

Agenda Item	6
Report No	RDB/08/22

HIGHLAND COUNCIL

Committee: Redesign Board / Council Committee

Date: 28 November 2022

Report Title: Asset Management – Inverness Town House

Report By: Executive Chief Officer Housing & Property

1. Purpose/Executive Summary

- 1.1 The purpose of this report is to outline the proposed approach to be taken in respect of realising significant General Fund revenue budget savings from a change in the Highland council's current use of the Inverness Town House.
- 1.2 It is recognised that the Council's General Fund budget is currently reporting a significant overspend position in excess of £9m and that there is a forecast budget gap in the coming financial year of circa £41m. The proposed approach will deliver recurring revenue savings of £370k to the General fund.

2. Recommendations

2.1 Members are asked to:

1. **APPROVE** the proposed approach to be taken to realising savings to the general fund from a changed approach to the use of Inverness Town House (section 7)
2. **NOTE** the recommendation for the Inverness Common Good Fund to seek commercial advice over maximising profits from civic and hosted events (section 8.1)
3. **NOTE** the recommendation to commission a feasibility study for the longer-term use of the Inverness Town House to ensure the site is sustained beyond any transition towards a net zero estate (section 8.2)

3. Implications

3.1 Resource

The Asset Management and Hybrid Working project team consists of 7 fte for a period of 24 months, up to November 2024. The team includes a mixture of Human Resources, Property and Project Management expertise.

3.2 Legal

Internal Legal advice has informed the recommendations contained within this report. The current arrangement between The Highland Council and the Inverness Common Good Fund is an internal agreement and therefore does not constitute a formal lease agreement in law. Changes to the current arrangements are permissible through agreement between the impacted services and Council members. The main legal implications for the Inverness Town House would develop from any fundamental change to the use of the property (i.e., conversion from office space into a cultural centre). Changes of this nature would be subject to full public consultation and an appropriate Court application. The proposed option presented in this paper would not require a change of use of the building.

3.3 Community (Equality, Poverty and Rural)

The Asset Management and Hybrid Working project aims to safeguard an asset mix that reflects on the need for a balanced provision of localised service delivery as against the optimum deployment of limited available resources. The focus upon a reduction of office accommodation will substantially reduce the impact at community and local level. The proposed option presented in this paper retains the provision of the current Service Point in the Inverness Town House.

3.4 Climate Change / Carbon Clever

The Asset Management and Hybrid Working project has strong alignment with the wider strategic objective for The Highland Council to become a carbon neutral organisation by 2040. The project team is working closely with the climate and energy team to collectively establish a roadmap towards a reduced, sustainable built environment estate. A key recommendation of this report is to commission a feasibility study to look at alternative funding options and uses of the Inverness Town House to ensure the site remains a viable asset as the transition towards a net zero estate occurs.

3.5 Risk

Risk Management will be a core process to the management and delivery of the Project. Overarchingly, the proposed option seeks to deliver a significant recurrent saving to the Council's General fund budget whilst doing so in a way which is sustainable to the Inverness Common Good and that promotes a secure and sustainable long term future for the Inverness common Good.

3.6 Gaelic

There are no Gaelic implications identified at this time.

4. Background and Strategic Approach

4.1 The Asset Management and Hybrid Working project is a Redesign Board governed project, which has been set the target of delivering £1M of revenue savings from across all General Fund properties with the exception of the school estate which is currently not in scope. Housing HRA buildings are also not in scope as the HRA is

a separate ring fenced (in law) budget, and the focus of the exercise is recurrent General Fund revenue budget savings.

Revenue savings primarily result from withdrawing from buildings that Property Services pay a lease charge for, and the sale, transfer/Community asset transfer, mothballing, closing and demolition as appropriate of buildings. Revenue costs attached to these buildings include utility savings, revenue maintenance savings, and in some cases cleansing, catering and a range of other smaller day to day revenue expenditure liabilities that will all cease if we no longer occupy a given building. No cyclical maintenance saving arises from this exercise as the Council removed this budget as a part of prior year savings exercises. The Redesign Board agreed with the project recommendation that substantial savings would need to be sourced from the Inverness Town House, due to the significantly high revenue costs associated with this property, leading to the proposed option providing recurring savings of £370kpa.

