Committee agreed that a further report on the suitability and condition of the Council's operational properties be brought to its next meeting (para 14 of the draft minute refers).
- 3.2 The performance of the operational portfolio is reported through the Local Government Benchmarking Framework's (LGBF) indicators for asset management. These indicators, which monitor performance against the *de facto* national standard, identify the proportion of operational accommodation that is (a) suitable for its current use and (b) in a satisfactory condition.
- 3.3 This report provides a breakdown of property portfolio performance as at 31 March 2016 by the three property groups identified in the Corporate Asset Management Plan, these being schools, corporate offices and other operational buildings. A list of properties in each group showing their suitability and condition categories is attached as **APPENDIX I**.
- 3.4 The performance of the portfolio is analysed using a matrix of suitability and condition, with the placing in the matrix being determined by whether the property meets the required standard for each factor. This key asset performance data is combined with information on sufficiency, sustainability and affordability and fed into the programme of strategic property reviews. The outcomes from each review will be used to inform the development of asset management plans for the three property groups identified in the Corporate Asset Management Plan.
- 3.5 On 3 August 2016, the Audit and Scrutiny Committee considered a report on the suitability and condition of the Council's operational properties (para 10 of the draft minute refers). At that meeting, Members sought clarification on the difference between the two factors and how buildings could perform well in relation to suitability while performing poorly in relation to condition.

4. SUITABILITY VERSUS CONDITION

- 4.1 A distinction between the definitions of suitability and condition is provided in the Scottish Government's 2007 guidance document, *The Condition Core Fact*. An extract from that guidance is included as **APPENDIX II**.
- 4.2 In order to ensure that a building's suitability rating does not include any issues which should be considered under condition, a building is assessed for suitability as if it is in good condition. For example, a leaking roof, however inconvenient, should not affect the suitability rating but should instead be a matter to be considered in the context of the condition rating.
- 4.3 To illustrate the difference between suitability and condition – a room may be uncomfortably hot or cold. If this is due to a faulty thermostat then it will be considered in the context of condition. If it is due to a lack of a thermostat or insufficient radiators, then it will be considered in the context of suitability.

- 4.4 As a similar situation arises with sufficiency, buildings are assessed for suitability as if they are operating at their design capacity. Consequently, if a building is overcrowded this will not affect its suitability rating.

5. **SUITABILITY PERFORMANCE**

- 5.1 Every operational property is assessed for suitability as part of a 5 year rolling programme and placed into one of four categories:

A (Good)	Performing well and operating efficiently.
B (Satisfactory)	Performing well but with minor problems.
C (Poor)	Showing major problems and/or not operating optimally.
D (Bad)	Does not support (seriously impedes) service delivery.

Suitability assessments provide a measure of the extent to which buildings provide an environment that supports service delivery in terms of functionality, accessibility and convenience. For a building to be considered suitable for its current use, it must be classed as B or better overall. As suitability considers a range of factors, it is possible to meet the overall standard while failing in individual areas.

- 5.2 The LGBF suitability indicator identifies the proportion of accommodation (by number of properties) that is suitable for its current use. The proportion that met this standard at the end of 2015/16 was 94% (no change from 2014/15). The average performance for suitability across all Scottish local authorities for 2014/15 amounted to 79%, with Moray's performance for that financial year being well within the top quartile. Benchmarking information for 2015/16 is not yet available for comparison purposes
- 5.3 A breakdown by property group of operational accommodation suitability at the end of 2015/16 is shown below:

Property Group	Number of Buildings		% in Suitability Class A/B		
	Total	A/B	2015/16	2014/15	Change
School Estate	53	48	91%	91%	0%
Corporate Offices	13	13	100%	92%	+8%
Other Operational	138	131	95%	95%	0%
Overall Portfolio	204	192	94%	94%	0%

- 5.4 The LGBF suitability indicator has a serious disadvantage as it gives the same weight to a small public toilet of 15m² as to a large secondary school of 15,000m². To give a more accurate indication of the extent of any issues, performance also needs to be analysed using floor area, as shown below.

