Agenda No

AGENDA MANAGEMENT SHEET

Name of Committee	**Resources, Performance And Development Overview And Scrutiny Committee**
Date of Committee	**14 November 2006**
Report Title	**Development of a Corporate Capital Receipts Strategy**
Summary	The report seeks the views of the Committee on the draft capital receipts strategy prior to its consideration by Cabinet.
For further information please contact:	Virginia Rennie Group Accountant Tel: 01926 412239 vrennie@warwickshire.gov.uk
Would the recommended decision be contrary to the Budget and Policy Framework?	No.
Background papers	None

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

Other Committees	☐	....
Local Member(s)	☐	……………………………………
Other Elected Members	☒	Cllr Booth, Cllr Hicks, Cllr Atkinson
Cabinet Member	☒	Cllr Cockburn - for information
Chief Executive	☒	Via SDMT
Legal	☒	Barry Juckes - for clearance
Finance	☒	Dave Clarke - reporting officer
Other Chief Officers	☒	SDMT will consider the strategy at their meeting on 8 November 2006. Any views will be reported verbally to the Overview and Scrutiny Committee.
District Councils	☐	....
Health Authority	☐	....

Police	☐	....
Other Bodies/Individuals	☐	....

FINAL DECISION NO

SUGGESTED NEXT STEPS: Details to be specified

Further consideration by this Committee	☐	....
To Council	☐	....
To Cabinet	☒	Cabinet will approve the strategy, subject to the comments of Overview and Scrutiny and SDMT at their meeting in December.
To an O & S Committee	☐	....
To an Area Committee	☐	....
Further Consultation	☐	....

Agenda No

Resources, Performance and Development Overview and Scrutiny Committee - 14 November 2006

Development of a Corporate Capital Receipts Strategy

Report of the Strategic Director, Resources

Recommendation

The Committee is asked to:

- comment on the draft Capital Receipts Strategy attached at Appendix A, and
- recommend the strategy to Cabinet for approval, subject to any comments made by this Committee.

1 Introduction and Background

1.1 At their meeting on 25 April 2006 the Corporate Services Overview and Scrutiny Committee received a presentation on capital planning in the authority. As part of the discussion following the presentation the Committee requested that a report be brought to a subsequent meeting on the development of a capital receipts strategy.

1.2 Since the meeting in April work has been undertaken to develop a capital receipts strategy. Appendix A to this report is the resulting draft capital receipts strategy. It aims to bring together in a single document the various policies/protocols that have been in place in relation to capital receipts over recent years. In doing this it attempts to develop a more focussed and systematic approach to the subject, from the identification of potential capital receipts through to the subsequent use of any resources generated.

1.3 The Committee are asked to comment on the draft Capital Receipts Strategy attached at **Appendix A**, and recommend the strategy to Cabinet for approval, subject to any comments made by this Committee.

DAVE CLARKE
Strategic Director, Resources

Shire Hall
Warwick
25 October 2006

Warwickshire County Council

Draft Capital Receipts Strategy

CONTENTS

1 What is a Capital Receipt?

1.1 A capital receipt is the income generated from sale of the authority's assets, usually property assets (land and buildings) or the granting of a lease at a premium. The income must exceed £10,000 to be classified as a capital receipt. Any income below this level is treated as revenue income.

1.2 Any capital income generated from the sale of such assets can be used for either of two purposes – to fund new capital investment or to repay loans outstanding on money we have borrowed to finance capital investment. The latter has the effect of releasing revenue resources to support the revenue budget, invest in maintaining our existing assets or invest in the creation of new assets.

2 Background Context

2.1 Over recent years the amount of capital receipt income, generated from the property portfolio, has been at a consistent but relatively low level when compared to the overall size of the capital programme. Alongside this there has been a tendency to earmark receipts for specific purposes at the time the opportunity to dispose of an asset is identified. The result of such earmarking is that the scrutiny of the investment proposal bypasses the planning/budget process both reducing the level of general capital resources available and avoiding the consideration of any benefits derived from the investment against the benefits of other potential schemes.

