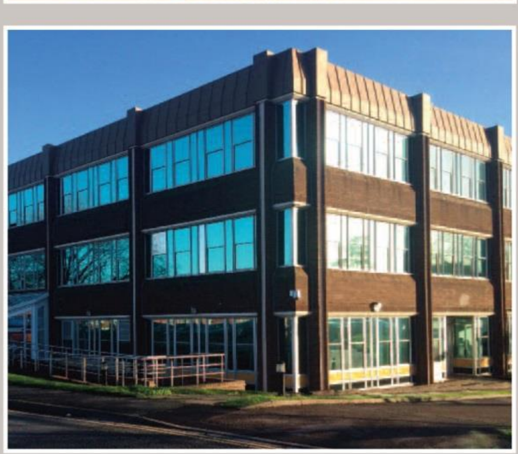
Appendix 1c

Herefordshire Council Tenanted Non-residential Property Policy Review (Updated January 2016)



VISION

"To support the efficient, integrated delivery of public services across the county by providing modern, fit for purpose buildings, shared by Public Agencies"

Herefordshire Council

1.0 Introduction

1.1 'Tenanted Non-Residential Property' (TNRP) describes local authority assets which are let to third parties (other than housing stock) such as retail spaces, offices, industrial, warehousing and farms. CIPFA (Chartered Institute of Public Finance and Accountancy) define such assets as 'operational' or 'non-operational'; and all are also known as 'commercial' or 'investment' property.

1.2 This report should be considered alongside the Council's Asset Disposal Policy (2016). THIS CURRENT DOCUMENT IS NOT A COMPLETE REVIEW OF THE POLICY DOCUMENT, SO EXACT FIGURES CONTAINED HEREIN MAY NOT BE RELIED UPON

1.3

There should be a general presumption against the retention of such assets unless there are substantial reasons why this might not be achievable or desirable.

2.0 Why a strategy was needed

2.1 'Herefordshire Council's TNRP portfolio was valued in 2015 at approximately £32m. At that time it produced a rental income in excess of £3.3m net per annum. In the previous 5 years its contribution to corporate capital receipts had been minimal, although in 2013 a start was made to realise some of the capital tied up in the portfolio.

2.2 There currently exists no corporately agreed rationale for the retention of this portfolio. The need for this was identified in the Joint Corporate Strategy 2009-12 which sets out an approach to TNRP both operational and non-operational. The strategy identified the need for a continuous review of the Council's non-operational investment portfolio and this was first undertaken in 2013. It identified that the Council should only continue to hold tenanted non-residential property 'if there are substantial over-riding reasons to do so':

i) The investment return from the premises meets or exceeds a target previously set under the MTFS process;
ii) There are other significant social, community or strategic advantages to retaining the premises (i.e. those that are strongly aligned to the Council's core priorities);
iii) The legal tenure of the premises and/or any statutory constraints preclude disposal.

All of these points are taken into account in the ongoing non-operational TNRP policy review.

Due to the resourcing demands of other aspects of the Council's Corporate Property Strategy a complete TNRP Policy Review was delayed.

2.3 In the past the following arrangements were used to justify the retention of this portfolio –

a) To provide an increasing source of revenue
b) To generate capital receipts
c) To assist regeneration through gap funding
d) To control and influence development
e) To protect employment use
f) To fulfil economic wellbeing role by providing premises for business giving support small to medium employers (SMEs) and small businesses
g) To reduce management costs.

It can be argued that, during certain periods and in various locations, all of the above may have valid justifications, but to date no systematic measurement of the impact (other than financial) has taken place and policy endorsement is often tangential and weak.

3.0 The risks of not having a strategy

3.1 The lack of a clear corporate strategy is the biggest risk which could lead to poor investment decisions and the failure to demonstrate value for money. Investment in producing that strategy needs to be afforded the highest priority.

3.2 Without performance indicators and financial targets for the portfolio, it is not possible to demonstrate value for money or justify investment to secure improvement in rates of return. With capital increasingly scarce and problematic to generate, it is crucial that business decisions would stand the test of rigorous scrutiny.

4.0 The Framework for Review

4.1 The first task was to sort the portfolio into specific categories in order that they may be managed appropriately. These categories are -

- Surplus/disposal
- Revenue generation (investment)
- Regeneration linked to clear strategic aims/policy
- Latent potential which cannot be realised within set timescales in foreseeable future
- Other valued outputs (e.g. employment sustaining) SROI (Social Return on Investment)
- Properties where statutory restrictions make disposal unviable

4.2 The second task is the development of a decision-making process with built-in safeguards. It has to be simple, easily understood and adaptable. With a framework in place decisions cease to be merely reactive to targets and become a pro-active method of setting an agenda.

