

Committee	Date	Classification	Report No.	Agenda Item No.
Overview and Scrutiny Committee	8 th May 2012	Unrestricted		
Report of: Cllr Sirajul Islam, Chair of Working Group, Scrutiny Lead, Resources Originating Officer(s): Adam Walther Strategy, Policy and Performance Officer		Title: Asset Management and Value for Money - Report of the Scrutiny Working Group Ward(s) affected: All		

1. Summary

- 1.1 This report submits the report and recommendations of the asset management and value for money working group for consideration by the Overview and Scrutiny Committee.

2. General recommendations

It is recommended that Overview and Scrutiny Committee:

- 2.1 Agree the draft report in Appendix 1 and the recommendations contained in it.
- 2.2 Authorise the Service Head for One Tower Hamlets to amend the draft report before submission to Cabinet, after consultation with the scrutiny review group.

3. Background

- 3.1 The Working Group was established in January 2012 to investigate how the Council could improve the delivery of value for money when managing assets, both in capital and revenue terms.
- 3.2 The aim of the review was to bring to light a clearer understanding of how our assets are managed, and the costs in managing them. One year on from the publication of the Asset Strategy, and the move out of Anchorage House as part of the Smarter Working Programme the review into asset management is particularly timely. The objectives of the review were to:

- Develop an understanding of how the council manages its assets in both capital and venue expenditure
 - Add value in recommending improvements with a focus on value for money and an understanding of legislative changes
 - Investigate how effectively the council manages energy efficiency and recommend improvements
- 3.3 Once agreed, the Working Groups report will be submitted to Cabinet for a response to the recommendations.

4. Comments of the Chief Financial Officer

- 4.1 Overview and Scrutiny Committee are asked to agree the recommendations of the Scrutiny Working Group report on asset management and value for money. The recommendations relate both to overall asset management issues and more specifically to improving energy efficiency across the wider asset portfolio.
- 4.2 With regard to the former, work is in train to assess the viability of developing a corporate landlord model. The costs associated with this will be contained within the Development and Renewal budget. Similarly the directorate is developing a community assets register and reviewing for processes for the external body utilisation of Council owned community assets. Again that work stream will be contained within existing directorate resources.
- 4.3 With regard to the energy efficiency recommendations, investigating incentives for enhancing best value, reporting on performance and better reporting of energy costs, the associated costs are primarily staff related and would have to be funded from compensatory opportunity savings within Development and Renewal.

5. Comments from the Chief Legal Officer

- 5.1 The Council is required by section 21 of the Local Government Act 2000 to have an Overview and Scrutiny Committee and to have executive arrangements that ensure the committee has specified powers. Consistent with this obligation, Article 6 of the Council's Constitution provides that the Overview and Scrutiny Committee may consider any matter affecting the area or its inhabitants and may make reports and recommendations to the Full Council or the Executive in connection with the discharge of any functions. It is consistent with the Constitution and the statutory framework for the Executive to provide a response.
- 5.2 The scrutiny report is primarily concerned with increasing efficiency in the management of the Council's commercial property portfolio. This objective is consistent with the Council's obligation as a best value authority within the meaning of the Local Government Act 1999. Section 3 of the Local Government Act 1999 requires the Council to

“make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”.

- 5.3 To the extent that the Council required any additional source of power to pursue particular recommendations, such as in relation to energy efficiency, this may be found on the Council’s general power of competence in section 1 of the Localism Act 2011. The general power enables the Council to do anything that individuals generally may do, subject to such restrictions and limitations as are imposed by other statutes.

6. One Tower Hamlets

- 6.1. A consistent approach to assets supports effective service provision. The report specifically recommends that a framework and resource are provided to enable current and potential external providers to make more efficient use of council assets.

7. Sustainable Action For A Greener Environment

- 7.1. A core part of this report centres around energy efficiency and provides recommendations which further sustainable action for a greener environment. The report recommends that incentives are investigated to ensure that assets become more energy efficient and make a lower impact on our environment.

