

<b>Committee(s)</b> Corporate Assets Sub Committee  Efficiency and Performance Sub-Committee	<b>Date(s):</b> 22 July 2020  16th September 2020
<b>Subject:</b> Asset Management – Progress Report	<b>Public</b>
<b>Report of:</b> City Surveyor	<b>For Information</b>
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### Summary

Following approval to the Asset Management recommendations by Corporate Asset Sub-Committee and Finance Committee in April 2019, officers have made significant progress in implementing the 17 recommendations. The implementation of these recommendations now provides a better platform for more efficient and effective asset management across the operational property estate, as progressed through the officer Operational Property Change Board and further evidenced by a strong pipeline of potential asset management opportunities.

Highlights from the implementation include the establishment and direction of the cross departmental officer Operational Property Change Board (OPCB), a set of new core standard processes for asset management activities and Operating Agreements between the City Surveyor’s Department and Service/ Institutional Departments, progression of the smarter Guildhall Workplace, and replacement project initiated for the core property database OPN ( Oracle Property Manager).

Members are reminded the recommendations were approved on the assumption the existing ‘decentralised’ model for asset management on the operational property estate would remain as the operating model. Since then the Fundamental Review, the Governance Review, Target Operating Model and latterly Covid 19, have arisen which may have significant implications on the future implementation of the model of asset management and the governance arrangements that support it, such as Committee Terms of Reference, Standing Orders and Officer Scheme of Delegations. Accordingly, some recommendations have been progressed only to a point where it has been approved at officer level as previously advised to this committee in January 2020 e.g. to defer any further changes to Committee Terms of Reference and Officer Scheme of Delegations to give greater force to Standing Orders and compliance with new process and reporting requirements until these reviews have progressed further.

Notwithstanding the above, officers are confident the series of improvements to asset management, not least the maturing of Asset Management Plans and progression of the pipeline of opportunities, will continue to deliver added value and

efficiency to the City's management of its operational property estate, whatever the outcomes of the ongoing reviews.

The dedicated funding for the current programme has now closed. However, the need to manage our operational assets efficiently remains as important as ever, with an increased focus on realising revenue opportunities (either through reduced operational costs and/or additional revenue from underutilised assets) to support the City's medium-term financial position. Driving through these opportunities has continued resource implications; the risk is that without investment (or reprioritisation of existing objectives) any significant progress towards the realisation of financial benefits from opportunities and momentum in asset management planning will be delayed whilst the outcome of Fundamental Review and delivery of a new Target Operating Model is awaited.

The City Surveyor's Corporate Property Group has a strong track record of delivering enhanced capital receipts and increased revenue from the operational estate. In the past 3 years, CPG have delivered £69.5m of capital receipts and circa £4.2m in additional revenue (over and above additional revenue secured through lease management of the exiting third-party tenant portfolio). Accordingly, to maintain momentum, officers propose bringing forward a business case for the recruitment of additional fixed term contract posts to deliver identified revenue opportunities and continue to embed the recommendations (those completed and those still in progress or temporarily on hold due to the Fundamental and Governance Review)

## **Recommendations**

Members are asked to:

- Note the progress made with Asset Management recommendations
- Note where implementation of some recommendations has been paused so that when implemented they can be aligned with the outcomes of the Fundamental Review, Target Operating Model and Governance Review.
- Note this report will be followed by a business case and bid for additional resources (or reprioritisation of existing resources) to support delivery of the identified pipeline of high priority asset management opportunities to ensure that momentum is not lost in longer term asset management planning.

## **Main Report**

### **Background**

1. In April 2019, Finance Committee approved funding of £212,736 from Transformation Fund for two consultancy roles from Avison Young (Programme Manager and Departmental Seconded) for 12 months to support and co-ordinate implementation of the recommendations.
2. The Programme commenced in April 2019 with officer governance and oversight by the new Operational Property Change Board established under

the Chairmanship of Assistant Town Clerk / Director of Major Projects with senior officer representation from all relevant Service/ Institutional Departments, City Surveyor and other Corporate support services.

3. To the 31<sup>st</sup> March 2020, the expenditure incurred was £179,000, an underspend of £33,000 against the approved budget. The dedicated funding for this programme has now closed.

