

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Buildings Land and Procurement Panel
Date:	18 December 2012
Title:	Acquisitions Strategy
Reference:	3758
Report From:	Director of Culture, Communities and Business Services

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1. Executive Summary

1.1. The purpose of this paper is to present proposals for a revised acquisitions strategy.

1.2. This paper seeks to

- Summarise the existing framework into which asset acquisition fits.
- Summarise key issues and possible risks associated with asset acquisition.
- Set out the Council's objectives for acquiring property assets.
- Set out criteria for asset acquisition.
- Consider financial implications and budgets for an acquisitions programme.
- Confirm the next steps in establishing and managing an acquisitions programme.

2. Contextual information

2.1. The new Strategic Asset Management Plan sets out the County Council's current approach to acquisitions, the processes by which land and property are acquired and the powers used. There are currently two principal types of acquisition conducted by the County Council;

- a) Defined 'Operational Acquisitions' that are identified and required in response to a funded and approved service strategy, transformation programme or capital project, such as the acquisition of the Vertex building under Workstyle.
- b) 'Advantageous Land Acquisitions' that are based upon a rolling budget of around £640k per annum. These are aimed at securing 'opportunity' purchases in advance of, to support or to compensate for operational need, or to meet broader Council objectives. Recent examples of the latter include acquisitions at Newtown Common, Priors Farm Estate and Portchester Community Centre.

- 2.2. Within the wider context of the new Strategic Asset Management Plan there is now a recognition that, on a focussed and selected basis, it would be appropriate to expand and use certain types of property assets within a revised property portfolio in support of broader strategies. It is therefore proposed to establish and manage a more formal acquisitions strategy which will incorporate a pro-active approach to delivering acquisition opportunities.
- 2.3. Previously, powers of local government property acquisition were limited to acquiring property in delivering County Council functions or for the general benefit, improvement or development of the area. "Wellbeing" powers also provided Councils with the power to do anything which they considered likely to achieve the promotion or improvement of the economic, social or environmental wellbeing of their area, including buying property assets.
- 2.4. Under the Localism Act (2011), the recently enacted General Power of Competence could potentially be used to pursue broader objectives, as it allows Local Authorities to do "anything that individuals generally may do". To acquire land under the General Power of Competence the Local Authority must exercise the power in good faith, for a proper purpose and through proper procedure (in accordance with the constitution).
- 2.5. An acquisitions working group has explored initial options and defined a proposed strategy, which is set out in Appendix 1. The main aim is to enhance existing policies by formulating more explicit and structured acquisition objectives. It embraces regeneration and overall economic, social and environmental well-being across the County and a more pro-active approach to secure capital and revenue returns. This would thereby enhance and/or consolidate the existing portfolio to meet the Council's corporate aims well into the future.

3. Key Issues

- 3.1. In order to manage the risks identified, the process by which acquisitions are identified, assessed and pursued will need to be robust. A proven business case for each proposed acquisition will be required and as part of that process, all potential acquisitions (including those in the capital programme) will be assessed against key criteria. In line with the Strategic Asset Management Plan and property review, there will be a set of common performance criteria for all potential asset acquisitions. These criteria are identified as part of the strategy set out in Appendix 1 and will be continually monitored and reviewed.
- 3.2. It is highly likely that the Council will be one of several bidders for any good-quality assets and will need to act quickly to secure prime investments. Whilst offers can be made subject to conditions and due diligence before proceeding, the current approval process may, at times, not be in-line with this. All bids will have cost implications including legal, surveys and officer time and if they are unsuccessful this abortive time and costs will still have to be accounted for. Some elements of how those risks might be minimised are outlined in paragraph 5.

- 3.3. Property is an inherently more risky asset than other asset classes because of its physical characteristics, which need to be managed and maintained. This risk is usually compensated by increased returns on purchase and investment, but these are inevitably longer term to realise. The property market is not a certain market and the Council may not achieve its target returns if market conditions worsen. Therefore the Acquisitions Strategy proposes a thorough legal and practical due diligence process that will help to mitigate these and other property-specific risks.
- 3.4. If a strategy were to be based largely within Hampshire there may not be available stock of suitable quality in the area. Therefore, the Strategy proposes that in appropriate circumstances it may be necessary to explore acquisition opportunities in a wider area using the General Power of Competence.
- 3.5. In addition to property assets, the potential has been raised of the County Council possibly looking to acquire operational business concerns for economic development, regeneration and protection purposes. This issue will be explored further within the context of County Council's emerging Economic Development Strategy Review.

