**APPENDIX 1**

# FOREST HEATH DISTRICT COUNCIL

# ASSET MANAGEMENT PLAN 2013/14 to 2017/18 - OVERVIEW

## 1. Introduction

1.1 This Asset Management Plan (AMP) overview has been prepared to set down the principles of managing the Council's property portfolio for the five year period commencing in April 2013. In particular, it addresses the challenges of ensuring that the portfolio is of the correct size, composition and standard of condition to meet the corporate objectives of the Council.

1.2 The AMP draws on current national guidance and aspirations from national government and the Royal Institution of Chartered Surveyors (RICS). It also makes reference to the Forest Heath District Council's Asset Management Plan 2009. The existing AMP contains detailed contextual information, processes and programmes which will not be repeated in this report.

1.3 The main thrust of this report is to identify the strategic challenges facing the Council and to set down a practical approach to moving forward during the Plan period, particularly over the next two years:

- How to deal with the maintenance of the property portfolio;
- How to ensure that all property assets are used to deliver Council services and priorities;
- How to ensure that all assets are used efficiently and effectively by updating and implementing adopted AMP review and option appraisal processes;
- Proposing priority lists of actions, programmes and projects for immediate implementation;
- Proposing a method of resourcing maintenance through a flexible Planned Maintenance Programme.

## 2. Current national asset management guidance

2.1 National Government Guidance

Department of Communities and Local Government (DCLG) and delivery partners through 2011 and 2012 have been working closely with 11 Capital and Assets Pathfinder (CAP) areas, to shape the public estate around customer demand and thereby improve both service delivery and value for money. Building on existing good practice that brought together a *customer-focused approach to asset management and capital investment*, they hoped to improve local outcomes and generate significant efficiencies.

These Pathfinder areas are each locally-led partnerships that have been identifying how this can work in practice and show the level of

savings which can be achieved. The approach encourages strategic asset management across the whole public sector – breaking down traditional silos. Understanding the demands customers place on services helps focus where improvements can be made.
The work from the Pathfinder areas highlighted that a range of benefits were possible from treating the public sector as one organisation which included savings, regeneration, local growth and improved service provision for customers. The approach relies heavily on: _Transparency_ – making information on public assets publicly available, to enable community groups and individuals to challenge public sector performance; and _Co-operation_ - sharing information on assets, by different public sector organisations to help provide a strategic overview of the public sector estate in an area to enable informed decision-making.

The Secretary of State, Eric Pickles, on 5 August announced the findings of the area based asset management project and publication of a demonstrator map of public sector land and buildings. _Key points were:_
1. The potential for savings of around 20% from a strategic joined up asset management approach;
2. Encouraging greater transparency and supporting joint working through all public sector organisations publishing their asset registers; and
3. Promoting the support now available from the Local Government Group available to other areas wishing to adopt a similar approach.

The opportunities identified range from small scale immediate changes, working with the public and voluntary sectors, through to the long term and large scale, such as new public sector 'hubs' with several public and in some case private sector partners sharing.

2.2 Asset Management Guidelines

The RICS produced comprehensive Guidelines in spring 2012. They state:
"*Property asset management is the process which aligns business and property strategies, ensuring the optimisation of an organisation's property assets in a way which best supports its key service and business goals and objectives.*

*The resulting property asset plan lays the foundation for the efficient and effective use of all assets and provides a platform for structured and rigorous forward thinking and decision-making about operational and property asset strategies. The plan enables management to be clear about the extent, value, condition and suitability of the property portfolio right across the organisation. This will form the basis for corporate and consultative strategy development and clear methodologies for measuring performance.*"

The benefits of property asset management are identified as:
- "*Planned, significant and on-going reductions in annual costs, generally from using less property and from improved procurement;*

- *Planned capital release, sustained over time until all capital in property is working as effectively as possible;*
- *Systematic renewal and refurbishment, often funded by property rationalisation and collaboration;*
- *Performance monitoring focussed on the contribution of property to overall business performance;*
- *Organisation wide culture of medium and long term efficient and effective use of property."*

2.3 This AMP Plan overview has been prepared to take full account of the current national asset management guidance and government aspirations.

