

19 May 2014**Agenda Item: 8****REPORT OF SERVICE DIRECTOR TRANSPORT, PROPERTY &
ENVIRONMENT****REPAIRS AND MAINTENANCE****Purpose of the Report**

1. This report provides members with an overview on the condition of the property estate; outlines the need for a repairs and maintenance plan and makes recommendations for interim targets for expenditure on property pending the development of a new corporate plan for the property estate.

Information and AdvicePurpose of a Repairs and Maintenance Plan

2. To provide an understanding of:-
 - the condition of the property portfolio
 - the future trend for back-log maintenance
 - the gap between budget provision and repairs and maintenance need and to consider
 - what level of condition for the property estate is sustainable
 - implications for strategic asset management planning
3. The condition of the property portfolio is monitored by undertaking a 5 year rolling programme of condition surveys, which seeks to survey approximately 20% of the estate annually. This is in accordance with the Royal Institution of Chartered Surveyors (RICS) established guidance and practice. It should be noted this is a snap shot in time of the estate and it will be appreciated that between surveys, the condition of the stock continues to deteriorate which in some cases is balanced by works of repair, improvement and replacement being undertaken. In providing future information on the back-log of repairs and maintenance, estimates will be made to take account of any expenditure undertaken that may mitigate back-log maintenance in between surveys.
4. An accurate understanding of the condition of the property estate is a fundamental element within an over- arching strategic asset management plan. In recognition of this, a review of current condition surveys was undertaken. As required new surveys were commissioned between August and December, 2013 which involved either a desk top review or a full resurvey on site. In total 223 properties were

resurveyed.

5. It is important to highlight this repair and maintenance plan is focusing on the non-school estate, although it does include historic data on schools to provide a broad perspective of the estate. Due to the on-going capital refurbishment works that are taking place on Schools, a separate exercise will be conducted on this asset category when the current programme of works are completed in 2016/17 .

Measuring Condition

6. NCC has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) RICS guidance in categorising buildings and their elements when performing condition surveys. A rating assessment is used as follows: -

Condition Rating	
A	Good - Performing as intended 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.

Priority Rating	
P1	Urgent work that will prevent immediate closure of premises and/or remedy a serious breach of legislation and/or high risk to health and safety.
P2	Essential works required within two years that will prevent serious deterioration of fabric or service and/or remedy to minor breaches of legislation and/or minor risks to health & safety.
P3	Desirable work required within 3 to 5 years that will prevent deterioration of fabric or service and/or address a low risk minor breach of legislation and/or minor risks to health & safety.
P4	Planned work for replacement beyond 5 years

Repairs and Maintenance Budget and Expenditure

7. The Repairs and Maintenance (R & M) budget consists of two elements revenue and capital which combined equates to £7.4m per annum (2014/15). Due to budget savings this amount will be reduced by £0.519m by 2016/17.
8. Deducted from this combined sum is an allocation to cover general servicing of plant and equipment that is required to meet health and safety requirements and to ensure the continued efficient operation of the estate. The remaining sum of £6.22m (of which £1m is presently used to support SCRP) is available for tackling back-log maintenance. In reality the majority is spent on remedial works associated with preventing fire risks and Legionella or otherwise designated as priority 1 works **This budget represents Planned Maintenance** although an element of this sum approximately £1m (17 %) is utilised for unforeseen events **Reactive Maintenance**.

9. In addition there are repair budgets that are not managed by the Property Group due to the Corporate Landlord arrangements at the County Council. Departments are responsible for day to day maintenance as a Tenant. The Property Group does not monitor this expenditure and only an imprecise estimate can be made based on financial budget allocations that may underestimate the level of expenditure as other budgets are used to supplement works. During 2013/14 the level of expenditure is estimated at approximately £4.5m a high proportion of this work can be assumed to represent **Reactive Maintenance**.

Summary

Planned repair and Maintenance spend (non-Schools)		
	Planned	Reactive
Property Group Repair and Maintenance Budget	£6.22m	£1m
Departmental spend		£4.5m
Total	£ 6.22m	£5.5m

10. RICS guidance is to achieve a ratio of planned to reactive maintenance of 70:30 to provide for a more effective targeting of expenditure. Although the above figures are general estimates it is clear the NCC ratio contains a high element of reactive repairs.

