Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	**Value for Money Scrutiny Committee**
Date:	**26th April 2016**
Subject:	**County Council Property Assets - overview of the estate**

Summary:

This report provides the Committee with an overview of the different types of property assets held by the authority.

Actions Required:

The Committee is asked to note this report.

1.0 Background

At the last meeting it was requested that the VFM Scrutiny Committee be presented with a series of reports to provide a better understanding of the authority's property assets and the development opportunities which may be available for those assets. On receipt of the information, the Committee would decide if there would be benefit in setting up a Task & Finish Group.

This is the first report to be considered by the Committee and provides a detailed breakdown of the different types of property assets held by the authority. Further reports have been scheduled in to the Committee's Work Programme.

2.0 The Property Portfolio

The authority currently has 1198 assets within the County (excluding highways land); this includes:

- 245 farms
- 418 school assets
- 535 other properties.

Out of those; 53 properties have been declared surplus to requirements and are currently on the capital receipts schedule.

The portfolio (excluding highways land) consists of the following types of tenures:

- 791 freeholds
- 194 leaseholds
- 161 mixed tenures
- 52 academy assets.

The Council are currently the tenant in 194 leasehold properties and lease out 795 properties (the Council acting as the landlord). The large number of leased out properties include some Academies and properties that have been divided into different units. For example, the Council's single freehold property Market Deeping Eventus industrial estate (S9004) has over 30 units with different lease agreements in place for each unit. The majority of mixed tenure agreements refer to schools which have been converted to academies.

2.1 Property Strategy

The Corporate Property strategy aims include:

- Moving away from service led property management to managing property corporately
- Providing appropriate space for the delivery of services
- Cost reduction: reducing the office and operational estate through better utilisation and rationalisation
- Co-locating with public sector partners across the County.

Corporate Property undertake regular geographical area reviews of all property assets, in each district, every two years. The reviews consider co-locating with partners (One Public Estate) and identify opportunities for rationalisation. SInce they began, considerable progress has been made rationalising property (mainly offices) andthis has successfully delivered more than £1.5million of revenue savings in addition to significant capital receipts. The Council's Strategy is available below (appdx B)

2.2 One Public Estate

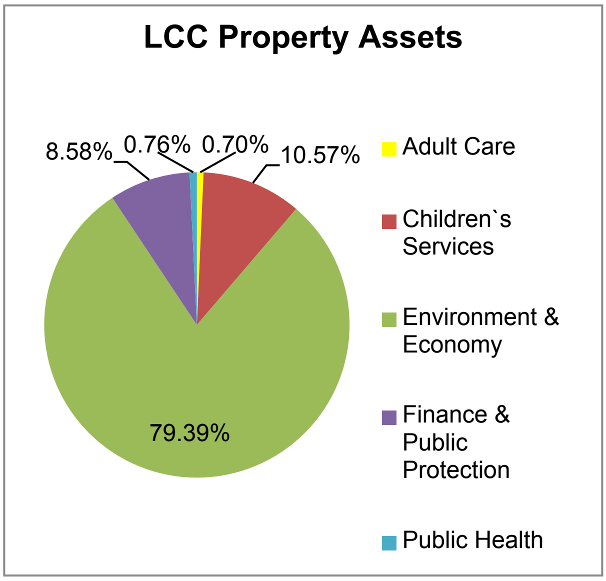
The Council is leading the development of a One Public Estate (OPE) approach in Greater Lincolnshire and this is being supported by Government funding of £340,000. The purpose of OPE is to coordinate the use of public assets to enable the better delivery of public services, Economic Regeneration, Housing and to help deliver revenue savings

