

Finance and Resources Committee

10.00am, Tuesday 23 January 2018

Outcome of Property Condition Surveys

Item number	7.3
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Executive/routine	
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Council Commitments	28

Executive Summary

A history of underinvestment in the Council's building estate over the past two decades is now manifesting itself in an increasing number of building issues, a poor condition estate and significant levels of backlog maintenance. A snapshot of the condition of the operational estate, completed in September 2017, identified a requirement to spend £153m over the next 5 years to address the backlog maintenance. This will require existing capital budgets to be supplemented and new revenue allocations to be established to deliver a planned preventative maintenance programme. Left unaddressed this issue is likely to have significant issues for both service sustainability and health and safety considerations.

Outcome of Property Condition Surveys

1. Recommendations

- 1.1 That the committee:
 - 1.1.1 Supports addressing the identified service delivery and health and safety risks outlined in this report by endorsing the allocation of additional funding, both capital and revenue, to address backlog maintenance issues, to be taken into account in the Council budget setting process for 2018/19 and beyond; and
 - 1.1.2 Supports the allocation of an appropriate and recurring revenue budget to deliver a planned preventative maintenance programme for the future.

2. Background

- 2.1 Investment in maintenance for the Council's operational estate has been steadily decreasing over the last 15- 20 years. This lack of investment is now manifesting itself in failures of buildings. The condition of the operational estate has been reported to a number of Council executive committees over the past 4 years (listed in the background reading section), including regular updates to the Finance and Resources Committee, as part of the broader Asset Management Strategy.
- 2.2 The historic lack of up to date information on the condition of the estate has made it difficult to quantify the full extent of the backlog of maintenance requirements in recent years. In 2014, a new team of surveyors was established by the Council to undertake a 5-year rolling programme of condition surveys across the operational estate. This would have seen the complete estate surveyed by 2019. However, as part of the Asset Management Strategy approved by Finance and Resources in November 2015, it was considered essential to have a fuller understanding of the condition of the estate to underpin the strategy. In June 2016, the Finance and Resources Committee approved a full survey of the operational estate within 1 year. This survey of the operational estate was completed in September 2017 and the results have been analysed
- 2.3 The identified backlog maintenance is set within a context of increasing estate size. While the Asset Management Strategy (AMS) was predicated on an assumption that the estate would be rationalised into a smaller footprint, in reality the estate

size has been growing. Since 2015, when the AMS was approved, new build projects amounting to 65,000 sq. metres have been completed or will be completed by the end of this financial year. While around two thirds of this has replaced existing floorspace, analysis shows that the running costs of new floorspace are considerably higher than that of the buildings they have replaced. It is estimated that this additional floorspace has placed an additional budget pressure of £3.5m since 2015 on the existing cost of running and maintaining the new buildings.

3. Main report

- 3.1 The survey was conducted based on industry standards conforming to the Scottish Government methodology for surveying condition. This uses the 'Core Facts' methodology that the Scottish Government has devised for the school estate which is the subject of an annual return by the Council. The methodology scores a building on a scale of A-D, as described in Table 1 below. The methodology also considers external areas, and an overall score is also given for the whole site. Costs are identified for a five-year period, the most urgent being identified for year one. Any issues that were identified as needing immediate attention during the surveys were logged with the property helpdesk and made safe immediately.

Table 1: Description of Condition Scores

Condition Rating	Description
A	Good – Performing well and operating efficiently.
B	Satisfactory – Performing adequately but showing minor deterioration.
C	Poor – Showing major defects and/or not operating adequately; and
D	Bad – Economic life expired and/or risk of failure

- 3.2 The standard industry practice is that condition surveys are visual surveys only; they are not intrusive surveys. Where a surveyor considers that further investigation is required, e.g. signs of water damage, then a further, more detailed survey of that particular aspect may be recommended. These additional surveys may include, for example, a structural survey.
- 3.3 The condition survey established that the Council has around 560 operational buildings, of which 85.7% are in condition category A or B. Buildings in category C amount to 12.7%, and the remaining 1.6% are condition category D.
- 3.4 The results of the estate survey, along with a continued programme requirement of fire safety and water quality upgrades and committed projects, identified a required spend of £180m over five years. This figure excludes any funding requirements for St Johns Primary School and Queensferry High School, both currently subject to replacement, and St Katherine's Secure Unit, which is expected to be surplus to requirements. Looking forward over the next 5-year period, it has been assumed that 2 further high schools and a primary school will potentially be replaced, and that the depots estate will be renewed under a self-funding proposal. The effect of these assumptions is to potentially remove the need for £27m worth of backlog

maintenance costs, bringing the overall total of required expenditure down to £153m. Table 2 below illustrates the breakdown of this spend.

