

Body:	CABINET
Date:	11th December 2013
Subject:	Strategic Asset Management
Report of:	Senior Head of Development
Ward	All
Purpose	To seek approval to measures necessary to achieve a sustainable asset base.
Decision Type:	Key Decision
Recommendation:	Members are asked to: <ul style="list-style-type: none">i) Agree to implement measures necessary to progress towards a sustainable asset baseii) Authorise the implementation of a full Corporate Landlord model by April 2015, using the remaining £45,000 of the original budget for assistance with the implementation plan
Contact:	Paul Friend, Corporate Property Manager, Telephone 01323 415261 or internally on extension 5261 Email:paul.friend@eastbourne.gov.uk

1.0 Background

1.1 The Council's commitment to strategic asset management and the Corporate Plan objective of a sustainable asset base is supported by previous Cabinet recommendations in October 2011 and October 2012.

In May 2013, Cabinet authorised an asset challenge programme to assist in achieving the sustainable asset base. Specifically, Cabinet authorised two scoping exercises to establish (a) the viability and programme for transfer of assets to trust and (b) the savings and improvements to quality of service by transferring the retained asset base into a Corporate Landlord model.

The Asset Transfer and the Corporate Landlord reviews were undertaken by Locality and CIPFA respectively. Additional input was provided by IESE and the estates team.

The outcomes from these exercises are now known and the measures necessary to achieve a sustainable asset base are detailed below.

1.2 The objective to achieve a sustainable asset base must be seen within the context of the wider council vision, specifically taking into account the other priority themes in the Corporate Plan to achieve a prosperous economy, a

quality environment and thriving communities.

However, the decisions the Council takes in respect of these other themes directly impacts the asset base and the funds necessary to invest in and maintain operational assets. The scale of the challenge facing the Council was reported in the previous Cabinet paper on asset management in October 2012.

2.0 Outcomes of Asset Challenge

2.1 Asset Transfer

The key findings of the Locality Report concerning asset transfer are summarised as follows:-

1. The Council owns significant sites with considerable potential as well as numerous smaller holdings which could deliver increased revenue or capital returns if managed strategically.
2. When decisions are taken to retain operational assets (that may be subject to substantial investment), the business cases should be independently 'stress tested' to fully understand the level of long term subsidy and its impact on the Council's future revenue budget and its ability to achieve a sustainable asset base.
3. The Council is not in a position to create a council wide trust or multiple trusts (e.g. community or leisure trusts) before detailed progress is made to restructure, improve efficiency and effectiveness and become more skilled at entrepreneurialism.
4. There are potential efficiencies and savings through moving Corporate Property to an independent trust; either as a management agent or with an asset portfolio. However the Council is not yet in a position to undertake this without going through a process of strategic planning and internal restructuring.

The key recommendations are as follows:-

1. Every asset, operational or non operational should generate a surplus (or be cost neutral at worst) or capital receipt within agreed timescales with the possible exception of core service support/administration facilities (such as 1 Grove Road)
2. Strategic assets must generate significant capital and/or revenue returns for the Council to reinvest in the retained operational portfolio to assist with achieving the best possible sustainable asset base.
3. When assessing operational assets the Council should be aware and take account of the combined social, cultural, environmental and financial objectives; the Council needs to be clear on the relative weight attributed to these objectives and the potential long term subsidy required to support operational assets.

2.2 Corporate Landlord

The key findings from the CIPFA report support the implementation of a full Corporate Landlord model.

The key recommendations are as follows:-

1. The Council moves towards a full corporate landlord approach in respect of the key components (strategic asset management, statutory compliance, facilities management, repairs and maintenance, estates management and project management/delivery).
2. In the medium to long term, with the exception of strategic asset management, the key components could be contracted out, with contract management retained in house. Alternative options may be viable in respect of some of the components, dependent on the Council's policy approach. Further detailed analysis is required of the key components to establish the optimum route to delivery, combined with policy direction.

2.3 Outcomes Testing (IESE)

As part of the due diligence process, IESE were instructed to undertake a review of both the Locality and CIPFA reports. A summary of their review identified the following:-

- Further policy direction and weighting is required into strategic objectives for asset management such as whether to maximise revenues, achieve capital receipts, reducing revenue costs and improving customer experience etc.
- Moving to a Corporate Landlord model is supported; it is recommended that the Council consider a "commissioning model" approach particularly with regard to delivery of facilities management, repairs and maintenance and property management services.
- The key principle that "every asset, operational or non operational should generate a surplus or capital receipt within agreed timescales" requires policy direction and needs to incorporate a wider, more balanced approach including strategic drivers, the "custodian role" of the Council, service objectives etc.
- The implementation plan for a Corporate Landlord needs to be linked to the "end state" target operating model, with opportunities, risks, constraints, communications, resource capability and policy direction aligned with this objective.
- There are short to medium term opportunities to create efficiencies in facilities management by consolidating on the current large number of suppliers. In the medium to long term even greater opportunities exist in both 'hard' and 'soft' facilities management through a combined EBC and EHL procurement.

