



ASSET

ROOM FOR IMPROVEMENT. WHAT NEXT FOR ASSET MANAGEMENT?

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INTRODUCTION

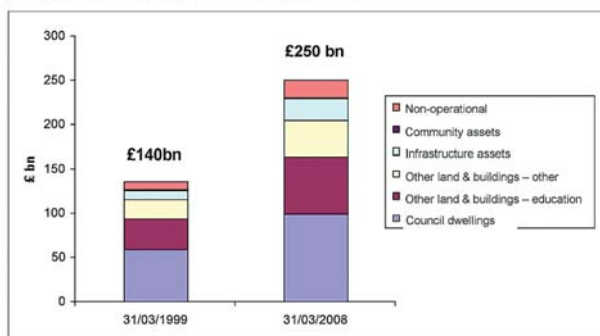
This paper will highlight some of the messages in the Audit Commission National Report "Room for Improvement – strategic asset management in local government", published June 2009. I hope most ACES members have seen this and I wonder if others in your authorities have seen it. Also I want to pose some questions around the question "What next for strategic asset management in local government?"

It's big business

Like it or not asset management in local government is big business.

Between 1999 and 2008 the value of the local government estate nearly doubled

Book value of councils' fixed assets



Source: *Communities and Local Government, Capital Outturn Returns*

The book value of council's fixed assets on 31/03/2008 was £250 billion. Even if you take the council dwellings out, even if you don't worry about how much of the growth over the last 10 years is inflation and how much is not, which, of course, nobody can tell for certain, the fundamental message is that council property is big business.

One of the things we are trying to do with Room For Improvement, and with our other work, is to get that sense across to people in councils, other than ACES members. Those who do think about that recognise not

only that it is big business, but also that it is an enormous asset that you can do a lot with. Which reminds us of just how many things Central Government expects you to do with your assets. If I simply list the wider objectives from "Building on Strong Foundations", the 2008 CLG document, you will see what I mean;

- Improve services
- Empower communities
- Improve economic wellbeing
- Ensure assets are well maintained
- Introduce new working practices
- Reduce carbon emissions/improve sustainability
- Improve co-location/partnership working
- Accessibility and DDA compliance
- Efficiency gains, capital receipts and income stream; and
- Improve the quality of the public realm

The Audit Commission, like you, is under no illusions as to the magnitude of the task or the difficulty of prioritisation. The interesting question is, who should set those priorities? Government ducked setting priorities amongst the above different objectives. We make no apology for focusing on the financial potential of the estate, but we also recognise that local government may have other priorities and that it is a matter for you and your elected members to set priorities locally. We also recognise that that prioritisation is a real challenge for all concerned.

Capital receipts and revenue savings

These are the relevant Government targets.

Before the recession, there were many expectations of the local government estate

1. Capital receipts and revenue savings

CSR 07 Targets

£ billion	2008/09	2009/10	2010/11
Capital receipts (disposal target)	4	8	12
Annual savings target	1.5	3.2	4.9
of which Asset management	0.1	0.2	0.3

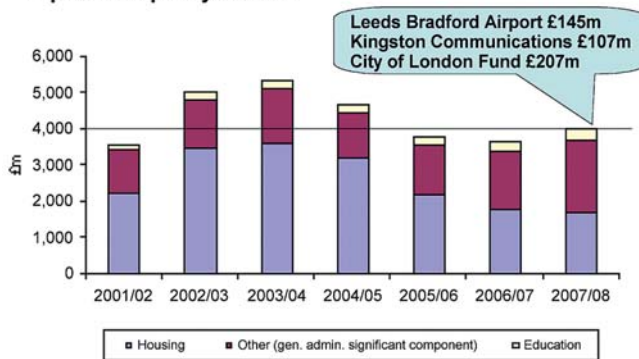
2. Pursuit of wider objectives

Source: *Communities and Local Government*

For outcomes this is an updated chart from Room for Improvement as the 2007/8 results are now in.

