

Finance and Resources Committee

10.00am, Thursday 27 September 2018

Asset Management Strategy Transformation Programme - Update

Item number 7.6

Report number

Executive

Wards

Council Commitments

Executive summary

The Asset Management Strategy (AMS) and the associated transformation programme were developed to create a credible, focused and financially sustainable delivery plan for the Property and Facilities Management (P&FM) functions of the Council and in the broadest sense. The objectives of the programme are to deliver a fit-for-purpose, optimised, effectively utilised and safe estate; providing appropriate levels of service at an acceptable and efficient cost; and, in a commercial manner, which seeks to maximise value and return for the Council.

This report presents an overview of the original strategy in the context of the changes that have taken place over the past three years and the forecast future requirement for significant new build, over the next three-year period.

Asset Management Strategy Transformation Programme - Update

1. Recommendations

- 1.1 That the Committee:
 - 1.1.1 Notes that members of the Finance and Resources Committee met with officers to discuss the progress and future direction of the AMS on 22 August 2018;
 - 1.1.2 Recognises and records its awareness of the continued and ongoing challenges with the increasing size of the operational estate;
 - 1.1.3 Approves the revised strategy to delivery property rationalisation by focusing upon service led design at a local level and the re-provisioning and co-location of existing services into single sites as well as utilising strategic reviews of specific areas, such as depots, and opportunities as they arise for individual properties;
 - 1.1.4 Approves, as consistent Council policy across all capital build projects that a scoping exercise is undertaken to identify how co-located community facilities can be delivered as an integral feature of each project;
 - 1.1.5 Agrees the proposal to widen the original Facilities Management (FM) scope of review to include both Catering and Security services;
 - 1.1.6 Agrees that the strategy for the Council's property investment portfolio should remain to drive out financial return, both revenue and capital and that a review takes place to consider disinvestment if it is in the Council's financial interest to do so;
 - 1.1.7 Notes that the AMS financial profiling of how the approved savings will be delivered will be refreshed, reflecting these updated assumptions; and
 - 1.1.8 Refers this report to the Governance, Risk and Best Value Committee for information.

2. Background

- 2.1 The Asset Management Strategy (AMS) and associated transformation programme is a significant element of the wider Council Change Portfolio,

aimed at achieving more effective and efficient use of the Council's asset base and associated service provision, primarily FM.

- 2.2 The AMS and associated transformation programme aims to create a credible, focused, and sustainable delivery plan for Property and Facilities Management in the broadest sense. It aims to deliver a fit-for-purpose, optimised, effectively utilised and safe estate; providing appropriate levels of service at an acceptable and efficient cost; and, in a commercial manner, which seeks to maximise value and return for the Council.
- 2.3 When the Finance and Resources Committee considered the AMS on 24 September 2015, it approved the adoption of an in-house delivery model, which included a significant investment in technical support over the next few years. At that time, the Committee requested that a status update be provided every two cycles.
- 2.4 The AMS update report to the Finance and Resources, on 12 June 2018, identified a number of emerging issues and significant pressures with the AMS, principally in respect of the original assumptions underpinning the financial saving targets, which were externally developed by consultants. Consequently, Members noted that the AMS would undergo a mid-point review resulting in a reprofiling of how the approved savings would be delivered and approved a refresh of the AMS to reflect updated assumptions, based on the additional and better insights gained since 2015. Members also requested a workshop to discuss the strategy in detail, which was held on 22 August 2018.
- 2.5 In addition, the report will seek to address a motion approved by Council, on 31 May 2018, that stated: *"Agrees that within two cycles the AMS report to the Finance and Resources Committee will review the process for assessing potential property use when property falls vacant, when a lease is terminated or when property is declared surplus to requirements. The process should look at Committee decisions or delegated decisions and consider what criteria are used in coming to a decision or recommendation, for example, local or city need and demand for services, community views and engagement, investment needs and best value."*

3. Main report

- 3.1 The 2015 AMS recommended a number of actions and outcomes that have been achieved as summarised below: -
- consolidation of property related budgets in Property and Facilities Management;
 - adopt an in-house model for Facilities Management (FM) delivery;
 - recognise and the need to address revenue based backlog maintenance across the existing operational property portfolio;
 - develop a Service Level Agreement for FM service delivery;
 - implement a computer aided FM system across the whole Division to capture all property data in one source;
 - progress estate rationalisation opportunities; and

