Report to: **Audit Committee**

Date of meeting: **22 November 2018**

By: **Chief Operating Officer**

Title: **Property Asset Disposal and Investment Strategy –update report**

Purpose: **To provide Audit Committee with an update on activities supporting delivery of the Property Asset and Investment Strategy.**

RECOMMENDATIONS

1. **The Committee notes this Report covering the period April to September 2018.**
2. **The Committee is requested to consider and recommend any actions that should be taken in response to the contents of this Report**
3. **Identify any new or emerging items for consideration**

Background

1.1 On 24th April 2018 Cabinet resolved to approve a Property Asset Disposal & Investment Strategy, and noted key principles around governance and resource arrangements required.

1.2 This Report provides an update on activities for the first 6 months of the Strategy and provides high level models/principles used to support activities underway.

1.3 The key purpose of the Strategy is to deliver an ongoing net income stream to the Council with investment defined as allocating money in the expectation of some benefit in the future. This covers investment in legal interests in land or property assets which enable income streams, and which may include those arising through development opportunities.

1.4 The approved Strategy seeks to address key priorities that i) support the Council's financial resilience in the longer term, ii) support the Council in continuing to deliver its essential services to residents, and iii) act as a catalyst for improved economic outcomes for the County.

1.5 Aligned to these key priorities are several themes around optimising the current estate portfolio, challenging service utilisation, defining growth or locality based strategies, joining up public service delivery, managing a corporate landlord model, and integration of asset management activities with wider regeneration agendas.

1.6 The strategy looks at a combination of investment and development opportunities, with the Council making investments alone or in partnership with either authorities in their local administrative area or with a third party.

1.7 The emphasis remains on the optimisation of East Sussex County Council's (ESCC's) existing asset base and a cautious approach to direct property investment for commercial return, which is identified as a distinct and separate second phase.

1.8 The Strategy, as a reminder, is outlined by the four "quadrant" approach as shown in the table below, noting that some property activities are common or available to each quadrant:

	Activity	Activity
Operational Assets	Optimise Receipt / Revenue from Disposal	Development for Corporate Priorities / Service Need
Investment Assets	Phase 2 Direct acquisitions of up and let investments	Direct development or provision of Equity or Debt finance

2. Supporting Information

Sites Information and Reviews

2.1 As part of the evolving review, it has been necessary to identify initial assets that are planned, or which could form the initial core of a programme. The capital receipts programme has been the source to date and further details of the top dozen sites, together with an outline of high level options are provided in a separate report under item 14 on the agenda.

2.2 Whilst some sites continue to be taken forward through feasibility and /or onto planning stages, further reviews of assets across the Estate will continue as part of the wider Core Offer agenda.

2.3 The process of site and asset reviews /challenge is a continual process and needs to be set against Corporate priorities, which themselves can change over time. It is important for the Council to establish the likely benefits, and track the outcomes it expects to deliver from any asset review /investment process. Where the outcomes sought have a higher level of social value benefit over and above a targeted financial return, it provides the opportunity to identify assets that may form part of an opportunity for a Community Asset Transfer.

2.4 The County Councils' Community Asset Transfer Policy (March 2016) sets out our principles and approach to Community Asset Transfers. It also includes more detailed information such as the process and the assessment criteria. It is important to recognise the difference between our Policy (that supports a transfer of one of our assets to the community aligned to a specific outcome sought), as against a process under the Localism Act 2010 which enables a community to seek an option to bid for an asset (known as a listing an Asset of Community Value) where the nominating party would secure a 6 month period to raise funds to bid for an asset if the owner decided to dispose of same.

2.5 The process behind asset reviews being undertaken can be summarised in Appendix 1 and 2, and is closely aligned to finance assessment noted in paragraphs 2.6 and 2.7 (below).

Governance

2.6 Programme and Project governance around new investment will be managed primarily through the Capital Board which already involves officers across the Council together with supporting consultants. This Board remains an important gateway review mechanism for any evolving business cases, and further consideration may be given to sub boards needed to provide programme management support as activity increases.

Finance assessments

2.7 In developing any business case it is necessary to undertake a full assessment of an opportunity to support a recommended delivery option. In support of feasibility and options appraisal stages, a resource of up to £200,000 has been identified to support the small team of officers involved in the programme.

2.8 Modelling within business cases is anticipated to include:

- An appraisal of the Councils' sites (that potentially form an initial phase of activity)
- A baseline assessment of values and costs to provide identified outcomes or benefits
- An assessment of returns on capital (or revenue) available from identified options.
- Specific financial modelling to consider the cash flow of sites through any delivery stage
- Overall cash flow requirements illustrating the financial returns to the Council from the wider programme
- Developing a value capture model which can identify secondary benefits that might flow to the Council, (such as additional business rates, new homes bonus, Community Infrastructure Levy - CIL etc.)

