

**Report of the Director of City Development**

**Report to the Sustainable Economy & Culture Scrutiny Board**

**Date: 22<sup>nd</sup> July 2014**

**Subject: Asset Management**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. The purpose of this report is to provide Scrutiny Board with information about the current position and developments in the Council's asset management activity in order to support the Scrutiny Board's review. The report includes information relating to the asset management rationalisation programme, including the timetable, target savings, consultation, progress to date and future activity. It also provides a brief outline of partnership working including the One Public Estate pilot and the progress made to date.
2. The Council uses its assets to deliver Best Council services and support regeneration, including economic and housing growth as well as to support the revenue budget with an income stream. A copy of the draft Asset Management Plan will be presented to the next meeting in order to enable officers to take on board Scrutiny Board's consideration before taking the plan to Executive Board in the autumn.

**Recommendation**

3. The Sustainable Economy and Culture Scrutiny Board is recommended to note the contents of the report, and in particular the work undertaken to date to contribute towards the £5m asset rationalisation target.

## **1.0 Purpose of this report**

1.1 The purpose of this report is to provide Scrutiny Board with information relating to the asset management rationalisation programme, including the timetable, target savings, consultation, progress to date and future activity.

## **2.0 Background information**

2.1 The Best Council Plan 2013-17 undertakes to ensure '*high quality public services*' through '*making best use of our assets to improve outcomes and the customer experience*'. The asset rationalisation programme will deliver against the specific performance measure of achieving a '*significant reduction in the running costs of the asset base*'. The Best Council Plan also commits to '*promoting sustainable and inclusive economic growth*', focusing on '*providing housing as the city grows*' and '*generating income for the council*', opportunities for both of which the asset rationalisation work will create.

2.2 The asset review work started as part of Budget Plus in autumn 2012, when a £5m savings target, over 2014/15 to 2016/17, from premises running costs was set.

2.3 Officers from across the Council are involved in the asset rationalisation work, with a project team reporting to an Asset Review Programme Board, chaired by the Director of City Development. The areas of work covered by the Programme Board include:

- the rationalisation programme;
- review of investment and commercial property;
- strategic partnership with all Council directorates;
- participation in the Government's One Public Estate Pilot; and
- ensuring capacity to deliver the asset review programme.

2.4 Schools and council housing are excluded from the scope of the asset review programme as their budgets are held separately.

2.5 In the context of scrutiny of Asset Management, a Scrutiny Board enquiry took place in 2010/11 focusing on the disposals process for surplus property and land. The outcomes of the enquiry included:

- elements of Corporate Property Management were merged into Asset Management to contribute towards efficiencies in the management process of void and surplus property. Further to this the operational building maintenance element of Corporate Property Management has moved into

Civic Enterprise Leeds to provide synergies and opportunities to realise efficiency savings, with the strategic responsibility for asset use, planning and major investment decisions retained by City Development;

- the process to formerly declare buildings surplus was simplified to reduce the time a property was retained void by a service with no clear proposal for its future use;
- early consideration of the most appropriate alternative use and/or disposal method, to minimise delay at the point an asset is released for disposal; and
- early Ward Member consultation undertaken by the occupying service and asset management at the point they are reviewing a property's operational need, to mitigate Ward Member challenge to asset disposal later in the process.

### **3.0 Main issues**

#### **3.1 Best Asset Management Plan**

3.1.1 Under the Best Council Plan objective of '*ensuring high quality public services*' a key priority is the '*development and implementation of an asset rationalisation plan*', including having an '*asset management plan developed and approved, with Ward Members engaged and involved throughout the process*'.

3.1.2 A draft Best Asset Management Plan has been produced which aims to provide a high level, strategic approach towards the use and management of assets to enable the Council and its partners to achieve priority objectives of driving efficiencies in operating our estates and delivering high quality services. In terms of the Council one of the main drivers is the £5m Budget Plus asset running cost savings target set to be achieved over 20104/15 to 2016/17.