- consolidate the commercial investment property portfolio and reinvest sales proceeds into the acquisition of additional income generating assets.
- 3.2 In terms of the original plan, the strategic objectives detailed in paragraph 2.2 are as relevant today as they were at that time. However, the detail around the assumptions in the business case, and the impact this has on the financial outputs, has to be reconsidered in the context of the changes that have taken place over the past three years and the forecast future requirements for significant new builds as part of the operational property portfolio. Failure to do so will simply mean that unachievable savings will be compounded by unbudgeted pressures eventually resulting in service failure.
- 3.3 The savings from AMS, and additional savings allocated for financial year 2018/19, were split into three distinct but inter-related areas as follows:-
- the rationalisation of the operational property estate (£2.1m);
 - the modernisation of FM Services (£2.4m); and,
 - the optimisation of the investment portfolio (£2.1m).

The Rationalisation of the Operational Property Estate

- 3.4 The AMS is predicated on a strategy of reducing the overall operational estate size utilised by Council services. However, since 2015, the Council has built over 70,000 square metres of new floorspace. Although some of this replaces older stock, 39,000 square metres, the equivalent of three new high schools, has been added accommodation to the estate. With higher costs associated with running new floorspace, including utility costs, rates and FM services, the replacement floorspace has only compounded existing pressures on the operational property budgets, which were already significantly pressurised. The impact of demographic changes in the City, leading to rising school rolls, increased care home provision requirements and the Local Development Plan infrastructure needs, combined with the requirement to address the condition of the existing schools estate, means that a further additional 72,000 square metre of new build floorspace is estimated to be required by 2021.
- 3.5 While the operational property estate has been growing significantly, there has been no corresponding decrease across the operational property portfolio. Limited reductions have been achieved in the office accommodation estate, most notably the exit of Lothian Chambers, 329 High Street and 1A Parliament Square. However, the main, front facing, elements of the operational property estate of the Council remains substantial.
- 3.6 Strictly from a financial point of view, closing property achieves significant benefits, i.e:-
- running costs – including non-domestic rates, utilities, insurance and FM costs, such as cleaning and janitorial services;

- reductions in repairs and maintenance (revenue) spend;
- reductions in repairs and maintenance (capital) spend; and
- generating a financial return from either selling or leasing surplus assets.

3.7 Notwithstanding the financial benefits, rationalisation of the operational property portfolio is increasingly difficult due to political, local and community opposition and the fact that all the 'low hanging fruit' has been previously targeted. For example, in 2004 the Council owned or leased 25 corporate buildings within a mile of the city centre, by 2008 this had reduced to 8 and subsequently to 2 such properties in 2018. However, given that the current and future pattern of extensive new capital build is financially unsustainable, the rationalisation, increased utilisation and greater efficiency yield of the operational property portfolio has to remain the cornerstone of any asset management strategy for the Council.

3.8 The former Property Models approved by the Council, Alternative Business Models, Internal comparator, iPFM and AMS, all made similar assumptions around reducing the size of the estate and forecast savings that were baked into the Council's future budget. In the main, the assumptions in these workstreams did not explicitly reveal which properties were to be exited from, rather broad and sweeping assumptions on the size and cost of the estate were made. While significant savings have been made, this has not achieved the target levels anticipated, principally due to double counting with other Directorate saving proposals; the practical political, social and community issues of closing property; and the complex offsetting needed for new budget pressures from additional accommodation.

3.9 Moving forward, and in acknowledgement of the above challenges, it is proposed to consider operational property assets and their rationalisation in a hybrid approach. Principally, at a local level the Division will employ a process of service led design whereby it is proposed to examine the services and outcomes being sought at a local level, with the communities they will serve. The principles of this approach are:-

- **People Focused** – putting citizen and service user “journeys” at the heart of the process;
- **Research Based** – building services with evidence of “lived experience” users with both quantitative and qualitative research methods;
- **Co-designed** – designing services with and not for user and organisational staff;
- **Iterative** – continually testing and developing the design of the service with the users journey in mind; and
- **Participatory** – recognising that the public services are delivered by multiple organisations, there is therefore a need to look outside the organisational boundaries to co-locate more services, to improve access and ease of use.

