

THE HIGHLAND COUNCIL
Resources Committee – 15 April 2009

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| Agenda Item | |
| Report No | |

Asset Management Update

Report by Director of Housing and Property

Summary

This report provides an update on asset management planning in the Highland Council and highlights progress made, future aims and potential benefits accruing from a strategic asset management approach.

1. Background

- 1.1 The Resources Committee approved the Council's Corporate Asset Management Plan in November 2007 and noted the update on asset management planning provided by the Director of Housing and Property in June 2008.
- 1.2 The Council recognised the importance of this agenda by allocating a budget of £170k per annum to establish an asset management team. The basis of the team was formed in August 2008 and is currently led by the Director of Housing and Property. The team now consists of two Property Managers and an Asset Management Technician. Their work is assisted by professional colleagues within Housing and Property and further supported by external consultancy services.

2. Aims and Objectives

- 2.1 Strategic property asset management is the activity that seeks to align the Council's land and building asset base with the Council's corporate goals, objectives and investment strategy.
- 2.2 An asset management strategy aligned with corporate goals permits sound principles to cascade down into tactical and operational procedures that provide an effective framework for whole lifecycle management of the Council's land and property assets.
- 2.3 The principal objectives of adopting a strategic approach to asset management for Highland Council are:
 - Reduce the number of property assets held by the Council; currently in excess of 2,700
 - Generate capital receipts from the disposal of property assets
 - Reduce revenue costs by holding fewer assets and thereby spending less on property overheads including management, maintenance, cleaning and energy costs
 - Inform the Council's capital planning processes such that investment decisions take full account of the lifecycle revenue costs associated with each investment. Decisions should be based on good information and a

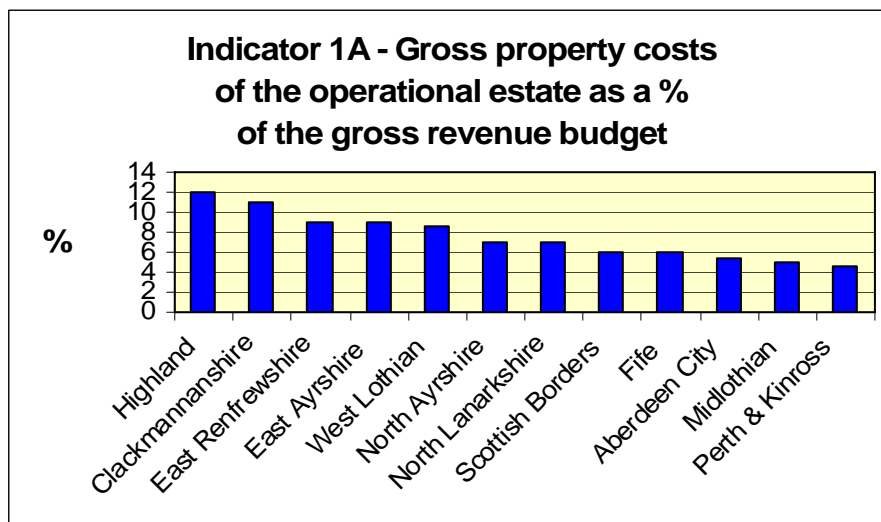
- structured option appraisal process
 - Better targeting of capital investment in improving the condition of property assets which are key to future service delivery.
 - Seek opportunities for sharing premises with partner organisations to provide efficient, seamless delivery of cross sector, cross agency and community-based services to customers
 - Treat property as a corporate resource and an enabler to deliver better value for money and more efficient service delivery to customers
 - Demonstrate improvement in asset condition and performance through benchmarking and Key Performance Indicators (KPIs).
 - Inform decisions about whether to own or lease property assets
 - Improve risk management
- 2.4 Assets are expensive in terms of both their capital value and the annual costs of upkeep. Effective asset management planning is an essential tool in the pursuit of best value and involves the whole Council; not just property managers.
- 2.5 Adopting a corporate approach will ensure that an optimum balance is found between the development of new assets and the maintenance and upgrading of existing assets.

