

Public Document Pack

Public Accounts Select Committee Supplementary Agenda 2

Tuesday, 14 July 2015
7.00 pm, Committee Room 1
Civic Suite
Lewisham Town Hall
London SE6 4RU

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This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed.

Part 1

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PUBLIC ACCOUNTS SELECT COMMITTEE			
REPORT TITLE	Financial Forecasts 2015/16		
KEY DECISION	No	Item No.	4
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources and Regeneration		
CLASS	Part 1	Date	14 July 2015

REASONS FOR LATENESS AND URGENCY

This report was not available for the original despatch because it was necessary to analyse in greater detail the forecasted year-end budget position. The report is urgent and cannot wait until the next meeting of the Public Accounts Select Committee on 29 September 2015 as this is too far into the financial year for this Committee to consider the council's initial forecast position.

Where a report is received less than five clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972, Section 100(b)(4), the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. EXECUTIVE SUMMARY

- 1.1 This report sets out the financial forecasts for 2015/16 as at 31 May 2015. The key areas to note are as follows:
- i. There is a forecast overspend of £8.6m against the directorates' net general fund revenue budget. This is set out in more detail in sections five to nine of this report. This compares to a final outturn of £5.2m for 2014/15 which resulted after applying £3.9m of funding for 'risks and other budget pressures' against the directorates' year-end overspend of £9.1m for that year.
 - ii. For the Dedicated Schools Grant (DSG) there are three schools which are expected to report and apply for a licensed deficit by the year end. This is set out in more detail in section 11 of this report.
 - iii. The Housing Revenue Account (HRA) is projected to spend to budget. This is after a budgeted surplus is transferred to reserves at the end of the year and is mainly to ensure that there are sufficient resources available to fund the current housing programme over the medium term. This is set out in more detail in section 12 of this report.
 - iv. As at 31 May 2015, council tax collection is broadly achieving this year's profile and is at a similar level to this time last year. Business rates collection is 0.5% higher than the same period last year and is 4.3% higher than the required profile collection to

achieve the target of 99% for the year. This is set out in more detail in section 13 of this report

- v. For the 2015/16 capital programme, the forecast expenditure for the year is now £154.8m, compared to the figure presented in the Budget Report 2015 of £132.6m. At 31 May 2015, some 7% of the forecast had been spent (£11.4m), which is below the profile figure expected if the programme is to be delivered in full. This is set out in more detail in section 14 of this report. The comparable figure to 31 May last year was 11% of the budget of £136.5m, with the final outturn being 89% of the revised budget of £137.3m.

2. PURPOSE

- 2.1 The purpose of this report is set out the financial forecasts for 2015/16 as at the end of May 2015, projected to the year end.

3. RECOMMENDATIONS

- 3.1 The Public Accounts Select Committee is recommended to:
 - 3.3.1 Note the current financial forecasts for the year ending 31 March 2015 and the action being taken by the Executive Directors to manage down the forecasted year-end overspend.
 - 3.3.2 Note the updated capital programme budgets which have been set out in section 14 of this report.

4. POLICY CONTEXT

- 4.1 Reporting financial results in a clear and meaningful format contributes directly to the council's tenth corporate priority: inspiring efficiency, effectiveness and equity.

5. DIRECTORATE FORECAST OUTTURN

- 5.1 The forecasts against the directorates' general fund revenue budgets are shown in Table 1 below. In summary, a forecast year end overspend of £8.6m is being reported as at the end of May 2015. At the same time last year, an overspend of some £11.2m was forecast. Members should note that for 2015/16 there is a sum of £3.2m held corporately for managing 'risks and other budget pressures' which emerge during the year. The Executive Director for Resources and Regeneration will give due consideration as to when it might be appropriate to apply this sum to alleviate budget pressures. This consideration will happen towards the end of the financial year, after assessing the progress that has been made to manage down the current forecast overspend.

Table 1 – Overall Directorate position for 2015/16

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend	Final Outturn 2014/15

				May 2015	
	£m	£m	£m	£m	£m
Children & Young People (1)	68.9	(17.8)	51.1	4.7	9.9
Community Services	170.7	(74.4)	96.3	2.0	(2.3)
Customer Services (2)	87.6	(48.2)	39.4	3.0	3.6
Resources & Regeneration	42.0	(13.0)	29.0	(1.1)	(2.1)
Directorate Totals	369.2	(153.4)	215.8	8.6	9.1
Corporate Items	30.4	0.0	30.4	0.0	(3.9)
Net Revenue Budget	399.6	(153.4)	246.2	8.6	5.2

(1) – gross figures exclude £276m Dedicated Schools' Grant expenditure and matching grant income

(2) – gross figures exclude approximately £240m of matching income and expenditure for housing benefits.

- 5.2 The financial forecasts at this stage of the year are usually higher than resulting outturn for various reasons. However, similar to the scale of the variances projected last year, the current overspending projections are significantly greater than those in recent earlier years. This suggests that the council continues to face budget pressures of a different order than normal.
- 5.3 Directorate Expenditure Panels (DEPs) have been in operation throughout 2014/15, with the Corporate Expenditure Panel (CEP) becoming operational in October 2014. Subject to a review by the Chief Executive and the Executive Director for Resources and Regeneration, the CEP is expected to remain in operation until that review has been concluded. This will ensure that a regular corporate oversight of the council's financial spending position remains. Although the council ended last year with an overall overspend of £5.2m, these measures ensured that the variance was no worse. Although some of the budget pressures reported throughout the course of the last year have been alleviated with the allocation of corporate funding, a number of pressures have continued into this financial year. Therefore, close scrutiny of the financial position will again be very important.
- 5.4 Furthermore, delivering a large package of revenue budget savings for 2015/16 is managerially complex and challenging. There is an inherent risk that some savings will be delivered later than planned, which would result in overspends within the year. As a result, officers will take a greater focus on monitoring the progress of savings being implemented.
- 5.5 The table below sets out the proportion of agreed savings delivered in the year. Any variances are included in the overall forecasts shown in the table above.

Table 2 – Forecast Savings Delivery

Directorate	Savings Agreed for 2015/16	Forecast Delivery	Variance	
	£m	£m	£m	%
Children & Young People	6.8	5.6	1.2	18
Community Services	14.6	11.0	3.6	25
Customer Services	3.7	3.1	0.6	16
Resources & Regeneration	2.2	2.1	0.1	2
Corporate	4.6	4.6	0.0	0
Corporate Budget Adjustment	(3.2)	0.0	(3.2)	0
Total	28.7	26.6	2.3	

6 CHILDREN AND YOUNG PEOPLE'S SERVICES

- 6.1 As at the end of May 2015, the children and young people's directorate is forecasting an overspend of £4.7m. At the same time last year, the year-end forecast was an overspend of £8.1m, with the actual year-end outturn being an overspend of £9.9m.

Table 3 – Children & Young People Directorate

Service Area	Gross budgeted spend	Gross budgeted income – including grants*	Net budget	Forecast Final Outturn 2015/16	Variance
	£m	£m	£m	£m	£m
Children's Social Care Services	40.0	(1.1)	38.9	41.9	3.0
No Recourse to Public Funds	3.6	0.0	3.6	4.6	1.0
Standards & Achievements	2.8	(1.9)	0.9	0.9	0.0
Education Infrastructure	0.1	0.0	0.1	0.1	0.0
Partnerships/Targeted Services	15.0	(3.1)	11.9	12.6	0.7
Resources & Performance	7.4	(10.4)	(3.0)	(3.0)	0.0
Schools	0.0	(1.3)	(1.3)	(1.3)	0.0
Total	68.9	(17.8)	51.1	55.9	4.7

* The government grants include the Adoption Reform Grant, SEND reform grant, Troubled Families grant and Music grant

