BOROUGH COUNCIL OF WELLINGBOROUGH **AGENDA ITEM 13**

Resources Committee **21 March 2018**

Report of the Director

PROPERTY MATTERS

1 Purpose of report

To review progress on the adoption and implementation of the council's current asset management policy, to review the council's position with regard to forming a wholly owned property company for the management of all council property, and to seek approval to test the market in the light of recent interest in the former Drill Hall and 8a High St.

A report on the wider asset management strategy and how it links to the asset management policy and action plan is elsewhere on the committee's agenda.

2 Executive summary

The report sets out alternative options for the future management and development of the council's property investment portfolio, seeks to make a comparison between them and identifies a recommended option.

In the light of recent interest members are asked to consider the potential sale of the Drill Hall site and 8a High St.

3 Appendices

3.1 Appendix A: Options for the future management of property

3.2 Appendix B: Indicative plan of the Drill Hall site and 8a High St for potential sale

4 Proposed action:

The committee is invited to RESOLVE to

4.1 **agree that the contract for the management of the council's commercial property, and other non-operational property in the council's ownership as appropriate, be put out to tender, in consultation with the leader of the council and the leader of the opposition for both the preparation of tender documents and assessment of submissions;**

4.2 **agree to the implementation of option B described in the appendix to the report, as the chosen method for the future management of the council's property investment portfolio;**

4.3 **agree to vary the decision made at council on 21 July 2015 to amend the potential use of the site outlined in appendix B to include residential development;**

4.4 **instruct the director to market the former Drill Hall and 8a High St with the intention of finding a purchaser who is willing and able to purchase the site at best consideration whilst complying with any conditions or restrictions imposed by members;**

4.5 **instruct the director in relation to any conditions or reservations required in relation to the sale of the site outlined in appendix B.**

5 Background

5.1 The council has approved an efficiency plan to identify ways in which it can either increase revenue income from, or reduce the cost of operation of, its assets. This strategy was agreed in 2016, together with the proposal to set aside capital receipts to bring about those efficiencies.

5.2 A number of potential projects have previously been identified. Some of these projects have been progressed to a greater or lesser extent, subject to the limitations of internal and externally procured resources. Progress was last reported to elected members and resources committee on 7 February 2018.

6 Discussion

6.1 At the resources committee on 7 February 2018 elected members referred officers to their decision of 7 December 2016 to ‘recommend the creation of a wholly owned property company for the management of all council property’.

Property management

6.2 As the existing contract for the management of the council’s property investment portfolio expires in May 2019 and has already been extended so much as the current contract allows, elected members agreed that officers should continue with preparations to re-tender this contract (modified and updated as necessary) whilst options for the future management of the council’s property are further considered. Officers will seek legal advice regarding the possibility of extending the existing contract for a further period should this prove to be necessary.

6.3 Since the recommendation of resources committee in December 2016 the council has set up a wholly owned company to operate the Nene Valley Crematorium. At the start of such projects, external advice tends to indicate that the setting up of a company for the operation of council services is not difficult. Indeed, the setting up of the company is straightforward. However, putting into place the financial, governance and management arrangements commonly costs more, takes longer and consumes more internal resources than at first envisaged. It also takes a considerable time for the operation of a new company to settle down and for the initial costs to be defrayed before all concerned in the operation are content that it is operating efficiently. This has been the case with the Nene Valley Crematorium. Officers are continuing to refine the management and governance arrangements for the company eighteen months after it opened for business.

6.4 The challenges of setting up a successful company are understandable, particularly where this is set up to run an entirely new business, such as the crematorium. In respect of the council's property, the recommendation to set up a property company should perhaps be reconsidered now, in the light of recent experience and current market conditions.

6.5 When the report was considered by resources committee on 7 December 2016, the result of the EU referendum on 23 June of that year did not appear to be adversely affecting most sectors of the property investment market, other than there being a general attitude of caution amongst investors. Some sectors of the market, for example in leisure and retail, have weakened. In contrast, the market for low risk property investments has strengthened and yields have fallen. This is probably because the pool of property investments that are considered to carry an acceptable level of risk is now smaller and the supply of new investments is limited. However, investors are still keen to buy property, because medium to long term growth has been consistent in the sector and the yield on some other types of investment remains relatively low.

6.6 The council already owns a substantial property investment portfolio. The agreed strategy will involve improving the stock, disposing of some poorly performing assets, acquiring better performing ones and carrying out substantial refurbishment or investing in the development of new assets to meet the stated objectives of growing income or receiving capital receipts. Whilst this is a step-up in activity with respect to the council's management of property in recent years, it is not a new business for this council - which has a good track record of managing and investing in property.

