

Finance and Resources Committee

10.00am, Thursday, 26 November 2015

CEC Transformation Programme: Property and Asset Management

Item number 7.1
Report number
Executive/routine
Wards

Executive summary

As part of the Council wide transformation plan, the Finance and Resource Committee considered the Property and Asset Management Strategy on 24 September 2015. The committee rejected the preferred option and approved the adoption of a Plan B. In doing so Committee also requested that a paper be brought back, in November 2015, on how the delivery of Plan B may be managed utilising a Council subsidiary.

This paper provides an overview of the work done since the September Committee, sets out the options that have been considered in relation to the management of Plan B, and recommends a way forward.

Links

Coalition pledges
Council outcomes
Single Outcome Agreement

CEC Transformation Programme: Property and Asset Management

Recommendations

- 1.1 To approve the following recommendations:
 - 1.1.1 To acknowledge the progress made to date within the AMS workstream around PMO mobilisation, Facilities Management, Investment Portfolio, Estate Rationalisation, Asset Condition and Transition;
 - 1.1.2 To note that the top corporate risk to the Council remains the health and safety risks associated with the operational estate and that the Asset Condition workstream will be bringing forward proposals for significant investment and a step change in the approach to planned preventative maintenance to address this risk;
 - 1.1.3 To agree that, though an ALEO has some structural advantages, it is not a feasible delivery vehicle due to the implementation timescales involved; the complexity in the set up process; extent of organisational change and the difficulty in aligning the Council's strategic objectives with the subsidiary;
 - 1.1.4 To agree that EDI is not an appropriate delivery vehicle for all responsibilities that currently exist within the Corporate Property function;
 - 1.1.5 To recognise that significant investment will be required to transform the existing workforce which includes processes, training, skills and culture change in order to effectively deliver Plan B;
 - 1.1.6 To recognise that AMS will be making proposals for how existing workforce barriers around recruitment, pay scales and working practices can be overcome and that these will be a prerequisite of delivering Plan B;
 - 1.1.7 Specifically, to recognise that in order to restructure the future workforce around the new Service Level Agreements within Plan B, external technical expertise is needed in the short term to optimise the cost and quality of FM services; and
 - 1.1.8 To agree that AMS will provide updates to the workstreams highlighted in this paper on a quarterly basis.

Background

- 2.1 The “Asset Management Strategy” (AMS) is an ongoing workstream that is part of the wider Council Transformation Programme, aimed at achieving cost savings and delivering an improved service through a new operating model.
- 2.2 AMS aims to create a credible, focused and sustainable delivery organisation for property; provide a fit-for-purpose, right-sized and safe estate; provide an appropriate level of service at an acceptable and efficient cost; and act in a commercial manner in pursuit of maximising value.
- 2.3 The Finance and Resource Committee considered the Property and Asset Management Strategy, on 24 September 2015, and although committee rejected the preferred strategy, it did approve an alternative plan which included, among other things, the commencement of the planned investment strategy; the prioritisation of dealing with the maintenance of Council assets; and the commencement of an estates rationalisation programme broadly as set out in the AMS business case.
- 2.4 The recommendation to proceed with detailed implementation planning for the procurement of an Enterprise Wide Strategic Partner was not approved. Committee did however agree the alternative proposal for delivery of facilities management (Plan B) and noted:

that a review of the wider property portfolio, including the position of EDI Group Limited (“EDI”) was being recommended, and thus called for a report – within two cycles - on how best to manage the delivery of Plan B utilising the potential benefits of such delivery through a Council subsidiary.
- 2.5 This paper provides an overview of the work done since the September Committee, sets out the options that have been considered in relation to the management of Plan B, and recommends a way forward.

