	Executive 11 December 2013	**Agenda Item No. 8**

Title	Assets Review
For further information about this report please contact	Bill Hunt 01926 456014 Mike Snow 01926 4568003
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	Feasibility Study of Leamington assets , Executive 30 May 2012. Minute number 5
Background Papers	EC Harris study, internal asset reviews and costings held in Finance and Housing & Property Services, Strategic Asset Group minutes

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes - 549
Equality & Sustainability Impact Assessment Undertaken	n/a

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive		Joint Author
Head of Service		n/a
CMT	28/11/13	
Section 151 Officer		Joint Author
Monitoring Officer	28/11/13	Andrew Jones
Finance	27/11/13	Jenny Clayton
Portfolio Holder(s)	28/11/13	Councillors Hammon, Shilton, Cross, Coker, Mobbs
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. **SUMMARY**

1.1 This report updates members on the outcomes of the asset review undertaken by the Strategic Asset Group and provides details of the financial liabilities associated with the Council's current asset portfolio together with options as to how those liabilities might be met.

2. **RECOMMENDATIONS**

2.1 That Executive notes the total costs of maintaining the Council's current asset portfolio, in its current condition and without any improvements, over a 5 and 30 year period, as set out in Appendix One.

2.2 That Executive agrees to market test the commercial potential for alternative usage(s) of the Royal Pump Rooms

2.3 That Executive agrees to explore commercial options in relation to alternative usage(s) of the Town Hall and the Jephson Garden restaurant.

2.4 That Executive agrees to expenditure of up to a maximum of £30,000 from the 2013/14 Contingency Budget to cover the costs of the market testing.

2.5 That Executive agrees that refinement of the costs identified in the appendices should be undertaken together with assessments of the potential to realise capital receipts from the disposal of non-operational assets and/or land owned by the Council, to enable further discussion to be held with the Member Reference Group prior to a further report being brought back to Executive in February 2014.

2.6 That Executive notes the financial position in regard to the Play Area and Green Space Strategies, as set out in Appendix Three, and agrees that the proposed February report will include an update on these issues.

2.7 That the Executive note that the overall funding strategy for the assets will be considered as part of the Budget Setting report in February 2014.

3. **REASONS FOR THE RECOMMENDATIONS**

3.1 The Strategic Asset Group (SAG) have completed a major exercise to determine the financial liabilities associated with the Council's current asset portfolio.

3.2 SAG have categorised the Councils assets into 3 main groups; *operational assets*, i.e. buildings from which the council delivers services or which support that delivery; *non-operational assets*, i.e. shops and other buildings that the Council owns; and *open spaces*, primarily parks, open land or surface car parks. For the purpose of this asset review those assets owned by, and assigned to, the Housing Revenue Account (HRA) have been excluded. The future liabilities of these assets and potential future uses are considered within the HRA Business Plan.

3.3 Although there are a number of budgets (and unallocated reserves) associated with the Council's assets, the full extent of the Council's financial liabilities has not previously been mapped in this way. The major exercise undertaken by SAG therefore allows for these liabilities to be assessed and included within the Medium Term Financial Strategy (MTFS).

3.4 The MTFS covers a rolling 5 year period. **Appendix One** shows that the total known financial liabilities arising from the current asset portfolio over the 5 year period 2013/14 to 2017/18 (i.e. April 2013 to March 2018) is £7.109m. Some of these liabilities are covered through the existing budgets referred to above but £4.293m of this sum is currently unfunded. This unfunded liability is not currently accounted for within the MTFS.

3.5 The work undertaken by SAG also enables costs to be allocated over the 30 year period, i.e. 2013/14- 2043/44, a timeframe that is consistent with the HRA Business Plan. These costs, also shown in Appendix One, amount to a total of £38.93m, of which £22.79m is currently unfunded from existing budgets.