6.7 Despite the intention to grow the portfolio, the council appears to be unlikely to invest in new assets to the extent of some ambitious local authorities. Such a major step change may justify the setting up of a property company to hold all assets, but significant property acquisition has not been expressed as a priority by members. Whilst the investment portfolio remains at the current scale, the advantages of company status are less easy to justify.

6.8 As austerity measures have bitten into local authority finance, authorities have been working hard to increase efficiency by reducing cost and increasing income. Many have chosen to invest in property in order to grow rental income. The low cost of borrowing to local authorities has given those willing to borrow an advantage over some private sector investors. However, it is now more difficult to make a business case for local authorities to purchase low risk 'off the shelf' investments because yields for such investments have fallen. Also, some authorities have been the subject of media attention where, for example, they have been in competition with each other to purchase large investment assets out of area, thereby creating their own market and inflating the price. New central government regulations are about to be introduced that will help to ensure that local authorities take a prudent approach to this type if investment.

6.9 The assistant director's advice is that this council primarily considers investing in property assets within its own boundary, by purchasing suitable property from the market if available, improving existing assets or developing land that it owns. A robust business case would be necessary to justify such investment, but the added advantage of this approach is that the people of the borough would benefit - not only from the growth in rental income as a contribution to the cost of essential services - but also from an increased tax base and the wider social benefits brought about by physical and economic regeneration.

6.10 The council's investment portfolio currently brings in a gross rent of approximately £2.4M per annum (approx. £2.17m net) with a capital value of £37.8m as at 31 March 2017. The full capital value of assets classified as investments in the council's Asset Register is £54.8m. Not all of the assets are included in the income calculation, which explains the difference between the two capital values. The portfolio has been managed well by the external contractor, Underwoods. It is largely compliant and in a stable state. Rent reviews and lease renewals are carried out and the number of void properties is low.

6.11 The council does appear to be a landlord of choice in Wellingborough and this is a good general indicator of a well managed portfolio. Maintenance is carried out where required to ensure that the stock does not deteriorate and improvements are made, subject to the budget being available. However, the portfolio is mixed and some properties are at the end of their economic lives.

6.12 In recent years, in-house resources have been limited to two posts: one Principal Manager to manage the relationship with the contractor, amongst his other duties, and an estates surveyor who is seconded to the contractor as a resource to manage the properties. Following the appointment of an Assistant Director with responsibility for property and projects, a further restructure is at the consultation stage and this will bring a small team together with a range of responsibilities including the strategic management of the investment property as a balanced portfolio and the planning and delivery of a number of previously identified property related capital projects.

6.13 From now onward the focus will be on continuing to maintain the portfolio, but also improving and investing in it. That is likely to include the recommendation to dispose of some assets and acquire others, whilst also improving and developing existing assets. There are a number of options for resourcing this step forward in delivery. All will involve increasing access to a wider pool of resource and skills to bring forward projects.

6.14 As set out under Appendix A, there are five options for resourcing the management and development of the council's property investment portfolio. Common to all of these options is the need for sufficient skilled resources to do the job efficiently and effectively. These will need to be secured, either directly employed or through a third party contractor regardless of the method the council chooses to deliver the service.

6.15 An analysis of options for the future management of the council's property is also included in Appendix A.

Property review

6.16 Officers will continue to work on policy and strategy for the operational estate. The review of the commercial investment portfolio will also be given further consideration. The Assistant Director has carried out an initial review of the existing projects and is using existing resources to progress these where possible in the short term. A further report will be brought to a future meeting of this committee.

Former Drill Hall and 8a High St

6.17 Three external parties have recently shown interest in seeking to develop this site. Officers have met with the parties to gauge the nature of their interest. The parties were interested in also acquiring the vacant shop premises at 8a High St in order to create a more viable scheme.

6.18 When the future of the High Street site was considered at council on 21 July 2015 it was agreed that the Drill Hall – together with an extended area on the High Street – should be separated from the site which was being considered for development by Keepmoat. At the time the decision was to put together a scheme for the separate site comprising retail or commercial use.

6.19 Following discussions with potential developers it became clear that the town centre has shifted its focus to the Market Street area, and it would be unlikely that a retail/leisure use on this site would be successful. It is therefore recommended that any marketing of the site should also recognise that residential use might be appropriate.

