

Municipal Buildings, Greenock PA15 1LY

Ref: SL/RMcG/JC

Date: 27 August 2009

I refer to the agenda for the meeting of the Regeneration Committee to be held on Thursday 3 September 2009 and attach further item as undernoted.

ELAINE PATERSON
Head of Legal & Administration

Undernote

25. **Audit Scotland: Asset Management in Local Government**
Report by Corporate Director Regeneration & Resources

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| Report To: | Regeneration Committee | Date: 3 Sept 2009 |
| Report By: | Corporate Director Regeneration and Resources | Report No: GM/AI/LA/420/09 |
| Contact Officer: | Gerard Malone | Contact No: 01475 712710 |
| Subject: | Audit Scotland: Asset Management in Local Government | |

1.0 PURPOSE

- 1.1 The purpose of this report is to advise the Committee of the results of the publication by Audit Scotland of the report on Asset Management in Local Government.

2.0 SUMMARY

- 2.1 As reported to the CMT in March 2008, on 8 February 2008 Audit Scotland advised Councils of a proposed study of Asset Management in Local Government to be undertaken on behalf of the Accounts Commission. There are two main reasons for the study:

- Audit Scotland wish to highlight the need for Councils to improve performance in this area, and
- Audit Scotland wish to evaluate Asset Management Performance against current legislation and guidance.

- 2.2 The Council met the timetable for the study completion and submitted its response in August 2008. Audit Scotland published its findings on 7 May 2009 and this report informs the CMT of the main issues affecting the Council. The full report has been made available within the Members' Library and is also available on the Audit Scotland website.

3.0 RECOMMENDATION

It is recommended that the Committee:

- 3.1 notes the outcome of the Audit Scotland report;
- 3.2 approves the checklist for Elected Members (Appendix 2); and
- 3.3 confirms that a formally agreed action plan for meeting the report's recommendations be remitted to the Corporate Director Regeneration and Resources for development and for consideration at the CMT.

Gerard J Malone
Physical Investment Services Manager

4.0 BACKGROUND

- 4.1 The Council's approach to Asset Management is reflected in the principles of the Audit Scotland study. The Council has developed a five year Corporate Asset Management Plan with costings and supporting condition studies for a prioritised list of its property portfolio (March 2009).
- 4.2 The Audit Scotland study emphasises that the Asset Management Strategy of the Council should plan for current and future development of the Council's assets and should provide for a period of at least three to five years for
- a baseline
 - a vision, and
 - an action plan

As stated, the Council's approach reflects the Audit Scotland and CIPFA Guidelines.

- 4.3 The report into Asset Management in local government is the first national study by the Accounts Commission into Strategic Asset Management.
- 4.4 The key messages of the study are contained in detail in Appendix 1.
- 4.5 The study confirms that good Asset Management is a vital part of any Council being able to demonstrate that it is providing best value. Asset Management can generate resources through income from the sale of surplus assets which will also generate long term revenue savings. Improved management of assets can also lead to service improvements and lower long-term revenue costs.
- 4.6 Across Scotland, the study recognises that a significant number of Council buildings do not meet service needs. Almost two-thirds of all Councils report that their property maintenance backlogs are increasing. Across Scotland, there are wide variations on the information of the condition of Council buildings, on the extent of available information and the methodology used for assessing condition. Some Councils, for example, assess the condition of the whole building while other Council's produce an assessment of individual building elements. These variations do lead to fairly wide assessments on a Council-to-Council basis. Within Inverclyde, our actions have been to focus on addressing the needs of disabled access and to improve buildings which are accessible to the public to improve our documentation on accessibility and on building suitability. Access Audits have now been completed for almost 100% of our publicly accessible buildings and work is prioritised to focus on access.
- 4.7 The report reflects the substantial progress the Council has made within its Asset Management planning arrangements. There are strong, positive elements within the report that reflect the Council's progress. Inverclyde Council has approved its Asset Management Strategy and its Action Plan for land and buildings whereas more than half of Scottish Councils do not yet have an approved Corporate Asset Management Strategy. Inverclyde has also made substantial progress relative to new arrangements for Asset Management planning software in respect of modern operating systems, updated condition surveys (on the basis of a prioritised list of buildings) and AutoCAD intelligent plans which are electronically available and can be updated and altered as accords. The Council has set out its vision for the favoured operating model and has set out specific objectives for asset use and management (in relation to the disposals programme, the efficiency and effective use of assets, the provision of quality accommodation for customers and staff and the release of underused and revenue-demanding properties.
- 4.8 The study emphasises that improved Asset Management and partnership working can improve Council facilities. Property assets consume a lot of resources and Councils are expected to review how they use their property, and to plan for future property needs, if they are to secure savings. Several of the Council's involved, had recently rationalised and refurbished their office accommodation. The Council's Corporate Asset Management Planning Strategy recognises the importance of the office improvement programme and the developing of a favoured operating model for the customer client function.