8. Risk Management Implications

- 8.1. Risks relating to the recommendations will be monitored through the council’s corporate risk register and directorate risk registers. Risks are assessed for likelihood and impact, and will have responsible owners and programmes of mitigating actions.

9. Efficiency Statement

- 9.1 The basis of the scrutiny review is to ensure greater value for money and efficiency when managing council assets and makes recommendations to this effect.

10. Appendices

Appendix 1 Asset Management and Value for Money - Scrutiny Working Group Report

**Local Government Act, 1972 Section 100D (As amended)
List of “Background Papers” used in the preparation of this report**

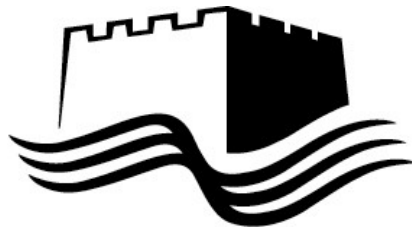
Brief description of “back ground papers”

Name and telephone number of holder and address where open to inspection.

None

N/A

**Asset Management and Value for Money -
Scrutiny Working Group Report**



TOWER HAMLETS

London Borough of Tower Hamlets
May 2012

Acknowledgements

The working group would like to thank all the officers and partners that supported this Review. Most importantly we would like to thank Basit Ali, Head of Asset Strategy, John Coker, Strategic Housing Manager, Sian Pipe, Energy Manager and Abdul Khan, Sustainable Development Manager.

Working Group Chair:

Councillor Sirajul Islam

Working Group Member:

Councillor Helal Uddin

Development and Renewal Directorate:

Jackie Odunoye	Interim Head of Development and Renewal
Ann Sutcliffe	Head of Strategic Property
Basit Ali	Head of Asset Management
John Coker	Strategic Housing Manager
Sian Pipe	Energy Manager
Abdul Khan	Sustainable Development Manager

Chief Executive's Directorate:

Adam Walther Strategy, Policy and Performance

External:

None, it was not possible to find a suitable expert witness within the timescales of this review.

Chair's forward

Councillor Sirajul Islam Chair of Working Group, Scrutiny Lead, Resources

Following the Spending Review 2010, the council is faced with a reduction central government grant income of approximately £84m over four years. This includes reductions in revenue income of over 30% and capital funding reductions of over 45%. This involves a significant programme of cost reductions which is being sought from all areas of the council with difficult decisions having to be implemented.

An area which does not always receive the scrutiny and exposure as many service areas is in the management of the councils 965 – 1000 assets. This is a significant service area, and one which offers numerous opportunities to make savings. Any reduction in net spend through improved asset management allows the council to invest in service provision, highlighting the importance of this area.

The review group was established to look into how effectively the council is managing its stock, and in doing so, whether it is delivering value for money for its residents. Although a short period of three months placed some restriction on our scope, we were able to review both capital and revenue spend – in both how the council manages its buildings, and how it manages energy use.

I am please to present a report which addresses significant areas of council spend clearly and concisely. I have found many examples of effective asset management, and officers which are working hard to deliver value for money through our portfolio, often in difficult circumstances. However, the review group has identified some areas of weakness, and room for improvement in delivering value for money.

Asset management is a large and complex area of council work, and one which a small scale review would not be able to cover. Nevertheless, this report provides some significant recommendations which we believe will improve the way in which the council manages its assets, and will save the council money in the longer term.

Summary

The scrutiny review group sought to establish the progress of the council's Asset Strategy, February 2011, and to what extent it is achieving its aims of delivering value for money. Drawing on council documents, work from other councils, best practice and interviews, the review group analysed how the asset management team were managing capital expenditure, and how the strategy, regeneration and sustainability team were managing energy costs, a significant part of revenue expenditure.

The primary aim was to ensure that the council was taking value for money seriously, and where it was felt they were not, to offer recommendations. In the short timescales available to the group the conclusion drawn was that the council is working well in its drive to become more efficient with fewer resources.

