

<b>Public Accounts Select Committee</b>		
Title	Asset Management Update	
Contributors	Assistant Director Regeneration & Place and Service Group Manager for Property, Asset Strategy & Estates, Regeneration & Place	Item 7
Class	Part 1 (open)	20 March 2019

## 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 March 2018 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 2018-2022 sets out 7 corporate priorities. Each of these priorities are relevant to the Council's Strategic Asset Management Plan 2015-2020, since Council assets provide the foundation for delivery of all services.
- 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 As of March 2019, the estimated value of the Council's property assets is £1,228m (excluding dwellings, vehicles, plant and equipment).
- 4.2 The Council's non-housing asset portfolio base is currently 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 relation to asset management include:
- Implementation of a new in-house facilities management team to deliver response repairs and statutory compliance across the Corporate Estate, replacing the previous contracts delivered by Kier;
  - Further progress developing the use of the updated Asset Register;
  - 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 achievements, together with detail of both the strategy and the ongoing work to generate and maximise revenue from the Council's portfolio.

## **5. Facilities Management Services**

- 5.1 In October 2018, Mayor and Cabinet gave their approval for the Council to bring the Corporate Estate's Facilities Management Planned Preventative Maintenance (PPM) and Reactive Repairs contract with Kier to an end; and in its place adopt and implement a new service delivery model, including self-delivered and bought in services.
- 5.2 Through the latter part of 2018 and early weeks of 2019, Officers worked hard to ensure the necessary systems, resources and contracts were in place to facilitate transitional arrangements following the end of Kier's contract. The contract with Kier was terminated by mutual agreement on 13<sup>th</sup> January 2019 and, on 14<sup>th</sup> January, the Council implemented the new transitional delivery model, which includes the FM helpdesk and maintenance operatives team service now being delivered directly by the Council. The transitional arrangements were put in place as an interim measure to

ensure statutory PPM works and reactive repairs could be delivered, and compliance with legal and health and safety requirements met.

- 5.3 The FM services delivered by the Council are supplemented by 15 contractors who deliver PPM and reactive repairs in their service areas, each of which are contracted directly with the Council. These contracts include specialist servicing and maintenance of equipment such as lifts, commercial gas boilers, high voltage works and lightning protection. The current model means the Council have taken back the direct management, control and labour for the maintenance and servicing regime for the Corporate Estate.
- 5.4 In order to ensure the continuation of such important services, works to facilitate this included:
- TUPE of five Kier Staff into the Council's Facilities Management team;
  - Set up of a new in-house FM Helpdesk;
  - Procurement and implementation of specialised FM Helpdesk software.
- 5.5 The current operating model is an interim solution for a short-term period, where Hard FM service provision is delivered by contractors, all directly appointed by the Council. Adoption of this model for the medium to long term period is not sustainable primarily due to the high level of contract administration that will be required. Therefore the current transitional arrangements are expected to be in place for between the next three to nine months, whilst necessary work takes place to put in place the permanent in-house team and structure and procure the longer term specialist contracts required to supplement the work of the in-house service. A report is due to be presented to Mayor and Cabinet in the Spring, updating them on the progress of this work and the next steps required.
- 5.6 Asset Register
- 5.7 Work to update the Non-housing Asset Register is now complete, with the numbers of assets and percentage split between asset categories shown below:

Asset Category	March 2018	
	No.	%
Commercial	312	37%
Operational	145	17%
Parcels of Land	144	17%
Parks / Open Spaces	102	12%
Schools	89	11%
Residential (Inc. Homes)	33	4%
Other	28	2%
<b>Total</b>	<b>853</b>	

- 5.8 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 inventor
- 5.9 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 it's 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, security 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. There are now very few operational properties that are held leasehold.

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 the project to refurbish and restyle the ground floor reception to improve the customer experience is now complete. A programme to refurbish, modernise and future proof subsequent floors is ongoing.

6.5 The works have also facilitated the co-location of key public sector partners, including the Clinical Commissioning Group, who occupy part of the newly refurbished third floor (discussed further below).

### **6.6 Estate Compliance**

6.7 The Asset Compliance Team monitors statutory compliance across the whole Operational Estate, ensuring the required statutory maintenance, inspections and remedial works are completed accordingly. Additionally, they also offer assistance and advice in regards to the Commercial Estate.

### **6.8 One Public Estate (OPE)**

6.9 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.

6.10 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, 6 and, more recently, 7 of the Programme, totalling more than £700k for a variety of projects, covered in more detail below.

6.11 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.

6.12 A number of projects have received funding so far, including:

- 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.

6.13 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. This has included the CCG moving into the remodelled 3<sup>rd</sup> floor in Laurence House, generating a revenue saving for the Council in respect of shared costs for the building, and the ability for the organisations to work more closely together.

6.14 As part of the OPE agenda, the Council are pro-actively engaging with key partners, such as the Hospital Trust, to unlock opportunities deliver new genuinely affordable housing across public sector land.

## **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 continue to 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. The main focus has been on high risk properties (in terms of type of use or type of user), with site visits and compliance reports being undertaken where necessary.

## **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 a backlog of lease renewals and rent reviews. For 2018/19 the final income is expected to be £3.98 million. For 2019/20 income is forecast to grow to £4.33 million, with the increase in income made up of a 25% increase on the garage portfolio and 5% growth on the income for the remainder of the portfolio.

- 8.4 The strategy for further improved performance will continue to focus on the following key areas:

- Growth in the commercial portfolio;
- Tenancy regularisation and continuing to ensure lease management casework is up to date;
- Minor refurbishments of vacant properties where appropriate to enhance marketability, and the pro-active marketing of vacant units to achieve best value
- Garages –The garage rents will be increased by 25% in the new financial year rather than the usual RPI increase. This will bring them in line with current market value. A draft asset management strategy is being formulated, identifying key areas where inward investment is required in order to increase rental income;
- New commercial opportunities in Beckenham Place Park;
- 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 In February 2019 Mayor and Cabinet agreed the overall savings proposals for the Council over 2019/20 and 2020/21. For the Regeneration & Place Division, this included proposals to invest in commercial property in order to grow revenues within the Commercial Estate. An outline strategy has been drafted, set out in appendix 1.

## **9. Financial implications**

9.1 There are no direct financial implications in noting the contents of this report.

## **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.

13.2 On February 27<sup>th</sup> 2019 The Council approved a motion declaring a climate emergency and recognising the importance of reducing carbon emissions in the Borough, including in relation to how the Council is run and the services it delivers. Actions required include setting new targets to reduce the Council's carbon emissions and a systematic assessment of the climate change impact of each area of the Council's activities. This work will shape our strategic approach to asset management going forward.

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## **APPENDICES**

### **Appendix 1: Draft Commercial Investment Strategy (CONFIDENTIAL)**

Exclusion of the press and public for the consideration of Appendix 1:

It is recommended that under Section 100 (A)(4) of the Local Government Act 1972, the public be excluded from the meeting during discussion of this item because it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act as set out below

It includes information relating to the financial or business affairs of any particular person (including the authority holding that information).