

Meeting: EXECUTIVE



Portfolio Area: Resources

Date: 14 FEBRUARY 2018

GENERAL FUND DRAFT ASSET MANAGEMENT STRATEGY AND ACTION PLAN

KEY DECISION

Author	Julie Herbert	Ext 2141
Lead Officer	Clare Fletcher	Ext 2933
Contact Officer	Julie Herbert	Ext 2141

1. PURPOSE

- 1.1 To seek approval to the new draft General Fund Asset Management Strategy and Action Plan.

2. RECOMMENDATIONS

- 2.1 That the draft Asset Management Strategy at Appendix A be approved.
- 2.2 That the draft Asset Management Action Plan, at Appendix B, be approved.

3. BACKGROUND

- 3.1 The Council has produced an Asset Management Strategy (AMS) since 2000 under guidance from the Audit Commission and the Department of Communities and Local Government. The previous AMS was produced in 2010/11.
- 3.2 Our new Asset Management Strategy continues to set the framework for managing the Council's general property portfolio effectively over the next five years commencing 2018. This relates to General Fund assets only.
- 3.3. It will guide the Council's future strategic property decisions to make sure the estate is managed sustainably and efficiently so it can adapt and remain fit for the future. A live road map on how the Council use its valuable property to maximise available resources (assets and finance) to achieve Future Town Future Council aspirations.

- 3.4. It is proposed that the Strategy will remain in place until 2023 and the Asset Management Action will be the key change document and main focus, updated annually.
- 3.5. Since the last AMS the financial landscape in which the Council operates has changed considerably impacted by 2017 comprehensive spending review and further financial pressures on the general fund. This coupled with an already aged and extensive property portfolio to keep watertight, secure, operational and fit for purpose, where costs have out-stripped the capital receipt pipeline, the Council is now facing some difficult decisions if its ambition to hold a well maintained and sustainable estate is to be achieved. This presents both a number of challenges and also opportunities to find the best way of utilising our valuable resources.
- 3.6 The Asset Management Strategy sets out clear financial targets for the Council to achieve during the next five years in order to help meet these challenges, and make the most of opportunities which will achieve the Council's key aspirations (see 4.2 below).
- 3.7 Some policy development work is due to take place with the Overview and Scrutiny Members on the 8th February. The Executive Portfolio Holder for Resources will present a verbal update on the outcome of this work.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

- 4.1 The framework for the new AMS falls into eight sections which cover the current overview of the property portfolio, the key aspirations/drivers, achievements made so far, the challenges the Council continue to face and the changes it proposes to introduce (in order to help mitigate the impact of some of those challenges) so that the Council can move towards a more sustainable estate. The Strategy explains the proposed governance needed to over-see this step change.
- 4.2 The key aspirations (which are a very important base line for the Strategy) provide a strong steer and focus for maximising resources towards delivery of the corporate aims of Regeneration, Housing Development and Neighbourhood Investment, as follows:
 - To acquire and hold assets that help create and support a vibrant town
 - To hold assets that help improve the quality of the environment for the benefit of local residents.
 - To look at ways of releasing and developing our land assets that enable the Council to provide high quality new homes for our residents, and
 - To hold a sustainable, compliant and efficient corporate estate.

Under-pinning all these aspirations is a requirement to secure new and existing sustainable income streams, release capital receipts from poorly performing assets and re-invest, reduce costs of the Corporate estate and ensure continued effective management of capital spend.

- 4.3 The Asset Management Strategy explains the challenges the Council currently face and these are highlighted below, together with new recommendations for change in order to influence and help the Council deliver on its key aspirations.

Challenges faced

4.4. Extent of the property holding

The Council has a large asset base comprising 394 non housing assets plus 6664 garages. This is one of the largest portfolios in Hertfordshire. There is a very low vacancy rate within the non-operational stock, and 100% of the operational or corporate buildings continue to support the Council in delivering its services.