Key Findings

1. That the council takes value for money seriously and has adopted a number of strategies and measures to enforce this in practice.
2. That despite the Asset Management Team having undergone significant restructures, the bringing together of numerous asset management functions has achieved greater efficiencies than otherwise would have been the case. Examples of measures are outlined in this report.
3. That the council does not operate a corporate landlord model (as school assets are managed separately), but this is being explored as a possible avenue for savings to make asset management in the Council more efficient.
4. That allocating energy costs to a specific budget holder is not viable. Significant fluctuations in energy prices means that most cost changes are out of the control of the council. However, energy costs should be outlined more clearly in the council budget reports where possible.
5. That using the government procurement process allows the council to access the best value for money energy prices, but that clearer incentives are required by all users of council properties to ensure that they are acting as energy efficient as possible.
6. That the move from Anchorage House to Mulberry Place will achieve significant energy savings, but that further detailed and final savings are yet to be confirmed.
7. That the council is making progress towards achieving its goal of reducing carbon emissions by 25% by 2012 as outlined in Carbon Management Plan 2009. However, a full report is required to assess current progress.

The research and findings have led to a number of recommendations.

Report Recommendations

Asset Management

- R1. That the Asset Management Team provide a report on the viability of centralising asset management, i.e. moving towards a corporate landlord model.
- R2. That the Asset Management Team develop a framework and provide a resource to enable current and potential external providers to make more efficient use of community assets.

Energy Efficiency

- R3. That the Sustainable Development Team investigates incentives for all users of council assets to become energy efficient. This would include staff, schools and the third sector.
- R4. That the Sustainable Development Team provides a report on our performance against our carbon management commitments as outlined in the Carbon Management Plan 2009.
- R5. That Corporate Finance provide greater clarity on energy costs and that this is reflected transparently in budget reports where appropriate.

Background and methodology

7. The management of the council's 965 – 1000 assets is a key part of council strategy. All council services require robust asset management to function effectively which includes the 80 buildings used by third sector groups.
- 7.1 The Corporate Asset Strategy agreed by Cabinet in February 2011, provided the backbone to the scrutiny review. The core part of this strategy were the four key objectives agreed in 2011:
 - § To support and enhance service delivery, ensure user satisfaction and meet broader council objectives
 - § To ensure that the council meets all its statutory obligations and that buildings are fit for purpose, in terms of location and condition
 - § To ensure value for money in management, maintenance and use of land and buildings
 - § That the procurement of works for buildings ensures sustainable design and that the buildings are maintained and managed in a way that maximises their energy efficiency
- 7.2 The review group therefore sought assurances that all four objectives were being met as part of their analysis. However, limited timescales meant that the review group focused its analysis on the latter two areas: value for money in asset management; and ensuring asset energy efficiency. This report will therefore focus on these two areas.

Value for money in asset management

Background and challenges

8. The Asset Management team is responsible for making sure that the council is making the best use of its assets, developing a long term strategy, and holding its properties at the lowest possible cost.
9. Internally it is seeking to become more efficient with Facilities Management and Building Schools for the Future having merged into the team in 2010, allowing shared resource. Ongoing plans include the growth of co-location such as Jack Dash House to the decant of Anchorage House.
10. Externally the Asset Management Team has four core approaches to ensuring Value for Money. These four objectives are outlined and expanded upon in the Asset Strategy 2011:
 - § To own and occupy fewer buildings.
 - § To reduce the running costs of our buildings.

- § To increase the occupancy levels of our buildings and maximise opportunities for co-location of services (including partners).
 - § To challenge the business case for retaining properties and sell surplus properties in a timely and efficient manner.
11. The Asset Management Team have identified key challenges to the service:
- § Improve its ability to collate and manage asset data – An accurate property database
 - § Supporting the delivery of more council homes, through the utilisation of council owned sites
 - § Retain a asset disposals programme – assist council financial planning and investment and ensure transparency of disposals
 - § Improve the management of community assets of over 80 properties
 - § A joined up approach to managing the council's assets – promoting the corporate landlord model. Moving to a centralised model, the Asset Management team would be responsible for strategic asset management, delivering capital investment and ensuring surveys for statutory compliance and undertaken and monitored. The team would also take responsibility for the day to day management of buildings, their repair and maintenance. The benefits of the model allows the centralisation of staff, reduces duplication and achieves savings (e.g. through corporate procurement of services previously procured department by department). This model would require more investigation. A more extensive report into the viability of this model is outlined as Recommendation One.
12. The Asset Management team will take a lead on ensuring that public sector providers seek further opportunities for co-location, particularly as the council takes on responsibility for public health.