2.2 Over the last five years 68% of capital receipts have been earmarked for specific purposes, leaving only 32% of the income from the sale of surplus assets available as part of corporate resources. The percentage of resources earmarked is expected to increase to 85% as 95% of future planned future receipts are already earmarked. This is shown in more detail in Table 1 below.

Table 1: Capital Receipts from 2001/02 Onwards

	Earmarked Receipts £m	Corporate Receipts £m	Total £m	Percentage Earmarked
2001/02	0.886	0.690	1.576	56.2%
2002/03	2.661	0.488	3.149	84.5%
2003/04	6.600	0.953	7.553	87.4%
2004/05	1.933	1.272	3.205	60.3%
2005/06	2.641	3.742	6.383	41.4%
Future Programme	30.529	1.327	31.856	95.8%
Total	**44.364**	**7.782**	**52.146**	**85.1%**

2.3 With perhaps the exception of potentially significant one-off disposals (e.g. property in the office accommodation portfolio or a major development site such as S W Warwick) it is envisaged that the capital receipt income will reduce further for the foreseeable future. For example, current planning policies, particularly the Warwick District Council housing moratorium, will result in reduced valuations of some surplus sites.

2.4 In addition to these trends the authority is moving towards a medium term financial planning process where both capital and revenue spending allocations are directed towards the delivery of the authority's vision over the medium term. This requires a greater focus on the benefits to be realised from any investment (in both absolute terms and relative to the benefits of any other potential investment). Such a focus would imply decisions on investment and its financing should be made at a time when such comparisons can be made. The move towards medium term financial planning also requires a much greater degree of certainty over the level of capital resources, including capital receipts, likely to be available over the medium term.

2.5 The trends in capital receipt income and its use as well as the move towards a medium term approach to investment decisions linked to the delivery of the corporate vision for services, imply a more structured rigorous approach to the identification and disposal of surplus assets is needed in the future. It will ensure all decisions in relation to surplus assets take place within an agreed corporate framework.

3 Capital Receipts Strategy

3.1 Our capital receipts objective is:

"To ensure, at all times, that we make the best use of the capital value tied up in our assets, whilst maximising the capital receipt income generated to release resources for investment in priority services."

3.2 The strategic objective itself is not controversial. The critical issue is how its delivery is ensured. Four key delivery mechanisms to ensure the successful implementation of the strategy have been identified. These are:

- The Property Management Framework for identifying potential capital receipts
- The Valuation Framework,
- The Delivery of the Asset Disposal Programme, and
- The Earmarking of Capital Receipts.

3.3 The remainder of this strategy document outlines these delivery methodologies in more detail such that, in approving the strategy, the associated methodologies for its successful implementation are also confirmed. Many of these methodologies are already operational and including them in the strategy is a way of codifying them into a single document for the first time.

4 Delivery Methodology: Property Management Framework

4.1 To realise capital receipts it is accepted that the use of property must be challenged more effectively. The Property Management Framework is the key mechanism by which potential capital receipts are identified. Through the Property Management Framework we will:

- Maintain a register of property we own.

- Establish performance measures for property.
- Annually review the actual performance of each property against the performance measures.
- Prepare an “Action List” of properties where performance falls below the pre-determined threshold.

4.2 The Property Management Framework is an all-encompassing framework that will cover all land and building owned by the County Council, whichever Directorate nominally retains “ownership”. For example the smallholdings estate acts as a strategic land bank for the Council and, as part of the authority’s rural strategy is now part of the Environment and Economy Directorate. However, the validity of retaining any such land should be part of the same overall annual assessment process.

4.3 The performance measures for each property asset would cover some or all of the following areas:

- **Corporate Property Strategy**
    - All property retained should be assessed to ensure it is consistent with the Corporate Property Strategy, which sets out the direction of travel for the authority’s property requirements.