- 4.2 Given 4.1 above it is clear that realising the proposed savings option amounting to £370kpa recurring is essential in meeting the overarching savings target of £1mpa recurring. In context, this is principally because from inception of the Asset Rationalisation project in the first place it was identified that the majority of savings would be taken from office clerical properties as savings from other property categories would not be achievable within the project timeline.

However, part of the challenge to overall delivery of the project is that there is a perception that the Council has several hundred offices and/or buildings occupied by staff largely carrying out administrative functions or acting as an office base for staff delivering services in communities, and that there are consequently several hundred that can be in scope for contributing towards achieving the savings target. Unfortunately, this is not now, and never has been, the case. The majority of these built environment assets fall under the categories of burial sites, memorials, clock towers, playing fields, etc.

The reality is that the overall clerical office estate is now below 50 properties and the majority of these are small sites. To further underline the point, the Gross Internal Floor Area (GIFA) of these clerical offices (including Inverness Town House) amounts to around 16%. In comparison, the very vast majority of space – and therefore potential revenue savings – is to be found in the school estate, which accounts for around 60% of GIFA. Not including the proposed option to realise £370kpa recurring savings therefore significantly impacts on the likelihood of successful delivery of the £1m savings from the Asset Rationalisation project as currently constituted.

- 4.3 Initially the project commenced with a series of batches of properties which were approved by Redesign Board for review. This approach resulted in an inherent 3-monthly cycle for decision making (excluding usual recess periods and additionally allowing for Council Elections) and the project was further challenged with identifying routes towards accelerating the delivery of Property savings. On 10th March 22, Council approved the Redesign Board recommendation to adopt a holistic approach towards meeting the Asset Management revenue savings target. The holistic approach required an early decision over the property mix that would generate the overall savings target.
- 4.4 On 7 September 2022, the Redesign Board agreed with the project recommendation to delegate decision making authority in line with the current

Scheme of Delegation. This would mean that decisions would be taken via the following forums, dependent upon the value of the overall saving:

- Strategic Property Board is able to takes decisions on properties up to a value of £250K or £50K per annum (community transfer options are also represented on the Board)
- Properties of higher value are approved via the Housing and Property Committee
- All properties with Common Good interest are by Redesign Board and Council. Consequently, as the Town House is a Common Good property, this paper is presented seeking permission to proceed with the proposed option to the Redesign Board, and if approved, for onward referral to full Council for ratification of the Redesign Board's decision should it be so minded.

4.5 The Town House can be considered as a signature property within the Highland Council estate. The recent cosmetic upgrades of the site have strengthened the importance and social value of the building. For these reasons it is important that any move towards delivering savings from the site do not result in a detrimental impact to any party whilst at the same time recognising the desire for the Council General Fund to reduce its revenue spend as much as is practicably possible and as quickly as is practicably possible. The preferred option seeks to meet the following objectives:

1. Achieving a fair balance between minimising the long-term impact upon the Inverness Common Good Fund's financial position, whilst enabling the Council General Fund to make significant recurring revenue budget savings
2. Avoidance of any substantial change of use at the site in the shorter term (which would result in a significant delay towards the delivery of savings)
3. Recognition that the current use as office accommodation may potentially not be sustainable as we transition towards net zero and so beginning to explore the options available for alternative uses alongside of/instead of its current principle use as office space.

5. Properties associated with Common Good Funds

5.1 The legal position surrounding Common Good Funded properties can be summarised as:

- Common Good land is owned by the Local Authority. Ownership is absolute in the strict sense that the Authority holds legal title to it. However, what the Authority can do with the land is subject to a system of statutory control.
- In particular, Common Good property is administered under rules that relate to the interests of the people who live in the former Burgh. The Council has a legal obligation under the Local Government etc. (Scotland) Act 1994 'to have regard to the interests of the inhabitants of the area to which the Common Good related' when making any decision about Common Good land.
- When planning to dispose of or change the use of Common Good property, Section 104 of the Community Empowerment Act (Scotland) 2015 requires

the Local Authority to consult with the local community. The Local Authority must publish details of the proposed disposal or change of use of Common Good property and notify and invite representations from Community Councils and community bodies. The use or disposal of an item of Common Good property can be subject to conditions imposed by those who gifted or sold the property. In some cases, whether or not a property can be sold may have to be decided by the courts.

