Asset Sharing Principles

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SCOTTISH FUTURES TRUST

Asset Sharing Principles

The current fiscal climate presents financial challenges for all public sector organisations. These organisations have for some time now been working hard to be more efficient and doing more with less out of necessity.

Organisational transformation and new ways of working are critical to address budgetary pressures, and the sharing of assets is an important aspect of this response.

The sharing of assets across the public sector is already delivering benefits for organisations as demonstrated through live examples across the country. It is however recognised there is scope to further strengthen and promote collaboration.

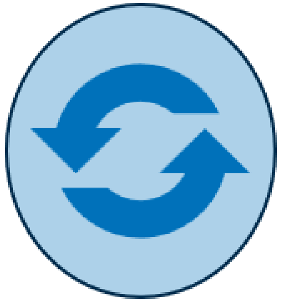
To smooth the path to more effective and efficient sharing, and to support benefit realisation, four high-level ‘Principles’ are recommended. They are intended to generally apply to assets occupied for operational purposes as opposed to those held for economic development or investment. These Principles form the basis for a more systematic approach to asset sharing.

Service providers being in one place presents opportunities to redesign services to better meet the needs of users. This might be either through a ‘one stop shop’ customer hub, or more integrated public sector wide working practices, or a mix of both.

The former of these two scenarios does need to be considered in the context of the longer-term shift – accelerated by Covid – in the way the public access services, for example digitally, resulting in less people coming to public sector offices.

1. A place-based approach should be followed, and option appraisal undertaken to ensure the right assets in the right location are used.

2. A collaborative approach should be adopted, jointly identifying objectives and benefits and co-producing business cases.



3. Maximising the use of existing assets and a preference for sharing is agreed to be the start point.

4. Sharing the costs of holding and using each other’s assets is agreed to be fair and reasonable.

1. A place-based approach

A place-based approach should be followed, and option appraisal undertaken, to ensure the right assets in the right locations are used.

Investment in public infrastructure can impact positively on places through improving key assets and attracting private investment. The Place Principle promotes a more collaborative approach to achieve better outcomes for people and communities including greater local co-ordination. To help organisations follow a based-based approach, the Place Guide has been developed.

Although there are new ways of working for lots of public sector staff, with hybrid working and staff being able to work from a diversity of settings including from home, there is still merit in exploring the benefits of sharing assets.

At the outset, organisations looking to share should establish a clear strategic brief which captures their operational requirements, the service delivery benefits of co-locating, and an initial consideration of governance routes and funding.

This strategic brief – which can form the basis for a subsequent business case – should include robust appraisal to ensure sharing meets operational, financial, and net zero criteria, and uses the right assets in the right locations; an assessment informed by objectives such as maximising the impact on place and inclusive growth.

Outcomes can be grouped as direct benefits to the organisations sharing, and indirect benefits to local communities as identified in The Benefits of Shared Workspace. This framing helps inform and shape project development by highlighting these benefits as strong reasons to co-locate.

Sharing assets can improve business continuity and resilience for organisations and delivery of services to the public in times of civil emergency

Cognisance should be given to the opportunity cost of an incoming organisation using an asset by checking the host organisation’s staff and other partners would not benefit more from using the asset.

2. A collaborative approach

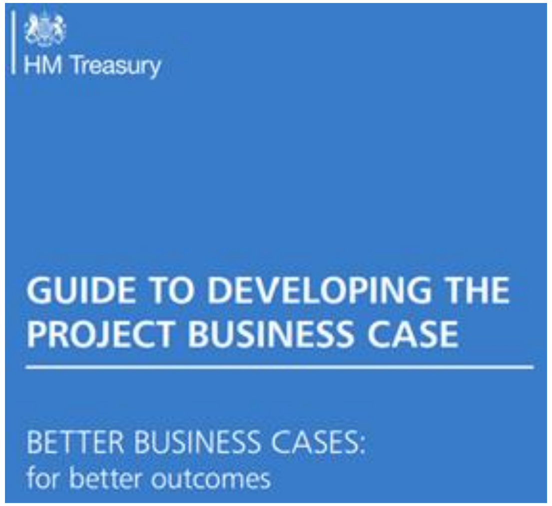
A collaborative approach should be adopted jointly identifying objectives and benefits and co-producing business cases.

Organisations should adopt a collaborative approach to all aspects of sharing from initial idea through to delivery and operation. This could include data collation, identification of funding, service delivery processes, single business case, governance arrangements, legal agreement, and facilities management models covering for example ICT provision, access, and security.

Challenges the public sector faces include differing corporate priorities, capital planning cycles, governance routes and timescales, and the use of separate business cases to inform the decision-making process within each organisation. This is often further complicated by ongoing strategic reviews of the whole, or a major part of, an organisation's asset portfolio.

It would certainly help to smooth the path to more effective and efficient asset sharing if there was greater commonality of approach regarding business cases.

