


Cabinet 1 December 2015	 TOWER HAMLETS
Report of: Corporate Director, Development & Renewal	Classification: Unrestricted
Asset Strategy 2015-2020	

Lead Member	Councillor David Edgar, Cabinet Member for Resources
Originating Officer(s)	Service Head, Corporate Property & Capital Delivery
Wards affected	All Wards
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

1. Executive Summary

- 1.1 The Asset Strategy Scoping, Principles and Priorities paper for Tower Hamlets for 2015-2020 sets out how the Council intends to develop the strategy for determining its ongoing and future needs, and move from the current position to a more fit for purpose streamlined estate efficiently and effectively.
- 1.2 The emphasis on improving asset management has been a priority for the Council now for a number of years. Previous Asset Management Plans have focussed on compliance with statutory and regulatory requirements and the implementation of a Corporate Landlord governance model. This provides the foundation for the development of the revised Asset Strategy, which is about ensuring that the Council has an efficient sustainable estate for the delivery of its ongoing services.
- 1.3 Property represents a significant investment to the Council in terms of capital employed, and a significant revenue cost year on year. In many cases property is essential to enabling service delivery, but its efficiency and effectiveness needs to form part of the wider financial challenge to ensure that waste is eradicated wherever possible, and the cost of property is recognised and justified.

The Asset Strategy Scoping, Principles and Priorities paper is appended in full at the end of this report as Appendix A.

RECOMMENDATIONS:

- 2.1 The Mayor in Cabinet is recommended to approve the proposed Asset Strategy Scoping and Priorities Paper and agree the priority work streams identified.

2. INTRODUCTION, CONTEXT AND DRIVERS

3.1 Local economy, population profile and growth projections

3.1.1 Tower Hamlets is the sixth smallest London borough, but London's fastest growing area. Population has increased by 30% over the last decade. Tower Hamlets is the 4th most densely populated London borough and the 7th most deprived nationally.

3.1.2 Employment is concentrated in Canary Wharf and the City Fringe which together provide 60% of the borough's jobs. Only 15% of jobs in the borough are taken by local residents – 85% are filled by commuting in, a third of whom are employed in financial services.

3.1.3 The number of households in Tower Hamlets has grown by 29% since the 2001 census (22,727 extra households)

Growth in employment and population has implications for the Council's services, and housing demand. The strong economy enables high values on land disposals, but securing affordable homes, schools and social infrastructure is increasingly more costly.

3.2 Local Priorities

3.2.1 The Council's priorities are communicated through a number of documents, including the Strategic Plan, and the Community Plan. The key elements of these priorities are:

- A Great Place to Live
- A Prosperous Community
- A Safe and Cohesive Community
- A Healthy and Supportive Community
- One Tower Hamlets

3.2.2 These priorities have a relationship with the Council's asset base, either as a resource to enable the building of schools and housing, or as a factor of production in the delivery of services.

3.3 Financial context and challenge – the need to make savings

3.3.1 The Government's austerity programme is set to continue with cuts in revenue support grant in Tower Hamlets from some £146m in 2013/2014 to below £85m from 2015-16. This enormous financial challenge will require root and branch review of services, costs and property to achieve the savings required.

3. THE OVERRIDING NEED FOR RATIONALISATION AND EFFICIENCY

4.1 The draft Medium Term Financial Plan (MTFP) that was considered by the Mayor in Cabinet in July 2015 assumes the use of general reserves over the period 2015-16 to 2018-19 of £24.7m.

Following a balanced budget in 2015-16, the draft MTFP indicates a budget shortfall of £23.9m in 2016-17, with further savings of £30m to be achieved in 2017-18 and £18m in 2018-19, before the use of reserves. CMT has a programme of budget reduction work focussing on the following principles:

- Lean, Flexible and Citizen Centred services to increase efficiency through rationalisation and alignment of functions and further improving and consolidating procurement.
- Service by service challenge to ensure effective delivery of priorities.
- Establishment of an approach to focus on longer term transformation opportunities designed to enable the Council to deliver key priorities for local people with a reduced budget.

