

## Service Property Optimisation

File No.: CP2015/03484

### Purpose

1. To define asset optimisation and the process to achieve optimisation, including obtaining approval to a development approach and funding model that will incentivise decision makers and business owners to more proactively deal with council's service property.

### Executive Summary

2. Long-term assets held for service purposes are fully optimised when they:
  - Are the right number, of the right type, in the right location with an optimum service mix
  - Deliver required levels of service to the Auckland community at an optimum operational and capital cost
  - Deliver wider strategic benefit to the Auckland community beyond immediate service provision E.g. town centre regeneration etc.
3. Economic realities have promoted a critical review of expenditure across council in order to reduce or slow down capital and operational outlay and optimise investment decisions.
4. There is also a greater focus on the realisation of value from assets no longer required for service purposes.
5. However potentially significant opportunities in the service portfolio remain untapped due to the perception that no local benefits are returned from the release of underperforming, but potentially valuable, local service property. As a result, less than optimal and often costly service property remains held and their latent value is not realised.
6. A new approach to the way service property is developed and funded proposes to alter the balance of incentives to decision makers by providing the opportunity to create direct local benefits.
7. The approach, currently called 'service property optimisation' is self-funding, maximises efficiencies from service assets, and maintains levels of service whilst releasing property for sale or development. A key element of the proposal is that service property is 'optimised' and that sale proceeds are locally reinvested to advance approved projects or activities on a cost neutral basis.
8. Optimisation will contribute to a number of broader strategic outcomes and is a step towards implementing Auckland Council Property Limited's (ACPL's) expanded development role. The overall objective is to facilitate, enhance and speed up strategic objectives such as housing and town centre development activity, to release latent property values, and to create better value from service property by optimising property needs.
9. Subject to the development of business rules, this report recommends that service property optimisation is a resourceful and constructive way to facilitate housing and regeneration, and to balance progress with affordability. Over time it will engender a willingness to move out of underutilised property and reallocate resources to property that is fit for purpose. Approval of this proposal will enable existing and proposed opportunities to be actively advanced.
10. The asset sales programme will continue and expand, based on release of non-service property for this purpose, with funds directed by the Governing Body towards funding the LTP capital program.
11. Auckland Transport (AT) is not part of this proposal however ACPL is working constructively with AT to identify assets for "optimisation".

12. In the event that the proposed policy is approved ACPL will undertake a significant engagement with Local Boards to communicate the proposition and the benefits to local communities.

## Recommendation/s

That the Finance and Performance Committee:

- a) agree:
- i) that the Council's Revenue and Financing Policy be amended to allow for sales proceeds resulting from optimisation of service property assets to be reinvested into eligible local projects.
  - ii) that eligible reinvestment projects would be those contemplated in current or future years of the Long Term Plan (LTP) and/or those noted in the relevant Asset Management Plan (AMP) or be consistent with qualifying business strategies or plans formally adopted to guide council's future service provision and to inform LTP/AMP processes (e.g. The Community Facility Network Plan).
- b) note that the ongoing asset sales program, based on the sale of non-service property, provides the Governing Body with funds towards LTP projects and also frees up development sites.

## Comments

### Context for this report

13. The Auckland Plan explains that to facilitate housing, regeneration and intensification activities, council will need to use a range of strategic and financial tools to stimulate development. Council's adopted Property Strategy illustrates a "just in time" approach to property ownership, in contrast to land-banking or retaining property as an investment. The Housing Action Plan seeks to enhance council's ability to partner with others to promote housing developments on council owned land, through a range of approaches, as well as giving greater weight to the use of council land for housing, alongside or in place of other council services.
14. As the Auckland Council evolves there is a greater strategic requirement to reallocate capital from lower priority assets to higher priority areas. This has become particularly vital in the current economic environment.
15. Council holds a great deal of underperforming property that could facilitate housing and mixed-use development within its service portfolio without a detrimental effect on service delivery. Opportunities include selling, amalgamating, co-locating and intensifying service property, i.e. service property optimisation.
16. In light of this and other economic realities, council businesses are undertaking a number of critical reviews in order to reduce or slow down capital outlay. Identifying efficiencies, altering approaches to levels of service, deferring planned capex, co-locating service delivery, including commercial uses that are complementary and divesting of non-strategic assets are examples of business responses underway.
17. Despite these efforts, significant opportunities within the service portfolio are likely to remain untapped due to the general local board view that no local benefits are returned from the release of underperforming but potentially valuable, local service property. As a result, less than optimal and often costly service properties remain held, and their latent value is not realised.

