

## SURREY COUNTY COUNCIL

## CABINET



**Title:** Surrey Asset and Place Strategy

**Report to:** Cabinet

**Report of:** Julian Wain, Strategic Property Advisor

**Cabinet Member:** Tim Oliver, Leader of the Council and Cabinet Member for Property

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### 1. What is this report about?

The [Community Vision for Surrey in 2030](#) describes the place we all want Surrey to be, and as part of the Council's ongoing [transformation programme](#), we are working to affect significant cultural changes to the way the Council operates. This includes delivering better outcomes for residents through closer partnership working and the proposal to move the Council's headquarters, both of which are subjects of discussion in other Cabinet papers.

Alongside these changes, the Council commissioned a review to be undertaken of the Council's own assets and how they are used in order to develop a new Asset and Place strategy and Delivery Plan. The purpose of the review, which began in October 2018, was to determine whether assets could be managed more efficiently or used differently to both generate additional income and to promote economic growth in Surrey through the development of assets to create additional homes and jobs.

In December 2018, the Leader of the Council requested a widening of the focus of this review to include consideration of current projects to add pace to delivery, and the development of the property-related elements of the relocation of County Hall.

This report outlines how the review was undertaken, its findings and recommendations. It also sets out for approval a strategy that will provide a framework for decision making about the use of assets in the future, together with a proposed action plan.

The report is part of a set that should be read together, including:

- the Asset and Place strategy, **Appendix A**, including Annex 1, 2 and 3
- the Advisory Panel report, **Appendix B**

- the Action Plan, **Appendix C**

### **Recommendations:**

Cabinet are asked to:

- a) Note the Advisory Panel report, and thank them for their work on this project;
- b) Approve the Asset and Place strategy, attached to this report as **Appendix A**;
- c) Agree the Action Plan attached as **Appendix C**, and
- d) Agree that where the Council builds new homes, and where viability allows, it is committed to ensuring that all schemes meet the affordable housing requirement from the district or borough planning authority.

## **2. What are the Council's assets?**

The Council owns a broad range of assets, with a total value of c£1.5bn, as of 2018. Assets in this context are land (including areas of water) or property.

These assets have been grouped into three separate categories:

### **i) Operational assets**

These are the properties from which the Council delivers its services. These include offices, depots, libraries, adult learning centres, fire stations and residential care homes. There are c700 of these, just over 400 of which are schools. Some of these the council owns freehold, and others are leased from a variety of freeholders.

The Council spends around £17 million per year on revenue running costs and there is an estimated £38 million maintenance backlog of work.

These properties tend to be 'single use' – that is, only used by one service – and are often located within the same high street locations as other operational buildings owned by the Council.

The review does not include schools, as most of them are not owned by the Council and there are restrictions regarding the use of these assets.

### **ii) Non-Operational assets**

There are c1200 property assets in the non-operational portfolio. These properties are owned by the Council, and leased or rented out to other users. These include houses, business centres, former schools, green spaces, car parks and small 'ad-hoc' pieces of land.

Based on 2018 information, the non-operational estate appears not to generate any net revenue income for the Council, with costs largely matching revenue. However, within this asset base, there are some assets which provide an overall net loss, and others that provide a good return.

Since 2002, Surrey Wildlife Trust has managed the Council's countryside estate. The estate includes large swathes of Areas of Outstanding Natural Beauty (AONB) and Sites of Special Scientific Interest (SSSI).

### iii) **Investment Portfolio**

This group of assets is specifically intended to produce a revenue income stream. These properties are held directly, by SCC and via the wholly-owned group of companies known as the Halsey Garton Group.

The portfolio currently comprises 29 assets (assuming the three phases of Nexus in Crawley are considered separate assets), valued in March 2018 at £425m. The last report for the financial year ending 31st March 2018 showed a net return to SCC of £3.9m - a net return of £4.8m is expected for the year 2018/19.

