

Argyll and Bute Council

Asset Management



Prepared for Argyll and Bute Council
September 2016

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Scope of the audit	4
Audit Findings	5
The CIPFA review results	5
Plans and policies	5
Asset Management Fund.....	6
Managing the asset base.....	6
Future challenges for managing the asset base.....	8
Community Empowerment.....	9
Scrutiny	10
Conclusions	12
Recommendations	13

Scope of the audit

1. Asset management is a high profile area which generates significant public interest across all councils in Scotland. In Argyll and Bute the value of the council's property, plant and equipment at 31 March 2015 was £512.274 million. We review aspects of the council's asset management process as part of our annual audit responsibilities relating to financial management and sustainability, and governance and transparency.
2. Throughout 2014 and 2015, we received correspondence from the public and members on asset management in Argyll and Bute. In particular, queries were raised relating to the management and sale of some surplus properties. We reviewed specific disposals and issues raised and reported these in our Annual Audit Reports for 2013/14 and 2014/15.
3. In April 2015, we invited the council to complete a Best Value toolkit to assess its own asset management processes. The council identified that current practices are generally effective. We reviewed the information provided by the council regarding its asset management processes. We also discussed the processes with officers and areas where there could be further improvements, as detailed in our 2014/15 Annual Audit Report.
4. Correspondence received by Audit Scotland in relation to asset management at the council was considered as part of our work. In January 2016, the Accounts Commission report '*Major Capital investment in councils: follow up*' was issued and the report's recommendations were also considered. We also reviewed the action plan the council prepared in response to the original '*Major Capital Investment in councils*' report published in 2013.
5. CIPFA recently completed a '*Review of Estates Services within Argyll and Bute Council*'. This report was finalised in early 2016 and is now being considered by the council's management team. In our 2014/15 Annual Audit Report, we said that we would consider the council's response to the CIPFA review and report on further improvements for the council's asset management processes.

Audit Findings

The CIPFA review results

6. The CIPFA review of estates services, reported in January 2016 identifies how the council's asset management processes work and it makes recommendations for improvements. The most significant relate to:
 - the role of the Asset Manager
 - the role of the Asset Management Board
 - sourcing external specialist advise on property matters
 - population of the estates information IT system, Concerto
 - vacancies in the asset management team
 - the scheme of delegation
 - changes in accounting rules on asset valuations.
7. We have not replicated the findings of the CIPFA review in our work but have made reference to some of the report findings where they support our conclusions in this report. An action plan has been prepared and progress is being made on the delivery of the actions. Progress is monitored on a regular basis by the Departmental Management Team.

Plans and policies

Capital plans

8. The '*Major capital investment in councils: follow up*' report stated that across Scotland whilst all councils have a medium term capital plan, only a third have a long term capital investment strategy. In 2014/15, we noted that the council's capital plan 2015-2020 focuses on the current estate rather than considering what future service provision needs would be. The council acknowledged this position and are looking to create a more forward looking ethos in their asset management strategies. The corporate asset management strategy, part of the 2016-2020 capital plan, sets out the need for asset management to deliver the assets needed currently and for service delivery in the future.
9. From discussions with officers, we understand that this work is being incorporated into the Strategic Asset Management Board (SAMB) forward work plan for 2016/17. SAMB meetings in early 2016/17 will be used to look at forward planning. The terms of reference of the SAMB were revised in 2016, to allow it to strengthen its corporate challenge to ensure that all assets held by the council are required for operational and regeneration purposes to support the council's wider strategies. The council also approved an Asset Management and Investment Fund (see paragraphs 14-15) as part of the 2016/17 budget process.
10. Developing a long term capital investment strategy i.e. 10 year strategy, supported by colleagues in Strategic Finance, may support the SAMB in developing its forward looking ethos.

Benchmarking and sharing information with other councils will also help ensure good practice in the strategy. The council's action plan in response to the 2013 report 'Major Capital investments in councils' recorded that consultation on the proposed long term capital investment strategy would be included in the budget prioritisation process by February 2014, however this action has not yet been progressed.

