

<b>Public Accounts Select Committee</b>		
Title	Asset Management update	
Contributor	Service Group Manager for Property, Asset Strategy & Estates, Regeneration & Place	Item 6
Class	Part 1 (open)	21 March 2018

## **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 since the last update in November 2016 and the priorities and risks going forward in relation to corporate assets. The report also provides an update on the Council's successes and strategy in relation to generating revenue and stimulating the local economy from its asset base.

## **2. Recommendations**

- 2.1 Public Accounts Committee is invited to note the contents of the report.

## **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 The Lewisham Regeneration Strategy – People, Prosperity and Places sets out the Council's vision for the regeneration of Lewisham until 2020, and outlines the new and emerging opportunities from which the residents, current and new, will benefit. This sets out:
- The links to the Council's wider strategic aims;
  - The main development corridor and links that are the building blocks for regeneration both large and small across the borough;
  - The ways in which the Council is working to drive growth and transformation of the borough, particularly through the use of its own assets.

3.4 In March 2015 Mayor and Cabinet approved a new Strategic Asset Management Plan 2015-2020. Integration of asset management work with housing, planning, infrastructure, regeneration, highways and schools remains a 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 2016/17 Statement of Accounts estimated the value of the Council's property assets at £857m (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 March 2018 the Council's non-housing asset portfolio base is 853 properties. These have been classified as follows:

- 145 operational assets supporting the Council's service delivery and office accommodation needs.
- School and school assets over which the Council hold the freehold. The school estate across both the primary and secondary numbers 97.
- Property assets from which the Council derives revenue income in the form of rent. There are sites in the Council's commercial portfolio covering 312 separate assets (sites with multiple units as well as other assets such as aerial sites).

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 since the last report in November 2016 in relation to asset management include:

- Further progress developing the use of the updated Asset Register;
- Implementation of a new corporate Asset Management System;
- Further consolidation and rationalisation of office space across the estate;
- Progress on the management of both the Operational Estate in relation to regulatory compliance, governance and day to day management;
- Successful collaborative working with other public sector partners, particularly in relation to the One Public Estate (OPE) programme;
- Further progress on maximising income from new lettings across the commercial portfolio, including from the reuse of ex-operational sites as commercial properties;

4.5 This report provides a more detailed update on some of these achievement, together with detail of both the strategy and the ongoing work to generate and maximise revenue from the Council's portfolio.

## **5. Systems and processes**

5.1 A key priority 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 information from various asset managers using a number of parallel systems across the Council.

### **5.3 Asset Management System**

5.4 As previously reported in November 2016, the Council has been working towards establishing a new Asset Management System which has been live since November 2016. It comprises the following modules:

- Properties Management Module
- Programs and Projects Management Module
- Highways Asset Register Management Module
- Facilities Management Module

5.5 The Properties Team, Programs and Projects Team and the Highways team have been using and updating data over the last year and are continuing to do so as a part of the Business as Usual (BAU). The Energy team have also started updating Assets Energy Performance Certificates (EPC) certificates for the relevant assets as required in Asset Management System (AMS). Following from the previous Public Accounts Select Committee (PASC) report, Lewisham has now terminated the contract with K2 (Tribal) system as AMS has replaced the K2 functionality. The Facilities Management Module is configured and ready to be used, although it is currently on hold as the Asset Management Team is awaiting updated data from Kier - the new contractor. As soon as Kier have provided the data, this data will be uploaded in the AMS and then Facilities Management team can continue with BAU processes. The data upload from Kier into AMS in the near future will enable the Facilities Management team to monitor and update jobs as required. Following this bulk data upload AMS will be a fully functional system as envisioned.

### **5.6 Asset Register**

5.7 Work is continuing to further update the Non-housing Asset Register and the current position (with a comparison to the position at the last time of reporting) is shown in the following table:

Asset Category	March 2018		Nov 2016		Change	
	No.	%	No.	%	No.	%
Commercial	312	37%	225	29%	+87	+8%
Operational	145	17%	138	18%	+7	+5%
Parcels of Land	144	17%	110	14%	+34	+31%
Parks / Open Spaces	102	12%	105	13%	-3	-3%
Schools	89	11%	89	11%	-	-
Residential (Inc. Homes)	33	4%	29	4%	+4	+14%
Other	28	2%	45	6%	-17	-4%
Unclassified	0	0%	39	5%	-39	-5%
<b>Total</b>	<b>853</b>		<b>780</b>		<b>73</b>	<b>+9%</b>