### **Current Operating Model for Asset Management**

4. Following extensive officer consultation, the Service Based Review report by GVA in 2018 did not propose fundamental change to the current officer governance arrangements, whereby, with the exception of core Corporate estate of Guildhall and Walbrook Wharf that is managed by the City Surveyor, Service/ Institutional Departments have responsibility for decision making and control over their assets and property income within Standing Orders. These Departments are supported by the City Surveyor's professional team and other corporate services, with member governance exercised through Committees and Corporate Asset Sub Committee as per existing Terms of Reference.
5. The approved recommendations sought to introduce improvements to this existing Operating Model and asset management practice that was capable of driving greater efficiencies from the operational estate and a consistency of approach (as represented in the diagram in Appendix 1).
6. Since September 2019 however, it has become apparent that the Fundamental Review will propose a new Target Operating Model (TOM) for the Corporation with associated changes to the organisational structure. When delivered, this could have implications for a number of the recommendations and how they are progressed. Accordingly, this report also identifies where full implementation of specific recommendations may be deferred until the impact of Fundamental Review and the TOM is fully understood and agreed, along with any changes to Member governance under the Governance Review.

### **Asset Management Recommendations – Progress and Status**

7. A detailed summary of progress and status of all recommendations is included in Appendix 2. Briefly, 6 recommendations are implemented, and 11 are partially implemented pending further conditionality.

### **Asset Management Opportunities across the Operational estate**

8. The Corporate Property Group (CPG) within the City Surveyor's department has a strong track record of negotiating and delivering enhanced capital receipts and increased revenue from the operational estate. In the past 3 years, CPG have delivered £69.5m of capital receipts and circa £4.2m in additional revenue (over and above additional revenue secured through lease management of third-party tenant portfolio).

9. The progress made now provides a better platform to build on the success identified in paragraph 8. To this end, the CPG have collated a pipeline of opportunities that could be delivered through proactive asset management. These include:

- Future capital receipts of up to c. £60-70m forecast from identified disposal targets to 2023 that will support the Corporation's Medium-Term Financial Plan.
- Other opportunities to release land and buildings for disposal, generate new income streams, and deliver schemes that will improve or future proof services. These cannot all be fully quantified but includes assets with book or estimated market value of c.£350m and income potential of c £3m per annum.

10. In the longer term, the more proactive approach to Asset Management Plans will help better decision making and drive out further opportunities for capital and income generation through a robust and comprehensive 'asset challenge' programme. Benchmarks in GVA's 2018 report projected income growth and the reduction of occupancy costs from more effective asset planning and decision making in a conservative range of 1.5-2.5% which would equate to £1m to £1.5m p.a. benefit.

11. The timing and extent to which all of the above receipts and savings are achievable through an accelerated programme can only be assessed through further investment in asset management expertise as outlined below.

### **Resource Implications**

12. The governance changes, new operational processes and reporting requirements introduced will support the delivery of this pipeline by setting out a clear and rigorous approach to specific activities that should ultimately reduce the risk of re- working and delays in execution, that have been features of some projects over recent years.

13. Staff capacity is limited within City Surveyors and Service Departments to develop and progress these high value and complex opportunities and at the same time engage effectively in the asset challenge process and development of the next generation of asset management plans. Similarly, current governance arrangements, for example competing service departmental objectives, may also influence which of the pipeline of asset management opportunities are given priority and appropriate resources allocated to the same. Covid 19 and support for our operational tenants is also putting pressure on our existing resources.

14. Subject to your committee's support, a full business case will be prepared and submitted for approval to seek additional project focussed resources to progress and achieve outcomes for the pipeline of opportunities.

## Conclusion

15. The programme has made substantial progress in implementation of the previously approved asset management recommendations. Some have been implemented in full, others have been partially implemented and will continue to be implemented. A number of recommendations have been taken to a point where it is sensible to defer further action until the implications of the Fundamental Review and Governance Review are clear.
16. Whilst the Fundamental Review may in due course require the review and reshaping of some of the outputs delivered by this programme, the requirement for the Corporation to drive value and efficiencies from its substantial operational property asset base to support its medium term financial position will remain - and this can only be achieved through reinvestment in asset management and the targeting of strategic property expertise in the right areas.
17. Despite a strong track record in delivering enhanced capital receipts and additional revenue, the risk is that without further investment in asset management, progress towards the realisation of financial benefits from revenue opportunities and momentum in asset management planning will be slower.
18. The dedicated funding for the current programme has now closed. The recommended next step therefore is to bring forward a business case for appropriate additional resources or reprioritisation to support delivery of additional savings and capital receipts.

## Appendices

- Appendix 1 – Current Operating Model for Asset Management
- Appendix 2 – Progress and Status

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