Recommendation 1

Disposal strategies

11. As set out at paragraph 2, a number of issues relating to the council's procedures for the disposals of assets have been raised with us. In particular, correspondents said that it is not clear as to when a disposal should go to the Area Committee or to the Policy and Resources Committee
12. Prior to June 2016, decisions relating to disposals and leases were progressed through Area Committees, the Policy and Resources Committee or Council. CIPFA also noted that other local authorities' estates services have delegated authority to officers for lower value or 'run of the mill' disposals and rentals so that they can be processed speedily. A key recommendation as part of the Council's review of its Constitution in June 2016 was that procedures be revised to delegate all disposals to officers other than those at less than best consideration. However the Council agreed to delegate the Executive Director Customer Services (in consultation with the Leader, Depute Leader and the leader of the largest opposition group of the Council) to agree a suitable amendment to the wording of the key recommendation taking into account concerns raised by members.
13. Our own intelligence in this area supports CIPFA's view that other local authorities' estates services have delegated authority to officers for lower value or 'run of the mill' disposals and rentals.

Asset Management Fund

14. The 2016/17 budget approved in February 2016 included £2 million of earmarked reserves to be set aside for an Asset Management and Investment Fund (covering 2016/17 and 2017/18) as part of the Argyll, Lomond and Islands Rural Regeneration Initiative. The Fund will be used to seek investment opportunities, based on business cases, which will generate income that can be used to support frontline services. A framework is being prepared on how this will be used to support asset management in the council. At its meeting in May 2016, the Policy and Resources Committee agreed that the Asset Management and Investment Fund is not an integral part of the Argyll, Lomond and Islands Rural Regeneration Initiative and will be reported separately under the emerging transformation agenda.
15. At its meeting in August 2016, the Policy and Resources Committee agreed the proposed remit of the Fund, the governance arrangements for its operation and the operational responsibility for its management. These arrangements are consistent with and are based on the Council's Annual Investment Strategy for Treasury Management.

Managing the asset base

Working with others

16. The council continues to undertake property rationalisation across the estate, for example, recent office rationalisation across Helensburgh. The council is also working with Scottish Futures Trust (SFT) to pilot a Smarter Places Review in Dunoon. Working with SFT will allow the council to supplement its in house skills, and experience and good practices can then be shared across other council projects.
17. In addition the council has sought opportunities to co-locate with other public sector organisations. This provides benefits for all the bodies involved and helps reduce excess capacity e.g. Mull and Iona Progressive Care Centre and Campbeltown office rationalisation programme.
18. The council should seek to continue, where appropriate, to progress joint working across the public sector and co-location initiatives. This will not only represent a financial saving for the council, but provide opportunities to learn from and share best practice with other organisations.

Rental assets

19. The council manages approximately 250 lease arrangements across Argyll and Bute. This generates approximately £0.700 million per annum, with the average rent per year around £2,800. The council also has a number of vacant properties which are available to rent but not currently generating income.
20. CIPFA highlighted that more time should be allocated to establishing a policy for these rental properties so that this part of the estate is managed more effectively. The council need to ensure that this policy meets the aims of maximising rental income whilst at the same time supporting economic development and growth of businesses in Argyll and Bute.
21. Other local authorities, such as North Ayrshire Council, are planning to use a third party to manage its industrial properties e.g. carry out rent reviews, letting/marketing and maintain a critical events diary to manage rental activity. This is an approach that the council could consider in the future.
22. CIPFA have also recommended that the council should challenge the entire tenanted portfolio. This would establish the purpose of holding each property asset, the cost of holding the asset and the performance of the asset with the aim of reducing the council's portfolio to a more manageable size. This should allow the council to retain those properties which make a positive contribution to the council.

Surplus assets

23. The council reported 12 surplus assets and 5 other assets ring-fenced for disposal in its April 2015 Corporate Asset Management Plan. Historically surplus assets were automatically marketed for sale by the council. However the council are now managing surplus properties by considering a range of options including sale, lease of the property to generate income, transfer to a partner agency or joint use of a property. This is in line with the Investing for Income Strategy agreed at the Policy and Resources Committee in December 2014.

