

Body: CABINET

Date: 19th October 2011

Subject: Strategic Asset Management

Report of: Head of Infrastructure

Ward All

Purpose To consider recommendations into the future service delivery options and resourcing of the management of the property portfolio

Decision Type: Key Decision

Recommendation: Members are asked to:

- i) Authorise the Head of Infrastructure to implement the recommendations of the CIPFA review.
- ii) To approve the formation of the Strategic Property Board in accordance with paragraph 5.1 below.
- iii) Approve the direct award of a 3 year Service Level Agreement to ESCC, draft appended, with authority being delegated to the Head of Infrastructure in consultation with the Strategic Property Board, to agree and execute the final form of Agreement, without going through a tender exercise.
- iv) Delegate authority to the Head of Infrastructure to award works and services contracts under the OJEU threshold in accordance with the above SLA and the Council's contract procedure rules.
- v) To approve the recommended approach to reporting and monitoring property related income and expenditure.

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1.0 Background

1.1 Asset Management is a key project within the Corporate Plan (reference Priority Theme 4 – Sustainable Performance - Project 5). By 2015, it is intended that the Council will benefit from a sustainable asset base contributing effectively to the delivery of public services.

Key activities relating to this project are:

- a) to address the asset team capacity issues
- b) identify options to improve the return from designated investment properties within the asset portfolio and
- c) develop a plan of activity that achieves a sustainable self-financing asset portfolio.

Following the appointment of the Corporate Property Manager in July 2010, a review of the Corporate Property team's capabilities and capacity has been undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA). This review provided a gap analysis of the property function across the council and provided recommendations for the future service delivery of the asset team, given the Council's key objectives.

The results of this review were presented to councillors on the 26th July and a copy of the report together with the subsequent CIPFA presentation distributed to all councillors. In summary, the main issues arising are as follows:

- There is a lack of strategic direction for property assets
- Investment in the portfolio is not taken in a planned manner
- Strategic property issues do not feature prominently within service business planning
- There is no measurement or challenging of the performance of property assets with no property information management system (PIMS) to deliver this
- There is unregularised use of assets across the various services
- Current arrangements for managing the maintenance and facilities management of buildings carry extreme risk; statutory obligations, cyclical testing and inspections are not being undertaken to a level to ensure compliance
- There is no planned approach to building maintenance and all repairs are reactive
- The Council does not know enough about its portfolio to achieve its Corporate Plan objectives.

The key issues identified by CIPFA agree with the Corporate Property Manager's own analysis and the findings of internal audit reviews, such as the 2011 audit of leasing and licensing.

CIPFA have submitted a series of recommendations to address the gaps in asset management service. These recommendations include:

- Form Strategic Property Board
- Establish Property Vision and Objectives
- Establish clear governance arrangements
- Review budget location of rental income
- Develop Property Performance Management Framework
- Procure Property Information Management System/Asset Management software package
- Develop an Asset Challenge (Portfolio Rationalisation) programme
- Integrate Asset Management with Service Business Planning

- Review Rent Support Grant arrangements
- Develop a comprehensive set of indicators and measures for environmental sustainability
- Reintroduce annual lease inspection programme
- Resolve land registration discrepancies
- Clear Backlog of rent reviews and other lease events
- Adopt an Estate Management Disposal Protocol
- Develop and adopt an Arrears Policy
- Map current procurement activity
- Commission full condition surveys
- Load condition data onto Property Information Management System/Asset Management software package
- Develop Buildings & Facilities Management Procurement Strategy
- Develop Repairs & Maintenance Strategy
- Develop Standard Sustainability Initiatives Procedures
- Establish a team to be responsible for the coordination of sustainability and carbon management initiatives
- Develop In-house Project Management Skills
- Develop Prince 2 Based Processes and Procedures
- Develop Contractor Framework

CIPFA have proposed how the Council might address these recommendations, being a combination of re-resourcing and limited or short term outsourcing within the strategic, estates, buildings & maintenance and project management/delivery functions.