The £4 billion receipts target has been achieved largely from housing and exceptional sales

Capital receipts by service



Source: Capital Outturn Returns

Unsurprisingly capital receipts forecasts are down on what was anticipated earlier but you just about hit the £4 billion target for 2007/08, though with a significant contribution from one-off disposals as indicated. Here it is appropriate to mention some issues arising from the research we did for our "Crunch Time" report earlier in the year.

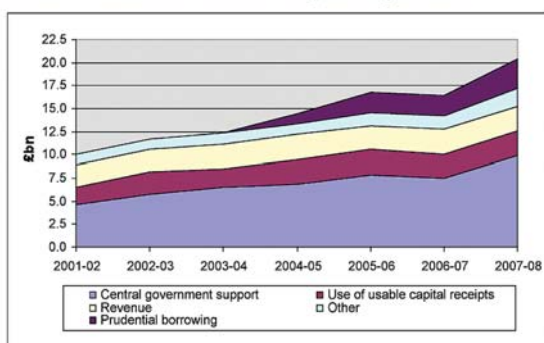
For example 91% of Directors of Finance we surveyed were concerned or very concerned about falling property prices. (If any of you know who the 9% are we would quite like to talk to them too). And even back in October 2008 of 27 County Treasurers surveyed

- 25 are finding it harder to generate capital receipts
- Falls in value of 20 to 30% were expected
- 5 said up to 50%
- Average receipts forecast revised from £17 million to £12 million

Funding capital expenditure

Significant funding streams included capital receipts and (for the first time in 2003/04) prudential borrowing

Sources of funds for councils' capital expenditure



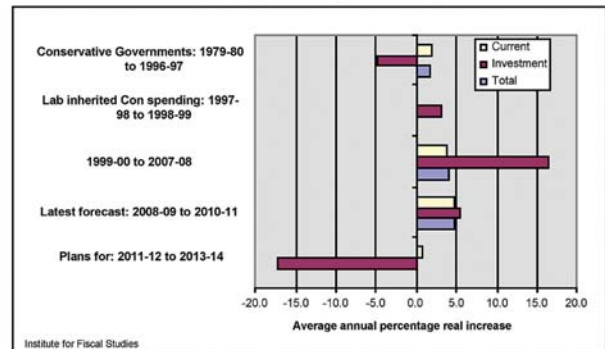
Source: Communities and Local Government, Capital Outturn Returns

Since 2001/02 capital expenditure has doubled but up to the end of 2007/08 the contribution of disposal receipts

has remained constant. The chart shows that the big increase in funding for capital over the period has come broadly from two sources, Central Government support and prudential borrowing, which only got off the ground in 2003. But the current economic difficulties have implications for future funding. Forecasts of future capital spending look even grimmer than those for current spending and there is no evidence whatever that it will be any different for local government than it will for any other part of government.

But times are getting harder

IFS estimates of capital spending across government



Source: IFS presentation 'Public Spending', April 2009

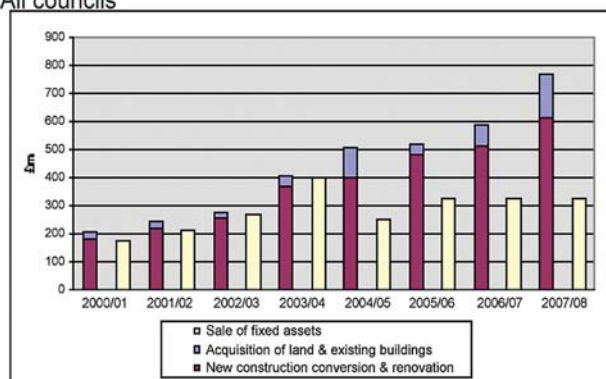
Expectations of capital receipts are well down, as our survey and other supporting fieldwork shows, and expectations of capital expenditure are well down. This invites a number of questions,

- Can major central government funded capital programmes continue in their current form?
- How attractive is prudential borrowing as
 - Asset values decline and
 - Revenue budgets come under pressure?
- The Operational Efficiency Programme demands savings
 - Potential efficiencies over the next 10 years of £20 billion in receipts from disposals
 - £5 billion a year in running costs across the whole estate

The Audit Commission does endorse a lot of what the Operation Efficiency Programme said about the potential, at least theoretically, but how realisable are these demands in the current market? Councils will have to focus more on the opportunity in their own estates. And in terms of revenue generation, clearly it will be much harder to generate anything from the land related sources of revenue, for example planning fees, planning advice fees and the like. That does not mean that every opportunity has vanished. There is a need to think more creatively about where the opportunities are in a down turn.

