

**OXFORD CITY COUNCIL**

**Finance Scrutiny Committee – 21st December 2005  
EXECUTIVE BOARD – 16<sup>th</sup> January 2006**

**Report of: Financial and Asset Management and Built Environment  
Business Managers**

**Title: Property Maintenance Backlog - Options for the Future**

**Ward: All**

**Report authors: John Bellenger, Section Manager, Built Environment                      John Kulasek, Acting Asset Manager**

**Contact Tel Nos: (01865) 252775                      (01865) 252137**

**E-mail address: jbellenger@oxford.gov.uk      jkulasek@oxford.gov.uk**

**Key Decision: No**

**Lead Member: Councillor Alex Hollingsworth**

**Scrutiny responsibility: Finance**

**RECOMMENDATIONS**

**This report explains the current position with regard to the outstanding maintenance backlog on the Councils non-housing property portfolio and identifies finance which may be available to start addressing this work. It outlines a number of options for dealing with the remainder.**

**Finance Scrutiny Committee and Executive Board are recommended to:**

- 1. AGREE to**
  - a) the re-casting of the capital programme to use sums currently allocated to Leisure and Community Centre properties to finance maintenance backlog works at these and other properties, while ensuring that the operational effectiveness of the Leisure and Community Centre buildings is not compromised**
  - b) The addition of £500,000 to the capital programme in year 2009/2010 to finance additional capital backlog works**
  - c) The allocation of up to £1,000,000 un-required finance from the Department of Works and Pensions contingency reserve to finance revenue backlog repairs, if and when this funding is released by central Government.**

2. For investment properties AGREE the proposals to:
  - a) Investigate options for further disposals of high maintenance and/or low income properties to finance works to other retained properties,
  - b) Progress the policy of revising leases to give tenants full repairing liability, subject to a further report to identify the likely costs and an indicative timetable.
  - c) Allocate and ring fence 5% of the rental income to be used for future maintenance, when leases are renewed or rents reviewed, for properties where negotiations are unsuccessful in persuading tenants to accept full repairing liability.
  
3. For Leisure Properties:
  - a) NOTE that the proposals will be subject to decisions taken in relation to the Leisure Strategy,
  - b) AGREE to the use of existing and proposed capital and revenue finance to carry out works from the backlog.
  
4. For Parks and Cemeteries Properties:
  - a) NOTE that liability for some buildings will be transferred to resident sports clubs where possible,
  - b) NOTE that the proposals will be subject to decisions taken in relation to the Playing Fields Strategy,
  - c) AGREE to the use of existing and proposed capital and revenue finance to carry out works from the backlog.
  - d) NOTE that some limited funding may be available through Planning Section 106 funds and Area Committee budgets
  
5. For Community Centre Properties:
  - a) NOTE that the proposals will be subject to decisions taken in relation to the Community Centre Strategy,
  - b) AGREE to the use of existing and proposed capital and revenue finance to carry out works from the backlog.
  
6. For Administrative Buildings:
  - a) NOTE that the proposals will be subject to decisions taken in relation to the Office Accommodation Strategy.
  
7. For the Town Hall:
  - a) NOTE that the proposals will be subject to progress on the proposals for the major refurbishment of the building.
  
8. For Community Properties:
  - a) NOTE that proposals for Westgate Car Park will be subject to the progress of the Westgate Development,
  - b) AGREE to the use of proposed capital and revenue finance to carry out works from the backlog.
  
9. For Non HRA Housing Properties:
  - a) AGREE to the sale of these properties as they become

vacant, subject to an analysis of their strategic value.

**10. For other Miscellaneous Properties:**

a) **AGREE** to the use of proposed capital and revenue finance to carry out works from the backlog.

**11. NOTE** that further reports may be brought forward on alternative means of financing the backlog works as these are developed.

**12. NOTE** that measures will need to be put in place to prevent the maintenance backlog re-occurring once cleared and that additional budgets may be required in the future. Further reports will be brought forward relating to this as they are developed.

