

7. PROPERTY PORTFOLIO FINANCIAL PERFORMANCE (RG)

Purpose of the report

1. To update members on the overall financial performance of the property portfolio (and associated services) for 2015/16 as agreed by Authority in December 2014, including the steps being taken by property and business managers to move towards an aspiration to full cost recovery. To establish an annual pattern of monitoring based on the framework attached in annex 1.

Key issues

- The total full cost of the services and or uses to which the current property portfolio is put to accrues to a full cost of £661,727, excluding Aldern House, which currently costs £218,800 and field staff premises costs of £102,450.
- The figures in annex 1 set out the full property costs (including support recharge) for 2015/16 and reflect the site-based principle agreed during 2014
- The full cost in many cases includes significant costs associated with the operation of the service or activities that are not wholly property related and this needs to be borne in mind
- Only two property groups currently make a surplus, these are Non-Estate Concessions and Non-Estate Carparks
- These figures enable us to understand the size and nature of the task required to close the gap between the income and full cost across the portfolio
- This report is timely as it allows the Authority to use this information as part of the wider financial planning for the future of the Authority
- When this report is next brought to ARP in March 2016 more information will be available as a result of the business planning processes and projections for the performance of the portfolio up to 2019 will be available.

Recommendations

2. **1. Receive a report on the financial performance of the property portfolio for 2015-16, and annually thereafter.**

How does this contribute to our policies and legal obligations?

3. The Authority has acquired a large and varied portfolio over several decades for reasons of conservation, recreational enjoyment and historic arrangements; through a combination of active acquisition and transfer of the Warslow Estate to the Authority in lieu of inheritance tax.
4. Owning a portfolio of property helps the Authority to deliver its purposes and duty and contributes specifically to the national park management plan (NPMP) outcomes, especially helping achieve a 'diverse, working and cherished landscape' and a 'welcoming and inspiring place'.

Background

5. The Authority's property assets can be described as a mixed portfolio of mainly rural properties held on a largely freehold basis. In total the Authority owns in the region of 15,000 acres of land (9,000 directly managed by the Authority) within the National Park, which equates to approximately 5% of the total land area. The key property types include:
 - the HQ building Aldern House
 - four moorland estates (the Roaches and the Eastern Moors both having been leased to other partner organisations)

- 125 woodlands
 - 4 visitor centres
 - 17 ranger properties
 - 31.75 miles of trails
 - 3 campsites (only 1 directly managed by the Authority)
 - 4 cycle hire centres (only 3 directly managed by the Authority)
 - 47 car parks (4 not directly managed by us)
 - 18 toilets
 - 15 concessions
 - 23 minor properties (including for the purposes of this report Langsett Barn).
6. The property has been acquired over several decades through a mixture of purchase and transfer for the purpose of reducing threats to the landscape, active conservation and ensuring recreational enjoyment. In recent years the Authority has been evaluating both the affordability and effectiveness of its property in the context of achieving its statutory purposes and corporate strategy.
7. External advice was sought from DTZ and Smiths Gore in the form of an asset management review during the last year and the members of the Authority received the advice and recommendations on 7 February 2014. The management response to this review was agreed on 9 May 2014 and adopted as the Authority's Asset Management Review Action Plan for 2014-17. The DTZ asset management review carried out an assessment of the overall performance of the property portfolio using the two perspectives of performance against the NPMP outcomes (a qualitative judgement) and the cost recovery ratio (financial performance – including in some cases full service costs). This analysis showed that around half of the property types deliver well in terms of their contribution to NPMP outcomes and these would be strongest on conservation and recreational enjoyment. The remaining properties were assessed as making a more limited contribution, although some of these still make a strong financial contribution. The Asset Management Review Action Plan is now providing the basis for making the steps of asset management planning happen.

Proposals

8. The Authority is entering a transitional business planning year for 2015/16, including an in-depth financial planning exercise, leading to the confirmation of the corporate strategy. The strategy is already more strongly reflecting a new diversified and strengthened approach to future revenue sources for the Authority. As part of this the Authority is considering even more how its property achieves its corporate strategy which reflects a need to control costs, maximise opportunities for generating commercial returns and create ways for people to support the national park.
9. The cost of the portfolio for 2015/16 is set out in annex 1. The property portfolio is expected to generate income of £1,638,450 in 2015/16 and incur £1,922,850 of direct costs resulting in a net direct cost of £284,400. When the support service recharges of £377,327 are added the full cost is **£661,727**.
10. The figures reflect the new site based budget approach and show the full costs (including support re-charges), where relevant. This is the first time that the whole picture of this new restructured budget has been seen. As a result of the integration of linked carparks, toilets and concessions into estates/trails this leaves the non-estate residual for each of these categories. The non-estate concessions and carparks are still returning a surplus of £68,694.
11. It must also be noted that the full costs associated with operating a service are

