

Folkestone

Hythe & Romney Marsh

Shepway District Council



Asset Management Strategy

2017 - 2022

July 2017

Introduction

This Asset Management Strategy is a clear and concise high level document setting out how property asset management is delivered for the Council to meet our long term corporate goals and objectives.

It sets out how the long term objectives for managing the asset portfolio are met, including statutory obligations, stakeholder needs and the overall performance of property assets, within the context of any constraints, such as funding.

This Strategy is expected to remain in place for up to 5 years, but will be revised as necessary before that should the Corporate Plan, Medium Term Financial Strategy or the Asset Management Policy be revised or updated.

Financial Context

Our medium term financial strategy sets out the Council's position over the next five years. With the central government grant for local authorities ending and uncertainty about business rates it is imperative that all Council services and assets are managed efficiently.

The table below shows the financial shortfall the council faces moving forward:

Accounting Year	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Revised Shortfall					
In year deficit	0	574,791	1,151,439	1,742,126	3,057,398
(cumulative)	0	574,791	1,726,230	3,468,352	6,525,755

As the table above illustrates the Council faces significant shortfall in its finances in the years to come. The Asset Management Strategy, Asset Management Policy and Asset Management Plan are key to providing the framework to ensure that the council has a sustainable asset base and ensuring that the Council's property assets are managed efficiently, minimising unnecessary expenditure whilst maximising income.

Significant achievements to date

We have:

- Established new ways of working which has rationalised process and enabled a flexible approach to working practices allowing space to be freed up at the Civic Centre. This has resulted in other floors being let to local businesses which has assisted their growth and generated an income stream for the Council. Further floors are currently being marketed.
- Ambitious plans to develop housing and commercial sites across the district. Current projects involve the creation of a new garden town at Otterpool and exciting housing projects at Bigginswood in Folkestone and Princes Parade, Hythe.

What we want to achieve

Although the council has delivered some significant strategic projects, moving forward we will bring together the whole Council into a cohesive approach to Strategic Property Asset Management. We are ambitious to deliver more through the effective management of our property portfolio. We see the delivery of this Strategy/Policy and Plan, essential to this and the sustainability of our portfolio.

Our Portfolio

The council holds a varied portfolio of assets including around 200 that generate a rental income. These include industrial units, office accommodation, agricultural land and a small number of recreational assets such as beach huts

The value of these assets shown and defined in the balance sheet as at 31st March 2017 is as follows:

Land and Buildings	£14,748,628
Investment Property	£ 7,831,000
Surplus	£ 259,000
<u>Assets held for Sale</u>	<u>£ nil</u>
Total Value	£22,838,628

NB this figure does not include Infrastructure or Community Assets

A summary of what is included in our portfolio is set out at below

- Operational buildings; e.g. civic office, depots, one stop shop, public toilet, car parks
- Leisure facilities e.g. The Leas Cliff Hall, Hythe swimming pool, bowling greens and sports pitches;
- Parks, gardens and open spaces
- Cemeteries and crematorium
- Historical and heritage assets; Christchurch Tower, martello towers and Military Canal
- Agricultural land
- Industrial units;
- Coastal protection structures
- Land leased to Lydd Airport
- Non-operational land that may be suitable for development
- Surplus assets and
- Assets held for sale

The objectives of this strategy are to:

1. Embed a culture that recognises that property assets are a key corporate resource, where decisions need to be made which are linked to corporate and service objectives and balancing a wide number of views and needs
2. Maintain and develop the management of our property assets to improve over time how those assets work for us, optimise returns and minimise the costs of operating them
3. Demonstrate how the innovative use of property assets, in partnership with others, can improve Shepway and the lives of the people that live, work, play and visit.
4. Support Economic Growth and Regeneration in the District
5. Support the District in meeting its Housing need

Purpose of Objectives and how we will achieve them

Objective 1

Embed a culture that recognises that property assets are a key corporate resource, where decisions need to be made which are linked to corporate and service objectives and balancing a wide number of views and needs

Which Corporate Aims this objective supports:

- More Homes
- More Jobs
- Appearance Matters
- Health Matters
- Achieving Stability
- Delivering Excellence

Purpose

- Ensure property assets support delivery of strategic objectives of the Council's Corporate Plan and Medium Term Financial Strategy
- Provide clear direction for the management of the portfolio
- Optimise efficient use of resources

We will achieve this through:

- The governance structure put in place through the Asset Management Board
- A Corporate landlord model
- An Asset challenge programme for all assets
- Aligning financial and service planning with asset planning
- Ensuring Business Planning supports investment/disinvestment decisions
- Effective capital prioritisation model
- Robust information management
- Training programme for staff and elected members on strategic asset management issues

Objective 2

Maintain and develop the management of our property assets to improve over time how those assets work for us, optimise returns and minimise the costs of operation

