

Report of Managing Director

Asset Management Policy and Strategy 2018-28

1 Purpose of report

To agree a refreshed Asset Management Policy and Strategy for 2018-28.

2 Executive summary

2.1 The Asset Management Policy and Strategy is the council's overarching plan for the prudent stewardship of its property assets, geared to the achievement of key outcomes in the Corporate Plan. It forms part of a suite of key policies and strategies that govern the use of the council's resources, which include: the Capital strategy, the Reserves strategy, the Treasury Management strategy, as well as the Medium Term Financial Plan and annual budget. A number of these are elsewhere on this committee agenda.

2.2 This updated strategy incorporates the council's core objectives and aligns with the other key strategies and the Medium Term Financial Plan, together providing a high level framework for the use of resources.

Appendices

Appendix 1: Asset Management Policy and Strategy 2018-28

3 Proposed action:

4.1 The committee is invited to RECOMMEND the approval of the strategy as presented at Appendix1.

4 Background

4.1 The council is the owner of a significant number of land and property assets which are held for operational and financial reasons to support the delivery of services to local residents and businesses. In order to ensure that land and property is used in the most effective way, it is important that the council adopts and then, subsequently, reviews its asset management arrangements to ensure that they remain 'fit for purpose'.

4.2 The council's previous Asset Management Plan expired in 2013. There has been considerable change within the council and the property market since then, and a revision is therefore required.

- 4.3 The opportunity has been taken to develop the revised plan as a Strategic Asset Management Policy and Strategy to bring it in line the council's strategic development plans.
- 4.4 The updated strategy builds on the 2013 strategy; it recognises the improvement in property market conditions since the last strategy was adopted and responds to the changing environment of local government over the last few years.

5 Discussion

- 5.1 Effective management of the council's assets is fundamental to the long term future of the council. The updated Asset Management Policy and Strategy will allow the assets of the council to be managed appropriately having regard to the prevailing economic conditions and changing environment of local government.
- 5.2 The proposed strategy seeks to establish sound principles for the management of the council's property assets over the next ten years. Beneath this is a tier of more practically orientated implementation strategies as part of the Asset Management Action Plan, including the document elsewhere on the agenda with regard to the council's commercial property portfolio management.
- 5.3 The strategy hopes to help the council promote a thriving town centre and high street (through, amongst other initiatives, effective lettings policies) and aims to improve the council's estate into better quality, better managed, more flexible, affordable business space.
- 5.4 The council's commercial property estate is comprised of a wide variety of shops, offices, industrial buildings, community buildings and more. It generates more than £1m of income each year to support our provision of public services.
- 5.5 This strategy sets out with transparency and clarity key principles, our management arrangements, and our plans for the future. In doing so it builds on the internal audit recommendations following the review of the service.
- 5.6 The strategy provides a framework for the management of the council's properties over the next ten years, during which the plan will be fully reviewed periodically and interim updates presented to members as required.
- 5.7 Performance will be monitored on a regular basis and additional detail may be added to reflect the evolving nature of the portfolio and influences upon it (regeneration, economic, financial, legislative, compliance, etc.), by way of additional reports to committee, individual delegated decision making and internal procedures amendments.
- 5.8 The strategy proposes a new framework comprising three separate elements: an overall strategy, a policy and an action plan.
- 5.9 The benefit of adopting such a structure is that many areas relating to the general approach to asset management are likely to remain constant for a number of years, but the separate action plan will need to be updated periodically and initially covers a period of three years for operational planning purposes.

- 5.10 It also aids clarity for elected members, senior managers and property staff by separating our policy principles, the overall strategic direction that everyone is working towards, and the short to medium term actions that the council will be focusing on.
- 5.11 It outlines the key principles and categorises assets into the three following areas: assets for service delivery, assets for investment return and assets for economic and community development and regeneration It also details the strategic approach to the management of assets.
- 5.12 The Asset Management Action Plan will be further developed but will be in line with the previous property reports this committee has received.
- 5.13 The committee is asked to recommend the policy and strategy to council for approval.