## 3. <u>Current Forest Heath Asset Management Plan 2009</u>

3.1 The Council adopted the Asset Management Plan (AMP 2009) in September 2009. The AMP sets out links with the Council's key corporate plans, strategies and property objectives, governance arrangements, data about the property assets and procedures for review, implementation and performance monitoring. It also identifies key projects.

3.2 While the Council's main aims and objectives are set out in the AMP 2009, new corporate and service priorities need to be reflected. Additionally, it no longer reflects the governance structure established in 2012, nor does it reflect the shared services arrangements with St Edmundsbury Borough Council. A considerable amount of investigatory work has been undertaken by the West Suffolk Property Services team to inform future delivery of implementation programmes for property for the next five years.

3.3 The AMP 2009 does contain a Delivery Programme for corporate asset management planning. The AMP 2009 needs to be updated, in the context of the new arrangements for provision of services through West Suffolk Property Services, and new national guidance with an emphasis on collaboration, working with the Suffolk Property Partnership, and community involvement. The AMP will build on the framework already adopted, and will emphasise the importance of delivery through an AMP Action Plan and properly resourced projects.

3.4 In particular, the Council faces a significant challenge centred on the current condition of the property portfolio and how to address outstanding and future maintenance. This is dealt with in more detail below.

## 4. <u>Description of the property portfolio and current challenges</u>

4.1 The property portfolio contains around 250 land and building assets, which have a total asset value of around £48 million. The main operational properties are the District Offices in Mildenhall, customer access points in Brandon and Newmarket, a depot, car parks, leisure centres and swimming pool, community buildings, toilets and miscellaneous housing, located in the towns. The non-operational, tenanted portfolio is extensive, consisting mainly of industrial business units in the three towns, shops, and a number of ground leases where the Council is not responsible for any maintenance liabilities.

4.2 The assets for which the Council has maintenance liabilities total almost £43 million. These liabilities range from full liability for operational and directly occupied land, buildings and infrastructure, to shared responsibilities with partners such as Anglia Community Leisure Trust, and limited liabilities for tenanted properties, such as business units in the three towns. However, these liabilities increase if leases are terminated and premises become empty.

4.3 Property is one of the biggest costs of any organisation. As a result of completing surveys of most of the Council's property assets, it is apparent that past and present expenditure on repairs and maintenance has not been, and is not now fully funded. It is also more efficient to forward plan to spend on maintenance, rather than undertake responsive maintenance when building elements or plant fails.

4.4 Exempt Annex 1A gives a breakdown of predicted capital and revenue expenditure needs on a building by building basis for each of the next five years, on the assumption that the Council continues to remain responsible for maintenance of this portfolio. It does not take into account where the Council has approved capital expenditure for improvements (eg security works at the Guineas car park), nor does it include existing revenue budgets for buildings and ground maintenance (see 4.7.2 below). Additionally, it assumes that liabilities for buildings which are subject to approved capital projects (see Annex 3A: Approved Projects) will continue until those projects commence. As a minimum, the Council must undertake maintenance to ensure public safety. The total sum is £8.128 million, and indicates the risks of not proceeding with projects where funding has been allocated.

4.5 Table 1a of Annex 2 is a summary of the maintenance budget predictions in Exempt Annex 1A. Table 2 of Annex 2 incorporates these predictions and also includes estimates for the five year costs of repair and maintenance of all of the district's street lights and all footpaths and open spaces retained by the Council when it transferred its housing stock to Flagship. A 5 year maintenance estimate for playgrounds has not been included.

4.6 Table 2 of Annex 2 sets these maintenance liabilities in the context of the balance sheet asset values and insurance values. It includes all budget allocations to property – revenue budgets for repair and maintenance trended for a 5 year period, and approved capital expenditure for improvement projects, and grant allocations to third parties.

4.7 These summary tables are important in that they identify the following major challenges:

4.7.1 If the current portfolio is to be maintained, total budgetary requirement of almost £9 million needs to be set aside over the next 5 years. This is not sustainable and suggests that in line with national guidance, a more strategic approach is needed to take the Council forward with a property portfolio of the size, quality and condition to meet corporate priorities and service delivery needs.