18. Taking an incentivised approach that levers asset ownership and capitalises on organisational scale is a step towards achieving service property optimisation.

### The Current Situation

19. In most cases, council owned property forms the base platform for service delivery. The operational control, management and funding responsibilities for property are shared across a range of council departments, local boards and Council Controlled Organisations (CCOs). While shared responsibilities and delegations influence property use, formal and statutory decisions are directed by the Governing Body.
20. Where property is not delivering any funded service it is categorised as non-service and sold by ACPL. Such sales increasingly deliver wider strategic and/or commercial value to council, freeing up sites for development that is normally delivered via negotiated development agreements.
21. Council's current policy requires that all regional, local and transport asset sale proceeds are credited to the consolidated fund to offset debt, effectively assisting in funding councils LTP capital investment programme. The current LTP notes that sale proceeds may be allocated to fund alternative strategic priorities on a case by case basis. In reality, no current service property is being freed up to support the general asset sales target. Within the current regime this is unlikely to change.
22. Local boards, council service departments, community groups and ratepayers are direct or indirect beneficiaries and stakeholders of council property ownership. Stakeholders of public property will often foster a claim to the use and ownership of council property, regardless of their functional performance and decisions concerning the use and fate of council property often attract a large degree of interest.
23. The approach to asset sales to date has focussed on liquidating surplus assets where there is no current funded service i.e. "non-service" property. As mentioned above, local boards are reluctant to support asset sales where council's funding policy provides no guarantee that the sale proceeds of a local asset will be locally returned. The loss of an asset is seen as a direct drop in the value of the board's portfolio, and a decline in the board's ability to deliver/maintain a level of service to its constituency. Isolated decisions concerning the functional use of local service property can become protracted or conversely, proceed without the benefit of a network overview or specific property expertise that could provide more optimal solutions.
24. This impasse has the effect of stifling innovation, dis-incentivising property stakeholders, and diminishes the ability for council to effectively capitalise on property in its property dealings. It is a situation which has been a key business issue for some time and it is one that is continuing to grow in significance, particularly within the current economic realities.

### The Proposed Solution

25. As council businesses are increasingly required to do more with less, they are seeking to prioritise efforts and align investments across a range of sectors, activities and assets. Looking forward, there is a clear need for a more creative approach to the way service property is utilised, developed and funded. Opportunities such as replacing current service assets in a more modern form via the private sector, co-location, intensification or the closure and release of the site for sale to deliver strategic value e.g. housing, must be given greater weight.
26. The service property optimisation proposal is designed to enable these outcomes and is a step towards implementing ACPL's expanded development role by matching opportunities, commercial and strategic, with optimal service provision.
27. Optimisation seeks to alter the balance of incentives to those local boards and communities prepared to deal constructively with underperforming service-assets, by providing the

opportunity to receive direct local benefits and tap into efficiencies. A key element of the proposal is that service property is 'optimised' and sale proceeds are locally reinvested to advance approved projects or activities on a cost neutral basis. For this to happen there will need to be a change to councils existing Revenue and Finance Policy.

28. The overall objective is to facilitate, enhance and speed up housing and town centre development activity, to release latent property values, and to achieve improved community outcomes. Optimisation proposals would apply to service facilities that are identified as being underutilised, undercapitalised, in need of upgrading and where there is market demand for redevelopment or intensification. Intensification could be residential, commercial or mixed use. Optimisation proceeds would be reinvested into other local projects anticipated in the LTP. Most importantly, projects will be driven by and firmly underpinned by commercial principles and drivers and will focus on capital and operational efficiencies.
29. Optimisation may take form in various ways, such as:
  - a) *Co-location and upgrade*: two service activities, located separately on underperforming assets are relocated onto a third service site, which is upgraded to deliver three clustered services. The two vacant assets are realised to fund this work.
  - b) *Intensification and mixed use*: the air space above a service activity is sold for residential development. The sales proceeds are used to fund the construction of a new purpose built service facility on the ground floor with a basement car park.
  - c) *Direct reinvestment*: A small, poorly located and underutilised pocket park is realised for housing. The sales proceeds are used to complete a planned coastal walkway 3-years ahead of schedule.
30. Optimisation proposals would be guided by the following principles:
  - a) Optimisation is a cross-council-portfolio approach targeting suboptimal service assets.
  - b) Projects will deliver service and strategic outcomes, such as housing and urban regeneration.
  - c) Optimisation will equal or enhance existing levels of service, but with reconfigured assets.
  - d) Optimisation will have nil impact on existing rate assumptions.
  - e) Optimisation will capture additional (uncharted) value opportunities.
  - f) Optimisation will reduce holding costs of property and generate latent value and/or return.
  - g) Optimisation provides an opportunity for local boards to directly reinvest in Auckland Plan strategic directions and activities within in their LB area benefitting the local community.
  - h) Reinvestment will advance planned LTP projects and current business strategies and plans.
31. Eligible reinvestment projects would be those contemplated in current or future years of the LTP and/or those noted in the relevant AMP. Qualifying business strategies or plans would be those formally adopted to guide council's future service provision and to inform LTP/AMP processes (e.g. The Community Facility Network Plan).
32. Given its incentivising 'ring-fenced' funding model, proceeds from optimisation activity are not designed to supplement the general consolidated fund as non-service asset sales do; however it will generate other efficiencies, and there is room for flexibility on this matter as final business rules are yet to be developed.

