LOCAL GOVERNMENT IN SCOTLAND ACT 2003

Asset Management under Best Value Advisory Note

ASSET MANAGEMENT UNDER BEST VALUE – AN ADVISORY NOTE

ABOUT THIS DOCUMENT

This document is issued by the Best Value Task Force in response to requests to provide a more discursive advisory note on asset management, and why it is important to Best Value. Current evidence suggests that one in four Scottish authorities have made little or no progress in improving their asset management under Best Value, and only half consider property issues during Best Value reviews.

The advisory note is not statutory guidance. It is intended to support local authority senior managers in their interpretation of their obligations under the Local Government in Scotland Act 2003 (the 2003 Act). This Act was designed to remove barriers to innovation by local authorities, but within a legislative framework that secures Best Value, improves accountability for the use of public assets and public funds and encourages local authorities to keep within the parameters set by procurement and competition law.

A list of more detailed reference documents on asset management is given at the end of the note.

LEGISLATIVE BACKGROUND

Five provisions in the 2003 Act are directly relevant to the issue of asset management by local authorities. They are:

(a) the duty to make arrangements which secure Best Value (section 1)

(b) guidance on the characteristics of an authority which secures Best Value (section 2)

(c) the function of determining and keeping under review the amount to allocate to capital expenditure, also known as the prudential capital regime (section 35)

(d) the power to enter into agreements for the construction or maintenance by the authority of buildings and works (section 9)

(e) changes to the power to dispose of land for less than full value (section 11)

The duty of Best Value applies to everything the authority does. Guidance issued under s2 of the 2003 Act makes it clear that a local authority which secures Best Value will be able to demonstrate sound management of resources, including the asset base (see paragraph 5 of Chapter One and paragraphs 7 and 8 of Chapter Four of the guidance on Best Value issued under s2(1)(b) of the Act by the Best Value Task Force[1]).

The Best Value duty also has more direct implications for asset management:

- management arrangements must secure continuous improvement
- the authority must look to find a balance between quality and cost in decisions relating to the procurement and use of assets
- the authority will be expected to ensure that the decisions taken contribute to the achievement of sustainable development, as well as meet purely economic criteria. This includes sustainable long term programme management of assets.

Local authorities are further required to have regard to the *Prudential Code for Finance in Local Authorities*[2] in determining their capital expenditure under s35 of the 2003 Act. This Code emphasises the importance of asset management planning in making such determinations.

Finally, local authorities are bound by a duty of public accountability under s13 of the 2003 Act. They should consider how best to discharge this obligation in relation to asset management, after having had regard to the statutory guidance published under that section.

The practical implications of these requirements are discussed in more detail in Annex A.

1 http://www.scotland.gov.uk/library5/localgov/lgsbvg-00.asp
2 published by the Chartered Institute of Public Finance and Accountancy

WHAT IS ASSET MANAGEMENT AND WHY IS IT IMPORTANT?

The 32 local authorities in Scotland control land, property, plant and equipment worth £billions (currently estimated at £15 billion), whether funded through central or local government taxation or held for the common good. The management of these public assets and the loans which help to support them constitute the second highest cost on revenue budgets after employee expenses. It follows that any improvement in the strategic and operational management of capital assets could have a real impact on the financial resources available to the authority concerned, as well as to other public sector bodies which might be collaborating with the authority in Community Planning or in order to secure cross-public sector efficiencies in pursuance of the Efficient Government agenda.

Asset management is a key component of Efficient Government, which will evaluate current arrangements for asset management within the public sector as a whole and will not view individual organisations in isolation from each other. Efficient Government is about joining up and authorities should ensure that they are considering the scope for greater sharing and more strategic use of public sector assets.

With the introduction of the prudential capital regime, pressure on revenue budgets to fund capital infrastructure investment is a permanent management issue for each authority. Authorities are under direct pressure to improve the school estate, social housing provision and the condition of local roads, and evidence of good asset management may become a condition of discretionary grants. Good asset management can also help the authority contribute to the achievement of sustainable development, which is part of its obligations under Best Value.