4.7.2 Total capital and revenue allocated to property (excluding the Guineas project) is around £2.7 million. This equates to £545,000 a year, which is inadequate to meet the spend predictions or address backlog maintenance (average £1.8 million a year). The Council can continue to manage its assets in this way. However, by following this approach it might leave itself open to failing to meet its legal obligations for property. Alternatively, the Council may take positive action to reduce liabilities, and make retained property assets perform better.

4.7.3 There are potentially large outlays of capital required in the next two years for a limited number of key buildings. The Council will need to explore options for each of these major assets before taking decisions about their future:

- Mildenhall Swimming Pool – the pool is managed by ACL but major maintenance responsibilities fall to the Council. Major elements of plant and building structure are nearing the end of their economic lives and could lead to forced closure. The cost of putting the swimming pool back into use could be high. There may also be better opportunities available through partnership working which would have an impact on the payback period;

- District Offices – significant capital expenditure has recently been made to the heating system, installation of solar panels, and refurbishment. Some emergency electrical works have had to be carried out immediately. The offices were built in the early 1980s and will require systematic and expensive refurbishment if they are to continue to be fit for purpose. They do not lend themselves to modern ways of working, which is facilitated by large span floor areas which can accommodate banks of accessible work stations for use by a range of public sector organisations;

- St Johns Community Centre – major refurbishment is needed to the existing community centre and the adjoining shop needs a new roof. A partnership proposal to build a new smaller community centre has been agreed and the planning application has been approved. The scheme of affordable housing and new centre is due to start soon. There are no provisions to renew the shop roof;

- Industrial business units - the rent roll in September 2012 for the business units was £604,000 p.a. The budget estimate for 2012/13 was £843,000, as the amount of vacant property had been underestimated. If this position persists (for instance, there are currently 20 out of 41 industrial units vacant in Brandon), this will have a significant impact on the Council's medium term financial plan. Potential expenditure on the industrial business units throughout the district is high. The maintenance predictions envisage implementing a systematic programme of repair and improvements when units become vacant. Thereafter, when units are relet, with positive management, these liabilities will reduce. Empty units attract costs of business rates, security and services maintenance.

It is therefore a priority task to undertake reviews of those buildings identified as high financial risk.

4.7.4 Exempt Annex 1 shows the current condition of the assets, using the nationally adopted criteria of:

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|---|---|
| A: Good | Performing as intended and operating efficiently |
| B: Satisfactory | Performing as intended but showing minor deterioration |
| C: Poor | Showing major defects and/or not operating as intended |
| D: Bad | Life expired and/or serious risk of imminent failure |

A number of the assets are in classes C and D and are therefore not fit for purpose. Generally the condition ratings have not appreciably improved after the works have been undertaken, indicating that the maintenance is largely to keep the properties as they are, not improve the portfolio. Those in poor condition need to be reviewed as priorities.

4.7.5 Empty properties have only had attributed to them public safety works, pending implementation of options such as the Home of Horse Racing project and 1-3 Outfall Cottages.

4.7.6 Expenditure on planned maintenance settles down to around £600,000 a year once large items of backlog maintenance have been addressed. This assumes that the current portfolio is retained.

4.7.7 The majority of past maintenance spend has been through reactive maintenance of failed building elements (eg drainage, roofs, plant) rather than by planned maintenance, which is more cost effective. Table 2 of Annex 2 indicates that as a benchmark, if 1.4% of insurance value is set aside annually for planned maintenance only (currently this would be £1,139,000), it would far exceed existing annualised budgets of £454,000. Setting aside a realistic annual sum is recommended practice. The Building Research Council advises that an appropriate total budget allocation for routine maintenance and capital renewal is in the range of 2% to 4%.

4.8 Significant challenges have been identified and a fundamental question needs to be considered:

*Should the Council continue to manage its property portfolio as it currently does, or can the Council, through positive asset management, move towards the aspirations outlined in the RICS Guidance (paragraph 2.2)?*

4.9 The Council needs to consider how it can deal effectively with these challenges and it is only by adopting rational processes to assess property asset needs, systematically reviewing the portfolio, tackling identified priority areas and projects first, and developing an achievable implementation programme that this can be realised. An AMP Action Plan forms Annex 4 and this will need to be developed as active strategic property management evolves.