Councils have spent more on acquiring or refurbishing property than they have raised from sales

Capital spending on and receipts from sales of office property All councils



Source: *Communities and Local Government, Capital Outturn Returns*

Capital expenditure on housing, schools and highways is part of clearly expressed government priority, designed to renew and improve the national infrastructure and make up for long periods of neglect. Capital spend on office properties is a bit different especially as making the case for this in public is never easy for politicians. Clearly there is an element of catching up and many have been catching up on maintenance backlogs and on improvement opportunities, often described as fixing the roof whilst the sun shines. But also there are aspirations to meet rising environmental standards, health and safety or access standards, and to improve workplaces and the quality of experience for the public. Some of these are spending to save projects potentially though interestingly it is very difficult for us to find well documented examples of spend to save projects that actually deliver savings.

In some cases these investments have been an integral part of joining up services, or in some cases, of local place shaping ambitions. We mention a couple of interesting examples in Droitwich and Havant, in Room for Improvement.

The chart shows that in every year since 2000, the proceeds of property asset sales have been reinvested in council property but since 2003/04 the gap between sales proceeds and expenditure has grown markedly. For example in 2007/08 councils sold off office property worth £325 million and spent more than twice that on a combination of new build, acquisition, refurbishment and so on.

But not everybody did. 80 councils took in more in receipts than they spent over the period.

There is no obvious market pattern to who those 80 councils were. It is impossible to predict who

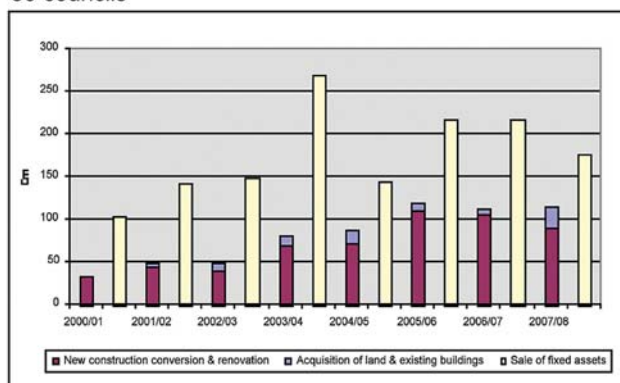
they were by either buoyant property markets or rising property markets or even collapsing property markets. Nor can you predict who they are by CPA scores, though most of them tended to be amongst the better performers, in our view, across the broad range of council activity. The 80 included some of the usual suspects and also a number of councils in areas that could never be described as property hot spots.

Why so few? We think it could be, in large part, down to the structures of incentives. There are always things that you can spend money on and members want to spend money for good reasons, for the most part. And if the money is available from capital funding schemes, from prudential borrowing and so and so forth, why should you not do so?

Another issue is incentives at a local level. What are the pressures on service managers to consider their use of capital as well as their use of revenue and to what extent can asset managers help them to think about that. The Deputy Chairman of the Audit Commission is Bharat Shah, a businessman who has spent most of his career in the manufacturing industry, mostly in the Kodak Company. He was very curious when, as part of his involvement with the study, he first started looking at asset management. Whenever he had been a manager in the private sector, he either had an explicit capital charge bearing on him of some kind that pressed him to think hard about the capital assets he was using; or, he, or at least somebody who had a lot of leverage over him, watched like a hawk the return he was making on the capital invested in his sector. Now as most of you will agree these disciplines are not institutionalised parts of the local government experience and so it is not entirely surprising that service managers behave in the way that they do. And

A minority of councils release net value year-on-year from office properties

Capital spending on and receipts from sales of office property 80 councils



Source: *Communities and Local Government, Capital Outturn Returns*

why not reinvest capital receipts when the capital finance regulations allow you to do it and bank interest is so low.