- 6.2 The most significant cost pressures for the directorate fall within the *children's social care* and *no recourse to public funds* service areas and together amount to £4m. The key issues pertaining to the pressures have been set out in the following paragraphs.
- 6.2.1 For clients with no recourse to public funds, there is cost pressure of £1m. There are currently 236 clients with no recourse to public funds against a peak of 286 in June 2014. The estimated cost to the end of year of the current clients is £4.6m.
- 6.2.2 The pilot team has been working with the Home Office to get code 1a (entitlement to mainstream benefits) granted for cases the council is supporting. In total, 102 cases have now been granted this status change. The full year impact, once all of these cases have been transitioned is £2.5m per annum. It is anticipated that it takes an average of four to five months to ensure that a comprehensive re-settlement process is completed. This will also reduce the likelihood of representations back to the council's housing needs service. Within the forecast, there is a saving of £1m which has been built into the figures. Once the full year impact of this is seen in 2016/17, it is expected that spend will be within the current budget level of £3.6m.
- 6.2.3 Over the course of the year, there will be some new clients who present themselves to the council. Some will result in costs, but it is anticipated there will be a reduction in spend as support is ceased to other non code 1a clients. Officers are undertaking further work on the likely profile of new clients and clients which the council cease to support. Therefore, the forecast will be adjusted appropriately over the coming months.
- 6.2.4 The placement budget for *looked after children* is currently forecast to overspend by £1.7m with the current number of looked after children totalling 472. Total

revenue budget savings on the placement budget of £1.5m were agreed by the Mayor for 2015/16. The work to implement these savings has been delayed due to staff changes. It is expected that some savings will be generated, but only toward the end of the financial year, with the full year effect likely to come through in 2016/17. The shortfall for 2015/16 is estimated to be in the region of about £1.2m and this is included in the above overspend figure.

- i. *Children leaving care* is currently forecast to overspend by £1m. The numbers of clients now total 84, whereas the average for last year was 74.
 - ii. There is an additional pressure on the *Section 17* unrelated to no recourse to public funds of £0.3m.
- 6.3 The only other budget pressure in the rest of the directorate is on schools' transport within the *partnerships and targeted services* area. The final outturn on schools' transport at end of 2014/15 was an overspend of £1.1m. This has been subsequently reduced to £0.7m and there has been progress on the increased use of independent travel and direct payments. Officers have commenced the work on devolving transport to schools.
- 6.4 The key unit costs and activity levels within children's social care are summarised in the following table.

Table 4 – Fostering Client Numbers

Placement type	Average weekly unit costs		Client numbers
	May 2015 (£)	May 2014 (£)	May 2015
Local authority fostering	409	365	219
Agency fostering	908	867	187
Residential homes	3,486	3,127	43

- 6.5 The unit cost information set out in the table above demonstrates the importance of the directorate's strategy for shifting the balance of provision towards fostering, as well as reducing costs. As an example, every client moving from agency to local authority fostering results in a saving of around £26k per annum and around £134k for every movement from a residential placement to agency fostering.

7 COMMUNITY SERVICES

- 7.1 As at the end of May 2015, the community services directorate is forecasting an overspend of £2.0m. At the same time last year, the year-end forecast was an overspend of £1.1m, with the actual year-end outturn being an underspend of £2.3m.

Table 4 – Community Services

Service Area	Gross budgeted expenditure	Gross budgeted income	Net budget	Forecast over/ (under) spend
	£m	£m	£m	£m
Adult Services Division	116.6	(43.5)	73.1	1.9
Cultural and Community	20.1	(7.1)	13.0	0.3

Service Area	Gross budgeted expenditure	Gross budgeted income	Net budget	Forecast over/ (under) spend
Development				
Public Health	12.3	(15.0)	(2.7)	0.0
Crime Reduction & Supporting People	19.8	(8.7)	11.1	0.4
Strategy & Performance	1.9	(0.1)	1.8	0.0
Community Reserves – transfers from reserves				(0.6)
Total	170.7	(74.4)	96.3	2.0

- 7.2 These forecasts assume no community services spend on budgets transferred to other directorates as part of reorganisations of business support, strategy and performance. The forecasts include the drawdown of £0.6m from earmarked reserves which had been created at the end of 2014/15 from underspends in that year.
- 7.3 The *adult services* division is forecast to overspend by £1.9m. This projection assumes achievement later in the year of revenue budget savings of £1m in addition to savings already achieved and includes use of non-recurrent funding totalling £1.3m. At the end of the last financial year, adult services overspent by £2m.
- 7.4 There are a number of over and underspends forecast against individual services within adult social care. The key issues for members to note are as follows:
- i. The largest overspends are on budgets for packages and placements where current forecasts are for an overspend of up to £3.2m.
 - ii. Although there are some demographic pressures, these overspends are largely as a result of delayed achievement of savings proposals. Savings totalling £7.5m were agreed for adult social care for 2015/16 and these are in addition to the revenue budget savings of £6.8m agreed for 2014/15. In most cases, these budget savings have been implemented, but the full impact will take some months to come through because it requires a review of individual packages.
 - iii. In two cases, the implementation is considered complex and is yet to be started.
 - A2i Learning disability supported accommodation. This is the subject of a report to Mayor & Cabinet (Contracts) on 15 July 2015
 - A3 Re-configuration of day care including transport. This is the subject of a report to Mayor & Cabinet on 15 July 2015.
 - iv. The following revenue budget savings will not be achieved until 2016/17:
 - Meals - £250k – contract expires in 2016/17
 - Support Services (sheltered housing, linkline etc.) – £250k

- v. The impact of delayed achievement has been partially offset in 2015/16 by use of non-recurrent funding received from health of £1.25m. The underlying overspend, excluding this one-off support, is £3.1m.
 - vi. Overall, underachievement of £2.7m against the savings target is forecasted this year.
 - vii. The forecast assumes full spend of the Better Care Fund and the specific grants paid in 2015/16 for implementation of the Care Act. In the first two months, spend against each of these has been lower than expected. Any emerging budgetary pressures will be monitored and, if it becomes likely that any of these budgets will be underspent, this will be reported in subsequent financial forecast reports.
 - viii. As in 2014/15, there is a pressure on budgets for the Deprivation of Liberty Safeguards. The spend of £0.3m is projected on community services budgets in 2015/16. The Department of Health has announced a once –off grant of £145k which leaves a pressure of £0.2m.
 - ix. The forecasts in this report do not include the effect of transitions from children’s social care.
 - x. The forecasts assumes that the £2.2m growth allocated for the increase in London living wage, payment of travelling time etc. will be spent in full. If elements are not implemented, the community services budget will be reduced by the appropriate amount for those elements so the variance will not change.
- 7.5 The *cultural and community services division* is forecasting an overspend of £0.3m. This compares to an underspend of £1.6m at 2014/15 outturn. However, transfers from earmarked reserves will reduce this overspend down to £0.1m. The voluntary and community sector grants budget is forecasting an overspend of £0.2m. However, this variance will be fully offset by the agreed use of a £0.2m earmarked reserve set aside to cover the cost of additional once off grant allocations for 2015/16. An underspend of £0.1m is expected on the libraries budget which relates to the budget set aside to meet the prudential borrowing costs associated with the capital works at Manor House Library. There will also be a managed underspend of £0.12m on the leisure management lifecycle and dilapidations budget which will offset the overspend resulting from slippage on the implementation of the 2015/16 savings proposals on the Broadway Theatre.
- 7.6 There is a £0.1m overspend forecast on the Deptford Lounge budget due to a combination of low levels of income generated from third party room hire and the increasing cost of reactive maintenance on the building. The Broadway Theatre budget is forecasted to overspend by £0.17m due to slippage against the delivery of 2014/15 and 2015/16 savings and essential equipment and technical works. This will be reduced, however, by transfers from reserves to fund the equipment and technical works (£0.05m). The remaining financial pressure of £0.12m on the Broadway Theatre will be contained within the overall divisional budget and will be offset by a managed underspend on the leisure management lifecycle and dilapidations budget.
- 7.7 An underspend of £0.1m on the Local Assemblies Fund devolved budget was carried forward to 2015/16 through an earmarked reserve. Spend of this in

2015/16 will show as an overspend on the service budget, but this will be fully funded by a drawdown from the reserve.

