

Public Accounts Committee			
Report Title	Asset Management Update & Income Generation		
Key Decision	No	Item No.	5
Ward	All		
Contributors	Service Group Managers for Asset Strategy & Technical Support and Operational Asset Management, Regeneration & Place		
		Date:	30 November 2016

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 June 2015 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 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 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 15/16 Statement of Accounts estimated the value of the Council's property assets at £874m (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 November 2016 the Council's non-housing asset portfolio base is 780 properties. These have been classified as follows:

- 138 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 86.
- Property assets from which the Council derives revenue income in the form of rent. There are sites in the Council's commercial portfolio covering 374 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 July 2015 in relation to asset management include:

- Progress on the updated Asset Register reported to Mayor and Cabinet.
- Development of a new corporate Asset Management System.
- Consolidation of office space across the estate.
- A full assessment of regulatory compliance across the Operational Estate.
- Progress on maximising income from new lettings across the commercial portfolio, including from the reuse of ex-operational sites as commercial properties.
- Progress on bringing forward surplus assets to generate significant long term revenue streams for the Council.
- Disposal of selected property and land to facilitate development objectives and economic growth.
- New FM Contract arrangements

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 July 2015, Lewisham Council has been working towards establishing a new Asset Management System which has been modified and transformed over the last few months. This has been built in house on SharePoint 365 to record and manage the Council's Non-Housing Asset Portfolio including some aspects of schools. Configuration is now complete and the system went live on 01/11/2016. It comprises the following modules:

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

5.5 Now the system is live, data is being migrated into the Asset Management System for Properties Module. The data migration is complete for the Highways module. For the Programmes & Projects Module the Team will update the current live projects within AMS and the Facilities Management module the users will raise jobs and manage the FM contract in the Asset Management System now. The Facilities Management Module will run parallel to the K2 system until December 2016 which is when the K2 contract ends to ensure both systems are functioning in a similar manner as expected. By January 2017 AMS will have replaced K2 and other internal systems completely.

5.6 Asset Register

5.7 Work is continuing to further update the Non-housing Asset Register and the current position is shown in the following table:

Asset Category	Number	%
Commercial	225	29%
Operational	138	18%
Parcels of Land	110	14%
Parks / Open Spaces	105	13%
Schools	89	11%
Not Classified	39	5%
Residential (Inc. Homes)	29	4%
Other	45	6%
Total	780	

5.8 The number of 'Not Classified' Assets has reduced to less than 10% of all our Assets. This is a marked improvement on the previous position of in excess of 50%, however, there is still further work to do and this is ongoing. 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.

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.

- 6.3 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.

- 6.4 Where the Council is the landlord the approach continues to be to seek alternative commercial opportunities, turning ongoing costs into an income. We previously reported that Lewisham Homes have moved into the Old Town Hall accommodation and out of neighbourhood offices. Since then the remaining vacant space in the Old Town Hall, on the 4th and 5th floors has been leased, creating local employment opportunities.

- 6.5 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.

6.6 Estate management

- 6.7 Following extensive tendering processes new contract arrangements have been approved for the following:-
- Planned Preventative Maintenance, Reactive Repairs, and Related Services
 - Building Cleaning and Related Services
 - Building Security Services
 - Regulatory Risk Assessments

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. Property transactions completed in 2016/17 so far include:
- 32 new lettings
 - 14 lease renewals and rent review completed
- 7.3 Asset classification has improved significantly with the work achieved in updating the Asset Register and this work continues. Void rates now sit at 3.3% compared with a target rate of under 5%.
- 7.4 Closer integration with finance on income collection and debt recovery has resulted in a much better understanding of the key issues. However, due to a historic lack of communication and a build-up of bad debts, £32,838 was written off in 2015/16 and ongoing annual provision is being made.

8. Asset Realisation & Income Generation

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

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

8.2 Commercial Estate

- 8.3 As last reported, through a number of acquisitions the commercial estate has grown to increase revenue for the general fund. 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 2016/17 so far income has grown by £219,956, 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;
- 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 land disposals which result in commercial space coming back to the Council.

- 8.6 In late 2014 as part of the wider Future Lewisham Programme, the Income Generation Board instructed a consultancy firm to undertake a high level audit of the Borough to

establish the likely marketplace for large format advertising in a bid to increase revenue generation. The outcome of this review highlighted a number of possible sites with a total portfolio value of circa £300k per annum. This led to the inclusion of a centrally held savings target of £300k per annum effective from 2016/17, which was subsequently allocated to Regeneration and Place for achievement. However, further work by Council officers has resulted in the list of potential sites being refined with a reduced annual income potential of circa £100k - £200k. Work is underway to appoint a partner to work with the Council to put these arrangements in place and we are optimistic that income will start to be derived in 2017 with full savings being achieved in 2018. The key risk to the achievement of this will be successful Planning approvals being granted.

8.7 Land Disposals

8.8 The potential for income generation is the main focus when assessing the options for Council land and buildings which are suitable for redevelopment/development. In recent disposals, the Council has moved away from taking capital receipts and instead focussed on outcomes which give more flexibility and retain ownership and control over its land, even if it 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. Can the Council or Lewisham Homes deliver it; is another land owner in a better position to bring it forward; is there potential for a joint venture delivery;
- Receipt – if a disposal, what form can/should the Council's financial return take.