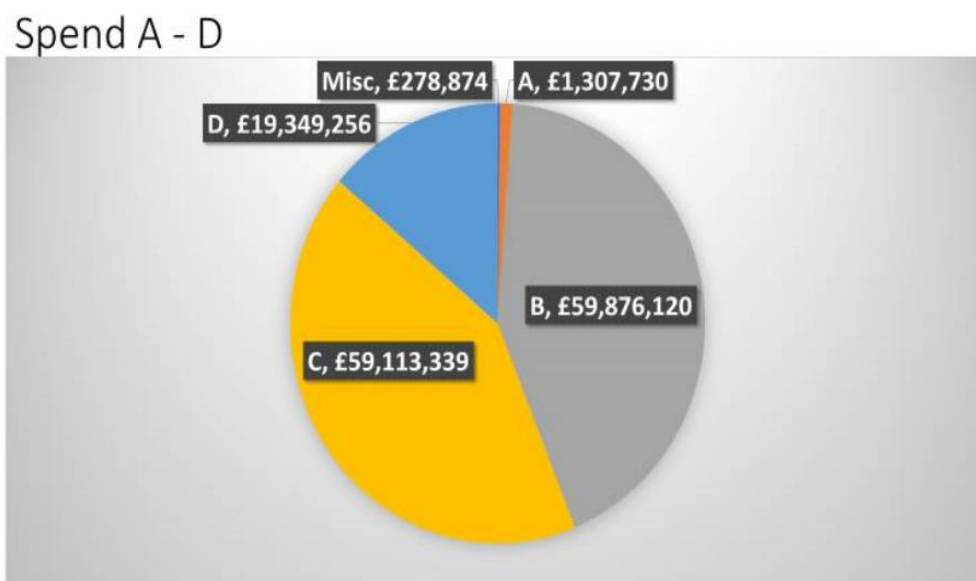
Table 2: Breakdown of Five Year Spend Requirement

Element	Cost
Total CEC backlog in survey (like for like replacement)	£123m
Allowance for inflation over five years	£7.5m
Edinburgh Leisure properties (inc inflation)	£12m
Known additional upgrade specification	£3m
5 year statutory compliance upgrade programme	£15m
Current committed projects	£20m
SUB TOTAL	£180.5 m
Buildings potentially replaced over 5 years	-£27m*
TOTAL SPEND REQUIRED	£153.5m

* Assumes 2 new Wave 4 high schools, 1 replacement primary school and depots estate replacement

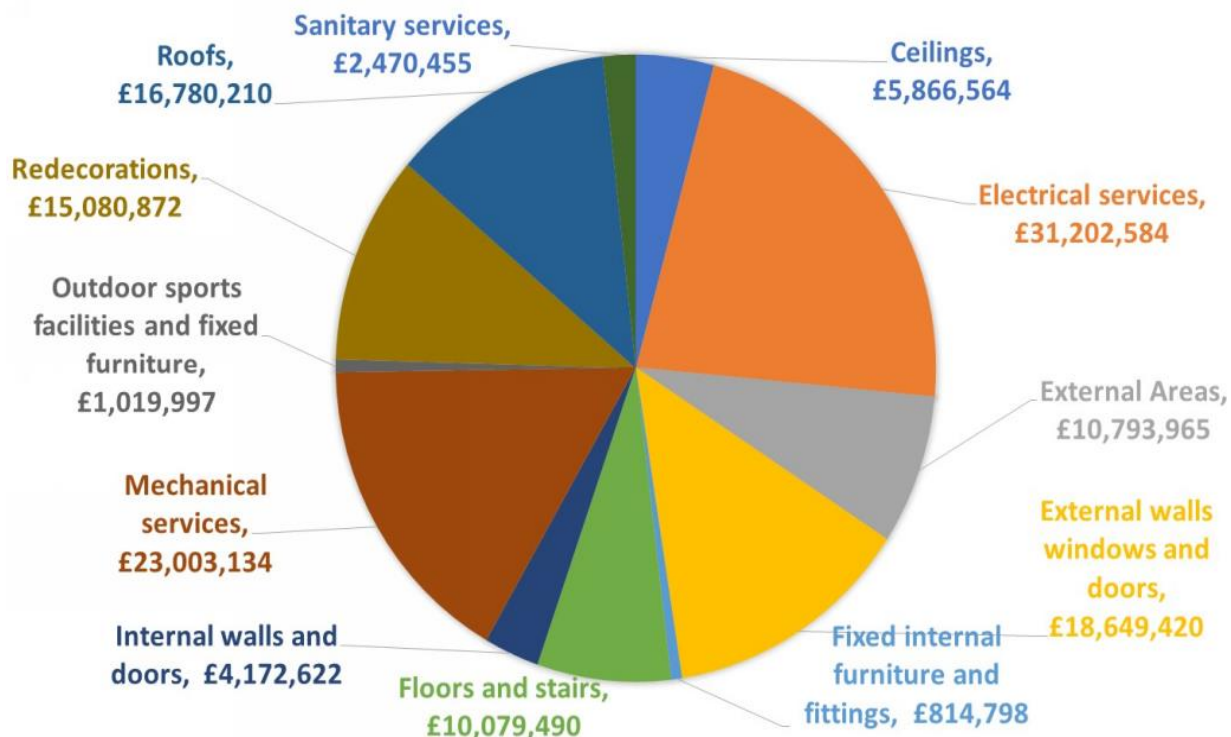
- 3.5 The estimated split between required capital and revenue spend has been based on 70/30 split between capital and revenue. This results in a required spend of £118.9m capital and £34.6m revenue (note that some of the elements in the table above are 100% capital). Where a capital project is approved, it is anticipated that any associated revenue spend would be incorporated within the wider upgrade spend, wherever possible. It should also be noted that the condition survey costs are based on a like for like replacement basis, and approved projects may take the opportunity to upgrade the fabric of the building, which will increase project costs.
- 3.6 The graph below demonstrates the split of required spend across the A-D categories. Of note is the substantial spend required in the estate currently rated B. If this is not addressed then the properties will decline into category C.