- 7.8 The Adult Learning Lewisham (formerly Community Education Lewisham) service is almost entirely funded from a combination of grant from the Skills Funding Agency (SFA) and student fee income. The curriculum delivery plan for the 2015/16 academic year will be set in line with available resources and the service is currently expected to spend to budget.
- 7.9 An overspend of £0.4m is forecast for *crime reduction and supporting people*. This compares to an underspend of £1.4m in 2014/15. The agreed saving of £0.8m resulting from the review of the *crime, enforcement and regulatory services* functions will not be delivered in full for 2015/16 as the implementation date for the new service has been delayed until 3 August 2015. Officers are currently projecting an overspend of £0.2m as a result of this delayed implementation date. The full costs of the redundancies arising from the service restructure will be funded centrally following the agreement to transfer £0.2m to reserves from the service underspend in 2014/15.
- 7.10 At this stage, an overspend of £0.1m is projected on the budget for secure remand placements within the *youth offending service*. This comes as a result of a reduction in the 2015/16 grant paid by the Ministry of Justice to part fund the cost of secure remand placements in young offenders' institutes. The current overspend of £0.1m represents the loss of grant and currently assumes similar remand activity levels to 2015/16. However, this can be a volatile area of spend which is not entirely controllable in that costs are driven by the number of local young people ordered into secure remand by the courts, the severity of their offences and hence how long they are held pending the court process. Additionally, £0.1m will be spent in 2015/16 to fund the replacement of the current youth offending information system. This is the data management system specific to youth justice providers across England and Wales. This will also represent an overspend against the service budget, but will be funded by a transfer from an earmarked reserve created at the end of 2014/15 for this purpose.
- 7.11 In the 2015/16 budget process, savings totalling £2.7m were agreed on the budgets for *public health* and funded by public health grant. Eligible spend has been identified elsewhere in the council, so the council can retain the grant. However, budgets have not yet been moved to reflect this. Therefore, as at end of May 2015, the public health division had a net credit budget of £2.7m. Budgets will be reallocated during the first half of the financial year.
- 7.12 Similarly, savings were agreed on drugs & alcohol budgets funded by public health budgets within *crime reduction & supporting people* and these services currently have budgets with a credit value of £0.5m. These will also be reallocated within the same timescale.
- 7.13 Not all of the public health savings have yet been achieved with particular problems with renegotiation of contracts with LG Trust. So although at this stage an overspend is indicated, it is expected that these savings will be delivered in full and in part will be supported by use of a £250k carry forward of 2014/15 public health grant.
- 7.14 The *strategy, improvements and partnerships division* is projecting spend to budget.

8. CUSTOMER SERVICES

- 8.1 As at the end of May 2015, the customer services directorate is forecasting an overspend of £3m. At the same time last year, the year-end forecast was an overspend of £2.2m, with the actual year-end outturn being an overspend of £3.6m.

Table 5 – Customer Services

Service Area	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/(under) spend
	£m	£m	£m	£m
Strategic Housing	13.9	(10.0)	3.9	2.4
Environment	38.0	(19.2)	18.8	0.1
Public Services *	27.2	(17.6)	9.6	0.5
Strategy & IMT	8.5	(1.4)	7.1	0
Total	87.6	(48.2)	39.4	3.0

* - excludes £240m of matching income and expenditure in respect of housing benefits

- 8.2 The *strategic housing service* is projecting an overspend of £2.4m. This relates solely to nightly paid temporary accommodation, more commonly referred to as bed and breakfast.
- 8.3 The number of bed and breakfast tenancies as at end of May 2015 was 586. This compares to 382 at the same time in 2014, and is an increase of some 27 on the figure of 559 at the end of 2014/15. Numbers have reached a relative level of stability compared to the sharp increases experienced during the last financial year, which saw numbers peak at 616 in February 2015.
- 8.4 In recent months, a review of practices and a staffing reorganisation have led to a more rigorous approach to both prevention methods and decision making in respect of accepting a homelessness duty. As this settles down, numbers are expected to reduce, assuming that numbers of applications remain at their current levels.
- 8.5 Officers are also focusing on income collection, either by ensuring those that are entitled to benefits have claimed them or by improving rent collection from those that are not entitled. If successful, this will lead to a reduction in the bad debt provision required and a subsequent reduction in the forecasted overspend.
- 8.6 In an effort to control accommodation costs, the council is participating in a pan London scheme intended to restrict the ability of providers to charge excessive rates to boroughs procuring accommodation across London. The impact this scheme is having will be reported through to members as part of the financial forecast report in due course.
- 8.7 Significant investment has also been made in procuring additional temporary accommodation units. The majority of these will not become available until early 2016, so will impact mainly on the 2016/17 position.
- 8.8 The *Environment division* is forecasting an overspend of £0.1m. This relates to the savings proposal to increase community and voluntary sector engagement in

the maintenance of small parks. When approving the proposal, members requested that additional consultation with park stakeholders should take place. This has resulted in a later than planned implementation date.

- 8.9 The division is also showing a £0.1m overspend in street management. Changes in contractual arrangements with JC Decaux have resulted in an increase in the cost of providing automated public conveniences. As the contract has produced savings elsewhere within the council, a request will be submitted for this overspend to be covered by corporate resources.
- 8.10 The *public services division* is forecasting an overspend of £0.5m arising from delays in the implementation of the new business support service, agreed as a part of the 2015/16 budget savings process. The service is now expected to be established and operational from September 2015, the effect of which is that only a half of the proposed saving of £0.9m will be achieved in the current year.
- 8.11 No variations are being forecast against the budgets for the *Strategy and Technology and Change* divisions.

9. RESOURCES AND REGENERATION

- 9.1 As at the end of May 2015, the resources and regeneration directorate is forecasting an underspend of £1.1m. At the same time last year, the year-end forecast was an underspend of £0.2m, with the actual year-end outturn being an underspend of £2.1m.

Table 6 – Resources and Regeneration

Service Area	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend
	£m	£m	£m	£m
Corporate Resources	5.3	(2.3)	3.0	0
Corporate Policy & Governance	3.8	0	3.8	(0.5)
Financial Services	5.3	(1.2)	4.1	(0.3)
Executive Office	0.2	0	0.2	0
Human Resources	3.0	(0.3)	2.7	(0.3)
Law	2.7	(0.4)	2.3	0
Strategy	2.5	(0.4)	2.1	(0.1)
Planning	3.2	(1.6)	1.6	(0.1)
Regeneration & Asset Management	16.0	(6.8)	9.2	0.2
Total	42.0	(13.0)	29.0	(1.1)

- 9.2 The *corporate resources* division is forecasting a nil variance. This division includes the insurance budget which, as highlighted in previous years, may change once the outcome of the annual actuarial valuation is known (towards the end of the year) which recommends any necessary contributions to provisions and reserves.
- 9.3 The *corporate policy & governance* division is forecasting an underspend of £0.5m. This is mainly in respect of staffing costs where the outcome of the staffing reorganisation has resulted in a number of vacant posts plus a number of secondments to other areas of the council.

- 9.4 The *financial services* division is forecast to underspend by £0.3m. This partly relates to the contingency for the directorate that is held within this division as well as a reduction in staffing costs due to vacant posts.
- 9.5 The *human resources* division is forecast to underspend by £0.3m. This is mainly due to vacant posts across the division.
- 9.6 The *legal services* division is currently forecasting a nil variance.
- 9.7 The *strategy* division is forecasting an underspend of £0.1m. This is mainly due to delayed recruitment of apprentices and a staffing underspend due to vacant posts in the communications unit.
- 9.8 The *planning* division is forecasting an underspend of £0.1m. This is due to a vacant post plus additional income from the design panel.
- 9.9 The *regeneration & asset management* division is forecasting an overspend of £0.2m. There are a number of under and overspends in this area, but a key area of forecast overspend relates to reduced income from road closure permits and fines from over runs on those permits due to utility companies improving their practices and performance levels. This forecast is based on income levels from the last financial year where this was also the case. Further analysis of this area is underway to monitor income levels and ensure that income generation is being maximised.