8.9 The two most recent significant disposals which have been approved are both in Deptford and both involve the Council receiving physical buildings in lieu of a capital receipt. One of these involves retaining the freehold of the development site and taking residential units, the other commercial accommodation which will become part of the commercial estate. There are further sites being looked at for disposal with the same focus and aim, however it is important to note that not every site/building will have the potential to generate income, and in some cases the best option will be to sell and generate a capital receipt.

8.10 Together, these two disposals alone have the potential to generate long term income in excess of £500,000 per annum. However these are long term projects, and whilst the Council will get an element of income from both disposals almost immediately, the real financial benefits will not be realised for at least two to three years. The more immediate results are achievable from working to maximise and grow performance in the existing commercial portfolio.

8.11 However disposals and development are 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 either disposal or development. In some of these cases the Council is looking at alternative uses, in particular to provide temporary housing, and take people and families out of bed and breakfast accommodation. This has happened on a large scale at Place Ladywell and on a smaller scale in buildings such as 43-45 Bromley Road. 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.

8.12 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, working with the operators of the Bussey and Copeland Building in Peckham to bring Thomas Lane Depot back into use. We have also brought the top floors of the old Town Hall back into use through the opening of the DEKS there. 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.

8.13 PRS Programme

8.14 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 July 2015 we reported a combined focus with Housing colleagues to identify suitable sites and delivery vehicles, to allow the Council to drive a step-change in income and raise standards and quality in the private rental sector, whilst generating a stable long term income stream.

8.15 Significant effort has gone into the past 12 months to bring forward the Council's first fully Build to Rent development at the former NDC site on Besson Street. The Council has settled on a joint venture investment partnership as the most suitable vehicle for delivery and is in the first stage of marketing the opportunity to the private sector. The site will deliver a minimum of 230 PRS units which could generate the Council an initial £750k per annum with scope for further growth. Besson St is the Council's pilot scheme for this type of development and, if the partnership and delivery mechanism proves successful, the joint venture is being set up with the ability to deliver a pipeline of sites.

8.16 A second potential site has been identified in the area around Achilles St, also in New Cross, to deliver a similar scale, if not larger, of PRS homes. The scheme has gone through several stages of consultation, with Mayor and Cabinet due to make a decision on whether to proceed with the development in Spring 2017.

8.17 The initial aim of the 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 to deliver.

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

8.19 Regeneration & Cross Service Working

8.20 The division has gone through significant change in the past two years. The previous Director of Regeneration & Asset Management left the Council earlier in the year and since then, we having been taking stock to ensure priorities and resource is focussed in the most appropriate areas. The division has been rebranded to Regeneration & Place, reflect a slight change of focus on delivering positive change across the

borough, rather than managing existing assets. Recruitment for a new head of service is in the final stages, with an appointment due by the end of the calendar year.

- 8.21 This re-branding and re-focussing is important as it is essential to remember that what the division, and the wider Council, does in regeneration terms can have a hugely significant effect not only to improve the borough as a place to live and work, but also to generate revenue to protect and enhance service delivery. Moving towards a place where the Council is self-sufficient in financial terms, regeneration of our borough to provide new homes and employment space will be critical. Council land or buildings which are sold/released for development, but do not generate an income, will still help generate revenue for the Council in the long term. Every home that is built, every new office or shop, will generate council tax and business rates that help deliver equally significant revenue.
- 8.22 Taking Catford Town Centre as an example, this has the potential to deliver up to 2,500 new homes and 5,000 square metres of additional employment space. Before any income/revenues generated from housing, commercial and new operational estate are taken into account, this development could deliver in excess of £3m a year in Council Tax and Business Rates alone.
- 8.23 In order to deliver this growth, investment in infrastructure in borough is key, particularly transport. Delivering the Bakerloo Line Extension to Lewisham and beyond to Bromley will be a key part of this, as well as ensuring other rail improvements such as the Overground extensions benefit the borough. The division is working closely with Planning colleagues, London Borough of Southwark, the GLA and TfL to ensure the Bakerloo Line Extension is delivered, and we are in the process of developing a rail strategy to look at other opportunities and a strategy for investment.
- 8.24 We have been successful in delivering cycle improvements through the Quietways programme and we are looking to build on that with more new and better cycle routes through the borough, developing a Cycle Strategy to identify key opportunities.
- 8.25 This all involves closer cross-departmental and service working, and there are already good examples of where the division is working more closely across key service areas, particularly Housing Strategy & Delivery, Planning and Economic Development. The Bakerloo Line Extension work, Catford Town Centre and Besson Street are all excellent examples of where this is being done.

9. Financial implications

- 9.1 The division has an excellent track record of delivering savings, with over £1m of savings delivered year on year since 2011, a cumulative reduction of over 50% of net budget in 5 years. The majority of these £8.4m of savings has been achieved through the rationalisation and optimisation of our operational asset base and the improved management of the commercial estate. Once the remainder of the FLP savings have been taken over the next 3 years the division will be operating with a net credit budget of circa £2m and the only sustainable method of delivering this is through the creation of new income streams linked to asset realisation and growth.

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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