Steps to provide greater value for money

13. The council is committed to completing rent reviews and lease renewals on time to generate increased revenue for the Council. In 2011/12 the council achieved a 10% increase in the total income raised from renting property.
14. The Asset Management team are actively marketing properties to let, either before they become vacant or on becoming vacant.
15. The team has also developed and implemented plans to generate advertising income from sites in the borough, including letting off the A13 highway. New plans are currently being developed to build on this.
16. Where the opportunity arises and where it is appropriate to do so the Asset Management team lease out empty office space and openly market

other commercial property to generate new income. To maximise market penetration and income, they often use external agents to do this.

Savings so far

Income

- § Approximately £300k per annum in new income from letting commercial property
- § On target to generate a further £300k per annum from more new lettings this year

Savings

- § Through the disposal of assets savings in excess of £240k and total capital receipts in excess of £6m will be achieved this year
- § By relocating services and acquiring 585-593 Commercial Rd savings of approximately £200k per annum are achieved against the proposed rental of keeping the service at Leven Road. The site purchased has regeneration potential and a market value of £5m (2011 valuation)
- § Resulting from the review of Council assets we are aiming for savings of £250k per year (some of this figure has already been achieved) and resulting from the development/redevelopment of a number of Council property savings of approx £320k per year will be achieved

Summary

- § Total new income generated approximately £300k
- § Approx new income target £300k
- § Total savings of in excess of £240k will be achieved
- § Total Capital receipts in excess of £6m will be achieved
- § Approx new savings targets £570k

17. The above information does not take into account all of the current work in progress in respect of both new income (revenue and capital) and additional savings. The financial details resulting from work in progress will be known in the coming months.
18. The current estimated expenditure on community assets is £250,000. The expenditure is targeted towards statutory health and safety surveys and works and external property maintenance and repairs.
19. In light of the Localism Act and the Community Right to Bid within the Act, a review of asset allocations is being carried out by officers in Asset Management team. This will inform the development of a list of Community Assets, as required by the Act. This is addressed as an area for greater work in Recommendation Two.

Ensuring the energy efficiency of assets

Background and challenges

20. Tower Hamlets spends millions of pounds on energy each year, in a volatile market that is set for price increases in both energy commodity costs and charges for pipes and wires. This presents a huge risk but also an opportunity for efficiency savings.
21. Wholesale energy prices are influenced by a range of factors including supply security, weather trends, exchange rates, European prices, geopolitical issues and market sentiments. This complicated mix can result in price volatility of 5-10% over the course of a few days and 100% in a year.
22. Utilities are not a typical category in that they do not display the same attributes as other categories where we are trying to make savings. Prices are market driven and simply setting a savings target of 10% through supplier negotiation or using lower price variants is not possible

Steps to provide greater value for money

23. The Strategy, Regeneration & Sustainability service in the Development and Renewal Directorate work hard to ensure that the council pays the lowest possible cost to manage assets, including schools. The council enters into a government procurement process on a flexible contract allowing it to secure energy as cheaply as possible. Were the council to procure energy alone, costs would probably be around 20% higher. A breakdown of costs is given in Appendices I.
24. The review group looked into the cost of energy in community and council managed assets, which are outlined in Appendix II. It was felt that there were not sufficient incentives for users to invest resources into energy efficiency, especially where the council contributes to energy costs. Recommendation Three of this report has therefore requested that incentive schemes are investigated.
25. In recent reviews by both the Cabinet Office and London Energy Project, Buying Solutions energy purchasing performance was found to be in the upper performance quartile and have “outperformed market benchmarks” (set using a methodology endorsed by Cabinet Office and HM Treasury). The Energy Team continues, therefore, to deliver good results in the Public Buying Organisation sector as well as, albeit anecdotally, against private sector companies.
26. In terms of energy efficiency the council has made progress in reducing its carbon emissions through installation of hard ware in buildings. So far the council has made 4.7% reductions in carbon emissions 2008-2010. As part of the Carbon Management Plan 2009 the council aims to have