Most important of all, appropriate use of assets in the right location can make the difference between good and poor service delivery. The whole point of asset management is to ensure that the front line services provided by the authority are done so via the most effective and efficient property portfolio. As such, a strict interpretation of the authority's corporate objectives is necessary in order to assess the overall size and nature of the portfolio required.

Efficient asset management will enable an authority to:

- Assess the make-up of the best portfolio required to deliver the given services
- Minimise occupation costs, and maximise property efficiency
- Maximise efficiency of service delivery
- Facilitate long term planning in the context of corporate objectives
- Develop corporate thinking
- Develop valuable long term partnerships
- Free up resources for reinvestment, should the financial policy of the authority allow it, and subject to the Prudential Code
- Allocate resources effectively to areas of greatest need
- Account to the public for its use of public assets

DEFINITIONS

Although practices may vary, the underlying principles of good asset management remain the same, and it is important that they are commonly identified and clearly understood by those working in the public sector in Scotland. Technical definitions of capital assets, fixed assets, or tangible physical assets can vary: this advisory note could be applied to vehicles, ICT systems, and stock but for working purposes it will be concentrating primarily on infrastructure, land and property (including all operational and non-operational property assets as defined by CIPFA). This includes farmland, industrial premises, vacant or derelict land, social housing, schools, offices, social work buildings, care homes, cultural and leisure facilities, depots, roads and bridges.

Asset management is commonly defined as the full life cycle management of such assets in order to maximise their advantage. It covers site acquisition and disposal, the replacement and remodelling of buildings, roads and bridges to include extensions and improvements, plus the management and maintenance of such capital infrastructure assets. From a financial standpoint, regard must also be made to the opportunity cost of such assets, i.e. the costs of having capital tied up in the asset rather than available for investment.

Good asset management usually meets the following criteria:

- The authority knows what is in its asset portfolio, where those assets are and who is responsible for their upkeep (usually this means that each asset assigned a short asset statement: these are summarised into service asset statements which support the corporate asset management plan)
- The authority has developed a means of relating the assets in its portfolio to its wider objectives, thus providing a basis for investment and disposal decisions and for setting priorities between them
- The asset portfolio is reviewed regularly, both on a department wide and an authority wide basis, according to criteria set centrally and used consistently across the authority
- The authority has considered both long term (5-10 years) and shorter term objectives
- It links the use of assets to the use of other resources
- Decisions about reviews, additions, disposals, maintenance programmes and collaboration with other partners are taken systematically and implementation is monitored by members

RESPONSIBILITY FOR ASSET MANAGEMENT PLANNING

Responsibility for asset management within each local authority should be shared by senior managers, and supported by appropriately skilled officers who can work across service departments to deliver a coherent and co-ordinated overall strategy. This means both a high level strategic decision-making group (perhaps at member level) and a cross-service senior management forum, in order that any decisions regarding property assets under the property strategy are made in an informed way by both senior personnel and with a property advisory input.

Often such officers are also charged with auditing the property portfolio and the maintenance of an asset register, and there is an authority-wide responsibility to ensure that such a register is kept up to date. See Annex B.

Certain parts of the authority, such as housing or education, will have their own relatively specialised requirements for asset management planning and a certain amount of delegated authority. But most of the requirements are simple and standard. For example, the guidance on School Estate Management Plans sets out some useful advice on producing an asset management plan. It breaks the process down into six steps:

Step 1: definition of local objectives

Step 2: assessment of current position

Step 3: consideration of options

Step 4: development of the plan

Step 5: implementation

Step 6: monitoring, review and evaluation

Good practice suggests that all services which have specific responsibility for property should develop simple service-based asset management strategies, which set out their need for property in service delivery and how it is likely to develop in the future and form part of departmental business plans. In turn these should be integrated into a broader, council-wide picture.

This means making sure that there is consistency of format in data collection. While individual service departments will maintain their own operational data, a set of cross-comparable data needs to be made accessible and comprehensible to key decision-makers.

Asset management often involves making choices between options, such as refurbishment or new build. Such decisions should be informed by a formal option appraisal process. Authorities need to know the ongoing costs of maintenance for current assets – and, for new build, maintenance costs over the expected life of the asset – and include such routine overheads in budgets. Good stewardship of existing assets – including adherence to approved maintenance schedules – is the key to ensuring that expenditure is effective and that future liabilities are kept to a minimum, since the neglect of minor repairs may lead to major repairs in the future.