6 Legal powers

- 6.1 The council has full power to manage its property assets under the incidental powers in section 111 of the Local Government Act 1972.

7 Financial and value for money implications

- 7.1 The revised Asset Management Strategy will impact on the financial strategy of the council because of the levels of income related to the portfolio. The relationship between these strategies will be updated as the revised Asset Management Strategy is implemented.

8 Risk analysis

Nature of risk	Consequences if realised	Likelihood of occurrence	Control measures
Without an effective strategy there is a risk that the council's assets are not used efficiently.	The council does not achieve best value from its assets	Unlikely	Good management of the council's assets and regular monitoring of outputs

9 Implications for resources

- 9.1 There is a requirement to deliver the property projects as quickly as possible to help mitigate the revenue budget pressures of other services. Additional staffing has been previously agreed, using the flexibility of capital receipts and also for their exclusive use on capital projects. These costs have already been built into the running of the property team. Recruitment to these posts will take place once the current restructure of the service is complete.

10 Implications for stronger and safer communities

None directly as a result of this report.

11 Implications for equalities

1.1.1 None directly as a result of this report.

12 Author and contact officer

Liz Elliott Managing Director

13 Consultees

Senior Management team

14 Background papers

Audit review of property services.

Previous asset management plans

Correspondence with CIPFA in relation to the preparation of the strategy.



Borough Council of Wellingborough

Asset Management Policy & Strategy 2018 - 2028

1 Introduction

- 1.1 The council has adopted a new Asset Management Framework from 2018 which is intended to remain in place for the next 10 years. This new framework replaces our Asset Management Plan 2012-2013. The new framework comprises three separate elements as shown in the diagram below.
- 1.2 The benefit of adopting such a structure is that many areas relating to the general approach to asset management are likely to remain constant for a number of years, but the separate action plan will need to be updated periodically and initially covers a period



of three years for operational planning purposes.

- 1.3 It also aids clarity for elected members, senior managers and property staff by separating our policy principles, the overall strategic direction that everyone is working towards, and the short to medium term actions that the council will be focusing on.

2 The Asset Management Policy

- 2.1 This Asset Management Policy is deliberately intended to be short and concise describing the principles adopted by the council in applying asset management to achieve the authority's strategic objectives.
- 2.2 It describes the council's commitment to property asset management and has been endorsed at a senior level.
- 2.3 It demonstrates to the public and all stakeholders, including senior decision makers, elected members, practitioners and service providers, how asset management supports the council's corporate priorities. It also provides a visible commitment to achieving the benefits that can be delivered through asset management
- 2.4 The Council's vision statement, adopted in 2008, is ***Making Wellingborough a place to be proud of.*** This vision underpins our asset management approach. Where the Constitution permits the council to choose between different courses of action for its property assets, the council will always seek to choose that option that is regarded as closest to this vision.
- 2.5 A key element of achieving our goals is how we use all our resources, including our property resources. This asset management policy establishes some clear policy principles by which we will manage the property resource, and will remain in place for up

to 10 years.

3 Key Policy Principles

- 3.1 In developing this strategy, and delivering actions and activities relating to our property portfolio, we will ensure that our portfolio meets certain agreed goals. These are **not listed in any particular priority** and it is accepted that there will be occasions where some of these elements appear to be in conflict.
- 3.2 The key challenge for the council is ensuring that these elements are all taken into account when making decisions in relation to property assets, ensuring an outcome which is most appropriate for each asset and complies with the council's statutory duties:
 - 3.2.1 Operates as a corporate resource, seeking the best overall outcome for the borough as a whole
 - 3.2.2 Ensures that service demands can be met
 - 3.2.3 Supports local business needs and encourages new business to the area
 - 3.2.4 Supports community capacity and well-being, including health, leisure, sport and culture, and is socially inclusive
 - 3.2.5 Contributes positively to a sustainable Wellingborough in terms of housing and employment infrastructure
 - 3.2.6 Contributes positively to the visitor economy
 - 3.2.7 Takes full advantage of partnerships and collaboration with other public and private sector organisations
 - 3.2.8 Optimises financial return and commercial opportunities
 - 3.2.9 Provides value for money and does not become a drain on financial or management resources
 - 3.2.10 Remains adaptive, innovative and flexible