### **3. What we did:**

The review undertook several strands of work. These were:

- i) **A review of the current asset base** of operational and non-operational properties, to see if the income and expenditure is broadly comparable with standard benchmarks for this type. This review also looked at identifying areas of high cost/low performance which stand out from the general assets.
- ii) **Socio-economic analysis:**  
We considered the impact of County Hall moving from Kingston and the relocation into Surrey, as well as the impact of development on different parts of Surrey. This analysis supports the consideration of future office location sites, analysis of the impact of site development, and is useful information regarding the impact of the relocation on the Royal Borough of Kingston-upon-Thames.
- iii) **A review of 50 assets:**  
A set of non-operational and operational assets were selected to go through a formal option appraisal, and ten of these were selected for more detailed analysis. These were specifically chosen as a broad range of asset types, so that the analysis could be used to 'scale up' and provide a view of potential asset uses across the wider portfolio. It should be noted that the inclusion of a specific asset in this review is for illustration only.
- iv) **Review of the Investment Portfolio**  
The purpose of this review was to make sure the investment company and portfolio are fit for purpose for the future, and are generating the right return for the amount of investment. The review also considered the governance and management of the portfolio.
- v) **Review of the South Ridge Development LLP Joint Venture with Places for People.**  
This considered the effectiveness of the Joint Venture structure, governance and process to support the delivery of future Council projects.
- vi) **Project Prioritisation**

Alongside the review of assets, a review of current projects was also undertaken. This was intended to rationalise the current priorities, and resource the prioritised projects, in order to provide pace to delivery.

### **Partnership working:**

In undertaking this work, a key output has been to build upon the existing relationships with partners. To aid this, workshops were held with 9 districts and boroughs in Autumn 2018, and further discussions with all 11 districts and boroughs in February 2019. In addition, we have worked with Health, Police and other blue light organisations, plus SHAPE (Surrey Homes and Property Enterprise) and Surrey Future. Discussions have been positive, and have focussed on collaboration and joint working, along with recognition that in some cases, our partners may be best placed to deliver the outcomes the needs of Surrey residents.

### **Advisory Panel:**

The Council appointed an Advisory Panel to act as a critical friend to this review. The Panel included three independent advisors working pro bono, and two Councillors. The panel met throughout the life of the project to receive information and provide advice and guidance. The Panel has produced a report of its work, including its own recommendations, and this is attached as **Appendix B**.

## **4. What we found:**

Findings from the review are set out by asset category, with project prioritisation and other findings, below.

### **i) Operational assets:**

It is clear that the Council's operational estate has grown incrementally over time rather than in a planned way. The assets are not necessarily the most appropriate to support service delivery, and not all in good condition as investment in such a large asset base is hard to sustain.

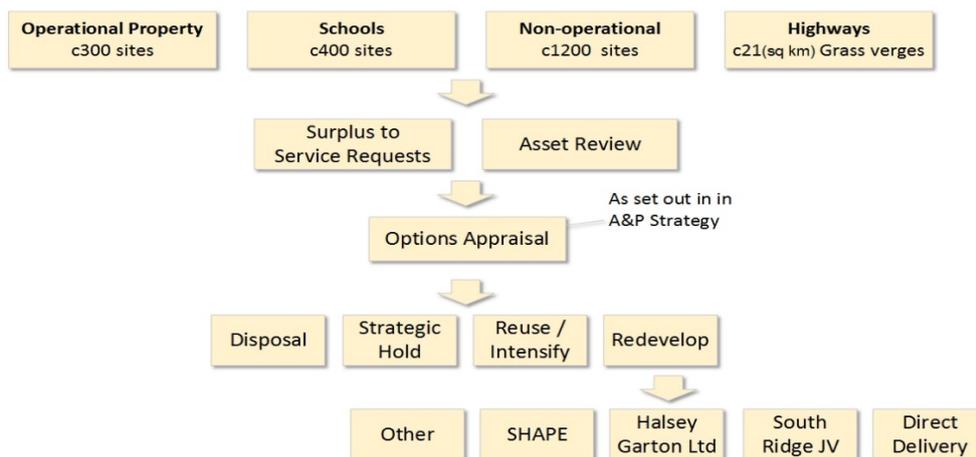
### **Consolidation of assets**

In December 2018, it was announced that the Council's Civic Heart would move into Surrey. This means that the impetus now is on undertaking the analysis to develop the business case for this move. This relocation is not covered in this report, as it is the subject of a separate Cabinet paper.

However, alongside this the Council must undertake a process of consolidation of services into fewer, better properties that support the transformation the Council is undertaking.