4.2 The delivery of savings through proactive asset management forms a key work stream promoted by CMT and endorsed by Cabinet in the budget report presented in January 2015. This key work stream of the broad framework of savings proposals includes progressing current work on the corporate landlord model, driving out duplication, creating greater potential for efficiencies including updating the asset strategy, clarifying the buildings we need and identifying the costs and opportunities for more efficient use or disposal.

5. SUMMARY OF THE PORTFOLIO

5.1 The Council's property portfolio comprises:

- The Operational Estate – property used for the delivery of services.

- The shops portfolio – providing income to the Housing Revenue Account (HRA), and maintaining local shopping facilities.
- Council-owned Community Buildings.
- Surplus and vacant property.

The financial value as at 31st March 2015 is as follows:

<p>Total Asset Values as at 31 March 2015:</p> <ul style="list-style-type: none"> ➤ Land and Buildings (excluding HRA) = circa £1 billion ➤ Council dwellings = £975 million ➤ HRA non-housing assets = £62 million ➤ Council –owned Community Assets = £54 million ➤ HRA non-dwelling income = £3.5 million per annum

In total, excluding housing dwellings, the Council owns, occupies or maintains some 860 premises, all of which are located within the borough.

6. THE COUNCIL’S ADMINISTRATIVE HEAD QUARTERS

- 6.1 Mulberry Place, the current Town Hall is leased and costs around £6m a year. The lease expires in June 2020. The Council will have to relocate by September 2019.
- 6.2 The Whitechapel Vision identified the old Royal London Hospital site for a new Civic Centre and this has now been purchased by the Council from NHS Barts. The aim is to deliver this on an Invest to Save basis that will generate £91m of cumulative revenue savings at year 25 of the project, and create a publicly owned asset for the future. The project has the support of the Greater London Authority (GLA).

<p>To meet the 2019 deadline this project now needs to move to the delivery stage. A five year time horizon for relocation is challenging and will require dedicated resourcing. Any delay to progress will increase operational, financial and reputational risk.</p>
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7. FUTURE IMPLICATIONS FOR THE PORTFOLIO AND LINKS WITH OPERATIONAL STRATEGIES AND PLANS

- 7.1 This scoping strategy has been developed through consultation with service representatives, all of whom understand the need for significant savings.

- 7.2 The scoping strategy recognises demand for services is growing. There will be areas, particularly for statutory services, where ongoing growth needs to be planned.
- 7.3 This scoping strategy also reflects the move towards Smarter Working set out in the People Strategy, and the growing use of advancing technologies in the emerging ICT Strategy. These will change the way services are accessed and delivered, and will reduce future need for property.
- 7.4 Key elements of specific service planning requirements for property are set out in the Asset Strategy Scoping, Principles and Priority paper by directorate.

8. OVERARCHING POLICY AND HIGH LEVEL STRATEGY

- 8.1 The Asset Strategy Scoping, Principles and Priority paper highlights the need for overarching policy to inform the delivery, including the adoption of the following principles:
- Relocation of the Council's HQ as a priority project.
 - No more non statutory land and buildings unless the revenue costs are covered.
 - Value for money review of all operational and non-operational property in response to service delivery plans, such as the Idea Store Service Strategy.
 - Specific property reviews to identify:
 - Poor performing buildings,
 - Properties to become surplus in the next 5 years
 - Options for improving sustainability and value for money
 - Options for co-location with internal and external partners
 - Options for contributing to housing and other statutory need
 - Non-property options for service delivery
 - Council wide acceptance of the need to rationalise and dispose of surplus property.
 - Links between the use of Council assets and the need for new and improved infrastructure in the borough.
 - A lettings and charging policy for council-owned Community Buildings.

- Commercial rent charges for Council owned shop units.

9. **IDENTIFIED WORKSTREAMS**

9.1 Implementation of the strategy will be through a series of programmed and monitored work streams, as summarised in the table below.

