

Leicester
City Council

**WARDS AFFECTED:
ALL WARDS**

**CORPORATE DIRECTORS' BOARD
CABINET**

**2 DECEMBER 2003
15 DECEMBER 2003**

COUNCIL ACCOMMODATION AND PROPERTY MAINTENANCE

Report of the Corporate Director of Resources, Access and Diversity

1. Purpose of Report

- 1.1 To draw the Cabinet's attention to the implications of significant premises issues which have come to a head in recent months.
- 1.2 To seek support for the investigation of radical solutions through a property efficiency review.

2. Summary

The report identifies the need for greater expenditure on maintenance for all the Council's operational property. It proposes the preparation of a premises strategy, and the undertaking of a property efficiency review including exploration of whether a new headquarters building (to replace the ageing New Walk Centre) would be a sustainable and cost effective solution.

3. Recommendations

Cabinet is recommended to:

- 3.1 Approve the principles in para 1.19 which are to be delivered through the aims of the efficiency review in para 1.16, as referred to in the Supporting Information to this report.
- 3.2 Note the potential revenue and capital implications arising from the proposals within the report and the implications arising from the Government's new financial prudential framework.
- 3.3 That the additional budgetary provision for property maintenance (paragraph 1.4 of the Supporting Information) be considered in formulating the Council's budgets.
- 3.4 That £500,000 of capital receipts from relevant disposals be added to the Property Rationalisation Fund to pump prime the review.

4. Financial Implications (Mark Noble)

- 4.1 The recommendations in this report have both revenue and capital implications in that they anticipate increases in the current budget/capital programme provisions.
- 4.2 It is anticipated that the Government's new prudential framework will abolish the current system of controls on capital expenditure. There are 2 implications:
- (a) capital investment can be increased if it is "*prudent, affordable and sustainable*". We have yet to establish a framework for determining how such a test will be applied.
 - (b) more creative "*deals*", such as sale and leaseback, which were previously restricted may become feasible (again subject to the offers being "*prudent, affordable, and sustainable*").
- 4.3 Notwithstanding the abolition of capital controls, it is expected that the Government will not increase revenue support for capital spending. Thus any new capital investment will require additional revenue to be found to pay for the principal repayments and interest. At current interest rates it is estimated that £9m of capital spending would cost £0.7m per year in additional revenue (equivalent to 1% of council tax). There is no provision in current budget plans for such increased cost. However, the results of the work described above may reveal that such cost is justified in terms of future cost avoidance.
- 4.4 When the prudential framework is in force, the Council will need to take care that additional borrowing is only incurred for expenditure which is subject to a rigorous evaluation and business case; and that we only incur unsupported borrowing on projects which meet a very tightly defined criteria. The government will retain reserve powers to control borrowing if it believes new powers are not being used prudently.

5. Legal Implications (Peter Nicholls)

- 5.1 The main legal issue is to ensure that reasonable action is taken and resources made available to comply with property related health & safety and disabled access requirements.

6. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	YES	1.1	Need for reasonable disabled access to premises.
Policy	YES	1.16 (d)	Asset Management.
Sustainable and Environmental	YES	1.16 (5)	Replacement local plan.
Crime and Disorder	NO		
Human Rights Act	NO		
Elderly/People on Low Income	YES	1.1	Well maintained buildings contribute to the quality of the environment. 1.16 (5) Planning, Transport and EMAS.
		1.1	Providing accessible services.

7. Consultations

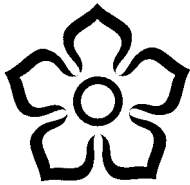
The approach set out in this report has been consulted upon through the Strategic Resources Group.

8. Background Papers – Local Government Act 1972

None.

9. Officer to contact:

Tom Stephenson
Corporate Director of Resources, Access and Diversity, Extn. 6300



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SUPPORTING INFORMATION

1. Report

1.1 The Council is facing a number of substantial and related premises issues. The essential causes go back many years and are shared by most other authorities. However, the Council's property maintenance needs are now so pressing that radical solutions must be considered in order to address:

- The considerable costs of continuing on the current course.
- The Council's health & safety and disabled access responsibilities in relation to premises.
- The emerging commitment to make the city more attractive, as set out in the Corporate Plan.

