

<b>Public Accounts Committee</b>			
<b>Report Title</b>	Asset Management Update		
<b>Key Decision</b>	No	Item No.	8
<b>Ward</b>	All		
<b>Contributors</b>	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>