The consolidation process must be built area by area, over the next 3-5 years, with a target reduction from 300 to 100 operational assets considered realistic. The potential annual revenue saving is c£10m.

The Asset and Place Strategy document attached as **Appendix A** sets out the principles, criteria and process for assessing assets. The overview process is:



### Service property requirements

The property requirements needed to improve services for residents sit at the heart of this process. Services will develop outline property requirements upon which decisions can be made about which property best suits those needs. Services will be asked to advise on the area in which they need to be located, along with the space, type and other requirements of the building. This can then be used to develop an area by area strategy for consolidation.

### Local co-location and collaboration

We are also continuing to work with partners, particularly districts and boroughs, but also health and the Police, to build further co-location opportunities. We must ensure that any co-location provides a balance between cost saving and expenditure but at all times improves residents’ experience. We are supporting several partner authorities in carrying out master-planning activities in local areas, and this work will identify local priorities for consolidation and collaboration.

It should be noted that any service change will be subject to appropriate consultation.

### Implementation of Agile working

To support this consolidation, the Council must drive through new ways of working, particularly through the implementation of Agile working, in accordance with the Council’s agreed Target Operating Model. Through the implementation of smarter working and new technology, the reliance on office space should be reduced and will support the consolidation into a more limited number of properties.

### Surplus Property

We have undertaken a review of the 45 properties listed as surplus to service needs. This includes:

- temporarily surplus: where assets are held for future service use
- permanently surplus: where an asset is not required for any service use.

Where an asset is not needed by a service, it will immediately be assessed for a future use. The first step of this is to assess any service needs as defined in the Service property requirements strategies. If it is not recycled or the property is not fit for purpose, it will be assessed as a development, disposal or ‘hold’ opportunity.

These assets have been considered for disposal or development, some via the joint venture for delivery. Of these 45 surplus (as at March 2018):

- Four temporary surplus assets are being reviewed as potential sites for Nursing/Dementia, Extra Care Housing, Special Educational Need and Disability and Pupil Referral Units.
- 34 permanently surplus assets have been allocated to categorised projects/programmes (see section 5, below);
- Seven assets are due to undergo an options appraisal and programme allocation.

To ensure progress is monitored, any future updates or changes to the asset base and project list will be made on the Council's core property asset management system and for each new project, a programme lead will be identified. The new performance dashboard (see section vi) below) will also report on progress.

### **Future surplus property**

In future, property may be declared surplus following service transformation and related consultation. If this is the case, a clear process has been drafted to capture, plan and analyse these sites for future options. This process will be finalised in conjunction with services, by June 2019.

The Asset and Place Strategy (attached as **Appendix A**) sets out the process through which the future use of all assets will be assessed. The key to this is for the property team to understand the overall operational service requirements for the Council in the future. This is the basis of being able to develop a new operational estate, and to plan for either new requirements, or for the future use of surplus assets, in good time. By ensuring that engagement between property and services planning for changes happens as early as possible, we should be able to materially reduce the amount of time a property is vacant for and to keep holding costs to a minimum.

### **ii) Non-Operational assets:**

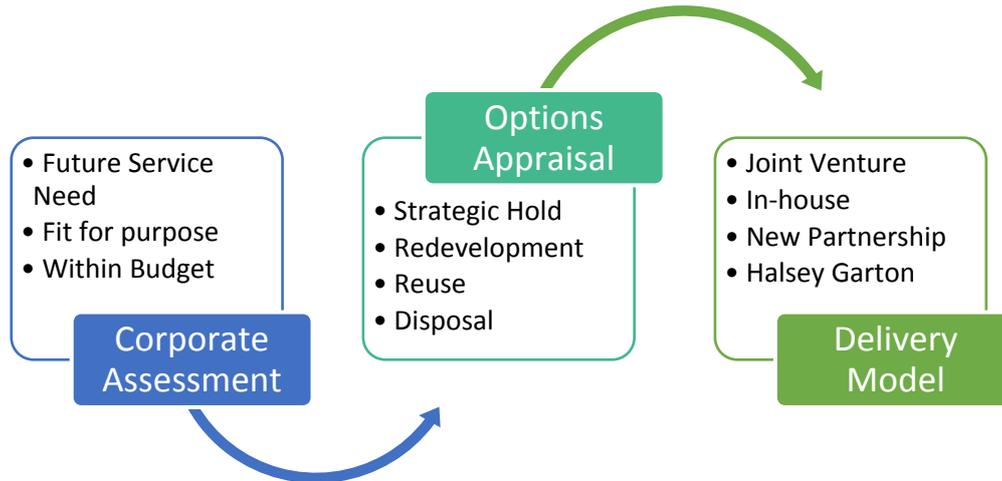
The options appraisal of 50 assets has identified that there is considerable scope for development within the non-operational asset base. Given the location, type and connectivity of these sites, it is clear that the vast majority (32 sites) are best suited to residential development, and could deliver 650 homes over the next five years. As well as helping address a key service outcome for Surrey residents, this will also provide the best opportunity for revenue income generation. There is some scope for commercial development, but only two sites were identified for this purpose.