PRIORITY 1 PROJECTS Inception and implement within 3 months, duration variable.	PRIORITY 2 PROJECTS Inception within 6 months for implementation within 9 months, duration variable.	PRIORITY 3 PROJECTS Inception within 12 months for implementation within 18 months, subject to dependency on outcomes of earlier projects.	ONGOING PROGRAMME OF WORKS Arising from outcomes of projects, for implementation over the next 5 years according to property and realistic timetables.
<ul style="list-style-type: none"> ➤ Adoption and Implementation of strategic principles as at 7.0 in the scoping paper ➤ New Town Hall project as at 8.1 in the scoping paper. ➤ High level operational property review as at 8.2 in the scoping paper. ➤ Governance review of HRA non- housing property as at 8.3 in the scoping paper. ➤ Community Buildings Options (ongoing) as at 8.4 in the scoping paper. 	<ul style="list-style-type: none"> ➤ Detailed review of 20% worst performing properties identified from High Level Operational Property Review as at 8.5 in the scoping paper. ➤ Service based reviews as set out at 8.6 in the scoping paper. 	<ul style="list-style-type: none"> ➤ Review of HRA shops as set out at 8.7 in the scoping paper. 	<ul style="list-style-type: none"> ➤ Development of a detailed Asset Management Plan setting out: <ul style="list-style-type: none"> ➤ Relocation of services as appropriate. ➤ Disposal of surplus property identified. ➤ Investment in property to be retained for the long term. ➤ Investment in retained property to reduce running costs. ➤ Acquisitions.

10. **RESOURCING IMPLICATIONS, NEXT STEPS, IMPLEMENTATION AND RISKS**

10.1 The implementation of the Asset Strategy and Asset Management Plan for Tower Hamlets has resourcing implications across the Asset Management Function and across all service areas. To succeed, timely and adequate resourcing will be required. Delivery of the Asset Strategy is a corporate priority with Member and senior officer level commitment.

10.2 The next stage is the development of Scoping Papers and a programme for each work stream.

- 10.3 The programme of projects will be managed through the existing Asset Management Governance framework, reporting to the Capital and Asset Management Group, and ultimately to the Director of Resources and CMT.
- 10.4 The absence of an identified Target Operating Model for the Council makes it challenging to plan for future property needs. A clear future direction would significantly reduce this risk, and would enable collective corporate buy-in to the inevitable change that needs to take place. This represents the single largest risk to delivery.

11. ANTICIPATED OUTCOMES

11.1 The anticipated outcomes are as follows:

- Intensification in the use of retained buildings – Measurable in occupancy per M2
- Greater co-location of services, and integration with partner organisations - Measurable in quantity of shared floor space
- Reduction in floor space occupied by the Council – Measurable in total floor space
- Disposal of poor and inefficient property - Measurable in number of disposals and capital receipts
- Retention of suitable buildings - Measurable by decisions made to retain and invest
- Replacement where needed (e.g. new Town Hall)
- Reductions in running costs– Measurable by costs per M2
- Improvements in income generation – Measurable by income per M2
- Better use of planning benefit – no new buildings without revenue support
- Transparency and consistency in the management of council-owned community and non-operational property, to maximise income and support social outcomes
- The development of property information that will enable targets to be set for:
 - Improvements to average running costs
 - Annual revenue savings
 - Capital receipts that can be generated
- A sustainable and affordable estate that supports service delivery.
- Consideration of co-location, where appropriate, to ensure the maximisation of assets along with the provision of much needed infrastructure.

12. REASONS FOR THE DECISIONS

- 12.1 To set out how the Council will determine its ongoing and future property needs, and move to a more fit for purpose effective and efficient estate for the future where we will;
- own and occupy fewer buildings.
 - reduce the running costs of our buildings.
 - will maximise overall returns from income producing properties.
 - increase the occupancy levels of our buildings and maximise opportunities for co-location of services (including partners).
 - challenge the business case for retaining properties and sell surplus properties in a timely and efficient manner.