A Profile of Condition Back- Log

11. Adopting the National Property Performance Management Initiative indicators (NaPPMI) advocated by CIPFA, the overall condition of the estate is outlined as below and detailed in appendix 1.0

Property Condition based on Cost (Table 1a)

12. The bulk of NCC property is identified within condition categories B & C
When including schools the profile shows an increased improvement with a bias towards category B.
13. The overall back- log cost of the non- school estate represents a relatively small proportion of overall back-log around 25% of overall back- log cost.
14. Removing categories A by assuming no expenditure would be targeted on already good performing buildings and removing category D by assuming over time these buildings could be sold then back-log cost reduces by approximately £2.6m or just over 6% and if schools are included, by just over £15m. ***This action alone will not significantly reduce the condition back-log.***

Property Condition based on Floor Area (Table 1b)

15. This table reveals surprisingly a predominance of category A properties within the corporate estate (36%). Including schools provides a more even spread of condition across the portfolio in each category condition. Compared to a CIPFA benchmark

average* a typical profile would show a significant predominance of category B properties at 53%. ***This result suggests that expenditure is not being spread evenly across the estate with no targeted focus on particular categories of condition.***

Property Condition based on Priority (Table 2)

16. Predominantly NCC property is within the optimal priority 3 category, yet of concern is that 14% of cost is within priority 1 equating to circa £5.6m. Including all Properties the priority 1 figure increases to 19% and £26m.
17. Compared with CIPFA benchmarking information* that is available the average priority 1 figure is around 10% with a higher priority 2 figure of around 40%.
These results may suggest that we are incorrectly targeting our expenditure concentrating too much expenditure on priority 3s.

Property Condition - Average cost based on floor area (Table 3)

18. As will be noted currently the cost of back-log maintenance when compared to floor area equates to £204/sqm increasing to £247/sqm when school properties are included. This compares to the benchmarked CIPFA average of around £130/sqm.
The cost of NCC back-log maintenance is 90% higher.

Conclusions

19. At present given the size of the estate, budgets available and how the budget is used, ***the portfolio is unsustainable.*** There will be a continuing decline in the property condition with ***greater reliance on reactive spend*** to keep the premises operating. NCC is spending approximately 5%(R&M budget/overall back-log) of monies compared to need on tackling the issue compared to a benchmarked CIPFA average of 17%. While this ratio is variable depending on how it is calculated the percentage spend is quite clearly low compared to need.
20. The method of spend seems unfocused except on addressing health and safety issues. It does not adequately seek to ration the limited sums of monies available to achieve a particular target condition.
21. The R & M budget managed by the property group is insufficient to maintain the current estate. However, if other departmental expenditure is included the amount actually being spent on property is almost doubled. This additional expenditure is not corporately managed and will as a result address departmental need as opposed to corporate need.

Options

22. It is apparent that the current R & M budget provision with or without the Schools included is insufficient to tackle the back-log repairs that are faced. The situation is improved if departmental budgets are included in the calculation although the estate will still remain unsustainable. It is acknowledged that the significant capital investment into schools has yet to feed through fully into these results and this will improve the overall position yet will not resolve the primary back-log maintenance issue that NCC faces. Given the current challenging budgetary pressures, there is

unlikely to be any internal growth in funding, in the foreseeable future. The assumption should be at best that R& M provision remains constant. With this variable fixed there are three broad options available to the County Council:-

- Option A : Reduce the quantity of the property portfolio generally
- Option B: Identify an appropriate property condition. This will target expenditure more effectively and when combined with suitability modelling identify those assets that should be sold.
- Option C: Source external methods of funding to supplement current provision (this includes asset sharing).

Consideration of Option A

23. The size of the property portfolio is generally a strategic asset management planning issue, reflecting corporate needs and aspirations; service delivery requirements and budgetary provision. As such it draws together a number of policy and strategy decisions and objectives to provide an overall focus for management of the property estate in the long term. Option B is interlinked with this strategic decision. It is recommended that the condition of the estate should be one of the primary supporting documents which steers the strategic AMP.
24. At present the Council is responding to the need for budgetary cuts and is actively examining how Services are best delivered. Once this exercise is concluded this will provide the necessary steer for determining the type and quantity of accommodation and its location. Until this steer is available it is important the Council has an interim plan for managing repairs and maintenance.

Consideration of Option B

25. The table below outlines the combination of the property condition and priority for repair for the estate excluding schools. As will be noted, a number of assets are categorised as A or B, P1, P2... Given the current financial challenges this standard of property condition may be unsustainable. Depending on the type of property condition selected will determine the level of funding required to maintain that condition.