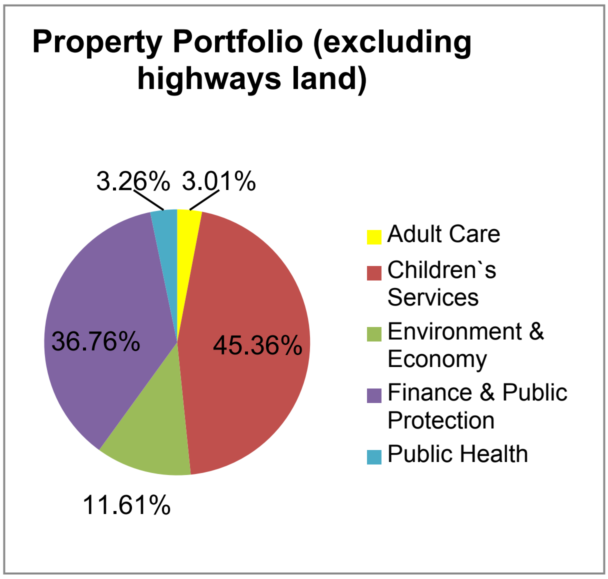
An overview of OPE was presented to VFM committee in February 2016. The Government's OPE programme (led by the Cabinet Office) provides funding to kick start the OPE concept in a locality.

2.3 The Current Asset Structure

The table and charts below show a breakdown of the existing asset structure into directorates and tenure.

Directorate	Academy Owned	Freehold	Leasehold	Mixed Tenure	Grand Total
Adult Care		17	19		36
Children`s Services	52	262	81	148	543
Environment & Economy (including highways land)		4041	34	4	4079
Finance & Public Protection		373	59	9	441
Public Health		32	7		39
Grand Total	**52**	**4725**	**200**	**161**	**5138**





As recommended by the Government's Code of Recommended Practice for Local Authorities on Data Transparency, the full property asset list is available on the below link and is attached to this report (see appendix A).

http://www.lincolnshire.gov.uk/local-democracy/how-the-council-works/lincolnshire-county-council-portfolio/

3.0 Lease Agreements

The Council (excluding highways land) are currently the tenant in 194 leasehold properties and lease out 795 properties (the Council acting as the landlord). However, agreements are ever-changing due to service requirements.

3.1 Peppercorn and Nominal Leases

For a number of reasons, properties are sometimes let out by the Council on peppercorn rents to facilitate different models of Council service delivery and maintain statutory service delivery. The Council currently lease out 284 properties on peppercorn and nominal rents (anything below £100 per annum).

An example of these nominal or peppercorn leases are where the Council have a legal obligation to provide a 'comprehensive and efficient library service'. Therefore, in order to maintain this basic statutory service, libraries have been outsourced to community groups and external providers on peppercorn leases. Another example would be peppercorn rent schemes to early year's providers – who provide Early Years and childcare provision for children up to (and including) the age of 5 in accordance with the Early Years Foundation Stage statutory.

3.2 Commercial leases (anything above £1000 pa).

Excluding the Economic Development and County farms properties, LCC currently have 116 commercial leases, which currently generate a gross income of just over £900,000

3.2.1 The Economic Development Commercial Portfolio

The Economic Development (ED) Commercial Portfolio has been developed by LCC since 1995 to meet localised failure by the private sector development industry to provide serviced employment land and small office and industrial space in certain geographical locations across the county. The portfolio has been developed alongside the portfolios of tier two authorities and often in partnership (jointly funded by) tier two authorities.

In developing the portfolio much use has been made of European and other government grant funding. This has had the benefit of reducing the net capital costs of construction to LCC, but has imposed some restrictions such as:

- Imposing rights to clawback grant in the event of disposal of freehold
- Limiting occupation to certain use classes and prohibiting occupation for the purpose of delivering core local government functions.
- Governing the principles of letting such that tenancies must be on easy in easy out terms and in accordance with RICS guidance on commercial letting terms.

ED's Commercial Portfolio comprises of 48 industrial units across 10 locations, 21 small office units across 3 locations and 125 business centre units across 4 locations. In addition there are 5 industrial estates where ED continues to dispose of land and four other properties which are used for the delivery of ED objectives including Long Sutton Market House, Aubourn Craft Centre, Thurlby By Bourne Youth hostel and Mablethorpe Old Library.