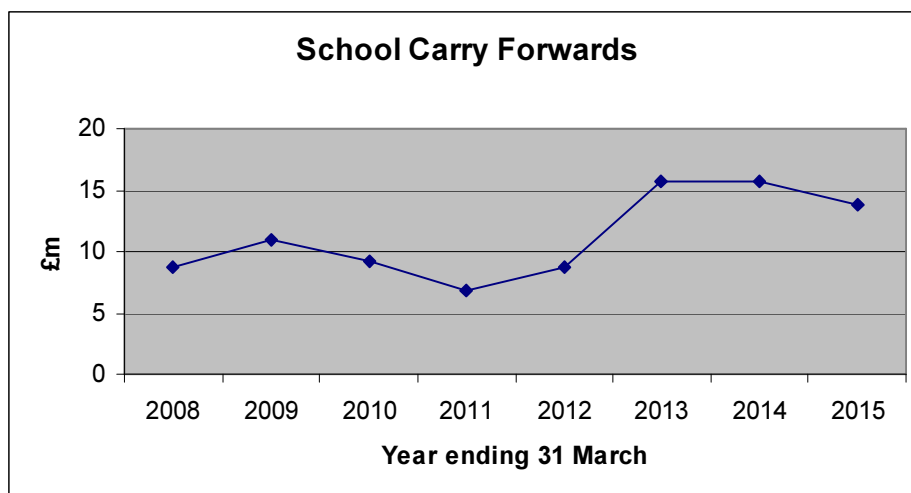
10 CORPORATE PROVISIONS AND TREASURY MANAGEMENT

- 10.1 The Corporate financial provisions include working balances, *capital expenditure charged to the revenue account (CERA)*, and interest on revenue balances. These provisions are not expected to overspend although, with the impact of continued reductions in service budgets, there is ever greater pressure on working balances. Certainty on their outturn only becomes clear towards the end of the financial year.
- 10.2 With continued concerns about the stability of the banking sector, the council's treasury management strategy continues to be focused on avoiding risk, wherever possible. With investment returns still at historically low levels, albeit with indications of modest rate rises possible by the end of the calendar year, there is little opportunity to seek higher returns. However, the council continues to keep its strategy under review and assess alternative investment strategies to find the appropriate balance in the trade off between return and risk. Members should note that similar to last year, a sum of £3.2m is being held corporately to help manage 'risks and other pressures' during 2015/16.

11 DEDICATED SCHOOLS' GRANT

- 11.1 The total year end balances in schools was £13.9m. The balance at the end of the previous year, 31 March 2014, stood at £15.9m. This therefore represents a fall of some £2m. This is the first time since 2011 that there has been a fall in school balances. This theme is replicated across London, of the 16 authorities surveyed 10 have seen their school balances fall.

11.2 The trend in carry forwards in Lewisham is set out in the following chart.



11.3 The average percentage carry forward balance for primary schools is 7% and 1% for secondary schools. For schools overall, the percentage carry forward is 6%.

11.4 The cumulative carry forward balance in the primary sector is at the same level as last year, the fall in balances having occurred in the secondary sector. This has mostly been the result of two secondary schools having deficits emerge this year. The two schools are Deptford Green and Sedgehill. There is one primary school which is All Saints.

11.5 A total of 29 schools applied to exceed the capping limit before the end of the year, where last year, the number was 26 schools which applied. Although the number of schools has increased, the total cumulative excess balances in schools have fallen from £4.7m to £3.6m. All the excess balances relate to planned capital works being delayed or funding given to schools to help develop partnerships.

11.6 The Schools Forum agreed that they did not want to cap any school that had an excess carry forward.

11.7 Under the scheme of delegation schools are required under to submit their budget plans by 31 May each year. At the time of writing this report, there are 16 schools that have not yet made their submission. These schools have been sent a reminder. Dialogue with schools indicates that they are experiencing greater difficulties in balancing their budgets this year. Of the school returns received, 80% are predicting a fall in their balances in 2015/16.

11.8 The current level of the DSG has been set out in Table 7 below:

Table 7 – Dedicated Schools Grant

DSG Area	Before Academy Recoupment	After Academy Recoupment
	£m	£m
Schools block	214.607	188.140
Early years block	17.287	17.287
High needs block	43.681	42.723
Total additions for non-block funding	0.052	0.052
Total DSG allocation	275.627	248.202

Note: The above table excludes the Pupil Premium (£18m), Post 16 funding (£7m), and Universal Free School Meals Grant (£2m). The announcement of the 2 Year old grant is still awaited

12. HOUSING REVENUE ACCOUNT

12.1 The table below sets out the current budget for the Housing Revenue Account (HRA) in 2015/16.

Table 8 – Housing Revenue Account

	Expenditure Budget	Income Budget	2015/16 budget	Variance
	£m	£m	£m	£m
Customer Services - Housing	12.4	(3.0)	9.4	0
Lewisham Homes & R&M	35.7	0	35.7	0
Resources	2.1	0	2.1	0
Centrally Managed Budgets	56.8	(104.0)	(47.2)	0
Total	107.0	(107.0)	0	0

12.2 Lewisham Homes manages certain budgets on behalf of the council in addition to those formally delegated to them. Following two years of significant underspending, the repairs and maintenance budget is expected to underspend again this year. This is part reflects the continued investment in the decent homes programme, which has tended to reduce demand for day to day repairs and maintenance as properties are brought up to standard. A review of asset management spending requirements has been undertaken and officers are currently considering the outcome. It is envisaged that any underspend in repairs and maintenance will be reinvested in revised asset management priorities arising from the review.

12.3 Overall, the HRA is expected to make a surplus on its activities during 2015/16. It will continue to build upon its reserves on an annual basis and this is mainly to ensure that there are sufficient resources available to fund the current 30 year business plan which seeks to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term.

12.4 After transfers to reserves, the HRA is expected to report a balanced budget position.

13. COLLECTION FUND

13.1 As at 31 May 2015, £21m of council tax had been collected, 19.3% of the total amount due for the year of £108.5m. This is marginally below the profiled collection rate of 19.4% if the overall target for the year of 96% is to be met. At the same time last year, the collection rate to date was 19.5%, which is 0.2% higher than this year.

13.2 Business rates collection is at 30.6%, an increase of 0.5% compared to the same period last year and 4.3% higher than the 26.3% profiled collection rate if the overall target rate for the year of 99% is to be achieved.

14. CAPITAL EXPENDITURE

- 14.1 The overall spend to 31 May is £11.4m, which is 7% of the revised budget of £154.8m. The Figures agreed at council when the budget was set have been updated and are proposed for agreement as the revised budget by way of this report. The proposed amendments relate only to the rolling forward of unspent budgets at the end of the last financial year and to update figures for known changes to grants and new projects.

Table 9 – Capital Programme

2015/16 Capital Programme	Original 2015/16 Budget (Per 2015/16 Budget Report)	Revised Budget	Spend to 31 May 2015	Spend to Date (on Revenue Budget)
	£m	£m	£m	%
Community Services	0.4	0.7	0.0	0
Resources & Regeneration	9.0	15.7	0.9	6
Children & Young People	23.5	32.8	7.4	23
Customer Services	0.2	0.5	0.0	4
Housing (General Fund)	29.3	31.9	0.6	2
Total General Fund	62.4	81.6	8.9	11
HRA – Council	22.3	25.3	0.0	0
HRA - Lewisham Homes	47.9	47.9	2.6	5
Total HRA	70.2	73.2	2.6	4
Total Expenditure	132.6	154.8	11.4	7

- 14.2 The table below shows the current position on the major projects in the 2015/16 general fund capital programme (i.e. those over £1m in 2015/16).