3.6 The identified costs are the basic minimum needed to maintain all of the Council's existing assets in their current state of repair and operation. No allowances have been made for any future disposals or for any monies that might be required to improve or adapt the existing asset portfolio to make it more efficient, financially viable and/or better aligned to supporting service delivery.

3.7 Section 5 sets out options to fund the liabilities that have been identified within the first 5 year period. This section shows that the Council could, if it wished fund all known liabilities through a combination of use of reserves and the allocation of current and future New Homes Bonus (NHB) monies without the need for borrowing.

3.8 Whilst it is not being recommended that the Council should commit to funding all these liabilities this analysis demonstrates that the Council remains in a sound financial position and whilst it might wish to explore options to minimise or remove liabilities arising from its current portfolio of assets immediate action is not a requirement. Instead, the Council has the financial stability to plan how it deals with issues concerning its current assets in a structured and planned way.

3.9 **Appendix Two** demonstrates that a significant amount of costs are attributable to a small number of properties. The repair costs associated with the top ten highest cost operational assets over the first 5 years amount to £3.939m, 55% of the £7.109m total costs over this period. Likewise, the repair costs associated with the top ten highest cost operational assets over the full 30 year list (a marginally different list) amount to £16.206m, 51% of the £31.934m total costs over this period.

3.10 Of those operational assets on these lists the Council has already committed to capital investment in the Oakley Wood Crematorium and Victoria Park Bowls Pavilion. The costs attributable to these buildings, as currently shown in Appendix One, will require further refinement to reflect this investment and revised costs for these buildings will be presented as part of a further report, as discussed at 3.18.

3.11 The wider use of Victoria Park, including the issues relating to the Victoria Park Cricket and Tennis Pavilion will be considered through the Green Space Strategy while issues relating to the Leamington Cemetery Chapel (and those in other cemeteries) will be addressed through work being undertaken in Bereavement Services. The options appraisal of the Council's leisure services, agreed in October will include an examination of the issues relating to the

Leisure Centres and swimming pools (plus other potentially high costs assets such as the Edmonscote Sports Track and associated buildings).

3.12 This leaves a small number of high cost operational properties where it would be prudent for the Council to explore options to defray or minimise its future liabilities, provided that this does not comprise service delivery.

3.13 The first of these is the Royal Pump Rooms complex, which currently houses the (WCC run) Leamington Library, the Art Gallery and Museum, Visitor Information Centre and the (contractor operated) Restaurant and Assembly Rooms. It is recommended that a market testing exercise is undertaken to explore the commercial potential of the complex. Members are asked to note that if viable commercial options exist it might prove to be financially prudent, and financially viable, to relocate some or all current operations from this site to remove or minimise the potential £3.953m liability from these buildings, even if no capital receipt were to be generated.

3.14 Officers are aware of potential commercial interest in the Jephson Gardens restaurant and it is recommended that potential options for an alternative use are pursued. A similar approach is recommended in relation to the Town Hall, where the University of Warwick already rents space and where a commercial operator has expressed an interest for use of some further space. Consideration of any future uses for the Town Hall will need to take account of the outcome of the market testing for the Royal Pump Rooms study as the building could have potential to house some relocated functions if desirable.

3.15 The remaining high cost operational property is the Royal Spa Centre. No proposals for this site are considered in this report as they will, instead, feature within a report to be brought to members in January 2014.

3.16 It is anticipated that the total costs of the proposed market testing will not exceed £30,000. It is recommended that expenditure up to this amount is approved from the 2013/14 Contingency Budget.

3.17 In respect of its non-operational and land assets, whilst the on-going financial liabilities are smaller, it is recommended that SAG, working with relevant asset owning service areas and their respective Portfolio Holders, develop proposals for prospective disposals or for alternative use of retained assets. These proposals may be aimed at realising a capital receipt or removing a future liability, in either scenario (and ideally a disposal would do both) reducing the current level of unfunded costs. In respect of the non-operational properties SAG will also consider whether there are options to use any receipts from potential disposals to enable the acquisition of additional assets which might yield an enhanced revenue stream.

