

**Report to:** Audit Committee

**Date of meeting:** 22 November 2019

**By:** Chief Operating Officer

**Title:** Property Asset Disposal and Investment Strategy (PADIS)

**Purpose:** To provide Audit Committee with an annual report on the progress and implementation of the Strategy

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## **RECOMMENDATIONS**

**It is recommended for Audit Committee to:**

- 1. note the contents of this report;**
  - 2. consider, and recommend, any actions that should be taken in response to the contents of this report;**
  - 3. note that progress continues against the background of some wider market uncertainties, and the need to support capacity to ensure delivery; and**
  - 4. identify any new or emerging items for consideration.**
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### **1. Background**

- 1.1 The County Council's strategic framework for investment supports the development of income and funding streams to enhance the financial resilience of the Council. In April 2018 Cabinet resolved to approve a Property Asset Disposal and Investment Strategy, as part of its suite of activities. At its meeting on 22 November 2018, this Committee reviewed an update on the strategy and property related activities, together with the high level model/principles used to support activities underway. It requested that an Annual Report be brought back to this Committee.
- 1.2 The Strategy
  - 1.2.1 The Strategy provides the Council with three principle activities:
    - i) the ability to drive added value from its current estate from disposal activity
    - ii) the option to retain assets to support corporate or service needs and
    - iii) enable investment in new assets or projects in support of economic growth opportunities.
  - 1.2.2 The County Council has determined not to follow the route of purchasing income generating property assets per se to support its operational funding activities – ie through taking on PWLB loans to acquire commercial investments. Recent market concerns - over bidding activity and risk exposure by some local authorities with limited professional investment management advice - is highlighted by recently raised PWLB loan rates - supporting the caution aired by Members. Commercial property as an investment class will always remain an option within a professionally managed balanced portfolio, but is as much about timing and selection, not simply a chase to the top.

### 1.3 Governance

- 1.3.1 Programme and Project governance remains primarily through the Capital Board, which remains an important gateway review mechanism for any evolving business opportunities.
- 1.3.2 In June 2019 an update on vacant and surplus assets was reported to Place Scrutiny Committee which included a summary review of both the process around surplus assets as well as an update on several key sites, whilst highlighting some of the dependencies hurdles and issues being addressed. This Report is at Appendix A and has supported the past year's activity.
- 1.3.3 The processes outlined form a core of activity that support the reviews of assets, under our PADIS, in so far as the Council will i) continue to create lists of opportunities ii) build on the current prioritisation process, and iii) ensure these are based on acceptable risk, speed and extent of delivery of revenue (income or capital) benefits, or other desired outcomes (care, community transfer, collaborative working etc)
- 1.4.1 The County Council's Capital Strategy is being updated as part of the RPPR process for 2020/21. A 20 year strategy will be supported by a 10 year planned capital programme. This programme will be reviewed annually as part of the RPPR process to ensure it reflects service need and council priorities. To be consistent, and to allow alignment to the PADIS regarding investment decisions, the first 3 years of the planned programme will seek to represent some firm planning assumptions for key sites.
- 1.4.2 As the Capital Strategy links strategies and plans to investment across all departments, the opportunity will also be taken to update governance arrangements to facilitate ongoing strategy management, information sharing and joined up working across services.

### 1.5 Strategic Asset Management Plan

- 1.5.1 In support of wider estate and investment strategy, a revised Strategic Asset Management Plan for the period 2020 to 2025 has been drafted, which continues to highlight the emphasis on optimisation of value and development potential from the Council's residual asset base, with or without input from core public sector partners.
- 1.5.2 This document, attached at Appendix B, once formally signed off by the Lead Member for Resources, notes not only the importance and alignment between estate activities and service business planning – the need for a One Council led approach - but also opportunities to resource and deliver with a number of our public sector partners.

### 1.6 Resources

- 1.6.1 To bring sites forward, revenue and people resource is required to support added value programme management and individual project led activities.
- 1.6.2 Over the past 12 months, a wider review of the Orbis Partnership had identified the option for property resources and activities to be returned to their sovereign authority control, whilst retaining notable Centres of Expertise (such as energy). In practical terms the main effect of Orbis property staff reverting to management of their sovereign estates was that gaps in our own structure emerged where functions provided by Surrey CC staff across the partnership were no longer provided. This

combined with existing vacancies in the permanent structure caused a drop in service levels as existing ESCC staff struggled to cover all operational functions.

