



Cabinet 29 July 2009

Asset Management Plan: The Operational Efficiency Programme and New National Asset Management Guidance (Aug09/11)

1. Summary and Reasons for Recommendations

1.1 Three important documents relating to asset management have recently been published:-

- (a) the Government's Operational Efficiency Programme (OEP) Final Report, May 2009;
- (b) the Audit Commission's 'Room for Improvement – Strategic Asset Management in Local Government – National Report', June 2009; and
- (c) the Royal Institution of Chartered Surveyors 'Local Authority Asset Management Best Practice', June 2009.

All have relevance for the Council in delivering effective asset management and the efficient use of corporate property resources.

1.2 The five 'key areas of public spend' of OEP and the findings of the Audit Commission research are described and recommendations from both reports are outlined. The seven leaflets making up the RICS Best practice are summarised. The implications for the Council in adopting these recommendations, where they are not already part of corporate asset management, are considered in relation to asset management delivery for the Council.

2. Recommendations

2.1 It is recommended that:-

- (a) the Operational Efficiency Programme national savings target of 20% asset sales over 10 years are adopted by the Council;
- (b) the findings and recommendations of the OEP five key areas for asset management delivery are noted and adopted where they are not already part of corporate asset management;
- (c) the findings and recommendations of the Audit Commission report for asset management delivery are noted and adopted where they are not already part of corporate asset management;
- (d) the Royal Institution of Chartered Surveyors Best Practice leaflets are noted and applied where they are not already part of corporate asset management; and
- (e) appropriate changes are made to the adopted Corporate Asset Management Plan and Capital Management Strategy 2008-25.

3. Corporate Objectives

3.1 The recommendations meet the following, as contained within the Corporate Plan:-

- (a) Corporate Priority 4: *'to raise standards and corporate efficiency'*;
- (b) Corporate Objective 11: *'to manage the Council's resources efficiently in order to raise performance'*
- (c) Cabinet Commitments: *'to improve efficiency'*.

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4. Key Issues

4.1 Introduction

4.1.1 Three important documents relating to asset management have recently been published:-

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- (b) the Audit Commission's 'Room for Improvement – Strategic Asset Management in Local Government – National Report', June 2009; and
- (c) the Royal Institution of Chartered Surveyors (RICS) 'Local Authority Asset Management Best Practice', June 2009.

All have relevance for the Council in delivering effective asset management and the efficient use of corporate property resources.

4.2 The Operational Efficiency Programme (OEP) Final Report

4.2.1 Work has been proceeding since the 2008 Budget in five key areas of public spend. The remit of the workstream leaders, all from the private sector, was to ensure that efficiency drives in the public sector kept pace with advancements in the private sector. The conclusions and recommendations of the OEP are applicable to all public sector organisations, not just local authorities, and the Government adopted them in full in the 2009 Budget, to ensure value for money targets are met.

4.2.2 Below is a summary of the five key areas, the relevant recommendations, and the implications for asset management delivery and performance for the Council.

(a) Back office operations and IT

- (i) This means support services such as Human Resources, procurement, property and IT;
- (ii) Potential savings nationally are £4 billion from back office functions and a further £3.2 billion from IT.
- (iii) In summary, the relevant recommendations (*in italics*) are:-

- *All organisations employing more than 250 people must collect and publish data using the five audit agencies' approved value for money indicators for back office operations with effect from December 2009 and this information should be subject to external audit. The data should be used for benchmarking.*

The Council has been collecting and benchmarking against the National Property Performance Measurement Initiative (NaPPMI) indicators for a number of years and this is included in the annual AMP report presented to Policy Development Committee and Cabinet every June. Those indicators were extended in the 2009 report to cover capacity and utilisation of offices. All the NaPPMI indicators relating to building condition, maintenance, access and energy consumption are relevant to meeting this OEP recommendation for collecting and using vfm indicators and it is not clear if they can continue to be used as an established and

popular alternative by local authorities. It would be unfortunate if the PI data collected by the Council since 2003/2004 will cease to be of relevance. Further clarification is awaited.

- *Introduction of operational reviews of back office operations commencing by April 2009, possibly to be undertaken by the Audit Commission.*

It is important that accurate data is maintained for West Suffolk House, in order to prove that value for money savings will be made, as in the future, Government financial settlements may be based on good performance.

- *A general drive across the public sector towards greater use of shared services.*

(b) **Collaborative procurement**

(i) The OEP report suggests that the majority of spending on external goods and services is carried out in a dispersed and uncoordinated way. Value for money savings can be made by better collaborative procurement.