3.18 It is recommended that these proposals are initially brought to the existing Member Reference Group (comprising of the Group Leaders and the Finance and Development Portfolio Holders) for discussion and consideration prior to a further report being brought to Executive in February 2014. This report will also include a refreshed and refined Appendix One that ensures all costs have been identified and, as far as is possible, verified. The proposed timetable will enable the report to be considered in conjunction with consideration of the Council's budget.

3.19 SAG has also investigated the current funding position for the Play Area and Green Space Strategies as the costs associated with these previously agreed strategies are not included within the Open Spaces. The figures for this category of assets, as shown in Appendix One, relate to the hard infrastructure contained within our land holdings, e.g. paths, fences, structures etc. As shown in **Appendix Three** the position in regard to the costs associated with these strategies is similar to that relating to the repair liabilities of our assets, i.e. a significant level of anticipated future costs is not yet fully funded.

3.20 Using the same 5 and 30 year periods the total cost of delivering the Play Area Strategy would be £740k and £3.35m respectively of which £195k (5 years) and £2.805m (30 years) is currently unfunded. In respect of the Green Space Strategy the costs are £740k and £5.476m respectively of which £600k and £5.336m is currently unfunded.

3.21 It is therefore proposed that in addition to the proposed February report also addressing the issues relating to the Play Area and Green Space strategies that it will bring forward detailed financial proposals to address the issues relating to the Council's assets. This will enable the overall funding strategy for the assets to be considered as part of the Budget Setting report, which will also be on the February 2014 Executive agenda.

4. POLICY FRAMEWORK

4.1 The Fit for the Future (FFF) policy framework was approved by Council in October 2010 and a refresh of that policy is included elsewhere on this agenda. This report is entirely consistent with the FFF policy framework and the recommendations contribute to all 3 strands of FFF.

4.2 The MTFS is one of the 'bedrocks' of the Council's policy framework and the basis for planning the approach to many of its activities. The development of a coherent asset management plan, for which this work forms the initial activity, is therefore critical to the development of the MTFS.

5. BUDGETARY FRAMEWORK

5.1 Appendix One shows the profile of the expenditure required to maintain the Council's General Fund Assets over the next 30 years. These figures have been derived based on work undertaken by consultants and the Council's officers. Whilst every effort has been to make these figures as correct as possible, it should be noted that it is not possible to be entirely precise about the timing or cost of each item of work. A contingency allowance, by way of "optimum Bias" of 21%, has therefore been built into the costs shown in the appendices. It should also be noted that all figures are at current prices, so total liabilities would rise in line with future repair cost inflation, an issue that would need to be considered when considering the Council's future revenue and funding strategies.

5.2 Within the first 5 years, the estimated expenditure required to maintain the assets is £7.109m, with a further £24.825m in the following 25 years. Within the Council's revenue budgets there is funding of c£2.8m to cover the identified maintenance costs, leaving £4.293m currently unfunded over the first 5 year period. The total unfunded work over 30 years is over £15m.

5.3 As described in 3.7 there are a number of options available to fund this shortfall:

5.3.1 Reserves:

Detailed projections for the Council's reserves were presented to the November Executive within the budget Review report. The main uncommitted balances are:

- Capital Investment Reserve – Uncommitted balance £2.27.m. This balance includes £1.4m earmarked towards Leamington assets. In addition, the Council's policy is to maintain a minimum of £2m in this reserve to cover any unforeseen capital liabilities.
- Service Transformation Reserve – Uncommitted balance £1.89m. This balance has been increased by £1.5m due to the Fit For the Future Achievement Award not progressing beyond 2013/14. The Council has flexibility in how it uses this reserve.
- Sports & Culture Facility Reserve – Uncommitted balance £0.3m. This reserve was specifically created as part of the 2013/14 budget setting in February 2013 with a view to contributing to the funding of the costs arising from the leisure assets.

