

COUNCIL

15 OCTOBER 2015

ADDITIONS TO THE CAPITAL PROGRAMME

Portfolio Holder: Councillor Alan Jarrett, Leader
Councillor Adrian Gulvin, Resources

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Summary

The purpose of this report is to seek Council approval for two additions to the capital programme. These schemes will respectively provide for additional investment in the existing operational property portfolio, via the building repairs and maintenance fund, in the existing non operational portfolio and in new non operational property with a view to generating increases in annual rental income and longer term capital growth.

1. Budget and policy framework

1.1 The management and maintenance of the Council's corporate property portfolio is a Cabinet responsibility and additions to the capital programme are a matter for Full Council.

2. Background

2.1 The Council's corporate portfolio of operational buildings is a key resource in enabling the delivery of services to customers. Its effective management and maintenance is essential in ensuring the Council meets its two core values of putting the customer at the centre of everything we do and giving value for money.

2.2 The portfolio is a significant element of the Council's overall land holdings and is managed through a combination of building works, refurbishments and rationalisation.

3. Building Repairs and Maintenance Fund (BRMF)

3.1 The BRMF forms an important element of the Council's capital programme and is utilised to support the on going repair and maintenance of operational buildings. However, as outlined later in this report, the fund is largely

committed and in order to continue to undertake essential building maintenance, its replenishment is being sought.

- 3.2 To ensure the Council receives the best possible value for money whenever possible the fund and other building related capital schemes are utilised as match for funding bids to external organisations, such as the Heritage Lottery Fund.
- 3.3 The corporate property team and building managers are also working very closely with Medway Norse to ensure an integrated approach is taken to both building maintenance and facilities management. For example by utilising Medway Norse's in-house self delivery team for building maintenance both the Council and the partnership benefit.
- 3.4 A targeted approach is also being taken with regard to the Council's portfolio of heritage buildings, where up-to-date condition surveys have been commissioned in close consultation with the Council's conservation team. These are enabling programmes of prioritised repairs and maintenance to be developed in partnership with Medway Norse.
- 3.5 In the past three financial years BRMF spend has been as follows:
 - 3.5.1 2012/13: £461,175
 - 3.5.2 2013/14: £332,029
 - 3.5.3 2014/15: £770,972
- 3.6 With regard to current financial resources it is being reported in the present round of capital budget monitoring that spend in 2015/16 in respect of committed schemes will be £480,952. This will leave a balance of £172,292, which itself is committed for spend in 2016/17.
- 3.7 To fund essential building repairs and maintenance officers recommend an addition to the BRMF of £1,000,000.

4. Property Investment

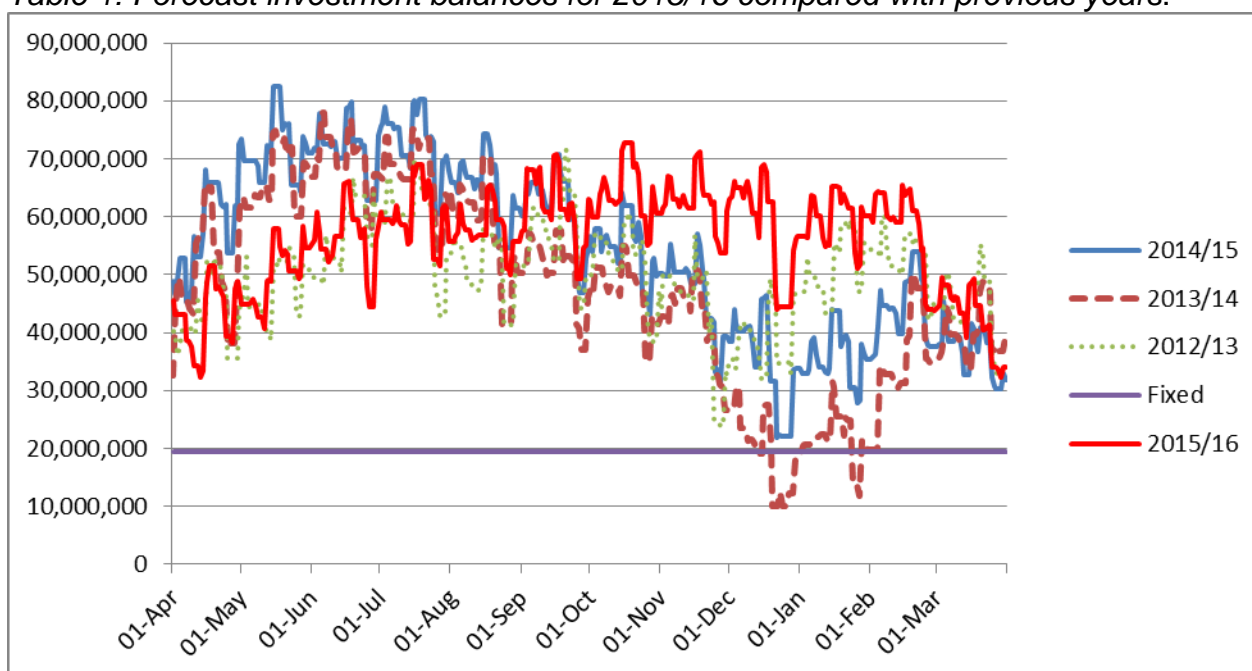
- 4.1 In order to generate improved investment returns from cash balances, the Chief Finance Officer has proposed widening the Treasury Management Strategy to encompass investment in property. This will in part be delivered through investment in an externally managed local authority property fund, but it is also proposed to invest directly in property via the capital programme.
- 4.2 The Corporate Property division has a good track record of achieving reasonable rental returns on its current portfolio of assets, including not just those sites acquired as 'pure' investments, but also those which the Council holds as part of its regeneration agenda. Rental returns range from peppercorn to almost 20% of market value and of around £21.5 million of non-operational property, circa £20.6 million is delivering rental returns in excess of 5%. In total, this rental income amounts to around £1.9M.
- 4.3 Based upon the latest cash flow projections, the Chief Finance Officer has indicated that the local authority could afford to invest up to a further £10.0 million, which is currently earning 0.5% in deposit accounts, in longer term

