

APPENDIX D – ASSET STRATEGY

Asset Strategy

This document focuses on the land and property assets of the two Councils and sets out initial thoughts on the possible options that a new single Council could consider regarding their treatment. These assets are items which are under the full ownership of each respective Council, such as car parks, green spaces, head office and other operational buildings – such as the Dartmouth Ferry / Salcombe Harbour, depot locations, public conveniences, potential development sites and non-operational property - such as industrial units and investment land. Non-operational land typically generates income for the two respective Councils, as do some parts of head office locations which are let to third parties.

At present, the two Councils have customer facing locations at Tavistock and Totnes, along with a customer service centre at Okehampton. Limited customer interactions take place at the Council owned and operated depot sites in the South Hams.

A new Council would need to consider its future asset strategy, i.e. is there a continued need for two large head offices and how best can the new single Council support its customers across both areas who need access to Council staff.

Any change to the property strategy would need to be carefully considered, costed and consulted upon and therefore major changes are unlikely to be appropriate in the short term.

Options regarding the combining of Council assets

There are number of options as to how the assets & liabilities of both Councils will be treated. For example, the treatment of:

- Liabilities / Revenues accruing from non-operational land or premises
- Liabilities / Revenues accruing from operational land or premises
- Liabilities / Revenues from existing or proposed asset developments / sales / acquisitions;
- Reserves held to cover specific capital items
- Other allocated or unallocated reserves
- Benefits accruing under s106 agreements.

Where legally permissible, Members could opt to combine everything and consider these assets as a whole OR segregate assets by their former owner and distribute any benefit or liability only within the former owner's district / borough.

The former option would generate the maximum benefit across the combined area and be simpler and more efficient to administer. If the decision to form a single Council is made, within the next election cycle it is envisaged that a boundary review would be completed and council tax revenues would be harmonised across both Council areas. Therefore, both South Hams and West Devon would be served by a single elected Member base and a single workforce, working together to maximise the use and potential of the single Council's combined assets for the benefit of all residents.

The latter option would impinge on the single Council's ability to deliver the maximum benefit for all residents.

How the combining of assets should be dealt with needs further discussion and Member consideration if and when the decision to form a single Council is made.

APPENDIX D – ASSET STRATEGY

Options regarding the operational bases

If Members opted to form one single Council, the new Council could consider:

- A comprehensive review of the Councils' operational locations
- Combining operational assets of both Councils
- Increased partnership working closer to communities, with officers or committees co-locating with other public bodies (e.g. the police, the NHS, DCC, Town Councils) or in community buildings to reduce or avoid the need for customers / staff / Members to travel large distances to conduct Council business
- Devolving certain decisions to other bodies reducing the need for physical premises in certain areas
- The potential disposal and/or redevelopment of the two head office locations

Both Councils already have a flexible workforce who can work from any location. Assuming that the needs of the single Council differ to that of the existing organisation, it is likely that the Council will require a smaller 'footprint' of dedicated floor space. Options available include:

- Full letting of existing buildings to third party organisations
- Redevelopment of the head office site(s)
- Disposal of certain buildings
- Remain as is

Kilworthy Park, Tavistock

- Current estimated value* @ 1/4/17: £2.4m
- This site currently has 7 tenants, occupying approx. 31% of the lettable area.
- The site currently generates £75k per annum in rent from the let areas.
- All existing tenants (bar one) are on non-secure tenancies, meaning that they can be evicted at no cost at the end of their tenancy. However one tenant is on a secure tenancy, meaning that they would need to be paid compensation to vacate the building if a valid reason for their eviction can be given (such as redevelopment of the building). An estimate of this compensation has not been calculated.
- Existing third party leases expire at different times. None extend beyond 6 years.
- If the areas currently occupied by SHWD were to be let to a third party as a whole, this could generate an additional £136k pa in income
- In total, the whole building could potentially yield £211k pa – However, in reality it may be difficult to let the entire space as office accommodation, as there is little demand for office accommodation of this size and type in this location.

**In-house RICS valuation based on a capitalised rental valuation.*

Note: Prudential borrowing was taken to facilitate the refurbishment and extension of Kilworthy Park. This borrowing is not secured against the property and therefore does not restrict the options open to the Council.

The borrowing was taken on a maturity basis and a reserve has been created to fund the capital repayment of the loan. The loan maturity is not due for another 36 years (expiring 2053).

APPENDIX D – ASSET STRATEGY

Follaton House, Totnes

- Current estimated value* @ 1/4/17: £5.4m
- This site currently has 5 tenants occupying approx. 22% of the lettable area.
- All existing tenants are on non-secure tenancies, meaning that they can be evicted at no cost at the end of their tenancy.
- The third party leases expire at different times. None extend beyond 6 years.
- The site currently generates £150k per annum in rent from the let areas.
- If the areas currently occupied by SHWD were let to a third party as a whole, this could potentially generate an additional £324k pa in income.
- In total, the whole building could potentially yield £474k pa in rental income. In reality it may be difficult to let the entire space as office accommodation, as demand for such accommodation has not been market tested.

The Follaton House valuation is based on the existing building in its existing use along with an assumed valuation of the grounds. However, incremental value could be created by developing residential accommodation within the grounds (in addition to the existing office accommodation) or the site could be redeveloped into other uses. This is likely to be acceptable in planning terms, but would require a full options appraisal and business case.

**In-house RICS valuation based on a capitalised rental valuation.*

Centralised Head Office Location

There is an opportunity for a new Council to develop a purpose built head office located in a more convenient location than the current bases at Tavistock and Totnes. Any new building would have inherently lower operating costs than the existing head office locations.

A new building could accommodate the single Council and some of the existing tenants (if they wanted to move with the Council) or have the potential to include lettable areas for other tenants, thereby offering economic inward investment and additional employment benefits to the local community and opportunities for the further income generation for the Council.

Employment land values have been estimated at c. £200,000 an acre and construction costs are estimated at £2,500 per m² for an office development. This could mean a £5m investment for a new, fully owned building. A £1m s106 employment contribution from the Langage Power Station could be used to support such an initiative, if there is demonstrable economic benefit and creation of new industrial / employment accommodation.

Combined Asset Base and Balance Sheet for a new Single Council

A single Council would have an Asset Base valued at over £95m. Below is a summary of how the single Councils balance sheet could look, based on the 2016/17 Unaudited Statement of Accounts of both Councils:

	South Hams District Council £'000s	West Devon Borough Council £'000s	Combined Single Council £'000s
Long-Term Assets	76,089	19,526	95,615
Current Assets	36,568	12,182	48,750
Current Liabilities	(12,975)	(5,597)	(18,572)
Long-Term Liabilities	(57,843)	(29,020)	(86,863)
NET ASSETS	41,839	(2,909)	38,930
Usable Reserves	18,866	5,482	24,348
Unusable Reserves	22,973	(8,391)	14,582
TOTAL RESERVES	41,839	(2,909)	38,930