The Highland Council	Agenda Item	**10**
	Report No	**HC/49/23**

Committee:	**Highland Council**
Date:	**14 December 2023**
Report Title:	**A Review of Property Assets Maintained by Highland Council and a Future Approach to Strategic Capital Planning**
Report By:	**Executive Chief Officer, Housing and Property**

1. Purpose/Executive Summary

1.1 The purpose of this report is to:
- provide background on the condition of the Council's building assets and on backlog maintenance costs challenges;
- set out a proposed process for the review of the Council's buildings, identifying key themes and workstreams for rationalisation, and how services would be involved in that process;
- provide, in outline, a proposal as to how those assets could be managed going forward; and
- propose a new approach to how we strategically determine priorities for capital spend across the Council's capital programme.

1.2 Highland Council is conducting a full review of its asset base in light of significant challenges that it faces in maintaining its estate, which includes schools, public buildings and offices, roads, bridges, parks, and monuments. This will map current Council and partnership provision. This approach if adopted will bring better coordination, strategic oversight and direction and improved utilisation of available capital and revenue budgets.

1.3 Previous reports have identified that in the context of diminishing resource to maintain such a wide-ranging set of assets, the services overseeing property-based activities are having to prioritise to a point which is becoming unsustainable. The current estimate of costs for backlog maintenance of assets is set out in the body of the report and in the attachments referenced within.

1.4 One key consequence of not being able to meet the repairs and maintenance required is that the lifetime of assets cannot be extended and there is an increased risk of facilities being declared derelict. The Council also has a statutory duty to ensure that it complies with relevant health and safety legislation to ensure that buildings are in a fit purpose for users and visitors at all times.

1.5 Members are asked to agree the approaches and recommendations set out in this report, and to acknowledge the critical nature of the asset base and the impact of prioritisation, and to agree a strategic prioritisation matrix for future asset development.

2. Recommendations

2.1 Members are asked to:

i. **NOTE** the background data provided regarding the condition of the Council's buildings and asset base and the cost estimate of mitigating these challenges;
ii. **NOTE** the proposed further asset rationalisation workstreams, the proposed process for the review of built environment assets maintained by Highland Council, and proposals for service involvement;
iii. **NOTE** the proposed concept of a Single Property Service (SPS) model to manage all built environment assets going forward, with the detailed proposals as to implementation to come forward in a separate paper to next Council for approval;
iv. **APPROVE** the proposed future approach to strategic capital planning; and
v. **APPROVE** the repurposing of the old HQ building on Ardross Street back into office accommodation to unlock further rationalisation opportunities across our office estate, as set out at 7.5 of this report, given the non-viability of it being converted into housing.

3. Implications

3.1 **Resource:** Reducing the number of assets owned by the Council will deliver savings and avoid future costs and liabilities, as well as potentially generate capital receipts and income generating opportunities. However, it is important to note the current challenge faced across the asset base in terms of condition and suitability and to note that rationalising of assets alone will not reduce the need for investment in our assets at an appropriate level of resource.

3.2 **Legal:** The Council must ensure it complies with all legislation in respect of building safety, management, maintenance, and repair, amongst others. Failure to comply with these and other statutory obligations creates a risk of civil and criminal breach of applicable laws for the Council corporately, and for individual Officers.

3.3 **Community (Equality, Poverty, Rural and Island):** A reduction in the Council's asset base may see a reduction in a number of assets with community use/benefit as well as with an operational use/benefit for the Council. However, a more appropriately balanced approach to capital will also enable the Council to invest in its core strategic principles such as addressing inequalities, poverty, and the particular challenges of our rural and island communities.

3.4 **Climate Change/Carbon Clever:** A reduction in assets and/or their replacement with newer assets, and/or a more strategic focussed approach to identifying core assets and investing in them will have a beneficial impact in reducing the Council's carbon footprint. Maximising the use of renewable energy sources and implementing energy savings measures across the asset base will also be key and will deliver significant benefits in terms of cost avoidance and income generation opportunities.