Audit Findings

24. How the council communicates issues relating to surplus assets and asset disposals has been raised with us as an issue by a number of parties; there is a perception that the process could be more transparent and informative for the public. The council's assets are normally disposed of in the open market following public advertisement, locally/nationally as appropriate. Properties for sale or rent are also advertised on the council website with contact details for the council's Estates Service who are able to provide additional information as required. In addition, the council has a third sector asset disposal policy which is currently being updated following the enactment of the Community Empowerment Act 2015.
25. As reported in the Audit Scotland Best Value audit issued in December 2015, "The council needs to consider more carefully the high level of local interest in its business and the frequency and nature of the challenges it receives about its apparent reluctance to operate openly... By operating more openly it will help build greater trust with its communities".
26. To ensure transparency, the council should consider how it communicates plans for surplus assets and disposals of properties. This is especially relevant, especially given the requirements of the Community Empowerment (Scotland) Act 2015, referred to in paragraph 34 below. The council have informed us that they have now developed a working group to prepare for the implementation of the Community Empowerment (Scotland) Act 2015. This group will be responsible for adapting/amending policies and procedures to meet the requirements of the Act. This group will be steered by any information/discussion which arises from the Scottish Heads of Property Group and any other relevant forums.
27. One asset disposal which has generated local interest is the sale of Castle Toward. We continue to monitor the progress of the sale. It remains our view that it was for the council to decide on whether to accept or reject the current purchase proposal for Castle Toward. We have included an update in our 2015/16 Annual Audit Report.

Future challenges for managing the asset base

28. Against a backdrop of reduced financial settlements and increased pressures on service delivery, there will be reduced budgets for capital spending. Funding may be insufficient to for maintenance and improvements, to protect the condition and sustainability of assets. Areas where this may have a significant impact are the council's roads and its schools estate.

Roads

29. The annual results from the Scottish Road Condition Survey for 2015 rank Argyll and Bute's Road Condition Indicator (RCI) as the worst in Scotland at 54.4%. Across Scotland's Local Authorities in 2015, the RCI (red and amber) ranges from 21.2% to 54.4% (best to worst). The council calculated in 2013 that a funding level of £16m per annum would be required to match the best Scottish local authority RCI. Since then the council's average annual capital expenditure on roads reconstruction has been around £8 million. The vast majority of this spend has been focussed on carriageway works only and did not address other factors that affect the road condition. The budget for 2016/17 and the following 3 years will be less than £4 million. In order to maintain the RCI, the council have agreed that more focus will be given to structural patch repairs and surface dressing. This approach will help to ensure that the road surface is sealed to prevent the ingress of water which contributes to deterioration.

-
30. From 2016/17, the value of the highways network asset will be required to be included in the council's annual accounts. The value is estimated at £2,191 million as detailed in the Development and Infrastructure Asset Management Plan, approved by council in February 2016. This is approximately four times greater than the total of all the council's current property, plant and equipment assets (see paragraph 1).

Schools

31. 'Planning our Future', the long term financial strategy agreed by the Council in December 2014, does not include plans for the schools estate. From the Scottish Government's 2015 pupil census data, the council has 79 primary schools, 16 (20%) of which have ten pupils or less. The Scottish Government's pupil projections indicate a continued reduction in primary pupil numbers for Argyll and Bute. The council has reported previously to audit and inspection agencies that it would review the school estate following the outcome of the Commission on Rural Education (2013), and the Scottish Government's subsequent legislative response.
32. The Community Services Asset Management Plan 2016/17-2017/18 records that as a result of budget reductions; "The condition of assets is beginning to reflect the inspection gradings received by both Education Scotland and the Care Inspectorate, this not only is demoralising for staff, pupils and service users but also has a reputational risk for the Council".
33. The Council in partnership with Scottish Futures Trust and Hub North are building new schools in Oban, Campbeltown and Dunoon. In addition in March 2016, the Community Services Committee agreed to mothball Ashfield Primary School; if there are no pupils registered by the session 2017/18 then formal closure procedures will be considered. Considering that many primary schools currently suffer from chronic excess capacity, this will continue to be a major issue for the council throughout the medium to long term.