Property Maintenance

1.2 The operational property stock of some 450 premises has a total asset value of about £433m (investment property and council houses are separately dealt with and are not part of this issue). In common with most authorities, expenditure on maintenance has traditionally been well below suggested industry standards. of up to 5% and 8% of asset value (The studies undertaken by Building Maintenance Information (BMI) indicate an appropriate level of expenditure of 3.6% of building cost for local authorities given the backlog of repairs. This equates to approximately 6% of asset value). For many years, maintenance was, by and large, left to the discretion of each occupying Department. In 1997 the Council established its first strategic, planned maintenance programme and the Central Maintenance Fund (CMF). The intention was to fund "*landlord*" maintenance corporately at an assumed 60% of maintenance expenditure, the other 40% for "*tenant's*" maintenance being funded from departmental budgets. Based upon this 60/40 split, the "*landlords*" element of the BMI recommended level would be in the region of 3.6% of asset value. At about £5m, the CMF represents only 1.2% of asset value.

- 1.3 Budgetary pressures in the past and the need to protect frontline services, inevitably led to spending on maintenance having a lower priority. In other words, maintenance has been budget led, rather than needs led. Whilst this approach was able to maintain buildings to a useable standard, this is no longer the case. Maintenance is now a critical issue and a new strategy is required. There has been a marked increase in premises and plant failures and rising health & safety and disabled access requirements. This has led to much more being spent on reactive maintenance (to keep buildings safe and operational) leaving less for planned maintenance (which avoids future problems). To meet immediate demands a CMF deficit of £1.4m had accumulated by April 2003. Whilst a recovery plan has been put in place to restore financial balance, that can only be achieved by eliminating all planned maintenance. This will soon add to failures, health & safety problems and the need for more reactive maintenance. A summary of categorised maintenance needs is set out in **Appendix 1**.
- 1.4 In order to adequately maintain the operational property portfolio to an adequate standard not only is additional funding required, but a means of prioritising that funding is essential. This prioritisation will rely upon accurate data regarding the current condition of the property. Unfortunately sufficient funding has not been available in the past to undertake the condition surveys necessary to provide this data. As part of the proposed review it will be necessary to consider increasing the base budget for the CMF from its current level of £4.7m together with further additional funding for condition surveys.
- 1.5 The resources currently available to Departments are as follows:

CMF 2003/04 Budget (“Landlord “ responsibilities)	
Social Services	£ 474,300.00
Education	£ 1,987,400.00
Arts & Leisure	£ 1,323,400.00
Environment & Development	£ 449,700.00
RAD	£ 508,400.00
Sub Total (Revenue)	£ 4,743,200.00
Capital Total	£ 300,000.00
Total (Revenue & Capital)	£ 5,043,200.00

- 1.6 In addition to the CMF above there are Departmental budgets for “tenants” responsibilities. The CMF was set up on the basis of a landlord/tenant split of 60/40%. The CMF was 60% of maintenance needs with occupying Departments responsible for 40%. The level of Departmental budgets will be integrated as part of the proposed review.
- 1.7 Schools also have separate resources. A substantial amount of property-related resources has in recent years been made available by the Government direct to Education. Much of this is for improvements and additional buildings which, of course, adds to future maintenance requirements. How much of these additional resources has been made available for maintenance has not been identified.

