ABERDEEN CITY COUNCIL	# Full Business Case	Review Stage Define

Review Name	Assets Review	Date	January 2018
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Executive Summary

INTRODUCTION

The Future Council operating model is focused on commissioning services to improve outcomes for people and place, which necessitates working across organisational boundaries, consolidating service provision, and empowering communities to self-support. The Council's operational assets (e.g. administrative offices, depots, schools, etc.) play a key role in influencing the way services are organised and delivered to individuals and communities. The Council's asset base, excluding social housing (over 22,000 units), exceeds 1,250 properties (operational is over 300), and is increasing to meet pressure on the school estate. The configuration of the Council's estate will be either a major barrier or enabler to its transformation.

Property running costs are the Council's third highest category of revenue spend, equating to £41.2m* (FY16/17), with an asset value of approximately £1bn, and a backlog maintenance of £56.9m (18% of which is considered high priority). Financially, the Council's asset base is significant and therefore has a key contribution to make to the budget challenge. *This includes cost of facilities leased by others e.g. Sports Aberdeen which is recharged approximately 3% and excludes capital recharge

Finally, the Council generates external income of circ. £6.3m from its commercial assets (excluding Common Good). In recent years many authorities across the UK have used commercial property revenue as a key opportunity to deliver a sustainable financial position, off-setting Government grant cuts and cost pressures within services. This is still an approach supported by DCLG (Department of Communities and Legal Governement in England), but must be done with due and proper consideration of the risk and impact of financial failure.

This Business Case focusses on the Council's operational assets, Commercial Estate, community and social assets. The Housing stock, held on the HRA (Housing Revenue Account) is out of scope. ALEO (Arms Length Organisations) assets are also out of scope at this time.

CASE FOR CHANGE

Baseline

The Council's asset portfolio is managed by two teams, Land and Property Assets and Education Estates Services. The approved organizational structure places all departments managing operational property in the one area under a Corporate Landlord model. This will sit in the same Resources Directorate placing full control of the operational estate, and the Capital programme in the same place. This change will ensure there is no duplication of responsibilities and fragmentation of decision making potentially undermining a strategic approach to asset management which has in the past been evidenced by surplus properties being held by services, and vacant operational properties held pending decisions from services.

The current estate is characterised by the requirements of individual services and influenced by historic needs and opportunities. Its operational asset-base is diverse and fragmented; many facilities are small scale, and appear in many instances to be poorly utilised but due to a lack of data this is difficult to establish and challenge, and finally there is a significant maintenance backlog. By illustration, the Council owns 25 Offices, 17 Libraries, 48 Depots, 14 Swimming pools, 5 golf courses, 59 garages/garage sites, 15 car parks, 77 shops, etc. **Asset consolidation could not only support new, more integrated front-line services, but also reduce maintenance liabilities, running costs and management costs.**

At the same time, while the Council is generating commercial revenue from its non-operational assets, it is apparent that more could potentially be achieved if the team had greater leverage to prioritise investment and maximise return. Some of the Council's commercial assets generate a healthy stable return (e.g. Industrial Ground Leases at 6% and an income of £1.4m). However, some of the commercial portfolio is less effective where the income revenue does not adequately offset maintenance liabilities and management responsibility (such as Industrial Units which return a 15% yield, but is considered poor industrial stock).

Requirements for change

Given the baseline position, the key objectives for change are:

- Consolidating and strengthening a corporate approach to asset management across the Council's entire estate, reducing management costs and enabling a more coherent, strategic approach to assets;
- Reducing the scale and diversity of the estate to focus on the assets that are needed and genuinely add value to the Future Council's target outcomes, reducing maintenance liabilities and running costs (better, fewer assets);
- Maximise the value of capital receipts from non-value adding assets in order to invest in the wider portfolio;
- Maximise the return from commercial assets in order to supplement the Council's income and invest in frontline services for the vulnerable individuals and communities of Aberdeen.

Required changes and potential benefits

This Report provides an indicative view of the opportunities and the scale of benefit that could be achieved. The purpose of the Business Case is to set an agreed direction of travel and identify early savings as part of the 2018/19 budget exercise. The opportunities explored in section 3 of the document provide an illustration of the potential, but it is not exhaustive. However, to realise these opportunities changes need to be made to the running of property services, specifically:

1. **The implementation of the creation of a single corporate strategic function to manage all operational assets (as established by agreement of the Council's Target Operating Model);**
    - To enable a whole-Council view of asset needs, and support cross-Council working to design local services in conjunction with property needs;
    - To be able to make effective decisions to reconfigure the operational estate to reduce running and property management costs; and
    - To have a significant influence and input into the prioritisation and direction of the capital programme.
2. **Enhance the corporate commercial property function**
    - To make effective decisions regarding where assets should be disposed of, acquired and invested in;
    - To enable a clinical assessment of return on investment. Thereby, reducing potential liabilities, maximizing management effort and the return on investment. There are a number of potential options available to deliver this, which are influenced by the ability to invest in the right assets, maximise receipts and enable more agile decision. These options are summarised as follows:

As a result it is anticipated that a range of benefits will be unlocked by providing the service with all of the requisite controls to make decisions that will allow the estate to be reconfigured, to challenge service use of assets, and to release the financial benefit:

POTENTIAL AREAS OF SAVINGS	EXAMPLES OF HOW THIS COULD BE ACHIEVED	18/19 POTENTIAL	POST 18/19
Office Rationalisation	Review of office estate to look at: • Moving council staff from Frederick street property and either disposing of the asset and / or sharing further with partners. • Review requirement for Kittybrewster space (Front Office) and relocate all office staff to reduce revenue costs and long term rates (subject to demolition) • Review of Accommodation moves budget (1 year reduction pending future reviews).	£100k (half year) £100k	£200k £350k
Depot Review	Review of Depot space for short term relocations and closure of smaller depots. Look to dispose or clear sites to avoid rates	-	£100K
Place Based Reviews	Initial Review in Tillydrone and Torry – following redevelopment of community hubs etc.	-	£100k
Community Asset Transfer	A number of Community Asset Transfer projects are under review and being advanced: Bon Accord Baths (utilities costs / no rates as listed) Seaton Huts and Depot (utilities/ rates and grant) TA Centre Peterculter (Minimal only circa £3k)	- £10K	
Asset Challenge	A number of assets have already been challenges and savings identified: • Tarves Road Potterton (lease expiry) - £51k • Town house - EFW rent (9 month only) - £15k • modular classroom removal - £100k Properties that could be declared surplus • Woodlands School* • Cordyce School* • Bucksburn Primary* • Public conveniences (Skene St/ Cults rates) • Unit 41 Howemoss Rd – Trading standards 19/20. *full year budgets/ subject to removal from valuation roll. Properties that could form part of wider challenge (costs benefits and risks to be quantified) • Peterculter Depot (£18k) • Rosehill House • 4 Miltonfold • Stoneywood (existing site)	£166k £181k*	£11k

	• Balgownie 1 and existing AECC • Jack's Brae Car Park • Greenfern school site • Froghall Community and learning Centre • Mill of Mundurno yard (granite Store) • Culter pop in • Linksfield Day Care Centre • 3 Finnan Place • Carden School site • Cummings park Community Flat • Marischal College (space share with partners)		
Schools Estate	This review is being developed further to ensure it is consistent with the Council's Target Operating Model, and is expected to be complete by late summer 2018. It will then be reported through the normal governance process after the summer recess.		
Accelerate Disposals	Assets held for sale are managed in a way to reduce the holding costs to the council. As assets are declared surplus the property revenue budget is transferred to asset management until a sale is concluded. The budget for this is currently £285k per annum and covers non domestic rates / utilities and limited fit for purpose repairs. Reduction from Bon Accord indoor bowling / vacant rates restructure and from disposals.	£80k	Subject to asset challenge (detailed review with services).
Commercial portfolio **Additional Income**	Look to maximize revenue potential from TNRP (tenanted non-residential portfolio) (assume static position on income). If sales are advanced this is unlikely to have impact until 2018/19 but will reduce income. Initial reduction in leased in properties at George Street and Howemoss avenue(one year)	 £100k	
	TOTAL	**£737k**	**£766k plus**

CURRENT PREFERRED DIRECTION

There are a number of options available to the Council to reconfigure property services to enable it to better support the needs of the Future Council, reduce costs, and maximise commercial revenue. An implementation of a Corporate Landlord model will be advanced with a further review considered thereafter.

NEXT STEPS

If this direction of travel is agreed, the next stage will be to implement proposed 2018/19 savings and develop an implementation plan for longer term rationalisation, including greater clarity of the potential benefits and the associated costs, risks and delivery plan.

1 Strategic Drivers for Change

1.1 STRATEGIC CONTEXT

Aberdeen City Council is Changing: Building a Council for the Future

Local government is experiencing significant ongoing demographic, financial, legislative and cultural pressure. It is recognised across the sector, in Scotland and the wider UK, that traditional approaches to managing and delivering services to communities and individuals are no longer sustainable. To adapt, Aberdeen City Council is redesigning the way it operates and delivers services. This is discussed in more detail in (https://committees.aberdeencity.gov.uk/documents/s73076/CTOM%20-%20Appendix%20A.pdf).

The Council's operating model is focused on commissioning services to improve outcomes for people and place, which necessitates working across organisational boundaries, consolidating service provision, and empowering communities to self-support. Importantly, this approach is driven by focusing the Council's scarce resources on those with the greatest need.

The Strategic Role of Property and Assets

The Council's physical estate should play a key role in delivering the operating model by:

i. Enabling staff to work more collaboratively within the Council (breaking down the culture of traditional internal service-silos) and with public sector partners;
ii. Supporting the effective delivery of the LOIP outcomes;
iii. Raising additional income from commercial property that can be reinvested in our public services and off-set Government funding reductions; and
iv. Generating capital receipts.

Property Services have been successfully contributing to the Council's budget challenge through reducing its running costs, rationalising the estate it controls, and generating commercial income. However, despite this progress there is continuing growth in new assets, and the Council's current approach to managing its vast £1bn property portfolio of over 1,200 assets needs to change.

The management and control of assets has been fragmented across the Council. This has led to missed opportunities regarding asset reconfiguration, use, rationalisation and cost reduction. It is also contributing to backlog maintenance and operational risk challenges, and is undermining the ability of the Council to maximise commercial property income. This is being addressed through the TOM but further review is required.

