

Finance and Resources Committee

10.00am, Friday 1 February 2019

Asset Management Strategy Transformation Programme - Update

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Executive/routine	Executive
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Executive summary

The Council's 2015 Asset Management Strategy (AMS) and the associated transformation programme were developed to create a credible, focused and financially sustainable delivery plan for the Council's operational and commercial property estates, as well as the in-house delivery teams within the Property and Facilities Management (P&FM) Division.

This report presents an update on the current financial position of the AMS and, in particular, the impact of current pressures and the requirement to deliver greater savings from the estate for the future.

Report

1. Recommendations

- 1.1. That the Committee: -
 - 1.1.1 Notes the current financial position of the Asset Management Strategy and forecast position moving forward;
 - 1.1.2 Agrees that the forecast position can only be addressed by rationalising the size of the current operational property portfolio; and
 - 1.1.3 Notes that an update on the component parts of the AMS will be included within the next reporting cycle.

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.
- 2.5 This report highlights the outcomes achieved from the original AMS; summarises the residual issues with the strategy and how these have impacted proposed

savings; and focuses on a deep dive of the current financial position and the requirement for additional savings from 2019/20 all in the context of an ever-increasing property estate. Other matters such as concessionary lets and janitor model review will be considered at the next reporting cycle.

3. Main report

Outcomes achieved

- 3.1 The 2015 AMS recommended a number of actions and outcomes that have been achieved, to varying degrees, as summarised below: -
- 3.1.1 Consolidation of the historically dispersed and disaggregated property related budgets into the newly formed Property and Facilities Management Division. Prior to 2015, property budgets were held by each directorate that occupied buildings. This led to complications due to corporate programmes assuming savings that, in some cases, were also being assumed by directorates leading to a 'double count'. Consequently, the majority of budgets and functions were consolidated in favour of a "corporate landlord" approach.
 - 3.1.2 Implement an in-house model for Facilities Management (FM) delivery, covering: facilities management operations; janitorial; cleaning; physical security; and corporate and education catering. The original consultancy recommendations from the 2015 AMS proposed the outsourcing of the FM functions, subject to the outcomes of formal market testing. These recommendations were rejected and the adoption of a sustainable in-house FM model was approved. The in-house delivery model has been progressed, with transformation reviews undertaken in several areas, with the final element, cleaning services, currently underway.
 - 3.1.3 Recognising the need to address revenue based backlog maintenance across the existing operational property portfolio. As part of the budget setting exercise for 2018/19, the Council approved an enhanced capital allocation of £118.9m for the Asset Management Works programme for operational Council properties over a five-year period commencing in 2018/19. An additional £34.6m of revenue has also been earmarked for investment in repairs and maintenance over the same period. This was a critical outcome for the AMS and, as such, an update on delivery of this work will be presented to Committee once the financial outturn for 2018/19 is confirmed.
 - 3.1.4 Develop a Service Level Agreement for FM service delivery. This has now been implemented and populated with all establishments.

- 3.1.5 Implement a computer aided FM system across the whole Division to capture all property data in one source. Effectively replacing redundant and not fit for purpose computer systems with one version of the truth that has created the ability to streamline process, procedures to achieve efficiencies, particularly within janitorial services.
- 3.1.6 Progress estate rationalisation opportunities. While a number of buildings have been closed and sold and/or leased to create a financial return, the estate is still too large for the revenue budgets supporting their operation.
- 3.1.7 Consolidate the commercial investment property portfolio and reinvest sales proceeds into the acquisition of additional income generating assets. Significant additional rental income (20% above target) has been achieved through this workstream, which now forms part of the baseline annual income target for the service.

The issues and their impact

- 3.2 As highlighted in the AMS update report to Committee, on 23 January 2018, assumptions underpinning the original savings forecast included support by users of the Council estate for the FM operating model; that any new buildings would have a fully costed and sustainable revenue resource allocation; political and managerial support to deliver the estates rationalisation strategy; and an ability to increase the majority of concessionary lets, between 2017/18 and 2020/21, to market rent. The issues arising from the original assumptions have been reported previously to Committee and are summarised below: -
 - 3.2.1 Unbudgeted pressures on property costs – this has had the most significant impact as the AMS assumed that property budgets were static, benchmarked against the size of the estate at that time. This was to avoid the unquantifiable financial impact of any new build creating pressures and the strategy therefore assumed that any new build from that time would have separate revenue funding built into any business case. The gross financial impact of this assumption was reported via a briefing note to members of the Committee on 12 February 2018.
 - 3.2.2 FM operating model - the issue outlined in para. 3.2.1 has a further direct impact on the original assumptions of the AMS for transforming FM services, particularly Janitorial and Cleaning. The original savings assumption was based on the size of the estate as at September 2015, but the estate is now the equivalent of nearly four high school larger. This has resulted in FM services having to be spread thinner creating an inability to drive the savings as originally proposed. In effect, the efficiencies created by the transformational review have been used to absorb the pressures due to the larger estate.