Centrally Located Accommodation

- 1.8 Centrally Located Administrative Buildings (CLABs) contain some of the more significant maintenance issues. Estimated costs of the order of £16m (excluding any structural work that may be required to New Walk Centre A and B Blocks) are identified in **Appendix 2**. Their continued occupation will, in the medium term, only be possible with substantial expenditure. For example:
- The Greyfriars complex will need some £5m expenditure over 5 years if Social Care & Health continue to occupy it. Otherwise it will neither meet modern legislative requirements, nor be fit for purpose.
 - Welford House needs substantial refurbishment as the environment it currently provides (heating and ventilation), has become a matter of concern to staff and trades union concerns. The recent integration of housing benefits and local taxation has brought further accommodation pressures and it is now a matter of urgency to secure accommodation sufficient to house some 230 staff within the integrated service.
 - Several New Walk Centre facilities are at the end of their life; heating and ventilation systems, toilets and drains. Also the piazza and car park will soon need refurbishment.
 - Several lifts are at the end of their lives or have already had to be taken out of service.
- 1.9 A strategy for reviewing the CLABs was approved by the Council in 1999. At its heart was a reduction in the number of buildings, in particular the vacation of the Greyfriars complex by April 2004 in a cost neutral way. A Property Rationalisation Fund (PRF) was established to fund the necessary moves. It was then estimated that 600 staff moves would be needed. The PRF has been depleted, leaving no resources to prime further moves.
- 1.10 Unfortunately, this aim has been frustrated by major externally driven changes in requirements, which have resulted in the relocation of staff from Abbey Meadows Depot, and of Social Care & Health staff into Greyfriars as well as a general growth in accommodation needs. Since 1999, there have been over 700 staff moves and almost 500 additional staff have been accommodated. There are more CLABs now and 409 staff in Greyfriars, 37 more than in 1999.
- 1.11 The last four years has seen the closure of Social Services offices at Queens Park Way, The Fairway, Sparkenhoe Street and Thurcaston Road. Some staff from these buildings have relocated to Greyfriars together with staff from the Housing Department (Supporting People Project). Whilst there has not been a reduction in staff at Greyfriars, the sale of some of the closed offices has provided capital receipts for the Property Rationalisation Fund, enabling Directorate and Resources Support Staff to move into New Walk Centre and as a Corporate objective.

- 1.12 The constantly changing environment in which Local Government operates makes forecasting future accommodation requirements extremely difficult. Any strategy must therefore be constantly monitored, reviewed, and adapted to meet changing circumstances. For the purpose of this review it is being assumed that 16 New Walk will be required for Children's Services. However, even this is uncertain given the recent Government initiative to move towards a "Children's Federation".
- 1.13 The vacation of Greyfriars has been further complicated by the expectation that, over a period of years,, the majority of Adult Services staff would go to Health and Social Care Centres provided by the Health Service through its LIFT Project. This would mean that interim accommodation would have to be secured to achieve the early vacation of Greyfriars.

Other Premises

- 1.14 Less progress has been possible over area based reviews because of inertia against releasing property and the time and effort of moving to multi-use premises. A cross-service audit and assessment pilot proved extremely resource hungry and slow. The only realistic way of making quicker progress (it can never be speedy) would seem to be to focus on premises (of whatever service) which appeared to have the potential and capacity for multi-use. Occupation would then be maximised by vacating other premises in the area. User-resistance even to relocation by a short distance, should not be underestimated.

Efficiency Reviews: The Way Forward

- 1.15 Whilst a major breakthrough is awaited, considerable progress has recently been made in preparing the ground and securing corporate support for rationalisation of the use of CLABs, including charging arrangements. Principles for the way forward have been agreed and key moves planned, subject to the necessary investment and to the will of each service to make the moves. Work is being done on alternatives of a new HQ or maximising occupation of NWC.
- 1.16 Property could be tackled as an Efficiency Review with a view to:
- (a) Minimising the number of properties occupied and the costs of occupation with any capital receipts that may be generated being reinvested.
 - (b) With regard to CLABs, disposing of Greyfriars as quickly as possible and minimising the number of staff in the city centre, moving appropriate staff to less expensive locations where available.
 - (c) Undertaking a rapid review and subsequent rationalising of accommodation in each area into fewer, multi-use premises, so as to improve service delivery.

- (d) Ensuring that there is a premises strategy within the Asset Management Plan for all operational properties (including CLAB's and schools) which:
- (1) Secures the appropriate level of investment in the maintenance and surveying of all operational premises.
 - (2) Ensures that future accommodation and maintenance requirements and programmes are planned and realistically resourced corporately and sufficiently far ahead.
 - (3) Leads to a rationalisation of the CLABs which:
 - Adequately funds the necessary changes
 - Resolves the imminent substantial maintenance costs
 - Makes the optimum use of space.
 - Minimises running costs.
 - Provides for early vacation and disposal of Greyfriars.
 - Reviews the continued use/retention of Pilot House, King Street.
 - Achieves an early decision on the retention of Welford House and addresses the heating and ventilation issues.
 - (4) Identifies at an early stage the potential for staff to be area based within more cost efficient existing accommodation, rather than in the City Centre.
 - (5) Has regard to planning, transport and EMAS policies which all support offices being based in the city centre where public transport accessibility can be maximised, whilst recognising that locally delivered services require offices in the locality.