2 Service Baseline and Performance

2.1 ASSET BASELINE

The Council owns a hugely diverse non-housing property portfolio containing around 1,250 assets, including both land and buildings. These assets are operated by a mixture of different Council services, Operational Trusts, community groups and Leisure Trusts. The key numbers around asset type, value, costs, and surplus are documented in the paragraphs below.

2.1.1 Asset numbers

Property Portfolio	Number of Properties	Notes
Operational schools	63	Includes primary, secondary and additional support needs schools
Other Operational Properties	244	Council or arm's length is delivering a service e.g. sports facilities, offices, depots
Non Operational (Lease outs)	900	Council owned assets such as shops, business centres, industrial units
Surplus Assets	44	Assets that have no current or planned use/ undergoing redevelopment/ of no value.
Total	**1,251**	**Source AMS**

Asset Numbers – Source AMF 2016

2.1.2 Asset value

The asset value of the entire portfolio is currently estimated at £1billion. This will however include properties valued on a Depreciated Replacement Costs (DRC) basis.

The value of non-operational and surplus is shown in the table below.

	Number of Assets	Value March 2017	Source
Non-operational properties	**497**	**£172,578,961**	Internal valuation report March 2017
Common good	118	£57,263,061	
Farms	29	£32,647,701	
Non-operational properties	350	£82,668,199	
Surplus assets	**44**	**£18,272,000**	Internal valuation report March 2017
Assets held for sale	15	£2,755,000	
Vacant surplus	29	£15,517,000	
Total	**541**	**£190,850,961**	

Asset Valuation – Valuation Reports March 2017

2.1.3 Required maintenance

Required maintenance is currently £56.9m, of which 18% is considered high priority. The condition surveys carried out as part of the five year programme include figures identifying the cost to replace building elements that are in poor or bad condition. These are shown in the tables below.

	No Properties	Value RM	Total GIFA	RM per m^2	
Required Maintenance	**294**	**£56,931,828**	**543,550**	**£104.74**	**Source** SPI Operational Assets spreadsheet

Required Maintenance

41% of Required Maintenance can be accounted for by 10 properties at a value of £23m:

Property Address	Property Type	Required Maintenance	% of total
Denburn Multi Storey Car Park Spa Street	Car Park (Multi-storey)	£4,663,822	8%
Kincorth Academy Kincorth Circle Kincorth	School-Secondary	£4,047,727	7%
Torry Academy Tullos Circle Torry	School-Secondary	£2,911,330	5%
St Machar Academy St. Machar Drive	School-Secondary	£2,595,315	5%
Oldmachar Academy Jesmond Drive Bridge Of Don	School-Secondary	£1,966,075	3%
Cordyce Residential School Riverview Drive Dyce	School-ASN	£1,819,930	3%
Bridge Of Don Academy Braehead Way Bridge Of Don	School-Secondary	£1,590,350	3%
Vehicle Workshop Kittybrewster Depot 38	Depot	£1,328,055	2%
Beach Ballroom Beach Esplanade	Hall	£1,324,645	2%
Aberdeen Grammar School Skene Street	School-Secondary	£1,049,155	2%

Required maintenance top 10 properties AMF 2016

It should be noted that of these properties there are plans to demolish and redevelop Kincorth Academy, Torry Academy and Cordyce, which will remove £8.779 million from the backlog maintenance list. This will reduce the overall total by over 15%.

The Denburn site is in shared ownership with NHS Scotland and is subject to a development brief and potential redevelopment as part of the Council's City Centre Masterplan.

2.1.4 Running costs

Core running costs. Property running costs are the third highest revenue spend for the Council, totalling around £41.2 million (excluding capital debt recharges). The highest revenue costs around the estate are Unitary charges (34%), Business Rates (21%), Energy costs (19%) Repair and maintenance (10%) and Cleaning (9%).

2.1.5 Vacant and Surplus Property

Vacant properties account for 2% of property running costs and effectively represents lost revenue.

2.2 Current Service Performance

Performance has been considered from a range of perspectives:

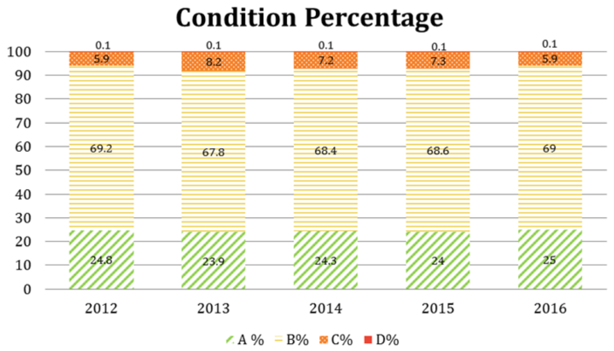
1) Operational performance of the service in terms of suitability, condition, access and costs
2) Commercial performance in terms of rental income and new revenue streams
3) Strategic alignment to the new operating model