Model

2.9 Encapsulated in Appendix 2 is a high level model that seeks to underpin our current thinking and deliverability challenge on the re-use of particular assets, and which will inform business cases.

2.10 Those assets already declared surplus, or identified as potentially available through service reviews and which may be thus noted as poor performing (due to current condition and suitability) offer a number of options for re use or investment as against sale.

Potential Benefits

2.11 The balance sheet value of the ESCC estates portfolio is currently recorded at £543m. Although much of the value is held in relatively illiquid assets (i.e. schools), there are still a number of sites that offer development and/or outcome based returns. A summary analysis of an initial list of core sites provides an indication of options available to support the investment strategy, and is outlined in a separate report under item 14 on the agenda.

2.12 Over and above our land valuation assessments (sales values normally taken as capital receipts), returns from onward development would be expected to offer minimum target returns on capital employed, and/or benchmarked returns of between 15% and 20% against full development value of a scheme. Additional income returns can be secured through the County providing development finance at a margin over its current borrowing rates. At this stage it is only possible to give a high level assessment of the timeframes within which project work can progress.

Legal implications

2.13 There are no specific legal implications arising in the context of this report. Consideration is given to relevant legal issues (Title, ownerships, covenant, grant clawbacks) within each property project at the time and is addressed accordingly. Where a joint venture arrangement might be appropriate further consideration of legal structures would be notable.

Financial implications

2.14 The Corporate Management Team (CMT) has supported the request for revenue funding to support certain projects (feasibility and business case development) from the Transitional Fund. At this stage no specific financial targets or outcomes have been sought but non-financial returns can also be highlighted or targeted through activities that support wider economic and community benefits (i.e. examples include support for the creative sector in the Rye Centre).

Risk management

2.15 A focus on asset and investment activities may lead to a review of the wider capital receipts programme, particularly where assets are retained for either a longer period as business cases evolve, or capital receipts are "exchanged" for income generating opportunities from revised investment or delivery vehicles (e.g. transferring a low value but strategically located land asset for an equity stake in the development or joint venture vehicle).

HR implications

2.16 The Strategy highlighted the need for the Council to ensure appropriate capacity and capability is available to ensure delivery, and this has a number of strands across investment, development and operational estate portfolio activities.

2.17 The extent and nature of increased activity and focus on asset management work has already highlighted the need for some realignment of resource. At this stage this is primarily through provision of additional programme management support to the small property team involved, and proposals for short term and longer term arrangements are being considered.

2.18 The level of resourcing and use of external specialist consultants will need to be kept under review and contract managed appropriately, and promptly, in order that implementation of the strategy is not adversely affected.

2.19 The potential scale of asset projects has identified the need for resource and capabilities that cover, or extend across a number of activities such as:

- Formation of the overall delivery strategy;
- Assessment of In-house skills and capacity;
- Stakeholder engagement and communications plan;
- Establishment and oversight of quality assured project processes i.e. business cases, gateway reviews, sign off procedures etc.;
- Coordination of data for validation of project scenarios;
- Oversight of the preparation of project briefs;
- Oversight of the preparation of budgets, business plans;
- Management of the appointment of consultants and contractors to projects;
- Management of risk assessments and mitigation plans
- Monitoring and reporting on progress of overall delivery of programmes and budgets.

3. Conclusion and recommendations

3.1 The current asset base of the County Council offers opportunities to resource active development of sites whether for ongoing service use or wider market development returns.

3.2 Switching from a capital receipts led programme to one that enables retention of land for development (to secure either additional benefits for service use or returns on capital invested) is a key theme of the Property Asset Disposal & Investment Strategy.

3.3 The Core Offer which seeks to support provision of core statutory services enables the Council to undertake further review of its wider asset base for consolidation, rationalisation and reinvestment where appropriate.

3.4 Audit Committee are asked to note and comment upon the core principles and activities noted in this Report

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Appendix 1 – Asset Review Process

Property Review

Location, Suitability, Sufficiency, Costs, Condition

Non Operational

- Why does the Council own it
- Could the capital be better employed

Admin property

- Can we make do with less
- Could we relocate
- Can we share space with public partners

Service Asset

- Is building sustainable
- Would the service be better located elsewhere
- Are there other (better) means of provision?

Appendix 2 – Feasibility Options model