

ITEM 15

Asset Management Outturn 2015/16

Report of the Economic Portfolio Holder

Recommended:

1. That the expenditure for the year on Asset Management projects, as shown in Annex 1 to the report, be noted.
2. That the updated budget for Asset Management projects in 2016/17, as shown in Annex 2 to the report, be approved.

Recommendation to Council

SUMMARY:

- This report compares the actual expenditure on Asset Management Plan (AMP) projects with the approved budget for 2015/16.
- The total revised AMP budget in 2015/16 was £2.605M. Actual expenditure in the year was £1.955M. The main reasons for the budget variance are explained below in section 4.
- After reviewing the outturn position for 2015/16, the AMP requirement for 2016/17 has been updated and is presented for approval.

1 Introduction

- 1.1 The Council's Asset Management Strategy 2011 – 2016 was approved by Council on 11th January 2012. The strategy detailed the Council's approach to identifying the assets it is responsible for maintaining and the methods used in prioritising necessary works to ensure assets remain operationally effective.
- 1.2 An update on the progress of the Asset Management Plan (AMP) for 2015/16 was presented to Cabinet in November 2015. As part of that report the AMP budget for the year was revised.
- 1.3 This report compares the actual expenditure in 2015/16 with the budget approved in November and explains the reasons for any significant variances.

2 Background

- 2.1 The Council has divided asset management into three separate areas which all form part of the AMP. These are; Property; Vehicles & Plant; and IT equipment.

- 2.2 The Estates Service carried out a condition survey on all land and buildings in the development of the Asset Management Strategy. The results of the survey were used to allocate each building into a priority category for works to be undertaken. This, combined with a review of how long the Council expects to retain individual properties, has informed the development of the land and buildings' element of the AMP.
- 2.3 This survey continues to be maintained by Estates and is updated on an ongoing basis.
- 2.4 All vehicles and plant are regularly serviced by the Council's internal vehicle workshop. The effectiveness of all vehicles is monitored as part of the servicing programme. Among other things, this includes identifying where vehicles' workloads are different to that expected which may alter the timing of their replacement and identifying vehicles with higher / lower than expected servicing costs. Service users also keep the number of vehicles / items of plant required to deliver services under regular review.
- 2.5 The IT Service has a register of all hardware and major software systems used by the Council with profiles of their expected useful lives. From this it is possible to plan when IT infrastructure will need to be replaced. For hardware this tends to be between once every three to five years whereas software packages tend to last longer.
- 2.6 The Council has entered into a shared IT infrastructure partnership with Winchester City Council, which includes the sharing of IT infrastructure assets. This means that all IT infrastructure costs are shared between both councils reducing the net impact on the AMP.

3 Corporate Objectives and Priorities

- 3.1 In order to deliver the key priorities identified in the Corporate Plan it is essential that the Council's underlying asset base is sufficiently maintained to be fit for purpose.
- 3.2 The Council has a significant land and property holding generating income that is a key part of the Council's revenue budget. Maintaining and improving this income stream will be a significant factor in the Council's financial strategy in the future and this has a clear link to the maintenance of the land and property assets themselves.

4 2015/16 AMP review

Land and Buildings

- 4.1 The revised budget for land and buildings' projects was £1.723M. A total of £1.356M was spent in the year. A summary of the expenditure, by property, can be found in Annex 1a.
- 4.2 The variance of £367,000 is made up of budget carry forwards of £351,300 (see below) and savings on completed projects of £15,700.

4.3 The main reasons for the budget carry forward are:

- Four of the Estates projects were re-evaluated during the year and their cost requirements have increased by £62,000. Savings have been identified throughout the Estates Asset Management Plan on completed projects at the end of the year which are being utilised to enable the carry forward on these projects to be increased to the required £184,000 in 2016/17.
- The works at Romsey Rapids need to be completed during a period of closedown and this was unable to be done during Christmas 2015, therefore this is scheduled for the Christmas closedown in 2016 resulting in a carry forward of £7,000.
- Initial consultation on the works required to repair the walls at St Mary's has identified that there are trees that need to be cleared before the works can go ahead, resulting in a carry forward of £32,000.
- Community and Leisure completed the refurbishment of 22 playgrounds during the year with just 3 slipping into 2016/17 with a carry forward figure of £20,600.
- A saving of £13,000 on works at The Lights was approved by Cabinet on 6 April 2016 to be carried forward into 2016/17 to be used for the conversion of the Lights kitchen to a new dance studio.

