

Body:	CABINET
Date:	29 May 2013
Subject:	Strategic Asset Management
Report Of:	Senior Head of Infrastructure
Ward	All
Purpose	To provide an update to Cabinet on Asset Management, specifically in relation to Asset Challenge.
Decision Type:	Key Decision
Recommendation:	Members are asked to: <ul style="list-style-type: none">i) Agree the recommended approach to Asset Challenge, including the scoping exercise to establish the viability and programme for transfer of assets to trust.ii) Agree to the scoping exercise to establish the savings and improvements to quality of service by transferring the retained asset base into a Corporate Landlord model.iii) Agree to release funds, as the asset challenge programme progresses and upon reaching key milestones, of up to £90,000, from the strategic change fundiv) Authorise an exemption to Contract Procedure Regulations for (i) and (ii) to benefit from efficiencies in cost and programme
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1.0 Background

1.1 The council identified asset management as a Corporate Plan priority in 2010 and set a goal to make the council's asset portfolio sustainable and self-financing. Cabinet papers in October 2011 and October 2012 have reported on progress towards this goal.

Recommendations from the CIPFA review have been implemented including the establishment of the Strategic Property Board, condition surveys on all core operational premises and the allocation of additional resources to ensure

completion of the programme on track.

The value of many of the Council's assets to the community is evident from the interest shown in the asset challenge programme to date; the Eastbourne Society for example utilised our survey data to undertake a review of our heritage assets. Their contribution, along with many of our community groups, will be crucial in establishing the potential of asset transfer as a tool to assist the Council reach a sustainable asset base.

- 1.2 'Asset Challenge' is a key recommendation of the CIPFA review and is a fundamental process necessary to assist the Council in reaching the goal of a sustainable asset base. Adopting a 'Corporate Landlord' model on the retained asset base will enable the Council to drive out further savings, ensure assets are properly managed and mitigate risk. Both initiatives are summarised as follows:

Asset Challenge' essentially is a programme to test and challenge the performance, use, occupation and management arrangements of every property asset owned or used by the Council. Although budget constraints may be a primary consideration for undergoing the exercise, increased efficiency, alignment with service strategies, obtaining an adequate return on capital and fulfilling the Council's Carbon reduction strategy are also key components. The potential transfer of assets to trust is a key element of asset challenge

'Corporate Landlord' essentially is a model where facilities management, processes and related infrastructure are pulled together under a central in-house operating or facilitating unit referred to as a 'Corporate Landlord'. The fundamental principal is that the provision and management of buildings is handled centrally thereby maximising building efficiency, reducing risk, benefitting from standardised procurement and driving through savings including freeing up management and service personnel to concentrate on the delivery of service/corporate objectives rather than asset/property management.

- 1.3 The scale of the asset challenge facing the Council has been the subject of presentations to the Strategic Property Board and a Full Member Briefing. Key elements are as follows:

- Average annual expenditure on the Council's property assets is approximately £4.5m per annum with a net cost (after deducting income directly from the asset base) of £3.2m per annum.
- The Council's portfolio is a combination of operational and non operational buildings and land. Both sectors need to be included in the asset challenge process
- Unless challenged, addressing the backlog of maintenance and introducing an effective planned and term maintenance programme could see total expenditure on property assets reach approximately £50m over the next 5 years, excluding development proposals.
- Over 40% of the Council's property asset expenditure is required to support Leisure and Heritage assets
- Unless challenged, the total budget for property assets will exceed the

total combined budget for all services across the Council over the next 5 years

- Undertaking a scoping study on the potential for disposal or transfer of assets to trust will establish the options for asset challenge
- Undertaking a scoping study on the optimum model and savings achievable through adopting a 'Corporate Landlord' model will inform the sustainable asset base strategy on the retained estate.

1.4 Asset Challenge and the adoption of a 'Corporate Landlord' approach are consistent with and linked to the ongoing initiatives at 'Devonshire Park' and the 'Town Hall Community Hub'; both of these projects meet common objectives such as adopting a long term strategy for our asset base, maximising the potential from our buildings, securing the long term future of heritage assets, addressing the backlog of maintenance and potentially transferral to a trust for the future management of these community assets.