Table 10 – Major Capital Projects

2015/16 Capital Programme	Original 2015/16 Budget (Per 2015/16 Budget Report)	Revised Budget	Spend to 31 May 2015	Spent to Date (Revised Budget)
	£m	£m	£m	%
Housing Regeneration Schemes (Kender, Excalibur, Heathside and Lethbridge)	4.5	6.0	0.3	5
Primary Places Programme	15.7	17.0	5.7	34
BSF - Sydenham	4.8	4.9	0.8	16
BSF – Brent Knoll	0.0	1.7	0.7	41
Other Schools Capital Works	3.1	7.9	0.6	8
Disabled Facilities / Private Sector Grants	1.3	1.3	0.1	8
Asset Management Programme	2.5	2.7	0.0	0
Acquisition – Hostels	2.8	3.6	0.1	3

Programme				
Highways and Bridges (TfL)	2.0	3.0	0.0	0
Highways and Bridges (LBL)	3.5	3.8	0.4	11
Other Schemes less than £1m	22.2	29.7	0.2	1
Grand Total	62.4	81.6	8.9	11

14.3 The main sources of financing the programme are grants and contributions, and capital receipts from the sale of property assets.

15 FINANCIAL IMPLICATIONS

15.1 This report concerns the financial forecasts for the 2015/16 financial year. However, there are no direct financial implications in noting these.

16 LEGAL IMPLICATIONS

16.1 The Council must act prudently in relation to the stewardship of Council taxpayers' funds. The Council must set and maintain a balanced budget.

17 CRIME AND DISORDER ACT IMPLICATIONS

17.1 There are no crime and disorder implications relevant to this report.

18 EQUALITIES IMPLICATIONS

18.1 There are no equalities implications relevant to this report.

19 ENVIRONMENTAL IMPLICATIONS

19.1 There are no environmental implications relevant to this report.

20 CONCLUSION

20.1 The council has continued to apply sound financial controls. However, the short and medium-term outlook remains difficult and continued strong management and fiscal discipline will be required to enable the council to meet its financial targets for 2015/16 and beyond.

BACKGROUND PAPERS AND APPENDICES

Short Title of Report	Date	Location	Contact
Financial Outturn for 2014/15	3 rd June 2015 (M&C)	3 rd Floor Laurence House	Richard Lambeth
2015/16 Budget	25 th February 2015 (Council)	3 rd Floor Laurence House	Shola Ojo

For further information on this report, please contact Selwyn Thompson, Head of Financial Services on 020 8314 6932

Agenda Item 7

PAC SELECT COMMITTEE		
Title	Update on shared services	
Key Decision	No	Item No. 7
Ward	N/A	
Contributors	Barry Quirk Duncan Dewhurst	
Class	Part 1	Date: 07/07/15

1. Exclusion of press and public

1.1. Not applicable

2. Reasons for urgency and lateness

2.1. **Reason for urgency:** This report is being provided to allow the Public Accounts Select Committee to feed into the Council's overall strategy on shared services. The report reflects the latest position on shared services and it is important that the committee has this information at this stage in its cycle so that it can be considered alongside other, linked items on the agenda and to ensure that Members can feed into the overall strategy.

2.2. **Reason for lateness:** Awaiting key information from officers.

3. Summary

3.1. This paper looks at the high level case for sharing functions, management, assets, facilities and services with other London boroughs and other partners, the progress that Lewisham has made with this agenda to date and the options to consider for the future.

4. Purpose

4.1. To inform discussion of the approach to shared services at PAC.

5. Recommendations

5.1. This report is for information only.

6. Policy context

6.1. Lewisham's Sustainable Community Strategy 2008-2020 contains the shared priorities for the borough. It sets out a framework for improving the quality of life and life chances for all who live in the borough. This report sets out how sharing services can contribute towards Lewisham's overall strategy.

7. Background

7.1. The term “shared services” has become a catch-all phrase in local government. It started with Councils looking to sustain the effectiveness of their services at lower costs and is now connected loosely with the “fiscal devolution agenda” as evidenced in the devolution “deal” agreed for the Greater Manchester city region.

7.2. In London, the existence of the Greater London Authority (and its functional bodies - especially Transport for London) means that the underlying drivers for “combining authorities” does not apply with the same force. Indeed the legislation that enables “combined authorities” does not apply to London. However, it is still feasible for authorities to share their responsibility for securing services by establishing joint executive committees and combining their management arrangements in whole or in part. The “Tri-Borough” of Westminster, RB Kensington & Chelsea, and Hammersmith & Fulham have four years of experience in trying to lower costs by sharing services amongst the three boroughs. Wandsworth and Richmond are currently merging their entire management structure with a view to having a single advisory and delivery function by 2017.

7.3. There are a number of reasons why Councils share services with one another, in particular:

- economies of scale. These typically arise through the ability to share fixed costs (such as management overheads) and the ability to manage suppliers more effectively. Moreover, as Councils move to providing more digital services fixed costs as a share of total costs are tending to increase, with greater investment in IT systems displacing reduced call centre and face to face interactions;
- as a means to improve service performance. Where a Council provides a better and cheaper service the other Council can realise significant benefits by adopting the same model and sharing capability;
- to provide a better strategic fit with other partners. Where Councils work closely with other partners who straddle authority boundaries (e.g. social care and health integration or where there is joint working with the Metropolitan Police) it may make much more sense for activity to be coordinated between Councils. This issue is likely to become more important as central government looks to devolve more powers to authorities many of which may be best delivered in London on a sub-regional basis. For example the South London Partnership¹ is putting together a joint bid for devolved decision making powers with the funding to match around skills, infrastructure and housing;
- greater resilience. The smaller Councils become the more they lose their professional and management resilience in respect of expert professional advice and delivery. For their size London Boroughs (as “unitary Councils”) provide a very wide range of different services many of which now have a number of single points of failure – key people or assets which the service is entirely dependent on; and
- the ability to coordinate better across related client groups / geographical areas. For example the joint work Lewisham, Southwark, Greenwich, Bromley and Lambeth have carried out in respect of families that have “No Recourse to Public Funds” suggests that unless the same actions are taken across all boroughs needs may not be met properly and costs may increase for all authorities.

7.4. Sharing services can also have drawbacks:

¹ Bromley, Croydon, Richmond, Kingston, Merton, Sutton and Wandsworth

- without a shared vision and buy-in shared services are unlikely to deliver planned savings and benefits;
 - sharing inevitably involves less local flexibility and less local control;
 - sharing can entail significant upfront costs (e.g. redundancy) - equally exiting from any arrangements can be costly.
- 7.5. Nevertheless recent research by the LGA concluded that “clear financial benefits can be made from sharing services”² and that “shared service arrangements have succeeded in providing the same or better levels of performance at less cost”.

Progress to date

- 7.6. To date Lewisham has adopted a tactically opportunistic approach to sharing and has either put in place (or is putting place) shared services in a number of areas:
- a shared IT infrastructure support service with Brent subject to approval from Mayor and Cabinet in the autumn. This is likely to save £0.5m p.a. for Lewisham from 16-17 onwards;
 - a shared team with Southwark and Lambeth running the pilot of universal services delivered locally;
 - a shared systems support team as part of the One Oracle project (which involves 7 boroughs³); and
 - a shared Better Place initiative with Southwark and Lambeth.
- 7.7. As well as formal shared services Lewisham works closely with other boroughs and partners on a wider range of other issues including joints commissioning, joint project work and other informal cooperation in a range of areas as diverse as culture to homelessness.

What are other Councils doing?

- 7.8. A large number of Councils are now sharing services⁴. Typically Councils have focused on sharing ‘back office’ services with neighbouring Councils or other partners. Some of these have involved a large number of partners. For example in Hampshire County Council established a shared service to provide IT network services to over 800 public sector bodies within Hampshire (including schools, district authorities, the fire authority and the police authority). Other partnerships involve fewer Councils but have shared a wider range of ‘back office’ services. For example the London Boroughs of Newham and Havering have put in a place a shared service (oneSource) covering a wide range of ‘back office’ services.
- 7.9. A number of Councils are now going beyond ‘back office’ sharing and are putting in place strategic partnerships with the aim of sharing a wider range of services.
- 7.10. Councils have taken different approaches to establishing these partnerships. For example the ‘Tri-Borough’ took a top down approach, putting in place a single senior

² http://www.local.gov.uk/c/document_library/get_file?uuid=251f1b46-319f-4bf3-94f4-69d5dbb4551a&groupId=10180

³ Lewisham, Lambeth, Brent, Croydon, Barking and Dagenham, Newham, and Havering.