Main report

Work Carried out Since September

- 3.1 Considerable momentum has built up in Corporate Property over recent weeks. A Corporate Property Board has been formed to provide oversight on business as usual in addition to the property transformation activities.
- 3.2 To support the ongoing workstreams, AMS has mobilised a Project Management Office (PMO) to provide oversight and supervision of key activities and help to manage/mitigate any risks which may arise from the programme.
- 3.3 The purpose of the PMO is to ensure robust procedures are in place to successfully deliver the intended outcomes of the programme, whilst being careful not to impose unnecessary bureaucracy. The PMO is led by Deloitte and

is supported with resource from Corporate Property. Activities that the PMO have completed to date include the following:

- 3.3.1 *Transformation Programme Alignment*: Processes for the AMS PMO have been aligned with the Transformation Programme to prevent duplication of effort and to ensure the effective communication of information and project dependencies.
- 3.3.2 *Programme Initiation Document (PID)*: A programme initiation document has been prepared to capture the strategy, governance arrangements, processes and controls to be used to manage and deliver the programme.
- 3.3.3 *Risk Register*: AMS programme risks have been captured and reviewed and will be managed via the PMO.
- 3.3.4 *Cost Control*: A cost tracker has been prepared to track and monitor all costs, comprising consultant fees, IT costs and all other external costs against the AMS implementation budget.
- 3.3.5 *Management Information*: Management Information dashboard reports (based on the AMS workstream KPI's) are being developed to ensure a single source of the truth and will be reported up through the Transformation Programme.
- 3.4 The PMO is also continuing to support the individual AMS workstreams set out below to ensure they are sufficiently resourced and to provide a conduit for the escalation of risks and issues.
- 3.5 The following workstreams are now mobilised:
 - 3.5.1 **Facilities Management (FM)** – In parallel with the analysis being carried out in relation to the use of a Council subsidiary, work has commenced on structuring the in-house delivery of facilities management. The AMS business case highlighted a number of areas that needed to be addressed with the existing in-house model.

An evaluation has been carried out as to whether the existing geographical delivery model of FM is optimal (and only constrained by some barriers which prevent the current structure from functioning effectively) or whether asset based/functional based models are more appropriate. The preferred option of delivery remains a geographical based approach given that this encourages more effective synergies between the services.

In order for the future delivery model to operate effectively, work is currently underway to redesign the organisational structure of FM to Tier 4 with consideration to overcoming the existing barriers that prevent either effective service delivery or achieving a high level of customer satisfaction.

Work has also commenced on defining new roles within a re-designed FM function and a soft market test has been carried out with technical FM providers who may be required in the short term to assist in defining, rebuilding and costing the new FM organisation.

An exercise is also underway to refresh previous preliminary analysis of estimated savings under Plan B, with corresponding estimates of required headcount reduction in order to achieve these savings.

3.5.2 **Asset Condition** – The Council recognises that much of the operational estate (comprising over 600 properties) is in a poor condition with a significant backlog of maintenance work required in tandem with increasingly limited budgets for capital and revenue maintenance programmes. It is therefore essential that the work carried out under this workstream ascertains an understanding, in budget terms, of asset condition utilising available management information, so that essential work can be adequately prioritised and implemented. A detailed delivery plan has been prepared based on a number of key objectives including:

- identify and quantify the extent of backlog maintenance, health and safety risks and non-compliance across the estate;
- develop a risk based assessment methodology for the prioritisation and planning of maintenance work;
- benchmarking the required expenditure against existing budget allocation;
- develop a best practice delivery model, structure and processes which achieves value for money for the annual capital and revenue budget; and
- implement a technological solution to record asset condition information and provide robust management information to inform strategic planning.

The initial focus of the Asset Condition workstream will be addressing the immediate health and safety risks associated with the Council's operational estate. Specifically, falls from height of material has been identified as the number one health and safety risk. Much of the Council's operational estate is aged and has suffered from significant underinvestment due to limitations on the available budgets for inspection regimes and maintenance work. Additionally, the asset condition information is variable, fragmented and in some areas very poor, which severely restricts appropriate risk based identification, prioritisation and planning of essential work.

It is for these reasons that an early priority for the Asset Condition workstream is to assess the current arrangements for 'high risk' health and safety inspections and the procedures for prioritising and completing essential work. However linked to this exercise will be a wider review of the other key risks pertaining to the operational estate in terms of health and safety, statutory compliance and functional suitability.

As this work progresses, the early outputs from this workstream will begin to inform the budget planning from January for the financial year 16/17 and beyond as a full Planned Preventative Maintenance programme is developed.

3.5.3 **Estates Rationalisation** – The AMS business case identified a number of proposals within the Council’s operational portfolio spanning schools, theatres, museums, care homes, community centres and parks.

A team has now been assembled to support the preparation of detailed delivery plans for each of these proposals. Furthermore, proposals are being developed to determine future governance arrangements that will facilitate the required programme of building closures.

