

CABINET

14 SEPTEMBER 2011

ASSET MANAGEMENT PLANNING

REPORT OF HEAD OF ESTATES

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RECENT REFERENCES:

[CAB1559](#) - Corporate (Non Housing) Condition Survey - Initial Results, 12 December 2007

[CAB1659](#) - Asset Management Plan 2008, 9 July 2008

PER174 Restructure of Landlord Services and Corporate Property Management 9 June 2010 (exempt)

[CAB1919](#) - Corporate (Non Housing) Condition Survey Phase II - Initial Results, 12 November 2009

EXECUTIVE SUMMARY:

The report reviews the Draft Asset Management Plan which it is to be scrutinised by the Asset Management Informal Scrutiny Group (ISG), prior to a final report being approved by Cabinet in December. The Plan identifies the General Fund property and property related staffing resources within the Council and highlights the statutory and regulatory framework which has to be worked within. It also recommends an estate management programme which considers repairs and maintenance, opportunities for development and disposal, utility usage, as well as funding options for the delivery of the programme. Finally the report outlines proposed work plans for the next five year period.

RECOMMENDATIONS:

- 1 That the draft Asset Management Plan attached to this report be adopted for the basis of informing the budget consultation process and for review and comment by the ISG, pending approval of a final report in December.
- 2 That the plan be scrutinised by the Asset Management Plan Informal Scrutiny Group (ISG) and a further report be submitted to Cabinet in December with the final plan considering its observations.
- 3 That the work programme identified in Appendix C to the Plan be noted at this stage, pending further consideration as a part of the budget proposals.
- 4 That the principle of using “Prudential “ borrowing to undertake development which meets the objectives of the Community Strategy or the Efficient and Effective Council policy be considered on a case by case basis, as appropriate, and fully in accordance with the Council’s Treasury Management Strategy.
- 5 That the repair and maintenance budgets for General Fund property be held corporately by the Head of Estates as set out in paragraph 5 of the report.
- 6 That it is recognised that additional financial resources need to be invested in the corporate estate and that additional capital and revenue income developed from within the estate should be considered for reinvestment in improving the standard of the retained property where possible.
- 7 That the Council’s assets be categorised into short, medium and long term holdings to enable the maintenance and property strategies to be developed.
- 8 That corporate standards be developed for operational property as staff resources and finance allow.
- 9 That a clear strategy for the Council’s core office requirements is developed and is subject to a further report to Cabinet.
- 10 That a plan be developed for the refurbishment and improvement of the River Park Leisure Centre.
- 11 That the Council review the energy and utility costs of its estate and undertake such works of improvement to reduce consumption where there is a business case for so doing.
- 12 That the staffing of the Estates teams be regularly reviewed with CMT during the plan period as workload increases to reflect the priority Members place on delivering the Asset Management Plan.
- 13 That a separate report be submitted to Cabinet outlining the impact of the Localism Bill on City Council property when it is formally adopted as law.

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DETAIL:

1 Introduction

- 1.1 The City Council has considerable Corporate operational and non operational property holdings. Until October 2010, responsibility for the asset management of the Corporate estate was split between the Head of Contracts and Property Services and the Head of Estates and a number of Heads of Teams. This split approach to the management of corporate property has met service needs well, but has hampered the Council in taking a strategic approach to management of its property.
- 1.2 The previous arrangements for the management of Corporate property, and subsequent lack of a corporate overview, have resulted in the creation of a number of risks to the Council which need to be addressed:
 - A significant maintenance backlog;
 - Maintenance works previously not carried out to satisfactory standards due to budget constraints;
 - Failure of property or the plant and equipment within it leading to the risk of corporate manslaughter charges;
 - Lost opportunities to review procurement methods to minimise costs;
 - Lack of capacity to monitor and manage works.
- 1.3 Detailed work was undertaken in the past to identify the condition of a number of the Council's properties; however this was work in progress and has not yet covered all properties. Capital and revenue budgets were considered on a piecemeal basis in the light of the available funds as issues arose and in the absence of a detailed picture of the condition of the whole estate.

2 The Plan

- 2.1 The draft five year Asset Management Plan which is attached seeks to identify and quantify the maintenance backlog, highlight the extent of the resources which are required to address it and identify ways in which the

works can be funded. As part of the review process it is intended to build on the work already undertaken to assess the performance of the Council's properties to establish whether they are fit for purpose or require investment or replacement.

