

Asset Rationalisation: A Refreshed Approach

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Cabinet Member: David Hall

Division and Local Member: N/A

1. Summary

- 1.1. This report relates to a draft Cabinet Member Key Decision which sets out principles for a refreshed approach to assets and disposals, which includes:
- Confirmation of SCC's overall policy of continued rationalisation;
 - Confirmation that SCC's assets are seen as corporate assets;
 - Endorsement of a more proactive approach to disposals, working with services, but driven centrally to meet current challenges;
 - A clear preference for reducing our leasehold estate;
 - Increased transparency and visibility of property costs and receipts; and
 - A focus on the future of SCC's property estate as a flexible, low cost, sustainable and revenue generating portfolio.

As part of this refreshed approach, all property assets would be reviewed to determine the business case for disposal, commercial use or strategic retention, on a case by case basis through existing decision-making structures.

This Key Decision would supersede the Cabinet Member Decision dated 18th October 2010 "County Farms Estate – outcomes of farm by farm reviews".

- 1.2. The report's recommendations further the objectives set out in the County Plan as follows:
- "Sell off buildings we no longer need and use that money to support our other services"
 - "Reduce the number of buildings we operate to free up funding for frontline services"
 - "Ensure that by 2020 when Government ends its funding for our day-to-day services, we will be in a sustainable financial position".

2. Issues for consideration / Recommendations

2.1. Asset Rationalisation

The Committee is asked to consider and comment on the following recommendations contained within the report:

1. To endorse and confirm that SCC's policy is to continue to optimise our property estate to reduce unnecessary costs and liabilities to the Council, targeting leasehold properties, under-utilised and surplus buildings and land as priorities.
2. To approve the principles of asset rationalisation set out in the decision report.

3. To approve the review of assets and land holdings to determine the business case for disposal, commercial use or strategic retention.
4. To authorise the Head of Corporate Property with the Commercial and Business Services Director and the Director of Finance and Performance to carry out a review of budgeting and accounting arrangements related to the Council's property assets and to agree and implement the changes necessary to improve transparency as set out in the decision report.

2.2. County Farms

The Committee is asked to consider and comment on the following recommendations contained within the report:

1. To approve the establishment of a cross party Members' Task and Finish Group to review the Council's remaining farm holdings encompassing
 - a. tenants' interests,
 - b. the rural economy,
 - c. farming skills
 - d. the alternative uses for these assets or their financial equivalents.
2. To confirm that the decision updates the Council's Policy on County Farms including replacing the concept of multiple lists of holdings.

3. Background

- 3.1.** SCC's policy is to continue to reduce our property estate to reduce costs and liabilities to the Council, targeting,
- (a) leasehold properties,
 - (b) under-utilised and surplus buildings, and
 - (c) land
- as priorities for disposal.

The decision report recommends that a review of all property assets is conducted with a view to setting out a programme of disposals to be taken forward by the Corporate Property Team over the next two financial years, subject to market changes.

As part of this review a more streamlined disposal process would also be sought, as will be required to achieve an accelerated rationalisation programme and secure the necessary capital receipts.

- 3.2.** In relation to County Farms, the previous policy from 2010 identified a number of holdings retained for future sale including because of future development potential. It is the right time to consider this list alongside all other holdings when assessing the options for disposal or retention.
- 3.3.** Asset Rationalisation Principles

The principles recommended within the decision report are as follows:

- That SCC's Property Assets should be viewed as a corporate resource to meet operational need, generate revenue and contribute to the wider aims of the Council in relation to Economic Development. As such, decisions

regarding their use, retention or disposal should be taken centrally to ensure a consistent approach and an organisation-wide view.

- Corporate Property should actively seek the disposal of under-utilised properties and not wait for such buildings or land to be declared surplus by services. Where any such asset is in use, Corporate Property will work with the relevant service or services to identify and facilitate moves to alternative accommodation. This will ensure that potential capital receipts (or rental incomes) can be realised more swiftly, whilst recognising service need. It is, of course, essential that the Corporate Estate continues to facilitate and support the delivery of our statutory and core services.
- Lease breaks should be targeted to reduce the number of leasehold properties of which SCC is a tenant. Such arrangements generally tie SCC to greater cost than would be the case in freehold properties and limit the Council's choices related to the property, reducing the flexibility of our Estate overall.
- Where SCC is to be the Landlord, rents (and other charges) agreed with 3rd parties must be at market levels. There will be circumstances where it makes sense as part of a wider commercial deal, or to secure non-financial benefits, to agree terms more favourable to the tenant. However, to ensure transparency of decision-making and to clearly demonstrate the cost of such non-financial benefits, any difference between the market rent (and other charges) and the actual deal agreed should be made up from the relevant commissioning budget. This has the benefit of keeping such arrangements and their impact at the forefront of decision-makers' minds to inform future decisions related to the relevant third party, for example, giving a better understanding of global benefits afforded to the said party and allowing fully informed choices about the value of any benefits in kind. It also ensures that the costs and the benefits of any arrangement sit within the same area of the Council.
- SCC will actively seek to share space with partners where there is a strong business case and subject to the other principles set out above.

3.4. Accounting Arrangements – Transparency

Currently there is no practical way to assess the overall cost and potential of our estate, due to a raft of historic and localised agreements with third parties, differing arrangements for the collection and payment of rent and a lack of central oversight of costs and receipts for our properties. Very many of our property arrangements are managed through service budgets and this makes it much harder to get a global view and to ensure that actions are taken with a full understanding of the asset implications.

A review of our accounting arrangements is proposed to bring all payments and receipts in relation to property through a central point, thereby improving visibility, transparency and cost control. This will allow us to manage our portfolio of

properties in a more business-like manner, reporting on overall costs and benefits and taking decisions based on full transparency of comparative cost and investment returns.

3.5. Asset Plans

Finally, the report provides an overview of our proposed approach to assets, specifically in relation to disposals and the future shape of our property portfolio, with a view to gaining an endorsement of this high level strategy prior to the development of a more detailed Asset Strategy document.

Over the short to medium term, the focus will be on generating capital receipts, where there is a strong commercial case to dispose, whilst meeting operational need. Corporate Property will focus on reducing costs and improving utilisation rates for our properties, which will involve targeted disposals and will recognise the need to balance short term receipts with future commercial value.

Subsequently, we will seek a portfolio of assets that delivers consolidated flexible spaces and contributes to the Council's sustainability with a commercial approach to a retained asset base that delivers revenue. At present we have short term flexibility to use capital receipts to fund revenue spending on transformation. This is partly driving our accelerated disposal programme. However, we can create this flexibility for ourselves in the long term by retaining and shaping a capital asset base that delivers good investment returns in rental receipts to support the Council's revenue spending across the board i.e. not limited to transformation.

4. Consultations undertaken

- 4.1. Principles approved through Asset Strategy Group and presented to SLT in Q3 of 2016/17 and Cabinet/SLT in January 2017.

5. Implications

- 5.1. No funding is required for this decision. The review referred to at recommendation 3 is prompted by the need to realise increased capital receipts.

The long term planned approaches set out in the main body of this report show how improved financial sustainability can be achieved from this refreshed approach to offset the impact of lost rental income in the short to medium term.

- 5.2. Clearly there will be a requirement to ensure that the proper legal processes are followed in relation to the disposals anticipated by this decision report.
- 5.3. Where the recommended approach to our asset base leads to a decision to dispose of a freehold or leasehold asset, or indeed to secure an alternative one, implications would be addressed through and be specific to the relevant decision.

6. Background papers

- 6.1. Appendix A - Draft Cabinet Member decision report.