3. Current position

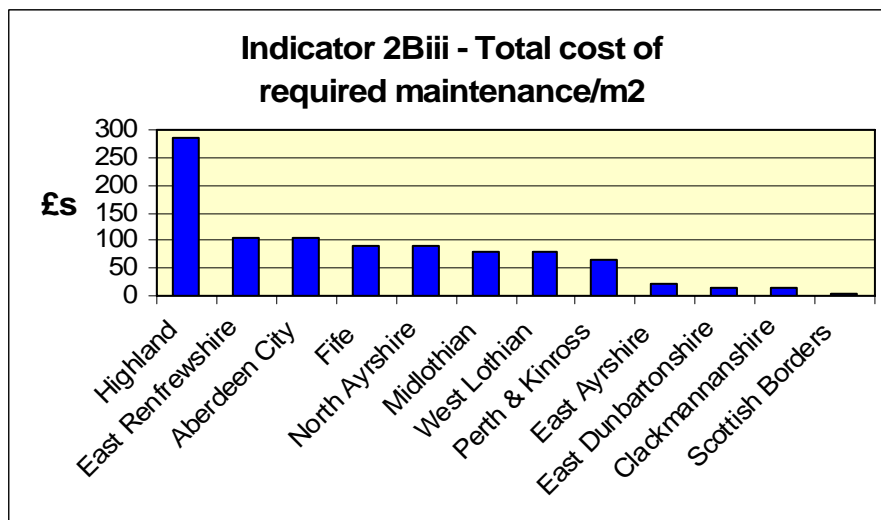
- 3.1 Asset management relies heavily on data. The acquisition, maintenance and analysis of this data is key to the delivery of effective operational and strategic asset management. Such data must also be underpinned by a robust, secure and accessible information system.
- 3.2 Information held within the Council's existing property database is currently fragmented, incomplete and sometimes difficult to interpret. Work is being done to improve the quantity and quality of the information and to develop an analytical tool for appraising the performance of the Council's property assets. Improvement is required in terms of technical aspects of the data structure and a lack of detailed information on revenue costs (covering management, maintenance, cleaning and energy charges) for Council buildings.
- 3.3 The property database has been developed using a hierarchy of information whereby individual properties are grouped within Council 'establishments'. Against these establishments, a total of 1,894 properties are retained on the Highland Council's 'General Fund' (excludes Common Good, Housing Revenue Account and properties managed on behalf of the Fire and Police Boards).
- 3.4 Information compiled for Scottish Government in relation our Key Performance Indicators (KPIs) is as follows:

| KPI | June 2008 | March 2009 |
|---|-----------|------------|
| % of our property in satisfactory condition | 55% | 53.5% |
| % of our property considered suitable for its current use | 60% | 59.7% |

- 3.5 Additional information collated by the asset management team has been used to 'benchmark' with other Local Authorities utilising indicators identified by the 'Scottish Benchmark Group'. The Group operates in conjunction with Federation of Property Services (FPS) and The Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.6 Benchmarking Indicator 1A is compiled from returns submitted by 12 Scottish Councils in 2007/08:



- 3.7 Benchmarking Indicator 2Biii



- 3.8 The clear message from these benchmarks is that the Council has too many assets and many of these have high maintenance costs.