Property Group	Floor Area (GIA m ²)		% in Suitability Class A/B		
	Total	A/B	2015/16	2014/15	Change
School Estate	147,073	115,177	78%	78%	0%
Corporate Offices	14,687	14,687	100%	96%	+4%
Other Operational	60,851	59,513	98%	98%	0%
Overall Portfolio	222,611	189,376	85%	85%	0%

- 5.5 This breakdown shows that the unsuitable properties lie predominantly in the school estate. Five schools do not meet the standard – Buckie High, Elgin High, Keith Grammar, Burghead Primary and St Sylvester's Primary. Work is underway to replace Elgin High School, which will have the effect of improving the performance of the school estate by 7% and the overall portfolio by 4%.

6. **CONDITION PERFORMANCE**

- 6.1 Each operational property is subjected to a condition survey once every five years. A desktop review of the portfolio is carried out at the end of each financial year to account for any material change in circumstances. Each building is placed into one of four 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.

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 in 2007. As with suitability, for a building to be considered fit for purpose it must be classed as B or better overall. A building can meet the overall standard while failing in respect of individual elements.

- 6.2 The LGBF indicator for condition identifies the proportion of operational accommodation (by floor area) that is in a satisfactory condition. The proportion that met this standard at the end of 2015/16 was 41% (an increase of 8% from 2014/15).
- 6.3 The average performance for condition across all Scottish local authorities for 2014/15 amounted to 83%, with Moray's performance for that financial year being at the bottom of the fourth quartile. There is little prospect of that position changing significantly in the short term. Benchmarking information for 2015/16 is not yet available for comparison purposes.
- 6.4 A breakdown by property group of operational accommodation condition at the end of 2015/16 is shown below:

Property Group	Floor Area (GIA m ²)		% in Condition Class A/B		
	Total	A/B	2015/16	2014/15	Change
School Estate	147,073	44,952	31%	20%	+11%
Corporate Offices	14,687	11,818	80%	80%	0%
Other Operational	60,851	34,064	56%	52%	+4%
Overall Portfolio	222,611	90,834	41%	33%	+8%

- 6.5 Of the 59% of total operational floor area that does not meet the performance standard for condition, school buildings account for 46%, corporate offices 1% and other operational buildings 12%. Within the other operational property group there are some property types, such as depots, that account for a significant proportion of floor area and which benefit from being considered separately when carrying out a property review.
- 6.6 The planned replacement of Elgin and Lossiemouth High Schools, together with the completion of the Four [Primary] Schools project, will result in an improvement of up to 18% in the performance of the school estate and up to 12% in that of the overall operational portfolio. However, as the condition of other properties continues to deteriorate, this level of improvement cannot be sustained without additional investment.
- 6.7 For ease of comparison with suitability performance, a breakdown of condition by property group by number of assets is shown below:

Property Group	Number of Buildings		% in Condition Class A/B		
	Total	A/B	2015/16	2014/15	Change
School Estate	53	11	21%	17%	+4%
Corporate Offices	13	7	54%	54%	0%
Other Operational	138	89	64%	66%	-2%
Overall Portfolio	204	107	52%	52%	0%

- 6.8 The condition category of a property only provides a snapshot at a moment in time. The overall condition rating takes into consideration the performance in a number of separate building element groups. The difference between a low B and a high C can be very small with the result that a slight deterioration or improvement in any element group has the potential to change the overall rating. Current investment levels are insufficient to avoid continuing deterioration in all element groups.
- 6.9 Building condition surveys also assess the works required over the following five years to bring each property up to and maintain it at an appropriate standard. Each element of work is placed into one of three priority levels.

<u>Priority 1</u>	Works preventing immediate closure, addressing an immediate high risk to health and safety, or remedying a serious breach of legislation.
<u>Priority 2</u>	Works preventing serious deterioration, addressing a medium risk to health and safety, or remedying a less serious breach of legislation.
<u>Priority 3</u>	Works preventing deterioration, addressing a low risk to health and safety, or remedying a minor breach of legislation.

- 6.10 At the end of each year, the works required are reviewed to take account of known changes and costs adjusted for construction industry inflation. A breakdown by property group of the costs of work required as at 31 March 2016 is shown below. All figures, with the exception of costs per square metre, are rounded to the nearest £1,000.