- 5.8 The number of 'Not Classified' Assets has now been reduced to zero. The Asset Categories have also been increased so that there is a clearer understanding of the type of Assets the Council is responsible for and the various Asset owners across the authority.
- 5.9 Work is continuing to assess our various Assets based on the information currently available, together with detailed site inspections of land and buildings to enhance our knowledge and enable strategy and operational management plans to be formulated. We will seek to capture, hold and maintain the Asset inventory and subsequent condition data centrally so that all stakeholders can easily access extracts as appropriate through the Asset Management System.
- 5.10 The Council is required by law to publish details of its land ownership. Data is already shared on the Government's EPIMS system as part of its undertaking in the OPE programme, and further requirements are likely to come forward as part of other Government led initiatives and regulations. It is therefore positive that we have reached the position we have in relation to the Council's Asset Register and Officers will be ensuring that all requirements in relation to data publishing is complied with.

## 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, and part of the division's identified savings targets. The Council has continued with its work to optimise the operational estate, with further progress made to consolidate office accommodation, surrendering empty properties and ending rental agreements.
- 6.2 Since we last reported further properties have been vacated or proposed to be vacated so reducing the Council's exposure to maintenance and facilities management costs. These properties have either been returned to the landlord or alternative uses are being explored to generate income and further revenue savings.
- 6.3 Where the Council is the landlord the approach continues to be to seek alternative commercial opportunities, turning ongoing costs into an income. For example the Old Town Hall is now fully let, providing accommodation for

Lewisham Homes and Meanwhile Use creating local employment opportunities on the 4<sup>th</sup> and 5<sup>th</sup> floors.

- 6.4 Laurence House continues to be used intensively and is currently undergoing a 'restack' programme to maximise flexible working arrangements and the efficient use of space. The programme includes a project to refurbish and restyle the ground floor reception to improve the customer experience, due for completion in Spring 2018. A similar project has begun for the public facing areas of the Civic Suite.
- 6.5 Estate Management
- 6.6 Tying in with the positive progress on the Asset Register, work has been ongoing to improve the overall management of the Council's Operational and Commercial Estates. This includes:
- Cross departmental work to provide greater clarity on how and who is responsible for managing operational assets outside of the Catford Complex;
  - Improved monitoring of regulatory compliance across both estates;
  - Work to create an evidence base of buildings condition to better inform a Planned Preventative Maintenance Programme.
- 6.7 Even prior to the Grenfell tragedy, the Council had been doing a significant piece of work to improve both performance and monitoring of regulatory compliance of its asset base. However the events that took place last summer highlighted even further the need for absolute clarity on how Council buildings are managed from health and safety and compliance perspective, and ensure that the correct systems, processes and training are in place to support building and service managers. This was discussed with Members at the H&S Committee in 2017
- 6.8 Work has been ongoing with other services and directorates who occupy operational buildings to identify a clear and simple list of tasks in relation to building management and confirm/agree responsible persons for each site. Furthermore, there has been an increase in the promotion of training for staff and occupiers to undertake to provide necessary skills. This has had a high level of take up.
- 6.9 A Premises Handbook is also in draft (with a view to producing a final version by May 2018) to provide further guidance and assistance to building occupiers, setting out in lay-person terms, amongst other things:
- Specific responsibilities of premises managers;
  - Council policy and guidance on 'how to manage a Council asset';

- Responsibilities of other services – Health & Safety (H&S), Regeneration & Place (R&P) etc – with relevant contact details;
- Relevant contacts for queries, information and training; and
- Hierarchy of accountability and responsibility.

6.10 Officers have been working closely with the Council's key contractors to improve performance on statutory and regulatory compliance. That will continue as remedial works that arise as a result of this work are identified and dealt with. The Council's Compliance Team monitor the Operational Estate in respect of compliance and provide data on individual buildings, working with occupiers, managers and contractors to ensure that key tasks are carried out. There have been some challenges with the transition to the new contractor in 2017 requiring commitments from both parties to improve the contract performance; including regular meetings with the contractor's senior management and the Council's acting Chief Executive.

6.11 As well as improving data and evidence on health and safety and compliance in Council assets, the division are also working through updating condition data on the Operational Estate as well. It is envisaged this work will be completed by July 2018 and used, together with the information produced from statutory and regulatory risk assessments and surveys, to inform future capital investment plans for Council assets.

6.12 In addition, a cross departmental working group has been set up – the Asset Management Working Group, chaired by Regeneration & Place – as a tool to help take a more strategic approach to such investment in Council assets described above. This will provide a more regular engagement tool with Services to identify key asset related service strategies and programmes, and help identify which assets will be required for service deliver in the medium to long term, and which might be released for alternative use.