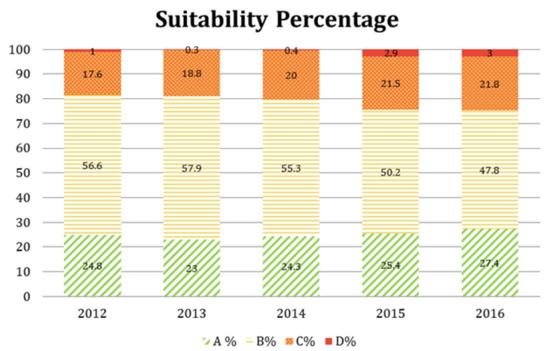
2.2.1 Operational - Condition, Suitability and Accessibility

Two indicators that help summarise this are the percentage of buildings that are in appropriate condition and the percentage of buildings that are suitable for their use. Both condition and suitability are assessed on A to D scale. These are:-

- A – Good
- B – Satisfactory
- C – Poor
- D - Bad

There is a mixed picture across the portfolio of suitability and condition. The condition indicator shows that 94% is in A or B condition. This figure has changed little over the five years shown. Suitability is currently at 75.2% which is a figure that has declined over the five years. This is illustrated in the chart below.





The 6% considered in poor condition (C&D) represents 18 properties and represent £12m of required maintenance.

The 75% which score well in suitability represents 214 properties, however of those 214 only 6 are considered to be in poor condition representing a value of £6.9m of required maintenance.

The 25% which score poorly on suitability represent 80 properties. These 80 properties are shown by property type below, and of these 80 there are significant D and C condition costs representing a Required Maintenance value of £28m, which suggests that these 80 properties should be reviewed even though some of them may not be considered in poor condition.

Property Type	Condition D Costs	Condition C Costs	H&S	Other	RM Total
School-Secondary	£1,101,415	£11,993,482	£60,000	£170,000	£13,324,897
School-Primary	£241,635	£4,149,316	£65,000	£226,000	£4,681,951
Depot	£799,985	£2,542,133	£3,000	£58,000	£3,403,118
School-ASN	£1,323,210	£611,635		£34,000	£1,968,845
Hall	£31,350	£1,359,695			£1,391,045
Office	£199,250	£383,883	£125,000		£708,133
Library	£55,925	£495,055	£2,000	£10,000	£562,980
Nursery Gardens	£50,000	£494,395			£544,395
Outdoor Sports Facility	£53,325	£406,325		£20,000	£479,650
Leisure Facility	£23,690	£296,870			£320,560
Community Centre (Leased)	£16,815	£301,097			£317,912
Sports Pavilion	£69,555	£139,656			£209,211
Sports Centre		£164,555			£164,555
Day Centre- LD	£6,700	£128,600	£1,000		£136,300
Workshop		£70,090			£70,090
Swimming Pool		£57,190			£57,190
Arts Studio/Workplace		£39,663			£39,663
Public Convenience		£9,666			£9,666
Children’s Home					
Shop					
Total	**£3,972,855**	**£23,643,306**	**£256,000**	**£518,000**	**£28,390,161**

Table 14

Out of the 80 which score poorly for suitability, there are 12 properties that have both poor condition and suitability scores, as highlighted below. The required maintenance costs and running costs against those 12 are shown below and combined represent £7m of costs. Many of these properties have plans against them, for example Cordyce is expected to be demolished, a replacement review has been initiated for St Peter's, a replacement is being constructed at Stoneywood, and investment has been made in Pet's Corner, but these should all be prioritised and accelerated. However, there are instances when property is held pending decisions from service areas.

Property Address	Total Required Maintenance	Running Costs 16	GIFA
Cordyce Residential School Riverview Drive Dyce Aberdeen AB21 7NF	£1,819,930	£14,853	4662
Beach Ballroom Beach Esplanade Aberdeen AB24 5NS	£1,324,645	£289,549	3762
Kittybrewster Depot 38 Powis Terrace (office) Aberdeen AB24 3LJ	£706,790	£652,164	1594
St Peter's R.C. Primary School King Street Aberdeen AB24 1SA	£478,550	£83,863	1503
Stoneywood Primary School Stoneywood Road Stoneywood	£398,925	£84,468	1319
Hazlehead Pets Corner Hazledene Road Aberdeen AB15 8BJ	£320,560	£14,204	474
Denmore Depot Denmore Gardens Bridge Of Don Aberdeen AB22 8LQ	£230,940	£25,191	553
Altens Depot North Loirston Farm Bothy / Toolshed / Steadings Souter	£180,295	£6,244	526
Depot Westburn Park Westburn Road Bothy / Sheds / Garages Aberdeen	£169,790	£317	208
Seaton Community Education Centre School Road Seaton Aberdeen	£120,120	£11,610	156
Harlaw Playing Fields Pavilion Harlaw Road Playing Fields Harlaw Road	£72,090	£7,632	243
Nellfield Cemetery Great Western Road Aberdeen AB10 6DH	£3,550	£1,235	13
Total	**£5,826,185**	**£1,191,330**	**15,013**

12 properties that score poorly for suitability and condition.

Accessibility

84% of Properties are Accessible for service users with disabilities. Those that are rated as good or satisfactory for accessibility account for 84% while those that are rated as poor or bad account for 16% of the portfolio. Often those that are not accessible are the result of the nature of the property (physical constraints/ listed buildings etc.).

