

AUDIT AND RESOURCES COMMITTEE

TUESDAY, 7TH MARCH 2023

REPAIR AND RENEWAL PLAN 2019/20 - 2023/24

UPDATE MARCH 2023

Report of the Lead Building Surveyor (Asset Management)

Recommendation:

It is recommended that Audit and Resources Committee notes the progress against the Repair and Renewal Plan 2019/20 - 2023/24.

Summary

The Council currently own over 1,000 assets predominantly located within the Borough. It includes commercial property, leisure facilities, depots, car parks, public conveniences and assets leased to community organisations.

Our commercial investment portfolio generates a rental income of £16m per year for 2021-22 with a book value of circa £220 million (as at 31st March 2019).

Focus for Scrutiny

The Repair and Renewal Plan is developed to span 2019/20 – 2023/24 to enable the Council's operational and commercial buildings to be maintained in a good state of repair. This report details the progress against the approved plan.

Statutory Powers

* Local Government Act 1972, Sections 111 and 151

Strategic Implications

1. This report provides a view on progress of the Repair's and Renewal (R&R) Plan which has been impacted by the COVID-19 pandemic, recent economic events and the war in Ukraine. These events have contributed to high inflation, various access restrictions, staff absence and limited contractor resource availability. These issues have been reported through the Strategic Risk Management Group (SRMG) in June/December 2021 and November 2022. It

has also been communicated to all Councillors through briefings and publications.

2. Appendix 1 provides the latest estimate for works and activities for 2023-2024, post COVID. These works do not include future large-scale capital investments or disposals as this forms part of future and on-going work to determine the strategic direction of the Council's property portfolio.
3. The Repair and Renewal Plan allows the Council to continue to have a proactive and commercial approach to its property portfolio, actively supporting the corporate objectives of maintaining a sustainable environment and providing infrastructure to support a prosperous community during challenging times.

Introduction

4. The Council currently own over 1,000 assets predominantly located within the Borough. It includes commercial property, leisure facilities, depots, car parks, public conveniences and assets leased to community organisations.
5. The Repair and Renewal Plan for 2019-24 was brought to this Committee for review in October 2019. Of the original £4m budget planned for 2019/20 to 2022/23, 68% has now been spent or committed. Delays have been experienced, primarily due to the COVID-19 pandemic, and schemes have been deferred into future years dependent on priority or are awaiting strategic decisions by the Council.

6. Operational Properties

- The operational portfolio of property includes the following significant assets:
 - Itchen Valley and Lakeside Country Parks
 - Eastleigh House
 - The Point
 - Operational depots in Hedge End and Dutton Lane
- 7. A number of these buildings require some planned investment to replace infrastructure and provide necessary compliance with latest standards
- 8. The latest estimate for these works is some £870,000 or 22% of the five-year R & R Plan budget. This report quantifies the spend on operational properties over the remaining year and it is intended that this report will continue to be provided annually. A new five-year plan will be prepared during the next

financial year and presented alongside the scheduled R & R update in early 2024.

9. Any new buildings acquired will be added to the asset list with any necessary expenditure upon purchase being covered within the initial business case.

Commercial Properties

10. The commercial portfolio includes industrial and retail parks, hotels, office blocks and leisure facilities such as:
 - The Ageas Bowl
 - Hilton Hotel
 - David Lloyd Centre
 - Black Horse House
 - Hampshire House
 - Omega House
 - Wessex House
 - Link 1 and 2
11. Some of these assets require investment to replace infrastructure and ensure future compliance. The current R & R plan has £700,000 of budget committed to the investment portfolio. Some of these costs can be recovered from tenants with increase rental income
12. The Property Management Team have developed a plan of works and a delivery strategy in consultation with Finance. An updated schedule is provided within Appendix 1 to this update.
13. The scope of works required are still under review for a number of these sites including The Depot and Wessex House- which will determine likely budget spend.