ROLE OF ELECTED MEMBERS

Capital assets are as important a resource as cash, and councillors should be aware of the strategic importance of good asset management at the highest level. Officers would also benefit from the designation of an elected member to ensure that asset management considerations are taken into account in policy and operational discussions at a political level. In addition, a clear statement of asset management policy, formulated in a way that does not contradict the overall vision for the authority, identified and adopted by members (see Chapter 1 of the guidance on Best Value issued under s2(1)(b) of the Act by the Best Value Task Force), can be a useful reference in discussion.

REALISM IN STRATEGIC PLANNING

An authority needs to have a firm grasp on current assets before it can consider future requirements. It should also be aware of assets held by neighbouring authorities and other local public sector organisations. This is important for assessing the potential for sharing assets if this is the most efficient option. But there are also other considerations. Planning needs to be realistic and adaptable. There is little point in building an extension to a building scheduled to make way for redevelopment, selling land which would meet the need of another service area within the authority, allowing buildings to become unsafe through poor maintenance, or decommissioning assets without reference to Community Planning partners.

External factors, such as changes in government policy or changes in legislation, environmental factors such as coastal erosion or increased flooding risks, and macroeconomic factors such as increases in inflation, will all need to be taken into account. Changes in demographic or economic factors may also lead to increased need for certain services and decreased needs in other sectors. The increasing use of e-government is changing accommodation needs and the future use of technology will be a factor in office space provisioning.

REVIEW OF ASSUMPTIONS

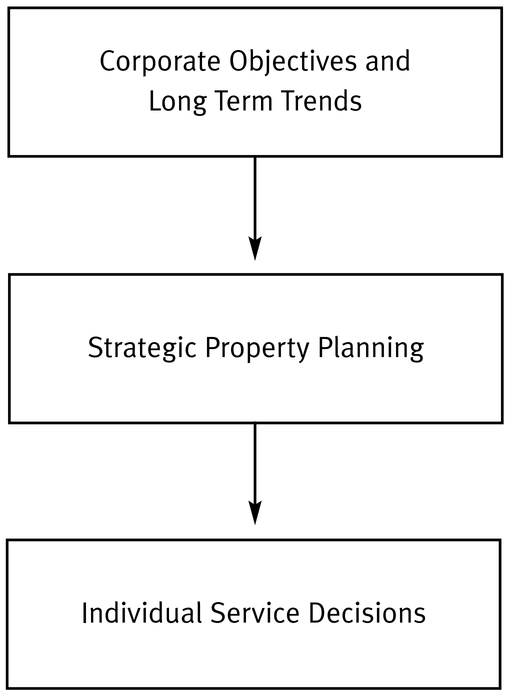
At intervals local authorities should consult on and review the assumptions and practices which underpin their corporate planning, and this may have implications for the way assets are managed. Some assets are held for social purposes rather than direct financial benefit, and such reasons should be recognised and recorded. If so, the authority should also consider whether it is the organisation best placed and equipped to take charge of the asset. The development of a commitment to sharing joint office premises or depots, increased home working or the use of new layouts might all reduce the need for space; a decision to investigate housing stock transfer or a schools PFI may change the way needs are to be met; and adherence to a relocation policy may increase the options considered fit for purpose.

IDENTIFYING PRIORITIES

Once an authority has considered how well its asset base meets current and predicted requirements, it will be able to make meaningful decisions about what is needed to achieve its objectives, what time frames are at issue, and an order of priority for investment.

Prioritisation across service departments is by no means simple. Strategic property planning should be expressed in terms of organisational and corporate objectives, and take into account the views of councillors, tenants, buildings maintenance staff and senior officers as well as relevant external stakeholders.

Individual service decisions about property asset plans should in turn relate to the strategic planning process. Without these relationships being made clear the authority's decisions about investment, disposal, and change of use will seem incoherent, and there will be increasing pressure to reduce the authority's discretion over use of the income generated by assets (including disposal proceeds).