⁴ <http://www.local.gov.uk/shared-services-map>

management team followed by service integration⁵. Richmond and Wandsworth have just announced their intention to take a similar approach⁶.

- 7.11. Other Councils have taken a different approach – building strategic partnerships over time by sharing an increasing number of services. In some cases this has been informal in other areas Councils have spelled out their intention to do this up front. For example Gloucester City Council and Gloucestershire County Council have recently signed a MoU which commits them to looking to share all back office services and a wide range of ‘frontline’ services⁷ with only a single shared management post to start with.

Which services to share and who to share with?

- 7.12. A service-led approach would allow us to focus on those areas where:

- both Councils have a common vision for what type of service should be delivered in the future;
- both Councils have a common vision about how the service should be delivered in the future e.g. through in-house provision, commissioning etc;
- the economies of scale are likely to outweigh the benefits of greater autonomy and local discretion; and
- there is alignment with other strategic partners (e.g. in the health sectors).

- 7.13. When sharing ‘frontline’ services there is a stronger logic for doing so over a geographically contiguous area, which would point towards sharing services with neighbouring boroughs. In some areas it is likely that sharing will need to involve a number of Councils – for example given that the 6 south east London CCGs are moving towards integration it would be natural to cooperate on social care issues at this level. In other areas it may make more sense to share services with just one other borough, making it much easier to align cultures, business processes and systems.

- 7.14. Back office services typically do not need to be delivered in geographically contiguous areas. As such there is a stronger case for sharing IT and transactional services with a wider range of authorities across London.

- 7.15. Whilst London boroughs are unique and have different needs and demographics, it may also be the case that there could be scope for some services to be run on a pan London level from the Greater London Authority (GLA), and as such we will contribute to and influence the ongoing debate around devolution.

- 7.16. Based on this analysis work is already underway to look at the potential for greater sharing in a number of areas:

- adult social care, where wider changes to health service provision in south east London are likely to initiate new ways of working together across borough boundaries. This will involve significant change and planning, and could involve two, three or a larger number of boroughs;

⁵ http://www.lbhf.gov.uk/Images/LBHF_Critical%20Friends%20Board_Tri-Borough%20Review_27Oct_tcm21-191575.pdf

⁶ <http://www.lgcplus.com/news/wandsworth-and-richmond-staff-merger-plans-move-ahead/5087322.article>

⁷ <http://democracy.gloucester.gov.uk/documents/s32870/Partnership%20Working%20with%20Glos%20County%20Council%20report%20Appendix%202%20.pdf>

- back office areas such as IT. The shared IT infrastructure service with Brent will save the Council around £0.5m in 16-17 onwards but more importantly will also greatly improve the way our internal IT systems work whilst laying the ground work for our transition to becoming a truly digital council. More widely officers are also examining the options for building on the work of the One Oracle partnership; and
- developing a joint offer and service on work and skills with Southwark and Lambeth ready for any potential London devolution deal.

8. Financial implications

No financial implications.

9. Legal implications

No legal implications.

10. Crime and disorder implications

No crime and disorder implications.

11. Equalities implications

No equalities implications.

12. Environmental implications

No environmental implications.

13. Conclusion

- 13.1. Given the funding challenges Lewisham is facing, it will be important to look at sharing a much wider range of services with other boroughs. To that end work is already underway to look at sharing a number of functions, assets, facilities and specific services with other boroughs. This is being given added impetus within London by the drive to encourage more hard-edged sub-regional groupings of London Boroughs focused on a range of London's public policy problems - health and social care integration; economic growth, employability and skills; and key features of welfare and public service reform.

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Public Accounts Committee			
Report Title	Asset Management Update		
Key Decision	No	Item No.	8
Ward	All		
Contributors	Director and Regeneration and Asset Management; Asset Management Planning Manager		
		Date:	14 July 2015

Reason for urgency: To enable Public Accounts Committee to scrutinise the Council's approach to asset management and implementation of the Strategic Asset Management Strategy 2015-2020.

Reason for lateness: To accommodate any concerns raised by Sustainable Development Select Committee in discussing the Asset Management System on 30 June and the need to clear the report after this date in time for dispatch.

1. Purpose

1.1 This report provides an update to Public Accounts Committee on the Council's approach to asset management including work taken forward in 2014/15 and the priorities and risks going forward in relation to corporate assets.

2. Recommendations

2.1 Public Accounts Committee is invited to review the approach proposed in the body of the report, and in particular Section 9: priorities for 2015/16 and beyond.

3. Policy context

3.1 Lewisham's Sustainable Community Strategy 'Shaping our future' 2008-2020 sets out 6 priority outcomes. Each of these outcomes are relevant, since Council assets provide the foundation for delivery of all services. The Council's Strategic Asset Management Plan 2015-2020 has particular resonance with the priorities for 'Dynamic and prosperous' communities 'where people are part of vibrant localities and town centres well connected to London and beyond'.

3.2 Lewisham's Corporate Strategy sets out 10 corporate priorities. The Council's asset base supports plans to achieve each of these corporate priorities, but has particular links to 'Clean, green and liveable', 'Strengthening the local economy', 'Decent Homes for all', and 'Inspiring efficiency, effectiveness and equity'.

- 3.3 In March 2015 Mayor and Cabinet approved a new Strategic Asset Management Plan 2015-2020. The contents of this strategy are described in detail in the body of this report.
- 3.4 Further integration of asset management work with housing, planning, infrastructure, regeneration, highways and schools is an important strategic priority. The Council's ability to link plans for the corporate estate with wider activity on highways, schools and the public realm creates the potential to connect to, benefit from and influence the wider regeneration of the borough.

4. Overview

- 4.1 The Council's 13/14 Statement of Accounts estimated the value of the Council's assets at £1.05billion (excluding dwellings, vehicles, plant and equipment). The current market value is considered to be higher than this, with London-wide market trends suggesting a rising trajectory for the asset portfolio's value.
- 4.2 As of February 2015 the Council's non-housing asset portfolio base is 762 properties. These have been classified as follows:
- 105 operational assets supporting the Council's service delivery and office accommodation needs. Operational sites are covered by the corporate Facilities Management contract.
 - School and school assets over which the Council hold the freehold. The school estate across both the primary and secondary numbers 88.
 - Property assets from which the Council derives revenue income in the form of rent. There are 178 sites in the Council's commercial portfolio covering 374 separate assets (sites with multiple units as well as other assets such as aerial sites).
 - 391 unclassified assets that do not fall into the above categories.
- 4.3 In March 2015 the Council published a new corporate Strategic Asset Management Plan 2015-2020 that set management of corporate assets within the framework of the following outcomes:
- Compliance with regulation and responsiveness to risk.
 - Improving the quality of services that can be delivered through the corporate asset function.
 - Reducing expenditure and exposure to costs and increasing income generated and collected.
- 4.4 Key achievements in 14/15 in relation to asset management include
- Publication of a new corporate Strategic Asset Management Plan 2015-2020.
 - An updated Asset Register reported to Mayor and Cabinet.
 - Development of a new corporate Asset Management System.
 - Consolidation of office space across the estate.
 - Income from new lettings across the commercial portfolio, including from the reuse of ex-operational sites as commercial properties.
 - Direct control of commercial properties previously under the housing revenue account including shops with flats above and garages.
 - Completion of a full assessment of regulatory compliance across operational sites.
 - Major improvement works delivered for Laurence House and Brockley and Grove Park CEL buildings.