3.10 Initial stages of a service led design approach would not be about buildings but

would focus on the outcomes to be achieved. Once these have been scoped, the required services to be provided would then be mapped against existing local assets to see how they are best used, allowing for improved synergies through co-location, and consolidation of assets. It is proposed that 'deep dives' into areas of change, e.g. where a new school or early years facility is required, are prioritised across the City to commence those discussions at an early stage with local communities.

- 3.11 In tandem with the above approach, Property and FM will continue to consider one off opportunities as and when these arise, such as the recent closure of 1A Parliament Square. Finally, a separate strand will link into other strategic objectives that do not directly impact on local communities and local service provision, e.g., an overarching and updated Depot strategy will be presented to members at the October Committee meeting.
- 3.12 To further address the growing budget pressures of the size of the operational property estate, whilst also improving service outcomes for local communities, it is essential that the Council explores the delivery of multi-service community hubs, rather than single purpose delivery buildings. This means that rather than delivering a new school, for example, a multi service learning campus would be developed on each occasion. This would include activities such as library, community space, early years, GP practice and local office activities, co-located in a single site. This would be predicated on the re-provisioning of existing services via the new hub and the closure of the associated venues to ensure the efficiency of the estate is maximised. It is proposed that the opportunity to adopt this type of approach must be explored at the outset of every new capital build project. The scope would include Council delivered services and those of our partner organisations, such as NHS Lothian, Police Scotland, and third sector partners. This approach fully conforms with Scottish Government's estate planning aspirations, and there is a risk that any future Scottish Government project funding will not be forthcoming unless all new projects can demonstrate a tangible commitment to this principle.

The Modernisation of FM Services

- 3.13 The new model for janitorial services was formally implemented and operationally deployed at the start of the new school year, following the summer break. All schools have been issued with the approved Service Level Agreement (SLA) and supporting documentation. Senior FM management have attended sessions with Head Teachers and school business managers to promote the new service and its model of operation. An end to end re-design of the helpdesk service within Customer Services and IT has also been completed to further improve efficiency.
- 3.14 The next phase of the FM review involves consideration of the Council's cleaning services. There are currently over 1,000 cleaning staff engaged by the Council on a range of contracts, both as direct employees and sourced through employment agencies, with an annual cost of circa £7m. The approach that should be taken to this operational review was the subject of discussion between Finance and

Resources Committee members and the Head of Property and Facilities Management at the workshop in August. This operational review has been awaited for some considerable time and it is imperative that the process begins as soon as possible to provide clarity and certainty to Council employed staff and to help address recruitment and retention difficulties.

- 3.15 The savings achievable within FM are directly related to the size of the Council's operational property estate and the level of FM service provision that is acceptable to building users. Lessons learned from the recent operational review of janitorial services clearly indicated that without widespread ownership from other Council directorates and customer / end user buy in, implementing these reviews can be extremely difficult. The main outputs from the janitorial review were that while significant modernisation has been achieved, which will result future financial savings, the immediate savings impact was negligible. In practice, the service has simply been spread thinner to absorb the pressure of the newbuild estate, whilst adopting standardised working practices.
- 3.16 In recognition of the above, the service is having to consider how additional savings can be delivered from other elements of FM particularly, Catering and Security. While these areas were considered in the original AMS, no savings were projected due to the forecast increasing demand for early years catering and the risks associated with reducing security. While these reasons are still relevant, the financial pressures emerging from the original strategy means that these areas will need to be reconsidered and that any growth in demand arising from early years will need to fully underwrite the revenue costs of catering expansion and other FM services that this may require.