5.3.2 General Fund Surplus:
As reported in the November Budget Review report, latest estimates project a surplus in the current year of £0.3m (after proposed appropriation to the Planning Reserve). In addition, the projections for future years present a one-off surplus for 2014/15 of £0.8m (as also reflected in the Base Budget report elsewhere on this agenda). Whilst the 2013/14 and 2014/15 surpluses present one-off funding opportunities beyond this, current projections show the General Fund starting to go into deficit, resulting in the current projected savings requirement of around £1.2m.

5.3.3 Capital Receipts:
The Council can sell assets to generate capital receipts that it may then use to invest in line with its priorities and the possibility of asset sales has already been considered by Executive as a potential means of meeting the currently unfunded elements of the Green Space Strategy. Ideally disposal of any asset would generate both a capital receipt and revenue savings (annual expenditure saved exceeding any income foregone) whilst not impacting upon services. However, whilst it might not always be possible to achieve all 3 priorities this does not automatically preclude consideration of a sale. For example, a disposal that removed a high on-going liability (generating either revenue or capital savings) but which did not generate a capital receipt may still be a sound financial option. Any proposed disposals would need careful consideration, including consideration of the following issues:

- Any lost income (rent or other income) that may be currently derived from the asset
- Any savings in revenue expenditure associated with the asset
- The forecast future maintenance costs which would reduce the figures quoted in 5.2 and 5.3 above upon disposal of the asset.
- The capital value of the asset
- The likely market for the asset net of disposal costs
- Any service requirements for the asset

5.3.4 New Homes Bonus (NHB):
The Council anticipates receiving NHB of around £1.2m in 2014/15, and once agreed commitments (allocations to W2 Housing Joint Venture and potentially City Deal contributions to the Clearing House), there will be an unallocated

balance currently estimated at £1.1m. Whilst NHB is intended to reward communities for local development, local authorities have total freedom as to how it is used for the benefit of their communities. Accordingly it would be possible to use it to invest in the Council's assets, extending their life and helping to ensure the maintenance of future service provision. Under the current funding regime, NHB is also due to be paid in subsequent years although the level and duration of this funding cannot be guaranteed. Current projections, accounting for the proposed 'top slice' of our allocation to the CWLEP from 2015/16, assume we will receive £.98m in 2015/16 and £1.28m in 2016/17 (prior to any commitments to the W2 Joint Venture).

5.3.5 Borrowing:
The Council has the power to borrow. If it wished to protect its reserves and/or choose not to utilise any of the options above it would need to do so to fund the current projected costs of our assets. Assuming a 30 year borrowing period, each £1m borrowed would present an additional annual cost of £65,000 based on PWLB interest rates as at 2/10/13 (Borrowing over a lesser period would increase the annual cost). Funding the first 5 years works from 30 year borrowing would add £0.3m to the annual savings the Council needs to find and any borrowing for works in later years would increase the revenue saving requirement further, potentially increasing the risk that savings could not be achieved without adversely impacting on front line services.

5.4 In determining which funding option(s) the Council could utilise to fund the asset work consideration also needs to be given to any alternative funding demands, i.e. the opportunity cost of that funding. Alternative funding pressures might include:

- Measures to close the current gap in the Council's revenue budget.
- Major corporate projects not currently funded but which are deemed to be of high priority
- Possible service improvement priorities
- Any shortfall in funding for the Infrastructure Delivery Plan to accompany the Local Plan

5.5 Assuming that the Council was happy to ignore any of the potential alternative uses of funding set out above (although NHB funding beyond 2015/16 would potentially be available to do so) it is possible to present a case whereby the unfunded asset work for the first 5 years could be financed in full:

	£000
2013/14 Revenue Surplus	300
2014/15 Revenue Surplus	800
Use of 2014/15 New Homes Bonus	1,100
Service Transformation Reserve	1,200
Sports & Culture Facility Reserve	300
Capital Investment Reserve	300
Total	**4,300**

5.6 The option above makes no allowances for future price rises which would need to be factored in to the funding but does demonstrate a viable option to fund the maintenance of all of our current assets exists in the short term.