However, given the substantial cost of the additional resources required, it was proposed that alternative options for the future service delivery be explored. Specifically, alternative procurement options have been explored with a view to obtaining Cabinet approval for the best route to implement the recommendations.

A review of these options is contained in the Business Case attached as Background Papers. The recommendation from this review is that Option 2 - Service Level Agreement with East Sussex County Council (ESCC) be entered into to assist in implementing the recommendations

2.0 Business Case

The business case for implementing the CIPFA recommendations estimates potential savings/additional income of more than £584,000 per annum. These savings are broken down under paragraph 4.1 below and in the business case document.

Whilst it should be emphasised that these figures are only estimates made in the context of our current lack of reliable data, they are considered to be reasonable by both CIPFA and the Corporate Property Manager.

However, before these savings can be realised, it will be necessary to invest significantly in the management and maintenance of the portfolio. Three resourcing options are presented in the business case and summarised below.

2.1 Procurement Options

In order to implement the recommendations, CIPFA confirm additional resources are required. The three main options available are as follows:

(a) Reresource with limited outsourcing (CIPFA recommendation).

1 x Asset Manager
2 x Building Surveyors
2 x Project Managers
Property Information Management System
Limited outsourcing of outstanding lease event

The indicative additional annual costs (services only) to the existing service provision are estimated by CIPFA as approximately:

Year 1 - £438,000
Year 2 - £285,000
Year 3 - £225,000
Subsequent years – approximately £85,000 per annum

Adopting the above approach CIPFA estimate that all recommendations could be implemented within a 3 year programme. The above costs include the renewal of the Corporate Property Manager post which was assumed in place and funded in CIPFA's original estimate.

(b) Contract with Public Sector Authority partner

Enter directly into a Service Level Agreement (SLA) with ESCC to enable the recommendations to be implemented utilising ESCC and existing EBC resources over a rolling programme. Under Section 1 of the Local Authorities (Goods and Services) Act 1970, a local authority and any other public body may enter into an agreement for the provision of certain services by the local authority to the other

A draft SLA has been negotiated with ESCC and is attached as Appendix A. A provisional programme with budget estimate will be included in the Corporate Property Service and Financial Plan.

A pilot project to assess the practical implications of this option commenced in September and is ongoing; this project involves Condition Surveys and Project Management assistance on 9 key properties, including the Redoubt, Seafront properties and Community Centres. This project is achieving its objectives, namely to ensure the recommended option is viable from a financial, practical, technical and legal perspective.

This option sees the management and strategic decision making around our property portfolio remain with EBC. ESCC will act as EBC's consultant to recommend providers of condition surveys, prepare drawings, gather data and also carry out project management to oversee approved works on EBC's behalf, all managed under the SLA.

The indicative additional annual costs (for Services only) are approximately:-

Year 1 - £205,000

Year 2 - £226,000

Year 3 - £138,000

Subsequent years approximately £85k per annum

An estimated £40k pa of this will be paid to ESCC per annum in Years 1 and 2 with a diminishing amount in year 3 and the rest split between other service providers. This also assumes a Property Information Management System (PIMS) is acquired in year 3 with annual maintenance/licence fee thereafter. The initial set up cost of the system is estimated at approximately £25,000. The above also includes the renewal of the Corporate Property Manager post.

(c) Contract with Private Sector partner

Enter into a tender procurement process to award a Service Level Agreement to a private sector partner to undertake specific recommendations over a rolling programme. Prioritisation of the recommendations may be required subject to budget and capacity of existing EBC personnel

Initial discussions with a regional property management practice have confirmed that implementation of the CIPFA recommendations could be undertaken in partnership with a private sector partner. A partnership with such a provider may also directly assist in fast tracking the 'Asset Challenge' process through direct market exposure. However, fees are likely to be prohibitive in the short term as hourly rates charged are likely to be in excess of those offered by ESCC. This option may be kept under review pending the progress made with ESCC and considered again nearer the 'Asset Challenge' stage.