Hot Property

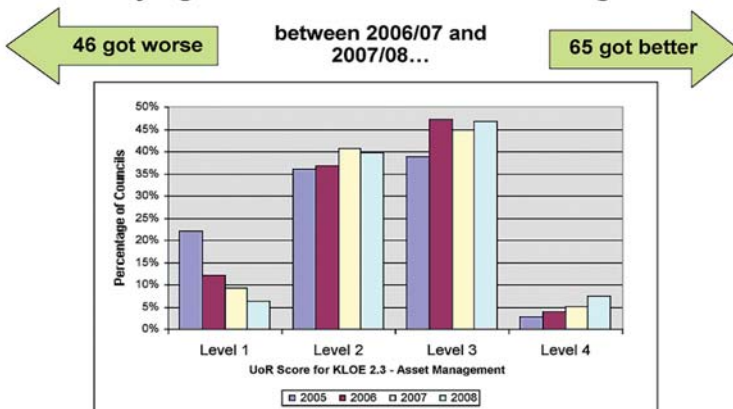
Our report "Hot Property" set out the following principles for strategic asset management,

- Align Property with customer or service needs.
- Regularly review asset holdings and management.
- Share assets with other public bodies.
- Base decisions on assets on relevant information.
- Accountability for assets is clear.

Room for Improvement considers whether these principles are still broadly right as our recollection is that there was not a great deal of argument with them back in 2000 when we first set them out. We have not seen anything to persuade us that much of it was wrong but how have people done? There has been a reasonably steady story of improvement.

Since *Hot Property*, councils have made slow but steady progress towards it

Auditors' judgements on councils' asset management



Source: Audit Commission

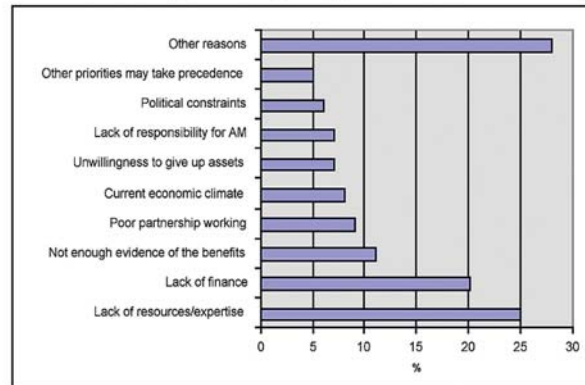
In fact more have improved than have got worse. 9 out of 10 Directors of Finance say they manage their assets strategically but we got a much more mixed response when we then asked about the component parts, for instance

- Auditors agree that councils have made structural improvements, but more slowly than councils think.
- Since 2005, four in ten councils improved their scores for asset management, but the score of nearly half remained static.
- Between 2006/07 and 2007/08, while 65 councils improved their score, 46 got worse.
- One in seven has worse scores in 2008 than in 2005.

Of course we have made the test harder over this period but the broad conclusion is hard to escape, in that asset management has improved more slowly than many other aspects of local government performance over the last 5/6 years or so.

Councils identify several barriers that prevent them from doing so

Barriers inhibiting a strategic approach to asset management



Source: Ipsos MORI telephone survey of 80 councils, Dec 08 – Jan 09

Councils themselves have identified a number of disincentives as shown. 66% of councils say they do not have all the data they need for strategic asset management and they attribute this to lack of capacity including lack of finance and resources.

Historically many councils have struggled to recruit and retain enough high quality property professionals but it is possible that the recession has started to alleviate this.