3.5 **Risk:** Not rationalising assets and not operating in an efficient and strategic manner in terms of managing, maintaining, and investing in our assets is not an efficient use of resource. In the context of the Council's financial position, it is essential that it retains as assets only those that are demonstrably essential for service delivery, and which are simultaneously also affordable. For the assets retained, failure to maintain them to the required standards increases the risk of injury and litigation and may impact service delivery and service efficiency.

3.6 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** Over and above the general legal risks at 3.2 above, the Council has a specific legal obligation to ensure that it complies with all legislation in respect of health and safety and in ensuring that all assets and buildings are in a reasonable condition and reasonably fit for purpose for persons working within or visiting these assets. A failure to comply with this statutory obligation creates a risk of civil and criminal breach of applicable laws for the Council corporately and for individual Officers.

3.7 **Gaelic:** There are no Gaelic implications to report at this stage.

4. Asset Management Programme

4.1 It is important to understand the general condition of our General Fund (GF) built estate and the significant amount of repairs backlog currently existing in our schools and non-school estate. Existing budgets are insufficient to address these issues. The condition of the estate has deteriorated significantly over time and will continue to do so unless we take proactive steps to address this.

4.2 Surveying work continues and is currently at c40% of all GF buildings. As it moves towards 100% it is adding to the evidence base of poor condition and is increasingly crystallising the significant investment need required to address this. Whilst this provides an additional incentive to accelerate asset rationalisation, asset rationalisation in and of itself – even at a significantly increased scale and pace – will not wholly mitigate these risks. It is highly likely that there will need to be additional significant investment in existing assets, on both a capital and revenue basis, in order to ensure that they are reasonably fit for purpose and are and continue to be safe for occupants and visitors, now and on an ongoing basis.

4.3 With the school estate as an example, current approaches have seen a capital investment ratio of approximately £1 spent on existing buildings to approximately £6 on new build. This is unsustainable and must change to help in mitigating these significant risks. Furthermore, Asset Rationalisation (AR) has faced the challenge of having targets allocated for each financial year since 2019/20, which have not been connected to a comprehensive strategic approach. These savings have not been fully achieved to date, resulting in the current cumulative target of £1.2M for 2023/24.

4.4 Building closures are assumed to deliver a proportionate reduction in CCFM, revenue maintenance and utility budget. However, these are also subject to additional annual reductions and/or inflationary pressures, as the controllable net budget of Property Services is essentially CCFM services and revenue property maintenance (day to day repairs). The current level of funding (c£7mpa) is insufficient to maintain the estate generally even at the very most basic of levels, as evidenced by a £10m outturn on spend last year, with the gap mostly closed via capitalisation of works.

4.5 It is often perceived that each building has a separate repairs budget. That is not the case. It is clear that if every building rationalised sees the revenue maintenance budget and CCFM budgets reduced by a proportionate figure approximately relating to the average spend on maintenance on that building in prior years, then given this context the practical impact of that would be to further reduce revenue maintenance and CCFM budgets from an already critically low level and which would increase the level of current risk which are already significant.

4.6 The issue set out at 4.5 above will have to be resolved, to avoid there being an unintended consequence of an accelerated rationalisation programme being an actual further reduction in revenue and capital repairs and CCFM budgets. That would consequently impact on the Council's ability to service and repair the remaining core buildings that we have for want of sufficient budget and consequently would lead to a further deterioration in asset condition.

4.7 An up-to-date summary of all recommended repairs, and category one/two repairs for the school and non-school estate (urgent immediately/within 24 months) is attached at the link below. The minimum recorded backlog is c£24m for schools and £14 m for non-schools, based on 37% surveyed, estimated to extrapolate to £38m schools and £22m non schools once surveying completes. Doing nothing and/or continuing as is, is not an option.