Recommended Procurement Option

The recommendation is that Option (b) Contract with Public Sector Authority partner is pursued via a full SLA with ESCC. Where the CIPFA recommendations can be implemented by existing EBC personnel/resources this will be done and progress on addressing all recommendations will be monitored through Covalent, the corporate performance management system.

The advantages in pursuing this option are:

- 40% lower fees than Option a)
- streamlined and more cost effective procurement through working with a public sector partner.
- sharing public sector resources such as access to an existing fully operational Property Information Management System
- various building issues can be addressed more swiftly by having access to a structure where the provision of services and works has been subject to rigorous market testing and procurement criteria, allowing (but not requiring) us to award works contracts based on the recommendations of ESCC, having carried out its own due diligence

- with regard public procurement rules.
- building relationships with a public sector partner to enhance the possibility of future public sector asset sharing (a key aspect of the Coalition Government's public sector efficiency agenda).

The Council is keen to involve local businesses in the provision of services and works that may be awarded as a result of the recommendations.

It is acknowledged that the contractor list maintained by ESCC, whilst subject to rigorous quality, capacity and value considerations, may not be appropriate in all circumstances.

Accordingly EBC will retain the right to procure works either through the existing EBC procurement procedures or through the ESCC contractor/framework lists dependent on individual circumstances and merit.

Whilst EBC does not currently maintain a list of approved contractors, it is proposed that such a list is compiled, utilising best market practice in terms of selection criteria.

Furthermore, it is proposed that the proportion of works awarded to local contractors be monitored and reviewed throughout the implementation of these recommendations.

It should be noted that estimated works associated with the reactive, planned and term maintenance programmes cannot be quantified with accuracy until the condition survey programme is completed. However, each programme will be prioritised based on urgency, budget and within the context of the 'Asset Challenge' initiative. Provisional estimates for the costs associated with the preferred option (b) are detailed in paragraph 4 below and will be submitted as part of Service and Financial Planning.

3.0 Consultation

- 3.1 Consultation has been undertaken with the Chief Finance Officer, internal audit, CIPFA, ESCC and a number of private sector suppliers of property services and asset management software.

4.0 Resource Implications

4.1 Financial

In order to implement the recommendations, manage the contract with ESCC and retain the existing Corporate Property Service the following are necessary:

- Make funds available for the fees due under the Service Level Agreement
- Make funds available for any urgent 'Reactive works' as identified by the programme of Condition Surveys
- Make funds available for a prioritised schedule of Planned and Term Maintenance works as identified by the programme of Condition Surveys

The three tables below estimate fees, works costs, income and savings over five years starting from 2011/12. The budgets will be formalised in the Service and Financial Planning process and drawn from the Repair and Maintenance reserve fund and capital programme as necessary.

4.1 **Table One: Revenue Estimates**

Period	Income	Expenditure
2011/2012	£109,000	-£30,000
2012/2013	£107,000	-£175,000
2013/2014	£114,000	-£226,000
2014/2015	£125,000	- £138,000
2015/2016	£193,000	- £85,000

The additional income is based on additional rental income previously reported in Service and Financial Planning and derived from asset management of the existing Corporate Property portfolio. The figures above are accumulative and the slight dip in 2012/13 is due to some one-off revenue income in 2011/12.

The sums do not take into account the substantial anticipated savings identified in the business case. However, these savings are only likely to become apparent once additional resources have been fully deployed and a sustainable asset base emerges.