There is much to be said for adopting a joint approach to the preparation of a single business case for use by partners in a given project – ideally adopting the Five Case business model approach. It is recognised this might require to be accompanied by some commentary, by each partner, to reflect factors specific to their own strategic objectives and priorities.



Appropriate project management needs to be put in place, with project leads identified. Ideally, these project leads would remain in place for the duration of the scoping and delivery phases to ensure continuity and effective communication between organisations.

Project leads need to be core attendees at project meetings and reporting regularly to their senior decision makers. Project development, including co-producing a strategic brief, can be informed by the Briefing and Evaluation Framework developed to support anyone embarking on any form of infrastructure investment.

The Framework helps to better define, develop and evaluate outcomes. At the start of a potential asset sharing project organisations should share their internal governance structure and approval processes with each other to help manage expectations and set project milestones.

Host organisations need to be clear from the outset with potential occupiers that their service delivery responsibilities can change and with that the requirement to use their own assets may also vary over time.

Partners' plans can also change so their needs and assets should be regularly reviewed and considered through a collaborative, place-based approach. Organisations should agree how and when to monitor/ review this, for example by building in flexibility to review occupation in their legal agreements.

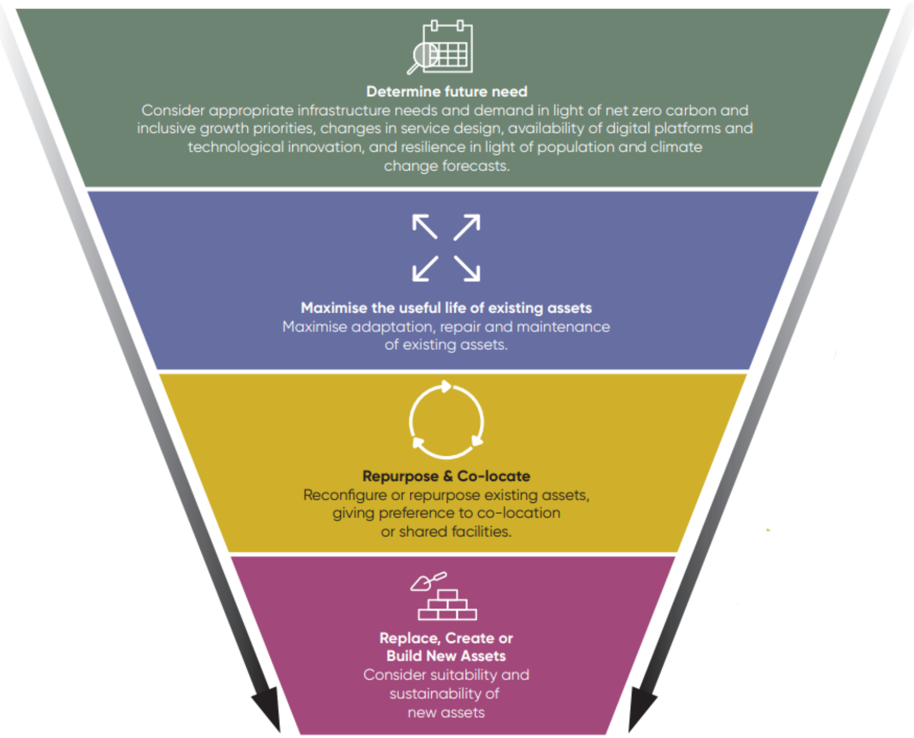
3.Maximising use of existing assets

Maximising the use of existing assets and a preference for sharing is agreed to be the starting point.

Strategic policy drivers influencing public sector asset decisions include those contained in the Scottish Government's [Infrastructure Investment Plan 2021-22 to 2025-26] (IIP).

Within this, an investment hierarchy prioritises the use of existing assets and sharing before considering new assets. It states asset sharing can improve service delivery, reduce costs, better utilise public assets, and achieve a mix of wider place and net zero outcomes. An inverted pyramid is used to illustrate the start point of 'determine future need' through to the development of new assets but only after the possibility of using existing assets has been exhausted.

To help organisations with the hierarchy, and support how they might approach its application when undertaking strategic asset planning, [A Guide to Property Asset Strategy in the Scottish Public Sector] has been developed by the Scottish Government and Scottish Futures Trust.



The principle enshrined in the IIP encourages the public sector to consider existing assets before new ones. Once the need for an asset has been established, organisations should review existing provision to ascertain whether existing infrastructure can be used, either in its current state or after adaption or reconfiguration, or if investment in a new asset is ultimately required.

The hierarchy is strongly aligned with the IIP's three themes for infrastructure investment – net zero, inclusive growth, and sustainable places – and fits with the Scottish Government's policy on prioritising investments which deliver positive outcomes across more than just one theme.

Assets across the public sector should be considered. This pan-public sector horizon scan is reflected in the [Verity House Agreement], signed between COSLA and the Scottish Government in 2023. This sets out a vision for a more collaborative approach to delivering shared priorities for the people of Scotland. The Agreement touches specifically on the importance of Scottish Government and Local Government working together strategically to advance public sector reform. It provides a helpful foundation to further promote a more joined up approach across the public sector.