Commercial Property Investment Portfolio

- 3.17 As part of the Council budget setting process all political groups assume that Property and Facilities Management will generate a minimum rental income of approx. £15m in the following financial year, i.e., the income is balanced against having to make budget cuts to services. As such, any retrospective negative financial decision relating to the commercial property investment portfolio has the potential to create a new budget pressure. Typically, the Investments team in P&FM manages the risks associated with void periods (currently 2.5% against a IPD average of 7%) balanced against the additional income opportunities for rent reviews and lease renewals. The management of the commercial property investment portfolio continues to perform ahead of expectation, and an increase in excess of the 2% target for 2017/18 was achieved. However, the team is preparing for several significant lease terminations over the next few years. This includes: Castle Terrace car park lease ending in 2020 and both the Vega and Sirius office buildings in the South Gyle terminating in January 2021, a combined loss of potential rental income of approximately £1.9m per annum.
- 3.18 For the reasons set out in the update report at the June 2018 Committee, the proposed investment approach cannot deliver the assumed financial outcomes as set out in the 2015 approved AMS. Notwithstanding this, this workstream has delivered its savings targets and the task is therefore to assess how further

savings and/or additional income can be best maximised. Consequently, the Division is considering opportunities to consolidate the portfolio, but only to the extent that it is the Council's financial interest to do so. This will form part of the business plan moving forward and, any proposed sale, will be brought before Committee for approval.

- 3.19 Given the benefits of additional rental income, the plan for the commercial property investment portfolio is to reconfirm the original objective of the AMS. That is to act in a commercial manner which seeks to maximise value and return to the Council and in doing so enable the protection of critical public services.
- 3.20 Part of the original AMS was to transfer all existing concessionary lets to market rent. At that time, there was no in-depth analysis of the legal ability of the Council to do so, nor was there consideration of the wider implications of the original political, social or community reasons why the lease was concessionary in the first place. The current position remains, in that, there are no new concessionary lets unless specifically approved by Committee. With regard to existing concessionary lets, the Division will continue to review as and when appropriate, with any proposals for changing any existing concessionary arrangements brought to Committee for separate consideration.
- 3.21 Work is continuing with financial savings opportunities previously identified, which are recorded in the savings tracker. The Division is active in seeking income maximisation opportunities through lease review/renewals, business park development and digital space opportunities.
- 3.22 A motion approved by Council, on 31 May 2018, stated *“Agrees that within two cycles the AMS report to the Finance and Resources Committee will review the process for assessing potential property use when property falls vacant, when a lease is terminated or when property is declared surplus to requirements. The process should look at Committee decisions or delegated decisions and consider what criteria are used in coming to a decision or recommendation, for example, local or city need and demand for services, community views and engagement, investment needs and best value.”* This was also discussed at the recent workshop on 22 August.
- 3.23 Analysis of previous decisions, taken over the past 5 years, with both capital and revenue implications, has been undertaken and demonstrates that the process for engagement in both sales and leases are robust, fair, and auditable, particularly following the introduction of the Community Empowerment Act.
- 3.24 The majority of Council surplus sites are now transferred to the Housing Revenue Account (HRA) for housing development purposes, recognising citywide pressures on affordable housing supply. The Place Development Division (housing teams) plans their consultation depending upon the merits of each asset, for example, the Consultation and Engagement Plan for housing-led development of the former Powderhall depot proposes “Tell us about Powderhall” community events; Stakeholder ‘surgeries’, Client Group ‘option review’ workshops; and public

consultation before presenting a vision to key stakeholders and the public to review and discuss.

3.25 The minority of sites marketed are subject to the requirements of the Community Empowerment Act where any community body can submit a participation request. This has happened following the recent marketing of Portobello Powerleague pitches and Comiston Farmhouse, with the output of the latter being presented to Committee in October.

3.26 The commercial property investment estate is more complicated due to the reasons relating to how the Council sets its budget as set out earlier in this report. Previous decisions, relating to concessionary or part concessionary sales/leases have been considered in recent years as below:-

- Former Grassmarket Nursery – 6VT;
- Riddle’s Court, Lawnmarket – SHBT;
- Broomhouse Centre;
- Bridgend Farmhouse and Steadings;
- Former British Rubber Co. Buildings – Printmakers;
- Balerno Community Centre;
- Braidwood Gate, Dumbiedykes – Braidwood Bike Club;
- Manse Road, Kirkliston – 1st Kirkliston Scout Group;
- Portobello Toddlers Hut;
- The Venchie, Niddrie Mains Terrace, Craigmillar;
- Roseburn Park former toilets – friends of Roseburn park
- Roseburn Park Armory Building – Murrayfield DAFS Cricket Club;
- Port Edgar – Port Edgar Yacht Club;
- Thistle lawn Tennis Club; and
- Prestonfield Tennis and Sports Association.