4. Finance

- 4.1. For acquisitions that do not form part of the capital programme, the Head of Finance has confirmed support to the notion of making available financial resources should attractive and appropriate acquisition opportunities be identified which meet pre-agreed criteria as set out in the Strategy and this report. Each acquisition would be considered on its own merits and in line with the criteria set out in Appendix 1, the revenue return from an asset should aim to be sufficient to cover maintenance costs and prudential borrowing costs. Prudential borrowing is likely to be the preferred funding acquisitions option subject to capital financing limits. For exceptional acquisitions that do not quite meet the criteria, funding options would be considered on a case-by-case basis.
- 4.2. This funding would be in addition to the annual Advantageous Land Acquisitions budget, which would be retained for ad hoc purchases and in addition to that periodically committed for individual and specific capital project and programme related acquisitions.

5. Extension of Delegated Powers to Meet a Fast-Track Approval Process

- 5.1. Other than in respect of very minor land transactions where acquisitions are undertaken under delegated powers, all land and property acquisitions are approved by the Executive Member for Policy and Resources.
- 5.2. Due to timing constraints, procedures to obtain approval sometimes have to be by exception, as recently experienced in the case of the recent acquisition of Rockford Farm where an additional special Executive Member Policy and Resources (EMPR) meeting had to be convened in order to gain approval to the transaction.

5.3. Therefore, it may be appropriate to review the existing approval processes in order to facilitate acquisitions within the timescales and nature of the competitive land and property market. A possible way forward that may be considered is that where an appropriate potential acquisition arises outside of the normal EMPR decision making cycle, that the Director of Culture Communities and Business Services liaises directly with the Executive Member Policy and Resources to seek an agreed delegation to pursue the acquisition and the parameters in which this can be undertaken. If the acquisition is then subsequently successful, a formal report would then be brought forward through the EMPR process to ratify the acquisition. It is proposed that following further discussion on this with the Executive Member Policy and Resources, that this is considered in a future report in 2013 as part of the Strategic Asset Management Plan update

6. Future direction

6.1. In order to robustly manage a more pro-active and formal acquisitions programme the following arrangements are proposed:

- a) Development of an acquisitions manager lead role, within existing staff resources, to oversee all acquisitions whether operational or strategic.
- b) Lead officers with expertise in the relevant area are identified for each policy theme to set target property types within that category and review these regularly. Lead officers will actively pursue acquisitions and liaise with the acquisitions manager.
- c) The enhanced acquisitions strategy will need to dovetail with broader initiatives such as the strategic asset management plan, service transformation and disposals policies through regular review at the Asset Management and Workstyle Panel.

6.2. A diagram setting out the relationship between these groups can be found at Appendix 3.

6.3. Whilst acquisitions for operational purposes will continue to be funded via the capital programme and managed in-house, acquisition and subsequent management of a diverse portfolio will require more specialised expertise in those markets. Where appropriate this advice would be secured by way of Framework Consultants.

7. Recommendations

7.1. That the Panel advises the Executive Member for Policy and Resources that:

- a) the implementation of an Acquisitions Strategy as outlined in the report should be approved.
- b) proposals for enhanced powers of delegation for the Director of Culture, Communities and Business Services in close consultation with the Executive Member for Policy and Resources in relation to acquisitions should be considered within the 2013 Strategic Asset Management Plan update

7.2. CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	No
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	Yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	Yes
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. It is not anticipated there will be any impact on Equalities. However, each proposed property acquisition will be considered on a case by case basis and key criteria will include a check that this is the case.

2. Impact on Crime and Disorder:

2.1. It is not anticipated there will be any impact on Crime and Disorder. However, each proposed property acquisition will be considered on a case by case basis and key criteria will include a check that this is the case.

3. Climate Change:

- a) Each proposed property acquisition will be considered on a case-by-case basis and key criteria will include an assessment as to whether the property has (or can reasonably be made to have) an acceptable carbon footprint and level of energy consumption.
- b) Each proposed property acquisition will be considered on a case-by-case basis and key criteria will include an assessment as to whether the property is (or can reasonably be made to be) resilient to the impacts of climate change.