Property Group	Prioritised Works Required (as at 31/03/16)				
	1 (£'000)	2 (£'000)	3 (£'000)	Total (£'000)	£/m ²
School Estate	30,265	11,851	15,477	57,594	391.60
Corporate Offices	186	374	287	847	57.66
Other Operational	4,208	3,797	3,385	11,390	187.18
Overall Portfolio	34,658	16,023	19,149	69,830	313.69
Overall (as at 31/03/15)	34,528	15,593	18,901	69,022	309.40
% Change	+<1%	+3%	+1%	+1%	+1%

- 6.11 The high level of works classed as priority 1 underlines the significant challenge that lies ahead of the Council if it is to prevent immediate closure of buildings, reduce health and safety concerns and remedy any serious breaches of legislation. The high cost per square metre for the school estate reflects its poorer overall condition. Out of 53 schools, 42 do not meet the required standard for condition. The above table shows the costs of rectifying the existing portfolio. These figures do not include the cost of carrying out improvement works designed to address suitability issues.
- 6.12 On 30 March 2016, The Moray Council was advised that current service provision was no longer financially sustainable and that consequently, the Council was no longer in compliance with the Prudential Code (para 7 of the minute refers). Carrying out all of the works identified above over the next 5 years is not affordable. On 25 May 2016, a further report was submitted to The Council aimed at reducing the potential for abortive costs in relation to design and preparation work of capital projects (para 11 of the draft minute refers). The report set out proposals for each class of asset. Members agreed to the proposals which, for property assets, results in the adoption of a make-do-and-mend approach until such time as the Council has prepared a plan to return to financial sustainability. This means that the maintenance programme will adopt a risk-based approach, concentrating on those

elements necessary to maintain buildings in a wind and watertight condition and to minimise the risk to health and safety. Current levels of investment are insufficient to remove all risks of component failure. Consequently, there remains a significant risk of building closure.

7. SUITABILITY-CONDITION MATRIX

7.1 Combining the suitability and condition performance information from **Appendix II** allows the placing of properties into 4 categories:

- (i) Properties that meet the standard for both factors (B-B);
- (ii) Properties that meet the standard for suitability but not for condition;
- (iii) Properties that meet the standard for condition but not suitability; and,
- (iv) Properties that do not meet either standard.

The resultant asset performance matrices are shown below.

Floor Area (m ²)			
SUITABILITY	A/B	CONDITION	
		A/B	C/D
		TOTAL	
	76,672 34%	112,704 51%	189,376 85%
C/D	14,162 6%	19,072 9%	33,235 15%
TOTAL	90,834 41%	131,777 59%	222,611 100%

No of buildings			
SUITABILITY	A/B	CONDITION	
		A/B	C/D
		TOTAL	
	101 50%	91 45%	192 94%
C/D	6 3%	6 3%	12 6%
TOTAL	107 52%	97 48%	204 100%

7.2 Although 101 out of 204 operational properties meet the required standard for both factors (B-B), these only account for 34% of total floor area. Therefore, 66% of portfolio floor area fails against one or both criteria. Six properties, accounting for 9% of total floor area, fail on both counts – these comprise four schools (Elgin High, Keith Grammar, Burghead Primary and St Sylvester's Primary) and two depots (Cooper Park and Skateneuk). It should be noted, however, that works prioritisation considers a range of factors, including the likelihood and impact of component failure. Consequently, properties with a higher risk profile will be dealt with first.

7.3 There are 91 properties that are classed as fit for purpose in terms of suitability but are in either poor or bad condition. This group accounts for more than half the portfolio floor area.