The framework –

- Identifies what should be sold

- Identifies valued measureable outputs
- Clarifies and reflects Member requirements and the policy environment
- Identifies potential receipts, rent and other outputs

4.3 The third task is to seek Member involvement in the process and embed the framework into the Council's constitution.

4.4 The details of the framework were contained in Appendix 1 of the 2013 documents

5.0 Key Actions

5.1 The key actions are as follows –

- The need to adopt the method proposed
- The need to secure full Member support on an ongoing basis
- The need to invest in information technology to support the methodology
- The need to ensure that sufficient resource is afforded to evaluate the data, financial, legal and asset management.

6.0 An active management strategy for the TNRP

6.1 The outcome of adopting an active management strategy for the Council's TNRP would be to ensure that –

- Better assets are retained as investments
- Other outcomes are fully considered; especially where there is no formal policy background
- Assets are identified by specific purpose
- Clarity about future potential and management allows you to develop a strategy relevant to each of these categories
- There is the ability to make informed predictions about future outputs and hence to maximise our returns and outcomes
- There is a greater degree of consistency in approach from the Council in its decision-making in relation to the TNRP portfolio.

1.0 THE FRAMEWORK IN DETAIL – HOW THE PROCESS WORKS AND NEXT STEPS

The first stage is to identify the four major components because everything that is not any of those four is to be disposed of. There are four tests: a financial test, a latent potential test, and geographical and other outcomes.

The first test is a financial test looking at initial yield. Anything producing less than 6% would be recommended for disposal. Anything above this figure would be subject to a further review around optimal timing for disposal to ensure maximum rate of return for the Council.

The next stage, latent potential, is practically another financial test. For example, is it a ransom strip? Is it a key strategic site with latent, i.e. future, potential? Is it an industrial unit where greater income could be realised through management strategies? Is it in one of the county's regeneration areas or potentially a key regeneration property?

The last test is to identify any other valued output here. Is it, for example, one of the county's main industrial estates with residential developers anxious to change its use? If it does not satisfy that, the only real alternative left is disposal because if the property is not producing a good rate of return, then the management investment could be directed to better effect elsewhere.

Financial tests

There are two tests:

- Assets delivering an initial yield below 6% would be the first selections for disposal, subject to the findings of the other tests. Consideration should also be given to disposal of assets delivering above this threshold, but these should only be disposed of in optimal packages so as to maximise the return to the taxpayer.
- Assets will be retained if they have significant latent potential

  The rate of 6% is a figure that is derived from the Prudential Code. It is recommended that this figure is reviewed annually. In the event of volatile economic market conditions this should be more regularly reviewed on the advice of the Council's Director of Resources (DoR).

Geographical test

If the asset does not meet the financial test and is within a regeneration area it should be considered whether it could be made available to support regeneration. The options are:

- Held to control development
- Sold to facilitate development

- Sold at less than best value to gap fund development (where capital is limited).

  This test does not presuppose what you do with the asset; it simply identifies an under-performing asset and the possibility of its use for regeneration. The options generated should consider how the asset could be used in the regeneration process for example to control and influence development, manage the developer and the delivery process or sell off or, as a worst case scenario, transfer at reduced consideration subject to the General Disposal Consent 2003 rules subject to the cap of £2m.

Other valued outputs

Other valued outputs are the remaining options for holding the asset and it became apparent that the portfolio may not be accurately described currently as an investment portfolio. The options are:

- Additional land use control
- Strategic land asset
- Required for future service delivery
- Long-term potential
- Protection of existing employment uses from residential encroachment

  These options must relate in some way to the Council's core corporate objectives.

2.0 STEPS IN UNDERTAKING THE REVIEW

Set out below are four practical steps that need to be taken in implementing any programme of work to review TNRP:

Step 1: Continue the TNRP strategic review

A simple overview is all that is necessary, for example:

- A simple list of TNRP assets and their type (e.g. retail or offices);
- Asset values and income;
- A basic analysis in terms of why they are held (e.g. investment, socio-economic purpose or unidentified); and
- An assessment of their suitability, condition and running costs.

Step 2: Identify key issues

Identify the key issues and decide on a focus

Step 3: Planning

Develop phased TNRP implementation plans and work programmes.

Step 4: Identify and evaluate the costs and benefits of all options.

It needs to be noted here that TNRP ascribed socio-economic purposes could be held, owned or otherwise managed by parties other than the authority itself.

Step 5: Implementation

Implement the option that offers the best value for money, monitoring improved performance against targets set within the selected option.

The Initial Review was completed in the 2013/14 financial year with subsequent reviews having been undertaken annually.