



ASSET MANAGEMENT

A capital strategy for your assets

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Chris from CIPFA outlined in 2018 Autumn Terrier the context and requirements for developing an authority's capital strategy. It seems that, as Chris anticipated, it has proved in many cases to be a daunting task. "It is critical that those involved in both managing and developing strategy on the property portfolio are involved deeply in the development of the organisation's capital strategy."

Background

I wrote an article for the 2018 Autumn Terrier, setting out my thoughts on some of the significant obstacles which many authorities identify as a potential impediment to them developing a robust capital strategy. That article received some quite positive feedback, and I had a number of people contact me to say how useful they found it and how they have used it as a platform from which to reach out to their finance colleagues to work more closely on capital planning.

If the article has been that useful, then why am I taking it as the subject of another article so soon you might justifiably ask? The answer to that is, in my observation, the traction in the property profession on capital strategy is still not great, and we need to change that.

The capital strategy is not an answer to everyone's problems, but it is a means to highlight the impact of the financial pressures you all face and the impact of successive budget cuts - especially in property maintenance. It is also a fantastic opportunity to set out what the future looks like, in terms of the threats to the sustainability of the property portfolio, if things do not change.

Introduction

The revisions to both the CIPFA Prudential Code and Treasury Management Code in November 2017 heralded a change in focus around both capital planning and

commercial property investment. In this article I am going to spend time focussing on the first of those, capital planning.

The CIPFA Prudential Code mandates that from 1 April 2018, local authorities have a capital strategy in place that has been approved by full council. Acknowledging the short timescale between publication of the updated code and the effective date, there was an expectation that some authorities might struggle to meet that deadline, and acceptance that for some a more realistic date would be 1 April 2019.

So for those of you that work in local government and are reading this article, by now your authority should have a capital strategy in place.

Engagement of the property professional

My question to you is to what extent have you, as a senior property professional, been involved in the development and production of that capital strategy? Sadly, despite my previous article, I have to say when I have asked that question, the answer has often been 'not at all' or 'on the fringes'. This is disappointing to say the least. The property portfolio of any local authority is a key asset, and one which has the capacity to both generate and absorb capital. It is critical that those involved in both managing and developing strategy on the property portfolio are involved deeply in the development of the organisation's capital strategy.

Let's start by looking at some selected extracts from the Prudential Code, which provide a flavour of what the expectations of the Code are and the links to property asset planning.

The first 2 extracts demonstrate clearly this is about standing back and taking a long-term view. In my experience, most capital strategies do not yet do this, and are generally far too short-term. There is an opportunity here for property professionals to insist on being involved in the process of capital strategy development, and feeding in key intelligence and data around the property portfolio.

- *"The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the **long run financing implications and potential risks to the authority.**"*
- 'A long-term view of capital expenditure plans, where **long-term is defined by the financing strategy of and risks faced by the authority with reference to the life of projects/assets.**'

The second 3 extracts speak about the sustainability of the organisation, both in terms of finances and the property portfolio. It is about understanding the capital needs, and coming up with a strategy that can deliver the organisational long-term goals. This specifically identifies asset management planning, maintenance requirements and planned disposals. Property professionals need to be at this table.

- *"While indicators for sustainability are required to be set over a minimum three-year rolling period, indicators should be set in line with a capital strategy and asset management plan that is **sustainable over the longer term.**"*
- *"Prudence is more than simply a narrow financial concept. It requires an authority to ensure that its capital investment decisions can deliver the authority's asset management and community strategy."*
- 'An **overview of asset management planning** including the cost of past borrowing, **maintenance requirements and planned disposals.**'

Purpose of the capital strategy

The capital strategy is intended to perform a number of functions, and I have listed some of these below. I suggest that you scan this list and start to think about how property impacts or is impacted by these factors in your organisation. Too often an organisation's capital strategy is left to finance staff to produce, and often in total isolation from colleagues in other areas.

- Maximise capital resources to fund corporate and community priorities, strategies and plans
- Support effective and timely investment in the council's assets, to ensure they are efficiently and effectively used
- Prioritise the council's own investment requirements, and determining which can be funded by the authority, how and when
- Enable the identification and optimisation of all sources of capital funding and ensure its effective utilisation
- A capital programme that is financially affordable, prudent and sustainable, and integrated with the medium-term plan
- Impact of investment decisions on revenue budgets
- Assess risk and mitigating factors
- Ensure adequate flexibility to respond to emergencies; and to minimise their likelihood by proactive asset management
- Effective approval process and pre/post project appraisal
- Effective performance reporting and management of capital programme
- Transparent decisions to invest and assist stakeholders' understanding of the council's decision making process and project management of its capital investments
- Outline governance arrangements and identify any training requirements necessary to ensure that this is effective
- Provide a clear vision of the council's capital investment blueprint for the present day and future.

The property professional's contribution

As the key property professional in your organisation, you will hopefully have your finger on the pulse to changes that are occurring to and within the organisation, that impact on the property assets needed to move forward.

Factors such as shared function buildings; shared assets with external partners; customer 'channel shifting'; services scaled back through closure; changes to service operating models; services being closed down altogether; outsourcing; and insourcing, are all impacting on what assets you need where, and what these assets should look like, and how they should perform. And all these areas have the potential to either generate or require capital, which needs to be planned for. So it should simply not be possible to separate capital planning in any organisation, with strategic asset management planning. And yet many still do.

I will leave you with a rather famous quote from Sir John Harvey Jones. It is one which I often draw upon in training workshops, because it sums up the attitude and approach in some organisations to strategic planning:

"Planning is an unnatural process; it is much more fun to do something else. The nicest thing about not planning is that failure comes as a complete surprise, rather than being preceded by a period of worry and depression."

And so I finish with a plea to you to do your very best to not allow your organisation to be one of those that prefers failure to come as a complete surprise, which is wasteful of time and resources, damaging to personal and organisational reputations, and damaging to the public purse in which we are all entrusted.

Think about what you can do to change things for the better, think about what the property portfolio capital demands are going to be laying ahead of you that need to be identified and planned for now, to save pain and discomfort later. Think about your professional duty to your organisation and the public you serve.

Lecture over!

[Ed – see also Alan Phelp's article on strategic asset management in this issue of Terrier].