1.5 The scoping studies proposed relate to General Fund properties only. Separate initiatives to assess the future potential and management of HRA assets are being undertaken concurrently. It is envisaged that the outcomes of the recommended scoping exercises below will be combined with those being undertaken in respect of HRA assets; a subsequent evaluation will then assess the potential for a shared vision for General Fund and HRA assets.

2.0 Process and Scope

2.1 Asset Transfer

Some of our operational assets generate significant revenue for the Council. In addition various current initiatives are seeking to improve the yield and enhance the cultural and community offering. However the true cost of property related expenditure is not fully reflected in revenue forecasts; this is evidenced by the backlog of maintenance, the lack of effective planned and term maintenance, little or no notional rent liability and the lack of allocated 'asset specific' staff costs.

Maintaining all of the Council's existing buildings (excluding HRA) is not sustainable, even allowing for best case potential savings from the Corporate Landlord approach. The Council therefore needs to explore either the disposal or transfer of assets to reduce revenue cost and/or realise capital receipts to support future investment in retained assets.

The sale or transfer of heritage/community assets is both sensitive and challenging. However the case for a comprehensive asset transfer strategy is compelling given the scale of the asset challenge as referred to in paragraph 1.3.

Briefly the options to be explored in the scoping study can be summarised as follows:

- a) Retain asset and drive through savings from Corporate Landlord model
 - revenue savings will be limited and growth in financial strategy may be necessary where capital funding to support any backlog of maintenance is necessary. Non operational assets will be retained if

- they meet investment business case criteria
- b) Disposal of asset – assets deemed suitable for disposal will form part of a disposal programme and it is proposed these be authorised in consultation with the Strategic Property Board. Capital receipts will help fund the backlog of maintenance on retained assets but loss of revenue may have implications on sustainable asset base. Asset management to improve value or increase income may be recommended prior to sale
 - c) Transfer to Trust – explore the potential, capacity and route map for transferring specific assets or groups of assets into trust. While we progress the consideration on an individual asset and/or portfolio basis we also need to consider how issues such as ownership, funding and governance will need to be addressed should opportunities arise. The scoping study will evaluate and inform expectations on what specific models and assets may be suitable and what savings may be achievable. Multiple trust options will be considered including Community, Heritage and Development Trusts. Work undertaken to date including Devonshire Park, the Town Hall Community Hub and the Towner will be incorporated into the portfolio wide strategy.
 - d) Joint Venture - a joint venture with a private sector partner (s) may be appropriate, particularly in respect of the transfer of a pool of assets and this option will be targeted through the IESE procurement partnership. In addition, this partnership along with the SPACES (Strategic Property Asset Collaboration in East Sussex) group will be consulted to identify ways in which the model (s) could be extended to the benefit of our public sector partners.

Subject to the outcomes of the scoping study, it is envisaged that a combination of all of the above will be necessary for the Council to reach a sustainable asset base. It should be noted however that investment in the Council's asset base will continue during the scoping study period as evidenced by the works currently being undertaken at the Town Hall, Bandstand and the Redoubt.

2.2 Corporate Landlord

Implementation of a 'full' corporate landlord model on the retained asset base (i.e. post asset challenge/transfer) will be a substantial cultural change for the Council; full corporate support will be necessary for the centralisation of budgets, together with re-profiling of staff roles where there was previously a building function and the transfer of risks and responsibilities to a single corporate entity. Prioritisation of investment on assets or the transfer of assets to the third sector to support the wider corporate objectives may also have an impact on existing service delivery.

A 'limited' corporate landlord model, where for example only risks are transferred centrally and existing processes enhanced to take advantage of savings through procurement, planned and term maintenance etc may be a preferred route, provided the objectives of the asset challenge can be met.

In order to establish the best option for the Council to pursue it is recommended that a scoping exercise be undertaken with the following objectives:

- Establishing, documenting and base lining the potential savings to the Council of implementing a full or limited corporate landlord model. This will include a rigorous analysis of current spend on buildings expenditure, including staff costs and existing initiatives to lower costs (Carbon Audit, Procurement in IESE)
- Evaluate and compare the benefits of a full or limited Corporate Landlord approach in terms of (a) improvements to services and (b) removal of risks
- Recommend an implementation plan, to run concurrently with the Asset Transfer initiative where possible to drive out savings as soon as possible

It is recommended that the Council's shared procurement partnership with IESE is utilised as far as possible for both studies, given the synergies from this initiative and with particular relevance to the governance structure for development trusts.