1.17 Arrangements are being developed as part of the review of Property Services for a longer term, corporate approach to asset management, including maintenance. An assessment of the options for rationalising the CLABs is making good progress, but an early replenishment of the PRF is needed to fund further moves. The only realistic way of doing this would be to use a proportion of capital receipts from relevant disposals. A minimum of £500,000 is suggested.

1.18 The imminent maintenance requirements of the CLABs are of such a scale that it may be more cost-effective to move to new headquarters premises and dispose of the various existing premises. Whether this is the case is being explored. If a new HQ is not financially or sustainably the best option, then the strategy should be to maximise the use of space in a smaller number of adequately maintained, fit for purpose buildings. The costs of such a rationalisation would still be significant, but could be set against capital receipts from the buildings no longer required. Overall running costs would then be expected to reduce.

1.19 This process would have considerable implications for the way the Council occupies office accommodation, and require different attitudes to office space. The following principles are proposed.

- Accommodation is seen as a corporate resource and not something under the separate “ownership” of Departments.
- The optimum (operational, environmental and financial) location for each function (city-centre or otherwise) will be assessed.
- Each building will have its own space standard and occupying Departments would be penalised for not meeting it after a defined period.
- There will be an accelerated move to open plan offices, wherever possible (with appropriate furniture, meeting rooms and social break out areas).
- Other methods of reducing space requirements will be maximised (eg hot-desking and homeworking).
- Meeting rooms will be managed in an integrated, corporate way, and not be seen as “owned” by any one Department.

1.20 The investigations of the radical solutions put forward in this report will require the creation of a corporate review officer team with close Member oversight.

2. Officer to Contact:

Tom Stephenson
Corporate Director of Resources, Access and Diversity
Extn. 6300

MAINTENANCE NEEDS 2004/2005 FINANCIAL YEAR

£m	Priority	Priority Definition	Maintenance Category	Estimated Cost	% Spend	Implications		
1m	1 Reducing priorities	Urgent works that will prevent immediate closure of premises and/or address an immediate high risk to the health and safety of the occupants and/or remedy a serious breach of legislation.	Repair (Urgent)	£ 850,000.00		Absolute minimum expenditure. Significant risk of breach of safety, legislation, security, failure of the asset etc.		
2m			Cyclic (incl surveys/feasibilities)	£ 1,550,000.00				
				Sub Total			2,400,000	
3m					£ 1,500,000.00			
4m				Sub Total	3,900,000	Total for all Priority 1 works		
4.6m	2	Essential works required within two years that will prevent serious deterioration of the fabric or services and/or address a medium risk to the health and safety of the occupants and/or remedy a minor breach of the legislation.	Repair (Non urgent) (3-2 years)	£ 1,950,000.00		Short term, no apparent effects to safety, usage or security. If not rectified within reasonable time the asset will require urgent repair.		
5m					£ 4,000,000.00			Current year budget
6m					Sub Total			5,950,000
16m	3	Desirable works required within three to five years there will prevent deterioration of the fabric or services and/or address a low risk to the health and safety of the occupants and/or a minor breach of the legislation.	Renewal (3-5 years)		3.5% asset value	No detrimental effect on upkeep, or use of the building in question, but continual failure to include part or all of these works will not only increase the backlog of work, but could restrict the use or result in closure of the property.		
22m					£ 22,000,000.00		9% asset value	
					Sub Total			32,400,000
36m	4	Long term works required beyond a period a period of five years that will prevent a deterioration of the fabric or services. (Note: ODFM have recently removed the requirement to report priority 4 works, but I have included it in this paper to give a fuller picture).		£ 35,240,000.00	8% asset value	No detrimental effect on upkeep, or use of the building in question. And would mainly have aesthetic implications, but continual failure to include part or all of these works will result in increasing the backlog of work		
45m					£ 45,300,000.00		10% asset value	
96m					Total			90,000,000
				Current Maintenance Backlog		90,000,000		