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4.8 To provide some comparison on recommended Property Maintenance Spend across the UK property sector the summary below sets out the Councils £/m² spend against rates published by the Scottish Futures Trust (SFT) and the Royal Institute of Charted Surveyors (RICS). It will be noted that the Council spends significantly less on maintenance than what is being recommended by these organisations, principally as a result of limited current resource allocation, and there is a direct correlation between this and building conditions over time and the general deterioration of the asset base.

- Highland Council - Current Maintenance Spend - Nominal Rate £/m² (2023): **£8.70**
- SFT LEIP 3 Maintenance Rate £/m² **£29.00**
- RICS Recommended Rate (Average) £/m² **£35.80**
- RICS Recommended Rate (Education) £/m² **£39.40**

5. Potential solutions

5.1 A more appropriate ratio of capital spend between existing and new buildings is required. Additionally, no capital spend on any new asset should occur unless it is consistent with the proposals set out in section 9 below.

5.2 Asset rationalisation at a pace is essential. While it will not fully mitigate the existing liabilities and risks of the current estate it will make a significant impact on the costs of our current estate now and into the future and ultimately impact on future spend.

5.3 From an operational perspective, the implementation of a Single Property Service (SPS) will provide more oversight and strategic control. It is not the intention of this report to provide the detail of that at this time, but the overarching principles are set out next below.

5.4 The SPS proposed is essentially a development of the previous version of the Corporate Landlord Model (CLM) approved through the Housing and Property Committees of August and December 2020 and subsequently homologated through full Council. In that regard, the SPS model could be seen as being the delivery model to give intended implementation of that model. A link to that report ("An Introduction to the Corporate Landlord Model") is here:

https://www.highland.gov.uk/download/meetings/id/76857/item_3_an_introduction_to_the_corporate_landlord_model

5.5 The report at 5.4 above should be read in conjunction with the report to the same Committee meeting "A Strategic Asset Management Approach to Buildings and Assets" and the link to that report is here:

https://www.highland.gov.uk/download/meetings/id/76858/item_4_a_strategic_asset_management_approach_to_buildings_and_assets

5.6 Underlying methodologies behind the assessment of buildings and their potential for retention or otherwise, and some of the underlying challenges, are contained within the report to the Housing and Property Committee of 10th December 2020 "A Strategic Asset Management Approach to buildings and assets." The link to that report is here:

https://www.highland.gov.uk/download/meetings/id/77510/item_7_update_on_the_corporate_landlord_and_strategic_asset_management_approach_to_buildings_and_assets

6. Asset Rationalisation – update

6.1 The primary focus to date of AR has been on offices and administrative buildings, excluding in consequence significant areas such as schools and HLH's operational bases. In the context of the total General Fund budget and current projected budget gap it is an important contributor, but it is not contributing as much as it has the potential to. For example, as schools represent approximately 60% of total space occupied and around 85% of all CCFM activity, the potential for savings at scale from their inclusion in future phases of rationalisation is evident.

6.2 Some of the decisions of Council taken elsewhere have significant impacts on savings that could have been delivered through the AR process. An example of that in action is the capital programme review; depot investment not being made available at any scale and has impacted not only on the conditions that we ask our staff to work in but has also reduced potential savings in spend in these areas that could be very significant over the coming years, as is also referenced below.

7. Key Asset Rationalisation Workstreams and Themes

7.1 Some of the key workstreams with basic themes and commentary are set out below. Additional commentary and supporting documentation is provided via links in the relevant sections overleaf.

7.2 **Care Homes:** There is no additional funding stream, capital, revenue, or cyclical, for care homes. Any existing or future liabilities in this area will need to be met from existing resource. In the interim, repairing and investment issues will need to be considered in the context of all risks and priorities existing across the whole of the built environment and prioritised accordingly.

7.3 **Commercial Properties**: There is no fundamental reason why these should not be in scope for potential rationalisation in the same way as any other building. That a property may be traditionally considered commercial does not mean it may not have potential use to unlock rationalisation elsewhere across the Council's buildings as a medium-term option, essentially flipping the use or tenure as an example, and as often happens with HRA housing units being flipped between general needs and temporary homeless accommodation needs as pressures require.