(ii) In summary, the relevant recommendations (*in italics*) are:-

- *Extend the current programme of collaborative procurement to cover (inter alia) construction and facilities management.*
- *Improve access to better deals through Professional Buying Organisations, including sharing information and agreements.*

There is already in operation the Suffolk County Council Procurement of Services, which covers energy. Professional property services are commissioned as and when necessary. Options for collaboration for the delivery of future property services from West Suffolk House are being considered. An approved list of tenderers is maintained in order to ensure competitive construction and maintenance procurement. The Council has not yet entered into any framework agreements with external suppliers, but was able to take advantage of Suffolk County Council's framework agreement for the procurement of consultancy and construction services for the procurement of West Suffolk House.

(c) **Asset management and sales**

(i) This part of the report concentrates on nine 'commercial' assets of national importance which are not relevant to asset management planning for the Council, although the case study methodology may be useful for future AMP reviews.

(d) **Property**

(i) This is the key area for asset management and concentrates on maximising capital receipts through disposals and generating savings in running costs. The Comprehensive Spending Review 2007 (CSR07) identified £4.8 billion of asset sales over 3 years (ie £1.6 billion a year). Overall, the Government is looking over the next 10 years to 20% savings in capital and running costs over the entire public sector portfolio, which

translates into £20 billion capital receipts and £5 billion a year revenue savings (ie £2 billion per annum sales, an increase over the CSR07 target).

- (ii) While specific targets have not been set for local authorities, in capital terms, a 20% reduction in the Council's asset base (taken from the asset register balance sheet for 2008/2009) means that the Council will need to identify £15.4 million of assets surplus to requirements and included in a 10 year Disposal Programme for 2009/2010 to 2019/2020. The annual AMP report in June 2009 indicated that £26 million of assets were sold between 2003/2004 and 2008/2009 and approved a programme of additional sales of £11.4 million to 2013. Therefore to be on target with the national target, significantly more assets, to the value of £4 million, will need to be identified as surplus through AMP reviews over the next few years. Whether the 20% savings in running costs will follow automatically is difficult to estimate, but it also includes more efficient use of office space (target 10 sq m per full time equivalent (FTE) employee) and collaborative procurement of facilities management . Equally, whether it is realistic to apply the national target savings to the Council is debatable, given the extensive surplus property holdings of central government departments. Based on past performance, the Council should be able to meet the national target rate of sales.
- (iii) The OEP report encourages adoption of efficient property management by senior managers challenging their property requirements supported by asset management expertise; operation of central incentives and controls which recognise the cost of property in business planning; using good data and guidance on costs and use of property; and collaborative working in managing and sharing property. Particular emphasis is placed on the role of senior managers to adopt a business approach to property occupation and linking efficiency to modern methods of working in operational offices, to improve productivity, sustainability and working patterns of staff. There is also a realism that implementing asset management decisions may take a longer time than the normal 3 year Comprehensive Spending Review periods.
- (iv) The Council has a record of actively engaging in most of the above, which are all elements of the programme of AMP service and property reviews of the entire portfolio (assessments and options appraisal). The successful completion of West Suffolk House, both in efficient use of office space which is fit for purpose, together with the adoption of modern ways of working, and the joint delivery of facilities management services, demonstrate exemplar performance. Future monitoring of performance through property indicators will be a crucial factor in demonstrating good practice asset management.
- (v) The OEP recommendations do not cover sales targets and are directed more towards Government departments.
- (vi) In summary, the relevant recommendations (*in italics*) are:-
- *The government is to create a new central property function to drive efficient use of property.*

Local government is already encouraged to follow practice initiated at the Office of Government Commerce 'High Performing Property' and

this looks likely to be extended.

- *The public sector should be more consistent and transparent in data collection and publication for property management and usage, linked to value for money indicators and Audit Commission 'Use of Resources' assessment. Properties should be classed as core, surplus and intermediate property.*

This recommendation repeats the contents of key area 1. The classification, however, is new, and more information is awaited.

- *Government to consider whether depreciation accounting should be a tool to improve asset management planning.*

In asset management terms, the implementation of a Planned Maintenance Programme and strategy to eliminate backlog maintenance is a much more effective way for the Council to deal with efficient property management, which is based on a building by building basis of specific works and estimated costs.

(e) Local incentives and empowerment

(i) This key area encourages collaboration and innovation and intends to establish 12 identified case studies of 'Total Place'. In asset management terms, this would mean investigating how property can support joined up services at the local level.