4. Asset Management Team - Achievements

- 4.1 The asset management team's initial focus has been concentrated on those objectives described in paragraph 2.3, with additional isolated areas of work being addressed in parallel with the principal work plan. A summary of key achievements is highlighted as follows:

| Ref. | Objective | Achievement |
|-------------|---|---|
| 4.1.1 | Confirm responsibilities and roles in relation to asset management | Guidelines issued and training seminars delivered to all H&P staff by the Director of H&P throughout Autumn 2008 |
| 4.1.2 | Inform members of the principles surrounding asset management | Presentation delivered by the asset management team to Members in the Council Chamber in October 2008 |
| 4.1.3 | Audit Scotland Review of Scottish Local Authorities' arrangements in relation to Asset Management | Compilation and submission of detailed report to Audit Scotland in August 2008. |
| 4.1.4 | Review Council's property database and procedures for the management of property data | Scope and integrity of the existing database examined. Paper scheduled for the Digital Highland Project Board on 16 April 2009. Support sought to form a project to review the existing IT platform supporting the Council's data and consider alternative solutions for a corporate 'property information system' |
| 4.1.5 | Benchmarking with other authorities | Key performance indicators (KPIs) compared and additional information exchanged. Asset management delivery compared with other Councils |
| 4.1.6 | Review of Common Good assets | Input to Cross-Service Working Group led by the asset management team to conduct a review of the Common Good Asset Register in line with Internal Audit Report requirements published 20 December 2007 |
| 4.1.7 | Depot rationalisation | A strategic review of the Council's existing TECS and Housing Maintenance depot accommodation in Inverness and Wick areas is in progress. Consultants appointed to support Review Option Appraisal process |
| 4.1.8 | Council policy in relation to Janitors Houses | Briefing note issued to Members in November 2008 highlighting the Council's position and noting issues relating to the potential disposal of these assets |
| 4.1.9 | Office accommodation rationalisation | A strategic review of office accommodation in Inverness (approximately 28 no. offices) and Dingwall (approximately 14 no. offices) areas is being undertaken, with office lease issues being prioritised. Service & Corporate Improvement Team liaison on-going to establish existing and future office accommodation requirements, incorporating developing Corporate Improvement Projects benefits (including Mobile and Flexible Working; Business Support; Customer Engagement and |

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| | | Assessment; Information Management) |
| 4.1.10 | Asset Management CIP 'Project' | In response to the Corporate Improvement Programme initiative, a Project Initiation Document (PID) was compiled and submitted to the Business Improvement Team in January 2009 |
| 4.1.11 | Asset Management Board | 'Asset Management Project Board' formed in February 2009 – see 5.2 |
| 4.1.12 | Identify properties with potential for rationalisation | Analysis of Council's property database undertaken to identify initial core list of 1,056 properties appropriate for further detailed assessment by the asset management team |
| 4.1.13 | Develop methodology for rationalisation of assets | Weighted scoring system designed to measure the performance of the Council's property assets. The scoring system is used to rank subjects with potential for rationalisation |
| 4.1.14 | Partnering opportunities | The potential for asset management planning partnering at a strategic level with other public sector organisations is being explored |

5. Corporate Improvement Programme – Asset Management Project

5.1 Asset Management is one of 8 projects forming the Corporate Improvement Programme.

5.2 A Project Board has been established consisting of:

- Steve Barron, Director, H&P (Chair)
- Richard Guest, Head of Roads & Community Works, TECS
- Brian Hemming, Estate Strategy Manager, ECS
- Allan Maguire, Head of Housing Development & Estates, H&P
- Fiona Palin, Head of Operations (CJS & Central Services), SWS
- Brian Williams, Head of Corporate Finance, Finance Service

5.3 The asset management team reports to the Project Board and recommendations are brought forward on all aspects of work within the project. Decisions are sought from the Board in respect of:

- Rationalisation opportunities
- Technical and analytical developments
- Asset management priorities
- Review of operating procedures
- Asset management resources and service delivery

Pending the outcome of Board decisions, further approval may then require to be sought through appropriate Council governance and schemes of delegation.