- 5.2 As a result of section 5.1 each property linked to Common Good funding, including the Inverness Town House, will require a different treatment dependent upon the options being considered. Potential options may require varying degrees of public consultation, especially where change of use and/or disposal options are being considered. It is important to reiterate however that the current preferred option does not recommend any disposal or change of use of Inverness Town House.
- 5.3 Notwithstanding the above, it is important to note that the savings identified largely derive from relocating staff who are currently based at the Town House to other locations within Inverness. That then creates the opportunity for the space vacated to be commercially exploited by the Common Good in a range of ways, as office space or indeed in being used for a range of commercial activities and income generating opportunities, as Members discussed and noted at the last Redesign Board on 7th September 2022, subject to the caveats on consultation set out in the preceding paragraph and in Section 5.1 above. In short, the Council General Fund can make a significant saving in excess of £370kpa ongoing and there are also opportunities for the Common Good to generate significant income streams as a consequence through greater commercial exploitation of this key asset.

6 Inverness Town House (Revenue Costs and Usage)

- 6.1 The following table provides a breakdown of budgeted and actual revenue costs associated with the Inverness Town House:

Revenue Cost	22/23 Budget	21/22 Budget	21/22 Actual	20/21 Actual
Town House Rental (paid direct to Inverness CGF)	200,000	200,000	200,000	230,000
Car Park Rent	33,500	33,500	27,637	28,000
Town House & Car Park, Electricity Charges	20,441	19,483	6,715	10,117
Town House & Car Park, Gas Charges	16,293	15,000	8,329	4,735
Town House & Car Park, Water Charges	6,700	6,700	7,937	6,870
Town House & Car Park, Property Insurance	4,400	4,400	-	-
Town House & Car Park, Cleaning Materials / Equipment	2,200	2,200	-	-
Town House & Car Park, Grounds Maintenance - Contract	900	900	596	-
Town House & Car Park, Landline Telephones	100	100	-	277
Miscellaneous Property costs	-	-	-	189
Non-Domestic rates	84,045	84,045	84,045	84,045

Total Property Costs	£368,579	£366,328	£335,259	£364,233
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6.2 The following is a breakdown of the proposed savings and the difference between the proposed options in relation to each element:

Town House Annual Payment

Currently £200K is paid annually into the Inverness Common Good Fund. This would cease from 1st April 2023 onwards under the proposal.

Car Park Annual Payment

Currently £33.5K is paid annually into the Inverness Common Good Fund. This would cease from 1st April 2023 onwards under the proposal.

Town House Utility Costs

This includes Gas, Electrics, Water, Insurances and Telephony costs. These liabilities would pass to the common Good under the proposal but with the expectation that these costs would be met by replacement tenants as would be common general practice in any other situation where a commercial/non domestic property was being let by a commercial landlord to a leaseholder.

Non-domestic rates

Relief would only be applicable if the site was completely unoccupied. This is unrealistic, given the importance of the site from a social perspective and the need to maintain the Service Point at the current site. The proposal would result in this cost being passed directly to the Inverness Common Good Fund with the expectation that these costs would be met by replacement tenants, as above as would be common general practice in any other situation where a commercial/non domestic property was being let by a commercial landlord to a leaseholder.

Cleaning and Facilities Management Costs

Additionally cleaning and Facilities Management direct costs are budgeted at approx. £40K per annum. The proposal would result in these costs being passed directly to the Inverness Common Good Fund with the expectation that these costs would be met by replacement tenants, again as would be common general practice in any other situation where a commercial/non domestic property was being let by a commercial landlord to a leaseholder.

