

9.9 Asset Rationalisation Policy

Report contact

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Meeting

Council

Date

15 June 2021

1. Purpose

This report presents the Asset Rationalisation Policy for Council's adoption.

2. Recommendations

That Council adopt the Asset Rationalisation Policy as presented in Attachment 1 to the agenda report.

3. Executive summary

At its meeting on 16 February 2021, Council adopted a new Long Term Financial Plan (LTFP). One of the assumptions underpinning the LTFP was that there would be revenue of \$3 million per annum from asset rationalisation. Asset rationalisation is the process of ensuring that the city has the right infrastructure it needs and can include disposing of assets if they are no longer fit for purpose.

The Asset Rationalisation Policy outlines the three core phases of this process:

Phase 1: Identification and investigation of assets to rationalise

Phase 2: Statutory process for revocation and disposal of community land

Phase 3: Determination of use of proceeds

4. Background

Community Plan 2030	<p>people: connected, engaged, active, healthy</p> <p>place: green, inviting, accessible, liveable</p> <p>prosperity: economically strong, environmentally thriving</p> <p>performance: accountable, efficient, inclusive, sustainable</p> <p>By ensuring the city has the right land and facilities to service the needs of its growing community, the Asset Rationalisation Policy supports the theme of Place.</p>
Policy and/or relevant legislation	<p>Open Space Strategic Management Plan</p> <p>Community Facilities District Plan</p>

Who did we talk to/who will we be talking to

Consultation with the Elected Members and the community on the Long Term Financial Plan occurred from July 2020 to February 2021. Additional engagement with the Elected Members through the Finance Working Group specifically on the Asset Rationalisation Policy also occurred.

5. Discussion

At its meeting on 16 February 2021, Council adopted a new Long Term Financial Plan (LTFP). One of the assumptions underpinning the LTFP was that there would be revenue of \$3 million per annum from asset rationalisation.

To meet the growing and changing needs of our city, council assesses its land assets and facilities to determine how these are best used. Most assets are retained however, where assets are determined to be no longer fit for purpose, these assets may be considered for disposal. The Open Space Strategic Management Plan 2018–23 (OSSMP) and the Community Facilities District Plan (CFDP) identified that there were underutilised land and buildings in the city that may not be required. Through the asset rationalisation process, these assets may be disposed of in order to provide better facilities for the community.

When developing the LTFP, a Finance Working Group consisting of 5 Elected Members and staff was established to workshop various elements of the LTFP in more detail. Following adoption of the LTFP, the Finance Working Group continued to meet. A public meeting was held on 6 May 2021 to discuss the asset rationalisation process which has guided the development of this Policy.

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Phase 1: Identification and investigation of assets to rationalise

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6. Financial implications

Financial summary

The Long Term Financial Plan and the 2021–22 draft budget includes \$3 million of annual proceeds from the disposal of assets. Should this annual target not be met, projects will need to be deferred so that the debt peak is not breached.

7. Risk and opportunity management

Risk	
Identify	Mitigation
Reputation/community expectation	Improved community engagement about why an asset is being disposed of and what the benefit is of disposing it will occur as part of the process. This includes improved line of sight about the use of proceeds and how it provides a benefit to the community.

Risk	
Identify	Mitigation
Political	The Policy proposes early consultation with Elected Members to determine the appropriateness of proceeding with the statutory disposal process of an identified asset. This provides the Elected Members with an early opportunity to support the asset rationalisation or not.
Financial/business sustainability	Regular financial reporting will monitor Council's achievement of \$3 million in asset sale proceeds annually. Should this target be at risk, a decision will need to be made to defer projects to ensure financial sustainability and the debt peak are not breached.
Compliance/legal	The Asset Rationalisation Policy ensures the statutory revocation and disposal of community land process is followed, which includes Council reports, community consultation and approval from the Minister.

Opportunity	
Identify	Maximising the opportunity
Improved facilities for the community	Asset rationalisation supports Council to ensure the city has the right facilities for the community's needs, and that expenditure is focussed on the right assets and infrastructure. Recognising that there is a cost to holding on and maintaining assets that are underutilised or no longer fit for purpose, asset rationalisation ensures the city is getting the best value for their rates.

8. Timelines, deadlines and next steps

The Asset Rationalisation Policy will come into effect once adopted, with progress against the annual target to be reported to Council on a quarterly basis.