6.20 A further constraint on the site is the existing buildings. Members have expressed a desire to retain some or all of those buildings, but no formal decision has been made. Before marketing it will be necessary to instruct officers in relation to any conditions or covenants which are required. This could include the retention of one or more of the buildings, or restrictions on use. Inevitably, any restrictions or limitations imposed by the council will reduce the sale value and could adversely affect the viability of any development.

6.21 Members may wish to consider the following in relation to the conditions of sale: timing of the start or end of the development; retention of one or more of the buildings (in whole or in part).

6.22 The power to dispose of council property is already delegated to the director (paragraph 7.5 in the Scheme of Officer Delegations), who can progress the marketing and sale once members have provided clarity on what is required. An outline of the proposed site is attached at appendix B.

6.23 The committee is asked to approve the commencement of a marketing exercise to establish the level and nature of interest in the property, with a view to finding a purchaser who is willing and able to purchase the site at best consideration, complying with any conditions or restrictions members wish to apply.

7 Legal powers

The council has full power to manage its property assets under the incidental powers in section 111 of the Local Government Act 1972. Furthermore the council has all the powers of an individual under section 1 of the Localism Act 2011. Accordingly it has full power to carry out the proposed actions.

8 Financial and value for money implications

The costs of managing the council's property investment portfolio are met from revenue budgets and also from the recycling of capital receipts within the relevant rules. The cost of the core services provided by the existing contractor is likely to increase, but every effort will be made to minimise this pressure. Some budget provision has been made in the medium term. The cost of additional services required to progress projects should be met either from existing budgets, or included in the business case for each project.

9 Risk analysis

Nature of risk	Consequences if realised	Likelihood of occurrence	Control measures
Delay in procuring suitable and sufficient resources to manage and develop council property assets	Benefits of proactive management and delivery of projects not realised	Possible	Progress plan to procure resources in parallel with considering delivery options
Inability to procure sufficient resources and range of skills required	Benefits of proactive management and delivery of projects not realised	Possible	Thorough procurement process to fully test market.
Cost of managing the portfolio on expiry of existing contract increase	Pressure on revenue budgets or recycled capital resources	Probable	Procurement process contemplates this and seeks to minimise cost/maximise income

10 Implications for resources

10.1 Significant officer time will be required to find the resources needed to achieve improvements to the property investment portfolio and progress projects, but the need to maximise the council's assets may be regarded as an appropriate use of such resources.

10.2 The challenge of finding staff with the range and level of skills needed to provide all of the required services is particularly relevant to options C, D and E in the appendix, where staff would be directly employed by the property company, JV company or council. Whereas there would be more flexibility within the property company to pay higher salaries in comparison to the council as direct employer, the wholly owned company would benefit from public funding and the council would be mindful of the need to demonstrate value for money. A Joint Venture partner would be in a better position to compete on salary. However, the competition from the private sector who are competing for the same skills, all of which are in short supply, would impact on all three options.

11 Implications for equalities, and stronger and safer communities

There are no direct implications for equalities, or stronger and safer communities.

12 Author and contact officer

Adrian Piper, Assistant Director

13 Consultees

Bridget Gamble, Director
Liz Elliott, Managing Director
Julie Thomas, Director
Paul Burnett, Interim Assistant Director
Victoria Phillipson, Principal Planning Policy and Regeneration Manager
Vicki Jessop, Principal Housing Officer

14 Background papers

Resources committee report 7 February 2018.

Appendix A: Options for the future management of property

Commentary on options

Option A: Outsource management (status quo)

To re-tender the existing contract for the estate and facilities management of the investment and non-operational property. Re-tendering would give the opportunity to refresh the contract specification. However, internal resources to proactively manage the contractor and drive performance should be considered, possibly as a shared resource for managing contracts in other service areas. The cost of the new contract is likely to increase in current market conditions by in the region of 10%. This estimate is approximate.

'Pros'	**'Cons'**
Minimum change, easy option	May not achieve required 'upshift' in project delivery
Predictable cost and timescale	May not deliver additional income
No major investment necessary	My not deliver capital receipts
No corporation tax payable	
Low risk to service, familiar	
Could deliver incremental improvement in portfolio performance	May not deliver sufficient performance improvement
	Limited resource for proactive contract management

Option B: Outsource management (status quo plus)

To tender a varied contract to cover core estate and facilities management services, plus additional packages to resource the delivery of key projects. The cost of the core services is likely to increase as in Option A. Enhanced delivery of increased income, capital receipts and projects outcomes will come with additional cost, but the option to capitalise these within the relevant financial rules is available. The work could be tendered in such a way as to allow adjoining authorities to buy services through the contracts. The use of existing frameworks for all or some should also be considered as this may be a viable alternative to a full procurement of all services required. Quantifying the additional costs is difficult and is dependent on the amount and value of projects to be progressed. Such costs are already being incurred by the council – usually by procuring via a framework - but outside of the current contract arrangements with Underwoods. Any additional cost, above the inflationary cost of a new core contract, would be subject to a business case.

