Taunton Deane Borough Council

Executive – 29 November 2017

Taunton Deane Borough Council General Fund 2018-2020 Asset Strategy

This matter is the responsibility of Cllr Mark Edwards, Deputy Leader, Portfolio Holder for Business Development, Asset Management and Communications

Report Author: Tim Child, Asset Manager

1. Purpose of the Report

1.1 To seek the views of the Executive on the draft Taunton Deane Borough Council 2018-2020 Asset Strategy.

1.2 To seek comments on the proposed revised governance and decision making process to ensure the strategy can be delivered through more agile and proportionate decision making.

2. Recommendations

2.1 That the Executive recommends Full Council to formally adopt the Taunton Deane Borough Council 2018-2020 Asset Strategy, the principles within and the recommendations; and

2.2 The Executive be recommended to agree the favoured decision making route moving forward as either:-

a) Detailed asset specific final protocol decisions that flow from the approved strategy, including key decisions being undertaken by delegation to a Director in consultation with the Portfolio Holder for Asset Management (no call-in);

or

b) Detailed asset specific final protocol decisions that flow from the approved strategy, including key decisions being undertaken as Executive Portfolio Holder decisions (call-in possible).

In (a) the Director, or in (b) the Portfolio Holder may if appropriate choose to take a decision through Committee due to a decision being likely to be contentious.

3. Risk Assessment (if appropriate)

3.1 A full risk matrix is available within the Asset Strategy document.

4. Background

4.1 The issues identified within the draft strategy are very significant and actions need to be taken to address them via the protocols within the strategy. It is critical that delivery of the strategy when adopted is not delayed due to lengthy decision making cycles.

4.2 The Asset Strategy attached requires the GF asset portfolio to be managed more proactively and commercially moving forward to enable disposal of poor performing assets, acquisition where there is a sound business case, investment in a proactive and informed manner and much greater commercialism in respect of the 'let' portfolio. Unless this strategy is adopted then significant additional budget will need to be secured to maintain this portfolio.

4.3 What is key is the ability for the Council to make informed and proportionate decision making but in a way that does not stifle the delivery of the strategy and the need for more 'agile' decision making. For the previous 3 years this has been a significant issue which has impacted on delivery.

4.4 From a speed of delivery perspective and in terms of generating the receipts and increasing the revenue income, decision making option (a) is clearly the Officer preference. If decision making option (b) is the outcome agreed by Council, the portfolio holder and officers will review any impact to the delivery of the Asset Strategy if it is deemed that the use of Scrutiny 'Call in Procedure' negates the delivery of the strategy. If this is found to be the case then any change to decision making would be subject to a new Council decision.

4.5 If a decision is required under the constitution to be taken by Full Council then only Full Council can take it unless Full Council specifically agrees to make it via a specified delegation to an officer (requiring consultation with a member(s)) as may be stipulated.

5.0 Governance Process

5.1 As per the strategy, protocol decisions will result in an options appraisal as per the arrangements set out within the options appraisal flowchart (appendix B to Strategy). All options appraisals will be undertaken using a standard format.

5.2 Ward Councillors will be consulted where assets in the Ward are being appraised and given an opportunity to discuss any concerns, with the Asset Management Team working with them to address any apprehensions and suggestions the Ward Councillor may have, including considering alternative options or what compromises may be possible. However, if their support on the outcome for the asset in question cannot be mutually agreed, i.e. disposal and they disagree, then it will be for the portfolio holder to decide how to proceed. In addition to Ward Councillor/s, Portfolio Holders whose portfolios are impacted will also be consulted.

5.3 An Asset Management Group (AMG) for the GF portfolio will be re-established and will include relevant portfolio holder/s who will consider these options appraisals and agree how to proceed.

5.4 Delivery of the strategy and realisation of the benefits will be reliant on adequate staffing resource, asset data in easily reportable datasets and the prioritisation of projects to focus on delivery of the strategy with less emphasis on non-key tasks. The current way of working will need to change.

5.5 The strategy makes it clear that disposals are just one consideration and will be pursued alongside investment in assets, acquisitions and being more commercial with the let portfolio but Officers do need the ability to implement the strategy.

5.6 Investment plans and the results from options appraisals will be reported to the Council through the AMG along with a dashboard updating on progress against delivery of the non-asset specific actions within the protocols.

5.7 The Action Plan will be reviewed quarterly by the AMG and reported to Scrutiny, Cabinet and Full Council annually.

6.0 Links to Corporate Aims/Priorities

6.1 Key Theme 4 – An Efficient and Modern Council – Make better use of our land and property assets; investing in, transferring or selling assets where it makes sense to do so;

7.0 Finance/Resource Implications

7.1 Finance and Resource inferences are set out within the Asset Strategy document.

8.0 Legal Implications

8.1 To be reported at Committee.

9.0 Environmental Impact Implications

9.1 None

10.0 Safeguarding and/or Community Safety Implications

10.1 None

11.0 Equality and Diversity Implications

11.1 None

12.0 Social Value Implications

12.1 Social / community value of assets is a key element of the options appraisals and subsequent decision making.

13.0 Partnership Implications

13.1 None

14.0 Health and Wellbeing Implications

14.1 None

15.0 Asset Management Implications

15.1 The Council's Asset Portfolio will be managed in a proactive manner, realising opportunities to make best use of assets that will be fully appraised via a suite of protocols within the TDBC GF 2018-2020 Asset Strategy.