3.1.3 The draft objectives of the asset management plan are to:

- ensure that operational property is fit for purpose to deliver the Council's services and strategic priorities now and in the future, in the most efficient manner;
- support regeneration across the city, including delivery of new housing and economic growth;
- reduce the running costs of the Council's buildings by £5 million by 31/03/2017;
- increase the quality and size of the Council's investment portfolio, and generate additional revenue to support the Council's finances;
- promote the One Public Estate philosophy to ensure an efficient use of assets across the public estate; and

- work with the Third Sector and other partners to deliver services.

3.1.4 The plan outlines a consolidated approach to the management of assets through corporate landlord arrangements, which will see the Council's estate operate under a landlord/tenant relationship with the Council, (via asset management) being the landlord and the service occupiers being the tenant.

3.1.5 This will require a culture change as currently buildings are often viewed as the property of the occupying service/directorate, with decisions about occupation, current and future use often taken locally and in isolation by the service/directorate. This approach decouples buildings from services, enabling decisions to be made on the use of the asset at a strategic level in a wider context of need and best use across the Council rather than from a single service point of view. From a service perspective the culture change is from single service to Best Council thinking; whereby services and all managers put council efficiency and spending money wisely at the forefront of their service planning and use of space; and whereby the greater benefit to the Council as a whole of decisions to rationalise assets is accepted.

3.1.6 An asset management handbook, complementing the Land & Building Financial Regulation toolkit, will provide services with a comprehensive guide and assistance in relation to consideration of asset related issues and associated decision making processes, ensuring the most efficient and effective use of Council assets. Areas covered by the handbook will include:

- governance of leasing in or out of space/property;
- declaring space/property surplus to requirements; and
- movement of staff into, out of, or within property.

3.1.7 A key strand of the Asset Management Plan will support the Best Council Plan objective of becoming an '*efficient and enterprising council*', through increasing the quality, quantity and income from our investment portfolio to support the Council's revenue budget. Key to achieving this will be a pro-active approach to the strategic management of our investment portfolio, which may include:

- third parties redeveloping council properties;
- strategic acquisitions for council use or commercial rent;
- new operating models for fee generating properties; and
- permitting the use of land, in exchange for a rental income, for the purpose of commercial advertising.

3.1.8 The Best Asset Management Plan will be supported by a range of documents including, directorate asset plans, the Council's Carbon and Water Management Plan and Asset Rationalisation Programme.

## 3.2 Asset Rationalisation

3.2.1 One of the greatest challenges facing strategic asset management over the next 3 years is to identify and deliver the Budget Plus target of £5m savings on the revenue cost of running the Council's property portfolio. To put this into context, the 2012/13 running costs for the Council's property portfolio was £39m, of which £5m represents 13%.

### 3.2.2 Successes

There has been an ongoing programme of rationalisation across the Council's asset portfolio for a number of years through its Capital Receipts Programme established in the 1990's. Over the past 4 years by rationalising the Council's property portfolio and making more efficient use of accommodation, it has resulted in a reduction in running costs of more than £6.5m. Work that contributed to the achievement of this include:

- Releasing and coming out of 9 of the city centre leased-in office properties;
- Community Asset Transfer of Bramley Bath;
- Libraries' New Chapter's programme;
- the Compton and Reginald Joint Service Centres; and
- the John Charles Centre and closure of the Leeds International Pool.

One of the main areas of work in the above has been to deliver savings through rationalisation of the Council's city centre office accommodation. Under Phase 1 of Changing the Workplace Merrion House is to be extended and refurbished and will accommodate the majority of city centre based Council staff from 2017. When the Merrion House refurbishment is reoccupied this will enable a further 4 buildings to be released, realising savings of circa £4.5m from 2017/18.

### 3.2.3 Progress to date

Potential early rationalisation opportunities were identified in 2013/14 worth savings of up to £1.85m through work with localities, services and Members following the setting of the Budget Plus asset target of £5m. The type of opportunities identified included:

- release of White Rose House lease and consolidation of staff to Shire View.
- release of buildings through phase 1 of the Better Lives Programme;
- relocation of service learning disability day centre provision to leisure centres, e.g. Fearnville and Holt Park;
- relocation of staff from Micklefield House to enable release of the site; and
- surrender of Irford House lease and relocation of staff into alternative accommodation.