Graphic 1: Five Year Spend by Condition Grading A-D



3.7 The buildings are each scored on the basis of 12 elements, which are shown in the graph below. It also illustrates where the biggest elements of spend are required. Of note is the significant spend required for mechanical and electrical services. This element puts buildings at a high risk of closure, for example if a boiler fails.

Graphic 2: Five year Spend by Building Element



3.8 As there is currently insufficient funding to address the extent of the maintenance required, the Council currently reviews identified spend requirements against the priority ratings in Table 3 below when deciding upon the nature and urgency of the works required. These ratings are generally based on the type of work required and indicative timescales.

Table 3: Priority Ratings

Priority Rating	Description
1	Must Do (immediate) - To address essential H&S/ comply with law/ avoid service disruption
2	Should Do (within years 1 and 2) - To achieve/ maintain basic standards
3	Would Do (within years 3 to 5) - Desirable works If affordable

3.9 The condition and priority information subsequently feeds into an overarching prioritisation matrix that helps to inform strategic asset management decisions. This matrix is provided in Table 4 below.

Table 4: Work Priority Matrix

Priority of Buildings	Priority of Works		
	P1 (Immediate) Must Do	P2 (Yrs 1-2) Should Do	P3 (Yrs 3-5) Would Do
BP1			
BP2			
BP3			
BP4			
BP5			
BP6			

3.10 The prioritisation of the buildings takes into account the current status of the subject buildings, including the anticipated occupancy levels and whether the buildings are expected to be retained or disposed of. The current priority ratings applied in this respect are shown in Table 5 below.

Table 5: Building Priority

Priority of Buildings	
BP1	Operational buildings expected to be fully occupied in the long term
BP2	Operational buildings expected to be fully occupied in the medium term
BP3	Operational buildings currently under review
BP4	Operational structures (other than buildings) expected to be retained in the long-term
BP5	Operational structures (other than buildings) not expected to be retained in the long-term
BP6	Other property assets

3.11 Where the required spend exceeds the level of funding available, it is proposed that prioritisation criteria continues to be applied.

4. Measures of success

- 4.1 To achieve a safe, low risk, portfolio of operational property.
- 4.2 To increase the condition scoring of the whole operational estate to A or B.
- 4.3 To eliminate the current backlog of maintenance.
- 4.4 To put in place an annual planned preventative maintenance programme and an annual programme of capital upgrade.