- **Service delivery issues**
    - What are existing/future needs (from Directorate Service Plan)?
    - Could the service be provided elsewhere?
    - Is rationalisation/amalgamation possible?
    - Is geographical location important?
    - Suitability

- **Customer experience**
    - Is the property in the right location?
    - Are the facilities adequate to provide a positive experience to the customer?
    - Does it enhance the surrounding environment?

- **Cross rationalisation**
    - Both within services and between services there may be opportunities to rationalise service delivery and the associated use of property.
    - There may also be opportunities for joined up working with other public bodies.
    - Proposals to rationalise accommodation will be assessed by the Accommodation Board corporately to avoid potentially surplus property being retained, without justification, by Directorates.

- **Running costs**
    - Energy expensive buildings should be identified.
    - Repair and maintenance costs need to be analysed between routine maintenance together with any significant known requirements from the conditions surveys.
    - The cost of business rates.

- **Unit costs**
    - Unit costs of individual service delivery properties need to be identified and compared with like properties.

- **Income generation**
    - There might be opportunities to increase income which would impact on the retention or otherwise of property. Likewise any loss of income needs to be borne in mind in the decision-making process.

- **Council's interest in the property**
    - In determining rationalisation opportunities the Council's tenure of property should be taken into account.
    - Freehold including the potential for generating a capital receipt.
    - Leasehold – length on any unexpired term and the extent of any potential dilapidation claim together with continuing liability for the Council if the lease cannot be assigned/surrendered.

- **Under-utilised/surplus property**
    - The authority currently identified surplus property is valued in excess of £30 million. In 2005/06 it cost the authority £215,000 to maintain and manage this surplus property. Clear plans should be developed for each surplus property. In addition any land and buildings currently held in advance of future service delivery needs should be reassessed e.g. the land bank with a view to reassessing the potential benefits from the sale.

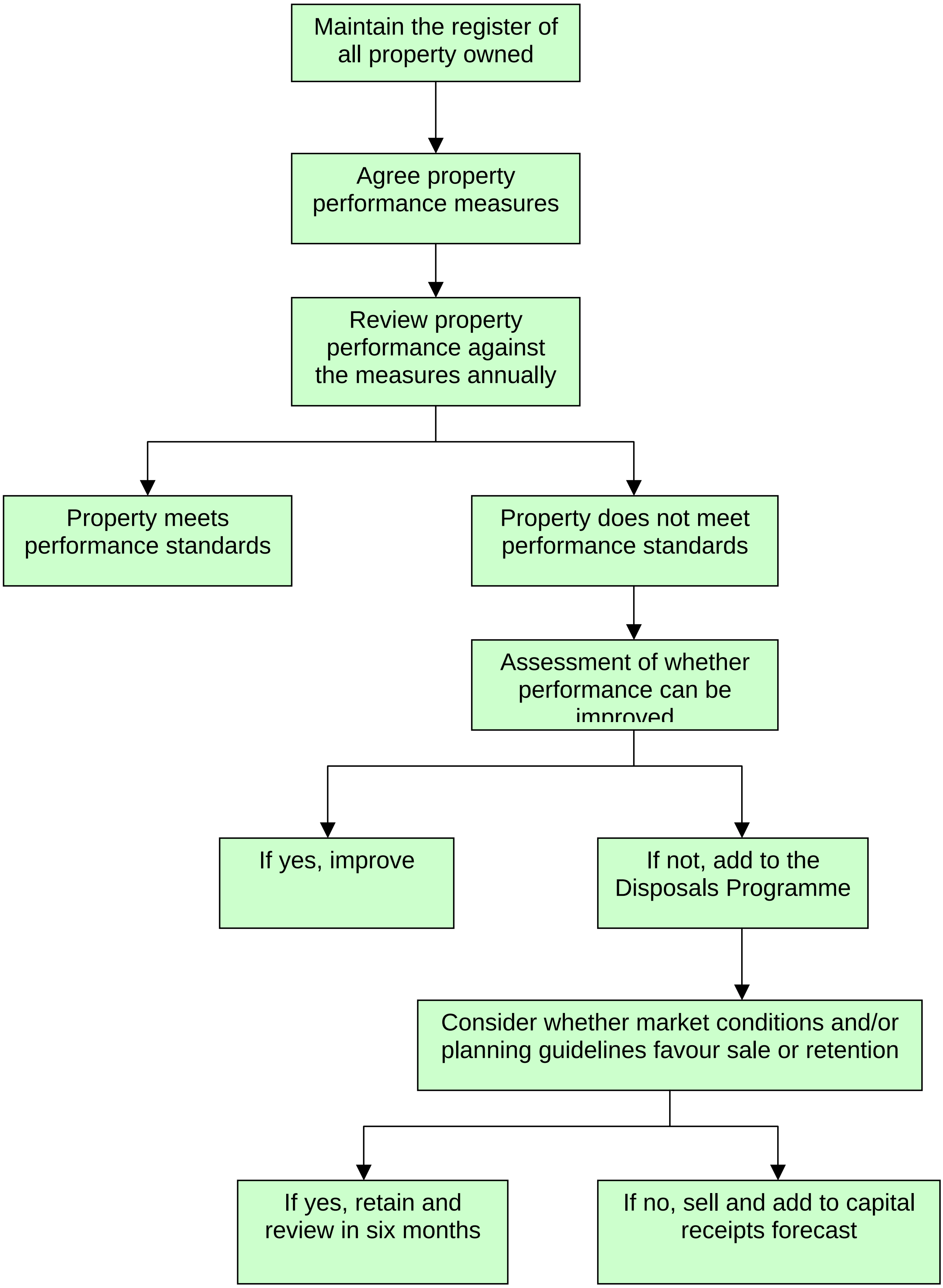
4.4 These stages are all mainly part of our current asset management planning process and are in keeping with much of the current best practice in property management. The culmination of this work will be an annual report to Resources, Performance and Development Overview identifying all properties to be included on the "Action List".