9. Attachments

Attachment 1 – Asset Rationalisation Policy (7 pages)

Attachment 2 – Asset Rationalisation (1 page)

- END OF REPORT -

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CONTEXT

The City of Onkaparinga's population is growing, and the needs of our communities are evolving over time. This necessitates council critically assessing its facilities and land, including how they will be used, where they are needed most, and how they can best support residents.

Council's aim is to ensure our facilities are flexible, adaptable and fully utilised. Ageing and underutilised facilities may be repurposed, reutilised, returned to open space or disposed of. Any income generated will support the development of the facilities our communities need.

This paper specifically deals with the disposal of assets.

What assets do we own?

Council directly owns 1,405 hectares of land and building assets that sit within 2,290 parcels, of which approximately 2,050 have assets on them. As reported in the June 2020 Annual Financial Statements, the value of land holdings at cost is \$618m and the replacement of buildings is \$205m (with a written down value of \$142m). In total, land and building assets have a combined value in excess of \$820m.

Most of these assets (land and buildings) serve a valuable purpose and many will be retained for the use of the community. Only those assets that are not currently, or are not expected to in the future, providing benefit to the community or serving some strategic purpose will be considered for rationalisation.

Alignment to Strategic Plans

Long Term Financial Plan

In February 2021, Council adopted its Long Term Financial Plan (LTFP). As part of the adoption, Council committed to targeting on average \$3 million per annum of asset sales to generate surplus cash and apply it to achieving the objectives of the LTFP.

Council has the authority and ability to alter this target, however, in doing so, other LTFP parameters will need adjusting.

This Asset Rationalisation document is a sub-document to the LTFP and needs to be read in conjunction with the LTFP.

This document explores why council has an Asset Rationalisation Policy and then looks at the process involved.

Community Plan 2030

The Community Plan 2030, which sets the focus for Council, is based on the four pillars of People, Place, Prosperity and Performance - asset rationalisation assists in achieving objectives within each.

Strategic Asset Management Plan

The Strategic Asset Management Plan (SAMP) provides an overview of council's assets, how they are performing, the service levels council provides, asset goals and objectives and areas for improvement, with strong links to the Community Plan 2030. It therefore follows that there are strong links between the SAMP and asset rationalisation.

ASSET RATIONALISATION

Asset Rationalisation provides two key benefits, one to benefit the community, the other is a financial benefit for the organisation and by extrapolation, a benefit for the ratepayer.

Financial Benefit

From a financial perspective, it is healthy to utilise assets for purposes they were intended, and to derive benefit from them. It is not financially sound to own assets that are not used or no benefit is being derived from them – such assets cost money to own and maintain and by selling them, you can improve your financial situation.

There is an opportunity cost in doing nothing with disused or under-utilised assets.

It may be helpful to consider this in the context of a family home. When a family is young and growing, a large house (say, 4-bedrooms) with a larger yard is likely required. There is a cost associated with this – larger mortgage, higher running costs, higher rates and service charges, large garden to maintain, etc. As the children grow and leave home, the parents will still be incurring the same costs but they will not be using all of the rooms in the house, they may have a similar sized mortgage, the garden is onerous to maintain and the house is no longer fit for purpose with outdated dimensions, fit out and facilities.

The house no longer meets the needs of the parents. As such, the parents decide to sell up – they move into a new 2-bedroom house with a small and neat garden, and all the modern conveniences. The costs of owning their home have reduced significantly, providing more disposable income to do the things they really want to do. And because the house they bought cost less than the house they sold, they have a much smaller mortgage.

The same goes for a city. It costs a city just as much to maintain assets it is not using or that its residents are getting no benefit from. And by selling assets, the proceeds can go toward reducing debt, either by paying it off directly or by funding other ‘fit for purpose’ assets that debt would usually be needed for. There are further benefits to be gained through the avoidance of ongoing maintenance costs and, subject to the eventual use of the asset, the generation of increased rates revenue.

Community Benefit

From a community perspective, Onkaparinga is a large and growing council, which has changed over time and will continue to change as different people leave the city and others come to the city to reside and undertake business here. Council must provide services and infrastructure that are

‘fit for purpose’ to meet the needs of its growing and changing community.