4. Sharing the costs

Sharing the costs of holding and using each other's assets is agreed to be fair and reasonable.

Organisations should be transparent and agree an equitable approach to reflect the whole life cost of using the asset. Three sharing the cost sub-principles are suggested:

a). No organisation should make a profit or loss from an other when it comes to sharing assets

It is recognised sharing is an important part of making Scotland's public sector as efficient and effective as possible. Sharing can directly assist organisations improve service delivery whilst also acting as an enabler for wider positive social impact and outcomes.

Current practice in relation to sharing across the public sector reflects wide divergences in approach, between various organisations, and even within a single organisation. There is often a degree of uncertainty how to weight non-financial objectives – such as the benefits to service users of a more integrated approach to service delivery – against the traditional requirement to reduce revenue costs and maximise financial receipts from assets.

As the Principles are intended to generally apply to assets occupied for operational purposes, it is proposed no open market rent be charged. If, however, an asset is leased from a private owner, then it is fair and reasonable to seek from an incoming party a share of the passing rent the host organisation is having to pay.

There may be circumstances where local flexibility is required to reach a mutually beneficial arrangement. Such a discussion may be required for example if an incoming organisation is interested in an asset held by another for economic development or investment purposes.

It is recognised organisations hold assets in different ways and it might be they are paying debt on the asset. Again, it is fair and reasonable for an incoming party to reimburse the host organisation for its share of the cost of this capital.

Where a shared asset requires significant up-front expenditure – for say an extension or a major reconfiguration – this cost needs to be recognised in the development agreement's financial arrangements, perhaps by way of an up-front capital contribution or spread over a number of years. Bespoke fit out or specific refurbishment costs should be met by the incoming party.

Cost arrangements and liabilities at the end of the sharing agreement should be set out, i.e. responsibility for reinstatement and dilapidations.

b). The running cost of the asset should be shared (annual revenue costs)

Organisations should share the costs associated with using assets on a day-to-day basis. For example, the revenue costs for heat, light, and power and the cost of managing the asset should be apportioned. There are other costs too - such as rates and insurance - and these would have to be carefully considered and shared if the incoming party is not paying these directly itself.

How this cost is apportioned and reviewed, for example by floorspace used, needs to be agreed at the outset by the parties.

c). The future cost of the asset should be shared (longer terms costs)

It is fair and reasonable an incoming organisation contributes towards the longer-term costs of holding and using assets. This can be a complex area and there are many influencing factors, for example organisations' potentially differing approaches to – and ability to pay – capital costs, the proportion of the asset used, and the length of time the asset will be shared.

The basis of this should be agreed at the outset so parties are as clear as possible on their future financial liabilities. One way to do this is to agree any future contributions will be on the basis the asset is fully operational and has been properly maintained, perhaps established by a condition survey, so the incoming party is not being asked to pay for previous underinvestment and/ or backlog work. A 'required asset standard' agreement could be used to maintain quality during occupation.

Alternatively, it could be agreed the asset is used 'as seen' and any investment required will be discussed as and when the need arises. This approach however does introduce risk and uncertainty with regards potentially significant as-yet-unknown longer-term costs.

The need to transition public sector assets to net zero means investment in energy efficiency interventions may be required, like fabric improvements, to bring assets up to the standard needed to meet future legislative requirements. The host organisation should be transparent as to any planned future investment, such as replacing gas boilers, upgrading windows, reroofing, etc, as the capital expenditure could be significant.

These financial aspects can be considered with others in the business case. This would include consideration of the current and lifecycle costs of the incoming organisation's existing asset (albeit these may be insufficient to properly maintain the asset and to cover future repair and investment costs), any capital receipt from that asset's disposal, and the social value from the asset's redevelopment and reuse, say for example its conversion to residential, commercial, or community use.

Asset Sharing Principles: Principles to adopt when public organisations share assets

Sharing encourages a more strategic and integrated approach to the use of public sector assets.

The public asset base overall would be smaller thus saving money and helping the journey to net zero. Assets would be better utilised, and their revenue and longer-term costs shared.

Surplus assets could be sold/ redeveloped to meet other policy objectives, for example community asset transfer, the creation of business space, or the development of locally needed homes.

Enablers will include strong leadership, change management, behavioural change, and good communications and engagement so parties sharing know what is expected of them.

What else could be done to smooth the path to more effective and efficient asset sharing? One suggestion would be the development of a public sector wide asset sharing agreement to more easily facilitate sharing and to, over time, embed a consistency of approach across the Scottish public sector when it comes to sharing space.

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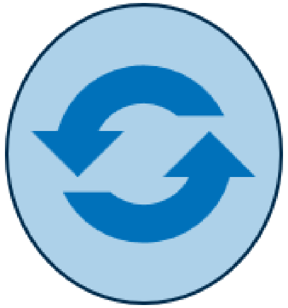

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