16.0 Consultation Implications

16.1 The Asset Strategy and proposals for Decision Making are being presented to and debated at Corporate Scrutiny.

Democratic Path:

- **Scrutiny/Corporate Governance or Audit Committees – Yes**
- **Cabinet/Executive – Yes**
- **Full Council – Yes**

Reporting Frequency: ☒ **Once only** ☐ **Ad-hoc** ☐ **Quarterly**

☐ **Twice-yearly** ☐ **Annually**

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TAUNTON DEANE BOROUGH COUNCIL GENERAL FUND ASSET STRATEGY 2018 -2020

To ensure that the Council's land and property assets are managed and maintained in a consistent, strategic manner that supports the corporate strategy

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Final Draft for Executive

November 2017

By: Tim Child, Asset Manager

V.1.2 2017-11-09

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1.0 Executive Summary

1.1 The Council's current Asset Strategy prepared in 2013 is no longer fit for purpose due to changes in the internal and external environment and is being impacted by increasing financial pressures. Thus the creation of a new Corporate Strategy with significantly improved intelligence and data of the asset portfolio is of paramount importance. Supported by a move nationally towards transferring assets to local communities, it is essential Taunton Deane Borough Council (TDBC) is equipped with a new comprehensive strategy with agreed asset options to drive forward new ways of managing the General Fund (GF) portfolio by proactive asset management.

1.2 This 2018-2020 Asset Strategy recognises existing opportunities and identifies how these can be prioritised by utilising a new suite of protocols; an Investment Capital Programme protocol, a Disposal and Acquisition protocol and a Commercialism 'let property' protocol, which include key performance indicators to enable robust monitoring.

1.3 The Council holds a non-housing asset portfolio within the GF consisting of 320 assets at 1st November 2017, with 251 being land and infrastructure assets, with the remaining 69 being "building assets" or land assets generating a notable income- Deane House has been excluded due to changes. **It is these 69 assets that are included within this strategy in terms of the data provided but the protocols coming out of this strategy relate to the entire GF portfolio.** The entire portfolio is very diverse and the rental income is comparatively low, but the portfolio still requires significant management and presents substantial liabilities but with exciting prospects to create capital receipts and commercial opportunities. The 69 assets require £17,617,751 of expenditure over the next 30 years for replacing key components (roofs, doors, windows etcetera, along with associated management costs, reactive repairs, servicing and compliance elements) of which £3,031,817 is required within the next 5 years. For this part of the portfolio (69 assets) by accounting for the rental income to offset this investment requirement, a Net Present Value is shown of minus £3,563,988 over the next 30 years. **This general picture is likely to be reflective of the entire portfolio and the Asset Strategy addresses how this level of business intelligence must be applied across the whole portfolio. The Council now holds stock condition data on all 320 assets and hence now for the 1st time truly understands the costs of holding such assets.**

1.4 This Asset Strategy recognises a number of key challenges which lie ahead and which need to be overcome to enable the asset portfolio to be viable rather than being unsustainable due to the low income in relation to forecast expenditure. Furthermore the strategy identifies new priorities and through the three protocols referenced, a clear route map for doing things differently to improve the performance of the portfolio; invest or acquire where it makes sense to do so, maximise return where possible and dispose where appropriate. The explanation and criteria on which protocol will be applied on an asset by asset basis with a priority for progressing each asset is being developed but on the adoption of this Strategy there will be a clear and agreed programme having been agreed for those high priority assets enabling transactions to progress and deliver asset specific tangible deliverables. **It is essential these new ways of codifying and managing assets are adopted to enable the challenges to be effectively managed and opportunities delivered. Furthermore it is critical that decisions can be made quickly and supported by clear business cases to enable the strategy to be delivered and the savings and receipts to materialise.**

2.0 Introduction

2.1 Background - Why develop a new Asset Strategy?

The Asset Strategy sets out the Council's approach to the strategic management of its land and building assets. It has been reviewed to reflect:

- Financial pressures – Medium Term Financial Plan pressures and a general acknowledgement that spend on property assets would need to increase due to awareness of cost forecasts over next 30 years.

- Localism Act 2011 and the move to empower local communities - If local groups own or manage community buildings and land it will help foster a sense of belonging and bring together people from different backgrounds. Community ownership and management of buildings can also play a part in raising local people's aspirations, in enhancing the local economy, environment and have the capacity to strengthen the community, voluntary and social enterprise sector. In 2016 the Council adopted a Community Asset Transfer policy after much consultation with the communities and this policy needs to be reinforced and delivered.

- A much more sophisticated understanding of the portfolio since a new Property & Development function was created in 2014:

    - Risks - Future cost liabilities / public perception if not managing property assets efficiently and effectively and now with stock condition data.

    - Opportunities – To do things differently including improved generation of financial and non-financial returns.

- The existing Asset Strategy is now out-of-date and does not meet the Council's key requirements based on the internal and external environments having changed. Therefore, a new Asset Strategy is required to support the delivery of the current Corporate Strategy – Key Theme 4 – An Efficient and Modern Council – Make better use of our land and property assets; investing in, transferring or selling assets where it makes sense to do so.

- Over the past 2 years the Council's approach to strategic asset management has been developing against the backdrop of the current economic and political climate, the need to adopt new ways of working to manage the Council's assets and to include the wider objectives of community empowerment within the context of a wealth of guidance and instruction from central government in relation to asset management.

Implementation of the new Asset Strategy will identify opportunities to:

- Increase revenue income.
- Reduce costs – smaller but better performing asset base in terms of both financial and non-financial return.
- Invest wisely – component replacement or wider investment by being proactive and by identifying where both financial and non-financial returns can be improved. By being proactive there will be better management of future capital requirements.
- Identify assets to sell commercially and enable this to be done efficiently and effectively.
- Identify assets to transfer to local communities to help forge stronger local engagement.

2.2 Purpose - Why do we need Asset Management?

Proactive Asset Management provides a structured process to ensure best value is achieved from land and building assets which better serve the strategic needs of the organisation and this Asset Strategy sets out how this will be achieved for the period 2018 - 2020.

The definition of Asset Management adopted by this strategy is:

> *"Asset management is the management of our physical assets to meet the service and financial objectives of the Council"*

Therefore this Strategy provides:

> *"The effective targeting of resources to have the greatest effect in raising performance, maximising value for money and maximising the wider potential of assets"*

The strategy recognises that effective asset management includes the 3 key themes:

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- Proactive Asset Management – Those activities which maximise the returns from assets and where possible, through increasing income and reducing costs, disposing of assets that have a poor return financially and/or non-financially, acquiring assets where supported by a sound business case, and ensuring that assets are held in such a way to maximise the benefits to the community.