5.7 The long term position would remain unviable but the short term option would enable selective disposals and/or acquisitions to be considered, substantially changing the profile of costs associated with a remodelled asset base that could be used to address the current funding deficit beyond year 5.

5.8 The 2013/14 Contingency Budget has an unallocated balance of £100,500. Expenditure of up to £30,000, as proposed in recommendation 2.4, would reduce this unallocated balance to £70,500

6. ALTERNATIVE OPTION(S) CONSIDERED

6.1 The financial liabilities associated with the Council's current asset portfolio mean that to 'do nothing' is not a viable option. Whilst a potentially financially viable option to fund all liabilities over the next 5 years, the level of unfunded costs over the full 30 year period would require the Council to borrow significantly, adding revenue costs to its base budgets over a period when it will continue to need to achieve significant financial savings.

6.2 However, the Council remains in a strong financial position and, unlike many local authorities, does not need to consider urgent or wholesale disposals as it has time to develop a coherent asset management plan. A range of alternative options exist as to how the Council may address the issues presented by is assets and these will be explored further in subsequent February report

7. BACKGROUND

7.1 The financial assumptions are predominantly based on the work commissioned with EC Harris. This work has then been 'sense checked' by the Council's own Property Surveyors. For example, the four Leisure Centres, Spa Centre, Town Hall and the Pump Rooms have been subject to a thorough 'desk top' exercise undertaken by WDC's surveyors, who have a detailed knowledge of the sites, and the EC Harris costs, other than the statutory costs, revised accordingly.

7.2 The EC Harris costs for other large assets, e.g. Temperate House in Jephson Gardens and Oakley Wood Crematorium have also been adjusted to reflect percentage variations on building element archetype costs arising from the detailed comparisons of respective costs at the sites listed above.

7.3 Adjustments to the EC Harris figures have yet to be made to account for the impact of current capital programme projects at the Oakley Wood Crematorium and the Victoria Park Bowls Pavilion, but this will be undertaken prior to the presentation of the proposed February report. However, account has been taken of the planned conversion of the Oakley Wood Crematorium Lodge from a non-operational residential property to an (operational property) office and future costs have been assigned based on a similar operational property, in this case one of the Lodges in Jephson Gardens.

7.4 Elsewhere, some costings are based on 'clones' rather than a full survey of every operational property. For example, Warwick Cemetery Chapel was not surveyed, but future repair costs were calculated from an average of the costs for the other 3 Cemetery Chapels. Likewise, Crown Way Toilets were not surveyed but projected costs cloned from the survey of Abbey End Toilets which are of a similar size and design.

7.5 Statutory routine maintenance and the Cremator maintenance costs are included in the gross costs of the repairs but then netted off the total net figures as this work is already being done within existing budgets.

7.6 A full survey of all the larger non-operational properties was undertaken by WDC surveyors. Smaller property costs have been cloned as above but a small number of properties have not been included at all. These include the old Lillington Library, where costs are minimal as the General Fund funded occupation amounts to a single room, or buildings such as the Old Tyre Depot or Old Italian Club which are derelict.

7.7 Any inflationary increases to the figures in this report will be dealt with through the Financial Strategy as part of the normal Budget Setting cycle.

7.8 Statutory maintenance costs from 2017-18 and beyond have not been broken down into years or 5 year blocks. The levels of uncertainty around specific requirements of each building and any changes to legislation make accurate forecasting beyond a 5 year survey period unfeasible. In any case these costs are deducted from the gross expenditure totals and are not included in the net figures so do not impact on the funding gap.

7.9 An optimum bias (contingency) of 21% has been included in the cost projections. This has been calculated through a risk assessment as per National Guidelines.