- Publication of a new corporate Energy Policy.
 - Successful implementation of London Living Wage increases for security and cleaning contracts.
- 4.5 The remainder of this report provides detail of the work delivered in 2014/15 and priorities for asset management going forward. This has been set out in terms of:
- Capacity, systems and processes;
 - Optimisation of the operational estate;
 - The commercial portfolio; and
 - Risks, challenges and pressures.
- 5. Capacity, systems and processes**
- 5.1 A key priority in 14/15 for property has been to strengthen managerial control on the asset portfolio by improving the accuracy of information, establishing robust processes, ensuring clear lines of accountability and setting in place the right governance structures to implement effective decision-making.
- 5.2 A central focus of this work has been the consolidation and quality assurance of data held corporately on assets, bringing together a number of parallel systems that had been used across the Council. This culminated in a new Asset Register agreed in July 2014 at Mayor and Cabinet.
- 5.3 A new Asset Management System (AMS) has been developed alongside the Asset Register. The AMS has been designed to be a single repository for all property data, including plans, surveys, title deeds, mapping information, maintenance and other works, utilities and financial information. Its objectives are to:
- Provide a single corporate resource for managing assets.
 - Maintain a complete and accurate property asset register.
 - Support management and maintenance of the property asset base.
 - Enable the Council to satisfy statutory and compliance requirements.
 - Enable accuracy and timeliness in property assets reviews, appraisal, decision-making and planning.
- 5.4 A first phase of the AMS, covering planned preventative and reactive maintenance work, has gone live and is being used by the Council's maintenance contractor Interserve. Officers in Regeneration & Asset Management are now working closely with Information Management & Technology (IMT) to 'corporatise' ownership and development of the system, which is intended to:
- Improve the resilience of the system making it less reliant on key individuals
 - Support roll out of the AMS across the Council including integration with other corporate systems
 - Ensure corporate agreement on future development, risk assessment and maintenance requirements
- 5.5 A reprogrammed version of the AMS is expected to be completed in summer 2015. Further development work is needed however to extend the range and quality of information on the system.
- 5.6 A fundamental reorganisation of Regeneration & Asset Management division has been implemented, and is designed to provide the strategic and

operational capacity needed for the corporate asset management function. The new structure was implemented in June 2015 although a number of posts remain to be filled and recruitment is in progress.

6. Optimisation of the operational estate

- 6.1 Reshaping the corporate portfolio has been an ongoing part of the Council's response to financial pressures. The Strategic Asset Management Plan 2015-2020 signalled a shift in the emphasis of that reshaping from rationalisation of the corporate estate to a broader asset optimisation model.
- 6.2 The focus on asset optimisation has included the consolidation of office accommodation, surrendering empty properties for other uses, and, where the Council is not the owner, ending rental agreements. Where the Council is the landlord the approach is to seek alternative commercial opportunities, turning ongoing costs into an income.
- 6.3 In 2014/15 Lewisham Homes moved into the old Town Hall accommodation and out of neighbourhood offices. While empty the Town Hall buildings represented a liability to the Council. This has been converted into an income stream, with further opportunity to market space for office accommodation within the building.
- 6.4 In 14/15 five properties were emptied as part of the consolidation of office accommodation and returned to the landlord reducing exposure to maintenance and facilities management costs.
- 6.5 Despite reductions in overall staffing levels Laurence House has continued to be used intensively as part of the consolidation of office space with flexible working arrangements established supporting the efficient use of space.

Estate management and investment

- 6.6 Regulatory risk assessments for fire, water, asbestos, gas and electricity were completed for all operational sites in 14/15. Any urgent remedial actions have already been completed or are scheduled. The regulatory risk assessments will be used to prioritise remedial repairs and the maintenance and investment strategy going forward. Risk assessments are also underway for the wider portfolio in the commercial and unclassified sites.
- 6.7 A new Energy Policy was agreed in July 2014 to focus actions on reducing energy consumption and carbon emissions and seeks to reduce the Council's exposure to rising energy costs. Despite the volatility of the energy market the Council has continued to achieve good value for money through its energy contracts by purchasing energy in bulk with other London local authorities and through using a flexible purchasing strategy to minimise the impact of fluctuations in energy markets.
- 6.8 Works completed across the operational estate in 14/15, in addition to those for compliance work, include:
 - Delivery of Laurence House roof replacement;
 - A boiler replacement programme;
 - New roof, windows and improved visual appearance for Brockley CEL;
 - Grove Park CEL refurbishment; and
 - Refurbishment of 26 Vansittart Street (formerly 5 Desmond Street) newly added to the operational portfolio.

6.9 The facilities management client function was further strengthened in 14/15 and changes implemented in year will result in reduced cleaning and security expenditure in 15/16. Nevertheless London Living Wage increases have been successfully implemented for security and cleaning contracts without increasing costs. No accidents were reported across the operational estate during 14/15.

7. Commercial estate

7.1 The commercial portfolio represents a significant opportunity to drive income that can support the Council's response to pressures on public finances. In 14/15 a huge amount of work went into realigning the portfolio, clearing a backlog of casework, cleansing data and systems and improving income collection and debt recovery processes.

7.2 A number of acquisitions and disposals took place in 14/15, part of a wider move to add value through a realignment of the portfolio. The biggest opportunity, and challenge, lies with aligning the portfolio with the wider regeneration of the borough, unlocking the potential to drive income through property including through private rental income. Property deals completed in 14/15 include:

- Twenty seven new lettings;
- Two lease renewals, with a further three lease renewals awaiting completion; and
- One property acquisition and two properties disposals.

7.3 One of the priorities across the property portfolio is to establish a more coherent classification of assets, with the aim of identifying all assets as either operational or commercial. The Council currently has a large number of properties that are unclassified with various and ad hoc arrangements in place. Resolving this will take time, since many sites are subject to long-term agreements while in other cases there are a large number of highly-valued third sector / community-based organisations using properties where there is a need to ensure a transition period where alternative arrangements can be put in place.

7.4 Since January 2014 a new marketing programme has been in place for void properties. Voids currently represent 7.1% of the entire assets portfolio. The Council's target is for a 5% void rate across the portfolio and this will need to remain a priority area for 15/16 and beyond.

7.5 2014/15 saw a stronger integration with finance on income collection and debt recovery, including use of the small claims court, bailiffs, introducing instalment plans, ensuring clear procedures on surrenders and use of direct debit forms in respect of new lettings. The current total outstanding debt as of April/May 2015 for the commercial estate is £1.45m with the current aged debt profile as below:

0-30 days	31-60 days	61-90 days	91-180 days	181-360 days	360+ days	Total
£0.26m	£0.05m	£0.09	£0.19m	£0.23	£0.62m	£1.45m

7.6 Further action is required in this area to bring this down and this will be an important priority for 15/16.

'Urban Files'

- 7.10 Asset management has usually been focussed on either a borough-wide or an individual asset basis. In 14/15 a new approach was developed segmenting properties into six sub-areas, using the same geographical basis as the planning service and school expansion programme.
- 7.11 The areas are intended to allow a focused and coordinated approach to maximise resources. When fully developed each sector will have an 'Urban File', providing the direction and knowledge base for strategic decisions to be made.
- 7.12 The creation of the 'Urban Files' will allow us to develop a vision for each sub-area of the borough and provide operational guidance in terms of planning and implementing the Council's approach to operational and commercial assets.

LOCATION	WARDS
Lewisham	Lewisham Central
	Blackheath
Catford	Rushey Green
	Catford South
	Bellingham
North	Evelyn
	New Cross
West	Telegraph Hill
	Brockley
	Ladywell
	Crofton Park
South West	Forest Hill
	Perry Vale
	Sydenham
South East	Lee Green
	Whitefoot
	Downham
	Grove Park

8. Risks, pressures and challenges

- 8.1 Statutory risk remains a top corporate priority. The assessment work in 14/15 has improved the quality and depth of information held by the Council and is a key mitigation of this risk. The long-term resource implications of statutory risk will be used to inform future decisions about investment. Risk assessments for commercial and unclassified assets should be completed in 15/16.
- 8.2 Data systems and the quality of data have improved significantly through 2014/15. There remains considerable volumes of information held on separate IT systems and there is a resourcing requirement to quality assure and cleanse this data. Limitations on the storage capacity of IT infrastructure have restricted the ability to hold all information in a single place but planned

new investment in corporate IT infrastructure and the 'corporatisation' of the AMS are expected to improve this situation.