## 5. Asset management reviews, processes and priority programme

5.1 The Council's Asset Management Plan 2009 includes provisions for the ongoing review of all operational and tenanted assets. It is therefore proposed that the assessment processes, options appraisals and implementation programmes be reinvigorated, using the current challenges identified in section 4 of this report as the context for review. Updated processes and programmes will form part of the revision of AMP 2009. Adoption of an overall Property Strategy would set down the corporate principles for undertaking the reviews.

5.2 The review of operational property would be to ensure that all assets are fit for purpose and are strategically managed to help achieve the Council's corporate aims and objectives. Some of the questions which will need to be addressed are:

- Are buildings well located?
- Kept in good or satisfactory condition?
- Accessible to users?
- Suitable for sharing and collaboration with other public and voluntary agencies?
- Cost effective? Sustainable?
- Managed to optimise costs? Give good standards for occupiers?
- Support social and community requirements?

5.3 The review of non-operational property would be to question whether all assets are making a contribution to achieving Council objectives. Property ownership will need to be challenged:

- Is property held only for historical reasons?
- Cost effective? Sustainable?
- What is its relationship to current service priorities?
- Are management and opportunity costs fully taken into account?

- Could the capital held in non-operational property be better employed?
- Is holding property the best way of achieving objectives?

5.4 Assessment processes – the assessment of the portfolio will be based on agreed criteria, to enable comparison and performance. Assessments can be based on property types (eg business units) or area reviews (eg town centre, together with other public sector owners of property). The criteria which may be considered for operational buildings are condition, quality and suitability. Criteria for the non-operational assets are more commercially based, around financial risks and returns, as well as whether they are meeting service objectives, geared to the corporate plan.

5.5 Option appraisals – option appraisals to establish future property needs will consider the financial and service delivery effects of implementing each option. Options to be considered will include no change required, retain the asset but more actively manage to use more efficiently and effectively (for example, work in partnership/collaboration), rationalise by sale and possible reinvestment of funds to renew retained assets, acquire or build new).

5.6 Implementation programmes – capital programming is already an established part of the Council's budget setting. Additional programmes which could be formalised are the estates management programme, to ensure that the commercial properties are effectively managed. Estates management is now being addressed through the West Suffolk Property Services. The planned maintenance programme is discussed in 5.8 below.

5.7 Performance monitoring is another area where further work is required, geared to the contribution of assets to business performance.

5.8 **Planned Maintenance Programme** (PMP) – Section 4 of this report set the challenges facing the Council. The issue of ongoing maintenance and efficient use of resources is one which will persist, even as the Council goes through the process of property review and implementation programmes. It is therefore important to approve the principles of how to deal with maintenance, in order for adequate budgetary provisions to be formalised.

5.9 Capital and revenue maintenance predictions have now been completed for the next five years. A PMP is based on regular inspections of condition and the works apply recognised life cycle expectancies of building components and contractual maintenance schedules. The works for each building are prioritised using the definitions applied for the national property performance indicators for condition and level of urgency. A rolling five year PMP for all assets would identify the quantum, timing and prioritisation of expenditure.

5.10 If a Planned Maintenance Fund is established, based on a realistic annual sum, the money held in the Fund would not be specifically allocated on a building by building basis, but applied according to priorities. This allows for more efficient and effective use of the Fund, and would give flexibility to West Suffolk Property Services to manage appropriately.

5.11 **Cost Reduction Plan** (CRP) - Linked to the use of the Fund would be the strategic AMP review of the portfolio as outlined above. In effect, this would mean that a Cost Reduction Plan for planned maintenance would work in parallel to reduce overall maintenance liabilities. It would include drivers such as:

5.11.1 Specific capital allocations – existing capital allocations (shown in Annex 3A) need either to be activated with identified lead officers and Portfolio holders, or funding could be reconsidered against possible new priorities (see Annex 3B) or resulting from reviews. Additional capital for specific projects may be approved, following a rigorous process of assessment and options appraisal. One important factor to consider, though, is the cost of delaying approved capital projects. Property costs will continue to be incurred if assets are left vacant. As a minimum, these must cover health and safety and public liability works.