- Investment and Capital Programme – Those activities to proactively maintain the stock to maintain or improve its condition where there is a business case to do so and to invest more widely in wider works where again a strong business case supports such a course of action. Unless this course of action is adopted, financial and non-financial returns cannot be maximised.

- Supporting wider objectives – Being clear where and how asset management is supporting wider objectives, such as benefitting the community, shaping the built landscape and supporting the Council in its service delivery.

2.3 Scope

This Asset Strategy and its stated objectives will apply to decisions across the whole of the Council's GF land and property asset portfolio.

2.4 Asset Management objectives within this Asset Strategy

As a result of carrying out extensive due diligence work over the past 12 months we have revised our asset management objectives, reflecting the challenges we face, and the known risks and opportunities.

The overall objective of the Council in the management of its property portfolio is to utilise and manage its land and property assets in accordance with best practice and through doing so generate best value out of its portfolio. This is achieved by recognising and adopting the following priorities:

- Understanding our assets, how they perform and making the most of any opportunity to improve performance of that asset
- Disposing of assets which perform poorly – financially / non financially, to deliver required capital receipts and reduce outgoings
- Acquiring new assets where a strong business case exists
- Maintaining and investing in the assets where growth opportunities have been identified
- Making our assets more efficient – seeking a commercial return where appropriate and reasonable

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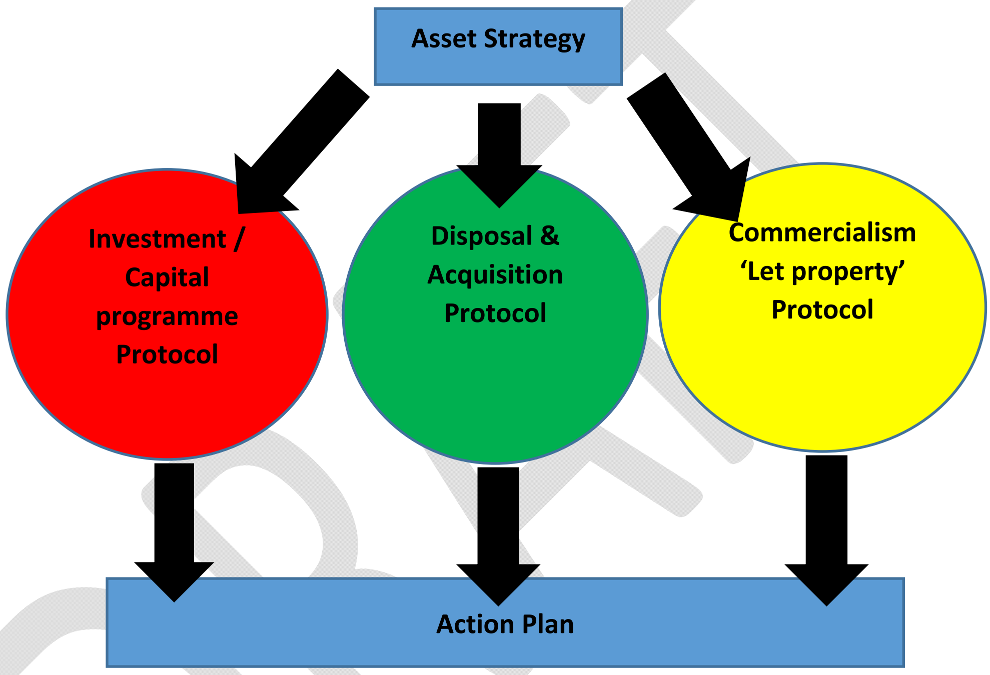
The Asset Strategy will be delivered through three interrelated protocols which are detailed below. These protocols underpin the Asset Strategy and inform the Action Plan.



The approach to Asset Management for the period 2018 – 2020 addresses issues beyond those covered by the 3 protocols. Those aims are clearly set out on the following pages.

Our Strategic Property Aim is

To ensure that the Council's land and property assets are managed and maintained in a consistent, strategic manner that supports the corporate strategy

Our Strategic Property Objectives are

- Understanding our assets and how they perform
- Disposing of assets which perform poorly
- Acquiring new assets where a strong business case exists
- Maintaining and investing in the assets
- Making assets more efficient – seeking commercial return

We will deliver these priorities by

- Retaining an Asset Register showing what we hold enabling the centralisation of asset management decisions
- Undertaking a rolling programme of options appraisals to inform protocols
- Implementing our disposal and acquisition protocol
- Implementing our investment / capital programme protocol
- Implementing our Commercialism 'Let Property' protocol
- Measuring/monitoring how our assets perform (financial / non financial)
- Managing responsive repairs to our assets in an efficient manner
- Maintaining Health & Safety Compliance – audits, procedures and processes
- Debt Management

2.5 Asset Management Tools

The Strategy sets out the asset management tools which will support effective decision making and delivery, including:

- Robust and up to date stock condition data

  Data for the strategy is based on stock condition data procured through external consultants. This included estimated costs over 30 years for 69 most significant building/income generating assets and where the most significant liabilities are expected to arise (excluding Deane House). Data is not included at this stage for other mainly land and infrastructure assets although there is now a reasonable understanding of likely liability in these areas – something which has never existed before. This data from the survey will be held electronically and kept up to date through routine periodic inspections by the Council's Asset Surveyors to inform future capital programmes and inform data on general asset performance.

- Data management to support compliance

  In addition to the Council's legal duties and obligations, providing a safe environment for tenants, our communities and staff is a fundamental principle. Effective compliance management is in place, beginning with complete, accurate and controlled asset data records and the development of efficient procedures for the Asset Surveyors team to ensure compliance is maintained through a rolling programme of inspections.