- 2.2 The Plan proposes a review of the Council's land holdings to identify whether there are any properties which might be disposed of when the market conditions are appropriate. It is recommended that the use of capital receipts received from assets disposed of following the review are considered to help fund the capital works identified in the Plan.
- 2.3 Under the Plan it is proposed to undertake a review of the City Offices. The buildings are of very basic construction and require considerable investment to make them suitable for continued occupation. Due to the lack of insulation and single glazed windows, the building is hot in the summer and cold in the winter. It is well established that the productivity of staff is affected by the environment they work in and it is clear that the working conditions in the City Offices could be improved.
- 2.4 Discussions chaired by the County Council have been held between the public authorities in Winchester about ways in which the management of the public estate could be improved to both reduce running costs and fund the improvement necessary to the building stock. The County Council submitted proposals for the development of Asset Pathfinders for both Basingstoke and Winchester, which envisage setting up a Joint Management Board of partners. The project started with an exercise to identify the extent of the public estate in the two locations and identified ways in which the public sector could work together to share premises and reduce costs.
- 2.5 The Government has already suggested that public bodies should firstly look to meet their accommodation requirements from within the existing public estate and this has to be a sensible move. The principal issue which the pathfinder project may help the City Council with is the City Offices, where there is the potential for these to be extended and shared with a number of other authorities. However it is worth introducing a note of caution, as the governance of a shared management structure is likely to be complex and as such agreement between the various bodies may be difficult to achieve on terms likely to be acceptable to the individual organisations. At the least the development of a closer working relationship between the public sector bodies should enable more cost effective use of each organisation's estate to be developed.
- 2.6 A key issue likely to affect the Council during the Plan period is the level of revenue income available to it to meet the cost of providing services to the public. Property has traditionally been used in the investment world as a store of value and to provide a good financial return at an acceptable level of risk. The Asset Management Plan will support the acquisition or development of property where this can be funded using "Prudential

Borrowing” and supports the Council’s wider corporate objectives. The property acquired or developed in this way can be held to support the Council’s corporate objectives as set out in the Community Strategy, to generate revenue and to help deliver regeneration opportunities within the City.

- 2.7 The Plan identifies a strategy for reducing costs and developing new income streams over the Plan period. Set out below are some practical examples of how this might be achieved.

3 Repair & Renewal Outcomes

- 3.1 Following a period of significant investment in the 1980’s, subsequently only limited funds were invested in the upkeep of the operational and non-operational properties. As a result of this the condition of many of the properties has gradually deteriorated. Recognising this situation the Council has since undertaking the programme of condition surveys in 2007, made significant investment in its property portfolio through the refurbishment of the Guildhall, the Tower Street Car Park and the Westgate. Examples of the recent progress the Council has made in improving the condition of its portfolio are included in Appendix B to the Plan.
- 3.2 The commercial portfolio was managed with the objective of short term income generation. Such a strategy can only work in the very short term because maintenance liabilities accrue until the point is reached that something has to be done and at greater cost than if a planned maintenance regime had been funded and implemented.
- 3.3 With the non operational investment portfolio this has led to the position that some property is in such repair that it can only be let in ways which do not maximise the value of the estate. For example the nature or condition of some properties was such that it was only practicable to let them on internal repairing lease terms, reserving responsibility for maintenance of the structure to the Council. This would be an acceptable solution if the maintenance budget was increased to cover the liabilities for repair (which it has not proved possible to do), but is not an efficient method of estate management as considerable costs are incurred in inspection, specifying works and arranging for them to be carried out. In some cases it has been necessary to let property under tenancies at will which can be terminated by either party at any time.
- 3.4 A good estate management strategy should be to seek to minimise the liability for expenditure, to maximise the net income, while minimising the risk of tenant default, with a view to enhancing the capital value of the estate. With the current estate it is necessary in some cases to improve the condition of individual properties so that when the opportunity arises the building can be let on fully repairing and insuring terms, where the responsibility for these matters falls to the tenant.

- 3.5 In cases where it is not possible to pass the repairing responsibility directly to the tenant, the property should be let on an internal repairing lease with a service charge provision so that the financial burden of maintenance can be passed to the tenant if the works themselves cannot. However such provisions will only be accepted by an ingoing tenant if the property is in repair. Where a building is not in repair, the incoming tenant will require a schedule of condition to be prepared.
- 3.6 One recent example of the implementation of this strategy on an investment property is that of 4 Bridge Street, Winchester. Inspection of the building at the end of a lease revealed that it had not been maintained in accordance with good construction practice for many years. Redundant pipe work was still live, brickwork pointing had perished, rising damp was becoming a problem due to building materials and rubble which had been dumped under the floor. The rainwater gutters were found to be undersized allowing water to penetrate the roof and damage the fascia and soffits.
- 3.7 A programme of works was undertaken to improve the condition of the property and to decorate the exterior. The building was successfully marketed by the Estates team and a letting on a long term fully repairing and insuring lease was entered into with a local businessman. The tenant has just completed a major refurbishment of the building at his own expense and it is now trading successfully as a wine bar.
- 3.8 The outcome has been to transfer the future maintenance liabilities to the tenant allowing him to manage investment in the property directly, a major investment in the property and an asset of enhanced rental potential over the long term created. The capital value of the asset has also appreciated because it has been possible to let the building on a long term lease.
- 3.9 The refurbishment and extension of Hyde House is another example of the development of value through the asset management process. This property was due to be sold for residential development following its vacation by the museum service. However the property was Grade 2* listed and further work demonstrated that a commercial use would be more sympathetic to the character of the listed building than a sale for residential development.
- 3.10 The building was offered for letting with a refurbishment package and terms were subsequently agreed to let the property to Adam Architecture on a 15 year lease on FRI terms at a market rent. Capital works funded by prudential borrowing are being undertaken which when completed and the building occupied will increase its value as an investment considerably above the existing use value and the cost of the works.
- 3.11 The Council owns a number of well located assets, the Bar End Depot being one. The property was let to SERCO as a base for the operation of the Depot Services. The premises date from between the 1940's to the 1990's and a recent survey indicated that works costing £1.385 million

