

# REPORT TO RESOURCES P.D.G.

**REPORT OF:** Executive Manager Property

**REPORT NO:** RIM 365

**DATE:** 26 January 2017

<b>TITLE:</b>	Asset Strategy- Vision and Asset Challenge	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>		
<b>EXECUTIVE MEMBER: NAME AND DESIGNATION:</b>	Councillor Terl Bryant: Executive Member Resources	
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<b>INITIAL IMPACT ANALYSIS:</b>  Equality and Diversity	Carried out and Referred to in paragraph (7) below  See paragraph 7	Full impact assessment Required: <i>n/a</i>
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>		

## **1. RECOMMENDATION**

- 1.1 The PDG Members are asked to note the contents of this report and are requested to provide feedback and views on an Asset Vision, and on asset challenge in terms of the scoring methodology and matrix.

## **2. PURPOSE OF THE REPORT**

- 2.1 The current adopted Property Asset Strategy covers the period expiring 2017. The current Vision Statement is particularly focused on operational assets. With the new Corporate Plan commencing 2016, and the current Property Asset Strategy expiring 2017, this provides an opportunity to formulate a new Vision which reflects our current objectives and wider ambitions for the future.
- 2.2 A fundamental and important part of proactive strategic asset management is to embed a formal asset challenge process and to deliver on the process. Alongside the Vision, the asset challenge process is a crucially important part of any asset strategy, and the PDG Members are requested to review and inform it at this early stage to assist in its development.

## **3. DETAILS OF REPORT**

### **3.1 BACKGROUND**

- 3.1.1 The Council's Corporate Plan 2016 – 2020 highlights being "Open for business" and "Commercially and customer focused" these outcomes are also key to the future asset strategy and focusing a vision for the property assets going forward.

The focus for the Council is also on;

- Growth plans
- Fit for the Future programme to enable the Council to be self financing by 2019
- Establishment of the Local Authority Controlled Company and provision of more housing
- Create vibrant communities where people want to live, work, invest
- Invest in commercial property assets
- Evaluate space availability in existing Council buildings and land assets to ensure maximum utilisation

### **3.2 THE EXISTING ASSET PORTFOLIO**

- 3.2.1 The existing general fund asset portfolio comprises two basic types of property assets. These are the tenanted properties portfolio, and the operational properties portfolio.

- 3.2.2 The tenanted portfolio is further divided between the community portfolio, the commercial portfolio, and the investment portfolio.
- 3.2.3 The operational portfolio can be further divided between core properties (accommodating direct delivery of services) and non – core properties (deliver corporate objectives other than direct services).
- 3.2.4 Why is this important? It is important because the reason why we hold the asset and its strategic purpose influences and determines the way the asset should be managed, in order to achieve the desired outcomes.
- 3.2.5 The tenanted portfolio assets have a particular strategic function, and the operational portfolio assets have a different function.
- 3.2.6 The community portfolio includes for example community centres, sports clubs, scout huts and other third sector tenants. The function and desired outcomes from these assets are related to supporting the community.
- 3.2.7 The commercial portfolio includes the Council’s industrial units. The purpose of the industrial units is to support the Councils economic development objectives.
- 3.2.8 The investment portfolio includes those properties held for investment purposes to provide income and capital growth.
- 3.2.9 The operational property portfolio includes for example Council offices, depots, market stores, car parks, public conveniences. The purpose of the operational properties is to provide cost effective, sustainable space which supports delivery of services.
- 3.2.10 Different parts of the asset portfolio have different uses and functions which influence and determine the way that each should be managed to achieve the desired outcomes. Also, and most importantly, it influences the formulation and definition of a vision for the asset portfolio as a whole.
- 3.2.11 Asset Plans for these different parts of the asset portfolio are being formulated. The plans have been informed by, and based on, CIPFA and RICS best practice guidelines.

#### 4.0 **THE EXISTING ASSET MANAGEMENT VISION**

- 4.1 The current adopted SKDC Property Asset Strategy covers the period expiring 2017.

The Vision Statement is

“By 2015 SKDC will have developed with its partners and other like minded public sector organisations opportunities to rationalise or share property assets to provide a cost effective and sustainable public estate to serve the locality and meet customer demand whilst reducing reliance on council tax and government grant and will have implemented the opportunities that arise”.

4.2 The current Vision Statement is particularly focused on operational assets with the new Corporate Plan commencing 2016, and the current adopted Property Asset Strategy expiring 2017, there is an opportunity to formulate a new Vision which reflects our current objectives and wider ambitions for the future.

#### 4.3 **VISIONING FOR THE FUTURE**

4.3.1 The purpose of this Report is to inform a debate about the asset vision for the revised Property Asset Strategy, post 2017, which will set a direction and context to ongoing work in formulating the Strategy.