- Understanding of asset performance – new Asset Performance Tool

  The Council with support of external property consultants has developed an approach to understanding asset performance. A portfolio wide model is now in place to provide information on financial and non-financial performance but also for specific individual assets. This strategy sets out how this Performance Tool and the data within will be used to inform future plans. Where stock is performing poorly, on either a financial or non-financial basis, alternative options will be explored for these properties before investment decisions are made. This ensures resources are targeted where they will provide maximum value to the Council and communities. This model also shows where let property is providing a poor return and identifies what actions need to be taken to reverse a decline in asset value.

- Skills and expertise

Ensuring adequate staffing levels with the correct skill sets and knowledge of the GF portfolio has proven a real challenge for Asset Management over the past 4 years, most notably within the Estate Management Team. Delivery of this strategy will be dependent on appropriate staffing levels, sufficient expertise and knowledge of the portfolio built up over time along with an organisation wide focus on Asset Management delivering the strategy rather than other day-to-day activities and supporting robust prioritisation.

The operational delivery of compliance and of delivery of the identified capital programme sits outside of Asset Management and within the Property Investment Team which sits within the wider Property & Development service area.

2.6 Risk Management

The strategy recognises that assets can also become liabilities, threatening the Council's viability.

Risk Matrix

Description	Likelihood	Impact	Overall
Failure to manage Health & Safety compliance could put tenants, staff, contractors and our wider communities at risk.	3	5	15
The mitigations for this are to ensure adequate staff resource is in place to undertake necessary audits, commission work and that robust processes and procedures exist.	2	4	8
Failures to meet statutory standards can carry penalties and will damage the Council's reputation.	3	4	12
The mitigations for this are to ensure adequate staff resource is in place to undertake necessary audits, commission work and that robust processes and procedures exist.	2	4	8
Poor investment decisions made without understanding of an asset's performance and without a strategic view on the future use of that asset.	4	4	16
The mitigation is for suitably qualified professional staff / consultants to undertake options appraisals before committing to significant capital spend.	2	4	8
Failure to achieve capital receipts target.	4	5	20
The mitigation is to ensure robust management arrangements are in place and ensuring decision makers remain committed and supported by officers even when decisions might be difficult.	2	4	8
Failure to deliver capital programme within budget.	4	4	16

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The mitigation is to effectively manage programme, plan strategically, ensure budgets are set appropriately and through procurement ensure best value from contractors.	2	4	8
Failure to secure necessary 'buy in' from Officers and Councillors that assets need to be managed differently to deliver the Strategy.	4	5	20
The mitigation is to properly communicate the issues and the way forwards and ensuring understanding of implications if not followed..	2	5	10
Lack of appropriate decision making arrangements slowing down delivery of the Strategy.	4	5	20
The mitigation is to ensure that Officers furnish decision makers with a robust business case and on agreement to proceed, whilst updating the Asset Management Group, giving Portfolio Holder and Officers the ability to progress within agreed parameters.	4	2	8
Staff resourcing and retention during period of corporate transformation impacting on delivery of this Asset Strategy.	5	5	25
The mitigation is to utilise consultants and / or additional resource to deliver key projects where business case supports this.	3	5	15

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Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

Key risks to the delivery of our asset management objectives are:

- Data management
- Affordability and cost control
- Re-investment in the wrong stock
- Lack of strategic approach to managing the asset portfolio and reluctance to adopt a more commercial approach in line with best practice
- Lack of buy in by the wider Council
- Lack of sufficient internal and / or external resource to deliver strategy
- Most significantly, adequate staffing resource with necessary skills and knowledge of portfolio along with the ability of staff to focus on strategic work rather than day-to-day estate management

Key risks will be monitored closely and actions taken to address if necessary.

3 Stock Profile, Condition and Performance

3.1 Stock Profile

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The Council's 69 significant assets as at 1st November 2017 consists of industrial units, offices, pavilions, community buildings, allotments and car parks.

As at 1st November 2017 the rental income is circa £337,306 per year across 69 assets, which equates to £10,119,187 over the 30 years, un-inflated.

For a list of all the Council's GF assets as at November 2017 please see report in Appendix A.

To summarise, the portfolio is very diverse and the rental income is relatively modest on the vast majority of those assets, both for the 69 and for the 320.

Set out below is the reasoning behind why assets are held:

- To support the community – delivering the Council's Corporate Strategy
- To generate an income – supporting the Council's services and supporting the delivery of objectives and principally to enable reinvestment in the portfolio
- Legislative requirements

Retention of assets is not purely based on the financial return, however it mustn't be assumed that the Council have to hold the asset for it to benefit the community and deliver the Council's objectives.

3.2 Stock Condition

Data on the condition of our assets is based on a 2017 stock condition survey of 320 assets (69 for the more detailed work) commissioned though property consultants. In addition, the property constant and a specialist asbestos consultant have undertaken specific compliance (asbestos and fire risk assessment) surveys to the assets.

For the 69 most significant assets the stock condition data is included within the table below setting out the capital requirements in five year bands from 2016/2017 for a period of 30 years:

Element	Year 1-5	Year 6-10	Year 11-15	Year 16-20	Year 21-25	Year 26-30	Total
Total	£3,031,817	£1,800,519	£4,805,809	£3,902,436	£1,299,019	£2,778,149	£17,617,751

No allowance has been made in this data to reflect where a tenant could reasonably be expected to fund works under the terms of their lease and where the tenant has the means to do so. For different reasons, the exceptions to this assumption are few and far between.

This data shows that this part of the portfolio (69 assets) requires circa £17.6m capital spend over the next 30 years in addition to the usual responsive repairs, cyclical maintenance and compliance works.

These costs within the table above disregard reactive maintenance works and cyclical servicing etc. These have been estimated at £1,893,000 over the 30 years, and included within the overall investment figures.

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3.3 Compliance / Management

As owner of property assets there are a number of legal and moral responsibilities the Council must abide by.

To demonstrate that the Council are meeting those obligations, a robust regime of compliance checks and routine monitoring has been introduced which includes, but is not limited to:

- Asbestos surveys and re-inspections
- Gas safety
- Electrical safety
- Fire Risk Assessments
- Water Hygiene
- Energy performance certification

Following the recent inspections, this liability just for those 69 assets has been estimated as £2,274,300 over the 30 years, and included within the overall investment figures. In addition to this an additional allowance has been made to cover associated management costs.