7.4 **Depots:**

7.4.1 Estimated repair backlog costs now amount to just under £14m, £10.6m of which is category 1 or 2, required immediately or within 24 months. For context, total spend between 1999 and 2023 amounted to £3.5m across all depots, barely £150k per annum across all depots. These estimates are based on current survey data and are likely to significantly increase once the additional depots identified as existing as a part of our surveying activity in relation to depots is factored in.

7.4.2 No standalone capital funding is available for reconstruction or replacement. A "super depot" has been discussed which could deliver substantial capital receipt value and revenue savings potential as set out in the report available via the link below in this section. However, it is not currently viable for a range of reasons, one key one being cost estimated at £58m. Work is ongoing work to examine options to reduce this cost further, but even at half cost (say, £30m for a working assumption to still realise these potential savings and receipts) the investment required is substantial and would have to be prioritised – or not – in the context of all of the other calls on capital spend across the Council and all services.

7.4.3 However, the current depot situation does create significant organisational risk given the poor condition. That current position – no capital provision for replacement or substantial repair and an average of less than £150kpa being spent across all depots on day-to-day repairs - is not sustainable. Further background information on this topic is available at the following link:

FINAL - Depot_Super Depot November 2023.docx

7.5 **Glenurquhart Road - HQ Campus:**

7.5.1. As with other building assets there is no separate budget allocated. Works required have to take their place alongside all other requirements. A replacement is not provided for in the current capital programme. While no detailed costings have been produced for a replacement campus, even reflecting the much lower spatial requirement linked to post covid working patterns and even pre covid occupancy levels of c40%, nonetheless a replacement even factoring these issues in is likely to be comfortably in excess of £50m at current prices.

7.5.2 In the context of other known high priority issues discussed elsewhere in this paper a replacement is unlikely to be viable at his time. Options will need to be centred around opportunities for dispersing staff and functions to area bases where capacity exists (e.g., Dingwall, Wick, Fort William, and so on), to partner organisation facilities (e.g., NHS; but there will be lease costs applying) and demolishing parts of HQ/relocating staff and maximising space utilisation to much higher occupancy rates than has been traditionally the case for the Council.

7.5.3 The conversion of the old HQ building on Ardross Street into housing was considered both in terms of the Council converting it directly or alternatively marketing it for sale for development by others. Indicative costings of c£400,000 per unit were returned which indicated conversion was non-viable for the Council. Initial soft market testing suggested that it would also not be a viable option for external purchasers. This does however provide a short to medium term opportunity, if the Council is so minded, to relocate staff from elsewhere into there, principally block A and the portacabins, and to demolish both, as well as providing opportunities to unlock moves elsewhere across Inverness.

7.6 **Health and Social Care (HSC) Properties:** Buildings acquired by, leased in or out by and/or previously purchased by HSC should also be considered for fitness for purpose and suitability and the whole lifecycle costs attaching to the purchasing, running, repair and investing in and divestment of these assets. As appropriate these will be in scope for potential rationalisation, or indeed retention and investment if appropriate.

7.7 **HLH Sites:** The current shape of what buildings and allied items (pitches, swimming pools etc) may be required and what the future size and requirement for HLH facilities will still require to be bottomed out between the Council and HLH. Significant opportunities for rationalisation and cost savings or avoidance do exist. All should be in scope.

7.8 **Reducing Our Admin Bases to 5 Key Offices:**

7.8.1 Redesign board (and through that board the full Council) approved the reduction in core office bases to the following (Item 5 para 7.3 of the report of 28th November 2022), below:

https://www.highland.gov.uk/download/meetings/id/80882/item_5_-_asset_management_pillar_3_-_asset_rationalisation

7.8.2 Those core buildings were identified as:

- Council HQ, with the exception of the old Council HQ on Ardross Street, which was at the time being vacated with a view to redevelopment for housing which has since been determined as non-viable
- Dingwall County Buildings
- Caithness House
- Charles Kennedy House
- Tigh na Sgire

7.8.3 Whilst the intent was that all other offices would be rationalised, this will require to be reviewed if there is an emerging desire to free up space in HQ and elsewhere by moving staff and/or functions out into area-based offices.