#### 6.13 One Public Estate (OPE)

6.14 OPE is a pioneering initiative delivered in partnership by the Cabinet Office Government Property Unit and the Local Government Association. It provides practical and technical support and funding to councils to deliver ambitious property-focused programmes in collaboration with central government and other public sector partners. The main aim of the initiative is to encourage better collaboration and working between public sector partners in relation to the use of assets. More specifically, the programme has four core objectives:

- Creating economic growth
- More integrated, customer-focused services
- Generating efficiencies through reducing running costs and capital receipts.

- 6.15 Lewisham Council is the lead organisation for the Lewisham Partnership, which includes Lewisham & Greenwich Trust (LGT), South London & Maudsley Trust (SLaM), Lewisham CCG and the GP Federation. The Partnership has been successful in obtaining funding for Phases 4 and, more recently, 6 of the Programme, totalling £500k for a variety of projects, covered in more detail below.
- 6.16 The Lewisham Partnership's bids and programme outline three interdependent areas of work:
- Regeneration – activity focussed on shared use of area specific sites that can deliver new homes, employment and fit for purpose assets.
  - Collaboration – activity to enable the expansion of community based care services, new models of care at home and primary care development.
  - Strategic Estate Planning – activity to maximise the use of existing facilities and co-location of services.
- 6.17 Four projects have received funding so far:
- Development of a Strategic Plan for Ladywell, centring around the former Ladywell Leisure Centre site but also taking into account other key partnership land holding in the immediate area;
  - Reconfiguration of the Lewisham Hospital site for the provision of a neighbourhood “hub” for N2, mental health bed/SLaM re-provision and other new service facilities;
  - Reconfiguration of Downham Health and Leisure Centre to facilitate a neighbourhood “hub” for N3;
  - Feasibility study around the potential redevelopment of Sydenham Green Health Centre for new health facilities and housing.
- 6.18 In addition, there are separate estate related projects between the partners related to improved service integration and collaboration, and the sharing of back office accommodation to realise running saving costs amongst other benefits.
- 6.19 The Council is also part of a separate OPE project led by London Borough of Bexley looking at the potential for shared depot and other infrastructure facilities.

## **7. Commercial estate**

- 7.1 The commercial portfolio continues to represent a significant opportunity to drive income generation by continued work in the following areas:
- Realign the portfolio;
  - Acquisitions and disposal;

- Clear backlogs of casework;
- Cleansing data and systems; and
- Improve income collection and debt recovery processes.

7.2 Further progress has been made in this regard, again linked to already identified savings and income targets, this is described in more detail below.

7.3 Asset classification has improved significantly with the work achieved in updating the Asset Register and this work continues. Void rates now sit comfortably within a target rate of under 6%.

7.4 Closer integration with finance on income collection and debt recovery has resulted in a much better understanding of the key issues. Due to a historic lack of communication and a build-up of bad debts, this remains an issue to be fully resolved going forward, although it is important to note that current write off levels are at around 1% of the total annual rent roll.

7.5 Work has also been ongoing to improve the monitoring of statutory compliance across the Commercial Estate. Letters were sent to business and home addresses of all of our commercial tenants, reminding them of their responsibilities under their leases and requesting as a minimum they provide, where necessary, details of up to date fire risk assessments. The response rate to this exercise was 36% and the data received is being audited. Work is ongoing to identify high risk properties (i.e. those with high risk uses or vulnerable users) and these properties will be the focus as part of the next stage of work, to include more personal engagement with tenants who are still to respond or who have not responded adequately.

## **8. Asset Realisation & Income Generation**

8.1 A great deal of work continues to identify and progress opportunities to maximise and generate income from the Council's asset portfolio. The key areas of priority and focus remain:

- Growth and increased performance of the commercial estate;
- Land and asset uses with a focus on income generation;
- Development of a private rental sector programme; and
- Cross service working to bring forward regeneration in the borough.

### **8.2 Commercial Estate**

8.3 The Estate Management team continues to significantly improve the performance of the portfolio, through new lettings, tenancy regularisation and working through backlogs of lease renewals and rent reviews. In 2017/18 income is forecast to grow by 15% (£490,000) to £3.71m per annum, this being delivered as part of the Division's savings targets for the current financial year.