3.4 Stock Performance

Following the stock condition exercise it was considered important to build on these findings and assess the performance of the 69 most significant assets against a range of social and financial criteria. The financial modelling was undertaken by property consultants and Asset Management undertook the non-financial modelling.

The modelling will provide a framework for future asset management decisions relating to the Investment & Capital Programme protocol, Disposal and Acquisitions protocol and Commercialism 'let property' protocol. Along with the financial modelling, the property consultants have provided the Council with an Asset

Performance Model which will be operated by Asset Management and kept current with periodic updates to aid decision making and assess performance of the portfolio and individual assets on an ongoing basis.

<u>Financial Modelling</u>

Income and expenditure has been forecast for a 30 year period from 2016. Rental income was included in the model alongside other holding costs such as stock condition data, responsive maintenance, compliance costs and management costs.

The data shows a Net Present Value (NPV) across the portfolio of 69 buildings of minus £3,563,988 over the 30 year period assuming inflation at 2% per annum and a discount rate of 6% which represents industry standard approach.

Of those 69 assets for which we have NPV data, they have been banded by way of their financial performance as:

Red …… = NPV of more than - £100,000 = 19
Amber …… = NPV of less than - £100,000 = 33
Green …… = Positive NPV = 17

52 of the 69 assets modelled do not perform from a financial point of view and many of these are let out.

The following graphs show the cash flow analysis of the 69 assets (as at 1st November 2017) over the next 30 years:

Rent V's Rental Income

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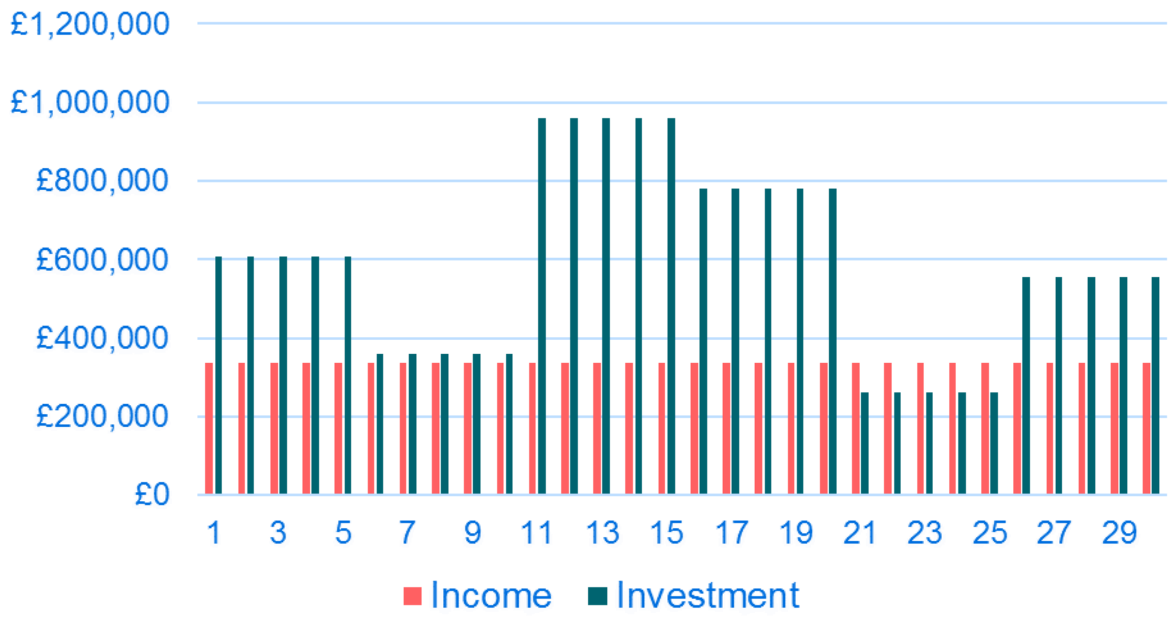