These will be progressed, assuming they are in the local plan drawn up by the local planning authority, as indeed will any other suitable sites in due course.

### **Asset review and rationalisation**

It is recommended that all sites should be put through a review process similar to that undertaken on the 50 sites discussed above in order to identify development potential, strategic value or disposal and to divest itself where appropriate of assets that do not add value to the portfolio.

A process is proposed in the Asset and Place strategy attached to this Cabinet paper, the overview of which is set out in the table below:



The principle underlying this process should be that the Council retains an asset only if:

- it is identified as having/could have development potential within the local plan, or within a realistic timescale (deliverability)
- It can be relet/intensified for revenue generation
- the Council wishes to develop the site itself
- it has strategic value
- sites that will unlock a development in future (within a specific timescale)
- there is an identified service requirement.

The proposal is that the Council should not continue to hold assets that do not meet one of those criteria. It is proposed that all partners should be apprised of the opportunity when such potential disposal arise.

Assets that are high cost/low performance or yield should be prioritised through this process to ensure that best value is delivered at all times to residents.

It is expected, based on the initial review of 50 sites, that there will be considerable opportunities across the asset portfolio for redevelopment or disposal. The priority here is to deliver a revenue income stream to support future services, and this is likely to mean – based on the type of sites the Council owns – the development of residential schemes. Some sites will naturally lend themselves to disposal, and capital receipts will also be generated as a result. It is estimated that these sites could yield £150m over the next five years.

#### **Future development pipeline:**

Arising from the asset reviews, the Council will create further lists of future development schemes, building on the current prioritisation process, ensuring these are prioritised based on speed and extent of delivery of revenue income.

Using the review process, it will also determine the best delivery method for the development including:

- direct delivery
- the current joint venture arrangement
- a new partnership.

This will create a future pipeline of deliverable schemes, with clear benefits in terms of capital/revenue income generation and homes/jobs.

### **Affordable Housing**

The Council is keen to support the delivery of housing across the county and to support districts and boroughs in the delivery of their housing ambitions. To this end, where the Council builds new homes, and where viability allows, it is committed to ensuring that all schemes meet the affordable housing requirement from the district or borough planning authority.

### **Residential property**

There is an opportunity for the Council to increase its revenue income streams to support services in future with the development of residential property.

However, if the Council is to deliver large numbers of properties it will need an appropriate management arrangement in place. In that event, the portfolio should be co-located to make sure the management of both its existing estate and any new development is appropriate and efficient.

#### **iii) The Investment Portfolio:**

The review considered the investment portfolio, the company structure and the governance that supports it. The return was found to be comparable with other Councils', but the size and risk of elements of the portfolio were variable.

The review considered the current reporting mechanisms by both officers and external advisors and made certain recommendations:

In addition, there are some specific findings:

- **A clear, measurable property investment strategy is required**  
The Council has not reviewed the Investment Strategy that guides portfolio investment since July 2013, beyond a partial update in 2017. It is imperative now that this is done to provide a clear understanding of outcomes and parameters within which investment decision making should be made.
- **Risk and Asset performance**  
The Council needs to ensure that all investment assets are reviewed regularly and robustly to deliver maximum return.
- **Use of Advisors**  
The Council have procured the use of external advisors and it is recommended that the advisers (CBRE) are required to report at board meetings to use their expertise better. The Council may also decide to use a fund manager to better support the Investment Board and as an independent review of acquisition decisions.
- **Governance**  
It is recommended that the current structure of boards and their membership is reviewed to both simplify the decision making process and to benefit from appropriate expertise.

