

Finance and Resources Committee

10.00am, Thursday, 23 May 2019

Changes to the Operational Property Estate: Lifecycle Costs Forecast

Item number	7.18
Executive/routine	
Wards	All
Council Commitments	

1. Recommendations

1.1 That Committee:

- 1.1.1 Notes the current and forecast revenue cost increases associated with new buildings identified in this report;
- 1.1.2 Notes that provision has been included within the Council's financial framework in respect of additional early years, rising pupil rolls, Wave 4 schools and Local Development Plan-related premises running cost expenditure;
- 1.1.3 Notes that the additional revenue cost implications of new, modified or replacement Council properties will continue to be considered as part of all material changes to the corporate estate; and
- 1.1.4 Refers this report to the Education, Children and Families Committee for its information given the scale of the implications generated by this sector of the estate.

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Changes to the Operational Property Estate: Lifecycle Costs Forecast

2. Executive Summary

- 2.1 Every change to the Council's operational property portfolio has implications for the construction and running costs for that property over its lifetime. The size of the Council's operational estate is increasing significantly and this is putting pressure on revenue budgets to accommodate these lifecycle costs. This report summarises the overall change since the Council approved its Asset Management Strategy in 2015 and forecasts the ongoing anticipated change to 2022 and notes the funding currently included within the Council's budget framework to recognise these pressures.

3. Background

- 3.1 The Council's Asset Management Strategy (AMS), approved in 2015, was predicated on a decreasing estate size, as the current size is unsustainable within current budgets. However, since that time the estate has continued to increase in size to reflect the city's increasing demographics, and also to update the estate with modern, fit for purpose buildings. This increase is forecast to continue, particularly with the Local Development Plan generating significant pressure on assets, necessitating additional infrastructure to serve it. Conversely, there are very few building closures being pursued.
- 3.2 Traditionally, the Council has focussed more on the capital cost of new build, rather than fully understanding the revenue costs of running the building once complete. Lifecycle analysis shows that the property cost of running a building over its lifetime can be around five times the cost of building it, so it is crucial that this is considered and budgeted for at the outset of every project. This more holistic approach was utilised fully for the first time as part of the Finance and Resources Committee's consideration (and subsequent approval) of the capital and revenue implications arising from the replacement Queensferry High School on 27 March 2018.

4. Main report

- 4.1 Property lifecycle costs refer to the costs of running a building; cleaning, utilities, maintenance, non-domestic rates, janitorial and catering costs (if appropriate). In

addition to property costs, there will also be costs associated with service delivery from that building, for example teachers, management and administration costs for a school. This report is limited to considering property costs.

- 4.2 Some buildings are entirely new to the estate, such as new schools and rising school rolls projects to support the LDP. Other buildings are replacements for older buildings, and the net effect of their replacement is also considered. Replacement buildings should be more thermally efficient, which should have a positive impact on utilities costs. However, they often have far more complex mechanical and ventilation systems, which improves user comfort, but increases utilities and maintenance costs. Even the building's orientation can have implications. The impact of the solutions chosen during the design development needs to be tested to understand the implications for lifecycle costs. It may be that a more adventurous life cycle solution will increase capital costs upfront. The principles of Passivhaus, for example, should see a significant reduction in running costs, but may increase capital costs. There may also be conflict between the principles of sustainability and running costs; options which reduce the carbon footprint may increase running costs. Both of these issues are currently being explored moving forward.
- 4.3 Non-domestic rates (NDR) also have a big impact on running costs. Typically, NDR levels in Council buildings reflect obsolescence, i.e., building age. This means that where an older, life expired building is replaced with a new one, it inevitably creates a disproportionate increase in costs. Following implementation of the majority of recommendations made by the Barclay Review on Non-Domestic Rates, standalone nurseries are exempt from NDR for an initial three-year period. Properties managed by charities, such as community centres managed by management committees, are also exempt. Going forward, however, the monetary value of this arm's length body relief will be maintained at November 2017 levels, subject to inflationary and other changes in the business rates poundage.
- 4.4 Appendix 1 illustrates the extent of the new floorspace delivered since November 2015, when AMS was introduced. This shows nearly 72,000m² of new unfunded floorspace delivered over a three-year period. A number of these buildings were replacements, and the total net budget effect of this new floorspace has been estimated at £1.53m per annum.
- 4.5 Appendix 2 illustrates there is significant new floorspace proposed between now and 2022, amounting to nearly 82,000m². This comprises future school extensions to accommodate rising rolls, Local Development Plan primary school requirements, replacement schools from the end of the Wave 3 programme and the start of the Wave 4 programme, replacement of Queensferry High School, a potential new care home and the small net effect of the review of the depots estate. In addition, there are new early years facilities proposed throughout the city, but it is assumed that these will be funded by Scottish Government funding for the expansion of places to 1140 hours. The net effect of this future programme of build is anticipated to be an additional £3.54m per annum in property lifecycle costs, at 2018 prices.