'Pros'	**'Cons'**
Minimum change, relatively easy option	
Predictable cost and timescale	
No corporation tax payable	
Low risk to service, relatively familiar	
Could deliver measurable improvement in	

project outputs	
Improved portfolio performance	
Additional skills/resources available	May not be able to find full range of skills in the market willing to contract in this manner.

Option C: Wholly owned company

To form a wholly owned company to hold all council owned property assets. The management of the property would still have to be fully resourced either internally, externally or with a mix of internal/external resources and as mentioned above additional resources will come with additional cost. If the council decided to build and retain residential units for private rent, these would have to be transferred to a company for legal reasons. It may be possible to transfer residential units to an existing company, subject to this being feasible. If this is not feasible, the council would need to set up a company to hold the residential units. The company could be set up to hold all property, but used initially just to hold residential units.

'Pros'	**'Cons'**
Council in full control	
Able to focus on the key objectives of the company	Major change, unfamiliar, some risk to service
Potential to speed up delivery of projects	Considerable time and resources expended before operational
Council able to charge company for services	Significant set up costs
Potential for increased income and capital receipts	Corporation tax payable
Able to hold residential units for rent	Council takes all of the investment risk
Company may be able to pay more competitively for skilled resources, but would still have to prove value for money	Would still be necessary to resource the management/development of the property or employ internal resources

Option D: Joint Venture company

To form a JV company with a partner willing to share risk and reward with the council. The council could put property assets only into the JV, or it could choose to invest capital also. The management of the property would still have to be fully resourced. The JV partner may have access to some or all of these professional resources depending on the nature of their business.

'Pros'	**'Cons'**
Council has a share of control	Partial loss of control
Able to focus on agreed key objectives of the JV company	Need to agree priorities and outputs with JV partner
	Major change, unfamiliar, some risk to service

Potential to speed up delivery of projects	Considerable time and resources expended before operational
Potential for increased income and capital receipts	Significant set up costs
JV partner shares investment risk	Need to share profits
	Corporation tax payable
JV partner may already have some/all of the necessary skills and resources employed or contracted.	Would still be necessary to resource the management/development of the property or employ internal resources if the JV partner do not already employ staff with the necessary skills and capacity. Limited resource for proactive contract management.

Option E: Insource

To bring all of the resources to manage property in-house, procuring specialists on an ad-hoc project by project basis. This would necessitate the recruitment of a team of surveyors and support staff. Finding sufficient and suitably skilled staff is likely to be difficult as the council would be competing in the same market as the private sector and such skills are in short supply.

'Pros'	**'Cons'**
Council in full control	Possible TUPE issues from expiring contract
	Major change, unfamiliar, some risk to service
No requirement to provide contract management	Increased costs due to direct employment
	Difficult to protect staff from ongoing financial pressures across the council
	Delay while staff are recruited and inducted
	Risk of inability to employ staff with all of the necessary skills at an affordable cost
Performance monitored through HR policy	Increased use of limited management resources
Flexibility to divert resources elsewhere	In-house staff less able to focus on priority projects due to conflicting priorities

Analysis of options

- **Options A.** Status quo, and E. Insource, appear to be the least attractive options. A would not provide sufficient momentum to achieve the ambitions of the council and E would carry a high risk of failing to deliver due to problems in securing resources. Neither option is recommended.

- **Option B.** Status quo plus; this is a safe option and would secure the resources to assist progress, subject to the procurement being successful. This is the recommended option as it is fit for purpose for consolidating and improving the council’s existing portfolio

- **Option C.** Wholly owned company, would be essential to hold housing stock, but not essential for commercial investment or operational property. Corporation tax would be payable on profits and the set up time and costs would be considerable. A company could be formed in the future to hold, for example, a very significant new commercial development, subject to the business case recommending it. This is not the recommended option at the present time.