- 1.6.3 Our response has been to recruit as quickly as possible using both permanent and interim resources. This has been successful but further recruitment remains in hand to restore full service. We are also taking this time as an opportunity to ensure we have capacity and capability that ensures we can maintain a strategic and commissioning led service going forward, whilst using a mix of in house and external delivery models, and still provide a fully operational service supporting the needs of frontline services (particularly Childrens and Adults) across our operational estate.

## 1.7 Site Activity

- 1.7.1 The Council nevertheless continues to progress work across individual sites with many subject to their own specific constraints, issues, risks and opportunities. Timing across most sites is always difficult to predict but close monitoring of projects benefits and financial outcomes remain key.

- 1.7.2 A later Agenda Item provides a more detailed summary of activities for review (Part 2 Exempt).

- 1.7.3 A highlight of activity across these key sites include:

- a) identification of an ESCC owned site that could be brought forward as a 7-10MW solar farm opportunity. A more detailed feasibility is underway but high level modelling and desk top risk assessment (planning, land, size and delivery) indicate the potential for good rates of return on capital. The strategic outline business case will be worked upon over the next few months.
- b) One large site with the benefit of a planning consent for major housing, but whose delivery is still being held back by lack of a Secretary of State consent.
- c) One site which has been subject to demolition activity during the past 6 months and which needs to be taken forward into the planning arena for either a housing or service led development (decision awaited in support of care)
- d) A number of sites which remain within stages of the town planning system.

## 1.8 Opportunity workshops

- 1.8.1 A set of workshops has been concluded (by Property and Economic Development teams) over the past quarter with all our District and Boroughs to ensure all opportunities for asset planning, economic development and collaborative proposals are highlighted. From this action, as well as our current work through SPACES and our One Public Estate activities, a number of wider opportunities have been highlighted for review. These include:

- a) Collaboration on a partnering arrangement to secure added value from a land holding
- b) Joint working to assess options to share training facilities to enable release of space for collaborative working
- c) Land swaps

- d) Potential acquisition to support shared use of asset and front line community services

## 1.9 Business Cases

- 1.9.1 Whilst each opportunity site has evolved over the recent past despite the difficult background and constraints noted above, overall progress toward a performance target of bringing a set number of sites through feasibility and option appraisal stages continues to be challenging.
- 1.9.2 The recent focus has been on concluding our option appraisal work around our Corporate Office estate to support savings, enable workplace improvements whilst facilitating greater co sharing opportunities with public partners to deliver front line services
- 1.9.3 Key sites identified for disposal within our established capital receipts programme remain part of a four year target to deliver £16m of receipts to support the current MTFP by 22/23. Those projects remain on target, but Committee is asked to note that a number of ESCC owned sites have been identified, and listed, as assets of community value thus enabling the right to bid for an asset, but requiring a 6 month moratorium on disposals.
- 1.9.4 Collation of information from services around business plans and future delivery models to support operational and administrative property reviews is ongoing and this is aligned to the wider appraisal work and utilisation studies that have recently been concluded around investment opportunities for our corporate office estate.

## 2. Supporting Information

- 2.1 In order to bring capacity and capability to the fore, we are seeking to procure a Multi Disciplinary consultant to bring forward initial viability and feasibility reports on some sites.
- 2.2 The future operational management of completed sites that may be retained as investments has yet to be fully assessed. Delivery mechanisms such as subordinate company, joint venture or outsourced arrangements still require further review and remain work in progress.
- 2.3 The scale of the opportunities and the risk appetite of the Council has yet to be fully tested but the level of opportunities already identified or in hand continue to offer considerable encouragement, and outcome benefits

## 3. Conclusion and recommendations

- 3.1 Audit Committee is asked to note the contents of this report and consider and recommend any actions that should be taken in response to the contents.

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## **Appendices**

Appendix A Place Scrutiny Committee Report 11 June 2019 – Marked Exempt

Appendix B Draft Strategic Asset Management Plan 2020-2025