8.4 The strategy for further improved performance will remain to be focussed around the following key areas:



- Growth in the commercial portfolio;
  - Tenancy regularisation and ensuring lease management casework is up to date;
  - Garages – formulating an asset management strategy and identifying key areas where inward investment is required in order to increase rental income;
  - Debt management and recovery
- 8.5 Growth of the portfolio will come from a mix of strategic acquisitions, operational properties being released as part of the asset optimisation programme, and historic land disposals which will result in commercial space coming back to the Council.
- 8.6 Growth of the portfolio through strategic investment acquisitions remains to be looked on a case by case basis, and is restricted to in-borough opportunities rather than purely commercial out of borough investments.
- 8.7 Alternative Uses for Land & Assets
- 8.8 The potential for income generation is the main focus when assessing the options for Council land and buildings which are suitable for alternative uses, in particular for redevelopment/development. Where the Council has historically agreed to disposals of land, the more recent cases have not been traditional disposals where the Council has taken capital receipts, but instead focussed on outcomes which give more flexibility and retain ownership and control over its land, even if the Council is not delivering a development itself. Options for consideration as part of any feasibility and appraisal work include:
- Scale and use – what is the scale of potential development; is it a site on its own or can it be used to assemble a more comprehensive development; what are the acceptable/most appropriate uses;
  - Delivery – how the development will come forward- Council or other;
  - Receipt – if a disposal, what form can/should the Council’s financial return take.
- 8.9 However development is not the only way in which the Council can generate revenue savings from its buildings. There are a number of sites which, for whatever reason – strategic, economic, leases etc – are not suitable for development. In some of these cases the Council is looking at other alternative uses, in particular to provide temporary housing, and take people and families out of bed and breakfast accommodation. Not only do these projects bring buildings and land into use until they are required for development, but they also deliver revenue savings from taking people out of temporary accommodation.
- 8.10 The Council is also looking to generate short term revenue savings and wider regeneration benefits from bringing larger buildings back into temporary use

through a more effective meanwhile use strategy. Again this demonstrated by the Place Ladywell development, but we are also looking to deliver similar outcomes in Catford. Supersets took a lease in 2017 of the former Thomas Lane Depot and further lettings are expected as other existing commercial buildings become vacant. This does not necessarily deliver significant short term financial returns, but does bring vibrant economic, employment and place shaping uses to previously vacant sites, and helps realise quicker regeneration benefits to places such as Catford Town Centre. The division will continue to work closely with other services to help identify and bring forward other positive meanwhile use opportunities in other parts of the borough.

#### 8.11 Private Rented Sector PRS Programme

8.12 The greatest potential for significant and long term income generation from Council land remains to be bringing appropriate sites forward for development to provide private rental accommodation. In November 2016 we reported on the status of the former New Deals for Communities (NDC) site at Besson Street. Since then, the Council has chosen Grainger as its preferred partner to deliver a scheme on Besson Street, with a planning consent expected to be achieved in early 2019 and the first homes completed in 2022. As well as generating significant income for the Council, it will also result in the Council being at the fore of a drive a step-change in standards and quality in the private rental sector.

8.13 The initial aim of the PRS programme was to generate income of £5m+ and this target has grown as a result of further revenue pressures. This scale of income is achievable in the long term, however given the lengthy lead-in time for construction projects of this nature, it will take time (over 10 years) to deliver.

8.14 Officers in Regeneration & Place continue to work closely with Housing colleagues to identify further suitable sites.

#### 8.15 Regeneration & Cross Service Working

8.16 The division continues to work closely across key service areas, particularly Housing Strategy & Delivery, Planning and Economic Development, helping drive forward projects and deliver investment and growth for the Council.

8.17 The Division continues to lead on key regeneration programmes, in particular Catford Town Centre, where Mayor and Cabinet took the decision to realign the South Circular and unlock the town centre for redevelopment to provide a new civic and cultural heart to Catford, as well as new homes and new modern employment space.

8.18 The Bakerloo Line Extension to Lewisham and beyond is another key focus for the division, and we are working closely with Planning colleagues, London Borough of Southwark, the GLA and TfL to ensure the Bakerloo Line Extension to Lewisham and beyond through the south of the Borough is delivered.

## **9. Financial implications**

- 9.1 The division has an excellent track record of delivering savings, with over £1m of savings delivered year on year from 2011 to 2016, a cumulative reduction of over 50% of net budget in five years. Further savings and income opportunities continue to be sought. The majority of these savings have been achieved through the rationalisation and optimisation of our operational asset base and the improved management of the commercial estate.

## **10. Legal implications**

- 10.1 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.

## **11. Crime and disorder implications**

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

## **12. Equalities implications**

- 12.1 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.

## **13. Environmental implications**

- 13.1 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.

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