Breakdown of the Economic development commercial portfolio:

Development Size	Ranges from 0.12 hectares to 2.33 hectares
Total number of units	197
Average Occupancy level	90.83%
Total Annual Rental Income	£1,138,136
% LCC Ownership of Portfolio	78.15%
Total LCC Annual Rental Income	£891,318

It should be noted when considering returns that the operation of the portfolio not only delivers a financial return but also economic outputs in the form of jobs and businesses supported.

3.3 'Contracted-Out' and 'Protected leases'

New Council lease out agreements are always Contracted-Out. Generally a contracted out lease is favourable to a landlord, i.e. the Council, as Contracted-Out does not give a tenant any security of tenure and as such no entitlement to a new tenancy at the end of the lease, or compensation that is afforded for under the provisions of the Landlord and Tenant acts.

Alternatively, under Part 11 of the Landlord and Tenant Act 1954 (L&T Act) a tenant in occupation of premises for the purposes of its business generally has a statutory right to renew its lease at the end of the lease term. This is a so called 'Protected' lease (Contracted In) and entitles a tenant to compensation in the event their tenancy is not renewed if for instance the Council is considering redevelopment or wants accommodation for its own occupation. Compensation is typically based on a multiplier of rateable value, 1 x for less than 14 years of occupancy, and 2 x for over 14 years.

Consequently, when leases are agreed with "Not for Profit Groups" by the Council, they are Contracted Out as these groups do not pay rent or pay a nominal fee, so it would not be practical to give them protected tenancies.

4.0 Disposals

The Council currently has 53 vacant properties, which have been declared surplus with the disposal process commissioned. They consist of the following:

- 22 buildings
- 31 land

The site areas range from 0.04 hectares to 7.26 hectares.

When a Council service area identifies that a property is surplus to its requirements the relevant Executive Director will declare the site surplus and Corporate Property will manage the asset from thereon. Sales of surplus property generate a steady flow of capital receipts and are an important part of the overall financing of the Council. However, before building or land is disposed of, a business case exploring all other opportunities will be presented by Corporate Property
This business case provides detailed analysis of different options (eg. re-use by other Council services / lease out and sale), to determine which would be the most advantageous option. If it is recommended that the building is added to the Capital Receipt schedule, the Executive Director for Finance and Public Protection is delegated to approve of the disposal in consultation with the Portfolio Holder for Finance and Property. The disposal process also requires consultation with the local Member; this local consultation has been inconsistent and is an area identified for improvement.

The Council has annual targets for Capital Receipts the target for 2015/16 was £2m. This target was exceeded and the amount generated for 2015/16 was £2.78m.

Later this year, the Council is submitting a 4 year efficiency plan to the Department for Communities and Local Government (DCLG) to secure funding for a 4 year period, and a key part of the Council's strategy will be to maximise Capital Receipts over the next two years. The approved budget for 2016/17 includes a capital receipts target of £7.1m, £4m of which is targeted at funding redundancy costs arising in that year by applying the new capital receipt flexibility which was announced in the Comprehensive Spending Review

2015, this new flexibility will allow local authorities to spend their asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects.

The table below summarises the current progress on disposal of surplus assets

Current Disposal Status	Total
Disposal commissioned and plan agreed	29
Marketing Commenced	12
Offer Accepted and Solicitors Instructed	12
Grand Total	**53**

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5.0 County Farms

The County Farms Estate is managed by Savills working alongside Corporate Property. The estate comprises approximately 19,000 acres made up of 245 holdings (buildings or bare land).

There are two different types of agricultural tenancies - those agreed before 1 September 1995 - known as 1986 Agricultural Holdings Act tenancies (AHA) often less commercially beneficial to LCC- and those agreed after 1 September 1995 - known as Farm Business Tenancies (FBT), where the rent for the Council is maximised under these tenancies.

The Council has 118 FBT agreements, 112 AHA agreements, 2 commercial leases and 0 farms on peppercorn rent. These figures are the number of lettings which range in size from 1 acre to 554 acres. The Council are where and when appropriate moving all tenancies to the more favourable FBT.