4.5 Condition of the Stock

- 4.5.1 The condition survey of 2012 highlighted a financial cost of £18.48m to complete backlog maintenance and repair works to the general fund assets (excluding commercial assets, garages and leisure assets).
- 4.5.2 In the last year, the Council has had to bring in some early short term mitigation to limit capital expenditure on general fund assets in view of the financial landscape. £1.99m has been spent on Priority 1 & 2 work (essential health and safety, and statutory works) since 2013/14 to ensure that buildings are watertight, secure, operational and fit for purpose.
- 4.5.3 This leaves a residual sum of outstanding work of approximately £16.3m, consisting of a further £1.02m on completion of Priority 1 & 2 work, and £15.28m on Priority 3 & 4 (allocated for general repairs and improvements).
- 4.5.4 However, the actual capital expenditure required to complete all the outstanding work is likely to be far higher, because the current information is based on the condition of our assets in 2012. A new condition survey is due to be commissioned in March/April of 2018, and this will reveal the true extent of capital expenditure required. It is anticipated that this will reveal more essential repair work required beyond the £1.02m requirement. The new condition surveys will be commissioned to align with the locality review programme (detailed at 4.16-4.20 below).
- 4.5.5 Additionally these costs do not include the £9.2m investment required to bring garages up to a reasonable condition.
- 4.5.6 A similar stock condition survey of the Council's leisure assets (as defined in page 32 of the draft Strategy) was undertaken in 2013. Minor repair work identified within the survey has been undertaken by the existing tenant, excluding major items of maintenance and expenditure, which are subject to separate bids through the capital programme.
- ### **4.6 Other big capital costs**
- 4.6.1 The Council's ambition for regeneration will require substantial capital investment during the life of this Strategy, as well as the Council needing to follow through on additional financial commitments already made, to include refurbishment of the Council's garage stock of circa £9.2m.

4.7 **Running costs**

- 4.7.1 The gross running costs of the whole Corporate Estate are estimated at circa £3.223m (2018/19) which includes the assets held for regeneration, and commercial property. The operational portfolio costs are circa £2.772m to run.
- 4.7.2 There is an ongoing compliance charge cost of circa £216k per annum for the compliance inspection and servicing tasks related to circa 69 council buildings and around a further £120k per annum for associated reactive maintenance repairs. This has delivered financial savings through economies of scale (given other Local Authorities are also part of the same contract), but remains an ongoing commitment.

4.8 **Capital Programme**

- 4.8.1 In addition to the maintenance backlog, the capital programme for 2018/19 has an anticipated additional spend of £14.48m.

4.9 **Traditional Funding Streams drying up**

- 4.9.1 In the last 18 years the Council has benefitted from releasing substantial capital receipts from the sale of surplus stock and developable land, which has helped in the past to under-pin some of these costs and support the capital programme expenditure without the need to wholly revert to prudential borrowing. However, this disposal pipeline is drying up, all bar the strategic land assets as predicted in the previous AMS. There is an expectation that capital receipts including unallocated brought forward sums will diminish in 2020/21. The Asset Review of 2012/13 did identify some additional new sites for disposal and these were included within the disposal programme. This list has however now been exhausted. Without the ability to use capital receipts, this would leave a further requirement for Prudential Borrowing to fund the gap.
- 4.9.2 In more recent years, there has been an additional pressure to transfer General Fund land assets to the HRA to help support the FTFC housing aspiration to build new council homes on our own land. This is an opportunity, but also a challenge because the transfer is funded internally and an actual capital receipt is therefore not achieved. This situation is likely to improve in future years as more alternative methods of releasing maximum site value and a percentage of profits through market value sales of new homes could be achieved on some sites, but this remains a current pressure. The Council's approach to this conundrum will emerge through the development of the Housing Development Strategy.

4.10 **No single property voice**

- 4.10.1 General fund property is currently managed by various teams across the Council including Estates, Property Investment and Services, and there is no single property voice. To deliver on this Asset Management Strategy with clear target outcomes, it is recommended that this culture is changed so that there is a clear single framework. This should be seen as a positive contribution ensuring that asset management planning becomes an integral part of the Council's Strategic, service

and financial planning process. This is discussed in more detail at 4.27 – 4.30 below.

4.11 **Summary of Challenges faced**

4.11.1 It is clear from the points raised above and outlined in the Strategy that the challenge faced in respect of the financial landscape is significant, with a projected need to spend on assets which far outstrip the ability to fund the works due to capital receipts drying up, and the continuing deterioration of the stock. If the Council is to realise its regeneration, housing and neighbourhood ambitions, there must be a step change in its future approach.