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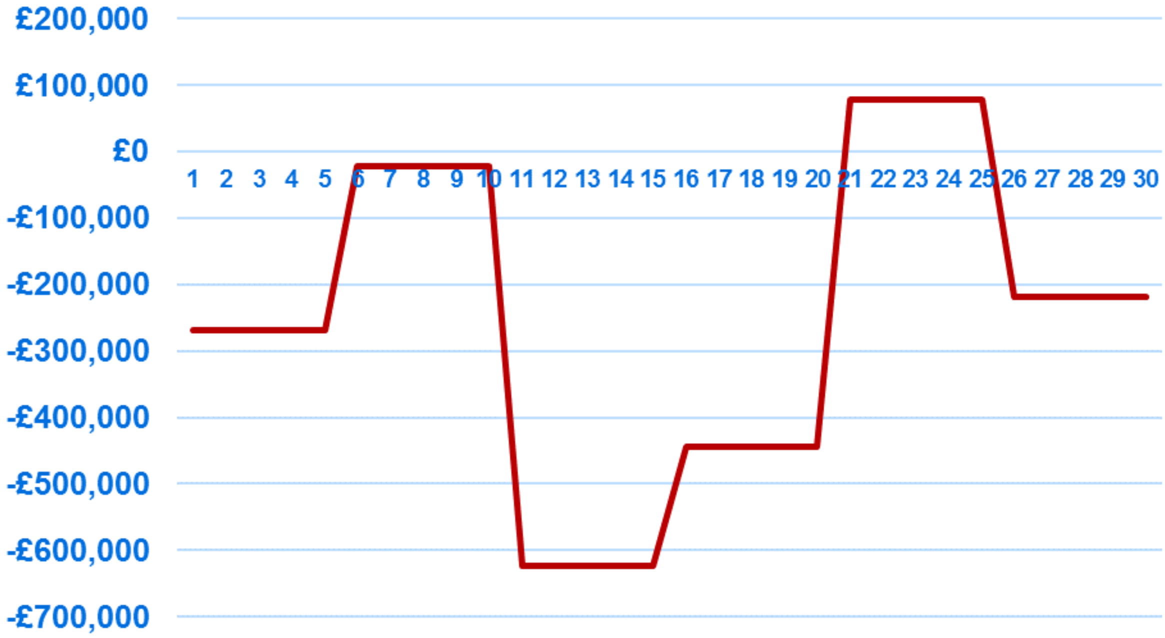
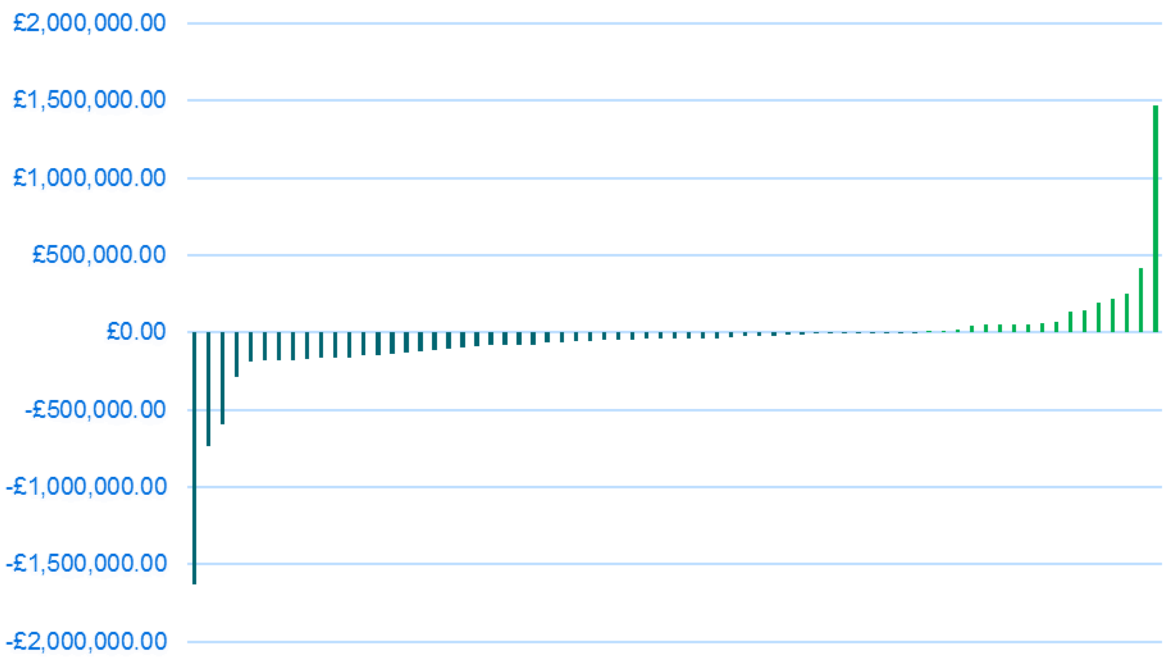
30 Year Cashflow



This shows that for every year other than the period 2037-2041 the income from the portfolio will be insufficient to meet the capital requirements. The strongest performing Council asset is Market House generating a positive NPV of £1,472,423 over 30 years. This range of financial performance of individual assets is demonstrated on the graph below.



Non-Financial Modelling

In addition to the financial performance, all 69 assets have also been measured in respect of non-financial performance. This is measured by the social, economic or environmental contribution to the wellbeing of an area. Scoring has been applied as follows:

0 – Either no or marginal social, economic or environmental contribution towards the wellbeing of the area.

1 – Social, economic or environmental contribution towards the wellbeing of the area – but with covenants to protect existing use (if needed) could be transferred to a third party.

2– Social, economic or environmental contribution towards the wellbeing of the area – even with covenants to protect existing use, unlikely to be appropriate to transfer to a third party i.e. the Council would need to retain a significant a level of control over future use so a transfer is not appropriate.

The results, whilst subjective, show as follows:

- Score of 0 = 10 assets
- Score of 1 = 57 assets
- Score of 2 = 2 assets (Crematorium related – same site)

Therefore there are 10 assets which from a non-financial point of view there is no benefit of retaining.

There are only 2 assets which the Council needs to absolutely retain.

Conclusions - Financial

1. Without increasing property budgets considerably, the Council cannot afford to adequately maintain its assets.

2. A majority of assets have negative Net Present Values and therefore anticipated expenditure is greater than income over the next 30 years, therefore as assets are performing poorly.

Conclusions – Non Financial

1. Whilst many assets contribute towards the social, economic or environmental wellbeing of the area, 15% do not materially contribute and 83% do but could continue to do so even if they are no longer under the Council's direct control.

2. In the majority of instances, a positive contribution towards social, economic and environmental wellbeing of the area should not necessarily be seen as a reason not to dispose / transfer.

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This modelling is now in place and will be the main tool used for future decision making.

4. Energy Performance – Energy Performance Certificates (EPC)

The Energy Act 2011 states that from 2018, all buildings which do not meet the minimum energy performance standards cannot be let until they have been upgraded. The secondary legislation which combines with this Act, is the Energy Efficiency Regulations 2015 and made it unlawful for properties with a rating of F or G to be let without implementing cost effective, energy efficiency improvements. This comes into effect on 1st April 2018 for new leases and lease renewals /extensions where there is already an EPC and 1st April 2023 for all existing leases.

A two tier market is now starting to emerge with well -informed Tenants staying clear of buildings with a rating in the F or G danger zone. There is also concern that properties currently with an E Rating might when re-assessed achieve only an F. In order to future proof the marketability and value of the Council's asset portfolio a strategy needs to be in place, which sets the minimum rating the Council wish to achieve for each property.

It is also essential that a list of assets which currently fall short of that target rating is prepared so the potential impact on revenue can be identified, should those buildings not reach the EPC safe zone by 2018. Each qualifying asset needs to be assessed and a report prepared on what works are required to meet the target rating, as well as an estimated cost for carrying out those works.

