

# Agenda Item 8

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

Report to:	<b>Value for Money Scrutiny Committee</b>
Date:	<b>27 September 2016</b>
Subject:	<b>County Council Property Assets – Commercial Opportunities</b>

**Summary:**

This report provides the Committee with an overview of the Commercial Asset Opportunities available to the County Council.

**Actions Required:**

Members of the Value for Money Scrutiny Committee are invited to consider and comment on the report and highlight any recommendations or further actions for consideration.

## **1.0 Background**

At the February 2016 VFM Scrutiny Committee requested future reports to provide a better understanding of the authority's property assets and the development opportunities which may be available for those assets.

The first report in April considered by the Committee provided a detailed breakdown of the different types of property assets held by the authority. In that report it was agreed the Committee would receive a further report outlining Commercial Asset Opportunities available to the County Council.

## **2.0 Introduction**

This report provides an overview of commercial options available to enhance capital and revenue opportunities from the estate while targeting and addressing local housing and regeneration matters.

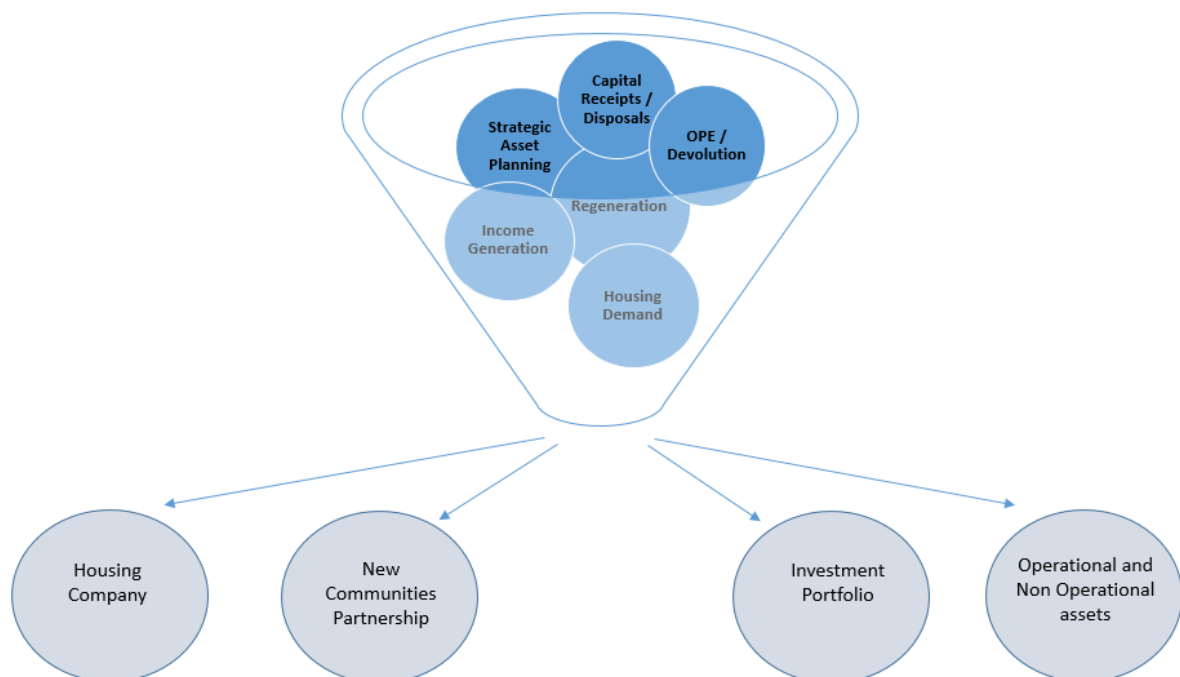
While the options are considered primarily in relation to the County Council, many are likely to also be attractive to other organisations such as Greater Lincolnshire One Public Estate (OPE) partners.

This paper makes no predictions about the outcomes and impact of the recent European Union (EU) referendum, while there is some caution in the property development market, it is certainly too early to assume that this will continue and housing and developments that

drive economic growth remain. However, the options are predicated on a number of assumptions:

- The ongoing financial pressures on the County Council and its OPE partners will remain, as will the aim of driving more efficiency through the property and assets of the Council and wider-public sector.
- The forecasted future housing demand will remain
- At some point, the OJEU process is likely to change, however, it is assumed that there will still be a requirement for public sector organisations to deliver fair and open competition when procuring services in the future

The diagram below illustrates key challenges and objectives of the County Council and a number of potential options which are considered within this paper.



### 3.0 New Communities Partnership (NCP)

The New Communities Partnership was launched in May 2016 and is a public-private alliance supported by the Homes and Communities Agency (HCA) and provides local authorities and housing associations with an innovative delivery model for building new homes on their own land, giving them the option to choose between sale and rental developments, and offers significant scope for affordable development.

The Partnership acquires land, at fair market value (determined by an independent valuer) from public sector organisations or the private sector and progress that land through development and into planning and construction taking all the financing risks along the way.

### 4.0 Housing Company

Within Greater Lincolnshire there is a need to build housing, in particular affordable and Extra Care Housing. The target is 100,000 new homes by 2045, with 25,000 of those delivered by 2020.

The County Council has surplus building assets, which could be rented out, for example, the smaller buildings on the perimeter the Newland campus.

Given also the future demand for increasing housing for rent and sale, the County Council could consider setting up its own (wholly owned) Local Authority Housing Company. Legal advice has already been obtained and the County Council is able to operate such a company.