Dilapidations

14. Of the 300 commercial properties that the Council owns, some 25% of these have lease obligations whereby the tenants is response for the full repair and reinstatement costs. Where the Council is seeking to appoint new tenants then the intention is to ensure that these tenants have this same obligation on dilapidations reducing the risk of dilapidation costs to the Council
15. In the event that a tenant becomes insolvent or stops trading the Council may be expose to the risk and costs of undertaking dilapidations costs before that

unit can be relet. Currently no financial provisions have been made against any such risk, other than the use of the wider property reserves.

16. Pro-active inspections of tenanted buildings are prioritised to ensure tenants are complying with their maintenance and repairing obligations when they are in occupation, which will reduce the risk of dilapidation costs falling to the Council upon lease expiry.

Financial Implications

17. The updated capital cost of the proposed Repair and Renewal Plan is summarised in the table 1
18. Expenditure is forecasted to remain high in 2023/24 and onwards as delayed spend due to the impact of COVID-19 has been reprofiled into future years.

Following a review of the original plan and any deferred projects there is minimal scope for savings. The Property team has had to complete a number of unforeseen works, and high inflation has had to be covered by the planned contingency budget. Table 1

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Actual	Actual	Forecast	Forecast
	£	£	£	£	£
Operational Buildings	192,000	344,000	438,970	649,603	1,115,000
Commercial Buildings	15,000	125,000	288,244	618,766	710,000
Total	207,000	469,000	727,214	1,268,369	1,825,000

Operational buildings do not provide the Council with a direct income source, but instead ensure that the Council can continue to provide services. Expenditure on operational buildings related to repairs and renewals will, as has historically been the case, be funded through borrowing. The revenue implication is contained in the budget update provided to Cabinet on February 23rd, 2023

20. The repairs and renewal expenditure on Commercial Properties will be funded from PWLB borrowing, with the associated borrowing costs being funded from income brought into the Council through rents and service charges. Although expenditure will be funded through borrowing, for some properties there may be cash reserves that can be used, or the cost of works recovered from tenants through the service charge for buildings. This will be monitored on a case-by-case basis and decisions delegated to the Chief Financial Officer and Service Director Property and capital to determine the most appropriate form of funding and deliver best value for money for the Council.

21. Expenditure will be carefully programmed to ensure minimal disruption to any operations or business tenants, and to maximise income generation. Liability for dilapidations to the commercial portfolio will also be monitored, ensuring the Council works in a pro-active manner to minimise any potential costs should dilapidation claims arise.
22. The Repairs and Renewal's five-year plan will continue to be revisited annually and developed into a rolling programme, with an updated report being brought for approval to Cabinet every five years, with the next being scheduled for 2024/25.

Risk Assessment

23. This report outlines the progress to date against the approved Repair and Renewal Plan which aims to replace defective fabric and equipment with up-to-date technology and comply with building regulations, statutory and industry standards.
24. If the Council fails to maintain its property portfolio it risks financial implications due to the risk of increased or unforeseen costs and decreased revenue return from rental. Surveys and works to date have ensured that these risks are being managed and mitigated where appropriate.

Climate Change and Environmental Implications

25. To progress the Climate Change Strategy and support decarbonisation, the Council is proactively looking at alternative fuel systems when replacing heating and cooling systems and replacing building fabric with high-performance materials to improve thermal performance. Where possible materials and resources are sourced from local suppliers and manufacturers.

Equality and Diversity Implications

26. It is not proportionate to carry out a full EIA at this point. However any future works should include an equality assessment and or necessary reasonable measures and or works carried out to facilitate this throughout the plan.

Conclusion

This report demonstrates the progress to date against the Repair and Renewal Plan 2019/20-2023/24.

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e-mail: Jacqui. Baxter@eastleigh.gov.uk Appendices Attached:

LOCAL GOVERNMENT ACT 1972 - SECTION 100D

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.

* List Background Papers None.