Asset Rationalisation and Review of the Corporate Asset Management Plan.
Cabinet Member for Resources and Economic Development Division and Local Member(s): All
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Summary:
This decision report sets out principles for a refreshed approach towards assets and disposals, which will be reflected in a new Corporate Asset Management Plan for the County Council.

The new approach and principles include:

- Clarity regarding SCC’s overall policy of continued rationalisation;
- Recognition by officers and members that SCC’s assets are corporately managed rather than “belonging to” individual services;
- A more proactive intelligence-driven approach to disposals, informed by service priorities, targets and resources, but delivered 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 to the Council’s asset strategy and in particular to asset rationalisation, the Corporate Property Group will conduct a review of all assets and land holdings to determine the business case for disposal, commercial use or strategic retention over the coming months, with a view to dealing with each asset on a case by case basis. This review is expected to be concluded in readiness for decisions to be taken in the Spring/Summer of 2018.

In the meantime, any decisions related to asset disposal will continue to be managed through the existing, standard governance routes. This includes adherence to the Cabinet Member Key Decision of 18th October 2010 in respect of County Farms and farm land.

**Recommendations:**

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<td>1.</td>
<td>Endorses all necessary action to optimise the Council’s property estate to reduce unnecessary costs and targeting leasehold properties, under-utilised and surplus buildings and land as priorities.</td>
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<td>2.</td>
<td>Approves the principles of asset rationalisation set out in this decision report.</td>
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<td>3.</td>
<td>Approves the review of all assets and land holdings to determine the business case for disposal, commercial use or strategic retention.</td>
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<td>4.</td>
<td>Authorises the Head of Corporate Property, in partnership with 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 this decision report.</td>
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<td>5.</td>
<td>Notes that any subsequent recommendation to alter or rescind the 2010 key decision in respect of County Farm holdings would require a separate Key Decision report.</td>
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**Reasons for Recommendations:**

To establish the basis upon which the objectives, targets and strategy, within the Council’s corporate Asset Management Plan, will be delivered.

To respond to current pressures on Council capital budgets and to support the delivery of the Council’s priorities.

To make full use of the opportunity now available to apply capital receipts to revenue spending on transformation activity.

To set out a clear, updated, approach to asset rationalisation for SCC, which takes account of financial pressures, but also seeks to establish a more business-like approach to the management
of the Council’s asset base.

To improve transparency regarding the costs and financial benefits arising from the Corporate Estate allowing improved analysis and more informed decision making regarding investment and disposals.

To enable the Council’s estate to be managed professionally, effectively and efficiently, delivering the best value for money for the people of Somerset.

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<th>Links to Priorities and Impact on Service Plans:</th>
<th>These recommendations further the objectives set out in the County Plan as follows:</th>
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<td>- “[S]ell off buildings we no longer need and use that money to support our other services”</td>
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<td>- “Reduce the number of buildings we operate to free up funding for frontline services”</td>
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<td>- “[E]nsure that by 2020 when Government ends its funding for our day-to-day services, we will be in a sustainable financial position”.</td>
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<th>Consultations undertaken:</th>
<th>The elected members’ Asset Strategy Group will agree and approve the Corporate Asset Management Plan and will review and challenge, where necessary, the application of the refreshed asset rationalisation strategy. The officers Asset Management Group will monitor progress with the disposals, including any variations between the anticipated returns and those actually achieved.</th>
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<td>The proposed approach set out in this report was considered at the Scrutiny Committee for Policies and Place on 5th September 2017 (see below).</td>
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<th>Financial Implications:</th>
<th>No funding is required for this decision.</th>
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<td>The review, referred to in recommendation 3, is prompted by the need to sustain the Council’s capital programme and therefore to realise capital receipts to fund the Council’s priorities.</td>
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<td>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.</td>
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<td>The adoption of this corporate approach towards the estate is vital in reducing financial waste by enabling better asset investment decision-making and is key to developing a financially sustainable, well-managed estate.</td>
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| Legal Implications: | 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. |
No HR implications are anticipated.

The Capital Investment Programme is partly funded from the generation of capital receipts and the sale of surplus assets also reduces liabilities to the Revenue Budget. The proposals within this report seek to maximise benefits for the Council and support the delivery of its priorities.

The key risks to delivering the proposed approach:
- are the ability of the Council to realise capital receipts for the target values and timetable that it requires;
- the ability of purchasers or partners to meet the Council’s expectations for receipts from the disposal of surplus land and property;
- the impact of any reduced value Community Asset Transfers;
- the Council’s capacity to support the delivery of capital receipts and rationalise its property assets and
- any changes to the proposed approach in this report.