**1. Background**

1.1 A review of the majority of the non-housing portfolio has recently been carried out which has allowed the estimated costings for the maintenance backlog to be reviewed.

1.2 This latest review estimates the value of the maintenance backlog at £9,247,000. Some budgets are available in the capital programme which can be used to address some of these repairs. The following tables provides details of the current costs, available capital finances and potential costs should the proposals within the report be implemented.

**1. Total Outstanding Maintenance Backlog**

	Investment Properties	Leisure properties	Parks and Cemeteries	Community Centres	Admin. Buildings	Town Hall	Community Properties	Housing (Non HRA)	Others	Totals
Capital	£790,500	£932,500	£1,052,000	£1,307,500	£435,500	£605,000	£57,000	£115,500	£0	£5,295,500
Revenue	£1,305,250	£263,500	£545,000	£554,000	£298,000	£437,000	£424,750	£97,500	£26,500	£3,951,500
<b>Total</b>	<b>£2,095,750</b>	<b>£1,196,000</b>	<b>£1,597,000</b>	<b>£1,861,500</b>	<b>£733,500</b>	<b>£1,042,000</b>	<b>£481,750</b>	<b>£213,000</b>	<b>£26,500</b>	<b>£9,247,000</b>
Projected Annual Increase in Backlog Costs (see note 2)	£230,533	£131,560	£175,670	£204,765	£80,685	£114,620	£52,993	£23,430	£2,915	£1,017,170

**2. Available Finance (see note 1)**

Capital (existing)		£1,211,200 (see note1)		£1,633,000 (see note 1)						£2,965,200
Capital (proposed)			£447,800				£52,200			£500,000
Revenue (proposed)			£250,000	£250,000	£64,000		£409,500		£26,500	£1,000,000

**3. Nett Outstanding Backlog (assuming that only available capital finance is used to finance works)**

Capital	£790,500	-£278,700	£1,052,000	-£325,500	£435,500	£605,000	£4,800	£115,500	£0	£2,330,300
Revenue	£1,305,250	£263,500	£545,000	£554,000	£298,000	£437,000	£424,750	£97,500	£26,500	£3,951,500

#### 4. Potential size of maintenance backlog when / if all proposed measures are fully implemented

Capital	£0	£0	£0 (See note 3)	£0	£0	£0	£4,800	£0	£0	£4,800
Revenue	£0	£263,500	£295,000	£304,000	£0	£0	£0	£0	£0	£862,500
Total	£0	£263,500	£295,000	£304,000	£0	£0	£4,800	£0	£0	£867,300
Projected Annual Increase in Backlog Costs (see note 2)	£0	£28,985	£32,450	£33,400	£0	£0	£528	£0	£0	£95,363

#### 5. Current annual maintenance revenue spend

Revenue	£89,500	£32,000	£13,000	£142,000	£103,500	£69,000	£21,000	£7,500	£0	£477,500
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#### Notes:-

1. It is proposed that the available capital finance will be used across all building categories to address the maintenance backlog, not just within those categories to which the budget is currently allocated. These budgets are currently allocated as follows:-

- Leisure Properties (total £1,211,200);
  - ~ Temple Cowley Pools (originally intended for enhancements such as the health & fitness suite, remodelling reception, extended crèche facility and refurbished dance studio) £708,800
  - ~ Temple Cowley Pools Plant and Maintenance (originally intended for building repairs and replacement plant) £222,600
  - ~ Ice Rink Plant and Maintenance (originally intended for building repairs and replacement plant) £279,800
- Community Centre Properties (originally intended for improvements and backlog issues) £1,633,000

In addition to the available capital finance outlined above, it is proposed that a further £500,000 of capital finance be added into the capital programme for the financial year 2009/2010 (see paragraph 2.2) and up to £1,000,000 of revenue finance be made available (see paragraph 2.3).