The wider implications of this legislation need to be considered as it will be important to consider the approach the Council wishes to take in respect of new lettings, the existing form of lease /similar agreements, enforcement of repairing obligations and other such lease covenants. For new leases granted the Council should seek to ensure:

1. The new lease oblige the occupier to carry out EPC upgrade works which ensure the property meets the minimum standards imposed by this legislation, during the term and also at expiry, whenever that may be

2. The new lease clearly states that the Tenant must not make any changes to the building which would impact on the EPC rating of the unit.

An EPC is not required if any of the following conditions are met:

- listed or officially protected and the minimum energy performance requirements would unacceptably alter it
- a temporary building only going to be used for 2 years or less
- used as a place of worship or for other religious activities
- an industrial site, workshop or non-residential agricultural building that doesn't use much energy
- a detached building with a total floor space under 50 square metres

- o due to be demolished by the seller or landlord and they have all the relevant planning and conservation consents

The Council currently holds an EPC for some of its portfolio but there is as yet no plan in place which addresses the requirements of this legislation so this is considered to be a significant and imminent financial risk to the Council. Work has started and exposure estimated with a new strategy developed and this now needs to be acted on. This indicates that there are 69 assets which will require an EPC with just 5 currently in place and with an estimated required spend of circa £20,000 to commission these necessary surveys. Necessary spend to bring properties up to required standard will be in addition.

5. Our Key Property Protocols – To Support Delivery of Strategy

This Section deals with all assets, whether buildings (included in the Asset Performance Analysis), other buildings, land or infrastructure.

For all assets one or more of the following Protocols will be applied with a decision made following the undertaking of option appraisals as per the option appraisal suite included in attached appendix B. An options appraisal will be triggered through the delivery of a prioritised programme of option appraisals starting with those assets with a NPV of below -£50,000, identified spend of £5,000 in next 5 years, a lease event (lease end, break, rent review), poor EPC rating or good site redevelopment potential. This is shown in the flowchart in appendix B.

To deliver this strategy a series of non-asset specific actions as detailed in the 3 protocols will need to be followed alongside asset specific actions.

The number of significant building assets is actually very low with relatively few disposal opportunities which could generate significant receipts. There are a few disposal opportunities but greater opportunities exist in respect of increasing income generation from let property alongside a significant opportunity to pass land and infrastructure assets to the local communities and it is these areas where resources should be directed.

The protocols to be delivered are as follows:

5.1 Investment / Capital Programme Protocol

Statement – To manage assets proactively by creating a capital programme based on stock condition data and to invest more widely on improving assets where there is a sound business case.

Importance – Without this protocol the assets will fall into disrepair, costs can't be forecast, costs over an extended period will likely be greater and the general quality of the assets will deteriorate negatively impacting on the surrounding communities.
Actions – • Consider centralising capital / maintenance budgets for all assets to ensure we are making the most of our assets. Will require greater scrutiny over practicality at sites where maintenance budgets might impact on operational needs e.g. car parks. • Agree appropriate capital budgets to meet all protocol requirements. • Agree centralised capital programme based on stock condition data but targeted where possible at those more strongly performing assets that the Council is most likely to retain. There will inevitably be some exceptions, but where this is the case, the Council must be confident that any proposed works 'add value'. Have a detailed plan for 1 year and indicative plan for the next 5 year period. • Capital works to be dealt with separately to maintenance works but with an appreciation by each of the other i.e. don't repair something unnecessarily when a component is soon due for replacement. • Agree approach for investment in assets ahead of component replacements if there are realisable benefits – to generate a rent, increase passing rent or facilitate generating a capital receipt. Possible opportunities with some of the 21 shelters held by the Council. • Exploring opportunities for generating external funding to support the capital programme. • Use local contractors where possible. • Options Appraisal prior to committing spend where expenditure is anticipated of more than £5,000 on any asset over a 5 year period. • Secure or commission Energy Performance Certificates for all qualifying assets and develop an Energy Performance Strategy with necessary funding in place to ensure compliance.
Performance Indicator – 90% spend against forecast planned spend.

5.2 Disposal and Acquisition Protocol

Disposals

Statement - To rationalise the asset portfolio by disposing of poor performing assets or assets with realisable development potential
Importance - The Council holds many poorly performing assets with only 17 of the 69 most significant having a positive NPV over a 30 year period. In almost all

instances these could be disposed of without adversely impacting on the community.

Actions -

- Capture Market Values for all assets at time of asset valuations.
- Options appraisals for all assets with either a negative NPV or a non-financial score of zero. Options appraisals on all those priority assets currently identified and ongoing on all lease / licence end or break dates following the approach outlined on attached Options Appraisal flow chart.
- Promote transfer of assets through adopted Community Asset Transfer policy.
- Land Review – Seek to dispose of as much non-operational land and infrastructure as possible by either community asset transfer or commercial sales. Receipts (if any) likely to be low (below £10,000 per transaction) but will remove potential liability and in the longer term will enable the resource to be more focused on the more valuable assets. In some instances assets can be better managed within communities.
- Ensure capital receipts are achieved to support transformation contribution but also an additional amount per annum to develop an ear marked reserve for unexpected investment works and to acquire assets where there is a sound business case to do so.
- Respond quickly to speculative approaches from 3rd parties.

Performance Indicators – Deliver capital receipts as directed by Leadership Team

Acquisitions

Statement – To acquire assets where there is a sound business case to do so

Importance – It is important to be able to respond to opportunities and invest when appropriate in high performing assets (financial and non-financial).

Actions –

- Develop protocols/ permissions/ parameters
- Respond to opportunities to acquire income generating assets which would provide a good return.