Which Corporate Aims this objective supports:

- More Homes
- More Jobs
- Appearance Matters
- Health Matters
- Achieving Stability
- Delivering Excellence

Purpose

- Ensure ownership and occupation of assets is robustly challenged
- Occupation and use of assets is optimised
- Running costs are minimised

- Rate of return and opportunity cost of holding assets is fully understood to allow informed decisions on the future of assets
- Listed and heritage assets are protected

We will achieve this through:

- The governance structure put in place through the Asset Management Board
- Working with directorates to support their service plans and planning processes to ensure that asset implications are identified and considered at the earliest opportunity
- Implementing a robust asset challenge process to include all assets including third party occupation of our asset.
- Provide a commercial approach to the Council's portfolio to optimise rental income generation from third party use of our assets where feasible.
- Any lease to a third party should be at least overall cost neutral to the council
- Obtaining comprehensive and accurate data on our asset base
- Introducing effective performance management of assets
- Dispose of assets which are either surplus to requirements or not achieving any other strategic objectives
- Condition survey programme feeding into development of a corporate maintenance strategy
- Business Process Reengineering
- Adopt lifecycle planning in decision making

Objective 3

Develop innovative partnerships to maximise the benefit of the corporate asset base and improve Shepway and the lives of the people that live, work, play and visit.

Which Corporate Aims this objective supports:

- More Homes
- More Jobs
- Appearance Matters
- Health Matters
- Achieving Stability

Purpose

- Co-location with other partners
- Develop Integrated Service Delivery Partnerships
- Provide assets that are accessible to communities
- Listed and heritage assets are protected

We will achieve this through:

- Public and Partner Engagement (including developers)
- One Public Estate
- Joint service delivery
- Community Asset Transfer, transfer responsibility for assets, where appropriate, allowing locality assets to be managed at a local level, delivering local services
- Explore opportunities for internal shared / integrated assets
- Sub-regional working/partnerships
- Work closely with East Kent Neighbours

- Developing a strategic approach to ensure responsible stewardship and unlock the potential of historic buildings and heritage assets, particularly those at risk.

Objective 4

Support Economic Growth and Regeneration in the District

Which Corporate Aims this objective supports:

- More Homes
- More Jobs
- Achieving Stability

Purpose

- Ensure that all the council's key strategies are aligned including financial strategies, investment strategy, economic development strategy, housing strategy and property strategies. This will ensure a holistic approach to maximise opportunities for regeneration, new housing and to stimulate economic growth

We will achieve this through:

- The governance structure put in place through the Asset Management Board
- Aligning Property with Economic Growth and Planning Policy
- Engagement with the Private sector and with other public bodies
- Adopting innovative delivery solutions
- Holding commercial property assets that are fit for purpose and meet the needs of the business community
- After consideration of a detailed business case which considers all implications to the council e.g. legal, whole life costs etc., acquire strategic sites for future development to generate income and act as a catalyst for inward investment
- Through a review of current property investment/commercial portfolio identify latent or under-developed income potential and release unproductive investment property where those assets are not meeting any of the council's strategic objectives

Objective 5

Support the District in meeting its Housing Need

Which Corporate Aims this objective supports:

- More Homes
- More Jobs
- Achieving Stability

Purpose

- To ensure that the district can provide high quality affordable homes to meet the needs of the local community

We will achieve this through:

- The governance structure put in place through the Asset Management Board
- Aligning Property with Housing Strategy and Planning Policy

- Acquire strategic sites for future development which will support housing need in the district.
- Places and policies local plan

Governance

Strong governance is needed to ensure that we deliver on the objectives set out in this strategy as well as any future objectives. We need to strategically understand the impact and demands placed on the portfolio and that these are fully in accordance with the Council's Asset Management Framework.

These governance arrangements will be carried out by the Asset Management Board in accordance with the terms of reference set out in Appendix 1.

Asset Challenge

The council's property assets are a valuable resource and one which will be managed in an efficient and effective way and in line with the council's corporate aims. If the resource is not managed correctly there is potential for wasting revenue on keeping assets that are either unnecessary or inefficient. Equally there is capital value locked into each of the assets which if the asset is no longer required, could be realised through disposal. Where assets are still required then the wrong asset in the wrong location can make a difference to the efficiency of services delivered and impact negatively on customer access to services. If property assets are not well maintained this affects the customer experience and can impact negatively on the council's reputation in the community.

The council holds a wide range of assets within the current portfolio. This comprises car parks, public conveniences, leisure facilities, offices, depots, community centres, historic assets, cemeteries and a crematorium, assets leased to the third sector, as well as a number of commercial properties and development sites. The purpose of holding these assets varies but it is fair to say that historically it has not always been clear as to the strategic purpose for holding the assets.