To understand the needs of the community, council undertook two pieces of work, the Open Space Strategic Management Plan and the Community Facilities District Plan.

One key finding from the community consultation was that the community would support this process more if they were able to see how the money was being used in their area. This gave rise to the notion of a proportion of proceeds being spent locally and that there is ‘line of sight’ from sale of an asset to the use of its proceeds.

A Range of Different Benefits

Rationalising council’s assets can produce a range of different benefits, including, but not limited to, the following:

- Efficient management of council’s assets and balance sheet, which is consistent with achieving the outcomes of the adopted LTFP
- Accelerate investment into existing local and broader community projects and works program, that may not have received funding in the near future through the usual prioritisation process
- Provide fit for purpose facilities and open space that the community will value
- Enhance amenity and the environment, through converting dusty, disused sites to another use
- Avoid ongoing maintenance, renewal and upgrade costs for under-utilised open space and buildings
- Generate rates revenue where none has been generated previously to reduce the overall rates burden on existing ratepayers
- Retire debt and improve council’s overall financial position

RELATED STRATEGIES

Open Space Strategic Management Plan (OSSMP)

As at the time of developing the OSSMP, the City of Onkaparinga had approximately 5,402 hectares of open space within over 1,500 individual parcels.

To help improve management of these valued spaces, council undertook a detailed planning exercise, culminating with the approval of the Open Space Strategic Management Plan 2018-23 in December 2017.

The plan provides direction to ensure a diversity of quality and connected open spaces is provided equitably to meet current and future community needs. It has also established a number of key service level principles for the planning of open space.

For example, the plan requires a minimum of 4-5 hectares of open space per 1000 head of population. It also stipulates that a park with a playground will be provided within 500 metres walk of most households.

Council's existing open space has been assessed against these service levels. The results are largely positive – with most of our city having well above the agreed minimum standard (from an average of 5.7 to 9.3 hectares per 1000 people across our seven districts). Note that this does not include spaces available for public access provided by sports fields, National and Conservation Parks located within the City, schools and the beach. Effectively, in the context of the adopted service levels, Council has more open space and facilities than needed.

Community Facilities District Plan

Through the 1997 amalgamation, the City of Onkaparinga inherited a large portfolio of facilities that includes community centres, community halls, youth centres, arts and cultural centres, senior citizens clubs, service clubs, kindergartens and child care buildings.

Over time, through community feedback, it was found that many facilities were underutilised and that community members were often not able to access them.

In 2015 a city wide study was completed that included:

- mapping current community facility provision
- completing facility audits and analysing current use of buildings
- a survey of schools and churches about their facilities and their availability for broader community use
- research and benchmarking including identification of key trends in community facility design, service delivery and provision around the country and internationally
- recommendations to inform a strategic approach to community facilities.

Engagement with key stakeholders identified concern regarding potential disposal of some facilities that don't meet community need.

However, feedback at each of the sessions clearly indicated that if the following was in place then disposal of community assets was more supported:

- sound evidence-based rationale
- authentic community engagement
- clear line of sight regarding use of income generated through disposal process.

THE PROCESS

There are three distinct phases in the rationalisation of assets:

- Phase 1: Identification and investigation of assets to rationalise (and for this paper, dispose of)
- Phase 2: Revocation and disposal process (if community land), and
- Phase 3: How council uses the proceeds from any disposal.

Phase 1: Identification and Investigation of Assets to Rationalise

The first phase of the process requires identifying those assets that council does not need for any current or future use. An initial assessment of land parcels owned was undertaken, taking into account each site's constraints and opportunities, which resulted in a list of 80 or so sites.

It is important to note that council has not gone out simply looking for assets to sell but is undertaking a rational approach to ensuring council's assets meet the current and longer term requirements of the community, and position council more favourably from a financial standpoint.

Before initiating the legislated process, which can take between 12 and 15 months, there first needs to be a 'sounding out' as to the likelihood and support for potential for divestment of particular sites. Because of the length of time the statutory process can take, this initial process, which can take 1 to 2 months, is critical in ensuring that council can be a lot more effective and efficient. It needs to be determined, with minimal time, cost and effort, whether it is worth proceeding with the asset rationalisation.

