



To:
All members of the
Development Sub-Committee

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Date: 16 April 2024

Supplementary Agenda

Development Sub-Committee - Monday, 22 April 2024

Dear Councillor

I enclose the following item which was marked 'to follow' on the agenda for the Development Sub-Committee meeting to be held on Monday, 22 April 2024:

8. Asset Management Plan Review - KPIs and Risk Register

3 - 16

Yours sincerely

Matthew Williams
Corporate Governance

To the members of the Development Sub-Committee

Councillors:

H.R.D. Williams (Chair)
S.N. Beatty (Vice-Chair)
M. Beecher
M. Bing Dong

T. Burrell
R. Chandler
D.C. Clarke
M. Gibson

K. Howkins
L. E. Nichols
J.R. Sexton
P.N. Woodward

Substitute Members: Councillors: C. Bateson, J.T.F. Doran, S.M. Doran, S.A. Dunn,
A. Gale, M. Arnold, K.E. Rutherford, J.R. Boughtflower and
S. Bhadye

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Development Sub Committee



Title	<i>Asset Management Plan Update</i>
Purpose of the report	To seek approval to the updated Key Performance Indicators and Risk Register, which will form part of the final published version of the Asset Management Plan 2024 - 2028
Report Author	<i>Coralie Holman – Group Head Assets</i>
Ward(s) Affected	All
Exempt	No
Exemption Reason	<i>Not Applicable</i>
Corporate Priority	All Corporate Plan themes
Recommendations	<p>Committee is asked to:</p> <ol style="list-style-type: none"> 1.) Approve the updated Key Performance Indicators and Risk Register which will form part of the final version of the Asset Management Plan (AMP) 2024-2028. 2.) Agree subject to a final review of the Asset Management Plan being undertaken to ensure it reflects any other Council policy changes since December 2023, that the AMP can be published on the Council's website.
Reason for Recommendation	<p>Full Council approved the Asset Management Strategy and first draft of the Asset Management Plan in December 2023. Approval of the final version of the Asset Management Plan was subject to a further Member workshop to review two key areas being the Key Performance Indicators (KPIs) and Risk Register. This workshop has now taken place and both parts of the plan have been updated following input from Members. The Asset Management Plan 2024-2028 is now ready for publication.</p>

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> • The Public Interest Report (PIR) Action Plan was reported to the July 2023 Audit Committee. This responded to 	<ul style="list-style-type: none"> • To finalise the AMP, so it can be published and provide a clear and transparent approach to how the Council will manage and

<p>the October 2022 PIR and it was agreed a suite of Asset Management documents would be produced detailing how the Council will manage its land and property portfolio. This included a set of Key Performance Indicators and a Risk Register.</p> <ul style="list-style-type: none"> The initial draft of the Asset Management Plan was approved in December 2023 subject to a further Member workshop to focus specifically the KPIs and Risk Register. 	<p>assess the performance of its Investment and Regeneration property portfolio.</p>
<p>This is what we want to do about it</p>	<p>These are the next steps</p>
<ul style="list-style-type: none"> The Member workshop has now taken place, the KPIs and Risk Register have been updated and are now ready for inclusion within the final version of the AMP. 	<ul style="list-style-type: none"> Upon approval of the amended KPIs and Risk Register the AMP will be fully reviewed to ensure it reflects any other Council Policy changes since December 2023 i.e. The Corporate Plan and will then be published on the Council's website.

2. Key issues

- 2.1 Following a report being taken to Audit Committee in July 2023 as a result of the Public Interest Report (PIR), the Assets Service undertook to produce a revised suite of Asset Management documents that would set out how the Council would manage its land and property holdings. This included an overarching Asset Management Strategy and Asset Management Plan (AMP), that would relate to all Council owned land and property and sit above a more bespoke suite of portfolio specific documents as shown in the diagram in 2.2 below. This report focuses on the AMP only, as all other documents have been separately approved in their final form.