Changes proposed

4.12 Historically, for good reasons, the Council has had an approach to asset management planning based around retaining the majority of assets, increasing their efficiency, and ensuring that they are used effectively to meet the needs of the Council and of Stevenage residents. Initiatives such as the Compliance Contract and Energy audits have tended to focus on achieving greater efficiencies from existing buildings rather than challenging their need or effectiveness. The most recent Asset review has achieved some, but limited success, at asset disposal.

4.13 It now seems clear that further incremental changes will not be sufficient to address the gap between where the Council is and where it needs to be financially, and that it will be necessary for the Council to achieve a step change in the way that it manages assets, and in the size and cost of the estate.

4.14 The following notional asset management targets are to be introduced as part of the new Strategy to provide some focus. This will be a guide to the minimum target objective and review annually.

- 40% Reduction in office accommodation space occupied corporately
- 20% Reduction in controllable running costs of office accommodation
- 20% Reduction in controllable running costs of community buildings
- Generation of £7.5m capital receipts (to be informed by the locality reviews). This target includes £5m disposals previously agreed by Executive - July 2013.

4.15 The Strategy therefore contains a number of high level recommendations for making this step change. They are:

- Locality Reviews (land and asset review)
- Reviewing Performance of our existing commercial stock
- Embracing new models of investment including commercial investment strategy
- Improving current data management systems and processes
- Reviewing the way the Council make decisions on our property

Locality Reviews

- 4.16 This is a new concept for Stevenage, but tried and tested in other parts of the eastern region including Hertfordshire and Essex.
- 4.17 A programme of new high level area reviews will be carried out across the whole of the Borough, with a view to challenging in a rigorous way the Council's retained estate (land and buildings) without (at first sight) knowledge of the running costs, or current condition survey data, and using available spatial mapping software (e-pims data). This will include consideration of outcomes from reviews of HRA held assets.
- 4.18 These holistic reviews will hopefully result in a list of opportunities within the reviewed area which may generate new sustained revenue income, improve office efficiency/utilisation for operational assets, or potential co-location of public sector and community groups, invest to save opportunities, and/or releasing surplus land and buildings for sale. Previous reviews looked at assets in isolation, and this type of review will review assets holistically within given geographical areas. This may or may not result in further opportunities being identified.
- 4.19 The locality reviews will take into account the outcomes from current reviews of specific asset groups, which are on-going, including the community centre review. These specific reviews will take into account the social value and community benefit of these asset groups.
- 4.20 The methodology including phasing for the locality reviews is yet to be finalised. It is proposed that the East of England LGA (EELGA) will undertake the reviews on the Council's behalf subject to procurement. The EELGA have carried out a dozen locality area reviews under the One Public Estate programme, across Essex, Northamptonshire and Hertfordshire.

Reviewing Performance of our existing commercial stock

- 4.21 It is proposed to undertake an initial and comprehensive audit of the existing commercial portfolio. This will include a tenant and lease review, rent status and estimated rental value analysis (under rented, rack rented or over-rented), void analysis (including costs), and capital value analysis.
- 4.22 The Council will be able to track performance of the commercial assets and make decisions relating to retention based on these outcomes.
- 4.23 As part of this review, the future management model for the optimum estate and related costs will also be considered.

Embracing new models of investment

- 4.24 The Council will be looking at other models of commercialisation in order to generate new revenue streams or release revenue savings. These new models of investment will include;-
- making new commercial property investments (see the Council's property investment strategy which is already under-way)
 - taking the developer role in the Borough and making better use of existing capital resources, and

- reviewing energy generation and supply as well as saving energy.

Improving current data management systems and processes

- 4.25 Existing software for holding property data is currently being reviewed by Estates and Housing teams in light of the decommissioning of the current GVA Property Manager software. New Estate Management data software (as an additional module to existing software already in use at the Council) has been purchased and will be implemented by a target date of April 2018. This will allow the Estates team to review the council's assets holistically and support the Locality Reviews, as well as being an effective tool in the management of non-operational assets.
- 4.26 Core data in respect of the operational/corporate assets including condition survey data and associated costs is likely to be migrated to the existing Keystone software system managed by the Housing Investment Team.

