

Report of Head of Resources

PROPERTY COMPANY

**1 Purpose of report**

This report sets out proposals for the creation of a wholly owned property company designed to manage the council's investment property portfolio, including council-owned private rented residential accommodation.

**2 Executive summary**

Agreement in principle was given in September 2015 for the creation of a wholly owned property company which would be able to take responsibility for proposed private rented residential accommodation. The aim would be to attain an increased revenue income from the surplus generated by the company.

**3 Appendices**

Appendix 1 (confidential) sets out the potential terms for an extension to the current property management contract, in accordance with the existing terms of the contract.

**4 Proposed action:**

**The committee is invited to RECOMMEND the creation a wholly owned property company for the management of all council property.**

**5 Background**

- 5.1 On 6 May 2012 the council awarded the contract for the estate management of the council's investment portfolio to Underwoods LLP. This replaced the previous contract, but provided a more rounded service by adding in all facilities management work as well as extending the remit of the property management function to include strategic asset management advice.
- 5.2 The contract was let for a five year period, with a possible extension for a further two years at the council's discretion.
- 5.3 At Resources Committee on 16 September 2015 a recommendation was made as follows: "approval be given to the creation of a further wholly owned local authority trading company to deliver the residential rental services for the converted operational borough properties and other potential residential units in the borough's possession, subject to further reports to this committee."

- 5.4 As part of the plan to deliver the council's stated intention to derive maximum financial benefit from its property investments, CIPFA have been contracted to carry out a property asset management review. This will advise members on the non-operational property owned by the council, and recommend an approach to its retention or disposal. A report will be submitted to a future meeting on this.

## **6 Discussion**

- 6.1 The existing contract for the management of investment property will expire in six months, so its extension will be dependent on whether the council is in a position to put alternative arrangements in place before then.
- 6.2 Whilst an extension could be put in place as part of the contract arrangements this is an opportune time to consider the creation of a property company to manage both the new private rented property schemes and all other existing council property.
- 6.3 The council's project to convert Croyland Hall and Abbey into 14 flats is likely to start shortly, now that planning permission and costings are in place. At the same time negotiations with Wellingborough Homes on three sites (Penrith Drive, Fulmar Lane and Milner Road), are nearing completion on the "homes for land" scheme. Final costings and valuations have not yet been received, but it is likely to deliver in the region of 16 houses which the council will treat as part of its private rented residential portfolio.
- 6.4 In order to benefit from the private rented market the council will need a company in place to manage the property and benefit from the revenue income.
- 6.5 As the ending of the property management contract has coincided with the need to put in place a new company it is therefore recommended that the opportunity be taken to transfer across all of the council's property management to one wholly owned company.
- 6.6 In order to facilitate this in such a short space of time the following points have been identified:
- (a) A company can be created very quickly, but setting it up to be fully functioning will take some time. It is estimated that within one to two years the company will have developed to the point where it can take full control of the council's property.
  - (b) The company will need to be managed and staffed. The existing Principal Property and Facilities Manager could be transferred to a senior position within the company . In addition, as a minimum, managers will be required for each of the investment and operational property portfolios, together with a technician/administrator. The company will be in a position to charge the council for undertaking the management of its property.
  - (c) The company will also need staff to work on the council's capital projects. This can be funded from each identified project.
  - (d) Practical infrastructure arrangements will need to be put in place, such

as finance, payroll, IT and legal services. Until separate arrangements can be put in place council services can continue to support the company and charge for their time. Of these, finance is of particular importance to ensure that service charge regimes and income are all correctly identified and managed.

- (e) It is not feasible or necessary for the company to employ specialists in all aspects of property management (such as valuers, agents, building surveyors etc) so these will need to be contracted. There will not be time to identify all the requirements and let new contracts before May. Underwoods have been notified that their contract may not be extended in May if the council decides to set up a property company. As a result they have put forward a proposal which could vary the current contract to reduce costs for a further two years – if agreed by both sides - and which could facilitate a staged handover from the existing contract to the new arrangement. This is a matter which is commercial in confidence and set out in the exempt appendix. The contract variation will be undertaken by officers in line with the contract procedure rules set out in the constitution.
- (f) Wellingborough Norse provides all the repairs and maintenance/ facilities management for the council's operational properties. In order to facilitate the creation of the company this can continue and be reviewed before the contract with the Wellingborough Norse joint venture is coming to an end in 2022.
- (g) Planned preventative maintenance is in place for both operational and investment properties, and the company will need to bid for capital to cover the programme as well as implement it. The council's asset strategy will need to be considered in the round at this stage so that capital spend is not invested in any properties earmarked for disposal or redevelopment.
- (h) A board will be required, so it is proposed that this would work on a similar basis to the board for Wellingborough Bereavement Services Ltd. It is proposed that the Principal Property and Facilities manager and the Head of Resources are directors from the officer side, together with two councillors appointed as further directors.
- (i) Whilst the company would be wholly owned by the council and at arms length, the council would be responsible for strategy and policy in relation to the property managed on its behalf.

## **7 Legal powers**

- 7.1 **Section 3 of the Local Government Act 1999, as amended by s137 of the Local Government and Public Involvement in Health Act 2007** puts the Council under a general duty of best value to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.”

## **8 Financial and value for money implications**

- 8.1 Property assets will be a means of optimising the council's investments, and the effective management of a range of different types of property will provide an opportunity to realise income from that property.

## **9 Risk analysis**

- 9.1 The council will need to consider whether alternative arrangements for all property management should be put in place by May 2017. If not, it will be necessary to extend the contract with Underwoods to allow a re-tendering exercise to take place.
- 9.2 Once some of the projects to provide private rented accommodation begin to deliver, the need for a property company will arise so that the properties can be managed to the benefit of the council.

## **10 Implications for resources**

- 10.1 If a property company is set up it will be necessary to TUPE some existing staff to the company, potentially together with any staff TUPE'd from Underwoods. The assessment at this stage is that this would be at little or no increase in existing costs. In addition, approval has been given for a fixed term increase in establishment to facilitate the potential projects currently being considered by the council.

## **11 Implications for equalities, and stronger and safer communities**

There are no immediate implications.

## **12 Author and contact officer**

Bridget Gamble, Head of Resources

## **13 Consultees**

Chief Executive

Head of Resources

Head of Finance

Head of Planning and Local Development

Underwoods LLP

## **14 Background papers**

The contract for the estate management for investment property portfolio. Borough Council of Wellingborough standard lease precedents.