

## **Asset Management Strategy**

### **Executive Summary**

Epping Forest District Council's (EFDC) Asset Management Strategy (AMS) aims to establish key principles for the investment, management and development of the Council's existing and proposed land and property assets.

Within the strategy reference will be made to the Council's overall Corporate Plan, Capital Strategy and Medium Term Financial Strategy.

The strategy aims to provide a coherent set of objectives to enable efficient decision making when considering land and property in relation to capital, revenue generation and efficiency savings.

Section 1 covers the Corporate Objectives of the AMS, which sets out EFDC's high level objectives and the elements of our Corporate Plan and Core Principles that relate to EFDC assets.

Section 2 covers Strategic Asset Management, setting out strategic objectives of the AMS including EFDC current policy, future aspirations, development outlook, investment approach and investment vehicles.

## 1. Section 1 - Corporate Objectives

This strategy, for both existing and potential assets supports and enhances our wider Core Principles namely:

- Stronger Communities
- Stronger Place
- Stronger Council

All three of the Core Principles as set out in the Corporate Plan 2018-2023 are relevant to the AMS but specifically the following elements from the Corporate Plan are most pertinent.

### **Stronger Communities:**

3. People and communities achieve their full potential:
  - 3.1 Enabling communities to support themselves.
  - 3.2 Promoting culture and leisure.

### **Stronger Place:**

4. Delivering effective core services that people want:
  - 4.2 Improving the district housing offer.
5. A district with planned development:
  - 5.1 Planning development priorities.
  - 5.2 Ensuring infrastructure supports growth.
6. An environment where new and existing businesses thrive:
  - 6.1 Supporting business enterprise and attracting investment.
  - 6.2 People develop skills to maximise their employment potential.
  - 6.3 Promoting retail, tourism and the visitor economy.

### **Stronger Council:**

10. Financial independence with low Council Tax:
  - 10.1 Efficient use of our financial resources, buildings and assets.
  - 10.2 Working with commercial partners to add value for our customers.

## **Links to Capital Strategy**

The Capital Strategy was approved by full Council on 21st February 2019 as part of the Council Budget for 2019/20. The document can be found as Annex 11 to the report. Below is a summary of the document covering its purpose, aims and objectives.

The Council's Capital Strategy has been prepared separately from other documents as it is a Corporate Policy but it maintains a strong and current link to the Council's priorities and to other key strategy documents including the Corporate Plan, Local Plan, Treasury Management Strategy, and the Council's General Fund Medium Term Financial Strategy and the Housing Revenue Account (HRA) 30-year plan.

It is an important document which is fundamental to supporting the Council's commitment to improving the quality of its services and facilities to make the district a great place to live, work, study and do business. Capital investment in the form of large scale one-off projects plays a

vital role in achieving this objective. It is essential that a strategic approach is taken, having regard to the Council's aims and priorities, and that the Capital Strategy is formulated in consultation with the community to direct resources into projects which will achieve greatest benefit. Once approved, individual projects are carefully planned, managed and reviewed to ensure that best value is achieved. At the same time, every effort is made to maximise the generation of income and utilise all capital resources available to fund capital investment in the most appropriate and advantageous way.

The main objectives of the Capital Strategy are to:

- demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability;
- ensure that overall strategy, governance procedures and risk appetite are fully understood by Members;
- tailor the Council's investment strategy to meet local needs and circumstances.

The Capital Strategy is designed to provide a framework which aims to:

- outline the basis for the prioritisation of capital schemes in relation to the achievement of the Council's strategic aims;
- maximise external funding to augment the total resource available;
- optimise the use of the Council's capital resources;
- optimise the utilisation of the Council's assets in pursuit of its objectives
- optimise returns on the Council's investment portfolio;
- ensure that the investment required to maintain existing assets throughout their lives is made available;
- establish a clear framework for managing and monitoring the capital programme;
- evaluate projects to ensure they secure value for money, promote best procurement practice, and are subject to a rigorous risk assessment; and
- facilitate joint and cross-cutting working.

The capital strategy focuses on the following key areas:

- capital expenditure;
- debt, borrowing and treasury management;
- commercial activity;
- other long-term liabilities; and
- knowledge and skills.