6.3 The Inverness Town House currently accommodates approx. 100 members of THC staff. A number of diverse teams operate from the site including Housing Teams, Planning and Building Standards Officers, Business Support and the Homeless Team. The site also hosts the Service Point in a prime city centre location. The Inverness Town House is an important venue for civic functions and hosts up to 300 events each year (ranging from public meetings, to dinners, weddings and roadshow events). These civic events generate a small profit for the Inverness Common Good Fund although these can be considered as below benchmark figures with what would be considered appropriate due to the grandeur of the venue.

7 Savings proposal

7.1 This 1 would deliver a minimum saving of approx. £370K revenue savings for The Highland Council. These savings would be achieved through the following actions:

- Cessation of the annual payment of £200K into the Inverness Common Good Fund for use of the site
- Cessation of the annual payment of £33.5K into the Inverness Common Good Fund for use of the car park
- Transfer of all utility costs to the Inverness Common Good Fund with the expectation that these costs will be passed to replacement tenants
- Transfer of non-domestic rates costs to the Inverness Common Good Fund with the expectation that these costs will be passed to replacement tenants

Additionally, liability for maintenance and CCFM costs would also pass to the Inverness Common Good Fund.

7.2 Implications for Common Good

A loss of direct income totalling approx. £230K per annum along with transfer of the ongoing liability for utility, rates and CCFM costs totalling approx. £140K per annum. The risk surrounds the ability of the Common Good to find alternative occupants if indeed it wishes to replace office use (General Fund) with office use by others, as opposed to considering the opportunities for alternative use of spaces and/or greater commercial use.

By way of partial mitigation, it is noted that engagement is ongoing with potential tenants that may result in £40K per annum. of income (subject to agreement with interested parties) as a positive example, but that would however still present the Common Good with the need to achieve a further £140K per annum before the break-even point is reached.

Whilst challenging, this situation essentially is no different than income generating targets which many other Directorates of the Council are expected to achieve. There is a risk that at least initially the Common Good may not immediately achieve these income targets – a risk every other Council Directorate faces. However, the Common Good is in a substantially better position to be able to maintain a temporary shortfall as against an income target than the Council General Fund, given the Common Good's asset base and income streams, and given the General Fund's current projected overspend of £9m at the point of writing.

7.3 Impact upon Highland Council General Fund

The savings associated with this option are favourable for The Highland Council and would contribute significantly towards the achievement of the £1M revenue savings target. Not taking this saving as proposed substantially impacts on the deliverability of the targeted £1m pa recurrent revenue budget saving required. To achieve these savings all staff groups would need to vacate the premises before the 31 March 2023 which is achievable. The majority of staff would be relocated into the Headquarters building or other locations, including blended working arrangements between home and office in the short term.

Should this option be selected staff will need to be formally notified of the requirement to relocate by 31st December 2022 to comply with current employment legislation requiring a minimum of 90 days' notice for any changes to Employee Terms and Conditions, including location. The Service Point would continue to operate from the site. A small office footprint would also be maintained at the site to enable staff to work in support of the civic capacity.

7.4 **Recommendation**

This proposal has the benefit of delivering the maximum overall saving for The Highland Council. It is not without some element of risk to the Common Good, in that they would then be responsible for generating sufficient income by a mix of attracting new tenants and/or greater commercial use of the asset. This is, however, and as above, essentially the equivalent of an income generation target as applies to several other directorates currently. There would need to be an open book analysis of the current assets and liabilities of the Common Good to establish the extent to which it could – or could not – sustain this approach and if so for how long, should it struggle to attract new tenants and/or maximise a commercial approach to the use of their asset.

8 Additional Recommendations

8.1 Members are also asked to consider the recommendation to seek commercial advice to maximise the potential income generated from civic events.

8.2 Members are asked to consider the recommendation for the establishment of a feasibility review into the longer-term use and funding of the Inverness Town House. The penalties that will be attributable with not meeting future net zero targets may mean that the Inverness Town House may have viability challenges for continued use as office accommodation over the long term. . It should be noted that any subsequent decision to change the fundamental use of the site would require a protracted period of public consultation and subsequent application via the appropriate Court.

Designation: Executive Chief Officer: Property & Housing

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