2.2.2 Commercial Performance (rental income)

There are a number of ways in which the service can improve commercial performance Firstly in its use of the asset base to maximise value and to create future revenue streams such as the Marsichal Square development, the creation of the Shaping Aberdeen LLP to derive revenue from mid-market rent, Joint venture with Hermiston Securities at Loirston and the AECC. Secondly the Council can deliver rental income from a range of non-operational property that it owns, and currently the service is delivering rental income of approximately £9.9m, which is shown below; split by common good and general fund across the 900 assets.

COMMON GOOD RENTAL INCOME

Property Type	Number of Property Type	Rental Income	Average Rental Income
Industrial Ground Leases - C.G.	80	£2,790,076	£34,876
Misc. Common Good	12	£115,742	£9,645
Farms - Common Good & Trusts	21	£58,785	£2,799
Misc. Ground Leases - C.G.	11	£28,077	£2,552

Garages - Sites	31	£3,525	£114
Total	**155**	**£2,996,205**	**£19,330**

GENERAL FUND RENTAL INCOME

Property Type	Number of Property Type	Rental Income	Average Rental Income
Premises (Industrial)	11	£1,001,774	£91,070
Social Work Acc. (including retained by SW)*(not accounted for as full commercial income)	14	£904,796	£64,628
Ground Lease (Commercial) Prop.	16	£360,668	£22,542
Public Houses	6	£121,779	£20,296
Ground Lease (Industrial) Prop.	69	£1,393,400	£20,194
Advance Factories	76	£1,252,200	£16,476
Offices	37	£500,062	£13,515
Premises Comm. & Misc.	17	£188,623	£11,095
Aerial Facilities	11	£97,498	£8,863
Shops	77	£664,510	£8,630
Golf Courses (2 GC and 3 Ground lease)	5	£35,804	£7,161
Shops - Ground Leases	18	£109,786	£6,099
Car Parks	15	£88,025	£5,868
Ad. Hoarding Sites	8	£38,650	£4,831
Staff Houses	38	£166,912	£4,392
Business Centre Units	27	£66,240	£2,453
Farms - Misc.	10	£22,661	£2,266
Lease to P.S. Partners	9	£11,170	£1,241
Fishings	2	£2,300	£1,150
Ground Lease (Misc.) Prop.	67	£41,432	£618
Depots	4	£1,601	£400
Wayleaves	115	£22,442	£195
Garages & Garage Sites	59	£6,016	£102
Elec. Sub. & Gas Gov.	15	£1,120	£75
Pigeon Lofts	14	£270	£19
Community Centres	26	£26	£1
Grand Total	**766**	**£7,099,766**	**£9,269**

Table 16 Income from Commercial Properties

The most significant rent is from the Industrial premises / advance factories and ground leases. However a number of property types by either functional or physical obsolescence add no social or economic benefit or represent opportunities for investment growth. This is likely to include; business centre (offices) depots, shops and part of the industrial units/ advance factories stock.

The analysis above demonstrates that the Council is driving a considerable income from the existing commercial portfolios, however the service as part of a public sector organisation lacks the flexibility to act quickly responding to market conditions and act on a purely commercial basis.

Therefore, the Council may wish to separate out the portfolio into those assets with some societal benefit e.g. the Community Centres, from those that are purely used as a commercial vehicle to generate income. Accompanied with proposals to revise delegated authority levels around value levels, lease lengths and ability to irritate which are being considered as part of the review of delegated powers. The service would then be able to make better and more agile decisions about acquisitions, disposal and the use of LABV's (Local Asset Backed Vehicle) to manage and increase performance.

For properties where there is societal value plans should be developed in line with the Community Empowerment act to consider opportunities to hand these to communities.

2.2.3 Strategic alignment to the new operating model

The Council portfolio is diverse and varies in age considerably. Whilst much of the operational estate, 94% is in good condition and 75% of it scores well for suitability, there are a number of properties that are no longer used as originally intended, and some properties may be near the end of their design life. The consequence is that a number of Council's properties require repairs and changes to make them fit for purpose, and they won't automatically be best configured to suit the ambitions of the new operating model.

2.3 Key Observations on the baseline and Service Performance

The key observations from reviewing the baseline and service performance:

- Significant strengths in the operational performance of many of the assets with 94% in good condition
- Considerable level of revenue generated from the commercial estate with some areas performing well
- Ground leases perform particularly well for the Council, being particular to the Aberdeen market.
- Property running costs are Council's third highest category of revenue spend, equating to £53.6m (FY16/17), with a capital value of approximately £1bn, and a backlog maintenance of £56.9m (18% of which is considered high priority). Financially, the Council's asset base is significant.
- Annual valuation of only approximately 514 assets in the commercial portfolio, which confirms that there may be a number of assets that are managed that hold limited commercial value.
- The Council are retaining assets that hold limited commercial value, or of limited operational suitability when there is a perceived societal benefit, and cannot make decisions purely on a commercial basis.
- Statutory maintenance requirements are met
- Reliable data is collected over a number of years and is being used to inform decisions about the future, however there is a weakness/ cost to collect around utilisation data which makes it more difficult to challenge the business need of the asset.
- Very diverse and significant number of assets, which could potentially lead to a dilution of expertise because teams are covering too broad a scope. This will be further exacerbated because the teams are running with a current vacancy level of 17%, which is having an impact on the ability to accelerate some of the opportunities outlined in this report.
- A significant proportion of property assets (and decisions) sitting with Education and Children's Services which currently have their own property team (to be re-aligned under TOM)
- Property costs account for a significant amount of non-pay revenue spend, and therefore a key area of contribution/opportunity to meeting the budget challenge.