## **Links to financial goals**

### **Medium-Term Financial Strategy**

For a number of years as part of the Council's sound financial planning arrangements a four-year medium-term financial strategy (MTFS) has been prepared. The document allows a considered view to be taken of spending and resources over the four-year period. The strategy looks at the ongoing core services for which there are Continuing Service Budgets and one-off fluctuations in income and expenditure for which there is a District Development Fund.

The MTFS is prepared against a backdrop of number of areas of significant uncertainty. Key amongst those was the structural reforms to the financing of local authorities and the local retention of National Non-Domestic Rates (NNDR). The general state of domestic and world economies was a concern as was the progress towards and potential outcomes from the UK's

exit from the EU. There were also questions over welfare reform, development opportunities and the transformation programme.

The current MTFS is based on a number of assumptions around income and expenditure. One of the key assumptions is future rises in Council Tax and the Council has a stated ambition to remain a low tax authority in the long term. Council Tax for 2019/20 did not increase, however the MTFS includes the provision for a 2.5% increase thereafter.

Even with the assumption of assumed council tax rises the MTFS has identified that there is still a need to find additional savings and/or increase income. The application of this AMS should result in on-going revenue generation and additional capital receipts which can be used to invest in assets to generate additional income.

A key element to ensuring the council delivers its financial ambitions is a high standard of asset management for all of the Council's assets. Retaining assets that are fit for purpose, acquiring and building assets that enhance service delivery and meet the Council's objectives and at the same time maximise income for the Council, (both in terms of one-off capital receipts and a continuing long-term income stream), is vital in helping the Council to find the savings required.

EFDC's financial goals will be informed by the Stronger Council core principle. It will therefore be essential that both existing and potential assets in the investment portfolio achieve the following:

- security of existing income, and secure future cash flows;
- asset appreciation;
- growth of income, via both new acquisitions and rental growth on existing assets and increases in capital values, informed by the above, and monitored via the annual external investment valuations;
- capital receipts are realised and that money can be utilised for further acquisitions or funding other EFDC assets, liabilities and projects;
- disposal of poorly performing and unsecure stock and replacement with improved assets from both a financial and a local wellbeing standpoint;
- self-sufficiency, where revenue and capital receipts along with any required borrowing fully fund any development, acquisition, disposals, regeneration etc and assist EFDC in its goals.
- funding where EFDC can access borrowing at lower rates of interest compared to other sectors.

## **Asset Overview**

EFDC's commercial investment portfolios are valued at over £100m (28<sup>th</sup> February 2019), with rental and income generated of over £7m per annum, maintenance costs of on average between £50,000 to £150,000 per annum in total across the commercial investment portfolio. The commercial assets comprise over 350 individual properties or land leased to tenants. These are for a variety of purposes, principally retail and industrial/warehouse space but including a portfolio of medical premises, ground leases of land, sport & leisure, telecoms, advertising hoardings, public houses and a substantial airfield. In addition, there are a number of operational properties including depots along with plots of land (some of which lend themselves to development), and other sites retained by EFDC including those with heritage or other community benefits.

## **Investment Strategy**

EFDC investment strategy must be in line with our Core Principles and therefore a strategy is needed covering both the acquisition of new income producing assets or land and the disposal of surplus or underperforming assets.

EFDC aims to maximise the amount of good quality housing of an appropriate mix of sizes, types and tenures to meet the needs of those living in the district.

The Strategy will need to be developed so that it contributes towards meeting the councils:

- financial goals;
- corporate investment strategic objectives;
- approach to capital generation;
- approach to income and revenue generation and development & delivery vehicles.

When considering assets, the Council has two distinct roles:

- through the ownership of its portfolio, it is a landlord/landowner;
- as a local authority.

When opportunities arise, with regard to property disposal and acquisition, a business case will be prepared that takes into account all the factors relating to the asset or potential asset including alternative options. In terms of acquisitions EFDC historically have focussed on sites which are strategic or required as part of regeneration and development. This investment strategy proposes specifically to pursue opportunities that provide medium to long term revenue streams in accordance with the criteria below:

- location;
- lot size;
- sector;
- lease length;
- covenant strength;
- socio-economic benefit;
- regeneration potential;
- investment yield;
- Utilisation of suitable investment vehicles including the LHC and LTC.

All opportunities will be evaluated on a case by case basis and proposals made via the existing governance structures. Broadly these will range from core, core plus, value add and development based on risk versus return being evaluated with the aforementioned criteria and EFDCs corporate and capital strategy.