### How is Optimisation different from Asset Sales?

33. As noted, optimisation is where a site is currently being used to provide a funded service, and where use is sub optimal. It involves adding activity/development to the site, or disposal of it, with projects reallocated to another service asset in that Local Board's area. On the other hand, asset sales are, and will continue to be, from property which is non-service i.e.

no funded service is involved. Asset sales also include, for example, sale of development opportunities on non-local assets, such as the Downtown car park site and the Aotea block. Proceeds from asset sales are for general Council revenue.

In order to achieve new, higher LTP targets, the Governing Body will need to be fully supportive of sales of non-service property.

34. The optimisation of council's portfolio in this manner will create the following benefits for council and the community:
- a) Community Facilities will be replaced, upgraded or optimised, and become fit-for-purpose at little or no new capital outlay to council/ratepayers. In many cases this may enable the upgrading or delivery of community facilities well ahead of the programming in council's LTP.
  - b) Council's service property portfolio will become more efficient. Underperforming assets will have increased utility and efficiency, with lower maintenance costs and lower property operating costs as well as improved service delivery benefiting from co-location of other complementary services or commercial activities.
  - c) Latent value, that currently provides little if any return, will be realised from council's portfolio for the direct benefit of the local community.
  - d) Positive development by the private sector will be actively promoted through council having direct influence over total site redevelopment strategic and commercial outcomes.
  - e) In the majority of cases this will result in intensification of land use, particularly residential, and in many cases will boost the resident population of town centres.
  - f) Optimisation will free up a vast range of undercapitalised development opportunities such as air space, full sites, or part sites.

### **The Benefits**

35. The service property optimisation concept has been socialised with senior management across council and support for the proposal to date has been encouraging. The task of project execution planning, finalising eligibility criteria and developing the business rules that will oversee optimisation proposals is at an early stage, and requires further consideration and engagement with principle business owners.

### **Auckland Transport Assets**

36. Auckland Transport assets are not part of this optimisation proposal however ACPL are working cooperatively with AT in respect of assessing optimisation opportunities that can deliver optimised service, commercial and strategic benefit.

## **Consideration**

### **Local Board views and implications**

37. Local Board views have not been sought in this respect however the implications of the application of "service property optimisation", particularly the local investment of released funds, is positive for local communities as it will deliver new and improved service provision within Local Board areas.
38. In the event that the proposed policy is approved ACPL will undertake a significant engagement with Local Boards to communicate the proposition and the benefits to local communities.

### **Māori impact statement**

39. The implication of the application of "service property optimisation", particularly the local investment of released funds, is positive as it will deliver new and improved service provision for local communities.

## Implementation

40. ACPL is in the process of finalising a cross-council project execution plan that will see the coordinated roll out of the optimisation concept across the business owners, Auckland Council Property Department, Finance and ACPL. The plan will include process improvements and business rules, to enable optimisation and a process to integrate the concept within business as usual.
41. ACPL will undertake a significant engagement with business owners and Local Boards to communicate the proposition and the benefits to council service provision and local communities.

## Attachments

There are no attachments for this report.

## Signatories

Authors	Allan McGregor - Manager Property Asset Development Auckland Council Property Limited
Authorisers	David Rankin – Chief Executive Auckland Council Property Limited Matthew Walker - Manager Financial Planning, Policy and Budgeting Kevin Ramsay - Chief Financial Officer