REDEPLOYMENT/DISPOSAL

After review, an authority may decide that certain tangible assets no longer support corporate objectives, are surplus to requirements or have surplus capacity. There should be an automatic assumption of disposal, if the assets would otherwise be held indefinitely with no purpose in mind. But if the property in question can be put to alternative use such uses should be examined, and the issue of redeployment or partnering with another organisation to share the property should be considered. One means of doing so will be via local Community Planning arrangements or discussions with neighbouring local authorities.

Where disposal would be the option most likely to achieve Best Value, the asset should normally be disposed of for its full current market value. Normally disposals are a matter for the authority: but if an authority wishes to dispose of assets held in the Housing Revenue Account, it will need to seek the consent of Scottish Ministers (under s12 of the Housing (Scotland) Act 1987).

Sometimes a property asset is worth less than the land upon which it sits, or the cost of demolition prevents a good market receipt. Formal options appraisal may do little more than identify the least costly option, and the temptation will be to leave the asset sitting vacant or derelict. Authorities need to consider three things here: the ongoing cost of making such sites safe and secure; the indirect impact of a refusal to make any more fundamental investment in the site; or whether the asset could be put to better use by other public sector providers in the area.

If the authority wishes to dispose of any land and property assets at less than the current market value the disposal will need to meet criteria set under the auspices of s74 of the Local Government (Scotland) Act 1973 (as amended by s11 of the Local Government in Scotland Act 2003).

FURTHER READING

A number of organisations specialise in asset management and are willing to give advice to public sector bodies. Organisations contacted during the preparation of this advisory note include the Federation of Property Societies, the Royal Institute of Chartered Surveyors, James Barr and Redpoint Asset Management.

Hot Property – Getting the Best from Local Authority Assets, Audit Commission (2000)
http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/910C1FD0-F8D4-486C-8EBD-0C680929E154/archive_nrhotprp.pdf

Building Better Services, IPF/FPS(Scotland)/CIPFA joint publication 2003

CIPFA Capital Accounting Review – Interim Position December 2002
http://www.cipfa.org.uk/pt/capitalreview.cfm

DTLR Implementation of Asset Management Plans and Corporate Capital Strategies: Baseline Report
http://www.local.dtlr.gov.uk/research/finance/index.htm

Scottish Public Finance Manual, in particular on Disposals
http://www.scotland.gov.uk/library5/finance/spfm/spfm-39.asp

HM Treasury Green Book – Appraisal and Evaluation in Central Government
http://www.hm-treasury.gov.uk/Economic_Data_and_Tools/greenbook/data_greenbook_index.cfm

Building Our Future: Scotland's School Estate, School Estate Management Plans, and Core Facts, Scottish Executive (2003)
http://www.scotland.gov.uk/library5/education/semp-00.asp

Option Appraisal – Building Our Future: Scotland's School Estate, Scottish Executive (2004)
http://www.scotland.gov.uk/library5/education/seoa-00.asp

Highway Asset Management: Worldwide Experience and Practice
Framework for Highway Asset Management in the UK
Both published by the County Surveyors Society (2004). For availability see **http://www.cssnet.org.uk/public/publications/publications.htm#LIST%20OF%20SOCIETY%20%20PUBLICATIONS**

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ANNEX A

MANAGEMENT ISSUES

Requiring an asset management plan

Although the provision of an Asset Management Plan (AMP) will not necessarily provide effective management, appropriate mechanisms need to be in place to ensure that asset management supports the council's corporate objectives.

An authority will need to address:

- Corporate Aims, Objectives and Strategies
- How property assets might support them
- Statement of Current Portfolio and Condition Surveys
- Data Management (Asset Register, Asset Valuation, Asset Rents)
- Key Areas and Options for Change
- Preferred Options and implementation strategies
- Capital Strategy – Expenditure and Receipts
- Revenue Strategy – Maintenance Plans, Facilities Management
- How performance can be monitored to ensure continuous improvement
- Audit and Review.

Benchmarking

Benchmarking is absolutely essential to maximising efficiency, and improving methodologies. The performance of the property portfolio needs to be assessed and monitored on a regular basis to ensure continued effectiveness, particularly if there are any changes to the way services are delivered, changes in the location of jobs or changes in the property markets. This process needs continually to assess property performance against service delivery requirements, and changes to priorities identified within the corporate property strategy.