Performance Indicator – N/A

5.3 Commercialism 'Let Property' Protocol

Statement - Maximise rental income and minimise liability for costs across the Let Portfolio currently of 69 assets

Importance - A major contributor to the negative NPV of the asset portfolio. In some instances a higher rental might generate more entrepreneurial approaches by tenants and therefore benefit the community as a whole through the tenant

perhaps diversifying, investing or becoming more commercial.
Actions - • At lease events (lettings, rent reviews, breaks and lease ends) ensure that the Council acts fairly but commercially. This would in almost all circumstances result in either a significant increase in rent, letting to a new tenant or using the event as an opportunity to gain vacant possession and then market for disposal. • Enforce lease obligations robustly through periodic landlord inspections. Do not lease property on terms where the Council has concerns over the tenant's ability to comply with lease obligations. • Explore opportunities to group assets by locality and use income generated from let property to maintain surrounding environments. • Explore opportunities to let space where opportunities not yet being realised e.g. surplus operational space, masts, advertising hoardings and kiosks etc. • Improved vetting of tenants before lettings proceed. • Ensure Tenants comply with existing lease obligations in respect of Energy Performance. For new leases ensure that obligations passed on to Tenants as appropriate. Ensure all vacant properties can be let in accordance with requirements coming into force in 2018 in order to safeguard all future letting opportunities.
Performance Indicator – Increase rental income by a minimum of 10% per annum.

Outside of these protocols, there is also to be a specifically identified and monitored workstream based on submitting appeals to the 2015 Rating list, either direct or through supporting and encouraging tenants to do so. Excessive and incorrect Rateable Values impact on the value of the asset portfolio, ability to let assets and prove costly to the Council in its capacity as asset owner.

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6 Review and Monitoring

6.1 Governance and Reporting

Investment plans and the results from options appraisals will be reported to the Council through a newly created Asset Management Group (AMG) along with a dashboard updating on progress against delivery of the non-asset specific actions within the protocols. Success will be measured through a range of Key Performance Indicators (KPI's) which include:

- Minimum 90% spend against forecast planned spend.
- Deliver capital receipts as directed by Leadership Team.

- Acquisitions – N/A.
- Increase rental income by a minimum of 10% per annum.
- Overall KPI - Improve NPV of portfolio by 10% per annum (starting 2018/2019).

These KPI's to be reported annually to Scrutiny and reviewed quarterly by AMG.

6.2 Review

The strategy covers the period 2018-2020 in line with the Council's Corporate Strategy.

6.3 Authority and Control of Information

The Council will ensure internal controls are in place to ensure effective delivery. These cover the following areas:

- Robust and up to date stock condition data
- Investment planning process
- Options appraisal and disposals & acquisitions protocols
- Commercialism 'Let Property' protocol
- Regular review of strategy

Responsibility for this strategy is with the Asset Manager, who will report progress at TDBC AMG meetings.

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Appendix A – Asset List

To be included once reviewed

Appendix B – option appraisal suite

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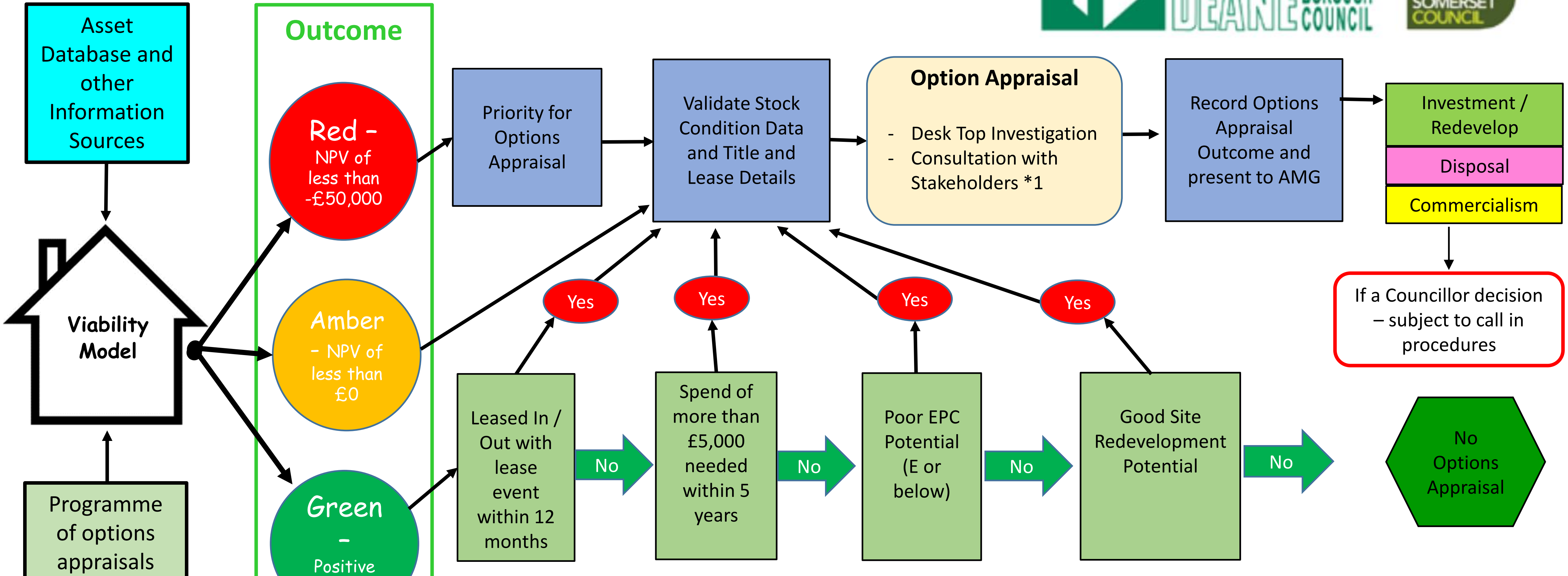
Appendix B - Options Appraisal Process Overview



*1Consulting with Ward Cllr /Cllrs and relavent Portfolio Holder/s who will be given an opportunity to discuss concerns. Asset Management will work with them to address any apprehensions, including considering alternative options or compromises that may be possible.
Where options appraisal undertaken through consultant, discussions will be between Cllr/ Cllrs and Asset Management Officer.