- 8.3 Stretching income targets and significantly reduced budgets have been put in place. Considerable progress has been made in response to this. Net expenditure in 14/15 was over £2m less than the previous year as a result of the actions described in this report. These pressures are set to grow, but a step-change in the Council's ability to generate income, for example through private rental sector properties, will take time to implement and will require investment in professional property resource and expertise.
- 8.4 The reorganisation of Regeneration & Asset Management has aimed to provide the capacity necessary to take on the new challenges of asset management for the Council. In a buoyant property market however the private sector is often offering more competitive terms for equivalent property specialists and recruiting and retaining high quality staff at all levels is difficult. With a reduction overall in staffing levels covering any vacancies for long periods creates significant risk.

9. Priorities for 2015/16 and beyond

- 9.1 The following describes 10 overarching priorities (not presented in any specific order) for corporate asset management in 2015/16 and beyond:
- Statutory compliance
 - Asset optimisation
 - Development of a private rental sector programme
 - Budget controls for operational sites
 - Alignment of facilities management contracts
 - Development of the Asset Management System
 - Classification of assets and data quality
 - Income collection and debt recovery
 - Performance management
 - Capacity

Statutory compliance

- 9.2 Maintaining statutory compliance and ensuring corporate confidence in compliance will remain priorities going forward. Compliance assessments across the commercial estate and for unclassified properties will complete in 2015/16. The completed compliance assessments will be used to determine investment priorities going forward.

Asset optimisation

- 9.3 The asset optimisation work will seek to align the operational portfolio with service needs and the resources available for accommodation. In 15/16 a review of sites will be carried out with the aim of reducing exposure to cost as well as improving the quality of service that can be offered. As part of this work Regeneration & Asset Management will seek closer integration of property management activity across the operational, commercial and schools' estates.
- 9.4 The asset optimisation work will make investment decisions prioritising improvements to those sites expected to remain within the portfolio, with particular emphasis on ensuring compliance, improving the efficient and flexible use of space and reducing costs.

- 9.5 The Asset Management Board, which was established in 2014, will be restarted once key posts have been filled. This will drive the asset optimisation work from autumn 2015 onwards and provide the basis for engagement and communication with service areas, councillors and others.
- 9.6 The goal of a consistent and transparent approach to asset management has meant in some cases agreements with existing building users will need to change. It is recognised that there needs to be a transition period to implement change and that many groups currently benefiting from the use of corporate assets will need to be supported through this transition.

Development of a private rental sector programme

- 9.7 The private rental sector has grown considerably as property prices rise and many landlords have taken advantage charging high rents for poor quality accommodation. A property investment and development strand within the Council's asset portfolio has the potential to achieve economic and social benefits allowing the Council to drive a step-change in income and raise standards and quality in the private rental sector.
- 9.8 This work is part of the wider aim of a radical reshaping of corporate budgets with potential to generate £5m+ income. This scale of income will however take time to achieve given the lengthy lead-in time for construction projects of this nature.
- 9.9 Officers in Regeneration & Asset Management are working closely with Housing colleagues to identify suitable sites and identify the appropriate delivery vehicles.

Budget controls for operational sites

- 9.10 R&AM budgets have reduced significantly in recent years creating pressures for service delivery. A considerable amount of work has gone into ensuring clear and transparent arrangements are in place for providing corporate facilities management services and ensuring that lease agreements are implemented. Budget monitoring procedures are to be further strengthened in 15/16 with building-by-building budgets to ensure financial pressures are monitored at an appropriate level of detail.

Re-alignment of facility management (FM) contracts

- 9.11 Work is underway to align all FM contracts to end on the co-terminus date of 31 August 2016. R&AM has undertaken an options appraisal exercise with a view to market in late 2015 early 2016. This will look to drive further efficiencies and service innovations with the potential to realign hard and soft services by 2016.

Asset Management System

- 9.12 The corporate Asset Management System will be 'corporitised' and rolled out in 2015. This work is a core building block for asset management and delivery.

Classification of assets and data quality

- 9.13 Effective management of assets requires accurate and timely information and a clear understanding of the corporate estate and how it is used. Implementing a clear classification of properties into operational and commercial is an important part of establishing a consistent and transparent approach. With such a large number of unclassified properties this work will take some time, and will in some cases need to be linked to the renewal of leases in specific sites. This will be addressed as part of the asset optimisation process and be led by the Asset Management Board.
- 9.14 The newly 'corporatised' AMS will provide the platform for asset management, but the accuracy of information it provides will be determined by the quality of data that goes into it. Further work on this is needed in relation to the commercial estate and unclassified properties. The Asset Management Board will drive this process.

Income collection and debt recovery

- 9.15 Debt levels across the estate remain unacceptably high. Improvements, in terms of direct debits, early communication, joint work with finance and marketing of void properties have all been made. Further integration of the property management function and debt collection work needs to be achieved in 2015/16 and debt levels needs to be monitored as a key measure of performance.

Performance management

- 9.16 The current set of performance measures for assets needs to be updated and aligned to corporate performance management. A new set of performance indicators for Regeneration & Asset Management will be introduced in 2015/16.

Capacity

- 9.17 The reorganisation of Regeneration & Asset Management was implemented in June 2015. There remain a number of vacancies that need to be filled but the structure is expected to be more or less complete by the end of summer. Risks remain in key areas where there is competition from private sector practice, this is a particular challenge with property specialists. There is also likely to be a need for greater legal capacity, including the use of specialist external legal advice to deal with more complex cases. Officers from Regeneration & Asset Management will liaise with colleagues in Legal Services to develop a strategy and identify resources to deal with this.
- 9.18 The new structure and move to a more flexible, commissioning approach will take some time to fully bed in, and further adjustments may be needed. Good communication between staff at all levels and effective performance measures will be critical in early identification of capacity issues. The senior management team of Regeneration & Asset Management will undertake a review at the end of 2015 to assess capacity requirements.

10. Financial implications

- 10.1 The Council's 13/14 Statement of Accounts valued the Council's assets at £1.05bn (excluding dwellings, vehicles, plant and equipment). The Council's Strategic Asset Management Plan 2015-2020 is intended to drive improvements in the value of assets, increasing revenues and decreasing

exposure to costs. The current total outstanding debt as of April/May 2015 for the commercial estate is £1.45m and further work to address this is needed.

11. Legal implications

- 11.1 There is no statutory requirement on local authorities to have an asset management plan in place, although it is considered a matter of good practice.

12. Crime and disorder implications

- 12.1 There are no crime and disorder implications arising out of this report.

13. Equalities implications

- 13.1 The equalities implications of decisions in relation to the corporate estate will be considered in detail as part of the asset optimisation process and in relation to decisions on individual buildings will be subject to the Council's decision-making processes.

14. Environmental implications

- 14.1 The Council's assets, and the operation of the corporate estate has implications for carbon emissions, local air quality, use of resources and a range of other environmental factors. Improving the efficiency of the estate would be expected to have a positive environmental impact.

If there are any queries on this report please contact **Martin O'Brien, Asset Management Planning Manager**, 020 8314 6605.

Background Documents

- June 2015; Asset Management System; Sustainable Development Select Committee
<http://councilmeetings.lewisham.gov.uk/documents/s37216/04AssetManagement300615.pdf>
- March 2015; Strategic Asset Management Plan 2015-2020; Mayor and Cabinet
<http://councilmeetings.lewisham.gov.uk/documents/s34165/Strategic%20Asset%20Management%20Plan.pdf>
- July 2014; Asset Register; Mayor and Cabinet
<http://councilmeetings.lewisham.gov.uk/ieListDocuments.aspx?CId=139&MId=3422>
- March 2014; Asset Management update; Public Accounts Committee
<http://councilmeetings.lewisham.gov.uk/documents/s28096/04StrategicAssetManagementPlan25032014.pdf>
- November 2013; Asset Rationalisation Programme; Mayor and Cabinet
<http://councilmeetings.lewisham.gov.uk/documents/s25524/Asset%20Rationalisation%20Programme%20-%20Update.pdf>