Data and information

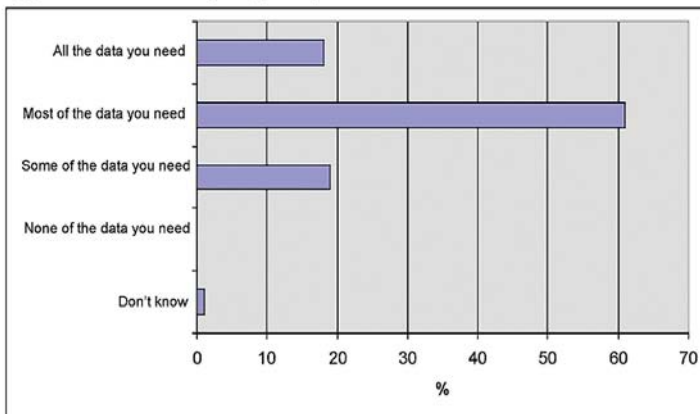
This data is compiled from a telephone survey of 80 councils. We are not sure what to make of the findings. The LGA, in strongly worded representations about this study insist that what this says is that 80% of councils have most or all of the data they need. Auditors are more sceptical, and take the view that the majority do not have all the data they need. This is our view and it is supported by other findings too. The findings in the Use of Resources Assessments for 2008 were that nearly 50% of authorities assessed do not "maintain a record of land and buildings that contains accurate data on efficiency, effectiveness, asset value and running costs which can be used to support decision making on investment and disinvestments of property."

In our fieldwork we found most councils frustrated that they did not have what they needed to make strategic investment decisions, and this included some high performing councils. Often they did not have a

A fifth of councils say they have all the data they need

Benchmarking

To what extent do you feel that your authority has the data it needs to make informed decisions about the management of its property?



Source: Ipsos MORI telephone survey of 80 councils, December 2008 – January 2009

comprehensive set of market valuations of all their property, and were lacking data on space, occupancy, cost of maintenance and so on. It is not possible to make sensible strategic asset management decisions without this vital information and some frustration arises as most councils spend a lot of money on valuing assets for the books, but this does not help you when it comes to making financial or asset management decisions.

The Audit Commission is struck by the large amount of proprietary management information software on the market. We have no problems with that and no doubt much of it is very good but some of the most interesting examples we saw were where councils had built their own management information data sources on a single spreadsheet and often this told them a great deal about what they really needed to know.

The telling message is that what was most important was the thought put into what information was needed and how it could be gathered without compromising quality. Clearly it is an option to develop something more sophisticated than that and to add even more value but achieving a minimum standard good enough for decision making can be achieved without having to spend a lot of money on it.

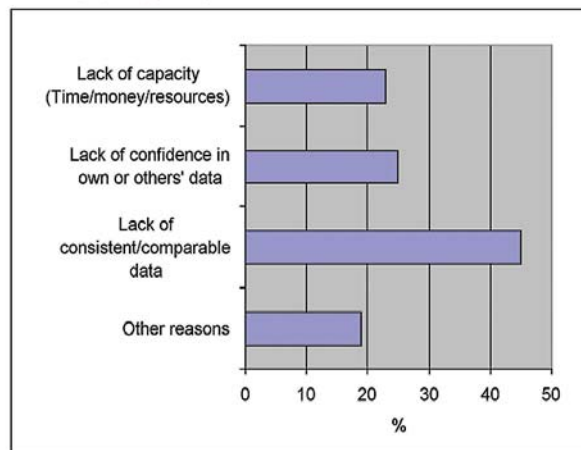
In 2008 we published a document “In The Know” setting out how good information (ie information that is relevant, of high quality and well presented) helps to make for better decisions. Lack of capacity and data are cited as barriers to having the right information for decision-making on asset management. There are benchmarking clubs although only 23 English Councils signed up to the CIPFA benchmarking service and nearly half of those were London Boroughs. Many authorities told us in our research that that they found benchmarking difficult to deal with.

Weaker councils that had no data were not in a position to put in a database; stronger councils did not trust the data that others had.

In our field work we tried to match up similar councils, near neighbours statistically and geographically, to see how their holdings and approaches compared. We too became enormously frustrated at the limitations placed

But most say they lack data that would allow them to benchmark their performance with others

What would you say are the main barriers to benchmarking property and asset data?