## **Disposal Strategy**

Current assets within the commercial and residential portfolios will also be evaluated based on the aforementioned criteria.

Historically due to the requirement for income generation these assets have been held throughout the period of lease contract and through various economic cycles, regardless of security of income or risk/return considerations.

A formal disposal strategy seeks to identify poorly performing to high risk assets which require greater resources (with limited return), and suggests that where this is the case these assets should be deemed surplus and should be offered to the market to free up resource and raise capital for future investment.

## **Development Strategy**

EFDC has over the past 10 years been proactive in developing its assets for commercial and socio-economic gain. It is proposed that EFDC continues to proactively seek out all development land/regeneration opportunities.

Development refers to land and property, commercial, residential and alternatives, that can be built upon either directly by EFDC, in partnership with other bodies, or through development vehicles. Regeneration encompasses utilising, refurbishing and redeveloping EFDC land and property, or acquired land and property, to achieve EFDC Core Principles. It necessarily encompasses a number of aspects:

- new development, either on land owned by or subsequently acquired by the Council, with or without planning permission but always with economic and social potential to enhance the Council and the District;
- re-development of existing land or property;
- regeneration of any stock to ensure the property is enhancing and improving the area for residents and attracting new residents and a high value workforce to the District;
- alternative uses of existing assets, primarily via an accommodation strategy which includes more efficient use of Operational properties for residential housing, other public service users, members of the public via community uses (for example, conference facilities and library) and commercial uses (traditional leased office space and/or small start-up business hub).

The goals of the above strategies would revolve around the following:

- commercial - primarily for income generation;
- residential - to generate capital receipts, improve the district, and fulfil EFDCs goals on housing provision and planning policy;
- mixed use with commercial and residential, to be developed wherever possible to the benefit of the District and in achieving Core Principles;
- leisure use to generate additional income, provide regeneration for the area, attract high value employers and employees, attract new residents to the District and improve the area and social wellbeing of existing residents;
- identification of potential housing development sites on Council owned land to build additional housing which would result in additional ongoing revenue income;
- development, both Housing (possibly via the Local Housing Company to bring private rental income generation), commercial via new tenants and improved space, and operational properties where these can be developed for commercial, residential and leisure uses or commercialised as existing.

There are several council-owned sites which have the potential to be developed for residential housing. If the Council chooses to develop the sites, one option could be directly through a wholly-owned Local Development Company. This could provide a significant long-term revenue income stream and/or capital receipt. There are a range of sites valued in excess of £18m upon which the Council could build in excess of 350 new homes. These could be a variety of different tenures including affordable, market rental and outright sale.

The financial incentives for developing these sites are therefore attractive but this needs to be weighed up against having a portfolio that meets the needs of the Council i.e. having assets

that are fit for purpose and that enable effective and efficient service. delivery. The portfolio should support the goals of EFDC taking into account the wider socio-economic impacts. Each site will be evaluated on its own merits and risk to return ratio based on investment criteria (more specifically detailed above) as applicable.

Meeting the needs of both roles of EFDC must be considered when planning to acquire or dispose of assets. Consideration of the operational, financial and commercial/economic implications need to be assessed against both the positive and negative impacts on the community at large when taking any decisions on changes to the asset portfolio. It should be noted that any transaction that either increases the net revenue position (reduces costs or increases income) or increases the capital resources available will have a direct community benefit in allowing the Council to expand service delivery or make savings.

Re-purchase or re-gearing of existing commercial leases, particularly long ground leases, which can be used to regenerate an area and generate new revenue. This is the case where there is capacity to buy back some of the long ground leases and then redevelop the plots with modern units for additional income generation.