5.1 Investment Performance of County Farms

The Council does not have a definition of rate of return mainly because the concept relates to business activity geared towards profit generation which is not the Council's purpose. However, the Council's accounts do contain one 'investment' asset and that is County Farms. County farms are intended to earn return on the initial investment (purchase), either through rent (income), the future capital receipt, or both. This report provides information on investment performance of the farms estate.

	COUNTY FARMS ESTATE – ACTUAL					**BENCHMARK – ALL ESTATES (England)**				
% per Annum	**2010**	**2011**	**2012**	**2013**	**2014**	**2010**	**2011**	**2012**	**2013**	**2014**
Agricultural Let Property										
Net Income return	3.3%	3.1%	2.4%	2.1%	2.1%	1.4%	1.2%	1.4%	1.3%	1.2%
Capital growth	6.2%	31.9%	23.2%	14.3%	15.6%	8.0%	11.7%	10.7%	11.7%	12.0%
Total return	9.4%	35.0%	25.6%	16.3%	17.7%	9.3%	13.0%	12.1%	13.0%	13.2%

Source: Savills Rural Estate Benchmarking Survey 2014 (Savills Research)

5.2 Estate Returns

Since 2010 net income returns from the Estate have ranged between 2.1% and 3.3% per annum, this in excess of the average performance of the sector, which has ranged between 1.2% and 1.4%. Furthermore, capital growth on the farm estate has been subject to year on year increase since 2010 again outperforming the national average. In 2014 the farm capital growth of Lincolnshire's farm estate was 15.6% while the national average was 12%.

5.3 Rental growth

Over the period from 2007/08 to 2014/15 the Estate gross rent roll increased from £1,508,698 per annum to £2,182,694, p.a.

5.4 Net Income

During the financial year 2013/14 the Estate provided a net revenue income of £1.38 million. A further increase in this net income was achieved in 2014/15 to £1.5 million as a result of both the increased rental income referred to above and an effective freeze of the level of the expenditure budget.

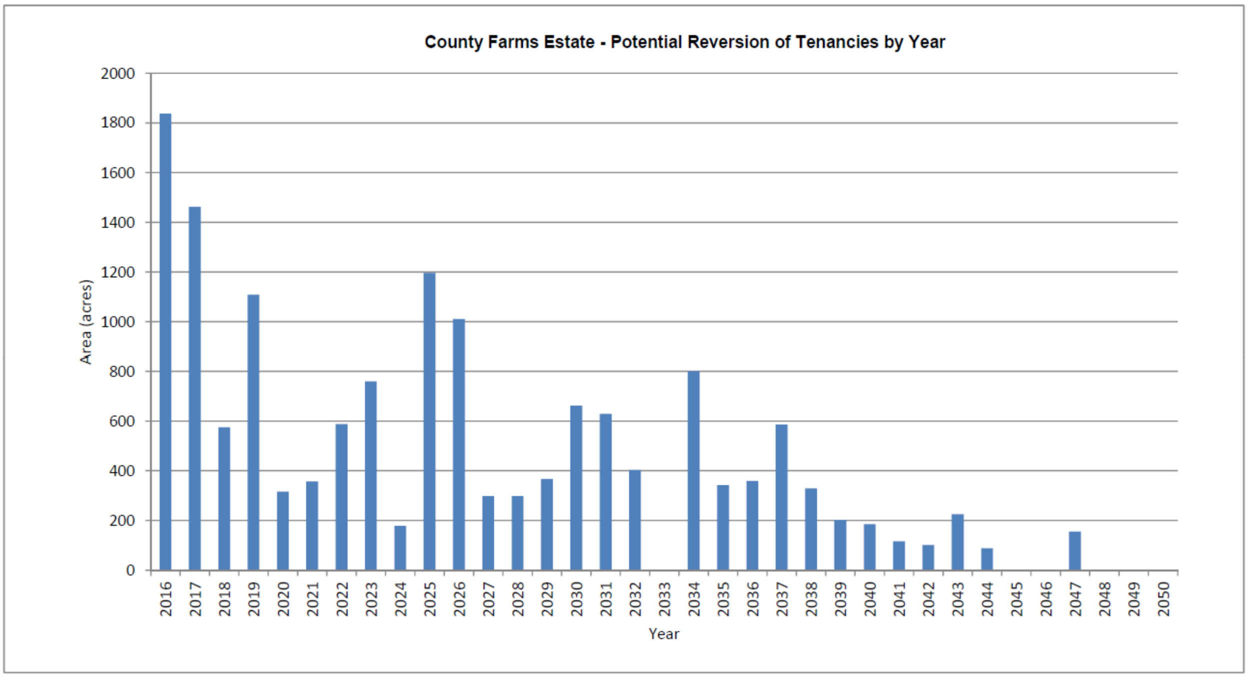
5.5 Capital receipts (County Farms)