4 Key Asset Management Principles

- 4.1 In addition to the above key policy principles, we will also work to key management principles for the property portfolio. Crucially, all of these principles are subject to the availability of budgets. Our asset management principles are to ensure that assets are:
 - 4.1.1 Acquired and retained only when needed for a specific identified purpose, and in accordance with the defined asset categories
 - 4.1.2 Maintained in good condition
 - 4.1.3 Fit for their intended purpose
 - 4.1.4 Kept clean, tidy, presentable and appropriately sign posted
 - 4.1.5 Well located and accessible to those that need them
 - 4.1.6 Legally compliant, with clarity around liabilities that are retained and liabilities that have passed to third parties
 - 4.1.7 Resilient to physical, economic and social change
 - 4.1.8 Operated within known and identified costs and budgets
 - 4.1.9 Able to demonstrate good value for money, not just in the short term but considering the impact on future generations and future budgets

4.1.10 Managed in accordance with any specific property policies

5 The Asset Management Strategy

- 5.1 The Asset Management Strategy is a clear and concise high level statement setting out how property asset management is delivered for the council to meet our long term corporate goals and objectives.
- 5.2 It sets out how the long term objectives for managing the property portfolio are met, including statutory obligations, stakeholder needs and the overall performance of property assets, within the context of any constraints, such as funding.
- 5.3 This Strategy is expected to remain in place for up to 10 years, but will be revised as necessary before that should the council's business plan or Asset Management Policy be revised or refreshed.

6 Foreword

- 6.1 The council's property estate is a key asset and is needed for all of our service delivery activities. Therefore it is vital that the decisions we make about the level of investment in the property we own and/or occupy not only consider costs but also how well it is suited to the services we are seeking to deliver.
- 6.2 In addition, we need to have an effective mechanism in place that allows us to plan for future property requirements and to provide the framework to make decisions about both investment and disposal. Our focus is on achievements in terms of outputs and outcomes rather than processes and procedures.
- 6.3 We are wholly committed to delivering the aims and ambitions embodied in the council's mission statement, and the Asset Management Strategy can assist in that delivery by ensuring that we are well organised and have the key information needed to make the strategic property decisions which will deliver against those priorities.
- 6.4 This is a strategy and therefore it does not address detailed issues concerning individual assets. It provides a framework within which those types of issues can be considered at a strategic level. It will be supported at an operational level by an Action Plan that covers a rolling three year period and is monitored by the Senior Management Team.

7 Property Portfolio Summary

- 7.1 The council owns a range of land and buildings, together with other assets, which include items of plant and equipment. The value of these assets at 31 March 2017 was £91.97m. Most of this is made up of Operational Land and Buildings (£33.98m), which are used directly in the delivery of the council's services and investment properties (£54.9m), which are held primarily to generate income and which make a significant contribution to the council's finances.
- 7.2 Operational land and buildings are revalued under a five-year rolling programme. There was a total net increase of £3.27m for the assets included in the 2016/17 valuation programme. Investment properties are revalued as at 31 March each year and for 2016/17 showed an overall rise in value of £1.32m. These movements reflect the prevailing market conditions.
- 7.3 The Council's property portfolio extends to nearly 700 assets (including infrastructure assets).