Numerous authorities across the country are either looking to, or already have, set up wholly owned housing companies. In Lincolnshire, the following authorities have already set up their own housing companies:

- Lincoln City Council
- South Holland District Council

North Kesteven District Council is currently reviewing the possibility of setting up a Housing company as one of its priority business plans. And West Lindsey is currently in the process of establishing a vehicle.

For the County Council, the fundamental aim of a housing company would be to generate a financial return through the provision of homes for rent or sale; however, it would also contribute to the delivery of Greater Lincolnshire housing number targets.

A wholly owned housing company could be set up by the County Council alone or with public or private partners. It is also feasible that private sector partners or not for profit organisations could have equity within such a deal; however this adds inevitable legal and commercial complexity. It is also likely to reduce the net benefit to the council, albeit that the risk is likely to also reduce.

The financial modelling and funding assumptions would require detailed consideration as there is not a 'one size fits all' model. The financial case would need to support the drivers, risk appetite and desired revenue profile of the Council.

Most wholly owned housing companies run at a loss in the first few years of trading, however, they provide a steady revenue stream into the authority when established.

An alternative model to seek an earlier return on capital employed could be achieved by a developer taking a stake; however this transfer of risk will produce reduced returns.

## **5.0 Investment Portfolio/Company**

An increasing number of local authorities are seeking to create a property investment fund to provide discretionary revenue income. This can have a local investment focus or wider. Returns could be used to benefit local improvement and make the Council more 'self-sufficient'.

The County Council could purchase assets and generate an income from rent returns. For example, Leeds City Council has recently agreed a deal to acquire Addleshaw Goddard's new headquarters for £43.7m in Leeds city centre as a method of generating revenue income to meet the challenge of shrinking budgets, this is an example of a significant capital investment, however, there are examples on a smaller scale.

Every investment would need to be evaluated on its own merits and subject to viability could be purchased via the local authority or the company depending on the taxation, legal and investment implications.

If the County Council were to consider creating an investment company the financial benefits should aim for a net income figure of amount 70% which would be high performing in benchmarking terms.

An investment portfolio could form part of a combined housing and investment company. The benefits and risk of such a company are listed below

**Benefits:**

- Create realisable capital assets for the Council
- Generate a potential long-term revenue stream into the council and financial return
- Contribution to Greater Lincolnshire's Housing targets
- Increase investment in local areas, which could have a positive impact on local economies.

**Risks:**

- Greater liabilities with increased property portfolio
- Potential failure of company – clear exit strategy required
- Market volatility - homes prove difficult to rent or sell with financial implications on profitability
- Lack of entrepreneurial experience in council
- Legal and financial risks – guidance required throughout

## **6. Operational Assets and Non-Operational Assets**

As noted in the April committee report, since beginning property area reviews (asset challenge process), Corporate Property has delivered more than £1.5million of revenue savings in addition to significant capital receipts. The reviews have considered co-locating with partners (One Public Estate) and identifying opportunities for rationalisation. Each property has been assessed against the Council's service requirements.

However, further opportunities are still to be realised by looking at what the Council can do differently with operational and non-operational assets, examples include:

### **a. Myle Cross - Meeting/training facilities**

Myle Cross Centre is a Council owned facility, currently partly leased by CfBT. The lease with CfBT will end in August 2016. The site includes a significant training and meeting venue capacity this could offset the Council's current spend on external training and meeting venues. The accommodation is currently being prepared for this new use. As well as saving the Council external spend on venue hire it also has the potential to earn revenue for the Council by marketing the facilities externally

The Centre will need little upfront investment in terms of refurbishment to enable it to continue to function uninterrupted as a training/meeting venue.

### **b. Greater Lincolnshire – One Public Estate Asset Challenge**

Maximising the use of assets remains a major priority for the County Council and other Greater Lincolnshire organisations. Inefficient property performance, buildings that do not meet service requirements and the underuse of space must be addressed if valuable assets are not to become an unnecessary drain on financial resources.

In line with the OPE programme, it will be necessary for all partners to continually challenge and test the performance and requirement for property in its current form through a comprehensive Greater Lincolnshire asset challenge process. By developing this process Greater Lincolnshire would seek to provide clear opportunities to achieve the pivotal benefits of the OPE programme:

- Delivering more integrated and customer focused services
- Creating economic growth
- Reducing running costs
- Generating capital receipts

An asset challenge process for the OPE is currently being developed with partners to challenge all public sector assets in their current form with the Council and partners moving towards a more 'cost neutral' property portfolio.

## **7. Conclusion**

The Committee is asked to note the commercial opportunities available to the Council. Following discussion with the Portfolio Holder for Finance and Property at the Property Board meeting in August it has been agreed that an outline business case is prepared to explore Housing and investment Company and progress on this will be reported to VFM Scrutiny in January 2017

## **8. Next steps**

Produce an Outline Business Case with a focus on creating a wholly owned County Council Housing and investment Company.

## **9. Consultation**

### **a) Policy Proofing Actions Required**

N/A

## **10. Next Steps**

To produce further reports on:

November Committee - One Public Estate Update

January Committee - Housing Company Business Case Update

## **11. Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Please direct any questions raised by this report to Kevin Kendall, County Property Officer, who can be contacted on 01522 553726 or by email at [kevin.kendall@lincolnshire.gov.uk](mailto:kevin.kendall@lincolnshire.gov.uk).