The purpose for holding each asset needs to be clear so that the performance of each asset can be linked to its strategic purpose for holding it.

The council's assets cannot be managed in isolation from other council policies and strategies, as they are closely linked to the achievement of our strategic priorities. A key element of achieving our goals is how we use all our resources, including our property in delivering all council strategies.

We consider that the portfolio should be categorised into three main parts and the principles by which these asset categories are managed and challenged will vary considerably, as described further below.

We do not consider that the council should hold assets that are surplus to requirements or do not meet any of the strategic objectives of the council. However until such time as the entire portfolio, including any assets currently categorised as surplus has been challenged we consider it appropriate to include a fourth category of assets categorised as surplus. The reason for retaining these assets or not actively seeking their disposal should be rigorously challenged.

1. Assets for service delivery

The purpose for holding these assets is for service delivery and the asset challenge process for these assets will reflect this. This asset group includes those assets that may be leased to the third sector/community groups. Therefore the asset challenge process will be in the areas of ensuring an appropriate balance between the following elements:

- Operating costs,

- Future maintenance liability and costs
- Location and accessibility for our customers
- Suitability of the assets for their purpose and the users, this includes the current location of the asset
- Opportunities to exploit partnerships with other public or private sector bodies and agencies to improve efficiency of cost or efficiency of service delivery
- Opportunity cost, by this we mean what value do we have tied up in the asset which has the potential to be realised.

The broad principles of the asset challenge process for this group of assets is set out at Appendix 2.

These challenge principles, once applied, enable the council to generate improved visibility of what is included in this asset category and whether or not, on an asset by asset basis they justify being retained for this purpose.

2. Assets for Investment return

As at 31st March 2016 the council had assets shown in the balance sheet as investment property, at a value of £6,753,000 and an income of £86,000. Looking simply at the income obtained from these assets against the capital tied up it can be seen that the council is only achieving a return of 1.2735%. Indeed the return is likely to be less than this if management costs were taken into consideration. Some of these assets are newer acquisitions while others have been in our ownership for a great many years and are a legacy from previous investment and acquisition decisions.

A review of these assets through the asset challenge process should be undertaken with a view to understanding what we own, what they cost and what benefit is derived from them. As a result of this challenge process it should be established which of these assets should continue to be regarded as investments and to determining whether or not any of the assets should be disposed of or should be more properly held within the asset category below, of being held for economic development and regeneration.

It is recommended that as part of the asset challenge process the assets are categorised in accordance with the following principle portfolio elements

- Assets correctly recorded as investment property by virtue of the potential for generating long term capital growth or capital receipt
- Assets correctly recorded as investment property by virtue of the investment revenue return they generate (this to be benchmarked against other investment return)
- Assets incorrectly recorded as investment property by virtue of not generating adequate investment return or capital growth.

The broad principles of the asset challenge process for this group of assets is set out at Appendix 2.

These challenge principles, once applied, enable the council to generate improved visibility of what is included in this asset category and whether or not, on an asset by asset basis they justify being retained for this purpose.

A second stage to this process is the question of exposure to risk, for example where the council might be holding a high proportion of assets in a narrow sector of the market. On this basis, assets that individually might justify retention based on their investment performance and return, might nevertheless need to be disposed of so that a more balanced property investment portfolio can be established, which meets the requirements of the CIPFA Treasury Management Code.

As part of the assessment of exposure to risk the council should consider:

- Length of leases. Short lease term exposes the council to the risk of higher voids at times of market volatility, but also to increased managements costs, as every lease event, such as a lease renewal – involves a direct cost which is not recoverable
- Tenant profile. Tenant profile for short term tenancies will not necessarily provide the council with the risk balance of covenant strength that it would ideally choose, so this too exposes the council to greater risk
- Shorter leases term and poor covenant strength will increase management costs which will subsequently mean that that the rate of return is significantly impacted.

3. Assets for economic development and regeneration

If an asset is not held for service delivery or its investment return then it must be held for economic development and regeneration. Assets in this group will include those held for town centre regeneration or those that are held as they present the council with some key opportunities for adding community contribution. Whilst there may be some income generation associated with this group of assets they are not held primarily for this income. Their prime purpose for retention is to be a catalyst for regeneration or for the contribution they make to the local economy, including impact on the local business economy, housing and supporting jobs. Even assets that do not generate a positive financial contribution can nevertheless contribute significantly to these key areas.

The assets in this category will not provide what could be regarded as an investment return, as the revenue they generate would not be at a level that a typical investor would find attractive given the risk of holding them. Indeed there may be instances where the level of income is exceeded by the costs associated with their retention. Where this is the case the council will make a decision to retain the assets based upon the wider economic or community benefits outweighing financial losses or the very small financial surpluses.