#### iv) **South Ridge LLP Joint Venture (JV)**

The review of the joint venture concluded that it is a vehicle that will add pace, skills and capacity to support delivery of sites.

However, there are a number of areas where the JV can be improved. These are:

- **Clarity of objectives and purpose:**  
There is a lack of clear understanding and consistent agreement about the reasons for having the JV. We need to align the Council view of outcomes behind this.
- **Governance:**  
The governance of the JV could be considered overly bureaucratic. It is reliant on a very small number of key staff and there is a lack of clarity over the tasks and responsibilities of each board. This needs clarification.
- **Bureaucracy**  
The processes throughout the JV need simplifying to deliver projects at pace.
- **Operational Management**  
As one of the country's leading property managers, the Council should consider using Places for People, via the JV, to manage its residential portfolio, particularly if this should grow to support revenue income.
- **Annual Business Plan**  
Once a site has been included in the annual business plan and approved by the Shareholder Board the Council should ensure the site remains in the JV through to completion.

#### v) **Project Prioritisation:**

The review started by identifying, as far as possible, the full list of projects being delivered across the Council's assets, with an aim to prioritise these and add pace to delivery. This does not include schools nor day to day capital investment projects.

There has been a lack of clarity regarding priorities from the Council, which on occasion has meant schemes have been started but not completed. A prioritisation of these projects will be essential for resourcing purposes.

The priority list was then assessed to identify projects against a set of criteria, each one specific to the individual category. In essence, the criteria were:

- is the project deliverable within the next three years?
- does it deliver the Council's objectives i.e. in line with the Community Vision 2030 and/or generate income?
- is it a local priority within the district or borough, and does it have an element of collaboration?

A list of prioritised projects within categories was developed and schemes that are not included within these categories will not be progressed in the short term. This is key, as we need to ensure that the resources assigned to the projects focus on delivery of these priority schemes and are not distracted with other projects.

The categories are as follows:

- Current Capital programme. The programme was unchanged, but analysis of resourcing was carried out.
- Priority projects – the next projects that need to be resourced and delivered.
- Feasibility projects – these are the next set of sites and assets that need to be reviewed to determine if they should be retained, disposed of or developed.
- SHAPE projects – these are projects where the Council is working in partnership with Districts and Boroughs, Health, SECAMB, Police and other partners. Most often these are projects that are looking for or have attracted One Public Estate funding. Some of these are projects that are led by the Council, others by partners but all need to be resourced.
- Joint Venture projects – those suitable have been passed to the JV.
- Disposal list – this only shows properties where an approval has been made to dispose.

The Council has agreed additional resources to progress these projects, alongside the existing Property team, and these are progressing.

#### **vi) Over-arching findings**

In undertaking this review, some other issues and recommendations have been identified that are intended to support the Council in delivering its ambitions, and these are set out below.

#### **Corporate Landlord Model**

The Council have gone some way towards implementing a Corporate Landlord model, in that there is one property function, which manages the assets and the asset related budgets. However, in many cases departments are still very involved in property-related matters, meaning that decision-making about future property use is undertaken by different groups across the Council. This leads to duplication of effort and lost opportunities to consolidate and create an efficient operational estate.

If the recommendations in this report are to succeed, and the Council is to deliver its ambitions, decisions about the use of assets must be made centrally. It is therefore recommended to fully implement the Corporate Landlord model, with a strategic property function that has the ability to properly manage the portfolio to deliver efficiencies and savings.

#### **What is a Corporate Landlord?**

The Corporate Landlord model is intended to enable a council to utilise its assets to deliver better, more efficient services to communities:

- to unlock the value of assets, seek efficiencies through joint arrangements with public sector partners and maximise private sector investment
- to support the delivery of their Community Vision
- to integrate thinking about property with financial, regeneration and other considerations.

It is the predominant asset management model used by large private sector organisations, and is increasingly used in local government.