Asset Management Strategy

Asset Management Plan (5 year portfolio plan)

Business
Plans
(Annual)

Asset
Investment
Strategy
(Annual)

Investment
Report
(6 monthly)

Sinking Fund
Monitoring
(Quarterly)

Development
Delivery
Strategy
(6 monthly
review)

Budget
Monitoring
(Quarterly)

2.2 The first version of the Asset Management Strategy and AMP were approved by Committee and Full Council between October to December 2023. Approval of the AMP was subject to a further Councillor workshop to review and input into the document and focus specifically on the Key Performance Indicators (KPIs) and Risk Register.

3. Current position

3.1 A Councillors workshop was held in the middle of March 2024 with specific focus on the KPIs and Risk Register. Both documents have now been updated following this workshop and can be found at Appendix 1 and 2 of this report.

3.2 Subject to approval of the amended KPIs and Risk Register, the AMP will be finally reviewed and updated as set out in section 4 below and then published on the Council's website with further annual reviews and updates as required to be carried out.

4. Next Steps

4.1 Following approval of these two components of the Asset Management Plan, the document will be fully reviewed and updated to ensure it reflects other relevant Council policies, which have been updated and agreed since December 2023 i.e. the current Corporate Plan and then published on the Council's website replacing any other historic Asset Management Plans.

4.2 The Assets Service are currently managing the Council's Land and Property Assets in line with the methodology in the AMP 2024-2028, so no operational changes are needed following publication of the AMP.

5. Options

5.1 Approval of the Key Performance Indicators and Risk Registers included within Appendix 1 and 2 of this report for inclusion in the published version of the Asset Management Plan 2024-2028. **This is the recommended option.**

5.2 Do not approve the Key Performance Indicators and Risk Registers included within Appendix 1 and 2 of this report for inclusion in the published version of

the Asset Management Plan 2024-2028. **This is not the recommended option.**

6. Financial Implications

- 6.1 Whilst the approval of these components of the Asset Management Plan have no direct financial implications in isolation, the Asset Management Plan sets out the way the Council will manage its land and property assets and sets out the Council's statutory obligations to achieve best value in terms of financial returns which in turn relates to the financial resilience of the Council.

7. Risk Management

- 7.1 Without the Council having an agreed Asset Management Strategy that sets out how it will manage its land and property portfolio there is no agreed mechanism for decision making and benchmarking property performance.
- 7.2 The Asset Management Plan sets out comprehensive methodology about how the Council will approach day to day activities in relation to all its land and property assets that will ensure there are an agreed set of parameters within which the Council can be assured the portfolio will deliver best value and be aligned with its Medium Term Financial strategy hence supporting the future financial resilience of service delivery and other Council activities.

8. Procurement comments

- 8.1 None

9. Legal comments

- 9.1 The Council has the power to acquire and dispose of land for the purpose of any of its functions (sections 120 to 123 of the Local Government Act 1972).
- 9.2 Any disposal will need to satisfy the valuation requirements of section 123 of the Local Government Act 1972.
- 9.3 Legal Services (g.legal@spelthorne.gov.uk) will provide advice and assistance with any associated agreements and documentation.

10. Other considerations

- 10.1 None

11 Equality and Diversity

- 11.1 None

12 Sustainability/Climate Change Implications

- 12.1 All Council owned land and property will need to meet sustainability criteria as set out in the Asset Management Plan

13 Timetable for implementation

- 13.1 Immediately if approved. Will be applied to 2023-24 outturn.

14 Contact

- 14.1 Coralie Holman Group Head Assets c.holman@spelthorne.gov.uk

Background papers:

Appendix 1 Investment Portfolio Risk Register

Appendix 2 Municipal Portfolio Risk and Performance Register

Appendix 3 Investment Portfolio KPIs

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Appendix 1 Investment Portfolio Risk Register