Reviewing the way the Council make decisions on its property

- 4.27 It is proposed to review the current processes and develop a more formal Corporate Landlord role as part of the AMS action plan, that will provide a clear framework for the management of all its assets.
- 4.28 Under a Corporate Landlord approach, the ownership of an asset and the responsibility for its management, maintenance and funding are transferred from service departments to a centralised corporate function known as the Corporate Landlord.
- 4.29 The service departments become corporate tenants and make use of the property and land in delivering a service.
- 4.30 The Corporate Landlord's function is to ensure that the service is adequately accommodated and to maintain and manage the asset. This Landlord's function extends to the acquisition, development and disposal of land and property. The role extends to responsibility for Asset review and potential scope for efficiencies and the effective delivery of corporate outcomes. Where it has been seen to be most effective in other organisations is ensuring that an organisation's property portfolio drives, supports and delivers corporate change and transformation.

Right skills

- 4.31 It is important to have the right skills in place to lead on the actions proposed within the AMS Action Plan. Consideration should be given as to whether the various property teams working jointly can actively handle the full work stream once this is fully known.

Conclusion

- 4.32 There are a suite of recommendations within this Strategy which will collectively hopefully help the Council move to a more sustainable financial position and shape an optimum portfolio that will support delivery of council services.

5. IMPLICATIONS

5.1 Financial Implications

- 5.1.1 The report and appendices combined provide an overview of the current cost of the non-housing estate based on existing data. The importance of a sound Asset Management Strategy and its key role in the affordability and delivery of the Council's Capital Strategy 2017/18 to 2022/23 was stressed in a report to Executive on the 23rd January 2018.
- 5.1.2 Although the Asset Management Strategy has the potential to have a significant impact on the Council's overall financial position, the full financial implications cannot be quantified at this stage.

5.2 Legal Implications

- 5.2.1 There are no legal implications at this stage.

5.3 Risk Implications

- 5.3.1 The timely implementation of the new AMS and in particular, progressing the changes proposed within the Action Plan are key to the future management of the financial and physical risks associated with the Council's estate.

The following risks relate to the notional asset management targets, posed in section 4.14.

Risks	Initial Likelihood/ Impact		Mitigating Actions	Residual Likelihood/ Impact	
<p>(1) There is no reduction in corporate office accommodation and (2) consequently no reduction in associated running costs</p> <p>This is dependent upon the delivery of SG1 and the development of the new corporate office accommodation during the life of the AMS.</p>	Medium	High	Appointment of a Developer for the SG1 development will be made prior to or around the time of the release of this report. The Council will enter into a development agreement.	Low	Medium
<p>(3) There is no reduction in controllable running costs of community buildings</p> <p>The reduction in running costs of buildings is dependent upon several factors including condition and long term future.</p> <p>Changes in future use of community buildings requires consultation and collaboration with stakeholders and user groups.</p> <p>Savings may result from the disposal of a building (be that demolition, sale or leased out) or smaller savings in energy and utility costs (paid by the Council) where efficiencies can be made subject to condition.</p>	Medium	High	<p>The proposed Corporate Landlord approach will help to focus on ways to reduce energy and utility costs where possible.</p> <p>Where disposal of an asset is identified. This is subject to collaboration with stakeholder groups if to be displaced.</p>	Low	Medium
<p>(4) Generation of capital receipts</p> <p>There is a risk that the Council will not generate sufficient capital receipts from the changes proposed within the Strategy.</p>	Medium	High	The proposed locality reviews (which will cover land and buildings) will be carried out in a timely manner, and in collaboration with other public sector organisations. These should result in a list of new opportunities to release capital receipts during the Strategy period.	Low	Medium

5.4 Policy Implications

5.4.1 It is likely that, as the projects in the AMS action plan progress, especially the Corporate Landlord approach, specific policies accommodating the changes will emerge.

5.5 Environmental Implications

5.5.1 The AMS requires the estate to play a key role in mitigating and averting climate change in the form of renewable energy solutions, and reducing demand by boosting energy efficiency across our estate.

5.6 Staffing and Accommodation Implications

5.6.1 There are no staffing and accommodation implications at this stage.

5.7 Equalities and Diversity Implications

5.7.1 Equality Impact assessments will be undertaken where there is a change to a service as part of the AMS Action Plan.

BACKGROUND DOCUMENTS

None

APPENDICES

Appendix A - Asset Management Strategy

Appendix B – AMS Action Plan