were necessary to put them in a suitable condition to let with the new contract for a period of up to 17 years. Under the existing lease SERCO were only responsible for internal repair and the bulk of the above costs would have to be borne by the Council.

- 3.12 Under the new works contracts only refuse, grounds maintenance and street cleansing were included. The existing Depot site extended to 2.89 acres and with the new smaller contract package the accommodation requirement was much smaller. An assessment of the accommodation requirement identified that a site of approximately 1.5 acres would be required for the new contract.
- 3.13 The existing Depot was laid out with the offices at the front, the stores in the middle and the workshop at the back. As the three principal buildings would need to be retained for the new contract, the site layout meant that it would not be possible to subdivide the site and dispose of part of it. This would preclude the Council from selling part of the site to help meet the costs of refurbishing the premises.
- 3.14 The issue was dealt with by recognising that if new premises were built that they could be let at a full market rent. Advantage would be taken of the fact that when let to a contractor carrying out a direct service for the Council the income stream would be seen by the market as very secure; after all the rubbish would always need collecting. The potential for a secure high rental stream under a long term lease, paid for by a large national company provided the ideal conditions for Prudential borrowing to be utilised to fund the development of a new depot.

4 Prudential Finance

- 4.1 By borrowing against an asset providing an income stream developed from existing property assets the Council will be able to develop a new depot without recourse to existing revenue streams. Because the Council is a government organisation it is considered by the lending market to be a very secure institution. It can borrow through the Public Works Loan Board (PWLB) at rates linked to gilts (1% above) and for example recently at between 1.5% for one year, 2.44 % for five years and between 4.91% and 4.95% for between 25 – 30 years.
- 4.2 The table below helps demonstrate the possible benefits of “Prudential” borrowing. The examples below demonstrate the impact varying interest rates and terms have on cost and income streams. The example is based on a capital spend of £1 million and a rent of £92,534 p.a.x. and uses interest rates from PWLB interest rate notice number 313/11 fixed rates for transactions agreed after 17 August 2011. It is a simple illustration only, and does not represent a financial appraisal based on whole life costing as required under the Prudential Code, which would also consider such things as the time value of money – through a Discounted Cash Flow (DCF) evaluation etc. It should also be noted that the Council’s Treasury Management Strategy requires compliance with the Prudential Code,

which seeks to ensure that any borrowing undertaken by the Council is Prudent, Affordable and Sustainable.

Interest Rate	Term in years	£ Interest payment over term	£ Annual Payment	£ Rent	£ Surplus income over cost
4.91%	25	£738,075	£69,523	£92,534	£23,011
4.95%	30	£921,572	£64,052	£92,534	£28,482
4.94%	50	£1,699,497	£53,990	£92,534	£38,544

- 4.3 The interest rates available to public bodies are currently less than are typically available to developers and help demonstrate why direct development in appropriate circumstances can be worth the Council's while. The appropriate borrowing strategy would be determined in the context of the Treasury Management Strategy approved by Full Council which sets the framework and constraints to ensure the management of the various risks associated with borrowing.
- 4.4 The advantages of the construction of the new depot are that the maintenance cost associated with the old depot does not need to be met and the Council will have a prime road frontage site of nearly 3 acres to either let, develop or sell.
- 4.5 The Hyde and Depot projects have demonstrated the benefits of making use of the Prudential Code. The plan proposes extending the use of prudential borrowing to undertake further commercial development of Council owned land and the purchase of suitably secured property for the better development of the City and District which could also secure income streams to help fund core services.

5 Maintenance Budget

- 5.1 The plan proposes that budgetary control for the repair and maintenance of Corporate property except minor day to day works should pass to the Head of Estates to allow for the integration of asset management across all council services on a corporate basis. It is proposed that the Head of Estates be tasked with:
- working with CMT and Heads of Teams to agree the actual and aspirational standards which should be developed for corporate property;
 - Developing a planned maintenance regime for operational corporate property;

- Undertaking planned and reactive maintenance for operational corporate property.