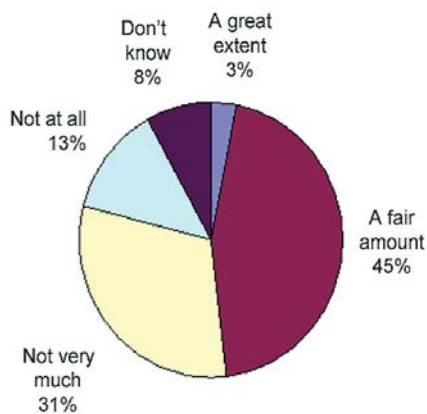
Source: Ipsos MORI telephone survey of 80 councils, December 2008 – January 2009

by the poverty of publicly available data on our ability to do anything worthwhile. On one occasion we got two similar authorities together in a day's workshop, to discuss why one had a particular pattern of asset

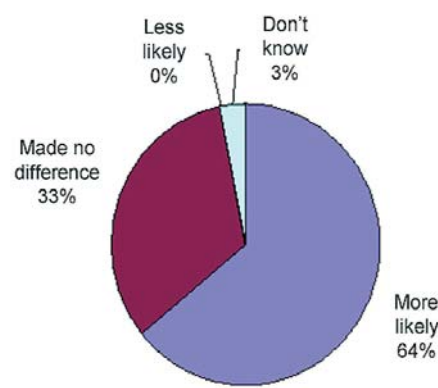
holdings and the other one had another. That was an illuminating session, both for the Audit Commission and the two authorities because it started them testing themselves, and asking why is it that we have this configuration, how much of that is because of good reasons of policy, design and ambition and how much is it historical accident? This is not what most people would normally regard as benchmarking but it seemed to us to be a good set of questions to pose.

LSPs have not yet driven property sharing, but councils expect them to

Is your LSP actively promoting sharing property among partners?



How likely to share assets as a result of the development of LAAs & LSPs?



Source: Ipsos MORI telephone survey of 80 councils, Dec 08 – Jan 08

We have always said that Property Sharing is a big part of a strategic approach. We said it in *Hot Property* and have said it since but is it happening? There are many examples of co-location. Examples from our fieldwork include a unitary authority sharing office space with HM Revenue and Customs; a London Borough entering partnership with a university to lease a new civic centre on campus; and several county councils sharing back office functions.

The development of LSPs might be expected to encourage further sharing by bringing local public bodies together. But only half of respondents to our survey say that their LSP promotes sharing, and only 3% say that they do to a great extent.

Councils believe, however, that they will be more likely to share assets with partners in future. 64% believe that the development of LSPs and LAAs will help to promote asset sharing. More than one told us this was “the next item on the agenda” for councils. But we need to be sure this will happen, as there is a great temptation not to look outwards when faced with financial pressure.

We found evidence to suggest that councils that share their assets do so opportunistically rather than strategically.

The councils we visited did not share assets using a strategic, area based approach and

- Only 13 of the 80 councils in our survey could quantify the savings arising from sharing
- 42% said that sharing arrangements are usually or always ad hoc
- 25% said that sharing arrangements are usually or always strategic

This may not be totally the fault of local authorities given the lack of central government guidance.

For example in the most recently completed round of local government reorganisation there was next to nothing in the guidance from Government about potential savings from asset rationalisation. Of all the opportunities for asset rationalisation, you might think that local government reorganisation is a big one and yet CLG apparently was not interested.

What a missed opportunity.

But a few councils have shown what can be done

LB Wandsworth: Savings

- £23 million capital receipts (£16 million net surplus) from offices 2001/07
- Maintenance backlog reduced by 75% between 2003/08
- Over 120 properties either used by or shared with partners
- No borrowing and lowest council tax in England

Lancashire CC: Property performance indicators

- Office rationalisation programme driven by national and local PPIs
- £2.4 million capital receipts and £270,000 revenue savings from Preston Office Review
- Maintenance backlog for worst buildings – fallen by 80% over last 4 years

Wychavon DC: Place Shaping

- Built new hospital and leased to PCT generating revenue stream
- Built new supermarket leased to Waitrose helped to regenerate Droitwich
- Civic centre shares offices with CC, PCT, Police
- Shared revenue and benefits service with 2 south Worcestershire Districts

Recommendations

In conclusion we recommend that Central Government help councils in two ways to take advantage of the recession

1. By clarifying what it expects councils to do with their property during recession and specifically addresses the perceived conflict between maximising receipts from disposal of assets and enhancing the estate to deliver better services. In addition Government could create incentives to encourage councils to act.
2. By reviewing capital accounting rules to allow more flexibility in what local government can use capital receipts for.

