

DEVELOPMENT OF A THREE YEAR ASSET MANAGEMENT STRATEGY

1. INTRODUCTION

As Cabinet is aware, the Council's 8 Point Plan includes a commitment to ensuring better use of its property assets through the development of an Asset Management Strategy. This will include a policy of seeking to invest in the acquisition of commercial, and potentially residential, properties with the intention of achieving additional revenue streams. The strategy will also assist decisions including potentially direct intervention in town centre regeneration through strategic acquisitions.

2. BACKGROUND

2.1 In 2014 Rushmoor Borough Council commissioned some work from Montague Evans to assess the health of its property portfolio. This report considered:

- The composition of the Council's portfolio
- A review of types of assets and their potential
- The Council's key corporate plan objectives and how they link to its property portfolio
- Areas for potential change and evolution of the property portfolio through a business plan.

2.2 The report set out the following strategic objectives:

- To have a clear management and portfolio structure which provides for appropriate resources and strategic input to operation of the Council's property portfolio.
- To regularly review whether assets are fit for purpose and meet Corporate aims, including through using appropriate performance measures.
- To create portfolios that are easy and less expensive to manage, including through reduction / disposal of underperforming or surplus assets.
- To maximise the embedded potential of the portfolio, and when where possible and appropriate to release value across all property categories.
- To ensure that assets that remain within the ownership of the Council are well maintained and continue to be attractive locations for occupiers and provide good value services
- To use assets to assist where possible in developing a prosperous, strong economy.

2.3 Under the theme of *Investment* the report suggested the following Guiding Principles:

- To create a portfolio that minimises management costs and resources
- To increase returns and create higher gross income
- To ensure that the Council is not exposed to unduly high risk
- To create a portfolio that is focussed on long-term sustainable performance and will have fewer assets but with good prospects for long-term growth
- To dispose of assets which are underperforming, have limited potential for rental or value growth – or are likely to have disproportionately high resource implications.

Finally, the report set out a number of organisational and property specific actions and potential development opportunities aimed at making more effective use of the Council's property assets

2.4 Following receipt of the report, research has been carried out on other local authorities who have developed successful Asset Management Strategies including Eastleigh Borough Council. The aim of this research was to identify a council with a particularly successful track record who would be willing to assist the council and to learn from their experience on developing and implementing a successful strategy within the sector.

There are good examples where successful strategies in-house have generated significant revenue streams through careful active management of property portfolios including a programme of property acquisitions and development. Acquisitions are funded, typically, through capital receipts and/or Prudential Code borrowing. Properties are normally then leased to third parties.

In some cases, such as Eastleigh, where the council had previously sought to dispose of surplus sites to developers for a capital receipt, they have now adopted the approach of directly financing and managing developments. The freehold is retained and the development is leased to an occupier. This again generates an ongoing revenue stream. .

Robust processes and checks need to be put in place to minimise financial and reputational risk to the Council. In Eastleigh's case, the Council has generated around £6.5M per annum additional revenue over the past five years – after accounting for the cost of prudential borrowing. Typically, rates of 7- 8% return have been achieved by Eastleigh . Their income is structured so that it covers the cost of borrowing and also generates a revenue income stream for the Council. This income makes a significant contribution to supporting their front-line services.

2.5 There is now an opportunity to benefit from the experience of other councils and agreement has been reached, in principle, with Eastleigh Borough Council to work collaboratively with our Property Team to develop

an approach and produce an Asset Management Strategy that meets the stated strategic objectives set out in the Montague Evans report. This will result in the preparation of a strategy containing the following elements:

- A statement of the objectives of the strategy (stimulating development/regeneration/delivery of Local Plan aspirations/income generation etc.)
- an appraisal of the property market in Rushmoor
- an assessment of the potential opportunities available
- processes, safeguards to enable practical delivery
- monitoring and management tools
- a delivery action plan

The benefit of this approach will be the creation of varied internal knowledge and expertise to enable a sustainable approach over the long term.

- 2.6 The completed strategy – which will be brought back to Cabinet for approval – will address directly the mitigation of risk and will contain strict guidelines which will embrace legal and procurement issues. A work shop with members and officers will be used to brief on the contents of the strategy and give the opportunity for questions to be addressed.

3. **FINANCIAL IMPLICATIONS**

3.1 *Initial Work*

The one-off cost of carrying out this work over a six to eight week period will be £30K funded from the Service Improvement Fund. It is envisaged the property acquisitions will, where appropriate, be funded initially from the Council's capital receipts. The strategy will, however, also identify the need to consider the use of appropriate Prudential Borrowing over the medium term. This will be brought forward for consideration by the Head of Finance as part of the mid-year Treasury Review and revision of the Council's Financial Strategy.

3.2 *Ongoing delivery support*

The Council will also need to commission ongoing professional support at the level of a senior valuer with experience in the development of Asset Management Strategies. This would be to take forward the delivery of the elements of the Action Plan and support our staff in developing an understanding of the strategy. This service would also be provided with a view to assisting with early transactions in line with the Strategy. The cost would be based on a daily rate of £1,200 per day (inclusive of travel and expenses). This would be a maximum of one day per week (unless by special arrangement). If this is required for a sustained period, there would be a discount (e.g. 10 days for £10k).

- 3.3 It will be necessary to review resources in our Property Team longer term subject to growth in the property portfolio. Where the Estate is managed as a portfolio, the resource cost would be netted off the income stream. This would enable the portfolio and associated income to grow in a sustainable way. Failure to properly make provision for maintenance and management costs associated with responsible property management would place significant additional risk on the Council.

4 PROPERTY AND RESOURCE IMPLICATIONS

This approach will, over time, result in a substantial increase in the Council's property asset base. Care will however need to be taken to ensure a diverse spread over a range of sectors. This will minimise risks associated with a concentration on a single sector. Holding a large property portfolio would require careful management. Longer term and subject to growth in the portfolio it will be necessary to review resources in our Property and Legal Team, subject to a compelling business case. .

5. CONCLUSIONS

The time is right to develop and bring forward a comprehensive Asset Management Strategy with the potential to grow significant revenue streams in accordance with the approach set out in the Council's 8 Point Plan. Key to the success of the strategy will be a comprehensive approach to the assessment and mitigation of risk, and the availability of appropriate expertise and resources.

6. RECOMMENDATION

Cabinet is recommended to

- 6.1 note and endorse the approach set out in this report; and
- 6.2 approve £30k from the Service Improvement Fund to fund the preparation of the Asset Management Strategy.

BACKGROUND DOCUMENTS:

Montague Evans report

CONTACT DETAILS:

Ann Greaves, Head of Legal and Estates