investments yielding higher returns. It is proposed to invest up to £2.0 million of this in investment property and to that end Council is requested to approve a £2.0 million addition to the capital programme.

5. Options

- 5.1 A key component of the Council's financial plans must be to maximise the contribution made by its property assets and this can only be achieved through a multi-pronged approach.
- 5.2 Where the Council is committed to delivering services from its portfolio of operational buildings, investment in maintaining these assets via the building repairs and maintenance fund is considered essential. It is proposed to fund the recommended £1.0 million addition to the programme from capital receipts, however based on the latest projections this will require a reprioritisation and rephasing of the current programme over the medium term.
- 5.3 In the meantime the Council should continue to pursue a programme of property rationalisation, were the assets are not contributing to service delivery, meeting corporate objectives or delivering acceptable investment returns. This in turn will reduce the pressure on the building repairs and maintenance fund.
- 5.4 Finally, a strategy of investing in property to generate annual rental income and longer term capital growth has the potential to deliver much greater returns than leaving surplus cash balances on deposit. The proposed £2.0 million addition to the capital programme will be funded through internal borrowing from the Council's surplus cash balances. Table 1 below illustrates projected cashflow for 2015/16, plotted against previous years.

Table 1: Forecast investment balances for 2015/16 compared with previous years:



6. Advice and analysis

- 6.1 Cabinet considered the Capital Budget Monitoring report 2015/16 – Quarter 1 on 25 August 2015, where it was reported that the BRMF is to be funded from capital receipts. In order for this to be achievable across 2015/16, a re-phasing exercise is needed of the current programme, over a longer period. There is a gap between the current estimate into the level of capital receipts needed to fund the programme and the forecast levels of capital receipts achievable. Therefore, a review of the programme is needed in order to re-profile the current programme over the longer term. This re-profile will not only cover the shortfall in capital receipts, but also release additional resources to fund the BRMF.
- 6.2 Elsewhere on this Council agenda Members have also been asked to approve the mid-year review of the Treasury Management Strategy, which reiterates the cashflow projections in Table 1 (above) and the need to invest surplus balances to generate better returns. It is in part proposed to achieve this through direct investment in property.

7. Consultation

- 7.1 Service providers, building managers and Medway Norse are consulted as maintenance programmes and projects are developed.
- 7.2 The Cabinet considered a report on 29 September 2015 regarding the BRMF and recommended that Council approve the addition to the Capital Programme in the sum of £1m.

8. Financial and legal implications

- 8.1 The financial implications are set out in the body of the report.
- 8.2 There are no direct legal implications relating to this report. Subject to the approval of the recommendations below, the ongoing delegation set out in paragraph 10.2 (ii) will be added to the Employee Delegation Scheme as set out in the Constitution.

9. Risk management

9.1 The following potential risks have been identified:

Risk	Description	Action to avoid or mitigate risk	Risk rating
Financial	The need for unforeseen repairs and maintenance exceeds budgetary provision.	Building condition surveys are undertaken where appropriate to inform the programme of maintenance and adequate funding is provided.	Low
Building closure / deterioration / health and safety incident	Lack of adequate maintenance leads to building closure / deterioration / health and safety incident.	Planned, programmed and reactive maintenance are adequately, managed, implemented and resourced.	Low
Financial	Vacancies of let properties, tenant default and bad debt reduce rental returns.	Careful consideration of investment properties and tenants before acquisition/letting	Medium

10. Recommendations

10.1 That Council approves the following additions to the capital programme:

10.1.1 £1.0 million addition to the building repairs and maintenance fund, to be funded from capital receipts.

10.1.2 £2.0 million addition to the capital programme to allow for investment in property.

10.2 Council is furthermore requested to delegate authority to the Assistant Director Legal and Corporate Services, in consultation with the Leader, Portfolio Holder for Resources and Chief Finance Officer:

- (i) To agree a strategy and robust set of criteria for future investment in property, which complements the Council's current investment priorities of security, liquidity and then yield.
- (ii) To acquire, manage and let suitable investment properties.

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Appendices: None

Background papers: None.