Version 1 Jun-23

Risk	Risk Owner	Risk	Impact	Risk scoring before mitigation			Mitigation/ Current Control	Risk scoring with mitigation		
				Likelihood	Impact	Total		Likelihood	Impact	Total
1	Asset Management	Lack of Rental income if Tenants do not make payment	Loss of income, impacting the Council's income, revenue budget, financial position and service delivery.	4	3	12	Bluebox rent demand, external managing agents applying standard rent arrears procedures. D&B reports and alerts set to provide updates on any Tenant financial concerns. Regular communication with Tenants and intel from external property consultants	2	4	8
2	Asset Management	Non compliance with H&S Legislation (investment)	Serious injury / Loss of Life Fines Reputational damage	4	4	16	External managing agents employed to manage risk, they have a dedicated team dealing with H&S	2	3	6
3	Asset Management	Non compliance with H&S Legislation	Serious injury / Loss of Life Fines Reputational damage	4	4	16	Spelthorne Building Services team instruct contractors to carry necessary tasks out, supporting the H&S compliance	2	3	6
4	Asset Management	Volume of lease exporoes over the short term	Key lease expiries over the next 5 years could lead to loss of income if tenants do not renew most specifically the SW Corner lease at the BP site where it is envisaged, they do not renew.	3	4	12	Key sites will have planning reviews undertaken where applicable to identify alternative uses, where early discussions with tenants identify leases will not be renewed. Major lease expiry / break events are carefully monitored and early dialogue with occupiers is prioritised to mitigate against future voids.	2	3	6
5	Asset Management	Single use property type within a constrained geographic area	Risk of sector/geographical location decline is not spread.	3	4	12	Assets are close to major transport infrastructure, supporting current and future occupation via sustainable travel. Proactive Asset Management considers the demand and monitoring growth/changes within sector to allow early informed decisions to be made around assets future use/diversification to other uses.	2	3	6
6	Asset Management	Lack of Rental income growth in a buoyant market	Will not match or exceed budget income and maintainrental levels in line with market rates	4	3	12	Letting agents with knowledge and expertise in the local geographic area are used to secure new tenants on Market terms	2	2	4
7	Asset Management	Assets' capacity to ensure proactive management of the portfolio	Tenant and key consultant engagement reduces which impacts on the ability to be proactive resulting in reactive asset management and missing letting opportunities, less income and increased voids and resultant costs.	4	4	16	Ensure Sufficient resource with sector expertise to undertake detailed and thorough tenant engagement and external advisor liaison. Focus to remain on proactive asset management 'in the field', not allowing reporting and other non-critical activity to become the primary focus of the management remit.	2	2	4
8	Asset Management	Large lot sizes.	May limit liquidity in the event quick sales are needed.	3	3	9	Annual reviews of portfolio, lease expiries are profiled and considered against alternative uses and future uses of each site. Proactive consideration is given and implemented where appropriate to reconfiguration of lettable space. Disposal opportunities are also regularly reviewed and benchmarked against future uses options. Loan repayments are fixed for entire loan period.	2	2	4
9	Asset Management	Without continued Investment 'best in class' accomodation will not be maintained.	Reduction of interest from prospective tenants and increased voids and costs plus loss of income - poorer net income outturn	4	4	16	Anticipated expenditure for each asset is recorded in the business plans for the forthcoming 5-year period and this is used by Finance for the MTFP. Future expenditure can be managed through continued contributions to the portfolio sinking fund. Planned Preventative Maintenance programs are in place for the multi-let assets and will be reviewed to ensure that maintenance works are undertaken while buildings are fully let with expenditure paid for by tenants through the service charge.	2	2	4
10	Asset Management	Failure to maintain/improve Building sustainability	Sustainability of our buildings continues to be a key consideration to ensure we meet carbon neutrality targets and other emerging environmental regulations, both which will require additional expenditure.	3	3	9	Most of this work can be addressed via service charges and our buildings currently form well in terms of energy efficiency with 75% having an EPC rating of A or B. Other works will be programmed into capital works needed and landlord costs built into the MTFP.	2	2	4
11	Asset Management	Lease events are not planned for or progressed in a timely manner	Opportunities for growth in rental income may be missed and increased rent not achieved in a timely manner, statutory rights may be obtained, resulting in SBC losing control of decision making	3	3	9	Reports are run 12-18 months in advance of lease event dates to ensure work can be programmed and external advice sought where necessary	2	2	4
12	Asset Management	Weak Tenant financial strength	Tenant failure, tenant arrears and bad debt	4	3	12	Dun & Bradsheet & Experien credit reports are reviewed prior to enter into a new letting and bi-annually thereafter. Review of tenant's trading accounts and use of rent deposits and Tenant guarantees where tenant's have weak covenant strength	2	2	4
13	Asset Management	Significant expenditure on buildings that is not recoverable	Reduction in net income and contribution towards sinking fund and cost of council services	3	3	9	A suite of documents including the Asset Management Plan, Annual Investment Strategy and individual Asset Business plans set out proposed investment needed to ensure it is recoverable via the service charge or met from capital budgets	2	2	4
14	Asset Management	New lettings not achieving average market lease lengths	Impact on security of income and asset value	3	3	9	Letting agents are used to secure new tenants on Market terms	2	2	4