5. Financial impact

- 5.1 The Council currently has an annual capital programme for building upgrades of £14m per annum (reduced from £20m in 2015). As this has not been sufficient to accommodate the known extent of the backlog, it has been prioritised on the basis of addressing health and safety issues, wind and watertight issues, and ensuring buildings remain operational (e.g. boiler replacements). Over the next 5 years, this budget would be able to contribute £70m to the required capital spend.
- 5.2 With regard to revenue funding, the Council has had no programme of planned maintenance. The revenue budget, generally standing at around £9m pa, is fully utilised in ensuring statutory compliance checks are fulfilled, and addressing reactive maintenance issues. For 2017/18, a one-off additional revenue of £2m was made available as part of the budget setting process, which allowed a small programme of planned maintenance to take place for this year only. Industry standards recommend that maintenance is undertaken on a 70% planned, 30% reactive basis which is the most efficient use of resources; early intervention in a planned way avoids expensive issues building up over time which eventually need a far more expensive solution to resolve. The years of underspend on the estate is now manifesting itself in the need for expensive solutions to address the backlog.
- 5.3 The annual financial implication of addressing the backlog emerging from the surveys is set out in the tables below. While a significant level of spend has been identified as being required for year 1, it is unlikely to be feasible to deliver this level of spend in 2018/19, to allow sufficient time to mobilise designs, secure statutory consents and procure the necessary works. In addition, additional internal resources and external contractor capacity to undertake this level of work also has to be taken into account. Accordingly, the outputs of the survey have been re-profiled to reflect a mobilisation period. It should also be noted that in order to realistically tackle this level of backlog maintenance, upgrade works will have to be undertaken throughout the year. School works will not be able to be contained purely within the holiday periods.

Table 6: Required Capital Spend (£ms) Determined by Condition Surveys

Year 1	Year 2	Year 3	Year 4	Year 5
2018/19	2019/20	2020/21	2021/22	2022/23
36.6	28.7	15.5	19.0	19.1

Table 7: Reprofiled Capital Spend (£ms) to Facilitate Mobilisation

2018/19	2019/20	2020/21	2021/22	2022/23
18.00	30.00	30.00	20.45	20.45

Table 8: Required Revenue Spend (£ms) Determined by Condition Surveys

2018/19	2019/20	2020/21	2021/22	2022/23
8.1	7.5	5.0	7.0	7.0

- 5.4 Should insufficient funding be available to tackle the entire backlog, Council officers will continue to manage the programme of upgrade works based on the prioritisation criteria set out earlier in this report.
- 5.5 Tackling the backlog maintenance is not a 'one and done' solution. While elements of the estate will be upgraded, other elements will continue to deteriorate. Accordingly, there continues to be a need for a programme of life cycle maintenance in the long term. The most important element of this is the introduction of a revenue planned preventative maintenance programme.
- 5.6 The introduction of new buildings with more sophisticated mechanical and electrical systems, particularly in the schools' estate, will very quickly deteriorate if this remains unaddressed. The major changes in the school estate over the last 15 years have principally been undertaken under PPP and DBFM contracts which make provision for life cycle maintenance. However, as the Council moves towards self-funding more of its asset requirements, this element remains unfunded and will lead to a rapid deterioration of the Council's new assets if unaddressed.
- 5.7 The Asset Management Strategy previously identified that an estate of this size should have a revenue maintenance budget of £20m pa to cover statutory compliance, planned and reactive maintenance.

6. Risk, policy, compliance and governance impact

- 6.1 There are significant health and safety and service delivery failure implications of not addressing the backlog maintenance, and of having no annual planned preventative maintenance programme.
- 6.2 There is an expectation by the Scottish Government that all school buildings are brought to up condition A or B. The condition of all of the Council's schools is reported to the Scottish Government on an annual basis.

7. Equalities impact

- 7.1 The potential failure of the Council's operational estate – such as schools or care homes – would impact on some of the city's most vulnerable groups. A planned programme of investment would help mitigate that risk.

8. Sustainability impact

- 8.1 The current programme of building upgrade makes provision to increase the Council's energy efficiency through, for example, increasing insulation when roof upgrades are undertaken, replacing windows with double glazed units, and installing more efficient heating systems. Additional funding to eliminate the backlog maintenance would allow greater roll out of these sustainable measures.

9. Consultation and engagement

- 9.1 Briefings have been provided on this issue to each political group.

10. Background reading/external references

- 10.1 Scottish Government's Core Facts Methodology (revised guidance issued November 2017), at the following link:
<http://www.gov.scot/Publications/2017/11/6599>
- 10.2 Previous committee reports as follows:
- Education, Children and Families Committee - [10/12/13](#) and [4/3/14](#)
 - Finance and Resources Committee - [20/3/14](#), [24/9/15](#), [26/11/15](#), [14/1/16](#), [9/6/16](#), [29/9/16](#), [23/2/17](#), [5/9/17](#)
 - [Corporate Policy and Strategy Committee](#) – 12/05/15
 - [Governance, Risk and Best Value Committee](#) – 22/05/14

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11. Appendices

None.