8 Asset management

- 8.1 The council's property assets are a valuable resource and will be managed in an efficient and effective way. If the resource is not managed correctly there is potential for wasting revenue on keeping assets that are either unnecessary or inefficient. Equally there is capital value locked into each of the assets which, if the asset is no longer required, could be realised through disposal. Where assets are still required then the wrong asset in the wrong location can make a big difference to the efficiency of front line services and impact negatively on customer access to services. If property assets are not well maintained this affects the customer experience and can impact negatively on the council's reputation in its community.
- 8.2 There is a wide range of assets within the current portfolio. It comprises car parks, public conveniences, leisure facilities, offices, depots, historic assets, community centres, a crematorium, assets leased to the third sector, as well as a number of commercial investment properties and development sites. The purpose of holding these assets varies from asset to asset and consequently how each asset is expected to perform will vary also. Performance of each asset is linked to its strategic purpose for holding it.
- 8.3 The council's property assets cannot be managed in isolation from other council policies and strategies, as they are closely linked to the achievement of our strategic priorities. A key element of achieving our goals is how we use all our resources, including our property resources in delivering all council strategies.

We have categorised the portfolio into three parts: **Assets for service delivery**; **Assets for investment return**; and **Assets for economic and community development and regeneration**. The principles by which these three asset categories are managed and challenged will vary considerably, as described further below.

Assets for service delivery

- 8.4 Over recent years the council has substantially reduced the number of operational assets that it uses for direct service delivery.
- 8.5 We are clear what these assets are and why we have them. We have undertaken recent physical property condition surveys and so we are fully aware of the future maintenance liability for them. We also have a reasonable grasp of the premises' running costs and so we know what these assets cost us to operate
- 8.6 We are not proposing as part of this strategy any significant change in direction for the management of this part of the property portfolio. But future challenge will be in the areas of ensuring an appropriate balance between the following elements:
- Operating costs
 - Location and accessibility for our customers
 - Suitability of the assets for their purpose and the users
 - Opportunities to exploit partnerships with other public or private sector bodies and agencies to improve efficiency of cost or efficiency of delivery

Assets for investment return

- 8.7 As at 31st March 2017 the council had assets shown in the balance sheet as investment property, at a value of £54.9m. Many of these assets have been in our ownership for a great many years and are a legacy from previous investment and acquisition decisions.

- 8.8 We will undertake a review of these assets with a view to understanding what we own, what they cost and what benefit we derive from them. In short we were keen to establish which of these assets should continue to be regarded as investments and to determine whether or not any of the assets should be disposed of or should be more properly held within the third asset category, below, of being held for economic development and regeneration.
- 8.9 The review categorises assets in accordance with the following principal portfolio elements:
- Assets **correctly** recorded as investment property by virtue of the potential for **generating long term capital growth or capital receipt**
 - Assets **correctly** recorded as investment property by virtue of the **investment revenue return** they generate
 - Assets **incorrectly** recorded as investment property by virtue of **not generating adequate investment return or capital growth**
- 8.10 The broad principles adopted in this review will be to challenge each asset in accordance with the rationale set out in appendix 1.
- 8.11 These challenge principles, once applied, enable the council to generate improved visibility of what is included in this asset category and whether or not, on an asset by asset basis, they justify being retained for this purpose.
- 8.12 As a second stage to this process is the question of exposure to risk, for example where the council might be holding a high proportion of assets in a narrow sector of the market. On this basis, assets that individually might justify retention based on their investment performance and return, might nevertheless need to be disposed of so that a more balanced property investment portfolio can be established, which meets the requirements of the CIPFA Treasury Management Code.
- 8.13 The process will be valuable in understanding what assets we own and which assets should continue to be regarded as true investment property.
- 8.14 Around one third of the assets (by asset value) are sites with development opportunities and hence capital receipt potential. Our aim is to retain these sites and bring these forward for disposal, either freehold or leasehold, as opportunities present themselves with a view to maximisation of capital receipt.
- 8.15 The remaining two thirds of the portfolio are leased to third parties. Significantly, the portfolio is highly skewed towards retail and industrial sectors. This has not been a deliberate decision and can be regarded as accidental. Whilst this skewing of the portfolio is not untypical for a local authority property portfolio it does expose the council to risks. Our aim is to seek to rebalance the portfolio so that the overall investment in property provides an acceptable risk profile.
- 8.16 A significant proportion of the portfolio is leased out on fairly short leases, mainly as a result of the economic downturn over the last few years. This not only exposes the council to the risk of higher voids at times of market volatility, but also exposes us to increased management costs, as every lease event - such as a lease renewal - involves a direct cost which is not recoverable.
- 8.17 The tenant profile for the short-term tenancies does not necessarily provide the council with the risk balance of covenant strength that it would ideally choose, so this too exposes the council to greater risks.