13. ALTERNATIVE OPTIONS

- 13.1 Do nothing and miss the opportunity to make significant efficiencies and savings through a more tailored and proactive management of the Council's significant and valuable asset base. This would mean that the Council continues to rely on previous asset management plans and strategies which are now historic and outdated. The previous plans and strategies responded to central government best practice guidance, and the need for the Council to have adequate information on its portfolio and appropriate systems in place to address compliance with statutory and regulatory requirements in respect of repair, health and safety and compliance. These issues are now addressed and present the Council with the opportunity to seek savings, efficiencies and rationalisation of assets. Cabinet may choose a different strategy from that proposed, but the strategy at Appendix 1 is recommended for reasons set out in the report and a different approach may require further analysis.

14. COMMENTS OF THE CHIEF FINANCE OFFICER

- 14.1 In common with other local authorities, the Council continues to face severe budgetary reductions as outlined in paragraphs 3.3 and 4.1. This report seeks approval for the adoption of a revised Asset Strategy for the period from 2015-16 to 2019-20 which will complement the introduction of a Corporate Landlord model to determine property needs and should enable assets to be used more efficiently. This approach underpins several of the key strands that the Council has developed to deliver savings through the budget process.
- 14.2 The proposed Asset Strategy has been prepared in the context of the significant demographic, service and financial changes that are likely in the

period to 2020, and recognises the importance of efficient and effective asset management in supporting the delivery of services. It sets out the Council's short term and medium term approach to capital investment, and will ensure that future capital needs and decisions about the use of resources are prioritised to need.

- 14.3 A recent stock condition survey undertaken on the wider council portfolio of buildings and an analysis of the survey output has been carried out to support a planned maintenance programme. As a result, as part of the 2015-16 budget process, a growth bid of £803,000 was approved to finance an initial planned maintenance programme to protect the Council's assets and ensure investment is prioritised on assets with the greatest service value in accordance with the objectives of the revised Asset Management Strategy.
- 14.4 It is important that the Council has a clear view about the future role of property assets and the role of the Asset Strategy goes beyond an Asset Management plan approach to look towards the longer term – it seeks to capture all future property needs and to develop a method of achieving them. This is essential when the Council is currently in the process of relocating to a new civic centre when the lease on the current town hall at Mulberry Place ends in 2020.
- 14.5 Cabinet, on 3 November 2015, will consider the preferred location of the new civic centre. The relocation of the civic centre will require major capital investment which will have to be financed from within the limited resources available to the capital programme. A full assessment of the funding need will be undertaken once the investment costs are finalised, however it is assumed that there will ultimately be a requirement for significant borrowing to be undertaken with the consequential impact on revenue budgets of the debt charges. In order to mitigate these costs it will be necessary to generate capital receipts from asset sales to provide a 'cross subsidy. The realisation of capital receipts from the disposal of assets that are declared surplus to the council's operational requirements is essential if the relocation project is to be viable, and proposals are incorporated into the asset strategy.
- 14.6 The revenue costs of preparing the asset strategy have been met from within existing resources.

15. LEGAL COMMENTS

- 15.1 The asset strategy is concerned with reviewing the Council's estate with a view to rationalisation and efficiency. This appears consistent with the Council's duty, as a best value authority under section 3 of the Local

Government Act 1999, 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.”

- 15.2 To the extent that any review proposes disposal of property, the Council will have to carry out such disposals within its statutory functions. In relation to general fund land, the Council must comply with section 123 of the Local Government Act 1972 and in relation to housing land it must comply with section 32 of the Housing Act 1985.
- 15.3 Under section 123 of the Local Government Act 1972, the Council may dispose of its land in any manner that it may wish. However, except in the case of a short tenancy, the consideration for such disposal must be the best that can reasonably be obtained. Otherwise, the Council requires the Secretary of State’s consent for the disposal.
- 15.4 Section 32 of the Housing Act 1985 permits the Council to dispose of land held for housing purposes. Such a disposal may be effected in any manner but the Council must have the consent of the Secretary of State unless the disposal is a secure or introductory tenancy.
- 15.5 On 17 December 2014, the Secretary of State made directions in relation to the Council pursuant to powers under section 15(5) and (6) of the Local Government Act 1999. Those directions are in place until 31 March 2017. The Secretary of State appointed Commissioners whose prior written agreement is required to the disposal of property other than existing single dwellings for residential occupation.
- 15.6 In carrying out its functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). A proportionate level of equality analysis is required and information is contained in section 16 of the report relevant to these considerations.