Community Empowerment

34. The Community Empowerment (Scotland) Act 2015 gives community bodies new rights and the council new duties to boost community empowerment and engagement. The council has set up a working group to consider the Act. Additional guidance from the Scottish Government is awaited to support key areas of the Act. Included in the Act are provisions to allow community bodies to make asset transfer requests to councils.
35. In support of this, the Performance Review and Scrutiny Committee (Castle Toward Scrutiny Report 25 February 2016) recommended that the council "should request officers to provide for member consideration and approval draft policies and procedures relating to requests by community groups to purchase council property, whether made informally or in accordance with the provisions of Part 2 of the Land Reform (Scotland) Act 2003, and in relation to asset transfer requests submitted by community groups in accordance with the provisions of the Community Empowerment (Scotland) Act 2015."
36. At its meeting of 21 April 2016, the council:
- "Noted the existence within the Council processes of the Working Group charged with looking at the implementation of the Community Empowerment (Scotland) Act 2015 and the provisions of part 2 of the Land Reform (Scotland) Act 2003 and associated

regulations related to the disposal and transfer of assets."

- Acknowledged and confirmed the detail in the Council's current Asset Transfer Policy document and the ongoing work of the above mentioned Working Group and agreed to review this Asset Transfer Policy within the work of the proposed SLWG set up to look at future governance arrangements of the council."

37. As part of its preparations the council should engage with other local authorities, through the Scottish Heads of Property Group and other relevant groups, to support its development of draft policies and procedures in relation to the Act.

Recommendation 2

Scrutiny

Capital receipts

38. Funding for the council's capital plans comprises grant funding, borrowing and capital receipts. Capital receipts arise from the sale of assets held by the council. In 2016/17 and 2017/18, there are significant amounts, £6.3 million and £8.09 million of capital receipts respectively, required to support delivery of the capital plan. Whist officers have provided us with a breakdown of the expected receipts on an individual asset basis, this information has not been provided to members in Council papers. Providing some detail on the source of capital receipt (e.g. expected receipts over £0.05 million) would enhance Members' understanding of the capital plan and permit increased scrutiny by Members.

Recommendation 3

39. Provision of this information would also help fulfil the recommendation made by the Performance Review and Scrutiny Committee (Castle Toward Scrutiny report 25 February 2016) "to review capital monitoring reporting arrangements to ensure Members are provided with timely information in relation to capital receipts including underlying detail, disposal timeline, on-going costs and their impact on realisation value and progress status".

Capital Reporting

40. The January 2016 Accounts Commission report *Major capital investment in councils: follow up* highlights the importance of elected members receiving adequate information on capital investment and individual projects to enable them to effectively scrutinise the performance of capital programmes.
41. Regular capital monitoring packs are reported to the Policy and Resources Committee as part of the Financial Report Monitoring Pack. The reports include total project variances and explanations, project performance and reasons for project delays; changes in timing of capital spending through revised capital plans. This reporting could be enhanced through providing details about project risks and overall capital programme risks to Members.

Recommendation 4

42. The council currently reports cumulative spend at a high level project type (e.g. asset sustainability) and at service level. This could be improved by including cumulative spend and project start and finish dates for significant projects and those lasting more than one year in the financial summary reports (e.g. in Appendix 8 of capital budget monitoring pack). This information is already collated and held by Strategic Finance, and could easily be incorporated into current reports.

Recommendation 4**Post Completion Reporting**

43. Post completion reporting allows good practice and areas for improvement to be dispersed across the council and supports improvement in managing capital projects. The council now prepare an annual 'Post Completion Review Lessons Learned' report which was presented to the Performance Review and Scrutiny Committee in February 2016. This report covered completed capital projects in 2014/15 and highlighted areas of good practice and areas for improvement. These included more detailed surveys for property works to gain a better understanding of work required and including the need to have a clear brief of the client's requirements before proceeding with a contract. The Lessons Learned report does not however include details of whether or not the expected benefits for large scale projects have been realised.

Recommendation 5

44. In its 2013 action plan prepared in response to the original *Major capital investment in councils* report the council recorded that "Amendments will be made to the reporting to members to include specific information on risks and benefits realisation" with an implementation date of January 2014. As outlined at paragraphs 42 and 43 above, these actions remain outstanding however no follow-up report has been made to the Audit Committee on their status.

Recommendation 6**Member Training**

45. The '*Major capital investment in councils: follow up*' report of January 2016 identified that councils across Scotland provide some training to elected members on capital investment matters but no council has a continuing programme of training in place on capital issues.
46. The council carried out a capital training session for members in 2015 across a number of areas including: the asset management strategy and how this links to other council plans and the single outcome agreement; governance arrangements; and, the role of the strategic asset management board. Officers are also planning capital training as part of the induction process for members following the council elections next year.

