

**HIGHLAND COUNCIL**

Agenda Item	<b>4.</b>
Report No	<b>HP/06/20</b>

**Committee:** **Housing & Property Committee**

**Date:** **13<sup>th</sup> August 2020**

**Report Title:** **A Strategic Asset Management Approach to buildings and assets**

**Report By:** **Executive Chief Officer, Housing and Property**

**1 Purpose/Executive Summary**

- 1.1 This report introduces the concept of Strategic Asset Management and some basic topics associated with that concept. It applies to all Council owned, leased or controlled buildings, and also applies to the Council's Housing Revenue Account (HRA) stock of circa 14,000 properties.
- 1.2 It is intended as a discussion paper at this time, to establish levels of support for this principle and its further development. Any comments and discussion will be reflected in further reports to Committee for approval, should the concept be approved for progressing.

**2 Recommendations**

- 2.1 Members are invited to:-
- i. **note** the content of the report and comment accordingly;
  - ii. **agree** the principle that decisions in relation to the future investment needs of Council buildings generally should be informed by the principles set out within this report; sections 5.4 and 5.8 below summarise these; and
  - iii. **agree** the more detailed scoping out of a formal policy and Asset Management Strategy for further discussion and development, and for reporting to, and approval from, future Housing and Property Committees.

### **3 Implications**

- 3.1 Resource – A move to a Strategic Asset Management approach will influence the future pattern of investment in Council buildings and will impact on what is invested in what buildings at what time and in what location.
- 3.2 Legal – There are no implications arising from this report at this time. The buildings and assets referred to are either in the ownership of, or leased to (or by the Council, or are otherwise in the control of the Council.
- 3.3 Community (Equality, Poverty, Rural) – A shift to a Strategic Asset Management approach will require further discussion and consultation around to what extent investment decisions are influenced and decided at the strategic level by the Corporate Landlord model also proposed, this balanced alongside the Council's Localism agenda and the priorities of individual Area Committees.
- 3.4 Climate Change/Carbon Clever - There are no negative implications arising from this report at this time. Adoption of the proposed approach will enable us to better establish the investment requirements for buildings to ensure that they contribute to the Council's key outcomes for the climate change and low carbon agendas. It would for the first time mean all buildings being assessed in terms of their contributions to these outcomes.
- 3.5 Risk – A move to the proposed Strategic Asset Management Approach would provide a unified and consistent approach to how the Council invests in the buildings and assets that it owns, that also reflects the needs of services, the Council's Localism agenda, and the priorities of individual Area Committees.
- It will in time provide the detailed evidence base for investment decisions and, if implemented, greater consistency of approach both in relation to procurement and in relation to budget management as opposed to the current approach. As this approach would potentially lead to disinvestment, disposal or demolition of assets as well as better focussing of available resource in core assets, it may be politically and reputationally sensitive.
- 3.6 Gaelic - There are no implications arising from this report at this time.

### **4 Current situation**

- 4.1 The Council owns a large number of buildings across the region, ranging from small properties consisting of little more than two or three rooms, to schools holding in excess of 1,000 pupils, large campus buildings such as the Headquarters campus at Glenurquhart Road, and a number of depots. It also owns circa 14,000 HRA tenanted properties, including temporary, specialist and sheltered accommodation.

- 4.2 This estate has grown incrementally over time, both under Highland Council ownership and control, and as a legacy from the former individual Councils pre restructuring approaching 25 years ago, as opposed to in a planned way. The assets are of variable quality, design and construction methodologies, each bringing with them technical challenges to enable them to be maintained to a satisfactory standard, fit for purpose and complying with a range of statutory requirements.
- 4.3 Decisions on what is invested in what asset where and when have been largely service led, whether in respect of Housing by the Housing Service for the tenanted stock, or for other services in relation to non HRA Housing stock, on a service by service basis. Additionally, the common approach to stock investment for existing stock has been principally based around bricks and mortar investment needs for buildings, and replacement of key components based on an assessment of life expectancy of those components.
- 4.4 While there is nothing necessarily intrinsically wrong with such an approach, it does not make the most effective use of limited investment resource over time. Simply maintaining existing buildings and assets on the basis that we have always done so in the past and so should continue to do so in the future does not necessarily make economic sense in the medium to long term.
- 4.5 The Council does not have a single overarching approach or methodology, at the present, in relation to assessing these factors, whether that be the condition of its assets or in terms of an overarching strategy to allocate resource across all service areas in a way that is manifestly transparent and evidence based, and that delivers best value for money. It cannot be sure, as a result, that it is investing strategically and effectively in its assets, nor that they are actually fit for purpose either now or in the medium to longer term. Nor can it be sure that it fully understands the short, medium and long term resource implications.