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<th>Likelihood</th>
<th>Impact</th>
<th>Risk Score</th>
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<td>3</td>
<td>5</td>
<td>15</td>
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Whilst SCC has some property assets which are classified as dwellings, the proposal to adopt a corporate approach to asset rationalisation does not affect the security of tenure for any occupants of domestic dwellings.

The revised approach will include a better understanding of the accessibility requirements and challenges posed by the estate. The rationalisation will generate budget savings which can be used to address accessibility issues.

This key decision does not make specific recommendations on disposal or retention: asset disposals and their impacts, will continue to be approached on a case-by-case basis and Equality Impact Assessments will be completed wherever appropriate.

There are, therefore, no implications for any of SCC’s tenants or occupants, arising directly from the adoption a corporate approach to the management of the Council’s estate.

The Scrutiny Committee for Policies for Place considered the proposals within this report at their meeting on 5 September 2017. The Committee were advised that the sale of assets had achieved in excess of £33m in capital receipts during the last five financial years. The bulk of this has been used to support the capital programme, although it can also be used to support transformation.

The Scrutiny Committee agreed to the recommendations contained in this report with a request that a Task & Finish
Group be formed to undertake a review of the rationale of and purpose behind retaining county farms. The Task and Finish Group is scheduled to report back to the Scrutiny Committee for Policies and Place on 5th December.

N.B. Any recommendations to adjust current policy and practice arising from the work of the County Farms Task and Finish Group would first need to be endorsed by Scrutiny Committee. It would be for the Cabinet Member for Resources and Economic Development to consider the merit of any such recommendations.

1. Background

1.1. This report sets out proposals for a refreshed approach to asset rationalisation for SCC by which we might continue to rationalise the SCC Estate in a more consistent way with organisation-wide considerations taking the lead. It also considers the future direction of our asset strategy in this context.

1.2 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.

   It is recommended that a review of all property assets is conducted over the coming months with a view to setting out a proposed programme of disposals to be taken forward by the Corporate Property Team over the next two financial years, subject to market changes. This will demonstrate whether there is sufficient available and saleable asset to meet the financial target, but will of course be subject to change, both in composition and timescale as a result of market and other factors.

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

1.3 In relation to County Farms, the policy and review in October 2010 identified a number of holdings suitable for retention, including those with future development potential. The Cabinet Member for Resources and Economic Development has accepted a request from the Chair of Scrutiny Committee to set up a Members’ Task and Finish Group to review the Council’s remaining farm holdings and the current approach to managing and disposing of the County Farm estate. The Task and Finish Group will undertake its work during Autumn 2017 and report its findings to the Scrutiny Committee for Policies and Place on 5 December 2017. Any changes required to update or rescind the 2010 policy decision on County Farms will require its own Decision Report. To this extent, the County Farm estate is unaffected by the refreshing of the Asset Rationalisation approach as set out in this paper.

1.4 Asset Rationalisation Principles
The principles we recommend applying in pursuit of this policy 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 and ensuring that non property cost impacts are taken into account. 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.

### 1.5 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.

1.6 Asset Plans

This section is intended to provide the decision-maker with 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.

Short and Medium Term:
- The Corporate Property Group focus will be on generating capital receipts, where there is a strong commercial case to dispose, whilst meeting operational need.
- The Corporate Property Group will focus on reducing costs and improving utilisation rates for the Council’s properties, applying a corporate asset view and strategy.
- This will involve targeted disposals, including leaseholds, and will recognise the need to balance short term receipts with future commercial value whilst addressing core service outputs.

Medium to Long Term:
- The Corporate Property Group will seek to develop a portfolio of assets that delivers consolidated flexible spaces and contributes to the Council’s sustainability via a commercial approach to a retained asset base that delivers revenue.
- At present SCC has short term flexibility to use capital receipts to fund revenue spending on transformation. This is partly driving an accelerated disposal programme. However, SCC can create this flexibility for itself in the long term by retaining and shaping a capital asset base that delivers good investment returns in rental receipts in order to support revenue spending across the board i.e. not limited to transformation.

2. Options considered and reasons for rejecting them

2.1. No viable alternative has been put forward that would deliver these requirements and support the delivery of the Council’s priorities.
3. **Background Papers**

3.1. Corporate Asset Management Plan 2014-17

3.2. Property Rationalisation Programme agreed by Cabinet June 2010

3.3 County Farms Review agreed by Cabinet Member for Resources October 2010