2. The projected annual increases in backlog costs are based on a 6% pa increase in tender costs (from Building Construction Information Service) and a notional 5% increase due to deteriorating condition.
3. This figure assumes that capital funds unspent after being used to carry out capital funded repairs to Leisure and Community Centres (but currently allocated to Leisure and Community Centre properties) be used on Parks and Cemetery buildings as indicated in note 1 above.
4. The zero figures in part 4 of the above table indicate that, over time and assuming that all proposed measures are successfully implemented, then the backlog liability will be eliminated. Should the measures not be fully implemented or successful then all or a part of the backlog figure indicated in part 1 of the table would remain.

- 1.3 There are some potentially high cost items not included in the above figures as listed below:

- a) Westgate Car Park (Community Property) - if the car park were to be retained (if the Westgate Scheme does not proceed as planned) a significant number of Health and Safety issues will need to be addressed. Investigations indicate that repairs could cost in the region of £300,000.

- b) St Aldate's Chambers; Members should refer to the Office Accommodation Strategy Report. If implemented as proposed this would address the majority of the outstanding maintenance backlog on Administrative Buildings. However, if the City Council retains St Aldate's Chambers additional costs (not shown above) of approximately £500,000 will be incurred to reconfigure the building to accommodate staff from other buildings.
- c) Parks Pavilions; the figures for upgrading and improving pavilions are based on old surveys. Re-evaluation of these buildings are planned for later this year, but will rely in many respects on the outcome of the Playing Fields Strategy.
- d) Town Hall; costs for the major refurbishment proposals outlined in the Berman Guedes report are not included. If fully implemented these could cost up to £10,000,000. It is likely that the City Council would need to find up to £5,000,000 of this sum, with the remainder being part funded by Lottery or other external grant. When the current exercise to test the feasibility is complete the position regarding the future, and cost, of this project should be clearer. This project would also address the maintenance backlog on this building. If the project is not pursued then the maintenance backlog costs remain to be dealt with.

## **2. Current Available Finances**

- 2.1 Section 2 of the table in paragraph 1.2 shows the existing available capital finance, which can be used to carry out works against the maintenance backlog. This amounts to £2,965,200.
- 2.2 In addition to this existing capital finance, it is proposed that a further sum of £500,000 be added into the capital programme for the financial year 2009/2010, to be used to carry out the remaining capital backlog repairs to the Parks and Cemeteries and Community properties. This is also shown in the table at paragraph 1.2, section 2.
- 2.3 Also shown in paragraph 1.2, section 2 is revenue finance of £1,000,000. The City Council is currently holding finances in reserve against the possible need to repay grant to central Government (the DWP contingency reserve). A decision on if, and how much, may have to be repaid is awaited; we are pressing for this decision to be made known to us as soon as possible. Should all of the DWP contingency reserve not be needed, it is proposed that up to £1,000,000 be used to carry out revenue funded items of maintenance backlog in the Admin buildings, Community Centres, Parks and Cemeteries and Community Buildings categories of buildings as shown in the table.

- 2.4 In addition to these capital budgets, Built Environment administer the annual repairs and maintenance budget which amounts to £250,000 of capital finance and approximately £477,500 of revenue finance. These budgets are spread across the whole non-housing property portfolio.
- 2.5 The annual capital budget of £250,000 is expended on small improvements while the revenue budget of £477,500 is used for day to day repairs and emergencies. **Over the last 15 years these capital and revenue budgets have remained static in value terms, the capital budget being reduced by 50% to its current level two years ago.**
- 2.6 Both annual budgets are generally aimed at keeping buildings operational and weatherproof and dealing with health and safety or legal requirements. **They are not sufficient to begin addressing the maintenance backlog repairs. The level of the budgets now are insufficient to carry out all repairs required, particularly with regard to cyclical maintenance such as external decoration, which is why the backlog has reached the levels indicated above.**

### 3. CPA Implications

- 3.1 Members will be aware that the Audit Commission has revised the CPA Inspection process to include considerations on how Councils manage and use financial resources. An important element of this will focus on the Asset Management process of which addressing the maintenance backlog will form a key part.
- 3.2 The new inspection criteria will require us to show, amongst other things, that we have:-
- an up-to-date asset register and an asset management plan that details existing asset management arrangements and outcomes and planned action to improve corporate asset use,
  - a designated corporate property function with a managed strategic property overview to ensure the co-ordination of the council's assets,
  - an annual programme of planned maintenance based on a rolling programme of property surveys,
  - assessed the level of backlog maintenance,
  - a plan to reduce the level of backlog maintenance that has been approved by Members.