- included. The most notable examples being Visitor Services and Cycle Hire but for other property types non-property costs and their knock-on support charges are considered in the mix of costs. This needs to be factored in when considering the aspiration to full cost recovery.
12. This information provides the basis for understanding the scale of the task involved in closing the gap to achieve the aspiration of full cost recovery across the portfolio. As business plans continue to be developed for major property and service operations over the next few months the feasibility of specific options and plans to close the financial gap will become clearer. Through this process we will be better informed and able to form firmer financial plans for how our property is expected to perform and we may need to adjust expectations around the overall portfolio performance and take key decisions to reduce the size of the portfolio.
 13. Property and business managers are assessing expenditure, both staff and non-staff, to identify any possible savings. Maximising opportunities to recover costs from other parties as well as reviewing rents, and charges will be part of the approach. In addition, new commercial, donation and external grant funding opportunities are being explored. The following paragraphs highlight the kind of initiatives that are being explored. Whilst the focus on closing the gap towards full cost recovery is important, opportunities are also being explored to find ways of delivering more national park outcomes through property. This additionality is likely to be the basis for attracting external funding.
 14. **Warslow Moors Estate:** The Estate has achieved an initial full cost recovery target for the last 3 years. The revised full cost of the Estate is now £37,416 and this will be achieved by the end of 15/16 by a combination of increased income and reduced expenditure.
 15. **North Lees:** The full cost of the estate is now £29,817. In addition to the effects of actions in the current business plan additional action is also being taken to increase the contribution to this target. These actions include: the promotion of a car sticker (entitling free parking) and campsite membership in exchange for a £15 pa contribution to the property; upgrade of the campsite to include a proposal to install 4 camping pods, enhance the experience and extend the season and so increase income. A marketing plan will be implemented focusing around these two income opportunities. An in depth cost analysis, followed by implementation of a cost reduction plan will be explored and a sponsorship drive will be developed concentrating on local businesses.
 16. We are taking specific actions to secure additional outcomes and enhance the estate in a way that will enable an improved visitor experience and conservation outcomes including, through seeking external funding, developing an events programme and estate based volunteering opportunities. However, these are not expected to address the funding gap but they will increase the delivery of NPMP outcomes.
 17. **Eastern Moors Estate –** The Estate is leased to the Eastern Moors Partnership for ten years, which consists of the National Trust and the RSPB, managing on behalf of the National Park Authority. Our annual contribution to the partnership is £48,800 but £20,000 of car park income is actually a lease payment based on the site's car park takings at the time they were taken over, indexed by inflation. Including the support service recharge the full cost of the estate is £30,651.
 18. **Trails:** The full cost of the trails are calculated as £136,377. A number of actions are being undertaken to investigate options for developments at Miller's Dale and Parsley Hay sites. The options and studies will be used to prepare business cases for investment in developments in order to generate additional future income. These will not have any effect in 2015/16. Potential external funding sources are being identified

for both sites and the trails, providing additional wider benefits to the visitor experience. In addition, Bridge 75 licence pricing is being reviewed and a small increase in income can be anticipated from this but it will be negligible compared to the performance gap. The 6 yearly inspection of structures will be carried out partially in 2014/15 and partially in 2015/16 at a cost of £18,000 (approx.) and this will identify repairs and provide budget costings. The last 6-yearly inspection (in 2009) identified works totalling £890,700.00. Tree safety inspections are currently being carried out on the trails and will undoubtedly identify work of a substantial cost. This proactive investigation is it likely to identify costs in the region of £10,000.

19. **Non-Estate Concessions** - should continue to generate a modest surplus of £10,805 but, as with car parks, the concessions that generated the highest income are now incorporated with in the North Lees and Trails estate budgets so the income from non-estate concessions will be more modest.
20. **Non-Estate Car Parks** - generates a surplus of £57,889 although the proportion of income compared to costs may be reduced as the most well-used car parks have now been incorporated into the North Lees estate budget and the Trails budget. Any price increases at other neighbouring local authority car parks will be monitored and mirrored in our own pricing structure. Our enforcement policy will be reviewed in 2015/16 with regard to non-payment but this is not likely to have any significant effect on income within the 2015/16 financial year.
21. **Non-Estate Toilets** – the full cost is £100,986. They generate very little income and this will not increase in 2015/16. In some cases the surplus car park income helps to pay for the toilets sited on the car parks. In order to reduce costs, new measures have been introduced to ensure that materials purchase from the toilets budget for other sites are recharged correctly. The future of our toilets at Dovedale will be considered as a priority during 2015/16 as there are significant costs associated with this site.
22. **Minor Properties** - the full cost of the 23 properties is £25,528. Most of the improvement work on these properties has been completed and they are now managed on a routine management basis. As such, income (from agricultural rentals and environmental management grants) now produces a significant operational contribution to overheads. Proposals to dispose of some Minor Properties will need to be carefully considered so that the right balance between disposing of income generating properties and/or liabilities is achieved.
23. **Woodlands** - The full cost of the portfolio of 125 woodlands in £58968. It is suggested that only a small inroad into this will be made in 15/16 with good prospects for further sales from mainly conifer woodlands on the Warslow Moors Estate. However, in order to realistically achieve the full cost recovery over the next 4 years, there will need to be a very significant reduction in the size of the portfolio. Work on this has started with the start of the Woodlands Disposal Project. Six woodlands will be put on the market this Spring with further woods to follow on a phased basis.
24. **Visitor Centres** – the full cost of visitor services is £281,601. However, this represents the cost of operating a visitor services function, with its primary objective of promoting understanding about the National Park. The current model being to deliver through 4 staffed visitor centres with retail as a major activity, so staff and the purchase of stock represent significant elements of the total costs. The centres have continued to perform well in terms of achieving retail income targets and income generation since 2003 and against a difficult economic climate from 2008/09 to 2014/15.
25. During 2015/16 Visitor Services will extend commercial approaches further to increase