- 4.9 There are two particular issues for Inverclyde in relation to the study. Firstly, it is clear that the Council's amount of reactive maintenance as a percentage of the total maintenance cost is extremely high. Again, findings on this measure vary considerably. Prior to the study it had been recognised by the Council that the percentage of reactive maintenance is too high and that a greater focus should be brought to bear on planned maintenance which can be far more economic. The condition surveys and data that were gathered concurrently with the Audit Scotland study period provide the Council with a good platform for improvement in the future with this. It is an area that requires continued attention and sustained resources. Secondly, for Inverclyde, there was a high percentage of Council buildings reported as being in poor condition and with poor suitability. Importantly, these figures are developed from Council to Council according to a wide subjective range of what is considered "good", "satisfactory" or "unsuitable" categories. The Council is addressing this by improving and standardising its means of assessment of property condition (and this is work that will be continuing) together with a clear focus on releasing under-used and below-standard properties.
- 4.10 In respect of the role of Elected Members, Appendix 2 outlines the key issues for involving Elected members in the improving of property asset management within Councils. These issues and the key questions are being addressed by the Council through the Physical Investment Service. This is supported by Property Resources & Facilities Management and ICT & Business Transformation.

5.0 IMPLICATIONS

5.1 Financial Implications - One off Costs

| Cost Centre | Budget Heading | Budget Year | Proposed Spend this Report | Virement From | Other Comments |
|---------------------------|------------------------------|-------------|----------------------------|---------------|----------------|
| Asset Management Planning | Physical Investment Services | 2009/10 | Nil | Nil | None |

Financial Implications - Annually Recurring Costs/ (Savings)

| Cost Centre | Budget Heading | With Effect from | Annual Net Impact | Virement From (if applicable) | Other Comments |
|---------------------------|-----------------------------|------------------|-------------------|-------------------------------|----------------|
| Asset Management Planning | Physical Investment Service | 2009/10 | Nil | Nil | None |

6.0 CONSULTATION

- 6.1 The Head of Legal & Administration Services has been consulted and is in agreement with the terms of this report.
- 6.2 The Head of Property Resources & Facilities Management has been consulted and is in agreement with the recommendations within this report.
- 6.3 The Head of ICT & Business Transformation has been consulted and is in agreement with the recommendations within this report.

Key messages

Background

1. Assets are anything owned by an organisation that have a monetary value. The assets owned by Scotland's councils are valued at around £26 billion. Property makes up £21 billion (81 per cent) of councils' assets. This comprises council housing (£8 billion), schools (£7.1 billion), investment properties (£1.2 billion), sports centres and pools (£0.9 billion), offices and administrative buildings (£0.7 billion) and £3.2 billion of other buildings, such as libraries and museums.¹

2. After employee costs, the largest cost to public sector bodies is what they spend on their assets – councils spent around £1.1 billion on property running costs in 2007/08. Good asset management is a vital part of an organisation being able to demonstrate that it is providing Best Value.

3. Effective management of council assets will benefit service delivery by making council buildings work better for staff and people using services, by ensuring buildings support current and future service requirements, and by providing a way to target investment.