7.9 **Schools:**

7.9.1 Schools have to date been excluded from any building rationalisation process. Given that schools represent roughly 60% of the space occupied by the Council and account for some 85% plus of CCFM activities, it is clear there may be significant gains from including schools in scope.

7.9.2 Whilst educational need will always be the principal driver there does need to be a balance in the assessment of what may be able to be rationalised between pure educational need and the underlying condition of the buildings (35% in poor condition) and in terms of suitability (38% unsuitable). The Council cannot afford to maintain or invest in these buildings and alongside this factor are projected reductions in school rolls in future years.

7.9.3 Consequently, to obtain a “score” for a school then educational need, condition, and suitability, and underlying and projected school roll/occupancy should be factored in. For example, if we form the view that office spaces being occupied under 40% of the time should put them in scope for partial or whole rationalisation/closure etc, then clearly schools currently or projected to be occupied at similar levels should be considered as in scope to have at least their medium to long term requirement to be retained assessed. Work is ongoing between Education and Housing and Property to examine the potential for school estate rationalisation. A further update will be provided in due course.

8. A Strategic Approach to Asset Rationalisation – Next steps and service engagement

8.1 In November 2022 the Redesign Board approved a change to the previously agreed process, which had centred on bringing forward small batches of around a dozen properties for specific approval for closure/demolition/sale/rationalisation. It was clear that this approach was unsustainable and overtly operational, and not strategic.

8.2 Key within the report referenced above (“Asset Management Pillar 3 – Asset Rationalisation”) was the following paragraph (7.4):

“In order to facilitate the move towards delivery on the above ambition, it is essential that this is progressed from the perspective that the presumption will be that all other buildings carrying out these functions are to close in the shortest reasonably practicable timescale possible. There will be the potential for exceptions to be considered by Redesign Board on the recommendation of the Strategic Property Board, but this would require a detailed business case to be set out by the occupying service as to why a given property should not be vacated and why, exceptionally, the functions carried out from that location cannot reasonably be carried out from an alternative location.”

8.3 Delivery pursuant to 8.2 above has been limited for a range of reasons. Accelerating delivery requires a further step change in approach and an underlining of the “all buildings are in scope” message, and a move to an accelerated delivery and logistics of delivery phase. There is clearly an urgency attached, and this will require a degree of compromise as against what Services may desire ideally in terms of facilities to work from as to what is actually affordable and available in a given timeframe.

8.4 The Council owns more than 3,500 assets. Assessing these in detail will take more time and resource than is available within Housing and Property given the need to realise savings quickly. Therefore, this will need to involve the services in identifying (in conjunction with Housing and Property/the SPS) core assets essential for service delivery with the remainder then passing into a programme for being rationalised.

8.5 It is proposed that Services should therefore review all of their current operational bases, based on information provided to them by Housing and Property services and as referenced at 8.4 above, and within their management teams, identify and provide a detailed and full business case justification for retention. It is intended that this work should be prioritised by all services and complete in time for a report on progress to be provided in due course.

9. A Future Approach to Strategic Capital Planning and spend.

9.1 There is an urgent requirement for a more strategic and agile approach to how we manage the capital programme within the Council. We have faced challenges in delivering on the programme in recent years resulting in delays and underspends, as reported to the Corporate Resources Committee, and we are currently reviewing the strategic governance and delivery model for the programme to address the underlying causes where possible.

9.2 It is no longer sustainable to have an approach where in some functional areas, the ratio of capital spend on existing as against new assets is in the ratio of 1:6. Fewer new assets and a greater emphasis on fixing and refitting what we have where that makes economic sense will need to be the focus for the short to medium term while we address these significant structural and condition related issues. In effect, improve and make better use of what we already have where this is practicable.