- 8.18 Because of this, the estate management regime needs to be more intense for shorter leases, as the council is more exposed to obsolescence should the assets not be maintained by the tenants; in addition, rent reviews/lease renewals are frequent and the subject of negotiation rather than being set through inflation indices. Many of these estate management costs cannot be recovered.
- 8.19 These portfolio management costs mean that the rate of return is significantly impacted and many are not assets the council would seek to acquire as investments now if it did not already own them. They do not provide a good investment return and a much higher return could be secured by disposing of the assets and recycling the disposal proceeds into the acquisition of alternative property investments.
- 8.20 Disposal proceeds need to be ring-fenced and re-invested in order to ensure that the impact on the council's revenue budget is managed. For this reason the disposal programme also has to be carefully phased and any reductions in absolute revenue income will be managed as part of the process of securing an improved portfolio risk spread and enhanced security of funds invested in property.
- 8.21 The council's non-property investment activities are carefully managed, as are the types of cash investment that can be entered into in the Annual Treasury Management Policy, which is itself set according to strict national guidelines. In 2016/17 we received £241k of interest or an average 0.87% return on our investments. This is in line with other public and private sector institutions and reflects the continuing low level of the interest rates available.
- 8.22 As part of its review of the Annual Treasury Management Policy the council will determine what level of yield it is seeking from its property investments, and the property yield the council chooses will balance security, liquidity and yield as per the CIPFA Treasury Management Code.
- 8.23 Continued investment in property assets, and even expanding the scale of investment, provides an opportunity for us to not only maintain current levels of revenue income, but to steadily increase that income and, through an estate remodelling strategy, improve the council's risk exposure. In order to manage risks in an appropriate manner we will not be ruling out the acquisition of property investments located outside of the borough.
- 8.24 At the present time the council remains debt free. There are opportunities to consider borrowing at low rates of interest in order to invest further in investment property that will provide a net gain to revenue budgets and help to support service delivery.

Assets for economic and community development and regeneration

- 8.25 A large number of the non-investment properties are situated in the town centre, from the Castle Theatre and Swanspool House and Gardens, up past the multi-storey car park and Croyland Park, to the market place and the High Street. This forms a corridor through the town centre that is in the council's control. The council is therefore in a strong position to kick-start the regeneration of the town by reviewing its own asset base and planning for its future use to the best advantage of the town as a whole.
- 8.26 The development of the local plan involves surveys and studies of the current provisions in the town centre and surrounding areas, and also assesses the future needs of the developing communities. The results of these will be used to readdress the council's use of its assets to be an enabler of change, particularly in the town centre.
- 8.27 Town centre regeneration is a long and detailed process, and there is a continual need to retain a vibrant and prosperous core for the borough. The council has some short term

options to initiate the changes, such as the work on the market place and the redevelopment of Croyland Hall and Abbey. However, the more significant changes that will have the biggest impact will take time to develop and implement.