2.3 Outcomes

The outcomes of both studies will lead to a recommendation on the optimum route(s) to achieve a sustainable asset base and how best to manage the retained asset base thereafter. Timescales may be subject to capacity building, particularly in respect of asset transfer. In addition where there may be significant impact on existing service personnel which will need to be assessed and incorporated into the future model framework.

The recommendations from both studies are expected to be reported back to Cabinet in the autumn of this year. In the meantime and in order to be able to assist in funding the backlog of maintenance whilst these initiatives are ongoing, capital receipts will be targeted from the non operational portfolio as detailed in 2.4 below.

2.4 Non Operational assets - Action now

Following the recent condition survey programme, we know the Council will need to provide substantial funds for the backlog of maintenance across the retained operational base. In anticipation of this, a disposal programme will be submitted to the Strategic Property Board with the intention of realising capital receipts to fund expenditure in the short term. These assets will be identified using assessment criteria including the existing yield, market value, administration cost and potential use.

In accordance with the principles of the Corporate Property Trading Account established in earlier Cabinet papers, the disposal programme will be intended to meet additional expenditure necessary from 2014/15 to fund planned maintenance on the operational estate.

As of 30th April 2013, the Corporate Property Trading Account shows a running balance of £685,000 since being established in 2011/12. It should be noted that this balance relates to funds managed by Corporate Property; revenue and capital expenditure managed by the services is currently outside the scope.

3.0 Consultation

3.1 Consultation has been undertaken with the Strategic Property Board and the Board recommends this course of action to Cabinet. In addition, we have received valuable input from community groups, such as The Eastbourne Society as outlined in 1.1 above.

4.0 Resource Implications

4.1 Financial

- 1) Scoping exercise to establish the viability and programme for transfer of assets to trust up to £75,000; funds will be made available as key milestones are reached. It is anticipated that these milestones could be:
 - a) initial overview of entire operational portfolio
 - b) feasibility and market testing of individual or pools of assets
Gateway: Review output of a) and b) before deciding whether to proceed with c) and d) below
 - c) consultation to establish mandatory conditions for transfer of heritage/community asset
 - d) Capacity building and final recommendations.
- 2) Scoping exercise to establish the savings and improvements to quality of service by transferring the retained asset base into a Corporate Landlord model. The opportunity in principle to make savings, create efficiencies and reduce corporate risk has been established. An invest to save approach is therefore appropriate.

If 1&2 are agreed then options will be brought to a future meeting where savings and cost/benefit can be quantified against options. The Council will need to be satisfied as the study develops that asset transfer can be delivered within an acceptable timescale and budget before committing to further staged payments.

4.2 Procurement

Both scoping exercises build upon previous studies authorised by Cabinet in respect of the Town Hall Community Hub and Strategic Asset Management. We therefore seek an exception to the contract procedure rules to enable us to build on existing work done with Locality and CIPFA Property to deliver defined outputs from the brief. This will minimise cost and expedite both studies as soon as possible.

5.0 Governance

5.1 In accordance with standing instructions, the Strategic Property Board will continue to monitor progress.

6.0 Conclusion

6.1 The Council is committed to delivering a sustainable asset base . In order to achieve this goal it is evident that a rigorous asset challenge process will need

to be undertaken, potentially involving the sale or transfer to trust of some of the Council's property asset base. Consultation with community groups and stakeholders will be crucial in forming recommendations, particularly in respect of the conditions upon which the transfer of community/heritage assets becomes viable. The scoping exercises proposed will establish the viability of asset transfer and potential savings available by adopting a Corporate Landlord model on the retained estate.

6.2 Members are asked to approve the recommendations as outlined in the report.

Henry Branson Senior Head of Infrastructure
Background Papers:
Asset Challenge – presentation to Strategic Property Board and Full Member Briefing, May 2013
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