Conclusions

49. The council has assessed that current practices in relation to its own asset management processes are generally effective. Whilst we concur that the council's asset management arrangements are generally sound and improving, our review has identified a number of areas where further improvement can be made:
- The council has improved its focus on the future asset needs of the council. This would be enhanced through development of a long term capital investment strategy.
 - The council should continue to seek opportunities for co-location opportunities with other bodies. In accordance with the CIPFA recommendation, the council should also carry out a challenge of its tenanted portfolio to ensure the assets add value for the council. Rental asset policies should have aims of maximising rental income and supporting economic development and business growth.
 - The council should continue to improve its openness and communication in relation to surplus assets and disposals of properties.
 - Going forward the council will continue to face challenges making the necessary improvements to asset conditions and sustainability due to budget reductions and increased demand pressures. This may have significant impact on its roads and schools estate.
 - The council has developed a working group to prepare for the implementation of the Community Empowerment (Scotland) Act 2015. This group will be responsible for adapting/amending policies and procedures to meet the requirements of the Act. This group continues to make progress however limited progress can be made until guidance has been issued by the Scottish Government.
 - Member scrutiny would be enhanced through providing more detailed information on capital receipts, cumulative spending on significant capital projects and project risks. Post completion reviews would also be enhanced by comparing realised benefits to expected benefits detailed in business cases.
 - The council created an action plan in 2013 detailing six actions with expected completion dates during 2013 and 2014 in relation to the original '*Major capital investment in councils*' report. Our review has established that although a number of these actions remain outstanding, their current status is not included in recent External and Internal Follow Up reports submitted to the Audit Committee.

Recommendations

The CIPFA review of estates services made a number of recommendations which the council are already progressing. The recommendations detailed below should improve scrutiny of the council's capital work.

Number Page/Par	Recommendation	Management Response	Timetable / Responsible
1. 5/10	<p>Long term capital investment strategy: In accordance with its own action plan commitment, the council should develop and confirm a long-term capital investment strategy.</p>	<p>The Council's Strategic Management Team has agreed that a long term revenue and capital budget strategy should be produced and this is being progressed alongside budget preparation for 2017-18.</p>	<p>Head of Strategic Finance February 2017</p>
2. 10/37	<p>Community Empowerment Act: The council should engage with other local authorities, through the Scottish Heads of Property Group and other relevant groups, to support its development of draft policies and procedures in relation to the Act.</p>	<p>The working group which was established to prepare the council for the implementation of the Community Empowerment (Scotland) Act 2015 will be tasked with reviewing any policies procedures to ensure they meet the requirements of the Act.</p>	<p>Ongoing</p>

Number Page/Par	Recommendation		Timetable / Responsible officer
3. 10/38	<p>Capital receipts: Detail on the source of capital receipts should be provided to members as part of the capital pack to permit increased scrutiny.</p>	<p>The council has previously committed to undertake this action and a section on anticipated capital receipts will be included in capital planning papers.</p>	<p>Head of Strategic Finance February 2017</p>
4. 10/41 and 11/42	<p>Regular reporting of cumulative spending on capital projects: Details of project risks and overall capital programme risks, together with cumulative spending for significant capital projects, and start/finish dates, should be incorporated into the capital reports provided to Policy and Resources Committee as part of the regular Capital Budget Monitoring Pack.</p>	<p>The content of the capital monitoring papers will be updated.</p>	<p>Head of Strategic Finance January 2017</p>
5. 11/43	<p>Post completion review The Lessons Learned report should include details of whether or not the expected benefits for large scale projects have been realised.</p>	<p>The project completion review reports will be updated to include information on the benefits realised.</p>	<p>Heads of Facility Services and Strategic Finance November 2016</p>

<p>6. 11/44</p>	<p>Action plan follow up External and Internal Follow Up reports submitted to the Audit committee should document the progress made by departmental management in relation to action plans prepared for all national reports.</p>	<p>Internal Audit have reviewed procedure and there is now a section within quarterly Activity Summary report which references National reports issued, recipient(s) and where appropriate follow up /management action including action plan status.</p>	<p>Chief Internal Auditor Complete</p>
---------------------	--	---	--