Under a Corporate Landlord approach the ownership of the asset and the responsibility of its management, maintenance and funding are centralised. The service department then makes a case for the property they wish to change or use, enabling the Corporate Landlord to properly plan and manage space the Council needs, in the right locations.

The service department's priority is therefore to plan and deliver the service, and the Corporate Landlord's function is to ensure the service is suitably accommodated and to maintain and manage the asset.

### **Asset management**

A key part of the Corporate Landlord model is that once the Council has determined it wishes to retain a property there must be a clear plan for investment. It is recommended that the Council develops a robust, proactive asset management plan for its portfolio, determining and prioritising investment requirements in order to ensure that all properties meet health and safety and other legislative requirements, as well as being fit for purpose for their continued and future use.

### **Performance reporting**

The Council needs good reporting to develop a framework on the current status of its property projects and assets and it is imperative that Senior Officers and Members have visibility of this, to enable good decision making and to resolve issues, as well as being able to communicate effectively on the status of projects with wider partners.

To enable this, the review has set up a performance dashboard model process—reporting against the whole asset base whilst a more transparent reporting process of the investment portfolio is being developed.

The dashboard is being implemented from April 2019, and will be refined throughout the next six months to ensure a robust monitoring and performance regime is in place.

Further to this, the Council needs to develop performance monitoring of the overall estate, to monitor consolidation, rationalisation and income generation. This could include:

- Revenue cost savings
- Reduction in backlog maintenance
- Capital receipts generated
- Reduction in office space.

### **Resourcing**

It has become clear during the course of this review that the ability of the Council to deliver its priorities at pace is very important. In order to do this, appropriate resource is required.

It is recommended that the Council ensures that sufficient resources, with the right skills and abilities, are available, aligned to its priorities. This must be supported by the right management structure and accountability in order to ensure both value for money and delivery at the pace the Council requires. This structure is intended to be led by a new

Director of Strategic Land and Assets, a new post which will be actively recruited as soon as possible.

### **Partnership working**

Discussions with Districts and Boroughs and other partners, including Health and the Police, have been positive throughout this process, with a strong focus on agreeing and reviewing/updating actions and projects as we go along.

It is imperative that, in order to continue to build these relationships, the Council prioritises the continuation of these conversations and the delivery and updating of the actions that are agreed in a regular and robust manner.

#### **vii) Monitoring Officer Comments**

This report and its annexes set out a number of policy directions that the Council intends to pursue as part of its vision 2030. Cabinet will note that this report endorses the specific actions in **Appendix C** but is not recommending final decisions on the changes. Various additional reports will be brought to Cabinet and full Council, as appropriate, to approve necessary changes to the Council's Constitution.

The public law requirements for the delivery of services, including securing best value, undertaking public consultation and assessing equality impacts, will apply to decisions taken as a result of this policy. In addition, any land earmarked for disposal will be required to satisfy Section 123 of the Local Government Act 1972 through securing the best consideration reasonably obtainable.

Legal Services is already engaged as part of the review of the governance arrangements for investment activities and will continue to support initiatives in the delivery of the Council's corporate strategies.

#### **viii) S151 Officer Comments**

The Section 151 officer notes that there are no direct and immediate financial implications arising from this report and the Asset & Place Strategy. Projects or programmes of work arising from the implementation of the strategy will be approved in accordance with the Council's governance processes. The benefits of the strategy will be reflected in future iterations of the financial strategy and medium term financial plans. The programme of work is noted as potentially requiring additional resources and these should be affordable in the context of new ongoing revenue savings or enhanced income in the longer term. Funding for additional resources in the short-term may be considered as being transformational and provided by capital receipts flexibility, subject to approval processes.

#### **ix) Equalities Impact Assessment**

The Council has undertaken an initial Equalities Impact Assessment, but has not identified any specific equalities impacts related to this report. Equalities impacts must be reassessed and addressed through the implementation of actions arising from the report.

<b>Reason for Recommendation:</b>	The recommendations drive pace and delivery of property projects to deliver revenue income to support service delivery for residents and provision of flexible workspaces that support staff for the future.
<b>Consultation:</b>	Consultation was carried out with Districts and Boroughs, the Police, Health and other blue light organisations.
<b>Background Papers:</b>	Making it Happen – The Asset and Place Review, April 2019

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