3.2.3 Concessionary lets – it has not proven to politically or legally possibly to convert all concessionary lets to full market rent and, as such, the AMS savings in his area have not been achieved.

3.3 The AMS target was to achieve recurring savings of £6.2m pa by 2020/21, broadly split into three distinct but inter-related areas as follows: -

- the rationalisation of the operational property estate (£2.2m);
- the modernisation of FM Services (£1.9m); and
- the optimisation of the investment portfolio (£2.1m).

3.4 On top of the savings above, a further £1.332m was earmarked for 2018/19 again broadly split into rationalisation (£0.65m), modernisation (£0.532m) and optimisation (£0.25m) resulting in a total of £7.532m for 2019/20. The current pressure from unachieved savings has been mitigated by one off proposals for FY 2018/19 and therefore a balanced position is forecast. However, the pressure accrues moving forward resulting in a starting deficit position for 2019/20. To this, current saving proposals for 2019/20 and beyond need to be added resulting in a current forecast position as shown below: -

ALL PROPERTY AND FACILITIES MANAGEMENT SAVINGS	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000
SAVINGS TARGETS	800	1,600	7,139	11,477	14,195	16,065
RED	55	0	731	2,478	5,152	8,072
AMBER	15	(280)	175	2,875	3,723	3,723
GREEN	730	1,880	6,233	6,124	5,320	4,270
TOTAL	800	1,600	7,139	11,477	14,195	16,065

The table assumes that:-

- Current service wide contingency savings will continue at 1.55% pa.
- One off mitigation measures are rag status green.
- New savings targets from the service area for 2019/20 will be accepted by Council on 21 February.

P&FM Revenue Budget

3.5 P&FM net budget for F/Y 2018/19 contained the following main broad main component parts: -

- Non-Domestic Rates £19.5m
- Utilities and water rates £11.02m
- Repairs and Maintenance £17.03m

- PP1, PP2 contracts £41.80m
- Cleaning, janitorial, catering £18.08m

3.6 The above is net of rental and advertising income that is forecast to increase and has been accounted for accordingly. For existing and further savings to be realised, the main issue has to be acknowledged;

3.6.1 The briefing note to member referred in paragraph 3.2.1 identified property pressures from new build between approval of the AMS in September 2015 forecast till August 2018 principally because of rising school roles and larger replacement establishments.

3.6.2 A report to the Education, Children and Families Committee, on 11 December 2018, entitled “The growing City, School Roll Projections and Future Accommodation Requirements” sets out where new school accommodation will be required across the city including a summary of projects which need to be progressed now. The report committed to identify the capital and revenue requirement moving forward which is the subject of a separate report on this agenda.

3.7 Based on the budget highlighted in paragraph 3.5, and assuming that the contractual amounts for the PPP contracts (£41.80m) cannot be reduced, it leaves a net budget of £65.63m. Given that the service is only one year into a five-year programme on additional R&M spend, it is not proposed to reduce that budget (£17.3m) further leaving a reduced net budget position of £48.33m. This remaining budget covers the cost and service of property, 67% of which relates to the Communities and Families estate.

3.8 A main element for the AMS was to create a financially sustainable business plan for Property and Facilities Management functions of the Council. In practice, however, there is a juxtaposition with this aim created by the issues identified in paragraph 3.6.

Conclusion

3.9 Creating a financial sustainable P&FM business plan moving forward will require the closure of existing properties. While there is a desire that any closures should be strategic and service led, the growing pressures mean that decisions may have to be taken for financial reasons alone. There is no viable alternative given the nature of the budgets that fall within Property and Facilities Management. Failure to do so will result in forecast savings being underdelivered and front-line services being spread thinner.

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 financial impacts of this report are contained within the main body of the report.

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](#), [June 2018](#) and [September 2018](#) Finance and Resources Committee papers.

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11. Appendices

None.