Dependent on site, the process could involve a mix of the following:

- Understanding the asset's history
- Early community sounding out and feedback
- Local knowledge and context, in relation to the site and area
- Onsite visit with, as a minimum, the relevant ward councillor/s
- Level of potential income versus the effort to rationalise
- Potential 'line of sight' from any proceeds generated

This is in addition to the internal assessment process, which includes:

- Inspecting the site
- Undertaking a desktop review and analysis

- Considering alignment to strategies, such as the OSSMP and CFDP
- Consider the development opportunity, if any
- Undertake internal consultation across the business

Once the 'sounding out' has been undertaken, which is intended to be a relatively short process, Council's Strategic Directions Committee (SDC) will be presented with an initial information report to determine if there is sufficient support to go to the statutory revocation and disposal process.

The initial information report may consider such matters as:

- Relevant site information derived from internal assessment
- Preliminary community feedback
- Input from the ward councillor
- Potential benefit of rationalisation identified and explained
- Potential cost of retaining the site as is (eg maintenance, renewal, lost opportunity, etc)

This report, in addition to discussing the potential benefits of disposal, will also consider the scenario of retaining the asset, including the cost and outcome of doing nothing.

Should SDC agree to proceed, the next Phase is undertaken and presented to Council for consideration and determination.

Phase 2: Revocation and Disposal Process

This phase has 4 distinct stages with the first three following the required statutory process (which is rather prescriptive in nature).

Stage 1: Approval 'In principle' to revoke the land from its Community Land classification status and undertake Public Consultation

This part of the process can occur between months 2-5 of the overall process and involves:

- Internal approval and sign-off

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- Recommendation to, and approval from, Council's Director Group
- Council Report seeking approval to revoke the land and proceed to Public Consultation

Depending on the size of the land, and if it has subdivision potential, this report may seek direction from Council on various options to include in the Public Consultation process.

Stage 2: Public Consultation and Ministerial Approval

This part of the process can occur between months 5-10 of the overall process and involves:

- Public Consultation (minimum 21 days)
- Public Consultation outcomes summarised and presented to Council
- Council Report requesting to seek Ministerial approval to revoke the land for disposal

It is important that the community is engaged upfront and as early as is practicable. This includes early and targeted communications (to focus on local and user groups) to get a sense of the community's sentiment to be considered as part of the decision to pursue an asset for rationalisation or not.

This will also involve ensuring that elected members, and especially ward councillors, are provided with key information and messaging to engage with the community. And, that sufficient information is provided to the community to enable informed feedback.

Stage 3: Finalise Revocation Process and Seek to Dispose of Asset

This part of the process can occur between months 10-12 of the overall process and involves:

- Seeking the Minister's consent
- Undertaking market analysis and consider potential disposal methods
- Council Report to finalise revocation and seeking approval to dispose of the asset

Stage 4: Market, Contract and Property Settlement

This part of the process can occur between months 12-15 of the overall process and must follow the Disposal of Land and Other Assets Policy (s49 of the Local Government Act). It involves:

- Undertaking a market campaign and/or considering direct disposal
- Execute contracts
- Effect settlement

Progress on this stage of the process will be reported to Council via Weekly News updates.

Phase 3: Use of Net Proceeds

Given that the adopted LTFP assumed a consistent level of annual funds to be generated from asset rationalisation (\$3 million per annum), and has adopted a Debt Management Strategy, in effect the use of funds has already been determined. For example, all projects approved through the prioritisation process are funded from the various sources of cash receipts identified in the LTFP, including net proceeds from sales of assets through the rationalisation process.

The proceeds form part of council's overall source of funding and the next project on the priority list gets funded and delivered, and council spends the money where it's needed most in the community.

This in turn will be communicated to the community, to ensure the 'line of sight' the community seeks is still provided. That is, if council achieves \$3 million in asset sales, these are the projects in your area that will be delivered. In this way, if the community is able to see what projects would or would not be delivered, dependent upon the cash injection from sales, there may be more support to rationalise.

For example, if council were to take a disused, dusty site and sell it to ensure that a local park receives its upgrade, is this not a better outcome for the community? Likewise, if council were to dispose of a vacant lot that attracts unwanted behaviour and vandalism and the local

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neighbourhood ended up with a new neighbour and the unwanted behaviour has been removed, is this not also a good outcome for the community.

This could be adopted as a default position but nothing prevents Council, who has ultimate authority over the use of proceeds, to determine an alternative use of the funds, subject to community feedback.