Failure to successfully demonstrate that we meet these criteria could have a detrimental effect on our CPA rating at a future inspection

## 4. The Way Forward

### 4.1 Investment Properties

4.1.1 It is proposed to review the property portfolio to identify those properties which have a high maintenance liability and/or a low revenue income return and dispose of these to finance capital repairs to the retained properties. Examples of such properties might be Northgate Hall, 18A Turl Street and Bury Knowle Barns. As this work is progressed specific reports will be brought forward for Member approval relating to individual property disposals.

4.1.2 With regard to revenue repairs it is proposed to progress the policy of revising leases to give tenants all repairing liabilities. If this is left until the leases expire it would take 20-30 years to complete the process. It is therefore proposed to actively seek to bring this process forward to reduce the timescale. **However**, Members should be aware that this proposal will have a detrimental effect on revenue income which is estimated to be at least 5% of the rental income as compensation to the tenant for the on-going transfer of the maintenance liability. Additionally, there will also be a one off payment (or rent free period) to cover the costs of the outstanding remedial works. Further work is still required on this proposal to produce an indicative programme and to firm up the likely cost which could amount to £300,000 per annum, this figure being a combination of a reduction in existing rental income and partly foregoing an element of future rent increases to cover outstanding maintenance issues transferred to tenants. When this work is complete and detailed information is available a further report on this option will be presented for Member's consideration.

4.1.3 There may be occasions where negotiations are not successful in persuading tenants to take on the full repairing liability when leases are renewed or rents reviewed. In such cases, it is proposed that 5% of the rent be set aside into a ring fenced fund to be used for future maintenance of the properties (to supplement the existing maintenance budget).

### 4.2 Leisure Properties

4.2.1 Finance exists to address the capital expenditure backlog but all works to these properties will be subject to decisions taken relating to the Leisure Centre Strategy. The Leisure Strategy should address the future of all facilities and direct where available funding should be invested.

### 4.3 Parks and Cemeteries Buildings

4.3.1 As with Leisure Centres, works to Parks buildings will be subject to the Playing Fields strategy. However, liability will be reduced or eliminated

at a number of buildings where this is transferred under formal lease arrangements to resident sports clubs. The Playing Fields Strategy should direct where other resources are spent, which can be part funded by budgets already in the capital programme (but currently allocated to Leisure and Community Centres)

4.3.2 Additional finance may also be available from Planning Section 106 monies (for example as proposed at Barton Recreation Ground) and this route will be explored for other facilities.

4.3.3 There may be some scope for work to be funded through Area Committee budgets, although this funding is limited and only small scale projects are likely. Discussions will be held with Area Co-ordinators to progress this option for schemes to be included in Area Action Plan.

#### 4.4 Community Centres

4.4.1 There is finance available to carry out works to Community Centres but the Community Centres Strategy needs to direct where this investment is spent. There may also be some opportunities for funding generation for other works from site redevelopment and/or consolidation.

#### 4.5 Administrative Buildings

4.5.1 Proposals for this category of property will be subject to the outcome of the Office Accommodation Strategy. In summary, this proposes consolidating our administrative building requirements into fewer buildings than we currently occupy and thereby largely eliminating the maintenance backlog liability in this category of building. However, Members should be aware that if the Accommodation Strategy is not progressed in this way then the maintenance backlog shown in section 1 of the tables above will remain and further options will need to be considered for dealing with this.