Proposed Strategy

Policy Themes

Each acquisition needs to be examined in the context of our powers of acquisition and should fit within one of the following acquisition policy themes:

- **Operational Need**
Supporting operational service objectives and rationalisations alongside other asset reductions (e.g. capital programme schemes, Adult Services transformation and Efficiencies Agenda).
- **Strategic Land**
For example, acquisitions that will generate capital receipts, enhance or consolidate the Council's existing land holdings to achieve longer-term development and/or land exchange opportunities, such as at Priors Farm Estate.
- **Economic Development**
For example, for the development of small business starter units.
- **Conservation, Habitats and Strategic Gaps**
For example coastal conservation.
- **Green Estate**
For example County Farms or Country Parks.
- **Affordable Housing**
Land that could be used to facilitate affordable housing delivery in accordance with the Project 500 initiative.
- **One Public Sector Estate**
Including potential for sharing and exchanging assets with other public bodies.

The attached “spectrum of opportunities” (appendix 2) illustrates how acquisitions are categorised and the different approaches to be taken. It includes examples of acquisitions and how these would sit within the strategy.

Key reasoning criteria

The criteria used to build a business case and determine the maximum bid/offer to be made for acquisition are set out below. The weighting of these will vary according to the category and priorities for that particular category. For example, for an acquisition which falls under the “Conservation, Habitats and Strategic Gaps” category, weighting in terms of the “capital and revenue return” criteria may be less than the “significant implications from a failure to acquire” criteria.

- Fits within identified acquisition policy theme above.
- Directly supports corporate aims.

- Directly supports relevant departmental priorities and/or strategies.
- Facilitates improved service delivery.
- Is well located for its intended short-term purpose.
- Is well located for its medium-term purpose.
- Is well located for its long-term strategic potential.
- Satisfactory score for standard Asset Management Performance Criteria.
- Has strong alternative use value, either to HCC or to the open market should key reasoning criteria become invalid (exit strategy).
- Aligns with standard impact assessments;
 - o Equality
 - o Reduction of Crime & Disorder or Offending
 - o Climate Change – both mitigation and adaptation (Has or can be made to have an acceptable overall carbon footprint. Is, or can reasonably be made to be, resilient to the longer term impacts of climate change)

Financial considerations

- Value - shows good fitness for purpose, with initial refurbishment and alteration capital costs tested and considered within purchase price.
- Costs in use – has acceptable ongoing revenue costs and liabilities over its anticipated life-cycle, including carbon tax.
- Risk - has an acceptable level of financial exposure to the risk of obsolescence in the short term.
- Likely capital and/or revenue return on investment equals or exceeds alternative investment opportunities or borrowing costs.
- Anticipated purchase price is supported by independent specialist expert advice if required.

Exception Criteria (If a business case cannot be built on above criteria)

- Alternative options have been robustly explored and found to be unsuitable.
- There could be significant cultural, heritage or environmental implications from a failure to acquire, or a failure to try.
- The potential acquisition represents a unique time-limited opportunity to meet future operational or policy needs in the long term.

Acquisition Strategy - a Spectrum of Opportunities						
	Reactive/Planned		Opportunistic		Proactive	
Timeframe	Present and immediate future Years 1 - 3		Middle term Years 3 - 10		Long Term Future Years 10 +	Focus
Objectives	In response to approved strategy, programme or capital project and; <ul style="list-style-type: none"> Well defined Current/immediate Project specific Service / function led 	Meets partner needs, in line with County Council's priorities and corporate aims	Market Led- unexpectedly brought to market. Present market opportunity that meets potential future operational or strategic needs	Actively seeking out potential acquisitions not yet brought to market, that meet potential future operational needs	Investment opportunities that also: <ul style="list-style-type: none"> Support economic growth and/or Have potential to meet future operational or policy needs in the long term Strategic / future anticipated need 	Why acquire it?
Policy Themes	Economic Development	Segensworth			Segensworth	Looks like...
Conservation			Meon Valley Line			
Green Estate			Priors Farm	Mitigation land and SANGs		
Affordable housing		Project 500				
Operational Need	Vertex		Existing school site expansion			
Strategic Land				Infrastructure for future development	Priors Farm	
One Public Sector Estate		Havant PSP				
Mandate for action	Committee <i>Foreseen, can move at normal pace</i>	Committee <i>Linked to partner's approval process</i>	Committee (NB Need to review Delegations?) <i>Likely need to act quickly</i>	Committee <i>Probably slower burn, driven at our pace</i>	Committee (NB Need to review Delegations?) <i>Probably strategic, so very high value</i>	Delivery
Funding Source	Capital Programme		Advantageous land acquisitions budget and prudential borrowing		Advantageous land acquisitions budget and prudential borrowing	

Management of Acquisitions Programme