6. Asset Management Team – work plan

6.1 The asset management team will be focussing on the following key areas over the next twelve months:

| Ref. | Objective | Work required |
|-------|---|---|
| 6.1.1 | Asset rationalisation | Identify potential subjects for rationalisation, seek approvals and initiate disposals and/or option appraisals |
| 6.1.2 | Review of Council's property data system | Examine alternatives to existing technically constrained system. Progress through Digital Highland Project Board |
| 6.1.3 | Audit Scotland review of asset management procedures in Scottish Councils | Unknown as yet: await outcome of published report (expected late April 2009) |
| 6.1.4 | Increase data coverage | Undertake property condition surveys on buildings that do not currently have any information recorded. Capture suitability data/ratings for similar gaps in existing data. Initiate programme of re-surveys of Council buildings to refresh existing condition information. Collaborate on capturing revenue costs associated with individual buildings |
| 6.1.5 | Review 'suitability' data | Revise existing methodology for capturing property suitability information with a view to obtaining more effective/tangible data. Review process for physical collection of information |
| 6.1.6 | Review of Common Good assets | Further work for Working Group/Services required to validate & clarify variety of asset queries (in excess of 150 no.) arising from the review process and to incorporate Asset Register and management arrangements into updated Common Good policy and procedures |
| 6.1.7 | Depot rationalisation | Outcome of Inverness & Wick area depot reviews and report to Service Directors due in June 2009. Further accommodation reviews of the council's existing depots to be undertaken |
| 6.1.8 | Office accommodation rationalisation | Progress strategic reviews of office accommodation in Inverness and Dingwall areas. Separate review of office leased accommodation being prioritised to address specific office lease expiry issues. Continuing Service and Corporate Improvement Team liaison required to develop future office accommodation requirements, incorporating developing |

| | | |
|-------|------------------|---|
| | | Corporate Improvement Projects benefits (including Mobile and Flexible Working; Business Support; Customer Engagement and Assessment; Information Management) |
| 6.1.9 | Capital planning | Inform the Council's capital planning process. Continue to development of a structured option appraisal process in order that investment decisions take full account of lifecycle revenue costs. Develop a methodology for scoring/ranking capital projects |

6.2 Audit Scotland's 'Review of Asset Management Procedures in Scottish Local Authorities' is expected to be published in late April 2009. It is likely that Audit Scotland will identify a number of areas where further work is required by Highland Council in relation to their asset management arrangements. Such issues will impact on the asset management team whereby time and resources will be required to address any shortcomings. The findings of Audit Scotland's review will be the subject of a future report to Members.

7. Benefits and targets

7.1 Asset management aims to deliver benefits in line with the objectives of the Council's Corporate Improvement Programme. These deliverables are targeted at three specific areas:

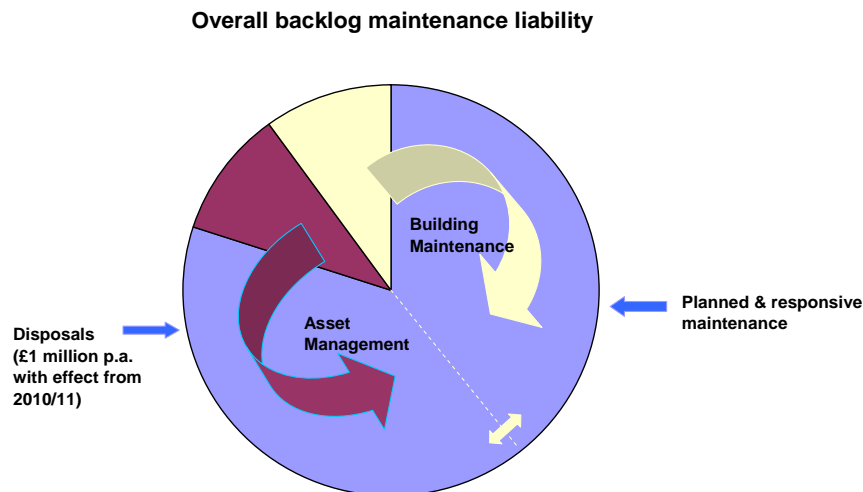
- I. Generate capital receipts from the disposal of surplus assets
- II. Reduce revenue costs by holding fewer assets and thereby spending less on property overheads; including management, maintenance, cleaning and energy costs
- III. Reduce backlog maintenance liabilities by holding fewer assets and thereby avoid impending maintenance costs