### 3.2.4 Future Activity

Asset Management officers are currently visiting directorate Senior Leadership Teams to build on previous discussions in the development of a Strategic Asset Management plan, and how the outstanding £2m running cost savings may be delivered, given that the 'easy' solutions have already been identified so there will be a need for challenging and difficult decisions to be made.

3.2.5 One of the main areas of focus for Asset Management over the next 18 months will be to work with services to implement the rationalisation programme, in terms of managing the process of relocating staff and services, where necessary, to enable assets to be vacated and declared surplus. In addition to this a significant area of work will be a review of all the office accommodation within localities. This is likely to be an area which will derive substantial revenue savings if use of office accommodation to be retained can be maximised through the introduction of New Ways of Working. There will therefore be a requirement for an upfront investment to implement New Ways of Working space standards and associated fit out.

3.2.6 Work with directorates will take place over the coming months to develop and review service/directorate asset plans, which will assist in identifying any scope for further rationalisation over the short term within operational assets. This work will also enable a better understanding of the medium and long terms asset requirements of directorates as they stand currently. These will have to be reviewed following implementation of programmes such as Better Business Management and Phase 2 Changing the Workplace. When the benefits of the new simplified, streamlined and shared approach to certain aspects of the Council's business are realised it will necessitate a shift in the model of service planning, away from individual service and directorate asset plans to a more holistic approach to address future need across the Council as a whole.

3.2.7 Work will continue with localities and on-going Council programmes to ensure that consequential asset rationalisation outcomes are maximised. These programmes include, but are not exclusive to:

- Citizens@Leeds (Community Hubs);
- Integrated Health & Social Care Programme;
- Better Business Management (Best Council Admin Project); and
- One Public Estate.

### 3.3 Regeneration, Economic & Housing Growth

3.3.1 The Council has a good track record of using its assets to support regeneration, and economic and housing growth, with a number of strategic disposals and acquisitions related to this over the last few years, including:

- the disposal of Union Street car park and the acquisition and disposal of Millgarth Police Station land to facilitate the major John Lewis Victoria Gate retail development;
- the disposal of the surface car park at Sovereign Street to create a new premier office location which will include KPMG's office development at 1, Sovereign Square, the new Sovereign Square public realm and the potential for two further office buildings;
- the acquisition of the former Leeds Metropolitan University Brunswick building, which along with a Council owned car park facilitated the development of the highly successful new Leeds Arena; and
- the Council Housing Growth Programme which will deliver in excess of 1,000 new homes, across 14 sites, growing the Council's housing stock and providing vitally needed affordable housing, including specialist accommodation for older people. The first scheme, at Richmond Hill, is due to start on site in September 2014.

3.3.2 Where land and property is strategically located within areas of regeneration, or within a setting that could be used to regenerate a locality, its use will be considered in the context of its regeneration potential, either in economic terms or to contribute towards the city's 3,660 annual new homes target. This will be undertaken through the production of a detailed planning brief in consultation with the public sector, housing and private partners to maximise the benefits of an appropriate regeneration scheme. Where necessary strategic sites will be packaged together and/or assets retained to contribute to area regeneration.

3.3.3 Executive Board approved a new Brownfield Land Programme January 2013, to stimulate and support development interest towards sale of 45 ha of Council owned land for new housing, across 29 sites. These are all sites that have not previously been earmarked for the Capital Receipts programme and which for the most part are in challenging locations where there is limited recent history of market development interest. The majority of these sites are unlikely to be immediately attractive to house builders that favour normal market conditions for development and sales.

3.3.4 This programme has been set up to specifically address these issues and to offer a means of dialogue and support with any development interests that may be able to offer solutions that are more bespoke than those of the mainstream volume house builders. The programme will recycle land receipts into measures that will support an ongoing process of disposal and development, which could include activities such as land remediation, infrastructure provision or purchase of homes off-plan for social and affordable rent.