4.3.2 It is anticipated that the revised Vision will be incorporated in the strategy setting out the principles adopted, and that there will be an Asset Management Plan setting out how property asset management is delivered, and an action plan providing clear and measurable actions that will be implemented over the short term of say 3 years.

4.2.3 Formulating the Vision and what goes into it, is subjective and based on opinion and views. There are a number of possible key strands which could be considered appropriate. These are put forward as suggestions to the Group, although Members may consider there are others, and the suggestions are put forward to assist the Group in shaping the Vision.

4.2.4 It is firstly suggested that the Vision should do three things, these being to provide the long term strategic vision, to deliver corporate objectives, and to set direction for the asset portfolio.

An example:

The Council will own, occupy or use properties that empowers excellent performance in the delivery of its services and Corporate Plan themes on behalf of its residents, businesses and visitors.

4.2.5 Other possible strands to include in a vision statement are;

- Use of assets to drive economic growth
- Facilitate housing development
- To drive greater value from the tenanted non residential portfolio to help support front line service and assist financial independence
- To support leisure arts and culture
- To support community well being and health
- To support regeneration
- To create the right environment for transformational new ways of working

4.2.6 The Group may like to consider whether a broader vision is appropriate or whether a more detailed version is required. A broader vision will enable more flexibility in the future. A more detailed vision will provide more certainty.

A broader and more detailed example is given below;

To own and manage assets effectively to support the Council in delivering its strategic priorities and service needs including reviewing and rationalising the Councils property portfolio so as to maximise receipts and minimise property costs; to ensure that the assets that are retained for service delivery are well maintained, accessible, safe and fit for purpose; and to use the assets to assist regeneration and economic development, growth and good housing in the District, and to support health, well being and community outcomes.

The Council has the right accommodation in the right place at the right time and is affordable to meet its needs that support service delivery, to own investment assets that financially support service delivery, and to own assets that will deliver other Corporate Plan themes, in the most efficient way possible for the benefit of residents and businesses in the District.

4.2.7 The PDG Members are asked to consider the above and to confirm views on the Vision to be recommended to the Executive for adoption in the Asset Strategy. The vision is a statement of where we want to get to. In considering what should go into the vision, the PDG Members may wish to discuss the following;

- a) Detailed or broader vision?
- b) Generic (ie applicable to all types of assets) or specific (parts of Vision apply to different asset uses)?
- c) Should the Vision include actions?
- d) Who are the beneficiaries of the Vision (eg residents; businesses), is it important to state this?
- e) What is the main focus of the Vision (eg empower the Council to perform excellently in delivering services)?
- f) What is the desired nuance in the main focus (eg perform excellently compared to meet needs that support service delivery)?
- g) What other factors or components does the Group consider important to incorporate into the Vision?

## 5.0 ASSET CHALLENGE

5.1 The challenge takes place on all assets including operational properties and investment properties held in the portfolio, and can be applied to new investment opportunities to decide on relative attractiveness to add to and improve the overall performance of the portfolio.

5.2 The opportunity is to re-balance the asset portfolio through disposals of under-performing assets and investment into more prime assets generating a more healthy return to support service delivery. There is also an opportunity to move from the historic legacy of current property holdings and to transform and modernise the asset portfolio. An ongoing initiative of disposals resulting from active strategic asset management and combined with reinvestment is an important component in improving the asset performance, balance, and growth and sustainability of income moving forward.

5.3 An asset scoring matrix has been designed to assess performance of properties. The matrix is an important part of the Disposal Strategy which will be brought to the Group for future consideration as part of the overall Asset Management Plan.

5.4 **ASSET SCORING**

5.4.1 We are proposing to adopt a scoring mechanism to assess each asset in relation to key factors and criteria for performance. The advantages of scoring are greater transparency and consistency for comparison, and increased objectivity and clarity.

5.4.2 Inevitably with a scoring mechanism, debate can be had regarding the design of the scoring and feedback is welcomed regarding the proposed design of the scoring to ensure the mechanism to be adopted reflects the Councils requirements.

5.4.3 The proposed asset scoring methodology for discussion is as follows;

The indicators for measuring investment properties will broadly follow the adopted criteria for buying new investment properties as set out in the Council’s Asset Investment Strategy.

5.4.4. Assets will be assessed on two pass or fail indicators. All assets achieving both indicators will be considered fit for purpose and therefore should be retained.

<u>Investment indicator</u>	<u>Basis</u>
<u>Measure</u>	
Net initial yield	Current rent as %age of capital value
Pass/ fail	
Investment score	Total weighted score based on investment Criteria - Greater or equal to a score of 140

**Net initial yield** - this measures whether the asset is generating income to a satisfactory level of return. The net initial yield is expected to achieve 7% or above.

**Investment score** – this will be calculated by assessing a number of criteria to arrive at a weighted score indicating the overall level of investment performance for each asset.