2.4 The IESE recommendations will be considered and incorporated, alongside the findings from the other two reports, into the implementation plan referred to below. It is clear that to achieve a sustainable asset base it will be necessary to make some key policy decisions about how the Corporate Landlord Model will operate. This will be subject to a further report to Cabinet.

2.5 Non Operational assets

A 'headline' review of each and every non operational asset has been undertaken by the estates team. The review assessed fundamental criteria

necessary to evaluate how, through active management, these assets could further support a sustainable asset base.

The outcomes are as follows:--

1. A significant proportion of non operational assets achieve a yield below 5% (5% being equivalent to the approximate cost of capital to EBC).
2. That the preparation of a strategic programme of disposals of non operational assets could lead to significant capital receipts to assist in the funding of the backlog of repairs to core operational assets and support the MTFS
3. Alternatively, these capital receipts could be reinvested, to achieve a minimum target yield of say 5 %, realising additional net income.

It is suggested that the preparation of a disposal programme is aligned to the MTFS to allow funds to be released as necessary to meet the priorities of the Council. This is envisaged to be from 2015/16.

3.0 Implementation and Procurement

- 3.1 The implementation of a Corporate Landlord model will involve substantial cultural change and additional resources. Alignment with Future Model phase 2, potential synergies with Eastbourne Homes and the potential for shared services with partnership authorities will need to be explored to ensure maximum efficiencies can be obtained.

In order to develop and resource the key components of asset management to support the Corporate Landlord model, the restructure of the Estates Team will need to be in place from April 2015. This will include additional posts, re-evaluation of existing roles within the estates team and other key resources necessary to deliver the objectives of the Corporate Landlord model

It is proposed that a detailed implementation plan including performance targets, governance and policy direction will be submitted to a future Cabinet; this is expected to include staff consultation, re-structuring, recruitment, training and a communications plan. It is intended that this programme will follow a similar process to the Future Model and be consistent with the same core objectives.

4.0 Resource Implications

4.1 Financial

In May 2013, Cabinet authorised funds of up to £90,000 for the scoping exercise into asset transfer, conditional upon a 'gateway' review of :-

- a) initial overview of entire operational portfolio
- b) Feasibility and market testing of individual or pools of assets.

In addition the savings and improvements to quality of service by transferring the retained asset base into a Corporate Landlord model needed to be established before committing to further funds.

The outcomes from both studies identify the following revenue savings and potential capital receipts :-

1. Annual savings of circa 10% per annum of maintenance spend could be achieved by adopting a Corporate Landlord model utilising a centralised framework agreement for repairs and maintenance. This amounts to £50-110,000 per annum based on 2011/12 property expenditure.
2. Service efficiencies are expected through the adoption of the full corporate landlord model, although difficult to quantify in the absence of robust data on existing time spent by service managers on property matters.
3. Medium term income growth could be achieved by reinvestment of capital receipts as identified in 2.4 above.
4. Long term capital receipts and income growth are expected through the strategic site development as referred to 2.1 above.

From the original £90,000 authorised to be released from the strategic change fund for the asset challenge programme, approximately £45,000 remains. It is proposed that the remaining funds are utilised to assist with the transition programme to a full Corporate Landlord model.

The future resources needed for the Corporate Landlord model will be detailed in the implementation plan and bid for through the service and financial planning process. The cost will be neutral, paid for from the opportunities for savings and income growth as outlined above. Separately, there has been significant growth in Corporate Property rental income since the Council's strategic approach to asset management commenced in 2010/11. There has also been growth in income from the Downland let farms, which have been managed by estates from 4/2013. This base income is expected to continue to grow as lease events take place. Consistent with the principles of a sustainable asset base, this additional income will support the resources required to implement the Corporate Landlord model. Taken together, it is anticipated that the net outcome will be at least revenue cost neutral from 4/2015.

It remains to be seen how much the recent DCLG consultation on "Proposals for the use of capital receipts from asset sales to invest in reforming services" could be utilised to assist in the transformation to the Corporate Landlord. However this will be monitored and incorporated into the implementation plan where 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 This paper summarises the outcomes of the scoping exercises into asset transfer and the introduction of a corporate landlord model. These outcomes now provide the platform to begin the process of moving towards the corporate objective of delivering a sustainable asset base. The sustainable asset base is

achievable, subject to implementation of the measures necessary, including service transformation to realise efficiencies and savings.

- 6.2 The implementation plan now needs to be developed in detail and Members are asked to approve the recommendations as outlined in the report.

Corporate Property Manager

Background Papers:

- CIPFA report – Review of Corporate Landlord Options – Impact Assessment and Implementation Plan August 2013
- Locality Report – Eastbourne Borough Council’s Asset Challenge September 2013
- IESE review - Transforming Together – Review of CIPFA Report October 2013
- IESE review - Transforming Together – Review of Locality Report October 2013

File Reference: GO121