The study

4. The overall aim of our study was to evaluate the extent to which councils manage their assets to ensure effective service provision and achieve value for money, and to make recommendations for improvement.

5. The study focuses on property, which makes up the majority of council assets, and addresses the following questions:

- What assets do councils own, what is their value and what information do councils hold about their condition and suitability?

- How well are councils organised to ensure that service needs drive their asset management strategies?

- Do councils' asset management arrangements lead to increased efficiency?

- Do councils have effective arrangements for managing the performance of their assets?

6. A range of methods was used to obtain evidence, including:

- questionnaires to gather information from councils about their asset management arrangements
- visits to five councils (Clackmannanshire, City of Edinburgh, Fife, Highland and Renfrewshire) and interviews with elected members, senior managers and practitioners, and people using services.

Key messages

1 Overall, councils own around 12,400 property assets. Councils report that 27 per cent are in poor or bad condition, 23 per cent are not sufficiently suitable for the services being delivered from them, and 14 per cent fail in both respects.

7. Councils report that 27 per cent of their buildings are in poor or bad condition. The proportion of buildings reported to be in good or satisfactory condition varies from over 90 per cent in East Ayrshire and Angus, to under half in Aberdeenshire and Inverclyde. Five councils (East Dunbartonshire, Eilean Siar, Highland, North Lanarkshire, and Scottish Borders) do not know the condition of more than ten per cent of their buildings (Exhibit 1).

8. Even where buildings are in good condition, it is important that they are also suitable for the purposes for which they are being used. Exhibit 2 shows councils' assessments of both the condition and suitability of council buildings. Overall, 6,878 buildings (61 per cent) are reported as in good or satisfactory condition, and with good or satisfactory suitability. However, 1,557 buildings (14 per cent) are reported as poor (or worse) in both respects.

9. We surveyed 88 people using council buildings. They consider access to be a building's most important feature, highlighting disabled access and facilities for people with disabilities as highly important. Other issues they regard as important are:

- privacy (especially where services deal with money or housing issues)
- security for both staff and the public
- clean and well maintained property and facilities
- clear signposting, both inside and out.

2 Almost two-thirds of all councils report that their property maintenance backlog is increasing. Only 23 councils were able to report the size of their backlog; this totalled £1.4 billion, and £376 million of this is described as maintenance that is urgently required. Unless councils manage this backlog, there is a risk that buildings currently in satisfactory condition will deteriorate.

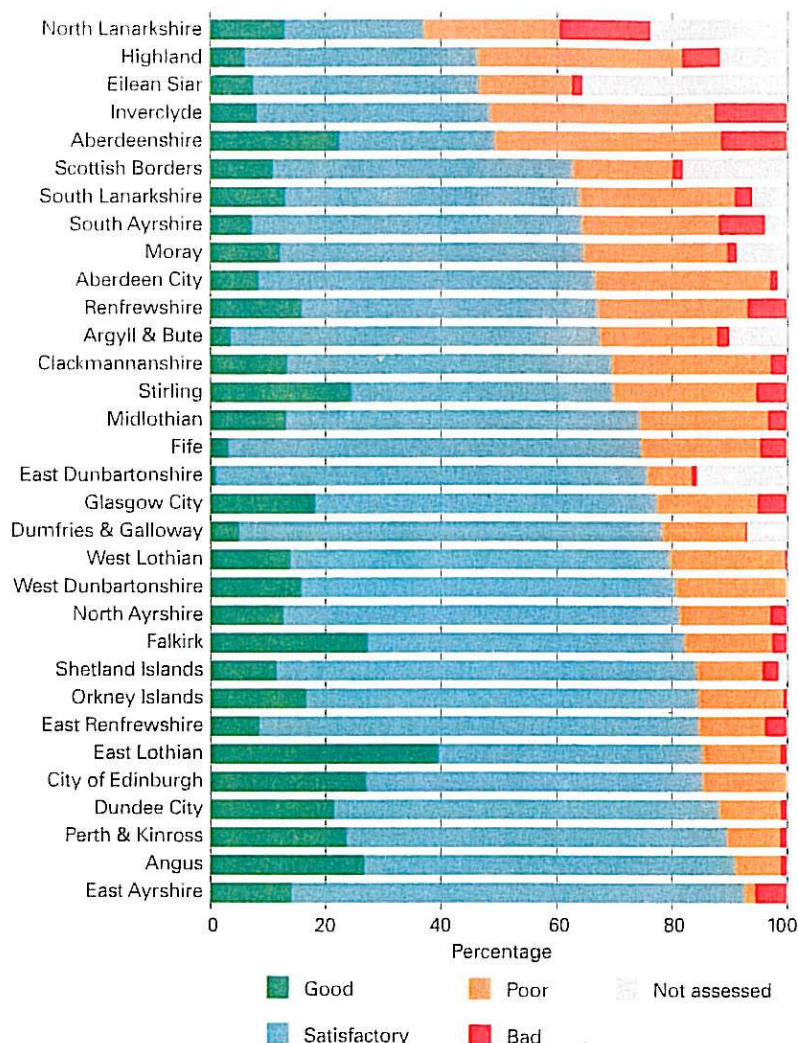
10. It is more economical to maintain buildings in a planned way than to wait until a problem arises. A 60:40 balance (or better) in favour of planned maintenance is accepted as an indicator of good practice.² Across Scotland, the £136 million councils