	P1	P2	P3	P4
A	8,107	23,252	215,942	157,368
B	175,831	1,245,399	19,393,005	1,178,556
C	3,316,536	12,414,655	1,107,673	8,666
D	2,137,597	28,419	14,667	4,840

26. Predominantly organisations seek not to achieve an A rated standard and opt for a typical category of B3. If this was selected for the NCC property portfolio then expenditure would be targeted *initially* to those condition categories falling within C & D 1 & 2. As resources permit this could eventually be extended to B1 & B2 works.
27. It is recommended that if category B priority 3 is approved as the interim targeted property condition, then any requirements to maintain to a higher standard would

need additional funding that would form the subject of capital or revenue bids submitted by the Corporate Tenant and initially scrutinised by the Corporate Asset Management Group (CAMG). Similarly, proposals not to maintain an asset to this overall standard would require the approval of CAMG.

28. To support this type of targeted approach to property maintenance, the property group is rolling out a corporate wide suitability model. While suitability modelling is not new to NCC, it has not been used consistently in the past or directly related to repairs and maintenance. Suitability will help identify under-performing assets and provide guidance on why an asset is under-performing. The suitability model has been designed in a manner that provides for a repair and maintenance assessment. Property decision makers will be able to combine an R & M strategy objective very easily with a suitability assessment to provide clear guidance on whether to expend monies on a particular asset. It is proposed that the **category B standard should only be applied to properties that are classed as suitable or mainly suitable**. Properties that are below this standard should have minimal work undertaken to maintain their operational capability, effectively critical health and safety works and work that would keep the property 'wind and water tight' This prioritisation of spend to be maintained until the future of the property has been considered and either additional investment is approved or the property is to be sold. This is to avoid expenditure occurring on property that cannot be made suitable for service use or is likely to be sold in the near future, potentially representing wasted expenditure.

Consideration of Option C

29. Alternative means of funding may be achieved as required via external grants or via the consideration of alternative means of usage and management. As an example additional asset sharing with other partners should provide a contribution to the outgoings associated with the building including repairs and maintenance which has recently been evidenced by the sharing of Sir John Robinson House with Gedling Borough Council. Sale and leaseback arrangements could be considered whereby the freehold of the asset is sold in return for the long term lease of the property on conditions that removed repair and maintenance liability. These types of considerations are best addressed through the AMP.
30. As per the statement under option A, first consideration should be the standard of property condition that is required. The subsequent strategic asset management plan should outline among other issues how that condition is delivered.

Other Options Considered

31. An internal audit report on the management of the Council's property estate dated December, 2013 identified deficiencies in NCC asset management planning processes. It is worth highlighting that the audit report was published after the property group had embarked on re-introducing good asset management planning principles within NCC. The failure to agree an R & M plan would primarily increase risk that expenditure is not being targeted where it is most needed and also would not align with Audit recommendations and good practice guidance.
32. The R & M strategy could be delayed until corporate decisions are made that help shape the future of the property estate. This will out of necessity take time to

conclude. To avoid any potential wasted expenditure on properties that may be unsuitable for service provision it is beneficial to have an interim plan approved that can be reviewed once a corporate AMP is developed.

Reason/s for Recommendation/s

33. To provide interim targets for focused repair and maintenance expenditure and suggested means of pooling financial budgets to maximise expenditure.

Statutory and Policy Implications

34. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That a Condition category B3 is adopted for the corporate non-school estate as a whole.
- 2) That requests to vary from the B3 target should require the prior approval of CAMG.
- 3) That properties classed as unsuitable should have minimal works undertaken as outlined in the report.
- 4) That Departmental property budgets which are used for the repair and maintenance of premises are identified annually and expenditure which is of a non-reactive/emergency nature is first approved by the Property Group to ensure expenditure aligns with the B3 target and can be justified via suitability results.
- 5) That to support recommendations 1-3 that a target ratio of 70:30 for planned/reactive maintenance should be set.
- 6) That this Repair and Maintenance Plan is reviewed when a new corporate asset management plan is prepared.

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For any enquiries about this report please contact: Andrew Stevens

Constitutional Comments (CEH 09.05.14)

35. The recommendations fall within the remit of the Finance and Property Committee. Any future/new Asset Management Plan will need to be recommended to Council.

Financial Comments (TR 23/4/2014)

36. The financial implications are set out in the report.

Background Papers and Published Documents

37. None

Electoral Division(s) and Member(s) Affected

38. All

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Properties affected: 09998 - Various NCC Properties/non-property item