In addition, the ongoing development of the new operating model and corresponding changes in the size of the Council’s workforce, as part of the wider Transformation Programme, are a key dependency in determining a low cost, fit for purpose and safe estate. As the delivery model and corresponding organisational designs are finalised across the transformation CLS and BSS workstream, the Council’s core portfolio requirements can be defined and the process of rationalisation of surplus requirements can commence.

3.5.4 **Investment Portfolio** – The requirement to establish a clear investment strategy to transform a diverse range of assets into a focused portfolio that delivers more financial benefits to the Council was set out in the AMS business case. Specifically, this included refreshing the current concessionary lets policy whilst not compromising on the social objectives of the Council, improving vacancy rates and considering the opportunities for re-investment following a potential restructure of the portfolio.

The workstream is now mobilised and has identified the following preliminary activities:

- Reviewing existing data sets to identify gaps and develop programme plans to establish appropriate data sets required to drive a refreshed investment strategy;
- Preparing and documenting a refreshed high level investment strategy for the Council; and
- Performing further analysis to prioritise vacant properties and identify those concessionary lets that may have accretive value including a review of the lease terms to verify whether there are any barriers to implementing a market rent to the tenant.

3.5.5 **Transition** – The AMS business case identified significant challenges facing the Corporate Property function in delivering savings when most of the budgets for property, and property related services, were de-centralised to other departments across the Council. This also led to savings initiatives, that were implemented by Corporate Property, being realised elsewhere across the Council, thereby creating ‘a double count’ on saving targets. Following a recommendation to transfer staff and related property budgets back into

Corporate Property, this workstream is currently underway to establish a robust programme for transfer of budgets and staff. The workstream will also manage the transfer of the Corporate Property function from Services for Communities to Corporate Operations.

- 3.6 In addition to these core workstreams, an assessment of *how best to manage the delivery of Plan B utilising the potential benefits of such delivery through a Council subsidiary* has been carried out, and the findings are presented below.

Delivery Options

- 3.7 In response to the Committee request an evaluation of delivery options has been carried out against the following models:

Option 1 - In-House Model

Option 2 - Arms Length External Organisation (ALEO)

Option 3 - Arms Length External Organisation with a JV Partner

- 3.8 It has been assumed that the ALEO could be either a newly formed subsidiary of the Council or that an existing entity, such as EDI, could be used.
- 3.9 In carrying out the analysis, it has been assumed that redundancies, as set out in the September report, will be required irrespective of which option is selected.
- 3.10 A summary of the analysis carried out is set out below.

Option 1 – In House Model

Under this option the Council continues with its existing model retaining the ownership of all assets and directly managing all property services including facilities management. This will include the increased scope and resources from other departments transferring into the new Corporate Property Structure. The key advantages and disadvantages of this option are set out in the table below.

Advantages	Disadvantages
Council retains full control of the Corporate Property function	Requires Council investment in new technologies and training
Builds on momentum since September	Complex governance structures means decision making can be time consuming
Minimises complex external interfaces	Pay and bonus restrictions mean Council cannot recruit required skill levels into key management positions
Savings can be delivered faster than subsidiary model	

Advantages	Disadvantages
No complex TUPE and/or pension transfer issues	
All savings achieved directly benefit the Council	

Option 2 – Arms Length External Organisation

Under this model the Council would transfer all Corporate Property staff into an ALEO, although all property assets would remain as Council owned. This would be a Total Facilities Management (TFM) model delivered through a Council subsidiary.

An option to transfer assets into an ALEO was considered by Deloitte. There is however little or no precedent for such a large scale transfer into an ALEO and there would also be a high degree of legal complexity, due diligence and expense. Given these challenges and the timescales involved this was discounted.

Under this option, the Council could either transfer all Corporate Property staff into the subsidiary or just FM staff. The key advantages and disadvantages of this option are set out in the table below.