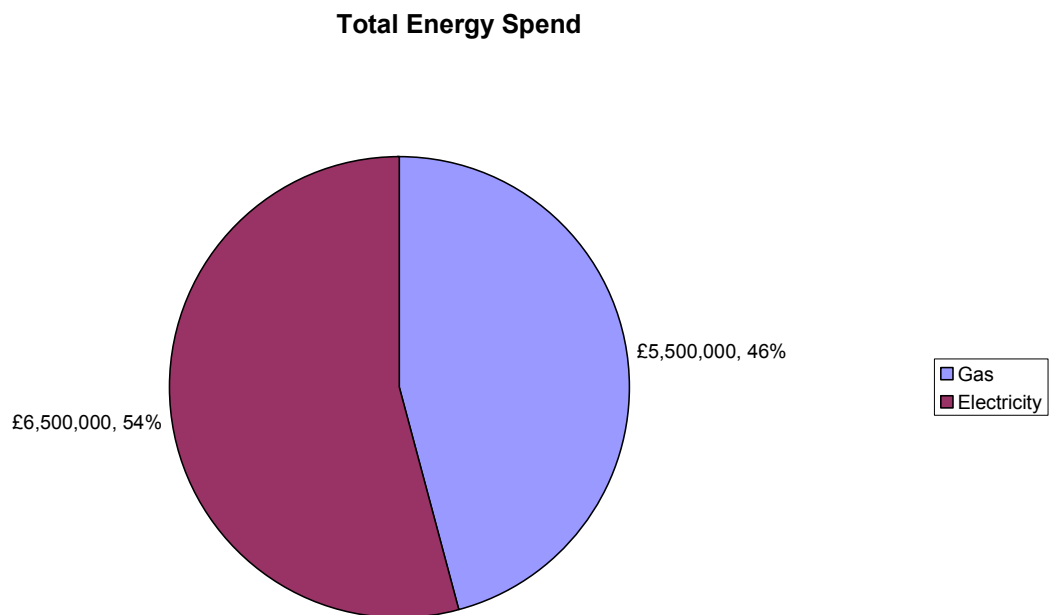
reduced emissions by 20% by the end of 2012. Further reductions are expected in the following years through property rationalisation by moving out of Anchorage House, smarter working and new ICT equipment. Recommendation Four requests a further report on our performance against the carbon target.

27. The review group found that although the council was making savings through effective procurement and smarter working, it was difficult to assess how this is translated into spend. Greater clarity on presenting our energy expenditure clearly is outlined as Recommendation Five.
28. The council has also secured £135,000 from the Olympic Delivery Authority / Greater London Authority to provide energy efficiency works to three schools in the borough, these works will be completed in the summer of 2012.

Appendix I: Energy Costs – evaluation and breakdown of sectors

Please note that the following are an average over 2009 – 2011 to give you an overall picture of the energy distribution. A further breakdown of the Tower Hamlets estate will be available in the next energy report (due in May 2012).

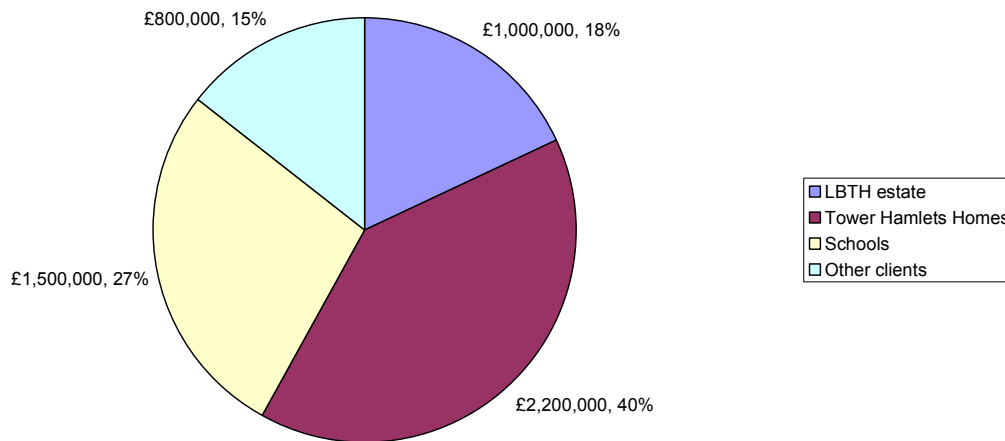
Energy split – Heat (gas) and Power (electricity)