The asset management principle by which this group of assets will be challenged is via the rationale set out in Appendix 2.

4. Surplus Assets

If an asset is not held for service delivery, investment return or economic development and regeneration then without evidence to the contrary it should be assumed that there is not strategic reason for holding the assets and its disposal should be actively pursued.

Assets held within surplus will only be held within the surplus category for a short period of time i.e. until such times as an active disposal process can be determined. If an asset

cannot be disposed of for example if there is no market then the council will strategically consider alternative arrangements for the future of the asset.

The asset management principle by which this group of assets will be challenged is via the rationale set out in Appendix 2.

Performance Improvement

The council does not currently undertake routine measurement of property performance. We therefore need to embark on a programme of performance data gathering. This data gathering needs to include property specific data, such as condition, running costs, carbon emissions etc. however we must also focus on wider matrices in terms of outcomes.

That is not to say that some premises related data is not important. The condition of our assets for example is of vital importance and is one of our underlying asset management principles.

Although we do currently have some performance data we do not currently have it in an easily accessible way and are not at this stage able to provide detailed performance forecasting or targets. However in future iterations of this strategy we will be able to do this and also be able to report on gaps between target performance and actual performance.

The Future

We are keen to challenge the status quo in relation to property assets. We have a duty to those that contribute to local taxation, and who take an interest in how we use our resources to demonstrate probity and prudence. We will through the asset management board continually review what we are doing and why, consider whether it appears to be working and look at how it could be improved.

With the current financial constraints on local government, which are unlikely to improve in the foreseeable future, we have to ensure that where business or community activities have become reliant upon council support – either directly via financial support or through favourable occupational terms for assets – that this reliance is tested to satisfy ourselves that it is healthy, sustainable and in the long term best interests of the council and those that we are supporting.

Whilst we have described in this section the need to challenge the use of assets and asset groups, we regard challenge as being a 'constant'. Our challenge will not necessarily be at fixed points in time but will remain flexible to adapt to changing circumstances. It will be treated as integral to proper business planning and not seen as an adjunct to the corporate business planning processes.

Our challenge processes are not necessarily driven towards reducing the property holding; where strategic property acquisition will deliver for us and our communities then this will be considered.

The delivery of this strategy and our asset management plan will allow us to achieve our goals to ensure that our valuable land and buildings resources are used to deliver in accordance with the council's key strategies and that we have a portfolio that is sustainable for the future.

Appendix 1 Terms of Reference for Asset Management Board

Role

The Asset Management Board is a senior governance body with clear remit to be the Council's advisory body with regard to the Council's Asset Management Framework and activities relating to it.

The role of the Board is as follows:

- To bring together the whole council with a cohesive, strategic approach to managing its asset base
- To develop, review and update the Asset Management Framework
- To raise the profile of the Corporate Landlord model and Asset Management and associated good practice
- Ensure that assets are not 'owned' by the services that occupy them but are owned for the benefit of the people of Shepway. When decisions are made they are made in a way that provides the best overall outcome for the Council and the District
- To take full advantage of opportunities for partnerships, community asset transfer and collaboration with other public, third and private sector organisations in delivering value for money
- To translate service implications from corporate aims, and service planning into the asset management process
- To ensure that the Asset Management Plan is delivered
- To define the asset challenge programme, the parameters for each asset type, manage the programme and make recommendations on the outcomes
- To consider cases for disposals and acquisitions
- To produce annual out-turn reports which include Performance Indicators and benchmarking for a range of property projects and programmes to CMT
- Assist in advising on the prioritisation of capital spend to include consideration of business case, whole life costs including legal and revenue implications
- Review Asset Management Plan annually
- Ensure regular feedback to CMT and Cabinet when required
- Ensure arrangements are in place for all property statutory compliance

Composition and Frequency of Meetings

Representation at the Asset Management Board will include the Cabinet Member for Property Management and Environmental Health and senior officers, where representatives are not able to attend a suitable alternative will attend in their place.

The Board will meet monthly for the first year then after that the frequency of meetings will be reviewed.

Decision Making

The Asset Management Board is an strategic officer / member group. It is mainly an advisory body and takes any decision making power from the delegated authority of officers attending as set out in the Council's Constitution. It makes decisions only where priorities are already agreed by Cabinet. It also ensures that necessary consultation is carried out with CMT and Cabinet and relevant directors as part of the decision making process.

Membership of Asset Management Board

- Corporate Property Officer
- Cabinet Member for Property Management and Environmental Health
- Corporate Director for Strategic Operations
- Estates and Asset Manager
- Head of Planning
- Head of Strategic Projects
- Head of Communities
- Head of Economic Development
- Group Accountant – Capital and Treasury Management
- Communications Manager (When required)
- Legal representation (when required)
- Engineering and Buildings Manager (when required)