¹ Overview of the local authority audits 2008, Audit Scotland, February 2009.

² Value For Money in public sector corporate services, Public Audit Forum, 2007.

Exhibit 1

Variation in councils' assessments of building condition



Source: Audit Scotland survey of councils' building condition assessments

Exhibit 2

Councils' assessments of building condition and suitability

| Condition | Suitability | | | |
|--------------|---------------|---------------|------------|------------|
| | Good | Satisfactory | Poor | Unsuitable |
| Good | 923 (8.1%) | 567 (5.0%) | 183 (1.6%) | 22 (0.2%) |
| Satisfactory | 1,430 (12.6%) | 3,958 (34.9%) | 845 (7.4%) | 185 (1.6%) |
| Poor | 224 (2.0%) | 1249 (11.0%) | 956 (8.4%) | 252 (2.2%) |
| Bad | 40 (0.4%) | 170 (1.5%) | 214 (1.9%) | 135 (1.2%) |

Notes: 1. Midlothian and Orkney Islands Councils were unable to provide information in this format.
2. Where a property is made up of several buildings, for example a school, councils may conduct separate assessments of each building. Therefore the total number of building assessments exceed the total number of properties.

Source: Audit Scotland survey of councils' building condition and suitability assessments

spent on property maintenance in 2007/08 was evenly split between planned and reactive maintenance. However, this varies considerably among councils; North Lanarkshire achieved over 80 per cent planned maintenance, while in Inverclyde over 90 per cent of maintenance was reactive. Overall, only nine councils report achieving the 60:40 good practice benchmark.

11. Capital investment in new buildings or refurbishment will reduce the backlog, as buildings in poor condition are replaced or upgraded; however, the existing estate (including any new buildings) will still need to be maintained. The maintenance costs of new buildings are not always included in future revenue budgets, and this could lead to further problems.

12. The current economic environment is likely to result in reduced capital income from the sale of assets, and councils may decide to retain properties until market conditions improve. This could lead to additional pressures on maintenance budgets. Capital projects relying on income from the sale of assets are also likely to face difficulties. However, increased competition among developers may result in opportunities for councils in taking forward some capital build programmes.

3 More than half of councils do not have an approved corporate asset management strategy, although many are in the process of developing individual strategies and plans for their fixed assets.

13. An asset management strategy should plan for the current and future development of the councils' assets. Councils' asset management plans need to support service plans, which in turn should help to deliver council objectives and community plans. However, in many councils the linkages between these plans are not robust. Although councils are beginning to manage their assets more strategically, less than half of councils have a corporate asset management strategy.