7.2 Since 1988, total 'General Fund' disposals have generated £10,827,000; an average of £541,350 per annum (based on an average of 14 disposal cases per annum). 'General Fund' disposals budgeted for 2008/09 has generated £416,301 of capital receipts, whilst a further £70,000 of disposals has been passed to the Head of Legal Services for conclusion. Target capital receipts have been increased from 2010/11 onwards to £1 million per annum, although slippage of £0.5 million has been carried forward to 2011/12 in order to reflect current market conditions. It should be noted that a number of potential disposal cases are currently being progressed by the H&P Estates Team.

7.3 Information relating to revenue costs (including management, maintenance, cleaning and energy costs) are often not currently identifiable. Until such information becomes more readily available, a target of £340,000 per annum has been adopted from anticipated efficiency savings identified within the 'Project Initiation Document' serving the CIP 'asset management project'. This figure reflects the 'reducing cost of managing property' and is based on 1% saving on total estate management costs of £34 million p.a. The target is effective from

2010/11. For the current financial year 2009/10, the Council budget has set the 'asset management project' a target to deliver £100,000 in revenue savings.

- 7.4 It is proposed that 50% of all revenue savings will be re-invested in improved maintenance of the retained stock.
- 7.5 Reducing the asset base has a direct effect on backlog maintenance. Any property sold as a result of a disposal programme will subsequently avoid the cost of any planned or outstanding maintenance costs associated with it. A target of £1 million per annum reduction in backlog maintenance will be introduced with effect from 2010/11. The effect of this approach will be reviewed from the outset but an indicative target of £0.5 million has been set for 2009/10.
- 7.6 A targeted reduction in backlog maintenance is not merely dependent on property disposals. Any planned and reactive maintenance works undertaken on the Council's buildings helps create a 'two-pronged' attack on this liability, the effect of which can be illustrated as follows:



- 7.7 Taking account of the three target areas identified as potential benefits in paragraph 7.1, the following table illustrates the total financial benefit projected from an asset rationalisation exercise over the next 10 years:

| Benefits resulting from a property rationalisation exercise within the context of asset management (£ millions) | | | | | | | | | | |
|--|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 |
| Capital receipts | £0.5 | £0.5 | £1.5 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 |
| Revenue savings* | £0.1 | £0.34 | £0.34 | £0.34 | £0.34 | £0.34 | £0.34 | £0.34 | £0.34 | £0.34 |
| Backlog maintenance | £0.5 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 | £1.0 |
| Total | £1.1 | £1.84 | £2.84 | £2.34 | £2.34 | £2.34 | £2.34 | £2.34 | £2.34 | £2.34 |

*50% of all revenue savings proposed to be re-invested on improved maintenance

and upgrading of retained stock.

- 7.8 It is difficult to project the benefits relating to Council depots and office accommodation. Individual rationalisation schemes will generate their own quantifiable benefits and it will be necessary to review such schemes in line with projected targets in order to identify any overlap and record additional savings for the Council.
- 7.9 Benefits and targets are projected as savings on the existing property portfolio however it should be recognised that a property rationalisation exercise will not just deliver buildings for disposal. Certain accommodation will require to be replaced and in most cases there will be a need to examine options for providing new (or redeploying existing) accommodation that can subsequently deliver essential Council services. This will be integral with the development of a capital investment planning programme.

8. Future reporting arrangements for Members

- 8.1 It is proposed that progress on asset management will be updated to Resources Committee every six months.
- 8.2 Rationalisation proposals will be brought forward to Resources Committee for independent consideration as necessary.

Recommendation

Members are asked to note the progress being made on asset management and the work scheduled to take forward strategic asset management planning within the Council.

Signature:

Designation: Director of Housing and Property

Date: 1 April 2009

Author: Des Devine, Property Manager (Asset Management)