There are a number of standard measures for aspects of asset management, such as the investment rate of return on rental property. The use of standard condition survey categories (such as those used in schools estate management plans) allow consistency and comparability within and between authorities. The use of UPRNs (unique property reference numbers) is a standard way to ensure that all properties have been identified accurately.

Where standards are not universal, the injunction in Best Value to "Challenge, Compare, Consult and Compete" becomes less straightforward, but benchmarking groups are one way of establishing base indicators and sharing information. Data collected should be able to withstand year-on-year comparison within an authority as well as being capable of comparison with the performance of other authorities.

Funding

Asset registers should support decisions about how to make best use of funding. Local authorities usually distinguish between a Capital Programme and a Revenue Programme. Asset management needs to take account of both. The capital programme involves the acquisition and disposal of tangible assets, and the revenue programme covers the income generated from these assets.

Financial Management

Management reporting and accounting and maintenance of an asset register are inter-related. Property assets should never be allowed to be considered a ‘free’ resource, as service departments will lose the incentive to improve the efficiency of their accommodation. Development of the ‘Corporate landlord’ approach is an accepted way to ensure this does not happen. A notional rent is charged to each department for the space they occupy, and it appears on their budget on a quarterly basis.

Annual asset valuations are carried out usually by either an in-house valuer or an external surveyor. Each asset should be valued according to a set of regulations prepared by CIPFA, and using methodologies laid down by the RICS.

These measures are designed to enable an assessment of the asset’s true financial worth to the organisation for the purposes of decision making. Where an asset is still fit for purpose or could be made so, the current replacement cost is an equally relevant consideration.

Sustainability

Contribution to the achievement of sustainable development is an obligation for asset management under Best Value. The most obvious aspects to consider are:

- the use of sustainable resources in heating and lighting, and the types of materials employed in maintenance
- the sustainable development of new build, in which the use of brownfield sites might be preferred over greenfield developments, and efforts made to further the conservation of biodiversity in the local environment
- the need to balance environmental, economic and social factors in ensuring community access to assets and services

Considering the whole-life costs of assets allows an authority to include the wider social and environmental costs, and to achieve an effective balance between current and future expenditure.

Performance Reporting

Because the level of public investment represented by a local authority asset base is significant, the standard of asset management within an authority will be of particular public interest. It will also be relevant to assessments of whether a local authority is basing its decisions about the provisions of services on sound business practice. But more immediately, authorities will need to demonstrate to stakeholders that decisions made by the authority on the organisation and delivery of services meet the requirements of Best Value, as well as report the outcome of the performance of functions.

The Accounts Commission require local authorities to produce and publish certain performance information that relates to property, in particular the percentage of the road network to be considered for maintenance, and indicators relating to school occupancy levels.

ANNEX B

MAINTAINING AN ASSET REGISTER

Local authorities cannot manage their property assets without knowing what they have, where it is, what is its condition, and what is the demand for it. Identifying the extent to which the assets meet current and future needs, recognising shortfalls (including disabled access) and examining running costs will facilitate strategic decision-making.

An asset register is designed to record all assets on the balance sheet, together with basic information as to use, size, value, occupying department etc. The register is only to record the existence of the asset, in order that an accurate, regularly updated listing is in existence. This basic information is then enhanced to form the basis of the property database, which manages all property data to support day to day property management and performance measurement. Authorities should look to use a proven asset management database.

Factors worth noting for land and buildings may include:

- Size
- Tenure
- Legal commitments
- Financial charges
- Planning designation
- Value for accounting purposes

Condition surveys provide a detailed report on the physical state of an asset, together with an assessment of any work required to bring it up to the standards required of it, including those standards required by legislation. Repairs and modifications are prioritised in terms of cost and relative importance.

It is sensible to keep separate note of:

- non-operational assets such as land not under development, buildings intended for disposal and properties leased to third parties
- infrastructure assets such as roads, and community assets such as open spaces which incur no maintenance charges.

Asset registers should be reviewed regularly in order to update values. CIPFA guidance recommends that valuations should be revised at least every five years.