Vehicles and Plant

4.4 Total expenditure on replacement vehicles and plant amounted to £491,400 compared to the budget of £713,900 – a variance of £222,500. The details of this are shown in Annex 1b.

4.5 There have been several changes to the approved budget for the year since the November update. These include:

- Delivery of two pieces of grounds maintenance equipment, one waste collection vehicle and one street cleansing vehicle worth £100,000 have been delayed and will now be in 2016/17 resulting in a carry forward.
- The requirement to replace a number of grounds maintenance mowers and vehicles was reviewed in light of changes to grounds maintenance contracts resulting in different mowers being purchased at a saving of £30,000. A further £91,000 is to be carried forward and reviewed with respect to operational requirements in 2016/17.

IT Infrastructure

4.6 The total cost of IT AMP projects delivered in the year was £108,200. This is £59,700 less than the approved estimate of £167,900.

- 4.7 The requirement for the Network Cabling Enhancements and the Replacement Servers was reviewed during the year, and replaced by the SAN Array Expansion.
- 4.8 The Citrix Access Gateway Appliance Replacement project budget is no longer required resulting in a saving of £6,970.
- 4.9 There is a carry forward of £52,700 into 2016/17 as a result of reviewing each asset and where possible extending serviceable life whilst remaining supported.
- 4.10 A breakdown of the costs related to the 2015/16 AMP are shown in Annex 1c.

5 Updated 2016/17 AMP requirement

Land and Buildings

- 5.1 There have been a couple of changes to the budgets approved in November 2015, over and above the items brought forward from 2015/16. The recommended budget for Land and Buildings in 2016/17 is £2.315M.
- 5.2 A small new project has been identified at Beech Hurst at a cost of £3,000 and a budget of £5,000 for 76–78 Highlands Road is no longer required.
- 5.3 The project to convert the kitchen at The Lights to a new dance studio was approved on April 6 2016. This is now included in the AMP requirement for 2016/17 at a total cost of £32,000.
- 5.4 A summary of the items included in the AMP for 2016/17 is shown in Annex 2a.

Vehicles and Plant

- 5.5 The recommended budget for replacement of vehicles and plant in 2016/17 is £481,400. A summary of the items included in the AMP for 2016/17 is shown in Annex 2b and includes the items carried forward from 2015/16.

IT Infrastructure

- 5.6 The total budget requirement for 2016/17 is £106,200. This includes £53,500 that was reported in November 2015 and £52,700 brought forward from 2015/16 (as discussed in paragraphs 4.9 above).
- 5.7 A breakdown of the costs related to the 2016/17 AMP are shown in Annex 2c.

6 Options

- 6.1 There are many possible ways of prioritising the individual assets that require maintenance and the extent to which work is carried out.

- 6.2 The amounts included in the annexes and recommended for inclusion in the AMP are based on the professional advice of officers from the Services concerned in the operation and management of the Council's assets.
- 6.3 The AMP is updated by Services on an ongoing basis. Given the wide portfolio of assets the Council manages, it is inevitable that there will need to be changes made to the plan before a further report is presented to Cabinet.
- 6.4 As part of the October 2013 AMP update, Cabinet resolved, '*That the Head of Finance, after consultation with the Economic Portfolio holder and Head of Service responsible for any project, be authorised to amend the Asset Management Plan during the year*', subject to there being a sufficient balance on the AMP reserve to fund any additional expenditure. This flexibility is considered essential if assets are to be maintained in the most efficient manner possible and is recommended to be continued within the limits of Financial Regulations.