Table Two: Capital Estimates

Period	Receipts	Payments
2011/2012	£238,000	-£180,000
2012/2013	£655,000	-£401,000
2013/2014	<i>TBC</i>	-£598,000
2014/2015	<i>TBC</i>	-£57,000
2015/2016	<i>TBC</i>	<i>TBC</i>

Capital receipts achieved in 2011/12 and identified for 2012/13 currently exceed the estimated outgoings. Currently 2013/14 onwards projects a significant capital deficit but we would aim to reduce this deficit through identifying additional capital receipts as the Asset Challenge programme progresses. In any case, as Chart One below shows, the overall programme is still projected to turn over a surplus even without these additional receipts.

Payments are estimated based on the likely 'Reactive' maintenance cost following completion of the condition survey programme. 'Planned' and 'Term' maintenance budgets will be driven by the condition survey data but bid for in the Service and Financial Planning process separately.

Table Three: Projected Savings from the Programme

Issue	Rational	Estimated Annual Amount
'Hard Savings'		
Asset Challenge programme (disposal/reuse of inefficient assets)	5% of annual budget for running costs for all property 2011/12 (£3,724,750)	£186,237
Additional Rental income achieved due to lease events being fully managed	5% of Annual Rental Income from Non operational portfolio (£1,272,500)	£63,625
Scope for potential savings in 'hard' and 'soft' FM costs	10% of annual budget for 'hard' and 'soft' FM Budget 2011/12 (£3,350,000)	£335,000
Sub total		£584,862 per annum
'Soft Costs'		
Erosion of Asset value due to lack of maintenance	1% Depreciation of Total Operational Asset Value per annum	£660,000
Cost of reactive maintenance - in terms of business disruption, management time, unnecessary deterioration of fabric/additional cost, reputation etc		Not quantifiable at this stage
Inefficient use of assets, premises not available to community/assets not fully utilised by services		Not quantifiable at this stage
Inability to facilitate development, leverage assets or take advantage of market opportunities for income growth/capital receipts from asset base, infrastructure and community land etc		Not quantifiable at this stage
Inability to demonstrate best value/make robust property decisions with full information/data		Not quantifiable at this stage
Inability to meet Corporate Plan target; by 2015, to benefit from a sustainable asset base contributing effectively to the delivery of public services.		Not quantifiable at this stage
Total		Not quantifiable at this stage (in excess of £660,000)