Energy split between clients – Gas

Please note the costs for Tower Hamlets Homes (THH) includes all communal areas and THH offices. Tenants and leaseholders are recharged out of this total for communal use.

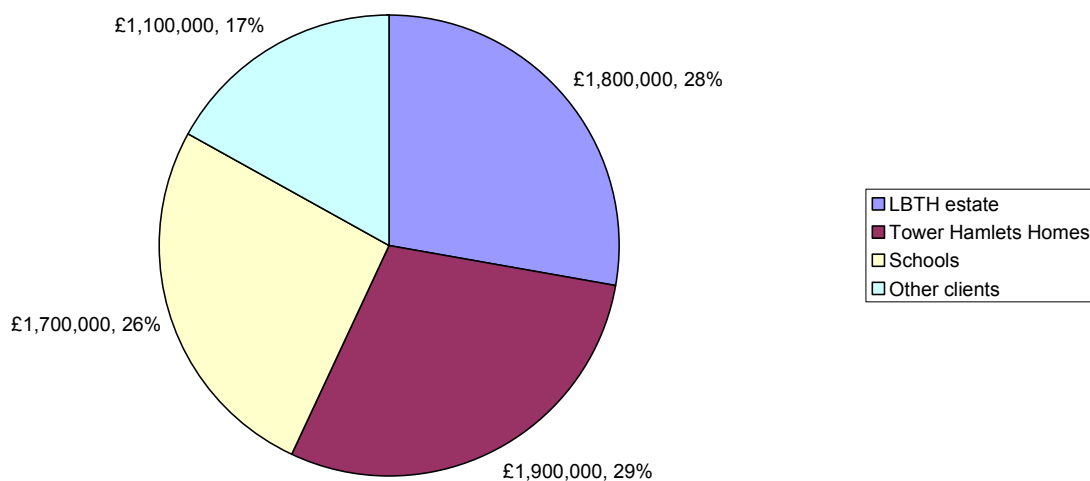
Gas breakdown



Energy split between clients – Electricity

Please note the costs for Tower Hamlets Homes (THH) includes all communal areas and THH offices. Tenants and leaseholders are recharged out of this total for communal use.

Electricity breakdown



Sian Pipe
April 2012

Appendix II: Tower Hamlets Energy Consumption 2009/10

Top Electricity Consumers

Site	Area m ²	kWh used 2010/11	kWh/m ²	Average annual costs £
GLL- Whitechapel Sports Centre	4302	3572229	830.4	330,000*
Resources- Toby Lane Depot	590	337180	571.5	31,000
CLC- Library- Watney Market Library	171	50453	295.0	4,850
Resources- Mulberry Place, 5 Clove Crescent, E14 2BG	17075	4510466	264.2	407,000
CLC- Library- Whitechapel Idea Store	3462	898299	259.5	82,000
D&R- Somali Day Centre Mayfield House, Cambridge Heath Road London E2 9LJ	114	28097.2	246.5	2,700
D&R- Wapping Riverside LHO 19 Prusom St, E1 9RR	424	94309	222.4	8,900
Resources- Coroner's court (Front of) 127 Poplar High Street	303	62683	206.9	5,800
CLC- Library- Bancroft Archive Library	1627	325694	200.2	31,000
GLL- Mile End Leisure Centre	5200	958251	184.3	88,000*
Resources- Anchorage House	19640	3491356	177.8	329,000*
Resources- Blackwall Goods Yard Depot	1399	238910	170.8	23,500
D&R- Stifford Community Centre, 2-6 Cressy Place	210	31437	149.7	2,950
D&R- Granby Hall Day Centre 37 St Matthews Row, London, E2 6DT	630	93231	148.0	8,500*
GLL- Mile End Stadium	1162	147618	127.0	15,000
Resources- Albert Jacob House, 62 Roman Rd, London, E2 0PG	4518	542382	120.0	50,000
AHW- 82 Russia lane	1017	117564.9	115.6	11,000
GLL- St George's	3368	385204	114.4	36,000*
Resources- Jack Dash House, 2 Lawn House Close, London, E14 9YQ	4843	476472	98.4	44,000
GLL- John Orwell Sports Centre	1896	185127	97.6	18,000*