- **Option D.** Joint Venture Company, this would share the risk of financial investment in assets, but also share the profit. It would bring in external resource and expertise. It could be used for all or some of the Council’s assets (i.e. those needing most investment) and is not an unattractive option. However, the key driver for choosing this option above B would be a decision by the council not to take all of the investment risk nor all of the income. This is not the recommended option at the present time.

Appendix B: Indicative plan of the Drill Hall site and 8a High St for potential sale

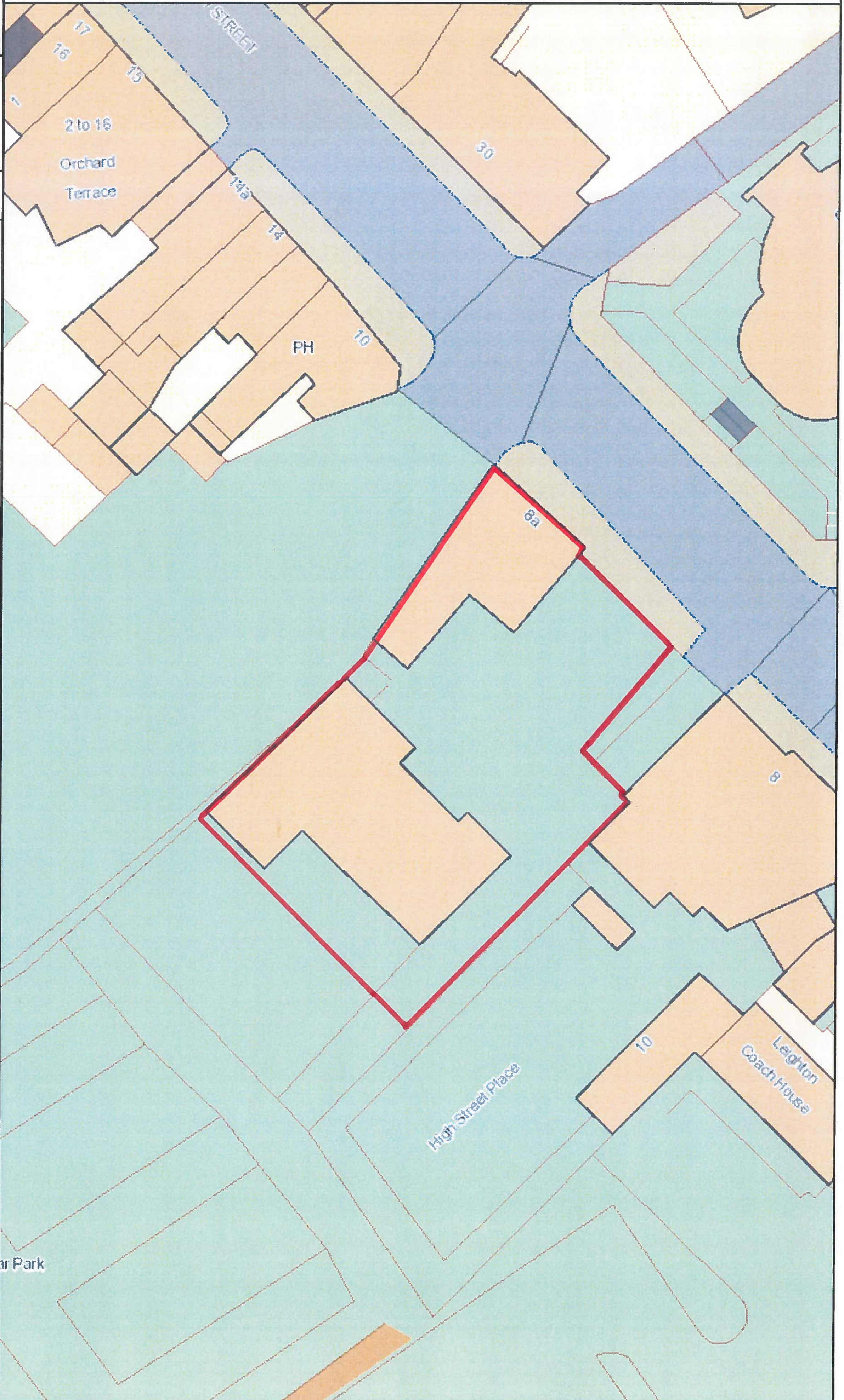
Borough Council of
Wellingborough
Making Wellingborough a place to be proud of

Drill Hall & 8A High Street, Wellingborough

N

Scale:
1:500

Resources



Indicative Boundaries

Author: PB
Date: 08/03/2018