15	Asset Management	Not meeting new legislative EPC ratings	Unable to grant new leases Loss of income	4	3	12	Building Consultancy team instructed to carry out EPC's where needed and action any works required.	2	2	FALSE
16	Asset Management	Vacant properties	Loss of income. Exposure to void rates	4	3	12	Monitor lease events. Maintain close professional relationships with tenants. Appoint agents to actively promote and market to secure new tenant.	2	2	4

V.2 April 2024

Appendix 2 - Municipal Portfolio Risk and Performance Register

1	Building services team	Non compliance with Statutory requirements	Fatality or serious injury to employee/public Corporate Health and Safety Policy breached Prosecution & Compensation claims. Enforcement action & Reputational damage	4	3	12	H&S plan adopted including term contracts in place for testing/maintenance and remedial work needed	4	2	8
2	Building services team	Buildings falling into disrepair	Fatality/ill Health Deterioration to property Increased reactive repairs and reinstatement costs. Loss of income Budget overspends	4	3	12	PPM program with term contracts in focusing on planned & preventative maintenance Cyclical survey programmes Timely action on reactive works Contractors' performance management framework in place	4	2	8
3	Building services team	Building component containing hazardous material including reinforced autoclaved aerated concrete or asbestos for example.	Building collapse Fatality or serious injury to employee/public Corporate Health and Safety Policy breached. Prosecution & Compensation claims. Enforcement action Reputational damage	4	2	8	Annual surveys to check for the exposure of any potential hazardous materials with a response to act in a timely manner in accordance with the industry guidelines specific to any hazardous material identified. Building risk register	2	2	4
6	Asset Management	Poor/Failing Tenant financial strength	Tenant failure, tenant arrears, bad debt and vacant buildings	4	3	12	Ensure records of tenant performance are maintained with P and L's. Ensure good communications with the Clubs and community associations leasing/running municipal properties	2	2	4
7	Asset Management	Significant expenditure on buildings that is not recoverable	Reduction in net income, potential loss of tenant and unbudgeted expenditure	4	3	12	Undertaking regular condition surveys of the municipal portfolio and prioritising work where required	2	2	4
8	Asset Management	Delay in rent collection and/or Tenant default	Loss of income	4	4	16	Customer Services via Integra (Municipal) undertake the rent demand Monitoring in place Regular communication with tenants	2	2	4
4	Asset Management	Lack of Rental income due to socio economic factors	Will not match budget income	4	3	12	Ensuring close monitoring of tenants within municipal portfolio with regular communications and requesting P and L's as per terms of lease	2	1	2
5	Asset Management	Lease events are not progressed in a timely manner	Opportunities for growth in rental income may be missed and increased rent not achieved in a timely manner, statutory rights may be obtained, resulting in SBC losing control of decision making	4	3	12	Reports are run 12-18 months in advance of lease event dates to ensure work can be programmed and external advice sought where necessary	2	1	2
9	Asset Management	Not meeting new legislation deadline for MEES/EPC requirements	Unable to grant new leases Loss of income	4	3	12	Building Consultancy team instructed to carry out EPC's where needed, action any works required and keep accurate records.	2	1	2
10	Asset Management	Vacant properties	Loss of income. Exposure to void rates	4	4	16	Monitor lease events. Maintain close relationships with tenants. Market any space prior to becoming void to minimise void costs	2	1	2