- 8.28 In other areas some key opportunities for the council lay in measuring the community contribution that our assets do and can make, including impact on the local business economy, housing and on supporting tourism. Even assets that do not generate a positive financial contribution can nevertheless contribute significantly to these key areas.
- 8.29 The assets in this category are not used for service delivery, and whilst they may have some income generation associated with them they are not held primarily for this income. Their prime purpose for retention is to be a catalyst for regeneration or for the contribution they make to the local economy.
- 8.30 The assets in this category will not provide what could be regarded as an investment return, as the revenue they generate would not be at a level that a typical investor would find attractive given the risk of holding them. Indeed there may be instances where the level of income is exceeded by the costs associated with their retention. Where this is the case the council will make a decision to retain the assets based upon the wider economic or community benefits outweighing financial losses or the very small financial surpluses.
- 8.31 The asset management principles by which this group of assets will be challenged is via the rationale set out in appendix 1.

9 Disposal programme

- 9.1 Given the potential number of proposed disposals and the need to secure the best disposal price for the council, disposals will be programmed over a number of years. This will make the disposal process more manageable and at the same time avoid the risk of driving values down by flooding the local market.
- 9.2 The council will also consider those opportunities which would enable the council to invest in new and needed assets which will generate income. This will only be done where need is proven and a suitable business case supports that investment. It is our aim to invest in assets that generate a revenue income in excess of that which could be earned by leaving the capital on deposit. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy and returns on investment are one aspect of that.

10 Community asset transfer

- 10.1 We are open to considering alternative options of asset ownership for properties which are surplus to council requirements so long as they can be demonstrated to deliver the best outcomes for the council and the borough. Community asset transfer is one potential model for this, passing ownership in a way that will deliver clear and stated benefits, in a way that safeguards those benefits for future generations.
- 10.2 We recognise also that there is no such thing as a 'one size' approach to asset provision or ownership models and that what works in and for one community might not work elsewhere. We are keen on establishing the right assets and model for each community, which respects the differences between communities, their demographics, and needs.

11 Future asset challenge

- 11.1 We are keen to challenge the status quo in relation to property assets. We have a duty to those that contribute to local taxation, and who take an interest in how we use our resources, to demonstrate probity and prudence. We will review what we are doing and why, consider whether it appears to be working and look at how it could be improved.

- 11.2 With the current financial constraints on local government, which are unlikely to improve in the foreseeable future, we have to ensure that where business or community activities have become reliant upon council support – either via direct financial support or through favourable occupational terms of assets – that this reliance is tested to satisfy ourselves that it is healthy, sustainable and in the long term best interests of the council and those that we are supporting.
- 11.3 Whilst we have described in this section the need to challenge the use of assets and asset groups, we regard challenge as being a ‘constant’. Our challenge will not necessarily be at fixed points in time but will remain flexible to adapt to changing circumstances. It will be treated as integral to proper business planning and not seen as an adjunct to the corporate business planning processes.
- 11.4 Our challenge processes are not necessarily driven towards reducing the property holding; where strategic property acquisition will deliver for us and our communities then this will certainly be considered. If we do acquire property assets they could be for the longer term or they could be for the short term as an enabler for economic development. It will depend on what model works best and what provides the best overall return on investment, whether financial, social or economic or a combination of the three.

12 Performance improvement

- 12.1 The council does not undertake routine measurement of property performance. We need to embark on a programme of performance data gathering. In the past any data collected has been focussed on property-specific data, such as condition, running costs, carbon emissions etc. Our aim now is to focus on wider matrices in terms of outcomes.
- 12.2 That is not to say that some premises-related data is not important. The condition of our assets for example is of vital importance and is one of our underlying asset management principles. We have good recent building condition information and this now needs to be subjected to greater analysis. And analysis is important as we seek to quantify not just the immediate maintenance requirements but also our longer term liabilities so that our capital planning can be better informed.
- 12.3 As we do not currently hold performance data we are not able to provide detailed performance forecasting or targets, but in future iterations of this strategy we will be able to do this and also be able to report on gaps between target performance and actual performance.

Appendix 1: Strategic management approach