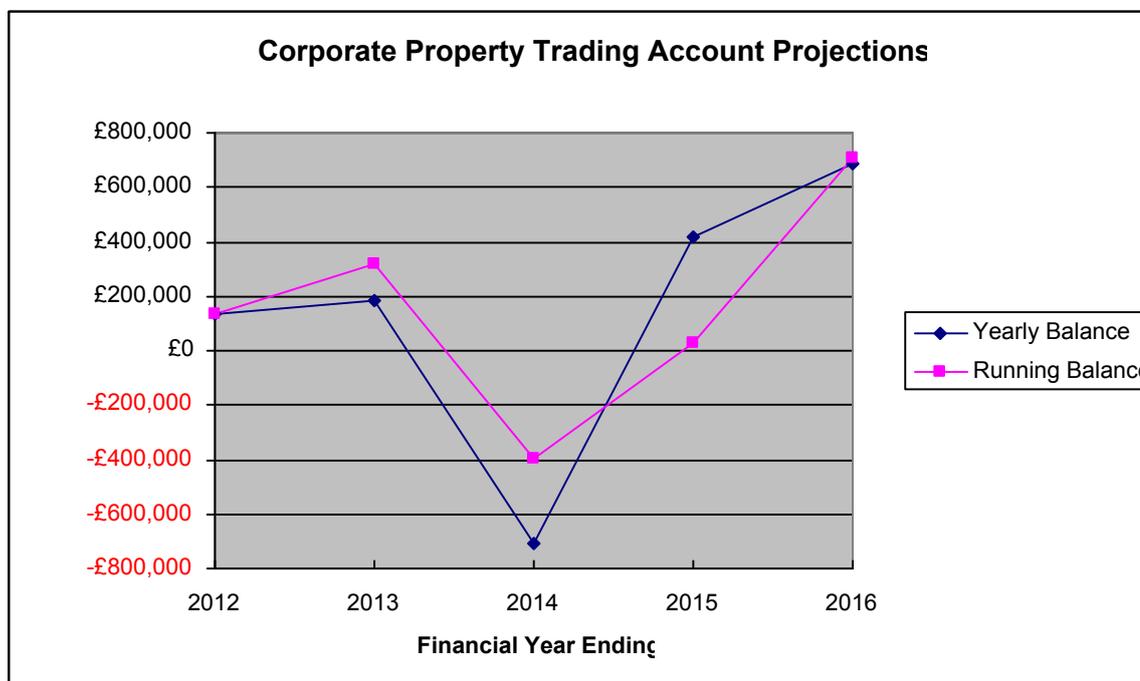
Financial and Performance Monitoring

A new financial report will be developed to monitor progress over the course of the programme, effectively creating a trading account showing income and expenditure for corporate property. This will establish a principle that, generally, capital receipts achieved through asset management will support capital expenditure on retained assets. Similarly additional rental income

achieved through asset management will support additional revenue costs.

Based on this approach, Chart One below projects the Corporate Property trading account over the next five years, including 2011/12.

Chart One: Corporate Property Trading Account Projections



Based on the estimates in Tables One to Three, Chart One projects the balance of the trading account over five years starting in the current one. Clearly there is much scope for this to change based on the results of the condition surveys and the asset challenge process, but the overall positive effect of the programme is clear.

4.2 Staffing

The implementation of the CIPFA recommendations and management of the contract with ESCC will be undertaken by the Corporate Property team. This can be provided within existing resources provided the Corporate Property Manager, whose current contract expires in July 2012, is retained. This will be addressed through service and financial planning for 2012/13 onwards.

5.0 Governance

5.1 In order to ensure effective delivery of the recommendations, the following governance and monitoring will be put in place:

A Strategic Property Board is formed to monitor progress and make decisions on the prioritisation of works. This Board to consist of the Senior Heads of Service, Chief Finance Officer, Head of Infrastructure, Corporate Property Manager and Cabinet Portfolio Holders for Finance and Assets

Monitoring and reporting of Corporate Plan – Theme 4 – Project 5 through Covalent and regular reports to Cabinet and Scrutiny

A new financial report to be developed and included in regular financial

monitoring packs to show all property related income and expenditure as profit and loss, to enable monitoring of progress towards the goal of a self-sustaining asset portfolio.

6.0 Summary

The findings from the CIPFA review have identified a number of issues which need to be resolved if the Council is to meet its target of a sustainable asset base, contributing effectively to the delivery of public services by 2015. The associated recommendations will provide the platform for the Council to achieve this goal and realise substantial savings and capital receipts from the asset portfolio.

In order to implement these recommendations, additional resources are necessary. The recommended route for acquiring these resources is through a Service Level Agreement with ESCC. The estimate for the planned maintenance programme cannot be quantified at this stage but is likely to be substantial. However these works and their priority must be viewed within the 'Asset Challenge' programme, intended to retain only those assets that are fit for purpose and directly contribute to the objectives of the Corporate Plan

7.0 Conclusion

Members are asked to:

- i) Authorise the Head of Infrastructure to implement the recommendations of the CIPFA review.
- ii) To approve the formation of the Strategic Property Board in accordance with paragraph 5.1 below.
- iii) Approve the direct award of a 3 year Service Level Agreement to ESCC, draft appended, with authority being delegated to the Head of Infrastructure in consultation with the Strategic Property Board, to agree and execute the final form of Agreement, without going through a tender exercise.
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- v) To approve the recommended approach to reporting and monitoring property related income and expenditure.

Henry Branson
Head of Infrastructure

Background Papers:

Strategic Asset Management Recommendations – Business Case, September 2011
CIPFA Review - Report on future service delivery options for the management of the Property Portfolio, March 2011
File Reference: GO121