16. ONE TOWER HAMLETS CONSIDERATIONS

- 16.1 The role of the Asset Strategy is to support the delivery of council services, by ensuring suitable properties are available to accommodate a wide variety of services. This allows the council to deliver on its One Tower Hamlets aspirations as set out in the Strategic and Community Plans.

- 16.2 One of the key outcomes of the refreshed Asset Strategy will be the rationalisation of the council's asset base and disposal of poor and inefficient properties. These disposals will raise capital receipts which will be available to support all service areas in delivering on the council's Community Plan objectives.
- 16.3 In some cases, rather than dispose of properties, it may be appropriate to consider if the council will be able to redevelop sites in order to provide new low cost housing. This will be based on the suitability of the site/s and the availability of funding. These developments will provide social housing for the borough's residents on the Common Housing Register, many of whom are living in poor and overcrowded accommodation.
- 16.4 An equality analysis quality assurance checklist has been completed and is attached at Appendix B.

17. BEST VALUE (BV) IMPLICATIONS

- 17.1 The Asset Strategy is entirely focussed on the Council achieving efficiency through the strategic use of its property assets for the maximum benefit and use of service delivery and forms part of the council's "arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness".
- 17.2 It aims to reduce the number of buildings that the Council owns and occupies, therefore reducing associated emissions and costs that go with ownership and occupation. Assets that are surplus will be disposed of and the receipts re-invested in to other service priorities.
- 17.3 Buildings that the Council retain will achieve suitable investment to make sure that they are efficient and that running costs are reduced. The asset strategy looks at opportunities to increase the occupancy levels of buildings and maximise opportunities for co-location of services, including partners.

18. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 18.1 The rationalisation of the Council's asset base and disposal of poor and inefficient property together with intensification of suitable retained buildings coupled with a reduction in running costs will reduce the council's Co2 emissions.

19. RISK MANAGEMENT IMPLICATIONS

- 19.1 The main risk in relation to the Asset Strategy relate to holding on to assets that are surplus to requirements. These vacant buildings represent a risk in the form of squatting and the associated anti-social behaviour. This also presents a financial cost in relation to securing the building while it is vacant and the costs associated with securing vacant consent if the property does become squatted.
- 19.2 Squatting and the associated anti-social behaviour impacts on the lives of the residents and businesses who live and work in the vicinity of the squatted property.
- 19.3 An additional risk in delivering on the refreshed Asset Strategy will be the level of buy-in from directorates. As a corporate strategy, it will rely on directorates identifying their property requirements by producing services plan which will identify space and volume requirements.
- 19.4 Any projects risks will be considered on a project-by-project basis. These will be identified, managed and monitored using the council's standard risk management approach, including escalation as a corporate risk when required.

20. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 20.1 In instances where the Council are holding on to assets that are surplus to operational/service requirements and are not being occupied, this represents a significant risk in the form of squatting and the associated anti-social behaviour that goes with it.
- 20.2 The Council has in the past spent significant sums in securing premises against squatting, taking legal action against those who gain access to buildings and unlawfully squat in order to regain possession. Often once possession has been secured, there are usually additional costs in remedying the damage that more than often goes with squatters and their treatment of property they occupy.
- 20.3 By disposing of surplus property in a timely fashion as part of a programmed disposal strategy the Council can mitigate risk and cost by not having buildings sat empty.

21. SAFEGUARDING IMPLICATIONS

21.1 There are no immediate safeguarding implications arising from this report.

22. Appendices

22.1 Appendix A – Asset Strategy 2015-2020 DRAFT 2

22.2 Appendix B – Equality Analysis Quality Assurance Checklist