7 Risk Management

- 7.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified the following significant (Red or Amber) residual risks that cannot be fully minimised by existing or planned controls or additional procedures. These are shown in the risk assessment.
- 7.2 There is a risk that the projects included in the AMP will not be delivered as scheduled leading to assets falling into disrepair. This will be monitored by regular progress reviews of the AMP by responsible officers and update reports to Cabinet.
- 7.3 Despite the base annual contribution to the AMP being £1.1M, there remains a risk that there will be insufficient funds available to meet AMP requirements in the medium term. The current level of the AMP reserve is sufficient to fund the programme included in this report; however, there continues to be the need to ensure sustainable ongoing funding for the AMP and options to achieve this will be explored in the next update of the Council's Medium Term Financial Strategy in October 2016.

8 Resource Implications

- 8.1 The costs of the AMP in 2015/16 and 2016/17 are shown in sections four and five above and in annexes 1 and 2. All these costs will be met from a specific reserve created to fund asset management costs.

Financing the AMP

- 8.2 The AMP is mainly funded in three ways:
- Firstly, there is a contribution from the revenue budget. This is currently £1.117M per annum.

- Secondly, where the Council has a revenue surplus at the end of the year an element of this can be used to top-up the reserve. The Revenue Outturn report for 2015/16 (also on the agenda for this meeting) identifies a surplus that is recommended to be transferred to the AMP reserve. This is not reflected in the table below, but will increase the level of reserve carried forward and available to finance future years' AMP requirements.
- Finally, there may be earmarked reserves or sources of income to finance specific projects. For example, the playgrounds in 2016/17 are to be funded by New Homes' Bonus receipts in the year.

8.3 At 31 March 2015 the Council's AMP reserve balances stood at £2.548M. It is expected that the reserve balance at 31 March 2017 will be £379,000. The movement in the reserve balance is shown in the table below.

	£'000
Asset Management Reserves at 31 March 2015	2,548
Budgeted transfer – 2015/16	1,117
Other contributions to AMP	99
Land and Property Requirement 2015/16	(1,356)
Vehicle and Plant Requirement 2015/16	(491)
IT Infrastructure Requirement 2015/16	(108)
Provisional balance at 31 March 2016	1,809
Transfers in to reserve 2016/17	1,117
Other contributions to AMP – New Homes Bonus	355
Land and Property Requirement 2016/17	(2,315)
Vehicle and Plant Requirement 2016/17	(481)
IT Infrastructure Requirement 2016/17	(106)
Asset Management Reserves at 31 March 2017	379

8.4 The proposed AMP items comprise both revenue and capital expenditure. Expenditure is classified as capital when the total cost is over £10,000 and it is for the purchase of a new asset, materially lengthens the useful life of an existing asset, or adds value to the asset being modified. All other expenditure on the routine maintenance and repair of assets will be treated as revenue expenditure.

9 Legal Implications

- 9.1 Those tenants occupying Council owned properties for which the Council is responsible for maintenance could, in the event of their property falling into disrepair, take action against the Council as their landlord. This is covered in the risk assessment (paragraph 7.2).

10 Equality Issues

- 10.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or negative impact has been identified, therefore a full EQIA has not been carried out.

11 Conclusion and reasons for recommendation

- 11.1 All AMP activities in the year have been reviewed and performance against budget noted throughout the report. In light of this review, all items covered by the Council's AMP have been considered and those most in need of repair or replacement included in the AMP for 2016/17.
- 11.2 For this reason it is recommended that the updated AMP items in Annex 2 are included in the AMP for 2016/17.
- 11.3 Asset management needs to have flexibility due to the difficulty of knowing exactly when an item will need repair or replacement. In order to ensure that operational efficiency is not impaired it is recommended that controlled safeguards are built in to the financing of the AMP to ensure that unforeseen works can be undertaken without undue delay.

Background Papers (Local Government Act 1972 Section 100D)

Confidentiality

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

No of Annexes:	2	File Ref:	
(Portfolio: Economic) Councillor Giddings			
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