4.5 For each property on the Action List there will then be an assessment as to whether the property performance can be improved such that it meets the pre-determined performance thresholds. If it can be improved then this should be undertaken. If not the property will be declared surplus and added to the potential sales list. On the recommendation of Resources, Performance and Development Overview and Scrutiny Committee, Cabinet will approve the declaration of surplus assets.

4.6 However, this should not be an exclusive process. Where a Directorate wishes to declare an asset surplus to requirements, they can seek Cabinet approval to this directly, as at present. However, if they wish to earmark the receipt for alternative property needs at the same time, this should go through the earmarking procedures outlined in Section 7 prior to Cabinet approval for the disposal being sought.

4.7 Diagram 1 below shows the Property Management Framework in more detail.

Diagram 1: The Property Management Framework



4.8 The result of this work will be a medium term Disposals Programme. The Disposal Programme will list the assets to be disposed of, the expected date of delivery and the expected value, with annual forecasts of the level of capital receipt income to be generated. It will include a detailed critical path analysis for all major receipts, ensuring all issues, e.g. seeking planning approval, are reflected in the Disposals Programme. Once the Disposals Programme is agreed any expected resources will be fed into the Medium Term Financial Plan.

5 Delivery Methodology: Valuation Framework

5.1 Our policy is to dispose of all assets at market value, taking a commercial approach. Any decision to sell at less than best value requires approval from Cabinet.

5.2 The current policy, reaffirmed here is:

"All property will be disposed of at market value. However, Cabinet may approve a disposal at less than market value in the following circumstances:

- ***Where the proposal provides other benefits to the authority which can be quantified.***
- ***Where the proposal provides additional benefits to service delivery in line with the Council's key objectives.***
- ***Where the proposal is in connection with rationalising service need where a financial benefit to the Council can be quantified.***
- ***The sale of 'non operational' housing to tenants at a discount reflecting the discount provisions under the 'Right to Buy' legislation."***

5.3 These circumstances are very narrow. As a result it has been rare for the authority to dispose of property for less than best value. It is expected this will continue to be the case in the future.