### 3.4 Partnership Working

#### 3.4.1 One Public Estate

The Council was selected as one of 12 authorities in 2013/14 to pilot a cross public sector joint approach to use of assets. The main objectives of the pilot are to identify synergies through joint use of assets to achieve delivery of regeneration, housing, and co-location and integration between partners in order to enable rationalisation across the public estate.

#### 3.4.2 Successful examples of this include:

- the implementation of the Integrated Health and Social Care Programme;
- co-locating with West Yorkshire Police staff in the localities;
- the acquisition of the Italianate Towers in Holbeck Urban Village from the HCA which allowed the HCA development site to come to the market; and
- the acquisition of Millgarth Police station from WYP to facilitate the delivery of the John Lewis Partnership Victoria Gate scheme, where construction has now started on site.

3.4.3 Leeds' involvement in the pilot has been so successful that it has been invited to participate for a second year, as well as having been asked to extend involvement to include Bradford City Council and public partners covering its district.

#### 3.4.4 In addition there are two significant projects in an early feasibility stage:

- Weetwood Multi Service Co-location, LCC, West Yorkshire Fire and Rescue Service (WYFRS) and West Yorkshire Police (WYP), have submitted a joint application to DCLG for capital funding to enable the redevelopment of Weetwood Police Station, a strategic site in the north of the city. If funding is secured the redeveloped site will be jointly occupied on a totally integrated basis by staff from all 3 organisations. The outcome of the funding bid should be known by the end of September 2014, and if successful will enable the Council to come out of a leased in office in 2017, and allow WYFRS to release two fire stations and consolidate into one.
- Public Service Campus Opportunity, there is a significant NHS office accommodation requirement within Leeds city centre, with c.1,100 staff currently based within a cluster of leased in buildings. Due to the cost of occupation there is a need to find alternative accommodation for these staff over the next 1- 3 years. Discussions have begun with the Department of Health, and NHS Property Services to explore an opportunity for the Council to develop a significant city centre landholding to deliver a public service (DoH led) office accommodation campus of at least 150,000ft<sup>2</sup>.



### 3.4.5 The Third Sector

There are a number of examples of collaboration with the third sector to deliver asset rationalisation, most significantly under Community Asset Transfer (CAT) arrangements. Bramley Baths and the former Headingley Primary School were both subject to CATs and now operate successfully as independent, community run assets.

3.4.6 In addition to the above, opportunities to directly engage with the Third Sector at a more strategic level have begun to be explored by way of the Third Sector Partnership. Members of the Partnership have been asked to consider the best and most effective means of strategic engagement in order to achieve a collaborative approach to asset management/work.

### 3.5 The Retained Estate

3.5.1 The retained estate needs to be fit for purpose and able to meet the requirements of the Council to deliver its Best Council priorities. Following the rationalisation programme the Council will be left with a smaller asset portfolio. To drive further efficiencies over time investment will be required, enabling the Council to respond flexibly to future changes in its priorities, the economic climate and shifts in service requirements. Examples include the release of White Rose House and the consolidation of staff into Shire View and the recent acquisition of Kernel House, Killingbeck which will allow the final occupants of the Roundhay Road social services site to be relocated and for this substantial site to be placed on the market for residential redevelopment, both of these will result in a reduction of building occupancy costs and improved and more efficient accommodation for staff and service delivery.

3.5.2 There will be an ongoing programme to deliver backlog maintenance but as the estate size decreases so should the demand on maintenance budgets which will allow resources to be spent more strategically in a pro-active rather than reactive way.

3.5.3 Central to effectively managing the retained estate will be the continuation of a condition survey programme to ensure that appropriate and up to date information is available on buildings to assist in decision making.

### 3.6 Organisational Arrangements

3.6.1 In addition to the transfer of operational building maintenance staff from Corporate Property Maintenance to Civic Enterprise Leeds (already detailed), a new structure, under the Chief Asset Management & Regeneration Officer, has been agreed and re-establishes the previous depleted Strategic Asset Management Service.