14. We examined each councils' arrangements for property asset management, based on their responses to our survey. Our analysis indicated that there were particular weaknesses in:

- ensuring that strategies, policies and plans are up to date and coordinated
- performance management
- implementing property asset management systematically.

15. Councils need to improve the links between current and anticipated service needs, the assets required to meet these needs, and the funds available for delivering these assets.

4 The majority of councils report good arrangements for collecting data about assets. Almost three-quarters of councils have up-to-date information across most performance areas, but good operational data is not always used to support decision-making.

16. Some councils use asset management information systems developed in-house, while others use commercial systems.

17. All councils hold basic information on their estate, but the level of detail held in property management systems varies. For example, around 40 per cent of councils do not know the condition or suitability of all their buildings and in some cases detail is lacking or the information is out of date.

18. Information held on property management systems is also important for health, safety and risk management. Just under a quarter of councils' asset registers lack full information on high-risk areas such as asbestos in buildings.

5 Elected members can play a vital role in taking strategic decisions about assets. Many councils do not have effective elected member scrutiny of property assets and only half of councils provide regular information to council members on property performance.

19. Buildings consume a lot of resources and councils spent £1.1 billion on property costs in 2007/08; this includes the costs of maintenance, energy, cleaning and security. There is also an 'opportunity cost' in occupying property where investment that could be used in other areas is tied up for long periods of time.

20. It is important that the way buildings are used by council services is continually challenged and reviewed. However, we found little evidence that building use was being scrutinised by elected members on a systematic basis.

21. Although councils are reducing energy use in their buildings, environmental sustainability is not a key factor in building design. Most councils are missing opportunities for incorporating environmentally friendly features into the design of new buildings.

22. Some councils gave examples of savings from rationalising office space, but few were able to provide details of significant efficiencies arising from property review and rationalisation.

23. Changes in service provision can be difficult to put into practice, especially where the public or elected members view the retention of particular buildings as symbols of commitment to service delivery in their area. Many councils have had to make difficult decisions about school or library closures, and this can lead to challenges for the political management of the council.

24. Elected members play a vital role in taking strategic decisions about assets, and in achieving a balance between local interests and good corporate management of assets. However, many councils do not have effective elected member scrutiny of property assets and only half of councils provide regular information to council members on property performance.

25. The following measures may help to bring clarity and objectivity to this process:

- better leadership and performance management
- increased use of whole-life costing (where maintenance costs over the whole life of a building are included in the budget)
- increased use of options appraisal (where the costs, benefits and risks of the different options available are considered systematically)

26. Many council members and senior managers feel there is a need to build greater consensus about the long-term strategy for assets across political groupings, to be able to make progress on the corporate management of assets.

6 Councils are beginning to work with community planning partners on joint approaches to asset management, but progress has been slow.

27. Councils and health boards have a high-level commitment to joint working on property asset management. However, joint working does not appear to be widely embedded across services at a planning or operational level.

28. There has been some well planned joint working reported between social work and primary care services. Many joint property projects are developed in an opportunistic way, rather than as part of a long-term joint strategy.

29. Issues arising in the councils visited included:

- Differing funding regimes make joint working more difficult, and councils cite central control of NHS capital expenditure as resulting in slower decision-making. However, this only applies to capital expenditure of over £5 million (£10 million in NHS Greater Glasgow and NHS Lothian).
- Informal networking and personal relationships are often seen as key to making asset management work between agencies. By their very nature these factors are difficult to replicate across all partners and over the long term.

30. Examples of joint property use between health boards and councils include GP surgeries located in the same building as social work offices, libraries and pharmacies; however, we found it difficult to identify many examples of good practice.

31. Councils are required to obtain 'best consideration' in the sale of their assets – normally interpreted as market value.³ In three out of the five councils we visited, this is seen as a barrier to joint working. For example, a health board may wish to use surplus council land for a community facility, but is not able to meet the market price.