6 Delivery Methodology: Delivery of the Asset Disposal Programme

6.1 The monitoring of progress against the Disposals Programme is part of our performance management framework. The inclusion of capital receipt income forecasts in the Medium Term Financial Plan makes it imperative we know capital receipt income is being generated both to the expected level and on the expected timeframe. Any shortfall in the level of receipts generated or any timing delay means we will incur additional revenue costs, as a result of having to maintain or take out additional borrowing.

6.2 However, including targets for the generation of income from capital receipts in any Medium Term Financial Plan can be problematic. Income from capital receipts is difficult to forecast for three main reasons:

- The availability of sites for disposal is reducing as many of the "best" sites have already been sold and those remaining generally have difficulties to be overcome before a sale can take place.

- Securing planning and associated agreements is increasingly onerous and time consuming, as is consent for disposal of recreation areas and playing fields of former schools.

- This means that the timing of income is now more uncertain.

- The sale price and, therefore, the capital receipt that will be achieved from sites planned for disposal is only finally known when offers are received. The property market is volatile and prices can vary considerably either side of the original sum estimated.

6.3 It is therefore proposed:

"The Disposals Programme will be monitored and reviewed monthly by the Property and Capital Panel comprising key officers from Property, Legal and Finance involved in the delivery of capital receipts. Any implications of this monitoring for the overall financing of the capital programme will be incorporated into the quarterly capital budget monitoring reports to Cabinet. Exceptional items will be reported separately through to Resources, Performance and Development Overview and Scrutiny Committee along with a commentary on the overall position on the Disposals Programme."

7 Delivery Methodology: Earmarking of Capital Receipts

7.1 Having identified and delivered the capital receipts the final phase of the process is to decide on the use of any resources generated. Our policy is that all capital receipts are initially used to repay debt. This then releases resources for new capital investment.

7.2 However, there have historically been a number of exceptions to this general policy:

- **Education Development Policy** – All receipts from the sale of school assets are split, with a third going to the school, a third to local schools and a third to corporate resources after deducting 5.2% to meet any selling and legal costs associated with the disposal. This applies to part disposals on a school site.

- **Special Schools** – All receipts from the sale of former special schools are earmarked for the rationalisation of special schools.

- **Smallholdings Estate -** 15% of capital receipts (after deducting the 5.2%) are held in reserve up to a maximum of £375,000 to make any strategic land purchases and/or to recover stock condition, with priority being given to recovering condition of the farm estate housing stock.

- **Other Earmarked Receipts** – Where specific Cabinet and Council approval is sought then as an exception to the general policy some or all of the income from the sale of an asset can be used to fund a particular investment project.

7.3 With the increased degree of earmarking of capital receipts shown in Table 1, as a result of these exception policies, and the consequent reduction in the level of general capital resources available, a tightening of the exception policies on earmarking is proposed.

7.4 Earmarking some or all or a capital receipt does have one benefit – it acts as an incentive to bringing forward the disposal of an asset. Therefore in tightening the policy a balance needs to be struck between the generation of resources for allocation to corporate priorities and creating incentives to encourage the disposal of surplus assets.

7.5 Taking all these factors into consideration it is proposed the current general policy is reconfirmed. Namely:

“All capital receipts are initially used to repay debt, prior to releasing resources for capital investment. This policy is subject to the exceptions listed in section 7.6 to 7.9 below.”

7.6 **Schools – Part Disposal of Sites**
It is generally accepted by authorities that the generation of any capital receipts from the sale of school assets requires that a fairly significant incentive be in place. Our policy of “thirds” is more generous than that offered by some authorities. Most of those authorities, for whom information could be obtained, do not allocate any share of a capital receipt to neighbouring schools.

It is proposed that the general exception policy is retained but that neighbouring schools are excluded. Also it is proposed some restriction on the use of the capital receipt by the school is put in place. The biggest concern in relation to schools capital investment is backlog maintenance. Therefore it is proposed that any urgent maintenance is the first call on the earmarked part of the capital receipt. This would have the advantage of ensuring the priority maintenance needs of the school are addressed and also releasing maintenance resources for other schools priority needs.