11	Facilities Management	Building not opened or closed	Staff and visitors unable to enter the building	4	1	4	Relationship established with security providers to provide additional resourcing	1	1	1
12	Facilities Management	Lack of sanitation/ water provisions	Building would be uninhabitable	4	2	8	Hire porta loos and water supply	1	1	1
13	Facilities Management	Unable to monitor fire alarm and initiate building evacuation	Serious injury / Loss of Life Fines Reputational damage	4	3	12	Ensure maintenance of fire alarms, staff remain properly trained, taking into account hybrid working	1	1	1
14	Facilities Management	Repairs not undertaken	Certain areas may not be operational	1	1	1	Monitor space usage to determine alternative operational areas that can be used	1	1	1

Appendix 3 - KEY PERFORMANCE INDICATORS (INVESTMENT & REGENERATION PORTFOLIOS)

PERFORMANCE INDICATORS						
		Responsibility	Reason	Data Source	Benchmark	Comments
	FINANCIAL (INCOME)					
1	Portfolio Income Growth	Asset Management	To assess how SBC portfolio compares to budget in terms of net receivable income	Monitoring reports/financial outturn	Target is to match or exceed Budget income outturn	Letting agents are used to secure new tenants on Market terms.
2	Deliver a Net Contribution to Revenue budget of £10.8m+ on average over a 3 year period.	Asset Management & Finance	To ensure continued provision of service delivery	Monitoring reports/financial outturn	Target is to match or exceed Budget income outturn	Average over a 3-year period allows for increases and dips in income year on year
	FINANCIAL (EXPENDITURE)					
3	Irrecoverable Revenue Expenditure	Asset Management	To monitor expenditure on refurbishments and holding costs against Budget and Business Plans	Monitoring reports/financial outturn	Target = Budget	MSCI would provide a benchmark. A suite of documents including the Asset Management Plan, Annual Investment Strategy and individual Asset Business plans set out proposed investment needed to ensure it is recoverable via the service charge or met from capital budgets

	LEASE EVENT MANAGEMENT					
4	Rent Reviews	Asset Management	To avoid delays in recording rental uplifts and for good estate management reasons and to maintain tenant relationships		All reversionary rent reviews to be instigated prior to rent review date unless by exception	Reports are run 12-18 months in advance of lease event dates to ensure work can be programmed and external advice sought where necessary
5	Lease Expiries	Asset Management	To avoid delays in recording rental uplifts and for good estate management reasons and to retain existing tenants		All contracted out expiries to be instigated prior to expiry date unless by exception	Reports are run 12-18 months in advance of lease event dates to ensure work can be programmed and external advice sought where necessary
	TENANT RISK					
6	Regular review of occupier credit ratings	Asset Management	To ensure that current and future occupier risk is identified and mitigated against	Dun & Bradstreet & Experian	Target = bi-annual reporting	6 monthly 'RAG' update from credit monitoring source on high risk / high value occupiers with annual review of whole portfolio.

7	Rent collection (lease rent only, exc turnover)	Asset Management	Regular monitoring of rent collection to assist with Finance budgeting and to identify problem tenants	Property Agents	80% within 14 days 95% of income demanded by Qtr end	Bluebox (BP), External Managing Agents (Investment) and Customer Services via Centros (Municipal) undertake the rent demand Monitoring in place Rent Arrears report issued Credit reference reports and alerts Regular communication with tenants
	PORTFOLIO RISK					
8	Portfolio Weighted Average Unexpired Lease Term to exceed market average lease length on new letting <i>[Current SE Office index is 7.9 years]</i>	Asset Management	To ensure strategies are in place to preserve longevity of income	Annual Valuation	Property sector regional geographic reports	Letting agents are used to secure new tenants on Market terms
9	Void rate of portfolio split into office and retail to be less than sector and geographical average	Asset Management	To ensure strategies are in place to ensure void costs remain as low as possible.	Property Agents	Property sector regional geographic reports	Monitoring void percentages against the industry average ensures the asset management strategy remains targeted and proactive to achieve best value in the current market conditions and reduces non recoverable costs incurred by the council.