5. Next Steps

- 5.1 Finance and Resources Committee approved, in March 2018, that all new projects must report their revenue implications to the Committee in advance of project approval. Each new project will therefore continue to require a report to be brought before this committee at the appropriate time.

6. Financial impact

- 6.1 The estimated net financial impact of the new floorspace is set out in the table below. The pre-2020 figure comprises pressures covering cleaning, repairs and maintenance, catering and janitorial costs between November 2015 and 2018, amounting to £910,000, plus the full forecast pressures in 2019/20 of £237,000. It assumes that uplifts in NDR poundage levels and utilities costs were recognised in the budget for those years, which reflects the reduction from the £1.53m in paragraph 4.4. These pressures have thus far been managed within the context of the Resources Directorate overall budget allocation, but given the extent of the anticipated forward increases, this position is not financially sustainable, given other pressures to reduce revenue expenditure.
- 6.2 The figures in the table below represent full year operating costs and will be further refined for each financial year once establishment opening dates and partial year effects are known. The figures reflect inflation and the anticipated increase in NDR poundage levels and rising utilities costs. These figures reflect new floorspace and are in addition to the increases in the budget required to reflect the increase in poundage and increasing utilities costs for the existing estate. The additional revenue required for the replacement Queensferry High School has already been factored into future revenue budgets, as set in the report to Committee in March 2018 and is therefore excluded from the figures below.

Year	Pre 2020	2020 £000s	2021 £000s	2022 £000s	TOTAL £000s
Additional net revenue requirement	£1,147	£446	£1,195	£1,713	£4,501

- 6.3 Opportunities to rationalise and consolidate the estate as a whole will, wherever appropriate and practicable, continue to be actively explored. In acknowledging the need to provide for the additional revenue cost implications of certain demand- and condition-led replacements and new-builds such as those listed in Appendix 2, however, further property running cost funding has been included within the budget framework to reflect:

- (i) rising school rolls;
- (ii) the Wave Four schools programme; and

(iii) additional, or expanded, facilities linked to the Local Development Plan.

6.4 At this stage, based on the appended cost projections and other non-premises cost-related expenditure estimates linked to the above factors, this level of provision made is sufficient to meet, in full, these additional costs. Given wider budgetary challenges facing the Council in the coming years, however, each case for funding will continue to be considered on its merits in order to strike an appropriate and sustainable balance between capital and revenue expenditure over the building's lifetime.

7. Stakeholder/Community Impact

7.1 This report has been developed with the input of the Communities and Families Directorate, the main source of the additional floorspace within the operational estate of the Council.

7.2 This report has no direct impact on the Equality Act 2010 or the Climate Change (Scotland) Act 2009; each of the projects listed will assess their impact individually as part of their approval process.

8. Background reading/external references

8.1 A previous report to this committee in March 2018 [Property condition project](#) instructed that all new capital projects should report their lifecycle implications to this committee for approval.