The following alternative policy for earmarking receipts from the part sale of a school site is proposed:

“Any school wishing to offer part of their site for disposal is guaranteed a minimum of 30% of the net receipt realised by the Council. The donor school is obliged to undertake any priority 1 works (imminent) identified at their site from their proportion of the receipt realised prior to undertaking any other development projects. In addition the Council could, at its own discretion, identify further priority works that need to be undertaken at the school. In instances where the release of land is subject to the approval of an external organisation (e.g. Sport England) then any essential requirements from that organisation will make first call on the capital receipt. In instances where a proposal is made to allocate more than 30% of the receipt to the donor school then Cabinet approval would be required.”

7.7 **Schools – Rationalisation**
With any major rationalisation of accommodation it is accepted there is likely to be the need to earmark resources to fund the replacement/decanting costs. The justification for earmarking such receipts for schools, or special schools, should meet the same standards as for all other earmarking proposals (see paragraph 7.9 below).

The policy of earmarking receipts for schools rationalisation is therefore proposed as follows:

"On approval of a business case for the rationalisation of school accommodation capital receipts can be earmarked to fund legitimate replacement/decanting costs as part of an overall programme. The sites (or part sites) to be included in the rationalisation should be specified as part of the business case."

7.8 **Smallholding Estate**

The current policy on earmarking was agreed by Cabinet on 6 April 2006 where the limit was increased from £287,500 to £375,000. This level of earmarking is high considering that the maintenance and electrical rewiring backlog is only £650,000 compared to the maintenance backlog on the remainder of the authority's property portfolio.

In reconsidering whether this level of earmarking is appropriate it is necessary to weigh up the relative benefits of strategic land purchases compared to other proposed capital investments. Given the recent approval of the new policy no further changes are planned at this time, until there has been an opportunity to review the effectiveness of the current policy.

Therefore, it is proposed, the earmarking policy is respect of smallholdings remains as follows:

"15% of capital receipts (after deducting the 5.2%) are held in reserve up to a maximum of £375,000 to make any strategic land purchases and/or to recover stock condition, with priority being given to recovering condition of the farm estate housing stock."

7.9 **Other Earmarked Receipts**

One objective of our capital receipts strategy is to maximise the level of income generated, within reason. However, the benefit from this policy change will only be fully appreciated if the result is that more of the Council's capital resources are flexible and can be invested to deliver corporate plans and priorities. As a result it is vital to the success of the strategy that it is accompanied by a reduction in the earmarking of receipts. A tighter, more formalised approval process is therefore proposed.

"The Council will only consider the earmarking of capital receipts to specific capital investment projects (with the exceptions outlined above) where the receipt is required to cover legitimate decanting/replacement costs. Wherever possible the proposal should come forward for assessment as part of the medium term financial planning and annual budget process.

Any proposal to ring-fence a capital receipt needs the approval of both Cabinet and Council. In seeking approval the sponsoring Directorate would need to provide a full justification for the earmarking, as part of the business case for the project. The justification must cover the following areas:

- ***The current status of the asset including:***
    - ***its current usage,***
    - ***whether it has already been declared surplus and is part of the Disposal Programme,***
    - ***how any current users of the asset will be accommodated.***

- ***Why it is now possible to dispose of the asset and why it was not already included in the Disposal Programme.***

- ***The potential value of the asset if it was sold for an alternative use.***

- ***Why the earmarking of the receipts is an integral part of the capital investment being proposed.***

- ***Why the scheme is not coming forward as part of the Medium Term Financial Planning/Budget process so any benefits can be assessed against other capital investment proposals.***

The earmarking proposal should be formally signed off by the Head of Finance and/or Resources, Performance and Development Overview and Scrutiny Committee as meeting all these requirements prior to the Strategic Director, Resources clearing any report to Cabinet/Council requesting earmarking."