1 Categories of Maintenance Repairs

- a. Repair (Urgent) - specific work performed on an asset to re-establish its safe and effective operation, with no "physical" improvement to it. Where the damage/problem could result in 1 or more of the following:
 - significant effect to the use of the service/asset;
 - Significant damage to the asset/property;
 - Safety/danger to persons issue and/or
 - Security issue.
- b. Cyclic - Regular periodic work to maintain an asset in an effective state, involving "physical" change to it.
- c. Repairs (Non urgent) - Where the damage/problem is not "Urgent" as defined above.
- d. Renewal - Work comprising the replacement of all/part of the asset since it has reached the end of its design or operational life. Works identified by the Client from Condition Surveys, Annual Estimates, Feasibility Surveys and through the Helpdesk itself.

2 Current CMF budget is £4.6m less £1.1m overspend for financial year 2002/2003, equals £3.5m for 2003/2004.

3 The budget has not been increased significantly since 1997 (Unitary Status) so the CMF is not able to reduce the backlog of works and this value keeps increasing. An estimated backlog of repair works to bring the corporate asset to an acceptable standard of repair is in the region of £96m

4 An estimated backlog of repair works to bring the corporate assets to an acceptable standard of repair is in the region of £96m

5 Asset value is approx £453m
 3% of asset value = £22.6m
 8% of asset value = 35.24m
 10% of asset value = 45.3m

REVIEW OF CENTRALLY LOCATED ADMINISTRATIVE BUILDINGS – CLAB's JUNE 2003 MAINTENANCE ISSUES AND DDA ACT 1995				
CLAB LOCATION	TENURE	FLOOR SPACE M²	STAFF	MAINTENANCE ISSUES ESTIMATED REPAIR/REPLACEMENT COSTS (Phased over medium term)
New Walk Centre A Block	Freehold	11,507	836	<ul style="list-style-type: none"> • Complete heating & ventilation refurbishment – c. £4m. • Toilets and common areas refurbishment – c. £1.5m. • Piazza structural work – c. £600k. • Refurbish lift lobbies & DDA signage c. £60k • General external repairs & improvements c. £2.5m. • Structural repairs to both blocks yet to be costed (Survey outcome expected January 2004 at the latest).
New Walk Centre B Block	Freehold	8,113	491	
Grey Friars Complex	Freehold	4,462	409	<ul style="list-style-type: none"> • Works resulting from condition survey estimate c. £5m over 5 years. • DDA signage all CLAB's except NWC c. £65k. • DDA Priority 4 works £41k.
Town Hall	Freehold	3,814	104	<ul style="list-style-type: none"> • Repair & maintenance linked to Registration service relocation c £300k. • Provision of disabled toilets and refurbishment of toilets on 2nd floor, kitchen finishes c. £180k. • DDA Priority 2 works £60k.
Welford House	Lease expires 2008	2,708	186	<ul style="list-style-type: none"> • Heating & ventilation refurbishment – c £300k. This assumes that the lease is renewed and dilapidations do not apply.
16 New Walk	Freehold	2,454	163	<ul style="list-style-type: none"> • Refurbishment following vacation by ER & D c. £500k.
Sovereign House	Freehold	1,864	139	<ul style="list-style-type: none"> • Lift refurbishment c. £52k. • DDA Priority 2 works £10k.
Marlborough House	Freehold	1,648	168	<ul style="list-style-type: none"> • Lift replacement – c £150k. • DDA Priority 2 works £5k.
Phoenix House	Freehold	1,486	163	
Eagle House	Lease expires 2009	1,174	123	<ul style="list-style-type: none"> • DDA Priority 4 works £169k. (This does not allow for any dilapidations that may occur when the lease expires.)
Collegiate House (incl. Annexe)	Freehold	946	63	<ul style="list-style-type: none"> • DDA Priority 4 works £116k.
TOTAL		40,176	2,845	£15.61m (includes DDA requirements totalling £471,000, but excludes any structural work to New Walk Centre, A and B blocks).