9.3 From a strategic view, the relationship between capital spend and revenue consequences needs to be better understood and, in all cases, included in the lifetime whole lifecycle cost analysis of any new build proposed. There is a trade-off between bidding for funding to create an asset and the understandable benefits in terms of economic activity, employment, and wider societal and socio-economic benefit. However, that cannot be at the cost of creating unsustainable revenue liabilities on an ongoing basis, particularly when local government funding is at best in a flat cash situation and all revenue service budgets are under significant downward pressures.

9.4 It is proposed that it will no longer be sufficient to argue that a new asset created or improved will generate an income or increase an income in some cases (capital investment in relifing an existing asset) which it then available to spend on maintaining it. As discussed earlier in this report, in any event there are not discrete budgets per individual property created or in existence. In practice any “additional” income generated through renovation of an existing asset, or the creation of a new asset is, understandably, simply taken into the corporate pot to address general budget pressures, overspend and other priorities and does not find itself made available for maintenance; the revenue generated is not “ringfenced” for that purpose.

9.5 For every Council, capital spend must be first prioritised towards that which it has a statutory duty in respect of and in particular where the health and safety of staff- and other service user/stakeholder/visitors are at actual or potential risk. Highland is no exception.

9.6 9.1 to 9.5 above aside however, we are proposing to prioritise what remains having addressed those matters as follows:

- prioritising the improvement and increased utilisation of our existing assets through retrofitting of buildings identified as core assets to modern efficiency standards, including maximising opportunities for solar, wind and replacement heating systems for oil gas and wood as appropriate;
- spend to accelerate asset rationalisation and colocation opportunities wherever appropriate;

- urgent and/or emergency capital spend to improve our educational and depot estate in advance of our planned replacement programme; and
- anything else not covered above that can be shown to make a positive contribution to the Council's key themes around addressing poverty, inequality, and the challenges of our geography and rurality.

9.7 Although the main focus above is inevitably on GF capital, understandable in the context of a £1bn debt and significant loans charges repayments each year, the importance of a strategic approach to HRA capital spend is equally important. Housing HRA has existing historic debt of £350m and one of the highest amounts of debt per unit in Scotland, and at the present time of a c£62mpa HRA revenue budget, some £28mpa, in excess of 40% of the revenue budget, is spent servicing this debt.

9.8 This creates a significant viability challenge. Bringing the HRA Housing stock to net zero and achieving passivhaus like standards comes at a very considerable costs, as does achieving and maintaining EESH2 and SHQS standards. The current estimate is a minimum of £250m simply for our housing stock alone – note this does not include any allowance for any GF property - and that is a low side estimate.

9.9 It is the case that there is significant funding potentially able to be leveraged in from external sources towards some of these works. Nonetheless there will be an increased cost pressure on HRA capital which will also hit HRA revenue. Consequently, in the same way that applies to GF capital, we will require to revisit the current ambitions for social housing new build rates to ensure there is the appropriate balance between our ambition to build out at a pace to address significant housing pressures, and the SG requirements on us to maintain existing stock (correctly) to ever higher standards.

9.10 A fundamental review of our Local Housing Strategy and our Investment Plan (LHS and SHIP) will be required. Work is ongoing to assess the viability of our current stock and what is core stock that has an economic justification for retention and investment and that which may not.

9.11 Whether in terms of the GF or HRA, clearly resource is constrained. The Council will struggle to manage these challenges on its own without drawing down substantial resources from other sources, Scottish or UK governments, salix or retrofit/low carbon funding, partner investment and joint venture opportunities, and where appropriate, private institutional funding options such as bonds may need to be considered. These are merely indicative not exhaustive examples. Discussions are ongoing with SFT, Hub North, NHS and other blue light services, and other key stakeholders, on how we take this forward and further update will be provided in due course.

Designation: Executive Chief Officer, Housing and Property

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