- future revenues. There will be a focus on operations at Castleton and Bakewell visitor centres to explore the potential for increased retail income, new facilities and enhanced visitor experience.
26. At Castleton Visitor Centre architects have been instructed to provide development proposals along with feasibility plans and budget costings. The current agreement with Castleton Historical Society for housing of the museum will be extended for one year to 31 March 2016 during this period. The Castleton concession licence will be extended for one year to 31 March 2016 providing continuity of service whilst options for the centre are fully explored.
 27. At Bakewell Visitor Centre proposals to improve the exterior signage and décor in line with the new branding guidelines will be fully considered with support of planning and property services.
 28. Customer Insight Research has been undertaken to support business planning. And Derbyshire Business Help are providing business advice and support and this work will identify commercial opportunities to inform business planning during the 2015/16.
 29. **Cycle Hire Centres** – the full cost of the cycle hire service is £29,077. However, this represents the full operating cost of the cycle hire service. Cycle Hire has turned a corner in terms of adopting a commercial approach to increase income and reduce expenditure to ultimately be cost neutral in 14/15 and from 15/16 to make a positive contribution to net direct costs. However, support recharges of £58,077 need to be factored in. We will be in a position to report how the following actions have impacted financially at the end of the financial year, however early indicators are positive.
 30. To further reduce the cycle hire costs we are working on a number of projects and many are already in place. We are targeting groups such as educational organisations and we are in early discussions with potential partners to supply bike hire across the National Park. We are exploring opportunities to make further saving including across staff and non-staff budgets. We are developing a stronger focus on marketing and will be using customer insight data to help design future promotions.
 31. **Aldern House** – the full cost of our HQ buildings are £218,800. We are not seeking to achieve full cost recovery for Aldern House but we have committed to obtaining, phased over a three year period, an increase in net income of £19,470. This is being achieved through action to demonstrate that we are using this space as effectively as possible by locating as many staff of the Authority at AH as possible to improve the utilisation level and to release the potential of property elsewhere; e.g. the disposal of Losehill Bungalow following the transfer of the learning and Discovery team to AH. This is also releasing as much space as possible for renting by an appropriate outside organisation e.g. we have so far rented accommodation to DALC and Forestry Commission.
 32. **Field Staff Accommodation** - the cost of this is £102,450 and accounts for the premises costs of ranger briefing stations, Brunts Barn and Field Head.
 33. The full cost figures do not include provision for full asset maintenance liability. The trails structure is the most significant area where the sustainability of this situation may become an issue in the future. This is why it is important to start to develop potential new streams of funding to address this future risk.
 34. We are developing the current capital strategy alongside the Asset Management Review Action Plan with a view to:
 - Securing capital receipts for assets approved for disposal
 - Obtaining sufficient evaluation and feasibility information to inform which

capital investment projects, using the limited resources available, might secure strongest contributions to revenue income and the new corporate strategy

Are there any corporate implications members should be concerned about?

35. **Financial:** the whole focus of this report is on gaining a more rounded understanding of the financial performance of the property portfolio. There are no immediate additional implications.
36. **Risk Management:** the management decisions about the portfolio are risk based and the range of responses include mitigating actions.
37. **Sustainability:** the aim of the property review and its on-going implementation is to ensure the long term sustainability of the property portfolio, in the context of achieving national park purposes and duty, as well as the Authority's corporate strategy. Acquisition of property from time to time may still be a way of meeting our conservation purposes when and where appropriate.
38. **Background papers** (not previously published)
None

Appendices:

Annex 1 – Financial Performance

Report Author, Job Title and Publication Date

Rachel Gillis, Assistant Director Policy and Partnerships, 12 March 2015