- The operational portfolio varies in age considerably. Many properties are no longer used for their original purpose and some properties may be near the end of their design life. All these influences mean many of the Council's properties require repairs and changes to make them fit for purpose.
- Whilst the Corporate Landlord model was agreed the Council are in the process of moving to this model which sees Services as the tenant and the transfer of budgets.
- £58.7m backlog maintenance, which will increase in value and risk if the repairs and maintenance budget continues to be static, especially given the significant amount of backlog is associated with the School estate.
- 25% of properties score poorly for suitability, and 16% of properties are not accessible
- No long term strategic planning of asset requirements, largely due to the fragmented nature of the property services. This is seen in some of the vacant properties that are being held pending service decisions (being addressed through TOM).
- There is currently a lack of clarity on the service requirements following the adoption of the new operating model, which makes strategic planning of assets more challenging. The asset plan needs to follow the business plan, however the Property and Asset team should be working with services to influence their requirements and to challenge the business need (for and asset).

The next section of this business case explores the potential opportunities for improvement.

3 Opportunities for Improvement

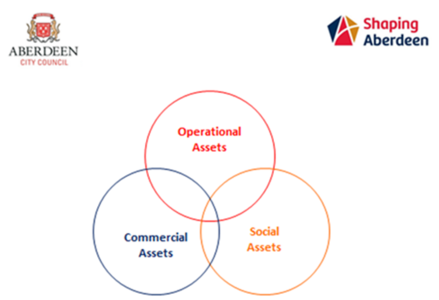
The future Council operating model is focused on commissioning services to improve outcomes for people and place, which necessitates working across organisational boundaries, consolidating service provision, and empowering communities to self-support.

The current estate is characterised by the needs of individual services and historic needs. It's operational asset-based is diverse and fragmented; many facilities are small scale, poorly utilised and there is a significant maintenance backlog. Asset consolidation could not only support new, more integrated front-line services, but also reduce maintenance liabilities, running costs and management costs.

At the same time, while the Council is generating commercial revenue from its non-operational assets, it is apparent that more could potentially be achieved if the team had greater leverage to prioritise investment and maximise return.

3.1 ADOPTING CORPORATE APPROACH TO PROPERTY MANAGEMENT

Property services have already set out their ambition in the Asset Management Framework, and recognise the need to support the future strategic direction. The introduction of a Corporate Landlord model will allow the requisite control over the estate to make all of the changes required. It will however also require a more aligned approach with ALEOS's who manage parts of the portfolio. The consolidating all property related functions across the organisation will in turn create the opportunity to review staffing and resource functions which should be considered as part of a full business case.



3.2 RATIONALISATION OF THE ESTATE

3.2.1 Office

The implementation of the new operating model will require and create the opportunity for officers to work more flexibly and perhaps be more mobile and less office based. This will enable the council to further extend the office rationalisation programme.

Office rationalisation has been progressed across the Council and many areas are already working to the government guide ratio of 7:10 (desk:people). A high level analysis shows that if the 7:10 ratio was achieved it could equate to the closure of Frederick Street in desk spaces. The ability to reach this ratio will be dependent on a range of factors including regulations.

Office	GIFA	NIFA	Desks	Staff	NIFA m² per desk	GIFA m² per desk	NIFA m² per staff	GIFA m² per staff	Desk: Staff Ratio
Marischal College	18,085	12,343	1,334	1,730	9.25	13.56	7.13	10.45	7:9
Frederick Street	2,809	1,544	156	170	9.89	18.01	9.08	16.53	7:7.6
Spring Garden	1,085	643	72	80	8.93	15.06	8.04	13.56	7:7.7
Town House(old)	3,825	1,595	105	98	15.19	36.43	16.28	39.03	7:6.5
Total (all floors)	**25,804**	**16,124**	**1,667**	**2,078**	**10.82**	**20.76**	**10.13**	**19.89**	**7:8.7**

Table 20 Main Offices

In addition, there are a collection of other offices that should be considered as part of office rationalisation, included in the table below:

OTHER OFFICES	RUNNING COSTS	GIFA	COSTS PER M²
Kitty Brewster Depot	£652,164	1594	£409
Old Aberdeen House	£148,317	1715	£86
Part 2nd Floor (South) Woodhill House	£86,764	431	£201
New Town House Extension	£85,366	5740	£15
Braeside Nursery Infant School	£83,034	1909	£44
Mastrick Area Social Work Office	£61,130	511	£120
Tillydrone Housing Office	£55,971	600	£93
Mastrick Housing Office	£46,910	424	£111
Kincorth Area Office Social Work	£44,703	305	£147
St Nicholas Pupil Centre	£21,669	191	£113
Torry Social Services Deeside Family Centre	£19,291	179	£108
Office 3 Finnan Place Torry	£8,935	70	£128
4 Miltonfold Court	£8,409	184	£46
Kaim Court	£8,291	72	£115
Office 8 Back Hilton Road	£5,217	150	£35
Connections Women's Centre 82 Spring Garden	£3,974	237	£17
Harlaw Academy Playing Fields Lodge	£2,762	88	£31
Park Ranger Office Duthie Park	£1,229	72	£17
Suite 6A & 6B Archibald Simpson House King Street Business Centre	£1,102	295	£4
Flat 25 Provost Hogg Court	£0	44	£0
	£1,345,238	**14811**	**£91**

Table 21 Offices

Clearly there is potentially to make savings in running costs if further rationalisation was achieved whilst also creating **capital receipts from disposal, albeit this would require to be delivered over a period of time.**

3.2.2 Depots

Many other councils have already rationalised their depots and in some instances directed capital investment in the remaining depots to enable service improvements, and deliver potential **capital receipts from the disposal of surplus depots**.