## **5 A Strategic Asset Management approach**

- 5.1 Supplemental to the more traditional approach and the current situation summarised briefly above in section 4, specifically 4.3, Strategic Asset Management therefore looks deeper into the question of how best to invest in buildings and assets in the medium to longer term and considers more than just a component led approach, changing windows every 20 years and rewiring every 30 years, for example.
- 5.2 It considers, amongst other matters, the evidence base available for our assets, down to their individual level, and what that evidence base can tell us about the value of our assets and their past and future investment requirements. A major driver behind shifting to a strategic asset management approach or planned approach to investment in relation to existing assets is procurement efficiencies and productivity gains, and better, more transparent, and efficient allocation of what is increasingly scarce resource.

- 5.3 The approach does ask us to consider some potentially challenging questions. Asset Management cannot be solely about maintaining and keeping what we have always had, simply adding to assets by new building and acquisitions, and never disposing of assets. It makes no sense to retain assets where the cost of doing so in terms of managing and maintaining that asset exceeds the financial value, or combined financial and social value, generated by that asset.
- 5.4 At a fundamental level, we need to therefore have a clear picture of:
- exactly what assets we have within our control
  - what the value of those assets are
  - their past investment history
  - what condition that asset is in currently, and what its potential short, medium and long term investment requirements are
  - whether the asset positively contributes towards our overall financial position or whether it is a drag on resource.
  - If the value of the asset is negative, are there other social value measures and/or justifications that nonetheless justify retention and investment (as explored below).
- 5.5 Calculations of the long term viability of an asset should not be solely based on a 100% weighting on finances. It is perfectly possible to include a significant weighting on the assessment of an asset based on the social value derived from it being retained by the Council and used as currently (or for alternative potential uses). Further weighting can be given to the Council's priorities in respect of rurality and localism, and to reflect Area Committee preferences and priorities, for example.
- 5.6 An asset that, therefore, may score a "red" in terms of financial viability on a 100% financial assessment only on a RAG rating could, therefore, still remain viable with less or little/no investment if a reasonable weighting is given to "non financial" factors, such as those outlined by way of example in this section above. So a 60/40 split financial/non financial assessment may lead to a different outcome from a straight 100% financial only assessment.
- 5.7 As a cautionary point however, a decision to retain an asset still has an opportunity cost impact. In short, the financial element of the assessment of the asset is essential and cannot be excessively disregarded. A proportion much under 2/3rds to 1/3<sup>rd</sup> financial to non financial factors can have significant overarching financial impacts, making the overall approach while preferable from a policy perspective, unaffordable in a real life resource environment. As ever, compromise and pragmatism will be necessary – and at times, challenging – both for Officers and for Members.
- 5.8 As a general example, the approach looks to enable us to take a structured corporate approach to investing in assets, aligning available resources to the

highest assessed need. It looks to do so in an open and transparent manner, that reflects service and service user needs.

At the same time it seeks to give fair opportunity to all services, service users, and staff, wherever they may happen to live and work or engage with us.

Essentially, we seek to design and implement a fair and equitable approach in relation to:

- identification of required or desired works, based on condition surveys, investment need, and service need, that is cognisant of financial resource but not wholly based on that alone,
- reflecting agreed social value and other non financial factors as appropriate in the overall viability assessment of assets
- striking the appropriate balance between the ideal technical solution or service requirement, and the Council's overarching rurality and localism requirements, in particular those of Area Committees
- project selection, taking into account building conditions, health and safety and wind and watertight and other statutory criteria as applies as a fundamental criteria for project prioritisation; and
- matching of costs to available funding.
- working towards ensuring we have the right number of assets, in the right place, at the right time, in the right condition
- adaptation of buildings as required to ensure that they are legally compliant, suitable and accessible to all; to ensure we meet our health and safety obligations, and that are suitable for current needs and flexible for potential future different uses
- delivering budget efficiencies to create a more focussed, fit for purpose leaner estate, that delivers cost savings to the Council through capital receipts and removal of future revenue and capital investment liabilities as a result,
- seeking to maximise the opportunity to collaborate with other public agencies and third sector groups to share premises and associated costs whether with us as the asset owner or as a tenant as may be appropriate
- consistency and equity in the management and investment in the estate.

5.9 The above are outline examples of the Council's current approach to asset management and the factors involved in a more strategic approach. This report considers some basic commonalities of approach that exist whether considering non HRA assets or HRA Housing assets. The actual approaches across HRA and non HRA assets will vary just as it does between residential and non residential property and asset management across other tenures Separate HRA and non HRA asset management approaches would be brought back to Committee for approval.

5.10 The additional benefit of the approach involved is to enable better governance, grip and control over how we assess our investment needs for

our buildings and how we prioritise them, not only on a service by service basis, but on a whole Council/cross Council basis.

Designation: Executive Chief Officer, Housing and Property  
Date: 17<sup>th</sup> July 2020  
Author: Mark Rodgers, Executive Chief Officer, Housing and Property