Top Gas Consumers

Site	Area m ²	kWh used 2010/11	kWh/m ²	Average annual costs £
GLL- St George's	3368	2289183	679.7	54,000*
9 &10 Heron Quay (Skillsmatch)- leasehold	166	89242	537.6	2,200*
GLL- Mile End Leisure Centre	5200	2225315	427.9	53,000*
GLL- Mile End Stadium	1162	365975	315.0	8,600*
Resources- Watts Grove Depot	662	197859	298.9	4,700
D&R- Toby Club, Vawdrey Close E1 4UA	806	215940	267.9	5,200
GLL- Tiller Leisure Centre	3269	861400	263.5	21,000*
Resources- Toby Lane Depot	590	139006	235.6	3,300
D&R- Wapping Youth Club, Tench Street, E1W 2QD	855	182307	213.2	4,300
CLC- Library- Chrisp Street Idea Store	1244	261240	210.0	6,200
Resources- Coroners court (Front of) 127 Poplar High Street	303	60025	198.1	1,500
CLC- Library- Bethnal Green Library	1293	210932	163.1	4,950
AHW- 82 Russia lane	1017	162769	160.0	disposal
Resources- Bromley Public Hall, Bow Road	703	100309	142.7	2,500
GLL- Whitechapel Sports Centre	4302	609172	141.6	14,000*
Resources- Albert Jacob House, 62 Roman Rd, London, E2 0PG	4518	507842	112.4	12,000
Resources- Anchorage House	19640	1747113.8	89.0	71,000*
GLL- John Orwell Sports Centre	1896	158125	83.4	3,900*
Resources- Mulberry Place, 5 Clove Crescent, E14 2BG	17075	1186553	69.5	28,000
D&R- Canal Club, Waterloo Gardens, London, E2 9HP	421	24447	58.1	600
D&R- Collingwood Tenants Hall, Collingwood Street, E1 5RF	343	19777	57.7	500
Resources- Jack Dash House, 2 Lawn House Close, London, E14 9YQ	4843	256160	52.9	6,000

* assumed costs

Strategy, Regeneration & Sustainability
April 2012

Appendix III: Smarter Working Programme Savings

Source: Mayor's Advisory Board (Strategic and Resource Planning) paper

Title: Smarter Working Programme – Detailed Financial Model

Author: Nick Coldicott, Programme Manager

Date of meeting: 6 July 2011.

Programme Savings	Total Costs (Savings) to June 2018; £'000
Reduction in staff costs due to reduced overtime	(44)
Future replacement hardware costs avoided with new storage	(297)
Support costs avoided with new storage	(1,157)
Reduced disaster recovery costs	(249)
Data Storage total	(1,747)
Power saved by thin client terminals rather than PC's	(102)
Cost saving by not replacing PC's	(2,175)
Reduced desktop support costs	(545)
Virtual Desktop Infrastructure	(2,823)
Rent	(20,120)
Service charges	(12,365)
Business rates	(5,497)
Maintenance & repairs	(663)
Cleaning	(987)
Electricity	(1,213)
Insurance	(603)
Anchorage House	(41,449)
Total Programme Savings	(46,020)
Net Programme Costs / (Savings)	11,255 (25,679)