3.6.2 The re-established Strategic Asset Management Service will lead on work to deliver the Strategic Asset Management Plan objectives including, amongst other things:

- the asset rationalisation programme;
- collaboration with directorates and services;
- development of directorate asset plans;
- engagement with Ward Members;
- ensuring efficient and best use of assets; and
- management of the governance process relating to property decisions.

## **4.0 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 Members were initially met with, on a ward basis, during summer 2013 to discuss the asset review process and to identify early opportunities for rationalisation. A second round of Member engagement is currently underway, to be completed by early August 2014. An update on ward specific rationalisation work is being provided, along with holding further discussion on use of assets.

4.1.2 Where appropriate, consultation with community committees, service users, third party organisations and communities will be undertaken as part of the implementation of individual asset rationalisation projects.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 An EIA screening has been completed and is attached as an appendix 1.

### **4.3 Council policies and City Priorities**

4.3.1 The Asset Review is being carried out in the context of the Best Council Business Plan, and specifically the performance target of 'significant reduction in the running costs of the asset base'.

4.3.2 Overarching the review programme will be the development of a Strategic Asset Management Plan, to be put to Executive Board in November 2014, which is a specified priority within the Best Council Plan.

### **4.4 Resources and value for money**

4.4.1 The revenue savings target set through the Budget Plus process has been set at £5m to be achieved by the March 2017.

4.4.2 A Strategic Asset Management Service is currently being re-established through a restructure under the Chief Asset Management & Regeneration Officer. A Head of

Service has recently been appointed and will lead on implementation of the review process and consequential rationalisation programme.

4.4.3 Solutions for rationalisation will not only be sought from within the Council's asset portfolio but also from across those of partner organisations through the work of the One Public Estate and with the Third sector.

4.4.4 Where assets are to be retained over the medium to long term opportunities to generate or increase revenue income will be explored by Strategic Asset Management.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 None specific to this report.

#### **4.6 Risk Management**

4.6.1 There is a risk that the revenue savings target of £5 million may not be met over the next three years. If this is the case, it will become apparent within the next 6 months and then difficult decisions may need to be considered by Executive Members over which services may no longer be delivered by the Council, in order to cut running costs.

4.6.2 The alternative may be to consider a greater target which is capable of being achieved over 4 years of say £7.5 million. The majority of it will be achieved through the release of office buildings following the re-occupation of Merrion House subsequent to the completion of its refurbishment and new extension.

#### **5.0 Conclusions**

5.1 The proposed draft Asset Management Plan will ensure a number of key outcomes are achieved, including that operational property is fit for purpose to deliver Council services. Key to the success of this is the need for a cultural shift from single service to Best Council thinking, with efficiency and spending money wisely being at the forefront of service planning and use of assets.

5.2 Council assets will be used wherever possible to support regeneration across the city including housing and economic growth.

5.3 In reducing the running costs of the Council by £5 million by 31/03/2017, there has been a considerable programme of work carried out to date that has resulted in a potential £3m of the £5m revenue savings target being identified so far.

5.4 The assets identified so far are largely those which were obvious solutions to achieving rationalisation savings. The next stage is to identify the remaining £2m savings, which will be considerably more challenging in terms of services and the

Council as a whole having to make hard decisions on what buildings are subject to rationalisation.

- 5.5 The Council will make strategic property acquisitions where appropriate to improve service delivery, such as the acquisition of Kernel House, Killingbeck and also strategic investment acquisitions in order to improve the Council's investment portfolio, which will also generate additional income to support the Council's finances.
- 5.6 To promote the One Public Estate pilot philosophy to ensure the efficient use of assets across the public estate
- 5.7 To work with the Third Sector and private sector to explore alternative ways to deliver services.

## **6.0 Recommendation**

- 6.1 The Sustainable Economy and Culture Scrutiny Board is recommended to note the contents of the report, and in particular the work undertaken to date to contribute towards the £5m asset rationalisation target.

## **7.0 Background documents<sup>1</sup>**

- 7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.