5.11.2 Collaboration projects – current national guidance is geared towards transparency, cooperation and collaboration (see 2.1). Opportunities to share operational assets, particularly office accommodation, are high on the government agenda and the potential for savings – as well as customer improvements - has been identified. The Leaders and Chief Executives of the various public sector partner organisations in Suffolk have agreed a Single Public Sector Estate vision which promotes the benefits of a single front door approach for the public state and more efficient use of space through collaboration between organisations. An early example of this collaboration can be seen by the occupancy of 17 workstations in the District Offices by 23 staff working in County Council Adult Social Care. This approach could bring further cost savings if a public service hub approach could be secured either at this site or elsewhere in Mildenhall. Capital receipts are also likely to be generated by the sale of surplus land and buildings. Collaboration projects could solve challenges such as those faced at both the District Offices and the Swimming Pool.

5.11.3 Community management and ownership of assets – policies for community involvement are already in place and some projects have been funded, such as the St John's Centre. Further opportunities should be investigated. While it is unlikely that significant sales receipts can be realised, the Council should be able to reduce maintenance liabilities by transferring assets to community groups.

5.11.4 Specific funds – the Council may make additional funds available to be used to address to specific health and safety issues. For example, when surveys have been completed, an implementation plan from findings from surveys can be made. Any specific budget would have to be approved as further expenditure in the Medium Term Financial Plan.

5.11.5 Defer maintenance works identified in the PMP - this could be achieved by spreading the programme over a longer time span or by only undertaking high priority work. Because of the amount of work identified from the recent surveys, it is likely that a more focussed approach is going to be needed anyway, to reduce immediately the costs identified. Additionally, given the scale of the maintenance challenge, it would not be possible to implement all the works required with the current staffing availability in West Suffolk Property Services. However, there is a cost to delay, particularly where the condition of the building is currently rated C or D (see 4.7.4) and is showing major defects, and may have health and safety implications.

5.11.6 Ring fencing of the Fund reserves – in order to make most effective use of the allocations for maintenance, any unused budget at year end could be ring fenced to reduce backlog maintenance in subsequent years. Retaining unspent maintenance budget at the end of each year will increase the flexibility and prioritising for future maintenance planning.

5.11.7 Tenant contributions - a service charge could be imposed on new leases and the Council retain liability to maintain externally. Due to the short term nature of many commercial leases today, and the economic climate, enforcing full repairing covenants is likely to be a challenge. It would also lead to piecemeal repairs and redecoration (as has largely been the case), which impacts on overall appearance of business units. The Council can take better control through a service charge mechanism, which could lead to the Council receiving better returns from its portfolio and have fewer vacancies.

## 6. <u>Financial implications of operating the Cost Reduction Plan</u>

6.1 As part of the budget setting process, predicted capital and revenue expenditure shown in Exempt Annex 1A has been recalculated to exclude all liabilities for assets shown in Annexes 3A and 3B, assuming that the target dates are achieved. This reduces the overall buildings liability from the original £8.128 million to £3.36 million, as outlined in Annex 1B, but does not reduce the other liabilities for street lighting and infrastructure around housing estates. However, there will be additional maintenance liabilities on any new assets. These costs, together with any additional income achieved after refurbishment projects are completed, cannot be accurately estimated at this stage.

6.2 By dealing with the major challenges, the amount to be set aside for planned maintenance could be based on best practice of a percentage of total insurance value of the assets (between 2-4%) or could be based on the actual annual requirements of the properties as programmes are updated. The estimated annual PMP budget currently averages around £400,000 a year from 2015/16.

6.3 Setting the budget for the medium term financial plan is an integral part of effective asset management planning and is being considered in parallel. The current annual revenue provision for planned maintenance is around £200,000, leaving a current unfunded gap of £200,000. It is proposed that this additional sum be included within the base budget from 2014/15.

6.4 The main area to work through has been the revenue impact and funding requirements of these liabilities for 2013/14 - an additional £625k and for 2014/15 - an additional £240k. The capital impact for 2013/14 - an additional £377k and for 2014/15 - an additional £102k.

6.5 This has been the focus of a significant amount of work by Members and Officers over the past few months, including reviewing and aligning the Asset Management Plan to the Council's Strategic Plan actions, reallocating some of the funding available from within the plan itself; reviewing the use of New Homes Bonus for 2014/15– linked to the work required around the business/industrial units; and reviewing the Council's current capital programme.