8. STRATEGIC PROPERTY REVIEWS

- 8.1 Asset management planning is a business process with the underlying purpose of achieving better use of resources while striking a balance between service benefits and affordability. Asset management plans provide a focus for identifying and pulling together needs, priorities and funding. Underlying every asset management plan is a strategic property review. The process agreed at the 7 June 2016 meeting of the Policy and Resources Committee aims to deliver further consistency and ongoing challenge within reviews (paragraph 14 of the draft minute refers).
- 8.2 The Council has already implemented a number of strategic reviews covering the school estate, leisure facilities and depots. These reviews are ongoing and the resultant policies and strategies will be influenced by the outcome of the current budget consultation exercise. The review results are fed into the budget setting process through the Asset Management Working Group.
- 8.3 Corporate offices were the subject of a major review under the Designing Better Services (DBS) programme. Following that review, a programme of rationalisation and investment was implemented resulting in a significant improvement in the condition of the corporate office portfolio and a 20% reduction in its size. However, circumstances have changed since that review was completed and the Council has had to respond as and when issues have arisen. An example is the changing office requirements resulting from the health and social care integration.
- 8.4 As the Moray Integration Joint Board develops its policies and strategies, this will lead to further changes in the way that health and social care services are delivered locally. Some of these are delivered from Council-owned premises. Consequently, the early involvement of key officers will be important in achieving successful outcomes. The board is expected to appoint a representative to the Asset Management Working Group to aid this process.
- 8.5 The provision of public conveniences was last considered by The Moray Council at a special meeting on 3 July 2013 (paragraph 7 of the Minute refers). A decision was reached not to close any facilities at that time.
- 8.6 The key performance information for suitability and condition referred to in this report is fed into the programme of strategic property reviews together with information on sufficiency, sustainability, and affordability. The review outcomes inform the development of asset management plans for each of the three property groups identified in the Corporate Asset Management Plan. The Asset Management Working Group reports progress in developing and updating each asset management plan annually to this Committee.

9. SUMMARY OF IMPLICATIONS

(a) Moray 2026: A Plan for the Future and Moray Corporate Plan

Good asset management planning, by supporting the delivery of services, contributes to all corporate priorities.

(b) Policy and Legal

The policy objectives of the operational property portfolio are set out in the Property Asset Management Strategy approved by the Policy and Resources Committee on 11 October 2011 (para 8 of the Minute refers). The Financial Regulations approved by the Council on 3 February 2016 (para 9 of the Minute refers) set out the requirement to prepare asset management plans.

(c) Financial implications

Undertaking a programme of property reviews that feed into the development of asset management plans helps ensure that the operational property portfolio is managed cost effectively.

(d) Risk Implications

Undertaking a programme of property reviews that feed into the development of asset management plans reduces any risk that the Council's property assets would not be appropriately managed and reduces the health and safety risk associated with bad management practices.

(e) Staffing Implications

The property review programme seeks to build on work undertaken in preparation for the Members briefing on the capital plan provided in January. Providing consistency and ongoing challenge will, however, limit the number of reviews that can be accommodated at any one time and impact upon the timescale for delivering the overall programme.

(f) Property

Undertaking a programme of property reviews that feed into the development of asset management plans helps ensure that the Council makes best use of its operational property portfolio and that the portfolio is sustainable in the longer term.

(g) Equalities

There are no equalities issues arising from this report. Equality issues are considered as part of each property review.

(h) Consultations

Consultation on this report has taken place with the Corporate Director (Corporate Services), the Head of Direct Services, the Head of Lifelong Learning Culture and Sport, the Educational Resources Manager, Lorraine Paisey, the Principal Accountant and Lissa Rowan, the Committee Clerk. All comments have been incorporated in the report.

10. CONCLUSION

10.1 This report sets out the suitability and condition of the operational property portfolio as at 31 March 2016, highlighting any changes over the 2015/16 financial year.

10.2 Current levels of investment are insufficient to address all essential repairs to the property portfolio or sustain a long term improvement in portfolio condition. Consequently, it remains important that the

programme of property reviews is continued in order to identify the shape of a sustainable operational property portfolio that balances service needs and affordability.

- 10.3 Information on suitability and condition, combined with that relating to sufficiency, sustainability and affordability is used to inform property reviews which are themselves essential to the preparation of asset management plans. Robust asset management planning arrangements are essential in an environment of financial austerity. This process is managed by the Asset Management Working Group, which reports progress on developing and updating asset management plans annually to this committee.**

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