The Audit Commission

The Audit Commission is often accused of being a watchdog and all we do is bark. That is not quite true. Our aim is to help as well as report frankly on what we find. But we make no apology for focusing on the money, we make no apology recognising that times have changed and we make no apology for raising the bar against which we assess you. This is all part of our contribution to the improvement of local government.

But we have tried to help in this case by

- Publishing good practice case studies
- Producing a Member Briefing
- Publishing a financial comparison tool on <http://www.assetmanagement.audit-commission.gov.uk/>
- Supporting the public audit agencies' corporate vfm indicators

Feedback

PAUL OVER. You identified several barriers to strategic asset thinking. Could you comment on some of the solutions that property professionals and Government might implement to overcome those barriers?

JOHN KIRKPATRICK. I would pick up on a couple of themes. One concerns smaller councils that struggle with the capacity needed to do the good job they want to do in this area. The Commission has just published a document called "Building Better Lives" that relates to the strategic housing role of a district council that no longer has its own housing stock yet has to look after a small number of people in relatively isolated locations. Part of the answer, it seems to me, to deal with a problem of that scale is to what extent can cooperation, working together, either with your neighbours, or with other colleagues, or with other people in the area, help to build capacity? The other theme is recession related. What opportunities does the current market offer in terms of time for reflection and review to begin to get an asset management strategy into better shape?

To summarise there is something there about sharing resources to build capacity and something about taking the opportunity of a downturn as time to reflect. There is a further thought that links the two; about exploiting local links and local shared knowledge. One of the suggestions we make, quite gently, in Room for Improvement, is about making the nature, shape and value of property portfolios more visible. The start of the strategic asset management thinking process is to be able to say, "these are our assets, these are the ones we want and these are the ones we do not want and intend to get rid of". The prospect of achieving that strategy may be a little bit different if you say, these are our assets, and then make it clear locally what they are. This approach might reveal the properties that are interesting or attractive to other people, and hence might give us a completely different conclusion about the right shape and size of the property portfolio. This approach is unlikely to produce lots of bid for the town hall or for that shabby old office block in the wrong part of town, which neither you, nor anybody else wants.

But at the margin, is there something here in terms of being able to use the time, the resources and the market to give better information and better capacity to inform your asset strategy and help deal with some of the barriers we identified earlier?

BETTY ALBON. When Room For Improvement first came out it generated a certain amount of antagonism about some of the things that were said. I am from St. Edmundsbury Borough Council and we now share a new office building with Suffolk County Council and it is working extremely well.

We started the exercise in about 2004 with 6 agencies, 2 councils, Police, Magistrates, the local College and

the PCT. We had facilitators and workshops and initially there was much shared enthusiasm about all working together. We did outline feasibility study and all the aspirations were there, customer delivery, working together and the like. But problems arose from two sources. One was finance. There were different funding mechanisms and funding streams for all the organisations involved. The other source of problem related to property portfolio control. Police and Magistrates properties are controlled nationally rather than locally and had all six of us continued to keep working together we still would not have got anywhere. Fortunately the County and the district were able to stay the course as we could align funding mechanism to achieve what we have achieved.

We still have aspirations for the others to come in. But until the property control and ownership question is resolved we are unlikely to achieve those things that everyone wants.

JOHN KIRKPATRICK. That is an important point. Without meaning to sound a little bit glib your experience shows that though there are problems, clearly you and others have managed to overcome them. I know it is hard work.

You mention a 5-year time horizon. These things seldom happen quickly. What is more interesting is the way you have cracked them to some degree, but not to the extent that you would like to. There are parallels here with the Local Strategic Partnerships problems mentioned earlier.

Perhaps the underlying problems there are the same; different funding streams, different accountability mechanism, different control regimes, all inhibiting the achievement of local value for money.

The problem for us, by which I mean the Audit Commission AND Local Government, is being able to substantiate that argument with Government.

If we can convince Government that value for money is going begging, these conflicting administrative procedures would not be hard to change.

John Kirkpatrick,
Director of Studies, Audit Commission

NOTES