9. Appendices

Appendix 1: New Floorspace 2015 – 2019

Appendix 2: Forecast New Floorspace 2019 - 2022

APPENDIX 1

NEW BUILDING FLOORSPACE: NOVEMBER 2015 - DECEMBER 2018

Project	Completion	Gross Internal Floor Area M2	Total
Blackhall PS New Gym Hall		289	£19,768
Duddingston PS New Nursery	13-Aug-15	331	£22,640
Fox Covert PS New Nursery	13-Aug-15	508	£34,747
Wardie PS New Nursery	12-Aug-15	261	£17,852
Clermiston PS New classroom	14-Aug-15	404	£27,634
Flora Stevenson PS New classroom	12-Aug-15	281	£19,220
James Gillespie's PS New classroom	13-Aug-15	404	£27,634
Pentland PS New classroom	12-Aug-15	271	£18,536
Ratho PS New classroom	14-Aug-15	404	£27,634
Kirkliston PS Gym/Dining Hall	20-Oct-15	1685	£115,254
Wardie PS New classroom	12-Aug-15	271	£18,536
Gilmerton PS New classroom	14-Aug-15	436	£29,822
Deanbank Annex Refurbishment	14-Aug-15	No change	
Wester Hailes Underpass	20-Nov-15		
James Gillespie's Campus (new High School works)	20-Oct-15	14,757	£924,934
Liberton HS Gym extension (replacement)	24-Oct-16	835	£53,050
Cramond PS (GYM)	21-Oct-16	308	£21,067
East Craigs PS (GYM)	14-Oct-16	282	£19,289
Sciennes PS (Dining Hall)	19-Sep-16	150	£10,260
Towerbank PS (Dining hall)	14-Oct-16	128	£8,755

Heathervale YPC (New Build)	05-Aug-16	530	£33,500
Seafield Depot Phase 1	13-Feb-17	1535	£104,994
			£-00
RSR 4 East Craigs PS New build 3 classroom	Aug-16	271	£18,536
RSR4 Fox Covert PS New build 4 classroom	Aug-16	456	£31,190
RSR 4 St Mary's PS Leith New build 2 classroom	Nov-16	186	£12,722
Royston Care Home	Sep-16	4948	£287,576
Portobello HS	Oct-16	17317	£1,086,454
Corstorphine PS new nursery	15-Aug-17	310	£20,052
Davidson Mains new nursery	15-Aug-17	435	£28,570
Ferryhill new nursery	15-Aug-17	435	£29,754
Granton new nursery	11-Sep-17	620	£41,000
Longstone PS new nursery	15-Aug-17	360	£23,472
Bruntsfield PS	15-Aug-17	No change to GIFA, existing area refurbished	
Ferryhill PS	07-Aug-17	No change to GIFA, existing area refurbished	
RSR5 Corstorphine PS new store and GP rooms above dining hall Mezzanine	11-Aug-17	100	£6,840
RSR5 Liberton PS new build – 4 classrooms	11-Aug-17	456	£31,190
RSR5 St Margaret's RC PS Gym Hall, storage, changing rooms and circulation	15-Aug-17	302	£20,657
Buckstone PS Assembly Hall and storage	Jan-18	200	£13,680
New Boroughmuir High School	Feb-18	13,506	£866,572
Leith PS gym hall and nursery	Mar-18	848	£55,136
Davidson's Mains PS 8 classrooms	Aug-18	761	£52,052
Granton PS 2 classrooms	Aug-18	185	£12,654
Stockbridge PS s classrooms	Aug-18	151	£10,328

Trinity PS 2 classrooms	Aug-18	192	£13,133
Currie PS 4 classrooms	Aug-18	333	£22,777
Clermiston PS 2 classrooms modular unit	Aug-18	179	£12,244
Cramond PS 2 classrooms modular unit	Aug-18	149	£10,192
James Gillespie's PS 4 classrooms	Aug-18	358	£23,348
Newcraighall PS 3 classrooms	Aug-18	238	£15,140
Victoria PS 2 classrooms - modular unit	Aug-18	179	£12,244
St Johns PS	Aug-18	3794	£244,828
Tynecastle Nursery (by Hearts FC)	Oct-18	471	£19,027
TOTAL		71810	£4,557,469
EXISTING REVENUE FUNDING FOR REPLACEMENT BUILDINGS			- £3,025,000
NET INCREASE			£1,532,469