#### 4.6 Town Hall

4.6.1 Members will be aware of the proposals for a major refurbishment of the Town Hall. As stated above, an exercise is currently being carried out to test the viability of this project, which will inform the decision on whether it should be pursued further. If the scheme is progressed the City Council is likely to have to find up to £5,000,000 as match funding towards the potential £10,000,000 total. If the scheme is carried out it would also deal with the maintenance backlog to the building. It is therefore proposed to defer any decision on the Town Hall pending further reports and the outcome of the feasibility exercise currently being undertaken into the major refurbishment. As with the Administration Buildings, should the major refurbishment project not

proceed then the maintenance backlog liability remains and will need to be dealt with in another way.

#### 4.7 Community Properties (Car Parks, Public Toilets etc)

4.7.1 A major property in this category is Westgate Car Park, the future of which will be better known when the proposed Westgate Centre Development is decided.

4.7.2 For public toilets there are some options currently being pursued to sell redundant sites and generate income through these sales. Other options to be considered could be a review of how these facilities are provided including opportunities to raise revenue through advertising or charging, while first recognising that some investment would be needed to upgrade the properties in the first instance.

#### 4.8 Non HRA Housing (Parks Lodges etc)

4.8.1 It is proposed to continue the policy of selling these properties as they become vacant. A list of these properties is attached at Appendix A.

#### 4.9 Miscellaneous (War Memorials etc)

4.9.1 There is little that can be done to reduce or eliminate the liability on these properties which is small in relation to the overall sums involved.

### 5. Other Financing Opportunities

5.1 Other opportunities for financing the works, prudential borrowing for example, will be investigated on a project by project basis and further report brought forward when possible.

### 6. Future Maintenance Funding

6.1 In addition to clearing the backlog, it should be recognised that arrangements need to be put in place to ensure that the backlog does not re-occur once cleared. It can be seen from section 4 of the table in paragraph 1.2 that should the above proposals all be successfully implemented then the maintenance backlog would reduce to £867,300 at today's costs (which would then increase at £95,363 per annum). This becomes more manageable within the existing revenue budget allocation of £477,500 although this needs to also cover necessary planned and cyclical maintenance works to keep buildings operational. The situation will need to be kept under review as the measures outlined above are implemented and further work needs to be carried out to determine that the annual budgets can gradually erode the remaining backlog to zero and cope with the inflation increases in the meantime. As this work is developed further reports will be presented

to members for information and decision. It may be found that additional revenue funding will need to be requested in the future when the situation is clearer and budgetary constraints allow.

THIS REPORT HAS BEEN SEEN AND APPROVED BY:

Portfolio Holder: Councillor Hollingsworth

Strategic Directors: Caroline Bull, Mark Luntley, Sharon Cosgrove, Michael Lawrence

Legal and Democratic Services: Jeremy Thomas

Financial Management: Penny Gardner, Mike Baish

Background papers: Asset Management Plan Maintenance Backlog Schedule

## APPENDIX A

### **SERVICE TENANCIES – ACCOMMODATION**

Flat 2, Bury Knowle House, North Place, Headington

Rose Hill Cemetery Lodge, Eleanor Close, Rose Hill

Headington Cemetery Lodge, Dunstan road, Headington

Headington Hill Dairy Lodge, Headington Hill Park, Headington

Headington Hill Lower Lodge, Headington Hill Park, Headington

Botley Cemetery Lodge, 16 North Hinksey Lane, Botley

Wolvercote Cemetery Lodge, Wolvercote – now vacant

Bullington Green Cottage, Eastern By Pass, Cowley

Brasenose Farmhouse, Eastern By Pass, Cowley

South Park Bungalow, South Park

House No. 1, Horspath Road Recreation Ground – now vacant

House No. 2, Horspath Road Recreation Ground, Horspath Road

Cotteslowe Park Cottage No. 1, Cotteslowe Park

Cotteslowe Park Cottage No. 2, Cotteslowe Park

184, Pegasus Road, Blackbird Leys

West Hill Farm, The Ridings, Shotover