32. However, councils can apply to Scottish Government ministers for permission to sell assets at less than market value in certain circumstances, and where this is for public benefit.⁴ More recent legislation allows ministers to make regulations that councils must follow when selling assets.⁵ The Scottish Government is currently considering draft regulations on these issues.

33. An approach which uses these processes and considers the overall value of a scheme to the public sector, rather than just aiming to achieve the highest price, could help deliver wider benefits and Best Value in the longer term.

Key recommendations

Councils should:

- work together to implement a consistent methodology for measuring building suitability
- ensure they have effective asset management plans and strategies for their property, IT, vehicles, roads and associated infrastructure. These should:
 - set out how each type of asset will contribute to council objectives and service aims
 - set targets for assessing progress, including the condition and suitability of each asset
 - describe an overall plan for achieving this
- ensure asset information is up to date, complete, and held in a form which allows the production of appropriate management reports
- establish robust monitoring and reporting procedures for asset performance, to assess progress against their strategies
- formulate a long-term capital strategy, linked to achieving the aims of their asset management strategies; this should include a formal corporate approach to options appraisal for proposed capital projects

- ensure that whole-life costs are taken into account in councils' capital and revenue planning
- consider issues of sustainability, such as CO₂ emissions, in their whole-life costing model for proposed capital projects
- ensure that elected members and council officers have transparent mechanisms for scrutinising property use and the cost of holding property
- where significant changes are planned to assets in an area, or to a particular type of asset, for example school buildings, ensure consultation with residents is open about the issues the council is facing and provides clear information about the options for change
- agree with community planning partners arrangements for joint planning, management and property sharing. This should include identifying and tackling the barriers to strategic joint working around public assets and developing shared property databases to facilitate joint working.

Councils, Community Planning Partnerships and the Scottish Government should:

- make use of legislation which allows councils to sell assets at below market value if it is for public benefit, where this is consistent with a published policy objective, and would achieve Best Value for the public sector overall.

³ Local Government (Scotland) Act 1973.

⁴ *Ibid*, Section 74.

⁵ Local Government in Scotland Act 2003, Section 11.

Appendix 2

Improving property asset management – a checklist for elected members

Key issues

Key questions

1) Setting clear policies and objectives for asset management

- Is asset management a clear component of the council's overall strategy determined by the council?
- Does executive leadership of corporate asset management clearly reside with the chief executive, supported by the corporate management team?
- Does the council have an asset management strategy and published plans which support the council's corporate objectives?
- Is property seen as a corporate resource?

2) Corporate commitment and management capacity

- Are elected members engaged with property asset management and is asset performance regularly reviewed by members?
- Are property management responsibilities clearly set out at a corporate and service level?
- Are there adequate resources at a corporate level, to review property assets and running costs?

3) Property information

- Does the property management service have adequate information systems to support property maintenance?
- Are the information systems used to support asset management linked to other relevant systems, for example geographical information systems?

4) Property maintenance

- Has the council conducted an options appraisal for ensuring that the property maintenance backlog is being managed effectively?
- Does the asset management plan ensure that all planned work reflects the results of a systematic option appraisal?
- Is the work of the property management service planned to minimise long-term costs?

5) Property review

- Are senior managers aware of the property costs of the buildings services occupy?
- Is there a programme of property reviews?
- Is information on running costs and environmental impact available to the review team?

6) Resourcing and financial management

- Is there a corporate approach to options appraisal and the prioritisation of capital projects, in line with corporate objectives?
- Are decisions on capital projects based on a clear business case, including options appraisal and whole-life costing?
- Does property maintenance have the resources to meet its policy objectives and is adequate priority given to routine maintenance within the budget setting process?
- Is funding for maintenance linked to the condition of assets?

7) Procurement and service delivery

- Does the council work with its community planning partners to achieve economies of scale in asset management?
- Are unit costs benchmarked against other councils and the private sector?

8) Accounting for performance

- Does the asset management service maintain an effective performance management framework, to continuously review and improve its performance?
- Are there annual performance plans, agreed by council members, setting out targets for improvement?
- Does the council include this information in public performance reporting?