## **Section 2 - Strategic Asset Management**

Under the Core Principle of a Stronger Council, efficient use of our resources and assets will be a key factor in enabling the Council to become financially self-sufficient and sustain this position in the future. By having a Corporate Asset Management Strategy in place there will be a framework to work within which should ensure the:

- preservation and improvement of the commercial investment portfolio via the rental income generated from tenants;
- identification of the more efficient use of existing assets. For the commercial investment portfolio, this would include improvement of properties, increase and retain the number of high value tenants, improving lease terms and use of space. On the operational side, this would include more efficient use of the Council's operational assets including the Civic Offices, increasing income generation from external commercial tenants, improving the general area with a business starter hub, and more economical use of the Councils own resources via relocation of staff to more cost-effective locations as applicable;
- maximising the use of capital receipts and/or borrowing to acquire additional assets to benefit EFDC Core Principles and Corporate Objectives;
- prompt completion of commercial transactions (lease renewal, rent review, letting) in a timely fashion and in line with Core Principles;
- disposal of poorly performing assets and acquisition of assets that offer a better or more secure investment return, enhance the area, and fulfil Corporate Objectives;
- maximisation of the amount of affordable housing in the district through a mix of tenures. To utilise the benefits of 'one for one' Right to Buy capital receipts and allocations through S106 funding to build new homes;
- generation of a long-term income revenue stream through the provision of market rent homes;
- that there is investment to save with our developments and projects generating Income to re-invest in future projects, improved and expanded service delivery and reduce the need to borrow.

## **Risk Management**

To achieve our objectives in the Corporate Plan in accordance with our Core Principles, the AMS will aim to mitigate reasonably foreseeable risks according to the following principles:

- a diverse portfolio of property assets, including land with development potential, mixed-use developments and a variety of residential, leisure, commercial assets and alternative uses (for example, medical premises) in order to mitigate risk;
- to be informed by internal expertise and externally sourced expertise where applicable and beneficial;
- to make any investment decisions, development plans, housing provision and other project informed by expertise as above, and data from research and insight into current trends to regularly inform our AMS;
- an appreciation of public sector trends and thinking (be that at Town, District, County or Central Government level), and market data including commercial rental and investment yield data will inform all aspects of the AMS.

## **Local Trading Company (LTC) and Local Housing Company (LHC)**

The Council will look at setting up wholly-owned companies which would bring certain benefits e.g. additional income streams for the General Fund. These companies would operate with more commercial freedom than the Council can.

A LTC could provide its services to a wider market than a council department and as such, could generate additional income for the Council e.g. through the payment of dividends. The current EFDC building control service, housing repairs service and MOT service are services that could be considered for transferring to a LTC.

A development company could be set up to build houses and a local housing company could be set up to let properties to the private sector at market rental levels. The council currently cannot do this. This arrangement would provide income through dividend payments and interest earned on loan arrangements with the companies.

Establishing a local company structure could unlock additional efficiencies for EFDC in achieving its asset management objectives across both commercial and residential sectors:

- in certain circumstances, no procurement exercise is required;
- EFDC acting either as a developer, or a landowner (private rented/buy to let);
- a clear commissioner/provider split exists, meaning that the council can incentivise the Local company to realise efficiencies and develop service offerings;
- the council retains a high degree of control over the organisation, which may be an alternative to outsourcing;
- that despite certain restrictions on the type and level of commercial activities, local trading companies possess greater freedom than in-house services to develop and trade services, including the development and delivery of new non-statutory services which can generate a surplus for the organisation;
- a local company may be able to achieve social enterprise status.



### **Current Position:**

Currently, the Council has at least six sites that could potentially be developed which could provide in excess of 350 new dwellings (subject to planning permission being obtained). Given the scarcity of suitable sites and EFDC goals in the Local Plan, this is an opportune time to promote an LTC and LHC specialising in development and letting.

### **Resourcing:**

The new company structure will require resourcing, via a working capital loan for the initial set up costs including specialist legal and tax advice and it will require an equity investment that meets with the current State Aid requirements. The companies will also need to employ the experience and skill needed to deliver a development programme or manage a commercial trading operation. The benefit of this type of approach creates more flexibility to attract the right skills at a competitive salary.

### **Governance Structure**

Asset Management proposals and projects will be considered by Members for investment decisions, informed by an investment appraisal process focussing on the:

- core principles;
- economic and financial case;
- management case – capabilities and capacity within the Council;
- social and wellbeing goals of EFDC.

Any capital receipts and any on-going revenue income streams and/or savings will be estimated as part of any Business Plan for all asset management proposals and will be factored into the business case for review and approval by the Chief Executive or Cabinet as appropriate under the Scheme of Delegation within the Constitution. The governance structure for decision making and reporting is proposed as Asset Management and Economic Development Cabinet Committee for recommendation to Cabinet and onward as required.

A governance structure appropriate to the scale of the individual programme would be included within initial business case.