Advantages	Disadvantages
Potential for better enforcement of the Service Level Agreements	Loss of momentum built up since September decision
Some level of independence in decision making by ALEO	Difficulty in aligning Council objectives and strategy with that of a subsidiary
Increased workforce freedoms provide better access to necessary skills through reduced constraints on pay scales and more flexibility of work practices	Loss of control with decreased ability for elected members to influence key decisions
	Creates additional interfaces between the Council and ALEO
	The TFM option would need to be built from scratch which would take considerable amount of time
	Delay to Plan B annual savings for both TfM and FM only model

Advantages	Disadvantages
	TUPE and pension transfer issues
	In the FM only model there would be a break in the investment lifecycle approach which would make overall savings more difficult to realise

Option 3 – Arms Length External Organisation with JV partner

This option would involve the transfer of Corporate Property staff into an ALEO which in turn would enter into a contract with a private sector joint venture partner to provide services to the Council. This structure would allow the Council to utilise private sector expertise without directly outsourcing services.

The advantages and disadvantages of this option are set out in the table below.

Advantages	Disadvantages
Potential to secure external management expertise	Loss of momentum built up since September decision
Reduced investment in systems and processes as these will be provided by the joint venture partner	Difficulty in aligning Council objectives and strategy with that of a subsidiary
Potentially easier to enforce SLAs through payment mechanism and more robust financial accountability	Loss of control with decreased ability for elected members to influence key decisions
Some level of independence in decision making by ALEO	Creates additional interfaces between the Council and ALEO
Increased workforce freedoms provide better access to necessary skills through reduced constraints on pay scales and more flexibility of work practices	Would need to be built from scratch which would take considerable amount of time
	Delay to Plan B annual savings due to long lead in procurement of JV partner
	TUPE and pension transfer issues
	Limited or no market appetite for investment in a Council controlled company

Advantages	Disadvantages
	To resolve market appetite issues it is highly likely the Council would need to be minority shareholder
	Council would retain the political challenge associated with estates rationalisation with significantly reduced control
	Approximately 50% dilution of profit/savings from the business for the Council

- 3.11 While there are some advantages to adopting an ALEO or ALEO with JV partner these are outweighed by some key disadvantages. Firstly under both ALEO options there will be additional time to delivery (as workstreams would need to be paused whilst a review is undertaken to check whether the planned outputs are compatible with an ALEO structure) which would result in a loss in momentum built up since September and a delay in savings being realised. Secondly, there are likely to be TUPE and pension issues to be considered under both options and thirdly, the Council will be required to cede control to a subsidiary. Further to these, under the JV partner option savings will need to be shared with the partner and due to the lack of market appetite it may be required that the Council take a minority interest in the company.
- 3.12 The disadvantages of the in-house model relate to the requirement for the Council to invest in new technologies and training, navigating potentially unwieldy Council governance structures, and restrictions in relation to salary scales which mean the Council cannot recruit the required skill levels into key management positions. These issues however are considered solvable and the recommendations below reflect the required actions.

Way Forward

- 3.13 Based on the analysis above it is recommended that the Council, in adopting Plan B, continues with the in-house delivery model and builds on the momentum established since September. Following the transition to the new operating model the Corporate Property function will employ in excess of 2400 people due to additional staff transferring from other service areas into Corporate Property, and manage just under 10% of the Council's revenue budget. Given the past proposals for the Alternative Business Model, the Internal Business Comparator and iPFM proposals in recent years, there is an urgent need to create a stable environment within the operational service to allow the management team, supported by external advisors, to continue with the implementation of the recommendations set out in the AMS business case and the delivery of Plan B.

- 3.14 There are however a number of key steps and decisions required to support the delivery of the in-house model and these are set out below:

Workforce

- 3.14.1 Significant investment will be required to transform the existing workforce which includes processes, training, skills and culture change in order to effectively deliver Plan B. AMS will be making proposals for how existing workforce barriers around recruitment, pay scales and working practices can be overcome and that these will be a prerequisite of delivering Plan B.

In order to restructure the future workforce and optimise the cost and quality of FM services, technical FM support advisors will be required to assist in defining, rebuilding and costing the new Service Level Agreements.

Given labour costs are a significant proportion of FM costs, redundancies are necessary to help achieve sustainable savings. Any redundancies and corresponding negotiations with the trade unions will require implementation by the Council.

Governance

- 3.14.2 Delegated authority where appropriate and streamlined decision making is essential to effective delivery of the AMS Programme. Each workstream is currently developing a detailed list of dependencies and decisions required as part of this the AMS programme will be making recommendations to change existing governance arrangements.

Investment

- 3.14.3 The AMS will bring forward recommendations for investment in new technology to support the re-designed Corporate Property organisation. Significant investment in training of staff across all levels and service areas will be required.