There is a potential opportunity for the Council, who currently has 48 depots across the city, 12 of which are vacant. The current running costs for the depots is **approximately £800k and with a required maintenance value of £5m.**

Some of the depots stand out as having high running costs and also high required maintenance such as West Tullos Depot and also Kittybrewster, however these are the biggest depots that the council owns.

Through rationalisation of the depots running costs can be reduced. Fife Council have rationalised their depots and created a single site at Bankhead. Other models include partnering with firms such as Travis Perkins and use their infrastructure, this was a model used by South Lanarkshire Council. Whilst this might increase travel time for some mobile workers it will reduce the overheads, and it could be addressed through change in working practices. There may be other property types where rationalisation might be possible. These issues are being considered as part of the Total Facilities management Business case, but clearly have an assets interest.

3.3 RECONFIGURATION OF THE ESTATE

Place based reviews to Consolidate services into community campus/hub models

The Council already shares some facilities with other public sector organisations such as the Police. There is a growing need to collocate services to support the delivery of the LOIP (Local Outcome Improvement Plan), and one model that is being used effectively elsewhere in the UK is the development of Community Hubs. The community hub model combines community services such as libraries, customer services, housing and other partners which safeguard the sustainability of community services and can deliver significant revenue savings. Projects are currently being considered in Torry and Tillydrone around this model.

3.4 CHALLENGING THE BUSINESS NEED FOR THE ASSET

The analysis has highlighted that across certain property types there is opportunity to change the delivery model, which will require the cooperation of the service but will lead to the elimination of specific facilities. To do this effectively the service needs to collate utilisation data and look at alternative delivery models.

3.4.1 Community Asset Transfer

Some community assets are poorly utilised and have often been inherited by Councils organically over the years. Sometimes these assets are limited in their social value due to poor configuration and condition, poor utilisation, have high operating costs and low capital value. Social value could be maintained and enhanced by exploring alternative delivery models including community asset transfers.

3.4.2 Full portfolio review

Due to the nature of how assets have been historically held by service the strategic requirement may not have been fully challenged or considered on a cost/ benefit basis. It is recommended that this be advanced under the corporate landlord model. An example of the assets that could be challenged is included in 3.7.

3.4.3 School Estate Rationalisation

The school estate has seen significant investment in recent years in response to an aging estate, pressure of new developments and an increasing school role. A number of new capital projects have been completed or are underway including Lochside Academy, Brimmond School, Stoneywood Primary and Orchard Brae.

Education properties make up around 55% of the council's portfolio (by floor area) and account for 71% of core property costs and 51% of backlog maintenance.

There is continuing pressure on the education estate due to increasing pupil numbers and a continued expansion of the city. The estate makes a significant contribution to core LOIP outcomes and in delivering the growth of the city. A review has been initiated but will require to be considered in relation to the TOM and the transformation programme. A wholesale review of the estate will be taken forward in early course. Base data will be presented on the estate and its link to curriculum delivery to a future committee, prior to a programme of consultation and dialogue over the role of the estate with stakeholders and service users during summer 2018.

3.5 ACCELERATE THE DISPOSAL OF SURPLUS ASSETS

37 assets are currently declared surplus (January 2018) of which 23 are being actively marketed or being prepared for market with 7 under offer and anticipated receipts in excess of £7 million. The other 7 are help strategically. There are a further 19 properties vacant and not yet declared surplus by the service. This has a running cost implications and an opportunity cost in capital receipts.

3.6 ADDITIONAL INCOME

As outlined previously in this report, the current portfolio is generating a considerable income and to increase this would require the service to have a greater degree of commercial flexibility. This will enable the service to more quickly dispose of low performing assets, to respond faster to the market during a transaction (there have been some examples of developers withdrawing from projects due to delays in the process), and invest in assets that are aligned to the wider Strategic aims (work on this is currently being taken forward by the Scottish Cities Alliance). Alternative management arrangements for assets that are not strategically aligned or profitable e.g. pigeon lofts, garages, should also be considered.

3.7 QUANTIFYING THE OPPORTUNITY

In summary the Council's move to the new operating model and strategic priorities, and the need to improve the existing estate, drive several types of recommendations including:

1. **Accelerate the implementation of the decision to create a single corporate strategic function to manage all operational assets (as set out in the TOM);**
    - To enable a whole-Council view of asset needs, and support cross-Council working to design local services in conjunction with property needs;
    - To be able to make effective decisions to reconfigure the operational estate to reduce running and property management costs.
    - To have a significant influence over the prioritisation and direction of the capital programme

    This will unlock the opportunities highlighted within this report and in the Asset Management Framework, namely:

    - Rationalisation – e.g. further consolidation of the office estate, seeking to optimise agile working practices.
    - Place based reviews to consolidate of Council services around community hubs, seeking to improve customer access whilst rationalising the estate.
    - Challenge the business need for the asset

- Site disposals to generate capital receipts and/or release land for housing/other uses.
- Lease breaks / surrenders to reduce the rent and service charge budget.