5.4.5. The investment criteria and their basis and weighting factor is as follows;  
Performance criteria basis of score (between 0 and 4) weighting

Location/ income growth potential	strength of location	10
Tenant strength	strength of covenant	9
Tenure	extent of legal ownership	8
Lot size	capital / book value	7
Remaining lease length	no. of years left on lease	5
Repairing terms	Council level of maintenance responsibility	2

5.4.6 The asset will be assessed under each criterion and scored between 0 and 4, and the score will be multiplied by the weighting to deliver an overall score. The total maximum score possible is **164**.

5.4.7 If an asset shows 85% of the total maximum score possible of 164 (ie a score of 140), then the asset will be judged as being fit for purpose and therefore should be retained. A score of 85% is considered as being the baseline and that future use and management of the strategy should be reviewed.

5.4.8 In respect of the initial scoring of the assets, the decision on the 85% level will be subject to the results of testing and possible refinement.

In respect of future scoring of assets, it is anticipated that the 85% level will be incrementally increased over time as the portfolio is transformed following disposals, which will result in driving further increased performance going forward.

5.4.9 For the initial scoring based on the 85% level, assets therefore showing a score of 140 or less will be judged as assets in the disposal category.

5.4.10 The investment performance criteria is shown below.

**Performance criteria Scoring matrix**

		SCORE	4	3	2	1	0
<b>CRITERIA</b>	<b>WEIGHTING FACTOR</b>		Excellent	Good	Acceptable	Marginal	Unacceptable
<b>Location</b>	10		Prime	Sub prime	Secondary	Sub secondary	Tertiary
<b>Tenancy strength</b>	9		Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant
<b>Tenure</b>	8		Freehold	Lease 125 years plus	Lease between 50 and 125 years	Lease between 20 and 50 years	Lease less than 20 years
<b>Lot size</b>	7		Between £1m and £2.5m	Between £0.75m & £1.0m or £2.5m & £3.0m	Between £0.5m & £0.75m or £3.0m & £4.75m	Between £0.25m & £0.5m or £4.75m & £5.25m	Less than £0.25m or more than £5.25m
<b>Remaining lease length</b>	5		Longer than 10 years	Between 7 and 10 years	Between 4 and 7 years	Between 2 and 4 years	Less than 2 years; vacant
<b>Repairing terms</b>	2		FRI	Internal repairing - 100% recoverable	Internal repairing-part recoverable	Internal repairing-non recoverable	Landlord

Note: Some testing of the proposed scoring mechanism has been undertaken. Initial results have been as follows;

Closed public toilets	score 52
Commercial, Grantham	score 89
Industrial Unit, Bourne	score 105
Commercial unit Stamford (HRA)	score 77
Commercial unit Stamford (HRA)	score 87
Commercial unit Stamford (HRA)	score 87

5.4.11 If all, or a large number of the assets can be scored in this way, a ranked list can be produced showing performance and fitness for purpose. The assets with particularly low scores can be considered for short or medium term disposal. The ranked list can be used to formulate a disposal programme to transform the portfolio over time.

5.4.12 At this initial point three phases are considered as being possible to transform the portfolio. Also, consideration needs to be given to market conditions in terms of phasing and potential yields achievable through reinvestment.

5.4.13 However before disposals are agreed it is important to understand if an alternate use or further investment in the asset would give a better outcome for the Council. A score below 140 should therefore be a trigger for a wider review of those assets before considering them for disposal.

5.4.14 Worked examples of the scoring matrix are included in Appendix A.

5.4.15 Members views are sought on the asset scoring methodology.

**4. OTHER OPTIONS CONSIDERED**

CIPFA and RICS best practise guidance has been reviewed and used to inform the work on asset management.

**5. RESOURCE IMPLICATIONS**

None as a result of this report. Arrangements are in place with an appointed commercial agent to obtain specific market and valuation advice in addition to commissioning reports from the District Valuation Office.

**6. RISK AND MITIGATION**

Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action / Controls

**7. ISSUES ARISING FROM IMPACT ANALYSIS**

None as a result of this report

**8. CRIME AND DISORDER IMPLICATIONS**

None as a result of this report

**9. COMMENTS OF FINANCIAL SERVICES**

It is important the Council actively reviews and invests in its asset base in order to ensure it is continuing to support the Council's ambitions and deliver value for money. It is equally important to identify disposal opportunities in order that the capital receipts can be utilised to fund future capital expenditure.

**10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

The power available to local authorities to dispose of assets is detailed at s.123 of the Local Government Act 1972 and the relevant disposal consents

**11. COMMENTS OF OTHER RELEVANT SERVICES**

There are no comments from other services.

**12. APPENDICES:**

Appendix 1a and 1b: Two worked examples of Asset Scoring – Highest and lowest.