5.2 The Heads of Teams would be responsible for:

- Daily H&S inspections;
- Budgetary control of energy/water;
- Minor maintenance budget i.e. light bulb replacement to be retained;
- Agreeing service objectives with Cabinet;
- The Head of Access & Infrastructure to remain responsible for undertaking engineering works to car parks.

6 Occupational Costs

6.1 The report also reviews the cost of occupying the operational property and proposes that the Council invests in ways of reducing energy and water consumption. It is proposed that savings on utility consumption are split between savings and revenue streams which could enable further prudential borrowing to be undertaken to fund capital cost saving measures. By implication direct energy savings will reduce the Council's carbon emissions. It is proposed to undertake such energy saving measures as there is a business case for.

7 Conclusion

7.1 The Draft Asset Management Plan looks comprehensively at the Council's property assets and the resources available to manage them. While the scale of the maintenance backlog is significant, the plan is the first step in the process necessary to deal with the issues the Council faces. When implemented fully the Council will possess an integrated property service which will help the Council implement the vision contained within the Winchester District Community Strategy.

7.2 With the economy only growing very slowly and both construction costs and interest rates at record lows, it makes considerable sense for the Council to deal with the maintenance issues highlighted in the Plan as soon as possible within affordability constraints.

OTHER CONSIDERATIONS:

8 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

8.1 The Asset Management plan is fundamental to the delivery of the Winchester District Community Strategy and the operation of an Efficient and Effective Council

9 RESOURCE IMPLICATIONS:

- 9.1 The plan identifies the extent of the financial resources required to deal with the maintenance backlog. The plan recognises that the majority of the funding will have to be found from within the estate, by the development of new income streams, the disposal of assets and by ensuring value for money from the works undertaken using the available finance. The matter of funding the AMP will need to be considered further as part of the Council's budget consultation process.
- 9.2 By implication this will place a heavy workload on the Estates teams and as the resources become available to implement the Plan it will be necessary to appoint the part time Asset Surveyor to the post which is currently being held vacant. If the development programme is to be developed it will be necessary to resource this accordingly. Much of the work would be done by external consultants who would be funded through the project. However running multiple projects results in a very considerable amount of administrative work and the staffing resources of the team will be subject to further consideration by CMT when the funding position has been clarified and the workload develops.
- 9.3 The employment of an additional caretaker with appropriate skills as part of the FM team may enable minor maintenance, electrical works and decoration to be undertaken more cost effectively than could be achieved through the use of contractors. This will be given consideration.

10 RISK MANAGEMENT ISSUES

- 10.1 If insufficient professional staff are employed in the maintenance of the estate, there is the potential that contractors undertaking planned maintenance will not complete the work to the required standard with the effect over time that plant and services will require replacement sooner than necessary.
- 10.2 There is a risk that if insufficient funds are invested in maintaining and updating the Councils operational property on a regular basis that the value of the assets will become impaired as the cost of backlog maintenance rises.
- 10.3 There is the risk that if the non operational property portfolio is not managed in accordance with the principles of good estate management that the investment value of the properties will reduce.
- 10.4 There is a risk that the cost of the maintenance backlog for the Councils property portfolio will grow to unaffordable proportions if it is not addressed comprehensively.
- 10.5 It is possible that during the plan period that the Senior Estates Surveyor would wish to consider retiring. This is a very important post in the team and the current employee has high level skills relating to rating which

would be hard to replace. Succession planning will need to be considered.

- 10.6 There is the risk that with insufficient condition data and agreed maintenance standards that the wrong priorities are given to investment decisions.
- 10.7 Lack of Planned Maintenance programmes, leading to potential impact on the building fabric and the potential for visitors to or building users to suffer injury.
- 10.8 Lack of capacity for monitoring and management to ensure works are carried out in accordance with specification and relevant regulations.
- 10.9 Property values can and do go both up and down in accordance with the availability of finance and market sentiment.

BACKGROUND DOCUMENTS:

PWLB interest rate notice number 313/11 fixed rates for transactions agreed after 17 August 2011.

Calculations of payments referred to in the report are held on file.

APPENDICES:

Due to their size, the appendices are attached for Cabinet Members, Group Leaders and Chairman of The Overview and Scrutiny Committee only. A copy is also available in the Members' Library and can viewed on the Council's website:

<http://www.winchester.gov.uk/CommitteeMeeting.asp?id=SX9452-A7858AE9>

1. Draft Asset Management Plan 2011-16
2. Appendix A to the Plan – List of individual Tenants and Rents (Exempt)
3. Appendix D1 to the plan - Detailed breakdown of estimated budgets required for individual sites (exempt)