(ii) In summary, the relevant recommendations (*in italics*) are:-

- *Roll out 'Total Place' to map total spending in a local area and identify efficiencies through public sector collaboration.*
- *Accelerate joint working in local areas through Local Strategic Partnerships and Local Area Agreements.*

An initial piece of work was undertaken in Property Services in 2007, which mapped assets of public sector organisations operating in Bury St Edmunds, and investigated options of joint property management. There were 448 property assets owned by four public sector organisations, including operational assets such as schools and leisure centres, and 21 administrative offices. The public sector estate in St Edmundsbury was estimated at £138 million, with management split among three Suffolk-based organisations and central Government. The report looked at the opportunities and barriers to moving asset management planning to a strategic level across all public sector organisations within a geographical area. The models considered were in-house contract management, private sector provision, large-scale partnership and community right to buy.

It was concluded that there is sufficient public sector property within the Borough of St Edmundsbury, for example, to provide a substantial portfolio which would benefit from one overall property management model which could enhance purchasing power. However, there are significant hurdles to overcome, including the rationalisation of funding mechanisms (the main hurdle for

partners to Phase 1 of the Public Service Village), timing and existing commitments, and the effect of service and property reviews of partner organisations (eg regionalisation of police forces). The danger of losing 'community' contact due to too large an organisation was also recognised. The diversity of properties and organisations would mean that it may take 5-10 years to bring it all together under one 'management' roof. Service delivery collaboration would need to be considered in parallel. The Council can use the experiences of delivering West Suffolk House, and may wish to consider any emerging methodology of the government's 'Total Place' case studies for developing further collaboration and innovation.

- (iii) Interestingly, the recommendations of the Quirk Review, of management and ownership of assets by community organisations, are not acknowledged in the key areas of the OEP. Sales of assets at less than market value would nationally have an impact on meeting the capital target.

4.3 **'Room for Improvement – Strategic Asset Management in Local Government – National Report', Audit Commission**

- 4.3.1 The Audit Commission described good property management for local authorities in its key asset management report in 2000 'Hot Property'. Research was undertaken in 2007 and 2008, including visits to councils, telephone surveys and analysis of key lines of enquiry in 2008 Use of Resources assessments. The 2009 report concludes that "councils have made only modest progress".
- 4.3.2 The Audit Commission was expecting to see councils having a strategic approach to asset management that is integral with corporate and service planning. Strategic asset management plans should show how property assets will meet strategic priorities and operational and service needs, and will include delivery through investment, disposals, transfers, rationalisation and more efficient asset use. Good performance is exemplified by councils having an organisation-wide approach to managing assets as a corporate resource as opposed to a compartmentalised, departmental-driven approach. The AMP should be aligned to and integrated with corporate and service plans. Above all, the asset base must provide value for money; there must be comprehensive information and accurate data; asset ownership must be challenged; councils should work in collaboration with partner organisations.
- 4.3.3 The introductory summary states that only 1 in 14 councils is an exemplary manager of its assets. Although councils have sold property, overall, more has been spent on capital investment in offices than they have realised in sales. Central government has not encouraged councils to review nor incentivised them to make best use of their property. The transfer of property to local communities has not yet met government aspirations.
- 4.3.4 The Audit Commission believes that only half of councils assessed by auditors have sufficient information about their estate. Few councils have valuations to support strategic decisions. It is anticipated that CAA will set higher standards for asset management. The recession, whilst limiting scope for disposals and investment in property, is an opportunity to prepare for using property more efficiently and effectively and may present opportunities for acquiring assets for the future.
- 4.3.5 Below is a summary of recommendations of what councils, central government and the Audit Commission should do (*in italics*). The Council's adopted asset management processes and procedures, with examples of good practice, are stated, together with

implications for future asset management delivery and performance for the Council.

4.3.6 Councils should:-

- *Improve their knowledge of their estates and their partners' estates by collecting data on size, use, occupancy, condition, running costs, and alternative market values; by considering costs and benefits of option appraisal; by sharing information and making it public, and inviting proposals for alternative use of public sector property.*

This recommendation mirrors the OEP recommendations in key area 5. The Council continues to work closely with Suffolk County Council. West Suffolk House and declaring surplus previous office accommodation is an exemplar project for the Council. More work is required to extend this to other buildings owned by the two councils and other public sector bodies. The structure is set up to continue discussions with the initial partners to the Public Service Village initiative: police, magistrates, PCT and West Suffolk College. Discussions need to be extended in respect of the central government estate.

The Council's AMP review process includes the full financial implications of options appraisal.