2. **Development of greater commercial flexibility (speed of decision making) to manage the genuine commercial/investment portfolio**, separating out from low performing properties retained due to perceived societal value
    - Site re-development to support regeneration, economic growth and income generation.
    - Review of scheme of delegation.
    - Disposals to raise capital receipts to reinvest
    - Asset transfer to communities.

It is clear that by unlocking even a small percentage of the opportunities will lead to a reduction in the size of the estate could drive some significant savings:

POTENTIAL AREAS OF SAVINGS	EXAMPLES OF HOW THIS COULD BE ACHIEVED	18/19 POTENTIAL	POST 18/19
Office Rationalisation	Review of office estate to look at: • Moving council staff from Frederick street property and either disposing or identify a sharing model with partners. • Review requirement for Kittybrewster space and relocate all office staff to reduce revenue costs and long term rates (subject to demolition). • Review of Accommodation moves budget (1 year reduction pending future reviews).	£100k (half year) £100k	£200k £350k
Depot Review	Review of Depot space for short term relocations and closure of smaller depots. Look to dispose or clear sites to avoid rates.	-	£100K
Place Based Reviews	Initial Review in Tillydrone and Torry – following redevelopment of community hubs etc.	-	£100k
Community Asset Transfer	A number of Community Asset Transfer projects are under review and being advanced: Bon Accord Baths (utilities costs / no rates as listed) Seaton Huts and Depot (utilities/ rates and grant) TA Centre Peterculter (Minimal only circa £3k)	- £10K	
Asset Challenge	A number of assets have already been challenges and savings identified • Tarves Road Potterton (lease expiry) - £51k • Town house - EFW rent (9 month only) - £15k • modular classroom removal - £100k Properties that could be declared surplus • Hazlewood School (£46k) • Woodlands School (£12k) • Cordyce School (£70k) • Bucksburn Primary (£50k)	£166k	

	• Public conveniences (Skene St/ Cults rates) £3k • Unit 41 Howemoss Rd – Trading standards (£11k) 19/20. *full year budgets/ subject to rates avoidance Properties that could form part of wider challenge (to be quantified – this is an indicative list only and requires further development) • Peterculter Depot (£18k) • Rosehill House • 4 Miltonfold • Stoneywood (existing site) • Balgownie 1 and existing AECC • Jack's Brae Car Park • Greenfern school site • Froghall Community and learning Centre • Mill of Mundurno yard (granite Store) • Culter pop in • Linksfield Day Care Centre • 3 Finnan Place • Carden School • Cummings park Community Flat • Beach Ballroom • Marischal College (potential to share with partners)	£181k*	£11k
Schools Estate	Saving will require to be considered in relation to a review of the wider estate.		
Accelerate Disposals	Assets held for sale are managed in a way to reduce the holding costs to the council. As assets are declared surplus the property revenue budget is transferred to asset management until a sale is concluded. The budget for this is currently £285k per annum and covers non domestic rates/ utilities and limited fit for purpose repairs. Reduction from Bon Accord indoor bowling/ vacant rates restructure and from disposals.	£80k	Subject to asset challenge.
Commercial portfolio **Additional Income**	Look to maximise revenue potential from TNRP portfolio (assume static position on income). If sales are advanced this is unlikely to have impact until 2018/19 but will reduce income. Initial reduction in leased in properties at George Street and Howemoss avenue(one year)	£100k	
	TOTAL	**£737k**	**£766k plus**

In summary, the opportunities explored above provide an illustration the potential, but is not exhaustive. However, to realise these opportunities changes the corporate Landlord model requires to be implemented to provide the service with all of the requisite controls to make decisions that will allow the estate to be reconfigured, to challenge service use of assets, and to release the financial benefit.

4 Next Steps

4.1 OVERVIEW

The next steps for this project are for the key stakeholders to review the business case and if the direction of travel is agreed to undertake the following:

- Implement the Corporate Landlord model as envisaged by the Target Operating Model, including the potential to deliver the operational savings.
- Develop an implementation plan for the move to the Corporate Landlord model.
- Identify resource to deliver the existing Asset Management Framework and cost savings identified in 2018/19 and beyond.
- In parallel, advanced the projects which can be advanced now or fall within 'business as usual' such as:
  - Place based review of the estate,
  - Asset challenges
  - Community asset transfers
  - Acceleration of disposals including consideration of demolition requirements and funding thereof.
- Identify additional income opportunities, collection of usage data with a view to challenge the business needs and to start to reconfigure the estate. Review and assess the properties that would be part of a purely commercial portfolio and those that serve a social need. Take forward the revised use of delegated authority to provide greater commercial flexibility.
- Develop a future business case, including greater clarity of the potential benefits and the associated costs, risks and delivery plan for the commercial portfolio. This should be consistent and consider the works being advanced by Scottish Cities Alliance around the supply of business premises.