3.27 The above demonstrates that Committee can, and should continue to authorise concessionary and/or part concessionary lets only when it considers it appropriate to do so. Analysis of the above, shows that there is no single common denominator in the decision-making process. Consequently, it is proposed that the rules in this area remain, that is, no new concessionary lets be approved unless explicitly authorised by the Finance and Resources Committee, with each case being considered on its own merits.

Summary

3.28 The original AMS approved in 2015 assumed significant financial and non-financial benefits associated with asset management and the Property and Facilities Management Service which were in line with the wider objectives of the Council’s Transformation Programme, at that time. Significant non-financial benefits have been delivered as detailed in this report together with, to date, £2.68m of recurring savings.

3.29 Moving forward the underlying principles of the AMS will remain the same but the

approach will adapted to seek to address the challenges identified in this report. The next steps will be translate this approach into financial realisation, which will be reported to future meetings of Committee.

4. Measures of Success

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

5. Financial impact

- 5.1 The tracker below shows the consolidation of the AMS savings and the additional savings added as part of 2018/19 budget saving exercise. The movement from June shows approx. £400k moving from amber to green.
- 5.2 Committee should note that there is an expectation that the service will contribute significantly to future budget requirements for financial year 2019/20 and beyond and is actively working on these proposals.

CONSOLIDATED FORECAST SAVINGS

RED	0	3.106	2.739	2.424
AMBER	0	0.543	1.068	1.218
GREEN	1.603	3.383	3.595	3.790
TOTAL	1.603	7.032	7.432	7.432

6. Risk, policy, compliance, and governance impact

- 6.1 The following are the identified risks to the delivery of the AMS as currently defined:
- there is a risk that the financial assumptions underpinning the original business case cannot be achieved as originally anticipated;
 - there is a risk that a lack of stakeholder and political support for the Property and Facilities Management transformation proposals leads to a failure to deliver the agreed cost savings;
 - there is a risk that an economic downturn in the property rental market results in reduced income;
 - there is a risk that proposals for estate rationalisation through a renewed locality led asset integration approach are delayed and/or re- shaped through the processes of stakeholder engagement;
 - there is a risk that the additional coverage required from FM will erode savings in the AMS programme;

- there is a risk that a delay to the implementation of Computer Aided Facilities Management (CAFM) impacts on the delivery of the Blueprint and cost savings profile; and
- there is a risk that a lack of capital funding, due to budget constraints, leads to the Councils inability to reduce the backlog maintenance across the estate.

7. 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: -
- 7.1.1 reducing property costs 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;
 - 7.1.2 projects exploring the feasibility of asset transfer to community groups could empower communities, particularly those in deprived communities;
 - 7.1.3 any impacts on employment conditions as a result of different service delivery models will be assessed further through the impact assessment process;
 - 7.1.4 any changes to concessionary lets to third sector and community groups, and consequent impacts, could be managed through the grants and contracts process;
 - 7.1.5 co-location opportunities, if delivered, could improve and simplify access to council and partner services, especially those individuals or families who require multiple services; and
 - 7.1.6 proposals to improve the coordination of asset management, and to drive forward property rationalisation, should lead to improvements in physical accessibility at council premises.

8. 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:
- 8.1.1 proposals to improve the coordination of asset management, and to drive forward property rationalisation, should lead to improvements in physical accessibility at council premises;

- 8.1.2 a need to further improve energy efficiency within council buildings in order to tackle greenhouse gas emissions, and to save money on energy costs and carbon taxes;
- 8.1.3 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;
- 8.1.4 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; and
- 8.1.5 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.

9. Consultation and engagement

- 9.1 Communications have been established with the Trade Unions and regular meetings are held in relation to transformation. Engagement across the Council and with wider stakeholder groups has been, and continues to be, widespread in relation to the re-design of the FM function.

10. Background reading/external references

- 10.1 Please refer to: [September 2015](#), [November 2015](#), [January 2016/March 2016](#), [June 2016](#), [September 2016](#) (item 7.2) [December 2016](#), [February 2017](#), [January 2018 and June 2018](#) Finance and Resources Committee papers.

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11. Appendices