- *Identify areas for improvement and other councils to learn from by collecting value for money performance indicators and participating in other benchmarking networks.*

This recommendation mirrors the OEP recommendations in key area 1. These PIs will be researched, to see if they can complement the NaPPMI indicators already collected, rather than supersede them.

- *Review property holdings and reduce them where possible by identifying and disposing of surplus or under-utilised property, reconfiguring services and administration to occupy less floorspace, and consider alternative ownership structures where that gives demonstrably better value.*

The Council has a consistent record, instigated in 2002, of undertaking AMP and service reviews of operational and non-operational property. Property declared surplus has been sold; modern methods of working are being practiced at West Suffolk House which reduces overall administrative floorspace. Examples of alternative tenure structures are joint freehold ownership of West Suffolk House and the sale and leaseback of the ground floor of the TIC at 6 Angel Hill, which reduces the costs of maintaining the surplus upper floors. All AMP reviews discuss ownership options, including acquisition, disposal or partnerships.

If the Council is to continue to implement an effective disposal programme, it will need to identify more surplus property through AMP reviews.

- *Motivate service managers who occupy property to use it economically, by making them accountable for the cost of capital they use and allowing them to keep a proportion of any sales proceeds.*

This recommendation mirrors the OEP recommendations in key area 4. The Council has never adopted a formalised landlord/tenant arrangement for property, which was encouraged in the mid 1990s, and it is probably more appropriate for county and unitary councils. However, AMP reviews include service delivery reviews and a good example of following this recommendation is the heritage review, where the agreed option reduced delivery from 3 museum sites to 2, and included new build as well as sale of a surplus building, with significant reductions in running costs. In

most circumstances, capital receipts are not ring-fenced for specific projects and a system of retention of sales proceeds for a specific service will undermine the adopted corporate capital prioritisation process.

- *Develop the capacity needed to bring about change by recruiting appropriately skilled staff, improving motivation for service managers, commissioning property reviews from private sector professionals and making use of Beacon councils and 4Ps support.*

The Council has involved private sector professionals and used 4Ps support in its most ambitious asset management review of office rationalisation. The Council applied for Beacon Council status some years ago and was commended for its application. It has also been recognised nationally through a number of case studies of good asset management.

- *Collaborate with local partners by raising the profile of property on the Local Strategic Partnership agenda, sharing property and data.*

This recommendation mirrors the OEP recommendations in key area 5. The network of partners for taking the previous outline study forward is established and should be investigated further.

- *Seek opportunities presented by the recession such as acquiring property at reduced prices to satisfy future need and employing high calibre staff newly in the employment market.*

This recommendation could suggest a naivety of approach for both property and professional markets. Property prices may be reduced, but there still has to be a willing buyer and willing seller to settle at a market value. This applies to the sale of surplus assets as well as acquisition, particularly if it is likely that the prices of 2008 are unlikely to be regained until 2012 or well beyond. A major factor in all proposed property transactions has to be potential annual holding costs and acquisitions need to be considered against revenue implications in a climate of enforced cuts. Notwithstanding these points, the Council has a £500,000 fund to enable the purchase of key strategic or investment property. Opportunities are investigated as they arise.

4.3.7 Central government should:-

- *Clarify what it expects councils to do with their property during recession and public spending constraint, such as balancing OEP conflicting priorities of maximum receipts against enhancing the property estate.*
- *Raise the profile of asset management by making specific capital and revenue targets and including asset management in Local Area Agreements.*
- *Making councils accountable for the cost of capital tied up in property, together with incentives to make better use of property.*
- *Review how capital receipts can be used, to allow flexibility in asset sharing, spend-to-save projects, support revenue costs of capital projects for improved service delivery, regeneration and economic development.*

The Audit Commission acknowledges that there are external barriers to councils delivering strategic asset management. It is aware of the difficulties in the financing regimes of most councils who are not debt free, in reapplying capital receipts. This is not applicable to this council. By applying the OEP target of 20% capital and revenue savings, the Council may be pre-empting the introduction of a government target, and will have more time to plan for a reduction in the size of the property portfolio.

4.3.8 **Audit Commission will:-**

- *Publish case studies of excellent asset management.*
- *Support councillors' scrutiny role.*
- *Assess councils' stewardship of property through Use of Resources assessments.*
- *Continue to develop benchmarking services.*
- *Publish guidance and good practice examples.*

The Council should continue to promote itself as an exemplar authority for delivering efficiency outcomes through asset management.