In line with the recommendations in the AMS business case, it is assumed that capital receipts from asset disposals (where not already allocated) can be recycled to improve the condition of the estate and help drive further estate rationalisation, this is a crucial assumption going forward.

The delivery of Plan B is also heavily reliant on ongoing expert support from Deloitte and other specialist technical advisors where identified. This was reflected in the implementation costs set out in the September Committee report.

Management information and council Reporting

- 3.14.4 In the event that the council approve the approach set out in this paper then it is proposed that future AMS reporting forms part of the overall reporting on the council wide transformation plan. The AMS would remain a separate workstream within the transformation programme with its own MI and Data but this would be reported on a bi monthly basis to the F&R committee as with all other aspects of the transformation plan including BSS, CLS and Channel shift.

Measures of success

- 4.1 The AMS business case identified significant financial and non-financial benefits associated with the asset management and Corporate Property function that are in line with the wider objectives of the Council's Transformation Programme.

Financial impact

- 5.1 As outlined in the September report the delivery of the in-house property and asset management will require significant investment in relation to new technology, training of staff across all levels and service areas, redundancies, advisor support and backlog maintenance.
- 5.2 The estimates set out in the September report are currently being refined in the context of the wider property and asset management restructuring and will be reported to Committee on a bi-monthly basis.

Risk, policy, compliance and governance impact

- 6.1 Recommendations in this report are not approved leading to delay and/or significantly reduced annual savings.
- 6.2 Implementation of the Estates Rationalisation and/or the Investment Portfolio Optimisation cannot be delivered in the timescales envisaged due to stakeholder resistance.
- 6.3 Additional financial pressures are brought to bear, for example, implementing the revenue backlog maintenance and addressing the increased health and safety risks to the users of the Estate

Equalities impact

- 7.1 The contents and proposals of this report have been assessed with respect to the Equality Act 2010 public sector equality duty. In this regard, an equality and rights impact assessment has been initiated, and initial findings have indicated:
1. Reducing property costs, specifically the proposal to identify an enterprise wide strategic partner, will enable greater savings to be realised, which in turn will enable more effective protection of frontline services to vulnerable citizens, and meeting demographic pressures.
 2. Projects exploring the feasibility of asset transfer to community groups could empower communities, particularly those in deprived communities.
 3. Any impacts on employment conditions as a result of different service delivery models will be assessed further through the impact assessment process.

4. Any changes to concessionary lets to third sector and community groups, and consequent impacts, could be managed through the grants and contracts process.
5. Co-location opportunities, if delivered, could improve and simplify access to council and partner services, especially those individuals or families who require multiple services.
6. Proposals to improve the coordination of asset management, and to drive forward property rationalisation, should lead to improvements in physical accessibility at council premises.

Sustainability impact

- 8.1 The contents and proposals contained in this report have been assessed with respect to the Climate Change (Scotland) Act 2009. In this regard, a sustainability, adaptation and mitigation impact assessment has been initiated, and initial findings have indicated:
1. A need to further improve energy efficiency within council buildings in order to tackle green house gas emissions, and to save money on energy costs and carbon taxes.
 2. A need to further improve internal waste reduction measures within council buildings, linked to the council's wider waste minimisation strategy. Such improvements will lead to savings being released from landfill taxes and carbon taxes, and will militate against greenhouse gas emission which emanate from landfill.
 3. Opportunities to minimise staff travel through smarter working and co-location across the council's estate should save the council money on transport costs, carbon taxes and will militate against greenhouse gas emissions.
 4. Any future facility management service delivery models would need to take cognisance of the 'Food for Life' and 'Soil Association' accreditation projects to ensure the food provided in council premises was sustainable, sourced locally and seasonal.

Consultation and engagement

Corporate Leadership Group – 9 November 2015

Trade Unions – 19 November 2015

Background reading/external references

Alastair Maclean

Deputy Chief Executive

Contact: Rob Leech, E Mail: rob.leech@edinburgh.gov.uk Tel: 0131 469 3796

Links

Coalition pledges	P30 - Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all SO2 - Edinburgh's citizens experience improved health and wellbeing, with reduced inequalities in health SO3 - Edinburgh's children and young people enjoy their childhood and fulfil their potential SO4 - Edinburgh's communities are safer and have improved physical and social fabric
Appendices	None