In addition to revenue income the Estate has provided regular capital receipts to the Council by way of strategic sales. The table below shows the total annual receipts between 2009 and 2015. As a result, over this period the Estate has slightly reduced in size and the number of residential properties has reduced, but as discussed above the revenue income has also increased despite these sales.

Year	Estate Area (ac)	Total No. Dwellings	Capital Receipts
2007/08	20,101	87	£495,000
2008/09	19,967	86	£244,000
2009/10	19,879	84	£700,000
2010/11	19,494	82	£1,267,300
2011/12	19,252	78	£3,367,764
2012/13	19,113	73	£1,683,679
2013/14	19,056	70	£1,169,400
2014/15	19,044	67	£785,000

The Council's strategy for the Farms Estate is to maximise the revenue surplus whilst at the same time selling surplus land and buildings. Land that is surplus to operational requirements or has planning consent for a non-agricultural use is sold when vacant.

Constraints - There are particular legal constraints within the AHA legislation, which potentially allow two generations to succeed to a tenancy granted before 1984. Consequently, Savills predict it would take up to 30 years to dispose of the vast majority of estate if that was a course of action the Council wished to pursue, this also has to be balanced against the loss of revenue income. The graph below shows Savills estimated reversion of tenancies by year.



Savills (UK) Limited

These statistics are based on a number of assumptions and Savills use the life expectancy statistics as the basis of the estimate

5.6 Investment Comparisons

Local authorities are relatively restricted in what they can invest in. However, if theoretically, the Council were able to sell the whole estate for a cash sum then it would invest that cash in the money markets until needed for another purpose. However, for the past few years money market returns generated in line with a prudent approach have been very low – typically between 0.5% to 1%. Compared with the farm returns of 2.1% and 3.3% and the farms also provide a secure investment

To provide another comparison the Council could use the capital receipts from sale of the farms estate to finance new capital spend required by Council service areas. Currently capital spend is funded by external borrowing which presently costs 2.23% for 10 year borrowing; 3.06% for 25 year borrowing; and 2.87% for 50 year borrowing. These rates are similar to the farms returns quoted in this report, therefore the Council would not make a net saving by selling the farms estate and using the capital receipt to fund future capital spend.

6.0 The Financial Value of the Estate

As presented to the VFM scrutiny committee in January 2016.The values of the Council's assets are set out in the Council's Financial Statements.

The value of these assets as at 31 March 2015 was:

	As at 31 March 2015 £'000
Land & Buildings	694,040
Vehicles, Plant, Furniture & Equipment	92,090
Infra-structure	460,669
Community Assets	-
Surplus Assets	21,458
Assets Under Construction	28,230
Heritage Assets	52,625
Investment Properties	92,525
Intangible Assets	9,197
TOTAL	**1,450,834**

Please note the value which these assets are carried within the Council's accounts does not always represent the value it would get for these assets if they were sold on the open market. Due to commercial sensitivities sale valuations are not included in this report

7.0 Next Steps

To produce further reports on:

1.1 Outline of opportunities with a potential invest to save commercial approach to development and generate income

Appendices

These are listed below and attached at the back of the report	
Report	Value for Money Scrutiny Committee – Understanding Assets
Appendix A	Site list for Transparency
Appendix B	LCC Strategy for Property 2015-18

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