4.4 **'Local Authority Asset Management Best Practice', RICS**

4.4.1 The RICS has published a suite of seven leaflets aimed at council members, senior professionals and practitioners and will assist with, and enhance, the delivery of effective asset management. The guides provide an overview of the key policy areas that need to be considered by local authorities, which are the transfer of assets to community management and ownership, value for money, measuring asset performance, improving the customer's experience and management of the commercial property portfolio.

4.4.2 The guidelines seek to show how assets can better support public policy and local authority initiatives, suggest how the management of assets can be integrated into corporate management and encourage members and officers to become more involved in strategic asset management. Assets are identified as a corporate resource and should be managed accordingly. These leaflets aim to assist with the policy context within which decisions are made and give suggested best practice, to ensure assets continue to play a crucial part in creating sustainable communities.

4.4.3 The overarching document 'Sustainable communities and asset management' outlines the asset management process of strategy, plans and programmes, delivery, review and improvement. Asset management needs to operate in a framework of vision and the alignment of assets to achieve the vision, through implementation and review. The leaflets identify the key issues in each policy area and assess the benefits of embracing more effective asset management.

4.4.4 While there is a substantial volume of advice in the leaflets, in general terms, the Council has adopted previous RICS asset management planning advice and has continued practical implementation through reviews and annual plans of disposals, acquisitions, planned maintenance and estates management, aligned to the Council's financial plans. Performance is monitored and presented annually to members. The Corporate Asset Management Plan and Capital Management Strategy 2007-25 approved in 2008 are linked to Vision 2025.

4.4.5 However, the Council should not be complacent in believing it is 'on top' of asset management. Increasing resource demands will be made on the Council's finances and one of the largest areas of spend is on property assets. It is therefore important that best practice identified by the RICS is adopted where it is not already part of corporate asset management; and that appropriate changes are made to the adopted Corporate Asset Management Plan and Capital Management Strategy 2008-25. Additionally, the council has a wide range of responsibilities to serve local communities and in many respects leads in coordinating all public services, the third sector and the private sector. The role of property assets is an essential element of this delivery.

4.5 All three documents are held in Property Services.

5.	Other Options considered
5.1	The Council could choose to ignore asset management planning guidance, but this would be a failing in the proper management of the Council's resources and in delivering effective asset management and services.
6.	Community impact <i>(including Section 17 of the Crime and Disorder Act 1998 and diversity issues)</i>
6.1	<u>General</u>
6.1.1	'Strong and Prosperous Communities – The Local Government White Paper 2006' and subsequent policy statements and guidance have stressed the need for local authorities to develop sustainable communities. Community impact is an element of adopted asset management procedures.
6.2	<u>Diversity</u>
6.2.1	Asset management planning is inclusive to all.
7.	Consultation
7.1	There are no specific consultation requirements in adopting recommendations of the new national guidance.
8.	Resource implications <i>(including asset management implications)</i>
8.1	There are no specific resource implications in adopting recommendations of the new national guidance.
8.2	To meet the national target of capital sales (20% reduction in the Council's asset base by 2019) the Council will need to identify a further £4 million of assets currently used in service delivery. This will need to be achieved through AMP reviews of both the operational buildings and the commercial portfolio. This is in addition to the £15.4 million of assets identified in the Disposal Programme for 2009/2010 to 2012/2013 and approved by Cabinet last month.
8.3	To meet the national target of revenue savings of 20% by 2019, the Council will need to calculate the amount of property running costs saved (eg energy use, maintenance) through the sale of surplus property as well as revenue savings through more efficient use of buildings through effective procurement, by sharing, by encouraging flexible working practices and by using less energy by increasing sustainability standards of buildings.
8.4	The anticipated savings will be incorporated in the Five Year Financial Model.

9. Risk Assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

9.1 There are no specific risks associated with adopting the recommendations of the new national guidance.

Risk area	Inherent level of Risk (before controls)	Controls	Residual Risk (after controls)
	High/Medium/Low		High/Medium/Low
Failure to adopt the new national guidance will influence the Council's scoring in CAA Use of Resources	Medium	Apply recommendations to existing adopted AMP procedures	Low
Failure to challenge property ownership will put the Council's budgets under undue pressure	High	Continue to undertake AMP reviews and adopt realistic implementation plans	Low

10. Legal or policy implications

10.1 There are no legal or policy implications.

10.2 Any decisions relating to the disposal of property will need to comply with s123 Local Government Act to achieve best price.

Wards affected	All	Portfolio Holders	Economy and Asset Management
Background Papers	Paper A67 Cabinet 24 June 2009; Paper Z93 Overview & Scrutiny Committee 9 July 2008	Subject Area	Property Management