NOTES

1. Shaded entries indicate replacement buildings; note that most of these new buildings are larger than the ones they replaced, and their systems are far more sophisticated which improves environmental comfort, but are more expensive to run.
2. Forecast running costs are based on industry standard lifecycle costs and include utilities, soft FM (such as cleaning and waste management), repairs and maintenance, redecoration, life cycle replacement, grounds maintenance and non-domestic rates.
3. Estimate of existing budgets as some replacements only replace part of an existing building.
4. Assumes pro rata change to janitorial costs for additional floorspace, based on 1 FTE additional resource will be required for new primary schools

APPENDIX 2

FORECAST NEW FLOORSPACE JAN 2019 - AUG 2022									
PROJECT	Completion Year	Floorspace	Utilities £13.7/m2	Rates £25/m2	Cleaning £17/m2	R&M £6.3/m2	Janitorial net change	Catering net change	Total
Rising rolls	2019- 2021	8,689	£119,039	£217,225	£147,713	£54,741	£55,610	£51,452	£645,780
Queensferry PS 4 classroom extension	2019	420	£5,754	£10,500	£7,140	£2,646	£2,688	£34,200	£62,928
Kirkliston PS 4 classroom modular	2019	358	£4,905	£8,950	£6,086	£2,255	£2,291	£15,200	£39,687
Sighthill PS - nursery TU relocation	2019	276	£3,781	£-00	£4,692	£1,739	£1,766	£15,200	£27,178
St Cuthberts PS - nursery TU relocation	2019	180	£2,466	£-00	£3,060	£1,134	£1,152	£15,200	£23,012
Queensferry High School	2020	14,185	£194,335	£354,625	£241,145	£89,366	£25,600	£10,000	£915,070
St Crispin's Special School	2020	3,732	£51,128	£93,300	£63,444	£23,512	£10,880	£10,000	£252,264
Oxgangs YPC	2020	530	£7,261	£13,250	£9,010	£3,339	£640	-	£33,500
Craigmillar HS	2021	8,400	£115,080	£210,000	£142,800	£52,920	-£25,600	£10,000	£505,200
Trinity HS	2022	14,000	£191,800	£350,000	£238,000	£88,200	£25,600	£10,000	£903,600
Broomhills	2021	3,829	£52,457	£95,725	£65,093	£24,123	£25,000	£73,000	£335,398
Canaan Lane	2021	3,829	£52,457	£95,725	£65,093	£24,123	£25,000	£73,000	£335,398
Leith Western Harbour	2021	3,829	£52,457	£95,725	£65,093	£24,123	£12,800	£73,000	£323,198
Brunstane	2022	3,001	£41,114	£75,025	£51,017	£18,906	£9,600	£73,000	£268,662
Maybury	2022	3,829	£52,457	£95,725	£65,093	£24,123	£25,000	£73,000	£335,398
Builyeon Road SQ	2022	3,829	£52,457	£95,725	£65,093	£24,123	£25,000	£73,000	£335,398
St Catherine's	2022	3,554	£48,690	£88,850	£60,418	£22,390	£22,746	£15,200	£258,294
Care Home	2022	4,207	£57,636	£105,175	£71,519	£26,504	£26,925	-	£287,759
Depots Estate	2020	940	£12,878	£23,500	£15,980	£5,922	£6,016	-	£64,296
TOTAL		81,617	£1,118,153	£2,029,025	£1,387,489	£514,187	£278,714	-	£5,952,020
Existing budget			-£471,000	-£633,000	-£702,000	-£611,000	£-00	£-00	-£2,417,000
Net change			£647,153	£1,396,025	£685,489	-£96,813	£278,714	£624,452	£3,535,020